

# CHAPTER I GENERAL

## 1.1 Introduction

This chapter presents the overview of trend of receipts of Government of Telangana and arrears of taxes pending collection against the backdrop of audit findings.

## 1.2 Revenue Receipts of the State

**1.2.1** The tax and non-tax revenue of Government of Telangana, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-Aid received from the Government of India during 2017-18 and the corresponding figures for the preceding two years are presented in **Table-1.1:**

**Table 1.1**  
**Trend of Revenue Receipts**

(₹ in crore)				
Sl. No.	Particulars	2015-16	2016-17	2017-18 <sup>1</sup>
1.	<b>Revenue raised by the State Government</b>			
	• Tax Revenue	39,974.63	48,407.73	56,519.81
	• Non-tax Revenue	14,414.36	9,781.70	7,825.40
	<b>Total</b>	<b>54,388.99</b>	<b>58,189.43</b>	<b>64,345.21</b>
2.	<b>Receipts from the Government of India</b>			
	• Share of Net Proceeds of Divisible Union Taxes and Duties	12,350.72	14,877.04	16,420.08
	• Grants-in-Aid	9,394.12	9,751.90	8,058.80
	<b>Total</b>	<b>21,744.84</b>	<b>24,628.94</b>	<b>24,478.88</b>
3.	<b>Total revenue receipts of State Government (1 and 2)</b>	<b>76,133.83</b>	<b>82,818.37</b>	<b>88,824.09</b>
4.	<b>Percentage of 1 to 3</b>	<b>71</b>	<b>70</b>	<b>72</b>

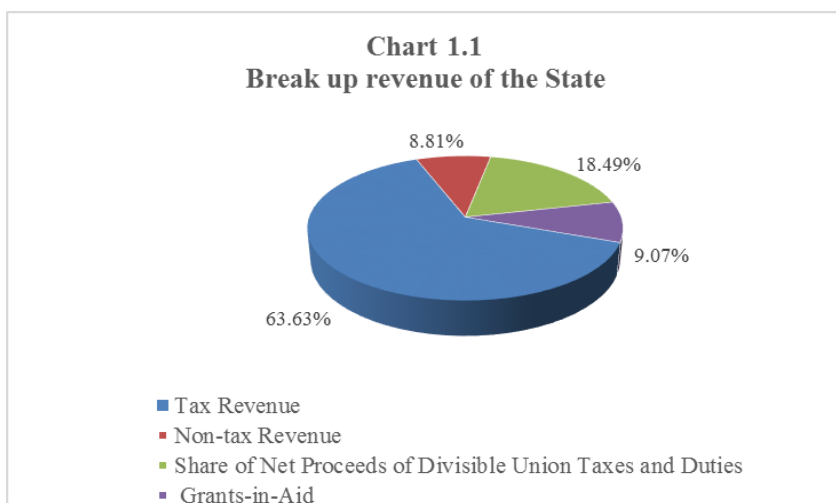
Source: Finance Accounts for the year 2017-18 of Government of Telangana

The State's performance in mobilisation of resources is assessed in terms of tax revenue and non-tax revenue, not including the State's share in central taxes and Grants-in-Aid which is based on the recommendations of the Finance Commission.

As can be seen from above, the percentage of **tax and non-tax** revenue raised by State Government to the total revenue of the State increased from 70 per cent in 2016-17 to 72 per cent in 2017-18.

1 For details please see Statement No.14-Detailed Accounts of Revenue by Minor Heads in the Finance Accounts of Telangana for the year 2017-18. Figures under the Minor Head 901-Share of net proceeds assigned to the States under the Major Heads '0005-Central Goods and Services Tax (CGST); 0008 Integrated Goods and Services Tax (IGST); 0020-Corporation Tax; 0021-Taxes on Income other than Corporation Tax; 0028-Other Taxes on Income and Expenditure; 0032-Taxes on Wealth; 0037-Customs; 0038-Union Excise Duties; 0044-Service Tax and 0045-Other Taxes and Duties on Commodities and Services booked in the Finance Accounts under A-Tax Revenue have been excluded from the revenue raised by the State and exhibited as State's share of divisible Union taxes.

The breakup of revenue receipts of the State for the year 2017-18 in terms of percentage is shown in **Chart-1.1**.



**1.2.2** Details of tax revenue raised during the period 2015-16 to 2017-18 are given in **Table-1.2**:

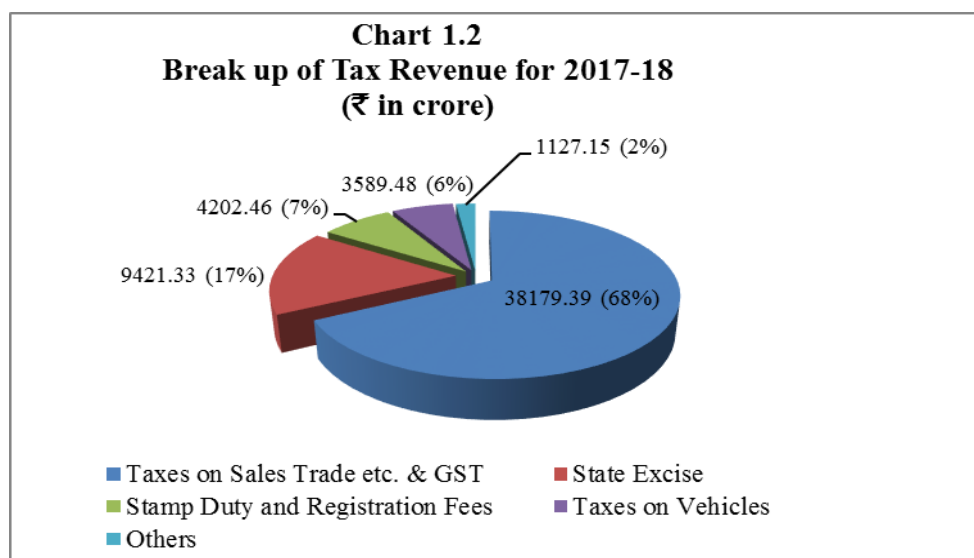
**Table 1.2**  
**Details of Tax Revenue Raised**

(₹ in crore)

Sl. No.	Head of Revenue	2015-16		2016-17		2017-18		Percentage of increase (+)/ decrease (-) in 2017-18 over 2016-17
		Budget Estimates	Actuals	Budget Estimates	Actuals	Budget Estimates	Actuals	
1.	Taxes on Sales Trade etc.,	35,463.39	29,846.91	42,073.53	34,234.69	46,500.00	25,106.48	(+) 11.52
2.	GST -State Goods and Services Tax (SGST)	-	-	-	-	-	13,072.91	
3.	State Excise	3,916.43	3,809.07	4,543.06	5,580.71	9,000.00	9,421.33	(+) 68.82
4.	Stamp Duty and Registration Fee	3,700.00	3,102.23	4,292.00	3,821.66	3,000.00	4,202.46	(+) 9.96
5.	Taxes on Vehicles	2,500.00	2,309.13	2,900.00	3,394.16	3,000.00	3,589.48	(+) 5.75
6.	Land Revenue	13.46	103.71	15.61	6.70	15.00	4.12	(-) 38.51
7.	Others	901.46	803.58	1,045.71	1,369.81	1,104.00	1,123.03	(-) 18.02
	<b>Total</b>	<b>46,494.74</b>	<b>39,974.63</b>	<b>54,869.91</b>	<b>48,407.73</b>	<b>62,619.00</b>	<b>56,519.81</b>	<b>(+) 16.76</b>

Source: Budget Estimates, Finance Accounts for the year 2017-18 of Government of Telangana

The breakup of tax revenue for the year 2017-18 is shown in **Chart – 1.2**.



Goods and Services Tax was introduced w.e.f. 01 July 2017. Further details on implementation of GST are at **Para 2.10.9**.

Tax revenue accounted for 64 *per cent* (₹ 56,519.81 crore) of the total revenue (₹ 88,824.09 crore) of the State for the year 2017-18.

There has been a net increase of 17 *per cent* of tax revenue during the year 2017-18 over the previous year. The revenue under the heads VAT, Taxes on vehicles, Stamp Duty and Registration and State Excise, had increased. Reasons for decrease of revenue in Land Revenue and others was not furnished by the department.

Increase in tax revenue raised by State Government (17 *per cent*) in 2017-18 over the previous year was mainly due to increase in SGST, TSVAT (11.52 *per cent*), Taxes on Vehicles (6 *per cent*), State Excise receipts (69 *per cent*) and Stamp Duty and Registration Fee (10 *per cent*). The increase in State Excise was mainly due to revision of rates of taxation.

**1.2.3** Details of non-tax revenue raised during the period 2015-16 to 2017-18 are indicated in **Table-1.3**:

**Table 1.3**  
**Details of Non-tax Revenue Raised**

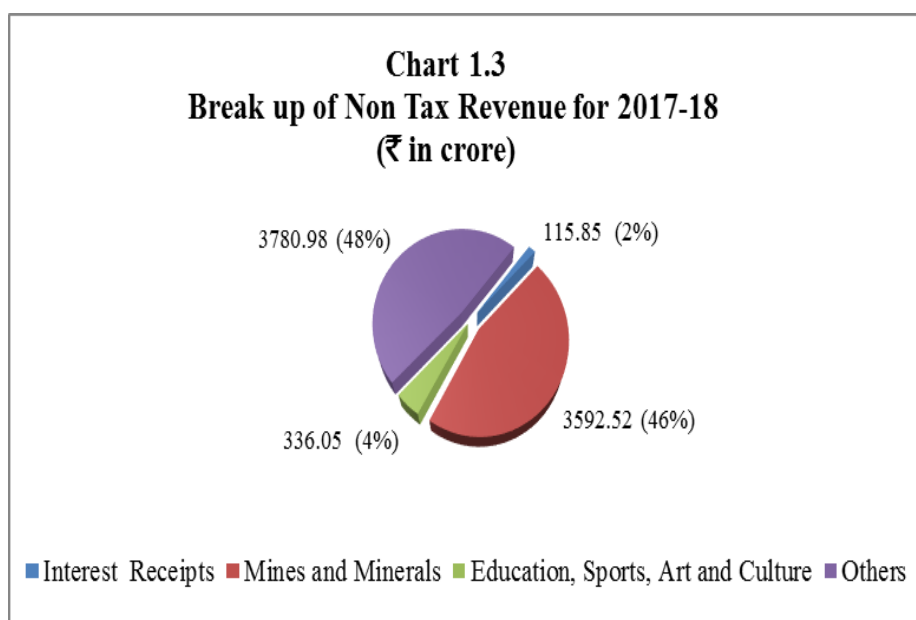
(₹ in crore)

Sl. No	Head of Revenue	2015-16		2016-17		2017-18		Percentage of increase (+)/ decrease (-) in 2017-18 over 2016-17
		Budget Estimates	Actuals	Budget Estimates	Actuals	Budget Estimates	Actuals	
1.	Interest Receipts	2,793.95	2,877.54	1,701.01	1,790.82	80.92	115.85	(-) 93.53
2.	Mines and Minerals	3,300.00	2,212.51	2,687.87	3,148.40	3,500.00	3,592.52	(+) 14.11

Sl. No	Head of Revenue	2015-16		2016-17		2017-18		Percentage of increase (+)/ decrease (-) in 2017-18 over 2016-17
		Budget Estimates	Actuals	Budget Estimates	Actuals	Budget Estimates	Actuals	
3.	Education, Sports, Art and Culture	841.72	184.00	400.75	768.33	1,150.75	336.05	(-) 56.26
4.	Others	15,477.60	9,140.31	12,752.69	4,074.15	1,869.70	3,780.98	(-) 7.20
	<b>Total</b>	<b>22,413.27</b>	<b>14,414.36</b>	<b>17,542.32</b>	<b>9,781.70</b>	<b>6,601.37</b>	<b>7,825.40</b>	<b>(-) 20.00</b>

Source: Budget Estimates, Finance Accounts for the year 2017-18 of Government of Telangana

The breakup of non-tax revenue for the year 2017-18 is shown in **Chart- 1.3**



Non-tax revenue accounted for nine *per cent* (₹ 7,825.40 crore) of the total revenue (₹ 88,824.09 crore) of the State for the year 2017-18. The non-tax revenue decreased by 20 *per cent* during the year 2017-18 over the previous year. The decline was mainly due to 94 *per cent* fall in interest receipts, dividends and profits especially due to fall in interest receipts from Departmental Commercial Undertakings. Revenue (₹ 3,592.52 crore) under Mines and Minerals increased by 14 *per cent* during 2017-18 over the previous year (₹ 3,148.40 crore). The increase was mainly due to increase in royalty (₹ 2,048 crore in 2017-18) of major minerals as compared to previous year (₹ 1,757 crore).

### 1.3 Analysis of Arrears of Revenue

The arrears of revenue was ₹ 9,670.64 crore as on 31 March 2018 from some principal heads of revenue like TSVAT, Taxes and Duties on Electricity, State Excise and Taxes on Vehicles. Out of this, ₹ 6,545.98 crore was outstanding for more than five years as detailed in **Table 1.4**:

**Table 1.4**  
**Arrears of revenue**

(₹ in crore)

Sl. No.	Head of Revenue	Details of amount outstanding as on 31 March 2017		Details of amount outstanding as on 31 March 2018		Reasons
		Total	For more than five years	Total	For more than five years (per cent)	
1.	0040 - Taxes on Sales, Trade, etc.	8,027.03	4,049.86	6,885.45	5,113.87 (74)	Department stated that arrears were due to non-submission of statutory forms, court cases etc.
2	0043-Taxes and Duties on Electricity	2,367.36	1,355.88	2,500.75	1,358.67 (54)	Department stated that arrears of revenue involving ₹ 206.71 crore was covered by court cases in respect of two companies (Singareni Collieries Company Ltd- ₹ 21.67 crore, Other Licencees and Generating Companies - ₹ 185.04 crore) and demand notices were issued to remaining six <sup>2</sup> Companies/ Corporations for an amount involving ₹ 2,294.04 crore.
3.	0039 – State Excise	39.79	39.79	39.79	39.79 (100)	Department stated that about 2,900 cases prior to 1990 were pending and these were either not collectable or under court cases.
4.	0041 – Taxes on Vehicles	75.66	31.46	244.65	33.65 (14)	Department has not furnished reasons for accumulation of huge arrears
	<b>Total</b>	<b>10,509.84</b>	<b>5,476.99</b>	<b>9,670.64</b>	<b>6,545.98 (68)</b>	

Source: Information furnished by the Departments

Note:- Figures in parenthesis denote per cent of total amount outstanding

It can be seen from **Table 1.4** that recovery of ₹ 6,545.98 crore was pending for more than five years which constituted more than 68 per cent of the total revenue realizable which indicates departments' inaction to act timely on huge arrears.

The departments of Land Revenue, Registration, Mines & Geology did not furnish the information on arrears of revenue.

**The departments need to review the status of recovery of arrears of revenue periodically and monitor the progress of collection.**

#### 1.4 Arrears in assessments

As per the provisions of Telangana Value Added Tax (VAT) Act<sup>3</sup>, 2005, every dealer shall be deemed to have been assessed to tax, based on the return filed by him, if no assessment is made within a period of six years from the date of filing the return. Assessments under the Central Sales Tax (CST) Act are to be completed within four years. The details of assessment cases pending as on 31 March 2018 relating to State Tax Department are given in **Table 1.5**:

<sup>2</sup> Sanghi Group of Industries ₹2.70 crore, Rural Electric Co-operative Societies- ₹0.016 crore, A.P. Gas Power Corporation Ltd ₹138.31 crore, A.P. Genco ₹2,052.10 crore, two DISCOMs ₹100.40 crore, other High Tension (HT) installations ₹ 0.51 crore.

<sup>3</sup> Changed from APVAT Act to Telangana VAT Act vide G.O.Ms. No. 32 Revenue (CT-II) Department, dated 15 October 2014.

**Table-1.5**  
**Arrears in Assessments**

Category of Tax	Opening Balance	New cases due for assessment during 2017-2018	Total assessments due	Cases disposed of during 2017-2018	Balance at the end of the year (31 March 2018)	Percentage of disposal
CST	23,785	21,873	45,658	18,843	26,815	41
VAT	2,561	3,504	6,065	2,584	3,481	43
Luxury Tax	0	53	53	44	9	83
<b>Total</b>	<b>26,346</b>	<b>25,430</b>	<b>51,776</b>	<b>21,471</b>	<b>30,305</b>	<b>41</b>

Source: Information furnished by the Departments

The disposal by the Department was less than the new assessments due during 2017-18, leading to build-up of pending cases. With the introduction of GST, the clearance of this backlog of legacy assessments would need to be prioritized.

### 1.5 Pendency of refund cases

During 2017-18, 299 VAT refund claims were received involving ₹ 310.19 crore and all the claims were processed. Details on refunds under GST are at **Para-2.10.9.4**. Further, in respect of Transport Department, refunds were made in 114 cases involving an amount of ₹ 99.85 lakh.

There were no cases of refunds during 2017-18 as stated (May 2018) by State Excise Department. Details of cases of refund were not furnished by Energy, Land Revenue, Registration and Stamps departments though called for (May, June and November 2018).

### 1.6 Audit by Comptroller and Auditor General of India

#### 1.6.1 Authority for Audit

Comptroller and Auditor General of India (CAG) derives authority for audit from Articles 149 and 151 of the Constitution of India and CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). CAG audits Revenue departments of the Government under Section 16 of the DPC Act.

#### 1.6.2 Planning and conduct of Audit

The annual audit plan for the offices under various departments is prepared after categorising them as high, medium and low risk considering their revenue position, past trend of the audit observations *etc.*

During the year 2017-18, audit of 335 units out of total 1,080 auditable units under eight Departments<sup>4</sup> was planned. A total 324 units (30 per cent) were audited. Two Detailed Compliance Audits *i.e.* “Role of Chief Commissioner of Land Administration in Management of Government land” and “Management of Endowment Assets” were conducted.

## **1.7 Response to Audit**

Timely response to audit findings is one of the essential attributes of good governance as it provides assurance that the Government takes its supervisory role seriously.

### **1.7.1 Response to Recommendations of the Public Accounts Committee (PAC)**

PAC Reports/Recommendations are the principal medium by which Legislature ensures financial accountability of the Executive. Government instructed<sup>5</sup> that all the departments should furnish Action Taken Notes (ATN) on PAC recommendations to the PAC and Accountant General within six months from date of its receipt. All such ATNs had to be routed through the Finance Department and copies thereof to the Accountant General.

Action Taken Notes on 113 recommendations relating to Audit Reports (Revenue Sector) were due as of March 2018. Of these, 11 recommendations pertain to Telangana State and 102 pertain to combined state of Andhra Pradesh and Telangana.

### **1.7.2 Follow up action on earlier Audit Reports (ARs)**

Serious irregularities observed in Audit are included in the Reports of the Comptroller and Auditor General of India those are presented to State Legislature. The internal working system of the Public Accounts Committee laid down that the departments shall submit the explanatory notes on audit paragraphs within three months of tabling the Report. In spite of these provisions, the explanatory notes on Audit Paragraphs of the Reports are delayed inordinately.

Reports of the Comptroller and Auditor General of India on Revenue Sector of the Government of Andhra Pradesh contained 170 paragraphs (including five Performance Audits and one Stand Alone Report) for the years from 2012-13 to 2016-17. These Audit Reports were placed before the State Legislative Assembly between November 2014 and March 2018. Of these, 118 paragraphs pertain exclusively to Telangana and 52 paragraphs (including two Performance Audits and one Stand Alone report) were common to both

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<sup>4</sup> State Taxes, Excise, Land Revenue, Transport, Registration, Energy, Endowments, Industries and Commerce.

<sup>5</sup> Government of Andhra Pradesh U.O.Note No.1576-A/32/PAC/95 dated 17 May 1995.

Telangana and Andhra Pradesh States. Explanatory notes in respect of 164 paragraphs from eight Departments<sup>6</sup> have not been received.

### 1.7.3 Response to past Inspection Reports

A review of IRs issued up to December 2017 pertaining to eight departments showed that 20,178 paragraphs relating to 4,531 IRs valuing ₹ 9,824.74 crore were outstanding at the end of June 2018 (*Appendix-1.1*). Even first replies from the Heads of offices which was to be furnished within one month has not been received in respect of 275 IRs issued during 2017-18.

#### Recommendation

**The Government should ensure prompt and appropriate response to audit observations as well as take action against those failing to send replies to the IRs/ paragraphs as per the prescribed time schedules.**

### 1.7.4 Departmental Audit Committee Meetings

The Government has to set up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During the year 2017-18, no Audit Committee Meetings were held by departments.

#### Recommendation

**As the pendency of IRs and paragraphs are accumulating, Government may instruct all the Departments to regularly conduct Audit Committee Meetings to expedite settlement of IRs/paragraphs.**

### 1.7.5 Constraints in Audit

The programme of local audit of Tax Revenue/Non-tax Revenue offices is drawn up sufficiently in advance. Intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

During the period 2017-18, 65 offices pertaining to five departments<sup>7</sup> did not produce crucial records like Annual Accounts of dealers, Assessment Files, Licence files of A-4 shops and related records, Cash Book, Demand Collection and Balance Register, Challan Remittance Register and reconciliation statement etc., where the records were made available, under-assessment/ short levy/ loss of revenue aggregating to ₹ 957.14 crore in 1,836 cases pertaining to 324 test checked units of eight departments<sup>8</sup> were observed. During the year, departments accepted observations pertaining to

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<sup>6</sup> Commercial Taxes, State Excise, Land Revenue, Transport, Registration, Energy, Industries and Commerce, Endowments.

<sup>7</sup> State Taxes, Prohibition and Excise, Registration and stamps, Land Revenue, Transport.

<sup>8</sup> Endowments, Energy, Excise, Industries and Commerce, Land Revenue, Registration, State Taxes, Transport.



₹245.59 crore in 348 cases<sup>9</sup> and ₹1.03 crore<sup>10</sup> only was recovered in 93 cases.

Non production of records causes hindrance not only in discharging audit functions effectively by not being able to verify accuracy of revenue collections and expenditure; but also may deprive the Government of recoveries effected at the instance of Audit.

**Recommendation:**

**Government may issue suitable instructions to the Heads of the Departments concerned for timely production of all the relevant records for audit scrutiny.**

**1.7.6 Response of the Departments to the draft audit paragraphs**

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India (CAG) were forwarded by the Principal Accountant General to the Principal Secretaries/ Secretaries of the concerned Departments. They were requested to send their response to audit findings within six weeks.

Audit forwarded 43 draft compliance audit paragraphs including two draft detailed Compliance Audit Reports to the Principal Secretaries/Secretaries concerned between August 2018 and December 2018. Replies have not been received from the Government (February 2020).

**1.7.7 Analysis of the mechanism for dealing with the issues raised by Audit in Registration and Stamps Department**

The system of addressing the issues highlighted in the Inspection Reports/ Audit Reports by the Departments/ Government in respect of Registration and Stamps Department was evaluated. The evaluation was on action taken on the cases detected in local audit during 2014-15<sup>11</sup> to 2017-18 and Compliance Audit Paragraphs/ Performance Audit Reports included in the Audit Reports for the years 2012-13 to 2016-17.

The overall performance of the Department in clearance of Inspection Reports and action taken on recommendations of Audit was not encouraging as given in **Table 1.6:**

<sup>9</sup> of which 155 cases involving ₹ 44.36 crore were pointed out in earlier years.

<sup>10</sup> of this, recovery of ₹ 0.44 crore in 56 cases related to previous years.

<sup>11</sup> Telangana State formed w.e.f. 02 June 2014.

**Table 1.6**  
**Position of Inspection Reports (IRs)**

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
		IRs	Paras	Money Value (₹ in crore)	IRs	Paras	Money Value (₹ in crore)	IRs	Paras	Money Value (₹ in crore)	IRs	Paras	Money Value (₹ in crore)
1.	2014-15	1,042	3,716	475.87	79	644	25.66	6	77	0.87	1,115	4,283	500.66
2.	2015-16	1,115	4,283	500.66	105	672	19.26	108	772	333.72	1,112	4,183	186.20
3.	2016-17	1,112	4,183	186.20	119	688	41.80	9	162	0.43	1,222	4,709	227.57
4.	2017-18	1,222	4,709	227.57	118	857	341.70	23	470	2.91	1,317	5,096	566.36

Source: Records of Office of Principal Accountant General (Audit), Telangana

The above position indicates that overall performance of the Department in clearance of paragraphs was not encouraging. Against 1,042 outstanding IRs with 3,716 paragraphs at the beginning of 2014-15, the number of outstanding IRs increased to 1,317 with 5,096 paragraphs at the end of 2017-18.

Two Performance Audits were conducted during 2012-13 and 2015-16 on the subject<sup>12</sup> pertaining to Registration and Stamps Department and 12 recommendations were issued. Explanatory Notes were not received from the Government in respect of these Performance Audit Reports as of December 2018. Details of recommendations and their status are given in **Appendix-1.2**.

## **1.8 Coverage of this Report**

This Report contains 27 compliance audit paragraphs including two Detailed Compliance Audits *viz.*, “Role of Chief Commissioner of Land Administration in the Management of Government Land” and “Management of Endowment Assets” with tax effect of ₹ 418.16 crore.

The audit observations in the report are based on the results of the test check of records made available to audit. There may be similar irregularities, errors/omissions in other units under the department but not covered in the test audit. Department may, therefore, examine all the units with a view to ensure that the taxes are levied as per provisions of the Act and Rules.

<sup>12</sup> Functioning of Registration and Stamps Department including Information Technology (IT) audit of Computer Aided Administration in Registration Department (CARD); Revision and implementation of Market Value Guidelines.