

# Chapter I

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## General

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## 1.1 Introduction

This Report of the Comptroller and Auditor General of India (C&AG) relates to the matters arising from Compliance Audit of five major receipts dealt with by two departments (Revenue and Transport) during the year 2021-22.

Compliance audit refers to the examination of transactions relating to expenditure, receipts as well as assets and liabilities of audited entities to examine and report on their compliance to the provisions of the Constitution of India as well as other applicable laws, rules, regulations and various orders and instructions issued by competent authorities. Compliance audit also includes an examination of the rules, regulations, orders and instructions for their legality, adequacy, transparency, propriety and prudence. The basic purpose of the Report is to bring the important results of Audit to the notice of the State Legislature. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective measures and also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides information on follow-up of previous Audit Reports.

## 1.2 Profile of Audited Entities

The Departments are headed by Special Chief Secretary / Principal Secretaries who are assisted by Commissioners and subordinate officers. A brief profile of two departments covered in this Report is discussed in *Appendix 1.1*.

A summary of the revenue realised (tax and non-tax revenue, the State's share of divisible Union taxes and duties, Grants-in-aid received from the Government of India (GoI) during the year 2021-22 and the corresponding figures for the preceding four years) by Government of Telangana is given in **Table 1.1**. Budget estimates for 2021-22 is also given in the table against actual revenue receipts.

**Table-1.1: Trend of Revenue Receipts**

							(₹ in crore)
Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	Budget Estimates 2021-22
<b>1</b>	<b>Revenue raised by the State Government</b>						
	Tax Revenue	56,519.81	64,674.06	67,597.49	66,650.37	91,271.38	92,910.00
	Non-tax Revenue	7,825.40	10,007.42	7,360.31	6,101.24	8,857.41	30,557.00
	<b>Total</b>	<b>64,345.21</b>	<b>74,681.48</b>	<b>74,957.80</b>	<b>72,751.61</b>	<b>1,00,128.79</b>	<b>1,23,467.00</b>
<b>2</b>	<b>Receipts from the Government of India</b>						
	Share of net proceeds of divisible Union taxes and duties	16,420.08	18,560.88	15,987.59	12,691.62	18,720.54	13,990.00
	Grants-in-Aid	8,058.80	8,177.79	11,598.42	15,471.13	8,619.26	38,669.00

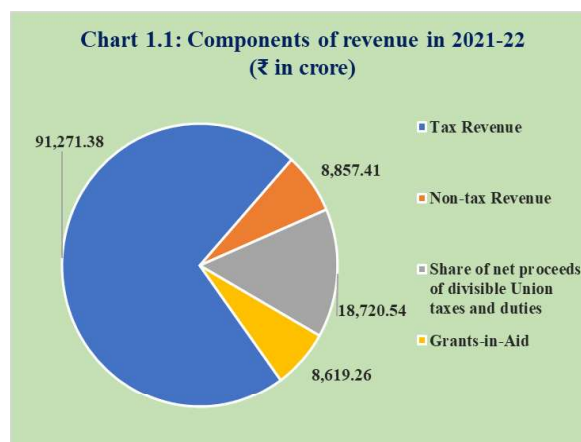
Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	Budget Estimates 2021-22
	<b>Total</b>	<b>24,478.88</b>	<b>26,738.67</b>	<b>27,586.01</b>	<b>28,162.75</b>	<b>27,339.80</b>	<b>52,659.00</b>
<b>3</b>	<b>Total revenue receipts of State Government (1 + 2)</b>	<b>88,824.09</b>	<b>1,01,420.15</b>	<b>1,02,543.81</b>	<b>1,00,914.36</b>	<b>1,27,468.59</b>	<b>1,76,126.00</b>
<b>4</b>	<b>Percentage of State's Own Revenue to Total Revenue Receipts</b>	<b>72</b>	<b>74</b>	<b>73</b>	<b>72</b>	<b>79</b>	

Source: Finance Accounts of Government of Telangana for relevant years

The State's performance in mobilisation of resources is assessed in terms of tax revenue and non-tax revenue excluding the State's share in Central taxes and Grants-in-aid, which are based on the recommendations of the Finance Commission.

As seen from the Table above, the tax revenue of the State has displayed a mixed trend with the previous years. There was an increase of 14.43 per cent in 2018-19 and 4.5 per cent in 2019-20 respectively and a decrease of 1.4 per cent in 2020-21. However, tax revenue has again increased by 37 per cent in 2021-22.

Similarly, the non-tax revenue showed a mixed trend with increase (28 per cent) in 2018-19, decrease in 2019-20 (26 per cent) and 2020-21 (17 per cent) and increase (45 per cent) again in 2021-22. The percentage of tax and non-tax revenue raised by the State Government to the total revenue of the State has decreased from 74 per cent in 2018-19 to 73 per cent in 2019-20, 72 per cent in 2020-21 and again increased to 79 per cent in 2021-22.



The nature and composition of revenue receipts of the State during the year 2021-22 is shown in **Chart 1.1**.

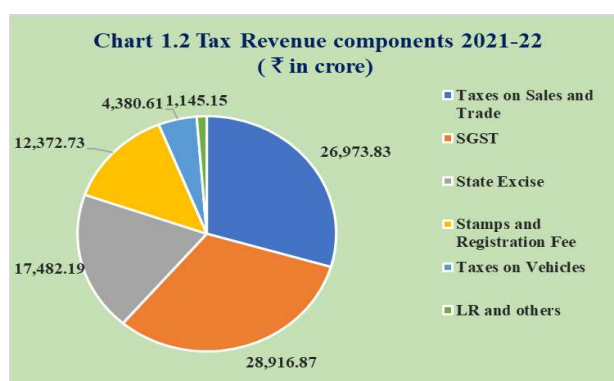
### 1.2.1 Tax Revenue

Details of tax revenue raised vis-à-vis budget projections during the period 2017-18 to 2021-22 are given in **Table 1.2**.

Table-1.2: Details of Tax Revenue raised

							(₹ in crore)
Head of Revenue	Budget Estimates / Actuals	2017-18	2018-19	2019-20	2020-21	2021-22	Percentage of increase (+) / decrease (-) in 2021-22 over 2020-21
Taxes on Sales, Trade etc.	Budget Estimates	46,500.00	25,942.00	21,972.00	26,400.00	26,500.00	(+)0.38
	Actuals	25,106.48	20,290.50	20,674.42	20,903.90	26,973.83	(+)29.04
State Goods and Services Tax (SGST)	Budget Estimates	-	26,040.00	25,817.00	27,600.00	31,000.00	(+)12.32
	Actuals	13,072.91	23,840.18	23,516.70	22,190.34	28,916.87	(+)30.31
State Excise	Budget Estimates	9,000.00	10,600.00	10,901.00	16,000.00	17,000.00	(+)6.25
	Actuals	9,421.33	10,637.56	11,991.58	14,369.84	17,482.19	(+)21.66
Stamps and Registration Fees	Budget Estimates	3,000.00	4,700.00	6,146.00	10,000.00	12,500.00	(+)25.00
	Actuals	4,202.46	5,344.04	6,671.05	5,243.28	12,372.73	(+)135.97
Taxes on Vehicles	Budget Estimates	3,000.00	3,950.00	3,714.00	4,300.00	5,000.00	(+)16.28
	Actuals	3,589.48	3,761.94	3,934.75	3,337.96	4,380.61	(+)31.24
Land Revenue	Budget Estimates	15.00	4.64	5.39	6.94	6.31	(-)9.08
	Actuals	4.12	0.42	0.99	0.50	0.26	(-)47.60
Others <sup>2</sup>	Budget Estimates	1,104.00	1,015.24	773.18	993.06	903.69	(-)9.00
	Actuals	1,123.03	799.42	808.00	604.55	1,144.89	(+)89.38
Total	<b>Budget Estimates</b>	<b>62,619.00</b>	<b>72,251.88</b>	<b>69,328.57</b>	<b>85,300.00</b>	<b>92,910.00</b>	<b>(+)8.92</b>
	<b>Actuals</b>	<b>56,519.81</b>	<b>64,674.06</b>	<b>67,597.49</b>	<b>66,650.37</b>	<b>91,271.38</b>	<b>(+)36.94</b>

Source: Budget Estimates and Finance Accounts of Government of Telangana for relevant years



Receipts under Sales Tax have not matched the Budget Estimates (BEs) in the four-year period 2017-21. In the year 2021-22, receipts under this head exceeded BEs. Receipts are less than BEs in the case of SGST during the four-year period 2018-22. State Excise revenue was more than the budgetary projections during the three-year period 2017-20 but marginally less than the

BEs during the year 2020-21 and again exceeded in the year 2021-22. Receipts under Stamps and Registration Fees were more than the BEs during the three-year period 2017-20 while less for the years 2020-21 and 2021-22. Taxes on vehicles revenue exceeded BEs during 2017-18 and in 2019-20 but fell short during 2018-19, 2020-21 and 2021-22. There

<sup>2</sup> Others include - Other taxes on income and expenditure; estate duty; taxes on immovable property other than agricultural land; taxes on goods and passengers; taxes and duties on electricity and other taxes and duties on commodities and services.

is a huge variation between BEs and Receipts in case of Land Revenue during the five-year period 2017-22.

The break-up of tax revenue for the year 2021-22 is shown in **Chart 1.2**. Tax revenue<sup>3</sup> accounted for 72 per cent of the total revenue<sup>4</sup> of the State in the year 2021-22.

There has been an increase of 37 per cent in tax revenue during the year 2021-22 over the previous year. While tax revenue under the heads, Taxes on Sales and Trade, SGST, State Excise, Stamp duty and Registration Fees, Taxes on vehicles and Others increased, receipts under Land Revenue has decreased.

Increase in receipts under Taxes on Sales, Trade etc., was due to increase in collection of receipts under State Sales Tax Act, increase under SGST due to increase in Tax, Input Tax Credit cross utilisation of SGST and IGST, Apportionment of IGST-Transfer-in of Tax Component to SGST was offset to some extent by decrease in Other Receipts and Advance Apportionment from IGST. Receipts towards stamp duty and registration fee increased due to revision in market values of properties twice during the year coupled with increase in rates of stamp duty, registration fee and structure rates. As regards receipts under State Excise, it was due to increase in sale of Foreign Liquors and Spirits and Other Receipts. Detailed clarification of the decrease in Land Revenue has not been received from the Department.

### **1.3 Authority for Audit**

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

### **1.4 Planning and conduct of Audit**

The audit process starts with the assessment of risk of various Government departments based on Revenue generation, internal controls in the departments, previous audit findings etc. During the year 2021-22, 248 units were audited against 317 units planned.

After completion of audit of each unit, an Inspection Report (IR) containing audit findings is issued to the Head of the Unit with a request to furnish replies within one month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in Government, are processed for inclusion in the Audit Reports. These Audit Reports are submitted to the Governor of Telangana under Article 151 of the Constitution of India for causing them to be laid on the Table of State Legislature.

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<sup>3</sup> ₹91,271.38 crore.

<sup>4</sup> ₹1,27,468.59 crore.

## 1.5 Response of Government / Departments to Audit Observations

### 1.5.1 Response to previous Inspection Reports

Heads of Offices and next higher authorities are required to respond to the observations contained in Inspection Reports (IRs) and take appropriate corrective action. Audit observations communicated in IRs are also discussed at periodical meetings held at District / State levels by officers of the Accountant General's office with officers of the concerned Departments.

A review of IRs issued up to December 2021 pertaining to five Revenue Receipts<sup>5</sup> of two departments showed that 14,882 paragraphs relating to 1,583 IRs valuing ₹4,937.45 crore were outstanding at the end of June 2022 (*Appendix 1.2*). Even first replies from the Heads of offices which were to be furnished within one month have not been received in respect of 181 IRs issued during 2021-22.

Lack of action on IRs and audit paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods / services, fraud, corruption and loss to public exchequer.

***Recommendation:***

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

### 1.5.2 Departmental Audit Committee Meetings

The Government has to set up Audit Committees to monitor and expedite the progress of the settlement of Inspection Reports (IRs) and paragraphs in IRs. During the year 2021-22, no Audit Committee meetings were held by Departments.

### 1.5.3 Response of Government to audit observations

All Departments are required<sup>6</sup> to send their responses to draft audit paragraphs proposed for inclusion in C&AG's Report within six weeks of their receipt. During the year 2022-23, 41 draft compliance audit paragraphs<sup>7</sup> were forwarded to the Special Chief Secretaries / Principal Secretaries / Secretaries of the Departments<sup>8</sup> concerned, drawing their attention to the audit findings and requesting them to send their response within six weeks. It was brought to their personal attention that these paragraphs were likely to be included in the Audit Report of the C&AG of India, which would be placed before the State Legislature and it would be desirable to include their comments / responses to the audit findings.

<sup>5</sup> Commercial Taxes, Land Revenue, Prohibition and Excise, Registration and Stamps and Transport.

<sup>6</sup> As per paragraph 4.7 of Finance Department's Handbook of Instructions.

<sup>7</sup> 39 Draft Paragraphs, one Detailed Compliance Audit and one Subject Specific Compliance Audit.

<sup>8</sup> Commercial Taxes, Land Revenue, Prohibition and Excise, Registration & Stamps and Transport.

Responses of the Departments were received in respect of Compliance Audit report on 'Citizen Friendly Services in Transport Department (CFST)' and Subject Specific Compliance Audit report on 'Department's oversight on GST Payments and Returns filing' and the same was suitably incorporated in the respective reports. However, no response was received from the Government / Department to any of the remaining 39 compliance audit draft paragraphs. The fact of non-receipt of Government / Department response was also brought to the notice of the Chief Secretary to the Government in March 2023.

## **1.6 Follow-up on Audit Reports**

Administrative Departments are required to submit Explanatory Notes (ENs) on paragraphs and reviews included in Audit Reports<sup>9</sup>, within three months of their presentation to State Legislature duly indicating action taken or proposed to be taken.

Reports of the C&AG on Revenue Sector of the Government of Telangana for the years from 2014-15 to 2018-19 contained 170 paragraphs pertaining to four<sup>10</sup> Departments. These Reports were placed before the State Legislative Assembly between March 2016 and March 2021. Out of 170 paragraphs, ENs have been received only for five paragraphs pertaining to Industries and Commerce Department. Out of 82 paragraphs pertaining exclusively to Telangana included in the Audit Reports of combined State of Andhra Pradesh and Telangana prior to 2014-15 i.e., for the years from 1996-97 to 2013-14, ENs for 13 paragraphs from Revenue (Land Revenue and Registration & Stamps) Department have not been received (May 2023).

Reports of the C&AG on Revenue Sector of the Government of Andhra Pradesh contain 432 paragraphs that are common to both Telangana and Andhra Pradesh States for the period 1996-97 to 2013-14. ENs in respect of 188 paragraphs from nine Departments<sup>11</sup> have not been received (May 2023).

### **1.6.1 Response of Government to recommendations of the Public Accounts Committee**

Administrative Departments are required to submit Action Taken Notes (ATNs) on the recommendations of Public Accounts Committee (PAC) within six months<sup>12</sup> from the date of receipt of recommendations.

Action Taken Notes on 112 recommendations relating to Audit Reports (Revenue Sector) were due as of May 2023. Of these, 11 recommendations pertain to Telangana State and 101 pertain to combined State of Andhra Pradesh and Telangana.

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<sup>9</sup> As per instructions issued by Finance and Planning Department vide U.O. No.23810-C/200/PAC/93-2, dated 3 November 1993.

<sup>10</sup> Revenue (Commercial Taxes, Prohibition and Excise, Land Revenue, Registration & Stamps, Endowments); Transport, Energy, Industries & Commerce.

<sup>11</sup> Commercial Tax, Prohibition and Excise, Land Revenue, Transport, Registration & Stamps, Industries and Commerce, Endowments, Cooperation and Finance.

<sup>12</sup> As per instructions issued by Finance and Planning Department vide U.O. No. 1576-A/32/PAC/95, dated 17 May 1995.



## **1.7 Coverage of this Report**

This Report contains 22 compliance audit paragraphs. The total financial impact of the paragraphs is ₹80.23 crore excluding one Compliance Audit on ‘Citizen Friendly Services in Transport Department’ with financial impact of ₹49.07 crore and one Subject Specific Compliance Audit on ‘Department’s oversight on GST payments and Returns filing’, where the compliance deviations / red flags involving an amount of ₹1,145.70 crore were pointed out. These are discussed in Chapters II to VI. The Departments / Government have accepted audit observations involving ₹64.91 crore (as of June 2023). Out of the accepted audit observations, the Departments had recovered ₹7.30 crore (11.25 *per cent*) up to June 2023 at the instance of Audit.