

CHAPTER I GENERAL

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Andhra Pradesh during the year 2006-07, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(Rupees in crore)

Sl. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
I	Revenue raised by the State Government					
	• Tax revenue	12,617.56	13,805.93	16,254.50	19,207.40	23,926.20 ¹
	• Non-tax revenue	3,529.42	3,604.65	3,755.57	4,691.37	6,487.83
	Total	16,146.98	17,410.58	20,010.07	23,898.77	30,414.03
II	Receipts from the Government of India					
	• State's share of divisible Union taxes	4,315.81	5,068.53	6,058.51	6,950.86	8,866.00
	• Grants-in-aid	2,540.13	4,389.39	2,680.92	4,001.56	4,965.44
	Total	6,855.94	9,457.92	8,739.43	10,952.42	13,831.44
III	Total receipts of the State (I + II)	23,002.92	26,868.50	28,749.50	34,851.19	44,245.47
IV	Percentage of I to III	70	65	70	69	69

The above table indicates that during the year 2006-07, the revenue raised by the State Government was 69 per cent of the total revenue receipts (Rs. 44,245.47 crore). The balance 31 per cent of the receipts during 2006-07 was from the Government of India.

¹ For details please see Statement No.11- Detailed accounts of revenue by minor heads in the Finance Accounts of Andhra Pradesh for the year 2006-07. Figures under the major heads '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 - share of net proceeds assigned to states booked in the Finance Accounts under A-Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this table

1.1.1 The following table presents the details of tax revenue raised during the period from 2002-03 to 2006-07:

(Rupees in crore)

Sl. No.	Head of revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase (+)/ decrease (-) in 2006-07 over 2005-06
1.	Sales tax	7,741.45	8,395.70	9,988.64	11,524.24	14,222.67	(+) 23.42
	Central sales tax	580.75	791.23	1,051.96	1,017.37	1,244.41	(+) 23.32
2.	State excise	1,856.46	1,914.98	2,092.67	2,684.57	3,436.63	(+) 28.01
3.	Stamp duty and registration fee	999.65	1,111.75	1,387.91	2,013.45	2,865.38	(+) 42.31
4.	Taxes and duties on electricity	110.18	138.52	137.58	151.96	151.05	(-) 0.60
5.	Taxes on vehicles	929.47	1,067.76	1,168.64	1,355.74	1,364.74	(+) 0.66
6.	Taxes on goods and passengers	20.88	44.55	65.59	50.35	41.25	(-) 18.07
7.	Other taxes on income and expenditure, tax on professions, trades, callings and employments	158.30	168.35	180.21	227.07	312.21	(+) 37.50
8.	Other taxes and duties on commodities and services	128.05	135.58	144.81	110.62	148.84	(+) 34.55
9.	Land revenue	86.17	34.52	33.59	68.75	113.50	(+) 65.09
10.	Taxes on immovable property other than agricultural land (NALA)	6.20	2.99	2.90	3.29	25.52	(+) 675.68
	Total	12,617.56	13,805.93	16,254.50	19,207.41	23,926.20	(+) 24.57

The following reason for variation was reported by the concerned department:

- **Sales tax:** The increase in revenue was stated to be due to implementation of the Value Added Tax (VAT) Act.

The other departments did not inform (December 2007) the reasons for variation, despite being requested (April 2007) and reminded (June 2007).

1.1.2 The following table presents the details of major non-tax revenue realised during the period from 2002-03 to 2006-07:

(Rupees in crore)

Sl. No.	Head of revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase (+)/decrease (-) in 2006-07 over 2005-06
1.	Interest receipts	1,717.40	1,818.53	1,710.44	2,039.52	2,231.17	(+) 9.40
2.	Other non-tax receipts	685.25	545.24	496.65	505.05	682.73 ²	(+) 35.18
3.	Forestry and wild life	71.10	92.95	121.68	137.93	87.11	(-) 36.84
4.	Non-ferrous mining and metallurgical industries (mines and minerals)	779.66	771.57	873.53	1,062.57	1,321.25	(+) 24.34
5.	Miscellaneous general services	80.92	153.63	243.34	703.47	1,865.90	(+) 165.24
6.	Power	35.51	44.90	25.15	22.26	22.11	(-) 0.67
7.	Major and medium irrigation	8.47	15.52	56.27	47.82	68.81	(+) 43.89
8.	Medical and public health	38.05	29.30	28.88	40.59	34.19	(-) 15.77
9.	Co-operation	28.36	23.07	21.16	12.45	23.61	(+) 89.64
10.	Public works	6.50	7.11	6.14	7.20	7.09	(-) 1.53
11.	Police	51.48	59.05	50.15	62.94	79.12	(+) 25.71
12.	Other administrative services	26.72	43.78	122.18	49.57	64.73	(+) 30.58
Total		3,529.42	3,604.65	3,755.57	4,691.37	6,487.83	

The following reasons for variations were reported by the respective departments:

Forestry and wild life: The decrease was due to non-extraction of timber.

Non-ferrous mining and metallurgical industries (mines and minerals): The variation was stated to be due to implementation of AP Mineral Bearing (APMB) Cess Act and transfer of auctions of sand from Panchayat Raj to Industries and Commerce department and also increase in the consumption of minor minerals.

The other departments did not inform (December 2007) the reasons for variation, despite being requested (April 2007) and reminded (June 2007).

² Includes dividends and profits also

1.2 Variation between budget estimates and actual receipts

The variations between the budget estimates and actuals of revenue receipts for the year 2006-07 in respect of the principal heads of tax and non-tax revenue are mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Budget estimates	Actuals	Variations excess (+) shortfall (-)	Percentage of variation
Tax revenue					
1.	Sales tax	15,465.33	15,467.41	(+) 2.08	(+) 0.01
2.	State excise	3,250.00	3,436.63	(+) 186.63	(+) 5.74
3.	Stamp duty and registration fee	2,250.00	2,865.38	(+) 615.38	(+) 27.35
4.	Taxes and duties on electricity	166.64	151.05	(-) 15.59	(-) 9.36
5.	Land revenue	128.48	113.50	(-) 14.98	(-) 11.66
6.	Taxes on vehicles	1,777.00	1,364.74	(-) 412.26	(-) 23.20
7.	Other taxes and duties on commodities and services	213.17	148.84	(-) 64.16	(-) 30.18
8.	Taxes on goods and passengers	72.31	41.25	(-) 31.06	(-) 42.95
9.	Taxes on immovable property other than agricultural land (NALA)	15.00	25.52	(+) 10.52	(+) 70.13
Non-tax revenue					
10.	Interest receipts	2,633.21	2,231.17	(-) 402.04	(-) 15.27
11.	Non-ferrous mining and metallurgical industries (mines and minerals)	1,265.00	1,321.25	(+) 56.25	(+) 4.45
12.	Forestry and wild life	138.60	87.11	(-) 51.49	(-) 37.15

The following reasons for variations were reported by the concerned departments:

- **Land Revenue:** The shortfall was stated to be due to non-collection of water tax³ at the village level.
- **Non-ferrous mining and metallurgical industries (mines and minerals):** The excess was stated to be due to increase in the consumption of minor mineral and transfer of sand auctions from Panchayat Raj department to Industries and Commerce department.
- **Taxes on vehicles:** The shortfall was stated to be due to non-payment of tax by Andhra Pradesh State Road Transport Corporation (APSRTC).

The other departments did not inform (December 2007) the reasons for variation, despite being requested (April 2007) and reminded (June 2007).

³ Water tax is a part of land revenue and is credited to 0029-Land Revenue

1.3 Cost of collection

The gross collection in respect of the major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2004-05, 2005-06 and 2006-07 along with the relevant all India average percentage of expenditure on collection to gross collection for 2005-06 are mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Year	Gross Collection	Expenditure on collection of revenue	Percentage of cost of collection to gross collection	All India average percentage for the year 2005-06
1.	Sales tax	2004-05	11,040.60	130.26	1.18	0.91
		2005-06	12,541.61	145.86	1.16	
		2006-07	15,467.08	166.07	1.07	
2.	State excise	2004-05	2,092.67	106.75	5.10	3.40
		2005-06	2,684.57	138.75	5.17	
		2006-07	3,436.63	165.78	4.82	
3.	Taxes on vehicles	2004-05	1,168.64	48.70	4.17	2.67
		2005-06	1,355.74	48.30	3.56	
		2006-07	1,364.74	55.43	4.06	
4.	Stamp duty and registration fees	2004-05	1,387.91	45.55	3.28	2.87
		2005-06	2,013.45	50.89	2.53	
		2006-07	2,865.38	60.05	2.10	

Thus, the expenditure on collection in sales tax, state excise and taxes on vehicles was higher as compared to the all India average and the Government needs to look into this aspect.

1.4 Analysis of arrears of revenue

The arrears of revenue as on 31st March 2007 in respect of some principal heads of revenue amounted to Rs.5,842.05 crore, of which Rs.2,289.17 crore were outstanding for more than five years as mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Amount of arrears	Arrears outstanding for more than five years	Remarks
1.	Stamp duty and registration fees	153.29	35.97	Rs.106.66 crore was covered by recovery certificates, Rs.16.63 crore was covered by stay orders by courts and other judicial authorities and the balance Rs. 30 crore was pending due to various other reasons.
2.	Taxes and duties on electricity	162.72	29.28	Rs. 138.31 crore was due from AP Gas Power Corporation, Rs. 6.36 crore was covered under stay orders of the High Court and the balance of Rs.18.05 crore was due from others.

(Rupees in crore)

Sl. No.	Head of revenue	Amount of arrears	Arrears outstanding for more than five years	Remarks
3.	Receipt under sugar cane (Regulation Supply and Purchase Tax) Act	232.05	232.05	Rs. 24.26 crore was covered by stay orders of the High Court and other judicial authorities. Proposals had been sent to the Government for write off/deferring of arrears amounting to Rs.120.73 crore and the Government had requested for a detailed report on the financial liabilities of the co-operative sugar factories, so as to take action on the proposals. Balance of Rs.87.06 crore was pending for various other reasons.
4.	Land revenue (water tax)	284.25	87.80	The department did not furnish the break-up of the arrears.
5.	Taxes on vehicles	1,346.51	367.99	Rs. 1,342.69 crore was due from the APSRTC and the balance Rs.3.82 crore was pending for various other reasons.
6.	Taxes on immovable properties other than agricultural land (NALA)	87.80	34.76	The department did not furnish the details of arrears.
7.	Civil supplies	12.75	3.98	The entire amount is due from the Food Corporation of India, Hyderabad towards state administrative surcharge (SAS).
8.	Forestry and Wild Life	107.82	28.37	Recovery of Rs. 54.43 crore had been stayed by Courts, other judicial authorities and the Government/department. Rs. 35.56 crore was under revenue recovery process and the balance Rs. 17.83 crore was pending for various other reasons.
9.	Commercial taxes	3,396.52	1,411.43	Recovery of Rs. 302.45 crore had been stayed by orders of the judicial authorities, Rs. 288.37 crore is covered under stay orders of the Government and Rs. 18.18 crore was being written off, recovery of Rs. 1,183.03 crore had been deferred, Rs. 104.86 crore was pending with the official liquidator, Rs. 105.43 crore was pending under RR Act, Rs. 177.27 crore was pending with the Government undertakings, Rs. 441.03 crore was collectable and Rs. 775.90 crore was pending for various other reasons.
10.	State excise	58.34	57.54	Rs. 8.97 crore was covered by recovery certificates, Rs. 7.21 crore was covered under stay granted by judicial authorities, Rs. 23 lakh was stayed by the Government/department, Rs. 8.46 crore was under RR process, Rs. 8.20 crore was likely to be written off, proposals for write off had already been submitted for Rs. 2.73 crore. Rs.22.54 crore was recoverable.
	Total	5,842.05	2,289.17	

The position of arrears of revenue at the end of 2006-07 in respect of other departments was not furnished (December 2007) by the Government, despite being requested (June 2007).

1.5 Arrears in assessments

The details of assessments relating to sales tax, motor spirit tax, professions tax, entry tax, lease tax, luxury tax, tax on works contracts pending at the beginning of the year, additional cases became due for the assessment during the year, cases disposed during the year and cases pending at the end of each year during 2002-03 to 2006-07 as furnished by the Commercial Taxes Department are mentioned below:

Year	Opening balance	Cases which became due for assessment	Total	Cases disposed during the year	Cases pending at the end of the year
2002-03	84,618	3,35,725	4,20,343	3,48,835	71,508
2003-04	71,508	3,33,029	4,04,537	3,27,630	76,907
2004-05	76,907	3,50,493	4,27,400	3,00,893	1,26,507
2005-06	1,26,507	3,41,983	4,68,490	3,69,326	99,164
2006-07	99,164	27,077	1,26,241	97,768	28,473

The decrease in the number of cases due for assessment in 2006-07 over the previous years is due to introduction of the VAT Act from 1 April 2005.

1.6 Evasion of tax

The details of evasion as reported by the Commercial Taxes Department are mentioned below:

Particulars	(Rupees in lakh)	
	Number of cases	Amount involved
A. (i) Cases pending as on 1 April 2006	18,055	1,253.44
(ii) Cases detected during the year 2006-07	6,489	Not furnished
B. Cases in which investigations/assessments were completed during the year 2006-07	22,606	6,879.51
C. Cases pending as on 31 March 2007	1,938	Not furnished

1.7 Results of audit

Test check of the records of sales tax, state excise, land revenue, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax receipts, forest receipts and other departmental offices conducted during the year 2006-07 revealed underassessment/non/short levy of taxes/loss of

revenue, failure to raise demands etc., involving Rs. 1,173.20 crore in 1,858 cases. During the course of the year 2006-07, the departments concerned accepted underassessments, short demands etc., aggregating Rs. 262.46 crore in 699 cases including 508 cases involving Rs. 21.69 crore which were pointed out in audit in earlier years. A sum of Rs. 4 crore relating to 89 audit observations was recovered at the instance of audit.

This Report contains 33 paragraphs including two reviews involving financial effect of Rs. 401.59 crore. The departments accepted audit observations involving Rs. 245.39 crore, of which Rs. 3.42 crore had been recovered. No reply has been received in the remaining cases (December 2007).

1.8 Failure to enforce accountability and protect interest of the Government

Accountant General (Commercial and Receipt Audit) (AG), conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). When important irregularities detected during the inspections are not settled on the spot, these IRs are issued to the heads of offices inspected with a copy to the next higher authorities. The hand book of instructions for speedy settlement of audit observations (Finance Department) provides for prompt response by the executive to the IRs issued by the AG to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, etc., noticed during the inspections. The heads of offices and the next higher authorities are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly and report their compliance to the AG. Serious irregularities are also brought to the notice of the heads of departments by the AG. A half yearly report of the pending IRs is sent to the concerned Principal Secretary to the Government and the controlling officers of the departments to facilitate monitoring of the pending audit observations.

The time schedule prescribed by the Government has seldom been adhered to, with the result that 9,651 IRs issued upto the end of December 2006, containing 25,363 audit observations involving Rs. 7,966.99 crore were to be settled at the end of June 2007, as indicated below, along with the corresponding figures for the preceding two years:

	June 2005	June 2006	June 2007
Number of outstanding IRs	8,883	9,695	9,651
Number of outstanding audit observations	22,200	24,525	25,363
Amount involved (Rupees in crore)	7,072.68	6,762.46	7,966.99

Out of 9,651 IRs pending settlement, even first replies have not been received (August 2007) for 297 IRs containing 955 audit observations. The pendency

of these reports was reported to the Government (August 2007). The department-wise details of IRs and audit observations outstanding as on 30 June 2007 and the amounts involved are mentioned below:

(Rupees in crore)

Sl. No.	Department	No. of outstanding IRs	No. of outstanding audit observations	Money value involved
1.	Commercial taxes	3,491	11,166	2,604.60
2.	Land revenue	3,427	7,818	507.23
3.	Stamp duty and registration fees	1,378	3,345	270.36
4.	State excise	388	780	85.08
5.	Taxes on vehicles	304	1,307	1,476.69
6.	Forest receipts	140	200	100.18
7.	Co-operation	45	73	78.82
8.	Mines and minerals	171	262	1,558.39
9.	Civil supplies	60	85	34.54
10.	Agriculture	184	253	0.00
11.	Purchase tax on sugarcane	44	54	192.72
12.	Electricity duty	9	10	170.33
13.	Municipal Administration and Urban Development	2	2	83.19
14.	Finance and planning	4	4	474.81
15.	Irrigation and command area development	4	4	330.05
Total		9,651	25,363	7,966.99

Since the outstanding amount represents unrealised revenue, the Government needs to take speedy and effective action on the issues raised in the IRs.

1.9 Departmental audit committee meetings

The Government while accepting the recommendations of Shakhder Committee (High Powered Committee) instructed (November 1993) all the departments to nominate a designated officer within the department for monitoring the follow-up action on audit observations. For regular review at higher levels, the departments were instructed to ensure that there should be a monitoring committee consisting of the Secretary of the Department and the Finance Secretary. The Government also reformulated (June 2004) comprehensively the orders issued in July 1986 for constitution of Audit Committees at three levels i.e., apex level, departmental level and district level for speedy settlement of audit observations. The three committees are required to meet twice in a year (i.e., January and July), once in three months and once in two months respectively.

The department-wise number of district level audit committee meetings held and paragraphs settled during the year 2006-07 are mentioned below:

(Rupees in crore)

Sl. No.	Departments	No. of meetings	No. of paras settled	Money value
1.	Commercial taxes	3	304	9.46
2.	Transport	1	64	0.15
Total		4	368	9.61

The departments concerned had not convened audit committee meetings to discuss the IRs on revenue receipts relating to state excise, land revenue, stamp duty and registration fees and mineral receipts.

1.10 Response of the departments to draft audit paragraphs

The draft paragraphs/reviews proposed for inclusion in the Audit Report are forwarded by the AG to the Principal Secretaries of the concerned departments through demi-official letters. According to the instructions issued (September 1995) by the Government, all departments are required to furnish their remarks on the draft paragraphs/reviews within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

73 draft paragraphs clubbed into 33 paras (including two reviews) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2007 were forwarded to the concerned Principal Secretaries to the Government and copies endorsed to the concerned heads of the departments during February-June 2007. Their replies were due latest by the end of April-August 2007.

Of the 73 draft paragraphs issued to the Government, replies to 39 draft paragraphs have been received and considered while finalising the Report (December 2007). The draft reviews were discussed with the Government.

1.11 Follow up on Audit Reports

As per the instructions issued by Finance and Planning Department in November 1993, the departments of the Government are to prepare and send to the Andhra Pradesh Legislative Assembly Secretariat detailed explanations (departmental notes) on the audit paragraphs within three months of an Audit Report being laid on the Table of the Legislature.

A review of the position in this regard revealed that as of December 2007, 12 departments had not furnished the departmental notes in respect of 180 paragraphs included in the Audit Reports for the years 2000-01 to 2005-06 due

between June 2002 and June 2007. The delays ranged from four months to over five years as mentioned below:

Sl. No.	Department	Year of Audit Report	Dates of presentation to the legislature	Last date by which departmental notes were due	No. of paragraphs for which the departmental notes were due	Delay in months
1.	Commercial taxes	2002-03 to 2005-06	July 2004 to March 2007	October 2004 to June 2007	80	4 to 36
2.	State excise	2001-02 to 2005-06	March 2003 to March 2007	June 2003 to June 2007	14	4 to 52
3.	Registration	2001-02 to 2005-06	March 2003 to March 2007	June 2003 to June 2007	29	4 to 52
4.	Co-operation	2000-01	March 2002	June 2002	2	64
5.	Irrigation	2000-01	March 2002	June 2002	3	64
6.	Land revenue	2001-02 to 2005-06	March 2003 to March 2007	June 2003 to June 2007	32	4 to 52
7.	Industries & Commerce	2002-03 to 2005-06	July 2004 to March 2007	October 2004 to June 2007	12	4 to 36
8.	Energy	2001-02	March 2003	June 2003	1	52
9.	Municipal Administration and Urban Development	2002-03, 2003-04	July 2004 & October 2005	October 2004 & January 2006	3	21 to 36
10.	Finance	2001-02	March 2003	June 2003	1	52
11.	Forest	2003-04 & 2005-06	October 2005 & March 2007	January 2006 & June 2007	2	4 to 21
12.	General administration	2005-06	March 2007	June 2007	1	4
	Total	2000-01 to 2005-06	March 2002 to March 2007	June 2002 to June 2007	180	4 to 64

This indicates that the executive failed to take prompt action on the important issues highlighted in the Audit Reports that involved large sums of unrealised revenue.

1.12 Action not taken on recommendations of the Public Accounts Committee

The Finance and Planning Department issued (May 1995) instructions to all the administrative departments and the heads of the departments to submit the action taken notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) within six months from the date(s) of receipt of the recommendations. As of November 2007, 159 recommendations of the PAC made between 1972-73 to 2004-05 in regard to nine departments remained outstanding. The concerned administrative departments are yet to submit ATNs for these recommendations. The details are mentioned in the annexure.

1.13 Compliance with the earlier Audit Reports

During the years between 2000-01 and 2005-06, the departments/Government accepted audit observations involving Rs.470.63 crore, out of which an amount of Rs.78.06 crore was recovered till 31 December 2007 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
(1)	(2)	(3)	(4)
2001-02	489.14	109.36	65.39
2002-03	780.89	199.90	2.18
2003-04	267.37	71.57	5.16
2004-05	264.68	40.20	0.88
2005-06	189.69	49.60	4.45
Total	1,991.77	470.63	78.06