

# ***CHAPTER-I***

## ***GENERAL***

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### 1.1 Revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Telangana, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the period from 2 June 2014 to 31 March 2015 are mentioned in **Table-1.1.1**.

**Table- 1.1.1**  
**Revenue receipts**

		(₹ in crore)
	Particulars	2 June 2014 to 31 March 2015 <sup>1</sup>
1.	<b>Revenue raised by the State Government</b>	
	• Tax revenue	29,288.30
	• Non-tax revenue	6,446.82
	<b>Total</b>	<b>35,735.12</b>
2.	<b>Receipts from the Government of India</b>	
	• Share of net proceeds of divisible Union taxes and duties	8,188.58
	• Grants-in-aid	7,118.10
	<b>Total</b>	<b>15,306.68</b>
3.	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>51,041.80</b>
4.	<b>Percentage of 1 to 3</b>	<b>70</b>

The revenue raised by the State Government (₹ 35,735.12 crore) was 70 *per cent* of the total revenue receipts. The remaining 30 *per cent* of the receipts during the period was from Government of India.

<sup>1</sup> For details please see Statement No.14- Detailed accounts of revenue by minor heads in the Finance Accounts of Telangana for the period 2 June 2014 to 31 March 2015. 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.

1.1.2 The details of the tax revenue raised during the period 2 June 2014 to 31 March 2015 are given in **Table 1.1.2**.

**Table 1.1.2**  
**Details of Tax Revenue raised**

(₹ in crore)

Sl. No.	Head of revenue	2 June 2014 to 31 March 2015 <sup>2</sup>	
		Budget Estimates	Actuals
1.	Taxes on sales, trade etc.	26,963.30	22,120.78
2.	State excise	2,823.54	2,807.69
3.	Stamp duty and registration fees	2,583.88	2,176.90
4.	Taxes on vehicles	2,226.86	1,617.66
5.	Land revenue	72.89	9.25
6.	Others	10,457.13	556.02
	<b>Total</b>	<b>45,127.60</b>	<b>29,288.30</b>

The Land Revenue Department reported that due to lack of revenue collection machinery at village level, there was large variation between Budget Estimates and Actuals.

The reasons for variations between Budget Estimates and Actuals were not furnished by other Departments.

1.1.3 The details of the Non-tax revenue raised during the period 2 June 2014 to 31 March 2015 are indicated in **Table 1.1.3**:

**Table 1.1.3**  
**Details of Non-tax revenue raised**

(₹ in crore)

Sl. No.	Head of revenue	2 June 2014 to 31 March 2015 <sup>3</sup>	
		Budget Estimates	Actuals
1.	Interest receipts	2,638.20	2,766.01
2.	Mines and minerals	1,877.52	1,719.29
3.	Education, Sports, Art and Culture	826.72	411.57
4.	Others	7,899.58	1,549.95
	<b>Total</b>	<b>13,242.02</b>	<b>6,446.82</b>

<sup>2</sup> Source: Statement 14 of Finance Accounts.

<sup>3</sup> Source: Statement 14 of Finance Accounts.

## 1.2 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2015 on some principal heads of revenue amounted to ₹ 11,727.35 crore as reported by the respective Departments is detailed in **Table -1.2**

**Table 1.2**  
**Arrears of revenue**

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than five years as on 31 March 2015
1	Taxes on sales, trade etc.	7,022.13	4,799.69
2	State excise	31.24	28.70
3	Taxes on vehicles	1,109.50	1,095.70
4	Stamp duty and registration fees	74.47	Not furnished by the Department
5	Mines and minerals	92.48	88.07
6	Land revenue	143.15	Not furnished by the Department
7	Taxes and duties on electricity	3,254.38	1,916.21
<b>Total</b>		<b>11,727.35</b>	

Source : Information furnished by the concerned Departments.

The concerned Departments did not provide any reasons for the large amounts in arrears in respect of Taxes on vehicles and Taxes and duties on electricity, collection of which was pending for more than five years.

## 1.3 Arrears in assessments

As per the provisions of the AP VAT Act<sup>4</sup>, which is applicable in Telangana also, annual assessments are not mandatory for the VAT dealers. Assessments under the CST Act are to be completed within four years. However, no information was furnished by the Commercial Taxes Department on arrears of CST assessments.

## 1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Departments, cases finalised, the demands for additional tax raised and cases pending for finalisation as on 31 March 2015 in respect of different heads of revenue were called for from the concerned Departments. State Excise and Energy Departments have reported that there were no cases of evasion of tax during the year. The Departments of Transport, Industries and Commerce, Commercial taxes, Stamps and Registration and Land Revenue, however, did not furnish the information on tax evasion cases detected by the Department.

<sup>4</sup> Changed from APVAT Act to Telangana VAT Act vide G.O.Ms.No.32 Revenue (CT-II) Department dated 15 October, 2014.

## 1.5 Pendency of Refund Cases

The number of refund cases pending as on 2 June 2014, claims received during the period till 31 March 2015, refunds allowed during the period and the cases pending as on 31 March 2015 as reported by the Departments are given in **Table 1.5**.

**Table 1.5**  
**Details of pendency of refund cases**

(₹ in crore)

Sl. No.	Particulars	Commercial Taxes		Excise	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	Nil	Nil	50	0.41
2.	Claims received during the year	100	1.47	3	0.44
3.	Refunds made during the year	100	1.47	6	0.70
4.	Balance outstanding at the end of year	Nil	Nil	47	0.15

Land Revenue Department stated that there were no cases of refunds during the year. Other Departments did not furnish the details though called for.

## 1.6 Response of the Government / Departments towards Audit

The Accountant General (E & RSA), Andhra Pradesh and Telangana conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices / Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

Inspection reports issued upto December 2014 disclosed that 15,115 paragraphs involving ₹ 6,465.16 crore relating to 4,193 IRs relating to Revenue Sector remained outstanding in the 10 districts of Telangana at the end of June 2015.

**1.6.1** The Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amounts involved are mentioned in the **Table 1.6.1**.

**Table 1.6.1**  
**Department-wise details of IRs**

(₹ in crore)

Sl. No.	Name of the Department	Nature of receipt	Number of outstanding Inspection Reports	Number of outstanding audit observations	Money value involved
1.	Revenue Department	Taxes on sales, trade etc.	2,026	8,462	2,293.14
		State excise	240	564	36.59
		Land revenue	643	1,521	828
		Stamp duty and registration fees	1,000	3,522	176.48
2.	Transport, Roads and Buildings	Taxes on motor vehicles	182	670	1,654.54
3.	Industries and Commerce	Mines and minerals	80	343	1,019.36
4.	Energy	Taxes and duties on electricity	22	33	457.05
<b>Total</b>			<b>4,193</b>	<b>15,115</b>	<b>6,465.16</b>

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs in respect of 69 IRs issued during 2014-15. Pendency of the IRs is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

The Government may consider putting in place an effective system for prompt and appropriate response to audit observations.

### **1.6.2 Departmental Audit Committee Meetings**

The Government set up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During the year 2014-15, 10 Audit Committee Meetings (ACMs) were held with Prohibition and Excise Department. During these meetings, 563 paras involving ₹ 13.55 crore were settled. Other Departments did not initiate any action for holding the ACMs.

### **1.6.3 Non-production of records to Audit for scrutiny**

The programme of local audit of Tax Revenue / Non-tax revenue offices is drawn up sufficiently in advance and 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 year 2014-15, as many as 399 assessment files, returns, refunds, registers and other relevant records were not made available to Audit, as given in **Table 1.6.3**

**Table 1.6.3**  
**Details of non-production of records**

Name of the Office/ Department		Number of cases not audited
Revenue	Commercial Taxes	362
	Excise and Prohibition	13
	Stamps and Registration	2
	Land Revenue	11
Transport, Roads and Buildings	Transport	8
Industries and Commerce	Mines and Geology	3
<b>Total</b>		<b>399</b>

#### **1.6.4 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 are forwarded by the AG to the Principal Secretaries / Secretaries of the concerned Departments, drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

79 draft paragraphs including one Performance Audit were sent to the Principal Secretaries / Secretaries of the respective Departments by name between July and October 2015. The replies received during Exit Conference of Performance Audit have been incorporated in the Report. The Principal Secretaries/ Secretaries of the Departments did not send replies to other draft paragraphs despite issue of reminders and the same have been included in this Report without the response of the Departments.

#### **1.6.5 Follow up on the Audit Reports - summarised position**

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports are delayed inordinately. 171 paragraphs (including Performance Audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Andhra Pradesh for the years ended 31 March 2010, 2011, 2012, 2013 and 2014 were placed before the State Legislative Assembly between March 2011 and March 2015. Of these 40 paragraphs pertain exclusively to Telangana whereas 131 paragraphs pertain to both Andhra Pradesh and Telangana. The explanatory notes from the concerned Departments of Telangana on these paragraphs were received in respect of only 29 paragraphs pertaining to Telangana and eight paragraphs pertaining to both the States with delay ranging from two to 49 months. Explanatory notes in respect of 134 paragraphs from eight Departments (Commercial Taxes, Excise, Land Revenue, Transport, Registration, Industries

& Commerce, Energy and Endowments) have not been received for the Audit Reports from year ended March 2010 to March 2014 so far (January 2016).

## 1.7 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of addressing the issues highlighted in the Inspection Reports by the Departments, the action taken on the paragraphs of last 10 years for one Department is evaluated and included in this Audit Report.

The paragraph 1.7.1 discusses the performance of the Commercial Taxes Department under revenue head Taxes on sales, trade etc., and cases detected in the course of local audit during the last 10 years. These cases relate only to the 10 districts of the successor State of Telangana.

### 1.7.1 Position of Inspection Reports

The summarised position of the inspection reports relating to Commercial Taxes Department, issued during the last 10 years in the 10 districts of the successor State of Telangana, paragraphs included in these reports and their status as on 31 March 2015 are tabulated in **Table -1.7.1**.

**Table 1.7.1**  
**Position of Inspection Reports**

(₹ in crore)

Sl. No.	Year	Opening Balance			Additions during the year			Clearance during the year			Closing balance		
		IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
1	2005-06	1557	5535	721.80	89	806	229.15	34	206	5.59	1612	6135	945.36
2	2006-07	1612	6135	945.36	92	752	68.50	20	244	11.22	1684	6643	1002.64
3	2007-08	1684	6643	1002.64	100	691	160.13	25	531	61.30	1759	6803	1101.47
4	2008-09	1759	6803	1101.47	98	846	346.66	46	311	20.57	1811	7338	1427.56
5	2009-10	1811	7338	1427.56	104	896	196.00	29	278	349.07	1886	7956	1274.49
6	2010-11	1886	7956	1274.49	102	927	232.38	16	253	13.49	1972	8630	1493.38
7	2011-12	1972	8630	1493.38	114	1316	423.45	2	298	1123.30	2084	9648	793.53
8	2012-13	2084	9648	793.53	29	299	48.12	54	1416	57.65	2059	8531	784.00
9	2013-14	2059	8531	784.00	92	1387	380.34	16	272	24.93	2135	9646	1139.41
10	2014-15	2135	9646	1139.41	81	1320	407.58	3	155	111.64	2213	10811	1435.35

The Government arranges Audit Committee meetings between the Department and AG's office to settle the old paragraphs. As would be evident from the above table, against 1,557 outstanding IRs with 5,535 paragraphs as at the beginning of 2005-06, the number of outstanding IRs increased to 2,213 with 10,811 paragraphs at the end of 2014-15. This is indicative of the fact that adequate steps were not taken by the Department in this regard resulting in increase of the outstanding IRs and paragraphs.

### 1.8 Action taken on the recommendations accepted by the Department/Government

The draft performance reviews conducted by the AG are forwarded to the concerned Department/ Government for their information with a request to furnish their replies. These reviews are also discussed in an exit conference and the Department's / Government's views are included while finalizing the reviews for the Audit Reports.

The following performance reviews were featured in the last five years Reports. The number of recommendations and their status are given in **Table 1.8** below:

**Table 1.8**  
**Status of Audit recommendations**

Year of Report	Name of the PA	No. of recommendations	Status
2009-10	Functioning of the Prohibition and Excise Department	9	Explanatory notes are yet to be submitted by the Government
2010-11	Taxation of works contracts under the APVAT Act	5	
	Cross verification of Declaration Forms used in Interstate Trade.	7	
	Alienation of Government land and conversion of agricultural land for non-agricultural purposes.	3	
2011-12	VAT Audits and Refunds.	3	
2012-13	Functioning of the Directorate of Mines & Geology.	6	
	Functioning of Registration and Stamps Department including Information Technology (IT) Audit of CARD in Andhra Pradesh	6	
2013-14	Performance audit of Public Service Delivery including functioning of IT Services (CFST) in Transport Department.	5	

### 1.9 Audit Planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which inter alia include critical issues in Government revenues and tax administration i.e. budget speech, White Paper on State Finances, Reports of the Finance Commission (State and Central),

recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during past five years etc.

There were total of 934 auditable units of which 229 units were planned and 216 units were audited during the year 2014-15, which is 23 *per cent* of the total auditable units. Besides the compliance audit mentioned above, one Performance Audit was also taken up to examine the efficacy of the tax administration of these receipts.

## **1.10 Results of audit**

### **1.10.1 Position of local audit conducted during the year**

Test check of the records of 216 units of Value Added Tax, State Excise, Motor Vehicles, Land Revenue, Stamp Duty and Registration Fees etc. conducted during the year 2014-15 showed under-assessment/ short-levy/ loss of revenue aggregating to ₹ 393.43 crore in 1299 cases. During the course of the year, the Departments concerned accepted under-assessments and other deficiencies of ₹ 59.82 crore in 181 cases which were pointed out in audit during 2014-15. The Departments collected ₹ 2.48 crore in 104 cases during 2014-15, pertaining to the audit findings of previous years.

### **1.10.2 Coverage of this Report**

This Report contains 50 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports) including one Performance Audit on 'Implementation of VAT (including IT Audit of VATIS)', involving financial effect of ₹ 223.88 crore.

The Departments/ Government have accepted audit observations involving ₹ 62.08 crore out of which ₹ 0.29 crore had been recovered. The replies in the remaining cases have not been received (January 2016). These are discussed in succeeding Chapters.