

PLACED BEFORE THE STATE  
LEGISLATURE ON.....10 MAY 2002



**REPORT OF  
THE COMPTROLLER AND AUDITOR GENERAL  
OF INDIA**

**FOR THE YEAR ENDED 31 MARCH 2001**

**(REVENUE RECEIPTS)**

**GOVERNMENT OF TAMIL NADU**

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<http://cagindia.org/states/tamilnadu/2001>



THE STATE OF TEXAS

COMMISSIONERS OF THE GENERAL LAND OFFICE

LAND OFFICE

THE STATE OF TEXAS  
COMMISSIONERS OF THE GENERAL LAND OFFICE



LEGISLATURE ON JAN 10 2005  
PLACED BEFORE THE STATE



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## PREFATORY REMARKS

*This report for the year ended 31 March 2001 has been prepared for submission to the Governor under Article 151(2) of the Constitution.*

*The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising Sales Tax, Stamp Duty and Registration Fees, Taxes on Vehicles, State Excise, Agricultural Income tax, Urban Land Tax, Other Tax Receipts and Non- Tax receipts.*

*The cases mentioned in this report are among those which came to notice in the course of test-audit of records during the year 2000-2001 as well as those noticed in earlier years, but could not be included in previous years' Reports.*







## OVERVIEW

The Audit Report contains 24 Paragraphs and 4 Reviews relating to non levy/short levy of taxes, interest, penalty etc., involving Rs.668.90 crore. The Government have accepted audit observations involving Rs.1.69 crore of which Rs.42.75 lakh had been recovered during 2000-2001. Some of the major findings are mentioned below:

### 1. General

(i) The revenue raised by the State during 2000-2001 amounted to Rs.13993.02 crore comprising Rs.12282.24 crore as tax revenue and Rs.1710.78 crore as non-tax revenue. Rs.2783.75 crore were received from the Government of India as State's share of divisible Union taxes and Rs.1539.89 crore as Grants-in-Aid. There is overall increase of Rs.116.75 crore (4.38 per cent) over the previous year in the State's share of divisible Union taxes which is mainly due to increase of Rs.737.43 crores under Union Excise Duties. The increase is partly offset by decrease of Rs.620.68 crore under the receipt 'net proceeds of taxes on income other than corporation tax'. Under Grants-in-aid from Central Government there is overall increase of Rs.155.14 crore (11.20 per cent) over the previous year which is mainly due to increased grants under Non-plan and State plan schemes.

Sales Tax (Rs.8197.15 crore) formed a major portion (67 per cent) of the tax revenue of the State. Interest receipts, dividends and profits of Rs.440.17 crore accounted for 26 per cent of the non-tax revenue.

[ Paragraph 1.1 ]

(ii) At the end of 2000-2001, the arrears in respect of taxes administered by the departments of Commercial Taxes, Revenue, Industries, etc. amounted to Rs.8706.92 crore of which Sales Tax and Mines and Minerals together accounted for Rs.8244.34 crore.

[ Paragraph 1.5 ]

(iii) Test-check of records of Sales Tax, State Excise, Agricultural Income Tax, Land Revenue, Urban Land Tax, Taxes on Vehicles and other departmental offices conducted during the year 2000-2001 revealed under-assessments, short-levy, loss of, revenue, etc., amounting to Rs.962.63 crore in 4228 cases.

[ Paragraph 1.10 ]



(iv) As at the end of June 2001, 4754 Inspection Reports issued upto December 2000 containing 17974 audit observations with money value of Rs.633.98 crore were pending settlement with various departments.

[ Paragraph 1.11 ]

## 2. Sales Tax

(i) Incorrect exemption granted to 13 dealers on sales made during 1993-94 to 1998-99 resulted in non-levy of tax amounting to Rs.80.41 lakh.

[ Paragraph 2.2 ]

(ii) Application of incorrect rate of tax on sale of various goods in 9 assessment circles during 1990-91 to 1998-99 resulted in short-levy of tax of Rs.61.72 lakh.

[ Paragraph 2.3 ]

(iii) In 3 assessment circles in respect of 4 dealers due to arithmetical inaccuracy there was short demand of tax and penalty of Rs.435.36 lakh.

[ Paragraph 2.4 ]

(iv) Incorrect computation of taxable turnover amounting to Rs.507.46 lakh in respect of six dealers for the years 1995-96, 1997-98 and 1998-99 resulted in short-levy of tax of Rs.30.10 lakh.

[ Paragraph 2.5 ]

(v) There was short-levy of Rs.15.98 lakh due to excess credit being afforded to five dealers in five assessment circles.

[ Paragraph 2.6 ]



### 3. Agricultural Income Tax

State Excise 6

A review on "Assessment of plantation crops" revealed the following:-

(i) Excess allowance of plucking charges over and above the permissible limit in 4 assessment circles involving 12 cases resulted in short levy of Agricultural Income Tax of Rs.65.14 crore.

[ Paragraph 3.2.6 ]

(ii) In 2 assessment circles in respect of 3 cases, excess allowance of expenditure on account of bonus amounting to Rs.1.98 crore resulted in short levy of Agricultural Income Tax of Rs.1.14 crore.

[ Paragraph 3.2.7 ]

### 4. Land Revenue

Loss of revenue of Rs.1.34 crore due to non-resumption and non-leasing afresh of Government lands on violation of condition by Regional Engineering College, Trichy.

[ Paragraph 4.2 ]

### 5. Taxes on Vehicles

In 27 Regional Transport Offices, non-issue of fresh permits on introduction of modified scheme in respect of 4173 stage carriages has resulted in non-realisation of revenue amounting to Rs.62.60 lakh.

[ Paragraph 5.2 ]



## 6. State Excise

*A review on "Receipts under State Excise" revealed the following:-*

(i) Non-forfeiture of privilege amount and Security deposit on belated submission of application for Indian Made Foreign Spirit retail licenses resulted in loss of revenue of Rs.152.90 crore.

*[ Paragraph 6.2.5 ]*

(ii) Incorrect adoption of yield rate of rectified spirit resulting in notional loss of revenue of Rs.143.28 crore.

*[ Paragraph 6.2.6 ]*

(iii) Incorrect grant of allowance in bottling process resulted in loss of revenue of Rs.5.77 crore.

*[ Paragraph 6.2.7 ]*

(iv) Incorrect allowance of wastage for redistillation resulted in loss of revenue of Rs.5.44 crore.

*[ Paragraph 6.2.8 ]*

In 251 Star Hotels and 5 Hotels with additional bar, privilege fees for the year 1998-1999 were collected at the old rates instead of at the enhanced rates resulting in short collection of Rs.162.00 lakh.

*[ Paragraph 6.3 ]*

## 7 Urban Land Tax

Omission to assess urban lands in four offices involving 17 assesseees resulted in non-levy of tax of Rs.39.69 lakh.

*[ Paragraph 8.2 ]*



## 8. Non-Tax Receipts

### A - Mines and Minerals

Incorrect exemption granted to Chennai Port Trust resulted in loss of seigniorage fee of Rs.2.54 crore on 507.27 lakh cubic feet of stones removed.

[ Paragraph 9.2]

### B - Finance Department

#### (1) Interest Receipts

A review on Interest Receipts revealed the following:

(i) Even after conversion of earlier loans granted to Rural Local Bodies, Interest amounting to Rs.96.36 crore remained uncollected as on 31 March 2000.

[ Paragraph 9.4.5(i)]

(ii) A sum of Rs.42.60 crore towards interest on loans sanctioned to urban local body was pending realisation as on 31 March 2000.

[ Paragraph 9.4.5(ii)]

(iii) Due to non-maintenance of Loan Register by the Agriculture department, a sum of Rs.9.39 crore towards interest and penal interest remained uncollected.

[ Paragraph 9.4.6(i)]

(iv) Due to non raising of demand, interest amounting to Rs.79.48 crore on loans sanctioned to State Commercial Undertakings and Co-operative Societies was pending realisation.

[ Paragraph 9.4.7 (a) & (b)]

(v) Despite the State Transport Undertakings not paying any dividend to Government a sum of Rs.147.84 crore towards loans and interest outstanding was converted into equity share capital.

[ Paragraph 9.4.9]

#### (2) Receipts from State Raffles

A review on Receipts from State Raffles revealed the following:



(i) Total payout of prize money to the public was less than the prescribed limit of 50 per cent and there was an unauthorised deduction of Rs 8.43 crore from I and II prize winning tickets during the period from September 1998 to October 2000. Delay of more than 6 months in the disbursement of prize money to the public resulted in non-payment to the extent of Rs.20.30 crore as of January 2001.

[ Paragraph 9.5.7]

(ii) Undue financial aid was given to agents by way of payment of excess bonus to the tune of Rs.23.18 crore. Government lost interest to the extent of Rs 2.56 crore by allowing unauthorised credit period of 21 days to Agents for payment of value of tickets issued to them.

[ Paragraph 9.5.8]

(iii) There was shortfall of Rs.7.81 crore in transfer of funds to the Tamil Nadu Special Welfare fund. There was under-utilisation to the tune of Rs 30.45 crore from the fund.

[ Paragraph 9.5.10]

(iv) No account was rendered for prize amounts upto Rs.5000 paid by agents to the tune of Rs.66.27 crore.

[ Paragraph 9.5.11]

### **C – Environment and Forest Department**

Failure of the District Forest Officer to demand interest from Tamil Nadu Forest Plantation Corporation has resulted in non-realisation of interest to the tune of Rs.15.66 crore.

[ Paragraph 9.6 ]

### **D – Home Department**

Delay in raising demand by the Director of Fire Services on Tamil Nadu Electricity Board resulted in non-collection of Rs.3.58 crore.

[ Paragraph 9.7]



## CHAPTER - 1

### GENERAL

#### 1.1 Trend of Revenue Receipts

The tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2000-2001, the 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 two years are given below:

(Rupees in crore)

		1998-99	1999-2000	2000-2001
I	Revenue raised by the State Government			
	(a) Tax revenue	9625.30	10918.93	12282.24
	(b) Non-tax revenue*	1156.70 (1128.00)	1356.85 (1317.66)	1710.78 (1657.10)
	<b>Total - I</b>	<b>10782.00</b> <b>(10753.30)</b>	<b>12275.78</b> <b>(12236.59)</b>	<b>13993.02</b> <b>(13939.34)</b>
II	Receipts from the Government of India			
	(a) State's share of divisible Union taxes	2408.98	2667.00	2783.75**
	(b) Grants-in-aid	1069.85	1384.75	1539.89
	<b>Total - II</b>	<b>3478.83</b>	<b>4051.75</b>	<b>4323.64</b>
III	<b>Total receipts of the State Government [(I) + (II)]</b>	<b>14260.83</b> <b>(14232.13)</b>	<b>16327.53</b> <b>(16288.34)</b>	<b>18316.66</b> <b>(18262.98)</b>
IV	<b>Percentage of I to III</b>	<b>76</b>	<b>75</b>	<b>76</b>

\* Figures in brackets representing non-tax revenue include receipts from lotteries net of expenditure on prize winning tickets.

\*\* For details please see Statement No.11 - Detailed Accounts of Revenue by Minor Heads of the Finance Accounts of the Government of Tamil Nadu for the year 2000-2001. Figures under the Head '0021 - Taxes on Income other than Corporation Tax - 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 State's share of divisible Union taxes' in this Statement.



(i) The details of tax revenue raised during the year 2000-2001, along with the corresponding figures for the preceding two years, are given below.

(Rupees in crore)

Sl No	Heads of revenue	1998-1999	1999-2000	2000-2001	Percentage of increase (+) or decrease (-) in 2000-2001 over 1999-2000
1.	Sales Tax	6112.94	7024.23	8197.15	(+) 16.70
2.	State Excise	1709.81	1833.70	1868.68	(+) 1.91
3.	Stamp Duty and Registration Fees	672.52	817.58	910.20	(+) 11.33
4.	Taxes on Vehicles	518.14	577.98	590.44	(+) 2.16
5.	Land Revenue	28.29	47.23	55.72	(+) 17.98
6.	Taxes on Agricultural Income	38.53	17.78	5.23	(-) 70.58
7.	Taxes on Immovable Property other than Agricultural Land (Urban Land Tax)	14.18	11.47	11.65	(+) 1.57
8.	Others	530.89	588.96	643.17	(+) 9.20
	<b>TOTAL</b>	<b>9625.30</b>	<b>10918.93</b>	<b>12282.24</b>	

**Sales Tax:** The increase (16.70 per cent) was mainly due to increased receipts under 'Central Sales Tax Act'

**Agricultural Income Tax:** The decrease (70.58 per cent) was due to low price of tea.

The reasons for variations though called from other departments have not been received (October 2001).



(ii) The details of non-tax revenue realised during the years 1998-99 to 2000-2001 are given below:

(Rupees in crore)

Sl. No	Heads of revenue	1998-1999	1999-2000	2000-2001	Percentage of increase (+) or decrease (-) in 2000-2001 over 1999-2000
1.	Interest Receipts. Dividends and Profits	409.24	388.74	440.17	(+) 13.23
2.	Crop Husbandry	73.48	75.13	64.87	(-) 13.66
3.	Forestry and Wild life	64.00	130.08	131.18	(+) 1.00
4.	Non-Ferrous Mining and Metallurgical Industries	101.04	113.25	395.33	(+) 249.08
5.	Education, Sports, Art and Culture	38.29	44.86	53.75	(+) 19.82
6.	Other Receipts				
	(a) State Lotteries	53.62	124.41	121.66	(-) 2.21
	(b) Others	417.03	480.38	503.82	(+) 4.88
	<b>TOTAL</b>	<b>1156.70</b>	<b>1356.85</b>	<b>1710.78</b>	<b>(+) 26.08</b>

**Interest Receipts:** The increase (13.23 per cent) was mainly due to increased receipts from departmental commercial undertakings and local bodies.

**Non-Ferrous Mining and Metallurgical Industries:** The increase (249.08 per cent) was mainly due to increased receipts under Mineral Concession Fees, and royalties received in advance from Neyveli Lignite Corporation.

The reasons for variations though called for from other departments have not been received (October 2001).



## 1.2 Variations between budget estimates and actuals

The variations between budget estimates of revenue for the year 2000-2001 and actual receipts under the principal heads are given below:-

(Rupees in crore)

Sl No	Heads of revenue	Budget estimates	Actuals	Variations increase (+) decrease (-)	Percentage of variation excess (+) shortfall (-)
1.	Sales Tax	8015.00	8197.15	(+) 182.15	(+) 2.27
2.	State Excise	2153.25	1868.68	(-) 284.57	(-) 13.22
3.	Stamp Duty and Registration Fees	947.40	910.20	(-) 37.20	(-) 3.93
4.	Taxes on Vehicles	655.23	590.44	(-) 64.79	(-) 9.89
5.	Land Revenue	35.00	55.72	(+) 20.72	(+) 59.20
6.	Taxes on Agricultural Income	38.00	5.23	(-) 32.77	(-) 86.24
7.	Taxes on Immovable Property other than Agricultural Land (Urban Land Tax)	14.00	11.65	(-) 2.35	(-) 16.79
8.	Taxes and Duties on Electricity	220.00	227.01	(+) 7.01	(+) 3.19
9.	Interest Receipts, Dividends & profits	369.03	440.17	(+) 71.14	(+) 19.28
10.	Non-ferrous mining and Metallurgical industries	217.93	395.33	(+) 177.40	(+) 81.40
11.	Crop Husbandry	74.65	64.87	(-) 9.78	(-) 13.10
12.	Roads and Bridges	17.86	20.77	(+) 2.91	(+) 16.29
13.	Major and Medium Irrigation	8.50	9.31	(+) 0.81	(+) 9.53
14.	State Lotteries	177.63	121.66	(-) 55.97	(-) 31.50



**Interest Receipts:** The increase (19.28 per cent) was mainly due to increased receipts from departmental commercial undertakings and local bodies.

**Taxes on Agricultural Income:** The decrease (86.24 per cent) was due to low price of tea and payment made towards wage settlement.

**Land Revenue:** The increase (59.20 per cent) was due to collection of arrears.

**Mines and Minerals:** The increase (81.40 per cent) was due to advance receipt of royalty paid by Neyveli Lignite Corporation for the next 3 years.

The reasons for variations in respect of other heads though called for from the State Government have not been received (October 2001).

### **1.3 Cost of collection**

The gross collections in respect of major revenue receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collections during the years 1998-99, 1999-2000 and 2000-2001 along with the relevant all India average percentage of expenditure on collection to gross collections for 1999-2000 are given below:



(Rupees in crore)

Sl. No	Heads of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 1999-2000
1.	Sales Tax	1998-1999	6112.94	99.45	1.62	1.56
		1999-2000	7024.23	102.02	1.45	
		2000-2001	8197.15	104.88	1.28	
2.	State Excise	1998-1999	1709.81	15.55	0.90	3.31
		1999-2000	1833.70	20.32	1.11	
		2000-2001	1868.68	20.92	1.12	
3.	Stamp Duty and Registration Fees	1998-1999	672.52	53.94	8.02	4.62
		1999-2000	817.58	55.44	6.78	
		2000-2001	910.20	61.19	6.72	
4.	Taxes on Vehicles	1998-1999	518.14	21.69	4.19	3.56
		1999-2000	577.98	26.29	4.55	
		2000-2001	590.44	26.70	4.52	

#### 1.4 Arrears in assessments

The details of assessment cases in respect of Sales Tax, Agricultural Income Tax and Urban Land Tax pending at the beginning of the year, cases due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of the year 2000-2001, as furnished by the department are given below:

Sl. No	Heads of Revenue	Opening Balance	Cases due for assessment during the year	Total	Cases finalised during the year	Balance at the end of the year
1	Sales Tax	29075	139201	168276	143569	24707
2	Agricultural Income Tax	219	3993	4212	4104	108
3	Urban Land Tax	3111	694	3805	1021	2784

#### 1.5 Arrears of revenue

As on 31 March 2001 arrears of revenue pending collection under principal heads of revenue as reported by the departments are as under:



Sl. No	Heads of revenue	Arrears pending collection		Remarks
		Total	More than 5 years old	
(Rupees in crore)				
1	2	3	4	5
1	Sales Tax	7197.00	918.94	Out of the total arrears of Rs.7197.00 crore, demands amounting to Rs.1790.44 crore were covered under Revenue Recovery Act. Demands amounting to Rs.1705.00 crore were stayed by High court and other judicial authorities. A sum of Rs.115.93 crore was stayed by Government. Recoveries amounting to Rs.45.67 crore were held up due to rectification/review applications. Rs.117.61 crore could not be recovered on account of the assessee becoming insolvent. A sum of Rs.413.00 crore was likely to be written off and a sum of Rs.2869.80 crore was under various stages of recovery. A sum of Rs.139.54 crore had since been collected (August 2001).
2	Mines and Minerals	1047.34	726.20	Out of the total arrears of Rs.1047.34 crore, a sum of Rs.188.35 crore was covered under Revenue Recovery Act. Demands amounting to Rs.327.13 crore were stayed by High court and other judicial authorities. A sum of Rs.0.08 crore was likely to be written off. A sum of Rs.531.23 crore was under various stages of recovery. A sum of Rs.0.55 crore had since been collected (August 2001).
3	Stamp Duty and Registration Fees	302.86	14.11	Out of the total arrears of Rs.302.86 crore, demands amounting to Rs.39.49 crore were covered under Revenue Recovery Act. A sum of Rs.263.37 crore was under various stages of recovery.
4	Urban Land Tax	76.11	37.70	Out of the total arrears of Rs.76.11 crore, demands amounting to Rs.18.92 crore were stayed by High court and other judicial authorities. Demands amounting to Rs.13.68 crore were covered by stay granted by Government. A sum of Rs.2.48 crore was stayed by Principal Commissioner of Land Reforms. A sum of Rs.39.20 crore was under various stages of recovery. A sum of Rs.1.83 crore had since been collected (August 2001).



1	2	3	4	5
5	State Excise	50.56	50.56	Out of the total arrears of Rs.50.56 crore, demands amounting to Rs.13.40 crore were covered under Revenue Recovery Act. Rs.7.13 crore were stayed by High court and other judicial authorities. Demands amounting to Rs.0.33 lakh were held up due to rectification/review applications. Rs.4.36 lakh could not be recovered on account of the assessee becoming insolvent. A sum of Rs.5.17 crore was likely to be written off. A sum of Rs.24.82 crore was under various stages of recovery.
6.	Land Revenue	30.04	13.89	Out of the total arrears of Rs.30.04 crore, arrears of Rs.10.88 crore were covered by stay granted by High Court/Government and other judicial authorities. A sum of Rs.13.69 crore was under various stages of recovery and a sum of Rs.0.26 crore was likely to be written off. A sum of Rs.5.21 crore had since been collected (August 2001).
7	Taxes on vehicles	3.01	2.07	Out of the total arrears of Rs.3.01 crore demands amounting to Rs.2.20 crore were covered under Revenue Recovery Act. Demands of Rs.0.18 crore were stayed by High Court and other judicial authorities. A sum of Rs.0.20 crore was likely to be written off. A sum of Rs.0.43 crore was under various stages of recovery.
	<b>Total</b>	<b>8706.92</b>	<b>1763.47</b>	

### **1.6 Frauds and Evasion of tax**

The details of cases of frauds and evasion of taxes pending at the beginning of the year, number of cases detected by the departmental authorities (including internal audit), number of cases in which assessments/investigations were completed and additional demand (including penalties etc) of taxes raised against the assesseees during the year and the number of cases pending finalisation at the end of March 2001 as furnished (October 2001) by the Commercial Taxes Department are given below:



(Rupees in crore)

Nature of Tax	Cases pending as on 31 March 2000		Cases detected during 2000-2001		Cases in which assessment/ investigations completed and additional demand including penalty etc. raised		Cases pending finalisation as on 31 March 2001	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Sales Tax								
(i) Enforcement Wing	3600	106.16	5746	NF	7981	NF	1865	NF
(ii) Administrative Wing	2809	2006.50	2563	347.61	1496	1139.85	3876	1214.26
<b>NF – Not furnished</b>								

## 1.7 Refunds

Details of amount refunded during the year 2000-2001 under certain heads of receipts as furnished by the concerned departments are as follows:

(Rupees in crore)

Sl. No.	Heads of Revenue	Claims outstanding at the beginning of the year		Claims received during the year		Total		Refunds made during the year		Balance outstanding at the end of the year	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1.	Sales Tax	63124	51.03	27617	70.95	90741	121.98	40758	61.81	49983	60.17
2.	Taxes on vehicles	56	0.07	191	0.12	247	0.19	197	0.16	50	0.03
3.	Agricultural Income Tax			4	0.13	4	0.13	1	0.01	3	0.12
4.	Urban land Tax	15	0.05	4	0.02	19	0.07	3	0.01	16	0.06



### 1.8 Write-off and waiver of revenue

Demands for Rs.5.10 crore were written off/waived during 2000-2001 by competent authorities as indicated below:

Sl. No.	Name of the department	Write off/Waiver of revenue	
		No. of cases	Amount (Rs. in crore)
1.	Commercial Taxes	1277	1.44
2.	Taxes on Vehicles	6	0.01
3.	Land Revenue	NF	3.65
	<b>Total</b>		<b>5.10</b>
<b>NF – Not furnished.</b>			

### 1.9 Internal Audit

The number of inspection reports/audit objections issued by the internal audit wing pending settlement as on 31 March 2001 were as under:

Sl. No.	Heads of Revenue	Number of Inspection Reports	Number of objections	Amount (Rs. in crore)
1.	Sales Tax (including Entertainments Tax, Betting Tax, etc.)	3171	18972	16.48
2.	Taxes on vehicles	34	593	0.36
3.	Mines and Minerals	65	727	364.43
4.	Agricultural Income Tax	NF	443	5.69
5.	Taxes and Duties on Electricity	225	1005	0.01
6.	Stamp Duty and Registration Fees	1271	8286	2.91
7.	State Excise	106	1022	0.02
8.	Urban Land Tax	NF	NF	NF
<b>NF – Not furnished.</b>				



### **1.10 Results of Audit**

Test-check of the records of Sales Tax, State Excise, Agricultural Income Tax, Land Revenue, Urban Land Tax, Taxes on Vehicles, Other Tax Receipts and Mines and Minerals under Non-Tax Receipts conducted during the year 2000-2001 revealed under-assessment/short-levy/loss of revenue amounting to Rs.962.63 crore in 4228 cases. During the course of the year 2000-2001, the concerned departments accepted under-assessments, etc. of Rs.3.03 crore involved in 639 cases, of which 328 cases involving Rs.74.03 lakh had been pointed out in audit during 2000-2001 and the rest in earlier years. Of these, the department recovered Rs.1.31 crore in 501 cases.

This report contains 28 paragraphs including 4 reviews involving Rs.668.90 crore. The department/Government have accepted audit observations involving Rs.1.69 crore. Of this, a sum of Rs.42.75 lakh has been recovered (October 2001). Audit observations with total revenue effect of Rs.647.29 crore in 5621 cases were not accepted by the departments/Government, but their contentions have been found at variance with facts and legal position and these have been appropriately commented upon in the relevant paragraphs. No reply has been received in the remaining cases (October 2001).

### **1.11 Outstanding Inspection Reports and Audit Observations**

Audit observations on incorrect assessments, short-levy of taxes, duties, fees, etc., as also defects in the maintenance of initial records noticed during audit and not settled on the spot are communicated to the Heads of Offices and other departmental authorities through inspection reports. Serious financial irregularities are reported to the Heads of Departments concerned and the Government. The Heads of Offices are required to furnish replies to the inspection reports through their respective Heads of Departments within a period of two months.



(i) The number of inspection reports and audit observations relating to revenue receipts issued upto 31 December 2000, which were pending settlement by the departments as on 30 June 2001, along with corresponding figures for the preceding two years, are given below:

	Position as on 30 June		
	1999	2000	2001
Number of inspection reports pending settlement	4084	4100	4754
Number of outstanding audit observations	15163	15579	17974
Amount of revenue involved (Rupees in crore)	327.54	386.98	633.98

(ii) Revenue-wise break-up of the inspection reports and audit observations outstanding as on 30 June 2001 is given below:

Sl. No	Revenue Head	Number of outstanding		Amount involved (Rupees in crore)	Earliest year to which reports relate
		Inspection Reports	Audit Observations		
1.	Sales Tax	2263	12364	447.82	1984-85
2.	Stamp Duty and Registration Fees	997	2061	14.11	1982-83
3.	Land Revenue	486	1310	35.67	1988-89
4.	Taxes on Vehicles	263	504	21.88	1983-84
5.	State Excise	155	307	27.42	1986-87
6.	Taxes on Agricultural Income	76	251	9.56	1984-85
7.	Mines and Minerals	144	411	60.86	1989-90
8.	Urban Land Tax	207	545	8.11	1983-84
9.	Electricity Duty	52	84	5.75	1986-87
10.	Entertainments Tax	67	76	2.55	1992-93
11.	Luxury Tax	34	41	0.16	1994-95
12.	Betting Tax	10	20	0.09	1991-92
	<b>TOTAL</b>	<b>4754</b>	<b>17974</b>	<b>633.98</b>	

The matter was brought to the notice of the Government (October 2001).



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

With a view to ensuring accountability of the executive in respect of all the issues dealt with in Audit Reports, the Public Accounts Committee (PAC) directed that the department should furnish remedial/corrective Action Taken Notes (ATN) on all paragraphs contained therein within the prescribed time frame.

However, a review of outstanding ATNs as of 31 March 2001 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu, disclosed that for 731 recommendations pertaining to 455 audit paragraphs the departments had not submitted remedial ATNs. Out of the 731 recommendations pending, in respect of 463 recommendations, ATNs were not submitted by the department even once.

Further, PAC has also laid down that necessary explanatory notes for those issues mentioned in the audit report should be furnished to Committee within a maximum period of three months from the date of placing of the Reports before Legislature. Though the Audit Reports for the year 1997-98 and 1998-99 were placed before the Legislative Assembly in April 1999 and May 2000 the departments are yet to submit Explanatory Notes for 46 paragraphs (including 3 reviews) included in these reports.

### **1.13 Response of the department/Government to Draft Audit Paragraphs**

Government (Finance Department) issued direction (April 1952) to all departments to send their response to the Draft Audit Paragraph proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks. The Draft Paragraphs are always forwarded to the Secretaries of the concerned departments through Demi-Official letters drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the departments are invariably indicated at the end of each such Paragraphs included in the Audit Report.



47 Draft Paragraphs (including 4 reviews) proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2001 were forwarded to the Secretaries of the respective departments during April-August 2001 through Demi- Official letters.

The Secretaries of the departments did not send replies to 40 Draft Paragraphs (including 4 reviews) in non-compliance to above instructions of the Government. These Paragraphs have been included in this Report without the response of the Secretaries of the departments



## CHAPTER 2

### SALES TAX

#### 2.1 Results of Audit

Test check of records in the office of the Commercial Tax department conducted from April 2000 to March 2001 revealed under assessments/non-levy of tax etc., amounting to Rs.9906.40 lakh in 2122 cases which broadly fall under the following categories.

Sl No	Categories	No. of cases	Amount (Rs. in lakh)
1	Incorrect grant of exemption	451	5504.88
2	Application of Incorrect rate of tax	770	2228.43
3	Incorrect computation of taxable turnover	154	266.43
4	Non-levy of penalty	410	1004.52
5	Non-levy of Surcharge, Additional Surcharge and Additional Sales Tax	59	151.01
6	Other irregularities	278	751.13
	<b>TOTAL</b>	<b>2122</b>	<b>9906.40</b>

During the course of the year 2000-2001, the department accepted under-assessments etc., amounting to Rs.214.53 lakh in 489 cases of which 307 cases amounting to Rs.71.77 lakh were pointed out during the year 2000-2001 and the rest in earlier years. Of these, department recovered Rs.85.31 lakh.

A few illustrative cases involving a financial effect of Rs.669.96 lakh are mentioned in the following paragraphs:



## 2.2. Incorrect grant of exemption from tax

The Tamil Nadu General Sales Tax Act, 1959 (TNGST) provide for exemption of sales tax to certain commodities listed in the third schedule to the Act.

Under the Central Sales Tax Act, 1956 (CST) last sale or purchase preceding the sale occasioning the export outside India is deemed to be a sale in the course of export and exempted from tax, subject to the condition that the goods exported should be same as that purchased as per agreement.

In 13 assessment circles, exemptions were incorrectly granted to 13 dealers on the turnover of Rs.775.31 lakh during the years from 1993-94 to 1998-99 resulting in non-levy of tax (including surcharge, additional surcharge and additional sales tax) amounting to Rs.80.41 lakh as detailed below:

(Rupees in lakh)

Sl. No	Name of the assessment circle/ No. of dealers	Year of transactions / (Month of assessments)	Tax able turn over	Nature of irregularity	Amount of Tax	Remarks
1	2	3	4	5	6	7
1	Adayar-I, Anna-salai-III, Saidapet, Sali-gramam and Sivakasi-IV (Five).	1994-95 (November 1999) 1996-97 (February 1998) 1997-98 (September 1999) February 2000, October 2000) 1998-99 (January 2001)	361.63	Sale of Prawn shrimp seeds was incorrectly exempted treating them as sea food.	40.64	The department replied that as per the clarification issued (July 1994) by the Head of the Department Prawn Shrimp seeds were exempt from tax. The reply is not tenable since the relevant entry covers sea foods only and not sea food seeds.



1	2	3	4	5	6	7
2	Gandhi-puram (Coimbatore) (One)	1997-98 (April 1999)	183.98	Sale of pick up/delivery vans were incorrectly exempted from tax as second sales on the ground that the chassis and the bodies built on them had already suffered tax separately.	14.72	This was pointed out to the department (November 2000) and to Government (March 2001); their replies have not been received (September 2001).
3	Velandipalayam (Coimbatore). Thuckalay and Gandhi Market (Trichy). (Three)	1998-99 (October 1999)	101.62	Inter-State Sale of Wheat Bran made after 7 September 1998 was incorrectly exempted as generally exempted goods and sale of Braided cords was incorrectly omitted to be assessed treating them as goods falling under the Third Schedule.	11.17	The department contended (June 2000) that Wheat Bran was exempt from 5 March 1997 and as per Judicial Decision (80 STC 108) Wheat Bran was a cattle feed. The reply is not tenable since (i) the exemption granted on Wheat Bran became conditional after the amendment of the Entry with effect from 8 September 1998 and (ii) the judgment quoted by the department is prior to this amendment and hence not applicable to the instant case. Replies in respect of other cases have not been received (September 2001)
4	Velachery, Egmore-I and Gudalore. (Three)	1994-95 (December 1996) 1995-96 (May 1997)	74.87	Sale of Engineering goods were incorrectly exempted as export to Nepal without any documentary evidence. Sale of Herbal Shampoo was incorrectly exempted at the second sale point and sale of coffee seeds was incorrectly exempted as export sales under Section 5(3) of the Central Sales Tax Act, 1956 even though the dates of purchases from the assessee and sale by the exporter preceded the date of purchase order of the foreign buyer.	9.57	The department revised the assessments in two cases (May 1999/ March 2000) and raised additional demands for Rs.6.80 lakh. The department in one case (Egmore-I) stated (June 2000) that action was being taken under Revenue Recovery Act. The Report on recovery (Velachery) and reply in respect of other case has not been received so far (June 2001).



1	2	3	4	5	6	7
5	Kuzhithurai (One)	1993-94 (February 1996)	53.21	Inter-State purchase of Cashew nut with shell, purchased from unregistered dealers and inter-state branch transfer were incorrectly exempted without any documentary evidence.	4.31	The department revised the assessment (January 1999) and stated that action was being taken to recover the arrears under the Revenue Recovery Act.
	<b>TOTAL</b>		<b>775.31</b>		<b>80.41</b>	

The matter was reported (January/March/April 2001) to the Government and followed up with reminder (August 2001). However in spite of such efforts no reply was received (October 2001).

### **2.3 Application of Incorrect rate of tax**

Under the provisions of the TNGST Act, tax is leviable on the sale or purchase as the case may be at the rates mentioned in the relevant schedules to the Act.

In nine assessment circles, tax was levied short, on turnover of Rs.1534.74 lakh involving nine dealers during the years from 1990-91 to 1998-99 due to application of incorrect rate of tax. The total short levy of tax in these cases worked out to Rs.61.72 lakh (inclusive of surcharge, additional surcharge and additional sales tax) as detailed below:



(Rupees in lakh)

Sl. No	Name of the Assesment Circle/No.	Year of action/ Month of assessments	Name of goods/ trans- actions	Turn- over Taxable	Rate of Tax (in %)	Amount short levied	Remarks
1	2	3	4	5	6	7	8
					App- li- led cable	App- li- led	9
1	Tondiar- pel. Nanda- 1996 ) Oil. former (April 1994-95	1994-95	Trans- former Oil. Leasing of lorries and Chce sold under a brand name	433.89	16.8 & 11	4	The department replied (August 2000) that (Tondiarpel), as per the clarification (March 2000) of the Head of the Department, transformer oil is a component/ accessory of an electrical good viz. transformer and therefore eligible for the concessional rate. The reply was not acceptable because (1) transformer oil can neither be regarded as an electrical good nor as a component or accessory of an electrical good and (ii) reduction in rate of tax on sale of transformer oil to Tamil Nadu Electricity Board (TNEB) and Neyveli Lignite Corporation (NLC) granted from 1 April 2000 by notification proves that the concessional rate was not available earlier. In the case of Nandanam the department revised (May 1999) the assessment and raised additional demand for Rs.2.17 lakh which was also collected. Reply in respect of other case has not been received.
2	Roya- pechah-1 and Vallavar- Kotam (Thennai) (Two)	1996-97 (upto 16.7.96) and 1997-98 (November 1998) and 1998-99 (June 1999)	Home Appli- MUsical Instru- Auto cables. TV and Computer cables etc.	191.54	16.12 & 11	11	The Government while endorsing (February 2001) the view point of the department that the cables used exclusively for automobiles/TVs/Com- puters are taxable as parts and accessories of these items, concluded that as per the judicial decision reported in 117 STC P.12 that the term of Part E are cables used in connection with generation, transmission, distribution or consumption of electricity only. The reply is not tenable in view of the specific judgement by the Madras High Court reported in 88 STC 430 that auto cables are electrical goods and sale to automobile dealers would not make them motor accessories. Reply in respect of other case has not been received (June 2001)



1	2	3	4	5	6	7	8	9
3	Tam- baram-I, Kovil- patti-I, Erode (Rural) and Tondiarpet (Chennai) (Four)	1990-91 to 1993-94 (November 1991, November 1992) 1995-96 (December 1999, February 2000) 1996-97 (after 16.7.96) (September 1999) and 1997-98 (October 1999)	Electri- cal goods, Ribbed Tar Steel (RTS) Grills, Red Gravel and Lurbri- cating Oil	909.31	14.5 16.9 8 11 3 and 12	13.5 15.9 4 4 12 and 3	12.91.	The department revised the assessments (May/June August 2000) in three cases (Tambaram-I, Tondiarpet and Kovilpatti) and raised additional demand for Rs.11.91 lakh out of which Rs.9.75 lakh (Tambaram-I and Tondiarpet) has been collected. The department in the other case contended (November 2000) that as per the clarification (March 1997) of Head of Department red gravel is taxable as blue metal under entry 7 B of First Schedule to the Act. The reply is not tenable since (i) red gravel has been brought under specified entry viz., Entry 63 of Part B with effect from 1 April 1999. (ii) Red gravel is not blue metal as evidenced from separate entries for them in the schedule.
	<b>TOTAL</b>			<b>1534.74</b>			<b>61.72</b>	

The matter was reported (November/December 2000 and January 2001) to the Government and followed up with reminder (August 2001). However in spite of such efforts no reply was received (October 2001).

#### 2.4 Arithmetical inaccuracy

Under the TNGST Act, an assessing authority may at any time within five years from the date of any order passed by it, rectify, any error apparent on the face of the record. This provision applies to Central Sales Tax Act, 1956 also.

In three assessment circles, the tax due in respect of 4 dealers for the years 1994-95, 1997-98 and 1998-99 was incorrectly worked out as Rs.56.54 lakh instead of the correct amount of Rs.231.16 lakh resulting in short demand of Rs.174.62 lakh and consequent short levy of penalty of Rs.260.74 lakh as detailed below:



(Rupees in lakh)

Sl. No.	Name of the assessment circle	Tax due	Tax levied	Penalty leviable	Penalty levied	Short levy		Total
						Tax	Penalty	
1	Bodinai-kanur	135.92	13.59	201.30	17.81	122.33	183.49	305.82*
2	Bodinai-kanur	88.80	38.80	133.05	58.05	50.00	75.00	125.00**
3	Mylapore	5.01	4.01	6.26	4.01	1.00	2.25	3.25
4	Peddu-naikanpet (South)	1.43	0.14	—	—	1.29	—	1.29
<b>Total</b>		<b>231.16</b>	<b>56.54</b>	<b>340.61</b>	<b>79.87</b>	<b>174.62</b>	<b>260.74</b>	<b>435.36</b>
* M/s Saranya Traders, CST 137717/94-95								
** M/s Surya Agencies, CST 137756/94-95								

On this being pointed out (October 2000 and January/February 2001) the department in one case (Peddunaikenpet-South) revised (January 2001) the assessment and raised an additional demand for Rs.1.29 lakh. The demand is uncollectable as the whereabouts of the dealer is not known. Reply in respect of other cases has not been received (October 2001).

The matter was reported (March 2001) to the Government and followed up with reminder (August 2001). However in spite of such efforts no reply was received (October 2001).

## 2.5 Incorrect computation of taxable turnover

Under the TNGST Act, the taxable turnover of a dealer is determined on the basis of sales turnover shown in the returns after allowing permissible deductions. The sales tax is leviable at the rates prescribed on the taxable turnover so determined. In addition, surcharge, additional surcharge, additional sales tax and penalty, if any, are also leviable as per the provisions of the Acts.

In five assessment circles, the taxable turnovers amounting to Rs.507.46 lakh in respect of six dealers during the years 1995-96, 1997-98 and 1998-99 were incorrectly omitted from levy of tax. This had resulted in short-levy of tax amounting to Rs.30.10 lakh (inclusive of penalty) as detailed below:



(Rupees in lakh)

Sl No	Name of the assessment circle	Year of trans-action (No. of dealers)	Nature of irregularity	Amount of Tax	Remarks
1	2	3	4	5	6
1	Sivakasi-IV	1995-96 (Two)	Sale of HDPE sacks for Rs.276.82 lakh was erroneously omitted to be assessed to tax.	13.66	The department revised (November 2000) the assessment and raised additional demand for Rs.13.66 lakh. the collection particulars of which have not been received (October 2001).
2	Kovilpatti-I and Nagercoil (Rural)	1995-96 1997-98 (Two)	While finalising the assessment based on check post records, the sale of handmade matches of Rs.60.74 lakh made at the branch office and turnover of Food and Drinks amounting to Rs.36.73 lakh of a Hotel (which remained a Star Hotel till 13 September 1997) were omitted to be assessed to tax.	9.36	The department revised (March 2000/2001) the assessments and raised additional demand of which Rs.1.08 lakh was collected in one case (Nagercoil-Rural). Report on collection in respect of the other case has not been received so far (October 2001).
3	Kilpauk (Chennai) and Mylapore (Chennai)	1997-98 1998-99 (Two)	The escalation charges of Rs.108.10 lakh received towards supply of concrete sleepers to Railways and receipts towards the sale of DEPB license amounting to Rs.25.07 lakh were omitted to be reckoned for levy of tax.	7.08	This was pointed out to the department (October/ November 2000); their reply has not been received (October 2001).
<b>TOTAL</b>				<b>30.10</b>	

The matter was reported (January and June 2001) to the Government and followed up with reminder (August 2001). However in spite of such efforts no reply was received (October 2001).



## 2.6 Affording of excess credit

As per Section 4(1) of the Tamil Nadu Tax on Entry of Motor Vehicles into Local Areas Act, 1990, the tax payable under TNGST Act on sale of motor vehicles by any dealer shall be reduced to the extent of Entry tax paid by them on such motor vehicles.

In five<sup>1</sup> assessment circles, the entry tax/sales tax paid by five dealers for the years 1994-95 to 1996-97 and 1998-99 was incorrectly taken as Rs.139.15 lakh against the actual payment of Rs.123.17 lakh.

These mistakes resulted in affording of excess credit aggregating Rs.15.98 lakh besides non-levy of penalty of Rs.2.34 lakh in one case (Krishnagiri) for short payment of tax.

On this being pointed out (between September 1998 and January 2001), the department revised (between November 1999 and February 2001) the assessment in four cases except Namakkal Town and raised an additional demand for Rs.15.58 lakh (including penalty) of which Rs.9.82 lakh has been collected in three cases (between January 2000 and January 2001) The collection particulars in respect of one case (Krishnagiri) and reply in respect of Namakkal-Town have not been received (October 2001).

The matter was reported (December 2000) to the Government and followed up with reminder (August 2001). However in spite of such efforts no reply was received (October 2001).

## 2.7. Non-levy of tax

As per Entry 5(a) of Part C of the First Schedule to the Tamil Nadu General Sales Tax Act, 1959, Cashewnut with shell is taxable at the rate of five per cent at the point of first purchase in the State.

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1 Aruppukottai, Chokkikulam, Krishnagiri, Namakkal (Town) and Nungambakkam (Chennai).



In Kuzhithurai Assessment Circle, purchases of Cashewnuts with shell from unregistered dealers amounting to Rs.86.37 lakh made by a dealer during 1993-94 was omitted to be assessed to tax. This had resulted in non-levy of tax of Rs.6.11 lakh (including surcharge and additional sales tax).

On this being pointed (December 1996) the department revised (March 1999) the assessment and raised additional demand for Rs.6.11 lakh. Report on recovery has not been received (October 2001).

The matter was reported (May 2001) to the Government and followed up with reminder (August 2001). However in spite of such efforts no reply was received (October 2001).

## **2.8 Non-levy of penalty**

Under the provisions of the Tamil Nadu General Sales Tax Act, 1959, if the return filed by a dealer is found to be incorrect or incomplete, the assessing authority shall assess the dealer on best judgment basis. In addition, it may also levy penalty depending on the percentage of difference between the tax assessed and the tax paid as per the returns.

In Vadapalani and Triplicane-I assessment circles, Chennai, for short payment of tax (including surcharge and additional surcharge) by two dealers during the years 1995-96 and 1996-97, penalty though leviable was not levied. This had resulted in non-levy of penalty amounting to Rs.27.69 lakh.

On this being pointed out (July 1999/March 2001) the department levied (November 1999/July 2001) the penalty of Rs.27.69 lakh. The department (Vadapalani-I) further stated (January 2001) that action was being taken under Revenue Recovery Act to recover the arrears. The Government to whom the case (Triplicane-I) was reported (April 2001) accepted the audit point and stated (August 2001) that as the dealer was a sick unit, there was no immediate possibility of collection of the demand.



### **2.9 Non-levy of penalty for misuse of 'c' forms**

Under the Central Sales Tax Act, 1956, a registered dealer buying goods from other states is entitled to a concessional rate of tax at four per cent, provided he furnishes to the seller, a declaration in form 'C'. If the goods indicated in the declaration are not covered by the certificate of registration, the assessee renders himself liable to penalty not exceeding one and a half times the tax due.

In Avinashi Road Assessment Circle, Coimbatore, a manufacturer and dealer in cotton yarn had purchased 'Blow room line', a textile machinery for Rs.34.88 lakh during the year 1997-98 from other States by issue of 'C' forms, eventhough the commodity purchased was not covered by certificate of registration. For misuse of forms 'C', penalty upto a maximum of Rs.5.23 lakh was leviable but was not levied.

This was pointed out to the department (September 2000/ June 2001) and to Government. The matter was followed up with reminder (August 2001). However in spite of such efforts no reply was received from the Government (October 2001).

### **2.10 Non-levy of interest for belated payment of tax**

According to sub-Section (3) of Section 24 of the Tamil Nadu General Sales Tax Act, on any amount remaining unpaid after the date specified for its payment the dealer or person shall pay, in addition to the amount due, interest at two per cent per month of such amount for the entire period of default.

In three<sup>2</sup> assessment circles in respect of three dealers the tax dues amounting to Rs.15.04 lakh for the years 1990-91, 1991-92, and 1997-98 were paid belatedly (between May 1998 and February 2000), the delay ranging from 14 days to 2490 days, for which interest amounting to Rs.5.02 lakh though leviable was not levied.

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2 Annadhanapatti (Salem). Ayyanavaram (Chennai). Mettupalayam.



On this being pointed out (between March and August 2000) the department levied (between March 2000 and March 2001) the interest of Rs.5.02 lakh of which Rs.3.76 lakh were collected in two cases (between March and August 2000). Collection particulars in respect of the remaining case (Ayyanavaram) have not been received so far (October 2001).

The matter was reported (June 2001) to the Government and followed up with reminder (August 2001). However in spite of such efforts no reply was received (October 2001).



**CHAPTER 3**  
**AGRICULTURAL INCOME TAX**

**3.1 Results of Audit**

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed arithmetical inaccuracy, income escaping assessment, incorrect allowance of expenditure/depreciation, non levy of interest and penalty, incorrect carry forward of losses, other categories etc. amounting to Rs.7115.21 lakh in 40 cases which broadly fall under the following categories.

Sl. No.	Categories	No. of cases	Amount (Rs. in lakh)
1	Arithmetical Inaccuracy	3	0.98
2	Income escaping assessment	3	77.64
3	Incorrect allowance of expenditure/ depreciation	8	51.35
4	Non-levy of interest and penalty	8	62.31
5	Incorrect carry forward of losses	2	0.57
6	Other categories	16	7.36
7	Review on "Assessment of plantation crops"	---	6915.00
	<b>Total</b>	<b>40</b>	<b>7115.21</b>

During the course of the year 2000-2001, the concerned department accepted under-assessments of Rs.4.62 lakh in 10 cases out of which an amount of Rs.4.16 lakh had been recovered.

A Review on "Assessment of Plantation crops" and an illustrative case involving a financial effect of Rs.69.32 crore are mentioned below:



## **3.2 REVIEW ON AGRICULTURAL INCOME TAX – ASSESSMENT OF PLANTATION CROPS**

### *Highlights*

**Excess allowance of plucking charges over and above the permissible limit in 4 assessment circles involving 12 cases resulted in short levy of Agricultural Income Tax of Rs.65.14 crore.**

*[Paragraph 3.2.6]*

**In 2 assessment circles in respect of 3 cases, excess allowance of expenditure on account of bonus amounting to Rs.1.98 crore resulted in short levy of Agricultural Income Tax of Rs.1.14 crore.**

*[Paragraph 3.2.7]*

### **3.2.1 Introduction**

The Tamil Nadu Agricultural Income Tax Act, 1955 and rules framed thereunder regulate the levy of agricultural income tax on the plantation crops which cover Tea, coffee, rubber, clove, cardamom and pepper. The tax is levied on the agricultural income after allowing the deductions claimed and admissible under the Act.

### **3.2.2 Organisational set up**

The Commissioner of Agricultural Income Tax, Chennai is the Head of the Department. He is assisted by two Assistant Commissioners of Agricultural Income Tax and Seven Agricultural Income Tax Officers. Assistants, Junior Assistants and Revenue Inspectors assist the Agricultural Income Tax Officers in finalisation of assessment, levy and collection of tax.



### 3.2.3 Scope of the review

The Agricultural Income Tax Assessments of Plantation Crops for the period from April 1995 to March 2000 were reviewed in audit during July 2000 to December 2000 covering all the seven Agricultural Income Tax Offices<sup>3</sup> to assess the adequacy of systems and procedures with reference to the existing Agricultural Income Tax laws and rules.

### 3.2.4 Trend of revenue receipts

Budget estimates, actuals, excess/short fall and estimated annual rate of growth are given in the table below.

**(Rupees in crore)**

Year	Budget Estimates	Receipts	(+) Excess/ (-) Shortfall	Percentage of Increase or Decrease
1995-96	14.70	19.47	(+) 4.77	(+) 32
1996-97	15.00	13.86	(-) 1.14	(-) 8
1997-98	18.00	39.36	(+) 21.36	(+) 119
1998-99	18.00	38.53	(+) 20.53	(+) 114
1999-2000	38.00	17.78	(-) 20.22	(-) 53

The excess collection of tax during 1995-96 was due to intensive drive by the collection machinery and in 1997-98 and 1998-99 due to increase in price of tea and decrease during 1999-2000 was on account of increase in wages of labourers for tea plucking and fall in the price of tea.

### 3.2.5 Arrears of Agricultural Income Tax

The year-wise position of arrears in respect of Agricultural Income Tax as on March 2000 is as under:

<sup>3</sup> Coonoor, Dindigul, Gudalur, Nagercoil, Pollachi, Udagamandalam & Yercaud.



Year	Rupees in lakh
upto 1995-1996	135.82
1996-1997	5.09
1997-1998	7.53
1998-1999	34.95
1999-2000	32.90
<b>Total</b>	<b>216.29</b>

Out of the above, arrears of Rs.46.08 lakh has been stayed by the various courts pending final disposal.

### 3.2.6 Excess allowance of plucking charges

As per the guidelines issued in 1993 the Agricultural Income Tax Officers should be cautious in allowing the expenditure claimed by the assessee and to ensure that the total expenditure claimed by the assessee should not be allowed over and above the guidelines rate of expenditure at any cost. According to these guidelines, the rate of plucking charges for tea was fixed at Rs.7000/- per hectare and was revised in October 1999 to Rs.12,350/- per hectare.

It was noticed in four<sup>1</sup> assessment circles in 12 cases, that while finalising the assessments (between April 1996 and March 2000) for the assessment year 1995-96 to 1999-2000 the assessing officers allowed plucking charges amounting to Rs.151.47 crore as against the permissible limit of Rs.49.72 crore resulting in excess allowance of Rs.101.75 crore and consequent short levy of Agricultural Income Tax of Rs.65.14 crore.

On this being pointed out the department had accepted the audit point. Further reply from the Government has not been received so far (October 2001).

### 3.2.7 Excess allowance of expenditure

As per the Tamil Nadu Agricultural Income Tax Act, 1955, any sum paid to employees as bonus is allowed as expenditure provided that no deduction shall be made under the Act which has already been made in the

<sup>1</sup> Coonoor, Dindigul, Pollachi & Udagamandalam.



assessments of Indian Income Tax Act. Payment of bonus (Amendment) Act 1980, provides for bonus as an allowable expenditure subject to a maximum of 20 per cent of such salary or wage during the accounting year.

While finalising the assessment of 3 cases in Gudalur and Nagercoil circles for the assessment years 1996-97 to 1999-2000 the assessing officers allowed a deduction of Rs.4.07 crore (39 per cent) as expenditure towards bonus on the basis of salary and wages amounting to Rs.10.43 crore paid to the workers against the admissible expenditure of Rs.2.09 crore. The excess allowance of expenditure on account of bonus amounting to Rs.1.98 crore resulted in short levy of Agricultural Income Tax of Rs.1.14 crore.

When this was pointed out the department has accepted the audit observation. Further reply of the Government has not been received so far (October 2001).

### 3.2.8 *Incorrect allowance of depreciation*

According to the Tamil Nadu Agricultural Income Tax Act, 1955, the depreciation in respect of building, machinery, plant or furniture owned by the assessee and used by him for the purpose of deriving the agriculture income, a sum equivalent to such percentage on the written down value thereof as may be prescribed shall be allowed. As per Government Order dated December 1998, the rate of depreciation for electrical installations and plant and machinery was revised to 20 per cent and 10 per cent respectively to be applicable with effect from 1 April 1999.

During the review it was noticed that in two cases in Coonoor and Pollachi circles while finalising the assessments for the year 1999-2000 the assessing officer allowed depreciation at the rate of 25 per cent instead of at the rates prescribed. This resulted in short levy of tax amounting to Rs.32.86 lakh as detailed below:

(Rupees in lakh)					
Item	Written Down Value	Depreciation allowed	Allowable	Excess	Short levy of tax
Electrical installations	39.81	9.95	7.96	1.99	0.78
Plant and machinery	565.96	138.86	56.60	82.26	32.08
<b>Total</b>		<b>148.81</b>	<b>64.56</b>	<b>84.25</b>	<b>32.86</b>



On this being pointed (March 2001) the department replied (June 2001) that the State Government could not deviate from the assessment made under the Income Tax Act. The reply is not tenable since the Government order does not specify the class of assessee to whom the revision orders would apply and for the purpose of Agricultural Income Tax the depreciation at the rates prescribed by the Government should be allowed.

### **3.2.9 Internal audit**

An internal audit party comprising of Assistant Director, Superintendent and Assistant of Agricultural Income Tax Department is conducting cent percent audit of the assessments in all the Agricultural Income Tax Offices. The audit of assessments finalised upto 31 March 2000 have been completed by the internal audit.

The pendency in number of internal audit objections for the years 1995-96 to 1999-2000 as on 31 March 2001 is as under

<b>Year</b>	<b>Number of objections</b>	<b>Amount (Rs. in lakh)</b>
upto 1995-1996	31	58.50
1996-1997	27	102.47
1997-1998	62	43.48
1998-1999	94	46.54
1999-2000	199	379.35
<b>TOTAL</b>	<b>413</b>	<b>630.34</b>

### **3.2.10 Other topics of interest**

#### **(i) Delay in finalisation of assessment**

Under the Tamil Nadu Agricultural Income Tax Act, 1955, the Agricultural Income from Tea, grown and manufactured, is assessed on sixty per cent of the income worked out and left un-assessed under the Income Tax Act, 1961.



In Coonoor assessment circle, in five cases it was noticed that despite the assessment of Central Income Tax for the assessment year 1992-93 to 1997-98 were finalised between October 1998 and March 2000, Agricultural Income Tax assessments were not finalised, the delay ranging from 9 to 55 months reckoned from the date of Central Income Tax Assessment orders. The dates of Receipt of Income Tax Assessment orders or the reasons for the delay in completion of Agricultural Income Tax assessments were not recorded by the Agricultural Income Tax Officers.

On this being pointed out (March 2001), the department replied that the Income Tax department has been contacted and suitable arrangements have been made to minimize the lapses. Further report is awaited (October 2001).

**(ii) Absence of provision to levy interest and penalty on short/belated payment of advance tax**

According to Tamil Nadu Agricultural Income Tax Act, 1955, every person liable to pay Agricultural Income Tax is required to pay advance tax before the end of February of the said previous year on estimated total agricultural income.

It was noticed in 37 cases in five<sup>5</sup> assessment circles, for assessment years 1995-96 to 1999-2000 advance tax has been paid (between the period from March 1996 to October 1999) belatedly the delay ranging from 1 month to 10 months with reference to the assessed income. As per Section 16-A(4) & (5) of the Tamil Nadu Agricultural Income Tax Act, 1955, interest/penalty is leviable for belated payments of advance tax with respect to estimated income.

However there is no provision in the Act to check the short payment of advance tax with reference to assessed income. Whereas as per Indian Income Tax Act and West Bengal Agricultural Income Tax Act, interest in respect of short payment of Advance tax is leviable with reference to assessed tax only. The replacement of the words "Estimated income" with "Assessed income" in the Tamil Nadu Agricultural Income Tax Act would check the gross under estimation of income.

Interest at 15 per cent per annum and penalty at 2 per cent per month (as in the case of regular Agricultural Income Tax) on the short/belated payment of Advance Agricultural Income Tax works out to Rs.2.54 crore.

<sup>5</sup> Coonoor, Gudalur, Pollachi, Nagercoil & Udagamandalam.



On this being pointed out the department has proposed an amendment. Report on final action taken has not been received so far (October 2001).

**(iii) Amendment to rule 7 of Tamil Nadu Agricultural Income Tax Rules, 1955**

As per Rule 7 of the Tamil Nadu Agricultural Income Tax Rules, 1955, in respect of Agricultural Income from tea grown and manufactured by the seller in the State of Tamil Nadu, the portion of the income worked out under the Income Tax Act and left unassessed as being agricultural income shall be assessed under the Agricultural Income Tax Act after allowing such deductions under the Act and the rules made thereunder. The assessee was assessed treating his agricultural income to be 60 per cent of the income from the Tea grown and manufactured in the State of Tamil Nadu.

Section 143(1) of Income Tax Act, 1961 enables the Income Tax Officers to make summary assessment of Income Tax returns without scrutinising the return in detail. Due to the summary assessments, the assessee have escaped from disallowance of excess claim, if any, which went unnoticed in Income Tax assessment as well as Agricultural Income Tax Assessments. Hence suitable amendment in Rule 7 is required to give powers to Agricultural Income Tax Officers to re-assess the assessments made under summary assessment by Income Tax Department which will be advantageous to the State revenue.

### **3.3 Incorrect apportion of income of the firm**

According to the Tamil Nadu Agricultural Income Tax Act, 1955, when the assessee is a firm, whether owning the property of its own or holding the property on behalf of anyone of or all the partners of the firm or any other person, and the total income of the firm has been assessed under the Agricultural Income Tax shall be payable by the firm itself.

In Gudalur assessment circle, it was noticed that an assessee had filed the return of income showing a net income of Rs.35.70 lakh for the assessment years 1995-96 to 1999-2000 and the income was shared among its partners instead of being taxed in the hands of the firm.

This has resulted in loss of revenue to the tune of Rs.16.66 lakh.

On this being pointed out (March 2001), the department accepted the audit point (October 2001). Further reply has not been received so far (October 2001).



**CHAPTER 4**  
**LAND REVENUE**

**4.1 Results of Audit**

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed non/short levy of local cess and local cess surcharge, non levy of water cess and betterment contribution, non levy of penalty and interest, short recovery of rental value in respect of government lands assigned, alienated or encroached, other items etc. amounting to Rs.1261.47 lakh in 181 cases which broadly fall under the following categories.

(Rupees in lakh)

Sl. No.	Categories	No. of cases	Amount
1	Non/Short levy of local cess and local cess surcharge	10	25.88
2	Non levy of water cess and betterment contribution	3	2.39
3	Non levy of penalty and interest	6	8.27
4	Short recovery of rental value in respect of government lands assigned, alienated or encroached	24	169.93
5	Other items	138	1055.00
	<b>Total</b>	<b>181</b>	<b>1261.47</b>

During the course of the year 2000-2001, the concerned department accepted and recovered under-assessments of Rs.14.35 lakh in 24 cases. The status of recovery in other cases is still awaited.

An illustrative case involving a financial effect of Rs.1.34 crore is mentioned below:



#### **4.2 Loss of revenue due to non resumption and non leasing afresh of Government lands on violation of conditions**

In terms of Revenue Standing Order 24, Government lands may be placed at the disposal of a person, an institution or a local body. If any conditions imposed by the Government in respect of such grant are violated, the Government may resume such lands without any compensation. When Government lands are leased out for commercial purpose, the lease rent shall be fixed, at 14 per cent of the market value upto 3 June 1998 and at 2 per cent thereafter. In addition the local cess and surcharge on local cess shall be collected at the rates prescribed from time to time.

It was noticed (March 1996) in the Office of the District Collector, Tiruchirappalli, that an extent of 797.46 acres of land were allotted (between 1962 and 1965) for setting up Regional Engineering College (REC), Trichy. Out of this an extent of 1.44 acres of Government lands was leased out by the REC to two commercial Organisations Viz., M/s.Cholan Roadways Corporation (77 cents for 99 years) and Tamil Nadu Electricity Board (67 cents for 50 years), from January 1983 and October 1990 respectively, without the prior approval of the Government. It was also noticed that these commercial organisations do not have any connection with the educational activities of the REC.

The Commissioner, Land Administration, while replying to an audit query also observed (August 2000) that the action of the college amounted to violation of conditions. The failure of the department to resume the land and lease it afresh to these organisations had resulted in loss of revenue by way of lease rent, local cess and local cess surcharge amounting to Rs.1.34 crore for the period from which the lands were leased out by the REC. The case was reported (May/August 2000) to department; their reply has not been received (July 2001).

The matter was reported (May/June 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).



**CHAPTER 5**  
**TAXES ON VEHICLES**

**5.1 Results of Audit**

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed short collection/non-collection of tax, short collection/non-collection of fees, non-levy/short-collection of penalty, incorrect/excess refund of tax, others etc. amounting to Rs.613.25 lakh in 159 cases which broadly fall under the following categories.

Sl No	Categories	No. of cases	Amount (Rs. in lakh)
1	Short collection/Non collection of tax	56	475.03
2	Short collection/Non collection of fees	89	132.82
3	Non-levy/short collection of penalty	11	4.81
4	Others	3	0.59
	<b>Total</b>	<b>159</b>	<b>613.25</b>

During the course of the year 2000-2001, the concerned department accepted and recovered under-assessments of Rs.1.16 lakh in 12 cases.

Two cases involving a financial effect of Rs.67.81 lakh are mentioned below.



## **5.2 Non realisation of revenue due to non-issue of fresh permits**

The Government by a notification (November 1999) introduced modified schemes for various districts according to which all vehicles belonging to State Transport Undertakings in the districts were immediately brought under the new modified scheme. As the existing system was modified and approved, the permits issued previously to the State Transport Undertakings became invalid and a fresh permit in the light of the modified scheme had to be obtained.

However, it was noticed in 27 Regional Transport Offices, 4173 vehicles of the State Transport Undertakings were continued to be operated with permits obtained under the old approved scheme even though the old permits are invalid on the introduction of the modified scheme. The non-issue of fresh permits to 4173 Stage Carriages had resulted in non-realisation of revenue amounting to Rs.62.60 lakh.

On this being pointed out (June 2000), the department replied (May 2001) that the Government had not cancelled the scheme but only modified the approved scheme and so there is no need to get fresh permits on surrendering the existing ones. The reply is not acceptable as fresh permits have to be obtained under the Tamil Nadu Motor Vehicles Rules, 1989 even when the approved scheme is modified.

The matter was reported (May/June 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).



### **5.3 Incorrect grant of permit to operate mini-buses to private operators**

The Government in their order dated 30 July 1998 directed the Regional Transport Authorities to grant permit to private operators for operation of Minibuses in the unserved rural areas of the districts concerned, for a route length upto 16 Kms with an overlapping distance in served areas, not exceeding 4 Kms. The concessional rate of Motor Vehicle Tax of Rs.100/- per seat per quarter for the minibuses was fixed by the Government in their order dated 14 May 1998 for the years 1998-1999 and extended upto the year 2000-2001.

It was noticed (July 2000) during the audit of the Regional Transport Office, Karur for the period 1999-2000, that out of 16 minibus permits issued between April and July 1999, in 14 cases, the unserved areas in Karur Town were treated as unserved rural areas and thereby the actual overlapping distance exceeded 4 kms and violated the conditions prescribed for operating minibuses. The incorrect grant of concessional rate of tax had resulted in loss of revenue of Rs.5.21 lakh.

On this being pointed out (July 2000), the department replied (November 2000) that treating unserved town areas as unserved rural area was correct and that the permit granted at the concessional rate was also in order. The reply is not tenable since 'Rural Area' means any area not included in any (Municipal area) township constituted under any law for the time being in force. The intention of the Government is to serve the rural areas which were not served so far. Therefore the permit granted at the concessional rate for the minibuses plying in town areas is not in order.



The matter was reported (February 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).



**CHAPTER 6**  
**STATE EXCISE**

**6.1 Results of Audit**

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed non-levy/short levy of excise duty, non/short collection of licence fees, privilege fees etc., non/short levy of administrative service fee, non/short collection of penalty/interest, other cases etc. amounting to Rs.32942.28 lakh in 1154 cases which broadly fall under the following categories.

Sl No	Categories	No. of cases	Amount (Rs. in lakh)
1	Non levy/short levy of excise duty	4	4.67
2	Non/Short collection of licence fees, privilege fees etc.	27	52.17
3	Non-levy/short collection of administrative service fee	6	52.49
4	Non/short collection of penalty/interest	2	0.52
5	Other cases	38	1956.63
6	Review on "Receipts under State Excise"	1077	30875.80
	<b>Total</b>	<b>1154</b>	<b>32942.28</b>

During the course of the year 2000-2001, the concerned department accepted and recovered under-assessments of Rs.1.19 lakh in 4 cases.

\*A Review on "Receipts under State Excise" and an illustrative case involving a financial effect of Rs.310.38 crore are mentioned below.



## **6.2 Review on receipts under state excise**

### **Highlights:**

(i) Non-forfeiture of privilege amount and security deposit on belated submission of application for Indian made foreign spirit retail licenses resulted in loss of revenue of Rs.152.90 crore.

*[ Paragraph 6.2.5 ]*

(ii) Incorrect adoption of yield rate of rectified spirit resulting in notional loss of revenue of Rs.143.28 crore

*[ Paragraph 6.2.6 ]*

(iii) Incorrect grant of allowance in bottling process resulted in loss of revenue of Rs.5.77 crore.

*[ Paragraph 6.2.7 ]*

iv) Incorrect allowance of wastage for distillation resulted in loss of revenue of Rs.5.44 crore.

*[ Paragraph 6.2.8 ]*

### **6.2.1 Introduction:**

The Tamil Nadu Prohibition Act, 1937, and rules made thereunder provide for levy of excise duty, licence fee and vend fee on Indian Made Foreign Spirits. Other levies in the nature of export fee of molasses outside the State, excise duties on Medicinal and toilet preparations, licence fees on Bars and Star Hotels for possession of liquor are also levied.

### **6.2.2 Organisational Set up:**

The Special Commissioner of Prohibition and Excise, Chennai is the Head of the Department of Prohibition and Excise and is assisted by two Joint Commissioners and 29 District Collectors/Deputy Collectors at district level. Sixteen distilleries and five Indian Made Foreign Spirit Blending Units are controlled by the Excise Department through Distillery Officers and Excise Supervisory Officers respectively.



### 6.2.3 Scope of Audit:

A review was conducted between August 2000 and April 2001 to ensure the correctness of computation, levy and collection of excise revenue made as envisaged under the Tamil Nadu Prohibition Act, 1937 and the rules framed thereunder. Eleven distilleries (out of sixteen) and all five blending units covering seventeen districts (out of 29) were test checked covering the period from April 1995 to March 2000.

### 6.2.4 Trend of receipts

(Rupees in crore)

Year	Budget estimate	Receipts	Variations increase (+) / decrease (-)	Percentage
1995-1996	601.00	934.66	(+) 333.66	(+) 55.52
1996-1997	840.00	1063.07	(+) 223.07	(+) 26.56
1997-1998	1350.00	1299.85	(-) 50.15	(-) 3.71
1998-1999	1552.00	1709.81	(+) 157.81	(+) 10.17
1999-2000	1860.00	1833.70	(-) 26.30	(-) 1.41

While the increase in trend of receipts for the years 1995-96 and 1996-97 was attributed to increase in Excise Receipts on sale of Indian Made Foreign Spirits Liquor, Spirit and Malt Liquors etc., the increase in receipts during 1998-99 accounted for the increased upset price and privilege amount fetched in auction of Indian Made Foreign Spirit retail shop.

### 6.2.5 Non-forfeiture of privilege amount and security deposit on belated submission of application for Indian Made Foreign Spirit retail licenses

Under the Tamil Nadu Liquor (Retail Vending) Rules, 1989, the auction purchaser of the Indian Made Foreign Spirit retail shop shall make an application to the licensing authority within seven days of confirmation of sale of the retail shops. The licensing authority shall on receipt of such application, issue the retail licence within three days. If the auction purchaser fails to apply within the stipulated period, the entire privilege amount together with earnest money deposit and security deposit remitted by him shall be forfeited in full and the shop shall be brought to reauction immediately.



In thirteen<sup>6</sup> districts, it was noticed that in 1023 cases the auction purchasers did not apply to the licensing authority during 1998-99 within the stipulated period. The delay ranged between 9 and 30 days and were given licenses to run the shops instead of forfeiting the entire privilege amount alongwith earnest money and security deposits and shops were not put to reauction. This resulted in loss of revenue by non-forfeiture of privilege amount and security deposit from the auction purchasers to the tune of Rs.152.90 crore.

On this being pointed out the department stated (July 2001) that the failure to follow the rule was only a minor violation.

The reply of the department is not tenable as unless the rules provide deterrent penalty, for the delay in application to the licensing authority by the auction purchaser is incorporated in the Act/Rules the existing lapses would continue.

#### **6.2.6 *Incorrect adoption of yield rate of rectified spirit resulting in notional loss of revenue***

Tamil Nadu Distilleries Rules, 1981, provide for minimum yield rate of rectified spirit to be recovered per metric tonne of molasses. According to the circular issued by the Commissioner of Prohibition and Excise, during the year 1995, September and November 1999, the yield rate of spirit is arrived at based on the average total reducing sugar (TRS) content available in a tonne of molasses processed by application of a formula as mentioned in the circular and the actual yield rate should not be lower than the minimum yield chart.

During the period from 1995-96 to 1999-2000, it was noticed that the formula prescribed by the Commissioner of Prohibition and Excise was not followed for the computation of the yield. In respect of eleven<sup>7</sup> distilleries the yield was restricted to the minimum yield as prescribed by the department instead of actual yield based on total reducing sugar actually available as per laboratory test. This resulted in low yield of 1,56,96,661.5 bulk litres of alcohol involving loss of excise duty of Rs.143.28 crore.

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6 Coimbatore, Dinidgul, Erode, Karur, Madurai, Nagapattinam, Namakkal, Thanjavur, Theni, Thiruvarur, Tirunelveli, Trichy and Villupuram.

7 EID Parry (I) Ltd., SAFL, Trichy Distillery, Kothari Distillery, Thiru Arooram Sugars, Raj Shree Sugars and Distillery, Salem Co-operative Sugars, Bannari Amman Sugars and Distillery, Sakthi Sugars and Distillers, Amaravathy Co-operative Sugars and Distillers, and Dharani Sugars and Distillers .



On this being pointed out, the department stated that the actual yield as per formula was on the higher side than the minimum yield per metric tonne of molasses.

The reply of the department is not tenable because (i) the minimum yield chart is only a pointer to consider the penal provisions and not for restriction to keep the production to the minimum instead of obtaining the actual yield (ii) The Public Accounts Committee (29<sup>th</sup> Report/VIIIth Assembly) in their recommendations to Para 4.1 of Audit Report 1979-80 presented in Assembly on 19 April 1986 had observed that "even assuming that attenuation factor would not be the sole criterion for determining the yield rate of alcohol, the attenuation factor itself would have been arrived at only after taking into account several processes involved in the manufacture of alcohol and hence it should be regarded as a main guiding factor to assess the probable quantity of alcohol to be manufactured from wash under given set of circumstances and suggested that norms of production of alcohol to be incorporated in the rules themselves".

#### **6.2.7 Incorrect grant of allowance in bottling process**

According to Indian Made Foreign Spirit (Manufacture) Rules, 1981, an allowance of not more than half per cent for loss in bottling wastage shall be allowed on the quantity bottled. Any deficiency in excess of this wastage shall be charged with duty at the rate applicable.

During the period covered under review, it was noticed that in three<sup>8</sup> Indian Made Foreign Spirits blending units, bottling loss of 39.93 lakh bulk litres were claimed for the purpose of exemption from payment of excise duty vend fee and whole sale vend fee on the liquor that was stated to have been wasted/lost in bottling operation.

However, it was noticed that the blended liquor shown as wasted during bottling process was cent per cent collected in the rejection tanks, refiltered and rebottled immediately. Therefore, there was no actual wastage in the process of bottling and the exemption allowed from payment of excise duty for the period from April 1995 to March 2000 on a quantity of 39.93 lakh bulk litres had resulted in loss of revenue of Rs.5.77 crore.

On this being pointed out, the department accepted to raise the demand in the case of one unit (Mohan Breweries). In the other two cases the department agreed to examine the issue. Further reply has not been received so far (October 2001).

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8 Balaji Distilleries, EMPEE Distilleries and Mohan Breweries.



### **6.2.8 Incorrect allowance for redistillation loss**

Under the Tamil Nadu Indian Made Foreign spirit (Manufacture) Rules 1981, redistillation of rectified spirit into neutral spirit, wastage can be allowed upto 3 per cent of spirit processed. The allowance on account of redistillation loss is applicable only to the blending units (Manufacturers of Indian Made Foreign Spirit) wherein neutral spirit is used in the manufacture of Indian Made Foreign Spirit.

Rule 39 of the Tamil Nadu Distillery Rules provides for penalty at Rs.16 per bulk litre of alcohol produced below the norms prescribed.

a) It was noticed that in two<sup>9</sup> distilleries in Udumalpet and Mohanur, redistillation loss of 2.01 lakh proof litre spirit was allowed during the period from 1995-96 to 1999-2000, though the distilleries producing spirit are not manufacturers of IMFL and therefore not eligible for redistillation loss and attract penalty of Rs.32.13 lakh.

This incorrect allowance on a quantity of 2.01 lakh proof litres spirit allowed as redistillation loss during the period 1995-96 to 1999-2000 resulted in loss of revenue amounting to Rs.32.13 lakh.

b) In respect of two blending units (M/s Empee Distilleries and M/s Balaji Distilleries – Tiruvallur District) which did not possess licences for redistillation process were allowed redistillation loss of 32.03 lakh proof litres for the period 1995-96 to 1999-2000 which resulted in incorrect allowance on production of neutral spirit and consequently resulted in loss of excise duties leviable thereon amounting to Rs.5.12 crore inclusive of Rs.21.96 lakh on account of Administrative Service Fee.

### **6.2.9 Non adoption of reserve price**

As per the guidelines issued by the Additional Commissioner, Prohibition and Excise to all the District Collectors (May 1998), the privilege amount realised during 1998-99 auction, should not be less than the privilege amount of 1997-98, i.e. the previous year's privilege amount, for any Indian Made Foreign Spirit retail shop (licence).

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9 M/s Amaravathy Co-operative sugar Mills & Distilleries, Udumalpet.  
M/s Salem Co-operative sugar Mills & Distilleries, Mohanur



However, on a scrutiny of records at the offices of the Assistant Commissioners, Excise, Erode and Namakkal it was noticed that in respect of 39 shops, the privilege amount realised for 1998-99 auction was less than the privilege amount of 1997-98. The short realisation of privilege amount has resulted in loss of revenue to the tune of Rs.1.29 crore.

#### **6.2.10 Improper control over the production/distribution of molasses**

According to Tamil Nadu Molasses Control and Regulations Rules 1958, the Commissioner of Prohibition and Excise shall monitor and control the estimated availability and demand of molasses in the State. He is also the licensing authority for distribution of molasses, for the purposes prescribed in the rules

It was noticed that during the period covered by review, that the production of molasses in the State of Tamil Nadu as per Commissioner, Prohibition and Excise records was 37.21 lakh Metric Tonnes (M.T). Based on the details collected from Commissioner of Sugar, Chennai and all (37) sugar factories in Tamil Nadu, the total quantity of molasses produced in the State during the period from April 1995 to March 2000 accounted for 38.33 lakh Metric tonne thus there was short accountal of molasses of 1.12 lakh Metric Tonne between two set of figures which would have fetched 1.89<sup>10</sup> lakh bulk litres of rectified spirit.

The possibility of illicit distillation of rectified spirit cannot be ruled out as illicit rectified spirit was seized in large quantity every year<sup>11</sup>. As per the information supplied (July 2001) by the Director General of Police (DGP), Police Department that 14.49 lakh litres of rectified spirit was seized during the period from 1995-96 to 1999-2000, as per the detail given below:

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<sup>10</sup> 1.12 X 170 bulk litres (bearest minimum yield of rectified spirit per metric tonne)

<sup>11</sup> Chief Minister's statement printed in the policy note on Policy Note on P & E for 1999-2000



Year	Quantity of spirit seized (in litres) as per DGP	Quantity of spirit seized (in litres) as per Govt.
1995-1996	214489	---
1996-1997	379400	---
1997-1998	215776	233000
1998-1999	269774	221000
1999-2000	369640	289000
<b>Total quantity seized</b>	<b>1449079</b>	<b>743000</b>

This shows that there was failure in ensuring the controls vested with the Commissioner of Prohibition and Excise to monitor and regulate the availability, the demand and distribution of molasses in the State.

#### *6.2.11 Failure to levy administrative service fee on rectified spirit at production point in distilleries*

The Government of Tamil Nadu vide notification (February 2000) levied administrative service fee at the rate of fifty paise per bulk litre of rectified spirit produced in the distillery with retrospective effect from 4 June 1990.

During the review, it was noticed that in respect of two<sup>12</sup> distilleries in Thanjavur and Tirunelveli districts, the Administrative Service Fee during the period from 1995-96 to 1999-2000 was levied and collected on the quantity of spirit removed instead of the quantity actually produced which resulted in short levy of Administrative Service Fee of Rs.7.67 lakh.

The matter was reported (May/June 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).

12 M/s Dharani Sugars & Distilleries (Tirunelveli), M/s Thiru Arooran Sugars and Distilleries (Thanjavur)



### 6.3. Non-collection of enhanced privilege fee

Under the Tamil Nadu Liquor (Licence and Permit) Rules, 1981, Star hotels in the State have to obtain FL3 licences for the possession of liquor in their hotels. Accordingly they have to pay privilege and licence fees annually.

Government by a notification (December 1998) enhanced the privilege fee (double the old rates) payable by such licencees.

It was noticed (During November/December 1999) in the office of Commissioner of Prohibition and Excise, Chennai, that in respect of 251 star hotels and 5 hotels with additional bars, privilege fees for the year 1998-99 were collected at the old rates instead of at the enhanced rates. This had resulted in short collection of Rs.162 lakh as detailed below.

(Rupees in lakh)

Sl No	Star Gradation	Total no. of hotels	Privilege amount to be collected per hotel	Privilege Amount Collected per hotel	Difference	Total Short collection
1	One Star	199	1.00	0.50	0.50	99.50
2	Two Star	14	1.50	0.75	0.75	10.50
3	Three Star	29	2.00	1.00	1.00	29.00
4	Four Star	5	3.00	1.50	1.50	7.50
5	Five Star	4	4.00	2.00	2.00	8.00
<b>Total - A</b>						<b>154.50</b>
<b>Renewal of Additional Bar</b>						
1	One Star	1	1.50	0.75	0.75	0.75
2	Two Star	1	1.50	0.75	0.75	0.75
3	Five Star	3	4.00	2.00	2.00	6.00
<b>Total - B</b>						<b>7.50</b>
<b>Grand Total (A+B)</b>						<b>162.00</b>



On this being pointed out (May/October 1999) the Government replied (July 1999) that date of effect has to be taken into account from the date of next financial year i.e., 1999-2000. The reply is not tenable as in a similar case the Honourable Madras High Court had upheld<sup>13</sup> on 6 January 2000 that enhanced privilege fees is payable by FL3 licencees retrospectively.

The matter was reported to the Government (April 2000); the Government stated (July 2001) that necessary notification would be issued.

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13 WMP 22107/99 – South India Hotel and Restaurant Association Vs. Government of Tamil Nadu



**CHAPTER 7**  
**STAMP DUTY AND REGISTRATION FEES**

**7.1 Results of Audit**

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed under valuation of property, misclassification of document, others etc. amounting to Rs.684.00 lakh in 427 cases which broadly fall under the following categories.

Sl No	Categories	No. of cases	Amount (Rs. in lakh)
1	Under valuation of property	217	461.00
2	Mis-classification of document	78	119.00
3	Others	132	104.00
	<b>Total</b>	<b>427</b>	<b>684.00</b>

During the course of the year 2000-2001, the concerned department accepted and recovered under-assessments of Rs.5.29 lakh in 63 cases.

Three illustrative cases involving a financial effect of Rs.21.95 lakh are mentioned below.



**7.2 Non-levy of differential Stamp Duty on documents registered outside the State.**

In terms of proviso to sub Section 4 of Section 19 B (prior to February 2000) of the Indian Stamp Act, 1899, where deficiency in duty paid is noticed from the copy of any instrument, registered in any part of India other than the State of Tamil Nadu, the property in respect of which is situated in Tamil Nadu, the Collector may suo motu or on a reference from any court or any registering officer, require the production of the original instrument before him within the period specified by him for the purpose of satisfying himself as to the adequacy of the duty paid thereon, within four years from the date of registration of such instrument.

In Sub-Registries Thondamuthur and Vellakovil it was noticed that in sixteen cases where such instruments registered (between May 1992 and March 1996) in the State of Kerala and copies of the same were received (between July 1996 and October 1999), the differential Stamp Duty amounting to Rs.10.48 lakh still remains to be collected, though referred to the Collector. Out of these in eleven cases, differential Stamp Duty amounting to Rs.6.62 lakh, the possibility of collection is remote as in these cases action is barred by limitation of time under the Act.

On a similar issue pointed out by audit (October 1998), the Government amended (February 2000) the Act by changing the expression "from the date of registration of such instrument" to "from the date of receipt of copy of such instrument in the State". However the amendment does not cover past cases.

The matter was reported (March/June 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).



### **7.3 Incorrect classification of document**

Under the Indian Stamp Act, 1899, an instrument of 'Partition' is one by which co-owners of any property divide or agree to divide such property in severalty and where all co-owners are bound by the division or agreement to divide. If, however, one or more of the parties to the instrument had no right or title in respect of properties, the documents should be treated as partition-cum -conveyance deed and is chargeable to duty accordingly.

In the Sub-Registry, Purasawalkam, it was noticed (October 2000) that, properties originally purchased by two Christian brothers during 1980 and 1986 were pooled together and partitioned (March 2000) among themselves and their sister in respect of the properties pooled together. As per department's proceedings (June 1996), joint family concept is not applicable to Indian Christian. This document was incorrectly classified as partition deed instead of classifying it as partition-cum-conveyance deed.

The incorrect classification of document had resulted in short levy of stamp duty and registration fee amounting to Rs.6.38 lakh.

On this being pointed out, the department accepted the audit observation (August 2001). Further report has not been received (October 2001).

The matter was reported (July 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).

### **7.4 Under-valuation of properties**

Under the Indian Stamp Act, 1899 and the Registration Act, 1908, stamp duty and registration fee are chargeable on the market value of the property conveyed. Guidelines have been framed annually by the department to enable the officers of Registration Department to determine the correct market value of the properties.



In three<sup>14</sup> registering offices it was noticed in respect of five instruments that there was under-valuation of properties due to non/incorrect adoption of guideline rate resulting in short levy of stamp duty and registration fee amounting to Rs.5.09 lakh.

The matter was reported (June 2001) to department. The department accepted the observation in respect of all the five cases. Report on action taken has not been received so far (October 2001).

The matter was reported (July 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).

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<sup>14</sup> Anna Nagar, Chennai (South) and Kodambakkam



**CHAPTER 8**  
**OTHER TAX RECEIPTS**  
**A – URBAN LAND TAX**

**8.1 Results of Audit**

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed under assessment/non levy of urban land tax, incorrect grant of exemption, other irregularities amounting to Rs.187.24 lakh in 54 cases which broadly fall under the following categories.

Sl No	Categories	No. of cases	Amount (Rs. in lakh)
1	Under assessment/non-levy of urban land tax	34	167.99
2	Incorrect grant of exemption	8	5.25
3	Other irregularities	12	14.00
	<b>Total</b>	<b>54</b>	<b>187.24</b>

During the course of the year 2000-2001, the concerned department accepted under-assessments of Rs.43.53 lakh in 15 cases out of which an amount of Rs.2.23 lakh was collected in 2 cases .

An illustrative case involving a financial effect of Rs.39.69 lakh is mentioned below

**8.2 Non-levy of urban land tax**

Under the Tamil Nadu Urban Land Tax Act, 1966, as amended, from time to time, land lying in Chennai city and extent lying within 16 kilometers from the outer limits is assessable to urban land tax from fasli year 1401 (1 July 1991) on the basis of market value as on 1 July 1981. Where the revised urban land tax leviable on the basis of market value as on 1 July 1981 exceeds five times the tax already levied, the revised urban land tax shall be limited to five times of the tax levied.



In four assessment divisions, urban lands measuring 2190 grounds<sup>15</sup> and 501 square feet belonging to 17 assesseees were either not assessed to tax or tax was not revised with effect from fasli 1401 (1 July 1991) onwards. This had resulted in non-levy of urban land tax amounting to Rs.39.69 lakh as detailed below.

Sl No	Name of the assessment division (Name of the village)	No. of assesseees	Total extent not assessed to tax	Total no. of faslis for which tax not assessed	Non-levy of tax (Rs. in lakh)
1	Mylapore (Mylapore, Urur & Triplicane Villages)	7	153 grounds and 453 square feet	Fasli 1401 to 1408 (8 faslis) 1 July 1991 to 30 June 1999	14.60
	Triplicane Village	5	63 grounds and 1683 Square feet	Fasli 1401 to 1409 (9 faslis) 1 July 1991 to 30 June 2000	14.29
2	Madhavaram	1	1593 grounds and 1289 square feet	Fasli 1401 to 1407 (7 faslis) 1 July 1991 to 30 June 1998	5.56
3	Tondiarpet and Ambattur	4	379 grounds and 1876 square feet	Fasli 1401 to 1405 (5 faslis) 1 July 1991 to 30 June 1996	5.24
<b>Total</b>		<b>17</b>	<b>2190 grounds and 501 square feet</b>		<b>39.69</b>

On this being pointed out (between February 1996 and March 2000), the department assessed the lands to tax (between October 1998 and January 2001) and raised demands for Rs.39.69 lakh, out of which an amount of Rs.3.24 lakh (Mylapore Village) has been collected (July 2001). Report on recovery on the balance amount has not been received (September 2001).

The matter was reported (November 2000 and May 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).

<sup>15</sup> One Ground is equal to 2400 square feet



## B. ELECTRICITY DUTY

### 8.3 Results of Audit

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed non collection of licence fee/inspection fee, non-levy of electricity duty, non-levy of penalty etc. amounting to Rs.182.46 lakh in 15 cases which broadly fall under the following categories.

SI No	Categories	No. of cases	Amount (Rs. in lakh)
1	Non-collection of licence fee/inspection fee	11	2.27
2	Non-levy of electricity duty	2	10.35
3	Non-levy of penalty	2	169.84
	<b>Total</b>	<b>15</b>	<b>182.46</b>

During the course of the year 2000-2001, the concerned department accepted and recovered under-assessments of Rs.0.04 lakh in 2 cases.

An illustrative case involving a financial effect of Rs.30.15 lakh is mentioned below.

### 8.4 Non implementation of the Tamil Nadu Lifts Act and consequential non-realisation of revenue

Consequent upon the construction of several multi-storeyed buildings with lifts, a number of safety measures and safety precautions are necessary for operating the lifts in the interest of the safety of users. As these cannot be insisted in the absence of legislation, the Tamil Nadu Lifts Act, 1997 (Act 35 of 1997) was enacted.



Under the provisions of the above Act (November 1997), no person can erect a lift or operate it without obtaining licence. In case of lifts already in existence prior to enactment of this Act, licence is to be obtained within two months from the date of commencement of the Act. Thus after January 1998, no lifts shall be in operation without proper licence. Every licence granted under the Act is valid for one year from the date on which it is granted and is to be renewed yearly on payment of renewal fees.

It was noticed (January/February 2000) during the audit of Chief Electrical Inspector's office, Chennai that 2771 lifts are in operation in Chennai Division alone at the time of commencement of the Act (November 1997) and 424 lifts were added during the years 1998-1999 to 2000-2001. Out of the above 1457 lifts were not issued with licence till-date. Further in the case of 202 lifts which were issued with licence upto 1999-2000, licenses were not renewed subsequently.

Omission to issue licence and its subsequent renewal resulted in non-achievement of the main objective of the Act and consequential non-realisation of revenue amounting to Rs.30.15 lakh.

When this was pointed out (March/April 2000) the department stated that due to inadequate staff, the department could not take any serious step to enumerate the actual existing lifts in the State. This had resulted in non-realisation of a huge unquantified amount by way of revenue to Government.

The matter was reported (May 2000/July 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).



**CHAPTER 9**  
**NON-TAX RECEIPTS**  
**A - MINES AND MINERALS**

**9.1 Results of Audit**

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed non levy/short levy of royalty, dead rent and seigniorage fee, other items amounting to Rs.384.09 lakh in 48 cases which broadly fall under the following categories.

Sl No	Categories	No. of cases	Amount (Rs. in lakh)
1	Non levy/short levy of royalty, Dead rent and Seigniorage fee	30	358.37
2	Other items	18	25.72
	<b>Total</b>	<b>48</b>	<b>384.09</b>

During the course of the year 2000-2001, the concerned department accepted under-assessments etc. of Rs.18.40 lakh in 20 cases out of which an amount of Rs.17.65 lakh in 17 cases had been recovered. The status of recovery in other cases is still awaited.

Two illustrative cases involving a financial effect of Rs.266.56 lakh are mentioned below.



## **9.2 Loss of Revenue due to incorrect grant of exemption**

According to Rule 7 of the Tamil Nadu Minor Mineral Concession Rules, 1959, quarrying from unreserved waste lands including poramboke other than bunds of drinking water ponds or tanks may be allowed free of charge in the case of Department of Government of India and the State Government, Panchayat Union Councils, Panchayats and Municipalities, or contractors in their employ, provided that the products removed are required and used solely for bona fide public purposes and not for sale or commercial profits. In all other cases seigniorage fee at the rates specified in the rules shall be charged. The seigniorage fee thus collected is allocated to the local body to which the place of quarry is located.

The Government of Tamil Nadu permitted (February 1994) the Chennai Port Trust for quarrying stones over an extent of 44.50 acres in Karikal Village, Arakonam Taluk, Vellore District for construction of Satellite Port at Ennore with the condition that the Chennai Port Trust should pay seigniorage fee at the rate prescribed in the Minor Mineral Concession Rules. The District Administration issued (August 1994) orders, for quarrying stones by the Chennai Port Trust and also for the payment of seigniorage fee at the prescribed rates. The Chennai Port Trust also agreed to pay the seigniorage fee by executing (October 1994) a lease agreement subject to waiver of the above fee by the Government of Tamil Nadu stating that Chennai Port Trust is an Autonomous Local authority under the control of Ministry of Surface Transport, Government of India.

Based on the representation (June 1995) by Chennai Port Trust, the Government of Tamil Nadu exempted (September 1995) Chennai Port Trust from payment of seigniorage fee under Rule 7 of Minor Mineral Concession Rules, treating the Port Trust as bonafide public service organisation and stones removed were not for sale or commercial profit. In the instant case, the Chennai Port Trust being an autonomous trust with commercial activity is not covered under any of the categories prescribed under Rule 7. Hence, the stones used by them is not eligible for exemption. The incorrect exemption granted to Chennai Port Trust had resulted in loss of seigniorage fee amounting to Rs.2.54 crore on 507.27 lakh cubic feet of stones removed.



On this being pointed out (June 2001), the Government stated (July 2001) that Chennai Port Trust was exempted from payment of seigniorage fee as it was a Government of India organisation and the stones were removed for a bonafide public purpose and not for sale or commercial profits.

The reply of the Government is not acceptable as the Chennai Port Trust being only an autonomous body, is not covered under any departments/institutions mentioned in Rule 7 of the Tamil Nadu Minor Mineral Concession Rules, 1959, to qualify for exemption. Incidentally the Ennore Port for which the quarried stones were used has been subsequently incorporated as a limited company under the Companies Act (October 2001). Hence it cannot also be construed that the stones were removed for bonafide public purpose. Hence the exemption granted is not in order.

By this incorrect exemption, the Arakkonam Panchayat has lost the seigniorage fee to be remitted back in lieu of the stones quarried. Further report from the Government has not been received so far (October 2001).

The matter was reported (July 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).

### **9.3 Non-levy of interest on belated payment**

In terms of Rule 36(B)(1) introduced in the amended Tamil Nadu Minor Mineral Concession Rules, 1959, simple interest at twenty four per cent per annum is chargeable with effect from 22 June 1994 on any rent, fee, royalty or other sums due to Government under the quarrying permit or lease from the sixtieth day of the expiry of such payment becoming due.

In the office of the Assistant Director (Geology and Mining), Vellore, it was noticed (May 1996) that a sum of Rs.39.09 lakh being the arrears of area assessment and dead rent due from Tamil Nadu Minerals Limited (TAMIN) pertaining to the period from 1 April 1993 to 31 March 1994, was paid on 7 November 1995. Interest on Rs.39.09 lakh paid belatedly for the period from 22 June 1994 to 6 November 1995 works out to Rs.12.93 lakh. However, no demand for interest was raised.



On this being pointed out (July 1996), the department raised (August 1999) demand for interest from TAMIN and collected (November 1999) the entire interest of Rs.12.93 lakh after a delay of 4 years.

. When the matter was reported (November/December 2000 and January 2001) the Government replied (October 2001) that the entire amount has been collected.



## B – FINANCE DEPARTMENT

### 9.4 Review on Interest Receipts

#### *Highlights*

Interest amounting to Rs.96.36 crore remained uncollected as on 31 March 2000 even after conversion of earlier loans into single loan.

*[Paragraph 9.4.5(i)]*

Non-realisation of interest of Rs.42.60 crore on loans sanctioned to Urban local bodies for water supply schemes.

*[Paragraph 9.4.5(ii)]*

Due to non maintenance of loan ledger by the Agriculture department a sum of Rs.4.57 crore towards principal and Rs.9.39 crore towards interest and penal interest remained uncollected.

*[Paragraph 9.4.6(i)]*

Non-recovery of interest of Rs.4.56 crore on un-utilised loan refunded belatedly by M/s.Tamil Nadu Small industries Development Corporation (SIDCO).

*[Paragraph 9.4.6(ii)(a)]*

Non-realisation of interest of Rs.79.48 crore in respect of loans sanctioned to State Commercial Undertakings and Co-operative societies due to non raising of demand.

*[Paragraph 9.4.7 (a) & (b)]*

Outstanding Loans and Advances and interest amounting to Rs.147.84 crore was converted as equity share capital of respective State Transport Undertakings despite they have not paid any dividend to Government so far.

*[Paragraph 9.4.9]*



#### **9.4.1 Introduction**

Government in pursuance of its policies for achievement of various objectives, granted loans and advances to its local bodies, public sector undertakings, commercial undertakings, co-operative societies and individuals including Government employees. The loans and advances sanctioned usually carry different rates of interest fixed by the sanctioning authority keeping in view the purpose for which the loans and advances are sanctioned. Loans and advances are required to be repaid within the stipulated period, in periodical instalments along with the interest. The terms and conditions which are specified in the orders sanctioning the loans are to indicate the periodicity of instalments, the rates of interest, the mode and the manner of repayment of the principal and interest. In case of default in repayment, penal interest is also charged.

#### **9.4.2 Organisational Setup**

Loans and advances are sanctioned by the administrative departments, with the concurrence of the Finance department. Recoveries of loans and advances along with interest are to be watched by the heads of the departments concerned according to the instructions of the Government.

#### **9.4.3 Scope of Audit**

A review on 'Interest Receipts' of Government from 1995-96 to 1999-2000 was conducted during December 2000 to March 2001 by a test check of records of Departments of Agriculture, Industries, Transport, Rural and Urban Development and Co-operation, Food and Consumer protection which are the major departments from which most of the Interest Receipts were realised from loans and advances granted.

Important points noticed in the course of review are brought out in the succeeding paragraphs.



#### 9.4.4 Trend of Interest Receipts

The budget estimated, actual and non-tax revenue of the State during the years 1995-96 to 1999-2000 was as under:

(Rupees in Crore)

Year	Interest Receipts		Variations (+) Excess (-) Shortfall	Percentage of variation	Total Non- Tax revenue	Percen- tage of interest receipts to Non- tax revenue
	Budget Estimates	Actuals				
1995-1996	166.03	342.83	(+)176.80	(+)106.80	858.45	39.94
1996-1997	208.68	371.21	(+) 162.53	(+) 77.51	885.44	41.90
1997-1998	393.75	504.70	(+) 110.95	(+) 28.18	1121.87	44.98
1998-1999	349.17	409.24	(+) 60.07	(+) 17.20	1156.70	35.37
1999-2000	367.67	388.74	(+) 21.07	(+) 5.73	1357.00	28.65

From the above it is clear that the budget estimates framed by the Government were not realistic as the actual receipts was much more than the budget estimates which ranged from 106.80 per cent during 1995-96 to 17.20 per cent during 1998-99. Even the actual realisation of interest of the previous year was not taken as indicator for preparation of budget estimate for the next year.

#### 9.4.5 (i) Non-realisation of interest on loans sanctioned to Rural Local Bodies (RLB) for water supply schemes

Municipal and Water Supply Department sanctioned loans from the year 1974-75 onwards to the Municipalities and Municipal Corporations for executing various developmental schemes. The loans were required to be repaid in annual instalment with varying rate of interest from 10.5 per cent to 17 per cent and to levy penal interest at 2 per cent per annum in case of default in repayment.

On a perusal of the records of the department it was noticed that Principal amount of Rs.369.56 crore and interest amounting to Rs.195.67 crore were in arrears as on 31 March 1998 in respect of 102 Municipalities and 5 Municipal Corporations. As the principal and interest could not be realised due to paucity of funds in the local bodies, the principal and interest outstanding as on 31 March 1998 was, however, converted (July 1998) by the



department into single loan against each Municipality/Corporation. As per the terms and conditions, the converted loan of Rs.565.23 crore was required to be repaid in 20 years along with interest at the rate of 13.5 per cent at half-yearly instalment by each Municipality/Corporation.

Consequently the Municipalities/Corporations were required to repay a sum of Rs.203.28 crore upto 31 March 2000. A verification of the records, however, revealed that out of the amount due for repayment, a sum of Rs.70.64 crore only was collected leaving a balance of Rs.132.64 crore which consisted of principal amount of Rs.36.28 crore and interest amount of Rs.96.36 crore.

*(ii) Non-realisation of interest on loans sanctioned to Urban Local Body (ULB) for water supply schemes*

The Government granted loans amounting to Rs.61.14 crore between the years 1974-75 and 1993-94 to Chennai Municipal Corporation which was to be repaid alongwith interest at prescribed rates. Out of the loans sanctioned, a sum of Rs.45.04 crore towards principal and an amount of Rs.42.60 crore towards interest due upto 1997-98 were remained outstanding as on 31 March 2000. The proposals for waiver of the outstanding loans and interest were forwarded by the Chennai Corporation during August 1995 to Government of Tamil Nadu were rejected in January 1996. No further action has been taken to recover the interest along with principal.

*9.4.6 (i) Non-realisation of interest due to non-maintenance of loan ledger*

Agriculture Department sanctioned four loans of Rs.6.18 crore from the year 1983-84 to 1995-96 to M/s Tamil Nadu Agro Industries Development Corporation (TAI) and Tamil Nadu Agro Engineering and Services Co-operative Federation Limited (AGROFED) for the purchase of plant, working capital advance etc. The loans alongwith interest were required to be repaid within a period ranging between four months and four years with rate of interest ranging between 15 per cent and 19.5 per cent. On a scrutiny of the records it was noticed that principal amount of Rs.4.57 crore and interest amounting to Rs.9.39 crore were still outstanding as on 31 March 2000.



Agriculture Department being the controlling authority for the above agricultural organisations, did not maintain any ledgers and registers to watch the repayment of principal and interest and also not monitoring the repayment of interest through Demand, Collection and Balance statements as a result thereof no demand was raised for the repayment of principal along with the accrued interest so far. Consequently interest amounting to Rs.9.39 crore alongwith principal of Rs.4.57 crore remained uncollected.

(ii) *Short recovery of interest.*

(a) The Industries department sanctioned (August 1993) Ways and Means advance of Rs.8 crore to a State Government undertaking viz., M/s. Tamil Nadu Small Industries Development Corporation Ltd. (SIDCO) for purchase of land for Industrial Estate repayable within a year in 10 instalments after the moratorium period of one year. The advance is repayable alongwith interest at the rate of 14 per cent per annum. In case of default penal interest at 2 per cent was also to be levied. The interest was to be paid quarterly. As the purchase of land did not materialize, SIDCO was directed in February 1994 to refund the loan. The loan was repaid in two instalments, in July 1994 and July 1999. The SIDCO was required to pay interest of Rs.4.26 crore and penal interest of Rs.0.86 crore for the retention of the loan from September 1993 to July 1999 against which the SIDCO, remitted Rs.0.56 crore only towards interest resulting in short realisation amounting to Rs.4.56 crore as on 31.3.2000. This amount has not so far been demanded from the SIDCO.

(b) The Industries Department granted two loans to a State Government commercial undertaking viz. M/s. Tamil Nadu Cements Corporation Limited (TANCEM) to a tune of Rs.2.50 crore at an interest rate of 14 per cent per annum in February 1986 to be repaid in eight equal monthly instalments from April 1986 and Rs.2 crore at an interest rate of 17 per cent per annum in February 1991 to be repaid upto June 1991. In case of default penal interest at two per cent was to be charged. As the company did not repay the advance, the repayment period of advance was extended from time to time, but the advances were not repaid by TANCEM. In the year 1995, TANCEM was directed to repay the advances with interest accrued thereon in twenty equal monthly instalments with effect from 1 June 1995 but the repayment Schedule, was, however, not adhered to by the TANCEM as a result thereof interest amounting to Rs.6.82 crore was due on 31 March 2000 against which the Department could collect Rs.5.75 crore only and no action was taken to collect the balance interest of Rs.1.07 crore on which penal interest amounting to Rs.0.24 crore was also leviable.



#### **9.4.7 Non-issue of demand notices**

(a) Government of Tamil Nadu granted loans during the period from 1968-69 to 1998-99 to eleven<sup>16</sup> State Commercial Undertakings for various commercial activities. The loans were required to be repaid within a period of 3 year to 10 years along with interest ranging between 10.75 per cent and 17 per cent. Penal interest is also leviable at 2 per cent in case of default in payment of interest.

On a scrutiny of the records of the Industries Department it was noticed that principal amount of Rs.203.82 crore and interest amount of Rs.51.20 crore were outstanding as on 31 March 2000. It was observed that even though no interest was paid by the commercial undertakings, no action was taken by the department to issue demand notices to collect the outstanding principal amount of Rs.203.82 crore and interest amount of Rs.51.20 crore.

(b) Co-operation, Food and Consumer Protection Department sanctioned loans amounting to Rs.49.04 crore to 7762 Co-operative societies/organisations for developmental activities during the period from 1992-93 to 1997-98. It was noticed (January 2001) from the Demand, Collection and Balance Statement and other records that principal amount of Rs.37.28 crore and interest amounting to Rs.28.28 crore (Interest Rs.27.58 crore + Penal Interest Rs.0.70 crore) were outstanding as on 31 March 2000 for which the department had not even issued notices to the concerned Co-operative societies till date.

Thus the interest amount of Rs.28.28 crore was outstanding as on 31 March 2000 even after the lapse of repayment period (March 1999).

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16 Tamil Nadu Industrial Investment Corporation (TIIC), Tamil Nadu Industrial Development Corporation (TIDCO), Southern Structurals Limited (SSL), Tamil Nadu Cements Corporation Limited (TANCEM), Tamil Nadu Explosives Limited, Tamil Nadu Small Industries Development Corporation (SIDCO), Tamil Nadu Handicrafts and Handloom Development Corporation Limited (TIHDC), Tamil Nadu Small Industries Development Corporation (TANSI), State Engineering and Servicing Company of Tamil Nadu (SESCOT), Tamil Nadu Steels Limited (TNSL) and Tamil Nadu Leather Development Corporation Limited (TALCO).



**9.4.8 Non-levy of penal interest**

The Industries Department sanctioned three loans amounting to Rs.13.03 crore to M/s.Tamil Nadu Industrial Development Corporation (TIDCO) during 1994-95 which were to be repaid in six annual instalments with rate of interest of 14 per cent. In case of default the penal interest at 2.75 per cent was to be levied

It was noticed that the corporation did not adhere to the repayment schedule. Consequently for the default, penal interest of Rs.18.50 lakh as on 31 March 2000 was leviable, but the Government did not demand the penal interest.

**9.4.9 Conversion of Loans into equity share capital**

Government of Tamil Nadu granted loans and advances aggregating to Rs.624.04 crore for 21 State Transport Undertakings from the year 1974-75 to 1999-2000. Interest and penal interest thereon worked out to Rs.104.31 crore remaining unpaid as on 31 March 2000, was pointed out by audit in May 2000.

This huge arrears were pointed out in audit and subsequently the Government issued orders (March 2001) for conversion of all outstanding loans and advances and interest thereon upto 31 October 2000 amounting to Rs.147.84 crore as equity share capital of the respective State Transport Undertakings despite the State Transport Undertakings have not paid any dividends so far on the capital investment by the Government.

The above observation have been reported to Government (May 2001) and their reply has not been received (October 2001).



## 9.5 Review on Receipts from State raffles

### Highlights

Sole selling agents were appointed without following the tender procedure. The lottery schemes designed by the Sole selling agents are adopted by the Department.

[ Paragraph 9.5.6 ]

Total payout of prize money to the public was less than the prescribed limit of 50 *per cent* and there was an unauthorised deduction of Rs.8.43 crore from I and II prize winning tickets during the period from September 1998 to October 2000. Delay of more than 6 months in the disbursement of prize money to the public resulted in mounting arrears to the extent of Rs.20.30 crore as of January 2001.

[ Paragraph 9.5.7 ]

Undue financial aid was given to agents by way of payment of excess bonus to the tune of Rs.23.18 crore. Government lost interest to the extent of Rs.2.56 crore by allowing unauthorised credit period of 21 days to Agents for payment of value of tickets issued to them.

[ Paragraph 9.5.8 ]

The Department failed to deduct tax at source (Rs.12.75 crore) from the payments made towards bonus etc., to agents during the period from October 1998 to December 2000. The department was thus liable to pay the tax due and penal interest at 18 *per cent* on the tax.

[ Paragraph 9.5.9 ]

There was shortfall of Rs.7.81 crore in transfer of funds to the Tamil Nadu Special Welfare fund. There was under-utilisation to the tune of Rs.30.45 crore from the fund.

[ Paragraph 9.5.10 ]

No account was rendered for prize amounts upto Rs 5000 paid by agents to the tune of Rs.66.27 crore.

[ Paragraph 9.5.11 ]

Improper assessment of requirement of raffle tickets resulted in an avoidable expenditure of Rs 1.10 crore on printing.

[ Paragraph 9.5.12 ]



### 9.5.1 Introduction

Government of India permitted the State Governments to organise Lotteries to augment resources for welfare programmes and accordingly Government of Tamil Nadu introduced Raffle scheme in July 1968. It was in existence till 15 September 1975 and again revived in August 1976. The Tamil Nadu Raffle Rules, 1976 (TNRR) framed by the Government of Tamil Nadu remain in the nature of executive instructions by way Government Orders and were never placed before the Legislature for its approval.

In April 1994, the Supreme Court of India prescribed certain essential characteristics for a Government-organised Lottery which inter-alia include

- (i) the draws for selecting the Prize Winning Tickets must be conducted by the State itself irrespective of the size of the prize money; and
- (ii) if any prize money is unclaimed or is otherwise not distributed by way of prize, it must revert to and become the property of the State Government.

The Government of India enacted the Lotteries (Regulation) Act 1998 in July 1998, as a sequel to the Supreme Court's ruling, which specifies how the Lottery Schemes are to be run. The guidelines issued by Government of India in June 1984 govern the procedures to be observed by the State Governments. The Lotteries (Regulation) Act also provides that separate rules may be framed by the State Government with the approval of the State Legislature. Government of Tamil Nadu is in the process of framing such rules.

### 9.5.2 Organisational set-up

The Commissioner of Tamil Nadu Raffles, under the overall control of the Secretary to Government, Finance Department, implements the Raffle Scheme in Tamil Nadu.

### 9.5.3 Scope of Audit

A review of the implementation of the scheme of State lotteries in Tamil Nadu was conducted between February and March 2001 and the records in the Commissionerate of Tamil Nadu Raffle for the period from 1996-97 to 2000-2001 (up to December 2000) were test-checked. The results of the test-check are given in the succeeding paragraphs.



#### 9.5.4 Financial results

(i) The number of draws and the number of tickets in each draw has increased over a period of time but the earnings out of it to Government is not commensurate with the volume of increase in the turnover. On the other hand, the discount allowed and the payments made to the agents showed a steep increase. A review of the details of gross value of tickets sold for the period from 1995-96 to 1999-2000 revealed that after the introduction of the system of 100 per cent sale to a single agent in October 1998, there was a steady increase in the number of draws and the quantum of tickets sold. But the percentage of the net proceeds to face value of tickets declined from 26.5 per cent during 1998-99 to 18.1 per cent during 1999-2000 (Appendix-I).

During the period October 1998 to December 2000, the public received prizes ranging from 41 to 46 per cent of the gross value of tickets against the prescribed minimum of 50 per cent. The agents received by way of discount and bonus 32 to 41 per cent whereas their share should have been only 32 per cent. The Government's net proceeds ranged from 17 to 22 per cent.

#### (ii) Trend of revenue

In each financial year, Revenue Receipts are estimated in the Budget based on the projection of number of draws to be conducted during that year. But scrutiny of records revealed that there was underestimation of receipts under lotteries as given below:

(Rupees in crore)

Year	Budgeted Receipt	Actuals Gross Receipts*	Excess	Percentage excess
1996-97	21.83	22.37	0.54	2.5
1997-98	22.40	27.98	5.58	24.9
1998-99	50.50	53.62	3.12	6.2
1999-2000	80.04	124.41	44.37	55.4

\*Gross receipts = Face value of tickets less commission allowed to agents

The increase in the Gross Receipts during 1999-2000 is mainly due to the increase in the number of draws and the quantum of tickets per draw.

#### 9.5.5 Failure to follow the guidelines of Government of India

Lotteries/Raffles organised by the Government are covered by item 40 of the Union List in the Seventh Schedule to the Constitution of India. Section 10 of the Lotteries (Regulation) Act 1998 makes it obligatory on the part of the State to follow the guidelines issued by the State Governments in conducting the Lotteries.



The guidelines given by the Central Government in 1984 cover:

- The maximum price per ticket
- Ceiling on the First Prize
- Minimum intervals between two draws
- Minimum percentage of outgo of prizes
- Minimum percentage of Net Profit to Government

Lotteries organised by the Department have deviated from the directions/guidelines given by the Central Government as given below.

	Government of India guidelines read with Lotteries Regulation Act	The existing system in Tamil Nadu
1	There may be no Lotteries with Draws at intervals less than a week.	Draws are conducted daily
2	The Maximum price per ticket can be Re.1 for weekly Lotteries and Rs.3 for Bumper Draws	Prices of tickets vary from Rs.2 to Rs.50
3	The ceiling for First Prize Weekly Draws : Rs.1 lakh Bumper Draws : Rs.25 lakh	The amount of First Prize given ranges from Rs.5 lakh to Rs.7 lakh for weekly Draws. For Bumper Draws it goes upto Rs.7 crore
4	the total prize payout should not be less than 50 per cent of the Gross value of the tickets printed	It varies from 41 to 46 per cent (the Department deducts 10 per cent from the I and II Prize declared).

When pointed out, the Government replied (July 2001) that the guidelines issued by Government of India have no legal backing but the executive instructions by the State Government over ride the guidelines issued by Government of India. The reply is not tenable as the Section 10 of the Lotteries Regulation Act 1998 provides that it is obligatory on the part of the State Government to follow the directions given by the Central Government and Government of India has not withdrawn the guidelines issued earlier in 1984.

#### 9.5.6 Appointment of sole selling agents for selling raffle tickets

Initially the sale of raffle tickets was through the Treasuries (upto 1987) and the agents appointed by the Department of Raffle or the District Collectors used to lift the tickets after remittance of the value of tickets as reduced by the fixed percentage of discount allowed. Tamil Nadu Raffle Rules 1976 governed the appointment of agents, sale of tickets, allowance of discount to agents, prize structure, conduct of draws and distribution of prize money. The sale of tickets was on "cash and carry" basis and on many occasions, there were unsold tickets with the Department resulting in loss to Government. To overcome this situation, in 1985, Government decided to appoint Sole selling agents for the sale of Raffle



Tickets for which tenders were also floated; but the plan was dropped, the reasons for which were not on record. Again in 1997, the Commissioner of Tamil Nadu Raffles (CTNR) submitted a proposal to appoint agents by open tender system for each draw for lifting of tickets on "all-sold" basis (100 per cent lifting) but Government directed (April 1998) the CTNR to continue the existing system.

However, the CTNR introduced the system of sale of tickets to particular agents on 100 per cent liftment basis with effect from September 1998. After the introduction of this system, the number of agents in operation are only three, as against thousands of agents engaged by the Government in the past. The selection of the three Sole Selling Agents was not done according to any approved tender procedure.

Even though the relevant sections of the Rules provide restrictions on the face value of the ticket, prize structure, agent's discount etc., in practice, from September 1998, the agent prepares schemes with the prize structure, the face value of the ticket including the Agent's Selling Price, the number of tickets to be printed, the design, colour of the tickets to be printed, the artwork for the tickets, the periodicity of the draw and the place where the draw is to be conducted etc., for the formal approval of CTNR.

The turnover of the business under raffle runs to crores of rupees per annum and the Financial Rules and more particularly Section II(d) of the Tamil Nadu Transparency in Tenders Act 1998 prescribes that procurement of supplies and services in such cases should invariably be made by following Open Tender system. But the Commissioner selected only three agents without calling for tenders. When the non-appointment of Sole selling Agent through open tender was pointed out, the Government replied (July 2001) that in the present system more than one agent can participate in a draw. The reply is not tenable as there had not been even a single occasion where more than one agent participated in a draw. The scheme for a particular draw is designed by a particular agent and print order is given only after entering into an agreement with him on 100 per cent liftment.

#### **9.5.7 Payment of prize money to public**

##### **(a) Payout below the prescribed limit of 50 per cent on the gross value of tickets sold**

The scheme of lotteries, as per Government of India guidelines 1984, clearly envisages that not less than 50 per cent of the gross value of the tickets should be paid as prize money to the public.

Government of Tamil Nadu also specified (October 1999) that the prize payout should not be less than 63 per cent of the face value of the tickets and agents commission should not be more than 22 per cent in respect



of ordinary draws and in respect of bumper draws they should be 60 and 25 *per cent* respectively.

However, test check of records made available to Audit revealed that the public got only 41 to 46 *per cent* of the gross value of tickets. The reasons are

(i) deduction of 10 *per cent* of the prize money from first and second prizes and giving it to the agent who sold the prize winning ticket;

(ii) acceptance of the scheme designed by the agents which provides for payment of bonus to agents for each prize given.

On this being pointed out, the Government replied (July 2001) that the Government of India guidelines 1984 have no legal validity as on date. Under Lotteries (Regulation) Act 1998 it is mandatory that State Government should follow the instructions given by the Government of India and hence the reply is not acceptable

**(b) Irregular deduction from the prize money**

Based on the proposal (January 1990) of the Department, Government ordered (February 1992) deduction of 10 *per cent* from the I and II prizes payable to the public for the purpose of meeting the expenditure towards payment of Bonus to Agents till the sales pick up, as Government had to distribute prizes irrespective of the quantum of sale of tickets. The Tamil Nadu Raffle Rules, however do not provide for such a deduction. After the introduction of the "100 *per cent* Liftment" scheme in September 1998, all the tickets were sold and there was no case of unsold tickets with the Department. Hence, deduction of 10 *per cent* of the prize money from the I & II prizes for the period from September 1998 onwards is unjustified. The amount thus deducted from September 1998 to October 2000 which worked out to Rs.8.43 crore is an unauthorised deduction from the prize money due to the winners. Government replied (July 2001) that as the deduction is based on the order of the Government, it is not unauthorised. The reply is not acceptable as the orders given by the Government is meant for a specific period when the percentage of sale of tickets was low and the situation after the introduction of 100 percent liftment does not warrant the deduction.

**(c) Arrears in payment of prize to Public**

The statement furnished by the Commissioner on the payment of prize money to the public revealed that as much as Rs 20.30 crore of the declared prize money remained undisbursed as of January 2001.

Though Government has permitted the Department to operate the Personal Deposit Account for quick disbursement of the prizes, there was delay



of more than 6 months in payment to the prize winners. Such delays are likely to lead to loss of credibility in the minds of public. On this being pointed out, the Government replied (July 2001) that the allocation of funds to various departments were being made based on the availability of funds and cash management and that care will be taken to ensure that the prize amount are paid to public without delay in future. This explanation does not meet the point as it is the foremost responsibility of the department to pay the prize money promptly out of the receipt from sale of tickets.

**9.5.8 Undue financial aid given to the agent**

**(a) Excess payment of bonus**

As per Rule 20 of TNRR 1976, only 10 *per cent* of the prize amount is payable as bonus to the agents for having sold the prize winning tickets. Scrutiny of the prize structures approved by Department for the period from October 1998 to March 2001 revealed that the bonus amount in the name of CST (Certificate of Sale of Tickets) Bonus and Bulk Ticket Bonus payable/paid to the agents ranged from 13 to 41 *per cent* of the prize money. When it was pointed out, the Government replied (July 2001) that the payment of bonus is made as an incentive to the agent who has to take up aggressive marketing strategies and to bear the risk of unsold tickets in the unhealthy competition posed by other State Lotteries. The reply is not tenable as the question of payment of incentive will arise only when there is more than one agent for a particular draw, for which there is no scope in the present system. The amount paid as bonus in excess of the prescribed limit during the period from October 1998 to December 2000 worked out to Rs 23.18 crore.

**(b) Non levy of penal interest on the credit sale of raffle tickets**

According to Rule 19 of TNRR, 1976, the face value of the tickets, reduced by the discount, has to be paid in advance by the agents. However, to improve the sale of raffle tickets, Government permitted (February 1988) the sale of tickets to the agents on credit basis, after obtaining a 'Bank Guarantee' subject to the condition that the amount due should be paid to the Department within 30 days from the date of sale or before the date of draw, whichever is earlier. However, test-check revealed that the agents settled their dues after a minimum delay of 21 days from the date of draw. When the matter was brought to the notice of the Government it was replied (July 2001) that in other State lotteries a maximum of 120 days is allowed and the allowance of 21 days in Tamil Nadu is minimum when compared to other States and that the credit period is allowed to enable the agent to reimburse the prize amount disbursed by him upto Rs. 5000 in each case. The reply is not tenable as it violates the provisions of the agreement entered into by the agent with the Department prescribing the period before which the sale value has to be remitted. This resulted in unauthorised financial aid to the agents, resulting



in loss of interest to Government to the tune of Rs.2.56<sup>17</sup> crore for the period from October 1998 to December 2000.

(c) **Payment of bonus on tickets not sold.**

The prize structure of each draw provides for payment of bonus to agents/sellers who sold the prize winning ticket (PWT). The bonus is equal to 10 *per cent* of the prize which the PWT carries. The agent is entitled for the bonus, only if the PWT has been sold by him. When the agent himself claims the prize, it goes to prove that the ticket remained with him as unsold. However, it is observed that the agent has claimed prize as the holder of the ticket and in addition to the prize, the agent was paid bonus also to the tune of Rs 20,000 in respect of 4 draws checked in audit. On this being pointed out, the Government agreed (July 2001) to take care and it will be seen that no bonus is paid to the agent on the unsold tickets in future.

**9.5.9 Omission to deduct tax at source**

Under the provisions of Section 194G of the Income Tax Act, where any payment is made by way of commission, remuneration or prize to a person, who is or has been stocking, distributing, purchasing or selling lottery tickets, income-tax at the rate of ten *per cent* has to be deducted. But on payment of bonus, prize money on unsold tickets etc., made to agents, no income tax was deducted consistently by the Commissioner. When the omission to deduct tax at source in a few cases was pointed out, the Government replied (July 2001) that as per the legal opinion obtained from a senior Advocate the deduction was not called for, as the agent disburses the bonus down the line he is only a vehicle of disbursement. The reply is not tenable, as Section 194G has been clearly worded so as to avoid any such loopholes. Payments in whatever name offered to a person who acts as an agent selling lottery tickets, has to suffer TDS (Tax Deducted at Source) if it exceeds Rs.1000. To avoid hardship to the genuine person the Income Tax Act provides for exemption from TDS or deduction at a lower rate, if the respective Income Tax officer is satisfied and gives orders for the purpose. For this purpose the agent who claims exemption has to approach the ITO and file full particulars of receipts and disbursements with proper acquittance. The TDS is to be taken as payment of Advance Tax by the agent at the time of arriving at the actual tax payable.

For the omission to deduct tax at source, in addition to the liability of payment of tax due in these cases, the Commissioner will be liable to pay penalty and also interest at the rate of eighteen *per cent* per annum on the amount of such tax from the date on which such tax was deductible to the

<sup>17</sup> Rs 216.78 Crore X 20.5 *per cent* X 21/365 = Rs 255.68 lakh



date on which such tax is actually paid. It will become the ultimate liability of the Commissioner to pay these amounts, as there is no binding clause in the agreement entered into with the agent. For the period from October 1998 to December 2000, the payment made to the agents as bonus etc. worked out to Rs 127.54 crore. The Commissioner had not deducted the tax due thereon, which was Rs 12.75 crore.

#### **9.5.10 Shortfall in transfer of funds**

##### **(a) Shortfall in transfer of funds to the Tamil Nadu Special Welfare Fund and poor utilisation of the fund for welfare schemes**

The primary objective of the raffle scheme is to augment resources for the welfare schemes and, accordingly, every year 75 per cent of the annual net proceeds from the lotteries has to be transferred to the Tamil Nadu Special Welfare Fund for the implementation of various welfare schemes, as stated in Government order of February 1971. Test-check revealed that instead of a sum of Rs.50.64 crore, being 75 per cent of the net proceeds under the scheme for the period from 1995-96 to 1999-2000, which was to be transferred to the Fund, a sum of Rs.42.83 crore only had been transferred leaving a shortfall of Rs.7.81 crore. The balance amount of Rs.7.81 crore stands included in the Consolidated Fund of the State which is contrary to the objective of the scheme. Yearwise data is at Appendix-I.

Moreover, out of the amount of Rs.42.83 crore transferred to the Fund during 1995-96 to 1999-2000, only an amount of Rs.12.38 crore was utilised for welfare schemes (29 per cent). The balance amount of Rs.30.45 crore remained unutilised as on 31 March 2000.

As per the Government Order on the administration of the Tamil Nadu Welfare Fund, a committee has to be constituted for reviewing the requirement of funds for the Welfare Schemes and take decision on the transfer to the Fund. But no committee was formed and no such meetings were convened during the period 1996-97 to 2000-01.

When the matter was reported to Government, it was stated that the exact proceeds from lottery receipts could not be anticipated and therefore transfer of funds was restricted to the budget provision. The reply of the Government is not tenable as the main objective of the lottery scheme is to transfer 75 per cent of the net proceeds of the scheme towards welfare schemes.

##### **(b) Shortfall in transfer of funds to Tamil Nadu Ex-servicemen Personnel Benevolent Fund**

The entire net sale proceeds of the first draw to be held in the month of December every year should be transferred to the Tamil Nadu



Ex-servicemen Personnel Benevolent Fund as per the Government orders of March 1981.

Test-check revealed that the Department had effected the transfer based on the budget estimate, resulting in short transfer of money to the Fund. As against the actual net proceeds of Rs.18.74 lakh, a sum of Rs.5.25 lakh only was transferred to Ex-Servicemen Welfare Fund (for the period from 1996-97 to 2000-2001) leaving a shortfall of Rs.13.49 lakh. When this was pointed out the Government agreed (July 2001) to evolve necessary mechanism to ensure proper transfer of proceeds to the Special Welfare fund.

#### ***9.5.11 Failure to account for the disbursement of prizes by the agents***

The agents are permitted to make payment of prize amount upto Rs.5,000 and render accounts for such transactions duly supported by relevant prize winning tickets for verification of the correctness of the payments made and to claim reimbursement.

However, in respect of prize amounts claimed to have been paid by the agents to the public, no details of the claimants were furnished by the agents. Neither the department had ever insisted, nor the agents submitted any accounts in this regard. The agents simply surrendered the prize winning tickets and the value thereon amounting to Rs.66.27 crore was adjusted from the payments due from them towards the lifting of tickets. The prize winners are supposed to affix their signature and write their name and address in the space provided therefor on the reverse of PWT, in token of their claim for the prize. In all the claims of reimbursement preferred by the agents, the tickets did not bear any signature, nor did the agents file any statement showing the persons to whom the prize amounts were disbursed. In the absence of any proof that the prize winning public had been paid by the agent, it may be possible that the agent has claimed the prize as if the ticket was unsold. It would attract the provisions of Income Tax Act also. When the omission was pointed out, the Government replied (July 2001) that necessary instructions would be issued in this regard.

#### ***9.5.12 Irregularities in printing of raffle tickets***

##### ***(a) Printing by Government Press***

As per the provisions of Rule 11 of Tamil Nadu Raffle Rules 1976, the printing of raffle tickets had to be done by the Government press.

Scrutiny of records at Government press revealed that in respect of the following draws, the tickets were printed in excess and the excess tickets had been delivered to the agents. The Commissioner did not



have any knowledge about the excess supply, till the time the agents brought it to his notice.

Name of the draw	Series	Tickets printed in excess	Number of tickets
136 <sup>th</sup> Vaigai	XO	303500-303549	50
76 <sup>th</sup> Karnan	NO	306810-306847	38
76 <sup>th</sup> Karnan	NP	306810-306845	36

Test-check at the Government Press revealed that about 26,000 tickets are printed in excess for every draw due to some technical reasons and those excess tickets did not have numbers. It was also ascertained that some of those dummy tickets were used for replacement of defective tickets noticed at the time of checking and the remaining tickets were destroyed in the presence of the Assistant Works Manager of the Government Press. Until the matter of excess issue of tickets was taken up with the Government Press by the Agents, the Commissioner was not even aware of the fact that for each draw 26000 tickets are printed in excess of the quantity ordered. There is no mechanism available with the department to ensure that the Press printed and released only the quantity ordered for printing and the tickets printed in excess of the requirement are destroyed under proper supervision. When this was pointed out, the Government replied that necessary instructions have been given to ensure cent *per cent* check on the tickets printed and issued.

**(b) Printing by Private Security Press**

(i) As the capacity of the Government press was limited, Government permitted the Raffle Department to entrust the work to approved private security press subject to certain conditions. One of the conditions was that a senior officer from the Department should supervise the work to ensure 100 *per cent* perfection and security. But no officer was appointed to supervise the printing done in private security press.

(ii) On one occasion, the work of printing was entrusted to M/s K.L. Hitech Security Press Limited for the period from November 1998 to July 1999. The firm had to pay a sum of Rs.16.20 lakh as Security Deposit as per the tender conditions and agreement, but paid only a sum of Rs.2.00 lakh and no action was taken by the Commissioner for collection of the balance security deposit due.

(iii) For the period from August 1999 to October 1999, Commissioner placed orders with M/s. Manipal Press Limited, Karnataka, without following the open tender procedure. The firm paid the security deposit of Rs 12.00 lakh due in October 1999 belatedly in January 2000.



When the irregularities were pointed out, the Government agreed (July 2001) to examine the issue.

**(c) Omission to make proper assessment of requirement of tickets to be printed.**

Scrutiny of records relating to the printing of raffle tickets revealed that the percentage of tickets printed but not sold varied from 20 to 39 for the years 1996-97 to 1998-99

Had proper assessment of requirement of tickets to be printed been made by way of market survey or by comparison of sales during the previous quarter, the department could have avoided the expenditure of Rs.109.71 lakh incurred on printing of tickets which remained unsold. Government accepted (July 2001) the point and has stated that there has been no recurrence of this nature now.

**9.5.13 Non-maintenance of Draw Result Registers**

As per Rule 31 of TNRR 1976, the Register of Prize Winning Numbers has to be kept under the personal custody of the Commissioner. As soon as a particular number is drawn, the prize winning numbers shall be entered in the register by the Chairman of the Committee in whose presence the draws are conducted, and all the members of the Committee are required to sign the register on completion of the draw. However, no such register was being maintained and all the members and the Chairman signed in loose sheets. When the omission was pointed out, the Government agreed to take necessary action.

**9.5.14 Conclusion**

The Government should formulate a system to appoint sole selling agents through open competitive tenders. Stop the deductions from the prize money due to winners and its subsequent payment to agents as it has resulted in undue benefit to them. Quick disbursal of prizes to the public should be ensured so that the credibility of the Government is not lost. The percentage (75 per cent) of annual net proceed should be transferred to the Funds instead of retaining it in the consolidated fund and its full utilisation is ensured to achieve the objective of the scheme.



## C - ENVIRONMENT AND FOREST DEPARTMENT

### 9.6 Non-realisation of interest

Government transferred (April 1974) 77010.71 hectares of Forest land in Tiruchirappalli, Pudukkottai, Karaikudi and Cuddalore regions to Tamil Nadu Forest Plantation Corporation (TAFCON), Tiruchirappalli on lease basis for thirty two years. The lease rent initially fixed in February 1978 was Rs 20 per hectare per annum for existing plantation and Rs 10 per hectare per annum for unplanted area, which was revised periodically from time to time. A part of the lease rent was paid by TAFCON and the balance amount of lease rent payable as on 31 March 1995 worked out to Rs 952.96 lakh.

Based on the request (April 1996) of TAFCON to convert a part of the arrears (Rs 3.50 crore) into equity shares, Government ordered (October 1997) that Rs 100 lakh be converted as equity share capital and the balance amount of Rs 852.96 lakh as on 31 March 1995 to be refunded to the Government along with interest in five equal annual instalments from 1997-98 onwards. The interest at 15 *per cent* was to be paid from the date from which lease rent had fallen due.

TAFCON paid Rs 854.30 lakh in six instalments between January 1998 and October 1999 towards the lease rent due only. Even though Government ordered in October 1997 that the arrears of lease rent had to be paid along with interest at the rate of 15 *per cent*, the matter was not pursued by the District Forest Officer vigorously. In November 1999, the Corporation requested for waiver of interest on the arrears of lease rent due. But Government ordered (March 2001) to remit the interest on the outstanding lease rent due from 1974-75 amounting to Rs 1566.45 lakh within the current financial year, considering the sound financial position of the Corporation. But, inspite of Government order, no interest was paid by the Corporation as of September 2001.

The matter was reported to Government in April 2001; no reply has been received (September 2001).



## D -HOME DEPARTMENT

### 9.7 Non-collection of recurring and non-recurring expenditure from Tamil Nadu Electricity Board

Government accorded sanction between January 1974 and February 1995 for establishment of fire stations inside the premises of Ennore Thermal Power Station, Tuticorin Thermal Power Station, Mettur Thermal Power Station and North Chennai Thermal Power Station with the required staff to man them and for the purchase of appliances. The recurring expenditure towards staff and maintenance of appliances was to be shared equally between Government and Tamil Nadu Electricity Board (TNEB) in respect of the fire stations at Ennore Thermal Power Station and Tuticorin Thermal Power Station. The entire recurring expenditure was to be recovered from Tamil Nadu Electricity Board in respect of fire stations at Mettur Thermal Power Station and North Chennai Thermal Power Station. The non-recurring expenditure was to be recovered in full from TNEB.

The Divisional Fire Officers worked out the recurring and non-recurring expenditure incurred in respect of the fire stations situated in the 4 thermal power stations and furnished an expenditure statement to the Director of Fire Services, who after verifying the accuracy of the expenditure statements, raised demand on Tamil Nadu Electricity Board between February 1999 and December 2000. Test-check of records in the Director of Fire Services revealed (March 2001) that there was delay in submission of expenditure statements by Divisional Fire Officers and delay of upto 3 years in raising demand by Director of Fire Services on TNEB. As of March 2001, Rs.358.22 lakh demanded (February 1999 to February 2001) by Director of Fire Services for the period from 1996 to 2000 (Appendix II) had not been paid by TNEB in respect of the four Thermal Power Stations. The matter was not effectively pursued by the Director of Fire Services.

The matter was reported to Government in May 2001; reply had not been received (September 2001).



**E - REVENUE AND HOUSING AND URBAN  
DEVELOPMENT DEPARTMENT**

**9.8 Non-payment of Government dues**

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poramboke land in Par  
Housing Board (TNH  
fixation of land cost.

ie District Revenue  
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dur to Tamil Nadu  
ices Scheme pending  
ard in October, 1988.

Government in Nov  
cost at a concessional rate of Rs 62,0  
lands alienated to TNHB for impleme  
under Tamil Nadu Urban Development  
District Collectors with the approval  
Commissioner of Land Administration.  
market value of lands alienated to TN  
market value so fixed and the concessio  
support of Government to TNHB for  
instructed (December 1994) to charge inter  
annum upto March 1992 and at 12 *per cent* pe  
land and remit to Government.

orders fixing the land  
respect of Government  
es and Services schemes  
NUDP). The respective  
cial Commissioner and  
were required to fix the  
difference between the  
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me. Government further  
he rate of 10 *per cent* per  
um thereafter on the cost of

Audit scrutiny (July 1999) revealed that under the Avadi Scheme, 48.07 hectares of land was transferred to TNHB, on which flats were built and allotted to the public. Tamil Nadu Housing Board worked out the market value of land as Rs 29.80 lakh and interest of Rs 7.42 lakh at the rate of 10 *per cent* per annum upto January 1991 and paid (January 1991) an amount of Rs 25 lakh leaving a balance of Rs 12.23 lakh. The District Revenue Officer, Thiruvallur failed to raise the demand for payment of the balance amount. The interest for the unpaid balance from February 1991 to



March 2001 worked out to Rs 25.68 lakh. Thus inaction on the part of the Revenue Department resulted in non-collection of Government revenue to the tune of Rs 37.91 lakh.

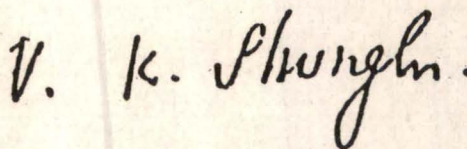
The matter was reported to Government in May 2001; reply had not yet been received (September 2001).



(T.THEETHAN)  
Accountant General (Audit) II  
Tamil Nadu

Chennai,  
The **11 DEC 2001**

Countersigned



(V.K.SHUNGLU)  
Comptroller and Auditor General  
of India

New Delhi,  
The **8 JAN 2002**



**APPENDIX I**

**(Para No.9.5.4)**

**Financial Results of the Raffle scheme for the period**  
**1995-96 to 1999-2000**

(Rupees in Lakh)

	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Face Value of the tickets sold	3087.31	2910.81	3591.28	7430.20	15569.03
Less Discount	645.87	674.23	793.10	2068.15	3127.76
Gross Receipts (Sale Proceeds of tickets)	2441.44	2236.58	2798.18	5362.05	12441.27
Expenditure incurred (other than salaries)	1937.91	1559.81	1846.85	3326.98	9549.55
Balance	503.53	676.77	951.33	2035.07	2891.72
Salaries	43.90	45.46	57.76	64.98	75.99
<b>Net Proceeds</b>	<b>459.63</b>	<b>631.31</b>	<b>893.57</b>	<b>1970.09</b>	<b>2816.13</b>
<b>Percentage of Net proceeds to Face value of tickets</b>	<b>14.9</b>	<b>21.7</b>	<b>24.9</b>	<b>26.5</b>	<b>18.1</b>

**STATEMENT SHOWING THE SHORTFALL IN THE TRANSFER OF FUNDS TO**  
**TN WELFARE FUND**

**(Para No.9.5.10(a))**

(Rupees in Lakh)

	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	Total
Net Proceeds	459.63	631.31	893.57	1970.09	2816.13	6770.73
Transferred to Ex-servicemen Benevolent Fund	15.11	1.69	0.24	0.73	0.90	18.67
Balance	444.52	629.62	893.33	1969.36	2815.23	6752.06
75% thereon	333.39	472.21	669.99	1477.02	2111.42	5064.04
Amount transferred to TN Special Welfare Fund	245.30	245.00	556.35	1125.00	2111.19	4282.84
<b>Balance to be transferred</b>	<b>88.09</b>	<b>227.21</b>	<b>113.64</b>	<b>227.21</b>	<b>0.23</b>	<b>781.20</b>



**APPENDIX II**  
**(Para No.9.7)**

Station/ Year	Claim of maintenance charge from TNEB			Collection from TNEB		Balance and reasons for short/ excess receipt (Rs. in lakh)
	Date/ month of receipt of expen- diture state- ment from DFO	Date/ month of raising demand on TNEB	Amount demanded (Rs. in lakh)	Date of receipt	Amount received (Rs. in lakh)	
<b>ETPS</b>						
1998	11/1999	12/2000	11.03	Nil	Nil	11.03
1999	4/2000	12/2000	17.17	Nil	Nil	17.17
2000	Not yet claimed					
<b>NCTPS</b>						
1996	8/1997	19.5.2000	15.89	Nil	Nil	15.89
1997	3/1998	2/2001	24.04	Nil	Nil	24.04
1998	9/1999	2/2001	38.13	Nil	Nil	38.13
1999	3/2000	2/2001	37.82	Nil	Nil	37.82
2000	Not yet claimed					
<b>MTPS</b>						
1996	5/1997	5/2000	23.38	Nil	Nil	23.38
1997	8/1998	5/2000	31.89	Nil	Nil	31.89
1998	2/1999	5/2000	37.59	Nil	Nil	37.59
1999	2/2000	5/2000	40.68	Nil	Nil	40.68
2000	1/2001	2/2001	40.66	Nil	Nil	40.66
<b>TTPS</b>						
1996	9/1997	5/2000	12.17	23/10/ 2001	29.09	Includes arrears in respect of previous years
1997	5/1998	5/2000	15.26			
1998	8/1999	12/2000	20.29	Nil	Nil	20.29
1999	3/2000	12/2000	19.65	Nil	Nil	19.65
2000	Not yet claimed					
					<b>Total</b>	<b>358.22</b>



