

P R E F A C E

This Report for the year ended 31 March 2009 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, state excise, land revenue, taxes on motor vehicles, stamp duty and registration fees, entertainments tax and betting tax, other tax and non tax receipts of the State.

The cases mentioned in the Report are among those which came to notice in the course of test audit of records during the year 2008-09 as well as those which came to notice in earlier years but could not be included in previous years' Reports.

OVERVIEW

The Report contains 58 paragraphs including two reviews relating to non/short levy of taxes, interest, penalty etc., involving Rs. 628.76 crore. Some of the major findings are mentioned in the following paragraphs:

I. GENERAL

- The total revenue receipts of the State Government for the year 2008-09 amounted to Rs. 62,858.45 crore against Rs. 54,142.55 crore for the previous year. 68 *per cent* of this was raised by the State through tax revenue (Rs. 33,358.29 crore) and non-tax revenue (Rs. 9,683.40 crore). The balance 32 *per cent* was received from the Government of India as State share of divisible Union taxes (Rs. 11,801.50 crore) and grants-in-aid (Rs. 8,015.26 crore).

(Paragraph 1.1)

- At the end of March 2009, the arrears of revenue in sales tax, taxes on vehicles, land revenue, purchase tax on sugarcane and taxes and duties on electricity etc., amounted to Rs. 6,507.70 crore, of which Rs. 3,157.11 crore were pending for more than five years.

(Paragraph 1.4)

- Test check of the records of sales tax, land revenue, taxes on vehicles, stamp duty and registration fee and other departmental offices conducted during the year 2008-09 revealed underassessment/short levy/loss of revenue etc., amounting to Rs. 876.90 crore in 2,273 cases.

(Paragraph 1.13)

II. SALES TAX

A review on “**Transition from Andhra Pradesh General Sales Tax to Andhra Pradesh Value Added Tax**” indicated the following deficiencies:

- There was no provision in the Act/Rules for conducting periodical surveys for enforcing registration of the unregistered dealers. 30.24 *per cent* of the dealers registered under APGST Act in the jurisdictions test checked by audit remained unregistered under the VAT Act.

(Paragraph 2.2.8.1)

- In 24 circles, 109 dealers were not registered under the VAT Act though their turnover had exceeded the threshold limits. This resulted in non-realisation of revenue of Rs. 2.83 crore.

(Paragraph 2.2.8.2)

- VAT Audit module was not made operational and the data of dubious/risky dealers was not uploaded in the website TINSYS.com defeating the very purposes for which these modules were created.

(Paragraph 2.2.9.3)

- In one circle, 247 dealers did not file returns for certain period(s) during 2005-06 to 2008-09. Though demands were generated by the VATIS, these were not served. This resulted in non-realisation of revenue of Rs. 1.49 crore including penalty of Rs. 49.58 lakh.

(Paragraph 2.2.9.5)

- Input tax credit of Rs. 50.72 lakh claimed by seven dealers was *prima facie* fictitious. No sale of such goods was depicted in the VATIS ledgers of the selling dealer.
- Input tax credit of Rs. 4.05 crore was allowed to the Canteen Stores Department and Indian naval canteen services though these departments were not entitled to the input tax credit resulting in short realisation of revenue to that extent.

(Paragraphs 2.2.13)

- Declaration of taxable turnover as exempted turnover resulted in non-payment of VAT of Rs. 52.27 crore in seven circles and non-levy of tax of Rs. 23.45 crore in eight circles.

(Paragraph 2.4)

- Misclassification of sales as works contracts resulted in under declaration/short levy of tax of Rs. 10.49 crore in 11 circles.

(Paragraph 2.5)

- In four circles, interest of Rs. 11.50 crore was not levied on belated payments of taxes in five cases.

(Paragraph 2.11)

- In three Large Tax Payers Units (LTUs) and 46 circles, tax on works contracts amounting to Rs. 9.36 crore was short levied.

(Paragraph 2.12)

- Application of incorrect rate of tax resulted in short levy of tax of Rs. 2.74 crore.

(Paragraph 2.13)

- Irregularities in sanction and availing of sales tax incentives resulted in non-realisation of Rs. 2.07 crore.

(Paragraph 2.14)

- In one circle, misclassification of supply contract as transit sale resulted in non-levy of tax of Rs. 1.92 crore.

(Paragraph 2.15)

- Excess set-off allowed in two LTUs and 13 circles resulting in short levy of tax of Rs. 1.20 crore.

(Paragraph 2.16)

III. LAND REVENUE

- In five tahsil offices, advance possession of Government land was allowed without finalising alienation proposals resulting in non-realisation of Rs. 109.22 crore.

(Paragraph 3.3)

- In one tahsil office, non-adoption of the actual consideration as basic value of the land resulted in short collection of conversion fee of Rs. 3.31 crore

(Paragraph 3.4)

- In 11 tahsil offices, remission of water tax amounting to Rs. 2.22 crore was allowed without the Government sanction.

(Paragraph 3.5)

IV. TAXES ON VEHICLES

A review of ‘**Citizen Friendly Services in Transport Department**’ indicated the following deficiencies

- Business rules were not incorporated into the CFST application resulting in non/short levy of life tax on company vehicles, second and subsequent vehicles of individuals and card fee amounting to Rs. 6.20 crore.

(Paragraph 4.2.11)

- Lack of input validations had resulted in erroneous/inconsistent and incomplete data. There were gaps in issue of registration numbers resulting in non-allotment of registration numbers. Non-allotment of numbers under choice/reserve category resulted in loss of revenue on reservation fee/choice fee amounting to Rs. 23.64 lakh.

(Paragraphs 4.2.12.1 & 4.2.12.2)

- In 12 offices repetition of the numbers of insurance cover notes was noticed in 6,08,116 vehicles relating to eight insurance companies.

(Paragraph 4.2.14)

- In ten offices 31,831 vehicles with the same chassis number were noticed. Further, 53,582 duplicate engine numbers with different transactions and different classes of vehicles were noticed.

(Paragraph 4.2.15)

- CFST has been prompting demand which was either less or higher than the actual demand to be raised.

(Paragraph 4.2.16)

- The department did not have adequate internal control mechanism which resulted in non-monitoring of the driving licences issued, non-reconciliation of e-seva transactions and non-verification of data.

(Paragraphs 4.2.18.1 & 4.2.18.2)

- Though computerisation commenced in the year 2000, internal audit was not conducted to get an assurance on the working of the system. Discrepancies were noticed in the demand and collection statement.

(Paragraph 4.2.18.3)

- In the offices of one Joint Transport Commissioner (JTC), 10 Deputy Transport Commissioners (DTCs) and 19 Regional Transport Officers (RTOs), quarterly tax of Rs. 3.36 crore and penalty of Rs. 6.72 crore were not levied.

(Paragraph 4.4)

- In one JTC, 10 DTCs and 18 RTOs penalty of Rs. 7.96 crore was short levied for belated payment of tax.

(Paragraph 4.5)

- In one JTC, five DTCs and 10 RTOs, non-renewal of fitness certificates resulted in non-realisation of fitness certificate fee of Rs. 6.99 crore.

(Paragraph 4.6)

- In one JTC, 10 DTCs and 18 RTOs, green tax aggregating to Rs. 3.35 crore was not levied and collected.

(Paragraph 4.7)

- In five DTCs and nine RTOs, life tax and penalty were not levied resulting in non-realisation of revenue of Rs.91.82 lakh.

(Paragraph 4.8)

V. STAMP DUTY AND REGISTRATION FEES

- Lack of co-ordination between Registration and Prohibition & Excise departments resulted in short levy of stamp duty and registration fee of Rs. 5.56 crore, on sub-lease deeds of nine distilleries in seven sub-registries (SR).

(Paragraph 5.3.1.1)

- Non-insistence for registration of the lease deeds resulted in non/short levy of stamp duty and loss of registration fees of Rs. 4.67 crore.

(Paragraph 5.3.2)

- In seven District Registries (DRs) and 15 SRs, misclassification of documents resulted in short levy of stamp duty and registration fees of Rs. 8.24 crore.

(Paragraph 5.4)

- In one SR, undervaluation of property resulted in short levy of duties and fee of Rs. 2.04 crore.

(Paragraph 5.5.1)

- In one DR, incorrect exemption of stamp duty and registration fees resulted in non-realisation of Government revenue of Rs. 2.26 crore.

(Paragraph 5.6.1.1)

- In three DRs and 16 SRs, incorrect adjustment of stamp duty resulted in short realisation of Government revenue of Rs. 1.08 crore.

(Paragraph 5.8)

VI. OTHER TAX AND NON-TAX RECEIPTS

CO-OPERATION DEPARTMENT

- Failure of the department to initiate action under RR act, resulted in non-realisation of Rs. 47.77 crore including interest.

(Paragraph 6.3.1)

- Audit fee was either not levied or was levied short due to incorrect computation resulting in non-realisation of Rs. 2.17 crore.

(Paragraph 6.3.2)

- FR cost of Rs. 1.19 crore though required to be collected in advance was not assessed and collected

(Paragraph 6.4.2)

- DCOs in nine districts did not realise loan of Rs. 4.61 crore and interest of Rs. 1.86 crore.

(Paragraph 6.5.2)

- In nine districts interest aggregating to Rs. 3.81 crore was assessed by the DCOs on the outstanding principal loan of Rs. 4.61 crore but the demand notices were not served.

(Paragraph 6.5.3)

- Non-levy of interest/dividend from 10 co-operative societies resulted in non-realisation of Rs. 142.30 crore.

(Paragraph 6.5.4.1)

- The department calculated interest on the diminishing balances of the loans though the instalments were not paid. This resulted in short levy of interest of Rs. 3.87 crore.

(Paragraph 6.5.5)

ENVIRONMENT, FORESTS, SCIENCE AND TECHNOLOGY DEPARTMENT

- In the office of the Principal Chief Conservator of Forests, an amount of Rs. 54.51 crore was due on account of lease rentals.

(Paragraph 6.6)

- In 15 offices of the DFOs, forest dues of Rs. 28.62 crore were outstanding in 238 certified cases.

(Paragraph 6.6.1)

TRANSPORT, ROADS AND BUILDINGS DEPARTMENT

- Profession tax of Rs. 30.97 crore was not levied and collected from the owners of 4,12,923 vehicles on road for the year 2007-08.

(Paragraph 6.7)

INDUSTRIES AND COMMERCE DEPARTMENT

- Non/short levy of Rs. 2.23 crore on account of royalty and cess was noticed in one office of the Deputy Director of Mines and Geology.

(Paragraph 6.8)

- Short recovery of seigniorage fee of Rs. 71.41 lakh was noticed in one office of the Executive Engineer, Galeru Nagari Sujala Sravanthi (GNSS) circle.

(Paragraph 6.9.1)

CHAPTER I GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Andhra Pradesh during the year 2008-09, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(Rupees in crore)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
I	Revenue raised by the State Government					
	• Tax revenue	16,254.50	19,207.40	23,926.20	28,794.05	33,358.29 ¹
	• Non-tax revenue	3,755.57	4,691.37	6,487.83	7,064.13	9,683.40
	Total	20,010.07	23,898.77	30,414.03	35,858.18	43,041.69
II	Receipts from the Government of India					
	• State's share of divisible Union taxes	6,058.51	6,950.86	8,866.00	11,183.64	11,801.50
	• Grants-in-aid	2,680.92	4,001.56	4,965.44	7,100.73	8,015.26
	Total	8,739.43	10,952.42	13,831.44	18,284.37	19,816.76
III	Total receipts of the State (I + II)	28,749.50	34,851.19	44,245.47	54,142.55	62,858.45
IV	Percentage of I to III	70	69	69	66	68

The above table indicates that during the year 2008-09, the revenue raised by the State Government was 68 *per cent* of the total revenue receipts (Rs. 62,858.45 crore). The balance 32 *per cent* of the receipts during 2008-09 was from the Government of India.

¹ For details please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of Andhra Pradesh for the year 2008-09. Figures under the major heads '0020 - Corporation tax, 0021 - Taxes on income other than corporation tax, 0028 - Other taxes on income and expenditure, 0032 - Taxes on wealth, 0037 - Customs, 0038 - Union excise duties, 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - share of net proceeds assigned to states booked in the Finance Accounts under A-Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this table.

1.1.2 The following table presents the details of tax revenue raised during the period from 2004-05 to 2008-09:

(Rupees in crore)

Sl. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08
1.	Sales tax	9,988.64	11,524.24	14,222.67	17,593.41	20,596.47	(+) 17.07
	Central sales tax	1,051.96	1,017.37	1,244.41	1,433.08	1,255.19	(-) 12.41
2.	State excise	2,092.67	2,684.57	3,436.63	4,040.69	5,752.61	(+) 42.37
3.	Stamp duty and registration fee	1,387.91	2,013.45	2,865.38	3,086.06	2,930.99	(-) 5.02
4.	Taxes and duties on electricity	137.58	151.96	151.05	195.36	218.54	(+) 11.86
5.	Taxes on vehicles	1,168.64	1,355.74	1,364.74	1,603.80	1,800.62	(+) 12.27
6.	Taxes on goods and passengers	65.59	50.35	41.25	80.29	15.88	(-) 80.22
7.	Other taxes on income and expenditure, tax on professions, trades, callings and employments	180.21	227.07	312.21	355.72	374.46	(+) 5.27
8.	Other taxes and duties on commodities and services	144.81	110.62	148.84	171.00	203.13	(+) 18.79
9.	Land revenue	33.59	68.75	113.50	144.39	130.35	(-) 9.72
10.	Taxes on immovable property other than agricultural land	2.90	3.29	25.52	90.25	80.05	(-) 11.30
	Total	16,254.50	19,207.41	23,926.20	28,794.05	33,358.29	(+) 15.85

The reasons for variation in receipts for 2008-09 from those of 2007-08 in respect of principal heads of revenue as reported by the concerned departments are as under:

- **Taxes on sales, trade etc.:** The increase in revenue was stated to be due to increase in receipt of taxes under Andhra Pradesh Value Added Tax Act.
- **State excise:** The increase in revenue was stated to be due to increase in receipts of taxes on Foreign Liquors and Spirits.
- **Taxes and duties on electricity:** The increase in revenue was stated to be due to increase in consumption resulting in collection of duties on electricity.

- **Taxes on vehicles:** The increase in revenue was stated to be due to increase in number of transactions of registration and enforcement.
- **Taxes on goods and passengers:** The decrease was due to collection of less receipts under “Tax on entry of goods into local areas”.
- **Other taxes and duties on commodities and services:** The increase is due to increase in collection of Luxury Tax and receipts under the Sugar Cane (Regulation, Supply and Purchase Control) Act.

The other departments did not inform (January 2010) the reasons for variations, despite being requested (April 2009) and reminded (June 2009).

1.1.3 The following table presents the details of major non-tax revenue realised during the period from 2004-05 to 2008-09:

(Rupees in crore)

Sl. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+)/decrease (-) in 2008-09 over 2007-08
1.	Interest receipts	1,710.44	2,039.52	2,231.17	3,525.34	3,487.40	(-) 1.08
2.	Other non-tax receipts	496.65	505.05	682.73	711.03	1,187.74	(+) 67.04
3.	Forestry and wild life	121.68	137.93	87.11	90.92	93.22	(+) 2.53
4.	Non-ferrous mining and metallurgical industries (mines and minerals)	873.53	1,062.57	1,321.25	1,597.56	1,684.98	(+) 5.47
5.	Miscellaneous general services	243.34	703.47	1,865.90	778.64	2,944.06	(+) 278.10
6.	Power	25.15	22.26	22.11	25.13	15.77	(-) 37.25
7.	Major and medium irrigation	56.27	47.82	68.81	42.03	38.33	(-) 8.80
8.	Medical and public health	28.88	40.59	34.19	67.31	48.43	(-) 28.05
9.	Co-operation	21.16	12.45	23.61	39.14	20.09	(-) 48.67
10.	Public works	6.14	7.20	7.09	7.56	7.65	(+) 1.19
11.	Police	50.15	62.94	79.12	99.83	105.36	(+) 5.54
12.	Other administrative services	122.18	49.57	64.73	79.64	50.37	(-) 36.75
Total		3,755.57	4,691.37	6,487.83	7,064.13	9,683.40	(+) 37.08

The reasons for variations in receipts for 2008-09 from those of 2007-08 as reported by the respective departments were as under:

- **Miscellaneous general services:** The increase in receipt was due to more receipts from sale of land and property as a result of Government's decision in exhibiting the same under Revenue Head instead of Capital Head.
- **Medical and public health:** The decrease in revenue was due to decrease of revenue from the Employees State Insurance Scheme, Service fees and fines etc.
- **Other administrative services:** The decrease was mainly due to decrease in collection of passport fees.

The other departments did not inform (January 2010) the reasons for variations, despite being requested (April 2009) and reminded (June 2009).

1.2 Variation between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2008-09 in respect of the principal heads of tax and non-tax revenue are mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Budget estimates	Actuals	Variations excess (+) shortfall (-)	Percentage of variation
Tax revenue					
1.	Sales tax	24,887.28	21,851.66	(-) 3,035.62	(-) 12.20
2.	State excise	4,991.25	5,752.61	(+) 761.36	(+) 15.25
3.	Stamp duty and registration fees	4,537.50	2,930.99	(-) 1,606.51	(-) 35.40
4.	Taxes and duties on electricity	192.84	218.54	(+) 25.70	(+) 13.33
5.	Land revenue	130.48	130.35	(-) 0.13	(-) 0.10
6.	Taxes on vehicles	2,289.80	1,800.62	(-) 489.18	(-) 21.36
7.	Other taxes and duties on commodities and services	277.19	203.13	(-) 74.06	(-) 26.72
8.	Taxes on goods and passengers	83.52	15.88	(-) 67.64	(-) 80.99
9.	Taxes on immovable property other than agricultural land	55.00	80.05	(+) 25.05	(+) 45.54
Non-tax revenue					
10.	Interest receipts	4,360.50	3,487.40	(-) 873.10	(-) 20.02
11.	Non-ferrous mining and metallurgical industries (mines and minerals)	2,187.50	1,684.98	(-) 502.52	(-) 22.97
12.	Forestry and wild life	152.81	93.22	(-) 59.59	(-) 39.00

The reasons for variations between the budget estimates and the actuals as reported by the concerned departments were as under:

- **Taxes and duties on electricity:** The increase in revenue was stated to be due to increase in consumption resulting in collection of duties on electricity.
- **Taxes on vehicles:** The decrease in revenue was stated to be due to shortfall in the anticipated registration of non-transport vehicles.
- **Non-ferrous mining and metallurgical industries (mines and minerals):** The decrease in revenue was mainly due to delay in revision of “Royalty rates and Seigniorage fee” pending with the Government of India and the State Government and non-collection of cess on Iron ore due to a stay ordered by the Hon’ble Supreme Court.

The other departments did not inform (January 2010) the reasons for variations, despite being requested (April 2009) and reminded (June 2009).

1.3 Cost of collection

The figures of gross collection in respect of the major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2006-07, 2007-08 and 2008-09 along with the relevant all India average percentage of expenditure on collection to gross collection for 2007-08 are mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Year	Gross collection	Expenditure on collection of revenue	Percentage of cost of collection to gross collection	All India average percentage for the year 2007-08
1.	Sales tax	2006-07	15,467.08	166.07	1.07	0.83
		2007-08	19,026.49	175.73	0.92	
		2008-09	21,851.66	190.79	0.87	
2.	State excise	2006-07	3,436.63	165.78	4.82	3.27
		2007-08	4,040.69	162.24	4.02	
		2008-09	5,752.61	183.78	3.19	
3.	Taxes on vehicles	2006-07	1,364.74	55.43	4.06	2.58
		2007-08	1,603.80	62.46	3.89	
		2008-09	1,800.62	57.89	3.22	
4.	Stamp duty and registration fees	2006-07	2,865.38	60.05	2.10	2.09
		2007-08	3,086.06	62.54	2.03	
		2008-09	2,930.99	73.58	2.51	

The expenditure on collection in taxes on vehicles and stamp duty and registration fee was higher than the all India average and the Government need to look into this aspect.

1.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue for which information was furnished by the department amounted

to Rs. 6,507.70 crore, of which Rs. 3,157.11 crore were outstanding for more than five years as mentioned in the following table:

(Rupees in crore)

Sl. No.	Head of revenue	Amount of arrears	Arrears outstanding for more than five years	Remarks
1.	Sales tax	3,552.34	2,056.01	The stage at which arrears were pending collection were not furnished (December 2009) despite being requested (April 2009).
2.	Taxes on vehicles	1,982.86	675.88	Out of total arrears of Rs. 1,982.86 crore, Rs. 1,974.93 crore was due from APSRTC ² and the balance Rs. 7.93 crore was pending from others for various reasons.
3.	Land revenue (water tax)	328.95	18.72	The department stated (September 2009) that due to severe drought/ cyclone conditions in the State, the arrears could not be recovered by the department.
4.	Receipt under sugar cane (Regulation of Supply and Purchase Tax) Act	276.19	276.19	Out of purchase tax of Rs. 276.19 crore, Rs. 144.78 crore was payable by the co-operative sugar factories whose financial position was stated to be weak, Rs. 66.17 crore was recoverable from private sugar factories, Rs. 63.76 crore was recoverable from Nizam Sugar Limited, the building of which was taken over by the department for its recovery and in one case Rs. 1.48 crore were pending decision in the High Court of Andhra Pradesh.
5.	Taxes and duties on electricity	154.09	70.13	Out of Rs. 154.09 crore, Rs. 138.31 crore due from Andhra Pradesh Gas Power Corporation was covered by the stay orders of the High Court of Andhra Pradesh. The balance Rs. 15.78 crore was due from the other licensees.
6.	Forestry & Wild Life	94.25	4.15	Out of total arrears of Rs. 94.25 crore, Rs. 63.79 crore payable by wood based industries was covered by stay orders granted by various courts, Rs. 17.41 crore payable by a limited company was stayed by the Government and Rs. 12.91 crore was being recovered under RR Act. The stage of recovery of Rs. 14 lakh was not furnished (December 2009).
7.	Taxes on immovable properties other than agricultural land (NALA)	61.40	NA	It was stated (September 2009) that the arrears could not be recovered due to severe drought/cyclone conditions in the State.

² APSRTC: Andhra Pradesh State Road Transport Corporation.

(Rupees in crore)

Sl. No.	Head of revenue	Amount of arrears	Arrears outstanding for more than five years	Remarks
8.	State Excise	57.62	56.03	Out of total arrears of Rs. 57.62 crore, Rs. 38.57 crore were covered by revenue recovery certificates issued under RR Act, Rs. 7.33 crore was covered by stay orders granted by various courts and appellate authorities and the Government. Rs. 11.72 crore was stated (September 2009) likely to be written off by the department.
Total		6,507.70	3,157.11	

The position of the arrears of revenue at the end of 2008-09 in respect of the Registration and other departments was not furnished (January 2010) by the Government despite being requested (April 2009) and reminded (June 2009).

1.5 Arrears in assessments

The details of assessments relating to sales tax, motor spirit tax, professions tax, entry tax, lease tax, luxury tax, tax on works contracts pending at the beginning of the year, additional cases became due for assessment during the year, cases disposed during the year and cases pending at the end of each year during 2004-05 to 2008-09 as furnished by the Commercial Taxes Department were as under:

Year	Opening balance	Cases which became due for assessment	Total	Cases disposed during the year	Cases pending at the end of the year	Percentage of disposed to total assessment
2004-05	76,907	3,50,493	4,27,400	3,00,893	1,26,507	70.40
2005-06	1,26,507	3,41,983	4,68,490	3,69,326	99,164	78.83
2006-07	99,164	27,077	1,26,241	97,768	28,473	77.45
2007-08	28,473	14,469	42,942	40,192	2,750	93.60
2008-09	2,750	17,052	19,802	17,042	2,760	86.06

The above table indicates that the percentage of assessments completed to the total assessment ranged between 70.40 per cent and 93.60 per cent.

1.6 Evasion of tax

The number of cases of evasion of tax detected and assessments finalised during 2008-09 as reported by the Commercial Taxes Department are mentioned below:

(Rupees in lakh)

Particulars	Number of cases	Amount involved
A. (i) Cases pending as on 1 April 2008	2,610	26,382.86
(ii) Cases detected during the year 2008-09	17,052	Not furnished
B. Cases in which investigations/assessments were completed during the year 2008-09	17,042	92,256.73
C. Cases pending as on 31 March 2009	2,620	Not furnished

Thus, disposal of detected cases was 86.87 *per cent*. The department did not furnish the revenue involved in the cases detected during the year and pending cases.

1.7 Failure to enforce accountability and protect interest of the Government

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

The number of IRs and audit observations relating to revenue receipts issued upto 31 December 2008 and pending settlement by the concerned departments as on 30 June 2009 alongwith corresponding figures for the preceding two years are mentioned below:

	June 2007	June 2008	June 2009
Number of IRs pending settlement	9,651	10,556	10,292
Number of outstanding audit observations	25,363	27,008	27,382
Amount of revenue involved (Rupees in crore)	7,966.99	8,884.17	10,221.24

Out of 10,292 IRs pending settlement, even first replies have not been received (February 2010) for 286 IRs. The department-wise details of IRs and audit observations outstanding as on 30 June 2009 and the amounts involved are mentioned in the following table:

(Rupees in crore)

Sl. No.	Department	No. of outstanding IRs	No. of outstanding audit observations	Money value involved
1.	Commercial taxes	3,618	11,664	2,874.03
2.	Land revenue	3,572	7,794	1,595.60
3.	Stamp duty and registration fees	1,759	4,533	340.45
4.	State excise	347	850	103.42

(Rupees in crore)

Sl. No.	Department	No. of outstanding IRs	No. of outstanding audit observations	Money value involved
5.	Taxes on vehicles	316	1,587	2,226.51
6.	Forest receipts	136	187	98.96
7.	Co-operation	43	67	75.58
8.	Mines and minerals	197	293	1,596.21
9.	Civil supplies	54	75	34.94
10.	Agriculture	183	252	00
11.	Purchase tax on sugarcane	47	58	210.08
12.	Electricity duty	10	12	177.41
13.	Municipal Administration and Urban Development	2	2	83.19
14.	Finance and planning	4	4	474.81
15.	Irrigation and command area development	4	4	330.05
Total		10,292	27,382	10,221.24

It indicates that the heads of department/offices whose records were inspected by the AG, failed to discharge due responsibility as they did not send reply to a large number of IRs/paragraphs and also did not take any remedial measures for the defects, omissions and irregularities pointed out by the AG.

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

1.8 Departmental audit committee meetings

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

The number of district level audit committee meetings held and paragraphs settled during the year 2008-09 are mentioned in the following table:

(Rupees in lakh)

Sl. No.	Departments	No. of meetings	No. of paras settled	Money value
1.	Commercial taxes	2	199	129.74
2.	Registration	1	169	69.25
Total		3	368	198.99

Thus, out of six principal departments four departments viz. state excise, land revenue, transport and mineral receipts failed to take advantage of the audit committee meeting set up (September 2009).

As the pendency of IRs and paragraphs are accumulating, the Government may instruct all the departments to conduct more audit committee meetings to expedite clearance.

1.9 Response of the departments to draft audit paragraphs

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

202 draft paragraphs clubbed into 58 paragraphs (including two reviews) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2009 were forwarded to the concerned Principal Secretaries to the Government and copies endorsed to the concerned heads of the departments between February and October 2009. Of these, replies to 133 draft paragraphs have been received. The draft reviews were discussed with the Government in the exit conferences held in November 2009. The replies to the audit observations given in the exit conferences, held in November 2009 and at other points of time have been appropriately reflected in the report.

1.10 Follow up on Audit Reports

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

A review of the position in this regard revealed that as of November 2009, 14 departments had not furnished the departmental notes in respect of 263 paragraphs included in the Audit Reports for the years 2000-01 to 2007-08 due between June 2002 and November 2009. The delays ranged from sixteen

months to over seven years as mentioned in the following table:

Sl. No.	Department	Year of the Audit Report	Dates of presentation to the legislature	Last date by which departmental notes were due	No. of paragraphs for which the departmental notes were due	Delay in months ³
1.	Commercial taxes	2002-03 to 2007-08	July 2004 to September 2009	October 2004 to November 2009	113	16 to 60
2.	State excise	2001-02 to 2005-06 & 2007-08	March 2003 to September 2009	June 2003 to November 2009	17	28 to 76
3.	Transport	2006-07 & 2007-08	March 2008 & September 2009	June 2008 & November 2009	10	16
4.	Registration	2001-02 to 2007-08	March 2003 to September 2009	June 2003 to November 2009	46	16 to 76
5.	Co-operation	2000-01	March 2002	June 2002	1	88
6.	Irrigation	2000-01 & 2006-07	March 2002 & March 2008	June 2002 & June 2008	4	16 to 88
7.	Land revenue	2001-02 to 2007-08	March 2003 to September 2009	June 2003 to November 2009	44	16 to 76
8.	Industries & Commerce	2002-03 to 2007-08	July 2004 to September 2009	October 2004 to November 2009	18	16 to 60
9.	Home	2006-07	March 2008	June 2008	1	16
10.	Energy	2001-02	March 2003	June 2003	1	76
11.	Municipal Administration and Urban Development	2002-03 & 2003-04	July 2004 & October 2005	October 2004 & January 2006	3	45 to 60
12.	Finance	2001-02	March 2003	June 2003	1	76
13.	Forest	2003-04, 2005-06 & 2007-08	October 2005, March 2007 & September 2009	January 2006, June 2007 & November 2009	3	28 to 45
14.	General Administration	2005-06	March 2007	June 2007	1	28
Total		2000-01 to 2007-08	March 2002 to September 2009	June 2002 to November 2009	263	16 to 88

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

1.11 Action not taken on recommendations of the Public Accounts Committee

The Finance and Planning Department issued (May 1995) instructions to all the administrative departments and the heads of the departments to submit the action taken notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) within six months from the date(s) of receipt of the

³ The due date of furnishing departmental notes in respect of paragraphs included in the Audit Report for 2007-08 is November 2009. Hence, the delay was commented upon for the Audit Reports upto the years 2006-07 only.

recommendations. As of November 2009, 159 recommendations of the PAC made between 1972-73 and 2004-05 in regard to nine departments remained outstanding. The concerned administrative departments are yet to submit ATNs for these recommendations. The details are mentioned in the annexure.

1.12 Compliance with the earlier Audit Reports

During the years 2003-04 to 2007-08, the departments/Government accepted audit observations involving Rs. 584.07 crore out of which an amount of Rs. 19.04 crore was recovered till 31 October 2009 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2003-04	267.37	71.57	5.84
2004-05	264.68	40.20	0.91
2005-06	189.69	49.60	4.45
2006-07	401.59	245.39	3.42
2007-08	443.46	177.31	4.42
Total	1,566.79	584.07	19.04

The recovery in respect of accepted cases was very low (3.26 per cent) compared to the accepted money value. The Government may advise the concerned departments to take necessary steps for speedy recovery.

1.13 Results of audit

Test check of the records of the sales tax, state excise, land revenue, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax receipts, forest receipts and other departmental offices conducted during the year 2008-09 revealed underassessment/non/short levy of taxes/loss of revenue, failure to raise demands etc., involving Rs. 876.90 crore in 2,273 cases. During the course of the year 2008-09, the departments concerned accepted underassessments, short demands etc., aggregating Rs. 358.85 crore in 1,099 cases including 766 cases involving Rs. 26.75 crore which were pointed out in audit in earlier years. A sum of Rs. 3.88 crore relating to 99 audit observations was recovered at the instance of audit.

This Report contains 58 paragraphs including two reviews involving Rs. 628.76 crore. The department/Government accepted audit observations involving Rs. 342.25 crore of which Rs. 3.48 crore had been recovered upto November 2009. These have been discussed in succeeding chapters II to VI.

CHAPTER II SALES TAX

2.1 Results of audit

Test check of the assessment files, refund records and other connected documents of the Commercial Taxes Department conducted during 2008-09 indicated underassessments and other deficiencies of sales tax amounting to Rs. 267.95 crore in 1,282 cases, which could be classified under the following categories:

(Rupees in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Transition from APGST to APVAT (A review)	1	27.23
2.	Incorrect grant of exemption	117	108.70
3.	Non/short levy of tax	512	37.92
4.	Application of incorrect rate of tax	87	17.98
5.	Non-levy of interest	7	11.93
6.	Non-levy of penalty	20	3.91
7.	Short payment of VAT/excess input tax credit (ITC)	45	1.42
8.	Other irregularities	493	58.86
Total		1,282	267.95

During the year 2008-09, the department accepted underassessments and other deficiencies of Rs. 43.90 crore in 776 cases, of which 121 cases involving Rs. 20.25 crore were pointed out in audit during the year 2008-09 and the rest in the earlier years. Out of this, Rs. 1.19 crore in 21 cases has been realised.

A review on “**Transition from APGST to APVAT**” involving Rs. 27.23 crore and few illustrative audit observations involving Rs. 166.51 crore are mentioned in the succeeding paragraphs.

2.2 Transition from Andhra Pradesh General Sales Tax to Andhra Pradesh Value Added Tax

Highlights

- There was no provision in the Act/Rules for conducting periodical surveys for enforcing registration of the unregistered dealers. 30.24 *per cent* of the dealers registered under APGST Act in the jurisdictions test checked by audit remained unregistered under the VAT Act.

(Paragraph 2.2.8.1)

- In 24 circles, 109 dealers were not registered under the VAT Act though their turnover had exceeded the threshold limits. This resulted in non-realisation of revenue of Rs. 2.83 crore.

(Paragraph 2.2.8.2)

- VAT Audit module was not made operational and the data of dubious/risky dealers was not uploaded in the website TINSYS.com defeating the very purposes for which these modules were created.

(Paragraph 2.2.9.3)

- In one circle, 247 dealers did not file returns for certain period(s) during 2005-06 to 2008-09. Though demands were generated by the VATIS, these were not served. This resulted in non-realisation of revenue of Rs. 1.49 crore including penalty of Rs. 49.58 lakh.

(Paragraph 2.2.9.5)

- Input tax credit of Rs. 50.72 lakh claimed by seven dealers was *prima facie* fictitious. No sale of such goods was depicted in the VATIS ledgers of the selling dealer.

- Input tax credit of Rs. 4.05 crore was allowed to the Canteen Stores Department and Indian naval canteen services though these departments were not entitled to the input tax credit resulting in short realisation of revenue to that extent.

(Paragraph 2.2.13)

2.2.1 Introduction

With a view to bringing more efficiency in tax administration and equal competition and fairness in the taxation system, a decision was taken by the Union Government in the year 1995 to introduce a taxation structure based on Value Added Tax in the country in place of the existing General Sales Tax Acts in force since the year 1957. By doing so, multiple points of taxation were proposed to be done away with and the overall tax burden was sought to be rationalised. The objectives of implementation of VAT were, *interalia*, to help common people, traders, industrialists and also the Government as the tax structure would be simpler and more transparent. The revised taxation system

was to replace the existing system of annual assessment by the assessing authority by a system of self-assessment by the dealers subject to scrutiny/audit by the Commercial Taxes Department.

Since the imposition of sales tax is a State subject as per entry 54 of the State List of the Constitution of India, the Union Government set up an Empowered Committee of State Finance Ministers (ECSFM) in 1999 to work out a common structure on which each state was to flesh out their respective VAT Acts. Apart from setting out the blueprint for State Level-VAT, the ECSFM had emphasised vigorous interaction between State Governments, departmental officers and most importantly with the dealers and the business community so as to ensure full cooperation as well as systemic preparedness for the transition to VAT.

2.2.1.1 White Paper on VAT

The ECSFM came out with a unanimously approved “White Paper on VAT” in January 2005. The essence of the White Paper was that

- there would be self-assessment by dealers;
- other taxes viz., turnover tax, surcharge, additional surcharge, etc. would be abolished;
- overall tax burden will be rationalised, with the maximum tax rate at 12.5 *per cent* and for some commodities even at one *per cent*;
- set-off would be given for input tax as well as tax paid on previous purchases;
- transparency would increase;
- prices would fall in general; and
- there will be higher revenue growth.

The White Paper expected tax compliance, which would in turn augment the revenues.

The Andhra Pradesh Value Added Tax (APVAT) Bill 2003 received Presidential assent in December 2004 and the Act came into force from 1 April 2005 repealing the Andhra Pradesh General Sales Tax (APGST) Act, 1957.

2.2.1.2 Salient features of the APVAT Act

The APVAT Act contains 81 sections and six Schedules and each schedule carries a definite rate of tax.

Under the AP VAT Act, the dealers are divided into three categories:

- dealers with annual taxable turnover of Rs. 40 lakh and above are liable to be registered as VAT dealers;

- dealers with annual taxable turnover between Rs. 5 lakh and Rs. 40 lakh are liable to be registered as Turnover Tax (TOT) dealers. TOT dealer is required to pay a composite tax at one *per cent* on total taxable sales;
- dealers with turnovers of less than Rs. 5 lakh are not liable for registration.

All the VAT dealers have been assigned an 11 digit unique Tax Identification Number (TIN) and the TOT dealers with General Registration Number (GRN). The VAT dealers are eligible to claim input tax credit (ITC) i.e., credit for tax paid at the preceding point of purchase of goods from VAT dealers and used in business, TOT dealers on the other hand are not eligible for ITC.

Through Section 78 of the Act, the Government promulgated the APVAT Rules, 2005 to carry out the purposes of the Act.

2.2.1.3 Major areas of deviation between the APGST and the APVAT Acts

The major areas of deviation between the APGST and the APVAT Act are as follows:

- VAT is based on the value addition to the goods and the related VAT liability of the dealer is calculated by deducting input tax credit from tax collected on sales during the tax period (a calendar month);
- concept of giving credit of tax paid on purchases was introduced in the APVAT thereby avoiding double taxation;
- levy of tax at first and subsequent points of sale within the state, i.e. cascading taxation prevalent under the APGST Act was done away with the APVAT Act;
- self assessment by dealers replacing compulsory assessment of all returns of all the dealers by department under the APGST Act;
- abolition of various declaration forms used under previous tax administration to claim concession/exemption;
- audit of the selected dealers by the department was introduced in place of compulsory assessment;
- the filing of annual audited accounts existed under the APGST Act was dispensed with under the APVAT Act.

A review of the “Transition from Sales Tax to Value Added Tax” was conducted by audit. It indicated a number of system and compliance deficiencies which are discussed in the subsequent paragraphs.

2.2.2 Organisational set up

Commercial Taxes (CT) Department is under the purview of the Principal Secretary, Revenue Department at the Government level. At Commissionerate level, Commissioner of Commercial Taxes (CCT) is the head of the department and is assisted by Additional Commissioners, Joint Commissioners (JC), Deputy Commissioners (DC) and Assistant Commissioners (AC). Divisional offices at field level are headed by the Deputy Commissioners (DC) and are assisted by the Commercial Tax Officers (CTO), Deputy Commercial Tax Officers (DCTO) and Assistant Commercial Tax Officers (ACTO) at the circle level.

There are 218 offices (25 Large Tax Payer Units headed by the ACs and 193 circles headed by the CTOs) functioning under the administrative control of the DCs. The CTOs are entrusted with registration of the dealers and collection of tax while the DCs are controlling authorities with overall supervision of the circles under their jurisdiction.

2.2.3 Audit objectives

The review was conducted to ascertain whether

- planning for implementation and the transition from the APGST Act and Rules made thereunder to APVAT Act and Rules made thereunder was effected timely and efficiently;
- organisational structure was adequate and effective;
- whether the application of VATIS software met the requirement of APVAT Act with adequate security measures, IT control and data captured was sufficient, reliable, accurate and complete;
- provisions of the APVAT Act and Rules made thereunder were adequate and enforced properly to safeguard the revenue of the State; and
- internal control mechanism existed in the department and was adequate and effective to prevent leakage of revenue.

2.2.4 Scope of audit

Test check of the records of the CCT, AC (LTU) Guntur and 27 circles⁴ out of 193 circles, selected based on revenue consideration and risk perception, was carried out for the period from 2005-06 to 2008-09 between April 2009 and August 2009.

⁴ Anantapur-I, Eluru, Hindupur, Hyderabad (Agapura, Basheerbagh, Charminar, Ferozguda, Hyderguda, Khairatabad, Punjagutta, Rajendranagar, Sultanbazar, and Vengalaraonagar), Jadcherla, Kamareddy, Kodad, Mahaboobnagar, Nellore-I, Nizamabad (I &II), Ongole-I, Patnambazar, Rajahmundry (Aryapuram), Secunderabad (S.D.Road, Ranigunj), Tadepalligudem and Vizianagaram (West).

2.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the CT Department in providing necessary information and records to audit. An entry conference was held in May 2009 with the CCT and other departmental officers in which the department was apprised about the scope and methodology of audit. The draft review report was forwarded to the Government and department in September 2009. An exit conference was held in November 2009 in which the audit results and recommendations were discussed with the representatives of the department and the Government. The Government was represented by an Officer on Special Duty while department was represented by an Additional Commissioner. The replies of the department and the Government received during the exit conference and at other points of time have been appropriately included in the respective paragraphs.

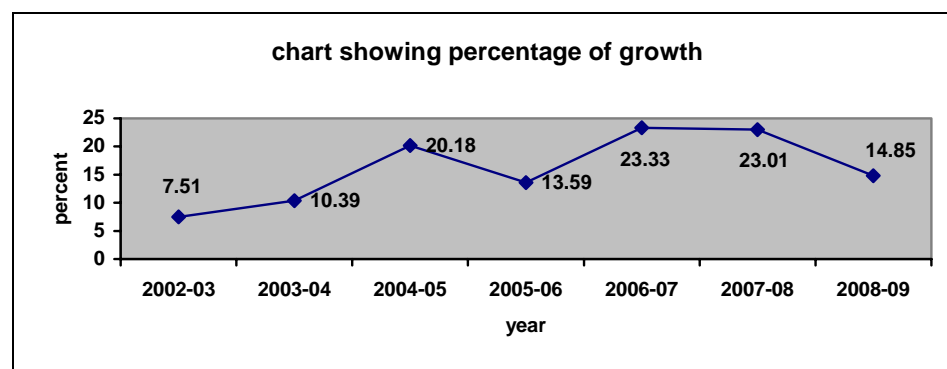
2.2.6 Trend of revenue

Analysis of the trend of revenue - pre-VAT and post-VAT

The comparative position of pre-VAT sales tax collection (2001-02 to 2004-05), post VAT tax collections (2005-06 to 2008-09) and growth rate of tax collections in each of the year are furnished in the following table:

Year	Actual collections (Rs. in crore)	Percentage of growth (over previous year)
Pre-VAT		
2001-02	7,740.89	--
2002-03	8,322.20	7.51
2003-04	9,186.93	10.39
2004-05	11,040.60	20.18
Post-VAT		
2005-06	12,541.61	13.59
2006-07	15,467.41	23.33
2007-08	19,026.49	23.01
2008-09	21,851.66	14.85

Thus, the growth in revenue over the previous year in the post VAT regime slid to 14.85 per cent in 2008-09 after attaining the levels of over 23 per cent in 2006-07 and 2007-08.



Audit findings

System deficiencies

2.2.7 Restructuring of the CT Department for administering the VAT

For efficient administration of APVAT, the CT Department proposed to the Government for

- providing minimum staff structure in circles under VAT scenario as a measure of model re-organisation of the department;
- creation of five new divisions where jurisdiction of the existing divisions was more than one district; and
- creation of special groups within the Central Enforcement Wing for study of input output ratios, mark ups and trade practices to check the suppressions and evasion of taxes.

Also, the department sought for sanction of 463 additional posts against which the Government sanctioned 239 posts. Against the sanctioned strength of 2,227 in 2008-09 in the cadres of ACTO to JC, 1,474 were in position as of March 2009. Maximum vacancies were noticed in the cadres of DCTO/ACTO which were crucial in implementing the Act at the circle level.

2.2.8 Registration of the dealers

2.2.8.1 Absence of provision for conducting surveys

Section 17 of the APVAT Act, 2005 provides that every dealer other than a casual dealer shall be liable to be registered in accordance with the provisions of the Act. An application for registration is required to be submitted by a dealer to the prescribed authority as soon as his estimated taxable turnover exceeds the threshold limit. Thus, there was no automatic migration of the APGST dealers' database as available with the department on 31 March 2005, into VATIS⁵. **There is no provision in the Act or rules made thereunder to conduct periodical survey for enforcing registration of the unregistered dealers.**

Test check of the records indicated that 3,85,848 dealers were registered under the APGST Act as of March 2005 while only 2,69,153 dealers were registered under the APVAT Act as at the end of March 2009. Thus, 1,16,695 dealers being 30.24 *per cent* of the dealers registered under the APGST Act remain unregistered under the VAT Act. The department had not put in place any mechanism to conduct periodic surveys for detection of the unregistered dealers and for periodic verification of turnovers of the ToT dealers paying lumpsum tax so as to register them as VAT dealers.

The department stated (August 2009) that surveys were conducted only for a limited period from May to September 2008 under the orders of the CCT and

⁵ Value Added Tax Information System.

thereafter instructions had been issued for conducting surveys at random with a view to not to disturb the field officers. As a result of the survey conducted for the period from May to September 2008, the department enforced 1,170 VAT and 2,719 TOT registrations with generation of additional revenue of Rs. 39.66 lakh. Thus, survey(s) if conducted at regular intervals would have enforced additional registrations and generated more revenue for the Government. However, no such surveys were conducted and no norms/targets were fixed for each CTO for enforcing registration of the unregistered dealers.

The Government may consider framing a provision for conducting of periodical surveys to ensure that dealers liable for VAT registration are promptly detected and registered.

2.2.8.2 Failure to register on attaining threshold limits

Under the provisions of the VAT Act, every dealer whose taxable turnover in the preceding three months exceeds the prescribed thresholds for registration needs to promptly apply for it. Any dealer who fails to apply for registration shall be liable to pay a penalty of 25 *per cent* of the amount of tax due prior to the date of registration. Further, there shall be no eligibility for ITC for sales made prior to the date from which the registration is effective. **Audit noticed that no monitoring mechanism existed in the department to watch the registration of the TOT dealers who have crossed the threshold limit, as VAT dealers.**

Test check of the records in 24 circles⁶ indicated that during the period 2005-06 to 2008-09, the turnover of each of the 109 TOT dealers exceeded the prescribed threshold limits in the preceding three months. Thus, the dealers were liable to be registered under the VAT Act. But neither the dealers applied for registration nor were they registered by the AAs as VAT dealers. The dealers were liable to pay VAT of Rs. 2.26 crore and a penalty of Rs. 0.57 crore which could not be realised in absence of their registration. Thus, absence of a monitoring mechanism for registration of TOT dealers as VAT dealers resulted in non-realisation of revenue of Rs. 2.83 crore.

The Government may consider putting in place a mechanism for prompt identification of the TOT dealers who have crossed the threshold limit and their registration as VAT dealers.

2.2.9 Computerisation in the CT Department

Under APVAT a centralised software called 'Value Added Tax Information system' (VATIS) developed by M/s Tata Consultancy Services Ltd. (TCS) at a cost of Rs. 23 crore, was implemented in all the divisions and circle offices from 1 April 2005. Through this software all the activities starting from registration of a dealer, monitoring of monthly returns, calculation of taxes

⁶ Mahaboobnagar, Tanuku-I, Patnam bazaar, Nidadavole, Nellore-I, Brodipet, Hyderabad (Ashoknagar Hydernagar, Khairatabad, IDA Gandhinagar, Marredpally, MG Road, Mehidiapatnam, Sanathnagar), Kavali, Kurnool-II, Nizamabad-I, Piduguralla, Ramannapet, Sangareddy, Tirupati-II, Visakhapatnam (Dabagardens, Kurupam Market, Suryabagh).

etc., were proposed to be carried out. VATIS consists of 16 modules. The same software was installed at the ICPs⁷ and the BCPs⁸.

Test check of the working of VATIS indicated the following:

2.2.9.1 Non-operation of the VAT Audit Module

The VAT Audit Manual provided the criteria for selection of a dealer for general audit⁹ during the year. For this purpose, VAT Audit Module was available in the VATIS package.

Test check in five circle offices¹⁰ indicated that the VAT Audit module was not made operational and audit selections were done manually, thus defeating the very purpose of the module.

After this was pointed out, the concerned CTOs stated that the audit module could not be made operational due to improper working of the VATIS.

2.2.9.2 Insufficient training of staff

The implementation of VAT Act was designed through the VATIS. Training was required to be imparted to the staff for operation of all the 16 modules.

Test check in 24 circles indicated that as against the 483 personnel to be trained for data entry, only 209 were trained. Thus, 56.73 *per cent* of the staff remained untrained.

2.2.9.3 Ineffective functioning of database of dubious/risky dealers

The ECSFM had authorised the CT department for preparation of a database of dubious/risky dealers relying on the past history of the dealers under the APGST regime and uploading the details to a website viz., TINXSYS.com. The website was to be periodically updated to aid the department in effectively monitoring the inter-state trade.

Audit noticed that the data of dubious/risky dealers was not uploaded to the website and consequently it could not be utilised for the purpose it was collected.

The Government may consider issuing instructions for utilising all the modules available in the VATIS and devise a time frame for training all the members of the staff.

⁷ Integrated check post.

⁸ Border check post.

⁹ Audits, which provide broad audit coverage of VAT dealers and form basis for special and specific audits.

¹⁰ Hindupur, Hyderabad (Hyderguda and Sultanbazar), Nizamabad-II and Tadepalligudem.

2.2.9.4 Scrutiny of monthly VAT returns/input tax credit claim

Under Section 20 of the APVAT Act, every return in Form 200 shall be subjected to scrutiny to verify the correctness of arithmetical calculation, application of correct rate of tax and input tax credit claimed as well as full payment of tax and interest payable for delay in payment of tax by a dealer. **The dealers were not required to submit any documentary evidence in support of the transactions alongwith the return. The column for specifying the name of the commodity was also not provided in the Form (VAT 200).** In absence of these documents/details, the department can not properly scrutinise the returns and ensure the application of correct rate of tax as well as arithmetic accuracy.

Test check of the records in 16 circle offices indicated that 42,367 returns were not filed by the dealers out of 5,80,628 returns required to be filed by them for the period from 2005-06 to 2008-09. The circle offices had made no effort to call for the returns. Audit also noticed that the dealers did not furnish any details of purchases and sales made by them along with the returns. Consequently, the claims of input tax credits could not be verified. Thus, inadequate documentation led to inadequate checks and balances in the VAT regime.

After this was pointed out, the department stated (August 2009) that it would be useful for it if supporting documents alongwith the monthly returns were furnished to make them self sufficient for any future scrutiny in the interest of the revenue.

The Government may consider issuing instructions for submitting the documentary evidence that would facilitate in the scrutiny of the returns and input tax credit claims and providing a column in the monthly return “Form 200” specifying the name and the details of commodities.

2.2.9.5 Failure to serve demand notices generated by the VATIS

Under Section 21 read with rule 25(1) of APVAT Act, assessments shall be finalised unilaterally by the AAs of the dealers who fail to file monthly VAT returns where tax is due. **Audit noticed that no monitoring mechanism existed in the department by way of any return to ensure that the demands of assessments generated by the VATIS were raised by the concerned AAs.**

Test check of the records in Hyderguda circle indicated that 247 dealers had not filed returns for certain period(s) during 2005-06 to 2008-09. The VATIS automatically generated the assessments for a tax of Rs. 99.15 lakh and penalty of Rs. 49.58 lakh. But the AA did not serve the demand notices resulting in non-raising of demand of Rs. 1.49 crore. This was not detected due to the absence of a monitoring mechanism.

The department stated (August 2009) that due to time constraint, they relied upon identification of defaulters among major tax payers only and focused their attention on collecting the returns and taxes wherever due from such large tax payers.

The Government may consider putting in a place a mechanism to ensure that the demand notices in respect of assessments generated by VATIS were issued to the concerned dealers.

2.2.9.6 Monitoring of transit passes not surrendered at the check posts

The transit passes (TP) issued to the goods vehicles passing through the State at entry check post have to be surrendered at the exit check post as a proof of exit of the vehicles from the State. Under Section 47 of the APVAT Act, assessments of those vehicles that did not surrender the TPs should be finalised within a period of four years.

Test check of the records in four check posts¹¹ indicated that out of 2,31,919 unsurrendered TPs from 2005-06 to 2008-09, assessments were made only for 1,655 TPs (0.71 *per cent* of the TPs not surrendered). This indicated that the assessments of TPs not surrendered were negligible requiring urgent attention. In two divisions, 1,305 TPs involving tax of Rs. 1.66 crore on a turnover of Rs. 15.49 crore pertained to 2004-05. These cases being more than four years old have become time barred for assessment. Information regarding time barred cases in other divisions was not made available to audit though requested.

The Government may consider putting in place a system for monitoring timely finalisation of the assessments relating to transit passes not surrendered.

2.2.10 Cross-verification of records with the departments

The white paper issued by the ECSFM emphasised cross verification of data between various taxation departments viz., Income Tax, Central Excise and CT so as to reduce tax evasion and ensure growth of tax revenue. However, **the APVAT Act does not have any provision for cross verification of document available in the department with the records of the other departments to ensure the correctness of the taxes paid by the dealers.**

Audit scrutiny revealed that the department had at no time made any effort to obtain any information relating to the sale or purchase made by a dealer, from any other department for cross verification with the transactions depicted in the returns to ascertain the correctness of the tax paid by the dealers.

The Government may consider incorporating a provision for cross verification of the records of the dealer available in the department with the relevant records of other departments.

2.2.11 Internal control mechanism

Internal Audit, which provides reasonable assurance of proper enforcement of laws, rules and departmental instructions, is a vital component of internal control. It is generally defined as the control of all controls to enable an organisation to ensure itself that the prescribed systems are functioning reasonably well.

¹¹ ICP, Bhemunivariipalem, Naraharipet, Purshottampuram and Saloora.

Under the APGST regime the CT Department had a system of annual internal audit. The APVAT Act does not have any provision for internal audit. However, the department relied upon a proforma based internal audit in which information was called for from each circle and this was called as “Annual Internal Audit”. Due to the absence of an internal audit wing, the department remained unaware of the areas of the malfunctioning of the systems and did not, therefore, have any opportunity of taking remedial action.

The Government may consider installing a mechanism for conducting effective internal audit to ensure timely detection and correction of errors in the levy and collection of revenue.

Compliance deficiencies

2.2.12 Shortfall in audit of the dealers

As per Para 3.1(i) and 4.8.2 of APVAT Manual, all the VAT dealers in a circle should be audited in a period of two years and such audits shall not exceed 12.5 *per cent* in a quarter. The status of audits conducted as furnished by the department is mentioned in the following table:

Year	Total dealers	Dealers to be audited	Dealers actually audited	Shortfall in audits	Percentage of shortfall
2005-06	1,56,233	78,116	Not furnished		
2006-07	1,97,250	98,625	Not furnished		
2007-08	2,38,088	1,19,044	17,225	1,01,819	85.53
2008-09	2,69,153	1,34,576	18,693	1,15,883	86.11

The foregoing table indicates a shortfall of 86 *per cent* in audits for 2007-08 and 2008-09.

2.2.12.1 Test check of the records in 10 circles¹² indicated that out of 9,212 dealers, audit of 7,678 dealers was not conducted at all while audit of 578 dealers was conducted after more than two years in contravention of the provisions of the manual.

After this was pointed out, the department stated (February 2010) that the shortfall in conducting departmental audit was due to lack of sufficient manpower and engagement of the existing staff in revenue collection.

2.2.12.2 Defects in planning departmental audits and improper maintenance of records

The following deficiencies were noticed in the test check of audit files in 28 offices.

- No programmes were drawn up for conducting audits in a time bound manner.

¹² Eluru, Hindupur, Hyderabad (Basheerbagh, Charminar, Hyderguda and Khairatabad), Nizamabad-II, Secunderabad (Ranigunj), Tadepalligudem and Vizianagaram (West).

- The audit file(s) maintained by the department did not contain VAT return of the dealers for the period for which the audit was conducted. Thus, whether mistakes were correctly pointed out by the departmental audit could not be ascertained.
- There was repetition in the selection of dealers for audit in Ananthapur division. Three dealers whose audit had been done in 2008-09 were again picked up for audit in the same year.
- No time schedule was set for the completion of audit.
- In the system of jumbling audit¹³, the departmental audit officers retained the audit files without transmitting these to the jurisdictional CTO concerned. This resulted in non-availability of the files in the concerned CTO office.

2.2.13 Input Tax Credit (ITC)

The essence of VAT is in providing set-off for the tax paid earlier and this is given effect through the concept of ITC/rebate. This ITC in relation to any period means setting off the amount of input tax by a registered dealer against the amount of his output tax. The VAT is based on the value addition to the goods and the related VAT liability of the dealer is calculated by deducting the ITC from tax payable on sales during the payment period (say, a month). This ITC will be given for both manufacturers and traders for purchase of inputs/supplies meant for both sales within the state as well as to the other states, irrespective of the period of utilisation/sales. This also reduces immediate tax liability.

Test check of the records of seven dealers in three circles¹⁴ indicated that the ITC of Rs. 50.72 lakh was claimed by the dealers on the purchases made by them during the year 2008-09. However, cross verification of the input tax credit claims with the VAT ledger in VATIS of the dealers from whom purchases were made, indicated that the selling VAT dealers had not made such sales. Thus, *prima facie* the ITC claims were fictitious.

After this was pointed out, the concerned AAs stated (April to August 2009) that the matter would be examined. Further development has not been reported (February 2010).

2.2.13.1 Excess claim of ITC due to improper scrutiny of returns

The VAT dealers shall not be entitled for ITC on sale of exempt goods i.e. goods falling under Schedule I of the APVAT Act. Under entry 58 of Schedule I to the APVAT Act, inserted vide G.O.No.1468 dated 23 November 2007, goods sold by the Canteen Stores Department (CSD) and the Indian Naval Canteen Services are exempt from tax with effect from 24 November 2007 and thus were not eligible for ITC.

¹³ Audit of dealers authorised to officers other than the jurisdictional officers.

¹⁴ Hyderabad (Khairatabad, Punjagutta) and Nizamabad – II.

- Test check of the records in Marredpally circle indicated that the CSD sold goods valued at Rs. 56.86 crore during 2008-09 without paying any tax. However, they claimed ITC of Rs. 4.05 crore on the purchases though they were not entitled to it. This resulted in short realisation of Rs. 4.05 crore.

After this was pointed out, the department stated (August 2009) that the matter of allowing ITC to the CSD had been referred to the Government and action would be taken as per the decision of the Government.

- Similarly, the sales made to a unit located in special economic zone (SEZ) were exempted from tax with effect from June 2008 and thus no ITC was admissible to such unit(s).

Test check of the records of three dealers in two circles¹⁵ located in SEZ indicated that during 2008-09, ITC of Rs. 5.58 lakh was incorrectly claimed on sales made to SEZs resulting in short realisation of revenue to that extent.

2.2.14 Excess claim of VAT compensation

The Central Government had consented to compensate the State Government for loss of revenue consequent upon the implementation of the VAT. As per Government of India instructions issued in June 2005, the VAT compensation amount should be claimed by the state as per the tax rates recommended by the Empowered Committee (EPC). If the State deviated from the proposed rates, revenue loss due to such deviation would not be compensated.

The CCT noticed deviations in VAT rates of 23 commodities¹⁶ from those prescribed by the EPC and submitted (September 2005) a proposal of VAT compensation claim to the Special Chief Secretary to the Government of Andhra Pradesh, Revenue Department indicating that the commodities would not qualify for the VAT compensation. The State Government forwarded the compensation claim intimating deviation in rates in respect of six commodities¹⁷ only. The reasons for not intimating deviations in the rates of the remaining 17 commodities were neither found on record nor were intimated to audit. This resulted in claiming excess compensation amounting to Rs. 17.53 crore which was also allowed by the Government of India.

¹⁵ Hyderabad (Hyderguda and Khairatabad).

¹⁶ 1) Casurina poles, eucalyptus logs & cut sizes thereof 2) Fittings of Hose Pipes 3) Fittings of all pipes 4) Hawaii chappals 5) UHT Milk 6) Tamarind seed, dal, powder 7) Maps, charts and globes 8) Electric motors upto 10 HP, starters, parts of pump sets 9) Drip irrigation systems 10) Bed sheets, pillow covers, towels and other made-ups 11) Accessories of sewing machines 12) Tractor tyres & tubes 13) Syringes, bandages etc., 14) Utensils other than Aluminium and enameled 15) Vermicelli & semiya 16) Rice bran 17) Geometry & colour boxes etc., 18) Writing ink 19) Garden umbrella 20) Sand, stone chips 21) Micro nutrients, plant growth promoters 22) Computer stationery 23) Bio-diesel.

¹⁷ 1) Casurina poles, eucalyptus logs & cut sizes thereof 2) Fittings of Hose Pipes 3) Fittings of all pipes 4) Hawaii chappals 5) UHT Milk 6) Tamarind seed, dal powder.

2.2.15 Industrial incentives

2.2.15.1 Security of Fixed Assets

As per paragraph 6.03 of the guidelines of the Sales Tax Deferment scheme issued vide G.O.Ms.No.108 dated 20 May 1996, deferred amount of sales tax was to be treated as deemed loan against the security of the fixed assets of the units availing of such incentive.

Test check of the records of nine dealers in the Benz circle indicated that the security was not obtained against the conversion of the deferment of Rs. 2.35 crore in violation of the guidelines of the deferment scheme.

2.2.15.2 Closure of production before the stipulated period

According to the guidelines stipulated from time to time in respect of the deferment schemes, if a unit availing of deferment of sales tax goes out of production for a period exceeding one year during the period of deferment, the amount already availed of shall be recovered alongwith interest at 21.5 *per cent* per annum.

Test check of the records in the Benz circle indicated that a unit availing of deferment upto 2014 was closed in April 2005. The deferred sales tax amounting to Rs. 16.84 lakh for the period from 1999-2000 to 2004-05 though recoverable was not recovered by the department.

2.2.16 Penalties

Sections 49 to 57 of the APVAT Act contained provisions for levy of penalty for various offences viz., failure to register, failure to file returns, failure to pay tax when due, failure to declare tax due, misuse of TIN/GRN, issue or use of false tax invoice, failure to maintain records and unauthorised collection of tax etc. Audit observed that the penalty though leviable was either not levied or was levied short as mentioned below.

2.2.16.1 Non-levy of penalty and interest for delayed payment/failure to pay tax due

Under Section 20(1) of the APVAT Act, every dealer shall pay tax due alongwith the monthly return. Sections 50(3) and 51 of the Act provide for levy of penalty for the offences of delayed filing of monthly returns and for failure to pay the tax due on the basis of the return respectively. Under section 22(2) of the Act, interest at one *per cent* was payable on the amount of tax paid belatedly.

Test check of the records in three circles¹⁸ indicated that during the period from 2005-06 to 2008-09, tax of Rs. 53.23 lakh was not paid by 433 dealers, while eight dealers paid tax belatedly. However, penalty and interest though leviable was not levied by the AAs. This had resulted in non-levy of penalty of Rs. 22.92 lakh and interest of Rs. 15.73 lakh.

¹⁸ Ananthapur-I, Hindupur and Nizamabad-II.

2.2.16.2 Short levy of tax and penalty

Under Section 53(1)(i) & (ii) of the APVAT Act, a penalty of 10 and 25 *per cent* on the tax underdeclared is leviable where the underdeclaration is less than 10 *per cent* and more than 10 *per cent* respectively, not by way of wilful neglect. Under Section 53(3), a penalty equal to the tax underdeclared is leviable for the fraud or wilful neglect of the dealers.

Test check of the records of Hyderguda circle indicated that a works contractor opted to pay composite tax at four *per cent* on his gross turnover. He was liable to pay a tax of Rs. 2.42 crore for the period from April 2005 to November 2008 against which he paid a tax of Rs. 2.28 crore. Thus, there was a short payment of tax of Rs. 14.41 lakh. For non-payment of tax, a penalty of Rs. 14.41 lakh equal to the tax due was leviable for the wilful neglect. However, the AA levied (February 2009) a tax of Rs. 7.48 lakh only and a penalty of Rs. 0.75 lakh. This resulted in short levy of tax of Rs. 7.23 lakh and penalty of Rs. 13.66 lakh.

2.2.17 Conclusion

Though the APVAT Act has been introduced four years ago, many of the intended objectives have not been achieved. A number of deficiencies were noticed by audit. The department has not put in place any monitoring control to ensure migration of all the dealers from APGST to APVAT. Consequently, a sizeable number of the dealers remained unregistered under the VAT Act. Though the VATIS was implemented in all divisions and circle offices from 1 April 2005, audit selections were made manually. Besides, the TINXSYS was not updated thus defeating the very purpose for which it was created. The details of sales and purchases made by the dealers were not furnished by them. The inadequate documentation led to inadequate checks and balances in the VAT regime.

There was no effective system for prompt raising of the demands generated by the VATIS and for timely finalisation of the assessments relating to transit passes not surrendered at the exit gates of the check posts.

Defects were also noticed in planning departmental audits and in maintenance of the records. Input tax credit was allowed on those transactions that were *prima facie* fictitious. Neither penalty nor interest was levied for non/delayed payment of tax. There was heavy shortfall in conducting departmental audit and the audit methodology also did not give much assurance for plugging the loopholes and leakage of revenue. Due to the absence of the internal audit wing, the department was ignorant of the omissions and errors and their timely detection and correction.

2.2.18 Summary of recommendations

The Government may consider:

- framing a provision for conducting of periodical surveys to ensure that dealers liable for VAT registration are promptly detected and registered;

- putting in place a mechanism for prompt identification of the ToT dealers who have crossed the threshold limit and their registration as VAT dealers;
- issuing instructions for utilising all the modules available in the VATIS and devise a time frame for training all the members of the staff;
- issuing instructions for submitting the documentary evidence that would facilitate scrutiny of the returns and input tax credit claims and providing a column in the monthly return “Form 200” specifying the name and the details of commodities;
- putting in place a mechanism to ensure that the demand notices in respect of assessments generated by VATIS are issued to the concerned dealers;
- putting in place a system for monitoring timely finalisation of the assessments relating to transit passes not surrendered;
- installing a mechanism for conducting effective internal audit to ensure timely detection and correction of errors in the levy and collection of revenue; and
- incorporating a provision for cross verification of the records of the dealer available in the department with the relevant records of other departments.

2.3 Other audit observations

Scrutiny of the records in the offices of the CT Department relating to revenue received from VAT, APGST and CST indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty and other cases as mentioned in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to consider directing the department to improve the internal control system including strengthening internal audit so that such omissions can be avoided, detected and corrected.

2.4 Non-payment of Tax/VAT due to declaration of taxable turnover as exempted turnover

2.4.1 Under entry 45 of the First Schedule to the AP VAT Act, 2005/entry 5 of Fourth Schedule to the APGST Act, 1957, read with the explanations to the entries 'cotton fabrics, man made fabrics and woolen fabrics', were exempted from levy of tax, if additional duties of excise were levied on these goods under Additional Duties of Excise (Goods of Special Importance) Act, 1957. Otherwise, these are liable to tax at the rate of 12.5 *per cent* under Schedule V of the AP VAT Act and four *per cent* under Schedule III of the APGST Act.

According to the Government of India Notification No. 32/2004 - Central Excise dated 9 July 2004, cotton fabrics, etc. which were enumerated in the Schedule I to the Additional Duties of Excise (Goods of Special Importance) Act, 1957, were exempted from the levy of additional excise duty. As such, cotton fabrics and man made fabrics, etc., exempted from the levy of tax under Schedule I to the APVAT Act/ Schedule IV to the APGST Act are liable to tax at the rate of 12.5 *per cent* and four *per cent* respectively.

Test check of the records (May and November 2008) of seven circles¹⁹ indicated that during the period from April 2005 to March 2008 in 16 cases, the assessee declared taxable turnover of Rs. 418.20 crore pertaining to the cotton fabrics and man made fabrics as exempted sales even though they were exempted from the levy of the additional excise duties. The AAs did not raise the demand for the tax not paid. This resulted in non-payment of VAT of Rs. 52.27 crore.

After the cases were pointed out, the AAs assured (July and November 2008) to examine the matter in eight cases and stated that the matter would be brought to the notice of higher authorities in five cases. In two cases, the AAs contended (August and November 2008) that cotton fabrics and man-made fabrics manufactured by the dealer were exempted under the VAT Act. The reply is not tenable as cotton fabrics and man made fabric are exempted from payment of the additional excise duty as such these are liable to be taxed under

¹⁹ Hyderabad (Barkatpura, Jeedimetla, Rajendranagar, Sanathnagar), Tirupati-I, Tirupati-II and Secunderabad (S.D. Road).

the APGST Act/APVAT Act. Reply in respect of the remaining case has not been received (February 2010).

The matter was referred to the department between January and March 2009 and to the Government in May 2009; their reply has not been received (February 2010).

2.4.2 Test check of the records (May and November 2008) of five circles²⁰ indicated that the AAs while finalising the assessments in 13 cases between July 2007 and August 2008 for the assessment year 2004-05, incorrectly exempted the sales turnover of Rs. 88.50 crore pertaining to cloth, grey cloth, hosiery cloth and sarees even though they were exempted from the levy of additional excise duties. This resulted in non-levy of tax of Rs. 3.54 crore.

After the cases were pointed out (May 2009), the department and the Government accepted the audit observation in one case involving Rs. 3.41 lakh and stated (October 2009) that a show cause notice proposing revision had been issued. The replies in respect of the remaining cases have not been received (February 2010).

2.4.3 Inter-state sale of these goods not supported by declarations were taxable under the CST Act at eight *per cent* up to 31 March 2005 and 12.5 *per cent* from 1 April 2005 onwards.

Test check of the records (May and November 2008) of four circles²¹ indicated that the AAs while finalising the assessments in three cases between September 2007 and February 2008 for the assessment year 2004-05, incorrectly exempted the inter-state sales turnover of Rs. 28.91 crore pertaining to the cotton fabrics and cotton grey fabrics. Further, in other three cases during the period from April 2005 to March 2008, the dealers declared taxable inter-state sales turnover of Rs. 140.80 crore pertaining to cotton fabrics and man made fabrics as exempted turnover even though these were exempted from the levy of additional excise duties. This resulted in non-levy/ payment of tax of Rs. 19.91 crore.

After the cases were pointed out, in one case, the AA contended in November 2008 that the cotton fabrics manufactured by the dealer were exempted from CST in view of the provisions of the APGST/APVAT Acts. The reply is not tenable as the commodities are taxable under the APGST/APVAT Acts. The replies in respect of the remaining cases have not been received.

The matter was referred to the department between January and March 2009 and to the Government in May 2009; their reply has not been received (February 2010).

²⁰ Hyderabad (Barkatpura, Lord bazaar, Rajendranagar), Tirupati-I and Secunderabad (S.D. Road).

²¹ Hyderabad (Sanathnagar), Rajam, Secunderabad (S.D. Road) and Tirupati-II.

2.5 Misclassification of sales as works contracts

Air conditioners, cement concrete pipes, carpets, elevators, lifts, pre-fabricated shelters, stone chips, spaces and beams, sound transmitting equipment and spare parts thereof are taxable at the rates prescribed in the APGST and the APVAT Acts.

The Supreme Court has held²² that the contract for supply and installation of lifts and elevators constitute sale but not works contract since major component into the end product was the material consumed on producing the lift to be delivered and the skill and labour to be employed for converting the main component into the end product was only incidentally used.

2.5.1 Test check of the records (October 2007 and August 2008) of three circles²³ indicated that during the period from April 2005 to March 2008, in four cases, the sale turnover of Rs. 61.87 crore pertaining to supply and erection of elevators, lifts and sales of air conditioners were misclassified as works contracts. This resulted in under declaration of tax of Rs. 5.36 crore.

After the cases were pointed out (March and May 2009), the department and the Government accepted (October 2009) the audit observations in two cases involving Rs. 3.67 crore and stated that the show cause notices proposing revision had been issued to the dealers. The replies in the remaining cases have not been received (February 2010).

2.5.2 Test check of the records (November 2008) of nine circles²⁴ indicated that the AAs while finalising the assessments in 13 cases between March 2007 and March 2008 for the years 2003-04 and 2004-05, incorrectly treated turnover of Rs. 63.28 crore relating to sales of cement concrete pipes, air conditioners, carpets, lifts, pre-fabricated shelters, stone chips, spaces and beams, sound transmitting equipment and spare parts thereof as works contracts and levied tax of Rs. 3.46 crore instead of Rs. 8.38 crore. This resulted in short levy of tax of Rs. 4.92 crore.

After the cases were pointed out (March and May 2009), the department and the Government accepted (March and October 2009) the audit observations in nine cases involving Rs. 2.35 crore. Of these, assessments were revised in four cases involving Rs. 1.03 crore against which Rs. 6.88 lakh was collected in two cases. In the remaining five cases, the assessments have been proposed for revision. The replies in respect of the remaining cases have not been received (February 2010).

2.5.3 'Pre-printed stationery' falls under entry 225 of I schedule and 'Pre-fabricated shelters' falls under VII schedule to the APGST Act and are liable to tax at the rate of eight and 12 *per cent* respectively at the point of first sale in the State.

²² A.P. State Vs M/s Kone Elevators (I) Limited, Secunderabad (140 STC 22SC 2005).

²³ Hyderabad (Agapura, Somajiguda and Srinagar colony).

²⁴ Hyderabad (Basheerbagh, Begumpet, Khairatabad, Sanathnagar, Somajiguda, Srinagar colony, Vengalaraonagar), Proddatur and Secunderabad (R.P. Road).

Test check of the records (June and November 2008) of two circles²⁵ indicated that the AAs while finalising the assessments in two cases between March 2007 and March 2008 for the years 2003-04 and 2004-05, incorrectly treated the inter-state sales of printed stationery and pre-fabricated shelters valued as Rs. 6.97 crore as works contracts and levied tax of Rs. 54.97 lakh instead of Rs. 76.28 lakh. This resulted in short levy of Central Sales Tax of Rs. 21.31 lakh.

After the cases were pointed out (March and May 2009), the department/Government accepted (October 2009) the audit observation in one case involving Rs. 6.50 lakh and issued a show cause notice proposing revision. The reply in the other case has not been received (February 2010).

2.6 Non/short payment of VAT on works contracts

2.6.1 According to Section 4(7)(b) and (c) of the APVAT Act, every dealer executing works contract may opt to pay tax by way of composition at the rate of four *per cent* on the total works contract receipt. However, when a dealer opts for composition of tax, no deduction is admissible and tax is payable on the total amount paid or payable to the dealer towards execution of works contract except amounts paid to the sub-contractor.

Under Section 4(7)(a) of the APVAT Act, every dealer shall pay tax on the value of goods at the time of incorporation of such goods in the works executed at the rates applicable to the goods under the Act subject to the deductions allowed under Rule 17(e) of the APVAT Rules. If the accounts are not maintained to determine the correct value of goods at the time of incorporation, such dealer shall pay tax at the rate of 12.5 *per cent* on the total consideration subject to the deductions specified under Rule 17(g) of the APVAT Rules and the dealer is not eligible to claim input tax credit also.

Test check of the records (June and October 2008) of AC (LTU²⁶) Secunderabad and 10 circles²⁷ indicated that during the period from January 2006 to March 2008, 19 dealers had not maintained the accounts to ascertain the correct value of goods and had declared VAT less by Rs. 1.45 crore by claiming ineligible deductions on account of the ITC and VAT. This resulted in short payment of tax to that extent. The AAs did not raise the demands for the short paid tax.

After the cases were pointed out (December 2008 and May 2009), the department/Government (July 2008 and October 2009) accepted the audit observations in six cases involving Rs. 43.42 lakh and stated in one case that the short paid tax would be collected. Notices had been issued proposing revision in the remaining five cases. The replies in respect of the remaining cases have not been received (February 2010).

²⁵ Hyderabad (Sanathnagar) and Vuyyur.

²⁶ Large Tax Payers Unit.

²⁷ Ananthapur, Bhongir, Hindupur, Hyderabad (Agapura, Hydernagar), Karimnagar-I, Nellore, Secunderabad (Marredpally, S.D. Road) and Tadepalligudem.

2.6.2 Test check of the records (May and June 2007) of Nacharam circle indicated that during the period from April 2006 to March 2007, a contractor had incorrectly declared VAT of Rs. 27.30 lakh instead of Rs. 88.77 lakh by claiming ineligible deductions such as VAT and ITC from the taxable turnover. This resulted in short payment of VAT of Rs. 61.47 lakh. The AA did not raise the demand for the short paid tax.

The matter was referred to the department in April 2009 and the Government in May 2009; their reply has not been received (February 2010).

2.6.3 Test check of the records (November 2008) of Market Street circle indicated that during the period from April 2007 to March 2008, a dealer incorrectly claimed exemption of turnover of Rs. 2.10 crore relating to value of goods purchased from other states and incorporated in the works contract. The AA did not raise the demand for this amount. This resulted in non-realisation of tax of Rs. 26.28 lakh.

The matter was referred to the department in February 2009 and the Government in May 2009; their reply has not been received (February 2010).

2.6.4 According to Section 2(38) of the APVAT Act, taxable turnover means the aggregate of sale prices of all taxable goods.

Test check of the records (October 2008) of Hissamgunj circle indicated that during the period from April 2007 to March 2008, Rs. 2.71 crore was incorrectly deducted from taxable turnover as margin money²⁸ by a contractor. This amount did not qualify for exemption and resulted in short payment of tax of Rs. 10.85 lakh.

After the case was pointed out (May 2009), the Government/department accepted the audit observation and stated (October 2009) that assessment was being made for the short paid tax. Further progress has not been reported (February 2010).

2.7 Non/under declaration of VAT due to application of incorrect rate

VAT is leviable at the rates prescribed in schedules I to IV & VI to the APVAT Act. Commodities not specified in any of the schedules fall under schedule V and are liable to VAT at 12.5 *per cent* from 1 April 2005.

According to Section 20(3) every monthly return submitted by a dealer shall be subjected to scrutiny to verify the correctness of calculation, application of correct rate of tax and ITC claimed therein and full payment of tax payable for such tax period.

²⁸ Margin money means profit element received in entrusting the work to another contractor.

Test check of the records (May 2007 and November 2008) of 11 circles²⁹ indicated that during the period from April 2005 to March 2008, 14 dealers declared VAT of Rs. 1.03 crore at four *per cent* on the turnovers of Rs. 19.56 crore relating to bio-fertilizers, cast iron components, cooked food, purification systems etc. These goods were not specified in schedules and were liable to tax of Rs. 2.40 crore at the rate of 12.5 *per cent*. This resulted in under declaration of VAT of Rs. 1.37 crore.

Further, the turnover of welded items taxable at 12.5 *per cent* was not declared by a dealer resulting in non-declaration of VAT of Rs. 3.09 lakh. The AA did not raise the demands for the short paid tax of Rs. 1.40 crore. Failure of the authorities to scrutinise the monthly returns at the time of submission by the dealers resulted in non/under declaration of VAT of Rs. 1.40 crore.

After the cases were pointed out (March and May 2009), the department/Government accepted (October 2009) the audit observations in five cases involving Rs. 11.35 lakh and stated that the assessments had been revised in three cases involving Rs. 7.45 lakh, out of which Rs. 3.98 lakh had been collected in two cases. In the remaining two cases, show cause notices had been issued proposing revision. In one case, the department stated that since there was no separate entry for mosquito repellants, it was taxed under entry 20 of schedule IV relating to pesticides, insecticides, fungicides, herbicides and weedicides. The reply is not tenable since in the absence of any entry, it was taxable at the rate of 12.5 *per cent* under schedule V. In another case, it was stated that the wire mesh manufactured and sold by the dealer was a hardware item falling under entry 105 of schedule IV. The reply is not tenable as the 'wire mesh' mentioned in entry 105 is a woven mesh, whereas the mesh sold by the dealer was a 'welded mesh' manufactured from rods of different gauges welded together as per the specifications of the customers and was liable to be taxed at the rate of 12.5 *per cent* as an unspecified item. The replies in respect of the remaining cases have not been received (February 2010).

2.8 Excess claim of ITC

Under the provisions of the APVAT Act, ITC should be allowed to the VAT dealer for the tax charged in respect of all purchases of taxable goods made by that dealer during the tax period if such goods were used in the business of the VAT dealer. Further, under the APVAT Rules, no ITC is eligible on goods used in construction of buildings and sheds for the purpose of the business, PDS³⁰ kerosene, goods used as inputs in job works and goods used in works contracts under composition. Further, where transactions involve sale of taxable goods as well as exempt transactions of taxable sales, the claim for the eligible ITC should be restricted as per the formula prescribed³¹.

²⁹ Gadwal, Hindupur, Hyderabad (Jeedimetla, Mehidipatnam, Osmangunj), Kamareddy, Peddapally, Secunderabad (Marredpally, Nacharam, R.P. Road) and Vijayawada (Autonagar).

³⁰ Public distribution system.

³¹ $A \times B/C$ where A is input tax for common inputs for each tax rate, B is taxable turnover and C is the total turnover.

Test check of the records (June and October 2008) of five circles³² indicated that in case of 10 dealers, ITC during the period from April 2006 to March 2008 on goods used in construction of buildings and sheds for the purpose of the business, PDS kerosene, goods used as inputs in job works and goods used in works contracts under composition was claimed and allowed by the AAs. This resulted in short payment of tax of Rs. 65.52 lakh.

After the cases were pointed out (March and May 2009), the Government/department accepted (July 2008 and October 2009) the audit observations in seven cases involving Rs. 29.09 lakh and stated that in one case the assessment involving Rs. 4.86 lakh had been revised and tax collected. The report on further action taken and the replies in respect of the remaining cases have not been received (February 2010).

2.9 Non/short levy of tax on inter-state sales

The Central Sales Tax Act, 1956 provides that the inter-state sales/consignment transfers not supported by a declaration in Form 'C', 'D' & 'F' are taxable at twice the rate applicable to the sale or purchase of these goods inside the State in respect of the declared goods and in respect of the other goods at 10 *per cent* or at the rate applicable to the sale or purchase of such goods within the State whichever is higher.

2.9.1 Incorrect exemption on fake and invalid declaration

2.9.1.1 As per Section 9(2A) of the CST Act read with Section 7-A (2) of the APGST Act, if any dealer produces false/fake declarations and claims exemption/reduced rate of tax in support of these documents, he is liable to pay a penalty of three to five times of the tax due for such transaction.

Test check of the records (January 2007 and January 2008) of AC (LTU) Adilabad and two circles³³ indicated that in nine cases, inter-state sales/consignment sales³⁴/branch transfers of goods valued as Rs. 63.45 crore were supported by fake 'C' and 'F' Forms. The fact that the forms were fake was confirmed by the sales tax departments of the State Governments³⁵ concerned. But the AAs while finalising the assessments between March 2006 and March 2007 for the years 2003-04 and 2004-05, either levied tax at the concessional rate of four *per cent* or did not levy tax in the case of the consignment transfers. This resulted in non-levy of tax of Rs. 10.19 crore and a minimum penalty of Rs. 31.32 crore.

After the cases were pointed out (May 2009), the Government/department accepted (October 2009) the audit observation in one case involving Rs. 13.24 lakh. A report on recovery and replies in respect of the remaining cases have not been received (February 2010)

³² Bhongir, Hindupur, Hyderabad (Agapura, Maharajgunj) and Special commodities circle.

³³ Special Commodities circle and Tenali (Gandhi chowk).

³⁴ Sales through agents.

³⁵ Assam, Chattisgarh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Uttar Pradesh, Maharashtra, Madhya Pradesh, Orissa and Tamilnadu.

2.9.1.2 Under section 6-A of the CST Act read with Rule 9A(2) of the CST (AP) Rules, each declaration in Form 'F' shall cover transactions effected during a period of one calendar month. Therefore, a single declaration issued to cover transfer of goods for more than one month is to be treated as invalid and the turnover has to be brought to tax treating it as inter-state sales not covered by proper declarations.

Test check of the records (October 2007 and March 2008) of four AC (LTUs)³⁶ and 18 circles³⁷ indicated that in 29 cases, consignment sales/branch transfers of goods valued at Rs. 10.69 crore were supported by 'F' Forms covering transactions of more than one month and the same were liable to be treated as invalid. But the AAs while finalising the assessments between June 2006 and April 2008 for the years 2003-04 and 2004-05, incorrectly exempted the turnover from the levy of tax. This resulted in non-levy of tax of Rs. 1.03 crore.

After the cases were pointed out (March 2008 and May 2009), the Government/department accepted (October 2007 and October 2009) the audit observations in 14 cases involving Rs. 55.99 lakh and stated that in one case, the assessment involving Rs. 1.10 lakh had been revised and the remaining 13 cases had been proposed for revision. The report on further action taken and replies in respect of the remaining cases have not been received (February 2010).

2.9.1.3 According to section 8(4)(b) of the CST Act read with the CST (R&T) Rules 12(1), if the goods are sold to the Government not being a registered dealer, a certificate in Form 'D' duly filled and signed by a duly authorised officer of the Government shall be submitted. This concession is not admissible to public sector undertakings.

Test check of the records (May and August 2008) of two circles³⁸ indicated that the AAs while finalising the assessments in three cases between November 2007 and March 2008 for the year 2004-05, incorrectly levied concessional rate of tax at the rate of four *per cent* instead of 10 *per cent* on turnover of Rs. 3.70 crore relating to the inter-state sales of brake linings, electronic testing equipment, electronic analytical equipment etc., by accepting 'D' Forms from public sector undertakings which were not Government departments. This resulted in short levy of tax of Rs. 22.19 lakh.

After the cases were pointed out (May 2009), the Government accepted (October 2009) the audit observations and stated that the assessments had been revised in two cases involving Rs. 18.54 lakh out of which Rs. 9.68 lakh had been collected and the assessment was being revised in one case. Further report has not been received (February 2010).

³⁶ Nellore, Nizamabad, Saroornagar and Secunderabad.

³⁷ Adoni-I, Chirala, Gandhi Chowk, Hyderabad (Malakpet, M.J. Market, Sanathnagar), Kodad, Kothapet, Kurnool-II, Mahaboobnagar, Peddapuram, Proddatur, Secunderabad (M.G. Road, R.P. Road), Seetharamapuram, Special Commodities circle, Tirupati-I and Warangal (Beet Bazaar).

³⁸ Hyderabad (Bowenpally and Sanathnagar).

2.9.2 Test check of the records (March 2007 and November 2008) of two AC (LTUs³⁹) and 17 circles⁴⁰ indicated that in 25 cases, inter-state sales valued at Rs. 117.49 crore were not supported by the 'C' Forms. The AAs while finalising the assessments for the years 2002-03 to 2004-05 between February 2006 and March 2008 either omitted to levy tax or levied tax at concessional rate. This resulted in non/short levy of tax of Rs. 2.60 crore.

After the cases were pointed out (November 2007 and June 2009), the department/Government accepted (March 2007 and October 2009) the audit observations in 11 cases involving Rs. 73.95 lakh and stated that the assessments had been revised in eight cases involving Rs. 61.15 lakh against which Rs. 8.84 lakh was collected/adjusted against the excess tax paid in three cases and the assessment had been proposed for revision in three cases. In one case, it was noticed that the goods were imported from outside the country under an agreement with contractee and these were transferred alongwith the documents while the goods were in transit. The reply is not tenable since the goods were received by the assessee in March 2005 at Kakinada Port and the title of the goods did not change in transit. As such, these cannot be termed as high sea sales. The replies in respect of the remaining cases have not been received (February 2010).

2.10 Non/short levy of tax due to incorrect exemption

2.10.1 The APGST and the APVAT Acts provide for the levy of tax on asbestos cement sheets, cold rolled strips, digital cameras and tender schedules.

Test check of the records (October 2007 and June 2008) of three circles⁴¹ and one Urban Development Authority⁴² (UDA) indicated that the AAs while finalising the assessments in three cases between June 2007 and February 2008 for the year 2004-05, incorrectly exempted the turnover of Rs. 4.70 crore relating to asbestos cement sheets, CR strips and digital cameras. Further, during the years 2002-03 to 2006-07, tax of Rs. 6.24 lakh on sales of tender schedules amounting to Rs. 51.97 lakh was not levied by the UDA. This resulted in non/short levy of tax of Rs. 24.79 lakh.

After the cases were pointed out (April and May 2009), the Government/department accepted the audit observations in three cases involving Rs. 18.55 lakh and stated (October 2009) that the assessment had been revised in June 2009 in one case and show cause notices had been issued in two cases. The reply from the UDA has not been received (February 2010).

2.10.2 According to Section 6C of the APGST Act, the rate of tax on packing material sold with goods shall be the same as that of the goods packed or

³⁹ Karimnagar and Nalgonda.

⁴⁰ Adoni-II, Hyderabad (Basheerbagh, Khairatabad, Lord bazaar, Malakpet, Marredpally, Punjagutta, Sanathnagar, Somajiguda, Vidyanagar), Nizamabad-II, Ramannapet, Secunderabad (Maharajgunj, Ranigunj, S.D. Road), Special commodities circle and Visakhapatnam (China waltair).

⁴¹ Hyderabad (Basheerbagh, Punjagutta and Sanathnagar).

⁴² Vijayawada, Guntur, Tenali and Mangalagiri UDA.

filled. Further, under entry 19 of schedule (I) to the Act, packing material is taxable at the rate of four *per cent* when sold without contents and the rate at which the content is liable to tax when sold containing contents. It was judicially held⁴³ that gunnies, which have suffered tax, could again be subjected to tax when sold along with content.

Test check of the records (May and August 2008) of two circles⁴⁴ indicated that the AAs while finalising the assessments in six cases for the year 2004-05 between November 2005 and November 2006, incorrectly exempted turnover of Rs. 157.45 lakh relating to gunnies sold alongwith content. This resulted in non-levy of tax of Rs. 6.30 lakh.

After the cases were pointed out, the AA accepted the objection in one case and revised the assessment in December 2008. The replies in respect of the remaining cases have not been received (February 2010).

The matter was referred to the department in December 2008 and to the Government in April 2009; their reply has not been received (February 2010).

2.11 Non-levy of interest on belated payments

Under Section 16(3) of the APGST Act, if any dealer fails to pay tax alongwith the return or fails to pay tax on final assessment within the time prescribed, he shall pay interest in addition to the amount of such tax. Interest is payable at the rate of 18 to 36 *per cent* up to 11 January 2005 and at the rate of one rupee for every one hundred rupees or part thereof for each month or part thereof from 12 January 2005 onwards.

Test check of the records (October 2007 and November 2008) of four circles⁴⁵ indicated that five dealers either paid tax on final assessment or alongwith returns with delays ranging from 3 days to 139 months for the assessment years 1991-92 to 2004-05. The AAs did not levy interest of Rs. 11.50 crore for the delay in payment of tax.

After the cases were pointed out (October 2008 and May 2009), the Government/department stated (October 2008 and October 2009) that interest of Rs. 2.16 lakh had been levied in one case, while in another case involving a tax effect of Rs. 10.93 crore, show cause notice would be issued and in the remaining three cases, action would be taken to levy interest. Further report has not been received (February 2010).

2.12 Non/short levy of tax on the works contracts

Under Section 5F of the APGST Act, every dealer has to pay tax at the prescribed rate on his turnover of transfer of property either as goods or in some other form involved in the execution of works contract subject to exemptions and deductions provided for, under sub clauses (a) to (l) of Rule 6(2) of the APGST Rules.

⁴³ The A.P. High Court in the case of M/s Gowri Sankar Modern Rice Mill Vs. State of A.P. (147 STC 370).

⁴⁴ Narsapur and Nizamabad-II.

⁴⁵ Hyderabad (Agapura, Mehidipatnam and Somajiguda) and Chittoor (Tirupati-I).

2.12.1 Incorrect grant of exemption on the inter-state purchases

Under the proviso to Section 5F of the APGST Act, tax shall be leviable on the turnover of goods either obtained or purchased from other states by the contractor and used in the execution of the works contracts.

Test check of the records (November 2006 and November 2008) of five circles⁴⁶ indicated that in five cases, the contractors purchased material from other States and used these in the execution of the works contracts within the State. The goods so used were liable to tax under the proviso to Section 5F of the APGST Act. However, the AAs while finalising the assessments between June 2005 and February 2008 for the years 2003-04 and 2004-05, exempted the turnover of Rs. 60.75 crore relating to the material purchased from the other States by the contractors and used in the execution of the works contracts. Incorrect exemption of turnover resulted in short levy of tax of Rs. 4.86 crore.

After the cases were pointed out (September 2007 and May 2009), the Government/department accepted (November 2008 and October 2009) the audit observations in three cases involving Rs. 26.97 lakh and stated that the assessment had been revised and Rs. 6.98 lakh had been collected in one case. Report on recovery of the balance amount and reply in respect of the remaining cases have not been received (February 2010).

2.12.2 Incorrect computation of turnover

In determining the turnover of a dealer, deductions specified under Rule 6(2) of the APGST Rules shall be allowed from the turnover of the dealer if accounts are maintained as required under the Rule 45(1-C) of the APGST Rules. Deductions on account of cost of administrative expenses, income tax, inter-state purchases, sales tax etc., are not admissible under the Rules. If detailed accounts are not maintained and the amounts specified under the Rule 6(2) are not ascertainable from the accounts of a dealer, the turnover of the dealer shall be determined after deducting the amount calculated at percentages prescribed under Rule 6(3) (ii). Where the execution of the works contract extends over a period of more than one year, the value of material at the time of incorporation in works contract during that year shall be taxable turnover under Rule 6(3)(i).

Test check of the records (May 2006 and November 2008) of three LTUs⁴⁷ and 40 circles⁴⁸ indicated that the AAs while finalising the assessments in

⁴⁶ Hyderabad (Begumpet, Jubilee Hills, Khairatabad, M.J. Market) and Visakhapatnam (Dwarakanagar).

⁴⁷ Hyderabad Rural, Secunderabad and Warangal.

⁴⁸ Ananthapur-II, Chittoor (Puttur), Gadwal, Guntur (Brodipet), Hyderabad (Agapura, Ashoknagar, Basheerbagh, Begumpet, Charminar, Fathenagar, Ferozguda, Hyderguda, Jubilee Hills, Khairatabad, Malakpet, Mehidipatnam, Punjagutta, Rajendranagar, Somajiguda, Vengalaraonagar, Vidyanagar), Kamareddy, Kothagudem, Mandapeta, Medak (Siddipet), Nellore (II & III), Prakasam (Markapur), Secunderabad (Marredpally, R.P. Road, S.D. Road), Vijayawada (Seetharamapuram), Visakhapatnam (Dwarakanagar, Gajuwaka, Kurupam Market), Warangal (Beet bazaar, Fort Road, Jangaon, Mahabubabad and Ramannapet).

70 cases between April 2005 and March 2008 for the years 2003-04 and 2004-05, incorrectly arrived at the taxable turnover of Rs. 145.91 crore instead of Rs. 172.57 crore. The short determination of taxable turnover of Rs. 26.66 crore with a tax effect of Rs. 4.19 crore was due to allowance of inadmissible deductions on account of the administrative expenses, income tax, inter-state purchases, sales tax etc.

After the cases were pointed out (March 2007 and May 2009), the Government/department accepted (June 2006 and October 2009) the audit observations in 32 cases involving Rs. 2.07 crore and stated that the assessments had been revised in eight cases involving Rs. 29.65 lakh against which Rs. 7.91 lakh had been collected in three cases. The replies in respect of the remaining cases have not been received (February 2010).

2.12.3 Short levy of tax under composition

The rate of tax payable on the works contracts under Section 5F of the APGST Act was eight *per cent* and under Section 5G of the Act, the tax could be compounded at the rate of four *per cent* with effect from 1 January 2000. However, when an assessee opts for composition of tax, no deduction is admissible and tax is payable on the total amount paid or payable to the assessee towards the execution of works contract excluding the payments made to registered sub-contractors.

Test check of the records (October 2006 and September 2008) of seven circles⁴⁹ indicated that eight works contractors opted for composition of tax. Hence, they were not entitled to any deduction from their taxable turnover. However, the AAs while finalising the assessments between July 2005 and March 2008 relating to the years 2003-04 and 2004-05, incorrectly allowed deductions relating to the sales tax and labour charges in five cases and in one case, the assessment was finalised under section 5F instead of 5G to the advantage of the assessee. In another case, the turnover of the dealer corresponding to the TDS made by the contractee was not adopted as taxable turnover and in the remaining one case, the AA adopted incorrect rate of tax. This resulted in short levy of tax of Rs. 31 lakh.

After the cases were pointed out (October 2007 and May 2009), the Government/department accepted (February 2008 and October 2009) the audit observations in six cases involving Rs. 27.34 lakh and stated that the assessments had been revised in three cases and revision had been proposed in three cases. The replies in respect of the remaining cases have not been received (February 2010).

2.13 Short levy of tax due to application of incorrect rate

Tax at the rates specified in schedules I to VI to the APGST Act, 1957, is leviable on the commodities included in these schedules. Commodities not specified in any of the schedules fall under VII schedule and are taxable at 12 *per cent* from 1 January 2000.

⁴⁹ Hyderabad (Basheerbagh, Jubilee Hills, Khairatabad, Malkajgiri), Kurnool-I, Secunderabad (S.D. Road) and Visakhapatnam (Dwarakanagar).

Test check of the records (October 2007 and November 2008) of 17 circles⁵⁰ indicated that the AAs while finalising the assessments in 20 cases between May 2006 and March 2008 for the years 2003-04 and 2004-05, levied tax on air conditioners, colour televisions, electronic goods, fitness equipment, gypsum boards, industrial valves, jointing kits, nutrition food stuff, tractors, water management products etc., at rates lower than those specified in the Act resulting in short levy of tax of Rs. 2.74 crore.

After the cases were pointed out (March 2008 and May 2009), the Government/department accepted (October 2007 and October 2009) the audit observations in 14 cases involving Rs. 2 crore and revised the assessments in four cases involving Rs. 6.99 lakh against which Rs. 1.68 lakh was collected in three cases. In the remaining 10 cases revision was being done. The replies in respect of six cases have not been received (February 2010).

2.14 Sales tax incentives for industrial units

With a view to encouraging the growth of industries in the State, the Industries Department has been notifying various incentive schemes from time to time providing sales tax incentives in the form of sales tax deferment and sales tax holiday (exemption) to industrial units.

For according sanctions under the various incentive schemes, the Government constituted State Level Committee (SLC) and District Level Committee (DLC). On the basis of sanctions, the Commissioner of Industries issues Final Eligibility Certificate (FEC) indicating the extent and duration of the incentives for implementation by the CT Department.

2.14.1 Incorrect allowance of sales tax incentives

Under the incentive schemes, the exemption is to be availed by a unit during the period specified and up to the eligibility limit mentioned in the FEC.

2.14.1.1 Test check of the records (January 2008) of CTO, Vanasthalipuram indicated that the AA while finalising the assessment in one case in May 2006 for the year 2004-05, incorrectly allowed sales tax exemption of Rs. 1.12 crore up to December 2004 instead of Rs. 66.21 lakh by debiting lesser amounts to the eligibility limit than actually availed of during the years 1998-99 and 1999-2000. This resulted in excess availing of sales tax exemption of Rs. 46.23 lakh.

After the case was pointed out (March 2009), the Government accepted (October 2009) the audit observation and stated that a notice issued could not be served to the assessee due to closure of his business and added that further action was in progress.

⁵⁰ Hyderabad (Abids, Agapura, Basheerbagh, Begumpet, Ferozguda, Gandhinagar, Hydernagar, Jubilee Hills, Malakpet, Nampally), Medak, Nidadavole, Nizamabad-I, Puttur, Rajahmundry (Aryapuram), Secunderabad (S.D. Road) and Visakhapatnam (Suryabagh).

2.14.1.2 Test check of the records (June 2008) of S.D. Road circle indicated that the AA while finalising the assessment in one case in March 2008 for the year 2004-05, incorrectly allowed sales tax exemption of Rs. 26.49 lakh after expiry of the period of availment on 14 April 2004. This resulted in short levy of tax of Rs. 26.49 lakh.

After the case was pointed out (March 2009), the Government/department accepted (October 2009) the audit observation and stated that a show cause notice for revision had been issued. Further report has not been received (February 2010).

2.14.2 Incorrect adjustment of deferred tax

According to the Target 2000 scheme⁵¹ guidelines, in case of expansion of an industrial unit, the deferment is eligible over and above the base turnover⁵² fixed to the unit. The benefit of deferment is not admissible up to the base turnover.

Test check of the records (December 2007) of AC (LTU) Nalgonda indicated that the AA in two cases for the years 2003-04, 2005-06 and 2006-07 adjusted the tax due on the entire turnover to tax deferment instead of limiting it to over and above the base turnover fixed. This resulted in non-collection of tax of Rs. 69.84 lakh up to base turnover.

The matter was referred to the department in October 2008 and the Government in April 2009; their reply has not been received (February 2010).

2.14.3 Incorrect allowance of sales tax exemption/deferment

According to the various sales tax incentive schemes promulgated by the Government from time to time, sales tax incentives are available for the products which are specified in the FEC and manufactured by the industrial units.

Test check of the records (June and November 2007) of AC (LTU) Nizamabad and CTO Anakapalli indicated that the AAs while finalising the assessments in two cases for the year 2003-04, incorrectly allowed sales tax deferment though the item 'adhesives' was not covered by the FECs. Further, during the period from April 2005 to March 2007, a dealer claimed tax deferment for the item 'mortar' in one case, which was not covered by the FEC. This resulted in incorrect allowance of tax deferment of Rs. 24.60 lakh.

After the cases were pointed out (November 2007 and May 2009), the Government/department accepted (November 2007 and October 2009) the audit observations in two cases involving Rs. 9.07 lakh and stated that show cause notice had been issued in one case and in another case assessment would be revised. The reply in respect of the remaining case has not been received (February 2010).

⁵¹ G.O.Ms.No.108, Industries and Commerce (IA) Department dated 20 May 1996.

⁵² Base turnover means best production achieved during the three years preceding the year of expansion or the maximum capacity expected to be achieved by the industry, whichever is higher.

2.14.4 Short debit to sales tax exemption

According to the Target 2000 scheme guidelines, the amount of tax payable by the unit during the period of availing of sales tax exemption shall be debited correctly to the tax exemption/deferment account of that unit.

2.14.4.1 Test check of the records (December 2008) of AC (LTU) Nalgonda indicated that the assessee was sanctioned sales tax exemption of Rs. 458.44 lakh to be availed of during the period from 29 September 2001 to 28 September 2008. The AA levied tax of Rs. 1.23 crore on the turnover of inter-state sales for the assessment year 2004-05. Out of the tax levied, assessee paid Rs. 39,859 and an amount of Rs. 1.08 crore only was debited to the scheme. This resulted in short debit of Rs. 14.76 lakh.

The matter was referred to the department and the Government in May 2009; their reply has not been received (February 2010).

2.14.4.2 Test check of the records (June 2008) of Basheerbagh circle indicated that the AA while finalising the assessment in one case in April 2007 for the year 2004-05, incorrectly allowed sales tax deferment for an amount of Rs. 2.58 crore instead of Rs. 2.49 crore. This resulted in incorrect adjustment of tax due of Rs. 9.54 lakh to tax deferment.

The matter was referred to the department in December 2008 and to the Government in March 2009; their reply has not been received (February 2010).

2.14.5 Non-remittance of tax collected during the period of sales tax holiday

According to the Target 2000 scheme guidelines, industrial units availing sales tax holiday (exemption) are not allowed to collect tax from consumers during the period of availment of the sales tax exemption. In case tax is collected, it has to be remitted to the Government.

Test check of the records (November and December 2008) of AC (LTU) Nalgonda and Tirupati-I circle indicated that in two cases, the tax collected while availing of the sales tax exemption, was not remitted to the Government during the assessment year 2004-05. This resulted in non-remittance of tax of Rs. 16.07 lakh.

After the cases were pointed out (May 2009), the Government accepted the audit observation in one case involving Rs. 1.31 lakh and stated (October 2009) that a show cause notice had been issued for revision. Further development in this case and reply in the remaining case have not been received (February 2010).

2.15 Non-levy of tax due to misclassification of the supply contract as transit sale

Electrical goods fall under entry six of VI Schedule to the APGST Act and are liable to tax at the rate of eight *per cent* at every point of sale.

Test check of the records (June 2005) of the S.D. Road circle indicated that the AA while finalising the assessment in one case in June 2004 for the year 2002-03, incorrectly exempted a turnover of Rs. 23.99 crore relating to supply contract of electrical goods as transit sale. This resulted in non-levy of tax of Rs. 1.92 crore.

After the case was pointed out (February 2009), the Government stated (October 2009) that the assessment had been revised and Rs. 48.45 lakh had been recovered. Report on recovery of the balance amount has not been received (February 2010).

2.16 Excess set-off against tax due

Under the provisions of the APGST Act, 1957 and notifications issued thereunder, set-off can be allowed against tax due on the sale of finished goods in which the tax paid raw material is used in the manufacture of such finished goods, provided transactions at both ends take place within the State.

Test check of the records (August 2005 and October 2008) of two LTUs⁵³ and 13 circles⁵⁴ indicated that set-off of Rs. 11.29 crore was allowed between December 2004 and March 2008 against the admissible set-off of Rs. 10.09 crore during the assessment years 2003-04 and 2004-05 in 17 cases relating to gold, iron, plastic goods, soft drinks, rentals of crates etc. This resulted in short levy of tax of Rs. 1.20 crore.

After the cases were pointed out (April 2006 and June 2009), the Government/department accepted (August 2005 and October 2009) the audit observations in seven cases involving Rs. 66.65 lakh and stated that the assessments had been revised in four cases involving Rs. 3.98 lakh out of which Rs. 0.97 lakh had been collected in two cases. The assessments in three cases were being revised by the concerned DC (CT). The replies in respect of the remaining cases have not been received (February 2010).

2.17 Non-levy of turnover tax

2.17.1 According to Section 5A of the APGST Act, when the total turnover of a dealer in a year exceeds Rs. 10 lakh, turnover tax at one *per cent* is leviable with effect from 1 August 1996 on second and subsequent sales of goods specified in the first, second, fifth and seventh schedules to the Act.

⁵³ Nalgonda and Saroornagar.

⁵⁴ Chittoor-II, Guntur (Brodipet), Hyderabad (Barkatpura, Basheerbagh, Jeedimetla, Punjagutta, Rajendranagar, Ramachandrapuram, Ramagopalapet), Kamareddy, Seetharamapuram, Siddipet and Special Commodities circle.

Test check of the records (October 2007 and October 2008) of AC (LTU) Begumpet and six circles⁵⁵ indicated that the AAs while finalising the assessments in seven cases between June 2006 and March 2008 for the years 2003-04 and 2004-05, failed to levy turnover tax on a turnover of Rs. 29.19 crore relating to cars, electronic toys, electronic goods, soaps, surgical goods, machinery parts and spices etc., though the turnovers in each of these cases exceeded Rs. 10 lakh. This resulted in non-levy of turnover tax of Rs. 29.19 lakh.

After the cases were pointed out (February and May 2009), the Government accepted (October 2009) the audit observations in five cases involving Rs. 11.54 lakh and stated that the assessments were proposed for revision. In one case, the department stated that since the purchases were made from an SSI unit turnover tax was not levied. The reply is not tenable as in this case the sales have not been made by an SSI unit but by an individual dealer. As such, he was liable to turnover tax. The reply in respect of the remaining case has not been received (February 2010).

2.17.2 According to Section 5A(1-A) of the APGST Act, every dealer shall in addition to the tax payable, pay a turnover tax each year on his turnover liable to tax at the rate of two *per cent* on the first sale turnover of lubricant oils.

Test check of the records (February and November 2008) of two LTUs⁵⁶ and two circles⁵⁷ indicated that the AAs while finalising the assessments in four cases between March 2007 and March 2008 for the years 2003-04 and 2004-05, did not levy turnover tax on the first sale turnover of Rs. 10.89 crore relating to lubricant oils. This resulted in non-levy of tax of Rs. 21.79 lakh.

After the cases were pointed out (February and May 2009), the Government accepted (October 2009) the audit observations. Of these, two assessments were revised involving Rs. 18.82 lakh out of which Rs. 18.30 lakh was collected in one case. The remaining cases were stated to have been proposed for revision. Further report has not been received (February 2010).

2.18 Non/short levy of tax at every point of sale

Goods enumerated in the Schedule VI to the APGST Act, 1957, are taxable at every point of sale at the rates mentioned in the schedule. Under the proviso to the Schedule VI, tax to be paid at any point of sale other than first point of sale shall be determined after deducting the tax levied on the turnover of such goods at the immediately preceding point of sale by a registered dealer from the tax leviable on the turnover of the same goods at the point of sale by the selling dealer. Cable trays, mattresses, printing inks, soft drinks, plywood and wooden furniture are included in the Schedule VI of the Act.

⁵⁵ Hyderabad (Barkatpura, Jubilee hills, Mehidipatnam, Osmangunj, Sanathnagar and Somajiguda).

⁵⁶ Begumpet and Visakhapatnam.

⁵⁷ Hyderabad (Malakpet and Marredpally).

Test check of the records (December 2005 and October 2008) of seven circles⁵⁸ indicated that the AAs while finalising the assessments in seven cases between January 2005 and March 2008 for the years 2003-04 and 2004-05, incorrectly exempted the turnover relating to the second point sales of cable trays, mattresses, printing inks, soft drinks, ply wood and wooden furniture. This resulted in non/short levy of tax of Rs. 25.79 lakh.

After the cases were pointed out (November 2006 and May 2009), the Government/department accepted (December 2005 and October 2009) the audit observations in seven cases involving Rs. 25.79 lakh and stated that the assessments had been revised in three cases and had been proposed for revision in four cases.

2.19 Non-levy of penalty

2.19.1 Under Section 53(3) of the APVAT Act, any dealer who has under declared tax, and where it is established that fraud or wilful neglect has been committed, he shall be liable to pay penalty equal to the tax underdeclared.

According to Section 9(2) of the CST Act, the authorities empowered to assess, reassess, collect and enforce payment of tax under general sales tax law of the appropriate State shall, on behalf of the Government of India, assess, reassess, collect and enforce payment of tax, including any interest or penalty payable by a dealer under the Act as if the tax or interest or penalty is payable under the general sales tax law of the State.

Test check of the records (May and June 2008) of two circles⁵⁹ indicated that the departmental officers had detected underdeclared tax of Rs. 12.46 lakh in respect of three VAT dealers for the period from April 2005 to March 2008. Though penalty of Rs. 12.46 lakh was leviable, it was not levied.

The matter was referred to department in April 2009 and to the Government in May 2009; their reply has not been received (February 2010).

2.19.2 Under Section 14(8)(a) of APGST Act, 1957, the penalty leviable shall not be less than three times which may extend to five times the tax due in a case where the AA is satisfied that the failure of the dealer to disclose the whole or part of the turnover or any other particulars correctly, or to submit the return before the prescribed date was wilful.

Test check of the records (December 2006 and January 2007) of Gowliguda circle indicated that in one case the AA noticed (June 2005) wilful suppression of taxable turnover of Rs. 49.23 lakh for the years 2002-03 and 2003-04. Though tax of Rs. 3.94 lakh was levied, the department did not levy penalty of Rs. 11.81 lakh.

⁵⁸ Hyderabad (Agapura, Begumpet, Jubilee hills, Khairatabad, Tarnaka), Kurnool-III and Special Commodities circle.

⁵⁹ Secunderabad (Lord bazaar and S.D. Road).

After the case was pointed out (March 2009), the Government accepted (October 2009) the audit observation and stated that the assessment had been revised and Rs. 1.88 lakh had been collected. Report on recovery of the balance amount has not been received (February 2010).

2.20 Short levy of tax due to incorrect application of concessional rate

As per the Government order⁶⁰ dated 13 January 2000, tax at the concessional rate of four *per cent* shall be levied on the sales effected to the departments of the State and Central Governments situated within the State of Andhra Pradesh subject to production of declarations in the Form 'N'.

Test check of the records (August and November 2007) of two circles⁶¹ indicated that the AAs while finalising the assessments in two cases between August 2006 and March 2007 for the years 2003-04 and 2004-05, levied tax on sewing machines and steel furniture at the concessional rate of four *per cent* even though the sales of Rs. 1.19 crore were not supported by the 'N' Forms in one case and in another case, sales of Rs. 94.47 lakh were made to the local bodies. This resulted in short levy of tax of Rs. 13.27 lakh.

After the cases were pointed out (February 2009), the Government accepted (October 2009) the audit observations in both cases and collected Rs. 3.78 lakh in one case by transfer adjustment of the tax refundable to the dealer and the assessment had been proposed for revision in the other case. Report on recovery of the balance amount has not been received (February 2010).

2.21 Non-remittance of sales tax deducted at source

As per Section 5H of the APGST Act, 1957 and Section 22 of the APVAT Act, tax shall be deducted at source out of the amounts payable to a dealer in respect of the work executed by him which shall be remitted to the State Government. Non-remittance of sales tax within 15 days from the expiry of the month during which tax is deducted attracts interest under Section 16 of the APGST Act.

Test check of the records (September 2007) of Integrated Tribal Development Agency, Utnoor indicated that during the period from 2000-01 to 2005-06, the Executive Engineer (EE), Tribal welfare, Utnoor recovered Rs. 60.81 lakh towards sales tax from the bills paid to the works contractors. Against this, Rs. 51.66 lakh only was remitted to the State Government leaving a balance of Rs. 9.15 lakh yet to be remitted. Besides, interest of Rs. 1.68 lakh was also leviable under the APGST Act. This resulted in non-realisation of revenue of Rs. 10.83 lakh.

After the case was pointed out, the EE stated (September 2007) that the amount would be remitted.

⁶⁰ G.O.Ms.No.26 Revenue (CT-II) department 13 January 2000.

⁶¹ Hyderabad (Begumpet) and Medak.

The matter was referred to the department in April 2009 and to the Government in May 2009; their reply has not been received (February 2010).

2.22 Non-forfeiture of excess tax collection

Under Sections 30 B and 30 C of the APGST Act, no dealer shall collect any amount by way of tax in excess of the amount of tax payable by him on the sale under the provisions of the Act. If any person collects tax in contravention of these provisions, any sum so collected shall be forfeited to the State Government within three years from the date of collection.

Test check of the records (December 2007 and September 2008) of AC (LTU) Nellore and two circles⁶² indicated that in three cases, excess tax of Rs. 7.67 lakh collected during the years 2003-04 and 2004-05 was not forfeited to the Government within three years from the date of collection.

After the cases were pointed out (March and May 2009), the Government accepted (October 2009) the audit observations in two cases involving Rs. 1.24 lakh and stated that the assessments had been revised. In one case, it was stated that the excess collection could not be forfeited as the maximum period of three years had lapsed from the date of collection of the amount. Failure of the department to notice the excess tax collection and take timely action thus resulted in loss of revenue.

⁶² Hyderabad (Barkatpura and Punjagutta).

CHAPTER III LAND REVENUE

3.1 Results of audit

Test check of the records of land revenue offices conducted during the year 2008-09 indicated underassessment, non/short levy of revenue and other deficiencies amounting to Rs. 110.50 crore in 53 cases which can be classified under the following categories:

(Rupees in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Alienation of government lands, non-recovery of market value	7	106.55
2.	Incorrect grant of remission of water tax	14	2.59
3.	Non-levy of interest on arrears of land revenue	2	0.47
4.	Non/short levy of road cess	22	0.39
5.	Non/short levy of water tax	5	0.31
6.	Non/short levy of non-agricultural land assessment (NALA)	1	0.05
7.	Other irregularities	2	0.14
Total		53	110.50

During the year 2008-09, the department accepted underassessments and other deficiencies totalling Rs. 66.15 lakh in 22 cases, of which 20 cases involving Rs. 63.50 lakh were pointed out during the year 2008-09 and the rest in earlier years. Out of this, Rs. 0.74 lakh in two cases was realised during the year.

A few illustrative audit observations involving Rs. 5.72 crore are mentioned in the succeeding paragraphs.

3.2 Audit observations

Scrutiny of the records in the various offices of land revenue relating to revenue received from water tax, road cess indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax and other cases as mentioned in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that such omission can be avoided.

3.3 Non-finalisation of alienation of land

According to the Board Standing Orders (BSO), alienation of the Government land to a company, private individual or institution for any public purpose will normally be on the collection of its market value/occupancy price and subject to the terms and conditions prescribed in the BSO. The BSO permits handing over of the possession of the land in emergency cases pending formal approval of the alienation proposal. Neither any time limit nor any return has been prescribed for watching the finalisation of the proposals.

Test check of the records of five offices of the tahsildars⁶³ (January 2003 and November 2008) indicated that in five cases advance possession of Government land admeasuring 1,304.24 acres valued⁶⁴ at Rs. 109.22 crore was handed over to five organisations between October 1989 and August 2006. The alienation proposals were pending with the department for a period ranging between two and half and 19 years. Thus, non-finalisation of alienation proposals resulted in blocking of revenue totalling Rs. 109.22 crore.

After the cases were pointed out, the concerned tahsildars stated between July 2007 and November 2008 that the matters relating to alienation of land were being referred to the collectors/revenue divisional officers for further necessary action at their end. Reasons for the delay in sending the alienation proposal to higher authorities were not intimated (February 2010).

The matter was referred to the department between August 2008 and February 2009 and the Government in April 2009; their reply has not been received (February 2010).

The Government may consider providing a time limit for alienation of the government land granted to various organisations and bodies and improve the internal control to ensure that the proposals are finalised in time.

⁶³ Ghatkesar, Gudupalle, Jangaon, Karvetinagar and Pendurthy.

⁶⁴ The value of land has been calculated at the market value available in the records of the concerned Tahsildar.

3.4 Loss of revenue due to short collection of conversion fee

As per Section 3(1) of Andhra Pradesh Agricultural land (conversion for non-agricultural purpose) Act 2006 (Act), no agricultural land in the State shall be put to non-agricultural purpose, without prior permission of the competent authority. Section 4(1) of the Act, provides that every owner or occupier of agricultural land shall pay a conversion fee at the rate of 10 *per cent* of the basic value of the land converted for non-agricultural purposes. If the conversion fee so paid is found to be less than the fee prescribed, a notice shall be issued by the competent authority to the applicant within 30 days of the receipt of application intimating the deficit amount to him. In case no intimation is received by the applicant within 30 days about the deficit payment of the conversion fees, it shall be deemed that the amount paid is sufficient for the purpose.

Test check of the records of the tahsildar, Kothur, Mahabubnagar district (June 2008) indicated that two units⁶⁵ filed an application for the conversion of 188.125 acres of agriculture land for non-agricultural purpose. The Revenue Divisional Officer (RDO), Mahabubnagar issued orders converting the land and collected Rs. 7.60 lakh as conversion fee by adopting the basic value of the land as Rs. 76 lakh. As the sale consideration mentioned in the registered document was Rs. 18 lakh per acre, this was required to be adopted by the RDO, Mahabubnagar to arrive at the basic value of the land for the purpose of conversion fee. Non-adoption of the actual consideration as basic value of the land resulted in short collection of conversion fee by Rs. 3.31 crore. Further, chances for realisation of Rs. 3.31 crore collected short are remote as the limit of 30 days for demanding the deficit amount is already over.

After the case was pointed out, the tahsildar, Kothur stated (June 2008) that the matter would be examined in consultation with RDO, Mahabubnagar.

The above matter was referred to the department in November 2008 and the Government in February 2009; their reply has not been received (February 2010).

3.5 Incorrect grant of remission of water tax

As per the provisions of Andhra Pradesh (AP) Water Tax Act, 1988, water tax is leviable on all types of land receiving water from the Government sources. Further, as per integrated village accounts, only the Government is competent to remit water tax and the Collectors are required to obtain orders from the Government whenever such cases of remission arise. Remission granted by the Government has to be noted in Account 4-B of the village accounts.

Test check of the *jamabandi*⁶⁶ records (Account 4-B) of 11 offices of the tahsildars⁶⁷ (April and September 2008) indicated that the remission of water

⁶⁵ M/s Amsri Builders, Secunderabad and M/s Amsri Spire Constructions Pvt. Ltd., Secunderabad.

⁶⁶ *Jamabandi* means finalisation of village accounts and demand.

⁶⁷ Cheedikada, Gangavaram, Garugubilli, Nathavaram, Parvathipuram, Pedapadu, Pedavegi, Punganur, Rajavommangi, Ramasamudram and Salur.

tax amounting to Rs. 2.22 crore was granted by the *jamabandi* officers⁶⁸ for the years 1 July 1997 to 30 June 2005 (*fasli years*⁶⁹ 1407 to 1414) without sanction of the Government. This was incorrect and resulted in short realisation of Government revenue to that extent.

After the cases were pointed out, all concerned tahsildars except that of Rajavommangi stated (May and September 2008) that the proposals for grant of remission had been/would be referred to the higher authorities/Government. The tahsildar, Rajavommangi stated (May 2008) that remission was allowed as the Government declared the mandal as drought hit. The reply is not tenable as the orders for remission of water tax were neither issued by the Government nor were these obtained by the concerned district collectors.

The above matter was referred to the department between July and November 2008 and the Government in February 2009; their reply has not been received (February 2010).

3.6 Non-levy of water tax

As per the AP Water Tax Act, all lands receiving water for irrigation from a Government notified source of irrigation shall be subjected to water tax. For this purpose, all major and medium irrigation sources shall be regarded as category-I. The rate of water tax for first or single wet crop irrigation with water from category-I source is Rs. 200 per acre.

Test check of the records of office of the tahsildar, Karvetinagar, Chittoor district (April 2008) indicated that water tax amounting to Rs. 13.36 lakh was not levied by the Tahsildar though 6,678.10 acres of land was irrigated with water from Krishnapuram Project reservoir during the period 1 July 1998 to 30 June 2004⁷⁰ (*fasli years* 1408 to 1413).

After the case was pointed out, the tahsildar, Karvetinagar stated (April 2008) that action would be taken to levy water tax.

The above matter was referred to the department in July 2008 and the Government in March 2009; their reply has not been received (February 2010).

3.7 Non/short levy of road cess

Under the AP Irrigation, Utilisation and Command Area Development Act, 1984, read with the notifications issued thereunder, road cess at the rate of Rs. 12.35 per hectare per annum is leviable for laying of roads and their upkeep in the command areas of Nagarjunasagar, Sriramsagar and Tungabhadra projects. The Commissioner of Land Revenue, clarified in

⁶⁸ *Jamabandi officer* is District Collector or any other officer nominated by him not below the rank of RDO.

⁶⁹ *Fasli year* means period of 12 months from July to June.

⁷⁰ *Jamabandi* for fasli years 1408-1413 was completed in the year 2007-08.

August 1989⁷¹ that the road cess is leviable on all *ayacutdars*⁷² irrespective of the formation of roads and supply of water in their command areas relating to the above projects.

Test check of the *jamabandi* records of five offices of the tahsildars⁷³ (February and December 2008) indicated that the road cess of Rs. 4.97 lakh was not levied on ayacutdars in the command areas of the above projects in four cases, while it was levied short by Rs. 63,646 in one case during the period 1 July 1998 to 30 June 2003 (*fasli* years 1408 to 1412). This resulted in non/short levy of road cess of Rs. 5.60 lakh.

After the cases were pointed out, all the tahsildars stated (February and December 2008) that the demands for the road cess would be raised in the next *jamabandi*.

The above matter was referred to the department between June 2008 and January 2009 and the Government in March 2009; their reply has not been received (February 2010).

⁷¹ Z2/486/88 dated 28 August 1989.

⁷² Land owners in command areas of irrigation projects.

⁷³ Gooty, Mogulapalli, Muppalla, Tadipatri and Yellanur.

CHAPTER IV TAXES ON VEHICLES

4.1 Results of audit

Test check of the records of the offices of the Transport Department conducted during the year 2008-09 indicated non/short levy of taxes and loss of revenue amounting to Rs. 80.81 crore in 242 cases which could be classified under the following categories:

(Rupees in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Citizen Friendly Services in Transport Department (A review)	1	16.94
2.	Non-levy of quarterly tax and penalty	42	13.76
3.	Short collection of penalty on belated payment of tax	42	10.54
4.	Non-realisation of fee due to non-renewal of fitness certificate	26	31.29
5.	Non-levy and collection of green tax	39	3.56
6.	Non-levy and collection of one time tax	21	1.65
7.	Non-levy and collection of quarterly tax and penalty on stage carriages	1	1.08
8.	Non-levy/collection of compounding fee	32	0.78
9.	Non-levy and collection of tax on road rollers	9	0.33
10.	Loss of revenue due to non-conversion of fair weather routes into all weather routes	4	0.05
11.	Other irregularities	25	0.83
Total		242	80.81

During the year 2008-09, the department accepted underassessments and other deficiencies of Rs. 14.62 crore in 68 cases which were pointed out in audit during the year 2008-09. Out of this, Rs. 1.80 crore was collected in 27 cases.

A few illustrative audit observations involving Rs. 51.99 crore and a review on “**Citizen Friendly Services in Transport Department**” involving Rs. 16.94 crore are mentioned in the succeeding paragraphs.

4.2 CITIZEN FRIENDLY SERVICES IN TRANSPORT DEPARTMENT (CFST)

Highlights

- Business rules were not incorporated into the CFST application resulting in non/short levy of life tax on company vehicles, second and subsequent vehicles of individuals, green tax and card fee etc., amounting to Rs. 6.20 crore.

(Paragraph 4.2.11)

- Lack of input validations had resulted in erroneous/inconsistent and incomplete data. There were gaps in issue of registration numbers resulting in non-allotment of registration numbers. Non-allotment of numbers under choice/reserve category resulted in loss of revenue on reservation fee/choice fee amounting to Rs. 23.64 lakh.

(Paragraphs 4.2.12.1 & 4.2.12.2)

- In 12 offices repetition of the numbers of insurance cover notes was noticed in 6,08,116 vehicles relating to eight insurance companies.

(Paragraph 4.2.14)

- In ten offices 31,831 vehicles with the same chassis number were noticed. Further, 53,582 duplicate engine numbers with different transactions and different classes of vehicles were noticed.

(Paragraph 4.2.15)

- CFST has been prompting demand which was either less or higher than the actual demand to be raised.

(Paragraph 4.2.16)

- The department did not have adequate internal control mechanism which resulted in non-monitoring of the driving licences issued, non-reconciliation of e-seva transactions and non-verification of data.

(Paragraphs 4.2.18.1 & 4.2.18.2)

- Though computerisation commenced in the year 2000, internal audit was not conducted to get an assurance on the working of the system. Discrepancies were noticed in the demand and collection statement.

(Paragraph 4.2.18.3)

4.2.1 Introduction

The Transport Department of the Government of Andhra Pradesh is governed by the Motor Vehicle (MV) Act 1988, the Central Motor Vehicle Rules, 1989, the Andhra Pradesh Motor Vehicles Taxation (APMVT) Act, 1963 and the Andhra Pradesh Motor Vehicle Rules, 1989. The Transport Department is primarily responsible for enforcement of the provisions of the Acts and the

rules framed thereunder which, *interalia*, includes the collection of taxes and fees, issuance of the driving licences, certificates of fitness to transport vehicles, registration of the motor vehicles and granting regular and temporary permits to the vehicles.

The Government of Andhra Pradesh envisaged the scheme of computerisation in the Transport Department in the year 1989 to make the department citizen friendly in its functioning and to provide smart services to the public. The objectives of the computerisation were to build a comprehensive database and provide online access to the public covering the entire gamut of services viz., issue of the driving licences and permits, registration and taxation of the vehicles and monitoring the transport system in the State.

The e-governance software initially named as “Fully Automated Services of Transport Department” (FAST) was implemented in 11 offices and was confined to the issue of the driving licences and registration of private (non-commercial) vehicles. The software was later renamed as ‘Citizen Friendly Services in Transport Department (CFST)’ and implemented in May 2000 in all the 44 Deputy Transport Commissioner (DTC)/Regional Transport Offices.

4.2.2 Organisational set up for implementation of the CFST

At the Government level, the Principal Secretary (Transport, Roads and Buildings Department) heads the implementation and monitoring of the CFST. At the Commissionerate, one Joint Transport Commissioner (IT) who directly reports to the Transport Commissioner (TC) is incharge of the CFST. At the district level, there are the DTCs and the Regional Transport Officers (RTOs) who are in turn assisted by the Motor Vehicles Inspectors (MVIs), the Enforcement Wing consisting of the Enforcement Officers, Inspectors and Assistant Motor Vehicle Inspectors. Database Administrators of M/s Raasi Enterprise Solutions Limited (RESL) assist the DTCs/RTOs in operation of the CFST.

4.2.3 Information System set up

M/s Tata Infotech Ltd and M/s ECIL developed the CFST application at a cost of Rs. 3.25 crore with Oracle 8i at the backend and Developer 2000 and Visual Basic at the front end. With Windows NT as the operating system, the system architecture was based on the client server model. There are five modules in the CFST viz., driving licences, registration of the vehicles, permits, tax and fitness certificates.

4.2.4 Significance of the database

The revenue from taxes on vehicles increased from Rs. 1,364.74 crore in 2006-07 to Rs. 1,800.62 crore in 2008-09 and is one of the major sources of revenue for the State (around six *per cent*). All the activities of the transport department viz., issue of the driving licences, permits, collection of taxes, generation of various statements etc., are performed through the CFST and there is no manual record. Details like names, addresses, and signatures of the

buyer and seller of the vehicles, life tax paid by the individuals and quarterly tax paid for the transport vehicles are captured during the process of registration/issue of permits/licences and are thus undeniably critical. Even for the department, the CFST application is immensely useful for issue/renewal of the licences, assessment of taxes and fees, monitoring of the transport system in the State etc.

4.2.5 Processes through the CFST

Registration of the vehicles: All the vehicles are classified as transport⁷⁴ and non-transport⁷⁵ vehicles. A new non-transport vehicle is initially issued a temporary registration number by the dealer after payment of life tax by way of a demand draft at e-seva⁷⁶ centre and the details are updated in the CFST. Subsequently, the vehicle is allotted a system generated permanent registration number within one month of purchase of the vehicle by the jurisdictional DTC/RTO and a registration certificate (laminated card) is issued through the CFST. All the details viz., name of the vehicle owner, vehicle cost, engine number, chassis number, life tax paid and date of registration etc., are captured during the registration.

Issue of the driving licences: An individual above 16 years of age desiring to obtain a driving licence is initially issued a licence valid for six months after successfully negotiating a test through the CFST. His details like name, date of birth, address are captured and subsequently, after passing the driving test, a permanent licence is issued through the CFST.

All subsequent transactions viz., transfer of ownership, change of address etc., are monitored through the data captured. The quarterly taxes, fees on account of permits, fitness etc., are monitored/retrieved and the ledgers/DCB statements are updated.

4.2.6 Audit objectives

The review of the CFST was conducted to ascertain whether

- built-in input, process and output controls were adequate;
- business rules were incorporated in the CFST;
- data captured in the system were complete, correct and reliable;
- performance and utilisation of the CFST was consistent; and
- internal control framework and monitoring mechanism were adequate.

⁷⁴ A transport vehicle is a vehicle which is used for commercial purposes for e.g., stage carrier, truck, goods vehicles etc.

⁷⁵ A non-transport vehicle is a vehicle which is used for non-commercial purposes for e.g., motor cycle, motor car etc.

⁷⁶ An e-seva center is a facility provided by the Government of Andhra Pradesh under public private partnership to enable the public to pay all the taxes, fees, duties relating to various departments under one roof.

4.2.7 Scope and methodology of audit

Audit of the application software (CFST) was conducted for the period since implementation i.e., from May 2000 to March 2009. The data furnished by the JTCs/DTCs/RTOs were scrutinised using the generalised audit software – IDEA (Interactive Data Extraction and Analysis). The results of queries were compared with the information maintained in the physical records/documents available at the JTCs/DTCs/RTOs. 16 offices⁷⁷ were selected based on the transactions, vehicular strength etc., covering the three different regions of Andhra Pradesh (Andhra, Rayalaseema and Telangana).

4.2.8 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of Transport Department in providing the necessary information and data to audit. An entry conference was held in April 2009 with the Transport Commissioner in which the objectives of the IT review and audit methodology were explained. The draft review was forwarded (August 2009) to the Government with a request for their response. An exit conference was held in November 2009 in which the audit findings and recommendations were discussed with the department and the Government. Transport Commissioner represented the department and the Deputy Secretary Transport represented the Government. The response of the department and that of the Government received in the exit conference and at other points of time has been appropriately reflected in the relevant paragraphs of the review.

Audit findings

General controls

4.2.9 Lack of input validations

The database of any computerised system has to be correct and complete in all respects. To ensure this, the procedures and controls should guarantee that the data received for processing is genuine, complete, accurate and properly authorised.

The following discrepancies were noticed which were due to absence of data validation checks:

- **Fitness certificate renewed beyond the permissible period:** As per Section 56 of the MV Act and Rule 62 of the CMV Rules, a certificate of fitness granted in respect of the transport vehicles shall be in Form 38 and such certificate when renewed shall be valid for a period of one year. However, it was noticed in 1,36,558 cases that the fitness certificates involving fee of Rs. 10.74 crore were renewed for more than one year contrary to the provisions and having serious implications on the road safety.

⁷⁷ TC-Hyderabad, JTC-Khairatabad, DTCs - Chittoor, Guntur, Kurnool, Vijayawada, Visakhapatnam, RTOs - Amalapuram, Bhimavaram, Gudivada, Hindupur, Hyderabad (West), Narasaraopet, Rajahmundry, Rangareddy (East) and Tirupati.

- **Licences issued to underaged persons:** As per Section 4 of the MV Act, no person under the age of 16 years shall drive a motor vehicle in any public place. However, it was noticed that 1,280 driving licences were issued to persons below the age of 16 years.
- **Learners' licences issued beyond permissible period:** As per Section 14 of the MV Act, a learner's licence shall be effective for a period of six months from the date of issue of the licence. However, it was noticed in 18,626 cases of 11 offices that learners' licences remained valid for more than six months in contravention of the provisions of the Act.
- **Registration certificate (RC) renewed beyond the permissible period:** As per Rule 52(2) of the CMV Rules, RC of the vehicle shall be renewed for every five years after completion of 15 years from the date of registration. It was noticed in 41,978 cases that the validity of the RC issued was for more than 15 years.
- **International driving permit issued beyond the permissible period:** As per Rule 16(4) of the CMV Rules, every international driving permit issued by a licensing authority shall be valid for a period of not more than one year from the date of issue. However, it was noticed in two cases that they remained valid for more than two years.

After this was pointed out, the department stated (November 2009) that necessary validation checks would be provided.

The following inconsistencies/improbabilities were also noticed in the CFST due to lack of proper validation and input controls.

- In 551 cases, driving licences were issued to persons above 100 years of age.
- In 4,019 cases, the date of driving test was shown as the date prior to the date of application.
- In 9,105 cases, tax payment date was beyond the system date.
- The date of birth and the date of issue of licence were the same in one case.
- In three cases, the date of birth was later than the date of issue of driving licence.
- In one case, learner's licence marks were zero but the result was shown as passed though the minimum marks required for issue of a licence was 16 out of 20 marks.
- In 15 cases, validity of the date of registration of the vehicles was shown prior or same as the date of issue of the RC.
- In six cases, validity of international driving permit expired before the issue date.

The department stated (November 2009) that online services and slot-booking system for issue of the driving licences has been introduced (March 2009) and the necessary validation checks have been provided. The reply is not correct as the slot-booking system was introduced only in three districts covering seven offices⁷⁸ whereas the above findings pertain to the period prior to March 2009.

4.2.10 Blanks in the database

Scrutiny of the database relating to the CFST revealed that for many crucial fields, they were left blank or shown as information not available. Further, in case of many fields either the amounts shown were negative or zero which is not possible. The details of the number of such fields for the test checked units are as mentioned below:

Field	Field details	Number of fields
Learners licence, driving licence issue date	Blank/NA	8,25,191
Vehicle cost		5,77,381
Insurance company		2,04,229
Vehicle registration validity		1,61,553
Address		1,28,601
Engine number		71,246
Father/guardian name		53,031
Applicant's sex		31,029
Domestic licence number in case of international licences		13,186
Chassis number		8,623
Visa validity in case of international licences		5,633
Permit approval authority		3,792
Date of birth		1,284
Permit vehicle class identity		1,263
Applicant's name		4
<i>Challan</i> amount	Zero	1,950
Tax amount	Negative	2,278
Compounding fees		16,088
Cash amount		383
Penalty amount		180
Test fee amount		141
Demand amount		22

The department replied (November 2009) that the software did not have enough validation features to identify the inconsistencies in the data and remedial steps were being taken in a phased manner.

⁷⁸ JTC-Khairatabad, DTCs - Kadapa and Vijayawada, RTOs, Hyderabad (East, North, South and West).

The Government may ensure that the validation controls are built into the system to avoid entry of unauthorised and inconsistent data.

Application controls

4.2.11 Business rules not mapped at the time of system design

4.2.11.1 Short collection of card fee

The Government of India by a notification revised (May 2002) the driving licence fee prescribed under Rule 32 of the CMV Rules. According to the notification, rate of fee prescribed for issue of fresh/renewal/endorsement of driving licence in form 7 (laminated card) was revised from Rs. 150 to Rs. 200 per card with effect from 31 May 2002.

Test check of the driving licences issued in all the 44 offices in the State between April 2007 and March 2008 indicated that card fee was collected at Rs. 150 per card instead of Rs. 200 in respect of 5,05,083 cards issued during the above period. This resulted in short collection of card fee of Rs. 2.53 crore.

The department stated (November 2009) that it had started issuing licences in laminated card (Form 7) from April 2008 onwards and hence there was no short levy. The reply is incorrect as the enhanced fee of Rs. 200 per card was payable in accordance with the notification in Form 7 since May 2002.

4.2.11.2 Short levy of life tax

As per the ordinance⁷⁹ issued by the Government of Andhra Pradesh dated 2 January 2008 read with the circular memo⁸⁰ dated 4 January 2008 issued by the TC, life tax at the rate of 12 *per cent* of the cost of the vehicle shall be levied on company vehicles and on second and subsequent non-transport vehicles owned by the individuals at the time of registration of a new vehicle instead of nine *per cent* levied earlier. TC in his circular memo dated 4 January 2008 instructed that all the registering authorities should invoke this amendment on new vehicles sold and registered in this state and the non-transport vehicles brought from the other states and further informed that in these cases, sixth schedule has to be referred to.

- a) Test check of the records in 10 offices⁸¹ indicated that life tax in respect of 1,136 company vehicles was calculated at nine *per cent* instead of 12 *per cent* in contravention of the above ordinance. Non-incorporation of the provision dated 4 January 2008 into the CFST resulted in short collection of life tax of Rs. 81.85 lakh.

After the cases were pointed out, it was stated (November 2009) that the tax payments received at e-seva reflect only nine *per cent* of the cost of the vehicle and the differential three *per cent* is collected at the departmental

⁷⁹ Ordinance No.1/2008 dated 2 January 2008 amending the 3rd proviso to sub-section (2) of Section 3 of MVT Act, 1963 wherein 6th schedule was inserted.

⁸⁰ Circular Memo No. 1/7831 /S/2005 dated 4.1.2008.

⁸¹ JTC-Khairatabad, DTCs - Chittoor, Guntur, Kurnool, Vijayawada, Visakhapatnam, RTOs - Amalapuram, Bhimavaram, Rajahmundry and Hyderabad (East).

counter. The reply of the department is incorrect as the CFST prompts only nine *per cent* life tax instead of 12 *per cent* payable. Besides collection of tax at two points defeats the basic purpose of providing customer friendly services.

The department may take necessary steps to update the CFST and link it with e-seva to prevent scope of short levy of tax and for providing better services.

- b) Test check of the data and registration files relating to non-transport vehicles owned by the individuals in seven offices⁸² indicated that there were no controls in the CFST to detect that a vehicle being registered was a second and subsequent vehicle. As a result, though the second and subsequent non-transport vehicles were registered with the DTC/RTOs in 330 cases, life tax was collected at the rate of nine *per cent* only instead of 12 *per cent* resulting in short levy of life tax of Rs. 44.58 lakh.

After the cases were pointed out, the department stated (November 2009) that details were awaited from the offices concerned. Further reply is awaited (February 2010).

4.2.11.3 Non-levy of life tax at the minimum prescribed rate in respect of non-transport vehicles

As per the 3rd schedule under 2nd proviso to the Section 3(2) of the APMVT Act, life tax at the minimum rate of nine *per cent* on the cost of the vehicle shall be levied at the time of registration of a new vehicle.

It was noticed in 12 offices⁸³ that the CFST did not levy tax on non-transport vehicles. The tax at the minimum rate of nine *per cent* amounted to Rs. 2.41 crore.

After the cases were pointed out, the department stated (November 2009) that battery-operated vehicles are exempted from the payment of life tax for a period of five years from the date of registration and hence there was no short levy. The reply is incorrect as the cases pointed out in audit do not include any battery operated vehicles.

4.2.12 Registration of vehicles

4.2.12.1 Gaps in issue of the registration numbers

Each DTC/RTO office in the State is allotted a unique registration series. The registration numbers should be awarded in a sequence to monitor the date/year of registration (model) of the vehicle. All the numbers in a series should be prompted by the CFST in a chronological order and exhausted before proceeding to the new series.

⁸² JTC-Khairatabad, DTCs - Chittoor, Nellore, Visakhapatnam, RTOs - Hyderabad (East and West) and Uppal.

⁸³ JTC-Khairatabad, DTCs - Chittoor, Guntur, Kurnool, Vijayawada, Visakhapatnam, RTOs - Amalapuram, Bhimavaram, Gudivada, Narasaraopet, Rajahmundry and Tirupati.

Test check of the latest series of the database relating to the registration numbers in 11 offices⁸⁴ indicated that there were gaps in the registration numbers as the CFST does not prompt the registration numbers in a chronological order. On cross verification with the registration details, it was confirmed that these numbers were not allotted to any of the vehicles and the next series was started.

After this was pointed out the department stated (November 2009) that suitable changes would be made in the CFST to take care of the gaps.

4.2.12.2 Allotment of choice numbers

According to the instructions⁸⁵ dated 20 September 2006 issued by the Government, an additional tax⁸⁶ under reservation fee/choice fee shall be collected if the owner of a vehicle desires to have a registration number of his choice.

During the test check of the records of 11 offices⁸⁷ it was noticed that there were 992 gaps in the registration numbers in 23 'series', most of which were covered under the reservation/choice category. Non-allotment of these numbers had resulted in loss of revenue on reservation fee/choice fee of Rs. 23.64 lakh.

After this was pointed out, it was replied in nine⁸⁸ offices that the matter would be examined. In two offices⁸⁹, it was replied that the special numbers were displayed on a notice board and the applicants were willing to take new series only. The reply is not tenable as the running series must be exhausted before proceeding to the new one.

4.2.12.3 Modification of data resulting in short levy of reservation fee for other than special numbers

According to the notification⁹⁰ dated September 2006, an amount of Rs. 5,000 for four wheeler and Rs. 2,000 for two-wheeler shall be collected for reserving any number other than the special numbers. As per the existing instructions, the vehicle has to be produced for inspection/registration within fifteen days of the reservation of the number.

Test check of the data relating to the reservation fee for other than special numbers in two offices⁹¹ indicated that Rs. 2,000 was collected towards the reservation of a number for two-wheeler and an acknowledgement was issued.

⁸⁴ JTC-Khairatabad, DTCs - Chittoor, Guntur, Vijayawada, Visakhapatnam, RTOs - Amalapuram, Bhimavaram, Gudivada, Narasaraopet, Rajahmundry and Tirupati.

⁸⁵ G.O.Ms.No.175, TR&B (TR I) dated 20 September 2006.

⁸⁶ Rs. 1,000 for same day choice number and Rs. 50,000 for special numbers like 9, 99, 999.

⁸⁷ JTC-Khairatabad, DTCs - Chittoor, Guntur, Vijayawada, Visakhapatnam, RTOs - Amalapuram, Bhimavaram, Gudivada, Narasaraopet, Rajahmundry and Tirupati.

⁸⁸ JTC-Khairatabad, DTCs - Chittoor, Guntur, Visakhapatnam, RTOs - Amalapuram, Gudivada, Narasaraopet, Rajahmundry and Tirupati.

⁸⁹ DTC Vijayawada and RTO Bhimavaram.

⁹⁰ G.O.Ms.No.175, Transport, Road & Buildings (TR.I) dated 20 September 2006.

⁹¹ DTC-Visakhapatnam and RTO-Rajahmundry.

Subsequently, four-wheeler was produced for inspection/registration and the data was modified. It was, however, noticed that the differential amount of Rs. 3,000 (between two and four wheeler) was not collected in respect of 15 vehicles which resulted in short levy of reservation fee of Rs. 0.45 lakh.

Lacunae in the CFST enabling the users to select option of two wheeler or four wheeler after reservation of the number resulted in modification of the data and unintended benefit to the vehicle owners.

The Government may consider reviewing the business rules to ensure that all business rules are incorporated into the CFST and updated regularly to avoid leakage of revenue.

4.2.13 Duplicate demand drafts

The demand drafts (DD) issued by the banks bear unique numbers and cannot be allotted to any other drafts in the same bank. The DD number has to be entered in the concerned field in the CFST as a proof of payment.

Test check of the details relating to DDs pertaining to nine offices⁹² revealed that 1,50,602 transactions were made with the same DD numbers repeated two to six times and issued by the same bank. Cross verification of the DD numbers with the reports generated by the department confirmed the same.

After this was pointed out, the department stated (November 2009) that the duplication was due to the bidding of special numbers where the unsuccessful bidder can produce the same DD again. The reply is incorrect as the duplicate DDs pointed out include DDs received on account of national permits, taxes, fees etc.

4.2.14 Insurance cover note numbers

Rule 47 of CMV Rules prescribes Form 20 for the application of vehicle registration in which the insurance certificate or the cover note number is to be filled in by the owner of the vehicle.

Test check of the data relating to the insurance cover note numbers in 12 offices⁹³ indicated that there was repetition of the insurance cover notes relating to eight insurance companies in 6,08,116 vehicles. The recurrence of multiplicity of the insurance certificate/cover note numbers indicated that the insurance certificate/cover note numbers appeared to have been forged to get the vehicles registered.

After this was pointed out, the department stated (November 2009) that there exists a larger malpractice in the insurance cover notes where similar cover notes are given for different vehicles at different or some times in the same offices. It was also stated that the matter was taken up with Insurance

⁹² JTC-Khairatabad, DTCs - Chittoor, Visakhapatnam, RTOs - Amalapuram, Bhimavaram, Gudivada, Hyderabad West Zone, Narasaraopet and Rajahmundry.

⁹³ JTC-Khairatabad, DTCs - Chittoor, Guntur, Kurnool, Vijayawada, Visakhapatnam, RTOs -Bhimavaram, Gudivada, Hyderabad (West), Narasaraopet, Rajahmundry and Tirupati.

Regulatory and Development Authority (IRDA) to deal with the menace of duplicate insurance cover notes.

4.2.15 Chassis/engine numbers

Chassis/engine number is unique to each vehicle and the same number cannot be allotted to more than one vehicle.

Test check of the data relating to 10 offices⁹⁴ indicated that there were 31,831 vehicles with the same chassis numbers. Further, 53,582 duplicate engine numbers with different transactions and different class of vehicles were also noticed.

After this was pointed out, the department stated (November 2009) that two vehicles with same engine/chassis number was possible as it relates to temporary/permanent registration number. The reply is incorrect as all the cases pointed out pertain to other than temporary registration numbers only.

4.2.16 Incorrect demand on stage carriages

According to a notification⁹⁵ issued (April 2006) by the Government under Section 3 of the APMVT Act, tax is leviable on transport and non-transport vehicles at the rates specified therein.

Test check of the data relating to levy of demand and collection of the quarterly tax on the stage carriages⁹⁶/contract carriages indicated that the CFST has been prompting demand which was either less or higher than the actual demand to be raised. Results of test check of the records of six stage carriages in four offices are mentioned below:

(Amount in rupees)			
Office	Registration number of stage carriages test checked	Actual demand	Demand prompted by CFST
JTC, Hyderabad	AP09Y 5830	11,240	8,320
DTC, Guntur	APC6633	11,720	19,470
	TSE418	8,320	13,630
DTC, Kurnool	KA03-1655	6,620	9,270
DTC, Visakhapatnam	AP31X9899	22,230	49,980
	AP31TT2405	16,280	36,620

As and when a registered owner approaches the DTC/RTO to pay the quarterly tax, taxes are being accepted by referring to the taxation schedule based on the mode of the permit⁹⁷, seating capacity of the vehicle, ignoring the demand prompted by the CFST.

⁹⁴ JTC-Khairatabad, DTCs - Chittoor, Guntur, Vijayawada, Visakhapatnam, RTOs - Bhimavaram, Gudivada, Narasaraopet, Rajahmundry and Tirupati.

⁹⁵ G.O.Ms.No.68 TR&B (TR.I) dated 13 April 2006.

⁹⁶ Stage carriage is a transport vehicle intended to carry passengers from one stage to another stage. Tax has to be paid quarterly depending on the seating capacity/mode of permit.

⁹⁷ Various types of permits are district permit (to ply within the district), state permit (to ply within the state) etc.

In the above cases, the permit (idle/home/state) is not being updated in the CFST and payments were being accepted at the departmental counters thereby exposing a potential threat of short realisation if the person at the counter was not vigilant. Further, temporary permits to SETWIN buses were continued to be issued manually though the CFST was in use for over nine years. It was also noticed that the system change request for incorporation of the correct tax rate was not sought for by any of the field offices so far.

After this was pointed out the department stated (November 2009) that action would be initiated to codify the stage and contract carriages to avoid short collection.

4.2.17 Transactions on holidays

As per the existing procedure, the Transport Department and all the district offices work for six days a week and the transactions are closed on Sundays and holidays.

However, a scrutiny of the CFST data relating to 12 offices⁹⁸ indicated that the following transactions occurred on Sundays.

- In 6,552 records, fitness certificates were issued.
- In 4,082 records, motor vehicle driving test was conducted.
- In 28,120 records, *challans* were paid.
- In 1,441 records, learners' licences were approved.
- In 656 records driving licences were issued.

After this was pointed out, the department accepted (November 2009) the audit observation and replied that the database has been regulated to permit transactions only on working days. The point, however, remains as to whether these transactions were genuine and if so, what necessitated carrying out the transactions on Sundays.

4.2.18 Lack of internal controls

4.2.18.1 Non-monitoring of the driving licences issued

As per the existing instructions, the work relating to issue of the driving licences is allotted to the MVIs at the DTC/RTO Offices and later approved by the DTC/RTO concerned. The work done by the staff needs to be monitored by the higher authorities through MIS reports generated through the CFST.

Scrutiny of the data relating to issue of the driving licences in the office of the DTC, Vijayawada indicated that 54,048 driving licences were issued by the MVIs in 26 months between the period May 2006 and June 2008. It is evident that the MVI on an average had issued 87 driving licences per day.

⁹⁸ JTC-Khairatabad, DTCs - Chittoor, Visakhapatnam, Guntur, Vijayawada and Kurnool, RTOs - Bhimavaram, Gudivada, Hyderabad (West), Narasaraopet, Rajahmundry and Tirupati.

After this was pointed out, the department stated (November 2009) that at present only 27 driving licences are being issued. As regards the reasons for issue of more licences per day, it was stated that an enquiry in this regard was under process.

Similarly, it was noticed in the office of the RTO, Rajahmundry that 12,314 licences were issued by an MVI between the period November 2008 and June 2009 at an average of 68 driving licences per day. This figure also seems to be on the higher side.

After this was pointed out the department stated (November 2009) that at present, issue of licences were being restricted to only 23 per day.

4.2.18.2 Non-reconciliation of e-seva transactions

As per the existing instructions, payment of taxes and fee can be made at the departmental counters as well as at e-seva centers by the owner of the vehicle. Payments made at e-seva centers shall be remitted to the transport department on periodical basis. The reconciliation of e-seva figures with the departmental figures has to be done and the difference, if any, need to be analysed. It was noticed in audit that periodic reconciliation was not done in any of the offices test checked except the DTC Vijayawada. In the absence of the reconciliation, the correctness of the amount paid could not be ascertained.

After this was pointed out the department stated (November 2009) that reconciliation would be done.

4.2.18.3 Lack of monitoring and internal control mechanism

- **Internal audit:** Though computerisation commenced in the year 2000, internal audit was not conducted to get an assurance on the working of the computerised system. After this was pointed out, the department accepted (November 2009) the fact and assured that the internal audits would be conducted in future.
- **Verification of data:** As both client and server are independent DTCs/RTOs, transaction data relating to issue of licences, permits, collection of taxes and fees etc., has to be forwarded to the TC for scrutiny. It was, however, noticed that the data was not being sent to the TC resulting in non-detection of errors and loss of revenue which could have otherwise been restricted/curtailed through executive instructions and guidelines.

Audit observed that the existing internal control mechanism was not effective for reviewing the transaction data by management. There was also no system to generate logs for recording actions of users which would provide the system administrators and organisation management, a certain degree of control.

Discrepancies in DCB statement

Scrutiny of the DCB statement relating to transport vehicles in three⁹⁹ offices for the quarter ended 31 March 2009 revealed that the statement was not reflecting the actual strength of the vehicles as well as the actual demand due to the following reasons.

- Numbers of vehicles which are under stoppage¹⁰⁰ were not indicated in the DCB leading to overstatement of demand.
- The vehicles with 0 kilometres and taxation thereon were included in DCB without any details of vehicles.
- Andhra Pradesh State Road Transport Corporation (APSRTC) vehicles are taxed centrally for the entire state at the Transport Commissionerate, Hyderabad based on gross traffic earnings. However, fitness and permits to the APSRTC vehicles are issued at DTCs/RTOs to the RTC depot managers. In this process, the DCB particulars at DTCs/RTOs are updated resulting in over statement of demand.

After this was pointed out the department stated (November 2009) that remedial measures would be taken to ensure an accurate DCB.

The Government may ensure the internal audit inspection and strengthening the internal controls at various levels.

4.2.19 Other points of interest

Scrutiny of miscellaneous records at the TC office and 13 offices¹⁰¹ indicated following:

4.2.19.1 Non-documentation of the business continuity and disaster recovery plan

Though CFST was in use since May 2000, the department had not prepared and implemented a business continuity and disaster recovery plan.

4.2.19.2 Non-monitoring of IT assets

The total cost of the hardware in all the offices was about Rs. 10.25 crore. However, audit noticed that neither the hardware issue register nor the register of IT assets was being maintained in any of the offices test checked. After this was pointed out, the department (November 2009) stated that the same would be maintained.

⁹⁹ DTCs - Chittoor, Visakhapatnam and RTO-Amalapuram.

¹⁰⁰ The state of inactivity of a vehicle for a particular period for which no tax is payable.

¹⁰¹ JTC-Khairatabad, DTCs - Chittoor, Guntur, Kurnool, Vijayawada, Visakhapatnam, RTOs - Amalapuram, Bhimavaram, Gudivada, Hindupur, Narasaraopet, Rajahmundry and Tirupati.

4.2.19.3 Non-provision of fire fighting equipment at server room

Audit noticed that there was no fire detection/fighting equipment or fire extinguishers to fight any contingency in any of the 16 offices test checked. After this was pointed out the department stated (November 2009) that action would be taken to provide the fire fighting equipment.

4.2.19.4 User manuals not provided

It was noticed that user manuals on the CFST were not provided to the employees in 8 out of the 16 offices test checked. After this was pointed out, the department stated (November 2009) that online user manual would be created and made available to the staff.

4.2.19.5 Linking of the database with other agencies

The information relating to vehicles i.e., registration number, chassis number, vehicle type, engine number etc., contained in the CFST have to be shared with the Police Department for initiating action in cases of theft, loss etc. Since the functions of the Police Department have also been computerised, the databases of both the departments should be linked to enable the departments to share critical information in time.

4.2.19.6 Non-development of technical expertise within the department

Any IT system though initially developed/implemented through outsourcing has to be invariably taken over by the department, eventually, by developing expertise within the department. The data captured through the CFST is very critical since it involves personal data relating to the vehicle owners, insurance details besides revenue particulars and DCB. Though the employees of the department handle entire data entry at the departmental counters, database administration was, however, handled by the outsourced agency M/s RESL. It was noticed in audit that efforts were not made to develop expertise within the department to handle the database administration function.

After this was pointed out, the department stated (November 2009) that steps would be taken to develop technical expertise within the department.

Considering the importance of the data maintained by the CFST, it is recommended that the training of staff may be undertaken on priority basis. This will also reduce dependency on the outsourcing agency and it will be in the interest of data integrity.

4.2.20 Conclusion

CFST was implemented with an intention to build a comprehensive database and automate all services to the public. However, a scrutiny of the system through test check of various aspects indicates that despite nine years of the system having been operational, the level of assurance derived from it is very low. Non-incorporation of the business rules into the system, serious lack of validations, non-capturing of essential data for computation of taxes and fees

have resulted in non/short levy of green tax, life tax etc. The software also lacked essential validation controls resulting in repetitions in insurance cover notes, engine numbers, and chassis numbers.

The data retrieved through the system is not complete, as all information is not being captured. There is no facility available to reconcile the payments made by *e-seva*. Various software deficiencies necessitated manual interventions particularly for computation of taxes for stage carriages, apart from the risks of omissions.

The software was not backed by proper internal control mechanism and continuous monitoring. By not obtaining the transactions data of its unit offices, the department failed to use the database effectively for curtailing loss of revenue. Efforts were also not made to develop technical expertise within the department for managing either the software or the database. Use of the system as a management information system (MIS) was also inadequate.

4.2.21 Summary of recommendations

The Government/department may consider to:

- ensure that the validation controls are built into the system to avoid entry of unauthorised and inconsistent data;
- take necessary steps to update the CFST and link it with *e-seva* to prevent scope of short levy of tax and for providing better services;
- review the business rules to ensure that all business rules are incorporated into the CFST and updated regularly to avoid leakage of revenue;
- ensure the internal audit inspection and strengthening the internal controls at various levels; and
- undertake the training of staff on priority basis. This will also reduce dependency on the outsourcing agency and it will be in the interest of data integrity.

4.3 Other audit observations

Scrutiny of the records in the offices of the Transport Department relating to revenue received from quarterly tax, green tax, life tax etc., on the vehicles indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty and other cases as mentioned in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is a need for the Government to improve the internal control system including strengthening the internal audit so that such omissions are detected and rectified.

4.4 Non-realisation of quarterly tax and penalty

Section 3 of the APMVT Act, 1963, stipulates that every owner of a motor vehicle is liable to pay the tax at the rates specified by the Government from time to time. Section 4 of the APMVT Act specifies that the tax shall be paid in advance either quarterly, half yearly or annually within one month¹⁰² from the commencement of the quarter. In case of failure to pay the tax within the stipulated time, penalty shall be imposed under the Act.

Test check of the records of the Joint Transport Commissioner (JTC), Khairatabad, 10 Deputy Transport Commissioners¹⁰³ (DTCs) and 19 Regional Transport Officers¹⁰⁴ (RTOs) (between April 2008 and January 2009) indicated that the quarterly tax of Rs. 3.36 crore for the year 2007-08 was neither paid by the owners of 4,441 vehicles nor demanded by the department. Besides, penalty of Rs. 6.72 crore though leviable was not levied. This resulted in non-realisation of tax and penalty amounting to Rs. 10.08 crore.

After the cases were pointed out, the assessing authorities (AAs) stated (between April 2008 and January 2009) that Rs. 12.22 lakh was collected from the owners of 113 vehicles, action was being/would be taken to collect the amount in respect of 2,368 vehicles and registration of 1,821 vehicles was being cancelled. A report on further action taken in respect of these vehicles and the reply for the remaining 139 vehicles have not been received (February 2010).

The matter was referred to the department between August 2008 and April 2009 and the Government in April 2009; their reply has not been received (February 2010).

¹⁰² Vide notification issued under Section 9 (1) of the APMVT Act.

¹⁰³ Chittoor, Guntur, Kadapa, Kakinada, Karimnagar, Nellore, Srikakulam, Vijayawada, Visakhapatnam and Warangal.

¹⁰⁴ Amalapuram, Anakapalle, Bhimavaram, Gudivada, Hindupur, Hyderabad (East, South and West), Ibrahimpatnam, Khammam, Mahabubnagar, Nandyal, Narasaraopet, Ongole, Rajahmundry, Ranga Reddy East, Secunderabad, Tirupati and Vizianagaram.

4.5 Short realisation of penalty for belated payment of tax

Section 6 of the APMVT Act read with Rule 13 framed thereunder as amended vide Government order¹⁰⁵ dated 7 July 2003, envisages the levy of penalty at 100 *per cent* of the tax due, if the tax is paid in the second month of the quarter and at 200 *per cent*, if the tax is paid beyond two months from the beginning of the quarter. In contravention of the provisions of the Act/Rules, the TC issued a circular¹⁰⁶ for levy of penalty at the rate of 25 *per cent* and 50 *per cent* of the tax due for belated payment of the tax by one month and beyond one month respectively of the quarter in which it was due.

Test check of the records of the JTC, Khairatabad, 10 DTCs¹⁰⁷ and 18 RTOs¹⁰⁸ (between April 2008 and January 2009) indicated that penalty of Rs. 10.61 crore was leviable in accordance with the provisions of the Act for belated payment of tax, but the authorities levied penalty of Rs. 2.65 crore only for the period from April 2007 to March 2008 in accordance with the TC's circular. This resulted in short realisation of penalty of Rs. 7.96 crore.

After the cases were pointed out, the AAs stated (between April 2008 and January 2009) that penalty for belated payment of tax was levied as per the instructions of the TC issued in August 2003. Thus, issue of instructions in contravention of the provisions of the Act resulted in short realisation of revenue of Rs. 7.96 crore.

The matter was referred to the department between July 2008 and March 2009 and the Government in April 2009; their reply has not been received (February 2010).

4.6 Non-renewal of fitness certificate

As per Section 56 of the Motor Vehicles Act, 1988 (MV Act), a transport vehicle shall not be deemed to be validly registered, unless it carries a certificate of fitness issued by the prescribed authority. As per Rule 62 of the CMV Rules, 1989, the certificate of fitness in respect of the transport vehicles shall be renewed every year. Rule 81 prescribes the fee for conducting test of a vehicle for grant and renewal of the certificate of fitness. Plying of a vehicle without the fitness certificate is an offence and attracts a minimum compounding fine of Rs. 1,000.

Test check of the records of the JTC, Khairatabad, five DTCs¹⁰⁹ and 10 RTOs¹¹⁰ (between June and December 2008) indicated that fitness certificates of 2,20,435 transport vehicles that completed two years of life during 2007-08,

¹⁰⁵ G.O.Ms. No. 110 TR&B dated 7 July 2003.

¹⁰⁶ Circular Memo. No. 9693/R1/2003 dated 19 August 2003.

¹⁰⁷ Chittoor, Guntur, Kadapa, Kakinada, Karimnagar, Nellore, Srikakulam, Vijayawada, Visakhapatnam and Warangal.

¹⁰⁸ Anakapalle, Bhimavaram, Gudivada, Hindupur, Hyderabad (East, South and West), Ibrahimpatnam, Khammam, Mahabubnagar, Nandyal, Narasaraopet, Ongole, Rajahmundry, Ranga Reddy (East), Secunderabad, Tirupati and Vizianagaram.

¹⁰⁹ Chittoor, Karimnagar, Nellore, Srikakulam and Vijayawada.

¹¹⁰ Anakapalle, Hindupur, Hyderabad (East and South), Khammam, Mahabubnagar, Nandyal, Ongole, Secunderabad and Vizianagaram.

were not renewed. This resulted in non-realisation of fitness certificate fee of Rs. 6.99 crore and a minimum compounding fine of Rs. 22.04 crore.

After the cases were pointed out (between June 2008 and April 2009), the Government/AAs stated (between June 2008 and August 2009) that Rs. 89.60 lakh had been collected from the owners of 28,064 vehicles and fee would be collected whenever the registered owners approached for the certificate of fitness in respect of 82,858 vehicles and show cause notices would be issued to the owners of 11,126 vehicles. The DTC, Chittoor stated (July 2008) in respect of 17,395 vehicles that the CMV Rule 62 did not prescribe that every registered vehicle should obtain a fitness certificate in respect of a transport vehicle and further stated that the vehicle owners were unable to follow the norms prescribed in the MV Act due to financial problems. The fact remains that the vehicle owners were paying the tax on the vehicles regularly which indicates that the vehicles were plying without fitness certificate. The reply for the remaining cases has not been received (February 2010).

4.7 Non-levy of green tax

The Government ordered (November 2006¹¹¹) levy of a tax called the “green tax” on the transport vehicles and non-transport vehicles that have completed seven years and 15 years of age respectively from the date of registration. The rate of tax is Rs. 200 per annum for the transport vehicles. In respect of the non-transport vehicles, it is Rs. 250 for every five years in the case of motorcycles and other than motorcycles, it is Rs. 500 for every five years.

Test check of the records of the JTC, Khairatabad, 10 DTCs¹¹² and 18 RTOs¹¹³ (between April 2008 and January 2009) indicated that green tax aggregating to Rs. 3.35 crore in respect of 1,02,951 transport vehicles and 42,475 non-transport vehicles that had completed seven years and 15 years of age respectively was not levied and collected during the period from April 2007 to March 2008.

After the cases were pointed out (between April 2008 and April 2009), the Government stated (between April 2008 and July 2009) that Rs. 72.43 lakh had been collected from owners of 32,947 vehicles and action would be taken to collect the green tax in respect of 22,535 vehicles. The reply in the remaining cases has not been received (February 2010).

4.8 Non-levy of life tax and penalty

The Government amended the APMVT Act in September 2006 bringing the motor cabs of the cost of Rs. 3.50 lakh and above under the purview of the life tax with effect from 25 May 2006. The tax was leviable as a percentage of the

¹¹¹ G.O. Ms. No.238, Transport, Roads and Buildings (TR.I) dated 23 November 2006.

¹¹² Chittoor, Guntur, Kadapa, Kakinada, Karimnagar, Nellore, Srikakulam, Vijayawada, Visakhapatnam and Warangal.

¹¹³ Amalapuram, Anakapalle, Bhimavaram, Gudivada, Hindupur, Hyderabad (East, South and West), Ibrahimpatnam, Khammam, Mahabubnagar, Nandyal, Narasaraopet, Rajahmundry, Ranga Reddy East, Secunderabad, Tirupati and Vizianagaram.

cost of the vehicle that was based on the age of the vehicle. The age of the vehicle as on 25 May 2006 was to be reckoned for the purpose of the calculation of the tax. Under Section 6 read with Rule 13 of the APMVT Act, non-payment of life tax in time attracts penalty leviable at the rate of two *per cent* per month from the date on which the tax becomes due for payment.

Test check of the records of the five DTCs¹¹⁴ and nine RTOs¹¹⁵ (between May and December 2008) indicated that life tax of Rs. 67.62 lakh and penalty of Rs. 24.20 lakh thereon (upto March 2008) was not levied and collected in case of 152 motor cabs. This resulted in non-realisation of tax and penalty of Rs. 91.82 lakh during the year 2007-08.

After the cases were pointed out, the AAs stated (between May and December 2008) that action would be taken to collect the life tax and penalty in respect of 59 vehicles, show cause notices had been issued/would be issued to owners of 31 vehicles and the matter would be examined in respect of the remaining 62 vehicles.

The matter was referred to the department in October 2008 and March 2009 and the Government in April 2009; their reply has not been received (February 2010).

4.9 Non-realisation of life tax on road rollers

The Government promulgated an ordinance¹¹⁶ vide TC's circular¹¹⁷ dated 3 June 2006 incorporating a proviso to sub-section 2 of Section 3 of the APMVT Act, bringing road rollers under the purview of one time tax. The tax was to be collected at the rates prescribed in the APMVT Act. The circular provided that the one time tax shall not be collected without collecting the arrears upto 30 June 2006 due against any in-use road rollers.

Test check of the records of the JTC, Khairatabad and three DTCs¹¹⁸ (between April and October 2008) indicated that the arrears of tax have not been collected and one time tax was not realised for the years 2003 to 2008 in respect of 37 road rollers. This resulted in non-realisation of the arrears of tax and life tax with penalty of Rs. 20.29 lakh.

After the cases were pointed out, the AAs stated (between April and October 2008) that notices had been issued to the owners of 11 vehicles, action would be taken to collect the life tax in respect of two vehicles and the matter would be examined in respect of the remaining 24 vehicles.

The matter was referred to the department between February and April 2009 and the Government in April 2009; their reply has not been received (February 2010).

¹¹⁴ Chittoor, Karimnagar, Nellore, Vijayawada and Warangal.

¹¹⁵ Bhimavaram, Hindupur, Hyderabad (West), Khammam, Mahabubnagar, Ongole, Ranga Reddy East, Tirupati and Vizianagaram.

¹¹⁶ No. 3/2006 dated 25 May 2006.

¹¹⁷ Memo. No.21/3999/R2/04 dated 03 June 2006.

¹¹⁸ Kakinada, Visakhapatnam and Warangal.

4.10 Non-levy/collection of compounding fee

Under the provisions of the MV Act, the AA may compound certain offences punishable under the Act by collecting compounding fee in lieu of the penal action as prescribed by the Government. The Government in October 2001 prescribed¹¹⁹ minimum rates of compounding fee for various offences. The checking officers of the Transport Department prepare vehicle check reports (VCRs) on the motor vehicles checked by them and forward these to the RTO for taking departmental action against the defaulting permit holders/owners of the concerned vehicles. These reports are to be noted in the register of VCR to take necessary action to suspend/cancel the licence/permit or to levy the compounding fee.

Test check of the VCR registers for the year 2007-08 of eight DTCs¹²⁰ and eight RTOs¹²¹ (between April 2008 and January 2009) indicated that 360 vehicles were involved in compoundable offences *viz.*, carrying overload, excess passengers etc. In all these cases, neither was any penal action taken nor was compounding fee levied. This resulted in non-realisation of compounding fee of Rs. 13.47 lakh.

After the cases were pointed out (between May 2008 and April 2009), the Government/AAs stated (between May 2008 and July 2009) that Rs. 5.62 lakh had been collected in respect of 93 vehicles, action would be taken to collect the compounding fee from the owners of 26 vehicles, permits/registrations were suspended/would be suspended of 17 vehicles, notices were issued/would be issued to 105 vehicles and the VCRs were forwarded to other districts for 33 vehicles. The reply for the remaining 86 vehicles has not been received (February 2010).

4.11 Non-collection of bilateral tax and penalty

As per the Government order dated 22 February 2000¹²², a tax of Rs. 3,000 per annum per State is to be levied under the APMVT Act, irrespective of the laden weight, on every goods carriage which is registered and normally kept in the States of Tamilnadu, Karnataka and Maharashtra and covered by countersignature of permits and operating on the routes lying partly in the State of Tamilnadu/Karnataka/Maharashtra and partly in the state of Andhra Pradesh, in pursuance of the bilateral agreement entered into with the States of Tamilnadu/Karnataka and Maharashtra. The tax shall be paid in advance in lumpsum before the 15th of April every year failing which an additional sum of Rs. 100 for each calendar month of default shall be paid as penalty in addition to the tax.

¹¹⁹ G.O.Ms.No.138, Transport, Roads and Buildings (TR-II) Department dated 31 October 2001.

¹²⁰ Guntur, Kadapa, Kakinada, Karimnagar, Nellore, Srikakulam, Vijayawada and Visakhapatnam.

¹²¹ Anakapalle, Bhimavaram, Hyderabad (East, South and West), Mahabubnagar, Ongole and Ranga Reddy East.

¹²² G.O.Ms.No.38, Transport, Roads and Buildings (Tr. II) department dated 22 February 2000.

Test check of the records of the DTC, Chittoor (June and July 2008) indicated that in respect of 288 vehicles pertaining to Tamilnadu and Karnataka States, bilateral tax amounting to Rs. 8.64 lakh for the year 2007-08 and penalty of Rs. 3.46 lakh thereon was pending for realisation. This resulted in non-collection of bilateral tax and penalty of Rs. 12.10 lakh.

After the cases were pointed out, the DTC, Chittoor stated (July 2008) that the non-payment list of bilateral tax had been communicated to the border check posts and show cause notices were being sent to the registered owners as well as the original registering authorities for payment of the tax. Further development has not been reported (February 2010).

The matter was referred to the department in March 2009 and the Government in April 2009; their reply has not been received (February 2010).

4.12 Non-levy of quarterly tax on idle contract carriages

As per the Government order dated 13 April 2006¹²³, in case of idle contract carriages not covered by any permit and plying on the strength of temporary/special permits issued under Section 87 or sub-section (8) of Section 88 of MV Act, tax of Rs. 892.50 per seat per quarter shall be levied.

Test check of the records of the DTC, Vijayawada and two RTOs¹²⁴ (between May and July 2008) indicated that quarterly tax amounting to Rs. 10.77 lakh on seven idle contract carriages which were not covered by any permit for the period between October 2005 to March 2008 was not levied and collected.

The matter was referred to the department in February 2009 and the Government in April 2009; their reply has not been received (February 2010).

4.13 Non-realisation of revenue due to non-cancellation and re-notification of special numbers

As per Rule 81(3) of the APMV Rules, 1989, the registering authority may reserve special numbers on payment of the prescribed fee by the owner of the vehicle. Further, as per Rule 81(6) of the APMV Rules, the reservation shall be cancelled if the vehicle is not produced within 15 days from the date of reserving and the number reserved shall be re-notified immediately.

Test check of the records of the JTC, Khairatabad and the RTO, Ongole (September and November 2008) indicated that in 51 cases, the reservation of the special numbers was not cancelled and the numbers re-notified though the registration of the vehicle was not done within 15 days from the date of reserving the number. This resulted in non-realisation of Rs. 9.25 lakh.

¹²³ G.O.Ms. No. 68 Transport, Roads and Buildings (TR-I), department dated 13 April 2006.

¹²⁴ Bhimavaram and Nandyal.

After the cases were pointed out, the JTC, Khairatabad stated (October 2008) that the mistake occurred as the software was not updated. The RTO, Ongole stated (November 2008) that action would be taken to collect the amount. Further reply has not been received (February 2010).

The matter was referred to the department in March 2009 and the Government in April 2009; their reply has not been received (February 2010).

CHAPTER V STAMP DUTY AND REGISTRATION FEES

5.1 Results of audit

Test check of the records of the offices of District Registries and Sub-Registries conducted during the year 2008-09 revealed non/short levy of stamp duty and registration fees amounting to Rs. 47.98 crore in 508 cases which could be classified under the following categories:

(Rupees in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Short levy of stamp duty and registration fees	279	30.86
2.	Misclassification of documents	130	8.60
3.	Undervaluation of properties	48	4.04
4.	Incorrect exemption of duties	14	2.68
5.	Loss of revenue due to incorrect adjustment of stamp duty	12	0.59
6.	Other irregularities	25	1.21
Total		508	47.98

During the year 2008-09, the department accepted underassessments and other deficiencies of Rs. 6.89 crore in 126 cases, of which 57 cases involving Rs. 5.68 crore were pointed out in audit during the year 2008-09 and the rest in the earlier years. Out of this, Rs. 57.09 lakh was collected in 39 cases.

A few illustrative audit observations involving Rs. 29.16 crore are mentioned in the succeeding paragraphs.

5.2 Audit observations

Scrutiny of the records in the offices of the District Registries (DRs) and Sub-Registries (SRs) relating to revenue received from stamp duty, transfer duty and registration fees indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of duties and fees as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to consider directing the department to improve the internal control system including strengthening the internal audit to ensure that such omissions are detected and rectified.

5.3 Short levy of duty and fees

5.3.1 According to Section 27 of the Indian Stamp (IS) Act, 1899, the consideration, if any, the market value of the property and all other facts and circumstances affecting the chargeability of any instrument with duty or the amount of the duty with which it is chargeable, shall be fully and truly set forth therein. As per Article 31(c) of the Schedule IA to the IS Act, where the lease is granted for a fine or premium or for money advanced in addition to the rent reserved, stamp duty is leviable at five *per cent* of the market value of the property or the amount or value of such fine or premium or advance, as set forth in the lease, whichever is higher, in addition to the duty which would have been payable on such lease, if no fine or premium or advance had been paid or delivered. Further, Section 17 (d) of the Registration Act, 1908, specifies that leases of immovable property are compulsorily registerable with effect from 1 April 1999.

5.3.1.1 Test check of the records of the Prohibition and Excise Department (November 2008 and February 2009) indicated that 11 sub-leases of nine distilleries¹²⁵ were registered in seven SRs¹²⁶ between August 2006 and March 2008. Cross verification of the records with the sub-lease deeds registered in the Registration Department revealed that advances of Rs. 84.70 lakh were paid by the lessees to the Excise Department which were not disclosed in the documents registered. According to the above provision stamp duty was payable on the market value of the properties valued at Rs. 109.27 crore, which was higher than the money advanced. **Audit observed that there was no system in the department to capture the particulars of all the payments made prior to the registration in order to correctly determine the stamp duty payable.**

¹²⁵ M/s Aroma Winery and distillery, Sanathnagar, M/s Continental Wines Pvt. Ltd., Vijayawada, M/s Durga liquors India (P) Ltd., Davuluru, Kankipadu, M/s Hyderabad distilleries and Wineries Pvt. Ltd., Uppal, M/s Paras Collins Distilleries Pvt. Ltd., Shamshabad, M/s Pearl Distilleries Pvt. Ltd., Singarayakonda, M/s Rhyzome Distilleries Pvt. Ltd., Medchal, M/s Soaring Spirits Pvt. Ltd., Chebrolu, West Godavari District and M/s Viva Dholen Spirits Inc., Rajendranagar, Ranga Reddy District.

¹²⁶ Kankipadu, Medchal, Patamata, Sanjeeva Reddy Nagar, Shamshabad, Singarayakonda, and Uppal.

The registering officer levied stamp duty on the Annual Rent Reserved only resulting in short levy of stamp duty and registration fees of Rs. 5.56 crore.

After the cases were pointed out (May 2009), the Government stated (February 2010) that the sub-registrar had to determine the stamp duty as per the recitals of the document and could not go beyond the subject matter of the document. The reply is not tenable as the Registration Department needs to capture the particulars of all the payments made prior to the registration in the interest of the revenue.

The Government may consider putting in place a system to capture the particulars of all the payments made prior to the registration to ensure correct levy of stamp duty and registration fees.

5.3.1.2 Test check of the records of the five offices of the Prohibition and Excise Superintendents (PESs)¹²⁷ (between August 2008 and February 2009) indicated that 55 lease deeds executed on stamp papers were not presented for registration in the concerned registration offices by the parties. Non-insistence on registration of the lease deeds by the excise authorities and non-registration of these by the offices resulted in short levy of stamp duty and registration fees of Rs. 9.66 lakh.

After the cases were pointed out (May 2009), the Government stated (February 2010) that the documents were chargeable as counterpart agreements at a fixed stamp duty of Rs. 100. The reply is not tenable as the documents are not licenses but leases involving rent and therefore chargeable under Article 31 of the IS Act.

5.3.2 As per Article 31 (b) of the Schedule I-A to the IS Act, lease granted for a fine, premium or for money advanced, shall be chargeable with stamp duty of five *per cent* on such fine, premium or money advanced. As per Section 17(1)(c) of the Registration Act, non-testamentary instruments which acknowledge the receipt or the payment of any consideration on account of the creation, declaration, assignment, limitation or extinction of any such right, title or interest shall be registered.

Test check of the records of 13 District Panchayat offices¹²⁸ and 19 Assistant Directors¹²⁹ of Mines and Geology (between July and October 2008) indicated that 355 sand lease agreements were concluded with the contractors between 2003-04 and 2007-08 for certain bid amounts. Of these, in 309 agreements, stamp duty of Rs. 2.29 crore was collected on the first year's premium only even though the leases were extended for the second year. In another 46 agreements concluded for a period of one year, stamp duty was levied at three *per cent*, instead of five *per cent* on the premium. Further, out of 355 agreements concluded, 284 were not registered even though leases are

¹²⁷ Dhoolpet, Medchal, Hyderabad, Saroornagar and Visakhapatnam.

¹²⁸ Eluru, Guntur, Kadapa, Kakinada, Karimnagar, Khammam, Kurnool, Machilipatnam, Nalgonda, Nellore, Ongole, Srikakulam and Vizianagaram.

¹²⁹ Anakapalli, Dacheppalli, Eluru, Guntur, Kadapa, Karimnagar, Kothagudem, Kurnool, Mahabubnagar, Miryalaguda, Nandigama, Nizamabad, Ongole, Rajahmundry, Srikakulam, Vijayawada, Vizianagaram, Warangal and Yerraguntla.

compulsorily registerable under the Act. Non-inclusion of the second year's bid amount while computing the premium, adoption of lesser rate of stamp duty and non-insistence for registration of the lease deeds resulted in non/short levy of stamp duty and loss of registration fees of Rs. 4.67 crore.

After the cases were pointed out (May 2009), the Government accepted (February 2010) the audit observation and recovered Rs. 29.44 lakh in five cases and stated that instructions had been issued to the district registrars to recover the deficit amounts. Report on recovery of the balance amount has not been received (February 2010).

5.4 Short levy of duty and fees on mortgage deeds

As per section 58 (a) of Transfer of Property Act 1882, "mortgage" is the transfer of an interest on property for the purpose of securing repayment of a loan and chargeable at three *per cent* on the value secured under Article 35(b) of Schedule I-A to the IS Act.

As per section 58 (f) of the Act, where a person delivers to the lender, documents of title to an immovable property with intent to create a security thereon, such transaction is called a mortgage by deposit of title deed and chargeable with stamp duty of 0.5 *per cent* on the value secured subject to a maximum of Rs. 50,000 under Article 7 of Schedule I-A to the IS Act.

In case of "mortgage" charge is created over the property in favour of the lender; whereas charge is not created over the property in case of "deposit of title deeds".

Test check of the records of seven DRs¹³⁰ and 15 SRs¹³¹ (between December 2007 and October 2008) indicated that 191 documents styled as "memorandum of deposit of title deeds" securing debt of Rs. 240.74 crore were registered between April 2006 and January 2008. The documents contained recitals either to the effect that the borrower shall not create any other mortgage on the property and keep the property free of any encumbrance or in case of default, the mortgagees shall have the right to cause the mortgaged properties to be sold and the sale proceeds applied to the payment of dues by the mortgagors. Therefore, these documents were to be treated as "mortgages" and charged with stamp duty and registration fees of three *per cent* and 0.50 *per cent*, respectively. Instead, these were treated as 'deposit of title deeds' and charged at lesser rates. This resulted in short levy of stamp duty and registration fees of Rs. 8.24 crore.

After the cases were pointed out (February and May 2009) the Government stated (February 2010) that though the documents contain contingent clauses in the recitals, they are basically only agreements/memoranda relating to

¹³⁰ Adilabad, Hyderabad, Hyderabad (South), Kadapa, Narasaraopet, Ranga Reddy and Warangal.

¹³¹ Bowenpally, Gadwal, Hiramandalam, Kodangal, Mancherial, Medchal, Miryalaguda, Nakrekal, Narsampet, Narsapur, Rajendranagar, Secunderabad, Siddipet, Vallabh Nagar and Wanaparthy.

deposit of title deeds. The reply is not tenable as the documents contained recitals to the effect that the borrower shall not create any other charge on the property or that in case of default the mortgagees shall have the right to cause the mortgaged properties to be sold. These are in the nature of securing repayment of a loan which make these classifiable as mortgages only.

5.5 Undervaluation of properties

Section 47-A (6) of the IS Act stipulates that the market value of any property shall be the value shown in any instrument executed by or on behalf of the Central Government or State Government or any authority or body incorporated by or under any law for the time being in force and wholly owned by the Central/State Government.

5.5.1 Test check of the records of the SR, Mancheril, Adilabad district (January 2008) indicated that a sale deed was executed and registered in June 2006 by the Associated Cement Companies Limited in favour of Mancheril Cement Company Private Limited for a consideration of Rs. 15.13 crore and the registering officer levied stamp duty on the market value of Rs. 15.80 crore. However, verification of the annual audit report of the vendor company revealed that Rs. 37.30 crore was received by the vendor company from the vendee company towards the sale consideration. Therefore, stamp duty and registration fee were leviable on the sale consideration of Rs. 37.30 crore. Non-disclosure of the actual consideration received by the parties resulted in undervaluation of the property and consequential short levy of duties and fees of Rs. 2.04 crore.

After the case was pointed out (May 2009) the Government stated (February 2010) that the Sub-Registrar had to examine the market value of scheduled property as per recitals of the document and accordingly the Sub Registrar levied stamp duty on the market value which was higher than the consideration. The reply is not tenable as the department needs to take steps to ascertain the details of all payments etc., made prior to the registering of a document. Also, based on the facts and figures pointed out by audit, remedial action could be taken by the department in the interest of state revenue.

5.5.2 A certificate of sale is granted to the purchaser of any property sold by a public auction by a civil or revenue court or collector or other revenue officer chargeable with stamp duty of five *per cent* on the amount of the purchase money under Article 16 of the Schedule I-A to the IS Act.

The Government in November 2005 allotted¹³² a piece of Andhra Pradesh Housing Board land to a purchaser¹³³. At that time the value of the land was fixed at Rs. 100 per sq. yard. Subsequently, in August 2007 the value of the land was revised¹³⁴ and fixed at Rs. 25,000 per sq. yard. The deed was registered for 3,000 sq. yards in September 2007. Thus, the stamp duty and registration fees were payable on market value of Rs. 7.50 crore. Instead, the

¹³² G.O.Ms.No.76 Housing (H.B II) Department dated 25.11.2005.

¹³³ Andhra Pradesh Congress Committee.

¹³⁴ G.O.Ms.No.26 Housing (H.B.II.I) Department dated 18.08.2007.

registering officer incorrectly valued the land at the rate of Rs. 100 per sq. yard i.e., Rs. 3 lakh. Thus, incorrect valuation resulted in short levy of duties and registration fees of Rs. 70.97 lakh.

After the cases were pointed out (May 2009) the Government stated (February 2010) that valuation of property would be done as per recitals of the document. The reply is not tenable, as the Registration Department needs to capture the particulars of all the payments etc., made prior to the registration in the interest of the revenue.

5.5.3 Test check of the records of the DR, Ranga Reddy and two SRs¹³⁵ (between December 2007 and November 2008) revealed that 63 sale deeds registered between September 2006 and December 2007 by adopting the agricultural (also called the acreage) rates instead of house site¹³⁶ rates. This resulted in undervaluation of properties and consequential short levy of stamp duty and registration fees of Rs. 63.64 lakh.

After the cases were pointed out (April and May 2009), the Government stated (February 2010) in respect of DR, Ranga Reddy that the District Registrar was directed to inspect the property to determine the market value for levy of proper stamp duty. In respect of SR, Champapet it was stated that acreage rate was fixed as per market value guidelines and land was described as agricultural land in the document. Further in respect of SR, Kalwakurthy it was stated that the land was an agricultural land. The replies are not tenable as the properties mentioned in the deeds were divided into house sites each having a distinct plot number by the vendors and also in Kalwakurthy the properties sold were shown as plots at the time of registration by the parties themselves for which square yard rate only was applicable.

5.5.4 Test check of the records of the SR, Medchal (August 2008) indicated that a sale deed was registered in August 2007 conveying the property as an agricultural farmland. But, it was noticed from the previous documents linked with the property registered in 1996 and registration plans enclosed thereto that the property sold was not an agricultural farm land but consisted of a number of plots/house sites bearing distinct plot numbers joined together which should have been recited as such. Therefore, house site rate of Rs. 4,000 per sq. yard had to be adopted for the purpose of the levy of stamp duty and fees. However, the registering officer adopted the agricultural/acreage rate of Rs. 1,301.65 per sq. yard. Non-disclosure of the fact by the parties resulted in undervaluation of the property and consequential short levy of duties and fee of Rs. 37.28 lakh.

After the case was pointed out (April 2009), the Government stated (February 2010) that the scheduled property involved in the document was an agricultural land and there were no instructions to adopt house site rate if house sites are joined together and sold as agricultural land. The reply is not tenable as the property cannot be treated as agricultural land in the absence of recitals of handing over of pattadar pass books and title deeds to the purchaser

¹³⁵ Champapet and Kalwakurthy.

¹³⁶ House site means the word commonly used for residential plots.

and the property was already registered as house plots in 1996 itself by adopting house site/sq.yard rate.

5.5.5 As per the IS Act, for determining the market value of the property for the purpose of levying duties, the registering officers should adopt¹³⁷ the highest rate applicable to a property in the neighbourhood in the case of a missing house/survey/sub-division number.

Test check of the records of the DR, Karimnagar (July and August 2008) indicated that three documents were registered between December 2007 and January 2008 by adopting the market values applicable to the door numbers, which were not the nearest door numbers of the properties involved. As actual door numbers of the properties were missing in the market value guidelines, the highest market value applicable to the nearest door number should have been adopted as market value for the purpose of the registration. Adoption of the incorrect market value resulted in undervaluation of the properties and the short levy of stamp duty and registration fees of Rs. 14.63 lakh.

After the cases were pointed out, the District Registrar, Karimnagar stated (July and August 2008) in respect of one document that the market values have been fixed for ward No. 8, block No. 6 segment-wise for the land abutting to the by-pass road. The reply is not tenable as the main road of 100 feet width with market value of Rs. 6,600/Rs. 7,050 happened to be the boundary of the properties involved in the documents and the same rate was required to be adopted as the market value for the registration of the above document. Reply in respect of the remaining documents has not been received (February 2010).

The matter was referred to the department in February 2009 and the Government in April 2009; their reply has not been received (February 2010).

5.5.6 Test check of the records of the DR, Kurnool (August 2007) indicated that a sale deed was registered in August 2006 for a consideration of Rs. 15 lakh in respect of a property admeasuring 581.33 sq. yards at the rate of Rs. 2,580 per sq. yard. However, the value of the property as per the 'market value guidelines' was Rs. 70.06 lakh at the rate of Rs. 12,050 per sq. yard. This resulted in undervaluation of the property of Rs. 55.06 lakh and short levy of stamp duty and registration fees of Rs. 5.23 lakh.

After the case was pointed out (March 2009), the Government accepted (February 2010) the audit observation and stated that instructions were issued to the District Registrar, Kurnool to collect the deficit amount. A report on recovery has not been received (February 2010).

5.6 Non/short levy of duties and fees on the lease deeds

5.6.1 According to Article 31 (a) (vi) (a) of the Schedule I-A to the IS Act, where the lease purports to be for a period in excess of thirty years or in perpetuity or does not purport to be for a definite period, stamp duty is

¹³⁷ Item (iv) of proceedings No. MV1/20363-A/90 dated 10.8.1990.

leviable at five *per cent* on the market value of the property or value of ten times of the average annual rent reserved (AAR), whichever is higher.

5.6.1.1 Test check of the records of the DR, Ranga Reddy (August 2008) indicated that two lease deeds were executed in December 2005 by the lessor in favour of the lessees for the development and maintenance of an integrated project consisting of a township, golf course and mixed-use project. The leases were granted for a period of 66 years from 1 January 2005. The lease deeds were registered without the levy of stamp duty and registration fees. In the absence of the specific orders, the exemption of stamp duty and registration fees of Rs. 2.26 crore is incorrect. This resulted in non-realisation of revenue to that extent.

The matter was referred to the department in February 2009 and the Government in May 2009; their reply has not been received (February 2010).

5.6.1.2 Test check of the records of the SR, Secunderabad (May and June 2008) indicated that a lease deed was registered in April 2007 by a lessor in favour of a lessee for a term of 33 years. The market value of the property was Rs. 8.58 crore and was liable to stamp duty of Rs. 42.90 lakh, whereas Rs. 1.51 lakh only was levied on the average annual rent reserved of Rs. 30.20 lakh by the registering authority. This resulted in short levy of stamp duty of Rs. 41.39 lakh.

After the case was pointed out (April 2009), the Government accepted (February 2010) the audit observation and stated that instructions were issued to the District Registrar, Hyderabad to collect the deficit amount. A report on recovery has not been received (February 2010).

5.6.2 Under Article 31 (vi) (c) of the Schedule I-A to the IS Act, where the lease is granted for a fine or premium or for money advanced in addition to the rent reserved, stamp duty is leviable at five *per cent* on the market value of the property or the amount or value of such fine or premium or advance whichever is higher.

Test check of the records of the DR, Ranga Reddy and SR, Sanjeevareddy Nagar (May and August 2008) indicated that four lessors executed lease deeds and security deposit agreements separately with four lessees. In the lease deeds executed (March 2007 and March 2008), the terms and conditions of the lease rent were mentioned while in security deposit agreements, advances were paid by the lessees to the lessors in pursuance of the terms and conditions mentioned in the lease deeds. The registering officer while registering the documents levied stamp duty on security deposit agreements at five *per cent* on the amount of the advances instead on the market value of the properties. This resulted in short levy of stamp duty of Rs. 53.10 lakh.

After the cases were pointed out (May 2009), the Government stated (February 2010) that the applicability of market value arises in cases where the lease is more than 30 years but the leases in the present deeds is for a period less than 30 years. The reply is not tenable as the documents are chargeable as per the provisions of Article 31 (vi) (c) of schedule IA to the Act which

stipulates that stamp duty shall be levied at five per cent on the market value of the property or the amount of fine/premium of money advanced whichever is higher irrespective of period of lease.

5.6.3 According to Section 5 of the IS Act, any instrument comprising or relating to several distinct matters shall be chargeable with the aggregate amount of the duties with which separate instruments, each comprising or relating to one of such matters, would be chargeable under the Act. Under Section 3(bb)(3) of the IS Act, stamp duty is exempted on any instrument executed by or on behalf of or in favour of, the developer or unit or in connection with the carrying out of the purposes of the special economic zone. However, as per the Commissioner and Inspector General (Registration and Stamps) {C & IG (RS)} circular instructions¹³⁸ dated 5 February 2008, stamp duty but not registration fees and transfer duty was to be exempted on the leases executed by the special economic zones.

5.6.3.1 Test check of the records of the DR, Ranga Reddy (August 2008) indicated that a document styled as “agreement” was registered in March 2008. The document contained recitals to the effect that the lessor granted lease of the demised land in favour of the lessee for 49 years commencing from 31 August 2007 at an annual rent of Rs. 87.12 lakh per acre to operate and maintain a special economic zone. The registering officer did not levy registration fees on the document. This resulted in non-realisation of registration fees of Rs. 32.33 lakh.

After the case was pointed out (March 2009), the Government accepted (October 2009) the audit observation and stated that instructions had been issued to the District Registrar, Ranga Reddy to recover the amount. A report on recovery of the balance amount has not been received (February 2010).

5.6.3.2 Test check of the records of the DR, Ranga Reddy (August 2008) indicated that a document styled as “co-developer agreement” executed in April 2007 was registered in August 2007 by the parties for the development, construction and management of a large commercial infrastructure project as a part of the special economic zone. The document contained two distinct matters *viz.*, one relating to the development agreement and another relating to perpetual lease granted by the developer to the co-developer. Though stamp duty and registration fees were correctly levied on the development agreement, these were not levied on the perpetual lease. This resulted in non/short levy of transfer duty/registration fees of Rs. 17.49 lakh.

After the case was pointed out (April 2009), the Government stated (February 2010) that registration fee was exempted¹³⁹ on instruments executed by the developer for carrying out the purposes of special economic zone and there was no need to pay transfer duty when stamp duty is exempted. The reply is not tenable as exemption of registration fee pertains to documents registered after May 2008. Further, there are no specific orders for exemption of transfer duty leviable separately under the AP municipalities Rules, 1965.

¹³⁸ CCRA1/13492/07 dated 05.02.2008.

¹³⁹ G.O.Ms.No.659 dated 12.5.2008

5.7 Misclassification of deeds

5.7.1 As per Section 2 (10) of the IS Act, conveyance includes a conveyance on sale, every instrument and every decree or final order of any civil court by which property, whether movable or immovable, or any estate or interest in any property is transferred to another.

Test check of the records of DR, Hyderabad and four SRs¹⁴⁰ (between May and December 2008) indicated that seven documents registered as “agreements of sale-cum-general power of attorney (GPA)” between March and July 2007 contained the recitals that the purchasers paid the entire sale consideration to the vendors, the vendors delivered physical possession of the properties, handed over the original link documents of the properties to the purchasers and all other ingredients that were essential for classifying them as sale deeds but were incorrectly stamped as agreements of sale-cum-GPA. This resulted in short levy of stamp duty and registration fees of Rs. 1.25 crore.

The matter was referred to the department in March 2009 and the Government in May 2009; their reply has not been received (February 2010).

5.7.2 According to Article 41 (c) of the Schedule 1-A to the IS Act, where the property which belonged to one partner or partners when the partnership commenced is distributed or allotted or given to another partner or partners in case of dissolution of partnership, stamp duty is leviable at five *per cent* on the market value of the property distributed or allotted or given to the partner or partners under the instrument of dissolution, in addition to the duty which would have been chargeable on such dissolution if such property had not been distributed or allotted or given.

Test check of the records of the DR, Kurnool (August 2007) indicated that a partition deed was registered in March 2007 by the partners of a partnership firm dividing the property among them. The document was registered as a partition among family members and stamp duty and registration fees were levied accordingly. However, the recitals of the documents revealed that the partition deed was executed in the capacity of partners of a firm and not as family members. Thus, the document was chargeable as ‘dissolution of partnership’ with stamp duty at five *per cent* instead of one *per cent* on the market value of the properties distributed. Misclassification of ‘dissolution of partnership’ as ‘partition among family members’ resulted in short levy of stamp duty and registration fees of Rs. 20.33 lakh.

After the case was pointed out (March 2009), the Government accepted (October 2009) part of the objection for Rs. 7.16 lakh stating that as the partition was amongst persons other than family members, stamp duty was chargeable at three *per cent* under Article 40 of the Schedule I-A to the IS Act. It, however, contended that since there was no mention in the deed regarding the dissolution of the partnership it could not be charged with the duty under Article 41 (c). The reply is not tenable as the parties executed the deed for division of the property in the capacity of partners of a firm and there could not be any division of the property of the firm unless the firm was dissolved.

¹⁴⁰ Choutuppal, Kukatpally, Peddamberpet and Vallabh Nagar.

5.8 Incorrect adjustment of stamp duty

The Government in their notification¹⁴¹ dated July 2005 reduced the stamp duty on the documents styled as 'agreement of sale-cum-GPA' to one *per cent* from 1 August 2005 subject to a maximum of Rs. 50,000 on the condition that stamp duty so paid shall not be adjustable at the time of the registration of the sale deed.

Test check of the records of three DRs¹⁴² and 16 SRs¹⁴³ (between September 2007 and January 2009) in 285 documents indicated that stamp duty of Rs. 1.08 crore paid on the 'agreements of sale-cum-GPA' registered on or after 1 August 2005 was incorrectly adjusted on the subsequent sale deeds. This improper adjustment of stamp duty resulted in short realisation of revenue of Rs. 1.08 crore.

After the cases were pointed out (May 2009), the Government stated (February 2010) that the registering officers collected stamp duty at six and seven *per cent* as per the explanation I to Article 47A of schedule IA and adjusted the same at the time of registration of sale deeds. The reply is not tenable in the light of the notification dated 30 July 2005, which stipulated that no such adjustment is admissible.

5.9 Incorrect computation of the lease period

5.9.1 Under Article 31 (a) (iv) of the Schedule I-A to the IS Act, where the lease purports to be for a term exceeding ten years but not exceeding twenty years, stamp duty is chargeable at five *per cent* on the value of three times of the AAR.

Test check of the records of the SR, Kukatpally (October 2007) indicated that a lease deed was registered in December 2006 for the period from 1 December 2006 to 31 December 2016. As the period of lease exceeded 10 years, stamp duty was leviable at five *per cent* on three times of the AAR of Rs. 3.62 crore. However, the stamp duty was levied incorrectly on one and half times of the AAR of Rs. 1.81 crore treating the lease period as ten years. This resulted in short levy of stamp duty of Rs. 9.04 lakh.

After the case was pointed out, the Government stated (June 2009) that instructions had been issued to the SR, Kukatpally to collect the deficit stamp duty. A report on recovery has not been received (February 2010).

5.9.2 According to Article 31(a) (iii) of the Schedule 1-A to the IS Act, where the lease purports to be for a term exceeding five years but not exceeding 10 years, stamp duty is leviable at five *per cent* for a market value equal to the amount or the value of one and half times of the AAR.

¹⁴¹ G.O.Ms.No.1475 Revenue (Registration - I) Department dated 30.7.2005.

¹⁴² Guntur, Medak and Narasaraopet.

¹⁴³ Choutuppal, Dubbaka, Ghatkesar, Hyderabad East, Malkajgiri, Kukatpally, Kalwakurthy, Parigi, Peddamberpet, Pedana, Secunderabad, Siddipet, Sanjeevareddy Nagar, Vallabh Nagar, Vikarabad and Wyr.

Test check of the records of the SR, Secunderabad (May and June 2008) indicated that a lease deed was registered in August 2007 for a period of five years with effect from 1 November 2007 to 31 October 2012. The recital of the deed revealed that the property was demised to the lessee on 27 August 2007. Therefore, the lease period was more than five years and was liable to stamp duty of five *per cent*, instead of three *per cent* levied by the registering officer. This resulted in short levy of stamp duty of Rs. 6.56 lakh.

After the case was pointed out (May 2009), the Government stated (February 2010) that though physical possession was given on 27 August 2007, the lease period commenced from 1 November 2007 only as rent was payable from 1 November 2007. The reply is not tenable as physical possession for enjoyment of the property as per the definition of 'lease'¹⁴⁴ was handed over to the lessee on 27 August 2007 and payment of rent at a later date does not alter the date of commencement of lease being 27 August 2007.

5.10 Short levy of duty and fees on the documents of general power of attorney

Under Article 42(g) of the Schedule I-A to the IS Act, 'power of attorney' when given for construction on, development of or sale or transfer (in any manner whatsoever) of any immovable property is chargeable to stamp duty at five *per cent* on the market value of the property. The Government with effect from 1 July 2005 reduced¹⁴⁵ stamp duty payable in respect of the GPA documents to Rs. 1,000 when the GPA is given in favour of the family members and to one *per cent* when the GPA is given in favour of other than the family members.

Test check of the records of three SRs¹⁴⁶ (April 2008) indicated that 18 documents styled as 'general power of attorney' registered between August 2002 and February 2007 contained recitals to the effect that the attorneys/agents were given the power for the construction/development/sale of the properties. The documents were chargeable with stamp duty of five *per cent* on the market value of the properties upto 30 June 2005 and at one *per cent* thereafter. However, the deeds were executed on a stamp paper of Rs. 100 each. This resulted in short levy of stamp duty and registration fees of Rs. 10.09 lakh.

After the cases were pointed out (February 2009), the Government accepted (June 2009) the audit observation in 10 documents and instructed the SRs to collect the deficit amount. The progress made in recovery and the reply in the remaining cases have not been received (February 2010).

¹⁴⁴ Section 105 of Transfer of property Act, 1882 defines 'lease' as a transfer of right to enjoy such property made for a certain time expressed or implied.

¹⁴⁵ G.O.Ms.No.1128 Revenue (Regn-I) Department dated 13-6-2005.

¹⁴⁶ Shamirpet, Shamshabad and Uppal.

5.11 Short levy of stamp duty

As per the explanation below Article 49 (A) (a) of the Schedule 1-A to the IS Act, 'family' means father, mother, husband, wife, brother, sister, son, daughter and includes grandfather, grandmother, grandchild, adoptive father or mother, adopted son or daughter. Stamp duty is leviable at one *per cent* on the market value of the property on the GPA documents executed in favour of other than the members of a family.

Test check of the records of the SR, Patamata (February 2008) indicated that a document styled as 'general power of attorney' was registered in February 2007 in which one of the principal owners appointed the son-in-law as the attorney for the sale of the property. As the GPA was given to a person other than a family member, the deed was chargeable with stamp duty of one *per cent* on the market value of the property. The registering officer levied stamp duty of Rs. 100 and registration fee of Rs. 100 resulting in short levy of stamp duty and registration fee of Rs. 9.10 lakh.

After the case was pointed out (April 2009), the Government accepted (February 2010) the audit observation and stated that instructions were issued to District Registrar, Vijayawada to collect the deficit amount. A report on recovery has not been received (February 2010).

5.12 Short levy of duties and fees on rectification deed

As per the departmental instructions¹⁴⁷, a rectification deed rectifying the name of the claimant should be charged as a fresh deed and it attracts levy of transfer duty¹⁴⁸ also. When a deed of rectification is treated as a fresh sale, the market value as on date of execution¹⁴⁹ of the original sale deed should be taken into account for the purpose of levy of the duties.

Test check of the records of the DR, Hyderabad (August 2008) indicated that a document styled as 'rectification deed' was registered in March 2006 rectifying the name of the claimant and stamp duty of Rs. 100 was levied. But a rectification deed rectifying the name of the claimant should have been charged as a fresh sale and was chargeable with duties and registration fee as applicable to the sale deed. This resulted in short levy of duties and fee of Rs. 6.34 lakh.

After the case was pointed out (March 2009), the Government accepted (February 2010) the audit observation and stated that Rs. 3.30 lakh had been collected. The report on collection of the remaining amount has not been received (February 2010).

¹⁴⁷ Proceedings No. 563 dated 11-10-1928.

¹⁴⁸ Proceedings No. S3/4371/83 dated 19.9.84.

¹⁴⁹ Proceedings No. 54/14736/86 dated 28-2-1987.

CHAPTER VI OTHER TAX AND NON-TAX RECEIPTS

6.1 Results of audit

Test check of the records of the following departments conducted during the year 2008-09 revealed underassessments and loss of revenue amounting to Rs. 369.66 crore in 188 cases as mentioned below:

(Rupees in crore)			
Sl. No.	Category	No. of cases	Amount
I	CO-OPERATION DEPARTMENT		
	Non-realisation of receipts on account of audit fee, interest etc.	43	210.90
II	ENVIRONMENT, FORESTS, SCIENCE AND TECHNOLOGY DEPARTMENT		
1.	Disposal of forest produce	19	84.77
III	REVENUE AND TRANSPORT, ROADS AND BUILDINGS DEPARTMENTS		
1.	Non-levy and collection of profession tax	21	31.20
IV	REVENUE DEPARTMENT (Commercial Taxes)		
	A. Entertainment tax and Betting tax		
1.	Short collection of security deposit	1	0.06
2.	Non/short levy of show tax and entertainment tax	5	0.02
	B. Rural Development cess		
1.	Short recovery of cess	1	0.02
	C. State Excise		
1.	Non-levy of additional licence fee	16	8.87
2.	Non-levy and collection of penal interest on belated payment of licence fee	14	0.65
3.	Unintended benefit of instalments of permit rooms/loss of revenue due to incorrect fixation of upset prices	5	0.22
4.	Short fixation of annual licence fee for bars	1	0.21
5.	Other irregularities	41	0.37
V	INDUSTRIES AND COMMERCE DEPARTMENT Mines and Minerals		
1.	Non-levy of interest/penalty	3	16.12
2.	Short levy of royalty	9	6.65
3.	Irregular extension of lease	2	1.73
4.	Non-remittance of seigniorage fee	2	0.21
5.	Short collection of seigniorage fee/royalty	3	0.31

(Rupees in crore)

Sl. No.	Category	No. of cases	Amount
VI	ENERGY DEPARTMENT		
1	Non-levy and collection of electrical duty	1	7.07
VII	FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT		
1.	Non-collection of differential cost	1	0.28
Total		188	369.66

During the year 2008-09, the concerned departments accepted underassessments and other deficiencies of Rs. 292.77 crore in 107 cases, of which 67 cases involving Rs. 290.92 crore were pointed out during the year 2008-09 and the rest in the earlier years. An amount of Rs. 31.77 lakh in 10 cases was realised during the year.

A few illustrative audit observations involving Rs. 331.20 crore are mentioned in the succeeding paragraphs.

6.2 Audit observations

Scrutiny of the records in the offices of Revenue, Transport, Roads and Buildings, Industries and Commerce, Energy and Food, Civil Supplies and Consumer Affairs departments relating to revenue received from professions tax, royalty and cess, seigniorage fee and licence fee indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty and other cases as mentioned in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is a need for the Government to consider directing the department to improve the internal control system including strengthening the internal audit so that such omissions can be avoided, detected and corrected.

CO-OPERATION DEPARTMENT

6.3 Audit fee receipts

As per the provisions in the AP Co-operative Societies (APCS) Rules, 1964, the Chief Auditor with the assistance of the District Co-operative Audit Officers at the district level, conducts the audit of the accounts of the Co-operative Societies every year and collects the audit fee at the rates prescribed from time to time.

6.3.1 Non-realisation of audit fee arrears

As per Rule 46(1) of the APCS Rules, every society audited by the Chief Auditor, shall pay the audit fees for the audit of its accounts for each co-operative year. In case of non-payment, demand should be raised on the financing bank. It is obligatory on the part of the financing bank to remit the amount to the Government on behalf of the society within one month from the date of the demand. After exhausting the above measures, the department has to take action to recover the dues as arrears of land revenue.

Test check of the records of the Commissioner for Co-operation and Registrar of Co-operative Societies (Commissioner) (September and October 2008) for the years 2003-04 to 2007-08 indicated that audit fee of Rs. 40.14 crore was not recovered from the societies to the end of March 2008.

There is no provision under the Andhra Pradesh Co-operative Societies Act, 1964 (APCS Act) to levy interest on the arrears of audit fee and no time limit had been prescribed for initiating the recovery proceedings against the defaulters under the AP Revenue Recovery Act (RR Act).

The status of the arrears of audit fee for the last five years is mentioned below:

(Rupees in crore)

Year	Outstanding at the beginning of the year	Demand raised during the year	Total demand	Demand realised during the year	Arrears at the end of the year	Percentage of realisation to total demand
2003-04	16.96	9.39	26.35	6.02	20.33	22.87
2004-05	20.33	9.08	29.41	4.18	25.23	14.23
2005-06	25.23	11.27	36.50	5.82	30.68	15.96
2006-07	30.68	9.39	40.07	5.42	34.65	13.53
2007-08	34.65	10.30	44.95	4.81	40.14	10.71

Failure of the department to collect the arrears as per the provision in the RR Act resulted in non-realisation of Rs. 40.14 crore and forgoing of Rs. 7.63 crore towards interest computed at six *per cent* per annum which is the applicable rate for arrears referred under the AP Revenue Recovery Act.

The Government accepted the audit observation and stated (September 2009) that the audit fee would be recovered by fixing individual targets for each member of the field level staff and action would also be taken by the Department under the provisions of the RR Act. The Department added that there was no provision under Section 74 of the APCS Act for levying interest on any costs awarded to the Government under this Act and this matter was being referred to the Law Department for clarification.

The Government may consider incorporating appropriate provisions for levying of interest on arrears in the APCS Act itself and also prescribe a time limit for initiating proceedings against defaulters for recovery of the dues as arrears of land revenue under the RR Act.

6.3.2 Non/short levy of audit fee

As per the Rule 46(1) of the APCS Rules, audit fee is to be levied on every society at the rate of 0.12 *per cent* of the working capital or loans and advances whichever is less subject to maximum of Rs. 1 lakh.

Test check of the records of nine District Co-operative Audit Offices (DCAOs) indicated non/short levy of the audit fee of Rs. 2.17 crore due to incorrect computations in 751 cases for the period 2003-04 to 2007-08.

The Government accepted the audit observation and stated that (September 2009) necessary action would be initiated to recover the short levied audit fee from the societies concerned. A report on recovery has not been received (February 2010).

6.3.3 Non-realisation of audit fee due to pendency of audit

As per the Rule 46(1) of the APCS Rules, every society in receipt of the state aid or any other society which opts to get the accounts of the society audited through the Chief Auditor, shall pay to the government fees or costs for the audit of its accounts for each co-operative year.

Test check of the records of the Commissioner for the period from 2003-04 to 2007-08 indicated that the department planned to conduct the audit of the accounts of 39,150 co-operative societies for the years 2003-04 to 2007-08. However, only 33,215 accounts were audited. Due to shortfall of 5,935 audits involving 3,401 societies, the department could not realise the audit fee of Rs. 1.84 crore. Details are mentioned in the table below:

Year	Pending at the commencement of the year	To be conducted during the year	Total	Conducted during the year	Pending at the end of the year	No. of societies involved
2003-04	966	36,392	37,358	36,397	961	839
2004-05	961	35,590	36,551	35,647	904	687
2005-06	904	36,184	37,088	34,642	2,446	1,946
2006-07	2,446	34,936	37,382	32,774	4,608	2,892
2007-08	4,608	34,542	39,150	33,215	5,935	3,401

The Department attributed (June 2009) the shortfall primarily to non-availability of the complete address/records and stated (June 2009) that 2,352 out of 5,935 pending audits pertain to un-aided societies, which have the option to get their audit conducted by the chartered accountants. It was also stated that 796 audits pertained to the weaker section societies in whose case the audit fee would be Rs. 100 only. The reply is not tenable, as every society is bound to inform the complete address and changes if any, under the provisions of the APCS Act. Further, the un-aided societies opting for outside audit are required to inform the department in advance and they would therefore not be part of the audits planned by the department. The reply regarding the levy of audit fee at Rs. 100 per audit is also not inconsonance with Rule 46 (1) of the APCS Rules which stipulates that the amount of audit fee shall be realisable per audit at 0.12 *per cent* of the working capital or loans and advances, whichever is less, subject to the maximum of Rs. 1 lakh.

6.4 Non/short recovery of cost of establishment

6.4.1 Short levy of cost of establishment

As per Rule 127 of the Andhra Pradesh Fundamental Rules, when an additional establishment is created, the cost (FR cost) should be recovered from the society for whose benefit it is created. The amount to be recovered should be the gross sanctioned cost of the service and should not vary with the actual expenditure of any month. **Audit observed that no system existed in the department for watching the progress made in the assessment and collection of the FR cost.**

Test check of the records of the District Co-operative Offices (DCOs) in Hyderabad and Rangareddy districts for the years 2003-04 to 2007-08 indicated that the FR cost of Rs. 1.94 crore was neither assessed nor demanded by the DCOs in 127 cases. The societies paid only Rs. 1.36 crore. This resulted in short collection of the FR cost of Rs. 58.04 lakh. Further, revisions in the emoluments were not being calculated correctly although provided

under the APFR while working out the FR cost. This resulted in short collection of the FR cost by Rs. 19.66 lakh in 147 cases. Thus, the total short realisation of the FR cost was Rs. 77.70 lakh.

The Government accepted the audit observation and stated (September 2009) that instructions had been issued to all the DCOs in the State to collect the FR cost as pointed out by the audit. A report on recovery has not been received (February 2010).

6.4.2 Non-recovery of FR cost

The G.O.Ms. No. 452 dated 26 August 1971, stipulated that in case of a fresh post (other than audit post) sanctioned for a society, a sum equal to the cost of the staff for a period of three months should be collected in advance. In case of a post of an auditor sanctioned to the individual societies, the cost for the entire sanctioned period should be collected in advance.

Test check of the records of nine DCOs (September and October 2008) indicated that the FR cost of Rs. 1.19 crore though required to be assessed and collected in advance, had not been collected till the date of audit. This resulted in non-realisation of Rs. 1.19 crore as on 31 March 2008.

The Government accepted the audit observation and stated (September 2009) that instructions had been issued to the DCOs in the State to strictly ensure that a sum equal to the cost of staff for a period of three months be collected in advance whenever a new post (other than audit) had been created. It was further stated that out of Rs. 1.19 crore, an amount of Rs. 13.58 lakh had been recovered and the balance amount would be collected soon. A report on further recovery has not been received (February 2010).

6.5 Interest/dividend receipts

6.5.1 As per the conditions governing the sanction of loans to the societies, interest has to be levied at a prescribed percentage on the principal amount. In case of non-payment of the principal as per the time schedule, penal interest is also to be levied. The rates of interest for the amounts advanced during the period prior to 2003-04 ranged between nine and 12 *per cent*.

6.5.2 Non-levy of interest

Test check of the loan ledgers relating to the loans sanctioned by the Government, maintained by the DCOs in nine districts¹⁵⁰ indicated that though all necessary details such as principal amount, rate of interest, period of loan etc., were recorded in the loan ledgers, the department did not assess the amount of interest of Rs. 1.86 crore payable by the societies. The DCOs did not monitor the final assessments for raising the demands despite maintaining the loan ledgers. This resulted in non-realisation of loan of Rs. 4.61 crore and interest of Rs. 1.86 crore.

¹⁵⁰ Chittoor, East Godavari, Guntur, Hyderabad, Karimnagar, Khammam, Krishna, Rangareddy and Warangal.

The Government accepted the audit observation and stated (September 2009) that the DCOs in the state had been instructed to update the loan ledgers, levy interest on the principal amount as per the time schedule and to levy penal interest where the principal amount had become overdue and to collect the amounts on war footing. Further progress in recovery has not been intimated (February 2010).

6.5.3 Non-issue of demand notices for the interest levied

Test check of the records of the above DCOs relating to the loans sanctioned by the Government indicated that an interest of Rs. 3.81 crore was assessed by the DCOs till end of March 2008 on the outstanding principal loan amount of Rs. 4.61 crore released to the societies. The societies defaulted in paying the interest due. The department too did not issue any demand notice despite the interest amount being assessed by the DCOs. This resulted in non-realisation of Rs. 3.81 crore towards interest.

The Government accepted the audit observation and stated (September 2009) that instructions had been issued to the DCOs in the state to issue demand notices to the defaulting societies for repayment of the Government loans together with the interest. The DCOs reported (June 2009) that the demand notices had been issued to the defaulting institutions for collection of the amounts. A report on collection has not been received (February 2010).

6.5.4 Interest/dividend on Government share capital contribution

According to the APCS Act, a society shall, out of its net profit in any co-operative year¹⁵¹, pay dividend to its members on their paid up share capital, an amount being not less than 15 *per cent* of the net profit.

In January 2002, the Government amended the Rule 36(5)(d) of the APCS Rules according to which every society shall pay dividend or interest, which shall not be less than six *per cent* per annum on the paid up share capital every year. When no dividend is paid, the society has to pay interest on the Government share capital. If for any reason this interest or dividend is not paid, it shall be pointed out in audit, inspection or inquiry and a provision shall be made to carry forward the amount for the subsequent year. The society shall forthwith be declared as “weak” and all additional expenditure in the form of revision of pay scales, dearness allowance, honorarium to the managing committee members, opening of branches, sub-offices etc., shall be frozen. The managing committee of the society will be held responsible for any lapses in this regard.

The Government in September 2003 exempted certain rural co-operative societies, the AP Co-operative Bank, District Co-operative Central Banks and Primary Agricultural Cooperative Societies from the operation of the Rule 36(5)(d). Consequently, the exempted societies need to pay dividend on the net profit under the APCS Act and the other societies need to pay dividend/interest as per rule 36 (5)(d) of the APCS Rules, which shall not be less than six *per cent* per annum on paid up share capital.

¹⁵¹ From April to March of that year.

6.5.4.1 Non-levy of interest/dividend from non-exempted societies

Test check of the records of the Commissioner relating to the Government share capital contribution to non-exempted societies revealed that 10 co-operative societies¹⁵² who received the Government share capital neither paid the dividend nor levied interest on the share capital. The minimum interest at the rate of six *per cent* as mentioned in the APCS Rules leviable on these societies amounted to Rs. 142.30 crore.

It was further noticed that though one society the Andhra Pradesh State Handloom Weavers Co-operative Society (APCO) had made a provision of Rs. 6.09 crore in the accounts during 2003-04 to 2005-06 for payment of interest, it was never demanded by the department. Thus, failure to levy and assess interest payable by the societies resulted in non-realisation of Rs. 142.30 crore, besides non-invoking of other penalties as per rule 36(5)(d).

The department stated (July 2009) that a proposal had been sent to the Government for deletion of Rule 36(5) (d) of the APCS Rules. However, it was silent about the reasons for non-levy of interest pointed out by Audit.

6.5.4.2 Non-levy of dividend from exempted societies

Test check of the records of the Commissioner of the societies exempted from the operation of Rule 36(5)(d) of the APCS Rules indicated that in 3,668 cases, the societies earned net profit of Rs. 115 crore during the period from 2002-03 to 2006-07. The dividend payable to the Government on its shares worked to Rs. 2.56 crore at the rate of 15 *per cent*. Against this, the societies remitted Rs. 1.59 lakh only resulting in short realisation of Rs. 2.54 crore as mentioned in the following table:

(Rupees in lakh)

Year	No. of societies	Proportional dividend amount on Govt. share capital to be credited to Govt. a/c	Amount of dividend actually collected & credited to Govt. a/c	Non-levy of dividend
2003-04	1086	1.52	0.62	0.90
2004-05	673	6.95	0.12	6.83
2005-06	684	61.68	0.16	61.52
2006-07	601	66.21	0.06	66.15
2007-08	624	119.27	0.63	118.64
Total	3,668	255.63	1.59	254.04

After this was pointed out, the Government accepted the audit observation and stated (September 2009) that specific instructions would be issued to the district and Divisional level officers and Functional Registrars to ensure the payment of dividend to the Government.

¹⁵² APSC co-operative finance corporation, AP Co-operative BC finance corporation, AP Girajan Co-operative Corporation, AP Toddy Tappers Co-operative Society Federation limited, AP Sericulture Federation, AP Co-operative Marketing Federation, AP Washer men Society Federation, AP Women Co-operative Finance Corporation, APCO, AP Oil Federation.

6.5.5 Non-levy/collection of interest and penal interest

The Integrated Co-operative Development Project (ICDP) is a centrally sponsored scheme being implemented with the objective of overall development of the co-operative societies. Under the scheme, the National Co-operative Development Corporation (NCDC) provides financial assistance in the form of loan and subsidy to the State Government and the State Government provides funds to the District Co-operative Central Banks (DCCBs). The loan which carries the prescribed rate of interest is to be repaid in eight equal instalments with a moratorium period of three years. The overdue instalments/amounts will attract penal interest till the amounts are repaid.

Test check of the records of the Commissionerate for the period 2003-04 to 2007-08 indicated that the DCB records and loan ledgers were not maintained for the loans advanced by the NCDC and demands were not raised periodically. However, the details of the total released amount, period of loan, rate of interest and due date of payment were maintained in the computers. Perusal of the information obtained from the department indicated that the NCDC advanced loans amounting to Rs. 6.67 crore upto March 2008. The amount was recoverable in eight equal instalments carrying interest of 16 per cent to 19.25 per cent per annum on the outstanding amount. In the absence of the ledgers, the correct position of the outstanding loans and the interest payable thereon could not be ascertained by audit.

Audit observed that the department calculated interest on the diminishing balance (i.e. after deducting the instalment due for payment) though the instalments were not paid. This resulted in short levy of interest of Rs. 3.87 crore at a minimum rate of 16 per cent on the outstanding principal of Rs. 6.67 crore as mentioned in the following table:

(Rupees in lakh)		
Year	Overdue amount	Non-levy of interest
2003-04	253.52	40.56
2004-05	353.00	56.48
2005-06	521.23	83.40
2006-07	621.68	99.47
2007-08	667.41	106.79
Total		386.70

The Government accepted the audit observation and stated (September 2009) that the interest due details had been communicated to all the general managers of the DCCBs informing that penal interest should also be remitted for the period of default. It was further stated that the matter would be pursued with all the DCCBs and action would be taken to collect due amounts in accordance with guidelines including penal interest. Further report on recovery has not been received (February 2010).

**ENVIRONMENT, FORESTS, SCIENCE AND TECHNOLOGY
DEPARTMENT**

6.6 Non-collection of dues from the GCC Limited

Lease agreements executed by the Government with the Girijan Co-operative Corporation (GCC) Limited, Visakhapatnam each year stipulated that minor forest produce would be collected by the GCC Limited on monopoly basis. The GCC was required to pay lease rentals at 15 *per cent* on procurement prices subject to the payment of minimum rental equal to the average of previous three years' rentals payable in two half yearly instalments. However, the agreement did not contain any contingency clause for seizure of forest produce in case of non-payment of the lease rentals.

Test check of the records of Principal Chief Conservator of Forests indicated that Rs. 54.51 crore on account of lease rentals was due from the GCC Limited, Visakhapatnam for over eight years as mentioned in the following table:

(Rupees in crore)		
Sl. No.	Period of Arrears	Amount due
1.	2001 to 2005-06	33.28
2.	2006-07	3.83
3.	2007-08	17.40
Total		54.51

In the absence of any clause in the lease agreement, action could not be taken by the department to seize the forest produce.

After this was brought to notice, the department took up the matter with the Government in June 2009 and suggested the inclusion of a clause in the lease agreement to be entered with the GCC Limited enabling the department to seize the produce in transit if the forest rentals were not paid by them in time.

6.6.1 Non-collection of forest dues

As per the provisions of the AP Financial code (APFC) volume I, every government servant who is entrusted with the duty of collecting any revenues due to the government should assess the demands carefully and collect the revenues promptly. As per the Andhra Pradesh Forest Act, 1967, the Government dues if not paid are to be recovered as if it were an arrear of land revenue, under the provisions of AP Revenue Recovery Act, 1864. The certified cases are sent by the Conservator of Forests to the concerned District Collectors for recovery of the amounts specified therein.

Test check of the records of 15 divisions¹⁵³ indicated that Rs. 28.62 crore was outstanding in 238 certified cases. Age-wise analysis of these cases is mentioned in the following table:

(Rupees in crore)

Sl. No.	Arrears of revenue	No. of cases	Arrears
1.	Pending less than 5 years	11	1.35
2.	Pending for more than 5 years to 10 years	13	1.53
3.	Pending for more than 10 years to 15 years	22	4.60
4.	Pending for more than 15 years to 20 years	8	4.45
5.	Pending for more than 20 years to 50 years	124	16.59
6.	Pending for more than 50 years	60	0.10
Total		238	28.62

The above table indicates that 60 cases involving Rs. 9.58 lakh were pending recovery for more than 50 years. No departmental meetings were conducted with the district collectors concerned, to monitor the recovery of arrears. As a result, arrears pertaining to very old periods remained outstanding. The chances of recovery of old arrears have become remote with the passage of time.

6.6.2 A test check of the records of the Divisional Forest Officer (DFO), Bellampally division indicated that Rs. 1.24 crore was outstanding against 15 defaulting *abnus* leaf contractors from 1980 to 2004. The division stated that the cases were referred to the District Collectors concerned. But the records revealed that the District Collectors were addressed by ordinary letters only. There was no evidence that the certified cases were acknowledged by the District Collectors.

After the case was pointed out (April 2009), the Government stated (July 2009) that all the cases of arrears of revenue would be reviewed and necessary action would be taken to collect these under the RR Act and the Chief Conservators of Forests/Conservators of Forests would be directed to hold meetings periodically with District Collectors concerned to expedite the arrears collection. It was also stated that the cases were very old and where recovery was not possible, the aspect of writing off them by competent authority would also be considered.

6.6.3 Test check of the records of the DFO (Logging Division), Nirmal indicated that in one case relating to M/s Hyderabad Plywood Industries, Hyderabad, Government ordered¹⁵⁴ recovery of arrears of Rs. 34.54 lakh in 12 equal half yearly instalments commencing from 30 November 1996 to 31 May 2002 alongwith penal interest at 22 *per cent* per annum on the overdue instalments from 1 December 1996 to 1 June 1999. Even after a lapse of 10 years, the amount has not been recovered till the date of audit.

After the case was pointed out (April 2009), the Government stated that action would be taken to recover the amount by referring the matter to the District Collector, Ranga Reddy District.

¹⁵³ DFOs Adilabad, Bellampally, Bhadrachalam (N), Eluru, Jannaram, Kagaznagar, Kakinada, Khammam, Mancherial, Nirmal, Paderu, Paloncha, Vijayawada, Visakhapatnam and Vizianagaram.

¹⁵⁴ G.O.Ms.No.187 EF (For. III) Department dated 8 September 1994.

6.6.4 Non-realisation of miscellaneous expenditure and supervisory charges

In accordance with the agreements executed each year between the Forest Department and M/s ITC BPL¹⁵⁵ Ltd., supervisory charges and miscellaneous expenditure at the rates prescribed from time to time are required to be collected from the paper mill.

Test check of the records of DFO (Logging Division), Bhadrachalam indicated that Rs. 5.03 lakh on account of supervisory charges and miscellaneous expenditure for the years 2003-04 to 2007-08 was neither paid by the mill nor demanded by the department.

After the case was pointed out (April 2009), the Government stated (July 2009) that the DFO, Bhadrachalam Division had issued a demand notice to the paper mill towards payment of miscellaneous expenditure and supervisory charges due for the years 2003-04 to 2007-08. It further stated that Rs. 5.70 lakh paid by M/s. ITC BPL Ltd. towards security deposit for the year 2007-08, was available with the department and the dues would be adjusted from the amount available.

TRANSPORT, ROADS AND BUILDINGS DEPARTMENT

6.7 Non-levy and collection of professions tax

Under Section 4 of the Andhra Pradesh (AP) Tax on Professions, Trades, Callings and Employments Act 1987, the Government issued orders¹⁵⁶ in May 2006 appointing Regional Transport Officers/Deputy Commissioners/Joint Commissioner as collecting agent for collection of professions tax from the lorry/bus owners at Rs. 750 per vehicle per annum. In response to a clarification sought by some district officers for collection of tax, the Transport Commissioner (TC) in November 2006 directed the district officers not to collect professions tax till a decision regarding filling up of existing vacancies and providing additional staff required for discharging collection activities was taken by the Government.

Test check of the records of the office of the TC, Andhra Pradesh (January 2009) indicated that professions tax for the year 2007-08 totalling Rs. 30.97 crore from the owners of 4,12,923 vehicles on road was not levied and collected. Thus, despite the orders of the Government, the Transport Department failed to realise professions tax amounting to Rs. 30.97 crore for the year 2007-08 due to the orders of the TC.

After the case was pointed out, the TC stated (January 2009) that the matter would be examined.

The matter was referred to the Government in April 2009; their reply has not been received (February 2010).

¹⁵⁵ Bhadrachalam Paperboards Limited.

¹⁵⁶ G.O.Ms. No.610 Revenue (CT-IV) Department dated 30 May 2006.

INDUSTRIES AND COMMERCE DEPARTMENT

Mines and Minerals

6.8 Non/short levy of royalty and cess on crude oil

As per Section 6A of Oilfields (Regulation and Development) Act, 1948 and Rule 14 of Petroleum and Natural Gas Rules, 1959, the holder of a mining lease shall pay royalty in respect of any mineral oil mined, quarried, excavated or collected by him from the leased area at the rates¹⁵⁷ specified in the schedule to the Act from time to time. In addition, as per AP Mineral bearing lands (Infrastructure) Cess Rules, 2005 read with Government order dated 12 September 2005¹⁵⁸, cess of Rs. 640 per tonne of crude oil shall be levied.

Test check of the records of the Deputy Director of Mines and Geology, Kakinada (January 2009) indicated that against the quantity of 2,13,227.082 MTs and 2,14,296.787 MTs of crude oil extracted by a lessee during 2004-05 and 2006-07, royalty was levied on 2,03,969.318 MTs and 2,14,030.143 MTs respectively. Further, cess of Rs. 1.71 lakh was not levied on 266.64 MTs of crude oil during 2006-07. This resulted in non/short levy of royalty and cess of Rs. 2.23 crore.

After the case was pointed out (March 2009), the department accepted (September 2009) the audit observation. A report on recovery of the amount has not been received (February 2010).

The above matter was referred to the Government in April 2009; their reply has not been received (February 2010).

6.9 Short recovery of seigniorage fee

As per Rule 10 of the AP Minor Mineral Concession (MMC) Rules 1966, seigniorage fee¹⁵⁹ shall be charged on all minor minerals despatched or consumed from the land at the rates specified in the schedules to the rules. The Government in October 2004¹⁶⁰ revised the rates of seigniorage fee on minor minerals.

6.9.1 According to clause 10.4 of general conditions of the contract executed by Superintending Engineer, Galeru Nagari Sujala Sravanthi (GNSS) circle, seigniorage fee shall be recovered from the bills of the contractor on the earth work excavation done and measured with reference to the quantities used in the work as per theoretical¹⁶¹ requirements, at the rates prescribed by the Government of Andhra Pradesh. The rate of seigniorage fee for earth is Rs. 20 per cu.m.

¹⁵⁷ For the year 2004-05 – Rs. 2,282 per MT, for the year 2006-07 – Rs. 3,689 per MT.

¹⁵⁸ G.O.Ms.No.250, Industries and Commerce dated 12-09-2005.

¹⁵⁹ Seigniorage fee is a fee charged by the owner of minor minerals from those to whom he gives the concession to remove them.

¹⁶⁰ G.O.Ms.No.217, Industries and Commerce Department dated 29 September 2004.

¹⁶¹ Quantity of material required for a specific work as estimated.

Test check of the records of the Executive Engineer, GNSS, Proddatur Division (October 2007) indicated that as per bill of contractors on work done and measured with reference to the quantities used as per the theoretical requirements of 31,03,500.79 cu.m in respect of one work¹⁶², seigniorage fee was recovered on compacted quantity of 27,46,460.88 cu.m. This resulted in short recovery of seigniorage fee of Rs. 71.41 lakh upto September 2007.

After the case was pointed out (October 2008), the department stated (September 2009) that the issue would be placed before the Board of chief engineers meeting as agreed by the Government.

The above matter was referred to the Government in April 2009; their reply has not been received (February 2010).

6.9.2 Test check of the records of the Assistant Director of Mines and Geology (ADMG), Guntur (July and August 2008) indicated that seigniorage fee was collected at the rates of colour granite instead of black granite despatched from the land between 2006-07 and 2007-08. This resulted in short recovery of seigniorage fee of Rs. 23.65 lakh.

After the case was pointed out (February 2009), the department stated (September 2009) that a demand notice had been issued to the lessee company. The company had filed a writ petition before the High Court of Andhra Pradesh which was yet to be finally disposed.

The above matter was referred to the Government in March 2009; their reply has not been received (February 2010).

6.10 Non-remittance of seigniorage fee

The Industries and Commerce Department ordered¹⁶³ that seigniorage fee collected on minerals under the provisions of the Mines and Minerals (Regulation and Development) Act, 1957, be credited to the consolidated fund of the State and then transferred to the local bodies separately at the rates prescribed.

Test check of the records of four offices¹⁶⁴ (March 2007 and August 2008) indicated that Rs. 22.14 lakh was recovered towards seigniorage fee from the bills of contractors for the years 2005-06 to 2007-08. But the same was not remitted to the Government account by three¹⁶⁵ municipalities and two¹⁶⁶ local bodies.

¹⁶² Earth work excavation of GNSS main canal including construction of cross masonry and cross drainage works measuring 8.31 KM and formation of earthen bund for Vamikonda Sagar and Sarvaraja Sagar etc.

¹⁶³ G.O.Ms. No. 404, Industries and Commerce Department dated 5 October 1994.

¹⁶⁴ ADMG Khammam, Markapur, Medak and Tandur.

¹⁶⁵ Markapur, Medak and Tandur.

¹⁶⁶ Women Development and Child Welfare, Khammam and Mandal Parishad Development Officer, Tandur.

After the cases were pointed out (June and November 2008), the department stated (September 2009) that Rs. 2.17 lakh had been remitted in two cases. Recovery in the remaining cases has not been reported (February 2010).

The above matter was referred to the Government in April 2009; their reply has not been received (February 2010).

6.11 Short levy of royalty and cess

As per Section 9 of the Mines and Minerals (Regulation and Development) Act, the holder of a mining lease shall pay royalty in respect of any mineral removed or consumed by him or by his agent, manager, employee, contractor or sub-lessee from the leased area at the rates specified. The rates of royalty in respect of major minerals were revised in October 2004¹⁶⁷. The rates of royalty to be levied on crude shale and soil are Rs. 23 per MT and Rs. 12 per MT respectively.

6.11.1 Test check of the records of the ADMG, Miryalaguda, Nalgonda (February 2008) indicated that during the year 2005-06, a lessee¹⁶⁸ used limestone and additives such as soil, aluminium laterite, iron powder for producing clinker. However, royalty alongwith cost of mineral was not realised on the quantity of clay/soil used by the lessee. This resulted in non-recovery of Rs. 21.61 lakh towards royalty and cost of mineral.

After the case was pointed out (February 2009), the department accepted (September 2009) the audit observation and raised the demand for the above amount. Payment particulars have not been received (February 2010).

The above matter was referred to the Government in April 2009; their reply has not been received (February 2010).

6.11.2 Test check of the records of the ADMG, Miryalaguda (September 2008) indicated that on despatches of 2,68,777 MTs of crude shale from mines in respect of a lessee during assessment years 2005-06 to 2007-08, royalty on crude shale was assessed at Rs. 18 per MT instead of Rs. 23 per MT. This resulted in short levy of royalty of Rs. 13.44 lakh.

After the case was pointed out (February 2009), the department stated (September 2009) that a demand notice for Rs.13.44 lakh had been issued to the lessee.

The matter was referred to the Government in March 2009; their reply has not been received (February 2010).

¹⁶⁷ G.S.R. 677 (E) dated 14 October 2004.

¹⁶⁸ M/s NCL Industries Limited.

6.12 Non-inclusion of demand in DCB Register

Article 8 of AP Financial Code Vol. I, stipulates that every departmental controlling officer should watch closely the progress of realisation of the revenues under his control and check the recoveries made against the demand. Further, as per paragraph 16.9 of the Manual of the Department of Mines and Geology, the ADMG has to enter the assessment finalised in a register called “Demand, Collection and Balance (DCB) Register” in the proforma given in Appendices 104 and 105.

Test check of the records of the office of the ADMG, Nellore (January 2007) indicated that the mineral revenue assessment of one assessee for the year 2005-06 for iron ore was made for Rs. 5.89 lakh. However, neither was the demand included in the DCB register nor was the same demanded from the assessee. This resulted in non-realisation of revenue of Rs. 5.89 lakh towards royalty.

After the case was pointed out, ADMG, Nellore stated (March 2009) that the demand had been raised in May 2007. A report on the recovery is awaited even after the lapse of more than two years (February 2010).

The above matter was referred to the department in October 2008 and the Government in March 2009; their reply has not been received (February 2010).

REVENUE DEPARTMENT

State Excise Duties

6.13 Non-levy of additional licence fee

As per Rule 10 of AP Excise (Grant of licence of selling by bar and conditions of licence) Rules, 2005, the enclosures¹⁶⁹ for consumption of liquor, which are not contiguous, shall attract levy of an additional licence fee at 10 *per cent* for each such additional enclosure.

Test check of the records of three offices of Prohibition and Excise Superintendents (PES)¹⁷⁰ (May and December 2008) indicated that during the year 2007-08, 10 *per cent* of additional licence fee totalling Rs. 64.13 lakh was not levied on 40 non-contiguous enclosures. This resulted in non-levy of additional licence fee of Rs. 64.13 lakh.

¹⁶⁹ “Enclosure” is defined as an area of consumption of liquor, which is contiguous in utility for consumption. If one consumption enclosure is separated from another enclosure by non-contiguity and interposition of areas of different utilities other than consumption of liquor, it attracts additional licence fee.

¹⁷⁰ Khammam, Ongole and Secunderabad.

After the cases were pointed out, PES, Khammam and Secunderabad stated (May and December 2008) that the 2B licences were granted after physical verification of the premises by the competent authorities as per the instructions of the Commissioner of Prohibition and Excise. The replies are not tenable as enclosures for consumption of liquor were separated by enclosures utilised for purposes other than the consumption of liquor. As such, these were non-contiguous and attracted the levy of additional fee. The PES, Ongole stated (October 2008) that the matter would be examined.

The matter was referred to the department in September 2008 and February 2009 and the Government in April 2009; their reply has not been received (February 2010).

6.14 Non-levy of interest on belated payments of licence fee

As per Rule 3 of AP Excise (Levy of Interest on Government Dues) Rules, 1982, the arrears of money recoverable shall bear interest at the rate of 18 *per cent* per annum.

Test check of the records of four offices of PESs¹⁷¹ (February and October 2008) indicated that permit room licence fee for the years 2006-07 and 2007-08 was not paid in one lump but in different instalments. The licence fee of Rs. 1.70 crore was to be paid in advance before the issue of the permit room licence. In contravention of the provision, the Commissioner issued instructions to recover the licence fee in instalments. This resulted in the non-levy of interest on belated payments of licence fee of Rs. 11.80 lakh.

After the cases were pointed out, all PESs stated (February and October 2008) that permit room licences were granted for the year 2006-07 as per the instructions of the Commissioner of Prohibition and Excise and the balance amount was obtained subsequently. The contention of the department is not in accordance with the provisions of the Act. Besides, interest was to be levied for belated payments of tax on which no instructions were issued by the Commissioner.

¹⁷¹ Anakapalle, Ongole, Tenali and Vijayawada.

The matter was referred to the department between October 2008 and January 2009 and the Government in March 2009; their reply has not been received (February 2010).

**Hyderabad
The**

**(Sadu Israel)
Accountant General
(Commercial & Receipt Audit)
Andhra Pradesh**

Countersigned

**New Delhi
The**

**(Vinod Rai)
Comptroller and Auditor General of India**

Annexure to Paragraph 1.11

Number of PAC recommendations for which ATNs have not been received

Year of Audit Report	Commercial Taxes	State Excise	Land Revenue	Transport, Roads and Buildings	Public Works	Stamp Duty and Registration Fees	Forest	Industries and Commerce	Civil Supplies	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1972-73	1									1
1973-74	4	5	1			1				11
1974-75	2	9	4	1			1			17
1975-76	4	3	2	7		1				17
1976-77	2	1	4			2	1			10
1977-78	5	1	2	1		2	3			14
1978-79	4	1	5	1		4		1	1	17
1979-80	2	3	2			4	1	1		13
1980-81	1	1	2	1		3				8
1981-82	1	1	2	1	1		2			8
1982-83		2			1	1				4
1983-84	1	1				1	2			5
1984-85						3	8			11
1985-86	5	1		1		2				9
1986-87				1						1
1987-88	1	1		1						3
1994-95							1			1
1995-96			2				1			3
1996-97	1		1	1						3
2000-01	1	2								3
Total	35	32	27	16	2	24	20	2	1	159