

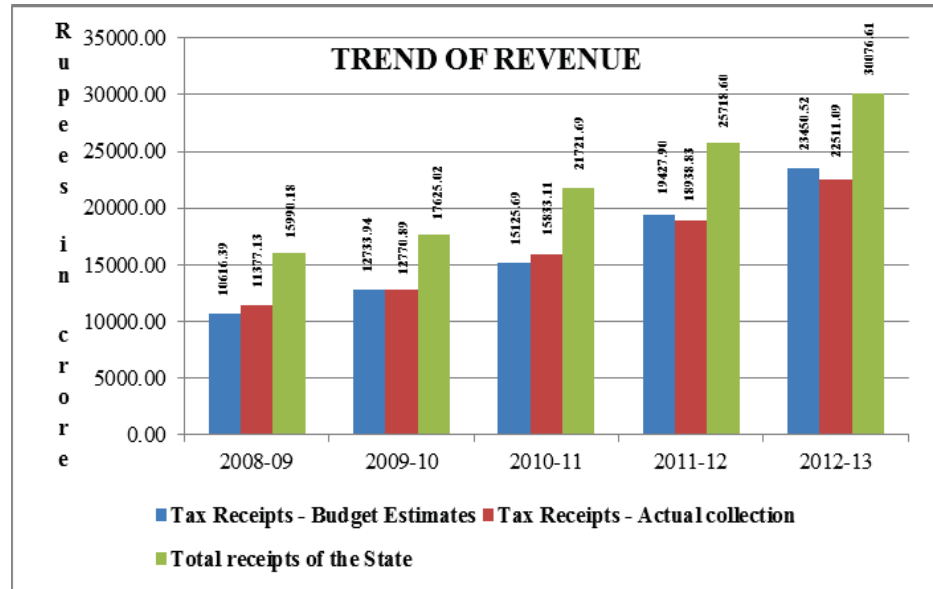
## CHAPTER-I : GENERAL

### 1.1 Introduction

The Commercial Taxes Department contributes nearly 75 per cent of the tax revenue of the State through Kerala General Sales Tax (KGST), Kerala Value Added Tax (KVAT) and Central Sales Tax (CST) regulated by the Kerala General Sales Tax Act, 1963 (KGST Act), Kerala Value Added Tax Act, 2003 (KVAT Act), the Central Sales Tax Act, 1956 (CST Act) respectively and the notifications/circulars issued thereunder by the Government/Department from time to time.

### 1.2 Trend of receipts

The budgeted and actual receipts of tax on sales, trade etc., and the total revenue receipts of the State during the five years ended 31 March 2013 were as depicted below:



The revenue collected as KGST - levied on sale of ganja, opium, foreign liquor and certain petroleum products under the KGST Act, KVAT - levied on intrastate sale of commodities other than those mentioned above and CST - levied on interstate sales, during the last three years ended 31 March 2013 as recorded in Finance Accounts prepared by Principal Accountant General (A&E) Kerala were as detailed below:

Revenue head	₹ in crore			Increase in 2012-13 over 2011-12 (Percentage)
	2010-11	2011-12	2012-13	
Sales Tax	7,402.07	8,754.38	9,921.57	13.33
VAT	8,097.15	9,803.74	12,171.70	24.15
CST	310.42	292.66	320.88	9.64

During 2012-13 collection of VAT increased by ₹ 2,367.96 crore and that of sales tax increased by ₹ 1,167.19 crore.

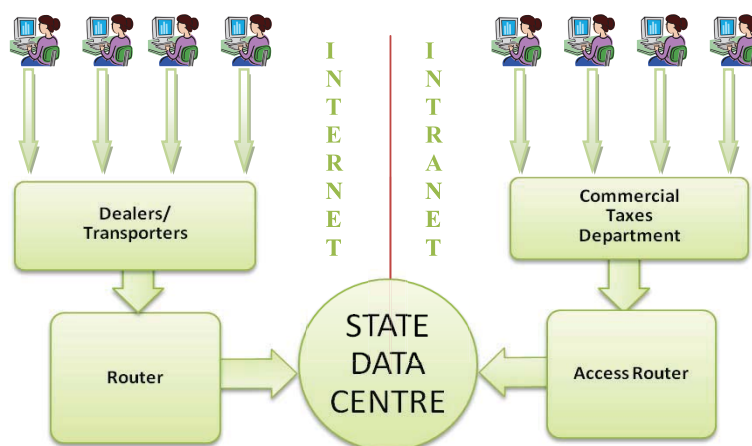
### **1.3 Kerala Value Added Tax Information System (KVATIS)**

The Government of Kerala enacted the KVAT Act which came into effect from 1 April 2005. The work on project for the computerisation of commercial tax administration in Kerala (KVATIS) under the KVAT Act, was started during 2005-06 with the objectives to;

- develop a user-friendly IT solution for the effective and transparent tax administration with a view to maximise tax collection, reduce the tax evasion and corruption.
- simplify the procedures and deliver better services timely to the stakeholders.

The KVATIS software was developed, supplied and implemented by the Computer Maintenance Corporation (CMC) Limited. The scope of the project work entrusted to CMC included - design and development of the application to meet business requirements of the Department, provide appropriate hardware specifications and network design, testing, documentation and implementation. The system is based on industry standard three tier architecture (WEB) on J2EE Platform. The system is deployed on the Oracle 10g Application Server and Oracle 10g database engine as Relational Database Management System (RDBMS) with 12<sup>1</sup> Modules.

#### **Diagram of architecture of the system**



KVATIS is accessed through both Internet and Intranet. The Internet web based application for public interface is accessible to all registered dealers, transporters etc., through the website [www.keralataxes.gov.in](http://www.keralataxes.gov.in). The Intranet application is accessible only to the employees of the Department and is accessed through Wide Area Network (WAN). A unique role is assigned to each employee to access the KVATIS modules based on the nature of the work performed.

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<sup>1</sup> Dealer Information System, Return Processing System, Checkpost Management System, Tax Accounting System, Enforcement and Raid System, Appeal and Revision System, Dealer Audit Assessment System, Penalty and Offences System, Arrear Recovery System, Refund System, Employees Information System, Kiosk and Web Enabled System

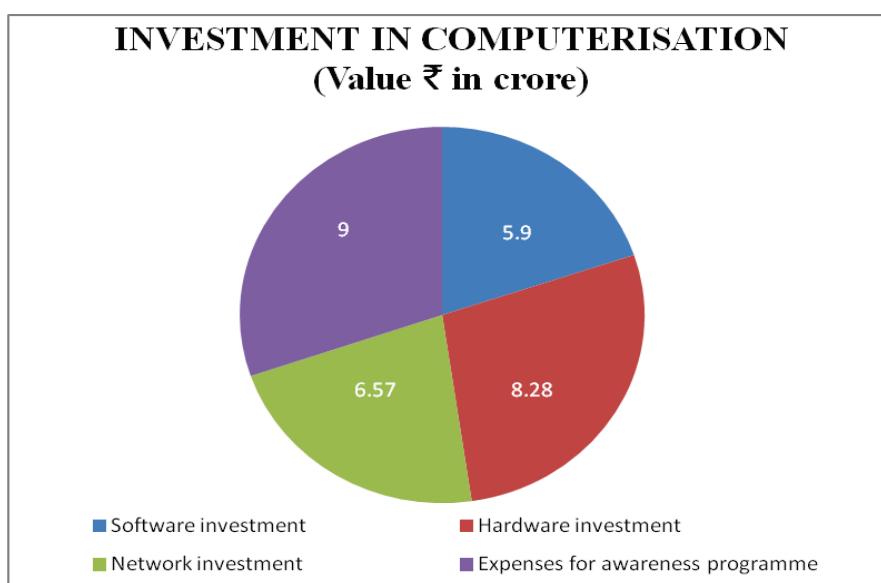
The application software became operational from 2007-08 in a phased manner. A chronology of important e-services introduced is given below:

Date of implementation	e-Services
January 2009	e-filing of Returns and uploading of lists of purchase/sales Invoices
September 2009	e-payment of Tax
January 2010	e-payment of Advance Tax
January 2010	e-consignment Declaration
April 2010	e-renewal of Registration, uploading of Closing Stock and Audited Statement
April 2011	Online registration

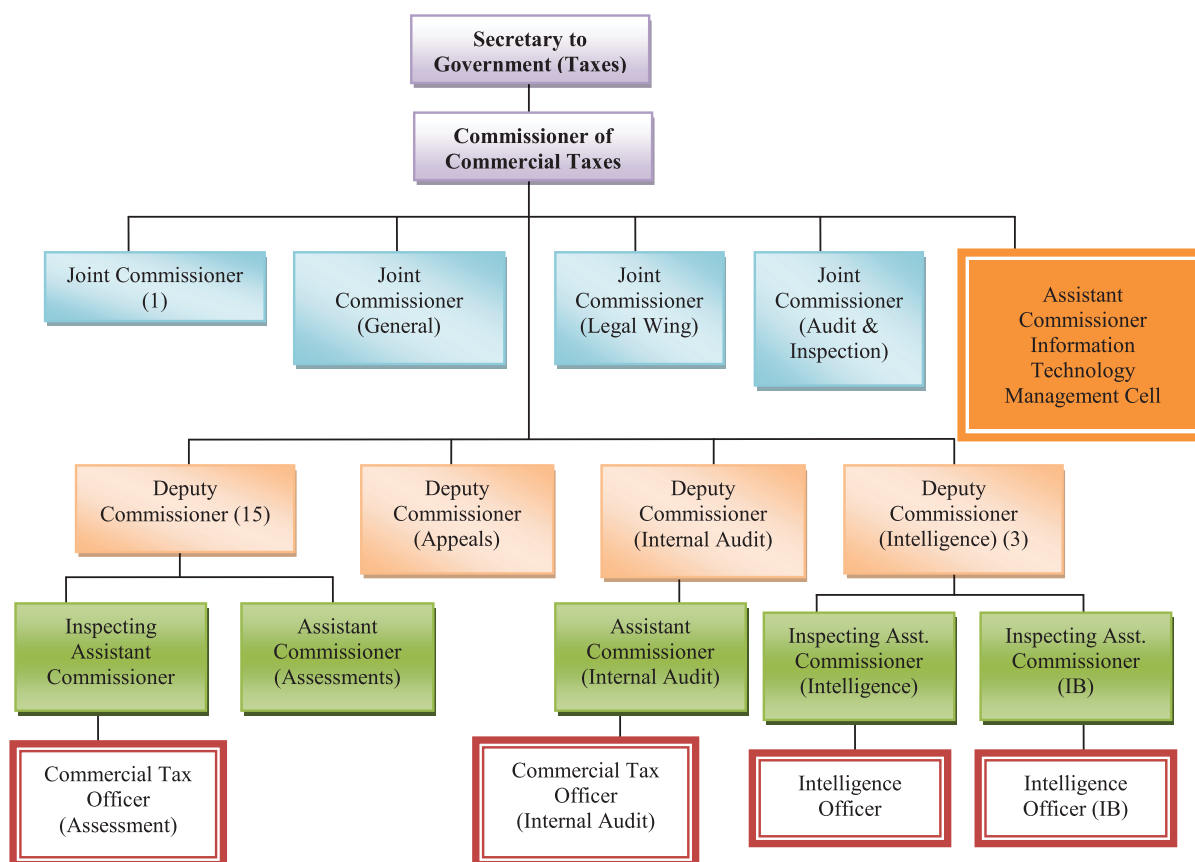
The Department has so far (March 2014) fully operationalised only three modules namely, Dealer Information System, Return Processing System and Checkpost Management System. The modules such as Enforcements and Raids system, Tax Accounting System, Employee Information System etc., were only partially used/made operational. The KVATIS also capture the data relating to e-filing of returns and e-payments under the KGST Act.

#### 1.4 Expenditure incurred for computerisation

The details of expenditure incurred on the project as on March 2010 (Appendix) is shown in the chart below:



## 1.5 Organogram



The Department is under the administrative control of the Secretary to Government, Taxes Department. The Commissioner of Commercial Taxes administers the Acts and Rules. Department constituted the Information Technology Management Cell (ITMC) for the implementation of the KVATIS project, headed by an Assistant Commissioner, assisted by three Commercial Tax Officers and two Upper Division Clerks. One System Administrator each was also deployed in all districts to help district level implementation. The data required for audit were obtained from ITMC.

## 1.6 Audit Objectives

Audit was taken up to ascertain whether;

- the system has achieved the intended objectives like;
  - transparency in tax administration with maximisation of tax collection
  - reduction in tax evasion
  - support the business processes and ensure compliance with the applicable rules and regulations

- the input processing and output controls are adequate to ensure the integrity of data
- the database provides sufficient, complete, reliable and authorised information for management action.

### **1.7 Audit Criteria**

Implementation of the KVATIS, data management and monitoring were examined with reference to;

- Guidelines on development of e-governance applications.
- Standard application development and implementation methodology.
- The Central Sales Tax Act, 1956 (CST Act, 1956)
- The Kerala Value Added Tax Act, 2003 (KVAT Act, 2003)
- The Kerala Value Added Tax Rules, 2005 (KVAT Rules, 2005)
- Notifications/Government Orders issued from time to time.

### **1.8 Scope and methodology of Audit**

The audit was conducted from February to December 2013 by collecting the computerised data from the ITMC. The entire data in the system for the period April 2008 to May 2013 was extracted from the centralized data and analysed using the IDEA<sup>2</sup> software. The details of audit examination were made available to the Department for necessary action. Sample records were cross-verified to corroborate with the findings from data analysis.

### **1.9 Interaction with the Government/Department**

A discussion was conducted with the Department and Oracle dump data of KVATIS as on date certified by the Department was collected on 22 May 2013. An exit meeting was conducted on 3 April 2014 with the Secretary to Government (Taxes) and the Commissioner of Commercial Taxes and the findings of the Audit were discussed in detail. The views of Government/Department were considered while finalising the Report.

A Compact Disc containing assessing office wise findings were given to the Department/Government in March/April 2014. CD containing the results of field verification of individual cases has also been furnished to Department/Government in July 2014. Hence separate detailed appendixes are not included in the Report.

### **1.10 Acknowledgement**

Audit acknowledges the co-operation extended by the Commercial Taxes Department for providing necessary information and inputs required for preparation of the Report.

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<sup>2</sup> Interactive Data Extraction and Analysis