

Overview

This Report contains 29 significant compliance audit paragraphs that emerged from a test-check of records pertaining to four major receipts¹ dealt with by two departments (Revenue and Transport) of Government of Telangana with a tax effect of ₹221.74 crore.

Significant results of audit that feature in this Report are summarised below.

1. Value Added Tax, Central Sales Tax and Goods & Services Tax

1.1 Compliance Audit Paragraphs

- In 43 cases pertaining to four Divisions and 23 Circles, ITC was not restricted correctly in respect of Special Economic Zone sales / exempt sales and branch transfers / consignment sales resulting in excess allowance of ITC of ₹3.88 crore.
(Paragraph 2.7.1-Page 12)
- In respect of 20 dealers pertaining to one division and 14 circles, Tax was short levied at lesser rate on sale of Schedule-IV and V goods and dealers doing business in restaurant, canteen and bakery. This resulted in short levy of Tax of ₹26.91 crore.
(Paragraph 2.8.1- Page 14)
- In case of 12 dealers pertaining to four circles, Tax was short levied at the rate of five *per cent* instead of 14.5 *per cent* on sale of mobile phones. This resulted in short levy of Tax of ₹8.56 crore.
(Paragraph 2.8.2-Page 15)
- In respect of six dealers in five circles, Tax was incorrectly exempted on sale of Schedule-IV goods. This resulted in non-levy of Tax of ₹75.17 lakh.
(Paragraph 2.8.3-Page 16))
- In two divisions and 22 circles, in respect of 33 dealers, Tax was short levied at the rate of five *per cent* instead of 14.5 *per cent* for non-submission of statutory forms. In two other cases no tax was levied despite non-submission of statutory forms. Further, in four cases, no tax was levied treating the commodities as exempt goods, though they were taxable goods. This resulted in short levy of tax of ₹2.84 crore.
(Paragraph 2.9.1-Page 17)
- In 26 cases pertaining to two divisions and 16 circles, the taxable turnover under CST Act was not determined as assessed and mentioned in VAT assessment orders, VAT / CST returns. This resulted in non or short levy of Tax of ₹4.36 crore.
(Paragraph 2.9.4- Page 19)
- Assessing Authorities of two divisions and six circles underassessed taxable turnover under works contract in 12 dealers. This resulted in short levy of tax of ₹5.23 crore.
(Paragraph 2.10.2-Page 21)

¹ Commercial Taxes; Stamp Duty & Registration Fee; Motor Vehicle taxes and Land Revenue.

- In 58 offices, in respect of 691 dealers, interest of ₹7.53 crore and penalty of ₹11.51 crore were not levied by Assessing authorities towards belated payment of taxes with delay ranging from one day to 1,668 days beyond the due date for payment.

(Paragraph 2.12.1-Page 23)

- In 156 cases, Assessing Authorities had either short levied or not levied penalty on under-declaration of output tax / excess claim of ITC. This resulted in non / short levy of penalties amounting to ₹5.29 crore and differential short levy of tax of ₹37.08 lakh.

(Paragraph 2.12.2- Page 24)

1.2 Subject Specific Compliance Audit on 'Refunds under GST'

Audit of Refunds under Goods and Services Tax (GST) was conducted for the period from July 2017 to July 2020 with a sample of 848 cases of Refunds (354 Pre-Automation *i.e.*, prior to 26 September 2019 and 494 post-automation) sanctioned in 72 circles / divisions.

Detailed examination of sample Refund cases revealed non-compliance with the provisions of GST Act in scrutiny of claims submitted by the taxpayers and granting of claims. Audit observed that 149 excess / incorrect claims valuing ₹31.06 crore were allowed by the department in various categories such as ITC accumulated on account of export of goods / services, inverted duty structure, SEZ supplies, deemed export supplies, excess tax payment, incorrect adoption of zero-rated supplies, allowance of ITC on capital goods, non-reversal of ITC on textiles, *etc.* In respect of 225 refund claims, Assessing Authorities allowed refund claims without following the due procedure in the Act / Rules such as allowance of refund without submission of input /output statement, Form GSTR-2A, shipping bill statement, FIRC copies, not following order of debit of IGST / CGST / SGST *etc.*, indicating weak internal controls.

(Paragraph 2.15-Page 28)

1.3 Subject Specific Compliance Audit on 'Transitional Credits'

Section 140 of the Goods and Services Tax (GST) Act, 2017 enables the taxpayers to carry forward the Input Tax Credit (ITC) earned under the existing laws to the GST regime. Audit of Transitional Credits claimed during the period from the GST appointed date (1 July 2017) to end of March 2020 was conducted with a sample of 1,139 Taxpayers spread across 19 Strategic Tax Units and 70 Circles under nine Tax Divisions.

Audit of sample claims revealed that the State Government had not evolved a robust mechanism to verify the claims on risk basis, as nearly 43 *per cent* of sample claims of 5 (c) category were not verified by the Department. The claims verified by the Department also suffered from deficiencies regarding non-compliance of the provisions of the GST Act / Rules resulting in excess / incorrect claims of ₹30.19 crore in 169 cases. As regards the claims not verified by the Department, excess / incorrect credits aggregated to ₹25.61 crore in 155 cases.

(Paragraph 2.16-Page 54)

2. Stamp duty and Registration fee

2.1 Compliance Audit on 'Functioning of Registration and Stamps Department'

The Centralized Architecture called CARD Centralized Architecture (CCA) was rolled out in 2013 to ensure the effective replacement of the manual system of calculation of duties, indexing, accounting, reporting, copying, and filing of documents. However, it lacked structural approach in conceptualisation as System Requirement Specification and System Design Documents were not formulated. As a result, there were shortcomings in mapping of certain business rules into the system which resulted in short / non levy of duties, on account of undervaluation of properties. Absence of systematic and documented change management mechanism resulted in short levy of duties and fees disregarding Government instructions. Lack of validation controls were evident from continuation of manual intervention in application of market value rates and computation of duties, authentication of parties and documents supporting the registration. Detailed scrutiny of 1,456 registered documents revealed underassessment valuing ₹3.44 crore in 347 documents. As these are only illustrative, State Government may look into similar cases for detection of possible underassessment.

The e-Stamps Module was developed with an objective of collecting the dues online. However, this system also suffered from deficiencies resulting in excess collection of duties, incorrect mapping of e-Challans to documents, *etc.* Lack of validation controls in identification of the remitters coupled with incorrect data rendered the process of Refund claims unreliable.

(Paragraph 3.6-Page 74)

2.2 Other compliance audit paragraphs

- Companies secured credit facilities from various financial institutions by creating charge on their properties on *paripassu* basis. In two offices, Registering Authorities collected Registration Fee of ₹10,000 each instead of charging the fee at 0.5 *per cent* on the loan amount of ₹673.46 crore. This resulted in short levy of registration fee of ₹3.36 crore in three cases.

(Paragraph 3.7-Page 91)

- In 11 offices, the Registering Authorities had not adopted higher values adopted in previous transactions for the same properties while levying duties. This resulted in short levy of stamp duty and fees amounting to ₹1.46 crore in 28 cases.

(Paragraph 3.8-Page 91)

- In 19 offices, Registering Authorities short levied stamp duties and fees due to misclassification of transactions which resulted in short levy of duties and fees amounting to ₹1.36 crore in 37 cases.

(Paragraph 3.9-Page 92)

3. Motor Vehicle Taxes

- Non-raising of demands led to non-realisation of Quarterly Tax of ₹6.18 crore and non-levy of penalty of ₹3.09 crore from the owners of 5,121 transport vehicles in 23 offices.

(Paragraph 4.7-Page 100)

- In 26 offices, Fitness Certificates (FCs) of 1,33,871 transport vehicles were not renewed resulting in non-realisation of FC fees amounting to ₹10.62 crore.

(Paragraph 4.8-Page 101)

- In 23 offices, Registration Certificates in respect of 88,271 vehicles were not renewed after expiry of validity period. This resulted in non-realisation of renewal fee amounting to ₹7.62 crore.

(Paragraph 4.9-Page 101)

4. Land Revenue

- In four offices, regularisation fee was short levied due to incorrect classification and incorrect adoption of market value of the land. This resulted in short levy of regularisation fee amounting to ₹99.88 lakh in 32 cases.

(Paragraph 5.5-Page 107)

- In 12 offices, conversion tax was short levied due to adoption of incorrect market value of the land and penalty was not levied on deemed conversion of land. This resulted in short levy of conversion tax and non-levy of penalty amounting to ₹79.76 lakh in 34 cases.

(Paragraph 5.6-Page 107)