

Overview

This Report contains 24 significant compliance audit paragraphs that emerged from a test-check of records pertaining to five major receipts¹ dealt with by two departments (Revenue and Transport) of Government of Telangana with a tax effect of ₹129.30 crore.

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

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

1.1 Compliance Audit Paragraphs

- In case of six dealers pertaining to six circles, the Assessing Authorities levied tax 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 ₹9.28 crore.

(Paragraph 2.8.2)

- In case of 22 dealers pertaining to 12 circles, the Assessing Authorities determined the taxable turnover under CST Act less than the taxable turnovers of CST mentioned in VAT assessment orders / CST turnovers as per VAT / CST Return, Ledgers and Profit and Loss accounts. This resulted in non / short levy of Tax of ₹7.75 crore.

(Paragraph 2.9.3)

- In case of 35 dealers pertaining to 22 circles, the Assessing Authorities levied tax at lesser rate of five *per cent* instead of 14.5 / 20 *per cent* for non-submission of statutory forms on interstate sales of goods pertaining to Schedule-V / Schedule VI of the Act in respect of 27 dealers. In the case of remaining eight dealers, no tax was levied treating the commodities as exempt goods, although they were taxable goods at the rate of five *per cent*. This resulted in short / non levy of Tax of ₹5.56 crore.

(Paragraph 2.9.1)

- In case of 18 dealers pertaining to 10 circles, the Assessing Authorities short levied the tax at lesser rate of five *per cent* instead of 14.5 *per cent* 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 ₹5.10 crore.

(Paragraph 2.8.1)

- In case of three dealers pertaining to two circles, the Assessing Authorities levied tax on Inter-State sale of phones at lesser rate of five *per cent* instead of 14.5 *per cent* for non-submission of statutory forms. This resulted in short levy of Tax of ₹3.33 crore.

(Paragraph 2.9.2)

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

- In case of 21 dealers pertaining to 14 circles, the Assessing Authorities did not restrict ITC correctly towards exempt sales and branch transfers / consignment sales, resulting in excess allowance of ITC of ₹1.23 crore.

(Paragraph 2.7.1)

- In case of seven dealers pertaining to six circles, the Assessing Authorities under-assessed taxable turnover under works contract. This resulted in short levy of tax of ₹1.16 crore.

(Paragraph 2.10.2)

- In case of 167 dealers pertaining to 25 circles, the Assessing Authorities did not levy interest of ₹2.29 crore and penalty of ₹1.58 crore towards belated payment of taxes with delay ranging from one day to 2,868 days beyond the due date for payment.

(Paragraph 2.11.1)

- In case of 37 dealers pertaining to 25 circles, the Assessing Authorities had either short levied or not levied penalty for under-declaration of output tax / excess claim of ITC. This resulted in non / short levy of penalties amounting to ₹4.91 crore.

(Paragraph 2.11.2)

1.2 Subject Specific Compliance Audit on 'Department's Oversight on GST payments and Returns filing (Phase-I)'

The Subject Specific Compliance Audit (SSCA) on Department's Oversight on GST payments and Returns Filing (Phase I) was undertaken in the context of varying trend of return filing and continued data inconsistencies with an objective of assessing the adequacy of the system in monitoring return filing and tax payments, extent of compliance and other departmental oversight functions.

This SSCA was predominantly based on data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed for 2017-18. The SSCA entailed assessing the oversight functions of State Jurisdictional formations (Circles / STUs) at two levels – at the data level through global data queries and at the functional level with a deeper detailed audit both of the Circles / STUs and of the GST returns, which involved accessing taxpayer records. The audit sample therefore comprised 15 Circles / STUs, 407 high value inconsistencies across 14 parameters selected through global queries and 50 taxpayers selected based on risk assessment for detailed audit of GST returns for the year 2017-18.

Further, out of the 407 high value data inconsistencies identified by Audit, the Department responded to 283 cases. Of these, 109 cases constituting 38.51 *per cent*, turned out to be clear compliance deficiencies with a revenue implication of ₹986.78 crore including mismatches and inconsistencies. A relatively higher rate of deficiencies was noticed in short / non-payment of interest, Input Tax Credit (ITC)

mismatch, mismatch in Reverse Charge Mechanism (RCM) / ITC availed, mismatch in claim of Input Service Distributor (ISD) credit, incorrect turnover declarations and short tax payments etc. While data entry errors caused the inconsistencies in 41 cases (14.49 per cent), in 101 cases (35.69 per cent) the Department had already taken proactive action / provided valid explanations.

Detailed audit of GST returns also suggested significant non-compliance. At the outset, essential records such as Profit and Loss Account, Balance Sheet / Trial Balance of the unit, Notes to Accounts of Income and Expenditure, Trading account, Schedule of Assets, Foreign Exchange disclosures if any, Ledger copies of debtors and creditors, Sales invoices / purchase invoices for two selected months, Related party / distinct party transactions, Director's report and Auditor's Report, etc., were not produced in 47 cases out of a sample of 50 taxpayers which constituted a significant scope limitation. These cases represent a potential risk exposure of ₹247.28 crore towards identified mismatches in ITC availed and tax payments.

Out of the 50 cases that were audited either fully or partially, Audit observed 141 compliance deficiencies including mismatches with a revenue implication of ₹158.93 crore. The main causative factors were availing of ineligible and irregular ITC, non / short payment of interest / penalty, and incorrect discharge of tax under RCM and undischarged tax liability, etc.

Considering the significant rate of compliance deficiencies, the Department must initiate remedial measures before they get time barred. From a systemic perspective, the Department needs to reinforce the institutional mechanism in the field formations to establish and maintain effective oversight on return filing, taxpayer compliance, tax payments, cancellation of registrations and recovery of dues from defaulters. The validation controls and MIS features in the Department's back-end application need to be deployed expeditiously. The Department may also consider introducing additional validation controls in GST returns to improve taxpayer compliance and to facilitate scrutiny of returns.

(Paragraph 2.14)

2. State Excise Duties

- In one office, there was non-levy or short levy of penalty for the delayed payment of Annual Distillery Excise Tax amounting to ₹86.99 lakh.

(Paragraph 3.6)

- In six District Prohibition and Excise Offices, there was non-levy or short levy of penalties for belated payment of Bar renewal fee or Annual Bar Excise Tax or both from Licence holders of 46 Bar and restaurants amounting to ₹71 lakh.

(Paragraph 3.7)

- In one District Prohibition and Excise Office, there was a short levy of Annual Bar Excise Tax amounting to ₹24 lakh in two cases.

(Paragraph 3.8)

3. Stamp duty and Registration fee

- In 10 offices, duties amounting to ₹8.89 crore were not levied on distinct matters in 13 registered documents of Sale Deed, Gift Deed, Agreement of sale cum General Power of Attorney and Development Agreement cum General Power of Attorney.

(Paragraph 4.6)

- In 20 offices, registering officers adopted lesser rate applicable to agricultural lands in respect of lands whose conversion for non-agricultural purposes had already been approved by the Revenue Authorities. This resulted in undervaluation of the properties and thereby short levy of stamp duty and registration fee to the tune of ₹1.36 crore in 44 registered documents.

(Paragraph 4.7)

- In 12 offices, there was undervaluation of properties / chargeability in registered documents. This resulted in short levy of duties and registration fee amounting to ₹1.14 crore in 22 registered documents.

(Paragraph 4.8)

- In two offices, there was undervaluation of chargeability in registered documents of Development Agreement cum General Power of Attorney (DGPA). This resulted in short levy of duties amounting to ₹64.56 lakh in three documents.

(Paragraph 4.9)

4. Motor Vehicle Taxes

4.1 Compliance Audit on 'Citizen Friendly Services in Transport Department' (CFST)

'Citizen Friendly Services in Transport Department (CFST)' was rolled out in 2000 (upgraded in 2013) primarily with objectives of providing online accessibility to citizens to avail services and improving efficiency and accountability in services offered by the Department through full-fledged computerisation.

Audit of CFST revealed gaps in data capture, inadequate controls and absence of inbuilt Motor Vehicle Act provisions in the system with regard to the services provided by the Transport Department. Consequently, there was impact on revenue collections due to incorrect assessments and refunds of life tax and quarterly tax, non-payment of bilateral tax and green tax by vehicle owners and non-payment of tax on Gross Traffic Earnings by Telangana State Road Transport Corporation. Instances of non-renewal of fitness certificates of vehicles and non-installation of Speed Limiting Devices in transport vehicles were also noticed. These indicate lack of effective monitoring by Motor Vehicle Inspectors and non-compliance of the Motor Vehicle Act provisions towards road safety. Renewal of registration certificates for non-transport vehicles was not ensured in time and fitness was granted to vehicles without capturing critical details pertaining to vehicular pollution certificate. Overall lacunae in data capture and controls and absence of in-built provisions

in CFST needs to be addressed for effective implementation and compliance of the provisions of the Motor Vehicle Act and Rules.

Though a major portion of tax revenue is collected online and through MeeSeva, reconciliation of receipts was not effective as reconciliation reports were not generated in unit offices and there was variation between MeeSeva receipts and remittances to the Department. Lack of timely reconciliation of revenue receipts between MeeSeva agency and the department would pose the risk of financial irregularities.

(Paragraph 5.7)

5. Land Revenue

- In five Tahsildar offices, regularisation fee was short levied due to incorrect classification of nature of possession and incorrect adoption of market value of the land. This resulted in short levy of regularisation fee amounting to ₹3.22 crore in 16 cases.

(Paragraph 6.5)

- In one Tahsildar office, regularisation fee was short levied due to incorrect allowance of rebate and incorrect application of rates for the extent of land held by occupants. This resulted in short collection of regularisation fee amounting to ₹14.72 lakh in seven cases.

(Paragraph 6.6)