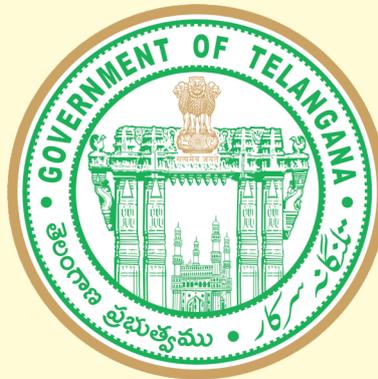




**Report of the  
Comptroller and Auditor General of India  
on  
Revenue Sector  
for the year ended 31 March 2022**



**SUPREME AUDIT INSTITUTION OF INDIA**  
लोकहितार्थ सत्यनिष्ठा  
Dedicated to Truth in Public Interest



**Government of Telangana**  
*Report No. 2 of 2024*



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Comptroller and Auditor General of India  
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# Table of Contents

	Reference to	
	Paragraph	Page
<i>Preface</i>		v
<i>Overview</i>		vii-xi
<b>Chapter I – General</b>		
Introduction	1.1	1
Profile of Audited Entities	1.2	1
Authority for Audit	1.3	4
Planning and Conduct of Audit	1.4	4
Response of Government / Departments to Audit Observations	1.5	5
Follow-up on Audit Reports	1.6	6
Coverage of this Report	1.7	7
<b>Chapter II - Value Added Tax, Central Sales Tax and Goods &amp; Services Tax</b>		
Tax Administration	2.1	9
Trend of receipts	2.2	9
Cost of collection	2.3	10
Impact of Audit	2.4	10
Working of Internal Audit wing	2.5	11
Results of Audit	2.6	11
Input Tax Credit	2.7	12
Short or Non-levy of Value Added Tax	2.8	14
Inter-State sales	2.9	19
VAT on Works Contracts	2.10	22
Levy of penalties and interest under VAT	2.11	27
Non-levy of penalty on self-consumption of Notified Goods	2.12	30
Goods and Services Tax (GST)	2.13	30
Subject Specific Compliance Audit on ‘Department’s oversight on GST payments and Returns filing (Phase-I)’	2.14	31

	Reference to	
	Paragraph	Page
<b>Chapter III- State Excise duties</b>		
Tax Administration	3.1	71
Trend of receipts	3.2	71
Cost of collection	3.3	72
Impact of Audit	3.4	72
Results of Audit	3.5	73
Non / short levy of penalty on delayed payment of Distillery Excise Tax	3.6	74
Non / short levy of penalty for belated payment of Bar Renewal Fee and Bar Excise Tax	3.7	74
Short levy of Annual Bar Excise Tax	3.8	75
Short levy of Annual Excise Tax and additional Excise Tax on Elite Bars	3.9	75
Non-levy of interest on belated payment of Excise Tax for Bars	3.10	76
<b>Chapter IV- Stamp duty and Registration fee</b>		
Tax Administration	4.1	77
Trend of receipts	4.2	77
Impact of Audit	4.3	78
Working of Internal Audit wing	4.4	78
Audit Methodology and Results of Audit	4.5	78
Non-levy of duties on documents involving distinct matters	4.6	79
Short levy of duties and registration fees on agricultural lands converted for non-agricultural purposes	4.7	80
Short levy of duties and registration fees due to undervaluation of properties / chargeability in registered documents	4.8	81
Short levy of duties in Development Agreement cum General Power of Attorney documents	4.9	82
Short levy of duties due to non-adoption of market value rates in respect of rural properties	4.10	83
Short levy of registration fee on instruments creating ' <i>paripassu</i> ' charge	4.11	83

	Reference to	
	Paragraph	Page
Short levy of duties due to misclassification of documents	4.12	84
Short levy of duties on lease deeds	4.13	84
<b>Chapter V - Motor Vehicle Taxes</b>		
Tax Administration	5.1	87
Trend of receipts	5.2	87
Cost of collection	5.3	88
Impact of Audit	5.4	88
Working of Internal Audit wing	5.5	88
Audit Methodology and Results of Audit	5.6	88
Compliance Audit on 'Citizen Friendly Services in Transport Department (CFST)'	5.7	89
<b>Chapter VI- Land Revenue</b>		
Tax Administration	6.1	115
Trend of receipts	6.2	115
Impact of Audit	6.3	116
Results of Audit	6.4	116
Short levy of regularisation fee of Government land with dwelling units	6.5	117
Short collection of regularisation fee on regularisation of ULC lands	6.6	118
Non-levy of penalty on deemed conversion of agricultural land	6.7	118
<b>Appendices &amp; Glossary</b>		
Appendices		121
Glossary		138



## Preface

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2022 has been prepared for submission to the Governor of Telangana under Article 151 of the Constitution of India for being laid before the Legislature of the State.

The Report contains significant findings of audit of receipts of major revenue earning Departments of the Government of Telangana.

The instances mentioned in this Report are those which came to notice in the course of test audit during the period 2021-22 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports. Audits conducted during the period subsequent to 2021-22 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.



## Overview

This Report contains 24 significant compliance audit paragraphs that emerged from a test-check of records pertaining to five major receipts<sup>1</sup> 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)*

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<sup>1</sup> 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)s. 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)*



# Chapter I

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## General

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## 1.1 Introduction

This Report of the Comptroller and Auditor General of India (C&AG) relates to the matters arising from Compliance Audit of five major receipts dealt with by two departments (Revenue and Transport) during the year 2021-22.

Compliance audit refers to the examination of transactions relating to expenditure, receipts as well as assets and liabilities of audited entities to examine and report on their compliance to the provisions of the Constitution of India as well as other applicable laws, rules, regulations and various orders and instructions issued by competent authorities. Compliance audit also includes an examination of the rules, regulations, orders and instructions for their legality, adequacy, transparency, propriety and prudence. The basic purpose of the Report is to bring the important results of Audit to the notice of the State Legislature. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective measures and also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides information on follow-up of previous Audit Reports.

## 1.2 Profile of Audited Entities

The Departments are headed by Special Chief Secretary / Principal Secretaries who are assisted by Commissioners and subordinate officers. A brief profile of two departments covered in this Report is discussed in *Appendix 1.1*.

A summary of the revenue realised (tax and non-tax revenue, the State's share of divisible Union taxes and duties, Grants-in-aid received from the Government of India (GoI) during the year 2021-22 and the corresponding figures for the preceding four years) by Government of Telangana is given in **Table 1.1**. Budget estimates for 2021-22 is also given in the table against actual revenue receipts.

**Table-1.1: Trend of Revenue Receipts**

							(₹ in crore)
Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	Budget Estimates 2021-22
<b>1</b>	<b>Revenue raised by the State Government</b>						
	Tax Revenue	56,519.81	64,674.06	67,597.49	66,650.37	91,271.38	92,910.00
	Non-tax Revenue	7,825.40	10,007.42	7,360.31	6,101.24	8,857.41	30,557.00
	<b>Total</b>	<b>64,345.21</b>	<b>74,681.48</b>	<b>74,957.80</b>	<b>72,751.61</b>	<b>1,00,128.79</b>	<b>1,23,467.00</b>
<b>2</b>	<b>Receipts from the Government of India</b>						
	Share of net proceeds of divisible Union taxes and duties	16,420.08	18,560.88	15,987.59	12,691.62	18,720.54	13,990.00
	Grants-in-Aid	8,058.80	8,177.79	11,598.42	15,471.13	8,619.26	38,669.00

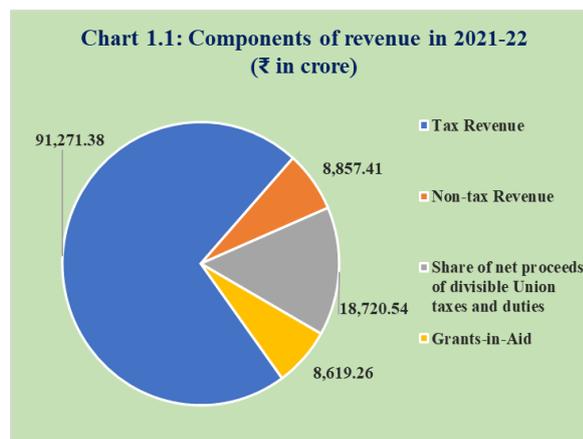
Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	Budget Estimates 2021-22
	<b>Total</b>	<b>24,478.88</b>	<b>26,738.67</b>	<b>27,586.01</b>	<b>28,162.75</b>	<b>27,339.80</b>	<b>52,659.00</b>
<b>3</b>	<b>Total revenue receipts of State Government (1 + 2)</b>	<b>88,824.09</b>	<b>1,01,420.15</b>	<b>1,02,543.81</b>	<b>1,00,914.36</b>	<b>1,27,468.59</b>	<b>1,76,126.00</b>
<b>4</b>	<b>Percentage of State's Own Revenue to Total Revenue Receipts</b>	<b>72</b>	<b>74</b>	<b>73</b>	<b>72</b>	<b>79</b>	

Source: Finance Accounts of Government of Telangana for relevant years

The State's performance in mobilisation of resources is assessed in terms of tax revenue and non-tax revenue excluding the State's share in Central taxes and Grants-in-aid, which are based on the recommendations of the Finance Commission.

As seen from the Table above, the tax revenue of the State has displayed a mixed trend with the previous years. There was an increase of 14.43 per cent in 2018-19 and 4.5 per cent in 2019-20 respectively and a decrease of 1.4 per cent in 2020-21. However, tax revenue has again increased by 37 per cent in 2021-22.

Similarly, the non-tax revenue showed a mixed trend with increase (28 per cent) in 2018-19, decrease in 2019-20 (26 per cent) and 2020-21 (17 per cent) and increase (45 per cent) again in 2021-22. The percentage of tax and non-tax revenue raised by the State Government to the total revenue of the State has decreased from 74 per cent in 2018-19 to 73 per cent in 2019-20, 72 per cent in 2020-21 and again increased to 79 per cent in 2021-22.



The nature and composition of revenue receipts of the State during the year 2021-22 is shown in **Chart 1.1**.

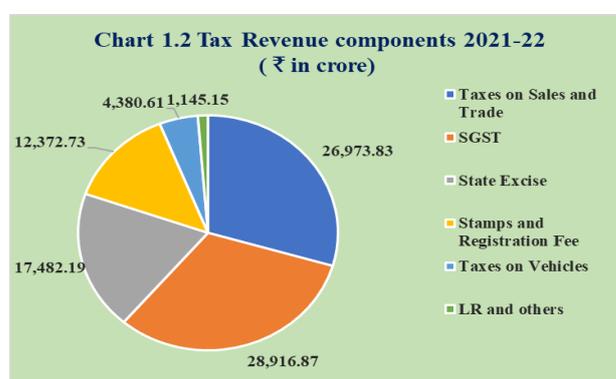
### 1.2.1 Tax Revenue

Details of tax revenue raised *vis-à-vis* budget projections during the period 2017-18 to 2021-22 are given in **Table 1.2**.

Table-1.2: Details of Tax Revenue raised

Head of Revenue	Budget Estimates / Actuals						(₹ in crore)
		2017-18	2018-19	2019-20	2020-21	2021-22	Percentage of increase (+) / decrease (-) in 2021-22 over 2020-21
Taxes on Sales, Trade etc.	Budget Estimates	46,500.00	25,942.00	21,972.00	26,400.00	26,500.00	(+)0.38
	Actuals	25,106.48	20,290.50	20,674.42	20,903.90	26,973.83	(+)29.04
State Goods and Services Tax (SGST)	Budget Estimates	-	26,040.00	25,817.00	27,600.00	31,000.00	(+)12.32
	Actuals	13,072.91	23,840.18	23,516.70	22,190.34	28,916.87	(+)30.31
State Excise	Budget Estimates	9,000.00	10,600.00	10,901.00	16,000.00	17,000.00	(+)6.25
	Actuals	9,421.33	10,637.56	11,991.58	14,369.84	17,482.19	(+)21.66
Stamps and Registration Fees	Budget Estimates	3,000.00	4,700.00	6,146.00	10,000.00	12,500.00	(+)25.00
	Actuals	4,202.46	5,344.04	6,671.05	5,243.28	12,372.73	(+)135.97
Taxes on Vehicles	Budget Estimates	3,000.00	3,950.00	3,714.00	4,300.00	5,000.00	(+)16.28
	Actuals	3,589.48	3,761.94	3,934.75	3,337.96	4,380.61	(+)31.24
Land Revenue	Budget Estimates	15.00	4.64	5.39	6.94	6.31	(-)9.08
	Actuals	4.12	0.42	0.99	0.50	0.26	(-)47.60
Others <sup>2</sup>	Budget Estimates	1,104.00	1,015.24	773.18	993.06	903.69	(-)9.00
	Actuals	1,123.03	799.42	808.00	604.55	1,144.89	(+)89.38
Total	Budget Estimates	62,619.00	72,251.88	69,328.57	85,300.00	92,910.00	(+)8.92
	Actuals	56,519.81	64,674.06	67,597.49	66,650.37	91,271.38	(+)36.94

Source: Budget Estimates and Finance Accounts of Government of Telangana for relevant years



Receipts under Sales Tax have not matched the Budget Estimates (BEs) in the four-year period 2017-21. In the year 2021-22, receipts under this head exceeded BEs. Receipts are less than BEs in the case of SGST during the four-year period 2018-22. State Excise revenue was more than the budgetary projections during the three-year period 2017-20 but marginally less than the

BEs during the year 2020-21 and again exceeded in the year 2021-22. Receipts under Stamps and Registration Fees were more than the BEs during the three-year period 2017-20 while less for the years 2020-21 and 2021-22. Taxes on vehicles revenue exceeded BEs during 2017-18 and in 2019-20 but fell short during 2018-19, 2020-21 and 2021-22. There

<sup>2</sup> Others include - Other taxes on income and expenditure; estate duty; taxes on immovable property other than agricultural land; taxes on goods and passengers; taxes and duties on electricity and other taxes and duties on commodities and services.

is a huge variation between BEs and Receipts in case of Land Revenue during the five-year period 2017-22.

The break-up of tax revenue for the year 2021-22 is shown in **Chart 1.2**. Tax revenue<sup>3</sup> accounted for 72 per cent of the total revenue<sup>4</sup> of the State in the year 2021-22.

There has been an increase of 37 per cent in tax revenue during the year 2021-22 over the previous year. While tax revenue under the heads, Taxes on Sales and Trade, SGST, State Excise, Stamp duty and Registration Fees, Taxes on vehicles and Others increased, receipts under Land Revenue has decreased.

Increase in receipts under Taxes on Sales, Trade etc., was due to increase in collection of receipts under State Sales Tax Act, increase under SGST due to increase in Tax, Input Tax Credit cross utilisation of SGST and IGST, Apportionment of IGST-Transfer-in of Tax Component to SGST was offset to some extent by decrease in Other Receipts and Advance Apportionment from IGST. Receipts towards stamp duty and registration fee increased due to revision in market values of properties twice during the year coupled with increase in rates of stamp duty, registration fee and structure rates. As regards receipts under State Excise, it was due to increase in sale of Foreign Liquors and Spirits and Other Receipts. Detailed clarification of the decrease in Land Revenue has not been received from the Department.

### **1.3 Authority for Audit**

The Comptroller and Auditor General of India (C&AG) derives authority for audit from Articles 149 and 151 of the Constitution of India and C&AG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). C&AG audits receipts of the Government under Section 16 of the DPC Act.

### **1.4 Planning and conduct of Audit**

The audit process starts with the assessment of risk of various Government departments based on Revenue generation, internal controls in the departments, previous audit findings etc. During the year 2021-22, 248 units were audited against 317 units planned.

After completion of audit of each unit, an Inspection Report (IR) containing audit findings is issued to the Head of the Unit with a request to furnish replies within one month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in Government, are processed for inclusion in the Audit Reports. These Audit Reports are submitted to the Governor of Telangana under Article 151 of the Constitution of India for causing them to be laid on the Table of State Legislature.

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<sup>3</sup> ₹91,271.38 crore.

<sup>4</sup> ₹1,27,468.59 crore.

## 1.5 Response of Government / Departments to Audit Observations

### 1.5.1 Response to previous Inspection Reports

Heads of Offices and next higher authorities are required to respond to the observations contained in Inspection Reports (IRs) and take appropriate corrective action. Audit observations communicated in IRs are also discussed at periodical meetings held at District / State levels by officers of the Accountant General's office with officers of the concerned Departments.

A review of IRs issued up to December 2021 pertaining to five Revenue Receipts<sup>5</sup> of two departments showed that 14,882 paragraphs relating to 1,583 IRs valuing ₹4,937.45 crore were outstanding at the end of June 2022 (*Appendix 1.2*). Even first replies from the Heads of offices which were to be furnished within one month have not been received in respect of 181 IRs issued during 2021-22.

Lack of action on IRs and audit paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods / services, fraud, corruption and loss to public exchequer.

#### ***Recommendation:***

***Government should ensure prompt and appropriate response to audit observations, as well as take action against those failing to furnish replies to the IRs / paragraphs as per the prescribed time schedules.***

### 1.5.2 Departmental Audit Committee Meetings

The Government has to set up Audit Committees to monitor and expedite the progress of the settlement of Inspection Reports (IRs) and paragraphs in IRs. During the year 2021-22, no Audit Committee meetings were held by Departments.

### 1.5.3 Response of Government to audit observations

All Departments are required<sup>6</sup> to send their responses to draft audit paragraphs proposed for inclusion in C&AG's Report within six weeks of their receipt. During the year 2022-23, 41 draft compliance audit paragraphs<sup>7</sup> were forwarded to the Special Chief Secretaries / Principal Secretaries / Secretaries of the Departments<sup>8</sup> concerned, drawing their attention to the audit findings and requesting them to send their response within six weeks. It was brought to their personal attention that these paragraphs were likely to be included in the Audit Report of the C&AG of India, which would be placed before the State Legislature and it would be desirable to include their comments / responses to the audit findings.

<sup>5</sup> Commercial Taxes, Land Revenue, Prohibition and Excise, Registration and Stamps and Transport.

<sup>6</sup> As per paragraph 4.7 of Finance Department's Handbook of Instructions.

<sup>7</sup> 39 Draft Paragraphs, one Detailed Compliance Audit and one Subject Specific Compliance Audit.

<sup>8</sup> Commercial Taxes, Land Revenue, Prohibition and Excise, Registration & Stamps and Transport.

Responses of the Departments were received in respect of Compliance Audit report on 'Citizen Friendly Services in Transport Department (CFST)' and Subject Specific Compliance Audit report on 'Department's oversight on GST Payments and Returns filing' and the same was suitably incorporated in the respective reports. However, no response was received from the Government / Department to any of the remaining 39 compliance audit draft paragraphs. The fact of non-receipt of Government / Department response was also brought to the notice of the Chief Secretary to the Government in March 2023.

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

Administrative Departments are required to submit Explanatory Notes (ENs) on paragraphs and reviews included in Audit Reports<sup>9</sup>, within three months of their presentation to State Legislature duly indicating action taken or proposed to be taken.

Reports of the C&AG on Revenue Sector of the Government of Telangana for the years from 2014-15 to 2018-19 contained 170 paragraphs pertaining to four<sup>10</sup> Departments. These Reports were placed before the State Legislative Assembly between March 2016 and March 2021. Out of 170 paragraphs, ENs have been received only for five paragraphs pertaining to Industries and Commerce Department. Out of 82 paragraphs pertaining exclusively to Telangana included in the Audit Reports of combined State of Andhra Pradesh and Telangana prior to 2014-15 i.e., for the years from 1996-97 to 2013-14, ENs for 13 paragraphs from Revenue (Land Revenue and Registration & Stamps) Department have not been received (May 2023).

Reports of the C&AG on Revenue Sector of the Government of Andhra Pradesh contain 432 paragraphs that are common to both Telangana and Andhra Pradesh States for the period 1996-97 to 2013-14. ENs in respect of 188 paragraphs from nine Departments<sup>11</sup> have not been received (May 2023).

### **1.6.1 Response of Government to recommendations of the Public Accounts Committee**

Administrative Departments are required to submit Action Taken Notes (ATNs) on the recommendations of Public Accounts Committee (PAC) within six months<sup>12</sup> from the date of receipt of recommendations.

Action Taken Notes on 112 recommendations relating to Audit Reports (Revenue Sector) were due as of May 2023. Of these, 11 recommendations pertain to Telangana State and 101 pertain to combined State of Andhra Pradesh and Telangana.

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<sup>9</sup> As per instructions issued by Finance and Planning Department vide U.O. No.23810-C/200/PAC/93-2, dated 3 November 1993.

<sup>10</sup> Revenue (Commercial Taxes, Prohibition and Excise, Land Revenue, Registration & Stamps, Endowments); Transport, Energy, Industries & Commerce.

<sup>11</sup> Commercial Tax, Prohibition and Excise, Land Revenue, Transport, Registration & Stamps, Industries and Commerce, Endowments, Cooperation and Finance.

<sup>12</sup> As per instructions issued by Finance and Planning Department vide U.O. No. 1576-A/32/PAC/95, dated 17 May 1995.

## **1.7 Coverage of this Report**

This Report contains 22 compliance audit paragraphs. The total financial impact of the paragraphs is ₹80.23 crore excluding one Compliance Audit on ‘Citizen Friendly Services in Transport Department’ with financial impact of ₹49.07 crore and one Subject Specific Compliance Audit on ‘Department’s oversight on GST payments and Returns filing’, where the compliance deviations / red flags involving an amount of ₹1,145.70 crore were pointed out. These are discussed in Chapters II to VI. The Departments / Government have accepted audit observations involving ₹64.91 crore (as of June 2023). Out of the accepted audit observations, the Departments had recovered ₹7.30 crore (11.25 *per cent*) up to June 2023 at the instance of Audit.



# Chapter II

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## **Value Added Tax, Central Sales Tax and Goods & Services Tax**

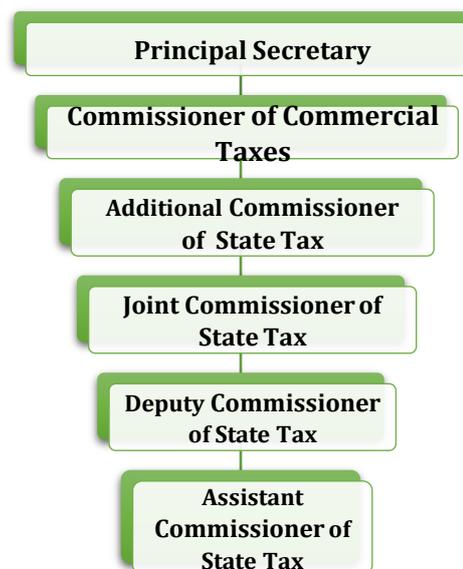
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## 2.1 Tax Administration

Commercial Taxes Department is one of the key revenue earning Departments in the Government of Telangana. The Department administers and collects revenue on goods and services under The Telangana Value Added Tax Act, 2005 (VAT Act), The Central Sales Tax Act, 1956 (CST Act), The Telangana Entertainment Tax Act, 1939, The Telangana Tax on Professions, Trades, Callings and Employment Act, 1987 apart from other minor Acts. After introduction of Goods and Services Tax with effect from 1 July 2017, the Commercial Taxes Department has been administering and collecting revenue on goods and services under the Telangana Goods and Services Tax Act, 2017 (GST Act).

**Figure-2.1: Organogram**



## 2.2 Trend of receipts

Actual receipts from State Tax Revenue (VAT, CST and GST) during the years 2017-18 to 2021-22 along with the total tax receipts during the same period is shown in **Table 2.1** below:

**Table 2.1: Receipts from State Tax Revenue**

(₹ in crore)

Year	Budget Estimates	Actual receipts	Variation excess (+) / shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual VAT / SGST receipts vis-a-vis total tax receipts
2017-18	46,500.00 <sup>#</sup>	38,179.39	(-) 8,320.61	(-) 17.89	56,519.81	67.55
2018-19	51,982.00	44,130.68	(-) 7,851.32	(-) 15.10	64,674.06	68.24
2019-20	47,789.00	44,191.12	(-) 3,597.88	(-) 7.53	67,597.49	65.37
2020-21	54,000.00	43,094.24	(-)10,905.76	(-) 20.20	66,650.37	64.66
2021-22	57,500.00	55,890.70	(-) 1,609.30	(-) 2.80	91,271.38	61.24

*Source: Finance Accounts*

<sup>#</sup>GST implemented from 1 July 2017 and, hence the budget estimates pertained to only Taxes on sales under VAT&CST. However, the actual receipts include both Taxes on sales under VAT&CST and GST.

As seen from the above, VAT, CST and GST revenue contributes more than 60 per cent of the total tax revenue of the State. The percentage of these taxes to total tax receipts has ranged from 61 per cent to 68 per cent during the period 2017-22.

## 2.3 Cost of collection

The figures of gross collection of Commercial Taxes Department, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years from 2017-18 to 2021-22 are given in **Table 2.2** below:

**Table 2.2: Cost of collection**

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection of revenue	Percentage of cost of collection to gross collection
VAT, CST and GST	2017-18	38,179.39	217.47	0.57
	2018-19	44,130.68	196.21	0.44
	2019-20	44,191.12	208.16	0.47
	2020-21	43,094.24	216.15	0.50
	2021-22	55,890.70	251.36	0.45

There was consistent increase in expenditure on collection of revenue from 2018-19. However, the percentage of expenditure to gross collection has not witnessed any major fluctuations from 2017-18 to 2021-22.

## 2.4 Impact of Audit

During the last five years, Audit pointed out non / short levy of tax, non / short realisation of tax, underassessment of tax, loss of revenue, incorrect exemption, concealment / suppression of turnover, application of incorrect rate of tax, incorrect computation *etc.*, with a revenue implication of ₹1,825.12 crore in 4,009 cases. Of these, the Department / Government accepted Audit observations in 704 cases involving ₹223.11 crore and recovered ₹1.98 crore. The details are shown in the following **Table 2.3**.

**Table 2.3: Impact of Audit**

(₹ in crore)

Year	No. of units audited	Objected		Accepted		Recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2017-18	81	1,227	776.75	281	125.15	37	0.45
2018-19	73	1,084	538.93	278	75.02	28	0.37
2019-20	68	934	357.05	54	10.95	29	0.38
2020-21	8	52	2.98	49	6.76	24	0.45
2021-22	40	712	149.41	42	5.23	19	0.33
<b>Total</b>	<b>270</b>	<b>4,009</b>	<b>1,825.12</b>	<b>704</b>	<b>223.11</b>	<b>137</b>	<b>1.98</b>

As against the money value of ₹223.11 crore relating to the accepted cases during the period 2017-18 to 2021-22, a meagre amount of ₹1.98 crore (0.89 per cent) was recovered by the Department.

## 2.5 Working of Internal Audit wing

Internal Audit is an important part of internal control mechanism for ensuring proper and effective functioning of a system for detection and prevention of control weaknesses. As per orders issued by the Government of Telangana from time to time, the Accounts branch of the Commissionerate of Commercial Taxes is required to conduct internal Audit of the Regional Offices, District Offices, Unit Offices *etc.*, periodically (at least once in a year) and furnish reports to the Head of the Department. As per the Handbook on Financial Accountability developed by the Finance Department in collaboration with Centre for Good Governance, the Head of the Department should conduct internal audit of all Subordinate Controlling Officers or Unit offices at least to the level of district units every year to check all the accounts maintained by them. For this purpose, separate internal audit units should be created in the Department.

The Department of Commercial Taxes informed that it did not have an Internal Audit wing. It is recommended that the Government set up an Internal Audit wing in the Commissionerate to evaluate and improve the functions of the Commercial Tax Department.

## 2.6 Results of Audit

During 2021-22, test-check of the records of 40 offices of the Commercial Taxes Department relating to VAT, CST and GST revealed under assessments of tax and other irregularities involving ₹149.41 crore falling under the following categories.

**Table 2.4: Category of Audit Observations on Revenue Receipts**

(₹ in crore)

Sl.No.	Categories	No. of Audit Observations	Amount
1	Short levy of Tax on works contracts	17	15.90
2	Non-levy or short levy of interest and penalty	173	30.29
3	Excess claim or allowance of Input Tax Credit	104	12.73
4	Non-levy or short levy of Tax under VAT Act	231	64.30
5	Non-levy or short levy of Tax under Central Sales Tax (CST) Act	145	19.93
6	Other irregularities	39	4.61
7	Observations under Goods and Services Tax Act	3	1.65
	<b>Total</b>	<b>712</b>	<b>149.41</b>

During 2021-22, the Department accepted underassessments and other deficiencies of ₹5.23 crore in 42 cases which were pointed out in Audit prior to 2021-22. An amount of ₹0.33 crore was realised in 19 cases during the period 2021-22.

Significant cases involving non-compliance with the provisions of the Acts and Rules by the Assessing Authorities that resulted in non-levy / short levy of tax, penalty and interest to the extent of ₹53.63 crore<sup>1</sup> in 407 cases are discussed in the subsequent paragraphs.

## 2.7 Input Tax Credit

### 2.7.1 Excess allowance of Input Tax Credit due to incorrect restriction

#### **Incorrect method of restriction of Input Tax Credit resulted in excess allowance of Input Tax Credit amounting to ₹1.23 crore**

According to Telangana VAT Act, 2005 (VAT Act):

1. Input Tax Credit (ITC) is not allowed<sup>2</sup> on purchase of Taxable goods corresponding to sale of exempt goods and exempted sales<sup>3</sup>.
2. Where a VAT dealer makes consignment sale / branch transfers<sup>4</sup> of goods for:
  - (a) **14.5 per cent goods:** ITC will be allowed in full up to 9.5 per cent portion of 14.5 per cent purchases, and on the balance five per cent portion of 14.5 per cent, purchases shall be restricted by applying formula<sup>5</sup> and
  - (b) **5 per cent goods:** ITC will be restricted by applying formula<sup>6</sup>.
3. Where a VAT dealer makes taxable sales, exempt sales and also exempt transactions by using common inputs, ITC is allowed proportionately<sup>7</sup>.

Audit test checked (between December 2020 and March 2022) VAT assessments and VAT records for the period from 2013-14 to 2017-18<sup>8</sup>. In 21 cases pertaining to 14 circles<sup>9</sup>, ITC was not correctly restricted towards exempt sales and branch transfers / consignment sales, resulting in excess allowance of ITC of ₹1.23 crore.

In reply to Audit, four Assessing Authorities<sup>10</sup> (AAs) in six cases stated that the files were submitted to Joint Commissioners (State Tax) concerned for revision / necessary action while Assistant Commissioner (State Tax) (AC(ST)), Malkajgiri-III in one case replied that the file would be sent to the Joint Commissioner (ST) (JC(ST)), Saroornagar division for revision. Two AAs<sup>11</sup> in three cases replied that notices would be issued to the dealers after examination of the issue and result would be intimated. Six AAs<sup>12</sup> in ten cases stated that

<sup>1</sup> This includes the cases prior to 2021-22 (2018-19 to 2020-21).

<sup>2</sup> Section 13(5) of Telangana VAT Act, 2005 read with Rule 20(7) of Telangana VAT Rules, 2005.

<sup>3</sup> Such as Sales to Special Economic Zones (SEZs).

<sup>4</sup> Section 13(6) of Telangana VAT Act, 2005 read with Rule 20(8) of Telangana VAT Rules, 2005.

<sup>5</sup>  $A*B/C$ , where A is the input Tax for common inputs for each Tax rate, B is the Taxable turnover and C is the total turnover.

<sup>6</sup>  $A*B/C$ , where A is the input Tax for common inputs for each Tax rate, B is the Taxable turnover and C is the total turnover.

<sup>7</sup> Section 13(5) and (6) of Telangana VAT Act, 2005 read with Rule 20(9) of Telangana VAT Rules, 2005.

<sup>8</sup> Up to June 2017.

<sup>9</sup> ACs(ST) - Fathehnagar, Hydernagar-I, Hydernagar-II, Hydernagar-III, Jeedimetla-I, Jeedimetla-II, Madhapur-I, Madhapur-II, Malkajgiri-I, Malkajgiri-III, Mehdiapatnam-I, MG Road-SD Road, Nacharam-I and Saroornagar-III.

<sup>10</sup> ACs (ST) - Fathehnagar, Nacharam-I, Malkajgiri-I and Saroornagar-III.

<sup>11</sup> ACs (ST) - Jeedimetla-I and Madhapur-I.

<sup>12</sup> ACs (ST)-Hydernagar-I, Hydernagar-II, Hydernagar-III, Jeedimetla-II, Madhapur-II and MG Road-SD Road.

the matter would be examined, and reply furnished in due course. AC(ST), Mehdipatnam-I in one case replied that the revision of assessment was taken up by JC (ST) Charminar and passed order confirming the demand raised in audit.

The matter was referred to the Government (February 2023); reply has not been received.

Incorrect / non-restriction of ITC has been repeatedly highlighted in C&AG's Audit Reports. Repetition of these lapses indicate inadequate internal controls.

### 2.7.2 Excess / Incorrect allowance of Input Tax Credit (ITC)

#### Excess / incorrect allowance of input tax credit of ₹13.36 lakh

According to VAT Act<sup>13</sup> read with Rule 17(2)(e) of Telangana VAT Rules, 2005 (VAT Rules), where any VAT dealer has opted to pay tax under composition scheme<sup>14</sup>, he is neither eligible to claim ITC on purchases made nor eligible to issue tax invoices. As per Section 13(3) of the VAT Act read with Rule 27(4) of the VAT Rules, ITC shall be claimed only against an original tax invoice.

Audit test checked (between January 2022 and March 2022) VAT assessments and VAT records for the period from 2014-15 to 2017-18<sup>15</sup>. In one case pertaining to Madhapur-II circle, the AA incorrectly allowed ITC based on the invoices issued by selling dealer who opted to pay tax by way of composition. In respect of two other dealers involved in trading of goods and execution of works contracts pertaining to two circles<sup>16</sup>, the AAs allowed ITC on the turnover pertaining to works contracts under composition scheme. This resulted in excess / incorrect allowance of ITC of ₹13.36 lakh.

In reply to Audit, AC (ST), Nacharam-I in one case stated that the audit file was forwarded to the JC (ST), Saroornagar division for revision. The AC (ST), Madhapur-II in one case replied that the matter would be examined, and reply furnished in due course. AC (ST), Jeedimetla-I in another case stated that notice would be issued to the dealer after examination of the issue.

The matter was referred to the Government (January 2023); reply has not been received.

Excess / incorrect allowance of input tax credit has been repeatedly highlighted in C&AG's Audit Reports. Repetition of these lapses indicate inadequate internal controls.

<sup>13</sup> Section 13(5)(a) of Telangana VAT Act, 2005.

<sup>14</sup> Under Section 4(7)(b) Telangana VAT Act, 2005.

<sup>15</sup> Up to June 2017.

<sup>16</sup> Jeedimetla-I and Nacharam-I.

### 2.7.3 Excess allowance of Input Tax Credit

#### Non-restriction of Input Tax Credit on the turnover of goods sold at the price less than purchase price resulted in excess allowance of input tax credit of ₹9.08 lakh

According to Section 13(1-A)<sup>17</sup> of VAT Act, if goods were sold at a price lesser than the price of goods purchased by a VAT dealer, the amount of ITC shall be restricted to the amount of output tax.

Audit test checked (January 2021) the VAT assessments and VAT records for the year 2016-17 and observed in one case pertaining to AC (ST), Mehdipatnam-I circle that even though sale price was less than the purchase price of the turnover during the period October 2016 to March 2017, ITC was not restricted to corresponding output tax. This resulted in excess allowance of ITC of ₹9.08 lakh.

In reply to Audit, the AA stated that the assessment file was submitted to the JC (ST), Charminar division for revision.

The matter was referred to the Government (December 2022); reply has not been received.

### 2.8 Short or Non-levy of Value Added Tax

#### 2.8.1 Short levy of tax due to adoption of incorrect rate of tax

#### Application of incorrect rates resulted in short levy of tax aggregating to ₹5.10 crore

According to VAT Act<sup>18</sup>, every dealer shall pay tax on sale of taxable goods at the respective rates specified in Schedules III, IV and VI of the Act. Goods which are not covered under these Schedules fall under Schedule V, and are liable to be taxed at the rate of 14.5 *per cent*. Further, every hotel dealer whose annual turnover is ₹1.50 crore and above in respect of sale or supply of goods, being food and drinks served in restaurants, sweet-stalls, clubs, eating houses or by caterers etc., shall pay tax at the rate specified for Schedule-V<sup>19</sup>.

Audit test checked (between August 2018 and March 2022) VAT assessments and VAT records of 18 dealers in 10 circles<sup>20</sup> for the period from 2011-12 to 2017-18<sup>21</sup> and noticed short levy of tax as mentioned below:

- i. 12 dealers had levied tax on commodities, *viz.*, UPVC profiles, powder coat painting, cement storage tanks (manufacturing and fabrication), cranes, water purifier, broken glass, timber, plywood and laminates, pre-engineering building products, wood products, glycerin, fabrication of steel structures, etc., at the rate of five *per cent* although they attracted higher rate of 14.5 *per cent*.
- ii. Six hotel dealers whose annual turnover was more than ₹1.50 crore, sold taxable goods

<sup>17</sup> Inserted *vide* Act No. 4 of 2015 and effective from 27 September 2016.

<sup>18</sup> Section 4(3) of Telangana VAT Act, 2005.

<sup>19</sup> Section 4(9)(c) of the Telangana VAT Act, 2005.

<sup>20</sup> ACs (ST) - Basheerbagh-Nampally, Hydernagar-I, Jeedimetla-I, Madhapur-III, Mahabubnagar, Mehdipatnam-I, Malakpet-I, Nacharam-I, Saroornagar-III and Tarnaka-II.

<sup>21</sup> Up to June 2017.

at the rate of five *per cent* instead of 14.5 *per cent*.

Short levy of tax in the above cases works out to ₹5.10 crore on the turnover of ₹54.31 crore.

In reply to Audit, AC(ST), Saroornagar III in one case stated that the assessment was revised and action for collection would be initiated. Two AAs<sup>22</sup> in three cases replied that the Assessment files were submitted to JCs (ST) concerned for revision. The AC (ST), Jeedimetla-I circle in six cases stated that notices would be issued to the dealers after examination of the matter. Six AAs<sup>23</sup> in eight cases assured that the matter would be examined and detailed reply would be furnished in due course.

The matter was referred to the Government (January 2023); reply has not been received.

Short levy of tax due to application of incorrect rates is repeatedly highlighted in C&AG's Audit Reports. Repetition of such lapses indicate inadequate internal controls.

### 2.8.2 Short levy of VAT on mobile phones

**Incorrect levy of tax at five *per cent* instead of at 14.5 *per cent* on mobile phones resulted in short levy of tax amounting to ₹9.28 crore**

According to VAT Act<sup>24</sup>, every VAT dealer shall pay Tax at the rate of 14.5 *per cent* on the sale of goods falling under Schedule V to the VAT Act. Government orders issued in March 2013<sup>25</sup> placed 'Mobile Phones' under Schedule V. Prior to that and post July 2016, these were under Schedule IV with tax rate of five *per cent*. Thus, sale of Mobile Phones during the intermediary period from 1 April 2013 to 27 July 2016<sup>26</sup> was to be taxed at 14.5 *per cent*.

Audit test checked (between July 2021 and March 2022) the VAT assessments and VAT records for the period from 1 April 2013 to 27 July 2016 and observed that in case of six dealers pertaining to six circles<sup>27</sup>, the AAs levied tax on sale of Mobile Phones at the rate of five *per cent* instead of at 14.5 *per cent*. This resulted in short levy of Tax of ₹9.28 crore on a turnover of ₹97.70 crore.

AC(ST), Madhapur-I in one case, replied that assessment was revised. However, collection is still pending. AC(ST), Madhapur-IV in one case stated that the assessment file was sent to JC(ST), Hyderabad (Rural) division for further action. AC(ST), Jagitial in another case stated that revision show cause notice was issued to the dealer. AC(ST), Warangal

<sup>22</sup> ACs (ST) - Malakpet-I and Nacharam-I.

<sup>23</sup> ACs (ST) – Basheerbagh-Nampally, Hydernagar-I, Madhapur-III, Mehdiapatnam-I, Saroornagar-III and Tarnaka-II.

<sup>24</sup> Section 4(3) of Telangana VAT Act, 2005.

<sup>25</sup> i) G.O.Ms.No.1615, Revenue (Commercial Taxes-II) Department, dated 31 August 2005 under Schedule IV at the rate of five *per cent*.

ii) G.O.Ms.No.140, Revenue (Commercial Taxes-II) Department, dated 19 March 2013 under Schedule V at the rate of 14.5 *per cent*, and

iii) G.O.Ms.No.186, Revenue (Commercial Taxes-II) Department, dated 28 July 2016 under Schedule IV at the rate of five *per cent*.

<sup>26</sup> Mobile Phones were brought under Schedule IV in July 2016 liable to be Taxed at five *per cent*.

<sup>27</sup> ACs (ST) – Jagitial, Madhapur-I, Madhapur-IV, Mancherla, Saroornagar-III and Warangal urban-I.

Urban-I in one case replied that the file would be submitted to JC(ST), Warangal for revision and remaining two AAs<sup>28</sup> in two cases assured that the matter would be examined.

The matter was referred to the Government (November 2022); reply has not been received.

### 2.8.3 Irregular exemption under VAT

#### Irregular exemption of turnover resulted in non-levy of tax aggregating ₹36.52 lakh

According to VAT Act<sup>29</sup>, every dealer shall pay tax on sale of taxable goods at the respective rates specified in Schedules III, IV and VI of the Act. Under Schedule-I to the VAT Act, some goods are exempt from tax. Goods which are not covered under these Schedules fall under Schedule V and are liable to be taxed at the rate of 14.5 per cent. Further, as per the judgement<sup>30</sup> delivered by Supreme Court of India, the amounts received by the dealers towards 'replacement of spare parts during warranty period' attract tax as per the rates of goods specified in Schedules.

Audit test checked (between July 2017 and February 2022) VAT assessments and records for the period from 2013-14 to 2017-18<sup>31</sup>. In case of six dealers pertaining to six circles<sup>32</sup>, AAs while finalising the assessments incorrectly exempted turnover pertaining to goods that are classified under Schedule-IV / V. These goods include computer peripherals, cotton coated fabric (Rexine), warranty claims on sales of electronics, chilies, optical fiber and gas (commercial) and are taxable at the rate of five / 14.5 per cent. This resulted in non-levy of Tax of ₹36.52 lakh on a turnover of ₹7.03 crore.

In reply to Audit, four AAs<sup>33</sup> in four cases stated that the matter would be examined and detailed reply furnished. AC (ST), Malakpet-II circle in one case replied that the Assessment file was submitted to the JC (ST) concerned for revision. AC (ST), Hyderguda-Ashoknagar circle in one case replied that revised orders were issued duly levying the tax and the amount has been entered in Debt Management Unit (DMU)<sup>34</sup>. However, collection is still pending.

The matter was referred to the Government (January 2023): reply has not been received.

<sup>28</sup> ACs (ST) –Mancherla and Saroornagar-III.

<sup>29</sup> Sub section (3) and (5) of Section 4 of Telangana VAT Act, 2005.

<sup>30</sup> In the case of M/s. Ekram Khan & Sons Vs Commissioner of Trade Tax Uttar Pradesh dated 21 July 2004.

<sup>31</sup> Up to June 2017.

<sup>32</sup> ACs (ST) – Hyderguda-Ashoknagar, Gowliguda-Osmangunj, Madhapur-III, Mahbubnagar, Malakpet-II and Saroornagar-III.

<sup>33</sup> ACs (ST) – Gowliguda-Osmangunj, Madhapur-III, Mahbubnagar and Saroornagar-III.

<sup>34</sup> A module of Department's web portal (VATIS) maintained for watching recoveries.

#### **2.8.4 Non/short-levy of VAT on receipts towards transfer of right to use goods**

##### **VAT amounting to ₹86.18 lakh on receipts towards transfer of right to use was not levied or short levied**

According to VAT Act<sup>35</sup>, every VAT dealer, who transfers the right to use any taxable goods to any lessee or licensee for any valuable consideration in the course of his business, shall pay tax on the total amount received by him at the rates applicable to such goods.

Audit test checked (between January and March 2022) VAT assessments and VAT records for the period from 2012-13 to 2017-18<sup>36</sup>. It was found in three cases pertaining to two circles<sup>37</sup> that the AAs had not levied / short levied tax on a turnover of ₹6.84 crore received by the dealers on transfer of right to use goods (hire charges income) while finalising the VAT assessments. This resulted in non / short-levy of Tax of ₹86.18 lakh.

In reply to Audit, AC (ST), Bowenpally-I, in one case stated that notice was issued to the dealer. AC (ST), Madhapur-III, in the remaining two cases assured to examine the matter.

The matter was referred to the Government (December 2022); reply has not been received.

#### **2.8.5 Short levy of tax / excess allowance of ITC due to adoption of incorrect figures / arithmetical inaccuracies**

##### **Adoption of incorrect figures / arithmetical inaccuracies resulted in short levy of tax / excess allowance of ITC of ₹86.68 lakh**

According to VAT Act<sup>38</sup>, every return shall be subject to scrutiny to verify the correctness of calculation, application of correct rate of tax and input tax credit claimed therein and full payment of tax payable for such tax period. If any mistake is detected as a result of such scrutiny, the authority prescribed shall issue a notice of demand for any short payment of tax or for recovery of any excess input tax credit claimed. As per Rule 60 of VAT Rules, any authority prescribed, appellate or revising authority, may at any time within four years from the date of any order passed by him rectify any clerical or arithmetical mistake apparent from the record.

Audit test checked (between October 2018 to March 2022) VAT and CST assessments and records for the period from 2013-14 to 2017-18 (up to June 2017). It was observed that while finalising the VAT assessments, AAs short levied tax amounting to ₹86.68 lakh in 13 cases (dealers) due to (i) incorrect adoption of tax amount actually paid by the dealers (four cases), (ii) carrying forward more VAT credit than the available credit in previous years (six cases) and (iii) incorrect computation of the tax at the prescribed rates (three cases). In respect of three other dealers<sup>39</sup>, ITC was allowed despite adjusting the same towards payment of CST, resulting in excess allowance of ITC amounting to ₹20.70 lakh.

<sup>35</sup> Section 4(8) of Telangana VAT Act, 2005.

<sup>36</sup> Up to June 2017.

<sup>37</sup> ACs (ST) - Bowenpally-I and Madhapur-III.

<sup>38</sup> Section 20(3) of Telangana VAT Act, 2005.

<sup>39</sup> Two of them are same as those included in earlier observation.

The total short levy of tax and excess allowance of ITC in all these cases worked out to ₹86.68 lakh.

In reply to Audit, five AAs<sup>40</sup> in five cases replied that the matter would be examined, and detailed reply furnished in due course. Four AAs<sup>41</sup> (four cases) stated that Assessment files were / would be sent to the JC / DC (ST) concerned for revision. ACs (ST), Bowenpally-I and Nacharam I (two cases) informed that notices were issued to the Dealers. AC(ST), Fathehnagar (in one case) replied that the assessment was revised duly raising the demand for ₹0.52 lakh. However, collection is still pending. AC(ST), Charminar (in one case) stated that ₹1.02 lakh was paid by the dealer. However, evidence of payment was not produced.

The matter was referred to the Government (January 2023); reply has not been received.

### **2.8.6 Non or Short levy of Tax due to incorrect determination of Taxable Turnover**

#### **Variation in sales turnover between Profit and Loss accounts and assessment orders led to non or short levy of Tax of ₹13.06 lakh**

As per Section 21 (4) of VAT Act, the competent authority may, based on any information available or on any other basis, conduct a detailed scrutiny of the accounts of any VAT dealer and where any assessment, as a result of such scrutiny, becomes necessary, such assessment shall be made within a period of four years from the end of the period for which assessment is to be made.

As per Rule 25(10) of VAT Rules, all the VAT dealers are required to furnish for every financial year to the prescribed authority, the statements of manufacturing or trading, Profit and Loss accounts, balance sheet and annual report duly certified by Chartered Accountant on or before 31 December subsequent to the financial year to which the statements relate. As per para 5.12 of the VAT Audit Manual, 2012, audit officer has to reconcile the figures given by the dealer on VAT returns with certified annual accounts.

Audit test checked (between December 2021 and March 2022) the VAT assessments and VAT records for the period from 2013-14 to 2016-17. It was found that in six cases pertaining to four circles<sup>42</sup>, there were variations in sales turnover between VAT assessment orders and Profit and Loss accounts. Sale turnover as per Profit and Loss accounts was more than the sale turnover as assessed in VAT assessment orders. This resulted in non or short levy of Tax of ₹13.06 lakh on the differential turnover of ₹2.28 crore.

In reply to audit, two AAs<sup>43</sup> (in three cases) stated that the files were sent to the JC (ST) concerned for revision. AC (ST), Mahbubnagar (in one case) stated that a show cause

<sup>40</sup> ACs (ST)-Hydernagar-I, Jeedimetla-II, Keesara II, Medak and Mehdiapatnam-I.

<sup>41</sup> ACs (ST)-Bowenpally-II, Jeedimetla-I, Malakpet-II and Nalgonda-I.

<sup>42</sup> ACs (ST)-Jeedimetla-I, Karimnagar-II, Mahbubnagar and Malakpet-I.

<sup>43</sup> ACs (ST)-Mahbubnagar and Malakpet-I.

notice was issued to the Dealer. Two AAs<sup>44</sup> (in two cases) replied that the matter would be examined and detailed reply furnished in due course.

The matter was referred to the Government (February 2023); reply has not been received.

Non or short levy of tax due to incorrect determination of taxable turnover has been repeatedly highlighted in C&AG's Audit Reports. Repetition of these lapses indicate inadequate internal controls.

## **2.9 Inter-State sales**

### **2.9.1 Non / short levy of Tax on the turnover of inter-State sales not supported by statutory forms**

#### **Inter-State sales turnover not supported by statutory forms resulted in non / short levy of tax of ₹5.56 crore**

According to Central Sales Tax (CST) Act and CST Rules<sup>45</sup>, the rate of Tax on Inter-State sales not covered by 'C Forms' shall be at the rate applicable to the sale or purchase of such goods inside that State and under the Sales Tax laws of that State. CST Act<sup>46</sup> further specifies that if a dealer fails to submit necessary statutory forms in support of exports, branch transfers, transit sales etc., they should be treated as inter-State sales not covered by 'C Forms'.

Audit test checked (between October 2020 and March 2022) CST assessments and CST records for the period from 2013-14 to 2017-18<sup>47</sup>. Of the 35 dealers pertaining to 22 circles<sup>48</sup>, it was found in respect of 27 dealers, the AAs levied Tax at the lesser rate of five *per cent* instead of 14.5 / 20 *per cent* for non-submission of statutory forms on inter-state sales of goods pertaining to Schedule-V / Schedule VI of the Act. 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 on the turnover of ₹76.23 crore.

In reply to Audit, 12 AAs<sup>49</sup> in 19 cases assured that the matter would be examined. Eight AAs<sup>50</sup> in 13 cases stated that files were submitted to the JCs (ST) concerned for revision / further action. ACs (ST), Bowenpally-I and Bowenpally-II in respect of three dealers stated that notices were issued to the dealers.

The matter was referred to the Government (January 2023); reply has not been received.

<sup>44</sup> ACs (ST) – Jeedimetla-I and Karimnagar-II.

<sup>45</sup> Section 8 of CST Act read with Rule 12 of CST Rules.

<sup>46</sup> Section 5, 6 and 6A of CST Act.

<sup>47</sup> up to June 2017.

<sup>48</sup> ACs (ST)-Abids, Basheerbagh-I, Bowenpally-I, Bowenpally-II, Charminar, Gowliguda-Osmangunj, Hydernagar-II, Jeedimetla-II, Keesara-II, Madhapur-II, Malakpet-I, Malakpet-II, Mancherial, Nacharam-I, Nalgonda-I, Rajendranagar-I, Rajendranagar-II, Sanathnagar, Sanga Reddy-II, Saroomnagar-III, Tarnaka-II, and Vanasthalipuram-II.

<sup>49</sup> ACs (ST) - Abids, Charminar, Hydernagar-II, Jeedimetla-II, Keesara-II, Madhapur-II, Mancherial, Nalgonda-I, Rajendranagar-I, Rajendranagar-II, Sanga Reddy-II and Tarnaka-II (19 dealers).

<sup>50</sup> ACs (ST) – Basheerbagh-I, Gowliguda-Osmangunj, Malakpet-I, Malakpet-II, Nacharam-I, Sanathnagar, Saroomnagar-III and Vanasthalipuram-II (13 dealers).

Non / short levy of tax on the turnover of inter-state sales not supported by statutory forms has been repeatedly highlighted in C&AG's Audit Reports. Repeated non / short levy of tax indicates lack of adequate internal controls.

### **2.9.2 Short levy of Tax on the turnover of inter-State sales of mobile phones not supported by statutory forms**

#### **Inter-State sales turnover of mobile phones not supported by statutory forms resulted in non / short levy of Tax of ₹3.33 crore**

According to CST Act read with CST Rules<sup>51</sup>, the rate of Tax on Inter-State sales not covered by 'C Forms' shall be at the rate applicable to the sale or purchase of such goods inside that State and under the Sales Tax laws of that State.

According to VAT Act<sup>52</sup>, every VAT dealer shall pay Tax at the rate of 14.5 *per cent* on the sale of goods falling under Schedule V to the Act. Government orders issued in March 2013<sup>53</sup> placed "Mobile Phones" under Schedule V. Prior to that and post July 2016, these were under Schedule IV with tax rate of five *per cent*. Thus, sale of Mobile Phones during the intermediary period from 1 April 2013 to 27 July 2016<sup>54</sup> was to be taxed at 14.5 *per cent*.

Audit test checked (between August 2021 and January 2022) the CST assessments and records for the period from 2015-16 to 2016-17. In case of the three dealers pertaining to two circles<sup>55</sup>, Audit found that the AAs levied Tax on Inter-State sale of mobile 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 on the turnover of ₹35.07 crore.

In reply, the Deputy Commissioner (ST), Malkajgiri-II Circle in one case stated (June 2022) that file was submitted to the JC(ST), Saroornagar division for revision. AC(ST), Basheerbagh-Nampally in two cases stated (January 2022) that the matter would be examined.

The matter was referred to the Government (November 2022); reply has not been received.

### **2.9.3 Non / short levy of Tax due to incorrect determination of Taxable Turnover under CST**

#### **Variation in sales turnover between CST assessment orders and CST turnover in VAT assessment orders led to non or short levy of Tax of ₹7.75 crore**

According to CST Act<sup>56</sup>, the authorities empowered to assess tax under the general sales tax (VAT) law of the State, shall also assess tax under the CST Act. Para 5.12 of VAT

<sup>51</sup> Section 8 of CST Act, 1956 read with Rule 12(1) of CST (R&T) Rules, 1957

<sup>52</sup> Section 4(3) of VAT Act, 2005.

<sup>53</sup> i) G.O.Ms.No.161,5 Revenue (Commercial Taxes-II) Department, dated 31 August 2005 under Schedule IV at the rate of five *per cent*.

ii) G.O.Ms.No.140, Revenue (Commercial Taxes-II) Department, dated 19 March 2013 under Schedule V at the rate of 14.5 *per cent*, and

iii) G.O.Ms.No.186, Revenue (Commercial Taxes-II) Department, dated 28 July 2016 under Schedule IV at the rate of five *per cent*.

<sup>54</sup> Mobile Phones were brought under Schedule IV in July 2016 liable to be Taxed at five *per cent*.

<sup>55</sup> ACs (ST) – Malkajgiri-II and Basheerbagh-Nampally.

<sup>56</sup> Section 9(2) of CST Act, 1956.

Audit Manual, 2012 prescribes that the Audit Officer verify the details given by the dealer in VAT / CST returns and reconcile with the figures reported in certified annual accounts for the same period.

As per provisions of CST Act read with Rule 12 of CST (R&T) Rules, 1957, if any dealer fails to submit necessary statutory forms in support of exports, branch transfers, transit sales *etc.*, the relevant transactions have to be treated as interstate sales not covered by ‘C’ forms and tax is to be levied at the rates applicable on the sale of goods inside the appropriate State.

Audit test checked (between October 2020 and March 2022) CST assessment files and VAT records of 12 circles<sup>57</sup> for the period 2013-14 to 2017-18<sup>58</sup>. Audit observed that in 22 cases (dealers), the taxable turnover under CST Act was determined less than the taxable turnovers of CST mentioned in VAT assessment orders / CST turnovers as per VAT / CST Returns, Ledgers and Profit and Loss accounts. This resulted in non / short levy of tax of ₹7.75 crore on under-assessed turnover of ₹149.18 crore.

In reply to Audit, AC(ST), Nacharam-I in one case stated that CST assessment was revised duly levying tax. However, the tax demand has not yet been collected. Three AAs<sup>59</sup> in six cases stated that the files were submitted to the Divisional offices concerned for revision while two other AAs<sup>60</sup> in two cases replied that notices had been issued to the Dealers concerned. AC(ST), Sanathnagar in one case replied that local sales were adopted as CST sales in the Audit observation. Reply of AA is not acceptable, as the CST sales mentioned in VAT assessments were only considered and not the local sales. Two AAs<sup>61</sup> in eight cases stated that notices would be issued to the dealers after examination of the issue and result intimated. Four AAs<sup>62</sup> in respect of the remaining four cases replied that the matter would be examined, and reply submitted in due course.

The matter was referred to the Government (February 2023); reply has not been received.

#### **2.9.4 Non-levy of penalty and interest on belated payment of Tax under CST**

**Penalty of ₹4.53 lakh and interest of ₹14.74 lakh on delayed payment of tax by dealers under CST was not levied**

Every VAT dealer shall pay the tax declared as due not later than 20 days after the end of the Tax period<sup>63</sup>. A dealer who fails to pay the Tax by the last day of the month in which it is due, shall pay the Tax along with a penalty of 10 *per cent* of the amount of tax due<sup>64</sup>. If tax or penalty due is not paid within the prescribed time, the dealer is liable to pay in addition to the amount of such Tax or Penalty, interest at the rate of 1.25 *per cent* per month

<sup>57</sup> ACs (ST) – Bowenpally-I, Bowenpally-II, Charminar, Hydernagar-II, Jeedimetla-I, Madhapur-II, Malakpet-I, Mancherial, Nacharam-I, Sanathnagar, Sanga Reddy-II and Rajendranagar-I.

<sup>58</sup> Up to June 2017.

<sup>59</sup> ACs (ST) – Charminar, Malakpet-I and Nacharam-I.

<sup>60</sup> ACs (ST) – Bowenpally-I and Bowenpally-II.

<sup>61</sup> ACs (ST) – Jeedimetla-I and Sanga Reddy-II.

<sup>62</sup> ACs (ST) – Hydernagar-II, Madhapur-II, Mancherial and Rajendranagar-I.

<sup>63</sup> As per Rule 24(1) of Telangana VAT Rules, 2005, every month is considered as a Tax period.

<sup>64</sup> Section 51(1) of Telangana VAT Act, 2005.

for the period of delay<sup>65</sup>. These provisions shall also applicable to payment of return tax in respect of inter-state sales, in terms of CST Act and CST Rules<sup>66</sup>.

Audit test checked (between December 2021 and February 2022) 128 CST payment records for the period from June 2014 to June 2017 and noticed that 15 dealers in three offices<sup>67</sup>, paid tax belatedly with delay ranging from 320 to 1,922 days. However, the AAs did not levy interest of ₹ 14.74 lakh and penalty of ₹ 4.53 lakh in these cases as shown in the **Table** below:

**Table 2.5: Age-wise analysis of delayed payments**

(₹ in lakh)					
Sl. No.	Delay in number of days (month / year)	Number of payment records	Interest Leviable	Penalty leviable	Total
1	320 to 365 days (above 6 months and up to 1 year)	5	0.58	0.41	0.99
2	366 to 730 days (above 1 year and up to 2 years)	45	5.48	2.42	7.90
3	731 to 1,095 days (above 2 years and up to 3 years)	27	2.36	0.61	2.97
4	1,096 to 1,460 days (above 3 years and up to 4 years)	37	4.44	0.84	5.28
5	1,461 to 1,825 days (above 4 years and up to 5 years)	13	0.61	0.09	0.70
6	More than 1,825 days (above 5 years and up to 6 years)	1	1.27	0.16	1.43
<b>Total</b>		<b>128</b>	<b>14.74</b>	<b>4.53</b>	<b>19.27</b>

In reply to Audit, AAs<sup>68</sup> assured that the matter would be examined and result intimated. The matter was referred to the Government (December 2022); reply has not been received.

The non-levy of penalty and interest on belated payment of taxes has been highlighted in Comptroller and Auditor General of India's Audit Reports previously. Recurrence of such lapses is indicative of inadequate internal controls.

## **2.10 VAT on Works Contracts**

### **2.10.1 Short levy of tax due to incorrect allowance of input tax credit under works contract**

**Incorrect allowance of ITC to works contractors resulted in short levy of tax of ₹93.55 lakh**

According to VAT Act<sup>69</sup>, where any VAT dealer pays tax under non-composition method, the ITC shall be limited to 75 per cent of the related input tax. Further, as per Rule 17 (1) (g) of VAT Rules, where the VAT dealer has not maintained the accounts to determine the correct value of goods at the time of incorporation, he shall pay tax at the rate of 14.5 per

<sup>65</sup> Section 22 (2) of Telangana VAT Act, 2005.

<sup>66</sup> Sub section 2A of section 9 of CST Act read with Rule 14A of CST Rules.

<sup>67</sup> ACs (ST) - Jeedimetla-I, Keesara-II and Malakpet-II.

<sup>68</sup> ACs (ST) - Jeedimetla-I, Keesara-II and Malakpet-II.

<sup>69</sup> Section 4(7)(a) and Section 13(7) of Telangana VAT Act, 2005.

cent on the total consideration after allowing deductions as specified and shall not be entitled to claim ITC.

Audit test checked (between October 2020 and January 2022) VAT assessments and records for the period from 2013-14 to 2017-18<sup>70</sup> and found in three circles<sup>71</sup> that out of six cases, AAs in five cases, incorrectly allowed ITC to the dealers who did not maintain accounts. In the remaining one case, AA allowed ITC at 95 per cent instead of at 75 per cent to the dealer who paid tax under non-composition method. The incorrect allowance of ITC resulted in short levy of tax of ₹93.55 lakh.

In reply, two AAs<sup>72</sup> in three cases stated that the matter would be examined and detailed reply furnished in due course. AC / ST Madhapur-III in three cases replied that a notice was issued to the dealer but there was no response from the dealer. The file had been transferred to DC / CT Hyderabad Rural for taking up revision. The matter was referred to the Government (December 2022); reply has not been received.

This observation has been repeatedly highlighted in the previous C&AG's Audit Reports. It is indicative of weak internal controls besides non-compliance with the provisions of VAT Rules.

### **2.10.2 Short levy of tax due to incorrect determination of taxable turnover under works contract**

#### **Under-assessment of taxable turnover under works contract resulted in short levy of tax of ₹1.16 crore**

According to VAT Act<sup>73</sup>, every dealer executing works contract shall pay Tax on the value of goods incorporated in the work at the rates applicable to the goods. As per VAT Rules<sup>74</sup>, certain deductions<sup>75</sup> are to be allowed from the total turnover and the remaining turnover is to be taxed in proportion to the goods purchased at the rates applicable to them. The Rules<sup>76</sup> also specify that the turnover so arrived shall not be less than the purchase value.

Audit test checked (between December 2020 and February 2022) the VAT assessments and VAT records for the period from 2013-14 to 2017-18<sup>77</sup>. In respect of seven dealers pertaining to six circles<sup>78</sup>, Audit observed that AAs incorrectly determined the taxable turnover due to incorrect calculation of cost of establishment relating to labour, profit relating to labour, purchase ratio of goods, exemption of turnover, etc. This incorrect determination of taxable turnover resulted in short levy of tax of ₹1.16 crore.

In reply to audit, AC (ST), Jubilee Hills-II in one case replied that the assessment file was submitted to the JC (ST) concerned for revision. AC (ST), Mehdiapatnam-I in one case

<sup>70</sup> Up to June 2017.

<sup>71</sup> ACs (ST)- Madhapur-II, Madhapur-III and Maredpally.

<sup>72</sup> ACs (ST)- Madhapur-II and Maredpally.

<sup>73</sup> Section 4(7) (a) of Telangana VAT Act, 2005.

<sup>74</sup> Rule 17(1) (e) of Telangana VAT Rules, 2005.

<sup>75</sup> Labour charges, establishment charges and other similar charges relating to labour and services, Profit earned by the contractor to the extent it is relating to supply of labour and services.

<sup>76</sup> Rule 17(1)(d) and Rule 17(1)(e) of Telangana VAT Rules, 2005.

<sup>77</sup> Up to June 2017.

<sup>78</sup> ACs (ST)- Jubilee Hills-II, Madhapur-II, Madhapur-III, Mehdiapatnam-I, MG Road – SD Road and Tarnaka-II.

stated that JC (ST), Charminar had withdrawn the proposal to levy tax as the dealer filed details of labour charges. However, the reply did not address the issue of incorrect calculation of profit and allowing full deduction of expenses instead of deducting on prorata basis for labour charges. Four AAs<sup>79</sup> (in five cases) stated that the matter would be examined and detailed reply would be furnished in due course.

The matter was referred to the Government (January 2023); reply has not been received.

Incorrect determination of taxable turnover under works contract has been repeatedly highlighted in C&AG's Audit Reports. Repetition of these lapses indicates inadequate internal controls.

### 2.10.3 Short levy of tax on works contracts under composition scheme

#### **Incorrect determination of taxable turnover of works contractors under composition scheme resulted in short levy of tax of ₹1.39 crore**

According to VAT Act<sup>80</sup>, a works contractor can opt to pay Tax by way of composition at the rate of five *per cent* on the total consideration on works executed whereby tax is payable on gross receipts without any deductions. Provisions of Act and Rules<sup>81</sup> further stipulate that any dealer engaged in construction and selling of residential apartments, houses, buildings or commercial complexes may opt to pay tax by way of composition at the rate of five *per cent* on 25 *per cent* of the consideration received or receivable or the market value<sup>82</sup>, whichever is higher. Further, as per Government Orders issued in June 2017<sup>83</sup>, the works contractors became liable to pay tax on the advances received from the customers up to 30 June 2017.

Audit test checked (between December 2020 and February 2022) the VAT assessment files of nine works contractors who opted to pay tax under composition for the period from 2013-14 to 2017-18<sup>84</sup>. In respect of eight contractors pertaining to eight circles<sup>85</sup>, it was found that AAs incorrectly determined taxable turnover because of allowing deductions<sup>86</sup> / adopting lesser turnovers than that reflected in Profit and Loss account / non- consideration of advances received from customers as taxable turnover / adoption of incorrect tax payment. In respect of one contractor AC(ST), Rajendranagar-II had adopted incorrect amount towards tax payment in assessment when compared to the payment status report in VATIS Portal. The incorrect determination of taxable turnover resulted in short levy of Tax of ₹1.39 crore.

In reply to Audit, seven AAs<sup>87</sup> in seven cases stated that the matter would be examined and detailed reply furnished in due course. AC(ST), Jubilee hills-II in one case stated that the

<sup>79</sup> ACs (ST)- Madhapur-II, Madhapur-III, MG Road-SD Road and Tamaka-II.

<sup>80</sup> Section 4(7)(b) of Telangana VAT Act, 2005 as amended w.e.f. 15 September 2011.

<sup>81</sup> Section 4(7)(d) of Telangana VAT Act, 2005 read with Rule 17(4) of Telangana VAT Rules, 2005.

<sup>82</sup> Fixed for the purpose of stamp duty.

<sup>83</sup> G.O.Ms No.124 dated 30 June 2017 omitted clauses (e) and (i) of sub-rule 4 of Rule17 of the VAT Rules.

<sup>84</sup> Up to June 2017.

<sup>85</sup> ACs (ST) – Basheerbagh-I, Hydernagar-I, Jubilee Hills-II, Madhapur-II, Madhapur-III, Madhapur-IV, Marredpally and Saroornagar-III.

<sup>86</sup> Towards Further Security Deposit, Consultancy, Cess, etc.

<sup>87</sup> ACs (ST)- Hydernagar-I, Madhapur-II, Madhapur-III, Madhapur-IV, Marredpally, Rajendranagar-II and Saroornagar-III (seven dealers).

JC (ST), Punjagutta division had issued pre-revision notice to the dealer. AC(ST), Basheerbagh-I in one case stated that the observation was transferred to other circle<sup>88</sup> due to change in jurisdiction.

The matter was referred to the Government (November 2022 and January 2023); reply has not been received.

#### **2.10.4 Short levy of tax due to excess adoption of tax paid by way of TDS certificates**

**Excess adoption of tax paid by way of Tax Deducted at Source (TDS) certificates resulted in short levy of tax of ₹3.08 crore**

Section 22 (3) of VAT Act permits the authorities<sup>89</sup> to deduct the VAT at source from out of the amounts payable by them to a dealer in respect of works contract executed for them. The VAT Rules<sup>90</sup> further stipulate that the amount so deducted and paid to the State Government shall be treated as payment of tax on behalf of the dealer executing works contract and credit shall be given to the said dealer for the period for which amount was so deducted on production of the certificate furnished by the contractee.

Audit test checked (between December 2021 and February 2022) VAT assessments and records of four dealers in four Circles<sup>91</sup> for the period from 2014-15 to 2017-18<sup>92</sup> and observed that the AAs while finalising VAT assessments, adopted the tax payment made by dealers at source as ₹7.15 crore whereas the certificates available in the Assessment files were only for ₹4.07 crore. This resulted in short levy of tax of ₹3.08 crore.

In reply to Audit, AC(ST), Jubilee Hills-II in one case stated that pre-revision show cause notice was issued by the JC (ST), Punjagutta Division and final reply would be furnished after issuing final revision order. Three AAs<sup>93</sup> in three cases stated that the matter would be examined and detailed reply furnished.

The matter was referred to the Government (January 2023); reply has not been received.

#### **2.10.5 Non / short levy of tax on works contracts who did not maintain detailed accounts**

**Tax of ₹2.86 crore on turnover of works contractors who did not maintain detailed accounts was not levied / short levied**

As per Section 4(7)(a) of VAT Act, every contractor 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. The provisions of the VAT Act read with Rule 17(1)(g) of VAT Rules further stipulate that if the accounts are not maintained to determine the correct value of goods at the time of incorporation, such dealers shall pay tax at rate specified in Schedule V

<sup>88</sup> Basheerbagh-Nampally.

<sup>89</sup> Central Government or the State Government or an industrial, commercial, or trading undertaking of Central Government or of the State Government or a local authority or a statutory body or a company registered under the Companies Act, 1956 or any other person notified by the Commissioner.

<sup>90</sup> Rule 18(2) of Telangana VAT Rules, 2005.

<sup>91</sup> ACs (ST) - Abids, Madhapur-II, Malakpet-I and Jubilee Hills-II.

<sup>92</sup> Up to June 2017.

<sup>93</sup> ACs (ST) - Abids, Madhapur-II and Malakpet-I.

(14.5 per cent) on the total consideration received or receivable subject to such deductions on percentage<sup>94</sup> basis based on the category of work executed. According to Section 4(7)(b) of the VAT Act read with Rule 17(2)(c) of VAT Rules, every dealer executing works contracts may opt<sup>95</sup> for payment of tax under composition at the rate of five per cent on gross works contract receipts before commencement of work.

Audit test checked (between December 2020 and February 2022) VAT assessments and records for the period from 2013-14 to 2017-18. It was observed in respect of 11 dealers pertaining to nine circles<sup>96</sup> that:

- i. In five cases, the AAs<sup>97</sup> levied tax at the rate of five per cent though the dealers opted for composition after commencement of work.
- ii. Despite the sales turnover included work contract receipts as per Profit and Loss Accounts, the AAs<sup>98</sup> either did not levy or short-levied tax on works contract receipts in respect of two cases.
- iii. Although the assessment was done under the provisions relating to the situations where detailed accounts were not maintained, the AAs<sup>99</sup> levied tax at the rate of five per cent instead of at 14.5 per cent in two cases.
- iv. In another case, the AA<sup>100</sup> levied tax at 14.5 per cent on 50 per cent of the total turnover of works contract receipts and allowed exemption on the remaining 50 per cent turnover treating it as service turnover. This indicates that work wise details were not available. Hence the turnover should be assessed under the provisions of VAT Rule 17 (1) (g), taxing 100 per cent turnover at 14.5 per cent.
- v. In the remaining one case, the AA<sup>101</sup> allowed exemption on works contract receipts on the ground that the work was purely labour oriented without involvement of any material. However, the work involved supply, fabrication and erection of structures.

As all the above dealers were works contractors who did not maintain / furnish detailed accounts, the entire turnover of ₹44.20 crore was to be taxed at the rate of 14.5 per cent after allowing permissible deductions on percentage basis. Failure of AAs to do so resulted in short levy of tax of ₹2.86 crore.

In reply to Audit, three AAs<sup>102</sup> (in three cases) stated that the assessment files were / would be submitted to the JCs (ST) concerned for revision. ACs (ST), Bowenpally-II and Madhapur I (in two cases) stated that notices were / would be issued to the dealers. Three

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<sup>94</sup> Such as 30 per cent on works contract receipts, 20 per cent on painting works receipts etc.

<sup>95</sup> In Form 250.

<sup>96</sup> ACs (ST)- Basheerbagh-I, Bowenpally-II, Jubilee Hills-II, Madhapur-I, Madhapur-II, Madhapur-III, Malkajgiri-II, Marredpally and Tarnaka-II.

<sup>97</sup> ACs (ST)- Basheerbagh-I, Bowenpally-II, Madhapur-I, Malkajgiri-II, and Tarnaka-II.

<sup>98</sup> ACs (ST) - Madhapur-II and Marredpally.

<sup>99</sup> ACs (ST) - Madhapur-II and Madhapur-III.

<sup>100</sup> AC (ST) - Madhapur-III.

<sup>101</sup> AC(ST), Jubilee hills-II.

<sup>102</sup> ACs (ST) - Basheerbagh-I, Jubilee Hills-II and Malkajgiri-II.

AAs<sup>103</sup> (in five cases) stated that the matter would be examined, and reply submitted. AC / ST Madhapur-III, in one case, replied that a notice was issued to the dealer but there was no response from the dealer.

The matter was referred to the Government (February 2023); reply has not been received.

Non / short levy of tax on works contractors who did not maintain detailed accounts has been repeatedly highlighted in C&AG's Audit Reports. Repetition of these lapses indicates inadequate internal controls.

## 2.11 Levy of penalties and interest under VAT

### 2.11.1 Non-levy of penalty and interest on belated payment of Tax

#### Penalty of ₹1.58 crore and interest of ₹2.29 crore on delayed payment of tax by dealers was not levied

Every VAT dealer shall pay the tax declared as due in Form VAT- 200 not later than 20 days after the end of the Tax period<sup>104</sup>. A dealer who fails to pay the tax by the last day of the month in which it is due, shall pay the tax along with a penalty at 10 *per cent* of the amount of tax due<sup>105</sup>. If tax due is not paid within the prescribed time, the dealer is liable to pay interest at the rate of 1.25 *per cent* per month for the period of delay<sup>106</sup> in addition to the amount of such tax or penalty.

Audit test checked (between January 2021 to March 2022) VAT payment records for the period from October 2012 to September 2020. In respect of 1,101 tax payments records, Audit noticed that 167 dealers in 25 circles<sup>107</sup>, had paid tax belatedly with delay ranging from one to 2,868 days. However, the AAs did not levy both penalty and interest on belated payments made by 165 dealers out of 167 and levied interest only in respect of remaining two dealers. This resulted in non-levy of penalty of ₹1.58 crore and interest of ₹2.29 crore in these cases as shown in the **Table 2.6** below:

**Table 2.6: Age-wise analysis of delayed payments**

(₹in crore)				
Delay	No. of tax payment records	Interest	Penalty	Total
Up to 6 months	310	0.19	0.80	0.99
Above 6 months and up to 1 year	110	0.20	0.18	0.38
Above 1 year and up to 2 years	240	0.78	0.37	1.15
Above 2 years and up to 3 years	240	0.57	0.15	0.72

<sup>103</sup> ACs (ST) - Madhapur-II, Marredpally and Tarnaka-II.

<sup>104</sup> As per Rule 24(1) of Telangana VAT Rules, 2005 every month is considered as a Tax period.

<sup>105</sup> Section 51(1) of Telangana VAT Act, 2005.

<sup>106</sup> Section 22 (2) of Telangana VAT Act, 2005.

<sup>107</sup> ACs (ST) – Abids, Basheerbagh-Nampally, Bowenpally-II, Charminar, Hydernagar-III, Jeedimetla-I, Jeedimetla-II, Keesara-II, Madhapur-II, Madhapur-III, Madhapur-IV, Mahbubnagar, Malakpet-I, Malakpet-II, Malkajgiri-I, Malkajgiri-II, Malkajgiri-III, Mehdipatnam-I, Nacharam-I, Nalgonda-I, Rajendranagar-I, Rajendranagar-II, Sanga Reddy-II, Saroornagar-II and Vanasthalipuram-II.

Above 3 years and up to 4 years	130	0.27	0.05	0.32
Above 4 years and up to 5 years	53	0.15	0.02	0.17
Above 5 years and up to 9 years	18	0.13	0.01	0.14
<b>Total</b>	<b>1,101</b>	<b>2.29</b>	<b>1.58</b>	<b>3.87</b>

In reply to Audit, 17 AAs<sup>108</sup> stated that the matter would be examined. Three AAs<sup>109</sup> stated that action would be taken to recover the penalty and interest. One AA<sup>110</sup> stated that notice was issued in one case while AC(ST), Madhapur-IV stated in eight cases that notices would be issued. Three AAs<sup>111</sup> stated that penalty and interest assessment orders were issued while AC(ST), Bowenpally-II in two cases stated that penalty orders were issued. However, collection is still pending.

The matter was referred to the Government (February 2023); Reply has not been received.

Non-levy of penalty and interest on belated payment of taxes has been repeatedly highlighted in C&AG's Audit Reports. Repetition of these lapses indicates inadequate internal controls.

### **2.11.2 Non or short levy of penalties for under-declaration of taxes / excess claim of ITC / non-registration**

#### **Penalties of ₹4.91 crore for under-declared taxes / excess claim of Input Tax Credit/ non-registration were either not levied or short levied**

According to VAT Act<sup>112</sup>, a dealer who has under-declared Tax, is liable for payment of penalty depending upon the quantum of tax under-declared. If the under-declared tax is less than 10 *per cent* of the tax due, the penalty shall be imposed at 10 *per cent* of such under-declared tax; if it is more than 10 *per cent* of the tax due, a penalty shall be imposed at 25 *per cent* of such under-declared tax.

Further, as per VAT Act<sup>113</sup>, every dealer commencing business and whose estimated taxable turnover for 12 consecutive months is more than ₹50 lakh shall be liable to be registered as VAT dealer before commencement of business. If the dealer fails to apply for VAT registration, he is liable to pay<sup>114</sup> a penalty of 25 *per cent* of the amount of Tax due prior to the date of the registration by the Registering Authority.

Audit test checked (between October 2018 and February 2022) the VAT assessments and VAT records for the period from 2013-14 to 2017-18 (up to June 2017) and noticed tax compliance omissions as detailed in Table 2.7 below. In case of 37 cases pertaining to 25

<sup>108</sup> ACs (ST) - Abids, Basheerbagh-Nampally, Charminar, Hydernagar-III, Jeedimetla-I, Jeedimetla-II, Keesara-II, Madhapur-II, Madhapur-III, Mahbubnagar, Malakpet-II, Malkajgiri-II, Nalgonda-I, Rajendranagar-I, Rajendranagar-II, Sanga Reddy-II and Saroornagar-II (130 dealers).

<sup>109</sup> ACs (ST)- Malakpet-I, Malkajgiri-III and Vanasthalipuram-II (nine dealers).

<sup>110</sup> AC (ST)- Nacharam-I (eight dealers).

<sup>111</sup> ACs (ST)- Mahbubnagar, Malkajgiri-I and Mehdipatnam-I (17 dealers).

<sup>112</sup> Section 53 (1) of Telangana VAT Act, 2005.

<sup>113</sup> Section 17 (2) of Telangana VAT Act, 2005.

<sup>114</sup> Section 49(2) of Telangana VAT Act, 2005.

Circles<sup>115</sup>, the AAs did not levy (15 cases) / short levied (22 cases) penalty where the dealers under-declared output Tax and / or claimed excess ITC. Further, AC (ST), Gowliguda-Osmangunj in two cases did not levy penalty for failure to apply for VAT registration on crossing prescribed limit of turnover. This resulted in non-levy / short-levy of penalty of ₹4.91 crore. Details are given in **Table 2.7 below**.

**Table 2.7: Cases of short / non-levy of penalty****(₹ in lakh)**

Nature of Omission	Quantum of penalty leviable as per VAT Act (%)	No. of cases	Amount of non / short levy of penalty	Jurisdiction of Commercial Tax Officer
Short payment of tax / excess claim of Input Tax credit (ITC)	10 / 25	37	478.79	ACs (ST) – Abids, Basheerbagh-I, Basheerbagh-Nampally, Bowenpally-II, Fathehnagar, Gowliguda-Osmangunj, Hydernagar-I, Hydernagar-II, Hydernagar-III, Jeedimetla-I, Keesara-II, Madhapur-I, Madhapur-II, Malkajgiri-I, Malkajgiri-II, Malkajgiri-III, Marredpally, Mehdipatnam-I, Rajendranagar-I, Rajendranagar-II, Ramgopalpet-Ranigunj, Saroornagar-II, Saroornagar-III, Tarnaka-I and Tarnaka-II.
Non-registration of VAT Dealer	25	2	12.12	AC (ST) Gowliguda-Osmangunj
<b>Total</b>		<b>39</b>	<b>490.91</b>	

In reply to Audit, three AAs<sup>116</sup> in three cases stated that penalty orders were passed. However, collection of amounts is still pending. Two AAs<sup>117</sup> in two cases stated that action would be taken to levy penalty. Five AAs<sup>118</sup> in five cases stated that the files were submitted to JCs (ST) concerned for revision. AC (ST), Mehdipatnam-I in one case stated that the JC (ST) concerned issued revision show cause notice to the Dealer. 14 AAs<sup>119</sup> in 26 cases assured that the matter would be examined. AC (ST), Gowliguda-Osmangunj in two cases stated that notices would be issued to the dealers by levying penalty.

The matter was referred to the Government (February 2023); Reply has not been received.

<sup>115</sup> ACs (ST) - Abids, Basheerbagh-I, Basheerbagh-Nampally, Bowenpally-II, Fathehnagar, Gowliguda-Osmangunj, Hydernagar-I, Hydernagar-II, Hydernagar-III, Jeedimetla-I, Keesara-II, Madhapur-I, Madhapur-II, Malkajgiri-I, Malkajgiri-II, Malkajgiri-III, Marredpally, Mehdipatnam-I, Rajendranagar-I, Rajendranagar-II, Ramgopalpet-Ranigunj, Saroornagar-II, Saroornagar-III, Tarnaka-I and Tarnaka-II.

<sup>116</sup> ACs (ST) - Bowenpally-II, Madhapur-I and Malkajgiri-I.

<sup>117</sup> ACs (ST) - Malkajgiri-II and Malkajgiri-III.

<sup>118</sup> ACs (ST) - Basheerbagh-I, Fathehnagar, Gowliguda-Osmangunj, Malkajgiri-I and Tarnaka-I.

<sup>119</sup> ACs (ST) - Abids, Basheerbagh-Nampally, Hydernagar-I, Hydernagar-II, Hydernagar-III, Jeedimetla-I, Keesara-II, Madhapur-II, Rajendranagar-I, Rajendranagar-II, Ramgopalpet-Ranigunj, Saroornagar-II, Saroornagar-III, and Tarnaka-II.

## 2.12 Non-levy of penalty on self-consumption of Notified Goods

### Penalty of ₹53.09 lakh for using notified goods for self-consumption was not levied

According to Section 3(2) of The Telangana Tax on Entry of Goods into Local Areas Act, 2001, any dealer importing notified goods from other States into any local area<sup>120</sup> for the purpose of re-sale or for use of the goods as inputs for manufacture of other goods in the State or inter-State trade is exempt from payment of Tax. If the dealer utilises the goods otherwise than by way of re-sale or as inputs, he shall notify the Assessing Authority of the self-consumption of such goods and pay Tax, failing which, he is liable to pay Tax along with Penalty equivalent to the amount of Tax under Section 3(3) of the Act *ibid*.

Audit test checked (between November 2020 and February 2022) the Entry Tax assessment records for the period from November 2016<sup>121</sup> to June 2017. In 12 cases pertaining to eight circles<sup>122</sup>, dealers had utilised notified goods for the purposes other than re-sale or as inputs for manufacture of goods for resale. On detection of this, the AAs had levied only the Entry Tax of ₹53.09 lakh. They did not levy penalty of ₹53.09 lakh as per the provisions.

In reply, Five AAs<sup>123</sup> in nine cases replied that the matter would be examined and detailed reply submitted in due course. Two AAs<sup>124</sup> in two cases stated that the Assessment files would be submitted to the JC (ST) concerned for necessary action. AC(ST), Madhapur-IV in one case stated that notice would be issued to the dealer.

The matter was referred to the Government (February 2023); Reply has not been received.

## 2.13 Goods and Services Tax (GST)

Goods and Services Tax (GST) was implemented with effect from 01 July 2017. GST is being levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products<sup>125</sup>) separately but concurrently by the Union (CGST) and the States (SGST) / Union territories (UTGST). Further, Integrated GST (IGST) is being levied on inter-State supply of goods or services (including imports). Parliament has exclusive power to levy IGST.

State Government is empowered to regulate the provisions of TVAT Act, whereas provisions relating to GST are regulated by Centre and State on the recommendation of the Goods and Services Tax Council (GSTC), which was constituted with representation from Centre and all the States to recommend on matters related to GST. The State Government notified (June 2017) the Telangana Goods and Services Tax (TGST) Act, 2017 and the Telangana Goods and Services Tax Rules (TGST Rules), 2017 wherever various taxes were subsumed.

<sup>120</sup> "Local area" means the area of jurisdiction of a local authority i.e., Municipal Corporations / Municipalities / Cantonment Boards / Panchayats etc.

<sup>121</sup> 11 November 2016.

<sup>122</sup> ACs (ST) – Basheerbagh-Nampally, Charminar, Madhapur-IV, Malkajgiri-II, Malkajgiri-III, Rajendranagar-I, Rajendranagar-II and Vanasthalipuram-II.

<sup>123</sup> ACs (ST) – Basheerbagh-Nampally, Charminar, Rajendranagar-I, Rajendranagar-II and Vanasthalipuram-II.

<sup>124</sup> ACs (ST) – Malkajgiri-II and Malkajgiri-III.

<sup>125</sup> Petroleum products: crude, high speed diesel, petrol, aviation turbine fuel and natural gas.

Goods and Services Tax Network (GSTN) was set up by the Government of India as a private company to provide IT services under GST. Later on, the Board of GSTN in its 49<sup>th</sup> Board meeting held on 30 June 2022 approved the conversion of GSTN into Government Company. It provides front-end IT services to taxpayers like registration, payment of tax and filing of returns. Back-end IT services include registration approval, taxpayer detail viewer, refund processing, MIS reports *etc.* GSTN developed the back-end IT services for States that did not have the requisite IT support systems. These States, including Telangana State, are referred to as Model-II States. Model-I States are those that have developed the back-end systems on their own. With automation of the collection of GST having taken place, it is essential for Audit to have access to GST data to transition from sample checks to a comprehensive check of all transactions. Accountant General (Audit) has written to Commissioner of Commercial Taxes, Telangana to provide access to GST data (May 2018 and November 2018). Based on the decision of GST Implementation Council (GSTIC) in providing data access, Chief Secretary and Special Chief Secretary to Government were addressed (October 2020) to provide access to back-end system of the Commercial Taxes Department. Reminders were issued in November 2020. However, access to data is yet to be provided (February 2023). The Commissioner of Commercial Taxes stated (January 2021) that access would be provided to the deployed Audit officials at their premises by providing logins to GST portal for conducting Subject Specific Compliance Audits (SSCAs) and hence, remote access would not be given. Accordingly, limited access to GST portal alone was provided for conducting SSCAs. Audit of GST Revenue is restricted to that extent.

## **2.14 Subject Specific Compliance Audit on 'Department's oversight on GST payments and Returns filing (Phase-I)'**

### **2.14.1 Introduction**

Introduction of Goods and Service Tax (GST) has replaced multiple taxes levied and collected by the Centre and States. GST, which came into effect from 01 July 2017, is a destination-based consumption tax on the supply of goods or services or both levied on every value addition. The Centre and States simultaneously levy GST on a common tax base. Central GST (CGST) and State GST (SGST) / Union Territory GST (UTGST) are levied on intra state supplies, and Integrated GST (IGST) is levied on inter-state supplies.

Section 59 of the Telangana GST Act, 2017 (TGST Act or Act) stipulates GST as a self-assessment-based tax, whereby the responsibility for calculating tax liability, discharging the computed tax liability and filing returns is vested on the taxpayer. The GST returns must be filed online regularly on the common GST portal, failing which penalties will be payable. Even if the business has no tax liability during a particular tax period, it must file a nil return mandatorily. Further, Section 61 of the Act read with Rule 99 of Telangana GST Rules, 2017 (TGST Rules) stipulate that the proper officer may scrutinise the return and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

This Subject Specific Compliance Audit (SSCA) was taken up considering the significance of the control mechanism envisaged for tax compliance and the oversight mechanism of the Commercial Taxes Department of Telangana (Department) in this new tax regime.

### 2.14.2 Audit objectives

This audit was oriented towards providing assurance on the adequacy and effectiveness of systems and procedures adopted by the Department with respect to tax compliance under GST regime. Audit of 'Department's oversight on GST payments and Return filing (Phase I)' was taken up with the following Audit objectives to seek an assurance on:

- (i) Whether the Rules and procedures were designed to secure an effective check on tax compliance and were being duly observed by taxpayers; and
- (ii) Whether the scrutiny procedures, internal audit and other compliance functions of the Circles were adequate and effective.

### 2.14.3 Audit methodology and scope

This SSCA was predominantly conducted based on data analysis, which highlighted risk areas and red flags pertaining to the period July 2017 to March 2018. Through data analysis a set of 14 deviations were identified across the domains of Input Tax Credit, Discharge of tax liability, Registration and Return filing. Such deviations were followed up through a **Limited Audit**<sup>126</sup>, whereby these deviations were communicated to the respective jurisdictional Divisions of the Department and action taken by these Divisions on the identified deviations was ascertained without involving field visits. The Limited audit was supplemented by a detailed audit involving field visits for verification of records available with the jurisdictional field formations. Returns and related attachments and information were accessed through the back-end system of the Department as much as feasible to examine data / documents relating to taxpayers (*viz.* registration, tax payment, returns and other departmental functions). The **Detailed Audit** also involved accessing relevant granular records from the taxpayers such as invoices through the respective field formations. This apart, compliance functions of the departmental formation such as scrutiny of returns, were also reviewed in selected circles.

The review of the scrutiny of returns by the Department and verification of taxpayers' records covered the period from July 2017 to March 2018, while the audit of the functions of selected circles covered the period from July 2017 to March 2021. The SSCA covered only State administered taxpayers. The field audit was conducted from June 2022 to August 2022.

Entry conference of this SSCA was held on 24 February 2022 with the Commissioner and other officials of Commercial Taxes Department, Telangana in which the Audit objectives, sample, Audit scope and methodology were discussed. The draft report on this SSCA was communicated to the Government and to the Department (February 2023) and the replies received so far (April 2023) have been suitably incorporated in the relevant paragraphs.

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<sup>126</sup> Limited Audit do not involve seeking taxpayer's granular records such as financial statements related ledger accounts, invoices, agreements etc.

Audit findings were also discussed with the Commissioner of Commercial Taxes Department in the Exit conference held on 13 June 2023.

#### **2.14.4 Audit sample**

A data-driven approach was adopted for planning, as also to determine the nature and extent of substantive audit. The sample for this SSCA comprised a set of deviations identified through data analysis for Limited Audit that did not involve field visits; a sample of taxpayers for Detailed Audit that involved field visits and scrutiny of taxpayer's records at departmental premises; and a sample of Circles for evaluating the compliance functions of the Circles.

There were *three* distinct parts of this SSCA as under:

##### **(i) Part I- Audit of Circles / Strategic Taxpayer Units (STUs)**

15 Circles / STUs with jurisdiction over more than one selected sample of cases for Detailed Audit were considered as the sample of Circles / STUs for evaluation of their oversight functions.

##### **(ii) Part II -Limited Audit**

The sample for Limited Audit was selected by identification of high-value or high-risk deviations from Rules and inconsistencies between returns through data analysis for evaluation of the adequacy and effectiveness of the scrutiny procedure of the Department. Accordingly, 407 deviations were selected for Limited Audit under this SSCA.

##### **(iii) Part III-Detailed Audit**

It was conducted by accessing taxpayers' records through Circles for evaluation of the extent of tax compliance by taxpayers. The sample of taxpayers for Detailed Audit was selected on the basis of risk parameters such as mismatch in claiming of ITC, undischarged tax liability, disproportionate exempted turnover to total turnover and irregular ITC reversal. The 50 taxpayers<sup>127</sup> selected for Detailed Audit comprised of large, medium and small strata taxpayers as well as taxpayers selected randomly.

The details of sample for Detailed Audit, Limited Audit and Audit of Circles selected for this SSCA are brought out in **Appendix 2.1(A)(B) &(C)**.

#### **2.14.5 Audit criteria**

The source of audit criteria comprised the provisions contained in the CGST / SGST Act, IGST Act, and Rules made thereunder. The significant provisions are given in following **Table**.

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<sup>127</sup>To have a uniform methodology for stratification considering that the financial profile of taxpayers widely varying across jurisdictions, the stratification of taxpayers on financial materiality is achieved as Large, Medium and Small taxpayers. Eighty *per cent* of the sample size was selected from Large, Medium and Small strata on the proportion of 60: 30:10 based on risk scores. The remaining 20 *per cent* of the sample size was selected on a stratified random sampling basis.

**Table 2.8: Source of criteria**

Sl No	Subject	Act and Rules
1	Levy and collection	Section 9 of TGST Act, 2017
2	Reverse Charge Mechanism	Section 9(3) of TGST Act, 2017 and Section 5 (3) of IGST Act, 2017
3	Availing and utilising ITC	Sections 16 to 21 under Chapter V of TGST Act, 2017; Rules 36 to 45 under Chapter V of TGST Rules, 2017
4	Registrations	Section 22 to 25 of TGST Act, 2017; Rules 8 to 26 of TGST Rules, 2017
5	Supplies	Section 7 and 8 TGST Act, 2017. Schedule I, II and III of the Act.
6	Place of supply	Section 10 to 13 of IGST Act
7	Time of Supply	Section 12 to 14 of TGST Act, 2017
8	Valuation of supplies	Section 15 of TGST Act, 2017; Rules 27 to 34 of TGST Rules, 2017
9	Payment of Tax	Sections 49 to 53 under Chapter X of TGST Act, 2017; Rules 85 to 88A under Chapter IX of TGST Rules, 2017
10	Filing of GST Returns	Sections 37 to 47 under Chapter IX of TGST Act, 2017; Rules 59 to 68 and 80 to 81 under Chapter VIII. Part B of TGST Rules, 2017
11	Zero-rated supplies	Section 8 of IGST Act 2017
12	Assessment and Audit functions	Sections 61, 62, 65 and 66 under Chapter XII & XIII of TGST Act, 2017; Rules 99 to 102 under Chapter XI of TGST Rules, 2017

In addition, the notifications and circulars issued by Central Board of Indirect Taxes and Customs (CBIC) / Commercial Taxes Department of State Government relating to filing of returns, notifying the effective dates of filing of various returns, extending due dates for filing returns, rates of tax on goods and services, payment of tax, availing and utilising ITC, scrutiny of returns and oversight of tax compliance and Standard Operating Procedures (SoP) containing instructions to departmental officers on various aspects related to filing returns, scrutiny of returns, cancellation of registrations and verification of Directorate General of Analytics and Risk Management (DGARM) reports etc., also formed part of the audit criteria.

## Audit findings

### 2.14.6 Oversight on returns filing

#### 2.14.6.1 Trends in return filing (State-wise)

The Department was addressed (April 2023) with a request to provide information relating to filing of GSTR 1 and GSTR 3B returns by due dates and after due dates for the period 2017-18 to 2020-21 to analyse the State-wise trend of return filing. However, the information has not been received (April 2023).

#### 2.14.6.2 Deficient monitoring mechanism on return filing

Out of a sample of 15 Circles / STUs, Audit could not verify the overseeing mechanism on return filing in STU-1, Secunderabad as neither records nor data was provided to Audit stating that there was no such reporting mechanism available at Circle level and the information / data could be obtained from Commissioner of Commercial Taxes. Even

though the matter was escalated (July 2022) to the Commissioner of Commercial Taxes Audit did not receive any further information / data as of April 2023.

The monitoring mechanism for recovery of demand from non-filers was deficient in 10<sup>128</sup> Circles / STUs where best judgement assessment in ASMT-13<sup>129</sup> was initiated. The total amount involved in ASMT-13 was ₹439.66 crore out of which an amount of ₹38.63 crore was recovered leaving a balance of ₹401.03 crore.

### 2.14.6.3 Lack of action on late-filers and non-filers

#### A. Overall status at the State Level

The Department was addressed (April 2023) for the information relating to number of late-filers identified, number of cases where GSTR-3A<sup>130</sup> was issued, number of cases where returns were filed in pursuance of GSTR-3A, cases where the Department initiated best judgment assessment (ASMT-13) and further proceedings taken thereon along with the details of non-filers etc., for the period 2017-18 to 2020-21 to analyse the State-wise trend. However, the information has not been received (April 2023).

#### B. Results of circle audit

Section 46 of the TGST Act read with Rule 68 of TGST Rules stipulates issue of a notice in Form GSTR-3A requiring filing of return within 15 days if the taxpayer had failed to file the return within the due date. In case the taxpayer fails to file the returns even after such notice, the proper officers may proceed to assess the tax liability of the said person to the best of their judgment, taking into account all the relevant material which is available or gathered and issue an assessment order in Form ASMT-13. Filing of returns is related to payment of tax as the due date for both the actions are the same, which implies risk of non-payment of tax / penalty in the case of non-filers.

##### (i) Status of non-filers

During Circle Function Audit, it was noticed that 18,922 cases of late filers / non-filers were identified by 10<sup>131</sup> out of 15 sampled circles / STUs during 2017-18 to 2020-21.

As per the information furnished by the circles, there were no non-filers / late filers in three circles<sup>132</sup>. STU-1, Secunderabad did not furnish the requisite information and replied that the required information had to be obtained from the office of Commissioner of Commercial Taxes while Narayanaguda-MJ market circle replied that there was no information available in the officer's login in respect of the return defaulters.

It was noticed that in ten circles though a total of 18,922 cases of non-filers were identified, notices in Form GSTR 3A have been issued to only 18,070 cases leaving a balance of 852

<sup>128</sup> Abids STU-1, Abids STU-2, Begumpet, Musheerabad, Hyderabad Rural STU-1, Hyderabad STU-2, Jubilee Hills-1, Jubilee Hills-2, Punjagutta STU-1, Punjagutta STU-2.

<sup>129</sup> Best Judgement Assessment order in cases where the taxpayers have not complied with GSTR 3A notices.

<sup>130</sup> Notice for defaulters who have not filed GST returns.

<sup>131</sup> Abids STU-1, Abids STU-2, Begumpet, Musheerabad, Hyderabad Rural STU-1, Hyderabad STU-2, Jubilee Hills-1, Jubilee Hills-2, Punjagutta STU-1, Punjagutta STU-2.

<sup>132</sup> Begumpet STU-1, Begumpet STU-2, Madhapur-3 circle.

cases (4.5 per cent). Jurisdictional officers did not initiate any action in these 852 cases. Out of 18,070 cases in which notices in Form GSTR 3A were issued, only in 8,732 cases (48.32 per cent), returns were filed by the taxpayers and in the remaining 9,338 cases (51.68 per cent), taxpayers have not filed the appropriate returns even after issuance of notices in form GSTR-3A.

**(ii) Non-availability of information relating to return defaulters in the officer login**  
When the information relating to non-filers was called for (June 2022), Assistant Commissioner (AC) / (ST), Narayanaguda MJ Market circle replied that notices for return defaulters were generated from GST Portal in Form GSTR-3A and intimated to taxpayers as return defaulters and accordingly, on filing of returns by the taxpayers, the notices were dropped from the system. The AC (ST) further replied that no separate action was initiated by the Circle Office in respect of return defaulters as there was no information available in the officer's login in respect of the return defaulters and collection of late fee.

The matter was reported to the Government and the Department (February 2023). The Reply has not been received (April 2023).

**(iii) Inadequate efforts to recover dues**

Section 78 of TGST Act stipulates that any amount payable by a taxable person in pursuance of an order passed under this Act, shall be paid by such person within a period of three months from the date of service of such order failing which recovery proceedings shall be initiated. The time period can be less than three months in some special circumstances, if it is expedient in the interest of the Government.

Audit observed that despite issuing GSTR-3A notices in 9,338 cases across 10 circles during 2017-18 to 2020-21, assessment orders under ASMT-13 were issued only with respect to 397 cases and were not issued in 8,941 cases (96 per cent) despite taxpayers not filing their returns within the stipulated time.

Of the 397 cases where ASMT 13 were issued for an amount of ₹439.66 crore, further proceedings in respect of 339 cases under seven<sup>133</sup> circles, were withdrawn by tax authorities on filing of returns and upon payment of interest and penalty by the taxpayers. However, details of the action taken by the Department in respect of the remaining 58 cases have not been furnished. Out of the total assessed tax of ₹439.66 crore, an amount of ₹38.63 crore was recovered leaving a balance of ₹401.03 crore.

**Two illustrative cases are given below:**

- In Jubilee Hills-1 circle under Punjagutta Division, Audit observed that in 58 cases though ASMT-13 were issued, DRC-07<sup>134</sup> were not issued despite non-payment of tax by the taxpayers and no recovery proceedings were initiated. The money value involved in these cases amounted to ₹42.42 crore.

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<sup>133</sup>Abids STU1, Abids STU2, Musheerabad, Jubilee hills I, Jubilee hills 2, Hyderabad Rural STU2, Hyderabad Rural STU3.

<sup>134</sup> Summary of Demand order as a follow up of ASMT-13.

- In Jubilee Hills-2 circle under Punjagutta Division, Audit observed that in 287 cases where ASMT-13 were withdrawn, amount recovered was ₹34.45 crore out of assessed tax of ₹385.41 crore leaving a balance amount of ₹350.96 crore pending recovery.

The matter was reported to the Government and the Department (February 2023). The Reply has not been received (April 2023).

#### 2.14.6.4 Non-initiation of scrutiny of returns

##### A. Overall status at the State Level

The Department was addressed (April 2023) with a request to provide the information relating to total number of returns to be scrutinised, number of returns actually scrutinised, number of cases where ASMT-10 / SCN (DRC-1) issued and cases where discrepancies accepted by taxpayers etc., for the period 2017-18 to 2020-21 to analyse the pace of scrutiny of returns and further follow up action at State level. However, the information has not been received (April 2023).

##### B. Results of circle audit

Section 61 of TGSST Act read with Rule 99 of TGSST Rules stipulates that the proper officer may scrutinise the return and related particulars furnished by the taxpayer to verify the correctness of the return and inform him of the discrepancies noticed, if any, in Form GST ASMT-10<sup>135</sup> in such manner as may be prescribed and seek his explanation thereto. In case no satisfactory explanation is furnished within the prescribed period or where the taxpayer, after accepting the discrepancies, fails to take the corrective measure in his return for the month in which the discrepancy is accepted, the proper officer may initiate appropriate action by issuance of DRC-01<sup>136</sup> and further follow up action. However, Audit noticed that:

##### (i) SOP for scrutiny

It was not forthcoming whether Department issued detailed guidelines / Standard Operating Procedure (SOP) on scrutiny of returns with a view to ensure the uniformity and to standardise the procedure for the scrutiny proceeding as per Section 61 of the Act. A letter was addressed (November 2022) to the Commissioner of Commercial Taxes Department with a request to provide a copy of SOP and a reminder issued (April 2023). Response is awaited (April 2023).

##### (ii) Form GST ASMT-10 not issued

Out of total 23,092 taxpayers in 14 out of 15<sup>137</sup> sampled field formations, returns relating to 7,674 taxpayers (33 per cent) were scrutinised and GST ASMT-10 was issued to 1,272 taxpayers informing them of the discrepancies and seeking their explanation thereto. Further, DRC-01 notice was also issued to these 1,272 taxpayers as per procedure.

<sup>135</sup> ASMT-10 is issued under Rule 99 in accordance with the provisions of Section 61 of the Act informing the taxpayer of such discrepancy and seeking his explanation thereto.

<sup>136</sup> DRC 01 is a summary of show cause notice issued under Rule 142 specifying tax and other dues.

<sup>137</sup> Secunderabad STU-1 circle replied that no reporting mechanism exists.

However, out of the remaining 6,402 taxpayers, notice in DRC-01 was directly issued to 6,229 taxpayers without issuing ASMT-10 informing them of the discrepancies and seeking their explanation thereto. In balance cases (173), neither ASMT-10 nor DRC-01 were issued.

**(iii) Status of recovery of demand issued in SCNs**

As observed from the data relating to 14 sampled field formations, Show Cause Notices (SCNs)<sup>138</sup> under Section 73 of TGST Act in DRC-01 were issued to the 7,501 (1,272 + 6,229) taxpayers. The total amount involved in these SCNs was ₹1,573.90 crore against which only ₹63.67 crore (four *per cent*) was collected from 684 taxpayers. Details of replies received and action taken thereon in respect of the remaining 6,817 taxpayers were not furnished. Further, final assessment order in DRC-07 under Section 73 was not issued in any of the cases.

**(iv) Non-inclusion of IGST component SCNs**

According to Section 5 of Integrated Goods and Services Tax (IGST) Act, 2017, IGST shall be levied on all inter-State supplies of goods or services or both, except on the supply of alcoholic liquor for human consumption, on the value determined under Section 15 of the TGST Act and at such rates, not exceeding 40 *per cent* as may be notified by the Government on the recommendations of the Council and collected in such manner as may be prescribed and shall be paid by the taxable person. Section 4 of IGST Act 2017 stipulates that the officers appointed under the SGST Act are authorised to be the proper officers for the purposes of this Act.

However, Audit observed that IGST component has not been included in any of the SCNs even in the cases where the taxpayers were liable to pay IGST. On this being brought to notice, three field formations<sup>139</sup> replied that only CGST and SGST components were included in the SCN but not the IGST component. DC, STU-1 Secunderabad replied that the policy details were to be submitted by their Commissionerate.

The matter was reported to the Government and the Department (February 2023). The Reply has not been received (April 2023).

***Recommendation 1:***

***Show Cause Notices issued for short / non-payment of tax should be pursued and should also include IGST component along with SGST / CGST components.***

**2.14.6.5 Audit by tax authorities / internal audit**

As per Section 65 of the TGST Act, 2017 the Commissioner or any officer authorised by him, by way of a general or a specific order, may undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed. Section 2 (13)

<sup>138</sup> For tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised for any reason other than fraud or any wilful- misstatement or suppression of facts.

<sup>139</sup> Begumpet STU-1, Begumpet STU-2 and Begumpet Circle.

of the TGST Act, 2017, defines “Audit” as the examination of records, returns and other documents maintained or furnished by the registered person under this Act or the Rules made thereunder or under any other law for the time being in force to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess his compliance with the provisions of this Act or the Rules made thereunder.

The Department was addressed (April 2023) with a request to provide the information relating to total number of taxpayers, total number of taxpayers selected for audit, actual number of audits completed, number of cases where deficiencies were found, amount involved in deficiencies and total recovery etc., for the period 2017-18 to 2020-21 to analyse the effectiveness of the Audits undertaken by the Department. However, the information has not been received (April 2023).

#### **2.14.6.6 Action on DGARM Reports**

The Department was addressed (April 2023) with a request to provide the information relating to number of reports received from Directorate General of Analytics and Risk Management (DGARM) / other departments or organisations / Business Intelligence and Fraud Analytics reports etc., for the period 2017-18 to 2020-21 and results of verification of these reports to analyse the follow up action on the reports received. However, the information has not been received (April 2023).

#### **2.14.6.7 Inconsistencies in GST returns -Limited Audit**

Audit analysed GST returns data pertaining to 2017-18 as made available by GSTN. Rule-based deviations, and logical inconsistencies between GST returns filed by taxpayers were identified on a set of 14 parameters, which can be broadly categorised into two domains - ITC and Tax payments.

Out of the 13 prescribed GST returns,<sup>140</sup> the following basic returns that apply to regular taxpayers were considered for the purpose of identifying deviations, inconsistencies and mismatches between GST returns / data:

- GSTR-1: monthly return furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.
- GSTR-3B: monthly summary return of outward supplies and input tax credit claimed, along with payment of tax by the taxpayer to be filed by all taxpayers except those specified under Section 39(1) of the Act. This is the return that populates the credit and debits in the Electronic Credit Ledger and debits in Electronic Cash Ledger.
- GSTR-6: monthly return for Input Service Distributors providing the details of their distributed input tax credit and inward supplies.

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<sup>140</sup> GSTR-1, GSTR-3B, GSTR-4 (taxpayers under the Composition scheme), GSTR-5 (non-resident taxable person), GSTR-5A (Non-resident OIDAR service providers), GSTR-6 (Input service distributor), GSTR-7 (taxpayers deducting TDS), GSTR-8 (E-commerce operator), GSTR-9 (Annual Return), GSTR-10 (Final return), GSTR-11 (person having UIN and claiming a refund), CMP-08, and ITC-04 (Statement to be filed by a principal / job-worker about details of goods sent to / received from a job-worker).

- GSTR-8: monthly return to be filed by the E-commerce operators who are required to deduct Tax Collected at Source (TCS) under GST, introduced in October 2018.
- GSTR-9: annual return to be filed by all registered persons other than an Input Service Distributor (ISD), Tax Deductor at Source / Tax Collector at Source, Casual Taxable Person and Non-Resident taxpayer. This document contains the details of all supplies made and received under various tax heads (CGST, SGST and IGST) during the entire year along with turnover and audit details for the same.
- GSTR-9C: annual audit form for all taxpayers having a turnover above ₹five crore in a particular financial year. It is basically a reconciliation statement between the annual returns filed in GSTR-9 and the taxpayer's audited annual financial statements.
- GSTR-2A: a system-generated statement of inward supplies for a recipient. It contains the details of all B2B transactions of suppliers declared in their Form GSTR-1 / 5, ISD details from GSTR-6, details from GSTR-7 and GSTR-8 respectively by the counterparty and import of goods from overseas on bill of entry, as received from ICEGATE Portal of Indian Customs.

The data analysis pertaining to the jurisdiction of Commercial Taxes Department, Telangana on the 14 identified parameters and extent of deviations / inconsistencies observed are summarised in **Table** below.

**Table 2.9: Summary of data analysis**

(₹ in crore)				
Sl. No.	Parameter	Algorithm used	Number of deviations out of 407	Amount
1.	Input Tax Credit (ITC) mismatch between GSTR-2A and GSTR-3B	ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B in Table-4A (5) (accrued on domestic supplies) considering the reversals in Table-4B(2) but including the ITC availed in subsequent year 2018-19 from Table-8C of GSTR-9	50	279.69
2.	ITC Mismatch on RCM	RCM payments in GSTR-3B, Table-3.1(d) was compared with ITC availed in GSTR-9, Table 6C, 6D & 6F. In cases where GSTR-9 was not available, check was restricted within GSTR-3B, tax discharged in Table-3.1(d) vis-à-vis ITC availed in Table-4A (2) & 4A(3)	50	44.57
3.	Mismatch in turnover between Annual return and Financial Statements (Table 5R of Form 9C)	RCM payments in GSTR-9, Table 4G (tax payable) was compared with ITC availed in GSTR-9, Table 6C, 6D & 6F. In cases where GSTR-9 was not available, RCM payment in GSTR-3B, Table-3.1(d) was compared with GSTR-3B, Table- 4(A)(2) and 4A(3).	15	2.71
4.	Mismatch in taxable turnover between Annual return and	Negative figure in GSTR-9C, Table-5R and examination of reasons provided in Table-6 for mismatch	50	3,476.09

	Financial Statements (Table 7G of Form 9C)			
5.	Mismatch in tax paid between books of accounts and Annual Return (Table 9R of Form 9C)	Negative figure in GSTR-9C, Table-7G and examination of reasons provided in Table-8 for mismatch	29	600.20
6.	Unreconciled taxable turnover in Table-9R of GSTR-9C	Negative figure in GSTR-9C, Table-9R and examination of reasons provided in Table-10 for mismatch	50	1,030.43
7.	Mismatch in ITC availed between Annual Return and Financial Statements (Table 12F of Form 9C)	Positive figure in GSTR-9C, Table- 12F and examination of reasons provided in Table- 13 for mismatch	25	7,589.25
8.	Reconciliation between ITC declared in Annual return with expenses in financial statement (Table 14T of Form 9C)	Positive figure in GSTR-9C, Table-14T and examination of reasons provided in Table-15 for mismatch	25	1,313.90
9.	Cases where GSTR-3B not filed but GSTR-1 or GSTR-2A available	Taxpayers who had not filed GSTR-3B but filed GSTR-1 or where GSTR-2A available, indicating taxpayers had carried the business without discharging tax.	25	1.97
10.	Undischarged tax liability	Greater of tax liability between GSTR-1 (Tables 4 to 11) and GSTR-9 (Tables- 4N, 10 & 11) was compared with tax paid details in GSTR-3B, Tables 3.1(a) & 3.1(b). In cases where GSTR-9 was not available GSTR-3B tax paid was compared with GSTR-1 liability. The amendments and advance adjustments declared in GSTR-1 and 9 were duly considered.	25	167.40
11.	Short payment of interest on delayed payments	Interest calculated at the rate of 18 <i>per cent</i> on cash portion of tax payment on delayed filing of GSTR-3B <i>vis-à-vis</i> interest declared in GSTR-3B	25	9.93
12.	Composition taxpayers availed E-commerce facility	E-commerce GSTR-8 became effective from 01 October 2018 when TCS provisions became effective. GSTINs declared in GSTR-8 who are also filing GSTR-4 under composition scheme.	10	0
13.	Input Service Distributor (ISD) Credit	ISD transferred in GSTR-9, Table-6G or GSTR-3B, Table-4(A)(4) was compared with the sum of	25	20.80

		Table-5A, Table-8A and Table-9A of GSTR-6 of recipient GSTINs.		
14.	ISD Reversal	GSTR-9, Table-7B/7H of the recipients was compared with sum of Table-8A (negative figures only) and Table-9A (negative figures only) of their GSTR-6 returns.	3	0.01
<b>Total</b>			<b>407</b>	<b>14,536.95</b>

### Non-submission of reply by the Department

Audit selected a sample of 407 cases from amongst the top deviations / inconsistencies in each of the 14 parameters for the year 2017-18. The audit queries were issued to the respective Divisions between March-April 2022 without further scrutiny of taxpayer's records. The audit check in these cases was limited to verifying the Department's action on the identified deviations / mismatches.

Initial responses were yet to be received, as of April 2023, for 124 inconsistencies communicated to the Department, which represent a potential risk exposure of ₹1,568.81 crore as shown in the **Table** below:

**Table 2.10: Reply not received**

(₹ in crore)

Audit Dimension	Sample		Department reply not received		Percentage	
	Number	Amount of mismatch	Number	Amount	Number	Amount
ITC mismatch between GSTR-2A and GSTR-3B	50	279.69	11	62.95	22.0	22.5
ITC Mismatch on RCM	50	44.57	20	10.23	40.0	23.0
ITC Mismatch on RCM without payment	15	2.71	4	0.74	26.7	27.3
Mismatch in turnover between Annual return and Financial Statements (Table-5R of Form GSTR-9C)	50	3,476.09	14	663.54	28.0	19.1
Mismatch in taxable turnover between Annual return and Financial Statements (Table-7G of Form GSTR-9C)	29	600.20	8	218.35	27.6	36.4
Mismatch in tax paid between books of accounts and Annual Return (Table-9R of Form GSTR-9C)	50	1,030.43	20	26.96	40.0	2.6
Mismatch in ITC availed between Annual Return and Financial Statements (Table-12F of Form GSTR-9C)	25	7,589.25	7	49.15	28.0	0.6
Reconciliation between ITC declared in Annual return with expenses in financial statement (Table 14T of Form GSTR-9C)	25	1,313.90	7	488.02	28.0	37.1

Cases where GSTR-3B not filed but GSTR-1 or GSTR-2A available	25	1.97	5	0.23	20.0	11.7
Undischarged tax liability - compared with GSTR-1 liability and GSTR-9/GSTR-3B payments	25	167.40	8	38.09	32.0	22.8
Short payment of Interest	25	9.93	7	4.10	28.0	41.3
List of Composition taxpayers who are also availing E-commerce facility	10	-	2	-	20.0	-
Mismatch in ISD credit	25	20.80	9	6.44	36.0	31.0
Short reversal of ISD credit	3	0.01	2	0.01	66.7	100.0
<b>Total</b>	<b>407</b>	<b>14,536.95</b>	<b>124</b>	<b>1,568.81</b>	<b>30.47</b>	<b>10.79</b>

Considering that the overall rate of conversion of inconsistencies into compliance deviations is significant as brought out in the next paragraph, the Department is required to expedite verification of these cases as a priority.

**Table 2.11: Top ten cases in terms of money value where response is yet to be received**

(₹ in crore)					
Sl. No.	GSTIN	Name of the taxpayer	Division / Circle	Deviation	Mismatch amount
1	3XXXXXXXXXXXXXZ	Toshiba Transmission & Distribution Systems (India) Private Limited	Hyderabad Rural Hyderabad Rural STU-3	Reconciliation between ITC declared in Annual return with expenses in financial statement (Table-14T of Form GSTR-9C)	228.94
2	3XXXXXXXXXXXXX5	Bharat Dynamics Limited	Charminar Charminar STU-2	Mismatch in turnover between Annual return and Financial Statements (Table 5R of Form GSTR-9C)	124.44
3	3XXXXXXXXXXXXXY	Royalook Incorporation Private Limited	Hyderabad Rural Hydernagar - III	do	123.85
4	3XXXXXXXXXXXXXL	Prajay Properties Private Limited	Abids Narayanaguda-MJ Market	do	118.58
5	3XXXXXXXXXXXXX9	Taurus Value Steel & Pipes Private Limited	Hyderabad Rural Hyderabad Rural STU-2	Reconciliation between ITC declared in Annual return with expenses in financial statement (Table 14T of Form GSTR-9C)	100.49

6	3XXXXXXXXXXXXX2	Orient Cement Limited	Adilabad Adilabad STU	do	76.92
7	3XXXXXXXXXXXXXW	Hyderabad Race Club	Charminar Charminar STU-1	Mismatch in taxable turnover between Annual return and Financial Statements (Table 7G of Form GSTR-9C)	66.53
8	3XXXXXXXXXXXXXL	Nagarjuna Milk Products Pedda Papaiahpally	Karimnagar Siricilla	-do-	53.05
9	3XXXXXXXXXXXXXI	Savitri Steels and Rerollings Private Limited	Charminar Charminar STU-2	Mismatch in turnover between Annual return and Financial Statements (Table-5R of Form GSTR-9C)	47.54
10	3XXXXXXXXXXXXXU	Andhra Bank	Abids Abids STU-1	Mismatch in taxable turnover between Annual return and Financial Statements (Table-7G of Form GSTR-9C)	39.81

**Recommendation 2:**

**Department may urgently pursue the inconsistencies and deviations pointed out in Limited Audit, for which responses have not been provided and intimate the results to Audit.**

**2.14.6.8 Results of Limited Audit**

**(A) Summary of deviations**

Based on responses received from the Department in respect of 283 cases out of 407 Audit queries issued, the extent to which each of the 14 parameters translated into compliance deviations is summarized in **Appendix 2.2**.

**Summary of Limited Audit**

Audit noticed deviations from the provisions of the Act in 109 cases (Col. No. 10,12,14,16 and 18 of **Appendix 2.2**) involving a short levy of tax, mismatch in claim of ITC and mismatch of turnover, etc., of ₹986.78 crore (Col.No.11, 13, 15, 17 and 19 of **Appendix 2.2**) constituting 38.51 per cent of the 283 inconsistencies / mismatches in data, for which the Department provided responses. Relatively higher rates of deviations were noticed in risk parameters such as short / non-payment of interest, ITC mismatch, mismatch in RCM ITC availed, mismatch in claim of ISD credit, incorrect turnover declarations and short tax payments etc.

In 142 cases (Col. No.4, 6 and 8 of **Appendix 2.2**), constituting 50 per cent, where the Department's reply was acceptable to Audit, data entry errors by taxpayers comprised 41

cases (Col. No.4 of **Appendix 2.2**), Department had proactively taken action in 14 cases (Col. No.6 of **Appendix 2.2**) and 87 cases (Col. No.8 of **Appendix 2.2**) had valid explanations.

In two cases (Col. No.24 of **Appendix 2.2**), constituting 0.7 per cent, the Department stated that it was examining the underlying deviation of ₹1.01 crore. In the remaining 30 cases (Col. No.22 of **Appendix 2.2**), constituting 10.60 per cent, though the Department did not accept the deviations pointed out by Audit, its contention was not borne out by evidence, and was thus not amenable to verification by Audit.

**Illustrative cases for each highest value case from each dimension are given below:**

**(i) Dimension - ITC mismatch between GSTR-2A and GSTR-3B**

GSTR-2A is a purchase related dynamic tax return that is automatically generated for each business by the GST portal, whereas GSTR-3B is a monthly return in which summary of outward supplies along with ITC declared and payment of tax are self-declared by the taxpayer.

To analyse the veracity of ITC utilisation, relevant data were extracted from GSTR-3B and GSTR-2A for the year 2017-18, and the ITC paid as per suppliers' details was matched with the ITC credit availed by the taxpayer. The methodology adopted was to compare the ITC available as per GSTR-2A with all its amendments and the ITC availed in GSTR-3B in Table-4A (5)<sup>141</sup> excluding the reversals Table-4B (2)<sup>142</sup> but including the ITC availed in the subsequent year 2018-19 from Table-8C of GSTR-9.

Audit observed that in case of M/s. Brahmos Aerospace Private Limited under Saroornagar STU – II, the ITC available as per GSTR-2A was ₹113.14 crore and the ITC availed in Table 4A (5) of GSTR-3B was ₹136.85 crore (including the ITC ₹22.27 crore availed in the subsequent year 2018-19 from Table 8C of GSTR-9). This resulted in mismatch of ITC availed amounting to ₹23.71 crore which was communicated to the Department (March 2022) and the Government (February 2023). In response, the Department stated (April 2023) that a notice seeking the reasons for the discrepancy had been issued (April 2023). Final Reply has not been received (April 2023).

**(ii) Dimension - ITC Mismatch on RCM**

Under Reverse Charge Mechanism, the liability to pay tax is fixed on the recipient of supply of goods or services instead of the supplier or provider in respect of certain categories of goods or services or both under Section 9(3) or Section 9(4) of TGST Act, 2017 and under sub-section (3) or sub-section (4) of Section 5 of the IGST Act, 2017.

GSTR-9 is an annual return to be filed once for each financial year, by the registered taxpayers who were regular taxpayers, including Special Economic Zone (SEZ) units and SEZ developers. The taxpayers are required to furnish details of purchases, sales, input tax credit or refund claimed or demand created etc.

<sup>141</sup> All other eligible ITC.

<sup>142</sup> Other ITC reversed.

To analyse the veracity of ITC availed on tax paid under Reverse Charge Mechanism (RCM) for the year 2017-18, the datasets pertaining to GSTR-3B and annual return GSTR-9 were compared to check whether the ITC availed on RCM was restricted to the extent of tax paid. The methodology adopted was to compare the RCM payments in GSTR-3B Table-3.1(d)<sup>143</sup> with ITC availed in GSTR-9 Table-6C<sup>144</sup>, 6D<sup>145</sup> and 6F<sup>146</sup>. In cases where GSTR-9 was not available, the check was restricted within GSTR-3B where the tax discharged under Table 3.1(d) of GSTR-3B was compared with the ITC availing under table 4A(2)<sup>147</sup> and 4A(3)<sup>148</sup> of GSTR-3B.

Audit observed that in case of M/s. Kalpan Kumar Cheeti under Marredpally Circle, the tax liability on inward supplies under reverse charge in Table 3.1(d) of GSTR-3B was Nil and the ITC availed in Table 4A (2) & (3) of GSTR-3B was ₹4.61 crore resulting in mismatch of ITC availed amounting to ₹4.61 crore. The same was communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department stated (April 2023) that a notice in DRC-01 was issued in April 2022 and order in DRC-07 was issued (July 2022) duly confirming the demand. Further progress has not been received (April 2023).

**(iii) Dimension - ITC Mismatch on RCM without payment**

The extent of availing of ITC under RCM for the year 2017-18 without discharging equivalent tax liability or, in other words, short payment of tax under RCM was analysed by comparing the datasets pertaining to GSTR-3B and annual return GSTR-9 to check whether the tax has been discharged fully on the activities / transactions under RCM. In cases where GSTR-9 was filed, the RCM payments in Table-4G<sup>149</sup> was compared with ITC availed in Table-6C, 6D and 6F. In cases where GSTR-9 was not available, RCM payments in GSTR-3B Table-3.1(d)<sup>150</sup> was compared with GSTR-3B 4(A) (2)<sup>151</sup> and 4A (3)<sup>152</sup>.

Audit observed that in case of M/s United Engineering System under Vanathalipuram-2 circle, the RCM payments in Table 3.1(d) of GSTR-3B was ₹77,372/- and the ITC availed in table 4(A)(2) and 4A(3) of GSTR-3B was ₹20.02 lakh. This resulted in mismatch in availing of ITC on RCM without payment of tax amounting to ₹19.24 lakh which was communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department stated (April 2023) that DRC-01 seeking the reasons for the discrepancy had been issued (April 2023). Further progress in this regard has not been received (April 2023).

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<sup>143</sup> Inward supplies (liable to reverse charge).

<sup>144</sup> Inward supplies received from unregistered persons liable to reverse charge.

<sup>145</sup> Inward supplies received from registered persons liable to reverse charge.

<sup>146</sup> Import of services.

<sup>147</sup> Import of services.

<sup>148</sup> Inward supplies (liable to reverse charge).

<sup>149</sup> Inward supplies on which tax is to be paid on reverse charge basis.

<sup>150</sup> Inward supplies (liable to be reversed charge).

<sup>151</sup> Import of services.

<sup>152</sup> Inward supplies liable to be reversed charge other than Import of Goods and Services.

**(iv) Dimension - Mismatch in availment of ITC by recipient on ISD credit**

To analyse whether the ITC availed by the taxpayer is in excess of that transferred by the Input Service Distributor (ISD), ITC availed as declared in the returns of the taxpayer is compared with the ITC transferred by the ISD in their GSTR-6. The methodology adopted was to compare Table 6G<sup>153</sup> of GSTR-9 or Table 4(A)(4)<sup>154</sup> of GSTR-3B of the recipient taxpayers under the jurisdiction of this State with the sum of Table 5A<sup>155</sup>, Table 8A<sup>156</sup> and Table 9A<sup>157</sup> of GSTR-6 of the respective ISD.

In case of M/s Eli Lilly and Company India Private Limited under Rajendranagar-1 circle, audit observed that the ITC availed in Table 6G of GSTR-9 was ₹1.51 crore and the ITC transferred by the ISD in Table (5A+8A+9A) of GSTR-6 was ₹0.87 crore. This resulted in mismatch in availment of ITC transferred by the ISD amounting to ₹0.64 crore which was communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department stated (April 2023) that necessary action would be initiated as soon as the reply is filed by the taxpayer.

**(v) Dimension - Unreconciled ITC in Table 14T of Form- GSTR-9C**

Table 14 of Form-GSTR-9C reconciles ITC declared in annual return (GSTR-9) with ITC availed on expenses as per audited Annual financial statement or books of accounts. Row 14T of this Form deals with unreconciled ITC.

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of CGST / SGST Rules in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the expenses reported in the Financial Statements.

Unreconciled ITC of ₹41.68 crore declared in Table 14T of GST- 9C, being ITC availed in GST returns in excess of eligible ITC based on expenses reported in financial statements, in case of M/s. Indus Towers Limited under Begumpet STU-2 was noticed and communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department stated (April 2023) that notice in Form DRC-01 had been issued. Further progress in this regard has not been received (April 2023).

**(vi) Dimension - Unreconciled ITC in Table 12F of Form GSTR-9C**

Table 12 of Form-GSTR-9C reconciles ITC declared in annual return (GSTR-9) with ITC availed as per audited Annual financial statement or books of accounts. Row 12F of this Form deals with unreconciled ITC.

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of CGST / SGST Rules in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the Financial Statements.

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<sup>153</sup> ITC received from ISD.

<sup>154</sup> Inward supplies from ISD.

<sup>155</sup> Distribution of the amounts of eligible ITC for the tax period.

<sup>156</sup> Mismatch of ITC reclaimed and distributed.

<sup>157</sup> Redistribution of ITC distributed to a wrong recipient.

Unreconciled ITC of ₹2.88 crore declared in Table 12F of GSTR-9C, being ITC availed in GST returns in excess of eligible ITC based on financial statements, in case of M/s Dell International Services under Begumpet STU-1 was noticed and communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department stated (April 2023) that DRC-01 had been issued (April 2022). Further progress in this regard has not been (April 2023).

**(vii) Dimension - Unreconciled turnover in Table 5R of GSTR-9C**

Table 5 of GSTR-9C is the reconciliation of turnover declared in audited annual financial statement with turnover declared in annual turnover (GSTR-9). Column 5R of this table captures the unreconciled turnover between the annual return GSTR-9 and that declared in the Financial Statement for the year after the requisite adjustments.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of CGST / SGST Rules in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in turnover reported in the Annual Return *vis-à-vis* the Financial Statements. The unreconciled amount in cases where the turnover declared in GSTR-9 is less than the financial statement indicates non-reporting, under-reporting, short-reporting, omission, error in reporting of supplies leading to evasion or short payment of tax. It could also be a case of non-reporting of both taxable and exempted supplies.

Audit query on unreconciled turnover in Table 5R of GSTR-9C, amounting to ₹339.03 crore was issued (March 2022) in respect of M/s Shriram Life Insurance Company Limited under Madhapur-IV Circle and communicated to the Department and the State Government (February 2023). In response, the Department stated (April 2023) that a notice had been issued. Further progress in this regard has not been received (April 2023).

**(viii) Dimension - Unreconciled taxable turnover in Table 7G of GSTR-9C**

Table 7 of GSTR-9C is the reconciliation of taxable turnover. Column 7G of this table captures the unreconciled taxable turnover between the annual return GSTR 9 and that declared in the financial statement for the year after the requisite adjustments.

The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of CGST / SGST Rules in Form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in taxable turnover reported in the Annual Return *vis-à-vis* the Financial Statements. The unreconciled amount in cases where the turnover in GSTR-9 is less than the financial statement indicates non-reporting, under-reporting, short-reporting, omission, error in reporting of taxable supplies. It could also be on account of non-reporting of both taxable and exempted supplies.

Audit query on Undischarged taxable turnover in Table 7G of GSTR-9C, amounting to ₹13.91 crore in respect of M/s. Uttara Enterprises HPC under Mahbubnagar Circle was communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department stated (April 2023) that a notice in Form DRC-01 had been issued and a detailed reply would be furnished as and when response is received from taxpayer. Further progress in this regard has not been received (April 2023).

**(ix) Dimension - Unreconciled tax liability in Table 9R of GSTR-9C**

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of CGST / SGST Rules in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in tax paid between the Annual Return and the books of accounts. Table 9 of the form-9C attempts to reconcile the tax paid by segregating the turnover rate-wise and comparing it with the tax discharged as per annual return GSTR-9. The unreconciled amounts could potentially indicate tax levied at incorrect rates, incorrect depiction of taxable turnover as exempt or *vice versa* or incorrect levy of CGST / SGST / IGST. There can also be situations wherein supplies / tax declared are reduced through amendments (net of debit notes / credit notes) in respect of the 2017-18 transactions carried out in the subsequent year from April to September 2018. Consequential interest payments - both short payments and payments under incorrect heads - also need to be examined in this regard.

Unreconciled payment of tax declared in Table 9R of GSTR-9C, amounting to ₹0.61 crore in case of M/s. Thirupathi Tulsegari Contractor under Karimnagar-1 Circle was communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department stated (April 2023) that a notice in DRC-01 had been issued in April 2022. Further progress in this regard has not been received (April 2023).

**(x) Dimension - Undischarged tax liability**

GSTR-1 depicts the monthly details of outward supplies of Goods or Services. These details are also assessed by the taxpayer and mentioned in annual return GSTR-9 in the relevant columns. Further, taxable value and tax paid thereof are also shown in GSTR-3B.

To analyse the undischarged tax liability, relevant data were extracted from GSTR-1 and GSTR-9 for the year 2017-18 and the tax payable in these returns was compared with the tax paid as declared in GSTR-9. Where GSTR-9 was not available, a comparison of tax payable between GSTR-1 and GSTR-3B was resorted to. The amendments and advance adjustments declared in GSTR-1 and 9 were also considered for this purpose.

For the algorithm, Tables 4 to 11 of GSTR-1 and Tables 4N, 10 and 11 of GSTR-9 were considered. The greater of the tax liability between GSTR-1 and GSTR-9 was compared with the tax paid declared in Tables 9 and 14 of GSTR-9 to identify the short payment of tax. In the case of GSTR-3B, Tables 3.1(a)<sup>158</sup> and 3.1(b)<sup>159</sup> were taken into account.

During audit, it was observed that in case of M/s. Electronic Corporation of India Limited under Saroornagar STU-1, the tax payable in Table 4N, 10 and 11 of GSTR-9 was ₹224.33 crore and the tax paid declared in Tables 9 and 14 of GSTR-9 was ₹212.85 crore. This resulted in mismatch of tax liability amounting to ₹11.48 crore between the tax payable and tax paid as per GSTR-9 which was communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department stated (April 2023) that a

<sup>158</sup> Outward taxable supplies (other than zero rated, nil rated and exempted).

<sup>159</sup> Outward taxable supplies (Zero rated).

notice in Form DRC-01 had been issued to the taxpayer. Further progress in this regard has not been received (April 2023).

**(xi) Dimension - Short payment of interest**

Section 50 of the Act stipulates that every person liable to pay tax in accordance with the provisions of this Act or the Rules made there under but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay interest at the rate notified.

The extent of short payment of interest on account of delayed remittance of tax during 2017-18 was identified using the tax paid details in GSTR-3B and the date of filing of the GSTR-3B. Only the net tax liability (cash component) has been considered to work out the interest payable.

Audit observed that in case of M/s. Analogics Tech India Limited under Basheerbagh-1 circle wherein the returns (GSTR-3B) pertaining to the months of July 2017 to March 2018 involved tax liability amounting to ₹3.96 crore and were filed between August 2018 and February 2019. This resulted in a short payment of Interest amounting to ₹60 lakh which was communicated to the Department (March 2022) and State Government (February 2023). In response, the Department stated (April 2023) that out of the total interest liability of ₹60 lakh an amount of ₹25 lakh had been recovered (August 2022, January and March 2023) from the taxpayer at the instance of audit and the taxpayer promised to pay the balance. Further progress in this regard has not been received (April 2023).

**(xii) Dimension - Cases where GSTR-3B not filed but GSTR-1 or GSTR-2A available**

GSTR-3B return is the only instrument through which the liability is offset, and ITC is availed. The very availability of GSTR-1 and 2A and non-filing of R3B indicates that the taxpayers had undertaken / carried on the business during the period but have not discharged their tax liability. It may also include cases of irregular passing on of ITC. At the data level, Audit has attempted to identify those taxpayers who have not filed GSTR-3B but have filed GSTR-1 or whose GSTR-2A was available.

M/s. Sai Balaji Housing Private Limited under Madhapur-1 Circle filed GSTR-1 involving tax liability of ₹18.30 lakh and GSTR-2A of the taxpayer was also available. However, the taxpayer had not filed GSTR-3B for the year 2017-18 and this was communicated to Department (March 2022) and State Government (February 2023). In response, the Department stated (May 2022) that a notice in Form DRC-01 had been issued to the taxpayer in April 2022. Further progress in this regard has not been received (April 2023).

**(B) Analysis of causative factors**

Considering the Department's response to 283 cases out of the sample of 407 data deviations / inconsistencies, the factors that caused the data deviations / inconsistencies are as follows:

**(a) Deviations from GST law and Rules:** Out of the 283 deviations summarised above, the Department has accepted the audit observations or initiated examination in 97 cases with tax effect (including mismatches in ITC, tax liability and turnover) of ₹729.85 crore.

Out of these cases, the Department has recovered ₹1.54 crore in six cases, issued SCN in 49 cases for ₹219.07 crore, issued notice conveying discrepancies to the taxpayer in Form ASMT-10 in 12 cases for ₹9.41 crore and was in correspondence with the respective taxpayers in 30 cases involving an amount of ₹499.49 crore.

**The top five accepted cases are featured below:**

- i. ITC mismatch between GSTR-3B and GSTR-2A of ₹17.84 crore was noticed in case of M/s Xiaomi Technology India Private Limited under Punjagutta STU-1, Punjagutta Division, which was communicated to the Department in March 2022. In response, the Department stated (April 2022) that a notice has been issued to taxpayer.
- ii. ITC mismatch between GSTR-3B and GSTR-2A of ₹11.89 crore was noticed in case of M/s Mahindra and Mahindra Limited under Begumpet STU-2, Begumpet Division, and the same was communicated to the Department in March 2022. In response, the Department stated (April 2022) that a notice in DRC-01 was issued to taxpayer.
- iii. ITC mismatch between GSTR-3B and GSTR-2A of ₹8.96 crore was noticed in case of M/s Biocon Limited under Begumpet STU-1, Begumpet Division, which was communicated to the Department in March 2022. In response, the Department stated (April 2023) that a notice has been issued to the taxpayer.
- iv. In case of M/s. Kalpan Kumar Cheeti under Marredpally Circle, the tax liability on inwards supplies under reverse charge was Nil and the ITC on RCM availed was ₹4.61 crore resulting in mismatch of ITC on RCM availed amounting to ₹4.61 crore. The same was communicated to the Department (March 2022). In response, the Department stated (April 2023) that a notice in DRC-01 was issued in April 2022 and order in DRC-07 was issued (July 2022) duly confirming the demand.
- v. Mismatch in ITC availed between Annual Return and Financial Statements (Table 12F of Form GSTR-9C) of ₹2.28 crore was noticed in case of M/s Vigneswara Cement Agencies under Nalgonda-1 circle, Nalgonda Division, and the same was communicated to the Department in March 2022. In response, the Department stated (April 2023) that a notice in DRC-01 was issued to the taxpayer.

In all the cases Government's reply has not been received (April 2023).

**Cases where Department's reply is not accepted to Audit**

Out of 283 non-compliance cases, the Department contended Audit observations in 12 cases amounting to ₹257.27 crore (including mismatches). In these cases, the Department either did not accept the audit observation or forwarded explanations of the taxpayers without explicitly commenting on the audit observations.

**Five illustrative cases are featured below:**

- (i) The tax liability declared by M/s BVSR Constructions Private Limited under Abids STU-2 as per GSTR-1 for the year 2017-18 was ₹30.29 crore and the tax paid declared in Tables 9 and 14 of GSTR-9 was ₹19.93 crore. This resulted in mismatch of tax liability amounting to ₹10.36 crore between the tax payable and tax paid

which was communicated to the Department (March 2022) and the State Government (February 2023). The Department replied (April 2023) that the actual tax liability was ₹19.93 crore and the same was discharged by the taxpayer. However, the tax liability as per the data extracted from GSTN Portal was ₹30.29 crore and hence there was undischarged tax liability of ₹10.36 crore. Further reply has not been received (April 2023).

- (ii) Mismatch of tax liability amounting to ₹3.39 crore between the tax payable (₹8.10 crore) and tax paid (₹4.71 crore) as per GSTR-9 noticed in the case of M/s HES Infra (JV) under Jubilee Hills-1 circle was communicated to the Department (March 2022) and the State Government (February 2023). The Department replied (April 2023) that the taxpayer discharged the tax liability of ₹3.39 crore through DRC-03 dated February 2022 by debiting Electronic Credit Ledger duly claiming the ITC pertaining to 2017-18 in January 2022. However, as per CBIC Order No.02 / 2018 dated 31 December 2018, ITC pertaining to 2017-18 was allowed to be claimed up to March 2019 only. Hence, allowance of ITC pertaining to 2017-18 in January 2022 is not correct and therefore needs to be reversed along with applicable interest. Final reply has not been received (April 2023).
- (iii) Unreconciled ITC of ₹2.57 crore declared in Table 12F of GSTR 9C, being ITC availed in GST returns in excess of eligible ITC based on financial statements was noticed in case of M/s Hy Gro Chemicals Pharmtek under M.G.Road - S.D.Road circle and communicated to the Department (March 2022) and the State Government (February 2023). In response, the Department replied (April 2023) that unreconciled ITC was due to credit of Transitional claim and reversals made in Table GSTR-9 for the year 2017-18. However, the reply is not acceptable as Table 12 of GSTR 9-C already captured all these figures and net ITC eligible as per books of accounts was ₹4.45 crore only as against which ITC of ₹7.02 crore was availed in GSTR-9 resulting in unreconciled ITC of ₹2.57 crore.
- (iv) Unreconciled payment of tax declared in Table 9R of GSTR 9C, amounting to ₹8.45 crore was noticed in case of M/s. Apollo Medskills Limited under Jubilee Hills-1 circle and communicated to the Department (March 2022) and the Government (February 2023). As seen from GSTR-9 of M/s. Apollo Medskills Limited under Jubilee Hills-1 circle, the actual tax liability was ₹84.47 lakh as against which liability of ₹8.45 crore was adopted incorrectly in GSTR 9C due to data entry error by Chartered Accountant. Hence the unreconciled tax of ₹8.45 crore was communicated to the Department as against the actual liability of ₹84.47 lakh. In response, the Department forwarded (April 2023) taxpayer's reply wherein it was stated that GSTR-3B was filed correctly declaring exempted supplies, but error occurred at the time of filing of GSTR-9 by making exempted supplies as taxable supplies. Reply is not acceptable as tax liability as per GSTR-9 was ₹84.47 lakh out of which an amount of ₹18.53 lakh (₹0.48 lakh through GSTR-3B and ₹18.05 lakh through DRC-03) only was discharged leaving tax liability of ₹65.94 lakh undischarged. Final reply has not been received (April 2023).

(v) Audit observed that in case of M/s. Hasan Ali Merchant under Warangal Urban-3 circle, the tax liability on inwards supplies under reverse charge in table 3.1(d) of GSTR 3B was Nil and the ITC availed in Table 4A (2) & (3) of GSTR 3B was ₹38.09 lakh resulting in mismatch of ITC availed amounting to ₹38.09 lakh which was communicated to the Department (March 2022) and the State Government (February 2023). The Department replied (April 2023) that the dealer made mistakes in filing GST returns and admitting the mistakes, the dealer made payment through DRC-03 for incorrectly claimed ITC of ₹50.78 lakh on IGST during the year 2017-18. The reply is not acceptable as excess ITC pointed out by Audit was on account of ITC claimed under RCM in Table 4A (3) of GSTR-3B whereas as per the reply, the taxpayer has reversed ITC claimed incorrectly on IGST, but IGST under which head of Table 4(A) 3 of GSTR 3B was not mentioned nor any supporting document for the same provided in response. Further reply has not been received (April 2023).

**(b) Data entry errors by taxpayers:** The data entry errors constituted 14.49 *per cent* (41 cases) of the total responses received and 28.87 *per cent* of cases where the Department's responses were accepted by Audit. These data entry errors did not have any revenue implication. The system allowed for such data entry errors, which could have been avoided with proper validation controls. Most of the data entry errors relate to RCM, ISD, turnover, taxable turnover and tax paid (provided in GSTR-9C).

**Few illustrative cases are brought out below:**

1. As regards the mismatch of ₹7,468.27 crore in ITC availed between Annual Return and Financial Statements (Table 12F of Form GSTR-9C) of M/s Granules India Limited, under Punjagutta STU-1 circle, Department replied (April 2023) that the deviation was caused due to a typographical error in IGST figures in Table 6B of GSTR-9. Even though ITC on IGST declared in GSTR 3B during 2017-18 was ₹75.43 crore, the taxpayer had erroneously indicated ITC on IGST as ₹7,543 crore in table 6B of GSTR-9. The system allowed for such data entry errors, which could have been avoided with proper validation controls.
2. As per Departments reply (April 2023) to the deviation amounting to ₹790.32 crore identified as mismatch in tax paid between books of accounts and Annual Return (Table 9R of Form GSTR-9C) of M/s Bion Therapeutics India Private Limited, under Vidyanagar circle, it was due to a typographical error. IGST tax liability as per table 5N of GSTR-9 was during 2017-18 “₹79.11 lakh”, while the taxpayer erroneously indicated it as “₹791.11 crore” in Table 9 of GSTR-9C.
3. A deviation amounting to ₹19.41 crore was identified as mismatch in turnover between Annual return and Financial Statements (Table 5R of Form GSTR-9C) of M/s Srinivasa Rao Ramineni / Amineni Transport, under Kodad circle, Nalgonda Division and communicated to the Department in March 2022. The Department replied (April 2023) that the taxpayer is engaged in Road Transport Business and opted Reverse Charge mechanism to discharge transport business liability during the financial year 2017-18,

hence GST is exempted in the hands of Service Provider and taxable in the hands of Service recipient. However, the taxpayer forgot to report the Reverse Charge turnover (outward supplies) of ₹19.41 crore in Table 5C of GSTR-9, though it was correctly indicated in Table 7D of GSTR-9C.

4. A deviation amounting to ₹17.85 crore was identified as mismatch in taxable turnover between Annual return and Financial Statements (Table 7G of Form GSTR-9C) of M/s Life Shine Medical Services Private Limited, under Keesara-II circle, Saroor Nagar Division and communicated to the Department in March 2022. The Department replied (April 2023) that the unreconciled turnover belongs to nil / exempted turnover which was correctly mentioned in Table 5G of GSTR-9 but while filing GSTR-9C, it got wrongly entered in Table 7G instead of Table 7C (~7B) of GSTR-9C.
5. A deviation amounting to ₹9.84 crore was identified as undischarged tax liability i.e., GSTR-1 liability compared with GSTR-9 / GSTR-3B payments of M/s Narender Reddy Dasari, under Keesara-I circle, Saroor Nagar Division and communicated to the Department in March 2022. The Department replied in April 2023 that typographical error / clerical error occurred inadvertently while filing GSTR-9 in IGST component. IGST tax liability as per Table 3 of GSTR-3B was ₹99.55 lakh which was inadvertently indicated as ₹9.95 crore in Table 4B GSTR-9.

**Recommendation 3:**

***Department may consider introducing validation controls in GST Returns to curb data entry errors, enhance taxpayer compliance and facilitate better scrutiny.***

**2.14.6.9 Detailed audit of GST returns**

In a self-assessment regime, the onus of compliance with law is on the taxpayer. The role of the Department is to establish and maintain an efficient tax administration mechanism to provide oversight. With finite level of resources, for an effective tax administration, to ensure compliance with law and collection of revenue, an efficient governance mechanism is essential. An IT driven compliance model enables maintaining a non-discretionary regime of governance on scale and facilitates a targeted approach to enforce compliance.

From an external audit perspective, Audit also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies / deviations in GST returns through pan-India data analysis, a detailed audit of GST returns was also conducted as part of this review. A risk-based sample of 50 taxpayers was selected for this part of the review. The methodology adopted was to initially conduct a desk review of GST returns and financial statements filed by the taxpayers as part of the GSTR 9C and other records available in the back-end system to identify potential risk areas, inconsistencies / deviations and red flags. Desk review was carried out in the Office of the Accountant General (Audit), Telangana, Hyderabad. Based on desk review results, detailed audit was conducted in the field formations of Commercial Taxes Department, Telangana, Hyderabad by requisitioning corresponding granular records of taxpayers such as financial ledgers, invoices etc.,

through the respective field formations to identify causative factors of the identified risks and to evaluate compliance by taxpayers.

As brought out in the previous paragraphs detailed audit involved a desk review of GST returns and other basic records to identify risks and red flags, which were followed up by field audit to identify the extent of non-compliance by taxpayers and action taken by the field formations of Commercial Taxes Department, Telangana, Hyderabad. Non-compliance by taxpayers at various stages ultimately impacts the veracity of returns filed, utilisation of ITC and discharge of tax payments. The audit findings are therefore categorised under a) Returns b) Utilisation of ITC and c) Discharge of tax liability

### Scope limitation (non-production)

The jurisdiction-wise non-production of records is summarised in the following **Table**.

**Table 2.12: Non-production of records**

(₹ in crore)

Division	Circle/STU	Sample	Non-production	
		Number of taxpayers	Number of taxpayers	Mismatch in ITC/tax liability
Abids	Abids STU-1	2	2	20.32
	Abids STU-2	2	2	46.23
	Narayanaguda-MJ Market	4	4	2.38
Begumpet	Begumpet	4	4	11.84
	Begumpet STU-1	1	1	19.56
	Begumpet STU-2	3	3	11.15
Hyderabad Rural	Hyderabad Rural STU-2	4	4	55.34
	Hyderabad Rural STU-3	3	3	9.65
	Madhapur -3	4	4	10.05
Punjagutta	Jubilee Hills – I	4	4	12.41
	Jubilee Hills – II	3	3	4.42
	Punjagutta STU - 1	5	5	38.61
	Punjagutta STU - 2	3	3	0.00
Secunderabad	Secunderabad STU-1	5	5	5.32
	Musheerabad	3	0	0.00
<b>Total</b>		<b>50</b>	<b>47</b>	<b>247.28</b>

Non-production of records constituted 94 *per cent* of the sample size and potential risk of ₹247.28 crore could not be addressed. In these cases, 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 and hence could not be audited. The top ten cases of non-production are given below.

**Table 2.13: List of top ten cases of non-production**

(₹ in crore)

SI No	GSTIN	Name of the taxpayer	Jurisdictional formation	Mismatches (ITC and liability)
1	3XXXXXXXXXXXXXXQ	Tata Communications	Hyderabad Rural STU-2	48.43
2	3XXXXXXXXXXXXXM	Bharat Sanchar Nigam Limited	Abids STU-2	36.09
3	3XXXXXXXXXXXXXL	Sushee Infra & Mining Limited	Punjagutta STU - 1	27.19
4	3XXXXXXXXXXXXXL	Conneqt Business Solutions	Begumpet STU-1	19.56
5	3XXXXXXXXXXXXXU	Andhra Bank	Abids STU-1	13.92
6	3XXXXXXXXXXXXXU	Tata Teleservices	Abids STU-2	10.14
7	3XXXXXXXXXXXXX1	Cloud4C Services	Hyderabad Rural STU-3	9.65
8	3XXXXXXXXXXXXXZ	Rimini Street India Operations Private Limited	Madhapur -3	9.50
9	3XXXXXXXXXXXXXO	Inrhythm Energy Private Limited	Jubilee Hills - 1	7.68
10	3XXXXXXXXXXXXXZ	IVRCL	Abids STU-1	6.40

**(A) Returns**

The detailed audit of returns filed by a sample of 50 taxpayers disclosed that interest / late fee / penalty payments were not discharged by taxpayers and data errors existed which are brought out below:

**(a) Non-payment of interest by taxpayers**

Audit observed in 24 cases, constituting 48 per cent of the 50 cases audited, that taxpayers had either filed their returns belatedly or had erroneously utilised excess ITC credits which were paid back but the interest payments were not discharged amounting to ₹89.79 lakh.

**Top three irregularities noticed in this category are illustrated below:**

- (i) M/s. Swamy Ads under STU-1, Secunderabad circle had filed the returns of September 2017 to November 2017 and January 2018 to February 2018 belatedly in September 2018 and October 2018 respectively and paid the tax dues in these returns by debiting the Electronic Cash Ledger. However, interest amounting to ₹12.32 lakh was not paid. On this being pointed out, the Department replied (April 2023) that DRC-07 for interest liability of ₹12.32 lakh for delayed payment was issued to the taxpayer in April 2023.
- (ii) M/s Kalyanram Nandamuri under Jubilee Hills-1 circle had filed the returns of July 2017 to October 2017 and February 2018 to March 2018 belatedly in December 2017, April 2018 and July 2018 and paid the tax dues in these returns by debiting the Electronic Cash Ledger. However, interest amounting to ₹11.53 lakh was not paid. On this being pointed out, the Department replied (April 2023) that the taxpayer is in process of reconciling the interest calculation and information on same would be provided.

- (iii) M/s. Conneqt Business Solutions Limited under STU-1, Begumpet filed returns of August 2017 to October 2017 and paid tax dues in these returns in December 2017 by debiting the Electronic Cash Ledger. However, interest amounting to ₹10.11 lakh was not paid. On this being brought to notice, the Department replied (July 2022) that a show-cause notice in DRC-01 was issued to the taxpayer in November 2021 itself basing on the dynamic information available in GSTN and E-Way bill portal. However, the amount objected to by Audit was not covered in the show-cause notice so issued.

**(b) Non-payment of late fee / penalty by taxpayers**

Section 47 (2) TGST Act 2017 stipulates that if a taxpayer fails to furnish the Annual return (GSTR-9) by the due date, he / she shall be liable to pay a late fee of one hundred rupees for every day during which such failure continues subject to a maximum of an amount calculated at 0.25 *per cent* of his turnover in the State or Union territory. Similar provision is in place in CGST Act for payment of late fee of one hundred rupees. Thus, the taxpayer is liable to pay a late fee of two hundred rupees (₹100 for TGST and ₹100 for CGST) for every day of delay. The due date for filing of Annual Return for the year 2017-18 was 7 February 2020.

Section 125 of TGST Act 2017 stipulates that if a taxpayer contravenes any of the provisions of this Act or any Rules made thereunder for which no penalty is separately provided for in this Act, he shall be liable to a penalty which may extend to ₹25,000/-. Similar provision is in place in CGST Act for payment of penalty. Thus, the taxpayer is liable to pay a penalty of ₹50,000/- (₹25,000/- for TGST and ₹25,000/- for CGST). Further, as per the Rule 80(3) of TGST Rules 2017, every registered person whose aggregate turnover exceeds ₹two crore has to file Annual Reconciliation Statement in form GSTR-9C. The due date for filing of GSTR-9C for the year 2017-18 was 7 February 2020.

Audit observed in 19 cases, constituting 38 *per cent* of the 50 cases audited, that taxpayers had either filed their annual returns belatedly or had not filed annual return, but the penalty / late fee payments were not discharged amounting to ₹18.56 lakh.

**The two illustrative cases are given below:**

- (i) M/s.Vajram Constructions Private Limited, under Begumpet circle did not file GSTR 9 liable to file by 7 February 2020 (due date) as on 31 March 2023. However, the late fee amounting to ₹2,29,600/- (₹1,14,800/- for CGST and ₹1,14,800/- for SGST @ ₹100 per day each for CGST and SGST for 1,148 days up to 31 March 2023) for not filing GSTR 9 by due date was not paid by them. On this being pointed out, the Department replied (July 2022) that the taxpayer had been issued notice.
- (ii) M/s.Inrhythm Energy Private Limited under Jubilee Hills-1 circle liable for filing GSTR-9C by 7 February 2020 had filed the return belatedly on 27 August 2020. However, the penalty amounting to ₹50,000/- (₹25,000/- for CGST and ₹25,000/- for SGST) for filing of GSTR-9C with a delay of 202 days was not

paid. On this being pointed out (July 2022), the Department replied (April 2023) that the taxpayer agreed to pay the penalty of ₹50,000/- in response to the notice issued to them.

**Recommendation 4:**

**Strict controls should be put in place to ensure timely filing of returns by taxpayers and effecting recoveries towards penalties / interest for belated payments.**

**(c) Data entry errors**

Audit observed data entry mistakes while filing GST returns by taxpayers in four cases, constituting eight *per cent* of the audited cases as detailed below. The errors were mainly in the areas like discrepancy in ITC availed under Table 8C of GSTR-9 and discrepancy of taxable values in GSTR 3B. Audit noticed the following data entry errors in this category.

**Table 2.14: Cases of Data Entry errors**

Sl. No	GST Number	Jurisdiction circle	Data entry error made
1	3XXXXXXXXXXXXXXF	Jubilee Hills-2	Entered ₹73,87,249/- instead of 'ZERO' under table 8C of GSTR-9
2	3XXXXXXXXXXXXXX9	Secunderabad STU-1	Entered ₹6,94,35,161/- instead of ₹4,38,94,494/- under table 8C of GSTR-9
3	3XXXXXXXXXXXXXXT	Secunderabad STU-1	Entered the amount of ₹25,41,312/- under "ITC on RCM" (Table 4A(3)) under "all other ITC" (Table 4A(5)) in GSTR-3B
4	3XXXXXXXXXXXXXXN	Madhapur-3	Reported a turnover of ₹139056,30,90,562.71/- in GSTR 3B incorrectly in the month of September 2017

**One case is illustrated below:**

The total of ITC availed by M/s Pride Point Constructions Private Limited under Jubilee Hills-2 circle as per Table 8(B) and (C) of GSTR-9 for the year 2017-18 was ₹1.48 crore whereas the amount of ITC available as per Table 8(A) of GSTR-9 was only ₹63.13 lakh exhibiting excess claim of ITC of ₹84.62 lakh under table 8D of GSTR-9. On this being brought to notice, the Department replied (April 2023) that the taxpayer incorrectly entered ₹73.87 lakh instead of 'ZERO' under table 8C of GSTR-9 and therefore the amount under table 8B+8C should be ₹73.87 lakh but not ₹1.48 crore. Department further replied that even that excess claim of ₹10.74 lakh (₹73.87 lakh minus ₹63.13 lakh) was rectified by the taxpayer by reversing in GSTR-3B return for the month of March 2019, which has been verified by Audit and found correct.

**The following mismatches relating to ITC were observed in Audit during review of returns. However, the granular records were not made available to Audit for further scrutiny.**

**(B) Utilisation of Input Tax Credit**

Input Tax Credit (ITC) means the Goods and Services Tax (GST) paid by a taxable person on purchase of goods and / or services that are used in the course or furtherance of business.

To avoid cascading effect of taxes, credit of taxes paid on input supplies can be used to set-off for payment of taxes on outward supplies.

Section 16 and 17 of the TGST Act prescribe the eligibility and conditions to avail ITC. Rule 36 to 45 of the TGST Rules prescribes the procedures for availing and reversal of ITC. Section 16 (2) of TGST Act stipulates that the registered taxpayer shall be entitled to the credit of any input tax if he is in possession of a tax invoice and the tax charged in respect of such supply has been actually paid to the Government by the supplier.

*i. Mismatch of claim of ITC as per GSTR 3B and GSTR-2A*

Section 39(1) of TGST Act stipulates that every registered person shall furnish GSTR 3B every month electronically, of inward and outward supplies, input tax credit (ITC) availed, tax payable, tax paid and other particulars as may be prescribed on or before 20th day of the month succeeding such calendar month or part thereof. As per Rule 59(3) of TGST Rules, the details of outward supplies furnished by the supplier shall be made available electronically to the concerned registered persons (recipients) in GSTR-2A (auto populated return) through the common portal after the due date of filing of GSTR-1 of the supplier.

In order to analyse the veracity of ITC utilization, relevant data for the year 2017-18 were extracted from GSTR-3B and GSTR-2A and ITC credit availed by the taxpayers (recipients) as per GSTR-3B was matched with the ITC of suppliers' as per GSTR-2A.

During the scrutiny of returns of the 50 sampled taxpayers, Audit noticed that there was mismatch of ITC availed as per GSTR-3B and GSTR-2A in respect of 30 taxpayers to a tune of ₹49.24 crore.

**One illustrative case is given below:**

M/s Conneqt Business Solutions Limited under Begumpet STU-1 claimed ITC of ₹24.05 crore in GSTR-3B for the year 2017-18, whereas the ITC available as per GSTR-2A was ₹19.14 crore only, resulting in mismatch of ITC claim for ₹4.91 crore. On this being pointed out, the Department replied (August 2022) that a show cause notice in DRC-01 was issued to the taxpayer basing on the dynamic information available in GSTN and E-Way bill portal before being pointed out by the Audit. However, amount objected to by Audit was not covered in the show cause notice so issued to the taxpayer. Final Reply has not been received (April 2023).

*ii. Mismatch of ITC claim as per GSTR-9 Tables 8 (B)&(C) and 8 (A)*

Table 8(A) of GSTR-9 (Annual Return) represents auto populated figure of GSTR-2A (inward supplies) as on the date of filing of GSTR-9. Table 8 (B) of GSTR-9 captures the sum of ITC availed as per GSTR 3B (Monthly Return) during the financial year. Table 8C of GSTR 9 represents ITC on inward supplies received during the financial year but availed in the next financial year up to specified period. ITC available as per Table 8(A) of GSTR-9 should be greater than or equal to ITC claimed i.e., sum of Tables 8B and 8C of GSTR 9. Hence, negative figure of Table 8D (Table 8A-8B-8C) shows excess claim of ITC.

During the scrutiny of returns of the 50 sampled taxpayers, Audit noticed that the amount of ITC availed as per Table 8(B) & (C) of GSTR-9 did not match with the ITC eligible as per Table 8(A) of GSTR-9 in respect of 19 taxpayers amounting to ₹37.09 crore.

**One illustrative case is given below:**

M/s Lalitha Jewellery Mart Private Limited under Punjagutta STU-1 availed the total amount of ITC of ₹56.61 crore as per Table 8(B)&(C) of GSTR-9 for the year 2017-18, whereas the amount of ITC available as per Table 8(A) of GSTR-9 was only ₹41.22 crore resulting in excess claim of ITC of ₹15.39 crore (table 8D of GSTR-9). On this being pointed out, the Department replied (July 2022) that the issue had already been identified and a show cause notice *vide* DRC-01 had been issued before being pointed out by Audit. However, as seen from details furnished by the Department, the taxpayer made reversal of ₹14.85 crore out of excess claim of ₹15.39 crore. Documents evidencing the balance of reversals to the extent of ₹53.52 lakh were not furnished to audit. Final Reply has not been received (April 2023).

**iii. Mismatch of ITC claim as per GSTR-3B and GSTR 9**

Table 4A of GSTR 3B (Monthly Return) captures the ITC availed by taxpayer. Table 6A of GSTR 9 (Annual Return) captures the aggregate total of ITC availed in all the nine months during 2017-18 which is availed through Table 4A of GSTR-3B. Table 6B to 6H of GSTR 9 (Annual Return) gives the breakup of eligible ITC relating to inputs, input services and capital goods under various categories *viz.*, Reverse Charge Mechanism, import of goods and services, Input Service Distributor and ITC reclaimed, if any. Table 6J of GSTR 9 represents the difference between 6A and 6B to 6H as declared by the taxpayer at the time of filing of GSTR 9. *Hence Table 4A of GSTR 3B should match with Table 6A of GSTR 9 and also the sum of Table 6B to 6H of GSTR 9.*

During the scrutiny of returns of 50 sampled taxpayers, Audit noticed that the amount of ITC availed as per Table 4A of GSTR-3B did not match with the ITC declared in GSTR-9 (Table 6B to 6H) in respect of the two taxpayers amounting to ₹4.50 crore.

**One illustrative case is given below:**

M/s Conneqt Business Solutions Limited under Begumpet STU-1 availed ITC of ₹22.94 crore as per GSTR-3B table 4A (R9 Table 6A) whereas ITC declared in GSTR-9 table 6B to 6H (including ITC on imports of goods, ITC on RCM) was ₹18.69 crore resulting in mismatch of ITC claim of ₹4.24 crore in GSTR-3B (R9 Table 6J). On this being pointed out, the Department replied (July 2022) that a show cause notice in DRC-01 was issued to the taxpayer basing on the dynamic information available in GSTN and E-Way bill portal. However, the amount objected to by Audit was not covered in the show cause notice so issued to the taxpayer. Final Reply has not been received (April 2023).

**iv. Non reversal / short reversal of ITC**

Sub section 2 of Section 17 of TGST Act read with Rule 42 and 43 of TGST Rules states that where the goods or services or both are used by the registered person partly for

effecting taxable supplies including zero-rated supplies and partly for effecting exempt supplies, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies. Manner<sup>160</sup> of determination of input tax credit in respect of inputs or input services and reversal thereof has been specified in Rule 42 *ibid*.

Audit observed non-compliance in 14 cases out of 50 cases where taxpayers had either not reversed or short reversed ITC of ₹19.89 crore due to incorrect application of Rule 42 and 43.

**Two illustrations are given below:**

- (i) Total aggregate supplies of M/s. Mahindra Logistics under Begumpet STU-2 circle for the year 2017-18 was ₹147.72 crore out of which ₹62.64 crore (42.41 *per cent*) related to exempt supplies / Nil rated supplies. The amount of common ITC for the year 2017-18 was ₹6.44 crore, out of which an amount of ₹2.73 crore (@42.4 *per cent*) was required to be reversed. However, an amount of ₹2.21 lakh only was reversed leaving a balance of ₹2.71 crore. On this being pointed out, the Department replied (July 2022) that a show-cause notice in DRC-01 was already issued to the taxpayer basing on the dynamic information available in GSTN and E-Way bill portal. However, the show cause notice issued was for only ₹1.98 crore without considering the IGST component of ITC, whereas the amount objected to by Audit was ₹2.71 crore (which includes IGST component). Final Reply has not been received (April 2023).
- (ii) Total aggregate supplies of M/s. Conneqt Business Solutions Limited under Begumpet STU-1 circle for the year 2017-18 was ₹182.60 crore out of which ₹10.68 crore (5.85 *per cent*) related to exempt supplies / Nil rated supplies. The amount of common ITC for the year 2017-18 was ₹19.81 crore, out of which an amount of ₹1.15 crore (@5.81 *per cent*) was required to be reversed. On this being pointed out, the Department replied (July 2022) that a show-cause notice in DRC-01 was issued to the taxpayer basing on the dynamic information available in GSTN and E-Way bill portal. However, the show cause notice issued was for ₹23.94 lakh only whereas the amount objected to by Audit was ₹1.15 crore (which includes IGST component). Final Reply has not been received (April 2023).

**v. Other observations relating to Input Tax Credit**

- a. *Incorrect ITC on 'imports of services' without payment of tax liability falling under RCM*

As per Section 2(11) of IGST Act 2017, read with Notification No. 10/2017-ITI dated 28 June 2017, tax on 'imports of services' has to be paid through Reverse Charge

<sup>160</sup> Common credit denoted as 'C' and calculated as  $C = T - (T1+T2+T3+T4)$  Where 'T' classified the total input tax involved on inputs and input services in a tax period, 'T1' classified the amount of input tax, out of 'T', attributable to inputs and input services intended to be used exclusively for the purposes other than business, 'T2' classified the amount of input tax, out of 'T', attributable to inputs and input services used exclusively for effecting exempt supplies, 'T3' classified the amount of input tax, out of 'T', in respect of inputs and input services on which credit is not available under sub-section (5) of section 17 and 'T4' classified the amount of input tax credit attributable to inputs and input services intended to be used exclusively for effecting supplies other than exempted but including zero rated supplies. The amount of input tax credit attributable towards exempt supplies, be denoted as 'D' and calculated as  $D = (E \div F) \times C$  where, 'E' is the aggregate value of exempt supplies during the tax period, and 'F' is the total turnover in the State of the registered person during the tax period.

Mechanism (RCM) on cash basis. It was observed from GSTR 3-B of M/s. Cloud 4 C Services Private Limited, in STU-3, Hyderabad (Rural), for the month of December 2017 that the taxpayer claimed ITC of ₹24.62 lakh on import of services without discharging tax liability through RCM.

On this being brought to notice (June 2022), the Department replied (July 2022) that the deviation would be brought to the notice of the taxpayer and on receipt of the reply from the taxpayer, the same would be furnished to Audit. Final Reply has not been received (April 2023).

**b. Incorrect claim of ITC on import of goods**

In case of M/s. Cloud 4 C Services Private Limited in STU-3, Hyderabad (Rural), Audit observed from Table 4 (A) (i) of GSTR 3-B that the taxpayer claimed ITC of ₹1.32 crore in respect of imports of goods whereas imports of goods for the year 2017-18 was nil as per the GSTR 9C and GSTR-9 for the year 2017-18.

When the discrepancy was brought to notice (June 2022), the Department replied (July 2022) that the deviation would be brought to the notice of the taxpayers and reply furnished on receipt of the same from the taxpayer. Final Reply has not been received (April 2023).

**c. Excess claim of Transitional Credit**

As per the provisions of Section 140(1) of the Act, a registered person, other than a person opting to pay tax under Section 10, shall be entitled to take, in his Electronic Credit Ledger, the amount of CENVAT / VAT credit carried forward in the return relating to the period ending with the day immediately preceding the appointed day, furnished by him under the existing law.

M/s. Ravago Shah Polymers Private Limited under Hyderabad Rural STU-3 circle declared Transitional Credit amount as ₹22.33 lakh in GSTR-9 whereas an amount of ₹44.66 lakh was credited in the Electronic Credit Ledger of the taxpayer resulting in excess credit of ₹22.33 lakh which needs to be reversed along with interest. This was pointed out in July 2022. Department's final Reply has not been received (April 2023).

**(C) Discharge of tax liability**

The taxable event in case of GST is supply of goods and / or services. Section 9 of the TGST Act is the charging section authorizing levy and collection of tax called Central / State Goods and Services Tax on all intra-State supplies of goods or services or both, except on supply of alcoholic liquor for human consumption, on value determined under Section 15 of the Act *ibid* and at such rates not exceeding 20 *per cent* under each Act, *i.e.*, CGST Act and SGST Act. Section 5 of the IGST vests levy and collection of IGST on interstate supply of goods and services with Central Government with maximum rate of 40 *per cent*.

Under Section 8 of the Goods and Services Tax (Compensation to States) Act, 2017, a cess is levied on all inter-state and intra-state supply of such goods or services or both which are listed in the schedule of the said Act such as tobacco products, aerated drinks, cigarettes, vehicles etc. Section 9(4) of the TGST Act and Sections 5(3) and 5(4) of the IGST Act

provide for reverse charge levy on certain goods or services, wherein the recipient instead of supplier becomes liable to pay tax.

The following mismatches in tax liabilities were observed in Audit during review of returns. However, the granular records were not made available to Audit for further scrutiny.

***i. Difference between Liability as per GSTR-1 and Tax paid as per GSTR-3B / GSTR-9***

In order to analyse undischarged tax liability between GSTR-1 (Monthly Outward supplies of the supplier) and GSTR-9 (Annual Return of the Supplier), relevant data for the year 2017-18 (from July 2017 to March 2018) were extracted and the tax payable as per GSTR-1 was compared with the amount of tax paid as per GSTR-9 of the same taxpayer after considering the amendments and advance adjustments.

During the scrutiny of returns of the 50 sampled taxpayers, Audit noticed difference in undischarged tax liability amounting to ₹44.89 crore between GSTR-1 and GSTR-9 in respect of 29 taxpayers under the jurisdiction of 15 circles / STUs<sup>161</sup>.

**One case is illustrated below:**

Tax liability as per GSTR-1 for the period from July 2017 to March 2018 of M/s Indian Immunologicals Limited under Jubilee Hills-2 circle was ₹12.49 crore whereas the tax paid as per GSTR-3B for the year 2017-18 was ₹12.31 crore only resulting in a difference of ₹18 lakh in undischarged tax liability. On this being pointed out, Department replied (April 2023) that as per GST portal and taxpayer records liability as per GSTR-1 was ₹12.37 crore, which includes RCM turnover of ₹8.12 lakh. Further replied that tax amounting to ₹12.23 crore (excluding RCM) was paid as per GSTR-9 and balance tax of ₹5.95 lakh was paid through DRC-03 in March 2021 and therefore there was no difference in tax discharged. The reply is not acceptable as there is a variation in the liability, for which break-up of GSTR-1 liability was provided to Jubilee Hills-2 circle. Even after considering the additional amount of ₹5.95 lakh paid through DRC-03, there was a net undischarged liability of ₹11.17 lakh. Final Reply has not been received (April 2023).

***ii. Mismatch of tax payment between GSTR-9C and GSTR-9***

Rule 80 (2) of TGST Rules stipulates that every registered person whose aggregate turnover during a financial year exceeds ₹two crore shall get his accounts audited and furnish a copy of audited annual accounts and a reconciliation statement, duly certified, in Form GSTR-9C, electronically, through the common portal either directly or through a Facilitation Centre notified by the Commissioner.

In order to analyse the mismatch of tax payments between GSTR-9C and GSTR-9 (Annual Return), relevant data for the year 2017-18 (from July 2017 to March 2018) were extracted

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<sup>161</sup>Abids STU-1, Abids STU-2, Begumpet, Begumpet STU-1, Begumpet STU-2, Hyderabad (Rural) STU-2, Hyderabad (Rural) STU-3, Jubilee Hills-1, Jubilee Hills-2, Madhapur-3, Musheerabad, Narayanaguda-MJ Market, Punjagutta STU-1, Panjagutta-STU-2 and Secunderabad STU-1.

and the tax paid as per Table 9(Q) of GSTR-9C was compared with the amount of tax paid as per Table 9 of GSTR-9 of the same taxpayer.

Table 9Q of GSTR 9C reports the total amount of tax paid as declared in GSTR 9 for the purpose of reconciliation of tax liability and payment.

During scrutiny of returns of 50 sampled taxpayers, Audit noticed (June 2022-July 2022) mismatch in tax payments amounting to ₹0.44 crore between GSTR-9C and GSTR-9 in respect of one taxpayer M/s. Avanthi Warehousing Services Private Limited under Hyderabad Rural STU-2. The amount of tax paid (sum of Table 9 and Table 14 of GSTR-9) was ₹8.50 crore but the same was shown as ₹8.94 crore under Table 9Q (Total amount paid as declared in Annual Return GSTR-9) of GSTR 9C resulting in unreconciled payment of tax of ₹0.44 crore. On this being brought to notice, the Department replied that matter would be examined. Final Reply has not been received (April 2023).

**Recommendation 5:**

***Department may initiate remedial action for all the compliance deviation cases brought out in this report before they get time barred and review all other cases to rule out similar deviations.***

#### **2.14.7 Other oversight functions**

The role of departmental field formations is to provide oversight over taxpayers' compliance with regard to filing of returns, discharging tax liability and other compliance obligations. The circles have a broad set of functions to be exercised in this regard such as initiating action on late filers and non-filers, scrutiny of returns and assessment and cancellation of registrations.

The oversight functions relating to return filing, action on late / non-filers, scrutiny and compliance to DGARM reports have been discussed in the previous sections of this report. This section highlights the audit findings on cancellation of registrations.

Section 29 of the TGST Act 2017 read with Rule 20 of the TGST Rules allows for cancellation of registration by the taxpayer in certain situations like closure of business, turnover falling below threshold for registration, transfer of business / merger / amalgamation, change of PAN, non-commencement of business within the stipulated time period, and death of the proprietor. The taxpayer applying for cancellation of registration should apply in REG-16 on the GST common portal within a period of 30 days of the "occurrence of the event warranting the cancellation".

Section 29(2) of the TGST Act allows for *suo-moto* cancellation of the registration of taxpayer by tax officer on the grounds of contravention of the Acts or Rules by the taxpayer, composition taxpayers not filing return for three consecutive tax periods, normal taxpayers not filing return for continuous period of six months, registered persons not commencing business within six months from date of registration and registration obtained by means of fraud, wilful misstatement or suppression of facts.

Section 45 of the TGST Act requires every registered person other than (a) Input Service Distributor (ISD) or a non-resident taxable person or (b) Composition taxable person

(Section 10) or (c) persons paying tax under Section 51 - Tax collection at source (TCS) or persons paying tax under Section 52 - Tax deducted at source (TDS), whose registration has been cancelled, to file a final return in GSTR-10, within three months of the effective date of cancellation or the date of order of cancellation, whichever is later. The purpose of the final return is to ensure that the taxpayer discharges the outstanding liability. In case of non-filing of GSTR-10, the same procedure as adopted for non-filing of any return must be followed by the tax officer.

Audit selected a sample of 15 Circles for evaluating the cancellation function. As per the information provided by the field formations, there were no cancellations in nine circles / STUs<sup>162</sup>. Required data was not provided by Musheerabad circle of Secunderabad Division and insufficient data was provided by the Begumpet circle. Audit observed various deficiencies in cancellation of registrations in four circles<sup>163</sup>, which are brought out below:

#### **2.14.7.1 Delay in cancellation based on the applications of taxpayers**

Rule 22(3) of the TGST Rules provides that where a person who has submitted an application for cancellation (REG-16) of his registration is no longer liable to be registered, the proper officer shall cancel the registration with effect from a date to be determined by him and notify the taxable person, directing him to pay arrears of any tax, interest or penalty including the amount liable to be paid under sub-Section (5) of Section 29. Accordingly, the cancellation order in REG-19 has to be issued within 30 days from the date of application (taxpayers request). In any case the effective date should not be a date earlier than the date of application for the same.

During the years 2017-18 to 2020-21, a total of 1,341 applications were received for cancellation of registration. Of these, 18 registrations were cancelled and Form GST REG-19 were issued. However, process of cancellation in 1,323 cases was still pending (April 2023) in violation of Rule 22 (3) of TGST Rules, 2017.

Reasons for non-cancellation / delay in cancellation of the registrations were not furnished. Similarly, details of recovery particulars of ITC or tax liability recoverable in respect of the taxpayers whose registrations were cancelled have also not been furnished to audit.

#### **Illustrative cases:**

- (i) In Jubilee Hills-2 circle of Punjagutta Division, a total of 290 applications were received for cancellation of registration. However, Form REG-19 were not issued in any of these cases in lieu of cancellations.
- (ii) In Narayanaguda-MJ market circle of Abids Division, a total of 71 applications were received for cancellation of registration. However, Form REG-19 were issued only in 18 cases in lieu of cancellations and the same were not issued to the remaining 53 cases.

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<sup>162</sup> Abids STU-1, Abids STU-2, Begumpet STU-1, Begumpet STU-2, Hyderabad Rural STU-2, Hyderabad Rural STU-3, Punjagutta STU-1, Punjagutta STU-2, Secunderabad STU-1.

<sup>163</sup> Jubilee Hills-1, Jubilee Hills-2, Madhapur-III, Narayanaguda-MJ Market.

#### 2.14.7.2 Non-adherence to prescribed procedure for suo-moto cancellation

It was noticed in four<sup>164</sup> circles that a total of 2,818 suo-moto cancellations were initiated by circle officers during the years 2017-18 to 2020-21 out of which notice in form REG-17 were issued to 2,812 taxpayers leaving six taxpayers to whom REG-17 was not issued. Out of 2,812 cases to whom SCNs / REG-17 were issued, proceedings against 53 cases were dropped and 2,025 cases registrations were cancelled leaving a balance of 734 cases against whom action has not been completed.

##### **Illustrative cases are given below:**

- (i) In Jubilee Hills-II circle of Punjagutta Division, *suo-moto* cancellation was initiated against 1,383 taxpayers out of which REG-17 was issued to 1,380 taxpayers and the same was not issued in three cases. Out of the total of 1,380 taxpayers were issued SCNs for *suo-moto* cancellation of registrations in Form GST REG-17 during the years 2018-19 to 2020-21, a total of 664 registrations were cancelled *suo-moto* leaving a balance of 716 cases on which no action has been taken.
- (ii) In Jubilee Hills-1 circle of Punjagutta Division, a total of 865 taxpayers were issued SCNs for *suo-moto* cancellation of registrations in Form GST REG-17 during the years 2018-19 to 2020-21, of which proceedings were dropped by issuing GST REG-20 in respect of 53 taxpayers. Of the remaining 812 taxpayers, 794 registrations were cancelled *suo-moto* leaving a balance of 18 cases.
- (iii) One taxpayer in Jubilee Hills-II circle did not file any return for a continuous period of six months and filed the first return i.e., GSTR-3B of August 2017 on 01 December 2018 (15 months delay). However, the registration of that taxpayer has not been cancelled.

#### 2.14.7.3 Inadequate follow up on non-filing of GSTR 10

As per Section 45 of the Act, GSTR-10 – the final return, has to be filed within three months of the effective date of cancellation or the date of order of cancellation, whichever is later. The last date for furnishing of GSTR-10 by those taxpayers whose registration has been cancelled on or before 30 September 2018 was extended till 31 December 2018 *vide* notification No. 58/2018 – Central Tax dated 26 October 2018.

As per Rule 68 of TGST Act 2017 and as prescribed in Circular No. 129/48/2019-GST dated 24 December 2019, GSTR-3A has to be issued to the taxpayer, where GSTR 10 has not been filed. If the taxpayer still fails to file the final return within 15 days of the receipt of notice, then an assessment order in Form ASMT-13 under Section 62 of the TGST Act read with Rule 100 of the TGST Rules shall have to be issued to determine the liability of the taxpayer under sub-section (5) of Section 29 (i.e., debit ITC equivalent to inputs, and inputs contained in semi-finished and finished goods held in stock or capital goods or the output tax payable on such goods whichever is higher). If the taxpayer files the final return within 30 days from the issue of order ASMT-13, then the said order shall be deemed to have been withdrawn. However, the liability for payment of interest and late fee shall

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<sup>164</sup> Jubilee Hills-1, Jubilee Hills-2, Madhapur-III, Narayanaguda-MJ Market circles.

continue. If the said return remains unfurnished within the statutory period of 30 days from the issue of order ASMT-13, then the proper officer may initiate proceedings under Section 78 and recovery under Section 79 of the TGST Act.

Audit observed compliance deficiencies in filing of GSTR-10 in 1,893 cases across four<sup>165</sup> circles.

Although a total of 1,893<sup>166</sup> registrations were cancelled, only 95 taxpayers filed Form GSTR-10, leaving a balance of 1,798 taxpayers (95 *per cent*). As per the information furnished by the field formations, no action appears to have been taken in respect of these 1,798 taxpayers for issuance of notices in Form GSTR-3A as well as to assess the tax liability of these taxpayers on the basis of best judgement under the provisions mentioned *ibid*. Final replies in respect of these observations have not been received.

**One illustrative case is given below:**

In Madhapur-III circle under Hyderabad Rural Division, out of 567 cases of cancellation for the years 2019-20 and 2020-21, none of the taxpayers filed GSTR-10 as of July 2022. Final Reply has not been received (April 2023).

**2.14.7.4 Capacity building efforts**

Capacity building is necessary for effectiveness of officers and staff of the Department at all levels. Department organise various training programmes on GST to their officers and staff in order to enhancement of their skill so as to upgrade their knowledge in new tax reforms and for revenue augmentation. The Department was addressed (April 2023) to furnish the details of trainings on GST imparted by the Department during the years 2017-18 to 2021-22. However, the information has not been received (April 2023).

**2.14.7.5 Planning and deployment of manpower**

For efficient functioning of the Department, proper manpower planning to meet its objectives and its proper deployment is necessary. The Department was addressed (April 2023) to furnish the details of the sanction and working strength in the Department for the years 2017-18 to 2021-22 to analyse the adequacy and utilisation of manpower. However, the information has not been received (April 2023).

**Recommendation 6:**

***Department may strengthen the monitoring mechanism in field formations and ensure that due diligence is followed in procedures for cancellation, issue of Show Cause Notices and recovery.***

**2.14.8 Conclusion**

The Subject Specific Compliance Audit (SSCA) on Department's Oversight on GST payments and Returns Filing was undertaken in the context of varying trend of return filing and continued data inconsistencies with an objective of assessing the adequacy of the

<sup>165</sup> Jubilee Hills I, Jubilee Hills II, Madhapur III and Narayanaguda-MJ Market

<sup>166</sup> 1,893 = 18 cancellations on taxpayer applications + 2,025 on *suo-moto* cancellation – 150 revoked cases.

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, ITC mismatch, mismatch in RCM ITC availed, mismatch in claim of 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 / Trail 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, 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.

### **2.14.9 Recommendations**

- 1. *Show Cause Notices issued for short / non-payment of tax should be pursued and should also include IGST component along with SGST / CGST components.***
- 2. *Department may urgently pursue the inconsistencies and deviations pointed out in Limited Audit, for which responses have not been provided and intimate the results to Audit.***
- 3. *Department may consider introducing validation controls in GST Returns to curb data entry errors, enhance taxpayer compliance, and facilitate better scrutiny.***
- 4. *Strict controls should be put in place to ensure timely filing of returns by taxpayers and effecting recoveries towards penalties / interest for belated payments.***
- 5. *Department may initiate remedial action for all the compliance deviation cases brought out in this report before they get time barred and review all other cases to rule out similar deviations.***
- 6. *Department may strengthen the monitoring mechanism in field formations and ensure that due diligence is followed in procedures for cancellation, issue of Show Cause Notices and recovery.***



# Chapter III

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## State Excise Duties

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### 3.1 Tax Administration

The Prohibition and Excise Department is governed by ‘The Telangana Excise Act, 1968’, ‘The Telangana Prohibition Act, 1995’ and ‘The Narcotic Drugs and Psychotropic Substances Act, 1985’ (Central Act). The Department makes policies pertaining to Prohibition and Excise in the State of Telangana. It ensures that Excise Revenue is protected and collected according to the relevant Acts and Rules. It also creates awareness among the people of Telangana on ill effects of consumption of alcoholic products, illicit distillation of liquor and also encourages establishment of Drug De-Addiction Centers. The Principal Secretary to Government, Revenue Department is the administrative head of the Department at the Government level. The organizational set up of the Department for administration of tax is depicted in the organogram given below:

Figure 3.1: Organogram



### 3.2 Trend of receipts

Actual receipts from State Excise Duty during the years 2017-18 to 2021-22 along with the total tax receipts during the same period is exhibited below.

Table 3.1: Receipts from State Excise Duty

(₹ in crore)

Year	Budget Estimates	Actual Receipts	Variation Excess (+) / Shortfall (-)	Percentage of variation	Total Tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2017-18	9,000.00	9,421.33	(+)421.33	4.68	56,519.82	16.67
2018-19	10,600.00	10,637.56	(+)37.56	0.35	64,674.07	16.45
2019-20	10,901.00	11,991.58	(+)1,090.58	10.00	67,597.49	17.74
2020-21	16,000.00	14,369.84	(-)1,630.16	(-)10.19	66,650.37	21.56
2021-22	17,000.00	17,482.19	(+)482.19	2.84	91,271.38	19.15

Source: Finance Accounts

As seen from the above table, while the total tax receipts of the State have increased by 61.49 per cent during the last five years, increase in the receipts from State Excise Duty has been recorded as 85.56 per cent. The contribution of the State Excise Duty to the total tax receipts has also increased from 16.67 per cent to 19.15 per cent during this period.

### 3.3 Cost of collection

The figures of gross collection in respect of State Excise Duty, expenditure incurred in collection and the percentage of such expenditure to gross collection during the years 2017-18 to 2021-22 are mentioned below:

**Table 3.2: Cost of collection of State Excise Duty**

(₹ in crore)

Head of Revenue	Year	Gross collection	Expenditure on collection of Revenue	Percentage of cost of collection to gross collection
State Excise	2017-18	9,421.33	226.40	2.40
	2018-19	10,637.56	232.82	2.19
	2019-20	11,991.58	223.58	1.86
	2020-21	14,369.84	224.67	1.56
	2021-22	17,482.19	295.56	1.69

Source: Finance Accounts

Although there were fluctuations in the cost of collection during the five years period, there was decrease in cost of collection in percentage terms for the five years period, except for the year 2021-22.

### 3.4 Impact of Audit

During the last five years, audit through its audit reports had pointed out non / short levy, non / short realisation of excise tax, non / short levy of interest on belated payment of taxes with total revenue implication of ₹77 crore in 179 cases. Of these, Department accepted audit observations in 11 cases involving ₹0.11 crore and had recovered the entire accepted amount.

**Table 3.3: Impact of Local Audit on State Excise Duty**

(₹ in crore)

Year	Units Audited	Amount objected		Amount accepted		Amount recovered	
		Cases	Amount	Cases	Amount	Cases	Amount
2017-18	9	19	5.91	-	-	-	-
2018-19	39	87	23.38	-	-	-	-
2019-20	14	13	6.06	4	0.02	4	0.02
2020-21	16	27	39.34	3	0.01	3	0.01
2021-22	39	33	2.31	4	0.08	4	0.08
<b>Total</b>	<b>117</b>	<b>179</b>	<b>77.00</b>	<b>11</b>	<b>0.11</b>	<b>11</b>	<b>0.11</b>

Recovery of ₹0.11 crore against the money value of ₹77 crore relating to the objected cases during the period 2017-18 to 2021-22 indicated that the response of the Department is not encouraging.

### 3.5 Results of Audit

During the year 2021-22, audit of State Excise receipts was conducted through a test check of the relevant records in 39 out of 96 Excise units (41 *per cent*) in the State, to gain assurance that the fees are levied, collected and accounted for in accordance with the relevant Acts, Codes and Manuals, and that the interests of the Government are safeguarded. Audit noticed instances of deviations / non-compliance with the provisions of the Acts and Rules due to various reasons in 33 observations involving an amount of ₹2.31 crore as detailed below in **Table 3.4:**

**Table 3.4: Category of Audit Observations on Revenue Receipts**

(₹ in crore)

Sl. No	Category of Audit Observations	No. of deviations	Amount
1	Non-levy or short levy of Excise Tax and interest thereon	7	0.47
2	Non-levy of interest	8	0.20
3	Loss of revenue due to non-registration of lease deeds	2	0.06
4	Non-levy or short levy of compounding fee	4	0.03
5	Non-levy of penal interest on belated payments of license fee	3	0.08
6	Other irregularities	9	1.47
	<b>Total</b>	<b>33</b>	<b>2.31</b>

There are six broad categories of audit observations under State Excise as indicated above. During the year 2021-22, the Department accepted under-assessments and other deficiencies of ₹ 7.85 lakh in four cases. Out of this, three cases pertained to previous years while one case pertained to the present year. This amount of ₹7.85 lakh was realised during the year. The Department may, therefore, examine all the units to ensure that the taxes are levied as per provisions of the Act and Rules<sup>1</sup>.

A few cases involving non-compliance with the provisions of the Acts and Rules by the District Prohibition and Excise Officers (DPEOs) / Distillery Officer that resulted in short levy or non-levy of Excise Tax, interest and penalty to the extent of ₹2.04 crore in 64 cases. These are discussed in the subsequent paragraphs.

<sup>1</sup> The Telangana Excise Act, 1968 read with (1) The Telangana Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules, 2012, (2) The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005, (3) The Telangana Excise (Grant of Licence of Selling by In-House and Conditions of Licence) Rules, 2005 read with Government Orders and (4) The Telangana Excise (Levy of Interest on Government Dues) Rules, 1982.

### 3.6 Non / short levy of penalty on delayed payment of Distillery Excise Tax

Every Licensee of Distilleries has to get his license renewed before the commencement of the license year, by paying the Distillery Excise Tax as prescribed<sup>2</sup>. If the Licensee fails to apply for renewal by paying the prescribed tax before commencement of license year, he shall pay the Excise Tax with late fee<sup>3</sup>. The annual Excise Tax of the Distilleries is fixed on their production capacities as per the rates prescribed under the Rules<sup>4</sup>.

Audit test checked (January 2022) the records of R K Distilleries, Medchal and found that the Department either did not levy or short levied the penalty for the delayed payment of Annual Distillery Excise Tax for the licence years 2017-18 and 2018-19 amounting to ₹86.99 lakh. Distillery Officer assured a detailed reply.

The matter was referred to the Government in October 2022. Reply has not been received.

### 3.7 Non / short levy of penalty for belated payment of Bar Renewal Fee and Bar Excise Tax

An application for renewal of Bar licence shall be submitted by every licence holder with a Challan in original for ₹one lakh<sup>5</sup> towards renewal fee<sup>6</sup>. Further, the annual Bar Excise Tax shall be paid before commencement of the licence period<sup>7</sup> in one lump sum or in two equal installments<sup>8</sup> or in a manner as notified from time to time.

The Commissioner of Prohibition and Excise issued instructions<sup>9</sup> to levy a penalty of ₹two lakh for belated payment<sup>10</sup> of Bar licence renewal fee. Further, a penalty of ₹one lakh is to be levied for belated payment<sup>11</sup> of Bar Excise Tax for every 30 days.

Audit test checked (between December 2018 and March 2022) the records of the Offices of six District Prohibition and Excise Offices (DPEOs)<sup>12</sup> for the licence years 2017-18 to 2019-20 and observed that Licence holders of 46 Bar and restaurants paid the Bar licence

<sup>2</sup> Rule 9(3) & (4) of Telangana Distillery (Manufacture of Indian Made Foreign Liquor other than Beer and Wine) Rules, 2006.

<sup>3</sup> Within six months from the date of commencement of licence year. 5 per cent of Annual Distillery Excise Tax  
After six months from the date of commencement of licence year. 10 per cent of the Distillery Excise Tax

<sup>4</sup> Rule 8 of the Telangana Distillery (Manufacture of Indian Made Foreign Liquor other than Beer and Wine) Rules, 2006.

Upto 20 lakh Proof Litres (PLs).	₹40,00,000
For every additional one lakh PL or part thereof.	₹2,00,000

<sup>5</sup> The Bar licence renewal fee has been enhanced from ₹10,000 to ₹one lakh vide G.O.Ms.No.38, Revenue (Excise-II) Department, dated 26 February 2016.

<sup>6</sup> Rule 9A (2) of The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005.

<sup>7</sup> License period means a period of 12 months beginning from the 01 October of the year and ending with 30<sup>th</sup> of September of the succeeding year.

<sup>8</sup> Rule 10(3)(a) of The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005.

<sup>9</sup> Commissioner's Letter No. 9/2017/CPE dated 18 December 2017.

<sup>10</sup> Bar licence renewal fee is to be paid on or before the due date i.e., 30 September of licence year.

<sup>11</sup> Bar Excise Tax is to be paid on or before the due date i.e., 30 September of licence year.

<sup>12</sup> Hyderabad, Mahbubnagar, Nagar Kurnool, Rajanna-Sircilla, Shamshabad and Yadadri-Bhuvanagiri.

renewal fee or Annual Bar Excise Tax or both, belatedly. However, the DPEOs concerned did not levy or short-levied penalties amounting to ₹71 lakh.

District Prohibition and Excise Officers, Hyderabad, Shamshabad and Yadadri Bhuvanagiri replied that action would be taken to collect the penalty from the Licensees. Remaining DPEOs assured detailed reply.

The matter was referred to the Government in February 2021, October 2021 and October 2022. Reply has not been received.

### **3.8 Short levy of Annual Bar Excise Tax**

As per Section 28 of the Telangana Excise Tax Act, 1968 read with Rule 10<sup>13</sup> of Telangana Excise Rules, 2005 and Government Orders<sup>14</sup>, Excise Tax is leviable on Bars at the rate of ₹40 lakh for the period 2020-21. Subsequently, the Director of Prohibition and Excise reduced<sup>15</sup> the tax rates for the year 2020-21 and issued instructions for collection of Excise Tax only at 50 *per cent* of the Annual Excise Tax. Further, as per Government Order<sup>16</sup>, an ‘additional Excise Tax’ has to be levied at the rate of 10 *per cent* of Annual Excise Tax based on the plinth area of the premises available for consumption of liquor in bars.

Audit test checked (February 2022) the records of the District Prohibition and Excise Office (DPEO), Secunderabad and noticed in two cases (two Bars) that Annual Bar Excise Tax amounting to ₹24 lakh was short levied for the year 2020-21.

District Prohibition and Excise Officer, Secunderabad replied that action would be taken to collect the balance Bar Excise Tax.

The matter was referred to the Government in November 2022. Reply has not been received.

### **3.9 Short levy of Annual Excise Tax and additional Excise Tax on Elite Bars**

As per Section 28 of the Telangana Excise Tax Act, 1968 read with Rule 10<sup>17</sup> of Telangana Excise Rules, 2005, Excise Tax is leviable on bars (Elite bars<sup>18</sup>) at the rates<sup>19</sup> prescribed by Government from time to time. Subsequently, the Director of Prohibition and Excise reduced<sup>20</sup> the tax rates for the year 2020-21 and issued instructions for collection of Excise Tax only at 50 *per cent* of the Annual Excise Tax. Further, as per Government Order<sup>21</sup>, an ‘additional Excise Tax’ has to be levied at the rate of 10 *per cent* of Annual Excise Tax based on the plinth area of the premises available for consumption of liquor in bars.

<sup>13</sup> Grant of Licence of Selling by Bar and Conditions of Licence Rules, 2005.

<sup>14</sup> G.O.Ms.No.222 Revenue (Excise-II) Department, dated 27 September 2017.

<sup>15</sup> Circular No. 3168/2017/CPE/TS/F1, dated 18 March 2021.

<sup>16</sup> G.O. Ms No. 213, Revenue (Excise-II) Department, dated 01 October 2016.

<sup>17</sup> Grant of Licence of Selling by Bar and Conditions of Licence Rules, 2005.

<sup>18</sup> The bars equipped with nice decors, interior with private dining rooms etc., and charged with additional excise tax at 25 *per cent* of annual excise tax.

<sup>19</sup> G.O.Ms.No.222 Revenue (Excise-II) Department, dated 27 September 2017 for Annual Bar Excise Tax and Additional Excise fee of 25 *per cent* for elite bars vide G.O.Ms.No.211, dated 01 October 2016.

<sup>20</sup> Circular No. 3168/2017/CPE/TS/F1, dated 18 March 2021.

<sup>21</sup> G.O. Ms No. 213, Revenue (Excise-II) Department, dated 01 October 2016.

Audit test checked (March 2022) the records of two District Prohibition and Excise Offices<sup>22</sup> and found in three cases that Excise Tax and 'additional Excise Tax' amounting to ₹12 lakh was short levied.

District Prohibition and Excise Officer (DPEO), Khammam replied that action would be taken to collect the amount. DPEO, Mahabubabad assured a detailed reply.

The matter was referred to the Government in October 2022. Reply has not been received.

### **3.10 Non-levy of interest on belated payment of Excise Tax for Bars**

The licence holders of Bars are required to pay Excise Tax on or before the dates prescribed in the Telangana Excise Rules<sup>23</sup>. Payment of Excise Tax after the due dates is treated as 'arrears of revenue' and interest at the rate of 18 *per cent* per annum is leviable on such arrears of revenue<sup>24</sup>.

Audit test checked (between January 2019 and November 2020) the records of the District Prohibition and Excise Office (DPEO), Shamshabad and observed that 12 licensees paid the Excise Tax belatedly with delay ranging from 5 to 123 days. The District Prohibition and Excise Officer (DPEO) did not levy interest on belated payments to an extent of ₹10.44 lakh.

DPEO, Shamshabad replied that action would be taken to collect the interest.

The matter was referred to the Government in October 2021. Reply has not been received.

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<sup>22</sup> Khammam and Mahabubabad.

<sup>23</sup> Rule 10 of The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005.

<sup>24</sup> Section 65 of The Telangana Excise Act, 1968 read with Rule 3 of The Telangana Excise (Levy of Interest on Government Dues) Rules, 1982.

# Chapter IV

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## **Stamp duty and Registration fee**

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## 4.1 Tax Administration

The Registration and Stamps Department is primarily entrusted with registration of documents and is responsible for determining and collecting stamp duty and registration fees on registration of various documents / instruments by the general public. The Department also enforces administration of the Indian Stamp (IS) Act, 1899 and the Registration Act, 1908, as amended from time to time and rules framed therein.

The Commissioner and Inspector General, Registration and Stamps (CIGRS) exercises overall superintendence of all the registration offices in the State. He is assisted by the region-wise Deputy Inspector Generals. The District Registrar (DR) is in charge of the district and supervises the work of Sub-Registrars (SR) in the district concerned. The important functionaries of the Department are depicted in the organogram alongside.

**Figure-4.1: Organogram**



## 4.2 Trend of receipts

Actual receipts from stamp duty and registration fees during the years 2017-18 to 2021-22 along with the total tax receipts during the same period is exhibited in the following **Table**.

**Table 4.1: Receipts from stamp duty and registration fees**

Year	Budget Estimates	Actual Receipts	Variation Excess (+) / Shortfall (-)	Percentage of variation	₹ in crore	
					Total Tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2017-18	3,000.00	4,202.46	(+)1,202.46	40.08	56,519.82	7.44
2018-19	4,700.00	5,344.04	(+)644.04	13.70	64,674.07	8.26
2019-20	6,146.00	6,671.05	(+)525.05	8.54	67,597.49	9.87
2020-21	10,000.00	5,243.28	(-)4,756.72	(-)47.57	66,650.37	7.87
2021-22	12,500.00	12,372.73	(-)127.27	(-)1.02	91,271.38	13.56

*Source: Finance Accounts*

As seen from the above, while the total tax receipts of the State have increased by 61.49 per cent during the last five years, stamp duty and registration fees has increased by 194.42 per cent. There was huge increase in stamp duty and registration fee receipts during

2021-22 due to revision in market values of properties twice during the year coupled with increase in rates of stamp duty, registration fee and structure rates.

### 4.3 Impact of Audit

During the last five years, Audit had pointed out misclassification of documents, under valuation, short levy of stamp duty and registration fee etc., with revenue implication of ₹235.13 crore in 1,991 cases. Of these, the Department / Government had accepted audit observations in 188 cases involving ₹1.73 crore and had recovered ₹1.38 crore in 150 cases. The details are shown in the following **Table**:

**Table 4.2: Impact of Audit on stamp duty and registration fees**

(₹ in crore)

Year	Units Audited	Amount objected		Amount accepted		Amount recovered	
		Cases	Amount	Cases	Amount	Cases	Amount
2017-18	122	504	50.97	53	0.52	15	0.17
2018-19	91	464	46.73	42	0.16	42	0.16
2019-20	94	584	95.72	33	0.10	33	0.10
2020-21	35	250	34.42	27	0.07	27	0.07
2021-22	39	189	7.29	33	0.88	33	0.88
<b>Total</b>	<b>381</b>	<b>1,991</b>	<b>235.13</b>	<b>188</b>	<b>1.73</b>	<b>150</b>	<b>1.38</b>

### 4.4 Working of Internal Audit wing

Internal Audit provides a reasonable assurance of proper enforcement of laws, rules and departmental instructions and this is a vital component of the internal control framework. There is a separate Internal Audit wing in the Department. The team headed by District Registrar (DR), Market Value and Audit and Sub Registrar (SR), Market Value and Audit conducts audit of the offices of Sub Registrar as per audit programs drawn up every month. The Deputy Inspector General (DIG) concerned supervise the progress of audit. Audit reports are reviewed by the DIG and DR zone-wise / sub-zone wise.

During the year 2021-22, Department conducted audit of 225 offices and issued 3,885 audit observations. Out of this, 1,194 audit observations were settled leaving a balance of 2,691 audit observations pending for settlement.

### 4.5 Audit Methodology and Results of Audit

Registration is being carried out through a computerised system called 'Computer Aided Administration in Registration Department (CARD)' in client server Architecture.

All the documents registered by SRs are scanned and uploaded to a centralized server chronologically and all the scanned image files of the documents are stored in the central server. As per Audit's request to enable the audit teams to download these documents for exercising prescribed checks, the Commissioner and Inspector General (Registration & Stamps) enabled audit access to image files of the documents.

During the year 2021-22, audit of stamp duty and registration fee receipts was conducted through a test check of relevant records and transactional data in 39 out of 158 offices (24.68 per cent) in the State, to gain assurance that the stamp duty and registration fees are levied, collected and accounted for in accordance with the relevant Acts, Codes and Manuals, and that the interests of the Government are safeguarded. Instances of non-levy or short levy of duties / fees, etc., were noticed in 189 cases involving an amount of ₹7.29 crore as detailed in the following **Table**.

**Table 4.3: Categories of Audit observations on Revenue receipts**

(₹ in crore)

Sl. No.	Category of Audit observations	No. of deviations	Amount
1	Short levy / non-levy of Duties	145	5.01
2	Undervaluation of properties	10	0.43
3	Misclassification of documents	30	1.80
4	Loss of revenue	3	0.01
5	Non-registration of Compulsorily Registerable documents	1	0.04
	<b>Total</b>	<b>189</b>	<b>7.29</b>

During the year 2021-22, the Department accepted under-assessments and other deficiencies in 33 cases amounting to ₹0.88 crore and realised the amount. Out of this, five cases amounting to ₹0.02 crore pertained to current year and the remaining 28 cases amounting to ₹0.86 crore pertaining to previous years.

Audit observations can be classified under five broad categories (Table 4.3) and have been intimated to respective Head of Department / auditee organisation for taking remedial action. There may be similar irregularities, errors / omissions in other units under the department but not covered in the test audit. Department may, therefore, examine all the units to ensure that the taxes are levied as per provisions of the Act and Rules.

Significant cases of non-compliance with the provisions of the Acts / Rules by the Registering Authorities (RA) in the cases brought out in the following paragraphs resulted in short realisation of stamp duty and registration fee of ₹13.84 crore in 128 cases<sup>1</sup>.

#### **4.6 Non levy of duties on documents involving distinct matters**

As per Section 5 of Indian Stamp Act, 1899, any instrument comprising or relating to several distinct matters shall be chargeable with the aggregate amount of the duties with which each separate instrument would be chargeable under the Act.

Audit test-checked registered documents between April 2019 and August 2022. In the offices of three District Registrars (DRs<sup>2</sup>) and seven Sub Registrars (SRs<sup>3</sup>), Audit noticed that 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, duties

<sup>1</sup> Out of 128 cases, 49 cases (₹2.18 crore) pertained to the year 2021-22, while 79 cases (₹11.66 crore) were prior to 2021-22.

<sup>2</sup> Hyderabad (Red Hills), Hyderabad (South -Banjara Hills) and Ranga Reddy.

<sup>3</sup> Azampura, Chevella, Keesara, Qutubullapur, Shamirpet, Shankarpally and Yadagirigutta.

amounting to ₹8.89 crore were not levied on distinct matters<sup>4</sup>. Details are as given in the **Appendix 4.1**.

District Registrar, Hyderabad (Red Hills) and Sub Registrar, Azampura while justifying the duties levied by them had replied that if any person contracted for purchase of any property (consenting party) and without receiving any conveyance, contracted again in selling the same property to any other person (vendee), the vendee is to be considered as a sub-purchaser and duty is to be levied treating the conveyance as a single transaction from vendor to the vendee.

Replies of above Registering Officers are not acceptable in view of the reason that the vendee is a direct purchaser because the consenting party did not have a registered title deed of the property. Hence payment made to the consenting party by vendee in the current document is a distinct matter of conveyance. The matter was referred to the Government in February 2023. Reply has not been received.

Short levy of duties on the documents involving distinct matters has been repeatedly highlighted in C&AG's Audit Reports. Out of 10 offices mentioned above, the observation was repeated twice in the offices of District Registrar, Ranga Reddy, Sub Registrars, Qutubullapur, Shamirpet<sup>5</sup>; once in District Registrar, Hyderabad (South-Banjara Hills)<sup>6</sup> and Shankarpally<sup>7</sup>. Repeated instances of incorrect levies indicates absence of adequate internal controls.

#### **4.7 Short levy of duties and registration fees on agricultural lands converted for non-agricultural purposes**

As per Section 27 of Indian Stamp Act, 1899, the consideration, market value of property and all other facts and circumstances affecting the levy of duty on any instrument shall be fully and truly set forth therein. To this effect, the registering officer or any other officer appointed / authorised under the Registration Act, 1908 may inspect the related property, make necessary local enquiries, call for and examine all the connected records to satisfy that the above provisions are complied with. The Telangana Revision of Market Value Guidelines 1998 stipulates different market value rates for agriculture lands, agricultural lands fit for house sites and non-agriculture lands (residential plot, etc.) on acreage / square yard basis for the purpose of valuation, levy of stamp duty and registration fee.

Audit test-checked (between April 2019 and July 2021) the registered documents in two District Registrar<sup>8</sup> and 18 Sub Registrar<sup>9</sup> offices and found that in 44 documents the registering officers had adopted a lesser rate applicable to agricultural lands in respect of lands whose conversion for non-agricultural purposes had already been approved by the Revenue Authorities. Due to suppression of fact of conversion by the executants and non-

<sup>4</sup> Cash conveyance, release of shares / rights.

<sup>5</sup> Audit Reports 2019 and 2021.

<sup>6</sup> Audit Report 2018.

<sup>7</sup> Audit Report 2019.

<sup>8</sup> Medchal-Malkajgiri and Nalgonda.

<sup>9</sup> Achampet, Bhongir, Devarkonda, Dubbaka, Farooq Nagar, Gangadhara, Ibrahimpatnam, Kalwakurthy, Keesara, Medak, Nagar Kurnool, Parigi, Peddamberpeta, Peddapalli, Sadasivapet, Shamirpet, Toopran and Yadagirigutta.

verification of the same by registering authorities, the properties were valued at ₹ 6.64 crore instead of ₹ 29.46 crore resulting in undervaluation of the properties by ₹ 22.82 crore. Short levy of stamp duty and registration fee in this regard was to the tune of ₹1.36 crore. Details are given in *Appendix 4.2*.

Sub Registrars, Peddapalli and Keesara replied that due to non-receipt of conversion orders from the Revenue Divisional Officers concerned, agricultural rates were adopted. Reply is not acceptable as these registering authorities did not exercise required checks to obtain relevant records connected to the properties from the Revenue Authorities in compliance to the provisions mentioned *ibid*. Remaining Sub Registrars and District Registrars assured detailed reply.

The matter was referred to the Government in December 2022. Reply has not been received.

Short levy of duties due to misclassification has been repeatedly highlighted in C&AG's Audit Reports of previous years. Out of 20 offices mentioned above, the observation has been repeated in six Sub Registrar offices<sup>10</sup>. Repeated instances of incorrect levies indicate absence of adequate internal controls.

#### **4.8 Short levy of duties and registration fees due to undervaluation of properties / chargeability in registered documents**

As per Section 3 of Indian Stamp Act, 1899 read with the Indian Stamp (Telangana Amendment) Act, 1922 as amended from time to time, instruments mentioned in Schedule I-A of the Act shall be chargeable with prescribed duties<sup>11</sup>. Further the chargeability set forth in the document shall be duly derived from the values of the property based on the Market Value (MV) guidelines of the property<sup>12</sup> / clarifications<sup>13</sup> issued by Commissioner and Inspector General (Registration and Stamps).

Audit test checked registered documents between April 2019 and September 2021. In 22 documents pertaining to two District Registrars (DRs)<sup>14</sup> and 10 Sub Registrars (SRs)<sup>15</sup>, the chargeability of instruments was undervalued due to,

<sup>10</sup> Bhongir, Devarakonda, Farooq Nagar and Medak appeared in 2018 Report while Kalwakurthy and Nagar Kurnool in 2019 Report.

<sup>11</sup> (i) As per Article 16 of Schedule I-A to Indian Stamp Act, 1899, duties leviable on sale certificate is equal to duties leviable to sale deed under Article 47-A of Schedule I-A of IS Act (ii) As per Article 47-A, Stamp duty for sale deed is four *per cent*, transfer duty 1.5 *per cent* and Registration fee is 0.5 *per cent* (iii) As per Article 41-B, when immovable property contributed as share by a partner / partners remains with the firm at the time of outgoing of such partner, the stamp duty shall be levied at three *per cent* on the market value of the immovable property remaining with the firm (iv) As per Article 6-B, stamp duty for Development Agreement cum General Power of Attorney is one *per cent* on the market value or the estimated cost of the proposed development of such property (v) As per Article 31(a)(vi), stamp duty leviable on lease deed for a term of 5 to 10 years is two *per cent* on the Average Annual Rent.

<sup>12</sup> The Telangana Revision of Market value Guidelines Rules, 1998.

<sup>13</sup> C&IG proceedings No. MV1/20363-A/90, dated 10 August 1990.

<sup>14</sup> Karimnagar and Medchal-Malkajiri.

<sup>15</sup> Balanagar, Ibrahimpatnam, Kukatapally, Malkajiri, Peddapalli, Secunderabad, Serlingampally, Shadnagar, Shamirpet and Tandur.

- i. incorrect adoption of market value rates (17 cases)
- ii. suppression of built-up area (three cases)
- iii. non-adoption of previous higher value of the property (one case)
- iv. incorrect adoption of consideration amount received by vendor (one case)

The undervaluation of instruments chargeable with duties explained above resulted in short levy of duties amounting to ₹1.14 crore as detailed in **Appendix 4.3**.

In reply to Audit, all the Registering Authorities assured detailed reply. The matter was referred to the Government in February 2023. Reply has not been received.

Short levy of duties due to undervaluation of properties has been repeatedly highlighted in the C&AG's Audit Reports of previous years. Out of 12 offices mentioned above, the observation was repeated in the Offices of District Registrar (DR), Medchal-Malkajgiri, Sub Registrars (SRs), Ibrahimpatnam<sup>16</sup>; Secunderabad, Serlingampally<sup>17</sup>; DR, Karimnagar and SR, Balanagar<sup>18</sup>. Repetition of incorrect levies indicates absence of adequate internal controls.

#### **4.9 Short levy of duties in Development Agreement cum General Power of Attorney documents**

According to Article 6(B) of Schedule I-A to Indian Stamp Act read with Government Order<sup>19</sup>, stamp duty shall be levied at one *per cent* on the land value or estimated cost of the proposed construction / development of the property whichever is higher on documents registered as Development Agreement cum General Power of Attorney (DGPA). Further, as per Commissioner and Inspector General's Circular<sup>20</sup>, if a certain (higher) value was adopted in respect of a specific property in an earlier transaction, the same would be adopted for the purpose of chargeability for any future transaction(s) relating to that property.

Audit test checked DGPA documents between January 2019 and December 2020. In three documents pertaining to District Registrar, Ranga Reddy and Sub Registrar, L.B.Nagar, the chargeability of documents was undervalued due to,

- i. incorrect adoption of the total cost of the proposed construction - (two documents)
- ii. non-consideration of earlier higher value of the properties registered - (one document)

Incorrect valuation of the chargeability of registered DGPAs resulted in short levy of duties amounting to ₹64.56 lakh as detailed in **Appendix 4.4**. All the Registering Officers assured detailed reply. The matter was referred to the Government in February 2023. Reply has not been received.

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<sup>16</sup> 2018 Report.

<sup>17</sup> 2019 Report.

<sup>18</sup> 2021 Report.

<sup>19</sup> G.O. Ms No. 581 Revenue (Registration-I) Department dated 30 November 2012.

<sup>20</sup> Memo No. MV1/20363-A/90 dated 10 August 1990.

Short levy of duties in DGPA's has been repeatedly highlighted in C&AG's Audit Reports of previous years. Out of two offices mentioned above, the observation was repeated in the office of District Registrar, Ranga Reddy<sup>21</sup>. Repetition of incorrect levies indicates absence of adequate internal controls.

#### **4.10 Short levy of duties due to non-adoption of market value rates in respect of rural properties**

Schedule I-A of Indian Stamp Act, 1899 provides rates of duties and fees to be adopted based on classification of documents. As per the instructions of Commissioner and Inspector General of Registration and Stamps<sup>22</sup>, when a survey number for a particular rural property prescribing market value rate for that property is not found in the schedule of the property in Form IV<sup>23</sup>, market value available for the survey numbers mentioned in the boundaries is to be adopted.

Audit test checked (between February 2021 and August 2021) the registered documents of District Registrar Office, Ranga Reddy and six Sub Registrar Offices<sup>24</sup> and found that in respect of 27 documents, the Registration Authorities, while levying duties, did not adopt the rate fixed for the survey numbers in the boundaries as per Form-IV where the rate for valuation was not found for the survey numbers mentioned in the schedule of property. This resulted in short levy of duties and fee amounting to ₹ 81.31 lakh as detailed in the **Appendix 4.5**. In reply to Audit, all the Registering Authorities assured detailed reply.

The matter was referred to the Government in February 2022. Reply has not been received.

Short levy of duties due to non-adoption of market value rates in respect of rural properties has been repeatedly highlighted in C&AG's Audit Reports of the previous years. Out of seven offices mentioned above, the observation was repeated in DR, Ranga Reddy (2019 report) and SRs, Chevella and Yadagirigutta (2021 Report). This indicates lack of compliance with CIG's instructions and inadequate internal controls.

#### **4.11 Short levy of registration fee on instruments creating 'Paripassu' charge**

*Paripassu* is a latin phrase which means "equal footing". *Paripassu* charge means that when a borrower company goes into dissolution, the assets over which the charge has been created will be distributed in proportion to the lenders' respective holdings. *Paripassu* Agreements come into existence when an industrial firm / company obtains credit facilities from more than one financial institution by offering securities on *Paripassu* basis in the form of 'Simple Mortgage', 'Mortgage by Deposit of Title Deeds' and 'hypothecation of immovable properties'.

<sup>21</sup> Audit Report 2021.

<sup>22</sup> Circular Memo No. MV1/8483/2013-2 dated 10 October 2013.

<sup>23</sup> A register presenting values for rural properties as per survey numbers and classification of land of village for the survey numbers mentioned in the boundaries.

<sup>24</sup> Chevella, Devarakonda, Gadwal, Maheshwaram, Sadasivapet and Yadagirigutta.

Government had prescribed<sup>25</sup> levy of registration fee at 0.5 per cent on the amount of loans secured by instruments which create charge on *paripassu* basis.

During the test check (between July 2021 and August 2021) of the registered documents in the offices of two District Registrars<sup>26</sup> and Sub Registrar Office, Maheshwaram, Audit noticed that, in respect of four documents, the Registering Officer collected registration fee of ₹ 10,000 each instead of charging the fee at 0.5 per cent on the loan amount of ₹ 136.85 crore. This resulted in short levy of registration fee of ₹ 68.03 lakh as detailed in **Appendix 4.6**. All the registering officers assured detailed reply.

The matter was referred to the Government in November 2022. Reply has not been received.

#### **4.12 Short levy of duties due to misclassification of documents**

Schedule I-A of Indian Stamp Act, 1899 provides rates of duties and fees to be adopted based on classification of documents. Further, the Commissioner and Inspector General of Registration and Stamps had issued instructions<sup>27</sup> that the Sub Registrar should thoroughly scrutinise the recitals of the document presented for Registration so as to arrive at the correct classification of the documents for adoption of the applicable rates of duties and fees.

During the test-check (between July 2021 and September 2021) of registered documents in two District Registrar (DR) Offices<sup>28</sup> and three Sub Registrar (SR) Offices<sup>29</sup>, Audit noticed that in respect of 13 documents, there was short levy of duties due to misclassification of documents amounting to ₹ 26.50 lakh as detailed in the **Appendix 4.7**.

All the Registering officers assured detailed reply. The matter was referred to the Government in December 2022. Reply has not been received.

Short levy of duties due to misclassification of documents has been repeatedly highlighted in C&AG's Audit Reports of previous years. Out of five offices mentioned above, the observation was underlined twice in DR, Ranga Reddy<sup>30</sup> and once in SRs, LB Nagar and Maheshwaram<sup>31</sup>. Repetition of incorrect levies indicates absence of adequate internal controls.

#### **4.13 Short levy of duties on lease deeds**

According to Article 31(a)(iii) of Schedule I-A to Indian Stamp Act read with Government Order<sup>32</sup> issued in November 2013, in respect of lease deeds for five to 10 years, stamp duty is to be levied at two per cent of the Average Annual Rent of the lease period.

<sup>25</sup> G.O. Ms. No.463 Revenue (Registration-I) Department, dated 17 August 2013.

<sup>26</sup> Hyderabad (South-Banjara Hills) and Warangal.

<sup>27</sup> Memo No.FR1/1A/4946/96 dated 16 October 2000.

<sup>28</sup> Adilabad and Ranga Reddy.

<sup>29</sup> Gadwal, LB Nagar and Maheshwaram.

<sup>30</sup> 2018 and 2021 Reports.

<sup>31</sup> 2019 Report.

<sup>32</sup> G.O.Ms.No. 588, Revenue (Regn-I) Department, dated 04 December 2013.

During the test-check (November 2020) of registered documents in the Office of the District Registrar, Ranga Reddy, Audit noticed that in respect of two lease deeds, duties leviable as per the lease period and Average Annual Rent were incorrectly computed. This resulted in short levy of duties amounting to ₹5.32 lakh. Department assured detailed reply.

The matter was referred to the Government in December 2022. Reply has not been received.



# Chapter V

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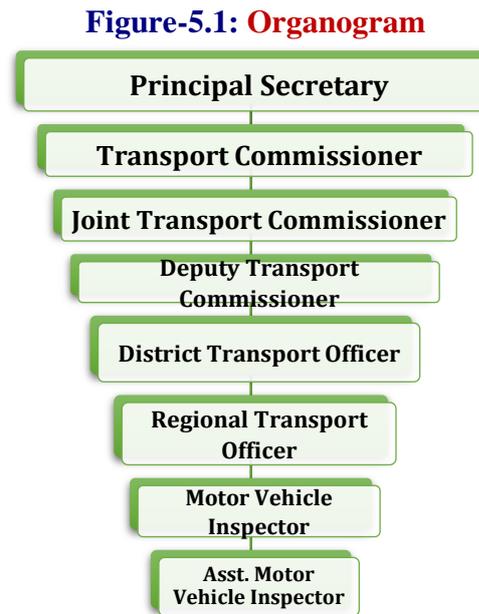
## **Motor Vehicle Taxes**

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## 5.1 Tax Administration

Transport Department is primarily responsible for enforcement of provisions of various<sup>1</sup> Acts and Rules that include provisions for collection of taxes, fees, issue of driving licences, certificates of fitness to transport vehicles, registration of motor vehicles and grant of regular and temporary permits to vehicles. The Department is headed by the Principal Secretary at Government level. The organisational set up of the Department for administration of tax is depicted in the organogram given alongside:



## 5.2 Trend of receipts

Actual receipts from Motor Vehicle Taxes during the years 2017-18 to 2021-22 against Budget Estimates is shown in the following **Table**:

**Table 5.1: Receipts from Motor Vehicle Taxes**

(₹ in crore)

Year	Budget Estimates	Actual Receipts	Variation Excess (+) / Shortfall (-)	Percentage of variation	Total Tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2017-18	3,000.00	3,589.48	(+)589.48	19.65	56,519.82	6.35
2018-19	3,950.00	3,761.94	(-)188.06	(-)4.76	64,674.07	5.82
2019-20	3,714.00	3,934.75	(+)220.75	5.94	67,597.49	5.82
2020-21	4,300.00	3,337.96	(-)962.04	(-)22.37	66,650.37	5.01
2021-22	5,000.00	4,380.61	(-)619.39	(-)12.39	91,271.38	4.80

**Source:** Finance Accounts

As seen from the above table, while the total tax receipts of the State have increased by 61.49 per cent during the last five years, Motor Vehicle Taxes recorded an increase of 22.04 per cent. The contribution of the Motor Vehicle Taxes to the total tax receipts has decreased from 6.35 per cent to 4.80 per cent during this period.

<sup>1</sup> The Transport Department of Government of Telangana is governed by The Central Motor Vehicles Act, 1988 (Central MV Act), The Central Motor Vehicles Rules, 1989 (Central MV Rules) along with The Telangana Motor Vehicles Taxation Act, 1963 (State MV Taxation Act), The Telangana Motor Vehicles Taxation Rules, 1963 (State MV Taxation Rules) and The Telangana Motor Vehicles Rules, 1989 (State MV Rules) which have been adapted (G.O.Ms. No. 2, Transport, Roads and Buildings (TR-I) Department, dated 17 June 2014) by the State of Telangana.

### 5.3 Cost of collection

The figures of gross collection in respect of Motor Vehicle Taxes, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2017-18 to 2021-22 are mentioned below:

**Table 5.2: Cost of collection of Motor Vehicle Taxes**

		(₹in crore)		
Head of Revenue	Year	Gross collection	Expenditure on collection of Revenue	Percentage of cost of collection to gross collection
Motor Vehicle Taxes	2017-18	3,589.48	76.10	2.12
	2018-19	3,761.94	79.38	2.11
	2019-20	3,934.75	129.33	3.29
	2020-21	3,337.96	86.44	2.59
	2021-22	4,380.61	109.01	2.49

Source: Finance Accounts

Although the cost of collection and gross collections of the Department have increased during 2017-18 to 2019-20, there was marginal decrease in expenditure and gross collections during the year 2020-21. Despite increase in gross collections and expenditure on cost of collection during the year 2021-22, there was dip in terms of percentage of cost of collection to gross collection compared to previous year.

### 5.4 Impact of Audit

During the last five years, Audit had pointed out non / short levy of duties, non / short realisation of dues, non / short levy of interest with total revenue implication of ₹88.55 crore in 433 cases. Of this, the Department accepted observations valuing ₹2.02 crore in 2017-18. Thereafter there has been no communication from the department on the issues raised in Inspection Reports / Audit Reports. Also, there was no communication about the collections made of the amounts accepted by them, indicating poor response to Audit observations.

### 5.5 Working of Internal Audit wing

Internal audit provides a reasonable assurance of proper enforcement of laws, rules and departmental instructions, and this is a vital component of the internal control framework. Audit noticed that no system of internal audit had been introduced in the Department so far to check the compliance with Rules / Government orders by the Department.

### 5.6 Audit Methodology and Results of Audit

Transport Department of Telangana computerised its core functions like issue of driving licences, registration of vehicles, collection of revenue, grant of permits, checks of motor vehicles, etc., through a 'Citizen Friendly Services in Transport Department (CFST)' application. The CFST data is in a central server located in the Transport Commissionerate. The Regional Transport Authorities (RTAs) are connected to the Data Centre (Transport Commissionerate) through Telangana State-wide Area Network (TSWAN). The service access is also available at each Regional Transport Office.

During the year 2021-22, data in CFST relating to the nine sampled units was downloaded from RTO portal by the Audit teams and analysed with the help of analytical tools like Interactive Data Extraction and Analysis (IDEA) and Microsoft Excel.

Accordingly, Audit of Motor Vehicles Tax receipts was conducted through a test check of relevant records and transaction data of nine sampled units in the State during 2021-22 to gain assurance that the fees are levied, collected and accounted for in accordance with the relevant Acts, Codes and Manuals, and the interests of the Government are safeguarded. Audit brought out instances of deviations / non-compliance with the provisions of the Acts and Rules in 49 cases involving an amount of ₹10.40 crore under the following categories:

**Table 5.3: Category of Audit Observations on Revenue Receipts**

(₹ in crore)			
Sl. No.	Category of Audit observations	No. of deviations	Amount
1	Non-levy of quarterly tax and penalty	6	3.12
2	Vehicles plying without valid fitness certificates	10	4.25
3	Vehicles plying without valid registration certificates	8	1.61
4	Non-collection of green tax	9	0.95
5	Non-disposal of vehicle check reports and consequential non-realisation of compounding fee	6	0.26
6	Other State vehicles plying without assignment of Telangana State registration mark	7	0.19
7.	Short levy of tax in respect of second and subsequent personalised vehicles owned by individuals	3	0.02
<b>Total</b>		<b>49</b>	<b>10.40</b>

There may be similar irregularities, errors / omissions not covered in the test audit. The Department may, therefore, examine all the transactions to ensure that the taxes are levied as per provisions of the Acts and Rules.

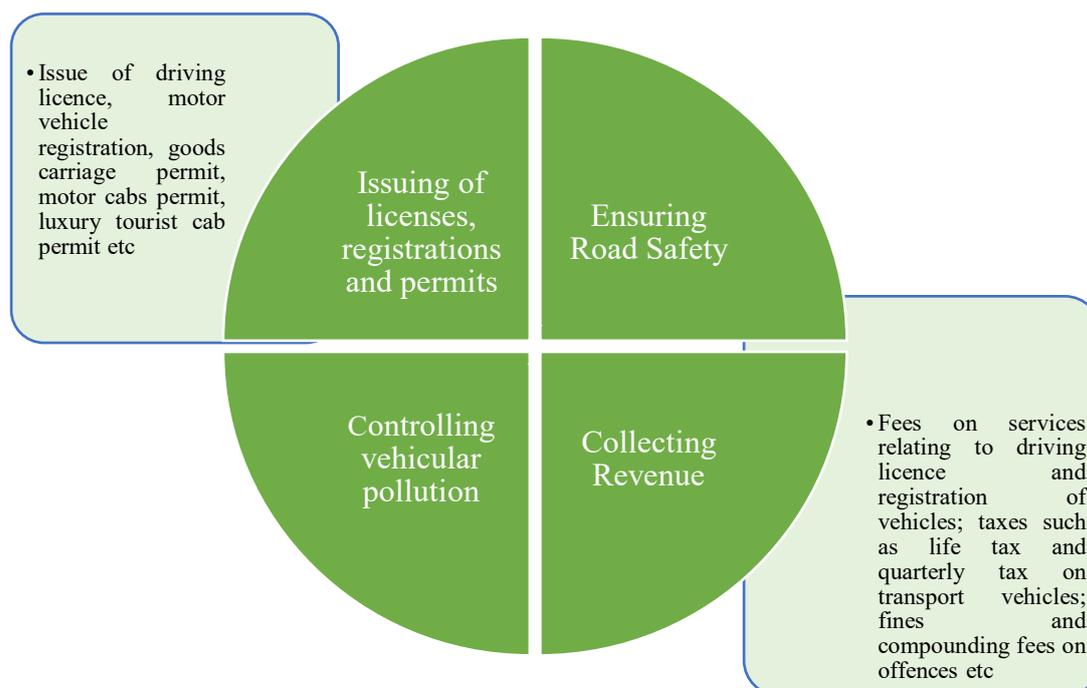
Significant cases of non-compliance with the provisions of the Acts / Rules in the cases are brought out in the following Compliance Audit Paragraph on '*Citizen Friendly Services in Transport Department*' discussed below.

## **5.7 Compliance Audit on 'Citizen Friendly Services in Transport Department (CFST)'**

### **5.7.1 Introduction**

The Transport Department functions under the overall administrative control of Principal Secretary, Transport, Roads and Buildings. Transport Commissioner is the head of the Department, who is assisted by two Joint Transport Commissioners at head office level and Joint Transport Commissioner (Hyderabad, Central Zone), Deputy Transport Commissioners, District Transport Officers, Regional Transport Officers, Motor Vehicle Inspectors and Assistant Motor Vehicle Inspectors at field level.

The Transport Department is responsible for the functions as mentioned below:



### 5.7.2 Functional Set-up

The Department implemented 'Citizen Friendly Service in Transport Department (CFST)' software in two tier architecture<sup>2</sup> in May 2000 to help to discharge its above mentioned functions with greater public participation. Subsequently, CFST was upgraded to three tier<sup>3</sup> architecture by April 2013. Through CFST, citizens can book a slot online through the Department portal (<https://transport.telangana.gov.in/>) and choose a feasible date to avail services of the Transport Department. They can make payment online or by visiting MeeSeva centres for the service opted by them. Citizens can also avail transport services through T-App Folio Mobile App which is a m-Governance (mobile Governance) initiative of the State Government where citizens can avail various services of Government through mobile app introduced on 24 July 2020.

### 5.7.3 Audit objectives

The audit of 'Citizen Friendly Services in Transport Department (CFST)' has been conducted to ascertain whether:

1. The CFST is compliant with the provisions of Motor Vehicles Acts with respect to licensing, vehicle registrations, fitness and permits of vehicles;
2. Taxes, fees and user charges are correctly assessed, levied and collected according to provisions of Acts and Rules through CFST; and
3. Internal Controls on implementation of CFST were adequate and effective.

<sup>2</sup> Server and Client system.

<sup>3</sup> Client, Application Server and Data Server.

#### 5.7.4 Audit criteria

The audit findings were benchmarked against the criteria sourced from the following:

- i. Motor Vehicle Act, 1988<sup>4</sup> (MV Act)
- ii. Central Motor Vehicle Rules, 1989 (CMV Rules)
- iii. Telangana State Motor Vehicle Taxation Act, 1963 (TSMVT Act)
- iv. Telangana State Motor Vehicle Rules, 1989
- v. Circular instructions of the Department issued from time to time
- vi. IT Act 2000 (latest Amendment)

#### 5.7.5 Scope and methodology of Audit

The Compliance Audit on ‘Citizen Friendly Services in Transport Department’ was conducted with the help of Computer Assisted Audit Techniques (CAATs). Audit analysed the data pertaining to CFST provided by Transport Commissioner for the period from April 2019 to March 2022 between June and December 2022 using Interactive Data Extraction and Analysis (IDEA). Audit methodology included analysis of data using Computer Assisted Audit Techniques and scrutiny of records in the sample unit offices and the office of the Commissioner, Transport Department. An entry conference with the Department was held on 26 September 2022 to apprise them about the scope and methodology of audit. Out of 38 unit offices of the Transport Department, 10 offices<sup>5</sup> (25 per cent) were selected on the basis of stratified sampling methodology using various parameters<sup>6</sup>. Audit findings were discussed with the Department in the exit conference held on 17 May 2023 and replies (May 2023) of the Department have been incorporated in the report.

### Audit Findings

#### 5.7.6 Provision for services in CFST

Provision for services such as issue / renewal of driving licenses, registration of motor vehicles, grant of permits<sup>7</sup>, etc., are enforced under Motor Vehicle Act, 1988 and Central Motor Vehicle Rules, 1989 through CFST. Information pertaining to the transactions relating to licenses issued, registrations and permits granted during the Audit period are as shown below:

<sup>4</sup> Last amended in 2019.

<sup>5</sup> JTC and DTO, Hyderabad Central Zone; DTOs Adilabad, Hanumakonda, Kamareddy, Karimnagar, Medchal, Nizamabad, Ranga Reddy, Vikarabad and Wanaparthy.

<sup>6</sup> (i) the total revenue (ii) the vehicle strength of new vehicles registered in the unit, and (iii) the number of check posts in the unit.

<sup>7</sup> Permit to use motor vehicle as a transport vehicle in any public place. The kinds of permit are goods carriage permit, stage carriage permit, contract carriage permit, motor cabs permit, luxury tourist cab permit, educational institution buses permit, countersignature permit, temporary permit etc.

**Table 5.4: Details of services provided under CFST**

Particulars	(in numbers)			
	2019-20	2020-21	2021-22	Total
Driving Licenses (including renewals and others)	20,32,372	16,48,873	17,74,103	54,55,348
Registration Certificates (including renewals and others)	24,95,318	20,18,101	20,69,973	65,83,392
Permits (including renewals and others)	3,33,406	2,06,273	2,45,580	7,85,259

Source: MIS Reports of Transport Department

Audit findings on services provided by the Department through CFST are discussed in the succeeding paragraphs.

#### 5.7.6.1 Issue of licenses to the drivers of Motor Vehicles

As per Motor Vehicle Act 1988, a valid driving license is necessary to drive any motor vehicle on public roads. Any person who wishes to drive a motor vehicle has to first obtain a learner's license. A permanent license<sup>8</sup> of the appropriate class will be granted after the successful completion of a driving test conducted by the authority concerned. Sections 3 to 11 of Motor Vehicle Act, 1988 prescribe the conditions and steps to be followed for application and issue of license to the drivers of motor vehicles including Stage carriages<sup>9</sup>. The test for the issue of the Permanent license is conducted after a minimum of 30 days from the date of issue of the learner's license. In case of failure, a re-test can be requested but not before a period of seven days. The Act also provides for renewal of license with effect from the date of its expiry<sup>10</sup> and upon collecting required fee for the purpose.

During the period of Audit *i.e.*, from 2019-20 to 2021-22, Department issued 14,44,223 licenses and 21,90,678 renewals.

Analysis of CFST data and scrutiny of relevant files relating to issue of licenses revealed the following gaps in data capture / validation controls with respect to issue or renewal of driving licenses; and provisions to upload the applicant's documents that address the risk of non-compliance to the Act provisions and Rules in force.

- i) The feature for uploading the scanned documents relating to evidence / proof of age, address, medical fitness data etc., was not inbuilt in CFST. Department replied that evidence in electronic format was being captured only when applications were routed through T-App<sup>11</sup>. However, Audit noticed that applications through T-App constitute

<sup>8</sup> A permanent license can be granted to any individual only after completion of 16 years of age, for driving motorcycles with engine capacity not exceeding 50cc with the consent of the parent / guardian. After completion of 18 years of age, motorcycles with engine capacity exceeding 50cc and light motor vehicle. After completion of 20 years of age, for an endorsement to drive transport vehicles.

<sup>9</sup> As per Section 2(40) of MV Act, "stage carriage" means a motor vehicle constructed or adapted to carry more than six passengers excluding the driver for hire or reward at separate fares paid by or for individual passengers, either for the whole journey or for stages of the journey.

<sup>10</sup> 5 to 20 years from the date of issue of original driving license.

<sup>11</sup> Governance initiative of the Government of Telangana where citizens can avail the services of Government through mobile App.

meagre transactions (1.06 *per cent*<sup>12</sup>). Bulk transactions are still in manual mode only and therefore they need to be scanned and uploaded in the CFST.

**Recommendation 1:**

***Provision may be made in CFST for uploading scanned documents of evidence produced at the time of issue of licenses to enable verification of age, address etc.***

Department replied that uploading of scanned documents for verification purpose would be taken up in case of manual submission of application in the RTA office.

- ii) Reports of expiry of driving licences are not generated in CFST application. Renewal of licenses is done only when the applicant comes forward for renewal or through enforcement work. In the absence of reports, field / unit offices are unable to monitor the cases where the vehicles are run by drivers without holding valid license and also, the revenue due in the form of renewal fee from the drivers requiring renewals.

Department replied that the suggestion of Audit for generation of reports of expiry of driving licences would be implemented in CFST application.

- iii) Licenses suspended during the period 2019-20 to 2021-22 were entered without capturing critical information details such as reason, offense nature, section etc., in 787 cases. This would impact the integrity of data available for review and evaluation by the Department. Department replied that CFST Application would be modified suitably to capture all the details while suspending the licences.
- iv) Under the Motor Vehicles Act<sup>13</sup>, a police officer or any other person authorised by Government shall seize the driving licence held by the driver if he has committed any offence<sup>14</sup> and forward his Reports in the form of Vehicle Check Reports (VCRs) to the licensing authority for initiating disqualification or revocation proceedings<sup>15</sup>.

Analysis of VCR reports data (Transport Department) revealed that 5,641 offences<sup>16</sup> were committed by drivers of motor vehicles. However, licenses of the drivers were seized in 288 cases. Data further revealed that details of driving licenses were not captured in 545 cases. Non-capture of the licenses of drivers would have impact on monitoring the second and subsequent offences committed by the licence holders.

Department replied that the validation for automatically capturing the offence '***Without Driving Licence / Driving Licence not produced***' would be implemented in CFST when the details of Driving Licence are not available. However, the Department did not offer any remarks on non-seizure of licences.

<sup>12</sup> Only 57,957 transactions against the total 54,55,348 licenses issued during the audit period.

<sup>13</sup> Section 206 (4) of MV Act, 1988.

<sup>14</sup> under any of Sections 183, 184, 185, 189, 190, 194C, 194D or 194E of the MVT Act.

<sup>15</sup> under Section 19 of MVT Act.

<sup>16</sup> Section 183 - Driving at excessive speed / Section 189 Racing and trials of speed (94 cases); Section 184 - Driving dangerously (2,619 cases); Section 185 - Driving by a drunken person or under the influence of drugs (7 cases); Section 190 - Using vehicle in unsafe condition (222 cases); Section 194D - not wearing protective headgear (2,699 cases).

### 5.7.6.2 Registration of Vehicles

Section 39 of MV Act, 1988 stipulates that unless the vehicle is registered in accordance with provisions of the Motor Vehicles Act, no person shall drive any motor vehicle and no owner of a motor vehicle shall cause or permit the vehicle to be driven without a registration mark. As per provisions<sup>17</sup>, the owner of a motor vehicle shall apply (in Form 20) for temporary registration to any registering authority or at a MeeSeva centre or to a dealer recognised by the Transport Commissioner dealing with the sale of new motor vehicles within a period of seven days from the date of taking delivery of the vehicle and such authority shall issue a temporary certificate and temporary registration mark in accordance with such Rules as may be made by the Central Government. A certificate of permanent registration in Form 23 or 23 A should be issued within a period of 30 days from the date of issue of Temporary Registration.

As per Rule 52(3) of Central Motor Vehicle Rules 1989, a motor vehicle other than a transport vehicle shall not be deemed to be validly registered after expiry of the period of validity entered in the certificate of registration and no such vehicle shall be used in any public place until its certificate of registration is renewed.

During the period 2019-20 to 2021-22, 30,07,729 Registration certificates were issued by the Department. Scrutiny of CFST data and relevant registration files of vehicles revealed the following.

- i) Although the grace period (30 days) had lapsed, 2,94,952 temporarily registered vehicles were not permanently registered in the jurisdictional DTO offices. Further analysis revealed that as of May 2023, 83,709 vehicles were only permanently registered of the above unregistered vehicles. Thus, balance 2,11,243 vehicles were yet to be registered permanently (May 2023) in the respective jurisdictional offices. Out of these, 15,140 are transport vehicles and exemption was given to 2,588 vehicles. In respect of the remaining 12,552 vehicles, non-registration resulted in revenue being foregone towards quarterly tax<sup>18</sup> up to ₹5.45 crore.
- ii) Data analysis further revealed that out of 24,84,892 vehicles sold during the period from April 2019 to March 2022, there was time lapse ranging from 31 days to 1,114 days between the date of temporary registration and permanent registration in respect of 9,47,204 vehicles with consequential delay in realisation of quarterly tax amounting to ₹2.63 crore in respect of 29,812 transport vehicles. Further the due date for renewal also correspondingly gets extended which will have further consequential effects on revenue as indicated below:
  - ❖ Due date for collection of Green tax<sup>19</sup> also gets extended by the number of days the permanent registration gets delayed.

<sup>17</sup> Section 43 of MV Act read with Rule 84 (1) TSMV Rules; Rule 47 and 48 of CMV Rules.

<sup>18</sup> Quarterly tax is collected on each class of transport vehicles on the basis of gross vehicle weight, unladen weight, seating capacity etc.

<sup>19</sup> Green Tax (GT) shall be levied on Transport vehicles and non-transport vehicles that have completed seven years of age and 15 years of age respectively from the date of registration.

- ❖ In case of vehicles moving to other States due to change of residence of the owner or transfer of ownership, refund of life tax<sup>20</sup> is given based on the age of the vehicles which is calculated from the date of permanent registration instead of the date of temporary registration, which may result in excess refund of life tax.

Department replied that Quarterly tax for transport vehicles was being collected with penalty from the period when the last tax was paid, and furnished details to this effect to Audit. However, on further examination of data, Audit noticed that payment particulars of Quarterly tax dues amounting to ₹26.28 lakh out of ₹2.63 crore pointed out above were not traced in the CFST data.

- iii. Permanent registration and other details are maintained in CFST. However, required enclosures such as sale certificate, valid insurance certificate, proof of address (residential proof), road worthiness etc., are manually checked, but not uploaded in CFST. Manual records are prone to destruction and loss. In the absence of feature for uploading the documents in CFST, retrieval of records becomes difficult.
- iv. In 10 sampled offices, renewal of registration certificate (as on 31 March 2022) for 79,953 non-transport vehicles was not done and registration certificate renewal fee on these vehicles worked out to be ₹7.07 crore. CFST does not have a feature for automatic generation of reminders / alerts.

***Recommendation 2:***

***Provision may be made in CFST for automated generation of reminders / alerts to vehicle owners for renewal of registration certificates as well as to the Department for tracking such vehicles.***

Department while accepting the observation and recommendation stated that SMS alerts were being sent to the owners of the vehicles to get their registrations renewed before expiry of registration. Considering huge number of pendency of cases of renewal of registration certificates of vehicles, Audit suggested during exit conference to consider suspension and cancellation of these registrations. Department accepted the suggestion.

- v. From the records of Unit offices, it was noticed that 6,376 cases of other States vehicles were not reassigned with Telangana State (TS) Registration mark even though these other States vehicles were staying beyond 12 months in the State. This is in violation of the provisions of Section 47 of MV Act. As no provision was made in CFST for alerting such cases to the vehicle owners, an amount of ₹72.51 lakh towards re-assignment fees remained unrealised.

***Recommendation 3:***

***Provision may be made in CFST for alerting the vehicle owners for reassignment after the completion of 12 months stay in the State and raise demands for collection of fees.***

<sup>20</sup> Life tax is a lumpsum tax collected during the registration of non -transport vehicles.

Department accepted the observation and recommendation and stated that they would enforce on the vehicles staying beyond the stipulated period, book the cases and ensure completion of reassignments.

- vi. As per amendment to CMV Rules<sup>21</sup>, every transport vehicle manufactured on or after 1 October 2015 shall be equipped or fitted by the vehicle manufacturer, either at the stage of manufacturing or dealership stage, with a speed governor (Speed Limiting Device (SLD) or Speed Limiting Function).

Data analysis revealed that in 49,219 out of 3,82,291 transport vehicles manufactured on or after the 1 October 2015, SLD Serial numbers were captured. Thus, in respect of 3,33,072 transport vehicles either the owners had not complied with the provision of speed governors in their vehicles or the details of speed governor device were not captured in the system. Hence there is likelihood of risk that these vehicles would be plying in violation of road safety.

Department replied that instructions were issued to all the District Transport Offices / Regional Transport Offices / Unit Offices to ensure strict compliance with regard to capturing of data on speed governors.

- vii. Other cases of incomplete data and data inconsistencies are as discussed below:
- a) Engine and chassis numbers are unique identifications of a vehicle. In 1,603 cases<sup>22</sup> same engine number or same chassis number was captured against two or more than two vehicles. CFST did not have adequate control to check duplicate entries in the data field of engine and chassis number.

**Recommendation 4:**

***CFST may be equipped with adequate controls to validate entry of engine number and chassis number to avoid duplicate entries and to ensure data integrity.***

Department replied that the above cases pertained to legacy data and, hence controls would be placed in CFST for entering backlog data to avoid entry of duplicate chassis / engine number.

- b) In 7,909 cases, it was noticed from the CFST database that the unladen weight of transport vehicles was greater than maximum gross vehicle weight or laden weight. This indicates data inconsistencies and compulsion of manual intervention to arrive at accurate tax calculation since the basis for tax calculation is laden / unladen weights for most of the vehicles like Goods carriage, Articulated vehicle<sup>23</sup> and Education Institution buses etc.

**Recommendation 5:**

***CFST system may be strengthened to avoid inconsistencies in capturing the data relating to weight of vehicles that give scope for manual intervention in arriving at tax liability.***

<sup>21</sup> Rule 118 of CMV Rules vide G.O.M.s No 50, Transport, Roads & Buildings (TR-1) Dated 9 November 2015.

<sup>22</sup> 333 cases same engine number; 1,270 cases same chassis numbers.

<sup>23</sup> Articulated vehicle means a motor vehicle to which a semitrailer is attached.

Department replied that adequate controls would be placed in CFST to restrict the entry of the cases where the unladen weight of the vehicle is more than the gross vehicle weight.

- c) In 21,764 cases there was mismatch between the data pertaining to class of vehicle captured at the dealer's point during temporary registration and final registration in Road Transport Authority. Out of these vehicles, in 2,901<sup>24</sup> vehicles the tax liability changed from taxable to exempt due to change of class of vehicle. Similarly, there were mismatches in the data captured for the type of fuel used in 869 vehicles. Inconsistencies in data relating to class of vehicle may result in incorrect computation of tax liability, as the tax rates vary with each class of vehicle.

**Recommendation 6:**

***Provision may be made in CFST for alerting the cases of mismatches in the data pertaining to the class of vehicles and type of fuel used in vehicles for reconciliation and review.***

Department, while clarifying that the 2,901 vehicles were officially converted from commercial category to exempted category (agricultural purpose - tractor trailers), stated further that the controls would be placed in CFST application to restrict change in fuel.

- d) Custom clearance details in respect of imported vehicles are not captured / maintained in CFST, as there is no provision. In the absence of this provision, the procedure is solely dependent on the discretion of the registering authorities. It is pertinent to mention that without Customs clearance, there is a risk of not applying the actual cost of the imported vehicle for levy of lifetime tax.

**Recommendation 7:**

***CFST may also be equipped with adequate controls to capture Customs clearance details of the imported vehicles to avoid manual intervention at the time of registration of the vehicle and also to collect correct amount of tax.***

Department accepted the observation and assured that provision would be made in CFST to capture the custom clearance details of imported vehicles.

### 5.7.6.3 Fitness certificates

As per Section 56 of MV Act, 1988 a transport vehicle shall not be deemed to be validly registered unless it carries a Fitness Certificate. According to Rule 62 of CMV Rules, 1989 as amended from 1 April 2021, Fitness Certificate in respect of a transport vehicle is valid for a period of two years if the age of vehicle is less than eight years and one year for vehicles older than eight years. However, as per erstwhile Rule *ibid*, the period of Fitness certificate shall be two years if it is new transport vehicle and thereafter, renewal of the

<sup>24</sup> Motorcycle for hire changed to motorcycle -2,589; Trailer for Commercial use changed to trailer for agriculture purpose- 249; Goods changed to other exempt vehicle- 63.

certificate will be required to be done every year. Rule 81 of CMV Rules prescribes fees for conducting test of a vehicle for grant and renewal of Fitness Certificate.

The total 10,55,156 Fitness Certificate cases processed during the period 1 April 2019 to 31 March 2022 include 7,40,972 cases of renewals, 2,92,923 cases of new issues and other cases of suspension, cancellation, revocation etc. Analysis of Fitness Certificates data revealed incomplete data capture / inadequate validity controls as evident from the following observations.

- i. Renewal of Fitness Certificate shall be granted only after conducting tests specified under Rule 62 such as tests on spark plug, safety glass, braking system, steering gear, etc., by the Inspecting Officer. CFST does not have provision to capture the test results carried out by inspecting officers in the format prescribed under Rule 62 of CMV Rules. In the absence of required fields, the procedure is solely dependent on the discretion of the Motor Vehicle Inspector while issuing Fitness Certificates.

**Recommendation 8:**

***Provision may be made in CFST for capturing the test results carried out by inspecting officers in the prescribed format to avoid manual intervention in issuing Fitness Certificates.***

Department replied that a provision would be made in CFST to capture the test results carried out by the Inspecting Officers in the format prescribed under CMV Rules.

- ii. Out of 7,40,972 Fitness Certificates renewed between 1 April 2019 and 31 March 2022, 1,34,928<sup>25</sup> (18 per cent) Fitness Certificates were renewed for more than the prescribed period of one year. Department accepted the observation.
- iii. Fitness Certificate issued in 41,630 vehicles out of 10,55,156 cases without valid Registration certificate. This indicates that CFST lacks adequate controls to enforce that Fitness Certificates be granted to only vehicles having valid Registration Certificate.

Department may ensure that penalty under section 192 of the Motor Vehicle Act is imposed on these vehicle owners for using the vehicle without valid Registration certificate.

**Recommendation 9:**

***CFST may be equipped with adequate controls to grant Fitness Certificates only to vehicles having valid Registration Certificates.***

Department accepted the recommendation during exit conference.

- iv. Data analysis revealed that out of 7,65,703 transport vehicles, Fitness Certificates of 1,34,717 vehicles had expired as on 31 March 2022. Of these, 98,085 vehicles are less than eight years old and 36,632 vehicles are more than eight years old. Plying of these

<sup>25</sup> 1,34,088 renewed between 1 April 2019 and 31 March 2021; 840 cases renewed between 1 April 2021 and 31 March 2022.

vehicles may risk road safety besides loss of revenue towards renewal fee. Scrutiny of Fitness Certificate records / data in 10 sampled offices revealed that renewal was not done in respect of 93,834 transport vehicles with renewal fee of ₹7.68 crore.

Though the Department had replied that SMS alerts were being given 15 days before the expiry date of Fitness Certificate and seizure of vehicles was done during enforcement check, the pendency of cases in renewal of fitness certificates of vehicles is significantly high.

- v. As per Government orders<sup>26</sup>, transport vehicles registered on or before 1 October 2015 are to be equipped / fit with speed governor / Speed Limiting Device (SLD). In respect of old vehicles, Unique Identification Number (UIN) of SLD with make / model should be endorsed<sup>27</sup> at the time of issue of Fitness Certificate. Transport Commissioner instructed (June 2019) further to capture UIN in respect of SLD before approval of Fitness Certificate. Audit noticed that SLD numbers and details of model, manufacturer *etc.*, were not captured while issuing Fitness Certificate in respect of 1,84,062 transport vehicles.

Department replied that instructions had been issued to all the District Transport Offices / Regional Transport Offices / Unit Offices to capture relevant information on speed governors and ensure strict compliance in capturing the required data and uploading accordingly in CFST.

- vi. As per CMV Rules, fare meter number and fare meter maker details are to be captured in respect of Autorickshaws and a provision to this effect has been made in CFST. Audit, however noticed that,
- a. A total number of 1,94,411 Fitness certificates were issued during the audit period. However, the details of fare meters were not captured in CFST in respect of 1,40,975 (73 *per cent*) Autorickshaws whose Fitness Certificates issued during 2019 to 2022, despite having provision in CFST for the same.
  - b. Further, out of 53,436 Fitness Certificates issued where fare meter numbers were captured, duplicate Fare meter number was noticed in 52,322 (98 *per cent*) cases. This indicated that fare meter number was captured correctly only in 1,114 vehicles. There is also a risk that duplicate fare meters in the Autorickshaws may be tampered with to cheat the passengers.

Department accepted the observation and stated that provision for capturing the fare meter maker would be made in CFST along with validation control to avoid duplicate entries.

- vii. CFST does not have provision to capture inputs like retro-ID<sup>28</sup>, nature / volume of smoke emission and exhaust gas during fitness tests, which are critical for effective redressal of road safety and vehicular pollution control. Department replied that the testing process of Pollution Under Control (PUC) was automated, and all the emission

<sup>26</sup> G.O.Ms.No 50, Transport, Roads & Buildings (TR-1) dated 9 November 2015.

<sup>27</sup> G.O.Rt.No 6, Transport, Roads & Buildings (TR-1) dated 25 February 2019.

<sup>28</sup> ID number of Retro fitment kit used in vehicles converted into electrical vehicle.

values were recorded in the central server. However, the Department did not clarify about the non-capture of PUC details while granting fitness certificate.

**Recommendation 10:**

***Provision may be made in CFST to capture correct fare meter numbers/maker details, inputs like retro-ID, nature / volume of smoke emission and exhaust gas during fitness tests to ensure that the fitness certificate is given to eligible vehicle.***

**5.7.6.4 Transport Vehicles plying without valid permits**

As per Section 66 of the Motor Vehicle Act, 1988 no owner of a motor vehicle shall use or permit the use of the vehicle as a transport vehicle in any public place without a valid permit. As per Section 81, a permit other than a temporary permit issued under Section 87 or a special permit issued under sub-section (8) of Section 88 shall be effective from the date of issuance or renewal thereof for a period of five years. Rule 195 of Telangana Motor Vehicles Rules, 1989 read with Government orders<sup>29</sup> prescribes fees for grant and renewal of permits other than temporary permits of various categories of transport vehicles.

Analysis of CFST permit data and reports generated from CFST in sampled unit offices revealed that 17,675 transport vehicles such as Contract Carriage, Educational Institutional Buses, Goods Carriage etc., were without valid permits (expired permits) while 9,413 transport vehicles were without permits. Audit further noticed in 13,880 cases (transport vehicles) that the tax validity as in tax payment records was up to date indicating that vehicles were still plying on roads. This resulted in loss of revenue towards issue / renewal of permits fee of transport vehicles.

Audit did not find any record showing the action taken by Department to issue / renew permits of the above-mentioned vehicles and the mechanism evolved to ascertain the position of vehicles plying on roads without valid permits since their road worthiness is at risk.

Though the Department mentioned that SMS alerts were being sent to the owners of vehicles and executive staff were seizing the vehicles plying without permit, pendency of cases in issue / renewal of permits is high.

Government may ensure that penalty under section 192A of the Motor Vehicle Act is imposed on these vehicle owners for using the vehicle without valid permits.

**5.7.7 Assessment and Collection of Tax**

Assessment of vehicular tax demand, collection and balance are automated in CFST along with checking of arrears of tax and fines for belated payments. During the audit period, the revenue collected by Department through various sources of taxes and fees is as indicated below.

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<sup>29</sup> G.O.Ms. No. 334, Transport, Roads and Buildings (TR.1) Department dated 13 November 2008.

**Table 5.5: Sources of Revenue to Transport Department**

(₹ in crore)			
Source of Revenue collection	2019-20*	2020-21*	2021-22 <sup>#</sup>
Life Tax on vehicles	2,388.36	2,166.29	2,909.23
Quarterly Tax	643.86	450.69	450.47
User charges	137.21	110.99	119.37
Registration Fee	470.07	356.51	421.25
Compounding Fee	246.80	218.78	64.94
Green Tax	5.26	4.87	NA
Others <sup>30</sup>	43.19	29.83	NA
<b>Total</b>	<b>3,934.75</b>	<b>3,337.96</b>	<b>3,965.26</b>

**Source:** \*Actuals of 2019-20 and 2020-21 extracted from Budget Estimates for 2021-22 and 2022-23 (since Finance Accounts did not depict the sub-head wise figures)

<sup>#</sup>MIS Reports of Transport Department (as the Budget Estimates for 2023-24 are yet to be published). However, total receipts as per Finance Accounts were 4,380.61 crore.

Analysis of data and scrutiny of records in the test-checked offices revealed the following:

#### 5.7.7.1 Incorrect assessment and short levy of life tax

As per the provisions<sup>31</sup> of TSMVT Act, 1963, life tax for the lifetime of the motor vehicle shall be paid in advance in lumpsum by the registered owner of the motor vehicle or any other person having possession or control thereof. As per Section 3(2) of the same Act, life tax is payable at the time of registration at the rate of nine *per cent* of the cost of motor cycles and other vehicles specified in third schedule, 12 *per cent* in case of three or four wheeled motor vehicles specified in sixth schedule, and 14 *per cent* on non-transport vehicles specified in seventh schedule of the Act.

Analysis of registration data of new vehicles registered temporarily at the authorised dealers for the period 2019-20 to 2021-22, with class of vehicle (motorcycle and motor cars) revealed the following:

- Life tax of ₹4.77 crore (*Motorcycle - ₹0.98 crore and Motor Car - ₹3.79 crore*) on the invoice amount of ₹42.44 crore (*Motorcycle - ₹10.90 crore and Motor Car - ₹31.54 crore*) were not collected in respect of 2,147 vehicles, with owner type<sup>32</sup> shown as “individual”, registered temporarily at the authorised dealers. Department replied that vehicles were registered on physically challenged persons, where life tax is exempted. Reply is not acceptable as the data did not indicate exemption on these vehicles to physically challenged persons as the vehicles were registered as motor car / motorcycle instead of adapted vehicles. In respect of cases where exemption on Life Tax was given on account of disability status of the registered owners, CFST does not capture details (like certificate issued by Government Medical Officers) to verify or authenticate the disability condition.

<sup>30</sup> Driving license fee, permit fees, Motor Vehicle tax from TSRTC etc.

<sup>31</sup> Section 4(aa) of TSMVT Act 1963, the tax levied, under the second proviso to sub-Section (2) of Section 3.

<sup>32</sup> In CFST, owner type of the vehicle such as ‘Government’, ‘Diplomatic’ etc., are exempt from tax while owner type ‘individual’, ‘Company’ etc., are not exempt from tax.

**Recommendation 11:**

**Provision may be made in CFST to capture disability certificates issued by Government Medical officers to ensure the correctness of the claims of Life Tax exemptions.**

Department replied that a provision would be made in CFST to capture the disability certificate in respect of the vehicles where the exemption of life tax is given to physically challenged persons.

- ii. As per the provisions<sup>33</sup> of TSMVT Act, life tax at 14 per cent (enhanced from nine / 12 per cent on two-wheeler / four-wheeler) of the cost of the vehicle shall be payable in respect of second and subsequent personal vehicles having seating capacity up to 10 persons in all, owned by individuals. Test check of the life tax payment records in 10 sampled offices, revealed that life tax collected was at a lesser rate than the prescribed rate of 14 per cent for second and subsequent personal vehicle. This resulted in short levy of life tax amounting to ₹19.94 lakh in respect of 160 cases.

Above points indicate gaps in the mapping of business rules and compliance to the provisions of MVT Act due to incomplete data capture and ineffective validation controls which resulted in incorrect assessment and short levy of Life Tax. Department replied that action would be taken to realise the life tax dues.

**5.7.7.2 Non raising of Quarterly Tax demands - ₹7.78 crore**

Section 4 of TSMVT Act specifies that tax<sup>34</sup> shall be paid in advance either quarterly, half yearly or annually within one month from commencement of quarter, half year or year. Under Section 6 of the Act read with Rule 13(1) of TSMVT Rules, penalty for belated payment of tax shall be leviable at the rate equivalent to quarterly tax demanded, if tax is paid within two months and at twice the rate of quarterly tax if tax is paid beyond two months from beginning of quarter on cases detected.

- i. From test check(s) of tax payment records of transport vehicles conducted in 10 sampled offices and cross checking of quarterly tax collections pertaining to 3,223 transport vehicles, Audit noticed that show cause notices were not issued to all the vehicle owners for not paying tax. Quarterly tax and penalty due in respect of these test checked vehicles is ₹7.78 crore for the years from 2018 to 2022.

This indicates lapse on the part of officials in raising of demand notices that resulted in pendency of collection of taxes. Further, issue of show cause notices to vehicle owners for tax dues were not automated in CFST.

**Recommendation 12:**

**Automated provision may be made in CFST to alert the cases of Quarterly Tax dues for issuing show cause notices.**

<sup>33</sup> Act 11/2010 applicable with effect from 2 February 2010.

<sup>34</sup> Every owner of Transport Vehicle is liable to pay tax under Section 3 of TSMVT Act.

Department replied that a provision is available in CFST Application to generate show cause notices to the defaulter after completion of every quarter. SMS alerts are also being sent to the quarterly tax defaulters every quarter after the grace period. Reply is not acceptable as show cause notices were not automatically generated as and when quarterly tax falls due. and the number of show cause notices issued were less. For instance, in respect of JTC Hyderabad Central Zone, only 696 show cause notices were issued as against 19,473 vehicles.

- ii. As per Government order<sup>35</sup> the rates of quarterly tax in respect of Contract Carriages plying within home district and any one contiguous district for every passenger other than driver is ₹1,207.50.

Analysis of Contract Carriage Permits and Demand, Collection and Balance data revealed that there was short levy of quarterly tax demand of ₹9.77 crore in respect of 1,092 vehicles having seating capacity with a range from 14 to 61 passengers.

Department replied that differential tax was collected. However, on verification of CFST data provided by the Department, Audit observed that the differential tax was not collected.

### 5.7.7.3 Non-payment of bilateral tax - ₹1.16 crore

Inter-State vehicular traffic of goods is regulated by bilateral agreements with neighbouring States under the provisions of MV Act and Rules made thereunder. As per Section 88 of the MV Act, permits granted by State Transport Authority / Regional Transport Authority of any one State / Region shall not be valid in any other State / Region, unless it has been countersigned by the other State Transport Authority / Regional Transport Authority.

Government orders<sup>36</sup> stipulate for levy of bilateral tax of ₹5,000 *per annum* on every goods carriage which is registered in the State of Maharashtra and Karnataka which were covered by countersignature permits. Tax shall be paid in advance in lumpsum before fifteenth of April every year failing which an additional sum of ₹100 for each calendar month of default shall be charged as penalty.

It was noticed from data analysis of CFST bilateral tax data for the period 2019-2022 that in respect of 1,145 vehicles, validity of countersignature permits had expired. However, bilateral tax payments and penalty were not paid on these vehicles for the renewal of countersignature permits. Inadequacy in monitoring of interstate movement of vehicles resulted in non-realization of bilateral tax and penalty to the tune of ₹1.16 crore.

#### **Recommendation 13:**

***Provision may be made in CFST to alert the cases where countersignature permits had expired for monitoring interstate movement of vehicles and realising bilateral tax and penalties.***

<sup>35</sup> G.O.M.s No 68, Transport, Roads and Buildings (TR.I) Department dated 13 April 2006.

<sup>36</sup> G.O.Ms.No.362, Transport, Roads and Buildings (TR. II) Department dated 16 December 2008.

Department replied that suitable provision would be made in CFST application to monitor the expired cases of counter signature permits and for realisation of bilateral tax and penalty.

#### **5.7.7.4 Non collection of Green Tax- ₹ 1.66 crore**

As per Government orders<sup>37</sup> issued in November 2006, an additional tax called Green Tax shall be levied on Transport and Non-Transport vehicles that have completed seven years of age and 15 years of age respectively from the date of registration.

Scrutiny of the Green Tax data of CFST for the period 2018-19 to 2021-22 pertaining to 10 sample offices revealed that Green Tax amounting to ₹1.66 crore was not levied in respect of 16,405 non-transport vehicles and 51,917 transport vehicles. Though CFST generates reports of non-payment of green tax, it lacks provision to give automated alerts to vehicle owners.

#### **Recommendation 14:**

***Provision may be made in CFST to issue show cause notice to vehicle owners through alerts (mail / sms) for payment of green tax. It may also ensure that phone numbers / mail IDs of all the vehicle owners are captured / updated for sending alerts / reminders. Further, enforcement staff may be given targets to collect green tax dues on vehicular checks.***

Department replied that provision would be made in CFST to send SMS alerts to the defaulters of green tax and generate show cause notices. Controls were already kept in CFST to collect green tax while collecting the other tax payments for transport vehicles. However, Audit noticed that though vehicle owners made payments towards vehicle taxes in 19,931 cases during 2019-22, Green Tax due was not collected on those vehicles indicating inadequate controls.

#### **5.7.7.5 Collection of Motor Vehicle Tax from TSRTC - ₹692.58 crore**

According to Section 6-A of TS MVT Act, 1963 read with Government Orders<sup>38</sup>, every registered owner who owns or keeps in his possession or control more than 2,000 motor vehicles for plying on hire or for rewards shall pay tax in respect of all such vehicles as prescribed at the rate of seven *per cent* in Mofussil services and five *per cent* in city services on the Gross Traffic Earnings<sup>39</sup>.

Audit noticed that there is no provision in CFST to assess the tax on Gross Traffic Earnings declared by Telangana State Road Transport Corporation (TSRTC). Details of tax dues from TSRTC based on the provisional declarations of Gross Traffic Earnings records in Form 5 for the years 2019-20 to 2021-22 are shown below.

<sup>37</sup> G.O. Ms No. 238, Transport, Roads and Buildings (TR-I), Department dated 23 November 2006.

<sup>38</sup> G.O Ms.No.118, Transport, Roads and Buildings (TR-II) Department dated 7 June 2005.

<sup>39</sup> Gross Traffic Earnings means total amount collected towards fares, freights, including luggage charges and any amount collected towards hire or reward by or on behalf of such registered owner, either directly or indirectly in respect of all the motor vehicles.

**Table 5.6: Gross Traffic Earnings and the MV Tax assessed**

(₹ in crore)

Year	Gross Traffic Earnings	MV Tax due
2019-20	4,405.48	282.92
2020-21	4,042.34	260.66
2021-22	2,239.55	149.00
<b>Total</b>	<b>10,687.37</b>	<b>692.58</b>

However, details of the tax payments by TSRTC for the above period were not forthcoming. This indicates that the department has not made any serious efforts to collect the dues of ₹692.58 crore.

**Recommendation 15:**

*Provision may be made in CFST to assess the tax on Gross Traffic Earnings declared by Telangana State Road Transport Corporation for effective monitoring on tax dues. Urgent action may also be taken to collect tax dues from TSRTC.*

Department replied that the matter would be taken up with TSRTC officials to enable the provision in CFST.

**5.7.7.6 Vehicle Check Reports of overloading offences**

Under Rule 217 of Telangana MVT Rules, 1989 the Transport Authorities are authorised to compound offence under Section 113 (3) of the MV Act, 1988 by collecting the fee as prescribed by the Government. Further, as per the instructions<sup>40</sup> of Transport Commissioner, the checking officer who makes Vehicle Check Reports<sup>41</sup>(VCR) shall enter the details in the proforma into the CFST software on the same day or the next working day in their respective offices.

During the audit period, department issued 2,43,775 VCRs. Data analysis of VCRs on overloading offences booked against different categories of vehicles for commercial use for the period 2019-22 revealed the following:

Out of 7,660 overloading cases, the total weight of the vehicle and excess load carried by the vehicle were shown as “errors” in 7,658 (99.9 per cent) and 1,103 cases respectively. In 2,352 cases the name of the Weighment Bridge and weighment slip date was shown as ‘Null’ indicating incomplete data capture. The chassis number of the vehicle was not captured in 306 cases and out of which 302 (98.6 per cent) were other State vehicles. In 252 cases, the gross vehicle weight did not tally with the same as per Registration details. This indicates that compounding fee levied on the excess load over the gross vehicle weight of the vehicle was erroneous and resulted in excess or short levy of Compounding Fee.

<sup>40</sup> Circular No. 0168/DTC/(IT)/2013, Dated 14 June 2013.

<sup>41</sup> Vehicle Check Report is a record of offence(s) committed by the vehicle owner / driver and issued by the Enforcement officials at the time of vehicular check.

Department replied that the above irregularities occurred due to manual selection by checking officer and would ensure that adequate controls would be placed in the capture of overloading offence.

In 136 cases, booked offences under 'overload' head captured in CFST, relevant permit violation fees was not levied as required under Rule 217 resulting in short levy of compounding fee of ₹12.44 lakh.

**Recommendation 16:**

**Validation controls in CFST may be strengthened to avoid inconsistencies of data in Vehicle Check Reports and incorrect levy of compounding fee.**

Department accepted the recommendation and stated that adequate controls would be placed in CFST to capture the details of permit violation for the cases booked under 'overload' offence.

**5.7.7.7 Non-Receipt of Royalty / User charges on HSRP - ₹39.10 lakh**

The Government issued orders in April 2013<sup>42</sup> to levy royalty of 30 per cent on High Security Number Plates (HSRP) price for each category of vehicle. The royalty received was to be shared equally by Telangana State Road Transport Corporation (TSRTC) and Transport Department. Subsequently, the contract was awarded to M/s.Link Auto Tech Private Limited to sell and affix at the rates specified by Government<sup>43</sup>. Accordingly, the royalty (later on called as user charges) had to be sent to the TSRTC by the contractor every month at the rate of 30 per cent of the HSRP collection amount and of which, Transport Department was to get their 50 per cent share.

Audit observed from the records pertaining to HSRP that as of July 2022, an amount of ₹78.20 lakh was due from the agency M/s Link Autotech Private Limited towards user charges for the period April 2019 to July 2022 to the TSRTC. Out of this amount, the share of the Transport Department was ₹39.10 lakh (50 per cent of ₹78.20 lakh).

Department replied that the Managing Director, Telangana State Road Transport Corporation was addressed on the issue and the reply was awaited. Also, a provision would be enabled in CFST for payment of user charges.

**5.7.7.8 Refunds**

As per Section 4(1) (bb) of TS MVT Act, 1963 where lumpsum tax has been paid, a refund of the tax is allowed in the case of removal of the vehicle to any other State on transfer of ownership or change of address. Further, as per Government orders<sup>44</sup>, the vehicles for which lumpsum tax or life-time tax has been paid under the provisions of Act, a refund of tax amount after deducting eight per cent of the tax applicable to a new vehicle of the same

<sup>42</sup> Government Memo No.15496/Tr.1/2001, dated 22 April 2013.

<sup>43</sup> GO Ms.No.110, Transport, Roads and Buildings (TR.I) Department, dated 2 December 2013.

<sup>44</sup> GO Ms No. 411, Transport, Roads and Buildings (TR-II), Dated 28 April 1987.

class for each financial year or part thereof of stay of the vehicle in the State shall be payable by the licensing officer. Scrutiny of records in test-checked offices revealed the following:

- i. In JTC, Khairatabad refund of ₹3.24 lakh was made citing the above orders in respect of two vehicles which were damaged beyond repair due to accident as detailed below:

**Table 5.7: Refunds to the damaged vehicles**

Sl No	Vehicle No	Date of Registration / Temporary Registration	Date of accident / cancellation of Registration	Amount of Life tax paid	Amount of Life tax refunded	TBR No. /Date
1	TS09EP9720	10.10.2016	10.10.2017	1,73,460	1,45,700	2019000007 02.05.2019
2	TS09BKTR75 85	17.02.2018	06.03.2018	1,78,640	1,78,640	2019000002 30.04.2019

However, neither the Act provisions nor the Government orders provide for refund of lumpsum tax paid for the damaged vehicle beyond repair but provide for refund only in respect of motor vehicles removed to any other State on transfer of ownership or change of address and in respect of motor cars converted into motor cabs. This indicates that refunds were sanctioned in ineligible cases, in violation of the provisions in force.

- ii. Test check of refund files further revealed that deduction of eight *per cent* of the tax per year, applicable to a new vehicle of the same class for each financial year or part thereof for the stay of the vehicle in the Telangana State was not applied. This resulted in excess refund of ₹1.87 lakh on nine vehicles.

All refund cases are processed manually and are prone to arithmetical inaccuracies that could have been avoided through automation in CFST.

Department replied that life tax refund mechanism would be taken up to automate in CFST to avoid inaccuracies.

**Recommendation 17:**

***Provision may be made in CFST for processing the cases of Refunds online to ensure accurate computation of refund claims.***

**5.7.7.9 Inadequate integration of CFST with Police Department**

As per Section 200 of Motor Vehicle Act, 1988 read with Government Orders<sup>45</sup> issued in August 2011, Government of Telangana authorised officers of the Police Department in uniform not below the rank of Inspector of Police and also Sub-Inspectors of Police (Traffic) wherever separate traffic police stations exist in Municipal Corporations (Metropolis) and Municipalities and the inspectors of police in other places to compound the offences under various sections of MV Act. The compounding fee collected by Police officials should be remitted into Treasury by Challan under the Head of Account “0041-

<sup>45</sup> G.O.M.s No. 108 of Transport, Roads & Buildings (TR.I) Department, dated 18 August 2011.

Taxes on vehicles;(101) Receipts under the Motor Vehicles Act – Receipts under the Indian Motor Vehicles Act-SH (03)-Compounding Fee under Section 86 and Section 200 of Motor Vehicles Act.

Audit observed that the details of offences booked by Police Officers and compounding fees collected were not available in CFST. It was stated by the Department that the collections made by Police Department were being credited to Government Account (Transport Department) directly.

In the absence of details of offences booked on vehicles and license holders by Police Department, Transport Department is unable to monitor multiple offences committed by vehicle users to implement penalty points on license holders. Further, Transport Department is not in a position to watch compounding fees collectable, collected and remitted by the Police Department.

***Recommendation 18:***

***CFST may have the provision for adequate interface with the Police Department to access / receive details of offences booked by Police Officers and compounding fees collected by them to have control on multiple offenses of vehicles and realisation of revenue.***

Department replied that the matter would be taken up with the Police Department and provision would be made in CFST for collecting the details of the cases booked by them along with the collections of compounding fee.

***5.7.7.10 Mismatching reports of pending tax lists and collectible tax dues in CFST***

According to Government notifications issued from time to time under Section 3 of TS MVT Act, 1963, tax is leviable on Transport vehicles at the rates specified therein which is based on seating capacity / laden / unladen weight, etc.

During the audit of sampled Unit offices and on scrutiny of data relating to non-payment of taxes list of vehicles relating to all the quarters to the end of 31 March 2022 and the relevant DCB statement of the respective unit, it was observed that there was mismatch between the number of vehicles fallen due for payment of Quarterly Tax. In five unit offices<sup>46</sup>, the number of vehicles for which 'demand not collected' were shown as 67,946 in the DCB Statement for the year ending 31 March 2022 whereas the number of vehicles in the 'non-payment' report was shown as 85,267 resulting in short demand of collectable dues in 17,321 vehicles. Similarly, in the another five unit offices<sup>47</sup>, the number of vehicles for which 'demands not collected' were shown as 83,607 in the Demand Collection and Balance Statement for the year ending 31 March 2022 whereas the number of vehicles in the 'non-payment' report was shown as 45,246 resulting in excess demand of collectable dues in 38,361 vehicles. In all the unit offices it was replied that the matter would be referred to Transport Commissioner.

<sup>46</sup> JTC and DTO, Hyderabad Central Zone, DTOs, Adilabad, Hanumakonda, Medchal Malkajgiri and Ranga Reddy.

<sup>47</sup> DTOs, Kamareddy, Karimnagar, Nizamabad, Vikarabad and Wanaparthy.

Department replied that the matter would be discussed with all the identified unit offices and reconcile the reports of DCB and non-payment to arrive at the correct DCB.

**Recommendation 19:**

**Department may reconcile the Demand Collection Balance with non-payment reports of CFST to maintain consistencies in the report.**

### 5.7.8 Internal Controls

#### 5.7.8.1 Non maintenance of cash book

As per Sub-Rule 3 of Telangana Treasury Code-10, every DDO should maintain a cash book in Form No 5. On being called for the Cash Book in all sampled unit offices, it was replied that all transactions were being made online through Bank and CFST generates cash book reports daily. However, manual Cash Book was not maintained. The reply is not acceptable as the reports generated in CFST are not as per the prescribed format. The details of remittances, opening balance and closing balance are not available in the cash book in CFST. Cash book should record all the cash, demand drafts received and also their remittances. In the absence of maintenance of cash books, Department cannot monitor realisation of cash and demand drafts into Government account. Department replied that reports would be suitably generated in CFST as per Form No 5.

#### 5.7.8.2 Reconciliation issues

For extending the services to the citizens, the RTA Officials facilitated MeeSeva<sup>48</sup> centres to receive the fees, taxes, service charges etc., by way of cash / demand drafts. The amounts received by MeeSeva shall be sent to RTA concerned immediately, possibly within four to six days for remittance into Government account. During the local audit of sampled unit offices in Districts the following were observed:

##### A. Delayed remittance by MeeSeva

Scrutiny of Demand Drafts entry Report<sup>49</sup> revealed that the MeeSeva officials are not remitting the revenue collected from the stakeholders to the respective RTA immediately but are remitting the consolidated receipts after a delay ranging from two weeks to three months of the transactions. Delayed remittance of MeeSeva Receipts took place in 1980 instances involving an amount of ₹194.54 crore during the period from April 2019 to March 2022. Department replied that the matter would be taken up with MeeSeva and ensure that the delay in remittances of MeeSeva receipts is avoided.

##### B. MeeSeva Reconciliation

- i. Though CFST has provision for generation of the Reports on MeeSeva reconciliation, the reports were not getting generated in the sampled unit office (except JTC, Hyderabad Central Zone). However, analysis of granular data obtained from Transport Commissionerate revealed variation between the collections in MeeSeva

<sup>48</sup> MeeSeva, formerly called as E-Seva, is a good governance initiative in Telangana State to provide delivery of Government Services using Information and Communication Technology.

<sup>49</sup> CFST generated report of Demand Draft submitted by MeeSeva authorities to concerned District Transport Office.

counters and the demand drafts submitted to the concerned DTO office for remittance into Government Account.

- ii. During the local audit of JTC, Hyderabad Central Zone it was observed that:
  - i. Entire State Online collections and MeeSeva collections of offices in twin cities (including all five zones) and District / unit Offices situated in Ranga Reddy District, Vikarabad and Parigi were remitted to Cyber Treasury.
  - ii. Reconciliation reports were generated only for the years 2019-20 and 2020-21 and same reports for 2021-22 were not available in CFST.
  - iii. As per MeeSeva Reconciliation reports of 2019-20 and 2020-21, there was variation of ₹33.60 lakh and 1,061 transactions between the figures of Department and MeeSeva.
- iii. The cross-checking mechanism available in CFST for identifying gaps between collections reflected in ESD (MeeSeva) reports and cyber treasury figures and reconciliation details in respect of the variation identified is yet to be furnished.

Department replied that the matter would be taken up with MeeSeva and ensure timely reconciliation.

### ***C. Non-reconciliation of DD payments***

As per Article 9 of the Telangana Finance Code (Vol. I), the departmental receipt figures have to be reconciled with those of the treasury every month to detect misclassification, spurious challans, etc., if any, and a certificate of reconciliation has to be obtained from the treasury officer. All the challans relating to payment of fees and taxes remitted through Demand Drafts (DDs) have to be posted in consolidated challans register with reference to which monthly reconciliation has to be done.

It was observed from the data / records of the office of the Transport Commissioner and sample unit offices that reconciliation work in respect of receipt amounts of DDs with those of treasury figures was not done resulting in non-compliance to the provisions mentioned above.

#### ***Recommendation 20:***

***Strict measures may be taken to ensure periodical remittance of collections by MeeSeva Agency into the Government account with due reconciliation of figures.***

Department accepted the observation and stated that measures would be taken up to ensure remittances of collections into the Government account with due reconciliation.

### ***5.7.8.3 Inadequate Driving Track infrastructure***

As per Rule 15 of Central Motor Vehicle Rules 1989, the test of competence to drive referred to in sub-section (3) of Section 9 shall be conducted by the licensing authority or such other person as may be authorised in this behalf by the State Government in a vehicle of the type to which the application relates.

Government (erstwhile) of the combined State of Andhra Pradesh had provided funds between 2008 and 2012 towards construction of office buildings with scientific driving test tracks.

However, audit observed that Government did not have any policy or guidelines for laying or developing driving track layouts. Government orders and Transport Commissioner's circular instructions prescribing standards / specifications pertaining to Driving track layout<sup>50</sup> were not available for conducting driving tests. CFST also did not maintain any database of the details and specifications of the driving tracks. No uniform procedure has been adopted for developing driving test tracks in the State for conducting competent driving test. For example, driving tracks were laid in metalled roads in unit offices (DTO Hyderabad Central Zone and DTO Ranga Reddy) located in and around Hyderabad city, whereas tracks were laid in unmetalled roads in other district offices (DTOs, Kamareddy, Vikarabad and Wanaparthy). In DTO Karimnagar, though metalled road track was laid it was not put to use and driving tests were conducted in the adjacent unmetalled track.

Absence of proper and uniform procedure for driving tracks in all unit offices may lead to incorrect assessment of the competence of the applicant to drive and risk road safety. Department replied that necessary measures were taken by the Department for establishing Driving Test Tracks at the District Transport Offices / Regional Transport Offices / Unit Offices which had inadequate driving track infrastructure, and to ensure uniformity in their development. However, Department did not furnish any policy or guidelines for laying or developing driving track layouts.

#### **5.7.8.4 Non-maintenance of Driving Schools database**

As per Section 12 of MV Act, Central Government may make rules for the purpose of licensing and regulating, by the State Governments, schools or establishments (by whatever name called) for imparting instruction in driving of motor vehicles and matters connected therewith. Rule 24 to 28 of CMV Rules prescribes provision for driving schools and establishment, grant, renewal, period of driving school licence, suspension and conditions to be observed by holder of driving licence.

Audit observed that driving school's database is not maintained in CFST. The process / documentation of grant, renewal and period of validity of licence for running driving schools is maintained manually in unit offices. Department replied that a module would be developed in CFST for monitoring of Private Driving Schools.

#### **5.7.9 Conclusion**

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

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<sup>50</sup> Road specifications in length / width / orientation / elevation along with specifications for "8" and "H" tracks.

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.

#### **5.7.10 Recommendations**

- *Provision may be made in CFST for uploading scanned documents of evidence produced at the time of issue of licenses to enable verification of age, address etc.*
- *Provision may be made in CFST for automated generation of reminders / alerts to vehicle owners for renewal of registration certificates as well as to the Department for tracking such vehicles.*
- *Provision may be made in CFST for alerting the vehicle owners for reassignment after the completion of 12 months stay in the State and raise demands for collection of fees.*
- *CFST may be equipped with adequate controls to validate entry of engine number and chassis number to avoid duplicate entries and to ensure data integrity.*
- *CFST system may be strengthened to avoid inconsistencies in capturing the data relating to weight of vehicles that give scope for manual intervention in arriving at tax liability.*
- *Provision may be made in CFST for alerting the cases of mismatches in the data pertaining to the class of vehicles and type of fuel used in vehicles for reconciliation and review.*
- *CFST may also be equipped with adequate controls to capture Customs clearance details of the imported vehicles to avoid manual intervention at the time of registration of the vehicle and also to collect correct amount of tax.*
- *Provision may be made in CFST for capturing the test results carried out by inspecting officers in the prescribed format to avoid manual intervention in issuing Fitness Certificates.*

- *CFST may be equipped with adequate controls to grant Fitness Certificates only to vehicles having valid Registration Certificates.*
- *Provision may be made in CFST to capture correct fare meter numbers / maker details, inputs like retro-ID, nature / volume of smoke emission and exhaust gas during fitness tests to ensure that the fitness certificate is given to eligible vehicle.*
- *Provision may be made in CFST to capture disability certificates issued by Government Medical officers to ensure the correctness of the claims of Life Tax exemptions.*
- *Automated provision may be made in CFST to alert the cases of Quarterly Tax dues for issuing show cause notices.*
- *Provision may be made in CFST to alert the cases where countersignature permits had expired for monitoring interstate movement of vehicles and realising bilateral tax and penalties.*
- *Provision may be made in CFST to issue show cause notice to vehicle owners through alerts (mail / sms) for payment of green tax. It may also ensure that phone numbers / mail IDs of all the vehicle owners are captured / updated for sending alerts / reminders. Further, enforcement staff may be given targets to collect green tax dues on vehicular checks.*
- *Provision may be made in CFST to assess the tax on Gross Traffic Earnings declared by Telangana State Road Transport Corporation for effective monitoring on tax dues. Urgent action may also be taken to collect tax dues from TSRTC.*
- *Validation controls in CFST may be strengthened to avoid inconsistencies of data in Vehicle Check Reports and incorrect levy of compounding fee.*
- *Provision may be made in CFST for processing the cases of Refunds online to ensure accurate computation of refund claims.*
- *CFST may have the provision for adequate interface with the Police Department to access / receive details of offences booked by Police Officers and compounding fees collected by them to have control on multiple offenses of vehicles and realisation of revenue.*
- *Department may reconcile the Demand Collection Balance with non-payment reports of CFST to maintain consistencies in the report.*
- *Strict measures may be taken to ensure periodical remittance of collections by MeeSeva Agency into the Government account with due reconciliation of figures.*



# Chapter VI

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## Land Revenue

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## 6.1 Tax Administration

Principal Secretary (Revenue) is in-charge of the administration of Revenue Department. The Chief Commissioner of Land Administration (CCLA) is responsible for administration of Revenue Board's Standing Orders (BSO), The Telangana Water Tax Act, 1988, The Telangana Irrigation, Utilisation and Command Area Development Act, 1984, The Telangana Agricultural Land (Conversion for Non-agricultural Purposes) Act, 2006 (NALA Act) and orders issued there under. At the district level, the Collectors of each of the 33 districts of the State are responsible for administration of land revenue. The organogram of the Department of land administration is given alongside.

**Figure-6.1: Organogram**



## 6.2 Trend of receipts

Actual receipts of Land Revenue during the years 2017-18 to 2021-22 against the Budget Estimates is exhibited in the following Table.

**Table 6.1: Receipts of Land Revenue**

Year	Budget Estimates	Actual Receipts	Variation Excess (+) / Shortfall (-)	Percentage of variation
2017-18	152.00	110.93	(-) 41.07	(-)27.02
2018-19	134.38	136.22	(+) 1.84	1.37
2019-20	141.19	201.16	(+) 59.97	42.47
2020-21	181.36	53.22	(-)128.14	(-)70.66
2021-22	165.03	0.90 <sup>1</sup>	(-)164.13	(-)99.45

*Source: Finance Accounts*

<sup>1</sup> The actual receipts for the year 2021-22 were ₹0.90 crore as per Finance Accounts. However, the Department stated in February 2023 that consequent on introduction (November 2020) of Dharani (An Integrated Land Records Management System) portal, the collections towards NALA were being booked under the Head 0030-02-103-01 (Stamp duty on impression of documents). Details of remittances exclusive towards NALA sought for by Audit were not furnished by the Department.

As seen from the above table, though the percentage of variation decreased from the year 2017-18 to 2018-19, the variation has further increased during 2019-20 to 2021-22 due to huge gap between budget estimates and actual receipts. However, drastic decrease in the actual receipts was noticed during the current year as compared to last year due to the reasons mentioned in foot note on the pre-page.

### 6.3 Impact of Audit

During the last five years, Audit had pointed out cases of non / short levy of regularisation fee and non / short realization of regularisation fee, non / short collection of conversion tax, non / short levy of interest with total revenue implication of ₹138.93 crore in 329 unit offices through Inspection Reports. Of this, Department accepted the observations valued at ₹117.40 crore in 2017-18 and ₹0.09 crore in 2019-21.

### 6.4 Results of Audit

During the year 2021-22, audit of land revenue receipts was conducted through a test check of relevant records in 24 Revenue Divisional Offices (out of 68) and 52 Tahsildar offices (out of 585) to gain assurance that the fees are levied, collected and accounted for in accordance with the relevant Acts, Codes and Manuals and that the interests of the Government are safeguarded.

Instances of deviations / non-compliance with the provisions of the Acts and Rules in 94 cases involving an amount of ₹1.97 crore due to various reasons were noticed as detailed in **Table 6.2**.

**Table 6.2: Category of Audit observations on Revenue Receipts**

(₹ in crore)			
Sl. No.	Category of Audit observations	No. of deviations	Amount
1	Non / short collection of conversion fee / penalty	33	0.41
2	Short collection / incorrect exemption of regularisation fee on ULC / Government lands	14	1.04
3	Short / non collection of mutation charges in documents	38	0.47
4	Short levy of duties and fee on GPA, gift and sale deeds	6	0.03
5	Others	3	0.02
	<b>Total</b>	<b>94</b>	<b>1.97</b>

There are five broad categories of audit observations under Land Revenue this year. Similar irregularities, errors / omissions may also exist in other units not covered in the test audit. The Department may, therefore, examine all the units to ensure that taxes are levied and collected as per provisions of the Acts and Rules.

Significant cases of non-compliance with the provisions of the Acts, Rules in 25 cases<sup>2</sup> amounting to ₹3.42 crore are detailed in the succeeding paragraphs.

## **6.5 Short levy of regularisation fee of Government land with dwelling units**

With an intent to alienate the unobjectionable Government lands / surplus lands (under the Urban Land Ceiling Act) and to provide dwelling units and permanent structures to the occupants, the scheme of regularisation was introduced<sup>3</sup> on payment basis.

The rates of regularisation fee payable were based on the (i) nature of possession (Residential or Non-Residential) and (ii) extent of land in possession by the occupants<sup>4</sup>.

During the test check (between December 2020 and March 2022) of land revenue records, Audit noticed in 16 cases<sup>5</sup> pertaining to five Tahsildar offices<sup>6</sup> that 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. Tahsildars assured detailed reply.

The matter was referred to the Government in December 2022. Reply has not been received.

<sup>2</sup> Out of 25 cases, 16 cases (₹0.74 crore) pertained to the year 2021-22, while nine cases (₹2.68 crore) were prior to 2021-22.

<sup>3</sup> G.O.Ms.No.59 Revenue (Assignment-I) Department, dated 30 December 2014 read with G.O.Ms.No.12, Revenue (Assignment-I) Department, dated 30 January 2015.

<sup>4</sup> Extent	₹ Per Square Yard
Up to 250 SqYds	25 per cent of the basic value as on 02 June 2014
Up to 500 SqYds	50 per cent of the basic value as on 02 June 2014
Above 500 SqYds	75 per cent of the basic value as on 02 June 2014
Non-residential Possessions	Irrespective of extent, Basic Value as on 02 June 2014

<sup>5</sup> Incorrect classification of possession *i.e.*, residential or commercial - eight cases, incorrect adoption of market value – eight cases.

<sup>6</sup> Ameerpet, Golconda, Karimnagar, Nampally and Shaikpet.

## 6.6 Short collection of regularisation fee on regularisation of ULC lands

Government introduced<sup>7</sup> a scheme to regularise excess lands which were vested with Government under Urban Land Ceiling (ULC) Act<sup>8</sup> to the occupants of such lands on payment basis.

The rate of regularisation fee payable<sup>9</sup> is based on the extent of land in possession by the occupants. Regularisation fee shall be paid in three installments<sup>10</sup> and a rebate of five *per cent* is applicable if the entire amount of regularisation fee is paid within three months of notice.

During the test check (September 2021) of land revenue records, Audit noticed in seven cases relating to Tahsildar office, Alwal, that 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. Tahsildars assured detailed reply.

The matter was referred to the Government in December 2022. Reply has not been received.

## 6.7 Non-levy of penalty on deemed conversion of agricultural land

The Telangana Agricultural Land (Conversion for Non-Agricultural Purposes) Act (NALA Act), 2006, provides for conversion of agricultural lands to non-agricultural purposes with the approval of the Competent Authority<sup>11</sup> and on payment of Conversion Tax.

Section 6(1) and (2) of the Act further provide that if agricultural land is utilised for non-agricultural purposes without prior permission, it is deemed to have been converted and attracts fine / penalty of 50 *per cent* over and above the Conversion Tax levied.

During the test check (between February 2021 and September 2021) of the land revenue records, Audit noticed that in two cases pertaining to two Tahsildar Offices<sup>12</sup>, penalty was not levied on deemed conversion of land amounting to ₹5.47 lakh.

<sup>7</sup> G.O. Ms.No. 92, Revenue (ULC) Department, dated 26 May 2016.

<sup>8</sup> Section 10(6) of The Urban Land (Ceiling and Regulation) Act, 1976.

<sup>9</sup> Possession up to 250 sq. yds: 25 *per cent* of the Basic value as on 26 May 2016.  
Possession up to 500 sq. yds: 50 *per cent* of the Basic value as on 26 May 2016.  
Possession above 500 sq. yds: 75 *per cent* of the Basic value as on 26 May 2016.  
For Notified Slums up to 125 sq.yds: 10 *per cent* of the Basic Value.

<sup>10</sup> 40 *per cent* in one month, 30 *per cent* in four months and the remaining 30 *per cent* in seven months from the date of issue of demand notice.

<sup>11</sup> Revenue Divisional Officer or any officer notified by the Government in this behalf.

<sup>12</sup> Alwal and Medipally.

Tahsildar, Medipally replied that conversion tax amount was calculated as assessed by Dharani portal. The reply of the Department is not acceptable as only conversion fee was calculated by the portal. The penalty to be levied under NALA Act has to be levied separately.

The matter was referred to the Government in December 2022. Reply has not been received.

Hyderabad  
The 03 May 2024



(P. MADHAVI)  
Accountant General (Audit)  
Telangana

Countersigned

New Delhi  
The 06 May 2024



(GIRISH CHANDRA MURMU)  
Comptroller and Auditor General of India



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## **Appendices & Glossary**

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**Appendix 1.1**  
**(Reference to paragraph 1.2, page 1)**  
**Profile of Audited Entities**

Sl. No.	Name of the Department	Nature of Receipts	Objectives / Functions of the Departments
1.	Revenue	Commercial Taxes	The Department administers and collects revenue on goods and services under The Telangana VAT Act, 2005, The CST Act, 1956, The Telangana Entertainment Tax Act, 1939, The Telangana Tax on Professions, Trades, Callings and Employments Act, 1987. After introduction of GST with effect from 1 July 2017, the Department has been administering and collecting revenue on goods and services under The Telangana GST Act, 2017.
		State Excise	Prohibition and Excise Department is governed by 'The Telangana Excise Act, 1968', 'The Telangana Prohibition Act, 1955' and 'The Narcotic Drugs and psychotropic Substances Act, 1985' (Central Act).
		Land Revenue	The Department is responsible for administration of Revenue Board's Standing Orders (BSO), The Telangana Water Tax Act, 1988, The Telangana Irrigation, Utilisation and Command Area Development Act, 1984, The Telangana Agricultural Land (Conversion for Non-agricultural Purposes) Act, 2006 (NALA) and orders issued there under.
		Stamp Duty and Registration Fee	The Department is responsible for determining and collecting stamp duty and registration fees. It also enforces Indian Stamp (IS) Act, 1899 and Registration Act, 1908 as amended from time to time.
2.	Transport	Motor Vehicle Taxes	The Department is primarily responsible for enforcement of provisions of various Motor Vehicles Acts and Rules that include provisions for collection of taxes, fees, issue of driving licenses, certificates of fitness to transport vehicles, registration of motor vehicles and grant of regular and temporary permits to vehicles.

**Appendix 1.2**  
**(Reference to paragraph 1.5.1 page 5)**  
**Response to previous Inspection Reports**

**(₹in crore)**

Sl.No.	Name of the Department	Nature of Receipt	Number of outstanding Inspection Reports	Number of outstanding Audit Observations	Money Value Involved
1.	Revenue	Commercial Taxes	414	6,143	3,478.81
		State Excise	121	667	61.66
		Land Revenue	368	2,922	746.66
		Stamps and Registration Fees	583	3,921	529.33
2.	Transport	Taxes on Motor Vehicles	97	1,219	120.99
		<b>Total</b>	<b>1,583</b>	<b>14,882</b>	<b>4,937.45</b>

*Source: Records of Office of the Accountant General (Audit), Telangana*

**Appendix 2.1(A)**  
**(Reference to paragraph 2.14.4 page 33)**  
**List of 50 taxpayers selected for detailed audit**

Sl. No.	Division	Circle	GSTIN	Name of the Taxpayer
1	Abids	Abids STU-1	3XXXXXXXXXXXXXZ	IVRCL Limited
2	Abids	Abids STU-1	3XXXXXXXXXXXXXU	Andhra Bank
3	Abids	Abids STU-2	3XXXXXXXXXXXXXM	Bharat Sanchar Nigam Limited
4	Abids	Abids STU-2	3XXXXXXXXXXXXXU	Tata Teleservices Limited
5	Abids	Narayanaguda-MJ Market	3XXXXXXXXXXXXXN	SKYCOMM Electronics India Private Limited
6	Abids	Narayanaguda-MJ Market	3XXXXXXXXXXXXX4	Telugu Academy Trade
7	Abids	Narayanaguda-MJ Market	3XXXXXXXXXXXXXI	Padmavathi Jewels
8	Abids	Narayanaguda-MJ Market	3XXXXXXXXXXXXX5	Abdul Sattar Kasim
9	Begumpet	Begumpet	3XXXXXXXXXXXXXQ	Vajram Constructions Private Limited
10	Begumpet	Begumpet	3XXXXXXXXXXXXXH	UPS SCS (India) Private Limited
11	Begumpet	Begumpet	3XXXXXXXXXXXXX5	Wissen Technology Private Limited
12	Begumpet	Begumpet	3XXXXXXXXXXXXXR	Insight Outreach Private Limited
13	Begumpet	Begumpet STU-1	3XXXXXXXXXXXXXL	Conneqt Business Solutions Limited
14	Begumpet	Begumpet STU-2	3XXXXXXXXXXXXX0	GSK Infrastructures
15	Begumpet	Begumpet STU-2	3XXXXXXXXXXXXXU	GTL Infrastructure Limited
16	Begumpet	Begumpet STU-2	3XXXXXXXXXXXXXP	Mahindra Logistics Limited
17	Secunderabad	Musheerabad	3XXXXXXXXXXXXXY	Bhagyanagar Gas Agencies
18	Secunderabad	Musheerabad	3XXXXXXXXXXXXXD	Suresh Ads
19	Secunderabad	Musheerabad	3XXXXXXXXXXXXXQ	J B Chemicals & Pharmaceuticals Ltd

Sl. No.	Division	Circle	GSTIN	Name of the Taxpayer
20	Secunderabad	Secunderabad STU-1	3XXXXXXXXXXXXXS	Sunil Kumar Muthyala
21	Secunderabad	Secunderabad STU-1	3XXXXXXXXXXXXX9	Bajaj Electricals
22	Secunderabad	Secunderabad STU-1	3XXXXXXXXXXXXXC	Pfizer Limited
23	Secunderabad	Secunderabad STU-1	3XXXXXXXXXXXXXT	Swamy Sons Agencies Private Limited
24	Secunderabad	Secunderabad STU-1	3XXXXXXXXXXXXXT	Swamy Ads, Trade
25	Hyderabad Rural	Hyderabad Rural Stu-2	3XXXXXXXXXXXXXQ	Tata Communications Limited
26	Hyderabad Rural	Hyderabad Rural Stu-2	3XXXXXXXXXXXXXW	Avanthi Warehousing Services Private Limited
27	Hyderabad Rural	Hyderabad Rural Stu-2	3XXXXXXXXXXXXXE	Mytrah Energy (India) Private Limited
28	Hyderabad Rural	Hyderabad Rural Stu-2	3XXXXXXXXXXXXXK	Ms Cholamandalam General Insurance Company Limited
29	Hyderabad Rural	Hyderabad Rural Stu-3	3XXXXXXXXXXXXX1	CLOUD4C Services Private Limited
30	Hyderabad Rural	Hyderabad Rural STU-3	3XXXXXXXXXXXXXS	Procter and Gamble Home Products Private Limited
31	Hyderabad Rural	Hyderabad Rural STU-3	3XXXXXXXXXXXXX5	Ravago Shah Polymers Private Limited
32	Hyderabad Rural	Madhapur - III	3XXXXXXXXXXXXXZ	Rimini Street India Operations Private Limited
33	Hyderabad Rural	Madhapur - III	3XXXXXXXXXXXXX1	Karthikeya Trading and Mining Company
34	Hyderabad Rural	Madhapur - III	3XXXXXXXXXXXXXN	Madhusudhan Reddy
35	Hyderabad Rural	Madhapur -III	3XXXXXXXXXXXXXK	Zemoso Technologies Private Limited
36	Punjagutta	Jubilee Hills - I	3XXXXXXXXXXXXXO	Inrhythm Energy Private Limited
37	Punjagutta	Jubilee Hills - I	3XXXXXXXXXXXXXF	Kalyanram Nandamuri
38	Punjagutta	Jubilee Hills - I	3XXXXXXXXXXXXX3	Healthnet Global Limited

Sl. No.	Division	Circle	GSTIN	Name of the Taxpayer
39	Punjagutta	Jubilee Hills - I	3XXXXXXXXXXXXX7	Swajith Movies Private Limited
40	Punjagutta	Jubilee Hills - II	3XXXXXXXXXXXXXV	Indian Immunologicals Limited
41	Punjagutta	Jubilee Hills - II	3XXXXXXXXXXXXX4	Telangana Publications Private Limited
42	Punjagutta	Jubilee Hills - II	3XXXXXXXXXXXXXF	Pridepoint Constructions Private Limited
43	Punjagutta	Punjagutta STU - 1	3XXXXXXXXXXXXXA	Lalitha Jewellery Mart Private Limited
44	Punjagutta	Punjagutta STU - 1	3XXXXXXXXXXXXXF	NACL Industries Limited
45	Punjagutta	Punjagutta STU - 1	3XXXXXXXXXXXXXT	Myhome Constructions Private Limited
46	Punjagutta	Punjagutta STU - 1	3XXXXXXXXXXXXXL	Sushee Infra & Mining Limited
47	Punjagutta	Punjagutta STU - 1	3XXXXXXXXXXXXX3	Bekem Infra Projects Private Limited
48	Punjagutta	Punjagutta STU - 2	3XXXXXXXXXXXXXG	Vivin Drugs & Pharmaceuticals Private Limited
49	Punjagutta	Punjagutta STU - 2	3XXXXXXXXXXXXXP	IBM India Private Limited
50	Punjagutta	Punjagutta STU - 2	3XXXXXXXXXXXXX0	Signode India Limited

**Appendix 2.1(B)**  
**(Reference to paragraph 2.14.4 page 33)**  
**Limited Audit sample (407 cases)**

S. No.	Limited Audit Deviation	Total sample for which AQs issued
1	Excess ITC availed	50
2	Excess availment of ITC on RCM	50
3	Availing of ITC under Reverse Charge Mechanism (RCM) without payment- (RCM Ratio)	15
4	ISD recipients- Irregular availment by recipients	25
5	ISD reversal -Short or non-reversal	3
6	Unreconciled ITC with reference to Financial Statements (R9C-12F)	25
7	Unreconciled ITC with reference to Financial Statements (R9C-14T)	25
8	Unreconciled turnover with reference to Financial statements (R9C_5R)	50
9	Unreconciled turnover with reference to Financial statements (R9C_7G)	29
10	Undischarged liability with reference to Financial statements (R9C_9R)	50
11	Excess liability (short declaration)	25
12	E-commerce suppliers availing composition levy	10
13	Non filing of 3B – Non-payment of tax but passing ITC	25
14	Short payment of interest	25
	<b>TOTAL</b>	<b>407</b>

**Appendix-2.1(C)**  
**(Reference to paragraph 2.14.4 page 33)**  
**List of 15 circles for Circle Audit**

Sl. No.	Division	Circle
1	Abids Division	Abids STU-1
2	Abids Division	Abids STU-2
3	Abids Division	Narayanaguda-MJ Market
4	Begumpet Division	Begumpet
5	Begumpet Division	Begumpet STU-1
6	Begumpet Division	Begumpet STU-2
7	Secunderabad Division	Musheerabad
8	Secunderabad Division	Secunderabad STU-1
9	Hyderabad Rural Division	Hyderabad Rural STU-2
10	Hyderabad Rural Division	Hyderabad Rural STU-3
11	Hyderabad Rural Division	Madhapur -III
12	Punjagutta Division	Jubilee Hills - I
13	Punjagutta Division	Jubilee Hills - II
14	Punjagutta Division	Punjagutta STU - 1
15	Punjagutta Division	Punjagutta STU - 2



*Audit Report on 'Revenue Sector' for the year ended 31 March 2022*

Audit Dimension	Cases where reply received										Department reply accepted by Audit										Accepted by Dept. including cases where action is yet to be initiated										Dept. reply not acceptable to Audit (Rebuttal)				Total = (Col.10 to 19)				Dept. reply not furnished with appropriate documentary evidence				Dept. Stated they are examining the AQ			
	Data entry errors		Action taken before query		Other valid explanations		Recovered		SCN Issued		ASMT-10		Under correspondence with taxpayer		No.		Amt.		No.		Amt.		No.		Amt.		No.		Amt.		No.		Amt.													
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.														
Mismatch in tax paid between books of accounts and Annual Return (Table 9R of Form GSTR-9C)	30	1003.47	6	958.14	7	13.38	9	12.08	1	0.41	1	0.61	0	0	2	1.04	2	11.84	6	13.90	2	5.97	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00														
Mismatch in ITC availed between Annual Return and Financial Statements (Table 12F of Form GSTR-9C)	18	7540.10	3	7479.71	1	2.98	10	46.43	0	0	1	2.88	0	0	1	2.28	1	2.57	3	7.73	1	3.25	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00														
Reconciliation between ITC declared in Annual return with expenses in financial statement (Table 14T of Form GSTR-9C)	18	825.88	0	0.00	1	28.35	13	670.67	0	0	1	41.68	0	0	1	49.23	0	0.00	2	90.91	2	35.95	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00														
Cases where GSTR 3B not filed but GSTR 1 or GSTR 2A available	20	1.05	0	0.00	3	0.73	0	0	0	0	7	0.29	5	0.13	3	0.30	1	0.17	16	0.89	1	0.12	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00														
Undischarged tax liability - compared with GSTR-1 liability and GSTR-9/GSTR-3B payments	17	129.30	2	17.53	2	34.07	3	12.75	0	0	1	11.48	0	0	3	9.83	5	26.42	9	47.74	1	17.22	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00														
Short payment of Interest	18	5.83	0	0.00	0	0	3	1.05	4	1.13	7	2.19	0	0	3	0.86	0	0.00	14	4.18	1	0.25	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00														

Audit Dimension	Cases where reply received										Department reply accepted by Audit										Accepted by Dept. including cases where action is yet to be initiated										Dept. reply not acceptable to Audit (Rebuttal)				Total = (Col.10 to 19)		Dept. reply not furnished with appropriate documentary evidence		Dept. Stated they are examining the AQ	
	Data entry errors		Action taken before query		Other valid explanations		Recovered		SCN Issued		ASMT-10		Under correspondence with taxpayer		No.		Amt.		No.		Amt.		No.		Amt.		No.		Amt.		No.		Amt.							
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.								
List of Composition taxpayers who are also availing e-commerce facility	8	--	0	--	0	--	6	--	0	0.00	1	--	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00						
Mismatch in ISD credit	16	14.36	7	5.22	0	0	1	0.84	0	0	0	0.00	1	0.00	0	0	0.00	0	0	0	0.00	1	0.29	3	1.41	1	2.91	5	4.61	3	3.69	0	0.00	0	0.00					
Short reversal of ISD credit	1	0.00	0	0.00	0	0	0	0	0	0.00	0	0	0	0.00	0	0	0.00	0	0	0	0.00	0	0	0	0.00	0	0.00	1	0.00	0	0.00	0	0.00	0	0.00					
<b>Total</b>	<b>283</b>	<b>12967.43</b>	<b>41</b>	<b>8556.64</b>	<b>14</b>	<b>79.51</b>	<b>87</b>	<b>2923.66</b>	<b>6<sup>1</sup></b>	<b>1.54</b>	<b>49<sup>2</sup></b>	<b>219.07</b>	<b>12</b>	<b>9.41</b>	<b>30</b>	<b>499.49</b>	<b>12</b>	<b>257.27</b>	<b>109</b>	<b>986.78</b>	<b>30</b>	<b>420.18</b>	<b>2</b>	<b>1.01</b>																

<sup>1</sup> Includes one case of mismatch in tax payment of ₹41.48 lakh, four cases on short payment of interest of ₹112.65 lakh and one case on short reversal of ISD credit.

<sup>2</sup> Includes seven cases of Mismatch in turnovers/ ITC claim/ tax payment amounting to ₹73.54 crore

**Appendix-4.1**  
**(Reference to paragraph 4.6, page 80)**  
**Non levy of duties on documents involving distinct matters**

(₹ in lakh)

Sl. No.	Registering Authority	No. of cases	Distinct matter/Details of transaction	Short Levy	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
1	DR, Ranga Reddy	1	Conveyance in Gift deed	0.85	Mother gifted a leased property to her son along with a security deposit received as part of lease deed. This security deposit is a distinct matter of conveyance to the gift deed.
2	DR, Hyderabad (Red Hills)	1	Conveyance in sale deed	615.93	Sale proceeds to consenting party is cash conveyance.
3	DR, Hyderabad (South - Banjara Hills)	1	Conveyance in DGPA	3.00	Excess built up area allotted to landowners in lieu of arrears of rent in a DGPA, is a cash conveyance.
4	SR, Qutubullapur	3	Conveyance in Sale	225.77	Sale proceeds received (i) in excess of entitlement, and (ii) by non-eligible members comes under cash conveyance.
5	SR, Shankarpally	1	Conveyance in Sale and Release in Partition deed	1.00	Unequal distribution of property in a partition deed should be treated as release.
6	SR, Yadagirigutta	2	Release in Partition and Conveyance in Sale deed	2.57	Mother along with her daughter relinquished their share in favour of her two sons for a consideration of ₹ one lakh, which is a distinct matter of release in partition deed. Sale proceeds received by non-eligible members comes under cash conveyance.
7	SR, Azampura	1	Conveyance in sale deed	29.04	Sale proceeds to consenting party is cash conveyance.
8	SR, Chevella	1	Conveyance in AGPA	6.91	In an AGPA, part of land allotted to vendees 4 to 7 but the amount was paid by vendees 1 to 3 instead of vendees 4 to 7 which is a distinct matter of conveyance.
9	SR, Keesara	1	Release in Sale deed	1.15	Three persons sold the jointly purchased property to two of them. However, the third person, who has released his

Sl. No.	Registering Authority	No. of cases	Distinct matter/Details of transaction	Short Levy	Remarks
					share has taken the amount less than market value of the property, which is a distinct matter of release in sale deed.
10	SR, Shamirpet	1	Conveyance in Sale deed.	2.38	Sale proceeds received by non-eligible members comes under cash conveyance.
<b>Total</b>		<b>13</b>		<b>888.60</b>	

**Appendix-4.2**  
**(Reference to paragraph 4.7, page 81)**  
**Short levy of duties and registration fees on agricultural lands converted for non-agricultural purposes**

(₹ in lakh)

Sl. No.	Registering Authority	No. of cases	Value adopted by Registry	Value to be adopted upon conversion	Duties and fees leviable	Duties and fees levied	Short levy of Duties and fees
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	DR, Nalgonda	1	18.30	77.50	4.65	1.69	2.96
2	DR, Medchal Malkajgiri	1	7.88	33.60	2.01	0.47	1.54
3	SR, Kalwakurthy	1	9.82	79.25	4.76	0.59	4.17
4	SR, Nagar Kurnool	3	12.77	151.73	9.10	0.76	8.34
5	SR, Medak	5	84.46	656.36	39.38	5.08	34.30
6	SR, Peddamberpeta	1	18.30	73.81	4.43	1.10	3.33
7	SR, Parigi	1	1.58	30.49	1.83	0.10	1.73
8	SR, Achampet	2	1.50	43.56	2.61	0.09	2.52
9	SR, Peddapalli	1	6.00	72.60	4.36	0.36	4.00
10	SR, Devarkonda	1	5.70	52.25	3.13	0.34	2.79
11	SR, Keesara	4	85.96	125.76	6.98	4.75	2.23
12	SR, Yadagirigutta	4	35.55	97.83	5.71	2.11	3.60
13	SR, Bhongir	1	17.19	34.37	2.06	1.03	1.03
14	SR, Dubbaka	1	9.77	68.42	4.11	0.59	3.52
15	SR, Shamirpet	3	180.00	321.42	18.32	10.02	8.30
16	SR, Gangadhara	1	8.85	42.83	2.57	0.53	2.04
17	SR, Ibrahimpatnam	5	70.01	134.76	8.08	4.20	3.88
18	SR, Farooq Nagar	4	31.43	354.89	21.29	1.88	19.41
19	SR, Toopran	2	20.50	186.03	11.16	1.23	9.93
20	SR, Sadasivapet	2	38.82	308.85	18.53	2.33	16.20
<b>Total:</b>		<b>44</b>	<b>664.39</b>	<b>2,946.31</b>	<b>175.07</b>	<b>39.25</b>	<b>135.82</b>

**Appendix-4.3**

(Reference to paragraph 4.8, page 82)

**Short levy of duties and registration fees due to undervaluation of properties / chargeability in registered documents**

(₹ in lakh)

Sl. No.	Registering Authority	No. of cases	Reasons for Undervaluation	Duties and Fee leviable	Duties and Fee levied	Short levy of Duties and Fee
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	DR, Medchal Malkajgiri	1	Non adoption of market value rate for the properties abutting to National Highways	10.77	7.43	3.34
2	DR, Karimnagar	1	Suppression of built-up area in the sale deed	8.50	0	8.50
3	SR, Kukatpally	5	i) semi-finished apartments rate was adopted to the finished apartments. ii) duties were levied on consideration value instead of market value	10.77	7.51	3.26
4	SR, Serlingampally	3	suppression of built-up area in DGPA deed.	88.13	34.06	54.07
5	SR, Shadnagar	2	Non-adoption of market value rates for the properties abutting to ZP road	4.01	1.47	2.54
6	SR, Secunderabad	2	Incorrect adoption of sq.yard rate.	20.40	14.76	5.64
7	SR, Balanagar	1	Incorrect adoption of consideration amount received by the vendor	8.48	7.20	1.28
8	SR, Shamirpet	1	Suppression of ACC Shed in the sale deed	2.50	0.90	1.60
9	SR, Peddapalli	2	i) incorrect adoption of sft rate. ii) adoption of consideration value instead of market value of the property.	17.23	7.46	9.77
10	SR, Malkajgiri	2	i) property auctioned rate was considered instead of sq.yard rate of that property. ii) construction area was suppressed in the sale deed.	81.71	62.12	19.59
11	SR, Tandur	1	Market value of rural area considered instead of urban area	16.53	15.94	0.59
12	SR, Ibrahimpatnam	1	Non adoption of the previous higher value of the property	5.54	1.40	4.14
	<b>Total</b>	<b>22</b>		<b>274.57</b>	<b>160.25</b>	<b>114.32</b>

**Appendix-4.4**  
**(Reference to paragraph 4.9, page 82)**  
**Short levy of duties in Development Agreement cum General Power of Attorney documents**

(₹ in lakh)

Sl. No.	Registering Authority	No. of cases	Duties and Fee leviable	Duties and Feelevied	Short levy of Duties and Fee	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	DR, Rangareddy	2	198.06	134.30	63.76	1. Cost of proposed area of construction was considered for chargeability instead of previous higher value. 2. land cost was considered instead of the extent of constructed area.
2	SR, L.B. Nagar	1	0.80	0	0.80	Amount paid for amenities as per the development plan was not considered.
	<b>Total</b>	<b>3</b>	<b>198.86</b>	<b>134.30</b>	<b>64.56</b>	

**Appendix-4.5**  
**(Reference to paragraph 4.10, page 83)**  
**Short levy of duties due to non-adoption of market value rates in respect of rural properties**

(₹ in lakh)

Sl. No.	Registering Authority	No. of cases	Value of the property charged in the document	Value of the Property actually Chargeable	Total duties leviable	Duties actually levied	Short levy of duties	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	DR, Ranga Reddy	10	1174.52	2076.25	124.58	70.48	54.10	The properties are surrounded by lands holding a higher value as per Form-IV. Hence, these higher values are to be adopted for computing chargeable value
2	SR, Chevella	7	168.95	249.90	14.99	7.18	7.81	The properties are surrounded by lands holding a higher value as per Form-IV. Hence, these higher values are to be adopted for computing chargeable value
3	SR, Maheshwaram	5	79.77	319.10	16.86	4.22	12.64	The properties are surrounded by lands holding a higher value as per Form-IV. Hence, these higher values are to be adopted for computing chargeable value
4	SR, Devarkonda	2	25.40	70.42	3.70	1.29	2.41	The properties are surrounded by lands holding a higher value as per Form-IV. Hence, these higher values are to be adopted for computing chargeable value
5	SR, Gadwal	1	8.00	50.50	3.03	0.48	2.55	The property East side boundary is surrounded by land in survey no.281 holding a higher value as per Form-IV.Hence, higher value is to be adopted for computing chargeable value.
6	SR, Sadasivapet	1	21.00	90.00	1.35	0.32	1.03	The property West sideboundary is surrounded by land in survey no.774 holding a higher value as per Form-IV.Hence, higher value is to be adopted for computing chargeable value.
7	SR, Yadagirigutta	1	12.90	25.80	1.55	0.78	0.77	The property North sideboundary is surrounded by land in survey no.1045 holding a higher value as per Form-IV.Hence, higher value is to be adopted for computing chargeable value.
	<b>Total</b>	<b>27</b>	<b>1490.54</b>	<b>2881.97</b>	<b>166.06</b>	<b>84.75</b>	<b>81.31</b>	

**Appendix-4.6**

(Reference to paragraph 4.11, page 84)

**Short levy of registration fee on instruments creating 'paripassu' charge**

Sl. No.	Registering Authority	No. of cases	Term loan amount (₹ in crore)	Registration fee to be collected (₹ in lakh)	Registration Fee collected (₹ in lakh)	Short levy of Registration Fee (₹ in lakh)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	DR, Hyderabad (South-, Banjara Hills)	1	57.50	28.75	0.10	28.65
2	DR, Warangal	1	36.55	18.28	0.10	18.18
3	SR, Maheshwaram	2	42.80	21.40	0.20	21.20
	<b>Total</b>	<b>4</b>	<b>136.85</b>	<b>68.43</b>	<b>0.40</b>	<b>68.03</b>

**Appendix-4.7**  
**(Reference to paragraph 4.12, page 84)**  
**Short levy of duties due to misclassification of documents**

						(₹ in lakh)
Sl. No.	Registering Authority	No. of cases	Details of Transactions	Document registered as	Document to be registered as	Short levy of duties due to misclassification
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	DR, Ranga Reddy	4	Gift given to Nephew/Niece	Gift deed	Gift deed in favour of others	10.61
2	DR, Adilabad	1	Gift given to brother's son	Gift deed	Gift deed in favour of others	1.22
3	SR, Maheshwaram	5	Gift given to Nephew/Niece	Gift deed	Gift deed in favour of others	11.18
4	SR, Gadwal	2	Gift given to Nephew	Gift deed	Gift deed in favour of others	2.38
5	SR, L.B. Nagar	1	Gift given to Niece	Gift deed	Gift deed in favour of others	1.11
<b>Total</b>		<b>13</b>				<b>26.50</b>

## Glossary

<b>AA</b>	: Assessing Authority
<b>AAR</b>	: Average Annual Rent
<b>AC (ST)</b>	: Assistant Commissioner (State Tax)
<b>AGPA</b>	: Agreement of Sale cum General Power of Attorney
<b>BSO</b>	: Revenue Board's Standing Orders
<b>CAATs</b>	: Computer Assisted Audit Techniques
<b>C&amp;AG</b>	: Comptroller and Auditor General of India
<b>CARD</b>	: Computer aided Administration in Registration Department
<b>CBIC</b>	: Central Board of Indirect Taxes and Customs
<b>CCLA</b>	: Chief Commissioner of Land Administration
<b>CENVAT</b>	: Central Value Added Tax
<b>CFST</b>	: Citizen Friendly Services in Transport Department
<b>CGST</b>	: Central Goods and Services Tax
<b>CIGRS</b>	: Commissioner and Inspector General of Registration and Stamps
<b>CMV Rules</b>	: Central Motor Vehicle Rules, 1989
<b>COVID</b>	: Coronavirus Disease
<b>CST</b>	: Central Sales Tax
<b>DC (ST)</b>	: Deputy Commissioner (State Tax)
<b>DGARM</b>	: Director General of Analytics and Risk Management
<b>DGPA</b>	: Development Agreement cum General Power of Attorney
<b>DIG</b>	: Deputy Inspector General
<b>DMU</b>	: Debt Management Unit
<b>DPEOs</b>	: District Prohibition and Excise Officers
<b>DR</b>	: District Registrar
<b>DTOs</b>	: District Transport Offices
<b>ECL</b>	: Electronic Credit Ledger
<b>EN</b>	: Explanatory Notes
<b>GO</b>	: Government Order
<b>GST</b>	: Goods and Services Tax
<b>GSTC</b>	: Goods and Services Tax Council
<b>GSTIN</b>	: Goods and Services Tax Index Number
<b>GSTR</b>	: Goods and Services Tax Return

<b>HMDA</b>	: Hyderabad Metropolitan Development Authority
<b>HSRP</b>	: High Security Number Plates
<b>IDEA</b>	: Interactive Data Extraction and Analysis
<b>IGST</b>	: Integrated Goods and Services Tax
<b>IR</b>	: Inspection Report
<b>IS Act</b>	: Indian Stamp Act
<b>ISD</b>	: Input Service Distributor
<b>IT</b>	: Information Technology
<b>IT Act</b>	: Income Tax Act
<b>ITC</b>	: Input Tax Credit
<b>JC (ST)</b>	: Joint Commissioner (State Tax)
<b>MV</b>	: Market Value
<b>MV Act</b>	: Motor Vehicle Act, 1988
<b>M Governance</b>	: Mobile Governance
<b>NALA</b>	: The Telangana Agricultural Land (Conversion for Non-Agricultural purpose) Act, 2006
<b>P&amp;L Account</b>	: Profit and Loss Account
<b>PAC</b>	: Public Accounts Committee
<b>PUC</b>	: Pollution Under Control
<b>RCM</b>	: Reverse Charge Mechanism
<b>RF</b>	: Registration Fee
<b>RTAs</b>	: Regional Transport Authorities
<b>SCN</b>	: Show Cause Notice
<b>SD</b>	: Stamp Duty
<b>SDD</b>	: System Design Document
<b>SDRF</b>	: Stamp Duty and Registration Fee
<b>SGST</b>	: State Goods and Services Tax
<b>SLA</b>	: Service Level Agreement
<b>SLD</b>	: Speed Limit Device
<b>SOP</b>	: Standard Operating Procedure
<b>SR</b>	: Sub Registrar
<b>SRS</b>	: System Requirement Specifications
<b>SSCA</b>	: Subject Specific Compliance Audit
<b>ST</b>	: State Tax

<b>STU</b>	: Strategic Taxpayer Unit
<b>TC</b>	: Transport Commissioner
<b>TD</b>	: Transfer Duty
<b>TDS</b>	: Tax Deducted at Source
<b>TS</b>	: Telangana State
<b>TSGST</b>	: Telangana State Goods and Services Tax
<b>TS MVT Act</b>	: Telangana State Motor Vehicle Taxation Act, 1963
<b>TSRTC</b>	: Telangana State Road Transport Corporation
<b>TS TRANSCO</b>	: Telangana State Transmission Company
<b>TSTSL</b>	: Telangana State Technological Services Limited
<b>TSVAT</b>	: Telangana State Value Added Tax
<b>TSWAN</b>	: Telangana State Wide Area Network
<b>UIN</b>	: Unique Identification Number
<b>ULC</b>	: Urban Land Ceiling
<b>VAT</b>	: Value Added Tax
<b>VATIS</b>	: Value Added Tax Information System
<b>VCRs</b>	: Vehicle Check Reports



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