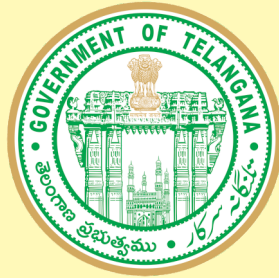




**Report of the
Comptroller and Auditor General of India
on
Revenue Sector
for the year ended March 2017**



Government of Telangana
Report No. 5 of 2018

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Comptroller and Auditor General of India
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PREFACE

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2017 has been prepared for submission to the Governor of Telangana under Article 151 of the Constitution of India for being laid before Legislature of the State.

The Report contains significant findings of audit of Receipts and Expenditure of major revenue earning Departments under Revenue Sector including a Performance Audit on “Enforcement activities of Transport Department including implementation of High Security Registration Plates” conducted under the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971.

The instances mentioned in this Report are those, which came to notice in the course of test audit during the period 2016-17 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports; instances relating to the period subsequent to 2016-17 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 21 paragraphs besides one Performance Audit on “Enforcement activities of Transport Department including implementation of High Security Registration Plates” and one detailed Compliance Audit on “Functioning of Chief Electrical Inspectorate to Government of Telangana”. These findings relate to under-assessment / short levy / loss of revenue etc., of ₹ 260.04 crore. Some of the significant audit findings are mentioned below:

I GENERAL

- The total revenue receipts of the State Government for the year 2016-17 amounted to ₹ 82,818.37 crore. Of this, Tax Revenue (₹ 48,407.73 crore) and Non-Tax Revenue (₹ 9,781.70 crore) accounted for 70 *per cent* of the total revenue receipts of the State. The remaining 30 *per cent* was received from Government of India as State’s share of divisible Union Taxes and Duties (₹ 14,877.04 crore) and Grants-in-Aid (₹ 9,751.90 crore).

(Paragraph 1.1.1)

- There has been increase of 21.10 *per cent* of tax revenue during the year 2016-17 over the previous year. The revenue under VAT, State Excise, Taxes on Vehicles, Stamp Duty and Registration Fee had increased by 14.70 *per cent*, 46.51 *per cent*, 46.99 *per cent* and 23.19 *per cent* respectively.

(Paragraph 1.1.2)

- Test-check of the records of 320 units of Commercial Taxes, Prohibition and Excise, Transport, Land Revenue, Registration and Stamps and other departmental offices conducted during the year 2016-17 showed under-assessment/ short levy / loss of revenue aggregating ₹ 1,289.76 crore in 1,553 cases.

(Paragraph 1.6.3)

IV TAXES ON VEHICLES

Performance Audit on ‘Enforcement activities of Transport Department including implementation of High Security Registration Plates’ revealed the following deficiencies:

Introduction

The Telangana Transport Department (Department) was established for enforcement of the provisions of Motor Vehicles Act (MV Act), 1988; Andhra Pradesh Motor Vehicles Taxation Act (APMVT Act), 1963 and the rules framed thereunder. The Department primarily functions under the provisions of Section 213 of the MV Act, 1988. This includes collection of taxes and

fees, issue of driving licences and certificates of fitness. Registration of motor vehicles and granting permits to vehicles is also being undertaken by the department.

Non-detection of vehicles without valid Fitness Certificates (FCs)

- Test check of 10 offices revealed that 20,163 vehicles were plying without Fitness Certificates (FCs) due to lack of alerts in the system and failure of the Department to ensure renewal of FCs. This posed risk to public safety besides non-realisation of FC fee of ₹ 51.54 lakh.

(Paragraph 4.4.4.1)

Non-detection of vehicles with expired registrations

- Green tax amounting to ₹ 92.36 lakh, remained uncollected in respect of 25,558 vehicles with expired Certificates of Registration (RCs).

(Paragraph 4.4.4.2)

Non-enhancement of Compounding Fee on second and subsequent offences

- State Government had not notified the enhanced fee for second and subsequent offences in the Schedule of Compounding Fee. Low compounding fee for repeated offences allow erring drivers violate traffic rules posing risk to life and property. Besides, it led to non-realisation of compounding fee of ₹ 6.05 crore.

(Paragraph 4.4.3.3)

Offences of allowing unauthorized persons to drive

- The owners of the vehicles were not booked in 15,159 offences for allowing unauthorized persons to drive their vehicles. The loss of revenue towards compounding fee worked out to ₹ 1.52 crore.

(Paragraph 4.4.3.4)

Lack of co-ordination between departments on deployment

- There was no co-ordination between Police Department and Transport Department on deployment of enforcement staff. The Enforcement Wing of Transport Department did not have a risk-based deployment plan.

(Paragraph 4.4.2.1)

Access to Citizen Friendly Services of Transport Department (CFST) data during Vehicular Inspection

- The project, 'e-VCR' mobile solution that facilitates access to vehicular data base (CFST) during vehicular inspection was not implemented. Analysis of VCR data revealed that multiple offences

relating to the same vehicle could not be detected by the enforcement officials.

(Paragraph 4.4.3.1)

Lapses on interstate vehicular movement

- Bilateral tax and penalty of ₹ 2.76 crore was not collected from the owners of 1,330 vehicles registered in Maharashtra and Karnataka.

(Paragraph 4.4.5.4)

New vehicles without affixation of HSRP

- High Security Registration Plates (HSRPs) in respect of 2,92,843 new vehicles (42 *per cent*) were not affixed (July 2017).

(Paragraph 4.4.9.1)

Penalty charges

- The mechanism to give rebate to customers where there were delays in affixing HSRP had not been instituted.

(Paragraph 4.4.9.3)

Non-fixing of HSR Plates for in-use vehicles

- The project of HSRP had not commenced in respect of 18.41 lakh 'in-use' vehicles. The objective of having uniform Registration Plates with security features could not be achieved by the Department.

(Paragraph 4.4.9.2)

Delay in auction of seized vehicles

- There were delays in disposal of 1,413 vehicles under seizure, out of which 206 vehicles were under seizure since 2010 onwards.

(Paragraph 4.4.6.2)

There was lack of co-ordination between the Transport Department and the Police Department on deployment of personnel for enforcement activities. The 'e-VCR mobile solution' project, that would have provided the last mile integration, by automation of the Vehicle Check Reports (VCR) to inspecting officers at the time of check, was not implemented. Deterrence effect was lost due to non-incorporation of provisions on enhanced compounding fee in respect of repeated offences. Offences were booked against the drivers and were not booked against vehicle owners. High Security Registration Plates (HRSP) were installed only on 58 *per cent* of the 6,95,709 authorised new vehicles.

Other Audit findings:

- Quarterly tax of ₹ 2.12 crore and penalty of ₹ 1.06 crore were not realised from owners of 1,262 transport vehicles for the years 2014-15 and 2015-16 in 10 offices.

(Paragraph 4.5)

II VALUE ADDED TAX AND CENTRAL SALES TAX

- In 24 offices, 28 dealers claimed excess Input Tax Credit (ITC) of ₹ 2.72 crore due to adoption of incorrect method of restriction of ITC. Non-restriction of ITC by the Assessing Authorities (AAs) as per the rules on exempt sale/ transactions resulted in excess allowance of ITC.

(Paragraph 2.4.2)

- In 14 offices, 23 dealers were allowed ITC of ₹ 1.55 crore incorrectly on ineligible items. The incorrect allowance was due to non-restriction of ITC on damaged goods, invalid tax invoices and incorrect claim by hotels and bakeries.

(Paragraph 2.4.1)

- In nine offices, the AAs incorrectly allowed ITC of ₹ 1.63 crore on works contracts of 11 dealers. The incorrect allowance was due to allowing ITC to dealers who were not eligible and the AAs allowed 100 *per cent* ITC though the dealers were eligible for only 90/75 *per cent*.

(Paragraph 2.4.4)

- Excess deferred Sales Tax benefit of ₹ 3.02 crore was availed by 15 Industrial units under the jurisdiction of six offices. Deficiency in monitoring by AAs resulted in excess availment of deferred Sales Tax.

(Paragraph 2.13.1)

- In four offices, inadmissible deductions under works contract were allowed in four cases. The deduction allowed pertained to land development charges, design & engineering services, erection & installation services, labour charges etc., which were not admissible. This resulted in short levy of Tax of ₹ 50.30 lakh.

(Paragraph 2.9.2.1)

- Application of incorrect rates of Tax resulted in short levy of Tax of ₹ 35.61 crore in 40 cases in 35 offices. Goods such as empty gas cylinders, water purifiers, LED lights, Quinoa and Chia seeds etc., which were liable to be taxed at 14.5 *per cent* were taxed at five *per cent*. Bar and Restaurants/ Restaurants whose turnover was above ₹ 1.5 crore paid Tax at five *per cent* instead of 14.5 *per cent*.

(Paragraph 2.5)

- In 23 offices, the AAs adopted purchase turnovers in excess of those shown in Profit and Loss accounts of 28 dealers. This resulted in excess allowance of ITC of ₹ 2.28 crore.

(Paragraph 2.4.3)

- In 12 offices in 21 cases, the dealers paid/ AAs short levied Tax at the rate of five *per cent* instead of at 14.5 *per cent* on sale of mobile phones. This resulted in short levy of Tax of ₹ 43.47 crore.

(Paragraph 2.5.1)

- In 16 offices, incorrect exemption of sales turnover of ‘textiles and fabrics’ in 26 cases resulted in non-levy of VAT of ₹ 9.53 crore. As none of the dealers opted for composition, they were liable to pay Tax at the rate of five *per cent*.

(Paragraph 2.6)

- In 41 cases, there was a variation between the sales turnover determined by the AAs and the turnovers reported in Profit and Loss accounts. This resulted in short levy of VAT of ₹ 5.30 crore.

(Paragraph 2.8)

- Interest of ₹ 1.31 crore and penalty of ₹ 3.59 crore were not levied by the AAs in 38 offices though 167 dealers had paid tax with delays ranging from one day to 1,073 days.

(Paragraph 2.12.1)

- The AAs did not levy penalty in 10 cases and short levied penalty in 16 cases on under-declaration of tax for reasons other than due to fraud or wilful neglect. This resulted in non levy/short levy of penalty of ₹ 4.11 crore.

(Paragraph 2.12.3)

- The AAs had not levied interest of ₹ 13.37 crore on delayed payment of deferred Sales Tax/ Tax holiday converted into deferment in 144 cases.

(Paragraph 2.13.2 & 2.13.4)

- In 177 Industrial units deferred tax incentive of ₹ 27.34 crore was availed between 1993-94 and 2015-16. AAs did not initiate action to recover the deferred Sales Tax of ₹ 6.39 crore even though 31 units closed their units.

(Paragraph 2.13.3)

III STAMP DUTY AND REGISTRATION FEE

- Companies secured credit facilities from various financial institutions by creating charge on *pari passu* basis on their properties. Registering

authorities collected ₹ 10,000 on each document instead of charging 0.5 per cent on the amount secured which resulted in short collection of Registration fee of ₹ 8.76 crore.

(Paragraph 3.4)

- Agricultural rate was adopted in respect of lands which had already been converted to non-agricultural use by 14 offices of District Registrars/ Sub-Registrars. This led to short levy of Duties and Fees of ₹ 2.04 crore.

(Paragraph 3.5)

V OTHER TAX AND NON-TAX RECEIPTS

LAND REVENUE

- In four Tahsildar offices, Water Tax amounting to ₹ 58.48 lakh was not levied/ short levied due to application of incorrect rate of Tax and non-levy of Tax on entire extent of land irrigated.

(Paragraph 5.2)

Detailed Compliance Audit Report on “Functioning of Chief Electrical Inspectorate to Government of Telangana” revealed the following deficiencies:

- Adoption of provisional figures led to short demand of Electricity Duty of ₹ 42.83 crore from Distribution Companies (DISCOMs).

(Paragraph 5.3.3.3)

- An amount of ₹ 32.81 crore was irregularly adjusted towards Electricity Duty dues of DISCOMs.

(Paragraph 5.3.3.4)

- There was short payment of ₹ 1.36 crore of Electricity Duty by RESCOS, Siricilla to Government.

(Paragraph 5.3.3.7)

- There was short fall of periodical inspections relating to HT installations in five offices.

(Paragraph 5.3.4.1)

The mechanism for timely remittance of Electricity Duty collected by the DISCOMs to the government account was ineffective. Electricity duty of ₹ 42.83 crore was short demanded from DISCOMs and ₹ 32.81 crore was irregularly adjusted. There had been shortfall in conducting periodical inspections of HT installations.

CHAPTER I

GENERAL

CHAPTER I GENERAL

1.1 Trend of Revenue Receipts

1.1.1 The Revenue Receipts of the State for the year 2016-17 comprised of:

- Tax and non-tax Revenue raised by the Government of Telangana
- State's share of net proceeds of divisible Union taxes
- Duties assigned to the State
- Grants-in-Aid received from the Government of India

The details of revenue receipts along with the corresponding figures from 2 June 2014 to 31 March 2017 have been depicted in **Table 1.1**:

Table 1.1
Trend of Revenue Receipts

(₹ in crore)				
Sl. No.	Particulars	2 June 2014 to 31 March 2015	2015-16	2016-17 ¹
1.	Revenue raised by the State Government			
	• Tax Revenue	29,288.30	39,974.63	48,407.73
	• Non-tax Revenue	6,446.82	14,414.36	9,781.70
	Total	35,735.12	54,388.99	58,189.43
2.	Receipts from the Government of India			
	• Share of Net Proceeds of Divisible Union Taxes and Duties	8,188.58	12,350.72	14,877.04
	• Grants-in-Aid	7,118.10	9,394.12	9,751.90
	Total	15,306.68	21,744.84	24,628.94
3.	Total revenue receipts of the State Government (1 and 2)	51,041.80	76,133.83	82,818.37
4.	Percentage of 1 to 3	70	71	70

Source: Finance Accounts for the year 2016-17 of Government of Telangana

In the year 2016-17, the revenue raised by the State Government (₹ 58,189.43 crore) was 70 per cent of the total revenue receipts. The revenue under the head VAT accounted for 71 per cent of the total tax revenue receipts of the State. The balance (₹ 24,628.94 crore) 30 per cent of the receipts during the period was from the Government of India.

1 For details please see Statement No.14-Detailed Accounts of Revenue by Minor Heads in the Finance Accounts of Telangana for the year 2016-17. Figures under the Minor Head 901-Share of net proceeds assigned to the States under the Major Heads '0020-Corporation Tax; 0021-Taxes on Income other than Corporation Tax; 0028-Other Taxes on Income and Expenditure; 0032-Taxes on Wealth; 0037-Customs; 0038-Union Excise Duties; 0044-Service Tax and 0045-Other Taxes and Duties on Commodities and Services booked in the Finance Accounts under A-Tax Revenue have been excluded from the revenue raised by the State and exhibited as State's share of divisible Union taxes.

1.1.2 The details of Tax Revenue raised during the period from 2 June 2014 to 31 March 2017 are given in Table 1.2:

Table 1.2
Details of Tax Revenue Raised

(₹ in crore)

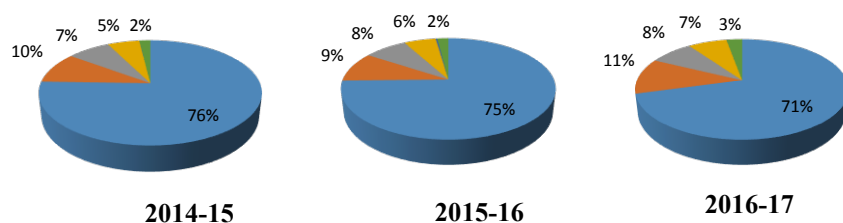
Sl. No.	Head of Revenue	2 June 2014 to 31 March 2015		2015-16		2016-17		Percentage of increase (+)/ decrease (-) in 2016-17 over 2015-16
		Budget Estimates	Actuals	Budget Estimates	Actuals	Budget Estimates	Actuals	
1.	Commercial Tax	26,963.30	22,120.78	35,463.39	29,846.91	42,073.53	34,234.69	(+) 14.70
2.	State Excise	2,823.54	2,807.69	3,916.43	3,809.07	4,543.06	5,580.71	(+) 46.51
3.	Stamp Duty and Registration Fees	2,583.88	2,176.90	3,700.00	3,102.23	4,292.00	3,821.66	(+) 23.19
4.	Taxes on Vehicles	2,226.86	1,617.66	2,500.00	2,309.13	2,900.00	3,394.16	(+) 46.99
5.	Land Revenue	72.89	9.25	13.46	103.71	15.61	6.70	(-) 93.54
6.	Others	10,457.13	556.02	901.46	803.58	1,045.71	1,369.81	(+) 70.46
	Total	45,127.60	29,288.30	46,494.74	39,974.63	54,869.91	48,407.73	(+) 21.10

Source: Budget Estimates, Finance Accounts for the year 2016-17 of Government of Telangana

There has been increase of 21.10 per cent of Tax Revenue during the year 2016-17 over the previous year. The revenue under the heads – VAT, State Excise, Taxes on Vehicles, Stamp Duty and Registration Fee had increased. There was a decline under revenue head – Land Revenue.

Analysis of growth chart across all the Taxes is given below:

Department wise revenue



■ Taxes on Sales, Trade etc. ■ State Excise ■ Stamp Duty and Registration Fees ■ Taxes on Vehicles ■ Others

The respective Departments reported the following reasons for variation:

Commercial Taxes Department: Variation between budget estimates and actuals was due to reduction of rates of Tax on liquor from 190 per cent to 70 per cent from December 2016 onwards.

Prohibition and Excise Department: Variation between budget estimates and actuals was due to revision of rates of Excise Duties.

Registration and Stamps Department: Variation between budget estimates and actuals was due to demonetisation.

Other Departments had not furnished the reasons for variation in budget estimates and actuals though called for (June and August 2017).

1.1.3 The details of Non-tax Revenue raised during the period from 2 June 2014 to 31 March 2017 are given in **Table 1.3**:

Table 1.3
Details of Non-tax Revenue Raised

(₹ in crore)

Sl. No.	Head of Revenue	2 June 2014 to 31 March 2015		2015-16		2016-17		Percentage of increase(+)/ decrease (-) in 2016-17 over 2015-16
		Budget Estimates	Actuals	Budget Estimates	Actuals	Budget Estimates	Actuals	
1.	Interest Receipts	2,638.20	2,766.01	2,793.95	2,877.54	1,701.01	1,790.82	(-) 37.77
2.	Mines and Minerals	1,877.52	1,719.29	3,300.00	2,212.51	2,687.87	3,148.40	(+) 42.30
3.	Education, Sports, Art and Culture	826.72	411.57	841.72	184.00	400.75	768.33	(+) 317.57
4.	Others	7,899.58	1,549.95	15,477.60	9,140.31	12,752.69	4,074.15	(-) 55.43
	Total	13,242.02	6,446.82	22,413.27	14,414.36	17,542.32	9,781.70	(-) 32.14

Source: Budget Estimates, Finance Accounts for the year 2016-17 of Government of Telangana

The Non-tax Revenue decreased by 32.14 *per cent* during the year 2016-17 over the previous year.

The revenue under the head Mines and Minerals and Education, Sports, etc. had increased by 42.30 *per cent* and 317.57 *per cent* respectively. Revenue under the head - Interest Receipts, had declined over the previous year.

Non-tax Revenue constituted 11.81 *per cent* of the total revenue of the State for the year 2016-17.

Departments did not furnish the reasons for variation in budget estimates and actuals though called for (June and August 2017).

1.2 Analysis of Arrears of Revenue

The arrears of revenue, as on 31 March 2017 on some principal heads of revenue amounted to ₹ 10,647.87 crore as detailed in **Table 1.4**:

Table 1.4
Arrears of Revenue

(₹ in crore)

Sl. No.	Head of Revenue	Total amount outstanding as on 31 March 2017	Amount outstanding for more than five years as on 31 March 2017	Reasons for arrears																		
0040 - Taxes on Sales, Trade, etc.																						
1.	Taxes on Sales, Trade etc.	8,027.03	4,049.86	Department stated reasons for arrears as under: <table border="1"> <tr> <td>• Demands raised based on AG objections, Vigilance and Enforcement Action Taken Reports and locked up in closed cases</td> <td>174.07</td> </tr> <tr> <td>• Cases where notices have been issued</td> <td>758.90</td> </tr> <tr> <td>• Due to non submission of statutory forms at the time of final assessments. Demand notices have been issued in these cases</td> <td>1,038.32</td> </tr> <tr> <td>• Cases pending before Courts, dealers whereabouts not known, etc.,</td> <td>6,055.74</td> </tr> </table>	• Demands raised based on AG objections, Vigilance and Enforcement Action Taken Reports and locked up in closed cases	174.07	• Cases where notices have been issued	758.90	• Due to non submission of statutory forms at the time of final assessments. Demand notices have been issued in these cases	1,038.32	• Cases pending before Courts, dealers whereabouts not known, etc.,	6,055.74										
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• Cases pending before Courts, dealers whereabouts not known, etc.,	6,055.74																					
0039 – State Excise																						
2.	State Excise	39.79	39.79	Department did not furnish the reasons for pendency in arrears																		
0041-Taxes on Vehicles																						
3.	Taxes on Vehicles	75.66	31.46	Department did not furnish the reasons for pendency in arrears																		
0030 – Stamp Duty and Registration Fees																						
4.	Stamp Duty and Registration Fees	50.20	9.06	The Commissioner and Inspector General (Registration and Stamps) stated (December 2017) that parties have not turned up to pay the arrears																		
0853-Mines & Minerals																						
5.	Mines and Minerals	87.83	38.17	Department stated reasons for arrears as under: <table border="1"> <tr> <td>• Cement Corporation of India referred to Board for Industrial and Financial Reconstruction</td> <td>12.09</td> </tr> <tr> <td>• Referred under R.R.Act,1864</td> <td>18.98</td> </tr> <tr> <td>• Non tracing of defaulters, non working of leases, etc.</td> <td>56.76</td> </tr> </table>	• Cement Corporation of India referred to Board for Industrial and Financial Reconstruction	12.09	• Referred under R.R.Act,1864	18.98	• Non tracing of defaulters, non working of leases, etc.	56.76												
• Cement Corporation of India referred to Board for Industrial and Financial Reconstruction	12.09																					
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• Non tracing of defaulters, non working of leases, etc.	56.76																					
0043-Taxes and Duties on Electricity																						
6	Taxes and Duties on Electricity	2367.36	1355.88	Department stated reasons for arrears as under: <table border="1"> <tr> <td>• Amount due from M/s Singareni Collieries Company Ltd (case pending in High Court)</td> <td>8.07</td> </tr> <tr> <td>• Recovery due from Sanghi Group of Industries (case pending in High Court)</td> <td>0.74</td> </tr> <tr> <td>• Amount due from Rural Electric Co-operative Societies</td> <td>0.15</td> </tr> <tr> <td>• Recovery due from A.P. Gas Power Corporation Ltd (Pending distribution between the States of Andhra Pradesh and Telangana)</td> <td>138.30</td> </tr> <tr> <td>• Amount due from M/s Sanghi Polysters Ltd(case pending in High Court)</td> <td>0.99</td> </tr> <tr> <td>• Amount due from other licensees and generating companies(SLPs pending in Supreme Court)</td> <td>182.53</td> </tr> <tr> <td>• Amount due from A.P. Genco (Demand notice was issued)</td> <td>1,935.88</td> </tr> <tr> <td>• Amount due from two DISCOMs</td> <td>100.40</td> </tr> <tr> <td>• Amount due from HT installations including Government installations</td> <td>0.30</td> </tr> </table>	• Amount due from M/s Singareni Collieries Company Ltd (case pending in High Court)	8.07	• Recovery due from Sanghi Group of Industries (case pending in High Court)	0.74	• Amount due from Rural Electric Co-operative Societies	0.15	• Recovery due from A.P. Gas Power Corporation Ltd (Pending distribution between the States of Andhra Pradesh and Telangana)	138.30	• Amount due from M/s Sanghi Polysters Ltd(case pending in High Court)	0.99	• Amount due from other licensees and generating companies(SLPs pending in Supreme Court)	182.53	• Amount due from A.P. Genco (Demand notice was issued)	1,935.88	• Amount due from two DISCOMs	100.40	• Amount due from HT installations including Government installations	0.30
• Amount due from M/s Singareni Collieries Company Ltd (case pending in High Court)	8.07																					
• Recovery due from Sanghi Group of Industries (case pending in High Court)	0.74																					
• Amount due from Rural Electric Co-operative Societies	0.15																					
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• Amount due from two DISCOMs	100.40																					
• Amount due from HT installations including Government installations	0.30																					
Total		10647.87	5524.22																			

Source : Information furnished by the Departments concerned

Arrears of taxes on Sales, Trade, etc., accounted for 75.39 *per cent* of total outstanding arrears. Fifty *per cent* of the total outstanding taxes on sales was in arrears for more than 5 years.

Arrears in Taxes and Duties on Electricity (₹ 2367.36 crore) for the year 2016-17 accounted for 22.23 *per cent* of total outstanding arrears. The annual collection for the year 2016-17 under the head 'Taxes and Duties on Electricity' was ₹ 514.01 crore. More than 50 *per cent* of the total outstanding Taxes and Duties on Electricity was in arrears for more than 5 years. Land Revenue department did not furnish the information on arrears of revenue.

Detailed Compliance Audit on 'Functioning of Chief Electrical Inspectorate to Government' was conducted for the years 2014-15 to 2016-17 and included in chapter V of this Report. Audit scrutiny revealed that the accumulated monthly dues amounting to ₹ 268.51 crore of Electricity Duty for the period November 2014 to March 2016 were not remitted on monthly basis to Government account by the DISCOMs. The DISCOMs paid ₹ 223.67 crore only in March 2017.

1.3 Arrears in Assessments

As per the provisions of the Telangana VAT Act², 2005, annual assessments are not mandatory for the VAT dealers. Assessments under the CST Act are to be completed within four years. The Commercial Taxes Department, despite being requested (June 2017), did not furnish the information on arrears of CST assessments.

1.4 Evasion of Tax

The details of cases of evasion of Tax detected by the Departments, cases finalised, the demands of additional Tax raised and cases pending finalisation as on 31 March 2017 are given in **Table 1.5**:

Table 1.5
Evasion of Tax

Sl. No.	Name of the department	Cases pending as on 31 March 2016	Cases detected during 2016-17	Total	Number of cases in which assessments / investigations completed and additional demand including penalty raised			No. of cases pending finalisation as on 31 March 2017	
					No. of cases	Amount of demand			
						Tax	Penalty		Total
1.	Commercial Taxes	242	368	610	394	130.33	5.69	136.02	216
2.	Registration and Stamps	767	495	1262	1262	Information not furnished	Information not furnished	5.28	Nil

Source : Information furnished by the Departments concerned

² Changed from APVAT Act to Telangana VAT Act vide G.O.Ms. No. 32 Revenue (CT-II) Department, dated 15 October 2014.

There were no cases of evasion in State Excise and Energy Departments during the year. The Departments of Industries and Commerce, Transport and Land Revenue did not furnish such information.

1.5 Pendency of Refund Cases

The details of refund cases as on 31 March 2017 are given in **Table 1.6**:

Table 1.6
Details of Pendency of Refund Cases

(₹ in crore)

Sl. No.	Particulars	Commercial Taxes		Transport		Registration and Stamps Department	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year as on 1 April 2016	Nil	Nil	Nil	Nil	35	0.01
2.	Claims received during the year	293	4.13	90	0.64	770	5.85
3.	Total	293	4.13	90	0.64	805	5.86
4.	Refunds made during the year	293	4.13	90	0.64	126	0.37
5.	Cases pending as on 31 March 2017	Nil	Nil	Nil	Nil	679	5.49

Source : Information furnished by the Departments concerned

A total of ₹ 5.14 Crore in 509 cases was refunded by three Departments as of March 2017. Commercial Taxes and Transport department could settle 100 *per cent* of pending claims. The Registration and Stamps Department, however, could settle only 16 *per cent* of pending claims. Hence, suitable steps need to be taken for speedy disposal.

State Excise Department stated that there were no cases of refunds during the year. The Departments of Industries and Commerce, Energy and Land Revenue, did not furnish the information though called for (June 2017).

1.6 Audit process

1.6.1 Audit planning

The unit offices under various Departments have been categorised into high, medium and low risk units according to their revenue potential, past trends of the audit observations and other parameters. The annual audit plan was prepared on the basis of risk analysis which included critical issues in Government revenue and Tax administration. These issues *inter alia* included budget speech, white paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the years, etc.

During the year 2016-17, there were 1,080 auditable units relating to eight Departments³, of which 303 units had been planned and 320 units were

³ Commercial Taxes, Excise, Land Revenue, Transport, Registration, Energy, Endowments, Industries and Commerce.

audited which constituted 30 *per cent* of the total auditable units. One Performance Audit was also taken up to examine the efficacy of enforcement activities in Transport Department.

1.6.2 Conduct of audit

Periodical inspection of the Government Departments were conducted by the Principal Accountant General (Audit), Telangana. It was done to test check the transactions and verify maintenance of important accounts and other records as prescribed in the rules and procedures. Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot were issued to the heads of the offices inspected. Copies were issued to the next higher authorities for taking prompt corrective action. The heads of offices/ Government were required to promptly comply with the observations contained in the IRs, rectify the defects and omissions. The compliance was to be reported through initial reply to the PAG within one month from the date of issue of the IRs. Serious financial irregularities were reported to the heads of the Departments and the Government.

1.6.3 Results of audit

Test-check of the records of 320 units of Commercial Taxes, Prohibition and Excise, Transport, Land Revenue, Registration and Stamps and other departmental offices conducted during the year 2016-17 showed under-assessment / short levy / loss of revenue aggregating ₹ 1,289.76 crore in 1,553 cases. During the course of the year, the Departments accepted under-assessment and other deficiencies of ₹ 181.25 crore in 888 cases, of which 290 cases involving ₹ 14.35 crore were pointed out in earlier years. An amount of ₹ 1.10 crore was realised in 108 cases during the year 2016-17. Of this, recovery of ₹ 0.85 crore in 91 cases related to previous years.

1.6.4 Non-production of records to Audit for scrutiny

The programme of local audit of Tax Revenue / Non-tax Revenue offices was drawn up sufficiently in advance. The intimations were issued usually one month before the commencement of audit, to the Departments to enable them to keep the relevant records ready for audit scrutiny.

Nature of records not made available to Audit during the year 2016-17, in 91 offices, is given in **Table 1.7**:

Table 1.7
Details of Non-Production of Records

Name of the Office/ Department		Number of offices which did not produce documents for audit	Nature of documents not produced
Revenue	Commercial Taxes	42	Assessment Files, Demand Collection and Balance Registers, Annual Accounts of Assessee etc.
	Prohibition and Excise	4	Retail Liquor Shop Licence files.
	Registration and Stamps	7	Challan remittance registers, stock and sales registers, etc.
	Land Revenue	38	Village Accounts, Jamabandi Files, Mandal Chitta etc.
Total		91	

Source : Records of Office of Principal Accountant General (Audit), Telangana

1.6.5 Response of Departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India were forwarded by the Principal Accountant General to the Principal Secretaries / Secretaries of the Departments. They were requested to send their response to Audit findings within six weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Audit forwarded 57 draft paragraphs besides one Performance Audit (PA) and one detailed Compliance Audit to the Principal Secretaries /Secretaries of the respective Departments (between June and October 2017). The Principal Secretaries/ Secretaries of the Department furnished replies to one Performance Audit, one detailed Compliance Audit and 39 draft paragraphs. Replies for the remaining 18 draft paragraphs were awaited from the Government.

1.7 Follow-up of audit

1.7.1 Outstanding Inspection Reports

Inspection Reports issued upto December 2016 disclosed that 20,533 paragraphs involving ₹ 8,187.58 crore relating to 4,604 IRs remained outstanding at the end of June 2017, as shown below along with the corresponding figures for the preceding two years in **Table 1.8**:

Table 1.8
Details of Pending Inspection Reports

	June 2015	June 2016	June 2017
Number of IRs pending settlement	4,193	4,222	4,604
Number of outstanding audit observations	15,115	16,852	20,533
Amount of revenue involved (₹ in crore)	6,465.16	7,530.03	8,187.58

Source : Records of Office of Principal Accountant General (Audit), Telangana

1.7.2 The Department-wise details of the IRs and audit paragraphs outstanding as on 30 June 2017 and the amounts involved are mentioned in the **Table 1.9**:

Table 1.9
Department-wise Details of IRs

(₹ 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 Department	Commercial Taxes	2,002	10,767	2,978.31
		State Excise	244	708	39.29
		Land Revenue	763	2,534	1,582.14
		Stamp Duty and Registration Fees	1,205	4,641	222.86
		Endowments	48	414	NA
2.	Transport, Roads and Buildings	Taxes on Motor Vehicles	205	928	1,787.89
3.	Industries and Commerce	Mines and Minerals	101	460	986.89
4.	Energy	Taxes and Duties on Electricity	36	81	590.20
Total			4,604	20,533	8,187.58

Source : Records of Office of Principal Accountant General (Audit), Telangana

Audit did not receive even the first replies in respect of 216 IRs issued during 2016-17 from the heads of offices within one month from the date of issue of the IRs. Pendency of IRs due to non-receipt of the replies was indicative of lack of action for rectification of defects, omissions and irregularities pointed out in the IRs.

The Government may consider having an effective system for prompt and appropriate response to audit observations.

1.8 Departmental Audit Committee Meetings

The Government had set up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During the year 2016-17, one Audit Committee Meeting (ACM) was held with Registration and Stamps Department. The Committee settled 94 paras involving money value of ₹ 2.33 crore.

1.9 Follow-up on the Audit Reports – summarised position

The Report of the Comptroller and Auditor General of India is laid in the Legislative Assembly. The internal working system of the Public Accounts Committee laid down that the departments shall submit the explanatory notes on audit paragraphs within three months of tabling the Report.

Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Andhra Pradesh for the years ended 31 March 2012, 2013, 2014 and Government of Telangana for the years ended 31 March 2015 and 2016 contained 176 paragraphs (including performance audits). The reports were placed before the respective State Legislative Assemblies between March 2013 and March 2017. Of these, 101 paragraphs pertain exclusively to Telangana whereas 75 paragraphs pertain to both Andhra Pradesh and Telangana. Explanatory notes in respect of 11 paragraphs from the Departments concerned of Telangana were received with delays ranging from 3 to 33 months. Explanatory notes for the remaining 165 paragraphs were awaited from seven Departments⁴.

The explanatory notes due on audit paragraphs of the Reports are indicated in **Table 1.10**:

Table 1.10
Details of Explanatory Notes due from Government

Year of Audit Report	Number of paragraphs included		Explanatory Notes received		Explanatory Notes to be received (December 2017)	
	Telangana	Andhra Pradesh and Telangana	Telangana	Andhra Pradesh and Telangana	Telangana	Andhra Pradesh and Telangana
2011-12	6	23	5	0	1	23
2012-13	3	24	2	0	1	24
2013-14	5	27	4	0	1	27
2014-15	50	0	0	0	50	0
2015-16	37	0	0	0	37	0
Standalone Audit Reports ⁵	0	1	0	0	0	1
Total	101	75	11	0	90	75

Source : Records of Office of Principal Accountant General (Audit), Telangana

1.10 Analysis of the mechanism for dealing with the issues raised by Audit

The system of addressing the issues highlighted in the Inspection Reports/ Audit Reports by the Departments/ Government in respect of one Department was evaluated. The evaluation was on action taken on the paragraphs and PAs

⁴ Commercial Taxes, Excise, Land Revenue, Transport, Registration, Industries and Commerce, Endowments.

⁵ Stand alone Report on 'Functioning of the Directorate of Mines and Geology' published in the year 2014-15.

included in the Audit Reports of the last five years and were included in this Audit Report.

The performance of Prohibition and Excise Department under revenue head 0039-State Excise and cases detected in local audit during the last three years had been discussed. Further, the cases included in the Audit Reports for the years 2014-15 to 2016-17 have also been discussed in the succeeding paragraphs 1.10.1 to 1.10.2.

1.10.1 Position of Inspection Reports

The summarised position of the IRs relating to the Prohibition and Excise Department, issued during the last three years, paragraphs included in these reports and their status as on 31 March 2017 are given in **Table 1.11**:

Table 1.11
Position of Inspection Reports (IRs)

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
		IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
1.	2014-15	364	1,097	67.52	22	190	3.45	3	57	0.21	383	1230	70.76
2.	2015-16	383	1,230	70.76	33	230	2.30	136	690	33.60	280	770	39.46
3.	2016-17	280	770	39.46	23	111	27.20	40	75	0.06	263	806	66.60

Source : Records of Office of Principal Accountant General (Audit), Telangana

The Government arranges Audit Committee meetings between the Department and Principal Accountant General's office to settle the old paragraphs. Against 364 outstanding IRs with 1,097 paragraphs as at the beginning of 2014-15, the number of outstanding IRs decreased to 263 with 806 paragraphs at the end of 2016-17.

1.10.2 Action taken on the recommendations of Audit by the Department/ Government

Audit selected the Prohibition and Excise Department for an analysis of action taken on findings featured in the Audit Reports. The Performance Audit on "Functioning of Prohibition and Excise Department" covering the period from 2005-06 to 2009-10 was conducted in 2010-11 and a Stand-alone audit report was tabled in the erstwhile Andhra Pradesh State Legislature in December 2011. A follow-up audit was conducted in 2015-16 to assess the progress on the recommendations made in the Report. Out of nine recommendations, the Government accepted eight recommendations for taking necessary corrective actions, the progress was as indicated in **Table No 1.12**:

Table 1.12
Status of Audit recommendations

Sl. No	Recommendation	Status
1.	Monitoring manufacture of Rectified Spirit with licensed capacity	No progress
2.	Barcoding system	Implemented
3.	Factor the sales potential in fixing upset prices	Implemented
4.	Computerisation and tracking of sales and movement	Substantially implemented
5.	Review of liquor shops operating near educational/religious institutions and hospitals	No progress
6.	Complaints register	Implemented
7.	Border check posts to prevent illicit distillation	Substantially implemented
8.	Regular training policy	Implemented

Explanatory notes from Government is awaited in respect of Performance Audit and Follow-up audit.

1.11 Coverage of this Report

This Report contains 21 paragraphs besides one Performance Audit on “Enforcement activities of Transport Department including implementation of High Security Registration Plates” and one detailed Compliance Audit on “Functioning of Chief Electrical Inspectorate to Government of Telangana”, which were selected from the audit findings detected during the local audits carried out in 2016-17 and in earlier years, which could not be included in previous reports.

The financial effect of the paragraphs of this report is ₹ 260.04 crore. The Departments/ Government have accepted audit observations involving ₹ 173 crore. The replies to the paragraphs involving ₹ 67.46 crore have not been received (December 2017).

CHAPTER II
VALUE ADDED TAX
AND
CENTRAL SALES TAX

CHAPTER II VALUE ADDED TAX AND CENTRAL SALES TAX

2.1 Tax Administration

Value Added Tax and Central Sales Tax Act and Rules framed thereunder are administered at the Government level by Principal Secretary of Revenue Department. The Commissioner of Commercial Taxes (CCT) is the Head of the Commercial Tax wing of the Revenue Department assisted by two Additional Commissioners (ACCT) and four Joint Commissioners (JC). In field, the CCT is assisted by 17 Deputy Commissioners (DC), 33 Assistant Commissioners (AC). There are 12 LTUs and 91 Circles in the State functioning under the administrative control of DCs. They administer the relevant tax laws and rules under Telangana Value Added Tax 2005 (VAT Act) and Central Sales Tax Act 1956 (CST Act). Further, there is an Inter State Investigation Wing (IST) headed by a Joint Commissioner within Enforcement wing, which assists CCT in cross verification of interstate transactions.

2.2 Internal Audit

The Department did not have a dedicated Internal Audit Wing that would plan and conduct audit in accordance with a scheduled audit plan. Each LTU/circle is audited by audit teams consisting of five members headed by either CTOs or Deputy CTOs. The DC(CT) would monitor the reports of internal audit. CCT intimated that 120 audit observations were outstanding at the end of March 2017.

2.3 Results of Audit

In 2016-17, the assessment files, refund records and other connected documents of the Commercial Taxes Department were test checked. Instances of underassessment of Sales Tax/ VAT and other irregularities involving ₹ 1,100.30 crore in 1,055 cases were observed. These fall under the following categories as given in **Table 2.1**:

Table 2.1: Results of audit

(₹ in crore)			
Sl. No.	Categories	No. of cases	Amount
1.	Short levy of tax on works contracts	53	19.57
2.	Non-levy/short levy of interest and penalty	155	26.03
3.	Excess claim/allowance of Input Tax Credit	153	25.43
4.	Non-levy/short levy of tax under VAT Act	312	780.91
5.	Non-levy/short levy of tax under CST Act	153	79.98
6.	Sales tax deferment	22	10.22
7.	Other irregularities	207	158.16
	Total	1,055	1,100.30

During the year, Department accepted under-assessments and other deficiencies in 775 cases involving ₹ 126.77 crore. An amount of ₹ 0.71 crore in 39 cases was recovered during the year 2016-17.

A few illustrative cases involving ₹ 134.18 crore are discussed in the following paragraphs:

Audit observations

Records of the Offices of the Commercial Taxes Department relating to assessment and revenue collection towards VAT and CST were scrutinised. Audit observed several cases of non-observance of provisions of Acts/ Rules. This resulted in non/ short levy of tax/ penalty and other cases as mentioned in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on a test check carried out by Audit. Such omissions are pointed out in audit every year, but not only do the irregularities persist; these remain undetected till an audit is conducted again. There is a need for improvement of internal controls so that repetitions of such omissions can be avoided or detected timely and rectified.

2.4 Input Tax Credit

2.4.1 Incorrect allowance of Input Tax Credit on ineligible items

Under Section 13(1) and 13(3) of the Telangana VAT Act 2005, Input Tax Credit (ITC) shall be allowed to the VAT dealer for the tax charged in respect of all purchases of taxable goods, made from a registered VAT dealer during the tax period if such goods are for use in his business and if he is in possession of valid tax invoices. Further, under section 13(4) of the Act, a VAT dealer shall not be entitled for ITC in respect of purchases of goods enumerated under Rule 20(2) of Telangana VAT Rules. As per section 4(9)(d) read with 13(5)(h) of the Act, dealers running restaurant business whose annual total turnover is less than ₹ 1.50 crore are not entitled to claim ITC on their purchases. As per Rule 27(1)(d) of Telangana VAT Rules 2005, tax invoice should have printed or computer generated serial numbers.

Audit test checked VAT assessments and VAT records for the period 2010-11 to 2015-16. It was observed (between May 2015 and January 2017) that in 22 cases the dealers incorrectly claimed ITC though they were not eligible. In another case, the AA restricted ITC as per assessment order, but the assessee continued to claim the ITC. This resulted in incorrect claim of ITC aggregating to ₹ 155.31 lakh in 23 cases as detailed in **Table 2.2** below:

Table 2.2:

Subject	No. of Division/circle	No. of cases	Incorrect allowance of ITC (₹ in lakh)	Remarks
Incorrect claim of ITC by Eating houses/Hotel and bakery dealers	six ⁶	15	138.22	The annual turnover was less than 1.5 crore, hence ineligible for ITC.
ITC claimed on ineligible items	five ⁷	5	10.75	
ITC claimed by the dealer even after restricted by the department	CTO, Adilabad	1	4.39	
ITC allowed on invalid tax invoice	CTO, Gadwal	1	1.24	
ITC not restricted on damaged goods lost in fire accident	DC(CT) Warangal	1	0.71	
Total		23	155.31	

After Audit pointed out the cases, the Government replied (January 2018) that in nine cases⁸ notices were issued. In nine other cases⁹, it was replied that the files were submitted to DC(CT) for revision. In four cases, the CTO, Vanasthalipuram, stated that authorisation by DC(CT) for conduct of audit was made. In one case in CTO, Adilabad, it was replied that audit was pending.

2.4.2 Excess claim of Input Tax Credit due to incorrect method of restriction

According to Section 13(5) of the Telangana VAT Act, no ITC shall be allowed to any VAT dealer on sale of exempted goods (except in the course of export), exempt sales, and to the works contractors who opt to pay tax under composition¹⁰. As per Section 13(6), ITC for transfer of taxable goods outside

⁶ CTOs - Basheerbagh, General Bazar, Jubilee hills, Srinagar colony, Vanasthalipuram and Vengalraonagar.

⁷ DC (CT), Secunderabad, CTOs - Bhongir, Keesara, Lad Bazar and Pedapalli.

⁸ DC(CT) - Secunderabad, CTOs - Bhongiri, Gadwal, General Bazar, Jubileehills, Lad Bazar, Peddapalli, Srinagar colony and Vengalraonagar.

⁹ DC(CT) - Warangal, CTOs - Basheerbagh and Keesara.

¹⁰ 'Composition' is an option available to works contractors to pay tax at a fixed rate on the total value of the work done irrespective of tax rates applicable to the goods used in work.

the State otherwise than by way of sale (exempt transactions) shall be allowed for the amount of tax in excess of four/ five *per cent*. Further as per sub rules (7) (8) and (9) of Rule 20 of VAT Rules, a VAT dealer making taxable sales, exempt sales and exempt transactions of taxable goods shall restrict his ITC as per the prescribed formula $(A \times B / C)$, where A is the ITC for common inputs for each tax rate, B is the taxable turnover and C is the total turnover.

Audit test checked VAT assessments and VAT records for the period 2009-10 to 2015-16. It was observed (between May 2015 and January 2017) that in seven Division Offices¹¹ and 17 circles¹² that ITC was incorrectly restricted in respect of 28 cases. Non- restriction of ITC by the AAs as per the rules on exempt sales/ transactions resulted in excess allowance of ITC of ₹ 2.72 crore as detailed in **Table 2.3** below:

Table 2.3:

(₹)

ITC claimed/allowed (1)	Eligible ITC (2)	ITC actually restricted (3)	Excess ITC allowed/ claimed (1-(2+3))
89,44,86,894.00	86,59,20,607.00	13,42,001.00	2,72,24,285.00

After Audit pointed out the cases, the Government replied (January 2018) that in 17 cases¹³ notices were issued. In five cases¹⁴, it was replied that files were submitted to DC(CT) for revision. In two cases¹⁵, it was replied that assessments were revised and demands would be collected. In one case, it was replied that file was transferred from CTO, Ranigunj to CTO, Jadcherla. In one case in DC(CT) Warangal, it was replied that audit was under process. In one case in CTO, Jadcherla, it was replied that demand was collected but no evidence was produced to Audit. In one case, DC(CT) Punjagutta stated (February 2016) that the matter would be examined.

2.4.3 Excess allowance of Input Tax Credit due to incorrect determination of purchase turnover

According to Section 13(1) of the Telangana VAT Act 2005, ITC shall be allowed to the VAT dealer for the Tax charged in respect of all purchases of taxable goods, made by that dealer during the tax period, if such goods are for use in the business.

Para 5.12 of VAT Audit Manual prescribes mandatory basic checks for conducting VAT audit, which include cross checking of figures reported by

¹¹ DCs - Charminar, Hyderabad Rural, Karimnagar, Nalgonda, Punjagutta, Secunderabad and Warangal.

¹² CTOs - Adilabad, Agapura, Fathenagar, General Bazar, Gowliguda, IDA Gandhinagar, Jadcherla, Lad Bazar, Mahankali Street, Maharajgunj, Musheerabad, Ranigunj, RP Road, Srinagar colony, Sultan Bazar, Vanasthalipuram and Vengalraonagar.

¹³ DCs - Charminar, Hyderabad Rural, Secunderabad and Warangal.
CTOs - Adilabad, Fathenagar, General Bazar, IDA Gandhinagar, Lad Bazar, Mahankali Street, Musheerabad, RP Road, Srinagar colony and Vengalraonagar.

¹⁴ DC(CT) - Nalgonda, CTOs - Aghapura, Gowliguda, Sulthan Bazar and Vanasthalipuram.

¹⁵ DC(CT) - Karimnagar, CTO - Maharajgunj.

VAT dealers in their monthly VAT returns filed with those recorded in certified annual accounts, so as to detect underdeclaration of tax, if any.

Audit test checked (between May 2015 and January 2017) VAT assessments and VAT records for the period 2008-09 to 2015-16. It was observed in DC(CT), Charminar Division and 22 Circles¹⁶ that in 28 cases, the AAs had adopted excess purchase turnovers for allowing ITC, than those shown in Profit and Loss Accounts of dealers. This resulted in excess allowance of ITC of ₹ 2.28 crore.

After audit pointed out the cases, the Government replied (January 2018) that in 21 cases¹⁷ notices were issued. In three cases¹⁸, it was replied that there was no excess claim of ITC by the dealers but did not furnish any supporting documents. In three cases¹⁹, it was replied that files were sent to DC(CT) for revision. In one case in CTO, Aghapura, it was replied that revision was under process.

2.4.4 Incorrect allowance of Input Tax Credit

According to Section 13(5)(a) of the Telangana VAT Act 2005, no ITC shall be allowed on the works contracts where the VAT dealer pays tax under composition²⁰ as per the provisions of Section 4(7)(b) & (d) of the Act. Further as per Section 4(7)(a) of the Act read with Rule 17(1)(g) of the Telangana VAT Rules 2005, a VAT dealer is not entitled to claim ITC, if he does not maintain the accounts to determine the correct value of the goods at the time of incorporation in execution of works contracts.

As per Section 13(7) of Telangana VAT Act 2005, where any VAT dealer pays Tax under section 4(7)(a) of the Act, the ITC shall be limited to 75 per cent²¹ of the related input tax.

Audit test checked (between January 2016 and December 2016) VAT assessments and VAT records for the period 2010-11 to 2014-15. In one case in CTO, Srinagar colony, the dealer was engaged in execution of works contracts under composition along-with trading of goods. The ITC was, however, not restricted on prorata purchases relating to works contract by the AA. In one case in CTO, General Bazar, the dealer executed works contract under non-composition and did not maintain detailed accounts. The assessing authority however finalised the assessment under Rule 17(1)(g) and allowed ITC though not eligible. In one case in CTO, Vengalraongar, the dealer was

¹⁶ CTOs - Abids, Agapura, Basheerbagh, Ferozguda, Gadwal, Gandhinagar, General Bazar, Jeedimetla, Karimnagar-I, Karimnagar-II, Lad Bazar, Mahaboobnagar, Mahankali Street, Maredpally, Mehdipatnam, Nampally, Peddapalli, Ramgopalpet, Sangareddy, Srinagar Colony, Vengalraonagar, and Vidyanagar.

¹⁷ CTOs - Ferozguda, Gadwal, Gandhinagar, General Bazar, Jeedimetla, Karimnagar-I, Karimnagar-II, Lad Bazar, Mahaboobnagar, Maredpally, Mehdipatnam, Peddapalli, Ramgopalpet, Sangareddy, Srinagar Colony, Vengalraonagar and Vidyanagar.

¹⁸ CTOs - Mahankali street, Nampally and Ramgopalpet.

¹⁹ DC(CT) - Charminar, CTOs - Abids and Basheerbagh.

²⁰ Composition is the option available to the dealer to pay tax at a fixed rate of the total amount received or receivable by himself towards execution of the works contract.

²¹ Substituted for the figure 90 per cent by Act No. 21 of 2011 w.e.f. 15 November 2011.

engaged in execution of works contracts both under composition and non-composition along-with trading of goods but ITC was less restricted by the AA. In eight cases, the AAs²² allowed 100 *per cent* ITC though the dealers were works contractors under non-composition. They were eligible for only 90/ 75 *per cent* of tax paid on the goods purchased. The incorrect allowance of ITC worked out to ₹ 1.63 crore.

After Audit pointed out the cases, the Government replied (January 2018) that in five cases²³ files were submitted to DC(CT) for revision. In four cases²⁴ notices were issued. In one case in CTO, Basheerbagh, it was replied that ITC was already rejected in refund audit but did not furnish any supporting document. In one case in CTO, Malakpet, it was replied that the amount was collected but did not furnish any supporting documents to audit.

2.5 Short levy of Tax due to adoption of incorrect rate of Tax

Under Section 4(3) of the VAT Act, every VAT dealer shall pay Tax on sale of taxable goods at the rates specified in the Schedules to the Act. Commodities which fall under Schedule VI to the Act attract special rate of Tax. Commodities not specified in any of the schedules fall under Schedule V and Tax is to be levied at the rate of 14.5 *per cent*. Further, as per Section 4(9)(c) of the Act, every dealer whose annual total turnover is ₹ 1.50 crore and above shall pay Tax at the rate of 14.5 *per cent* on the taxable turnover representing sale or supply of food served in restaurants, sweet-stalls etc.

Audit test checked (between May 2015 and February 2017) VAT assessments and VAT records for the period 2009-10 to 2015-16. Audit observed that there was short levy of tax in DC(CT) Secunderabad Division and in 25 circles²⁵ in 29 cases relating to 28 dealers. The rate of tax was incorrectly declared by the dealers at four *per cent*/ five *per cent* on sale of commodities liable to be taxed at the rate of 14.5 *per cent*. In nine circles²⁶ and in 10 cases, nine dealers who owned bars and restaurants/restaurants and bakeries had declared annual total turnover above ₹ 1.50 crore and paid VAT at five *per cent* on sale of food. Audit noticed that in nine cases, the dealers turnover exceeded ₹ 1.50 crore, and were liable to pay tax at 14.5 *per cent*. In another case, CTO, Basheerbagh incorrectly exempted the sales turnover of “Quinoa and Chia seeds”. The AA also did not identify the incorrect payment of tax during their audit. The application of incorrect rates of tax resulted in non-levy/ short levy of tax aggregating to ₹ 35.61 crore on the turnover of ₹ 368.33 crore as detailed **Table 2.4** below:

²² CTOs - Agapura, Basheerbagh, Gowliguda, Jeedimetla, Malakpet and Nacharam.

²³ CTOs - Aghapura, Basheerbagh, Gowliguda and Nacharam.

²⁴ CTOs - General Bazar, Jeedimetla, Srinagar Colony and Vengalraonagar.

²⁵ DC (CT) Secunderabad, CTOs - Agapura, Barkatpura, Basheerbagh, Bhongir, Ferozguda, General Bazar, Jeedimetla, Karimnagar-I, Keesara, Kothagudem, Madhapur, Mahaboobnagar, Maredpally, Mehdipatnam, Miryalaguda, Nalgonda, Nizamabad-I, Punjagutta, Ranigunj, RP Road, Somajiguda, Srinagar Colony, Sultan Bazar, Tarnaka and Vengalraonagar.

²⁶ CTOs - Agapura, Basheerbagh, Keesara, Kothagudem, Madhapur, Mahaboobnagar, Mehdipatnam, Srinagar Colony and Vengalraonagar.

Table 2.4:

(₹ in crore)

Subject	No. of the Division / circles	No. of cases	Short levy of tax	Remarks
Mis-classification of goods	26	30	33.07	Goods such as empty gas cylinders, water purifiers, LED lights, ammonium nitrate, magnetic handling system, Quinoa and Chia seeds etc., which were liable to be taxed at 14.5 per cent were taxed at 5 per cent.
Bar and Restaurants/ Restaurants whose turnover above 1.5 crore but paid 5 per cent instead of 14.5 per cent	9	10	2.54	
		40	35.61	

After Audit pointed out the cases, the Government replied (January 2018) that in eighteen cases²⁷ files were submitted to DC(CT) for revision. In nine cases²⁸ it was replied that notices were issued. In five cases in CTO, Bhongir, it was replied that final orders would be passed. In two cases²⁹ it was replied that audit of the dealer was under process. In two cases³⁰ it was replied that the dealers preferred an appeal before ADC (CT) and the final outcome would be reported to audit. In one case it was replied that the objection raised during audit pertained to CTO, Barkatpura circle and file was transferred to concerned circle. In one case in CTO Miryalguda it was replied that the amount was collected but no documentary evidence was produced. In one case in CTO, Keesara it was replied that orders was passed and collection was under process. In one case in CTO, Mahaboobnagar it was replied that the matter would be examined.

2.5.1 Short levy of VAT

As per Section 4(3) of Telangana VAT Act, every VAT dealer shall pay tax on the sale of goods, at the rates specified in the Schedules to the Act. All goods other than those specified in schedules I, III, IV and VI falls under schedule V are liable to be taxed at the rate of 14.5 per cent. As per the Government Orders³¹ dated 31 August 2005, 'Mobile phones' (HSN Code 8517) are taxable at five per cent under Schedule IV to the Act. This order was rescinded by the Government through subsequent orders³² issued on 19 March

²⁷ DC (CT) Secunderabad, CTOs - Agapura, Basheerbagh, Ferozguda, Jeedimetla, Kothagudem, Madhapur, Nalgonda, Nizamabad-I, Punjagutta, Somajiguda, Srinagar Colony, Sultan Bazar and Tarnaka.

²⁸ DC (CT) Secunderabad, CTOs - General Bazar, Jeedimetla, Karimnagar-I, Mehdipatnam, Nalgonda, RP Road and Vengalraonagar.

²⁹ CTOs - Jeedimetla and Vengalraonagar.

³⁰ CTOs - Maredpally and Ranigunj.

³¹ G.O.Ms.No.1615, dated 31 August 2005.

³² G.O.Ms.No.140, dated 19 March 2013.

2013. As a result, mobile phones were to be taxed as per the residuary entry in schedule V to the Act, at 14.5 *per cent* with effect from 1 April 2013. Further, the Government vide Orders,³³ again inserted the commodity “Cell phones/Mobile Phones” as item No.131 of Schedule IV w.e.f. 28 July 2016. As per the above orders, mobile phones fell under Schedule V of the Act, during the intermediary period from 01 April 2013 to 27 July 2016 and were to be taxed at 14.5 *per cent*.

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

Audit test checked (between July 2016 and December 2016) VAT assessments and VAT records for the period April 2013 to March 2016. Audit observed in twelve circles³⁴ that in 21 cases AAs levied/ dealers paid tax at the rate of five *per cent* instead of at 14.5 *per cent* on sale of mobile phones. This resulted in short-levy of tax of ₹ 43.47 crore at differential rate of 9.5 *per cent* on a turnover of ₹ 457.58 crore.

After Audit pointed out the cases, the Government replied (January 2018) that in 11 cases³⁵ notices were issued. In five cases³⁶, files were sent to DC(CT) for revision. In five cases³⁷, revision of assessment was under process.

2.6 Non-levy of VAT on Taxable Turnover

As per Section 4(3) of Telangana VAT Act, every VAT dealer shall pay tax on the sale of goods, at the rates specified in the Schedules to the Act. As per the Government Order dated 8 July 2011³⁸, the commodity “textiles and fabrics” was added to Schedule IV and made taxable at five *per cent*. Further as per the Government Ordinance No.9³⁹ the dealers of “textiles and fabrics” may opt to pay tax at the rate of one *per cent*, under composition. Government by another order⁴⁰ included this commodity in Schedule-I from 7 June 2013 and exempted these sales. Hence the commodity was liable for tax at five *per cent* from 8 July 2011 to 7 June 2013, if the dealers had not opted for composition.

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

³³ G.O.Ms.No.186, dated 28 July 2016.

³⁴ CTOs - Abids, Agapura, Basheerbagh, Gadwal, General Bazar, M.G.Road, Market Street, S.D.Road, Sanathnagar, Suryapet, Vengalrao Nagar and Vidyanagar.

³⁵ CTOs - Abids, General Bazar, Market Street, S.D.Road, Suryapet, Vengalraonagar and Vidyanagar.

³⁶ CTOs - Abids, Basheerbagh, Gadwal and Sanathnagar.

³⁷ CTOs - Aghapura, MG Road and Sanathnagar.

³⁸ G.O.Ms.No.932, Revenue (CT-II) Department, dated 08 July 2011.

³⁹ Ordinance No.9 of 2012, dated 05 November 2012.

⁴⁰ G.O.Ms.No.308, dated 07 June 2013.

Audit test checked (between December 2015 and January 2017) VAT assessments and VAT records for the period April 2009 to January 2014. Audit observed in DC(CT), Begumpet and 15 circles⁴¹ that in 26 cases the dealers declared the sales of textiles as exempted/paid tax at one *per cent*. As none of the dealers opted for composition, they were liable to pay tax at the rate of five *per cent*. This resulted in non-levy of tax of ₹ 9.53 crore at five *per cent* on the turnover of ₹ 190.53 crore.

After Audit pointed out the cases, the Government replied (January 2018) that in 16 cases⁴² notices were issued. In six cases⁴³, files were sent to DC(CT) for revision. In CTO, Abids in one case, it was replied that the amount was paid by the dealer but no payment particulars were furnished. In another case, it was replied that the dealer did not collect any tax from the customers. As per the above GOs, the dealer however has to pay tax on the sale of textiles. In one case in CTO, Basheerbagh, it was replied that orders were passed but the details were not furnished to Audit. In one case in CTO, Charminar, it was replied that orders would be passed.

2.7 Inter-State sales

2.7.1 Incorrect grant of concessional rate of Tax due to acceptance of invalid statutory forms

According to Section 8(4) of the CST Act, 1956 read with Rule 12(1) of CST (R&T) Rules, 1957 every dealer shall file a single declaration in form 'C' covering all inter-state transactions of sale, which take place in a quarter of a financial year between the same two dealers, to claim concessional rate of tax of two *per cent*. As per Section 8(2) of the CST Act, interstate sale turnover not covered by proper declaration forms shall be taxed at the respective State rates applicable to the goods.

- Audit test checked (between July 2016 and September 2016) VAT assessments and VAT records for the period 2011-12 and 2012. Audit observed in DC(CT), Hyderabad (Rural) Division and four circles⁴⁴ that in five cases, the AAs had incorrectly allowed concessional rate of tax on the interstate sales. The turnover of ₹ 1.77 crore, was not supported by valid 'C' forms. The forms were either covering transactions of more than a quarter or did not pertain to the year of assessment or were issued in favour of some other dealer. This resulted in short levy of tax of ₹ 13.87 lakh on the interstate sales turnover of 'Granite, Cement, Wood pulp, Foam and Foam products'.

⁴¹ CTOs - Abids, Aghapura, Barkatpura, Basherbagh, Charminar, General Bazar, Jagitial, Khammam-II, Lad Bazar, M.G. Road, Market street, Nacharam, S.D. Road, Srinagar colony and Vengalraonagar.

⁴² DC(CT) Begumpet, CTOs - Abids, Barkatpura, General Bazar, Jagitial, Lad Bazar, M.G. Road, S.D. Road, Srinagar colony and Vengalraonagar.

⁴³ CTOs - Aghapura, Basherbagh, Khammam-II, Market street and Nacharam.

⁴⁴ CTOs - Gowliguda, Khammam-II, Mahaboobnagar and Mancherial.

After Audit pointed out the cases, the Government replied (January 2018) that in four cases⁴⁵ notices were issued. In one case in CTO, Gowliguda it was replied that the file was sent to DC(CT) for revision.

- Audit test checked (between March 2015 and December 2016) CST assessments and CST records for the period 2010-11 to 2012-13. Audit observed in four circles that in five cases the AAs⁴⁶, while finalising the assessments levied tax at less than the applicable rates on inter-State sales of goods not covered by “C” forms. This resulted in short levy of tax of ₹ 9.95 lakh on a turnover of ₹ 1.03 crore.

After Audit pointed out the cases, the Government replied (January 2018) that in five cases⁴⁷ show cause notices were issued.

2.7.2 Short levy of Tax due to excess adjustment of ITC against CST payments

According to Rule 35(7) of Telangana VAT Rules, a VAT dealer making inter-State sale of goods may adjust any excess credit available under the VAT Act against any tax payable under the CST Act, for the same tax period.

Audit test checked (between September 2015 and November 2016) VAT/CST assessments and CST records for the period 2011-12. Audit observed in DC(CT) Adilabad and two circle offices⁴⁸ that in four cases the dealers had ₹ 43.22 lakh as excess ITC available with them under VAT Act. However, the AAs adjusted ₹ 59.56 lakh against tax payable under CST Act. This resulted in short levy of tax of ₹ 16.34 lakh due to excess adjustment of ITC.

After Audit pointed out the cases, the Government replied (January 2018) that in two cases⁴⁹ show cause notices were issued. In two cases in CTO, Kothagudem, it was replied that revision was under process.

2.7.3 Non-levy of Tax due to incorrect exemption on the turnover of job works not covered by statutory forms

According to Sections 6A and 8 of Central Sales Tax (CST) Act, 1956 read with Rule 12(5) of CST (Registration & Turnover) Rules, 1957 every dealer shall file declaration in Form F to cover all interstate transfer of goods other than by way of sale every month to claim exemption. As per Section 8(2) of the CST Act, interstate sale turnover not covered by proper declaration forms shall be taxed at the respective State rate applicable to the goods.

Further as per the judgement delivered by Hon’ble Allahabad High Court⁵⁰ in respect of job work transactions, it is necessary to submit Form F declarations

⁴⁵ DC(CT) Hyderabad Rural, CTOs - Khammam-II, Mahaboobnagar and Mancherial.

⁴⁶ CTOs - Abids, Ferozguda, General Bazar and Musheerabd.

⁴⁷ CTOs - Abids, Ferozguda, General Bazar and Musheerabad.

⁴⁸ CTOs - Fathenagar and Kothagudem.

⁴⁹ DC(CT) Adilabad, CTO - Fathenagar.

⁵⁰ M/s Ambica Steels Limited Vs the State of Uttar Pradesh.

to claim exemption. The same was upheld by the Hon'ble Supreme Court also in March 2009.

Audit test checked (between July 2016 to December 2016) CST assessments and CST records for the period 2010-11 to 2012-13. Audit observed in four circles⁵¹, that in four cases, the AAs allowed exemption on the turnover of ₹ 2.82 crore relating to Job work receipts though these were not supported by Form F declarations. The incorrect exemption allowed by AAs resulted in non-levy of tax of ₹ 31.22 lakh.

After Audit pointed out the cases, the Government replied (January 2018) that in two cases⁵² show cause notices were issued. In two cases⁵³, it was replied that files were submitted to DC(CT) for revision.

2.7.4 Non-levy/short levy of tax due to incorrect exemption on the turnover not covered by statutory forms

2.7.4.1 Non-levy of tax due to incorrect exemption of SEZ sales without proper declaration forms

According to section 8(6) and 8(8) of CST Act, 1956 read with the Rule 12(11) of Central Sales Tax (Registration and Turnover) Rules 1957 no tax shall be payable by any dealer in respect of sale of any goods made by such dealer, in the course of interstate trade or commerce, to a registered dealer for the purpose of manufacture, production, processing, assembling, repairing, reconditioning, re-engineering, packaging or for use as trading or packing material or packing accessories in an unit located in any special economic zone, if such registered dealer has been authorised to establish such unit by the authority specified by the Central Government in this behalf. If the dealer furnishes a declaration in the prescribed manner in the prescribed form (Form I) obtained from the authority duly filled in and signed by the registered dealer to whom such goods are sold.

Audit test checked (between November 2015 and December 2015) CST assessments and CST records for the period 2010-11. Audit observed in one case in CTO, Fathenagar allowed exemption on SEZ sales for entire turnover of ₹ 72.88 lakh even though the dealer did not submit declaration forms. This resulted in non-levy of tax of ₹ 10.57 lakh due to incorrect exemption.

After Audit pointed out the case, the Government replied (January 2018) that the show cause notice was issued.

2.7.4.2 Non-levy of tax due to incorrect exemption

As per Section 6A of the Central Sales Tax Act, 1956 (CST Act) read with Rule 12 of the CST (Registration & Turnover) 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

⁵¹ CTOs - Fathenagar, Musheerabad, Sangareddy and Vengalraonagar.

⁵² CTOs - Fathenagar and Vengalraonagar.

⁵³ CTOs - Musheerabad and Sangareddy.

not covered by 'F' forms and tax shall be levied at the rates applicable to the sale of goods inside the appropriate State. The commodity Rexine falls under entry 86 of schedule IV to Telangana VAT Act. It was clarified vide Advance Ruling⁵⁴ that the commodity Rexine (HSN code 5903.10) cannot be taxed under VAT as the same is listed in Schedule-I of Additional Excise Duties (goods of special importance) Act, 1957 (AED). The Government of India had removed Schedule-I to AED Act with effect from 1 April 2011 facilitating the State Governments to levy VAT on the commodities listed therein.

Audit test checked (between November 2016 and December 2016) CST assessment and CST record for the period 2011-12 and 2012-13. In one case the CTO, General Bazar while finalising the assessment of a dealer allowed exemption of stock transfer of Rexine without insisting on Form F declarations. This resulted in non-levy of tax of ₹ 1.68 crore on taxable turnover of ₹ 33.60 crore.

After Audit pointed out the cases, the Government replied (January 2018) that the show cause notice was issued.

2.7.5 Non-levy of tax and penalty for using false tax invoice

According to Section 55(2) of Telangana VAT Act, any VAT dealer, who issues a false tax invoice or receives and uses a tax invoice, knowing it to be false, shall be liable to pay a penalty of 200 *per cent* of tax shown on the false invoice.

As per Section 55(4)(b) of Telangana VAT Act, any dealer, who claims that sale of any good is liable to tax at a reduced rate is found to be in possession of any false or fabricated declaration and pays tax at a reduced rate under the Act, shall be liable to pay a penalty of 200 *per cent* of the tax leviable in the absence of such declaration on the value of the goods, so sold.

Audit test checked (between March 2015 and July 2016) VAT/CST assessments and VAT/ CST records for the period 2010-11 to 2014-15. Audit observed in CTO Jadcherla that in one case the AA had disallowed ITC of ₹ 1.10 lakh, based on false tax invoice for the period November 2014.

In CTO Special Commodities, in one case, the dealer was issued 'F' forms by the dealers in Tamil Nadu state for consignment sales. Audit cross checked the details of vehicles used for consignment sales on 'F' forms with the websites of Transport Department. It was found that the vehicles were Auto rickshaws, Educational Institution Buses, Motor cars, etc., some of which were even registered after the date of issue of 'F' declaration forms. Thus, exemption was claimed by the dealers by submitting false declaration forms. However, the AA had exempted tax of ₹ 6.39 lakh on the branch transfer/interstate sales turnover amounting to ₹ 1.64 crore. The dealers were therefore liable to pay penalty of 200 *per cent*. This resulted in non-levy of tax and penalty aggregating to ₹ 6.39 lakh and ₹ 14.99 lakh respectively.

⁵⁴ No.PMT/P&L/AR.com/36/2005, dated 10 May 2005.

After Audit pointed out the cases, the Government replied (January 2018) that in two cases⁵⁵ show cause notices were issued.

2.8 Short levy of Tax due to incorrect determination of Taxable Turnover

As per Sections 5, 6, 6A and 8 of the CST Act read with Rule 12 of CST(R&T) Rules, if the dealer fails to submit necessary statutory forms in support of exports, branch transfers, transit sales etc., the relevant transactions are to be treated as interstate sales not covered by ‘C’ forms and tax levied under Section 8(2) of the Act at the rates applicable to sale of such goods inside the appropriate State.

As per Section 21(4) of the Telangana VAT Act, the authority prescribed 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. Rule 25(10) of the VAT Rules requires all the VAT dealers to furnish for every financial year to the prescribed authority, the statements of manufacturing/ 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 June 2015 and January 2017) VAT/ CST assessments and VAT/ CST records for the period 2009-10 to 2014-15. Audit observed in DC(CT) Nalgonda and 22 circles⁵⁶ that in 41 cases, there was a variation between the sales turnover determined by the AAs and the turnovers reported in Profit and Loss accounts. This resulted in short levy of tax of ₹ 5.30 crore on differential turnover of ₹ 196.06 crore at 5 per cent/ 14.5 per cent as shown in the table 2.5 below:

Table 2.5:

(₹ in crore)				
No. of assessees	Sales turnover as per P&L A/cs	Sales turnover determined by AAs	Balance turnover liable to be taxed	Extent of short levy of tax
41	1222.19	1026.13	196.06	5.30

⁵⁵ CTOs - Jadcherla and Special Commodities.

⁵⁶ CTOs - Adilabad, Fathenagar, Ferozguda, General Bazar, Jeedimetla, Jubilee Hills, Karimnagar-I, Karimnagar-II, Keesara, Kodad, Madhapur, Mahankali street, Mehdipatnam, Miryaguda, Musheerabad, Nacharam, Peddapalli, Ramgopalpet, RP Road, Srinagar Colony, Sultan Bazar and Vengalraonagar.

After Audit pointed out the cases, the Government replied (January 2018) that in 25 cases⁵⁷ show cause notices were issued. In 14 cases⁵⁸, files were submitted to DC(CT). In two cases⁵⁹, it was replied that no variations were found, but no supporting evidence was produced to Audit.

2.9 VAT on Works Contracts

2.9.1 Payment of VAT under non-composition method

2.9.1.1 Short levy of tax due to incorrect determination of taxable turnover under works contract

Under Section 4(7) (a) of the Telangana VAT Act, tax on works contract receipts is to be paid on the value of goods at the time of their incorporation in the work at the rates applicable to them. To determine the value of goods incorporated, deductions prescribed under Rule 17(1) (e) of Telangana VAT Rules such as expenditure incurred towards labour charges, hire charges etc., are to be allowed from the total consideration and the remaining turnover is to be taxed at the rates applicable to them taking the same proportion at which the goods were purchased.

Audit test checked (between December 2015 and November 2016) VAT assessments and VAT records for the period 2010-11 to 2014-15. Audit observed in two Division offices⁶⁰ and three circles⁶¹, that in three cases, AAs⁶² incorrectly determined taxable turnover as ₹ 27.04 crore instead of ₹ 33.07 crore. This was due to allowing certain inadmissible and excess deductions from gross turnovers on account of profit relatable to labour charges, incorrect excess calculation of cost of establishment etc. In two cases⁶³, the dealers received works contract receipts of ₹ 1.85 crore during the years 2013-14 and 2014-15, however, while finalising the assessments, the AAs did not consider these turnovers for assessment. The incorrect determination of taxable turnover resulted in short levy of tax of ₹ 65.57 lakh as given in **Table 2.6**:

⁵⁷ CTOs - Adilabad, Fathehnagar, General Bazar, Jeedimetla, Karimnagar-I, Karimnagar-II, Keesara, Kodad, Madhapur, Mehdipatnam, Miryalaguda, Musheerabad, Ramgopalpet, and Vengalraonagar.

⁵⁸ DC(CT) - Nalgonda, CTOs - Jubileehills, Mahankali street, RP Road, Srinagar Colony, Sultan Bazar and Vengalraonagar.

⁵⁹ CTOs - Adilabad and Peddapalli.

⁶⁰ DC(CT)s - Secunderabad and Warangal.

⁶¹ CTOs - Ashoknagar, Peddapalli and Vidyanagar.

⁶² DC(CT) - Secunderabad and Warngal, CTO - Ashoknagar.

⁶³ CTOs - Pedapalli and Vidyanagar.

Table 2.6:**(₹ in lakh)**

Subject	Name of the Circle	Short levy of tax
Allowed inadmissible and excess deductions while finalising the assessment	Dy. Commissioner(CT) Warangal Division	22.82
	Dy. Commissioner(CT) Secunderabad	9.06
	CTO, Ashoknagar	14.74
	Total	46.62
Incorrect determination of turnover	CTO, Vidyanagar	14.28
	CTO, Peddapalli	4.67
	Total	18.95
	Grand Total	65.57

After Audit pointed out the cases, the Government replied (January 2018) in four cases⁶⁴ that the files were submitted to DC(CT) for revision. In CTO, Peddapalli in one case it was replied that notice had been issued.

2.9.1.2 Short assessment of turnover transferred to sub-contractor

As per Section 4(7) (a) of the Telangana VAT Act, 2005, tax on works contract is to be paid on the value of goods incorporated in the work at the rates applicable to such goods. Further as per Section 4(7)(h) of the Act no tax shall be payable under Section 4(7)(a) on the turnover relating to amounts paid to a sub-contractor as consideration for the execution of works contract whether wholly or partly subject to the production of proof that such sub-contractor is registered as a VAT dealer under the Act and the turnover of such amount is included in the return prescribed filed by such sub-contractor.

The judgement of Hon'ble High court of Karnataka⁶⁵ pronounced that the turnover of profit earned/ retained by the main contractor on works awarded to sub-contractors are liable for assessment at the hands of the main contractor.

Audit test checked (between January 2016 and December 2016) VAT assessments and VAT records for the period from 2011-12 and 2014-15. Audit observed in one case, that CTO, Agapura allowed exemption on a turnover of ₹ 44.97 crore as turnover transferred to sub-contractor. However, when it was cross verified from assessment order of the sub-contractor, it was revealed that a turnover of ₹ 3.67 crore was under assessed. As per the above judgement, the under assessed turnover is liable to be assessed at the hands of main contractor. The incorrect exemption of turnover resulted in non-levy of tax of ₹ 37.28 lakh.

After Audit pointed out the case, the Government replied (January 2018) that show cause notice was issued and revision was under process.

⁶⁴ DC(CT) - Secunderabad and Warangal, CTOs - Ashoknagar and Vidyanagar.

⁶⁵ M/s Larson & Tourbo Limited, Bangalore Vs the State of Karnataka (Sales Tax Revision Petition No.126/2008, dated 20 June 2012).

2.9.1.3 Short levy of tax on works contractors who did not maintain detailed accounts

As per Rule 17(1)(g) of Telangana VAT Rules, if any works contractor has not maintained detailed accounts to determine the correct value of the goods at the time of their incorporation, tax shall be levied at the rate of 14.5 *per cent* on the total consideration received after allowing permissible deductions on percentage basis based on the category of work executed. Civil works and works which do not fall under any category are entitled for 30 *per cent* deductions.

Audit test checked (between September 2016 and December 2016) VAT assessments and VAT records for the period from 2011-12 and 2014-15. Audit noticed in three cases, that the AAs⁶⁶ finalised the assessments under Rule 17(1)(g). However, tax was levied at the rate of five *per cent* on part turnover and at the rate of 14.5 *per cent* on the balance turnover. As the dealers are works contractors who did not maintain detailed accounts, the entire turnover of ₹ 24.76 crore was to be taxed at the rate of 14.5 *per cent*. The failure of AAs to do so, resulted in short levy of tax of ₹ 0.91 crore.

After Audit pointed out the cases, the Government replied (January 2018) that in two cases⁶⁷ show cause notices were issued. In CTO, Basheerbagh in one case it was replied that the file was sent to DC(CT) for revision.

2.9.2 Payment of VAT under composition method

2.9.2.1 Short levy of tax due to incorrect exemption

As per Section 4(1) of Telangana VAT Act, every VAT dealer shall pay tax on every sale of goods, at the rates specified in the Schedules.

As per the provisions of Section 4(7) (b) of the VAT Act, any works contractor may opt to pay tax by way of composition at the rate of five *per cent* on the total consideration received towards execution of works contract. Similarly, under Section 4(7)(d) of VAT Act, the rate of tax payable under composition by any dealer engaged in construction and selling of residential apartments, houses etc., is 1.25 *per cent* of the consideration received or receivable or the market value of land and building fixed for the purpose of stamp duty, whichever is higher. In the method of composition, no deductions are allowable to arrive at taxable turnover except payments made to sub-contractors.

Audit test checked (between May 2015 and December 2016) VAT assessments and VAT records for the period from 2009-10 to 2014-15. Audit observed in three Circles⁶⁸ that in three cases, the AAs, while finalising the assessments of works contractors who had opted to pay tax under composition under Section 4(7)(b), allowed deduction of an amount of ₹ 8.47 crore. The deduction allowed pertained to land development charges, design &

⁶⁶ CTOs - Adilabad, Basheerbagh and General Bazar.

⁶⁷ CTOs - Adilabad and General Bazar.

⁶⁸ CTOs - Abids, Khairatabad and Market Street.

engineering services, erection & installation services, labour charges etc., which were not admissible. In another case, in CTO Sangareddy circle, a dealer who opted for composition for works contract had withdrawn from the project agreement. The material purchased had been handed over to the owner when the project was in a semi-finished stage. The AA completed the assessment under Section 4(7)(d), though the dealer was not entitled to. Since the dealer did not complete the project and no material was incorporated in works contract, the material handed over falls under the definition of “Sale” and the turnover of ₹ 0.48 crore has to be assessed under Section 4(1). This resulted in short levy of tax of ₹ 50.30 lakh on the turnover of ₹ 8.95 crore.

After Audit pointed out the cases, the Government replied (January 2018) that in two cases⁶⁹ notices were issued. In CTO, Sangareddy in one case it was replied that the file was submitted to DC(CT) for revision. In CTO, Market Street in one case, it was replied that the order was passed but the dealer preferred an appeal.

2.9.3 Short levy of tax due to incorrect determination of incorporation charges under works contract

Under Section 4(7) (a) of the Telangana VAT Act, tax on works contract receipts is to be paid on the value of goods at the time of their incorporation in the work at the rates applicable to them. To determine the value of goods incorporated, deductions prescribed under Rule 17(1)(e) of VAT Rules, such expenditure incurred towards labour charges, hire charges etc. are to be allowed from the total consideration and the remaining turnover is to be taxed at the rates applicable to them taking the same proportion at which the goods were purchased. Under Section 5(2) of CST Act 1956, a sale or purchase of goods shall be deemed to take place in the course of the import of the goods into the territory of India only if the sale or purchase either occasions such import or is effected by a transfer of documents of title to the goods before the goods have crossed the customs frontiers of India. Under Section 6(2) of CST Act, where a sale of any goods in the course of interstate trade or commerce has either occasioned the movement of such goods from one state to another or has been effected by a transfer of documents of title to such goods during their movement from one state to another, any subsequent sale during such movement effected by a transfer of documents of title to such goods to a registered dealer, shall be exempt from tax.

Audit observed (May 2015) during the test check of VAT audit file that in one case, the DC (CT), Karimnagar while finalising the assessment, incorrectly determined the incorporation charges. The dealer who executed works contracts also dealt in trading of goods, which included transit sales and sale in the course of import and export. The turnover relating to transit sale and sale in the course of import does not form a part of taxable turnover or works contract turnover. The dealer included the expenditure incurred on these sales also in the apportionment of common expenditure such as hire charges of machinery, freight and transport charges towards claiming exemption under

⁶⁹ CTOs - Abids and Khairatabad.

works contract. This resulted in incorrect determination of incorporation charges and consequent short levy of tax of ₹ 8.19 lakh.

After Audit pointed out the case, the Government replied (January 2018) that a show cause notice would be issued.

2.10 Non-levy of VAT on transfer of right to use goods

As per Section 4(8) of Telangana VAT Act, every VAT dealer who leases out or licenses others to use taxable goods, for cash or consideration in the course of his business shall pay tax at the rates on the consideration as are applicable to the goods involved.

Audit test checked (between April 2015 and August 2016) VAT assessments and VAT records for the period from 2009-10 to 2013-14. Audit observed in three circles⁷⁰ that in four cases, the AAs did not levy tax on a turnover of ₹ 1.54 crore representing lease rentals of vehicles. This resulted in non-levy of VAT of ₹ 22.34 lakh.

After Audit pointed out the cases, the Government replied (January 2018) that in three cases⁷¹ show cause notices were issued. In CTO Karimnagar-II in one case, it was replied that order was passed and collection was under process.

2.11 Short realisation of Tax for failure to register as VAT dealers

As per Section 17(3) of the Telangana VAT Act 2005 with effect from 1 May 2009, every dealer whose taxable turnover in the preceding twelve months exceeds ₹ 50 lakh shall be liable to be registered as a VAT dealer. As per the provisions of Section 17(5)(h) of the Act, every dealer engaged in sale of food items including sweets etc. whose annual total turnover is more than ₹ 7.50 lakh is liable for VAT registration and has to pay tax at the rate of five *per cent* under the provisions of Section 4(9)(d) of the Act. Further, as per Section 17(5)(b) of Act, every dealer registered or liable to be registered under the Central Sales Tax Act 1956, or any dealer making purchases or sales in the course of interstate trade or commerce or dispatches any goods to a place outside the state other than by way of sale shall be liable to be registered as VAT dealer irrespective of their taxable turnover. There shall be no eligibility for the ITC for sales made prior to the date from which the registration is effected. As per Rule 11(1) of the VAT Rules, the prescribed authority may *suo moto*, register a dealer, who is liable to apply for registration as VAT dealer but has failed to do so.

Audit test checked the Turnover Tax (TOT) records in ten Circle offices⁷² and observed (between July 2016 and December 2016) that in 13 cases the taxable turnover of the dealers (during the period from April 2010 to June 2016) had

⁷⁰ CTOs - Karimnagar-II, Keesara and Mahaboobnagar.

⁷¹ CTOs - Karimnagar-II, Keesara and Mahaboobnagar.

⁷² CTOs - Bhongir, Fort Road, General Bazar, Khammam-II, Mehdipatnam, Nalgonda, Narayanaguda, Sultan Bazar, Vanasthalipuram and Vidyanagar.

crossed the threshold limit. In one case, the dealer reported interstate purchases, making them liable for VAT registration. These TOT dealers had neither applied for VAT registration nor were registered by the respective AAs at the time of assessment. The total turnover that exceeded the threshold limits in these cases amounted to ₹ 7.22 crore on which VAT of ₹ 35.93 lakh was to be levied had they been registered as VAT dealers. Failure to get them registered as VAT dealers resulted in short realisation of tax of ₹ 35.93 lakh as detailed in **Table 2.7** below:

Table 2.7:

(₹ in lakh)		
Subject	No. of cases	Short levy of tax
Turnover above the threshold limit of ₹ 50 lakh	10	27.31
Interstate purchases	1	5.41
Bakeries with turnover above ₹ 7.5 lakh and below ₹ 1.5 crore	3	3.21
Total	14	35.93

After Audit pointed out the cases, the Government replied (January 2018) that in nine cases⁷³ show cause notices were issued. In three cases⁷⁴, it was replied that audit was under process. In one case in CTO, Narayanguda it was replied that file had been submitted to DC(CT).

2.12 Levy of penalties and interest under VAT

2.12.1 Non levy of penalty and interest on belated payment of tax

Under Section 51(1) of the Telangana VAT Act 2005, where a dealer who fails to pay tax due on the basis of the return submitted by him by the last day of the month in which it is due, he shall be liable to pay tax and a penalty of 10 *per cent* of the amount of tax due.

According to Rule 24 (1) of Telangana VAT Rules, in case of a VAT dealer, the tax declared to be due in Form VAT 200 shall be paid not later than 20 days after the end of the tax period. Further, according to Section 22 (2) of Telangana VAT Act, if any dealer fails to pay the tax due on the basis of return submitted by him or fails to pay any tax assessed or penalty levied or any other amount due under the Act, within the time prescribed or specified, he shall pay in addition to the amount of such tax or penalty, interest calculated at the rate of 1.25 *per cent* per month for the period of delay.

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

⁷³ CTOs - Bhongir, Fort Road, General Bazar, Mehdipatnam, Nalgonda, Sultan Bazar and Vidyanagar.

⁷⁴ CTOs - Khammam-II, Nalgonda and Vanasthalipuram.

Audit test checked (between March 2015 to January 2017) VAT assessments and VAT records for the period from April 2011 to March 2016. Audit observed in three DC(CT) offices⁷⁵ and 35 circle offices⁷⁶, that in 167 cases the dealers paid tax belatedly with delay ranging from one to 1073 days and were therefore liable for penalty and interest. However, the AAs did not levy penalty and interest. This had resulted in non-levy of penalty of ₹ 3.59 crore and interest of ₹ 1.31 crore.

After Audit pointed out cases, the Government replied (January 2018) that in 94 cases⁷⁷ show cause notices were issued. In 22 cases⁷⁸, it was replied that orders would be passed. In 22 cases⁷⁹, it was replied that orders would be issued and amounts collected. In 19 cases⁸⁰, it was replied that orders were passed and demands were taken into DMU but did not furnish any documents. In five cases in CTO, Ramgopalpet, it was replied that interest and penalty orders would be passed. In three cases⁸¹, it was replied that files were submitted to DC(CT). In one case in CTO, Osmangunj, it was replied that orders were issued and amount collected but no particulars were furnished. In one case in CTO, Barkatpura, it was replied that orders were passed and dealer preferred to appeal before ADC(CT).

2.12.2 Non levy/ short levy of penalty on wilful under-declaration of tax

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

Audit test checked (between December 2015 and January 2017) VAT assessments and VAT records for the period from 2008-09 to 2014-15. Audit observed in nine circles⁸² that in 10 cases the dealers had under declared tax of ₹ 93.91 lakh wilfully. The AAs⁸³ in eight cases short levied penalty and in two cases in CTO, RP Road, no penalty was levied in contravention of the provisions of the Act. This resulted in non-levy/ short levy of penalty of ₹ 75.32 lakhs.

⁷⁵ DC(CT)s - Nizamabad, Secunderabad and Warangal.

⁷⁶ CTOs - Abids, Barkatpura, Basheerbagh, Begambazar, Fathenagar, Fort Road, Gadwal, General Bazar, Jagitial, Karimnagar-I, Keesara, Khammam-I, Khammam-II, Kothagudem, Mahaboobnagar, Mancherial, Marketstreet, Medak, Mehdipatnam, MG Road, Miryalguda, Musheerabad, Nacharam, Narayanaguda, Narsampet, Nirmal, Osmangunj, Ramannapet, Ramgopalpet, RP Road, Siddipet, Special Commodities, Tarnaka, Vamasthalipuram and Vidyanagar.

⁷⁷ DC(CT) - Warangal, CTOs -Abids, Barkatpura, Basheerbagh, Begambazar, Fathenagar, General Bazar, Jagitial, Karimnagar-I, Mahaboobnagar, Mancherial, Medak, Mehdipatnam, Musheerabad, Nacharam, Narayanaguda, Narsampet, Nirmal, Ramannapet, RP Road, Siddipet, and Tarnaka.

⁷⁸ CTOs - Khammam-II and Kothagudem.

⁷⁹ DC(CT) - Nizamabad, CTOs - Fort Road, Gadwal, Khammam-I, Market street, Miryalguda, Special Commodities and Vidyanagar.

⁸⁰ CTOs - Keesara, MG Road and Vanasthalipuram.

⁸¹ DC(CT) - Secunderabad, CTOs - Marketstreet and Nacharam.

⁸² CTOs - Gadwal, Jagitial, Madhapur, Medak, NS Road, Punjagutta, RP Road, Special Commodities and Vengalraonagar.

⁸³ CTOs - Gadwal, Jagitial, Madhapur, Medak, NS Road, Punjagutta, Special Commodities and Vengalraonagar.

After Audit pointed out cases, the Government replied (January 2018) that in three cases⁸⁴ show cause notices were issued. In two cases⁸⁵, it was replied that the revision is under process. In two cases⁸⁶, files were sent to DC(CT) for revision. In two cases⁸⁷, orders were issued but the dealers preferred an appeal to ADC(CT).

2.12.3 Non-levy/ short levy of penalty on under-declaration of tax

As per Section 53(1) of Telangana VAT Act, where any dealer has under-declared tax, and where it has not been established that fraud or wilful neglect has been committed, if under-declared tax is (i) less than 10 per cent of the tax, a penalty shall be imposed at 10 per cent of such under-declared tax; (ii) 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 Rule 25(8)(a)& (b) of Telangana VAT Rules, for the purpose of Section 53, the tax under-declared in respect of input tax means the excess of ITC claimed over and above the input tax actually entitled to be claimed and tax under-declared in respect of output tax means the difference between output tax actually chargeable and the output tax declared in the returns.

Audit test checked (between May 2015 and January 2017) VAT assessments and VAT records for the period from 2008-09 to 2014-15. Audit observed in four DCs⁸⁸ and 13 circles⁸⁹ that in 26 cases, the dealers under declared tax/ claimed excess ITC of ₹ 27.61 crore for reasons other than due to fraud or wilful neglect. However, the AAs did not levy penalty in 10 cases and short levied penalty in the 16 remaining cases. This resulted in non/short levy of penalty of ₹ 4.11 crore as given in **Table 2.8**.

Table 2.8:

Subject	No. of cases	₹ in crore)	
		Short levy of penalty	Non levy of penalty
Excess claim of Input Tax Credit	7	2.21	0.09
Under declaration of tax	19	0.65	1.16
Total	26	2.86	1.25

After Audit pointed out the cases, the Government replied (January 2018) that in seven cases⁹⁰, files were submitted to DC(CT). In seven cases⁹¹, it was replied that orders were passed and demands were taken into DMU but did not

⁸⁴ CTOs - Jagityal, Madhapur and Vengalraonagar.

⁸⁵ CTOs - Gadwal and Punjagutta.

⁸⁶ CTOs - Medak and Special Commodities.

⁸⁷ CTOs - NS Road and RP Road.

⁸⁸ DC(CT)s - Begumpet, Karimnagar, Saroornagar and Secunderabad.

⁸⁹ CTOs - Adilabad, Basheerbagh, Fathenagar, General Bazar, Jublee Hills, Kothagudem, MG Road, Madhapur, Mehdipatnam, Special Commodities, Srinagar Colony, Vanasthalipuram and Vengalraonagar.

⁹⁰ DC(CT) - Secunderabad, CTOs - Basheerbagh, General Bazar, Special. Commodities and Vanasthalipuram.

⁹¹ DC(CT) - Karimnagar, CTOs - Basheerbagh, MG Road, Srinagar Colony and Vengalraonagar.

furnish any supporting documents. In six cases⁹² it was replied that show cause notices were issued. In two cases⁹³, it was replied that revision was under process. In two cases⁹⁴, it was replied that dealers preferred to appeal before ADC(CT). In one case in DC(CT) Saroornagar, it was replied that file was pending with ADC(CT). In one case in DC(CT), Begampet it was replied that case was remanded back to the AA by ADC(CT).

2.12.4 Non-levy of penalty for failure to register as a VAT dealer

According to Section 49(2) of Telangana VAT Act, 2005, any dealer who fails to apply for registration as required under Section 17 before the end of the month subsequent to the month in which the obligation arose, shall be liable to pay penalty at the rate 25 *per cent* of the amount of tax due or prior to the date of the registration by the Registering Authority.

Audit test checked (between March 2016 to September 2016) VAT assessments and VAT records for the period from 2009-10 to 2013-2014. Audit observed in two circle offices⁹⁵ that in three cases, the dealers did business without obtaining VAT registration though they were liable to be registered as VAT dealers. Based on the reports of Vigilance and Enforcement Department, the AAs assessed the turnovers of the three unregistered dealers and levied VAT of ₹ 46.35 lakh. However, penalty under Section 49(2) was not levied for failure to register as VAT dealers. This resulted in non-levy of penalty of ₹ 11.59 lakh.

After Audit pointed out the cases, the Government replied (January 2018) that in two cases in CTO, Beat Bazar penalty orders were passed but did not furnish any supporting documents. In one case in CTO, Kothagudem, it was replied that a show cause notice was issued to the dealer.

2.13 Deferment of Sales Tax

2.13.1 Excess availment of Deferred Sales Tax

According to Sales Tax incentive scheme envisaged in Government Orders⁹⁶ dated 20 May 1996, sanctions for Sales Tax incentive in the form of Sales Tax Holiday (exemption)/ Sales Tax Deferment were issued and communicated to Industrial Units, through a Final Eligibility Certificate (FEC) by the office of the erstwhile Commissioner of Industries, A.P. Hyderabad.

As per the conditions stipulated in the Final Eligibility Certificate (FEC), the Industrial Units availing Sales Tax Deferment/ Tax Holiday, can avail deferment incentive to the extent of eligibility amount fixed and for the period stipulated in FEC.

⁹² CTOs - Adilabad, Jubilee Hills, Kothagudem, MG Road and Vengalraonagar.

⁹³ CTOs - Fathenagar and Madhapur.

⁹⁴ CTOs - Jubilee Hills and Mehdiapatnam.

⁹⁵ CTOs - Beat Bazar and Kothagudem.

⁹⁶ G.O.Ms.No.108 Industries & Commerce (IP) Department, dated 20 May 1996.

During the test check of records in six circle offices⁹⁷ (between October 2016 and March 2017) Audit observed that 15 Industrial units were sanctioned Sales Tax Deferment/ Tax Holiday under Target-2000 Scheme. These Industrial units were sanctioned Sales Tax Deferment/ Tax Holiday of ₹ 16.98 crore to be availed between 1996 and 2016, as per the FECs issued by the Department of Industries.

Audit observed that these industrial units availed (between 1996 and 2011) tax deferment of ₹ 20.00 crore against ₹ 16.98 crore sanctioned by Department of Industries. This resulted in unauthorized/ excess availment of Deferred Sales Tax of ₹ 3.02 crore indicating deficiency in monitoring of availment by AAs.

After Audit pointed out the cases, the Government (January 2018) replied that in 10 cases⁹⁸ notices were issued to the dealers. In two cases in IDA Gandhinagar, it was replied that they would be rechecked and report submitted. In two cases⁹⁹, it was replied that there was no excess availment, but did not furnish any supporting documentary evidence. In one case in CTO, Jeedimetla, it was replied that the amount was taken into DMU but did not furnish any document.

2.13.2 Non-levy of interest on belated payment of Deferred Sales Tax

According to the Sales Tax Deferment Schemes envisaged in Government Order's¹⁰⁰ and as per the conditions stipulated in the FEC, the Sales Tax Deferment allowed to a unit in the first year should be paid back in lump sum at the end of 10th/ 14th year thereof without interest. Further, the Commissioner of Commercial Taxes (CCT) also clarified vide CCT's reference¹⁰¹ dated 19 December 2012 that the due date for repayment of Sales Tax Deferment availed in the year 1996-97 was 31 March 2010 and the due date for the payment of Sales Tax Deferment availed in the year 1997-98 was 31 March 2011 and so on. In case of non-remittance of the tax on due dates, an interest of 21.50 *per cent* will be charged from the due date till the date of payment as per the guidelines of deferment scheme.

Audit observed (between January 2016 and March 2017) during test check of records of six division offices¹⁰² and 18 circle offices¹⁰³ that in 128 cases, the industrial units availed Sales Tax Deferment. These units repaid the deferred tax of ₹ 70.72 crore (availed during 1996-97 to 2004-05) belatedly with delay ranging from one to 2000 days. The AAs, however, did not levy interest in

⁹⁷ CTOs - Jeedimetla, Keesara, Malkajgiri, Nacharam, IDA Gandhinagar and Sangareddy.

⁹⁸ CTOs - Keesara, Nacharam and Sangareddy.

⁹⁹ CTOs - Jeedimetla and Malkajgiri.

¹⁰⁰ G.O.Ms.No.498, Industries & Commerce Department, dated 16 October 1989, G.O.Ms.No.117, Industries & Commerce Department, dated 17 March 1993 & G.O.Ms.No.108, Industries & Commerce (IP-II) Department, dated 20 May 1996.

¹⁰¹ CCT's reference No. AII (3)/373/2012, dated 19 December 2012.

¹⁰² DC(CT)s - Hyderabad Rural, Nalgonda, Nizamabad, Punjagutta, Saroornagar and Warangal.

¹⁰³ CTOs - Bhongir, Bowenpally, Fathenagar, IDA Gandhinagar, Jeedimetla, Kothagudem, Malkajgiri, Nacharam, Nalgonda, Nampally, Punjagutta, Sangareddy, Sanathnagar, SD Road, Srinagar colony, Tarnaka, Vanasthalipuram and Vidyanagar.

deviation to the Government orders. This resulted in non-levy of interest of ₹ 11.10 crore.

The Government replied (January 2018) that in 72 cases¹⁰⁴, notices were issued. In 46 cases¹⁰⁵, it was replied that orders were passed but did not furnish the supporting documents. In two cases¹⁰⁶, it was replied that dealers approached the High Court. In one case in DC(CT) Hyderabad Rural, it was replied that all the payments were received on time but no documents were furnished in support of their reply. In seven cases in DC(CT) Punjagutta, it was replied that the dealers paid tax in time. The reply is not tenable since as per CCT's circular, calculation of interest on belated deferred payments had been clearly illustrated.

2.13.3 Non-Recovery of Deferred Sales Tax in respect of Sales Tax Deferment and Tax Holidays cases converted into Deferment Sales Tax availed by Industrial Units

According to the Sales Tax Deferment Scheme envisaged in Government Orders¹⁰⁷ and as per the conditions stipulated in the FEC, the industrial units availing Sales Tax deferment can avail deferment of Sales Tax to the extent of eligibility fixed for a period of 14 years or less as prescribed. The amount of sales tax deferred will be treated as deemed interest free loan subject to making available security of fixed assets of the industry, *pari passu*¹⁰⁸ with financial institutions. The sanction was accorded by the Office of the Commissioner of Industries, A.P, Hyderabad.

As per Section 69 of Telangana VAT Act, all the Tax Holiday cases sanctioned prior to the enactment of VAT Act were converted into Sales Tax Deferment by doubling the period left over without change in monetary limit of the amount sanctioned. Further as per Rule 67(5) of Telangana VAT Rules, the amount availed in first year in which unit is converted into Deferment from Tax holiday scheme shall be paid in the month succeeding the month in which the period for which the unit is eligible for availment of the incentives is completed and the amount availed in the second year, shall be paid in the year, subsequent to the year in which the amount, availed in the first year is paid or payable and so on.

Audit observed (between October 2016 and March 2017) during test check of records of DC (CT) Punjagutta and 13 circle offices¹⁰⁹ that in 120 cases, the

¹⁰⁴ DC(CT)s - Nalgonda, Nizamabad and Warangal, CTOs- Fathenagar, IDA Gandhinagar, Kothagudem, Punjagutta, Sangareddy, Sanathnagar, Srinagar Colony, Tarnaka, Vanasthalipuram and Vidyanagar.

¹⁰⁵ DC(CT)s - Hyderabad Rural and Saroornagar, CTOs- Bhongir, Bowenpally, Jeedimetla, Kothagudem, Malkajgiri, Nacharam, Nalgonda, Punjagutta, Sanathnagar and S.D. Road.

¹⁰⁶ DC(CT) Hyderabad Rural and CTO Nampally.

¹⁰⁷ G.O.Ms.No.108, Industries & Commerce (IP) Department, dated 20 May 1996, G.O.Ms. No. 187, Industries & Commerce (IP) Department, dated 21 November 1995.

¹⁰⁸ Where a dealer avails loans from multiple financial institutions the charge is agreed to be created on *pari passu* basis i.e. charge is proportionate to the quantum of loan lent by each financial institution.

¹⁰⁹ CTOs - Balanagar, Bhongir, Bowenpally, Fathenagar, IDA Gandhinagar, Jeedimetla, Keesara, Malkajgiri, Medak, Nacharam, Rajendranagar, Sangareddy and Sanathnagar.

industrial units availed Sales Tax Deferment of ₹ 21.44 crore (availed during 1993-94 to 2015-16). These became due for repayment between 1999-2000 to 2015-16 which was not recovered by the AAs. The reasons for non-recovery were not on record. Effective steps were not taken by the Department, in spite of the fact that the deferred tax was pending for recovery as early from 1999-2000 onwards.

Out of 120 cases, in nine cases relating to three circles¹¹⁰, the industrial units closed their business and did not repay the deferred tax availed by them. The tax involved in these cases amounted to ₹ 4.06 crore. In such cases, though the CT Department had the authority for attachment of the movable and immovable properties of the units as stipulated, this was not resorted to. The conditions of the agreements with loanee units were not invoked by Department for recovery of the long pending deferred tax.

After Audit pointed out the cases, the Government replied (January 2018) that in 60 cases in 10 circles¹¹¹ notices were issued. In 49 cases in 11 circles¹¹² it was replied that amounts were paid by the units/collected and taken into DMU but no supporting documentary evidence was produced. In eight cases in DC(CT) Punjagutta and three circles¹¹³ it was replied that action was being taken for recovery of amounts. In two cases in two circles¹¹⁴ it was replied that the dealers went for appeal. In one case in CTO, Sanathnagar it was replied that the dealer availed tax holiday from 1995-96 to 2001-02 and the dealer had closed the business hence no liability arose of payment of deferred sales tax. The AA, however, did not produce supporting documents of availment up to 2001-02.

Audit observed (between October 2016 and March 2017) during test check of records of eight circle offices¹¹⁵ that in 57 cases, the industrial units availed Sales Tax Deferment ₹ 5.90 crore (availed during 2005-06 to 2012-13) which became due for repayment between 2005-06 to 2015-16. But the amount due for repayment was not recovered by the AAs yet. The reasons for non-recovery were not on record. Effective steps were not taken by the Department, in spite of the fact that the deferred tax was pending for recovery as early from 2006-07 onwards.

Out of 57 cases, in 22 cases relating to two circles¹¹⁶, the industrial units closed their business but did not repay the deferred tax availed by them. The tax involved in these cases amounted to ₹ 2.33 crore. In such cases, though the CT Department had the authority for attachment of the movable and immovable properties of the units as stipulated, this was not resorted to. The

¹¹⁰ CTOs - Bhongir, Jeedmetla and Sanathnagar.

¹¹¹ CTOs - Balanagar, Bhongir, Bowenpally, IDA Gandhinagar, Jeedimetla, Keesara, Medak, Nacharam, Rajendranagar and Sangareddy.

¹¹² CTOs - Bowenpally, Fathenagar, IDA Gandhinagar, Jeedimetla, Keesara, Malkajigiri, Medak, Nacharam, Rajendranagar, Sanathnagar and Sangareddy.

¹¹³ DC(CT) Punjagutta, CTOs - Bhongir, Malkajigiri and Rajendranagar.

¹¹⁴ CTOs - Keesara and Rajendranagar.

¹¹⁵ CTOs - Balanagar, IDA Gandhinagar, Jeedimetla, Malkajigiri, Nacharam, Rajendranagar, Special Commodities and Tarnaka.

¹¹⁶ CTOs - Rajendranagar and Tarnaka.

conditions of the agreements with loanee units were not invoked by the Department for recovery of the long pending deferred tax.

After Audit pointed out the cases, the Government replied (January 2018), in 26 cases in eight circles¹¹⁷, notices were issued. In 22 cases in two circles¹¹⁸ it was replied that the units were closed and efforts were being made to recover the dues. In six cases in three circles¹¹⁹ it was replied that amounts were collected but no supporting documents were produced. In two cases in two circles¹²⁰ it was replied that amounts would be collected. In one case in CTO, Rajendranagar it was replied that the dealer preferred an appeal in Supreme Court.

2.13.4 Tax Holiday converted to Deferment - Non-levy of interest on belated payment of Deferred Sales Tax

As per the provisions of Section 69 of the Telangana VAT Act, all Sales Tax Holiday/ exemption cases sanctioned prior to the enactment of Telangana VAT Act were converted as Sales Tax Deferment with effect from 1 April 2005 by doubling the period left over without change in monetary limit of the amount sanctioned. Further, as per Rule 67(5) of Telangana VAT Rules, the amount availed in the first year, in which the unit is converted from Tax Holiday Scheme to Deferment Scheme, shall be paid in the month succeeding the month in which the period for which the Unit is eligible for availment of the incentives is completed and the amount availed in the second year, shall be paid in the year, subsequent to the year in which the amount, availed in the first year is paid or payable and so on. In case of non-remittance of deferred tax on the due date, interest at the rate of 21.5 *per cent* per annum was to be charged as per the guidelines of the Sales Tax Deferment scheme envisaged in Government Orders¹²¹ dated 20 May 1996.

Audit observed (between October 2016 and March 2017) during test check of records of DC(CT) Nalgonda and seven circle offices¹²² that in 16 cases, the industrial units availed Sales Tax Deferment. These units repaid the deferred tax of ₹ 10.61 crore (availed during 2005-06 and 2008-09) belatedly with delay ranging from 18 to 1491 days. The AAs however, did not levy interest in violation of the Government orders. This resulted in non-levy of interest of ₹ 2.27 crore.

After Audit pointed out the cases, Government replied (January 2018) that in eight cases¹²³ notices were issued. In eight other cases¹²⁴ it was replied that

¹¹⁷ CTOs - Balanagar, IDA Gandhinagar, Jeedimetla, Malkajigiri, Nacharam, Rajendranagar, Special Commodities and Tarnaka.

¹¹⁸ CTOs - Rajendranagar and Tarnaka.

¹¹⁹ CTOs - Jeedimetla, Malkajigiri and Rajendranagar.

¹²⁰ CTOs - Malkajigiri and Rajendranagar.

¹²¹ G.O.Ms.No.108 Industries & Commerce (IP-II) Department, dated 20 May 1996.

¹²² CTOs - Bhongir, IDA Gandhinagar, Rajendranagar, Malkajigiri, Nacharam, Nampally and Vanasthalipuram.

¹²³ DC(CT) Nalgonda, CTOs - Bhongir, IDA Gandhinagar, Rajendranagar and Vanasthalipuram.

¹²⁴ CTOs - Malkajigiri, Nacharam and Nampally.

orders were passed and taken to DMU but did not furnish the supporting documents.

CHAPTER III

STAMP DUTY
AND
REGISTRATION FEE

CHAPTER III

STAMP DUTY AND REGISTRATION FEE

3.1 Tax Administration

Receipts from stamp duty and registration fee are regulated under the Indian Stamp Act 1899, (IS Act), Registration Act, 1908 and the rules framed there under as applicable in the State of Telangana. These are administered at the Government level by the Principal Secretary, Revenue (Registration & Stamps). The Commissioner and Inspector General of Registration and Stamps (CIGRS) is the head of the Department. The CIGRS is empowered with the task of superintendence and administration of registration work in the State. He is assisted by zone-wise Deputy Inspectors General (DIG). The District Registrar (DR) is in-charge of the district who supervises and controls the Sub-Registrars (SRs) in the district concerned.

3.2 Internal Audit

There is a separate Internal Audit wing in the Department. The team is headed by DR (Market Value and Audit)/ SR (Market Value and Audit) to conduct Audit of SR offices periodically. Audit programs are drawn up by DR/ SR every month and Audit is taken up accordingly. During the year 2016-17, 141 offices were programmed and audited. A total of 9,409 Audit observations were outstanding at the end of March 2017, after clearing 6,315 Audit observations. The DIG concerned supervises the progress of Audit. Audit reports are reviewed by the DIG, DR and SR zone-wise/ sub-zone wise.

3.3 Results of Audit

Test check of records of 104 offices of Registration and Stamps Department conducted during 2016-17 revealed non-levy/ short levy of duties/ fees etc. These irregularities involved monetary impact of ₹ 42.06 crore in 359 cases. The Audit observations broadly fall under the categories as given in **Table 3.1**:

Table 3.1: Results of Audit

(₹ in crore)			
Sl.No.	Category	No. of cases	Amount
1.	Short levy of duties	303	36.99
2.	Undervaluation of properties	37	4.29
3.	Misclassification of documents	12	0.71
4.	Other irregularities	7	0.07
Total		359	42.06

During the year 2016-17, the Department accepted under-assessments and other deficiencies of ₹ 40.84 lakh in 63 cases. Of these, nine cases involving ₹ 18.88 lakh were pointed out during the year 2016-17 and the rest in earlier years. An amount of ₹ 18.63 lakh in 49 cases was realised during the year.

A few illustrative cases of non-levy/ short levy of duties and fees involving ₹ 13.15 crore are discussed in the succeeding paragraphs:

3.4 Short collection of Registration fee on instruments creating *pari passu* charge

Government in its order¹²⁵, dated 17 August 2013, prescribed registration fee of 0.5 *per cent* on the amount of loans secured by instruments which create charge on *pari passu*¹²⁶ basis. Commissioner and Inspector General of Registration and Stamps (CIGRS) in proceedings¹²⁷ dated 15 October 1982, clarified that the *pari passu* Agreements come into existence when an industrial firm/ company obtains credit facilities from more than one financial institutions by offering securities on *pari passu* basis in the form of ‘Simple Mortgage’, ‘Mortgage by Deposit of Title Deeds’ and ‘Hypothecation of movable properties’.

Scrutiny¹²⁸ of records in two SRs¹²⁹, disclosed that in two documents¹³⁰ the companies secured credit facilities amounting to ₹ 1,752.74 crore from various financial institutions. These credit facilities were secured by creating charge on *pari passu* basis on their properties. The registering authorities collected registration fee of ₹ 10,000 for each document instead of charging fee at 0.5 *per cent* on the amount of credit facilities secured. Non-compliance of the orders of the Government resulted in short collection of registration fee of ₹ 8.76 crore.

After Audit pointed out these cases, DR, Ranga Reddy in respect of SR, Quthbullapur, replied¹³¹ that the instrument of *pari passu* charge was not defined either in IS Act, Registration Act or in Transfer of Property Act. It was further replied that the objects and reasons for introducing the term *pari passu* charge in the table of fees under Section 78 of Registration Act were not known. The reply was not acceptable as CIGRS circular cites that *pari passu* agreements include Deposit of Title Deeds wherein companies obtain credit facilities from more than one financial institution on *pari passu* basis. In the instant case, the document was Deposit of Title Deed intended for securing credit facilities on *pari passu* basis from many lenders. Hence, the registration fee was to be charged at 0.5 *per cent* as stipulated in the table of fees by Government in its order. SR, Kukatpally replied (May 2016) that the matter would be examined.

¹²⁵ G.O. Ms. No. 463, Revenue (Regn-I) Department, dated 17 August 2013.

¹²⁶ When an immovable property of a borrower was made as security to the multiple lenders, the rights, in the property, created in favour of the lenders would rank equal without any preference or priority for any lender over the others for all intents and purposes.

¹²⁷ CIGRS Proceedings No. S2/24846/82, dated 15 October 1982.

¹²⁸ Between February and May 2016.

¹²⁹ Kukatpally and Quthbullapur.

¹³⁰ Titled as Memorandum of Deposit of Title Deeds (Kukatpally)-Registered in December 2014 and Memorandum of Entry (Quthbullapur)-Registered in April 2014.

¹³¹ August 2016.

The matter was referred to the Department between May 2017 and to the Government in September 2017; replies have not been received (December 2017).

3.5 Short levy of Duties and Registration fees on agricultural lands converted for non-agricultural use

As per Section 27 of Indian Stamp Act (IS Act), an instrument should disclose fully and truly all the details of consideration if any, the market value (MV) of the property and all other facts and circumstances affecting the chargeability on it. The registering officer or any other officer appointed under the Registration Act, 1908 may inspect the related property, make necessary local enquiries, call for and examine all the connected records and satisfy that the provisions of this Section are complied with. As per Rule 7 of AP Revision of MV Guidelines Rules, 1998, as adapted by the Government of Telangana¹³², different values have been fixed for agricultural lands, agricultural lands fit for house sites and non-agricultural lands. Acreage rate for agricultural land and square yard rate for non-agricultural land have to be adopted for levy of stamp duty.

Scrutiny¹³³ of records in one DR¹³⁴ and 13 SRs¹³⁵ disclosed that in 29 documents¹³⁶, the registering authorities had adopted the agricultural rate for the lands which had already been converted to non-agriculture use. The conversion orders were issued by revenue authorities for these lands. Due to suppression of facts regarding conversion of land by the executants and/ or due to non-verification of facts by registering authorities, the properties were undervalued. This resulted in short levy of duties and fees of ₹ 2.04 crore.

After Audit pointed out these cases, DR, Sangareddy in one case replied¹³⁷ that the entire extent of the land had not been converted into plots. The reply was not tenable as the recitals of the said document clearly state that the entire land in question was converted from agricultural to non-agricultural purpose by the competent authority.

DR, Khammam (in respect of SR, Madhira)¹³⁸ and SR, Nirmal¹³⁹ replied that the conversion proceedings were not communicated by revenue authorities. SR, Bheemgal replied¹⁴⁰ that the power to determine the undervaluation of property was to be dealt by higher authorities after conducting spot inspection. The replies were not tenable as the registering authorities did not verify the

¹³² G.O.Ms.No.96, Revenue (Registration-I), Department, dated 28 May 2016.

¹³³ Between January and December 2016.

¹³⁴ Sangareddy.

¹³⁵ Bheemgal, Bhainsa, Devarakonda, Ghanpur, Jadcherla, Jangaon, Jogipet, Kusumanchi, Madhira, Mahabubabad, Narsampet, Nirmal and Wardhannapet.

¹³⁶ 27 sale deeds, one Agreement of sale cum General Power of Attorney (AGPA) and one GPA registered between April 2011 and February 2016.

¹³⁷ December 2016.

¹³⁸ November 2016.

¹³⁹ June 2017.

¹⁴⁰ June 2017.

fact of conversion of land before registration as provided under Section 27 of IS Act. The remaining SRs replied¹⁴¹ that the matter would be examined.

The matter was referred to the Department in May 2017 and to the Government in September 2017; replies have not been received (December 2017).

3.6 Short levy of Duties and Registration fees due to undervaluation of properties

As per Section 3 of IS Act read with Article 47A of Schedule I-A to IS Act, instruments of Sale are chargeable to stamp duty on the MV of the property or consideration, whichever is higher. Transfer duty¹⁴² is also to be levied on sale deeds, besides registration fee. Instruments of Settlement¹⁴³ in favour of other than family members, under Article 49 (A)(b) of the Schedule are chargeable to stamp duty on the MV of the property, besides registration fee.

Scrutiny¹⁴⁴ of records in three DRs¹⁴⁵ and 13 SRs¹⁴⁶ disclosed that in 20 documents¹⁴⁷, properties valuing ₹ 20.50 crore were undervalued by ₹ 8.27 crore. This was in contravention to the MV guidelines and instructions issued by the CIGRS. The properties were undervalued, for reasons like not adopting MVs, composite values¹⁴⁸ for multi-storied buildings and sale consideration disclosed in the Income tax assessment which was more than that mentioned in the sale deed. Under-valuation of these properties resulted in short levy of duties and fees amounting to ₹ 44.27 lakh.

After Audit pointed out these cases, DR, Ranga Reddy (in respect of SR, Vallabhnagar) and DR, Adilabad (in respect of SR, Laxettipet) replied¹⁴⁹ that notices would be issued for collection of deficit duties. SR, Kukatpally accepted the Audit observation¹⁵⁰. The remaining registering authorities replied¹⁵¹ that the matter would be examined.

The matter was referred to the Department in May 2017 and to the Government in September 2017; replies have not been received (December 2017).

¹⁴¹ Between January and December 2016.

¹⁴² Transfer duty is leviable in respect of transfer of immovable property situated in the jurisdiction of local bodies.

¹⁴³ Settlement means any non-testamentary disposition, in writing, of movable or immovable property made in consideration of marriage or for any religious/ charitable purpose or for distributing the property of settler among his family or to whomsoever he desires.

¹⁴⁴ Between December 2014 and December 2016.

¹⁴⁵ Hyderabad (South), Nizamabad and Ranga Reddy (East).

¹⁴⁶ Armoor, Doodhbowli, Ghanpur, Ibrahimpatnam, Jangaon, Kodangal, Kukatpally, Laxettipet, Medak, Peddapally, Tandur, Vallabhnagar and Wyra.

¹⁴⁷ 19 sale deeds and one Settlement deed (registered between April 2012 and January 2016).

¹⁴⁸ Composite values cover land and structure cost on square feet basis for Apartments/ Flats/ portion of Multi-storied buildings.

¹⁴⁹ In September 2015 and June 2017 respectively.

¹⁵⁰ August 2016.

¹⁵¹ Between January 2015 and December 2016.

3.7 Short realisation of Stamp Duty on instruments of Development Agreements cum General Power of Attorney

As per Article 6(B) of Schedule I-A to IS Act, read with Government orders/Memo issued¹⁵² from time to time, instruments of Development Agreements-cum-General Power of Attorney¹⁵³ (DGPA) are chargeable to stamp duty at one *per cent* on the MV or the estimated cost of the proposed construction/development of such property as the case may be, as mentioned in the agreement or the value arrived at in accordance with the schedule of rates prescribed by the Public Works Department authorities, whichever is higher. The CIGRS clarified¹⁵⁴ that the registering officers should invariably obtain copy of the sanctioned plan or proposed plan of the buildings from the parties and levy stamp duty on the actual proposed built-up-area as evidenced by the building plan and not on the basis of recitals of the document.

Scrutiny¹⁵⁵ of records in two SRs¹⁵⁶, disclosed that in four documents¹⁵⁷ executed for development of land into multi-storied complexes/ independent houses, there was short realisation of stamp duty of ₹ 79.64 lakh as detailed below:

Table 3.2: Short realisation of stamp duty on DGPA/ Supplementary DGPA

Sl. No.	Name of the office/ No. of documents	Nature of irregularity	Area to be adopted/ Area adopted	Differential area in sft.	MV of differential area (₹ in lakh)	Short realisation of stamp duty (₹ in lakh)
1.	SR, Serilingampally (Three documents)	Short declaration of built-up area in DGPA/ Supplementary DGPA documents when compared to the area permitted by the municipal authorities.	51,74,440 sft./ 36,40,437 sft.	15,34,003	7,894.89	78.95
2.	SR, Charminar (One document)	Area of cellar and stilt floors was not taken into account for computation of market value.	43,400 sft./ 26,040 sft.	17,360	69.44	0.69
Total				15,51,363	7,964.33	79.64

¹⁵² G.O.Ms. No. 1481, Revenue (Registration-I) Department, dated 30 November 2007; G.O. Ms. No. 581, Revenue (Registration-I) Department, dated 30 November 2013; Government Memo No. 12884/Regn 1/2013, dated 01 May 2015.

¹⁵³ Development agreements cum GPA documents are agreements entered between the land owner and developer which contain proposals for development of the property.

¹⁵⁴ Proceedings No. MV6/12658/2012, dated 02 February 2013.

¹⁵⁵ Between September 2014 and October 2016.

¹⁵⁶ Charminar and Serilingampally.

¹⁵⁷ Two Supplementary DGPA and two DGPA documents registered between April 2011 and January 2016.

After Audit pointed out these cases, the registering authorities replied¹⁵⁸ that the matter would be examined.

The matter was referred to the Department in July 2015 and May 2017 and to the Government in September 2017; replies have not been received (December 2017).

3.8 Loss of revenue due to non-registration of Compulsorily Registerable documents

As per Section 17(1)(g) of the Registration Act 1908, documents of Agreements of sale of immovable property are to be compulsorily registered. Under Section 3 of IS Act read with Article 6(B) of Schedule I-A to IS Act, in respect of agreements relating to sale of property without possession, stamp duty¹⁵⁹ shall be leviable at 0.5 *per cent* on the amount of consideration or the MV of the property whichever is higher. Registration fees¹⁶⁰ shall be chargeable at 0.5 *per cent* subject to a minimum of ₹ 1,000 and maximum of ₹ 20,000.

Scrutiny¹⁶¹ of records in offices of one DR¹⁶² and 13 SRs¹⁶³, disclosed from the recitals of 79 documents¹⁶⁴ that Agreements of sale (without possession) had been executed between the vendors and vendees prior to registration of the respective sale deeds¹⁶⁵. These Agreements of sale were not registered though they were compulsorily registrable. The registering authorities, however, ignored this information and applicability of the provisions of Section 17 of Registration Act in respect of the above unregistered Agreements of sale. This resulted in non-realisation of stamp duty and registration fee of ₹ 42.58 lakh.

After Audit pointed out these cases, DR, Ranga Reddy¹⁶⁶ replied that the registering authorities did not have power to insist upon the executants for the production of unregistered Agreement of sale. The reply was not acceptable as ensuring compliance with the provisions of Section 17 of Registration Act is the responsibility of registering officers. The fact of execution of Agreement of sale will come to the notice of the registering officer in performance of his duties. However, no mechanism was evolved by the Department for insisting upon the executants of Agreement of sale for registration. This not only resulted in non-compliance of statutory provision but also resulted in loss of revenue to the Government. The remaining registering authorities replied (between February and December 2016) that the matter would be examined.

¹⁵⁸ Between September 2014 and October 2016.

¹⁵⁹ G.O.Ms.No.581, Revenue (Registration -I) Department, dated 30 November 2013.

¹⁶⁰ G.O.Ms.No.463, Revenue (Registration.-I) Department, dated 17 August 2013.

¹⁶¹ Between February and December 2016.

¹⁶² Karimnagar.

¹⁶³ Bodhan, Chikkadpally, Hayathnagar, Huzurabad, Huzurnagar, Kalwakurthy, Kusumanchi, Malkajgiri, Miryalaguda, Quthbullapur, Serilingampally, Shamirpet and Suryapet.

¹⁶⁴ 68 Memorandum of Deposit of title deeds and 11 Sale deeds.

¹⁶⁵ Registered between October 2014 and March 2016.

¹⁶⁶ In respect of SR, Quthbullapur (August 2016).

The matter was referred to the Department in May 2017 and to the Government in September 2017; replies have not been received (December 2017).

3.9 Short levy of Stamp Duty and Registration fee due to misclassification of documents

Schedule I-A to IS Act, provide the rates of stamp duty to be adopted based on classification of documents. The CIGRS had issued instructions¹⁶⁷ that the SR should thoroughly verify the recitals of the document presented for registration so as to arrive at the correct classification of the document.

The rates of stamp duty to be levied on various types of documents are shown below:

Table 3.3: Classification of documents

Article of Schedule 1-A	Nature of document	Rate of stamp duty to be levied
Article 49-A (a)	Settlement in favour of family members.	One per cent ¹⁶⁸ on MV of property.
Article 49-A (b)	Settlement in other cases.	Two per cent on MV of property.
Article 6(B)	Development Agreement cum GPA.	One per cent ¹⁶⁹ on MV of property or estimated MV for land and complete construction whichever is higher.
Article 33(b)	Licence granted for lumpsum amounts.	Two per cent ¹⁷⁰ on lumpsum amount.
Article 42(g)	GPA in favour of other than family members.	One per cent ¹⁷¹ on MV of the property.

Scrutiny¹⁷² of records in two DRs¹⁷³ and four SRs¹⁷⁴ disclosed that in 11 cases, misclassification of documents¹⁷⁵ by the registering authorities resulted in short levy of stamp duty and registration fee amounting to ₹ 30.07 lakh as detailed below:

¹⁶⁷ Memo No: FR1/IA/4946/94, dated 16 October 2000.

¹⁶⁸ G.O. Ms. No. 585, Revenue (Registration-I) Department, dated 30 November 2013.

¹⁶⁹ G.O. Ms. No. 1481, Revenue (Registration-I) Department, dated 30 November 2007.

¹⁷⁰ G.O. Ms. No. 588, Revenue (Registration-I) Department, dated 4 December 2013.

¹⁷¹ G.O. Ms. No. 1128, Revenue (Registration-I) Department, dated 13 June 2005.

¹⁷² Between May 2015 and December 2016.

¹⁷³ Ranga Reddy (East) and Ranga Reddy (West).

¹⁷⁴ Bibinagar, Parkal, Siddipet and Vallabh Nagar.

¹⁷⁵ Registered between April 2014 and April 2015.

Table 3.4: Short levy of stamp duty and registration fee due to misclassification

Registering Authority	No. of cases	Details of transactions	Document registered as	Documents actual classification	Stamp duty & fee short levied (₹ in lakh)
DR Ranga Reddy (East)	1	Settlement in favour of paternal uncle.	Settlement in favour of family members.	Settlement in favour of other than family members.	0.70
DR Ranga Reddy (West)	1	Distribution of self-acquired property among family members without a declaration to the effect that the property was commonly enjoyed by them before distribution.	Partition.	Settlement deed in favour of family member.	8.55
	2	Developer was authorised to get permission/ approval from competent authorities and to execute sale agreements with buyers.	Development Agreements.	Development Agreements cum GPA.	1.11
SR Bibinagar	1	Settlement of property was made in the capacity of proprietors of a firm.	Settlement in favour of family member.	Settlement in favour of other than family members.	1.22
SR, Parkal	4	Rights were given by Nagar Panchayat for collection of various fees in markets.	Lease deeds.	Licence deeds.	0.92
SR, Siddipet	1	Power was given for development of property.	Release deed.	GPA in favour of others.	2.61
SR, Vallabhnagar	1	Father gave GPA to son who was already given on adoption to others through adoption deed.	GPA in favour of family member.	GPA in favour of others.	14.96
Total	11				30.07

After Audit pointed out these cases, SR, Bibinagar¹⁷⁶ and SR, Siddipet¹⁷⁷ replied that notice would be issued to the concerned to recover the amount. DR, Ranga Reddy in respect of SR, Vallabhnagar replied¹⁷⁸ that in the instant case, where the natural father gave GPA to his son who was already given away in adoption, the provisions of Hindu Adoptions & Maintenance Act, 1956 need not be applied.

The reply was not tenable as Section 12 of the Hindu Adoptions and Maintenance Act, 1956 stipulates that an adopted child shall be deemed to be the child of his adoptive parents for all purposes. It further states that all ties of the child in his natural family shall cease from the date of adoption. Thus, the document was to be treated as GPA to other than family members and duties levied accordingly. The remaining registering authorities¹⁷⁹ replied that the matter would be examined and reply sent in due course.

¹⁷⁶ December 2016.

¹⁷⁷ October 2015.

¹⁷⁸ September 2015.

¹⁷⁹ Between March and June 2016.

The matter was referred to the Department in May 2017 and to the Government in September 2017; replies have not been received (December 2017).

3.10 Non-levy/ short levy of Duties on instruments of Gift and Sale

As per Article 29 of Schedule I-A to IS Act, instruments of Gift are chargeable to stamp duty¹⁸⁰ on the MV of the property which is the subject matter of Gift. Instruments of sale under Article 47-A are chargeable to stamp duty¹⁸¹ on the amount or the value of the consideration as set forth in the instrument or the MV of the property, whichever is higher. In addition, transfer duty is also to be levied on both instruments at applicable rates¹⁸². Transfer duty is collected by the registering authorities under provisions of various Acts of Local bodies, besides Registration Fee. Further, as per Government Order¹⁸³ stamp duty paid on Agreement of sale (without possession) is not adjustable.

Scrutiny¹⁸⁴ of records in one DR¹⁸⁵ and one SR¹⁸⁶ disclosed that in 11 Gift deeds¹⁸⁷, the registering authority¹⁸⁸ did not levy transfer duty of ₹ 22.64 lakh. Besides, there was also a short levy of stamp duty of ₹ 2.87 lakh in two documents due to incorrect adoption of rate of stamp duty. In SR, Charminar, stamp duty paid at the time of registration of Agreements of Sale (without possession) which was not adjustable, was incorrectly adjusted against the stamp duty payable on two sale deeds registered in January 2015. This resulted in short levy of stamp duty of ₹ 0.85 lakh. Thus, there was a total short levy of duties of ₹ 26.36 lakh.

After Audit pointed out these cases, the registering authorities replied (between September 2015 and April 2016) that the matter would be examined.

The matter was referred to the Department in September 2016 and May 2017 and to the Government in September 2017; replies have not been received (December 2017).

3.11 Short levy of Stamp duty and Registration fee on Lease deeds

As per Article 31 of Schedule I-A to IS Act read with Government order¹⁸⁹, the rates of stamp duty on lease deeds are to be decided on the basis of lease periods and lease rentals. Further, as per Explanation to the Article *ibid*, if the lessee undertakes to pay any recurring charge on behalf of the lessor including taxes/ fees due to the Government, it shall be part of the rent and duties levied

¹⁸⁰ G.O. Ms. No. 585, Revenue (Registration-I) Department, dated 30 November 2013.

¹⁸¹ G.O. Ms. No. 162, Revenue (Registration-I) Department, dated 30 March 2013.

¹⁸² G.O. Ms. No. 150, 151 & 152, Municipal Administration and Urban Development (TC), dated 06 April 2013.

G.O. Ms. No. 226, Panchayat Raj and Rural Development (Pts.I), dated 06 April 2013.

¹⁸³ G.O. Ms. No. 581, Revenue (Registration-I) Department, dated 30 November 2013.

¹⁸⁴ Between September 2015 and April 2016.

¹⁸⁵ Ranga Reddy (West).

¹⁸⁶ Charminar.

¹⁸⁷ Registered between October 2014 and March 2015.

¹⁸⁸ DR, Ranga Reddy (West).

¹⁸⁹ G.O. Ms. No. 588, Revenue (Registration-I) Department, dated 04 December 2013.

accordingly. Besides stamp duty, registration fee is also to be levied at the rates prescribed by the Government¹⁹⁰ on the value of Average Annual Rent according to the provisions of Registration Act, 1908.

Scrutiny¹⁹¹ of records in two DRs¹⁹² and three SRs¹⁹³ disclosed that in five lease deeds¹⁹⁴ there were specific clauses stipulating payment of service tax by the lessees on behalf of lessors. The registering authorities, did not take into account the service tax component of ₹ 21.73 crore agreed to be paid by the lessees for arriving at the total lease rent. This resulted in short levy of stamp duty and registration fees of ₹ 10.87 lakh. In another case¹⁹⁵, where the lease deed was registered in April 2015 for a period of 10 years, the registering authority levied stamp duty of ₹ 1,100 instead of ₹ 1.26 lakh. This resulted in short levy of stamp duty of ₹ 1.25 lakh.

After Audit pointed out these cases, DR, Nalgonda¹⁹⁶ accepted the Audit observation and stated that the collection particulars would be sent in due course. SR, Saroornagar replied¹⁹⁷ that there were no standing orders from CIGRS to levy stamp duty on service tax paid by the lessee. The reply was not acceptable in view of the explanation under Article 31 of Schedule I-A to IS Act. It clearly stipulates that any Government revenue, paid by the lessee which is by law recoverable from the lessor, is deemed to be part of the rent. The remaining registering authorities replied¹⁹⁸ that the matter would be examined.

The matter was referred to the Department in May 2017 and to the Government in September 2017; replies have not been received (December 2017).

¹⁹⁰ G.O. Ms. No. 463, Revenue (Registration-I) Department, dated 17 August 2013.

¹⁹¹ Between May 2015 and December 2016.

¹⁹² Nalgonda and Ranga Reddy (East).

¹⁹³ Medchal, Saroornagar and Serilingampally.

¹⁹⁴ Registered between August 2014 and March 2016.

¹⁹⁵ DR, Nalgonda.

¹⁹⁶ April 2017.

¹⁹⁷ June 2017.

¹⁹⁸ Between May and October 2016.

CHAPTER IV
TAXES ON VEHICLES

CHAPTER IV

TAXES ON VEHICLES

4.1 Tax Administration

The Transport Department of Government of Telangana is governed by Motor Vehicles Act, 1988 (MV Act), Central Motor Vehicles Rules, 1989 (CMV Rules) along with Andhra Pradesh Motor Vehicles Taxation Act, 1963 (State Taxation Act), Andhra Pradesh Motor Vehicles Taxation Rules, 1963 (State Taxation Rules) and Andhra Pradesh Motor Vehicles Rules, 1989 (State MV Rules) which have been adapted¹⁹⁹ by the State of Telangana. The Transport Department is primarily responsible for enforcement of provisions of Acts and Rules framed thereunder which *inter alia* include provisions for collection of taxes, fees, issue of driving licences, certificates of fitness to transport vehicles, registration of motor vehicles, grant of regular and temporary permits to vehicles. The Transport Department is headed by Principal Secretary (Transport, Roads and Buildings Department) at Government level. Transport Commissioner (TC) is incharge of the Department. At District level, there are Deputy Transport Commissioners (DTCs) and Regional Transport Officers (RTOs) who in turn are assisted by Motor Vehicle Inspectors (MVIs) and other staff.

4.2 Internal Audit

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 frame work.

Information regarding Internal Audit for the year 2016-17 has not been furnished by the Department.

4.3 Results of Audit

Test check of records of 11 offices of Transport Department conducted during the year 2016-17 revealed underassessment of tax and other irregularities. These irregularities involved ₹ 24.21 crore in 21 cases, which broadly fall under the categories as given in **Table 4.1**:

¹⁹⁹ G.O.Ms.No.2, Transport, Roads & Buildings (Tr-I) Department, dated 17 June 2014.

Table 4.1: Results of Audit

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1.	Performance Audit on 'Enforcement activities of Transport Department including implementation of High Security Registration Plates'	01	17.74
2.	Non-levy of Quarterly Tax and Penalty	10	6.35
3.	Non/ short levy of Tax on Non-transport Vehicles	10	0.12
Total		21	24.21

During the year 2016-17, the Department accepted underassessment and other deficiencies of ₹ 1.99 crore in three cases. A Performance Audit on “Enforcement activities in Transport Department including implementation of High Security Registration Plates” and a few illustrative cases of non/ short levy of taxes involving ₹ 21.03 crore, are discussed in the succeeding paragraphs.

4.4 Performance Audit on “Enforcement activities of Transport Department including implementation of High Security Registration Plates”

4.4.1 Introduction

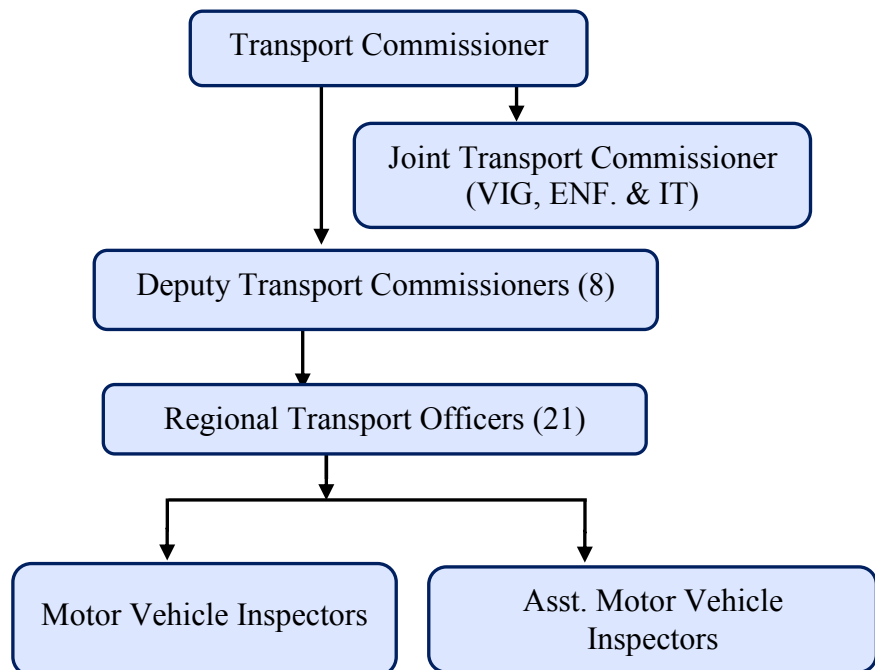
The Telangana Transport Department (Department) was established for enforcement of the provisions of Motor Vehicles Act (MV Act), 1988; Andhra Pradesh Motor Vehicles Taxation Act (APMVT Act), 1963 and the rules framed thereunder. The Department primarily functions under the provisions of Section 213 of the MV Act, 1988. This includes collection of taxes and fees, issue of driving licences and certificates of fitness. Registration of motor vehicles and granting permits to vehicles is also being undertaken by the Department.

4.4.1.1 Organisational setup

Principal Secretary, Transport, Roads and Buildings, is overall in charge of administration of the Department. The Transport Department is headed by the Transport Commissioner (TC). Joint Transport Commissioner (Vigilance and Enforcement) is responsible for ensuring the enforcement of the provisions of the Acts and Rules²⁰⁰. In the field, the TC is assisted by eight Deputy Transport Commissioners (DTC) and 21²⁰¹ Regional Transport Officers (RTOs). The RTOs are assisted by Motor Vehicles Inspectors (MVI). The MVIs are assisted by Assistant Motor Vehicle Inspectors (AMVI).

Organisational Chart

Chart No: 4.1



²⁰⁰ Motor Vehicles Act, 1988, Telangana Motor Vehicles Taxation Act, 1963, Central and State Rules made there under and related notifications etc.

²⁰¹ 10 Functional and 11 Administrative.

JTC (Vigilance and Enforcement) is responsible for ensuring the enforcement of the provisions of the Acts and Rules²⁰². At the field level, enforcement staff consisting of MVIs and AMVIs perform the duties of enforcement. They report to DTC/ RTO concerned. Apart from this, the JTC (Vigilance and Enforcement) would

- suggest measures to plug leakages in revenue;
- organize check of Motor Vehicles anywhere in the State as per the requirements;
- co-ordinate the activities of the check-posts and flying squads in the State.

4.4.1.2 Functions of enforcement wing

Functions of the enforcement wing in the department were²⁰³ ;

- *To enforce the provisions of the MV Act, 1988, TMVT Act, 1963 and the rules made there under;*
- *Check the genuineness of driving licenses, registration certificates, insurance certificates of all vehicles;*
- *Grant of permit and fitness certificates, in case of transport vehicles²⁰⁴ etc.*
- *Take measures for road safety and control of vehicular pollution.*

4.4.1.3 Audit Objectives

The Performance Audit was conducted with a view to assess whether:

- the existing system of enforcement was adequate and effective to ensure prescribed checks on vehicles plying on the road;
- the method of disposal of cases and collection of revenue on compounding the offences was effective;
- the internal control mechanism of enforcement activities was adequate;
- the implementation of High Security Registration Plates (HSRP) Project was effective.

The three objectives deal with methods and procedures in place for fulfilling the effective enforcement mechanism of the department. The fourth objective was included to assess the status of implementation of the HSRP Project.

²⁰² Motor Vehicles Act, 1988, Telangana Motor Vehicles Taxation Act, 1963, Central and State Rules made there under and related notifications etc.

²⁰³ Source: Citizen's charter of the Department.

²⁰⁴ Transport vehicle means a public service vehicle, a goods carriage, an educational institution bus or a private service vehicle; and non-transport vehicles means a motor vehicle which is not a transport vehicle.

4.4.1.4 Audit scope and methodology

The Performance Audit for the period of five years i.e., 2011-12 to 2015-16 was taken up during January 2017 to July 2017. Audit covered offices of the Transport Commissioner²⁰⁵, Joint Transport Commissioner²⁰⁶, five DTCs²⁰⁷ out of eight and four RTOs²⁰⁸ out of ten. The sample was selected based on geographical location, number of check posts and vehicular population in the respective jurisdiction. Besides, the Citizen Friendly Services of Transport Department (CFST) software data of vehicles, provided by the TC was also analysed.

4.4.1.5 Audit Criteria

The Audit criteria were sourced from Motor Vehicles Act (MV Act), 1988; Central Motor Vehicles Rules (CMV Rules), 1989; Telangana Motor Vehicles Rules (TMV Rules), 1989; Telangana Motor Vehicles Taxation Act (TMVT Act), 1963; Telangana Motor Vehicles Taxation Rules (TMVT Rules), 1963; Government orders and circular instructions issued by TC, etc.

4.4.1.6 Acknowledgement

The entry conference was held with the Principal Secretary (Transport, Roads and Buildings Department), Telangana on 31 January 2017 wherein Audit objectives, criteria, scope and methodology were explained. The Exit conference was held with the Government on 4 October 2017, wherein Audit observations and recommendations were discussed. Their response has been incorporated in the relevant paragraphs. Audit acknowledges co-operation extended by the Department in providing server data and other records.

Audit findings

During the Performance Audit, the following deficiencies relating to enforcement wing were noticed:

4.4.2 Planning and Deployment

With a view to make the Transport department citizen-friendly, a software called ‘Citizen Friendly Services in Transport Department (CFST)’ was implemented with effect from May 2000. The CFST is a comprehensive web enabled application used for issue of:

- fitness, pollution control certificates, permits, registration certificates, insurance certificates and driving licences,
- the software also supports online services to the public.

²⁰⁵ Transport Commissionerate, Khairatabad.

²⁰⁶ Joint Transport Commissioner, Hyderabad Central Zone.

²⁰⁷ DTCs - Adilababd, Mahaboobnagar, Nalgonda, Nizamabad and Sangareddy.

²⁰⁸ RTOs - Ibrahimpatnam, Khammam, Hyderabad (East) and Mancherial.

4.4.2.1 Lack of co-ordination between departments on deployment

As per section 213 of MV Act along with the provisions of TMV Rule 483, officers of the Transport Department are empowered to enforce the provisions of Act and the Rules made there under. As per TMV Rule 454, the officers of the Department exercise powers exercisable by a Police Officer under the Act. The enforcement of the Central and State Motor Vehicle Acts are carried out by two separate departments, the Transport Department and the Police Department. Co-ordination between the two departments is essential in order to optimize the deployment of staff and prevent potential overlap in coverage. (Annexure-I details the overlap of responsibilities in the two departments with respect to specific provisions of the Acts). Audit observed that there was no mechanism between the two departments for sharing deployment plans. There were no guidelines that prescribed the extent of checks by the two departments.

The CFST provides data that could be potentially used for planning the activities of the Enforcement Wing on a risk-based approach. The Enforcement Wing did not have a risk based deployment plan. The resources could be effectively utilized to address high risk areas and to cover all aspects of enforcement. The Government replied (October 2017) that award of negative points for offences was being implemented in the State. This mechanism had been devised in co-ordination with Police Department. The reply however, did not address the mechanism between the two departments for sharing of deployment plans.

4.4.2.2 Targets and achievements

The enforcement officials were given annual monetary targets to be achieved. The targets were revenue based and not risk based. Risk based targets is fixing of targets based on parameters such as the number of driving licences/Registration Certificates to be checked based on the total number of vehicles in the jurisdiction etc. The year-wise revenue target and achievement from detection cases in the Telangana State is given in the **Table 4.2** below:

Table 4.2
Target and achievement for detection

Sl. No.	Year	Target	Achievement	Short fall	Short fall in Percentage
		(₹ in crore)			
1.	2013-14	153.57	127.48	26.09	19
2.	2014-15	159.24	129.10	30.14	19
3.	2015-16	173.25	157.44	15.81	9
4.	2016-17	212.56	175.94	36.62	17

Source: CFST data

This target was apportioned among all inspecting officials, i.e., MVIs and AMVIs. A test check in seven selected offices revealed that achievement (of inspecting officers) ranged from 69 per cent to 117 per cent. Further analysis of reports from three MVIs from JTC, Hyderabad Central Zone showed that 53 per cent of the collections pertained to voluntary payment of taxes by

vehicle owners and not on detection by the enforcement officials. The JTC (February 2017) replied that the matter would be brought to the notice of TC.

The Motor Vehicle inspectors (MVI) and Assistant Motor Vehicle inspectors (AMVIs) are required to submit diaries²⁰⁹ as a mechanism of internal control on their work. However, it was noticed that no tour plans or diaries were submitted by the enforcement officials.

DTCs/ RTOs replied (between October 2016 and July 2017) that the enforcement activity was mainly with reference to monetary targets fixed. It was further stated that, due to shortage of staff, enforcement activity was not being carried out effectively. Audit observed that there was a staff shortage of 28.83 *per cent* at the level of enforcement officials. Planning, deployment and documentation becomes particularly important when resources are scarce.

The Government replied (October 2017) that fixing targets based on other parameters along with revenue as suggested would be considered.

4.4.2.3 Manpower Analysis

Analysis of manpower deployment in the test checked offices (**Annexure II**), revealed that the offices gave priority to deployment at check posts. The offences booked did not match the deployment pattern in three offices²¹⁰. The number of offences detected in the check posts of these offices was less. The deployment in check posts were more when compared with the deployment in cities. The number of offences detected, personnel in position in cities and check posts of the three offices is given in the **Table 4.3** below:

Table 4.3
Manpower

(in No.)

Name of test checked Office	Total No. of offences	Total PIP ²¹¹	Offences booked in Check posts	PIP in check posts	Offences in Cities	PIP in cities
DTC Mahaboobnagar	1,43,714	27	26,135 (18%)	17 (63%)	1,17,579 (82%)	10 (37%)
DTC Nalgonda	2,06,029	30	87,632 (43%)	18 (60%)	1,18,397 (57%)	12 (40%)
DTC Sangareddy	87,858	16	32,655 (37%)	8 (50%)	55,203 (63%)	8 (50%)

Source: CFST data

The Department needs to use the CFST data effectively for deployment and fixing of targets.

²⁰⁹ As per Para 3.6(b) (Chapter III) of manual of the Transport.

²¹⁰ DTCs Mahaboobnagar, Nalgonda and Sangareddy.

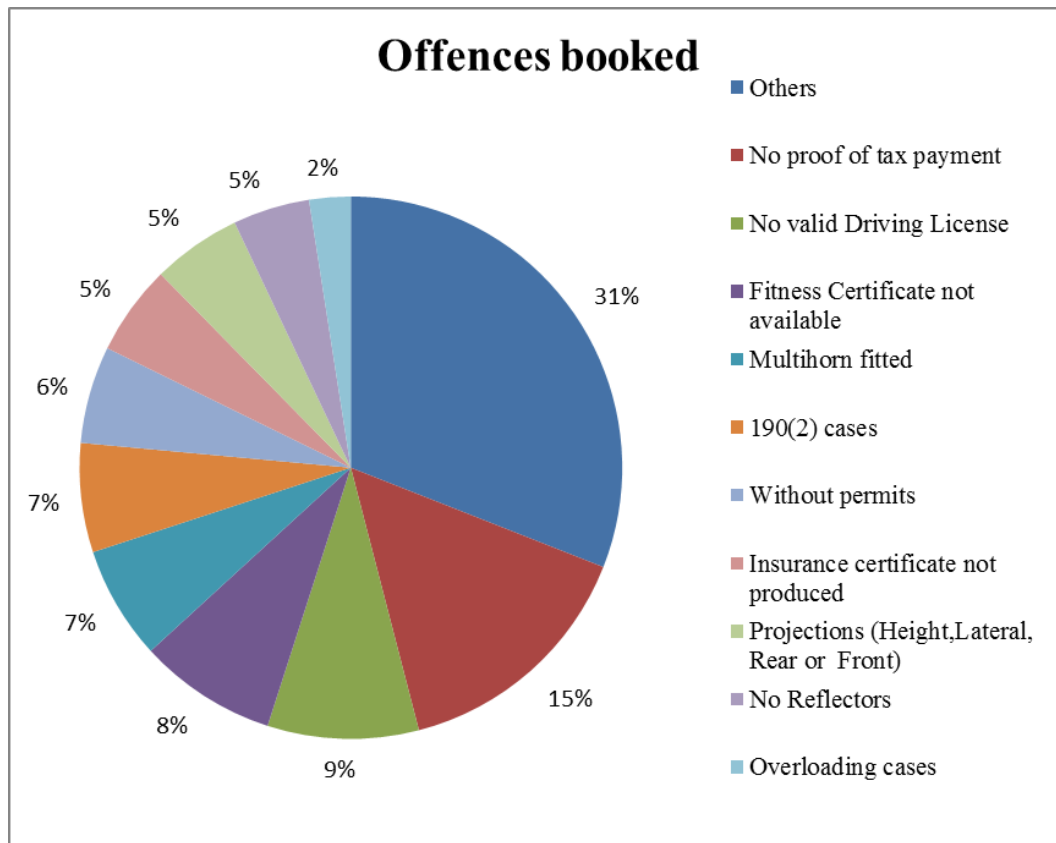
²¹¹ Personnel in position.

4.4.3 Documentation of offences: Issue of Vehicle Check Reports

Vehicle Check Report (VCR) is a record of offence(s) committed by the vehicle owner/driver and issued by the Enforcement officials at the time of vehicular check. The VCR is then manually fed into the CFST except in the check posts. In all the check-posts of the State, VCRs were generated electronically at the time of issue to the offenders (1,83,737 from April 2011 to March 2016). Thus, the CFST provides a history sheet of offences of a particular vehicle with details of place, time, record of violations. The compounding fee levied, if any, or the particulars of seizure of vehicle/impounding of documents were identified with the unique number of VCR.

In the sampled offices²¹², over 12 lakh offences (2,85,922 VCRs²¹³) were booked during the period from April 2011 to March 2016. The offences booked related mainly to non-payment of tax (15 per cent) and driving without licences (9 per cent). Chart below provides the break-up:

Chart: - 4.2



Source: CFST Data

Audit test checked 1,99,168 offences (47387 VCRs), which constituted 17 per cent of the total offences booked, which revealed the following:

²¹² JTC, Hyderabad Central Zone, DTCs - Adilabad, Mahaboobnagar, Nalgonda, Nizamabad, and Sangareddy, RTOs - Ibrahimpatnam, Khammam, Hyderabad (East) and Mancherial.

²¹³ One VCR may contain more than one offence.

4.4.3.1 Access to CFST data during Vehicular Inspection

Government of Telangana allotted budget of ₹ 6 crore for improvement in enforcement activities in 2014-15 and 2015-16. This included ₹ 57.73 lakh towards implementation of 'e-VCR Mobile Solution'. The Telangana Transport department entrusted (October 2015) the work on development of a tablet based 'e-VCR Mobile Solution' to Telangana State Technological Services Limited at a cost of ₹ 57.72 lakh. The inspecting officers were to be issued tablets which would provide them access to CFST data. The project funds amounting to ₹ 51.95 lakh was diverted (November 2015) by the department towards expenditure on Hardware procurement for the offices in newly created four districts. The 'e-VCR Mobile Solution' remained unimplemented till date (July 2017).

The VCR has not been automated, except at the check posts. At the time of booking the offence, the inspecting officer did not have access to the CFST data. As a result, multiple offences such as lack of Fitness Certificate, Driving Licence, Pollution under Control Certificate relating to the same vehicle could not be detected by the enforcement officials. Audit analysed 53,242 offences booked for 'No proof of tax payment'. It was observed that as on the date of booking of offence, the vehicles were not covered with valid Fitness Certificates (1115 cases), valid Driving Licence (41), PuCC (821) and Insurance (784).

The Department attributed the lapse to lack of access to CFST during vehicular inspection.

The Government replied (October 2017) that the above issue would be examined.

Non-utilisation of the amount for 'e-VCR Mobile Solution' defeated the basic intent of the Government policy to strengthen the enforcement activity.

4.4.3.2 Unique VCR number

It is essential to allot each VCR a unique number for effective control and identification. Audit noticed in the sample, that 3636 manual VCR numbers were used more than once. JTC, Hyderabad Central Zone replied (February 2017) that VCR books supplied by the Government were printed with duplicate VCR numbers. It was also assured that the error would be rectified. The other DTCs/ RTOs replied that the list of such VCRs would be verified and action taken. The TC replied (July 2017) that the matter would be examined and a detailed reply would be furnished shortly.

The absence of a unique VCR number would also impact recovery of compounding fee, leading to delays.

4.4.3.3 Non-enhancement of Compounding Fee on second and subsequent offences

Under section 200 of MV Act punishable offences committed may be compounded by such officers or authorities and for such amounts as the State Government may, by notification in the Official Gazette, specify in this behalf. In order to penalize repeating offenders, the Central Motor Vehicle Act provides²¹⁴ for enhanced fee on second and subsequent offences. The State Government had not notified the enhanced fee for second and subsequent offences in the Schedule²¹⁵ of Compounding Fee. Thus, there was no deterrence for repeatedly committing offences as is evident from the repeated offences many of the vehicles had committed.

Analysis of CFST data²¹⁶ revealed that 1,31,299 offences booked²¹⁷, related to repetition of the same offence. The recurrence of offences ranged from 2 to 23 times in respect of 54,568 vehicles. Revenue foregone due to absence of provisions to collect enhanced compounding fee on second and subsequent offences was ₹ 6.05 crore (calculated at enhanced rates as per MV Act) as detailed in **Table 4.4** below:

Table 4.4
Compounding Fee on second and subsequent vehicles

Offence Description	Penal Section	No. of vehicles committing second and subsequent offence	No. of Offences	Enhanced compounding fee foregone (₹ in crore)
Projection (Height, Lateral, Rear, Front)	190(2)	10,747	27,070	3.26
Without Fitness and Registration	192	3,412	7,007	1.44
Dangerous driving/ Cell phone driving	184	827	2,016	0.24
Document not produced / No Proof	177	39,582	95,206	1.11
Total		54,568	1,31,299	6.05

There is a need to notify enhanced fees by the State for second and subsequent offences. Non-addressing of this lacuna would embolden the offenders.

The Government replied (October 2017) that system of awarding negative points for each offence committed with a threshold would act as a deterrent; thresholds when crossed would result in suspension of Driving licence. The reply is not acceptable as awarding negative points would not have any impact on drivers holding licences from other States. Low compounding fee for the repeated offences allow erring drivers to violate traffic rules posing risk to life and property.

²¹⁴ Section 177, 183, 184 186, 190(2) and 192 of the Central Motor Vehicle Act.

²¹⁵ G.O.M.s No. 108 Tr. R & B (Tr-I) Department, dated 18 August 2011.

²¹⁶ For the period 2011-16.

²¹⁷ Under Section 177, 184, 190(2) and 192.

4.4.3.4 Offences of allowing unauthorized persons to drive

As per Section 180 of the MV Act, 1988 allowing unauthorized persons to drive vehicles is punishable. The owner of the vehicle is liable to be punished with imprisonment, for a term up to three months, or fine up to 1000 rupees, or both. The TC issued instructions²¹⁸ in February 2007, to all district officers to invoke Section 180 against the owner or person in charge of the vehicle in respect of such offences. It was noticed that 15,175 offences were booked in respect of drivers without having valid driving licences. However, only in 16 cases, the offences were booked against the owners or person in charge of such vehicles. No action was found to have been taken against owner of the vehicles putting the public life and property at jeopardy. The deterrence impact was lost due to not booking the offence against the owners of the vehicles. It also led to loss of revenue towards compounding fee of ₹ 1.52 crore at the rate of ₹ 1,000 per offence against the owners.

The Government replied (October 2017) that system of negative points would act as a deterrent. Offences booked against a driver may result in accumulation of points to the vehicle owner. However, the negative points would not impact vehicle owners/drivers holding licences of other States.

4.4.3.5 Non-compoundable offences

As per section 192-A of the MV Act, driving a motor vehicle without a valid permit or in contravention of any condition of a permit is not a compoundable offence and is liable for prosecution. Audit noticed that 52,693 cases were booked under these offences. However, the offenders were let off with compounding fees and allowed to avoid prosecution, in contravention to the provisions of the Act.

In reply (between October 2016 and July 2017) all DTCs/ RTOs except RTO Ibrahimpatnam stated that the observation was verified; the enforcement officials would be instructed not to compound these offences in future. RTO Ibrahimpatnam replied (July 2017) that such cases were prosecuted and fed in the system with remarks as prosecuted. Audit noticed that out of 5,466 cases, only in one case the detail was fed into the system as prosecuted.

The Government replied (October 2017) that the issues would be looked into and the system would be streamlined.

4.4.3.6 Documentation in VCRs

Overloaded vehicles

As per Section 113(3) of the Act, no motor vehicle should be allowed to be driven in any public place, the unladen weight of which exceeds the limit specified in the RC of the vehicle or the laden weight of which exceeds the gross vehicle weight specified in the RC. Section 114(1) prescribed that the authorities shall direct the driver to offload the excess weight at his own risk.

²¹⁸ Circular No. 5/600/R1/2007, dated 02 February 2007.

Further, the vehicle shall not be removed from the place until the laden weight had been reduced.

Analysis of CFST data (out of 25,913 cases detected²¹⁹), disclosed that 25,508 cases were compounded. However, the drivers were not instructed to offload the excess weight before allowing to ply further. In the remaining 405 cases, vehicles were seized in 161 cases and further action was pending in 244 cases. Inconsistency in disposing of the offences resulted in increase in number of such offences.

The Department failed to curb the overloaded vehicles on the road which were in violation of the Rules and had adverse effect on public safety, roads and emission of green house gases.

Vehicles carrying goods of hazardous nature

As per Section 14 of MV Act, 1988, the licence to drive a transport vehicle carrying goods of dangerous or hazardous nature is effective for a period of one year. There is a provision to capture details of validity of licences in VCR form.

Analysis of CFST data revealed that, in 1006 cases, driving licence number, licence validity date, etc., were not captured on VCRs issued to vehicles carrying hazardous goods. Thus, there was no assurance that the enforcement officials checked the validity of driving licences in these cases.

The Government replied (October 2017) that the issues would be looked into and the system would be streamlined.

4.4.4 Computerisation in Transport Department

The Department through CFST maintains central data base. Implementation of CFST enabled the Transport Department to provide the entire gamut of services viz., issue of driving licences, registration of vehicles, issue of fitness certificates, etc., online to the citizens on a real-time basis.

The benefits of computerisation can be harnessed to the fullest if the database was used in planning (para 4.4.2) and if the VCR was also automated (para 4.4.3.1) as has been done to a limited extent in the check posts. While the above two issues have been discussed in previous paragraphs, there were other issues that remained to be addressed by the Department. These were:

4.4.4.1 Non-detection of vehicles without valid Fitness Certificates (FCs)

Section 56 of Motor Vehicles Act 1988 prescribes that a transport vehicle shall not be deemed to be validly registered unless it carries a Fitness Certificate (FC) issued by a prescribed authority. Such FC shall be renewed every year duly conducting tests on the vehicle for a prescribed fee, in terms of Rules 62 and 81 of the CMV Rules.

²¹⁹ Between April 2011 and March 2016.

An analysis of computerised data and records relevant to grant of FCs at 10 selected offices revealed that 20,163 vehicles did not possess valid FCs. Out of these, the department collected road/ registration tax from the owners of 1,774 vehicles without testing the fitness of the vehicles and without realisation of prescribed fitness fee. This had led to non-realisation of fitness fee of ₹ 51.54 lakh, besides jeopardising the safety of the public.

4.4.4.2 Non-detection of vehicles with expired registrations

As per Rule 52(3) of Central Motor Vehicle Rules, 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. Under Section 41(7) of MV Act, RC of a non-transport vehicle is valid for 15 years. As per Government orders²²⁰ an additional tax called green tax shall be levied on transport vehicles and non-transport vehicles that have completed seven years and 15 years of age respectively from the date of registration.

Analysis of data in 10 offices²²¹ relating to validity of registration certificates, disclosed that registration of 25,558 non-transport vehicles had expired as on March 2016. These vehicles need to be checked for their fitness to ply on the roads and renew their validity. Audit observed that, the department had neither issued any show cause notice, nor ensured that vehicles were off the roads. Non-transport vehicles plying without fitness would also result in non-collection of green tax amounting to ₹ 92.36 lakh.

An inbuilt mechanism in the CFST package to give alerts regarding validity of FC and RC on issue/renewal of permits, payment of quarterly tax etc., would enable effective monitoring and appropriate action.

The Government agreed (October 2017) that online alerting mechanism would be provided.

4.4.4.3 Co-ordination among Departments

The Integrated Check Post, Boraj (Transport) works in tandem with check posts of other departments viz. Commercial Tax Department (CT), Prohibition and Excise Department etc. The ICP (Transport) Boraj issues temporary permits for validity of 7 days or 30 days to vehicles entering into Telangana from other states having home state permit by collecting applicable fees and tax. Similarly, ICP (CT) Boraj, issues Transit Passes to vehicles entering Telangana to reach destination in other states and this data is being captured in VATIS²²² software package of Commercial Tax Department.

²²⁰ G.O.Ms.No.238 TR & B (TR-1) Department, dated 23 November 2006.

²²¹ JTC, Hyderabad Central Zone, DTCs - Adilabad, Mahaboobnagar, Nalgonda, Nizamabad, and Sangareddy, RTOs - Ibrahimpatnam, Khammam, Hyderabad (East) and Mancherial.

²²² The Commercial Taxes Department uses an IT system known as Value Added Tax Information System (VATIS) to aid the implementation of the VAT Act in the State.

Audit cross checked (June 2017) Transport Department data with Commercial Tax Department relating to ICP, for five months²²³. It was noticed that 290 out of 31,612 Vehicles did not obtain Temporary permits though Transit passes were issued at ICP Bhoraj (Commercial Tax). Enforcement officials at check post, did not detect these vehicles plying without valid temporary permits. This could have been avoided if the two departments had an online interface or if they worked in tandem at the ICP. This resulted in loss of revenue of ₹ 17.58 lakh towards temporary permit fees and tax.

The Government replied (October 2017) that the issue would be addressed.

4.4.5 Recovery of taxes, penalties and fines

4.4.5.1 Absence of prescribed time limit for disposal of Vehicle Check Reports (VCRs)

Section 200 of Motor Vehicle Act, 1988 read with Government orders²²⁴ provides for collection of Compounding Fee²²⁵ (CF), at specified rates at the time of checking vehicles for the offences committed. In cases, where CF was not collected VCRs are to be sent to RTA²²⁶ concerned, duly specifying the offence committed. However, no time limit was prescribed for disposal of the cases.

Analysis of CFST data of the 10 test checked offices revealed that 8,404 offences involving compounding fee of ₹ 97.43 lakh were pending as of February 2017. The delays in revenue pending collection ranged from 11 to 71 months as shown in the **Table 4.5** below:

²²³ June, July-2014, June, July-2015 and January 2016.

²²⁴ G.O.Ms.No.108 Tr. R&B (TR-1) Department, dated 18 August 2011.

²²⁵ The offence is settled by payment of a compounding fee in lieu of prosecution, in respect of compoundable offences.

²²⁶ Please see glossary.

Table 4.5

Delay in collection of Compounding Fee

Office	7-12 months delay		1-3 years delay		3-6 years delay		Total delay	
	No. of cases	Amount (in ₹)	No. of cases	Amount (in ₹)	No. of cases	Amount (in ₹)	No. of cases	Amount (in ₹)
JTC Khairatabad	70	61,900	1,819	7,16,535	76	56,475	1,965	8,34,910
DTC Adilabad	10	17,300	181	1,80,125	883	26,72,027	1,074	28,69,452
DTC Mahaboobnagar	11	45,900	478	6,66,130	39	62,075	528	7,74,105
DTC Nalgonda	67	38,800	793	8,75,755	158	1,71,890	1,018	10,86,445
DTC Nizamabad	67	17,000	721	3,58,130	233	2,12,040	1,021	5,87,170
DTC Sangareddy	237	1,27,600	813	3,10,825	70	81,810	1,120	5,20,235
RTO Khammam	23	6,500	516	6,22,995	71	82,000	610	7,11,495
RTO Ibrahimpatnam	71	5,71,445	211	2,84,280	183	4,57,275	465	13,13,000
RTO Mancherial	6	4,000	46	94,925	29	1,29,550	81	2,28,475
RTO Hyderabad (East)	0	0	204	2,10,020	318	6,08,450	522	8,18,470
Total	562	8,90,445	5,782	43,19,720	2,060	45,33,592	8,404	97,43,757
Percentage of total revenue pending collection	7%	9%	69%	44%	25%	47%		

Source: CFST data

4.4.5.2 Releasing other State vehicles without collecting Compounding Fee

As per section 207 of MV Act, the enforcement officials are empowered to seize and detain vehicles used without valid driving licence, certificate of registration and permits.

Scrutiny of records revealed that the documents were impounded in 4,786 offences booked against vehicles of other states like Tamil Nadu, Maharashtra etc. The vehicles were not detained and the documents were impounded. Thus, vehicle owners did not return to clear the dues ₹ 64.69 lakh to get the original documents released. The offices replied that the details would be verified.

4.4.5.3 Short Levy/ Non-levy of penalty

The Government of Telangana in its order²²⁷ dated 3 November 2008 issued orders for levy of penalty for belated payment of tax beyond two months from the beginning of the quarter at the rate of twice the quarterly tax in cases of detection.

In three²²⁸ out of 10 sample offices, it was observed that VCRs were issued against 49 transport vehicles for non-payment of taxes (amounting to ₹ 31.68 lakh). Subsequently, the VCRs were closed by collecting compounding fee, tax and lesser penalty. As the offences were booked for non-payment of tax, penalty at the prescribed rates had to be collected from

²²⁷ G.O.Ms No. 318 (TR&B), dated 03 November 2008.

²²⁸ DTC Adilabad, RTO Ibrahimpatnam and Mancherial.

the vehicle owners. Penalty of ₹ 1.20 lakh only was collected whereas penalty to be collected was ₹ 63.36 lakh as per the prescribed rates. This resulted in short/non-levy of penalty amounting to ₹ 62.16 lakh.

When the same was brought to notice (between May and June 2017), it was replied that the matter would be examined.

4.4.5.4 Lapses on interstate vehicular movement

Inter-State vehicular traffic of goods is regulated by bilateral agreements under the provisions of MV Act and Rules made there under. Government of Telangana in its order²²⁹, directed to levy tax of ₹ 5,000 per annum under the TSMV Act²³⁰, on every goods carriage which is normally kept in the States of Maharashtra and Karnataka and covered by countersignature permits of Telangana and operating routes lying partly in the States of Maharashtra and Karnataka and partly in Telangana.

Audit noticed in three offices²³¹, that bilateral tax and penalty, amounting to ₹ 276.44 lakh was not collected from the owners of 1,330 vehicles registered in Maharashtra and Karnataka respectively. Out of 1330 vehicles, the enforcement officials booked offences against 107 vehicles only. This indicated deficiencies in monitoring inter-state movement of vehicles.

The offices replied that the vehicle numbers would be verified and action taken.

4.4.6 Seizure of vehicles

Under Section 207 of Motor Vehicles Act, 1988, an authorised police or transport officer may seize and detain a vehicle, if he has a reason to believe that a motor vehicle was used in contravention of provisions of Motor Vehicles Act.

The seized vehicles shall be accounted for and kept under safe custody until the disposal of case. Instructions²³² were also issued to dispose off the seized vehicles within a reasonable period.

Audit review in ten offices showed the following lacunae in seizing of vehicles:

²²⁹ G.O.Ms.No.362, Transport (R&B) (Tr.I) Department, dated 16 December 2008.

²³⁰ The Government of Telangana vide its orders dated 17 June 2014 adopted the laws as amended from time to time which were in force in the State of Andhra Pradesh.

²³¹ DTCs - Adilabad, Nizamabad and Mahaboobnagar.

²³² Circular Memo No.4129/VI/97 dated October 1997 and 12797/VI/2000, dated 06 September 2000.

4.4.6.1 Documentation on seizure of vehicles

Under Rule 448-A (v) of Telangana Motor Vehicle Rules, when a motor vehicle is seized and detained by any officer referred to Rule in 448, he shall record the condition of the vehicle along with list of removable, replaceable parts. A copy of it is to be delivered to the person from whom it is seized, duly signed. In all the ten offices²³³test checked, it was noticed in respect of 4,87,656 vehicles seized that documentation of the vehicle condition was inadequate. Such documentation would facilitate the Department to arrive at the upset (base) price of the vehicle at the time of auction.

4.4.6.2 Delay in auction of seized vehicles

Audit noticed considerable delay in disposal of seized vehicles. In eight²³⁴ offices, out of 1,413 vehicles under seizure, 206 vehicles were under seizure since 2010 onwards. Delay in disposal would depreciate the value of vehicles and reduce the amount that can be realised. The offices replied that action would be taken to dispose of the seized vehicles under intimation to audit.

4.4.7 Lack of infrastructure

For effective enforcement, the department requires equipment such as breath analysers, mobile interceptors, speed guns etc. Audit noticed that the equipment meant for upgradation of enforcement activities, were lying unused. Some of the instances are detailed below:

4.4.7.1 Mobile interceptors

Mobile Interceptor is a comprehensive enforcement system vehicle useful to identify overspeeding vehicles by capturing video of movement violations, drunken driven cases and vehicles overloaded with goods. The erstwhile Government of Andhra Pradesh provided in May 2010 two interceptors to the Enforcement Wing, of which one was in the sampled office viz. JTC Hyderabad Central Zone. It was noticed that the vehicle was kept un-utilised due to want of repairs since June 2014.

4.4.7.2 Other equipment

The officers of the Transport Department are empowered by Section 203 of MV Act, 1988 to require any person suspected of driving under the influence of drugs/ alcohol to conduct breath test. It was noticed that equipment like breath analysers, laser guns and handheld terminals were not provided for enforcement activities in any of the sampled offices.

²³³ JTC, Khairatabad Central Zone, DTCs - Adilabad, Mahaboobnagar, Nalgonda, Nizamabad and Sangareddy, RTOs - Ibrahimpatnam, Khammam, Hyderabad (East) and Mancherial.

²³⁴ JTC, Hyderabad Central Zone, DTCs - Adilabad, Nalgonda, Nizamabad, and Sangareddy, RTOs - Ibrahimpatnam, Khammam and Hyderabad (East).

4.4.7.3 Weigh bridges

Weighbridges installed on check posts and highways detect cases of vehicle overloading. ICP Bhoraj was provided with Weigh Bridge to detect cases of overloading. Audit noticed (June 2017) that the weigh bridge was not functioning. Records pertaining to the weigh bridge were also not made available for scrutiny.

The Enforcement Wing, therefore, lacked necessary equipment to enforce road safety measures relating to over-speeding, drunken driving, over loading, etc.

The Government replied (October 2017) that though patrolling in highways was being done, the department needs to have laser guns for detecting over speeding cases.

4.4.8 Internal controls

Internal control is essential for assuring achievement of an organisation's objectives in operational effectiveness and efficiency and compliance with laws and regulations. It involves everything that controls risks during the enforcement activities.

4.4.8.1 Belated submission of Vehicle Check Reports (VCRs)

As per Circular instructions²³⁵ of the Transport Commissioner, the VCRs written by the checking officers should be handed over in the office on the same or next day in case it constitutes seizure of vehicle. In other cases, VCRs may be kept with the checking officers' up to 15 days from the date of check, to be handed over to the office for further action.

Audit noticed, that 356 VCRs were submitted with a delay ranging from 16 to 211 days in two²³⁶ out of 10 test checked offices. This led to delays in their follow-up and non-recovery of the compounding fee amounting to ₹ 37.24 lakh as of date (July 2017).

The Government replied (October 2017) that the issues would be looked into and the system would be streamlined.

4.4.8.2 Reconciliation of data with Pollution Testing Units (PTUs)

CFST provided for capturing details on Pollution under Control Certificates (PuCC) at the time of renewal of FCs. This requirement was not being followed. Non-compliance was noticed in 1,31,627 cases, i.e., 27 per cent of the cases test checked in audit in the sampled 10 offices. Audit noticed that the CFST data was not being reconciled with the monthly returns submitted by the Pollution Testing Units.

²³⁵ Circular Memo No.44/13907/R2/2002, dated 13 September 2002.

²³⁶ DTC Sangareddy and RTO Hyderabad (East).

The Government replied (October 2017) that the Department conducted training programmes for mobile PTUs, but did not give any specific reply on the usage of monthly returns by PTUs.

4.4.9 High Security Registration Plates (HSRP)

HSRP is a secure number plate aimed to establish a uniform pattern of displaying registration marks across the country. HSRPs are expected to ensure safety of the vehicles through five safety features:

- chromium base chakra hologram;
- India inscripted hot stamping foil;
- seven-digit unique laser code;
- self-destructive windshield sticker and
- non-removable snap lock.

HSRP would prevent anti-social elements from using a vehicle with fake number plates while committing a crime, as the number plate will break if somebody tries to remove or replace it.

Rule 50 of CMV Rules and MORTH orders prescribes norms and standards on High Security Registration Plates and its implementation on all registered vehicles. In pursuance, Government issued orders²³⁷ and authorized APSRTC²³⁸ (now TSRTC) to manufacture, affix and implement HSRP on all the vehicles on behalf of the Transport Department. As per Government order dated December 2013²³⁹ the monitoring of HSRP was entrusted with the Transport Department.

Audit noticed the following lacunae in implementation of the scheme:

4.4.9.1 New vehicles without affixation of HSRP

As per Government Orders, all the new vehicles have to be affixed with HSRP with effect from 11 December 2013. The 10 sampled offices had given authorization for fixation of HSRP to 6,95,709 new vehicles during the period 11 December 2013 to March 2016. Out of these, only 4,02,866 HSR plates, representing 58 *per cent* of the number authorised, were affixed as of date (July 2017). The remaining 2,92,843 vehicles (42 *per cent*) were not affixed with HSRPs upto July 2017. However, analysis of VCR data revealed that only 280 cases (0.14 *per cent*) were identified by the enforcement officials as vehicles plying without HSRP. This indicated the deficiency in monitoring by the Department.

²³⁷ G.O.Ms.No.32 Transport Roads & Buildings Department (TR.I), dated 8 March 2011 and G.O.Ms.No.148 Transport Roads & Buildings Department (TR.I), dated 24 December 2011.

²³⁸ Andhra Pradesh State Road Transport Corporation.

²³⁹ G.O.Ms. No. 110, Transport Roads & Buildings Department (TR.II), dated 02 December 2013.

4.4.9.2 Non-fixing of HSR Plates for in-use vehicles

The task²⁴⁰ of affixing HSRPs on vehicles registered prior to the implementation of HSRP project shall be completed by 10 December 2015. Audit observed that there were approximately 18.41 lakh in-use vehicles. However, in violation of orders of Government, no in-use vehicle was affixed with HSRP till date²⁴¹. Thus, the objective of fixing uniform pattern of number plates was not achieved.

4.4.9.3 Penalty charges

As per the clause 10.2 (C) of the Contract, the contractor shall keep the HSRP fully embossed, hot stamped and ready for affixation at the respective affixing stations within four days from the date of receipt of authorisation from Registering Authority, i.e., RTA, failing which a rebate of ₹ 50 per day of delay per vehicle up to seven days and ₹ 75 per day per vehicle thereafter shall be given by the contractor to vehicle owners.

Audit noticed that the Department had not prescribed any mechanism to provide rebate or create awareness among the vehicle owners on availability of this rebate/penalty clause. There were delays in fixation of HSR Plates from four days to 801 days in respect of 2,33,383 vehicles in the entire State (between 2 June 2014 and March 2016). The amount to be refunded by the contractor worked out to ₹ 5.17 crore (limited to maximum of cost of the Number Plate) which was denied to the vehicle owners. Refund was not made to any of the vehicle owners by the contractor.

The Government may take measures to create awareness among the vehicle owners on the penal clauses at the time of registration of a vehicle and monitor the affixation effectively.

4.4.9.4 Quality control

Clause 10.1(a) of the agreement entered with the supplier allowed the Authority (TSRTC) to conduct quality tests at an authorised test agency/laboratory on samples drawn from the raw materials and/ or the HSRPs. However, since implementation of the HSRP project (December 2013), there were no records of any sample tests performed by TSRTC to verify the quality of HSRP. Transport department also failed to monitor to ensure the quality of HSRP. In the absence of any quality tests conducted there was no assurance that the prescribed quality were being maintained by the contractor.

Conclusion

To prevent overlapping enforcement as well as for optimum deployment of resources, it was essential that there was effective coordination between the Transport Department and the Traffic Police. This was however absent.

²⁴⁰ Government Orders issued during December 2013.

²⁴¹ August 2017.

In the CFST (Citizen Friendly Services in Transport Department) data, the Department had a comprehensive database that should have been used for planning. The Enforcement Wing did not have a risk based deployment plan based on the CFST data; instead it relied on monetary targets.

The ‘e-VCR mobile solution’ project, that would have provided the last mile integration, by automation of the VCR to inspecting officers at the time of check, was not implemented.

Deterrence effect was lost due to non-incorporation of provisions on enhanced compounding fee in respect of repeated offences. This also resulted in loss of revenue of ₹ 6.05 crore. Offences were not booked against vehicle owners which resulted in loss of revenue of ₹ 1.52 crore. There were no time limits for finalisation of VCRs.

High Security Registration Plates (HRSP) were installed only on 58 *per cent* of the 6,95,709 authorized new vehicles.

Recommendations

- (a) Mechanisms for co-ordination between the Transport and Police Departments needs to be instituted at the stages of planning and implementation of enforcement activities;
- (b) The implementation of e-VCR mobile solution be expedited for use by enforcement officials;
- (c) Provisions on enhancement of fees on Compounding of second and subsequent offences needs to be in place to deter repeated offences.
- (d) Time limit may be prescribed for the finalisation of Vehicle Check Reports to avoid pendency as well as blockage of revenue;
- (e) The Department should be equipped with breath analysers, mobile interceptors, speed guns etc., for effective enforcement activities.
- (f) HSRP project may be implemented effectively to ensure uniform registration plates with security features.

4.5 Non-realisation of Quarterly Tax and Penalty

Section 3 of the Telangana Motor Vehicle Taxation Act, 1963 stipulates that every owner of a motor vehicle is liable to pay tax at the rates specified by the Government from time to time. Section 4 of the Act specifies that tax shall be paid in advance either quarterly, half yearly or annually within one month from the commencement of the quarter. Under Section 6 of the Act read with Rule 13 of the Telangana Motor Vehicle Taxation Rules, 1963, penalty for belated payment of tax beyond two months from the beginning of the quarter shall be levied at a rate equivalent to 50 *per cent* in cases of voluntary payment and twice at the rate of quarterly tax on cases detected.

Analysis of the data²⁴² in the offices of Joint Transport Commissioner (JTC), Hyderabad, five DTCs²⁴³ and four RTOs²⁴⁴ revealed that quarterly tax of ₹ 2.12 crore²⁴⁵ was not paid by the owners of 1,262 transport vehicles. The department had not issued any demand notice to these defaulters. This resulted in non-realisation of tax of ₹ 2.12 crore and penalty of ₹ 1.06 crore (at 50 *per cent* of quarterly tax).

After Audit pointed out these cases, two offices²⁴⁶ replied that tax and penalty in respect of the vehicles pointed out would be collected under intimation to Audit. RTO, Hyderabad East replied (October 2016) that the cases would be verified and action taken. The remaining officers replied²⁴⁷ that immediate action would be taken to realise the tax and penalty due in respect of transport vehicles pointed out under intimation to Audit.

The matter was referred to the Government in October 2017; reply has not been received (December 2017).

4.6 Short levy of Tax in respect of second or subsequent personalised vehicles owned by individuals

As per fifth proviso to Section 3(2) of Telangana Motor Vehicle Taxation Act, 1963, tax in respect of second or subsequent personalised vehicles upto a seating capacity of 10 in all owned by an individual, shall be levied at 14 *per cent* of the cost of the vehicle with effect from 2 February 2010²⁴⁸.

Analysis of the data²⁴⁹ in the offices of JTC, Hyderabad, four DTCs²⁵⁰ and two RTOs²⁵¹ revealed that tax amounting to ₹ 10.58 lakh²⁵² was short collected²⁵³ from 124 owners in respect of second or subsequent personalised vehicles.

²⁴² Between October 2016 and July 2017.

²⁴³ Adilabad, Mahaboobnagar, Nalgonda, Nizamabad and Sangareddy.

²⁴⁴ Hyderabad (East), Ibrahimpatnam, Khammam and Mancherial.

²⁴⁵ For the period 2014-15 to 2015-16.

²⁴⁶ JTC, Hyderabad (February 2017) and DTC, Mahaboobnagar (March 2017).

²⁴⁷ Between October 2016 and July 2017.

²⁴⁸ Act No.11 of 2010.

²⁴⁹ Between October 2016 and July 2017.

²⁵⁰ Adilabad, Mahaboobnagar, Nalgonda and Nizamabad.

²⁵¹ Hyderabad (East) and Ibrahimpatnam.

²⁵² For the period 2014-15 to 2015-16.

²⁵³ At rates ranging from 9 to 12 *per cent*.

After Audit pointed out these cases, all the officers replied²⁵⁴ that the details of vehicles would be verified and differential tax collected under intimation to Audit.

The matter was referred to the Government in October 2017; reply has not been received (December 2017).

²⁵⁴ Between October 2016 and July 2017.

CHAPTER V
OTHER TAX
AND
NON-TAX RECEIPTS

CHAPTER V

OTHER TAX AND NON-TAX RECEIPTS

5.1 Results of Audit

Test check of records of offices of the following Departments²⁵⁵ conducted during the year 2016-17 revealed underassessment of tax and other irregularities involving ₹ 123.19 crore in 118 cases, which broadly fall under the categories as given in **Table 5.1**:

Table 5.1: Results of Audit

Sl. No.	Category	No. of cases	Amount
I	ENERGY DEPARTMENT		
1.	Functioning of Chief Electrical Inspectorate to Government of Telangana	01	91.10
II	REVENUE DEPARTMENT		
	A. LAND REVENUE		
	Revenue Receipts		
1.	Short levy of Water Tax	03	0.55
2.	Non-levy of interest on arrears of Water Tax	22	0.26
3.	Non-levy/short levy of Conversion Tax and Penalty on conversion of Agricultural Land for Non-agricultural purpose	23	2.26
4.	Non-levy of Road Cess	03	0.19
5.	Non-realisation of Cost of Land alienated	03	0.12
6.	Other Irregularities	04	0.15
	Revenue Expenditure		
1.	Incorrect Refund of Stamp Duty	02	0.01
	B. STATE EXCISE		
1.	Short levy of Annual Licence Fee	03	21.83
2.	Non-levy of Additional Licence Fee	04	0.14
3.	Non/short levy of Interest on belated payment of Licence Fee	06	0.02
4.	Short levy of Transfer Fee	02	0.06
5.	Short levy of Stamp Duty on Lease Deeds	03	0.01
6.	Other irregularities	07	0.18
III	INDUSTRIES AND COMMERCE DEPARTMENT		
	MINES AND MINERALS		
1.	Non-raising of demand for arrears of District Mineral Fund	06	5.73
2.	Non-raising of demand for arrears of State Mineral Exploration Trust	06	0.11
3.	Short levy of Royalty	11	0.41
4.	Short levy of dead rent	03	0.03
5.	Other irregularities	06	0.03
Total		118	123.19

²⁵⁵ Number of offices under Industries & Commerce (Mines and Geology) Department: 10; Energy Department: 06; Land Revenue Department: 86; Prohibition & Excise Department: 23.

During the year 2016-17, the Department accepted underassessment and other deficiencies of ₹ 44.57 crore in 28 cases of which 13 cases involving ₹ 44.49 crore were pointed out during the year 2016-17 and the rest in earlier years. An amount of ₹ 20.69 lakh in 20 cases was realised during the year 2016-17. A few illustrative cases, involving ₹ 91.68 crore, are discussed in the succeeding paragraphs.

REVENUE DEPARTMENT

LAND REVENUE

5.2 Non/ Short levy of Water Tax

As per Section 3 of Telangana Water Tax Act, all Government sources of irrigation classified as major and medium projects shall be regarded as category-I and all other sources, which are capable of supplying water for not less than four months in a year shall be regarded as category-II. The rate of water tax for first or single wet crop in a *fasli*²⁵⁶ under category-I is ₹ 200 per acre and the rate for second wet crop of that *fasli* is ₹ 150 per acre. For category-II source, ₹ 100 per acre is to be adopted for first/single wet crop or second crop. Category-I rates are applicable to the crops irrigated with water under lift irrigation schemes.

Government (erstwhile A.P) in their orders²⁵⁷ laid down the procedure for raising water tax demand. As per this procedure, Executive Engineers of Project areas/ irrigated sources are required to communicate the extent of area irrigated for fixation of water tax demand by Tahsildar. In case of variation between actual area irrigated as indicated by Irrigation Department and that of Revenue Department, *Joint Azmoish*²⁵⁸ should be done and the actual figures of area irrigated should be arrived at.

During scrutiny of village accounts (between January and August 2016) of four Tahsildars²⁵⁹ offices, Audit observed²⁶⁰ that as per *Joint Azmoish* statement, water tax at the rate of ₹ 200 per acre amounting to ₹ 13.73 lakh was to be levied on 6,867 acres for the *fasli* year 1422. The demand of only ₹ 12.67 lakh was finalised by *jamabandi* officer. This resulted in short levy of water tax amounting to ₹ 1.06 lakh.

In office of Tahsildar, Itikyal, water tax was short levied for the *fasli* years 1414 to 1419 due to application of incorrect rate of water tax. Tahsildar had levied water tax at the rate of ₹ 100 per acre instead of ₹ 150 per acre for second wet crop on the irrigated extent of 1408.52 acres. This had resulted in short levy of water tax of ₹ 0.70 lakh.

²⁵⁶ *Fasli* year means the period of 12 months from 1 July to 30 June. Adding 590 to *fasli* year one can get the corresponding calendar year.

²⁵⁷ G.O.Ms.No.115, Revenue (LR.3) Department, dated 13 February 2001. G.O.Ms.No. 96, Irrigation & C.A.D (Gen.IV-2) Department, dated 08 June 2007.

²⁵⁸ *Joint Azmoish* means joint inspection of irrigated land conducted by Irrigation, Agriculture and Revenue Departments.

²⁵⁹ Dandepally, Itikyal, Kalluru and Lokeswaram.

²⁶⁰ Tahsildar, Dandepally.

In office of Tahsildar, Kalluru, water tax of ₹ 8.64 lakh was levied instead of ₹ 11.58 lakh due to non-adoption of reconciled extent of 6,828 acres of area irrigated for the *fasli* year 1421. This resulted in short levy of water tax of ₹ 2.94 lakh.

Audit noticed in office of Tahsildar, Lokeswaram that water tax demand raised for the *fasli* years 1418 to 1421 was finalised in three villages. The *jamabandi* officers did not include an extent of 29,350 acres irrigated through lift irrigation schemes. This resulted in non-levy of water tax of ₹ 53.78 lakh.

Thus, the total non/ short levy of water tax amounted to ₹ 58.48 lakh for the *fasli* years from 1414 to 1422 (1 July 2004 to 30 June 2013).

After Audit pointed out these cases, all the Tahsildars replied that the matter would be examined and detailed reply furnished to Audit in due course.

The matter was referred to the Department in June 2016 and May 2017 and to the Government in May 2017; replies have not been received (December 2017).

ENERGY DEPARTMENT

5.3 Detailed Compliance Audit Report on “Functioning of Chief Electrical Inspectorate to Government of Telangana”

5.3.1 Introduction

Section 36 of Indian Electricity Act 1910 requires a Chief Electrical Inspectorate (CEI) to provide guidelines for usage of power at various voltages. An independent Chief Electrical Inspector to Government (CEIG) was created (1968) for the State, upgraded (July 1976) to the rank of Chief Engineer. Government of erstwhile Andhra Pradesh also notified (2011)²⁶¹ CEIG to perform such functions as specified in the Central Electricity Authority (Measures relating to Safety and Electric Supply) Regulations, 2010. The Andhra Pradesh Electricity Duty Act, 1939 and rules made there under have been adapted²⁶² by the State of Telangana with effect from 2 June 2014.

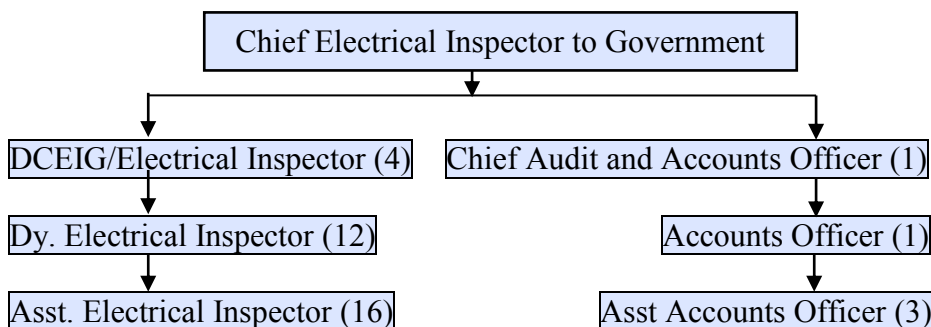
The CEIG’s responsibilities include:

- Enforcement of Electricity Act, 2003 and rules made there under involving fresh approval for High Tension (HT) electric installations and their periodical inspections to ensure safety aspects.
- Implementation of quality control of electric goods (Quality Control) order 2003.
- Levy and collection of electricity duty under Electricity Duty Act 1939 (amended in 1994) and Rules made there under from the licensees on the sales of energy effected by them.
- Issue of licenses to electricians, wiremen, electrical contractors and cinema operators.

The Organisational set up of Chief Electrical Inspectorate of Telangana State is depicted below:

Organisational Chart

Chart No: 5.1



²⁶¹ G.O Ms. No.43, Energy (Services) Department, dated November 19, 2011. Electricity Act 2003, provided that the State Government may, by notification appoint duly qualified persons to be CEI who shall exercise powers and performs functions as may be prescribed.

²⁶² G.O.Ms.No.45, Law (F) Department, dated 6 January 2016.

5.3.2. Audit Framework

Audit was conducted (between January and February 2017) for the years 2013-14 to 2015-16. The offices covered were the office of Chief Electrical Inspector to Government, Hyderabad, two Deputy Chief Electrical Inspector offices²⁶³, one Electrical Inspector office²⁶⁴ and two Deputy Electrical Inspector offices²⁶⁵, to ensure whether:

- Electricity Duty was correctly levied and collected from the licensees,
- The provisions relating to safety and quality control were being implemented.

The offices were selected on the basis of the number of High Tension installations in their jurisdiction. Audit findings were benchmarked against the criteria sourced from the Electricity Act, 2003 and Indian Electricity Rules 2005, the Central Electricity Authority (Measures relating to safety and electric supply) Regulations 2010, the A.P. Electricity Duty Act 1939 and Rules made there under and the Electrical Wires, Cables, Appliances and Accessories (Quality Control) Order, 2003.

The replies of the Government to the audit observations have been incorporated in the report.

Audit Findings

Audit findings are summarised below:

5.3.3 Levy and collection of electricity duty

5.3.3.1 Restructuring of State Electricity Board

Andhra Pradesh State Electricity Board was functioning under the Government of Andhra Pradesh since 1 April 1959. It was restructured with effect from 1 February 1999 as two corporations, Andhra Pradesh Power Generation Corporation Limited (APGENCO) and Transmission Corporation of Andhra Pradesh Limited (APTRANSCO); the APTRANSCO was further unbundled into a Transmission Company and four Distribution Companies²⁶⁶ (DISCOMs). Telangana State Power Coordination Committee (TSPCC) was formed²⁶⁷ for examining commercial issues related to bulk supply, all legal issues related to Independent Power Producers (IPPs), to review the energy

²⁶³ Hyderabad and Hyderabad Rural.

²⁶⁴ Nizamabad.

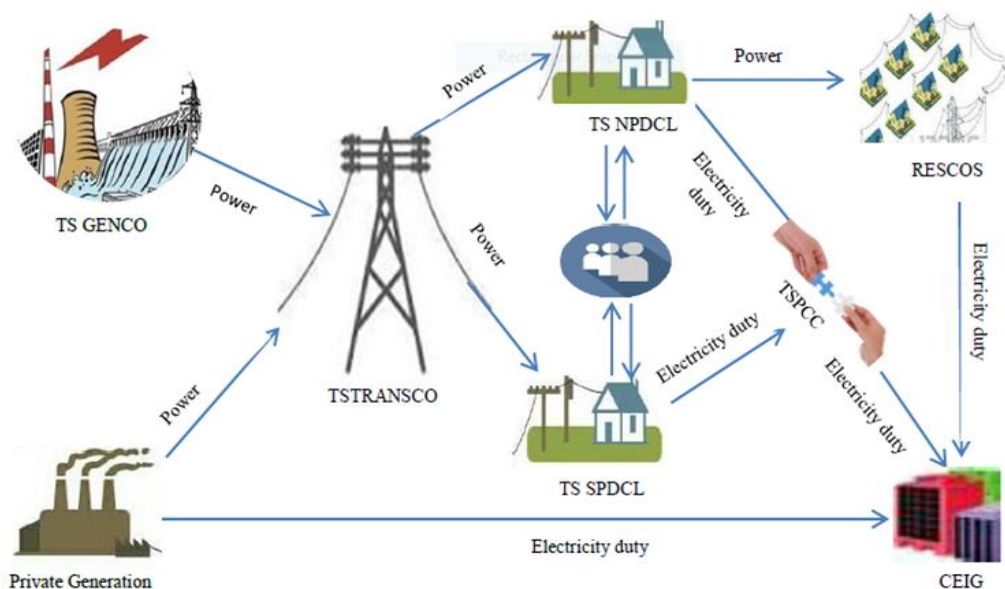
²⁶⁵ Warangal and Nalgonda.

²⁶⁶ Northern Power Distribution Company of Andhra Pradesh Limited (APNPDCL) later re-organised as TSNPDCL (Telangana State Northern Power Distribution Company Ltd) w.e.f June 2014; Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL); Central Power Distribution Company of Andhra Pradesh Limited (APCPDCL), later re-organised as TSSPDCL (Telangana State Southern Power Distribution Company Ltd) w.e.f June 2014 and Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL)

²⁶⁷ Vide G.O.Ms.No.21, Energy (Services) Department, Government of Andhra Pradesh dated 12 May 2014.

accounting and billing for inter-utility trading of power. The Chart illustrates the setup that existed for supply of electricity as well as levy & collection of electricity duty from DISCOMs, Private Generating Companies and RESCOS²⁶⁸.

POWER SUPPLY AND ELECTRICITY DUTY PAYMENT



As per section 3(1) of Andhra Pradesh Electricity Duty Act,1939 read with Government Order²⁶⁹ Electricity Duty is calculated at the rate of six paise per unit of energy and is payable in respect of all sales of energy (except sales to privileged customers).

The DISCOMs collect Electricity Duty from consumers based on the meter readings. The TSPCC is entrusted with collection of Electricity Duty from DISCOMs. A monthly statement with details on such provisional bill is sent by the DISCOMs to TSPCC along with the challans. The DISCOM wise Electricity Duty challans are sent to CEIG by TSPCC along with DISCOM wise statements of consumption particulars.

The final Electricity Duty dues from DISCOMs were, however, worked out based on audit of the accounts of DISCOMs by the CEIG. Demand notices on additional dues of Electricity Duty, if any, with reference to the audit are raised on the DISCOMs by the CEIG.

5.3.3.2 Electricity duty collected from consumers but not remitted

Audit noticed that the DISCOMs have stopped to remit Electricity Duty to the TSPCC from November 2014. The reasons were that the Electricity Duty payable by the DISCOMs were to be adjusted against the payments receivable from the Government as compensation on subsidies towards free supply power to agriculture farmers, electricity consumption charges due from Government,

²⁶⁸ Rural Electric Co-Operative Society.

²⁶⁹ G.O Ms No.277 Energy & Forest Department, dated 09 December 1994.

etc. This issue was pending since November 2014 and could not be settled by either TSPCC or the CEIG. As a result, out of ₹ 268.51 crore due as Electricity Duty from the DISCOMs during the period November 2014 to March 2016, ₹ 223.67 crore was remitted to Government account only in March 2017, with delay ranging from 12 to 26 months.

The mechanism of TSPCC as an intermediary between DISCOMs and CEIG failed to resolve the issue of Electricity Duties. Thus, it would merit a re-look into the advantages of having such mediation as it failed to resolve the collection of Electricity Duties from the DISCOMs. Government stated in reply (January 2018) that it would be more appropriate if the licensees were themselves involved in payment of Electricity Duty to minimise the duplication of work for early realisation of Electricity Duty.

5.3.3.3 Short levy of Electricity Duty due to non-adoption of audited figures

The final Electricity Duty due from DISCOMs was required to be worked out on the basis of audited figures. Short levy of Electricity Duty with reference to the payments as per the provisional return should be demanded from DISCOMs through TSPCC.

Audit observed that the Electricity Duty of ₹ 454.59 crore²⁷⁰ was due from the DISCOMs²⁷¹ as per the audited figures of CEIG. Against this, an amount of ₹ 186.08 crore was paid by the TSPCC and an amount of ₹ 268.51 crore was due. However, the CEIG raised a demand for ₹ 225.68 crore only. The short demand of Electricity Duty of ₹ 42.83 crore was due to adoption of provisional figures furnished by TSPCC without reconciling them with the audited figures.

After Audit pointed out, the Government replied (January 2018) that revised demand notice for ₹ 285.32 crore was issued on DISCOMs in March 2017 including penalties for non-receipt of monthly returns and Electricity Duty payments within the stipulated time.

5.3.3.4 Incorrect adjustment of Electricity Duty

The CEIG raised demand (December 2015) of ₹ 125.51 crore on DISCOMs through TSPCC, for the period 2014-15. Out of the above, CEIG adjusted ₹ 32.81 crore on the ground that excess Electricity Duty was received from TSPCC up to 2013-14. On verification of duty related files, it was revealed that the TSPCC had already settled Electricity Duty to the end of 2012-13 duly reconciling the amounts payable to the Government with audited annual accounts. Further, for the year 2013-14, the TSPCC had actually short remitted the Electricity Duty amounting to ₹ 1.15 crore. The adjustment of duty was done unilaterally by the CEIG without any request from TSPCC. This resulted in short demand of Electricity Duty of ₹ 32.81 crore.

²⁷⁰ ₹ 83.25 crore (TSNPDCCL) + ₹ 371.34 crore (TSSPDCL).

²⁷¹ For the period 2013-14 to 2015-16.

After Audit pointed out, the Government replied (January 2018) that revised demand notice for ₹ 285.32 crore was issued on DISCOMs in March 2017 including penalties for non- receipt of monthly returns and Electricity Duty payments within the stipulated time.

5.3.3.5 Short-levy of Electricity Duty on sale of electricity through Open Access

Open Access means the non-discriminatory provision for the use of transmission lines or distribution system or associated facilities with such lines or system by any licensee or consumer or a person engaged in generation in accordance with the regulations specified by the Appropriate Commission.

Electricity Duty is leviable on intra-state sale of energy and is not leviable on Inter-State sale of energy.

The private generators of electricity are to be billed by CEIG for electricity Duty based on the meter readings at the generators. There were other generating companies selling power through third parties who used the Open Access. Sale arranged through third parties is determined based on the meter readings by DISCOMs at the exit point of the distribution network.

- (i) Review of audited²⁷² records of DISCOMs revealed that 1468 Million Units (MU) of energy were sold by private generating companies through open access to various consumers. Electricity Duty recoverable towards supply through open access by the generating companies worked out to ₹ 8.81 crore at six paise per unit. The same was not demanded from the private generating companies.

The Government replied (January 2018) that the trader/ exchange was addressed for ascertaining energy particulars purchased and sold in open access to examine whether the same were inter-state sales or intra-state sales, as inter-state sales do not attract Electricity Duty. The reply is not acceptable as the wheeling of electricity²⁷³ was done through TRANSCO which is a State Government Company. Out of the 1468 Million Units (MU) of energy sold by private generating companies, Audit obtained the details of intra-state sales by private generating companies from the State Load Dispatch Centre (SLDC) of TRANSCO, which showed 365.85 MU intra-state sale of energy for the period from June 2014²⁷⁴ to March 2016. Therefore, the CEIG failed to collect electricity duty amounting to ₹ 2.20 crore on 365.85 MU intra-state sale of energy, on the pretext of not being able to ascertain break up between intra-state and inter-state transmission even though the details were available with TRANSCO. The Government replied (January 2018) that TRANSCO was addressed (March 2017) in this matter.

- (ii) Andhra Pradesh Gas Power Corporation Limited (APGPCL) is a Power Generating Company established under Public Private

²⁷² By CEIG during 2013-14 to 2015-16.

²⁷³ Wheeling of Electricity means transmission of energy produced by private generating companies using TRANSCO lines or distribution system.

²⁷⁴ Details were available with SLDC from the date of bifurcation of the State.

Partnership mode. Sale of energy to its shareholders amounted to captive consumption and was exempted from payment of duty.

The corporation sold 881.70 million units of energy to private parties (other than share holding companies). Audit noticed (February 2017) that duty of ₹ 5.29 crore leviable on sale of energy was not levied.

Thus, CEIG did not levy electricity duty of ₹ 14.10 Crore on private generating companies using Open Access for the period from 2013-14 to 2015-16.

Reply of the Government had not been received (December 2017).

5.3.3.6 Electricity Duty pending realisation

The private generators of electricity are to be billed by CEIG for Electricity Duty based on the meter readings at the generators. Scrutiny of the records of the CEIG revealed that arrears of Electricity Duty from 23 private generating companies engaged in sale of electricity as on March 2016 worked out to ₹ 133.01 Crore as detailed in **Table 5.2** below:

Table 5.2
Electricity Duty Arrears

(₹ in crore)	
Private Companies	Arrears of Electricity Duty Due
12 Captive Generating companies who sold energy as well as used for captive consumption ²⁷⁵	84.54
11 Private Generating companies who sold energy	48.47
Total arrears of electricity duty	133.01

Non-collection of dues resulted in blocking up of Government revenue of ₹ 133.01 Crore. CEIG replied (February 2017) that demand notices were issued (June 2016 and February 2017) to the generating companies. Government stated (January 2018) that 11 Captive Generating Companies had approached (May 2016) Hon'ble Supreme Court against the Judgment issued by Hon'ble High Court.

Thus, CEIG had not recovered Electricity Duty arrears from 23 generating companies for the period 2013-14 to 2015-16 amounting to ₹ 133.01 crore. In addition, CEIG did not levy Electricity Duty due from private generating companies using Open Access for the same period which amounted to ₹ 14.10 crore.

²⁷⁵ Consumption of electricity for its own use by a power generating company.

5.3.3.7 Short payment of Electricity Duty by RESCOS, Siricilla

The Rural Electric Supply Co-operative Society (RESCOS) in Telangana draw power from DISCOMs and sell it to their consumers in the respective areas. The society makes payment of Electricity Duty directly to the CEIG on sales made by them.

RESCOS, Siricilla in their monthly reports had disclosed receipt of 1594.49 MU of energy from a DISCOM, TSNPDCL for 2013-14 to 2015-16. On verification of Annual Accounts of TSNPDCL, Audit found that the actual supply was 1821.14 MU to RESCOS, Siricilla. Thus, 226.65 MU was short accounted in the books of RESCOS on which Electricity Duty at 6 paise per unit amounted to ₹ 1.36 crore. The Government replied (January 2018) that RESCOS, Siricilla was addressed (May 2017) to clarify the difference of units.

5.3.4 Safety and Quality Control

CEIG is responsible for enforcement of Electricity Act, 2003 in Telangana with regard to approval for new High Tension (HT) electric installations and their periodical inspections to ensure safety. The CEIG is required to ensure that all the Electrical Installations in the State are designed, installed and maintained as per the relevant Safety Codes and standards. The main purpose of this inspection is to ensure safety of the electrical installations and prevention of electrical accidents.

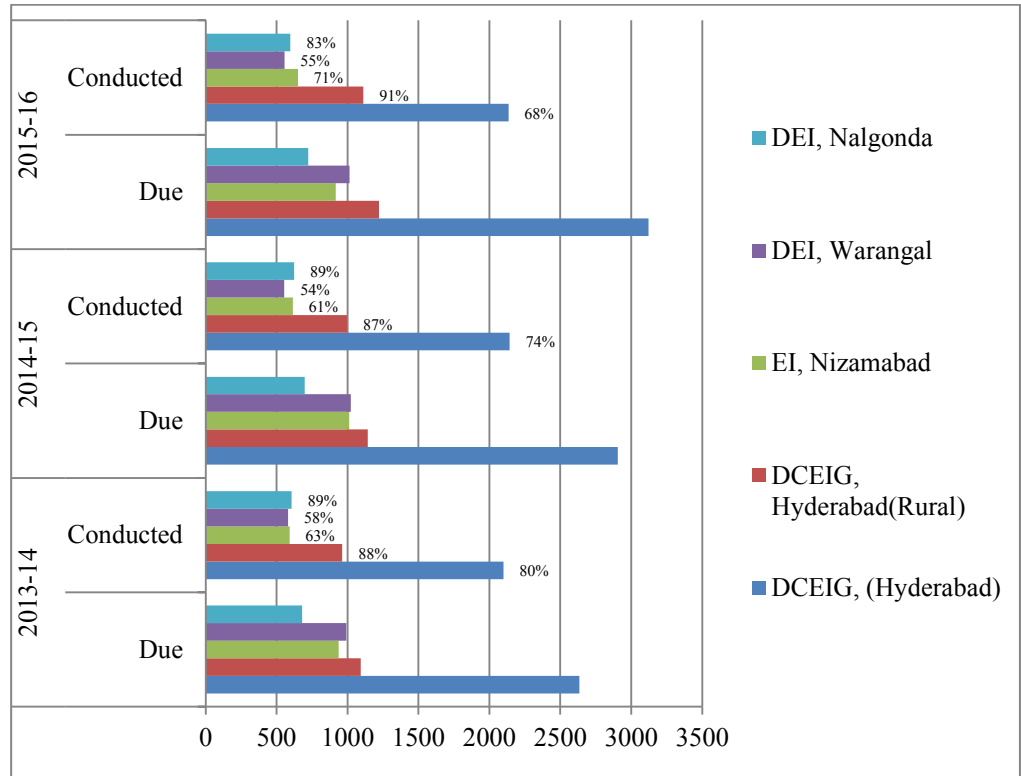
The Report of the Working Group on Power for 12th Plan in January 2012 also opined that states should ensure that the institution of Chief Electrical Inspectorate to Government is strengthened so that quick and timely approvals are given. Taking into account the practical difficulties in view of the growing number of connections and the shortage of staff, CEA should work out a scheme of delegation of authority of mandatory inspections, including self-certification. This would be in consonance with liberalization of bureaucratic control without compromising system safety and suggest possible steps for strengthening of Chief Electrical Inspectors institutions which may be adopted by the state Governments.

5.3.4.1 Short fall in conducting periodical inspections of HT installations

As per Regulation 30(1) of the Central Electricity Authority (Measures Relating to Safety & Electric Supply) Regulations, 2010, every electrical installation exceeding 650V shall be inspected on annual basis. Failure to pay the inspection fee, makes a person liable for a penalty of a maximum of ₹ 20,000 as well as disconnection of power under the direction of the Electrical Inspector.

During test check of records relating to five offices it was noticed that there was short fall of periodical inspections relating to HT installations. The inspections conducted ranged between 54 *per cent* and 91 *per cent* as can be seen from the Graph below:

Graph No:-5.1
Inspection of HT Installations



Source: Periodical inspection report of the Department

The Government replied (January 2018) that inspections were not conducted due to non-receipt of the inspection fees from the consumers. Notices had been issued including the levy of penalties and forwarded to DISCOMs to disconnect the services. The reply was not tenable as periodical inspections have to be conducted as a preventive measure for safety of the unit to avoid loss of property and human lives in the event of any accident. The penal provisions viz., levy of penalty for non-payment of fees and disconnection of electric supply, as envisaged vide Government Order²⁷⁶, were also not enforced on defaulting owners.

It was further noticed that in respect of 57 cases (EI, Nizamabad-(7) and DEI, Nalgonda-(50)) though inspection fee was collected from the installation owners, the proof of conducting the inspection was not available on record. It was replied (February 2017) by EI/ DEI concerned that the reports were not readily traceable, indicating lack of follow up action on inspection reports which are important in monitoring the corrective measures taken by the installation owners. The statistics published by State Disaster Response and Fire Service Department indicated that the electrical accidents in respect of electrical installations increased from 133 to 205 from 2013-14 to 2015-16 (54 per cent increase) which underlines the importance of periodical inspections.

²⁷⁶ G.O Ms No.8 of Energy (Services) Department of Government of Andhra Pradesh, dated 13 February 2012.

5.3.5 Non-receipt of Compliance Reports on inspections

As per Government Order²⁷⁷ of February 2012, failure to rectify the defects in installations pointed out by the Electrical Inspector within the prescribed time, is punishable with fine which may extend to five hundred rupees. If the breach is continued, further fine is leviable which may extend upto fifty rupees per day after the first breach during which such breach continued.

Test check of periodical inspection files relating to 100 HT installations each in four offices for the period from 2013-14 to 2015-16 showed that no compliance reports were received from 10, 12, 24 and 96 (3 per cent, 4 per cent, 8 per cent and 32 per cent) installation owners in respect of DCEI/ EIs Nizamabad, Warangal, Hyderabad and Nalgonda respectively. The defects pointed out related to Earthing (72), Transformer oil(114), BIS standards(8), Rusted parts(18), Rubber matting(34), 3 pins and sockets(14), others (316) such as lack of fire protection equipment(20), Instruction charts(24), vegetation growth(16) etc. It was important to note that these installations included six Hospitals and three Cinema Halls which are more prone to human casualties in the event of any fire accidents. The Government replied (January 2018) that to avoid harassment of consumers, reforms and liberalization had been undertaken in the field of electricity, due to which compliances were not insisted upon. Further added that they were requested to comply with the defects continuously. The reply is not acceptable in view of the seriousness of the defects pointed out as indicated above.

5.3.5.1 Verification of quality of electrical appliances

Under Clause 2(b) of the Electrical Wires, Cables, Appliances and Protection Devices and Accessories (Quality Control) Order, 2003, read with Government Order²⁷⁸ of December 2003, CEIG is empowered to call for samples of electric appliances, cables etc., from manufacturers, enter and search any premises, seize them, if they are not of specified standards.

Audit observed that no search operations were conducted by any of the offices, which was attributed to over-load of work. It was also observed that the CEIG, neither had any action plan nor targets for periodical inspections to prevent manufacture and sales of sub-standard or spurious electrical appliances.

The Government replied (January 2018) clarification has been sought from Bureau of Indian Standards.

5.3.6 Inadequate Resources

Audit scrutinized the files relating to HT installations required to be inspected annually. It was noticed that the staff available for inspections in test checked offices²⁷⁹ was inadequate as detailed in **Table 5.3** below:

²⁷⁷ G.O.Ms.No.8, Energy (Services) Department, dated 13 February 2012.

²⁷⁸ G.O.Ms.No.138, Energy (PR.II) Department, dated 9 December 2003.

²⁷⁹ DCEIG, Hyderabad, DCEIG, Hyderabad (Rural), EI, Nizamabad and DEI, Warangal.

Table 5.3
Manpower

Name of the office	No. of installations	No of DEIs/AEIs	Average installations to be inspected by each official
DCEIG, Hyderabad	3121	6	520
DCEIG, Hyderabad Rural	1221	4	305
EI, Nizamabad	917	2	458
DEI, Warangal	1015	2	507
DEI, Nalgonda ²⁸⁰	723	0	--
Total	6997	14	466

There were 14 Deputy Electrical Inspectors / Assistant Electrical Inspectors who are required to conduct annual inspection of HT installations numbering 6,997: the average ranging from 305 to 723 installations per one DEI/AEI per year. The Government replied (January 2018) that after review of the workload of the department, proposals had been submitted for creation of additional posts and it was under active consideration.

Thus, lack of adequate technical manpower impeded the achievement of targeted objective of conducting periodical inspections. This has been confirmed by the Government in their reply.

Periodical trainings/ skill development programs to the technical staff enhances working knowledge which enables application of advanced techniques in inspection of installations and appliances. The Government informed (January 2018) that no skill development programmes were conducted during the years 2013-14 to 2015-16, however regular interactive discussions were held in the department to update the technical skills.

5.3.7 Internal Control and Monitoring

Periodical returns are prescribed for submission to CEIG by subordinate offices. Audit found that they were mainly on administrative matters rather than on technical issues.

Audit also noticed that departmental inspections conducted on subordinate offices by the CEIG was not effective. The inspection reports were communicated in routine format and did not cover technical issues like compliance reports on statutory inspection of HT installations etc.

The Government replied (January 2018) that the periodical returns were reviewed and found adequate, however the provision for the receipt of compliance to periodical and statutory inspections would be included in the format.

²⁸⁰ DEI Mahaboobnagar is holding additional charge as DEI Nalgonda and hence shown as vacant.

5.3.8 Lacunae in the Act

5.3.8.1 Absence of Lifts Act

The States of Maharashtra, Karnataka, Kerala, etc., had enacted Legislation, regulating the lifts and escalators and framed rules thereunder. The Chief Electrical Inspector was appointed as Chief Electrical Inspector for Lifts, Escalators and Passenger Conveyers, to exercise the powers and to perform the functions under the said Act.

There were no provisions in Andhra Pradesh Electrical Inspectorate (Measures relating to Safety and Electric Supply) Order²⁸¹, 2011 as adopted by Telangana Government relating to 'Lifts' for the safety of the users. There was no separate Lift/Escalators Act enacted by the State.

The Government replied (January 2018) that proposals had been submitted for approval of Telangana Lift and Escalators Act.

5.3.8.2 Absence of provisions to levy interest

The Andhra Pradesh Electricity Duty Act (APEDA) 1939 and the APEDA as adapted by Telangana Government did not have provisions to levy interest for belated payment of electricity duty.

The Government replied (January 2018) that proposals had been submitted for approval of Telangana Electricity Duty Act and Rules.

²⁸¹ G.O.Ms. No. 42, dated 19 November, 2011.

Conclusion

The mechanism for timely remittance of Electricity Duty collected by the DISCOMs to the government account was ineffective. There was delay in collection of Electricity Duty. Electricity Duty of ₹ 42.83 crore was short demanded from DISCOMs and ₹ 32.81 crore was irregularly adjusted. There had been shortfall in conducting periodical inspections of HT installations. The controls over discharge of functions relating to safety of installations were weak.

(AJAIB SINGH)

**Principal Accountant General (Audit)
Telangana**

**Hyderabad
The**

Countersigned

(RAJIV MEHRISHI)

Comptroller and Auditor General of India

**New Delhi
The**

ANNEXURES
&
GLOSSARY

Annexure – I
Para No. 4.4.2.1
(Lack of co-ordination between departments on deployment)

Offences	Motor Vehicle Act ,1988			Telangana Motor Vehicle Rules, 1989		
	Section	Traffic Police	Enforcement of Transport Dept.	Rule	Traffic Police	Enforcement of Transport Dept.
General offences	177	Yes	Yes	Rule 483 of Telangana Motor Vehicle Rules -		
Penalty for travelling without pass or ticket	178	Yes	Yes	The officers of the Transport Department shall		
Disobedience of orders, obstruction and refusal of information	179	Yes	Yes	exercise powers and perform the duties assigned		
Allowing unauthorised persons to drive vehicles	180	Yes	Yes	to them, from time to time, under the Act and		
Driving vehicles in contravention of Section 3 or Section 4	181	Yes	Yes	these rules. They shall carry out the instructions		
Licences related	182	Yes	Yes	and order issued from time to time, by the		
Excessive speed	183	Yes	Yes	Transport Commissioner.		
Dangerous Driving	184	Yes	Yes			
Drunk and driving	185	Yes	Yes	Rule 454 of Telangana Motor Vehicle Rules The		
Persons not eligible for driving	186	Yes	Yes	powers exercisable by a Police Officer under		
Offences relating to accidents	187	Yes	Yes	Section 130 (1), 133, 158 (1) 202 and 203 shall be		
Abetment of certain offences	188	Yes	Yes	exercisable also by any officer of the Transport		
Racing	189	Yes	Yes	Department not below the rank of an Assistant		
Using vehicle in unsafe condition	190	Yes	Yes	Inspector of Motor Vehicles.		
Unauthorised alteration	191	Yes	Yes			
Without registration	192	Yes	Yes			
Without permit	192A	Yes	Yes			
Punishment of unauthorised agents	193	Yes	Yes			
Excessive weight	194	Yes	Yes			
Un insured vehicle	196	Yes	Yes			
Taking vehicle without authority	197	Yes	Yes			
Unauthorised interference with vehicle	198	Yes	Yes			
Offences by companies	199	Yes	Yes			
Compoundable section	200	Yes	Yes			

Annexure II
Para No. 4.4.2.3
(Spatial Distribution (2011-16))

Name of test checked Office	No. of vehicles registered	Total No. of offences	Total PIP ²⁸²	No. of check Posts test checked	No. of offences	Other Check posts in the jurisdiction	No. of Offences	Total PIP in all check posts	PIP in cities	No. of offences in cities	Percentage of offences booked in Check posts	Percentage of manpower in Check posts	No. of vehicles per person	No. of offences per annum Per person in cities
1	2	3	4	5	6	7	8	9	10 (4-9)	11 (3-6-8)	12	13	14 (2/10)	15 (11/10/5)
DTC Adilabad	502523	207771	34	ICP Bhoraj & CP Wankidi	120463	CP Bhainsa (PIP-5)	36126	25	9	51182	75	74	55836	1137
DTC Mahaboobnagar	385452	143714	27	CP Alampur	25616	CP Eegalapenta (PIP-2)	519	17	10	117579	18	63	38545	2362
DTC Nalgonda	399978	206029	30	CP Kodad	30279	CP- Nagarjunasag ar & Vishnupur PIP-7	57353	18	12	118397	43	60	33332	1973
DTC Nizamabad	387016	200482	18	ICPSaloor	39695	CP Madnoor and Kamareddy PIP(9)	87826	10	8	72961	64	56	48377	1824
DTC Sangareddy	232521	87858	16	CP Zaheerabad	32655	*	*	8	8	55203	37	50	29065	1380
RTO Khammam	412252	131195	18	CP Palvancha	18588	CP Kallur & Aswa raopet PIP(5)	46652	9	9	65955	50	50	45806	1466

²⁸² Personnel in Position.

* There are no check posts under the jurisdiction of DTC, Sangareddy.

GLOSSARY	
AA	Assessing Authority
AC	Assistant Commissioner
ACCT	Additional Commissioner of Commercial Taxes
ACM	Audit Committee Meeting
ACTO	Assistant Commercial Tax Officer
ADC	Appellate Deputy Commissioner
AED	Additional Excise Duties
AEI	Assistant Electrical Inspector
AMVI	Assistant Motor Vehicle Inspector
AO	Audit Officer
AP	Andhra Pradesh
APCPDCL	Central Power Distribution Company of Andhra Pradesh Limited
APEPDCL	Eastern Power Distribution Company of Andhra Pradesh Limited
APGENCO	Andhra Pradesh Power Generation Corporation Limited
APGPCL	Andhra Pradesh Gas Power Corporation Ltd
APNPDCL	Northern Power Distribution Company of Andhra Pradesh Limited
APSPDCL	Southern Power Distribution Company of Andhra Pradesh Limited
APTRANSCO	Transmission Corporation of Andhra Pradesh Limited
CCT	Commissioner of Commercial Taxes
CEA	Central Electricity Authority
CEIG	Chief Electrical Inspector to Government
CF	Compounding Fee
CFST	Citizen Friendly Services in Transport Department
CIGRS	Commissioner and Inspector General of Registration and Stamps
CMV	Central Motor Vehicle
CMV Rules	Central Motor Vehicles Rules
CST	Central Sales Tax
CT	Commercial Taxes

CTD	Commercial Taxes Department
CTO	Commercial Tax Officer
DC	Deputy Commissioner
DCB	Demand, Collection and Balance
DCEIG	Deputy Chief Electrical Inspector to Government
DCTO	Deputy Commercial Tax Officer
DEI	Deputy Electrical Inspector
DGPA	Development Agreement cum General Power of Attorney
DIG	Deputy Inspector General
DISCOM	Distribution Company
DL	Driving Licence
DMU	Debt Management Unit
DR	District Registrar
DTC	Deputy Transport Commissioner
EI	Electrical Inspector
e-VCR	Electronic Vehicle Check Report
FC	Fitness Certificate
FEC	Final Eligibility Certificate
GO	Government Order
GPA	General Power of Attorney
HSN	Harmonised System of Nomenclature
HSRP	High Security Registration Plates
HT	High Tension
ICP	Integrated Check Post
IPP	Independent Power Producers
IR	Inspection Report
IS Act	Indian Stamp Act
IST	Inter State Investigation Wing
ITC	Input Tax Credit
JC	Joint Commissioner
JTC	Joint Transport Commissioner
LED	Light Emitting Diode
LTU	Large Tax Payer Unit

MORTH	Ministry Of Road Transport and Highways
MU	Million Units
MV	Market Value
MV	Motor Vehicle
MV Act	Motor Vehicles Act,1988
MVI	Motor Vehicle Inspector
P&L A/cs	Profit and Loss Accounts
PTU	Pollution Testing Units
PuCC	Pollution under Control Certificate
R&T	Registration and Turnover
RC	Registration Certificate
RESCOS	Rural Electric Cooperative Society
RR Act	Revenue Recovery Act
RTO	Regional Transport Officer
SEZ	Special Economic Zone
SLDC	State Load Dispatch Centre
SR	Sub-Registrar
TC	Transport Commissioner
TIN	Taxpayer Identification Number
TMVT Act	Telangana Motor Vehicle Taxation Act
TOT	Turnover Tax
TS VAT	Telangana State Value Added Tax
TSNPDCL	Telangana State Northern Power Distribution Company Limited
TSPCC	Telangana Power Coordination Committee
TSRR Act	Telangana Revenue Recovery Act
TSRTC	Telangana State Road Transport Corporation
TSSPDCL	Telangana State Southern Power Distribution Company Limited
VAT	Value Added Tax
VATIS	Value Added Tax Information System
VCR	Vehicle Check Report
VIG, ENF. & IT	Vigilance, Enforcement & Information Technology

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