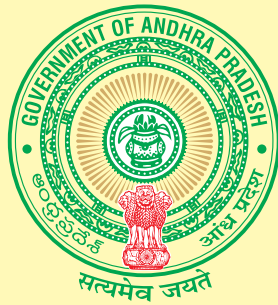


**Report of the  
Comptroller and Auditor General of India  
on  
Revenue Sector  
for the year ended March 2016**



**Government of Andhra Pradesh  
Report No. 7 of 2016**



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## TABLE OF CONTENTS

		Reference to	
		Paragraph	Page
	<b>Preface</b>		v
	<b>Overview</b>		vii
<b>CHAPTER – I : GENERAL</b>			
	Revenue Receipts	1.1	1
	Analysis of Arrears of Revenue	1.2	3
	Arrears in Assessments	1.3	3
	Evasion of Tax detected by the Department	1.4	3
	Pendency of Refund cases	1.5	4
	Response of the Government/Departments towards Audit	1.6	4
	Analysis of the mechanism for dealing with the issues raised by Audit	1.7	7
	Audit Planning	1.8	10
	Results of Audit	1.9	11
<b>CHAPTER – II : VALUE ADDED TAX AND CENTRAL SALES TAX</b>			
	Tax Administration	2.1	13
	Internal Audit	2.2	13
	Results of Audit	2.3	14
	Input Tax Credit	2.4	14
	Levy of Penalty	2.5	17
	Non-levy of interest and penalty for belated payment of Tax	2.6	19
	VAT on Works Contracts	2.7	20
	Tax on interstate sales	2.8	23
	Non-levy of tax due to incorrect exemption of turnover	2.9	27
	Short levy of VAT due to incorrect determination of taxable turnover	2.10	28
	Under-declaration of tax due to application of incorrect rate of tax	2.11	29
	Non-levy of interest on belated payment of deferred tax	2.12	30

		Reference to	
		Paragraph	Page
	Short payment of tax and non-levy of penalty due to non-conversion as VAT dealer	2.13	31
	Non-levy/Short levy of tax on transfer of right to use goods	2.14	32
	Non-levy of purchase tax	2.15	32
<b>CHAPTER – III : STATE EXCISE DUTY</b>			
	Tax Administration	3.1	35
	Internal Audit	3.2	35
	Results of Audit	3.3	36
	Non-levy of Additional Licence Fee on non-contiguous additional enclosures	3.4	36
	Short levy of annual Licence Fee on retail liquor shops	3.5	37
	Non-levy of permit room Licence Fee	3.6	37
<b>CHAPTER – IV : STAMP DUTY AND REGISTRATION FEE</b>			
	Tax Administration	4.1	39
	Internal Audit	4.2	39
	Results of Audit	4.3	40
	Performance Audit on “Revision and Implementation of Market Value Guidelines”	4.4	40
	Short levy of Stamp Duty and Registration Fee on Agricultural Lands converted to Non-agricultural use	4.5	55
	Short levy of Stamp Duty and Registration Fee due to delay in implementation of revised rates from the effective date	4.6	57
	Short levy of Stamp Duty due to misclassification of documents	4.7	58
	Short levy of Stamp Duty and Registration Fee on Leases	4.8	59
	Non-levy/ Short levy of Duties and Fees due to under-valuation of properties	4.9	60
<b>CHAPTER – V : TAXES ON VEHICLES</b>			
	Tax Administration	5.1	63
	Internal Audit	5.2	63
	Results of Audit	5.3	64

		Reference to	
		Paragraph	Page
	Non-realisation of Quarterly Tax and penalty	5.4	64
	Non-monitoring of renewal of Fitness Certificates	5.5	65
	Non-levy of Green Tax	5.6	66
	Non-realisation of Compounding Fee	5.7	67
	Non-realisation of Bilateral Tax and penalty	5.8	67
	Short levy of tax on non-transport vehicles	5.9	68
	Arrears of revenue in Transport Department	5.10	69
<b>CHAPTER – VI : LAND REVENUE</b>			
	Tax Administration	6.1	71
	Internal Audit	6.2	71
	Results of Audit	6.3	72
	Maintenance of Land Records	6.4	72
	Levy of conversion tax and penalty	6.5	83
<b>CHAPTER – VII : OTHER TAX AND NON-TAX RECEIPTS</b>			
	Results of Audit	7.1	87
	<b>REVENUE DEPARTMENT Land Revenue</b>		
	Non-levy of interest on arrears of water tax collected	7.2	88
	<b>INDUSTRIES AND COMMERCE DEPARTMENT Mines and Minerals</b>		
	Short levies on mineral revenue	7.3	88
<b>CHAPTER – VIII : FOLLOW-UP AUDIT</b>			
	Follow-up Audit on the Audit recommendations pertaining to the Performance Audit on “Functioning of the Prohibition and Excise Department”	8.1	91
<b>ANNEXURES AND GLOSSARY</b>			
	Annexure-I	6.4.5	97
	Annexure-II	6.4.6	98
	Annexure-III (a), (b), (c)	6.4.9.4	99
	Annexure-IV	6.4.13	100
	Glossary		102





## **P R E F A C E**

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2016 has been prepared for submission to the Governor of Andhra Pradesh under Article 151 of the Constitution of India.

The Report contains significant findings of audit of Receipts and Expenditure of major revenue earning Departments under Revenue Sector 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 2015-16 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 2015-16 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

The Report contains 33 paragraphs involving ₹ 54.46 crore relating to non-levy / short levy of taxes, interest, penalty etc., including a Performance Audit on “Revision and Implementation of Market Value Guidelines” with financial impact of ₹ 2.95 crore and a Follow-up of Performance Audit on “Functioning of the Prohibition and Excise Department”. Some of the significant audit findings are mentioned below:

### I GENERAL

- The total revenue receipts of the State Government for the year 2015-16 amounted to ₹ 88,648 crore. Of this, Tax Revenue (₹ 39,907 crore) and Non-Tax Revenue (₹ 4,920 crore) accounted for 51 *per cent* of the total revenue receipts of the State. The remaining 49 *per cent* was received from Government of India as State’s share of divisible Union Taxes (₹ 21,894 crore) and Grants-in-Aid (₹ 21,927 crore).

(Paragraph 1.1.1)

- Test-check of 443 units relating to Value Added Tax, State Excise, Motor Vehicles Tax, Land Revenue, Stamp Duty and Registration Fee etc., conducted during 2015-16, showed preliminary audit findings involving non-levy / short levy of taxes, duties etc. amounting to ₹ 689.02 crore in 1,870 cases.

(Paragraph 1.9.1)

### II VALUE ADDED TAX AND CENTRAL SALES TAX

- In nine offices, Input Tax Credit (ITC) of ₹ 10.25 crore was incorrectly allowed to 10 dealers.

(Paragraph 2.4.1)

- In five offices, the Department allowed ITC of ₹ 30.07 lakh to six dealers on ineligible items.

(Paragraph 2.4.2)

- In eight offices, the Assessing Authorities did not levy / short levied penalty of ₹ 6.24 crore on under-declared tax in 14 cases.

(Paragraph 2.5.1)

- In four offices, the Assessing Authorities did not levy/ short levied penalty of ₹ 2.20 crore on wilful under-declaration of tax by five dealers.

(Paragraph 2.5.2)

- In 32 offices, interest of ₹ 1.40 crore and penalty of ₹ 3.54 crore were not levied by the Assessing Authorities though 142 dealers had paid tax with delays ranging from 1 to 1,315 days.

**(Paragraph 2.6)**

- In four offices, the taxable turnover of seven works contractors was determined incorrectly by the Assessing Authorities resulting in short levy of tax of ₹ 1.81 crore.

**(Paragraph 2.7.1)**

- In five offices, the Assessing Authorities short levied tax of ₹ 69.33 lakh on five works contractors who opted to pay tax under composition scheme.

**(Paragraph 2.7.2)**

- In two offices, the Assessing Authorities failed to levy tax of ₹ 50.70 lakh on two works contractors who did not maintain detailed accounts.

**(Paragraph 2.7.3)**

- In four offices, the Assessing Authorities had short levied/ not levied tax of ₹ 1.42 crore in five cases due to acceptance of invalid statutory forms towards interstate sales.

**(Paragraph 2.8.1)**

- In nine offices, the Assessing Authorities had incorrectly determined taxable turnover under CST Act in 11 cases, which resulted in short levy of tax of ₹ 92.18 lakh.

**(Paragraph 2.8.2)**

- In one office, the Assessing Authority allowed concessional rate of tax on the interstate sales turnover based on counterfeit 'C' forms, which resulted in short levy of tax of ₹ 6.77 lakh and non-levy of penalty of ₹ 25.88 lakh.

**(Paragraph 2.8.3)**

- In five offices, the Assessing Authorities incorrectly exempted sales turnover of 'textiles and fabrics' in nine cases, which resulted in non-levy of tax of ₹ 1.86 crore.

**(Paragraph 2.9)**

- In 16 offices, incorrect determination of taxable turnover by the Assessing Authorities resulted in short levy of VAT of ₹ 73.84 lakh in 27 cases.

**(Paragraph 2.10)**

- In 11 offices, application of incorrect rates of tax resulted in under declaration of tax and consequential short levy of tax of ₹ 66.02 lakh in 13 cases.

(Paragraph 2.11)

- In five offices, the Assessing Authorities had not levied interest of ₹ 64.46 lakh on six dealers who paid deferred tax of ₹ 3 crore with delays ranging from 57 to 1,089 days.

(Paragraph 2.12)

### III STATE EXCISE DUTY

- In an office of Prohibition and Excise Superintendent, additional licence fee of ₹ 36.90 lakh was not levied on additional enclosures in nine restaurant and bars for the licence period 2014-15.

(Paragraph 3.4)

- In two offices of Prohibition and Excise Superintendents, licence fee of ₹ 14 lakh was short levied on four retail liquor shops for the licence period 2014-15.

(Paragraph 3.5)

### IV STAMP DUTY AND REGISTRATION FEE

A Performance Audit on “**Revision and Implementation of Market Value Guidelines**” with monetary value of ₹ 2.95 crore showed the following:

- The Department had not adhered to the periodicity of revision of market values as prescribed under the Market Value Guidelines Rules, 1998.

(Paragraph 4.4.7.2)

- The Department did not maintain any documents evidencing collection of inputs / requisite data to ascertain the prevailing market values for use at the time of revision of market values.

(Paragraph 4.4.7.4)

- Registers relating to market value information, intelligence reports on high values and development activities were not maintained. No mechanism was also in place to monitor maintenance of such registers.

(Paragraph 4.4.7.5)

- Incorrect classification of lands due to lack of coordination between Departments, incorrect fixation of market values, adoption of incorrect market values, undervaluation of properties and non-adherence to instructions resulted in non-levy / short levy of duties and fees amounting to ₹ 2.95 crore.

(Paragraphs 4.4.7.6 to 4.4.10.1)

- Test-check of records in offices of five District Registrars and 30 Sub-Registrars showed under-valuation of properties in 78 documents, such as, sale deeds, General Powers of Attorney, partition deeds etc., which resulted in short levy of stamp duty and registration fee of ₹ 2.68 crore on agricultural lands converted for non-agricultural purposes.

**(Paragraph 4.5.1)**

- In 37 offices, stamp duty and registration fee was short levied by ₹ 72.05 lakh on account of not implementing the revised rates from effective date.

**(Paragraph 4.6)**

- Scrutiny of records in offices of two District Registrars and seven Sub-Registrars showed that 11 sale deeds and 6 power of attorney deeds registered between May 2011 and December 2014 were undervalued, resulting in short levy of duties and registration fee amounting to ₹ 24.85 lakh.

**(Paragraph 4.9)**

## **V TAXES ON VEHICLES**

- Quarterly Tax of ₹ 4.37 crore and penalty of ₹ 2.19 crore were not realised from owners of 3,014 transport vehicles for the years 2012-13 to 2014-15 in eight offices of Deputy Transport Commissioners and six Regional Transport Officers.

**(Paragraph 5.4)**

- Non-renewal of fitness certificate of 69,214 transport vehicles resulted in non-realisation of fitness certificate fee of ₹ 1.63 crore during the year 2014-15 in the offices of 11 Deputy Transport Commissioners and 8 Regional Transport Officers.

**(Paragraph 5.5)**

- Green tax amounting to ₹ 86.22 lakh was not levied for the period from April 2012 to March 2015 in respect of 21,002 transport vehicles and 4,274 non-transport vehicles.

**(Paragraph 5.6)**

- Scrutiny of vehicle check reports conducted in the offices of 12 Deputy Transport Commissioners and 8 Regional Transport Officers showed that compounding fee of ₹ 78.63 lakh was not realised in respect of 1,737 cases.

**(Paragraph 5.7)**

## VI LAND REVENUE

- No re-survey had been conducted in the State in the last 69 years.  
(Paragraph 6.4.3)
- In eight *Inam* / Estate villages under six *mandals*, re-survey was not conducted after abolition of *Inams* or Estates in 1956.  
(Paragraph 6.4.4)
- Basic land records such as Re-Settlement Registers, Field Measurement Books and Village Maps were not available in required number in 38, 17 and 30 Tahsildar offices respectively.  
(Paragraph 6.4.5)
- Precautionary measures such as scanning / computerisation etc. were not taken to preserve the basic land records.  
(Paragraph 6.4.6)
- In one *mandal*, proposal for alienation of Government land for construction of Police Station could not be finalised due to discrepancy between Fair Land Register and *Adangal*.  
(Paragraph 6.4.7.1)
- In Visakhapatnam Urban *mandal*, of the 14.53 acres of Government land alienated, details for 14 acres were not available in Settlement Fair *Adangal*, making it difficult to identify the actual alienees.  
(Paragraph 6.4.7.2)
- Automatic sub-division of survey numbers in computerised records without effecting changes in manual records resulted in mismatch between computerised land records and manual land records.  
(Paragraph 6.4.9.2)
- In Thenebanda village of Chittoor *mandal*, Patta Land was classified as Assigned Land which affected the rights of the *pattadar*.  
(Paragraph 6.4.10)
- Out of 40 *mandals* test-checked, none of the *mandals* maintained Register of Bought-in-Lands, Register of Leased out Lands, Register of Relinquishment and Register of Transfer of Lands.  
(Paragraph 6.4.12)
- Due to delays in finalisation of Village Accounts, land records at village level were not updated.  
(Paragraph 6.4.13)

- Lack of coordination between Departments of Revenue and Panchayat Raj led to non-levy of conversion tax and penalty of ₹ 64.53 lakh.

**(Paragraph 6.5.1)**

- Under-valuation of property and use of land for non-agricultural purposes without prior permission of competent authority resulted in non-levy/ short levy of conversion tax and penalty of ₹ 16.59 lakh.

**(Paragraph 6.5.2)**

## **VII OTHER TAX AND NON-TAX RECEIPTS**

- Interest of ₹ 38.16 lakh on collection of water tax arrears was not levied in eight Tahsildar offices.

**(Paragraph 7.2)**

- Scrutiny of Lease Files and Mineral Revenue Assessments in four offices of Assistant Directors of Mines and Geology showed that the Department had adopted incorrect sale price, resulting in short levy of royalty of ₹ 55.30 lakh in respect of 12 leases.

**(Paragraph 7.3.1)**

## **VIII FOLLOW-UP AUDIT**

**A Follow-up Audit was conducted on the recommendations made in the Performance Audit on “Functioning of Prohibition and Excise Department”.**

- Out of nine audit recommendations, the Government had completed action on three recommendations while, in case of three other recommendations, the Government had initiated action but was yet to be completed. In the case of the remaining three recommendations, the Government had not taken any action.

**(Paragraph 8.1.3)**

- Government had introduced Hedonic Path Finder System (HPFS) to track and trace manufacture and sale of Indian Made Foreign Liquor (IMFL). This system included affixture of Holographic Excise Adhesive Labels (HEALs) embedded with barcode on bottles of IMFL in distilleries. HEALs were being affixed on bottles of liquor manufactured at distilleries.

**(Paragraph 8.1.3.1)**

- The HPFS included computerisation at three levels i.e. Distilleries, Depots and Retail sale outlets. Computerisation at Distilleries and Depots was completed and computerisation of retail sale outlets was pending.

**(Paragraph 8.1.3.4)**



- Government had set up 14 new border check-posts in June 2014. However, no new posts were sanctioned to work in border check-posts.

**(Paragraph 8.1.3.5)**



# ***CHAPTER I***

## ***GENERAL***



## CHAPTER I GENERAL

### 1.1 Revenue Receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Andhra Pradesh, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-Aid received from the Government of India during the year 2015-16 and the corresponding figures for the preceding four years are mentioned in Table 1.1.1.

**Table 1.1.1  
Trend of Revenue Receipts**

(₹ in crore)

Sl. No.	Particulars	2011-12*	2012-13*	2013-14*	1 April 2014 to 1 June 2014*	2 June 2014 to 31 March 2015	2015-16 <sup>1</sup>
<b>1.</b>	<b>Revenue raised by the State Government</b>						
	• Tax revenue	53,283.41	59,875.05	64,123.53	12,761.15	29,856.87	39,907
	• Non-tax revenue	11,694.34	15,999.14	15,472.86	2,794.62	8,181.35	4,920
	<b>Total</b>	<b>64,977.75</b>	<b>75,874.19</b>	<b>79,596.39</b>	<b>15,555.77</b>	<b>38,038.22</b>	<b>44,827</b>
<b>2.</b>	<b>Receipts from the Government of India</b>						
	• Share of Net Proceeds of Divisible Union Taxes and Duties	17,751.15	20,270.77	22,131.89	3,852.96	11,446.29	21,894
	• Grants-in-Aid	10,824.79	7,685.32	8,990.55	5,568.32	16,210.89	21,927
	<b>Total</b>	<b>28,575.94</b>	<b>27,956.09</b>	<b>31,122.44</b>	<b>9,421.28</b>	<b>27,657.18</b>	<b>43,821</b>
<b>3.</b>	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>93,553.69</b>	<b>1,03,830.28</b>	<b>1,10,718.83</b>	<b>24,977.05</b>	<b>65,695.40</b>	<b>88,648</b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>69</b>	<b>73</b>	<b>72</b>	<b>62</b>	<b>58</b>	<b>51</b>

\* Data pertains to composite State of Andhra Pradesh for 23 districts.

The revenue raised by the State Government (₹ 44,826.55 crore) during 2015-16 was 51 *per cent* of the total revenue receipts. The remaining 49 *per cent* of the receipts during the period was from the Government of India.

<sup>1</sup> For details please see Statement No.14- Detailed accounts of revenue by Minor Heads in the Finance Accounts of Andhra Pradesh for the period 1 April 2015 to 31 March 2016. Figures 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 - share of net proceeds assigned to States booked in the Finance Accounts under A-Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this table. The figures in the sixth column relate to erstwhile State of Andhra Pradesh with 23 districts while the figures under last two columns relate to the successor State of Andhra Pradesh with 13 districts.

1.1.2 The details of the Tax Revenue raised during the year 2015-16 are given in Table 1.1.2.

**Table 1.1.2**  
**Details of Tax Revenue Raised**

(₹ in crore)

Sl. No	Head of Revenue	2011-12*		2012-13*		2013-14*		BE for the period from 1 April 2014 to 31 March 2015	Actuals* for 1 April 2014 to 1 June 2014	Actuals for 2 June 2014 to 31 March 2015	2015-16	
		BE	Actuals	BE	Actuals	BE	Actuals				BE	Actuals <sup>2</sup>
1.	Taxes on Sales, Trade etc.	38,306	34,910	45,000	40,715	52,500	48,737	28,749	8,852	21,672	32,840	29,104
2.	State Excise	9,014	9,612	10,820	9,129	7,500	6,250	4,027	710	3,642	4,680	4,386
3.	Stamp Duty and Registration Fee	4,240	4,385	4,968	5,115	6,414	4,393	2,460	689	2,561	3,500	3,527
4.	Taxes on Vehicles	3,434	2,986	3,640	3,356	4,351	3,335	1,384	2,264	1,423	1,977	2,082
5.	Others	1,445	1,390	1,593	1,560	1,676	1,409	17,616	246	559	1,426	808
	<b>Total</b>	<b>56,439</b>	<b>53,283</b>	<b>66,021</b>	<b>59,875</b>	<b>72,441</b>	<b>64,124</b>	<b>54,236</b>	<b>12,761</b>	<b>29,857</b>	<b>44,423</b>	<b>39,907</b>

\* Data pertains to composite State of Andhra Pradesh for 23 districts.

There is overall variation of ₹ 4,516 crore between Budget Estimates (BE) and Actuals. The Departments of Registration and Stamps and Transport have exceeded their estimates by ₹ 132 crore in realising the revenue.

1.1.3 The details of the non-tax revenue raised during the year 2015-16 are indicated in Table 1.1.3:

**Table 1.1.3**  
**Details of Non-tax Revenue Raised**

(₹ in crore)

Sl. No	Head of revenue	2011-12*		2012-13*		2013-14*		BE for the period from 1 April 2014 to 31 March 2015	Actuals* for 1 April 2014 to 1 June 2014	Actuals for 2 June 2014 to 31 March 2015	2015-16	
		BE	Actuals	BE	Actuals	BE	Actuals				BE	Actuals <sup>3</sup>
1.	Interest Receipts	7,164	6,279	8,632	9,626	8,656	8,646	4,813	198	4,597	154	133
2.	Mines and Minerals	2,995	2,337	2,734	2,771	3,083	2,731	1,226	408	811	1,359	1,523
3.	Education, Sports, Art and Culture	204	675	274	1,196	1,219	1,676	90	342	1,087	1,136	856
4.	Others	1,976	2,403	2,213	2,406	2,436	2,420	2,882	1,847	1,686	2,692	2,408
	<b>Total</b>	<b>12,339</b>	<b>11,694</b>	<b>13,853</b>	<b>15,999</b>	<b>15,394</b>	<b>15,473</b>	<b>9,011</b>	<b>2,795</b>	<b>8,181</b>	<b>5,341</b>	<b>4,920</b>

\* Data pertains to composite State of Andhra Pradesh for 23 districts.

There is overall variation of ₹ 421 crore between Budget Estimates and Actuals. The Department of Mines and Minerals have exceeded their target by ₹ 164 crore.

<sup>2</sup> Source: Statement 14 of Finance Accounts.

<sup>3</sup> Source: Statement 14 of Finance Accounts.

## 1.2 Analysis of Arrears of Revenue

The arrears of revenue as on 31 March 2016 on some principal heads of revenue amounted to ₹ 16,616.28 crore as detailed in the **Table -1.2**.

**Table 1.2**  
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than five years as on 31 March 2016
1.	Taxes / VAT on Sales, Trade etc.	11,179.08	10,895.59
2.	Stamp Duty and Registration Fee	21.18	21.18
3.	Land Revenue	1,796.00	1,395.31
4.	Taxes and Duties on Electricity	3,620.02	3,584.50
<b>Total</b>		<b>16,616.28</b>	<b>15,896.58</b>

Source : Information furnished by the Departments concerned .

The Departments concerned did not furnish any reasons for the amounts in arrears, collection of which was pending for more than five years.

## 1.3 Arrears in Assessments

As per the provisions of the AP VAT Act, annual assessments are not mandatory for the VAT dealers. Assessments under the CST Act are to be completed within four years. The information furnished by Commercial Taxes Department is indicated in the **Table 1.3**.

**Table 1.3**  
Arrears in Assessments

(No. of cases)

Name of Tax	Opening Balance	New Cases due for Assessment during 2015-16	Total Assessments due	Cases disposed of during 2015-16	Balances at the end of the March, 2016	Percentage of column 5 to 4
CST	43,266	22,595	65,861	28,361	37,500	43
VAT	2,699	7,328	10,027	4,102	5,925	41
Luxury Tax	273	270	543	313	230	58
<b>Total</b>	<b>46,238</b>	<b>30,193</b>	<b>76,431</b>	<b>32,776</b>	<b>43,655</b>	<b>43</b>

## 1.4 Evasion of Tax detected by the Department

The details of cases of evasion of tax detected by the Departments, cases finalised and the demands for additional tax raised and cases pending finalisation as on 31 March 2016 as furnished by the Departments of Commercial Taxes and Registration & Stamps are given in **Table 1.4**.

**Table 1.4**  
**Evasion of Tax**

Sl. No.	Name of Tax/Duty	Cases pending as on 31 March 2015	Cases detected during 2015-16	Total	No. of cases in which assessments/investigations completed and additional demand including penalty etc., raised.		No. of cases pending finalisation as on 31 March 2016	
					₹ in crore)			
					No. of Cases	Amount of demand		
1.	VAT	4,185	12,078	16,263	11,202	530.42	4,937	
2.	Stamp Duty and Registration Fee	3,361	1,178	4,539	4,294	0.52	250	

Departments of Prohibition and Excise, Transport, Land Revenue, Energy and Mines and Geology did not furnish the information though called for.

### **1.5 Pendency of Refund cases**

Commercial Taxes Department communicated (December 2016) that an amount of ₹ 92.85 crore involving 243 cases was refunded during 2015-16. It was also intimated that 331 claims for refunds were pending to the end of March 2016 which involved ₹ 110.15 crore.

The Department of Registration and Stamps reported (July 2016) that no refunds were made by the Department during the year 2015-16. Other Departments viz. Prohibition and Excise, Transport, Land Revenue, Energy and Mines and Geology did not furnish the information though called for.

### **1.6 Response of the Government / Departments towards Audit**

The Accountant General (E & RSA), Andhra Pradesh and Telangana conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices / Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and to the Government.

Inspection Reports issued up to December 2015 disclosed that 14,336 paragraphs involving ₹ 2,303.83 crore relating to 4,436 IRs remained outstanding at the end of June 2016 as shown below along with the corresponding figures for the preceding two years in **Table 1.6**.



**Table 1.6**  
**Details of pending Inspection Reports**

	<b>June 2014</b>	<b>June 2015</b>	<b>June 2016</b>
Number of IRs pending settlement	5,297	4,197	4,436
Number of Paragraphs outstanding	14,080	11,681	14,336
Amount of revenue involved (₹ in crore)	2,683.51	1,288.81	2,303.83

**1.6.1** The Department-wise details of the IRs and audit paragraphs outstanding as on 30 June 2016 and the amounts involved are mentioned in the **Table 1.6.1**.

**Table 1.6.1**  
**Department-wise details of IRs**

Sl. No.	Name of the Department	Nature of receipts	(₹ in crore)		
			Number of outstanding IRs	Number of outstanding Paragraphs	Money value involved
1.	Revenue	Value Added Tax and Central Sales Tax	1,484	5,461	822.42
		State Excise Duty	251	660	47.55
		Land Revenue	874	2,432	215.56
		Stamp Duty and Registration Fee	1,317	3,702	233.47
2.	Transport, Roads and Buildings	Taxes on Vehicles	221	1,038	122.13
3.	Industries and Commerce	Mines and Minerals	251	980	156.87
4.	Energy	Taxes and duties on Electricity	38	63	705.83
<b>Total</b>			<b>4,436</b>	<b>14,336</b>	<b>2,303.83</b>

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs, for 181 IRs issued during 2015-16. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

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

### **1.6.2 Departmental Audit Committee Meetings**

The Government set up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During the year 2015-16, two Audit Committee Meetings were held by the Commercial Taxes Department and 140 paras involving ₹ 18.54 crore were settled.

### 1.6.3 Non-production of Records to Audit for Scrutiny

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

During the year 2015-16, as many as 112 records, such as, Demand, Collection and Balance (DCB) Registers, CST assessment files, Annual Accounts of Dealers, Challan Posting Registers, Receipt Books, Village Accounts, Treasury Bills, Alienation Records, Bank scrolls, Stock and Sales registers of Stamps, files relating to Life Tax on construction equipment vehicles, retail liquor shop files and Service Books etc. were not made available to Audit. Break up of these details is given in **Table 1.6.3**.

**Table 1.6.3**  
**Details of non-production of records**

Name of the Office/ Department		Number of offices which did not produce documents for Audit
Revenue	Commercial Taxes	65
	Prohibition and Excise	19
	Registration and Stamps	8
	Land Revenue	15
	Endowments	1
Transport, Roads and Buildings	Transport	4
<b>Total</b>		<b>112</b>

### 1.6.4 Response of the Departments to the Draft Audit Paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the AG to the Principal Secretaries / Secretaries of the Departments concerned drawing their attention to audit findings and requesting them to send their response 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.

Fifty four draft audit paragraphs including one Performance Audit and one Follow-up Audit were sent to the Principal Secretaries/ Secretaries of the respective Departments by name between July and October 2016. The Principal Secretaries/ Secretaries of the Departments did not send replies to 40 draft audit paragraphs and the same have been included in this Report without the response of the Government.

### 1.6.5 Follow-up on the Audit Reports-summarised position

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the

Departments shall initiate action on the audit paragraphs and explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports are delayed inordinately. One hundred and fifty five paragraphs (including Performance Audits) included in the 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 2011, 2012, 2013, 2014 and 2015 were placed before the State Legislative Assembly between March 2012 and March 2016. Of these, 48 pertain exclusively to Andhra Pradesh whereas 107 paragraphs pertain to both Andhra Pradesh and Telangana. Explanatory notes in respect of 155 paragraphs from eight Departments (Commercial Taxes, Prohibition and Excise, Land Revenue, Stamp Duty and Registration Fee, Transport, Roads & Buildings, Industries and Commerce, Energy and Endowments) have not been received in respect of the Audit Reports from the year ended March 2011 to March 2015 so far (December 2016).

### **1.7 Analysis of the mechanism for dealing with the issues raised by Audit**

To analyse the system of addressing the issues highlighted in the Inspection Reports / Audit Reports by the Departments / Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last five years for one Department is evaluated and included in this Audit Report.

The succeeding paragraph discusses the performance of Commercial Taxes Department under revenue head 0040 Taxes on Sales, Trade etc. and cases detected in the course of local audit during the last seven years and also the cases included in the Audit Reports for the years 2009-10 to 2015-16. These cases relate to the 13 Districts of the successor State of Andhra Pradesh.

### 1.7.1 Position of Inspection Reports

The summarised position of the inspection reports relating to the Commercial Taxes Department, issued during the last seven years in the 13 Districts of the successor state of Andhra Pradesh, paragraphs included in these reports and their status as on 31 March 2016 are detailed in **Table -1.7.1**.

**Table 1.7.1**  
**Position of Inspection Reports (IRs)**

(₹ in crore)

Sl. No.	Year	Opening Balance			Additions 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	2009-10	1599	4500	923.33	110	690	83.56	116	401	23.23	1593	4789	983.66
2	2010-11	1593	4789	983.66	117	875	82.84	64	261	16.75	1646	5403	1049.75
3	2011-12	1646	5403	1049.75	119	1049	81.62	64	585	11.99	1701	5867	1119.38
4	2012-13	1701	5867	1119.38	26	287	15.34	39	717	55.64	1688	5437	1079.08
5	2013-14	1688	5437	1079.08	46	392	61.17	238	836	158.43	1496	4993	981.82
6	2014-15	1496	4993	981.82	87	1189	249.73	11	247	11.86	1572	5935	1219.69
7	2015-16	1572	5935	1219.69	88	920	207.56	361	1711	533.77	1299	5144	893.48

The above position indicates that the overall performance of the Department in clearance of Inspection Reports and Paras has not been very encouraging. There has been reduction of 300 IRs, net increase of paras by 644 and meagre reduction of money value by ₹ 29.85 crore over the period of seven years.

### 1.7.2 Action taken on the recommendations by the Department / Government

The Performance Audits conducted by the AG are forwarded to the Department concerned and to Government for their information with a request to furnish their replies. These Performance Audits are also discussed in an exit conference and the Department's / Government's views are included while finalising the Performance Audits for the Audit Reports.

The Performance Audits relating to Commercial Taxes Department featured in the last five years' Reports, details of recommendations and their status are given in **Table 1.7.2**.

**Table 1.7.2**  
**Status of Audit recommendations**

<b>Year of Report</b>	<b>Name of the Performance Audit</b>	<b>Status</b>
<b>2010-11</b>	<b>Taxation of works contracts under the APVAT Act</b>	
<b>Details of recommendations:</b>		Explanatory Notes from Government are awaited. However, Commissioner of Commercial Taxes intimated (December 2016) that second and fourth recommendations were being implemented.
1. Institute a system of cross verification of TDS remitted from the Other Government Departments and also to obtain information from these Departments on regular basis and use the same to detect the evasion of tax and registration of unregistered works contractors;		
2. ensure implementation of issuing TDS certificates in Form 501A with unique ID to facilitate the verification of proper accountal of tax deducted/collected at source;		
3. put in place a system to monitor the filing of option for composition and update the VATIS package to enable verification of correctness of payment of tax;		
4. ensure the completion of VAT Audits as prescribed in the manual in order to detect any leakage of revenue before the cases become time barred;		
5. establish an independent internal audit wing for timely detection of errors and initiating suitable remedial measures.		
<b>2010-11</b>	<b>Cross verification of Declaration Forms used in Inter State Trade</b>	<b>Status</b>
<b>Details of recommendations:</b>		Explanatory Notes from Government are awaited.
1. Prescribe norms for conducting periodical cross verification of interstate transactions related to sales/purchases/branch transfers/ consignment transfers with original records maintained in other States and implement the same;.		
2. create a reliable database of the concessions and exemptions allowed to dealers by establishing a management information system to facilitate a systematic review and effective monitoring of the concessions and exemptions;		
3. set up a system for blacklisting dealers found utilising fake/invalid declaration forms;		
4. implement all aspects of the access controls and information security policy so as to enable effective functioning of online issue of statutory forms;		
5. provide commodity validation in the software i.e., the form should be given for the commodity for which the dealer is registered in the registration certificate (Software should be integrated with CST Registration certificate). Ensure the dealer validation of other states (through TINXSYS) from whom the local dealer purchases the goods;		
6. keep a specimen copy in the TINXSYS website duly mentioning/ displaying the security features of the forms of all the States for taking action on prima facie evidence;		
7. continue with the system of physical cross verification of declaration forms parallel to the web based checking until the electronic system of other States becomes fully operational.		

Year of Report	Name of the Performance Audit	Status	
2011-12	VAT Audits and Refunds		
<b>Details of recommendations:</b> <ol style="list-style-type: none"> <li>The Department should focus on quality, rather than quantity of VAT audits, by adopting a risk-based approach which involves planning of fewer VAT audits but higher revenue collection (for which the auditing officers should be held accountable). They should also ensure a set of comprehensive and standardised guidelines for selection of dealers for VAT audits, so as to minimise discretionary and arbitrary selection; this must be invariably enforced in all jurisdictions. The audit module in VATIS should be designed and implemented to facilitate automatic selection, based on these guidelines. Implementation of such standardised guidelines should be monitored, and failure penalised. If necessary, a specified percentage of VAT audits (10 per cent or so) can be selected by the DC, using his judgment based on specified parameters.</li> <li>The Department should ensure effective monitoring of completion of VAT audits by specifying timelines (say 1 or 2 months), after which the VAT audited files must be mandatorily transferred to the respective jurisdictional offices. If the Department believes that the assessing officers are under excessive time pressure to complete VAT audits in timely manner, they may consider setting up a dedicated VAT audit wing (as is being followed by Tamil Nadu for VAT and by AP itself for Registration and Stamps).</li> <li>VAT-audited cases should be subject to a random check (based on a statistical sample), and poor quality VAT audits should result in penal action. The Department may also consider interaction with the Vigilance &amp; Enforcement Department to discuss systemic trends of tax evasion, so as to plug leakage of revenue and also enrich the approach to VAT audits.</li> </ol>		Explanatory Notes from Government are awaited	
2014-15	Implementation of VAT (including IT Audit of VATIS)		
<b>Details of recommendations:</b> <ol style="list-style-type: none"> <li>Built in provisions for automatic scrutiny of returns when they are filed and generation of penalty/demand notices in cases of non-filing and belated payments be introduced.</li> <li>Audit file tracking system may be integrated with VATIS so that the progress can be monitored. The checklist for the checks prescribed may also be integrated.</li> <li>Data in VATIS needs to be purged of inconsistencies and module integration taken up in a time-bound manner.</li> </ol>			Explanatory Notes from Government are awaited.

## 1.8 Audit Planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which, *inter alia*, include critical issues concerning Government revenues and tax administration i.e. 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 past five years, audit coverage and its impact during past five years etc.

There were a total of 1,336 units of which 444 units were planned and 443 units were audited during the year 2015-16, which is 33 per cent of the total auditable units. Besides the compliance audit mentioned above, one Performance Audit was also taken up to examine the efficacy of the tax administration of these receipts.

## **1.9 Results of Audit**

### **1.9.1 Position of Local Audit conducted during the year**

Test-check of the records of 443 units of Commercial Taxes, Prohibition and Excise, Transport, Land Revenue, Registration and Stamps and other departmental offices conducted during the year 2015-16 showed under-assessment / short levy / loss of revenue aggregating ₹ 689.02 crore in 1,870 cases. During the course of the year, the Departments accepted under-assessment and other deficiencies of ₹ 28.55 crore in 568 cases, of which 335 cases involving ₹ 8.70 crore were pointed out in earlier years. An amount of ₹ 1.88 crore was realised in 171 cases during the year 2015-16. Of this, recovery of ₹ 1.21 crore in 127 cases relate to previous years.

### **1.9.2 Coverage of this Report**

This Report contains 33 paragraphs (selected from the Audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports) including one Performance Audit on 'Revision and Implementation of Market Value Guidelines' involving financial effect of ₹ 54.46 crore.

The Departments/ Government have accepted audit observations involving ₹ 14.74 crore out of which ₹ 0.74 crore had been recovered. The replies in the remaining cases have not been received (December 2016). These are discussed in succeeding Chapters.





***CHAPTER II***

***VALUE ADDED TAX***  
***AND***  
***CENTRAL SALES TAX***



## **CHAPTER II VALUE ADDED TAX AND CENTRAL SALES TAX**

### **2.1 Tax Administration**

The Commercial Taxes Department is under the purview of Special Chief Secretary to Revenue Department. The Department is mainly responsible for collection of taxes and administration of AP Value Added Tax Act, 2005 (VAT Act), Central Sales Tax Act, 1956 (CST Act) and Rules framed thereunder. Commissioner of Commercial Taxes (CCT) is the Head of the Department entrusted with overall supervision and is assisted by Additional Commissioners, Joint Commissioners (JC), Deputy Commissioners (DC), Appellate Deputy Commissioners (ADC) and Assistant Commissioners (AC). AC, Large Tax Payer Unit (LTU) in the Division Offices and Commercial Tax Officers (CTO) at Circle level are primarily responsible for tax administration and collection. The CTOs also look after the registration of dealers. The DCs are controlling authorities with overall supervision of the circles and LTUs under their jurisdiction. There are 13 LTUs and 104 circles in the State functioning under the administrative control of DCs. Further, there is an Inter State Wing (IST) headed by a Joint Commissioner within the Enforcement Wing, which assists the CCT in cross-verification of interstate transactions with different States.

### **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. Internal audit is organised at Divisional level under the supervision of AC. Each LTU/circle is audited by audit teams consisting of five members headed by either CTOs or Deputy CTOs. Internal audit report is submitted within 15 days from the date of audit to the DCs concerned, who would supervise rectification work giving effect to findings in such report of internal audit. It was intimated (December 2016) by the Department that the number of offices programmed for internal audit for the year 2015-16 was 101, out of which 33 were completed. It was also intimated that 162 audit observations were included during 2015-16 and 683 audit observations were outstanding at the end of March 2016.

## 2.3 Results of Audit

In 2015-16, test-check of the assessment files, refund records and other connected documents in 96 offices of the Commercial Taxes Department showed under-assessment of VAT, CST and other irregularities involving ₹ 170.60 crore in 923 cases which fell 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.	Excess claim of Input Tax Credit	131	8.59
2.	Non-levy/Short levy of Interest and Penalty	136	12.80
3.	Short levy of tax on works contracts	39	3.52
4.	Non-levy/Short levy of tax under CST Act	184	39.41
5.	Non-levy/short levy of VAT	134	37.11
6.	Other irregularities	299	69.17
	<b>Total</b>	<b>923</b>	<b>170.60</b>

During the year, the Department accepted under-assessments and other deficiencies in 407 cases involving ₹ 20.45 crore. Of these, ₹ 12.26 crore involving 158 cases were pointed out by Audit during the year 2015-16. An amount of ₹ 1.11 crore in 74 cases was realised during the year 2015-16.

A few illustrative cases involving ₹ 34.93 crore are discussed in the succeeding paragraphs.

## Audit Observations

During scrutiny of records of the offices of the Commercial Taxes Department relating to assessment and collection of VAT and CST, Audit observed several cases of non-observance of provisions of Acts/Rules, resulting in non-levy / short levy of tax / penalty and other cases, as discussed in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on test- checks carried out by Audit. Such omissions are pointed out in audit every year, but not only do the irregularities persist; these also remain undetected until 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 and rectified.

## 2.4 Input Tax Credit

### 2.4.1 Incorrect allowance of Input Tax Credit

As per Sections 13(1) and 13(3)(a) of the VAT Act, Input Tax Credit (ITC) shall be allowed to the VAT dealer for the tax charged in respect of all purchases of taxable goods, used in the business, if he is in possession of tax invoices. Further, as per Rule 27(1)(d) of the AP VAT Rules, 2005 (VAT Rules), the tax invoice should consist of printed or computer generated serial numbers. As per the provisions of Rule 20(2)(a), no ITC is allowed on purchase of automobiles unless the dealer is in the business of dealing in these

goods. However, Rule 20(3)(a) allows the dealer to claim notional ITC on the purchase price actually paid at the time of sale of those used vehicles, if such claim is supported by documentary evidence for payment of tax at the time of purchase.

Audit observed (between April and December 2015) during the test check of VAT records of seven circles<sup>4</sup> and two divisions<sup>5</sup> for the assessment period from 2009-10 to 2014-15 that in four cases, ITC was allowed to dealers dealing in pulses and used vehicles without proper tax invoices. In three cases, ITC was not restricted to the goods lost in accidents and on purchase returns. In two cases, ITC was allowed more than what was admissible on purchases reported by the dealers. In another case, the dealer incorrectly carried forward the ITC, though it had been disallowed by the Assessing Authority (AA) during assessment. Total incorrect allowance of ITC in all the 10 cases amounted to ₹ 10.25 crore.

After Audit pointed out the cases, in one case, CTO, Nandyal-II stated (April 2015) that assessment would be revised. In one case, CTO, Kurnool-III stated (May 2015) that notice would be issued for collection of tax. In seven cases, AAs<sup>6</sup> stated (between June and December 2015) that the matter would be examined and reply submitted. In the remaining case, DC, Vijayawada-II stated (October 2015) that notional ITC was allowed on used cars as per Rule 20(3)(a) of the VAT Rules. The reply was not acceptable as ITC was allowed without tax invoices, which was mandatory as per Section 13(3) of the Act.

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

#### **2.4.2 Excess allowance of Input Tax Credit on ineligible items**

As per Section 13(4) of the VAT Act read with Rules 20(2) (c) and 20(2) (i) of VAT Rules, a VAT dealer is not entitled to ITC on the purchases of air conditioners and goods used in construction or maintenance of any building. Further, under Section 13(5)(h) read with Section 4(9)(d), the dealers running any restaurants or eating establishments etc. having annual turnover between ₹ 7.5 lakh and ₹ 1.50 crore are not entitled to claim ITC. As per Section 13(7) of the Act, ITC shall be limited to 75 per cent in case of works contractors who pay tax under non-composition method.

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<sup>4</sup> CTOs - Chittoor-I, Gudivada, Hindupur, Kurnool-III, Nandyal-II, Narasaraopet and Puttur.

<sup>5</sup> DC - Vijayawada-II and Visakhapatnam.

<sup>6</sup> DC - Visakhapatnam, CTOs - Chittoor-I, Gudivada, Hindupur, Narasaraopet and Puttur.

Audit observed (between May and October 2015) during the test check of VAT records of Vijayawada-II Division and four circles<sup>7</sup> for the assessment period from 2010-11 to 2014-15 that, in two cases, ITC was claimed by hotel dealers whose annual turnover was between ₹ 7.5 lakh and ₹ 1.50 crore. In three cases, ITC of more than 75 per cent was allowed to works contractors paying tax under non-composition method. In one case, ITC was allowed on the purchases of air conditioners and on items used in construction of building. Total excess allowance of ITC in all the six cases was ₹ 30.07 lakh.

After Audit pointed this out, in four cases, AAs<sup>8</sup> stated (May to October 2015) that the matter would be examined. In one case, CTO, Tirupati-II stated (August 2015) that notice would be issued for restriction of ITC. In another case, reply was yet to be received from CTO, Chinawaltair.

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

### **2.4.3 Excess claim of Input Tax Credit due to incorrect method of restriction**

As per Section 13(5) of the VAT Act, no ITC shall be allowed to any VAT dealer on sale of exempted goods (except in the course of export) and exempt sales. As per Section 13(6), ITC for transfer of taxable goods outside the State otherwise than by way of sale shall be allowed for the amount of tax in excess of four/five percent. Further, as per sub rules (7) and (8) 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  $Ax B/C$ , where A is the ITC for common inputs for each tax rate, B is the taxable turnover and C is the total turnover.

Audit observed (between October 2015 and February 2016) during the test check of VAT records of Nellore Division and three circles<sup>9</sup> for the assessment period from 2010-11 to 2014-15 that ITC was not correctly restricted in respect of five dealers who effected exempt sales and branch transfer of taxable goods. Total excess claim of ITC was ₹ 21.19 lakh.

After Audit pointed this out, in four cases, AAs<sup>10</sup> stated (October 2015 to February 2016) that the matter would be examined and reply submitted in due course. In one case, DC, Nellore stated (December 2015) that ADC, Guntur had remanded the case and the aspect of excess claim of ITC would be examined while passing effectual order.

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

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<sup>7</sup> CTOs - Benz Circle, Chinawaltair, Dabagardens and Tirupati-II.

<sup>8</sup> CTOs - Benz Circle, Dabagardens and DC - Vijayawada-II.

<sup>9</sup> CTOs - Gudivada, Nandigama and Steel Plant.

<sup>10</sup> CTOs - Gudivada, Nandigama and Steel Plant.

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

As per Section 13(1) of the VAT Act, ITC shall be allowed to the VAT dealer for the tax charged in respect of all purchases of taxable goods made by the dealer during the tax period, if such goods are for use in his business. Para 5.12 of AP VAT Audit Manual prescribes mandatory basic checks for conducting VAT audit, which include cross checking of figures reported by VAT dealers in their monthly VAT returns filed with those recorded in certified annual accounts, so as to detect under-declaration of tax, if any.

Audit observed (between May and December 2015) during the test check of VAT assessment records of seven circles<sup>11</sup> for the assessment period from 2007-08 to 2012-13 that in nine cases the AAs had adopted purchase turnover for allowing input tax credit in excess of the purchases reported in the Profit and Loss accounts. This resulted in excess allowance of ITC of ₹ 15.46 lakh.

After Audit pointed this out, in seven cases, AAs<sup>12</sup> stated (June to December 2015) that the matter would be examined and reply submitted in due course. In one case, CTO, Madanapalle stated (December 2015) that the assessment file was submitted to DC, Chittoor for revision. In another case CTO, Dwarakanagar stated (November 2015) that notice would be issued to the dealer.

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

## 2.5 Levy of Penalty

### 2.5.1 Non-levy/Short Levy of Penalty for under-declaration of tax

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

During the test-check of records of two divisions<sup>13</sup> and six circles<sup>14</sup>, Audit observed (between May and December 2015) from the VAT assessment files of 14 dealers for the period from 2007-08 to 2014-15 that there were cases of

<sup>11</sup> CTOs - Anantapur-II, Dwarakanagar, Kavali, Krishnalanka, Madanapalle, Nellore-III and Parchur.

<sup>12</sup> CTOs - Anantapur-II, Dwarakanagar, Kavali, Krishnalanka, Nellore-III and Parchur.

<sup>13</sup> Kurnool and Visakhapatnam.

<sup>14</sup> Dwarakanagar, Gudivada, Kakinada, Mandapeta, Nellore-II and Puttur.

under-declaration of output tax and excess claim of ITC as per the assessment orders, for reasons other than fraud or wilful neglect. However, the AAs either short levied the penalty or did not levy any penalty. The non-levy/short levy of penalty on the under-declared tax of ₹ 26.31 crore was ₹ 6.24 crore.

After Audit pointed this out, in three cases, the AAs<sup>15</sup> stated (July 2016) that dealers' appeals were remanded back and final orders were yet to be issued. In one case, CTO, Nellore stated (July 2016) that penalty was levied. However, no documentary evidence in proof of demands raised/collections made was furnished. In one case, CTO, Mandapeta stated (June 2016) that the dealer's appeal was pending before Sales Tax Appellate Tribunal, Visakhapatnam. In one case, CTO, Puttur stated (June 2016) that the assessment file was submitted to DC, Chittoor for revision. In another case, CTO, Dwarakanagar stated (November 2015) that notice would be issued to the dealer. In three cases, DC, Visakhapatnam contested (July 2016) that there was no short levy of penalty after adjusting ITC with output tax due. The replies were not acceptable since as per Rule 25(8) (a) and (b), excess claimed ITC and under-declared output tax were to be reckoned separately for the purpose of levy of penalty. In the remaining four cases, AAs<sup>16</sup> stated (between May and October 2015) that the matter would be examined.

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

### **2.5.2 Non-levy/Short levy of penalty due to wilful under-declaration of tax**

Under Section 53 (3) of 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.

During the test-check of the VAT audit files relating to the period from 2008-09 to 2013-14 of four circles<sup>17</sup>, Audit observed (between August 2015 and February 2016) in five cases that there was wilful under-declaration of tax of ₹ 2.21 crore for which an equal amount of penalty was leviable. However, in two cases, the AAs did not levy any penalty and in three cases penalty of ₹ 0.71 lakh only was levied against the leviable penalty of ₹ 2.86 lakh. This resulted in non-levy/short levy of penalty of ₹ 2.20 crore.

After Audit pointed this out, CTO, Convent Street stated (May 2016) in respect of two cases that penalty had since been levied. However, no documentary evidence of demands raised/collections made were furnished. In another case, CTO, Dwarakanagar stated (November 2015) that notice would be issued for levy of penalty. In one case, CTO, Madanapalle stated (May 2016) that assessment file was submitted to DC, Chittoor for revision and in

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<sup>15</sup> DC - Visakhapatnam and CTO - Gudivada.

<sup>16</sup> DCs - Kurnool and Visakhapatnam, CTO - Kakinada.

<sup>17</sup> Convent Street, Dwarakanagar, Madanapalle and Seetharamapuram.



the other case, CTO, Seetharamapuram stated (August 2015) that the matter would be examined.

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

### **2.5.3 Non-levy of penalty for failure to register as VAT dealer**

As per Section 49(2) of the VAT Act any dealer, who fails to apply for registration before the end of the month subsequent to the month in which he was obligated to be registered as a VAT dealer, shall be liable to pay penalty of 25 *per cent* of the amount of tax due.

During the test-check of VAT records of CTO, Lalapet, Audit observed (August 2015) in one case that a dealer had been carrying out business without taking VAT registration (June 2010) and as per the report of the Vigilance and Enforcement Department, the AA completed assessment of the dealer and levied tax of ₹ 31.77 lakh. However, the AA did not levy penalty of 25 *per cent* of the tax due, for failure to register as a VAT dealer. This resulted in non-levy of penalty of ₹ 7.94 lakh.

After Audit pointed this out, the AA replied (August 2015) that whereabouts of the dealer were not known. The reply was not acceptable as penalty was leviable under the provisions of the VAT Act at the time of levying the tax.

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

### **2.6 Non-levy of interest and penalty for belated payment of tax**

As per Section 22(2) of the VAT Act, if any dealer fails to pay the tax due on the basis of the return submitted by him under the Act within the time prescribed, he shall pay interest in addition to such tax or penalty or any other amount, calculated at the rate of 1.25 *per cent* (1 *per cent* up to 14 September 2011) per month for the period of delay from such prescribed or specified date for its payment. Further, under Section 51(1) of the Act, if a dealer 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 a penalty of 10 *per cent* of the amount of tax due in addition to such tax.

Audit observed (between April 2015 and March 2016) during the test-check of the VAT returns and assessment files of 6 divisions<sup>18</sup> and 26 circles<sup>19</sup> for the period from 2010-11 to 2014-15 that in 140 cases, the dealers paid tax after the due dates with delays ranging from 1 to 1,315 days. In CTO, Parchur,

<sup>18</sup> DCs - Anantapur, Eluru, Guntur-I, Kadapa, Nellore and Visakhapatnam.

<sup>19</sup> CTOs - Alcot Gardens, Anantapur-I and II, Autonagar, Brodipet, Chittoor-II, Convent Street, Gajuwaka, Gudivada, Guntakal, Hindupur, Kasibugga, Macherla, Nandigama, Narasaraopet, Nellore-I, Nidadavolu, Parchur, Parvathipuram, Patnam Bazar, Podili, Seetharamapuram, Steel Plant, Tirupati-I & II and Vuyyuru.

interest was not paid on the additional tax declared by the dealer in the revised return. In CTO, Alcot Gardens, interest was not levied by the AA on the differential turnover brought to tax. This resulted in non-levy of interest of ₹ 1.40 crore and penalty of ₹ 3.54 crore.

After Audit pointed out these cases, DC, Visakhapatnam intimated (July 2016) that interest was levied in one case. CTO, Parchur stated (July 2016) that assessment file was submitted to DC for revision in one case. In 71 cases, the AAs<sup>20</sup> replied (between August 2015 and February 2016) that action would be taken to collect the interest and penalties. In the remaining cases, the AAs<sup>21</sup> stated (between April and December 2015) that the matter would be examined and report submitted in due course.

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

## **2.7 VAT on Works Contracts**

### **2.7.1 Short levy of tax due to incorrect determination of taxable turnover under Works Contract**

Under Section 4(7)(a) of the 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 arrive at the value of goods at the time of incorporation, the deductions prescribed under Rule 17(1)(e) of VAT Rules, such as expenditure towards labour charges, hire charges etc., incurred by the contractor are to be allowed from the total consideration and on the balance of turnover, tax is levied at the same rates at which purchase of goods were made and in the same proportions. As per Rule 17(1)(d) of VAT Rules, the value of the goods at the time of incorporation, as arrived at, shall not be less than their purchase value and shall include seigniorage charges, transportation charges etc.

Audit observed (between June 2015 and February 2016) during test-check of the VAT assessment files of seven dealers in Nellore Division and three circles<sup>22</sup> that in six cases the AAs, while finalising the assessments (between January 2012 and September 2014) for the period from 2008-09 to 2013-14, had incorrectly determined the taxable turnover due to allowing certain inadmissible deductions from the gross turnover and incorrect calculation of expenditure and profit relatable to labour. In one case, tax was not levied on the purchase turnover under Rule 17(1)(d) of VAT Rules even though the taxable turnover determined was less than the purchase value of goods. This resulted in short levy of tax of ₹ 1.81 crore.

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<sup>20</sup> CTOs - Anantapur-I & II, Convent Street, Guntakal, Podili, Steel Plant and Tirupati-II.

<sup>21</sup> DCs - Anantapur, Eluru, Guntur-I, Kadapa, Nellore and Visakhapatnam; CTOs - Alcot Gardens, Autonagar, Brodipet, Chittoor-II, Gajuwaka, Gudivada, Hindupur, Kasibugga, Macherla, Nandigama, Narasaraopet, Nellore-I, Nidadavolu, Parvathipuram, Patnam Bazar, Seetharamapuram and Vuyyuru.

<sup>22</sup> Dwarakanagar, Gudur and Steel Plant.

After Audit pointed this out, in one case, CTO, Dwarakanagar stated (November 2015) that notice would be issued to the dealer. In one case, DC, Nellore stated (December 2015) that the assessment file was submitted for revision. In the remaining five cases, AAs<sup>23</sup> stated (between June 2015 and February 2016) that the matter would be examined

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

### 2.7.2 Short levy of tax on Works Contractors paying tax under Composition

Under Section 4(7)(a) of the VAT Act, works contract receipts are taxable on the value of goods at the time of incorporation of goods at the rates applicable to them. However, Section 4(7)(b) of the Act permits the dealers to opt to pay tax at the rate of four *per cent*<sup>24</sup> on the gross receipts by way of composition on filing form VAT-250 before commencing the work. Further, as per Rule 17(1)(g) of the VAT Rules, where a VAT dealer who has not opted for composition and has not maintained detailed accounts to determine the correct incorporation of the value of the goods, shall be liable to pay tax at the rate of 14.5 *per cent* (12.5 *per cent* up to 14 January 2010) on the total consideration, subject to the specified deductions on percentage basis based on the category of work executed. Such a dealer shall not be eligible to claim ITC. Under Section 4(7)(e)<sup>25</sup> of the Act any works contractor who, having opted to pay tax under composition, purchases or receives any goods for the works from outside the State or from a non-VAT dealer, shall pay tax on such purchases at the rates applicable to them.

During the test-check of VAT assessment records of five circles<sup>26</sup> for the period from 2009-10 to 2013-14, in four cases, Audit observed (between June and December 2015) that the works contractors did not file form VAT-250 before commencement of works. In view of this, the options for composition were not valid and tax was leviable as per Rule 17(1)(g) at the rate of 12.5/14.5 *per cent*, without allowing any ITC, as these contractors had not submitted detailed accounts of the works. However, the AAs levied tax at the concessional rate of 4/5 *per cent*, considering them as compositions opted for. In another case the dealer, who had opted for composition under Section 4(7)(b), purchased 'ESS Boards' (unclassified goods and taxable at the rate of 12.5/14.5 *per cent*), from outside the State during the years 2009-10 and 2010-11 and incorporated the same in works; but the AA did not levy the differential tax on these goods as per the provisions of Section 4(7)(e). This resulted in short levy of tax of ₹ 69.33 lakh, in all the five cases.

After Audit pointed out the cases, CTO, Dwarakanagar stated (July 2016) in respect of one case, that the assessment file was submitted to

<sup>23</sup> Dwarakanagar, Gudur and Steel Plant.

<sup>24</sup> Five *per cent* from 14 September 2011.

<sup>25</sup> Clause 'e' of Section 4(7) of the Act was in force up to 14 September 2011.

<sup>26</sup> Dwarakanagar, Gudur, Kavali, Puttur and Tadepalligudem.

DC, Visakhapatnam for revision. In the remaining four cases, AAs<sup>27</sup> stated (between June and December 2015) that the matter would be examined.

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

### **2.7.3 Non-levy of tax on Works Contractors who did not maintain detailed accounts**

As per Section 4(7)(a) of the VAT Act, works contract receipts are taxable at the rates applicable to the goods on the value of goods at the time of incorporation. However, as per Rule 17(1)(g) of 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 on the category of work executed. Civil works and works which do not fall under any category are entitled to 30 *per cent* deductions. In such cases, the works contractor / VAT dealer shall not be eligible to claim ITC.

During the test-check of records of two circles<sup>28</sup>, Audit observed (May and June 2015) from the VAT assessment files that in two cases, for the period from 2011-12 to 2014-15, the considerations received by dealers towards execution of works contracts were not assessed by the AAs. As the dealers had not submitted detailed accounts of the works executed, tax was leviable at the rate of 14.5 *per cent* on 70 *per cent* of the turnover without allowing any ITC on purchases, as per the provisions of Rule 17(1)(g). The AAs had assessed the turnover incorrectly which resulted in non-levy of tax of ₹ 50.70 lakh on the works contract receipts of ₹ 4.99 crore.

After Audit pointed out the cases, CTO, Vuyyuru stated (August 2016) in respect of one case that the assessment file was submitted to the DC for revision. In the other case, CTO, Kakinada stated (May 2015) that the matter would be examined and reply furnished in due course.

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

### **2.7.4 Short levy of tax due to incorrect allowance of TDS credit**

As per Section 4(7)(b) of the VAT Act, every dealer executing works contracts may opt to pay tax by way of composition at the rate of five *per cent*<sup>29</sup> of the total amount received or receivable towards execution of works contract. Under Rule 18 (c) and (d) of VAT Rules, if the 'Tax Deduction at Source' (TDS) made by the contractee is less than the tax

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<sup>27</sup> Gudur, Kavali, Puttur and Tadepalligudem.

<sup>28</sup> Kakinada and Vuyyuru.

<sup>29</sup> Four *per cent* up to 14 September 2011.

liability of the works contractor, the balance shall be paid by the dealer along with VAT-200 returns.

Audit observed (October and December 2015) during the test-check of the records of two circles<sup>30</sup> that, in one case, though the TDS made was less than the tax liability of the dealer who opted for composition, he did not pay the balance of tax along with the returns. In another case, the dealer claimed tax credit based on TDS certificates without tax remittance details. The AA, however, allowed the total credit claimed by the dealer without verification of tax payments. This resulted in short levy of tax of ₹ 9.87 lakh in these two cases.

After Audit pointed out the cases, in one case, the CTO, Gandhichowk stated (October 2015) that the matter would be examined and report submitted in due course. In the other case, CTO, Chittoor-I stated (December 2015) that the remittance particulars would be obtained and report submitted.

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

## **2.8 Tax on interstate sales**

### **2.8.1 Short levy/Non-levy of tax on interstate sales due to acceptance of invalid Statutory Forms**

As per Section 8(4) of CST Act, read with Rule 12(1) of CST (Registration and Turnover) Rules, 1957 (R&T Rules), every dealer shall file a single 'C' form covering all sale transactions effected during a quarter of a financial year between the same two dealers, to claim concessional rate of tax allowed as per Section 8(1) of the Act. As per Section 6A of CST Act read with Rule 12(5) of R&T Rules, every dealer shall file a single 'F' form, to cover all interstate transfer of goods other than sales every month to claim exemption. 'F' forms, which were issued before commencement of the CST (R&T) (Second Amendment) Rules, 1973, may be used up to 31 December 1980 with suitable modifications. As per Section 8(2) of the CST Act, interstate sales turnover, not covered by proper declaration forms, shall be taxed at the rates applicable to the goods inside the appropriate State.

During the test-check of the CST assessments of two divisions<sup>31</sup> and two circles<sup>32</sup>, Audit observed (between April and November 2015) that in two cases AAs, while finalising the assessments (between April 2013 and March 2015) for the years 2009-10 to 2011-12, had incorrectly allowed concessional rate of tax on the sale turnover of 'Granites' and 'Gunnies' supported by invalid 'C' forms. These 'C' forms were issued locally and they did not pertain to the relevant assessment years. In three other cases, sales turnover of 'PVC Pipes and fittings' and 'compressors' supported by invalid 'F' and 'E1'

<sup>30</sup> Chittoor-I and Gandhichowk.

<sup>31</sup> Guntur-I and Kurnool.

<sup>32</sup> CTOs - Chittoor-II and Nellore-III.

forms was incorrectly exempted. The 'F' forms did not pertain to the issuing State and 'E1' form was not relevant to the assessment year. However, the AAs had accepted these invalid statutory forms for levy / exemption of tax. This resulted in short levy / non-levy of tax of ₹ 1.42 crore.

After Audit pointed out, the AAs in all the cases stated (between April and November 2015) that the matter would be examined.

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

### **2.8.2 Short levy of tax due to incorrect determination of taxable turnover under CST Act**

As per Section 9 (2) of CST Act, the authorities empowered to assess tax under the general sales tax law of the State, shall also assess tax under the CST Act. As per Sections 5, 6, 6A and 8 of the CST Act read with Rule 12 of 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 the goods inside the appropriate State.

The commodities listed under Schedules-III and IV to the VAT Act are liable to tax at the rates of one *per cent* and five *per cent*,<sup>33</sup> respectively and those which are not specified in any of the Schedules to the VAT Act fall under Schedule-V and are taxable at the rate of 14.5 *per cent*.

During the test-check of CST assessment files and VAT records of Anantapur Division and eight circles<sup>34</sup> for the period from 2010-11 to 2014-15, Audit observed (between May and December 2015) that in eleven cases, the taxable turnover under the CST Act was not determined correctly due to non-reconciliation with the VAT and CST returns, VAT assessment orders, CST way bill utilisation reports etc. This resulted in short levy of tax of ₹ 92.18 lakh on the turnover of ₹ 19.22 crore, under-assessed.

After Audit pointed out the cases, in one case, CTO, Eluru Bazar stated (September 2015) that the assessment would be revised and final report submitted to Audit. In one case, CTO, Ongole-I replied (June 2016) that the assessment file was submitted to DC, Nellore for revision. In the remaining nine cases, the AAs stated (between May and December 2015) that the matter would be examined and report submitted in due course.

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

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<sup>33</sup> Four *per cent* up to 13 September 2011.

<sup>34</sup> CTOs - Anantapur-I, Eluru Bazar, Gajuwaka, Hindupur, Jagannaikpur, Nellore-II, Ongole-I and Patnam Bazar.

### 2.8.3 Short levy of tax and Non-levy of penalty for using Counterfeit ‘C’ Forms

As per Section 8(2) of CST Act, tax on sales in the course of interstate trade or commerce not supported by ‘C’ form shall be calculated at the rate applicable to the sale of such goods inside the appropriate State. Further, as per Section 9(2A) of CST Act read with Section 55(4)(b) of VAT Act, if any dealer, who claims reduced rate of tax on any sale is found to be in possession of any false or fabricated declaration, he shall be liable for a penalty of 200 *per cent* of the tax leviable in the absence of such declaration on the value of the goods so sold. ‘Paper’ falls under Schedule-IV to VAT Act and is liable to tax at the rate of five *per cent* from 14 September 2011 (four *per cent* up to 13 September 2011).

During the test-check of CST assessment files of CTO, Aryapuram, Audit observed (May 2015) that in one case for the year 2011-12, the AA had allowed concessional rate of tax on the turnover of ₹ 3.15 crore covered by six counterfeit ‘C’ forms and levied tax of ₹ 6.17 lakh against the leviable tax of ₹ 12.94 lakh. This resulted in short levy of tax of ₹ 6.77 lakh and non-levy of penalty of ₹ 25.88 lakh.

After Audit pointed this out, the AA stated (May 2015) that the matter would be examined.

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

### 2.8.4 Excess adjustment of Tax Credit

As per Rule 35(7) of VAT Rules, a VAT dealer making interstate 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.

During the test-check of CST records of CTO, Hindupur, Audit observed (November 2015) that in two cases, while finalising the assessments for the years 2010-11 and 2011-12, the AA had adjusted tax credit of ₹ 290.99 lakh against the actual available credit of ₹ 275.08 lakh. This resulted in excess adjustment of credit of ₹ 15.91 lakh.

After Audit pointed this out, the AA stated (November 2015) that the matter would be examined and Audit would be intimated.

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

### 2.8.5 Short levy of tax due to application of incorrect rate of tax under CST

As per Section 8(2) of the CST Act, interstate sales not supported by 'C' forms are liable to tax at the rate applicable to sale of such goods inside the appropriate State. 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.

'Cashew nut husk' is not classified in any of the Schedules to the VAT Act and therefore taxable at the rate of 14.5 *per cent*. 'Liquor' falls under Schedule-VI to the Act and attracts special rate of tax at 70 *per cent*.

Audit observed (April and November 2015) during the test-check of CST records of two circles<sup>35</sup> for the year 2010-11 that in case of two dealers dealing in 'cashew nut husk' and 'liquor', the AAs levied tax at the incorrect rate of four *per cent* on the interstate sales turnover of ₹ 17.59 lakh not supported by 'C' forms. The application of incorrect rate of tax resulted in short levy of tax of ₹ 7.23 lakh.

After Audit pointed this out, the AAs in both the cases stated (June and July 2016) that show-cause notices were issued to the dealers by the DCs concerned and further action is awaited.

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

### 2.8.6 Short levy of tax on interstate sales not covered by Documentary Evidence

As per Sections 8 (1) and 8 (4) of the CST Act, read with Rule 12(1) of the R&T Rules every dealer, who in the course of interstate trade or commerce sells goods to a registered dealer in another State, shall be liable to pay tax at a concessional rate of two *per cent* (with effect from 1 June 2008), on production of valid 'C' form. As per Section 5(3), read with Section 5(4) of the CST Act, goods sold for export are exempt from tax, on production of 'H' form obtained from the exporter and other evidences supporting the export. However, if the dealer fails to produce the statutory forms, the transactions are required to be treated as interstate sale not supported by 'C' form and tax levied at the rate applicable to sale of such goods inside the appropriate State as per Section 8(2) of the Act.

'Turmeric fingers', 'laterite' and 'kraft paper' fall under Schedule-IV to the VAT Act and are liable to tax at the rate of five *per cent*<sup>36</sup>.

During the test-check of CST assessment files of three circles<sup>37</sup>, in three cases, Audit observed (between April and December 2015) that the AAs, while

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<sup>35</sup> Kasibugga and Proddatur-II.

<sup>36</sup> Four *per cent* up to 13 September 2011.

<sup>37</sup> CTOs - Alcot Gardens, Kadapa-II and Krishnalanka.



finalising the assessments for the years 2010-11 and 2011-12 did not levy tax at the full rates applicable to the goods though the dealers had not produced statutory forms and other evidences for the interstate sales of laterite for a turnover of ₹ 53.83 lakh and for the indirect export sales of kraft paper and turmeric fingers for a turnover of ₹ 113 lakh. This resulted in short levy of tax of ₹ 5.73 lakh.

After Audit pointed this out, the AAs in all the cases stated (between April and December 2015) that the matter would be examined and reply furnished in due course.

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

## **2.9 Non-levy of tax due to incorrect exemption of turnover**

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. As per the Government order<sup>38</sup> dated 8 July 2011, the commodity ‘textiles and fabrics’ was added to Schedule-IV and made taxable at five *per cent*<sup>39</sup>. However, as per Ordinance No. 9 of 2012 dated 5 November 2012, the dealers of ‘textiles and fabrics’ may opt to pay tax at the rate of one *per cent* under composition. Later, the Government by another order<sup>40</sup> included the said commodity in Schedule-I from 7 June 2013 and made sales thereof exempted. Hence, the commodity was liable to tax at the rate of five *per cent* between 8 July 2011 and 6 June 2013 if the dealers had not opted for composition.

During the test check of records of five circles<sup>41</sup>, Audit observed (between May and December 2015) from VAT audit files of nine cases for the period from April 2012 to May 2013 that the AAs had incorrectly exempted the total turnover of ₹ 37.11 crore being the sales of ‘textiles and fabrics’, instead of levying tax at the rate of five *per cent*, as none of the dealers had opted for composition. This resulted in non-levy of tax of ₹ 1.86 crore.

After Audit pointed out the cases, the AAs<sup>42</sup> in two cases, stated (July 2016) that assessment files were submitted to the DCs concerned for revision. In all the other cases, the AAs<sup>43</sup> stated (between May and December 2015) that the matter would be examined.

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

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

<sup>39</sup> Four *per cent* up to 13 September 2011.

<sup>40</sup> G.O.Ms.No.308, Revenue (CT-II) Department, dated 07 June 2013.

<sup>41</sup> Bhimavaram, Chittoor-I, Jagannaikpur, Kadapa-II and Madanapalle.

<sup>42</sup> Bhimavaram and Madanapalle.

<sup>43</sup> Chittoor-I, Jagannaikpur and Kadapa-II.

## **2.10 Short levy of VAT due to incorrect determination of taxable turnover**

As per Section 21(3) of the VAT Act, read with Rule 25(5) of the VAT Rules, if the AA considers the return filed by a VAT dealer as incorrect or incomplete or not satisfactory, the AA shall assess the tax payable to the best of his judgement on form VAT-305 within four years of the due date or date of filing of the return, whichever is earlier. As per Section 21(4) of the Act, the authority prescribed may, based on available information, 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 the assessment is to be made. As per Rule 25(10) of the VAT Rules, all the VAT dealers, for every financial year, have to furnish the statements of manufacturing / trading, profit and loss accounts, balance sheet and annual report duly certified by a Chartered Accountant, on or before 31 December. As per Para 5.12 of VAT Audit Manual 2012, the audit officer is required to verify the details given by the dealer in VAT returns and to reconcile with those reported in certified annual accounts for that period.

During test-check of the VAT audit records of 27 dealers for the period from 2007-08 to 2013-14 in Chittoor Division and 15 circles<sup>44</sup>, Audit observed (between May 2015 and March 2016) that in 19 cases, the sales made by the dealers were more than those reported in VAT returns. In two cases, warranty claims on replacement of spares received by the dealers were not subjected to tax. In three cases, the dealers did not declare tax on sale of old machinery and in two cases, no tax was levied on the stock variations observed during VAT audit. In one case, the closing stock of goods as per the balance sheet for the year 2007-08 was not correctly taken as opening stock for the next year accounts. In one case, though the dealer was dealing in both trading and works contracts, only works contract turnover was assessed to tax. This resulted in short levy of tax of ₹ 73.84 lakh due to incorrect determination of taxable turnover.

After Audit pointed out the cases, in one case, CTO, Aryapuram stated (July 2016) that tax had been levied. However, no documents in proof of demands raised/collections made were furnished. In four cases, the AAs<sup>45</sup> stated (June and July 2016) that notices had been issued to dealers. In five cases, the AAs<sup>46</sup> stated (between January and July 2016) that assessment files had been sent to the DCs concerned, for revision. In 17 cases, the AAs<sup>47</sup> stated (between May 2015 and March 2016) that the matter would be examined.

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<sup>44</sup> DC - Chittoor, CTOs - Anantapur-II, Aryapuram, Benz Circle, Chinawaltair, Chirala, Dwarakanagar, Kadapa-II, Kakinada, Kavali, Nidadavolu, Ongole-I, Puttur, Seetharamapuram, Tadepalligudem and Tirupati-I.

<sup>45</sup> CTOs - Dwarakanagar and Puttur.

<sup>46</sup> CTOs - Anantapur-II, Benz Circle, Dwarakanagar and Tirupati-I.

<sup>47</sup> DC - Chittoor, CTOs - Aryapuram, Chinawaltair, Chirala, Kadapa-II, Kakinada, Kavali, Nidadavolu, Ongole-I, Puttur, Seetharamapuram and Tadepalligudem.

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

### **2.11 Under-declaration of tax due to application 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. As per Section 4(9)(c) of the VAT Act, every dealer, whose annual total turnover is ₹ 1.5 crore and above, shall pay tax at the rate of 14.5 *per cent* on the taxable turnover representing sale or supply of food or any other article for human consumption or drink served in restaurants, sweet-stalls, clubs or any other eating houses. Further, under Section 20(3)(a) of the VAT 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.

As per Section 4(7)(a) of the VAT Act, every dealer executing works contract shall pay tax on the value of goods at the time of incorporation of such goods in the works executed at the rates applicable to the goods under the Act. Government enhanced<sup>48</sup> the rate of tax for goods falling under Schedule-IV to the Act from four *per cent* to five *per cent* from 14 September 2011. Under Section 4(7)(b) of the VAT Act, works contractors may opt to pay tax under composition at the rate of five *per cent*<sup>49</sup>. ‘Packing material’ falls under Schedule-IV to the Act. The commodities ‘cement, electronic weighing machines, empty gas cylinders, water purifiers’ are not specified in any of the Schedules to the Act and are, therefore, taxable at the rate of 14.5 *per cent*. ‘Liquor’ falls under Schedule-VI to the Act and attracts special rate of tax at 70 *per cent*.

Audit observed (between May and December 2015) during the test-check of VAT records of 10 circles<sup>50</sup> and Kurnool Division for the assessment period from 2010-11 to 2014-15 that 13 dealers (seven of them were audited by the Department), dealing in works contracts and commodities (cement, electronic weighing scales, empty gas cylinders, food, packing material and water purifiers), had paid tax at incorrect rates. Two of them were works contractors, of whom one had opted to pay tax under composition. The taxable turnover of the other works contractor was to be determined by the AA under Section 4(7)(a) of the Act warranting levy of tax on the value of goods incorporated, at the applicable rate of five *per cent*. However, the AAs levied tax at incorrect rate of four *per cent* in both the cases. The application of incorrect rates of tax resulted in under-declaration / short levy of tax of ₹ 66.02 lakh on the turnover of ₹ 33.26 crore.

<sup>48</sup> Vide Act No. 12 of 2012.

<sup>49</sup> From 14 September 2011. The rate of tax was four *per cent* prior to the given date.

<sup>50</sup> Brodipet, Chinawaltair, Chittoor-I, Eluru, Gajuwaka, Kadapa-I, Kothapeta, Ongole-I, Tirupati-I and II.

After Audit pointed out the cases, in four cases, AAs<sup>51</sup> stated (June to August 2015) that show-cause notices were issued to the dealers. In one case, CTO, Gajuwaka stated (August 2016) that the file was submitted to the DC, Visakhapatnam for revision. In six cases, AAs<sup>52</sup> stated (between May and December 2015) that the matter would be examined and reply submitted. In one case, DC, Kurnool contested (November 2015) that four *per cent* rate of tax, as provided in the work estimate, was levied based on the Judgement of the Hon'ble High Court of A.P.<sup>53</sup>. The reply was not acceptable as the judgement related to the deduction of tax at source by the executing authorities and not to the levy of tax by the AA at five *per cent*, as per the provisions of the VAT Act. In another case, reply was yet to be received from CTO, Chinawaltair.

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

## **2.12 Non-levy of interest on belated payment of deferred tax**

As per Section 69 of the VAT Act read with Rule 67 of the VAT Rules, all sales tax exemption cases sanctioned prior to the enactment of VAT Act were converted as sales tax deferment cases by doubling the period left over without change in monetary limit of the amount sanctioned. Further, as per Government order<sup>54</sup> dated 8 May 2009, repayment of deferred sales tax was to commence after the end of the period of deferment. In case of non-payment of deferred tax on the due dates, interest at the rate of 21.5 *per cent* per annum was to be charged as per the guidelines of the sales tax incentive scheme.

Audit observed (between June and November 2015) during test-check of records of two divisions and three circles<sup>55</sup> that in six cases, the dealers had availed of sales tax deferment but repaid the deferred tax of ₹ 3 crore belatedly with delays ranging from 57 to 1,089 days for which they were liable to pay interest at the rate of 21.5 *per cent* per annum. However, the AAs did not levy any interest. This resulted in non-levy of interest of ₹ 64.46 lakh.

After Audit pointed this out, DC, Visakhapatnam stated (July 2016) that the demand was taken to Demand, Collection and Balance (DCB) register. However, no documentary evidence in support of demands raised/collections made was furnished. CTO, Ongole-I stated (June 2016) that action to collect the interest under Revenue Recovery Act was under progress. In three cases, the AAs<sup>56</sup> stated (June and November 2015) that notices would be issued and report submitted. CTO, Seetharamapuram stated (August 2015) that the matter would be examined and reply submitted.

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<sup>51</sup> CTOs - Tirupati-I and II.

<sup>52</sup> CTOs - Brodipet, Chittoor-I, Eluru, Kadapa-I, Kothapet and Ongole-I.

<sup>53</sup> Judgement of Hon'ble High Court of A.P. in the case of M/s. Nithin Sai Constructions, Anantapur in WP No.27295/2012 dated 31 August 2012 regarding the petition filed over the excess deduction of VAT in the work bills by the executing department.

<sup>54</sup> G.O.Ms.No.503, Revenue (CT-II) Department, dated 8 May 2009.

<sup>55</sup> DCs - Kurnool and Visakhapatnam, CTOs - Ongole-I, Seetharamapuram and Vuyyuru.

<sup>56</sup> DC - Kurnool and CTO - Vuyyuru.

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

### **2.13 Short payment of tax and non-levy of penalty due to non-conversion as VAT dealer**

Under Section 17(3) of the VAT Act, every dealer, whose taxable turnover in the twelve preceding months exceeds ₹ 50 lakh, shall be registered as a VAT dealer. As per Section 17(5)(h) of the Act, every dealer engaged in sale of food items including sweets etc. whose total annual 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. As per Rule 11(1) of the VAT Rules, the prescribed authority may suo motu register a dealer, who is liable to apply for registration as VAT dealer but has failed to do so. As per Section 49(2) of the VAT Act, any dealer who fails to apply for registration, as required under Section 17, shall be liable to pay a penalty of 25 *per cent* of the tax due prior to the date of registration.

During the test-check of Turnover Tax (TOT) records of six circles<sup>57</sup>, Audit observed (between June and December 2015) in eight cases that the taxable turnover of the dealers during the period from April 2011 to December 2014 had crossed the threshold limit, making them liable for VAT registration. The total turnover (between April 2012 and September 2015), liable for levy of VAT after the dealers had crossed the threshold limit, amounted to ₹ 2.47 crore, on which VAT of ₹ 24.86 lakh was to be levied had they been registered as VAT dealers but they had paid tax of only ₹ 2.47 lakh. These TOT dealers had neither applied for VAT registration nor were they registered by the respective AAs. This resulted in short payment of tax of ₹ 22.39 lakh and non-levy of penalty of ₹ 5.60 lakh.

After Audit pointed this out, in three cases the AAs<sup>58</sup> stated (between August and October 2015) that the matter would be examined and report submitted in due course. In one case, CTO, Bhimavaram stated (July 2016) that notice proposing levy of differential tax was issued to the dealer and final report would be furnished in due course. In three other cases, CTO, Dwarakanagar stated (July 2016) that notices would be issued to the dealers and reply furnished after verification of books. In another case, CTO, Gudur stated (July 2016) that orders were passed levying tax and penalty but the dealer preferred appeal before the ADC, Guntur and the appeal was pending for disposal.

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

<sup>57</sup> Bhimavaram, Daba Gardens, Dwarakanagar, Gudur, Nellore-I and Nellore-III.

<sup>58</sup> CTOs - Dabagardens, Nellore-I and III.

## **2.14 Non-levy / Short levy of tax on transfer of right to use goods**

As per Section 4(8) of the VAT Act, every VAT dealer, who transfers the right to use any taxable goods to any lessee or licensee for any valuable consideration in the course of his business, shall pay tax on the total amount received by him at the rates applicable to such goods. 'Automobile vehicles' are not classified in any of the Schedules to the VAT Act and are, therefore, liable to tax at the rate of 14.5 per cent.

During the test-check of records of Kadapa Division and five circles<sup>59</sup>, Audit observed (between May and September 2015) in seven cases that the AAs, while finalising (from January 2013 to June 2014) the VAT assessments for the period from 2007-08 to 2013-14, had either not levied or short levied tax on a total turnover of ₹ 1.51 crore received towards transfer of right to use vehicles, liable for tax at the rate of 14.5 per cent (12.5 per cent up to 14 January 2010). This resulted in non-levy/short levy of tax of ₹ 18.77 lakh.

After Audit pointed this out, in one case, CTO, Ongole-I stated (June 2016) that notice had been issued to the dealer. In five cases, AAs<sup>60</sup> stated (between May and September 2015) that the matter would be examined. In another case, CTO, Mangalagiri contested (June 2016) that tax on hire charges had been waived by the Government of AP and there was no tax liability. The reply was not acceptable as the waiver was applicable on production of proof of payment of service tax, whereas, the Department had waived the tax without verifying the proof of payment of service tax.

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

## **2.15 Non-levy of purchase tax**

Under Section 4(4) of the VAT Act, purchase tax is to be levied on purchase value of taxable goods if purchased without paying tax (either purchased from unregistered dealers or if the selling dealer is not liable to pay tax) and if the goods so purchased are used as inputs either for exempt products or for goods which are disposed of by any means other than by sale. Purchase tax is to be levied proportionately if the originally purchased goods are used as common inputs for exempt products and taxable products which separately necessitate levy of tax.

During the test-check of records of four circles<sup>61</sup>, Audit observed (May and October 2015) in six cases for the period from 2008-09 to 2012-13, that the dealers had purchased taxable goods, such as, paddy from unregistered dealers and effected sale of exempt products such as husk and taxable products such as rice. Out of the total purchase of taxable goods worth ₹ 93.95 crore from unregistered dealers, the purchase turnover of paddy for ₹ 2.84 crore relatable

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<sup>59</sup> Jagannaikpur, Kavali, Mangalagiri, Ongole-I and Suryaraopet.

<sup>60</sup> DC - Kadapa, CTOs - Jagannaikpur, Kavali and Suryaraopet.

<sup>61</sup> Benz circle, Gudivada, Machilipatnam and Parvathipuram.

to the exempt sales of husk, attracted purchase tax at four / five *per cent*. However, neither had the dealers paid the purchase tax nor was the same levied by the AAs during VAT audit of the cases conducted between May 2012 and February 2014. This resulted in non-levy of purchase tax of ₹ 12.67 lakh.

After Audit pointed this out, in three cases, CTO, Parvathipuram stated (June 2016) that assessments were revised and tax levied. However, no documentary evidence of demands raised/collections made was furnished. In one case, CTO, Benz Circle stated (July 2016) that assessment was revised with 'Nil' demand. The reply was not acceptable as the copy of revision order was not furnished to identify the circumstances under which 'Nil' demand was raised. In one case, CTO, Gudivada stated (July 2016) that the assessment file was submitted to DC, Vijayawada-I for revision and further orders were awaited. In the other case, CTO, Machilipatnam stated (October 2015) that the matter would be examined and reply submitted.

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





***CHAPTER III***

***STATE EXCISE DUTY***



## **CHAPTER III**

### **STATE EXCISE DUTY**

#### **3.1 Tax Administration**

The Prohibition and Excise Department (P&E) is governed by the Andhra Pradesh Excise Act, 1968 (AP Excise Act), the Narcotic Drugs and Psychotropic Substances Act, 1985, the AP Prohibition Act, 1995 etc. The Principal Secretary to Government, Revenue Department is the controlling authority at Government level. The Commissioner, Prohibition and Excise is the head of the Department in all matters connected with administration of these Acts. He is assisted by Director of Enforcement for implementation of these Acts. The 13 districts of the State, each headed by a Deputy Commissioner (DC), are classified under 29 excise districts. Each of the excise districts is under the charge of a Prohibition and Excise Superintendent (P&ES) who is assisted by the Assistant Excise Superintendent and other staff. Prohibition and Excise Inspectors are in charge of excise stations and check posts, while DCs and Assistant Commissioners (AC) supervise the overall functioning of the offices of Prohibition and Excise Superintendents.

#### **3.2 Internal Audit**

Internal Audit is an important mechanism for ensuring proper and effective functioning of a system for detection and prevention of control weaknesses. The orders issued by the Government of Andhra Pradesh from time to time stipulate that it is the responsibility of the Accounts Branch of the head of the Department to conduct internal audit of the regional offices, district offices, unit offices etc., periodically (at least once in a year) and furnish reports to the Commissioner. As regards functioning of Internal Audit wing, Commissioner intimated (December 2016) that there was no Internal Audit wing in the Department.

### 3.3 Results of Audit

Test-check of records of 27 offices of Prohibition and Excise Department conducted during the year 2015-16 showed non-levy/short realisation of fees and other irregularities involving ₹ 1.29 crore in 38 cases, which broadly fell 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.	Non-L Levy of Additional Licence Fee	4	0.56
2.	Non-L Levy/short levy of permit room Licence Fee	5	0.34
3.	Non-L Levy/short levy of annual Licence Fee on retail liquor shops	3	0.21
4.	Non-L Levy/short levy of interest on belated payments of Licence Fee	12	0.09
5.	Short Levy of toddy rentals	9	0.08
6.	Other Irregularities	5	0.01
<b>Total</b>		<b>38</b>	<b>1.29</b>

During the year 2015-16, the Department accepted under-assessment and other deficiencies of ₹ 9.44 lakh in 10 cases, of which three cases involving ₹ 5.84 lakh were pointed out during the year 2015-16 and the rest in earlier years. An amount of ₹ 9.44 lakh was realised in these cases during the year 2015-16.

A few illustrative cases, involving ₹ 56.90 lakh, are discussed in the succeeding paragraphs.

### 3.4 Non-levy of Additional Licence Fee on non-contiguous additional enclosures

As per Section 28 of the AP Excise Act, read with Rule 10 of AP Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005, any additional enclosure for consumption of liquor, which is not contiguous, shall attract additional licence fee at 10 *per cent* of the annual licence fee.

In terms of explanation given under Rule 10, the word 'enclosure' means an area of consumption of liquor which is contiguous in utility for consumption. If one consumption enclosure is separated from another enclosure by non-contiguity and interposition of areas of different utilities other than consumption of liquor, it attracts additional licence fee.

During scrutiny of the records relating to bar licences, payment details etc. of the office of P&ES, Visakhapatnam, Audit observed (September 2015) that the P&ES did not levy 10 *per cent* additional licence fee amounting to ₹ 36.90 lakh for the year 2014-15 on nine restaurant and bars with non-contiguous consumption enclosures. These include cases where consumption areas were situated in different halls, different floors having separate access etc.

After Audit pointed out the cases, P&ES replied (September 2015) that the matter would be examined and a detailed reply would be submitted to Audit in due course.

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

### **3.5 Short levy of annual Licence Fee on retail liquor shops**

As per Section 28 of the AP Excise Act, 1968 read with Rule 16 of the AP Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules 2012, the annual licence fee for the shop licence shall be levied on the basis of population and at the rates notified<sup>62</sup> by Government from time to time. The prescribed licence fee for population above 10,000 and up to 50,000 is ₹ 36.00 lakh per shop for the licence period 2014-15.

During scrutiny of shop policy and licence files of two offices<sup>63</sup> of P&ESs, Audit observed (September 2015 and March 2016) that in four retail liquor shops, licence fee was levied at ₹ 32.50 lakh, instead of ₹ 36.00 lakh for the year 2014-15 though the population of the village was above 10,000 as per Census 2011. This resulted in short levy of licence fee of ₹ 14.00 lakh from four shops for the licence period 2014-15.

After Audit pointed out these cases, P&ESs replied (September 2015 and March 2016) that the matter would be examined and a detailed reply furnished to Audit in due course.

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

### **3.6 Non-levy of permit room<sup>64</sup> Licence Fee**

As per Section 28 of the AP Excise Act, 1968, read with Rule 25 of AP Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules, 2012, the holder of licence for retail liquor shop, in places, whose population is 5,000 and above, shall be licensed to have a permit room. Further, as per Rule 26, the licence fee<sup>65</sup> for a permit room shall be ₹ two lakh for the licence period 2014-15 or part thereof and is payable in lumpsum.

During scrutiny of shop licence files of the office of P&ES, Narasaraopet, Audit observed (March 2016) that in three shops, the Department did not levy and collect permit room licence fee for the year 2014-15 although the population of the villages, in which these shops were situated, exceeded 5,000. This resulted in non-levy of permit room licence fee amounting to ₹ six lakh for the licence period 2014-15.

<sup>62</sup> G.O.Ms.No.265, Revenue (Excise-II) Department, dated 22 June 2014.

<sup>63</sup> Guntur and Narasaraopet.

<sup>64</sup> Consumption area adjacent to liquor shop.

<sup>65</sup> G.O.Ms.No.357, Revenue (Excise-II) Department, dated 22 June 2013.

After Audit pointed out these cases, P&ES replied (March 2016) that the matter would be examined and reply submitted to Audit.

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

***CHAPTER IV***

***STAMP DUTY AND  
REGISTRATION FEE***





## **CHAPTER IV**

### **STAMP DUTY AND REGISTRATION FEE**

#### **4.1 Tax Administration**

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

#### **4.2 Internal Audit**

There is a separate Internal Audit Wing in the Department. The team is headed by DR (Market Value and Audit) to conduct Audit of SR offices periodically. Audit programs are drawn up by DR every month and Audit is taken up accordingly. DIG concerned supervises the progress of Audit. Audit reports are reviewed by the DIG, DR and SR zone-wise / sub-zone-wise.

### 4.3 Results of Audit

Test-check of records of 198 offices of Registration and Stamps Department conducted during 2015-16 showed non-levy / short levy of stamp duty and registration fee etc. and other irregularities involving ₹ 22.64 crore in 696 cases, which broadly fell under the categories as given in Table 4.1.

**Table 4.1: Results of Audit**

Sl. No.	Category	(₹ in crore)	
		No. of cases	Amount
1.	Performance Audit on Revision and Implementation of Market Value Guidelines	1	2.95
2.	Short levy of Stamp Duty and Registration Fee due to conversion of agricultural lands to non-agricultural purposes/non-implementation of revised rates etc.	527	13.24
3.	Short levy of duties due to under-valuation of properties	88	2.75
4.	Short levy of duties due to misclassification of documents	35	0.45
5.	Short levy of duties due to adoption of incorrect rates	09	0.24
6.	Other irregularities	36	3.01
<b>Total</b>		<b>696</b>	<b>22.64</b>

During the year 2015-16, the Department accepted under-assessment and other deficiencies of ₹ 3.93 crore in 121 cases of which 42 cases, involving ₹ 3.46 crore were pointed out during the year 2015-16 and the rest in earlier years. An amount of ₹ 0.38 crore was realised in these cases during the year 2015-16.

A few illustrative cases of non-levy / short levy of duties and fees involving ₹ 6.83 crore including a Performance Audit on “Revision and Implementation of Market Value Guidelines”, are discussed in the succeeding paragraphs.

### 4.4 Performance Audit on “Revision and Implementation of Market Value Guidelines”

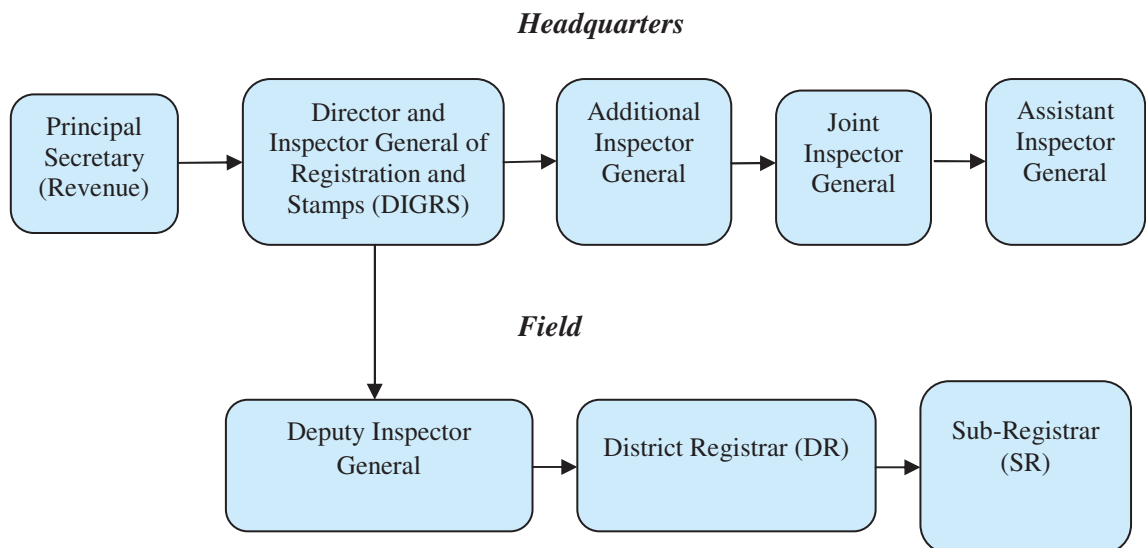
#### 4.4.1 Introduction

Registration and Stamps Department of Andhra Pradesh is responsible for registration of transactions relating to immovable properties, marriages, firms, societies, chits etc. The core functions of the Department are carried out through an Information Technology (IT) system named Computer-Aided Administration in Registration Department (CARD). The Department after, admitting the documents for registration, generates an acknowledgement slip, determines the market value and duties to be levied thereon as per classification of the document through CARD and after registration, the documents are scanned and stored in the system.

Section 47-A of Indian Stamp (IS) Act, 1899 (Central Act II of 1899) defines Market Value (MV) as the minimum price on which stamp duty and registration fee are to be levied. Section 75 of IS Act empowers the State Government to make Rules to carry out the Act. Andhra Pradesh Stamp (Prevention of Under-valuation of Instruments) Rules, 1975 and Andhra Pradesh Revision of Market Value Guidelines (APRMVG) Rules, 1998 were framed under the IS Act. These Rules prescribe the procedure and periodicity to be followed by the registering authorities for revising the market value of the property. Registration and Stamps Department has to revise market values periodically as prescribed in APRMVG Rules so as to assign correct values to the properties.

#### 4.4.2 Organisational Set-up

The Principal Secretary, Revenue (Registration and Stamps) is in charge of the overall administration of the Registration and Stamps Department. The Director and Inspector General of Registration and Stamps (DIGRS) is the Head of the Department<sup>66</sup>. The DIGRS also functions as the Chief Controlling Revenue Authority (CCRA) under the IS Act. He is assisted by staff at Headquarters and field as shown below:



##### 4.4.2.1 Market Value (MV) Committee

As per Rule 4(1) of APRMVG Rules, the Central Valuation Advisory Committee (CVAC) is the apex body to evolve general or specific guidelines for revision of market value for use of the separate committees constituted to prepare market values in urban and rural areas under Rule 4(2). It is headed by DIGRS as chairman with six other members from five<sup>67</sup> departments. Joint Inspector General of the office of the DIGRS is the convenor of the Committee. The Committee issues guidelines for fixation of

<sup>66</sup> During January 2015, Director and Inspector General of Registration and Stamps (DIGRS) was made Head of the Department. Prior to January 2015, the Commissioner and Inspector General of Registration and Stamps (CIGRS) was Head of the Department.

<sup>67</sup> Land Revenue; Agriculture; Horticulture; Roads and Buildings and Municipal Administration and Urban Development.

market value in respect of different categories of land like agricultural land, urban land, industrial area, mining, plantation, commercial and non-agricultural land etc., after collecting relevant information and undertaking tours, as required. The CVAC is to meet in the month of May every year for giving advice for revision of market value pertaining to urban areas and during the month of December every alternate year pertaining to rural areas.

As per Rule 4(2) of APRMVG Rules separate committees for preparation of market values in urban and rural areas are to be formed. The details of constitution of the committees are as shown below:

Name of the Committee	Constitution of the Committee		
	Chairman	Members	Convenor
Committee competent to prepare Market Value Guidelines in urban areas formed under Rule 4(2)	Joint Collector of the District	<ol style="list-style-type: none"> <li>1. Commissioner of Municipal Corporation</li> <li>2. Vice-Chairman of Urban Development Authorities</li> <li>3. Chief Executive Officer of the Zilla Praja Parishad (Chief Planning Officer in respect of Hyderabad District)</li> <li>4. Commissioner of Municipality</li> </ol>	Sub-Registrar concerned
Committee competent to prepare Market Value Guidelines in rural areas formed under Rule 4(2)	Revenue Divisional Officer concerned	<ol style="list-style-type: none"> <li>1. Mandal Revenue Officer concerned</li> <li>2. Mandal Development Officer concerned</li> <li>3. District Registrar/Sub-Registrar (MV and Audit) concerned</li> </ol>	Sub-Registrar concerned

The market values are to be revised on 1 August every year for urban areas and on 1 August every alternate year for rural areas as per Rule 5 of APRMVG Rules.

#### 4.4.3 Audit Objectives

The Performance Audit (PA) was conducted with a view to assess whether

- revision of market value guidelines were carried out in the prescribed manner taking into consideration the prevailing market rates and inputs collected from various departments;
- the market value guidelines and instructions were correctly followed by the registering officers in respect of instruments executed/registered between April 2012 and March 2015; and
- internal control mechanism of the Department was effective to ensure proper implementation of market value guidelines for levy and collection of stamp duty and registration fee.

#### **4.4.4 Audit Scope and Methodology**

The Performance Audit (PA) was conducted between November 2015 and June 2016 involving scrutiny of records of three years from 1 April 2012 to 31 March 2015. Office of the Director and Inspector General of Registration and Stamps (DIGRS), 9 offices<sup>68</sup> of District Registrars (out of 26) and 28 offices<sup>69</sup> of Sub-Registrars (out of 265) were covered in audit. Offices were selected using random sampling technique. The PA was conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

An entry conference was held with the Special Chief Secretary to Government (Registration and Stamps), Andhra Pradesh on 4 December 2015 wherein Audit objectives, Audit Criteria, Scope and methodology were explained. The exit conference was held with the Special Chief Secretary to Government (Registration and Stamps), Andhra Pradesh on 19 October 2016 wherein Audit observations and recommendations were discussed and response of the Government obtained and incorporated in the relevant paragraphs.

#### **4.4.5 Audit Criteria**

The Audit Criteria were derived from the following sources:

- Indian Stamp Act, 1899;
- Registration Act, 1908;
- The Andhra Pradesh Agricultural Land (Conversion for Non-Agricultural Purpose) Act, 2006;
- Andhra Pradesh Registration Rules made under Section 69 of the Registration Act, 1908;
- The Andhra Pradesh Stamp (Prevention of Under-valuation of Instruments) Rules, 1975;
- Andhra Pradesh Revision of Market Value Guidelines (APRMVG) Rules, 1998;
- Government Orders and Memos/Circulars/Proceedings issued by CIGRS/DIGRS from time to time.

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<sup>68</sup> Gunadala, Guntur, Kakinada, Kurnool, Nellore, Ongole, Rajahmundry, Visakhapatnam and Vijayawada.

<sup>69</sup> Allagadda, Amalapuram, Bheemunipatnam, Chirala, Gannavaram, Kadapa Rural, Kadiyam, Kankipadu, Kavali, Lankelapalem, Madanapalle, Madhurawada, Mangalagiri, Nallapadu, Palakol, Patamata, Pulivendula, Rajampet, Rajanagaram, Ranasthalam, Rayadurg, Renigunta, Samalkota, Sarpavaram, Srikalahasti, Stonehousepet, Tadepalligudem and Tadipatri.

#### **4.4.6 Acknowledgement**

Audit acknowledges the co-operation extended by the Registration and Stamps Department in conducting the audit.

#### **Audit Findings**

The Performance Audit showed deficiencies in revision of MV guidelines and their implementation, which are discussed in the subsequent paragraphs.

#### **4.4.7 Revision of Market Value Guidelines**

##### **4.4.7.1 Not-conducting CVAC meetings**

As per Rule 4(1)(iv) of APRMVG Rules, the Central Valuation Advisory Committee (CVAC) was required to meet for evolving guidelines every year in May for urban areas and in December every alternate year for rural areas. Audit observed that no CVAC meetings were held for rural areas during 2012-15. Further, no CVAC meeting was held during the year 2013 for urban areas, as required.

In response, the Government stated (October 2016) that the date of periodicity was revised<sup>70</sup> to 1 August for both rural and urban areas and as such CVAC met in May at a time. However, Rules specify that separate meetings be conducted for both urban and rural areas as two different aspects need to be looked into. Government also stated that CVAC meeting was conducted in May 2012 prior to Market Value Revision in 2013. However, the reply is not tenable as separate meeting should have been conducted for the revision in August 2012.

##### **4.4.7.2 Non-adherence to the specified periodicity in Market Value revision**

As per Rule 5(1) of the APRMVG Rules, the market value guidelines are to be revised in the State on 1 August every year for urban areas and on 1 August every alternate year for rural areas. There is no provision in the Rules for relaxation in this regard. Duties are to be levied on the consideration as declared by the executant in the document or market value as adopted by the Department, whichever is higher.

The last revision before the period covered under Performance Audit (2012-15) was made on 1 August 2010 for both urban and rural areas. Hence, revision was due on 1 August 2011 in respect of urban areas and on 1 August 2012 in respect of urban and rural areas. However, no revisions were made on these dates as required. The revision was made with effect from 1 April 2013 instead of 1 August, against the Rule provisions, for both rural and urban areas, through a Government Order<sup>71</sup> dated 30 March, 2013.

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<sup>70</sup> G.O.Ms.No.643, Revenue (Registration-I) Department, dated 1 July 2009.

<sup>71</sup> G.O.Ms.No.157, Revenue (Registration-I) Department, dated 30 March 2013.

It was also observed that the said Government Order was set aside by the Andhra Pradesh High Court in September 2013 on the ground that Government had no power to relax the Rules (i.e., revising market values in April instead of August). Despite this, the Department, continued to adopt the values revised on the basis of guidelines, which were set aside by the Court, as market values for properties.

In response, the Government replied (October 2016) that while revising the market values in August 2010 elaborate exercise was done for formulation of market values by rationalising the classification of lands, reducing the volume of MV data in the new formats prescribed in the APRMVG Rules and the decision was left to the MV fixation committees to fix the values in the new system keeping the open market values in mind. Hence, revision of market values during the years 2011 and 2012 was not taken up.

The reply was not tenable as the APRMVG Rules do not allow the Government to hold up the revision process on such grounds.

#### 4.4.7.3 Necessity of revision

To study the impact of non-adherence to the periodical revision of market values, Audit analysed 2,220 documents<sup>72</sup>. On analysis of these documents, Audit observed variation between the approved market values and the consideration mentioned in the documents. Analysis of Audit is summarised below:

Year	No. of documents verified	Number of documents					
		Less than MV	Equal to MV	1 to 20 per cent	21 to 100 per cent	101 to 500 per cent	More than 500 per cent
2012-13	740	104	389	82	64	78	23
2013-14	740	106	408	71	88	57	10
2014-15	740	91	369	75	85	103	17
<b>Total:</b>	<b>2,220</b>	<b>301</b>	<b>1,166</b>	<b>228</b>	<b>237</b>	<b>238</b>	<b>50</b>

It would be seen from above that out of 2,220 documents analysed, the consideration in 753 documents (33.92 per cent) was higher than the market value and ranged from 1 to 3,433 per cent over and above the market value. Thus, the decision of the Department not to revise the market values annually, as envisaged in APRMVG Rules, was erroneous and irregular.

It is also evident from the above that the market value determined as per the MV guidelines did not reflect the true and fair market value of the properties in many cases and entailed significant loss of revenue to the Government.

In response, the Government accepted (October 2016) the observation and assured of taking steps to watch the trend where considerations were more than the market values.

<sup>72</sup> 60 documents in each of 37 offices (20 high value documents for each of three years).

#### **4.4.7.4 Preparation of Market Value Guidelines without considering valuation principles**

As per Rule 6 of APRMVG Rules, the MV committees, while working out values of lands and buildings or preparing the Market Value Guidelines Registers, have to take into account, factors like the condition of real estate market, interest rates, inflation rate, prices of building materials etc., apart from established principles of valuation enunciated in Rule 5 of AP Stamp (Prevention of Under-valuation of Instruments) Rules, 1975 like classification of land, rate of revenue assessment, value of adjacent land, nearness to road etc.

Audit called for the data collected by the Market Value Committees in all the 37 sampled offices for preparing market value guidelines. Officers in all the offices stated that the prevailing values were ascertained orally. No discussion was carried out by any of the Committees regarding real estate market, interest rates, inflation rate, prices of building material etc.

Audit observed that though the APRMVG Rules were framed as far back as in 1998, no methodology was evolved for collecting the data required for revision of market values so far. No procedure has also been prescribed for deriving the market values applicable to urban and rural areas.

In response, the Government stated (October 2016) that though there was no documentation, elaborate exercise was done by the members of MV revision committees before the revision of market values. It was further stated that necessary instructions would be issued to document the process, in ensuing revisions.

#### **4.4.7.5 Absence of system to monitor information being provided to the Committees from the Department**

Rule 10 of APRMVG Rules required the Registering Officers to furnish a monthly extract of instruments in which consideration was more than the market value to the Convenor of the Market Value Revision Committees, by 30th of the following month.

Audit observed in all the 37 offices that none of the registering officers had furnished such extracts to the Convenors, thereby defeating the purpose of their use during revision.

The duties of DRs/SRs (Market Value and Audit) include maintenance of MV Intelligence and Information Register containing all the information regarding higher values in specific areas and the latest developments in the areas for use during revision of MV guidelines. The Sub-Registrar of the respective offices also had to maintain a copy of the Register and update the same whenever any developmental activities were noticed. District/Sub-Registrar (Market Value and Audit) was to utilise the above information at the time of MV revision. District/Sub-Registrar (Market Value and Audit) at the end of every internal audit has to discuss with the local SR whether any developmental activities



and change of land use etc., had been noticed and note such information in the register maintained by him.

Audit observed that neither the DRs/SRs (Market Value and Audit) nor the SRs were maintaining the above register. The officials stated that maintenance of the register was discontinued through Commissioner's proceedings<sup>73</sup> dated 3 December, 2013. As seen from the proceedings, there was a simultaneous request to National Informatics Centre (NIC) to make necessary provisions in CARD (a software used in registering the documents by the Department) to generate statement of documents where consideration was higher than the market value. However, no such provision was made in the CARD so far. Further, as the register was also to contain the details of developmental activities, change of land use etc., dispensing with the register was irregular.

As seen from the minutes of MV revision committees, the committees did not insist on extracts of such documents. In the absence of such crucial information for revision, the Department failed to analyse the trend of open market values in a transparent manner.

Also, the Rules do not prescribe the mechanism or the details of the data to be provided by the Department and other agencies to CVAC nor does CVAC have independent staff for collection of required information.

The above, showed that the Department was unable to supply even the information available with itself to the Committees for making suitable recommendations/taking action.

In response, the Government stated (October 2016) that there was a provision in CARD to generate a report on documents where the considerations were higher than the market value through Management Information System. However, no such reports were generated and submitted to MV revision committees. Further, the Government assured of issuing necessary instructions to the Registering Officers and DR/SR (Market value and Audit) with regard to maintenance of MV intelligence and information registers.

#### **4.4.7.6 Lack of coordination with Land Revenue Department**

- **Not-obtaining Land Acquisition Awards**

As per Rule 11 of APRMVG Rules, the Land Acquisition Officers (LAOs) are to furnish copies of awards passed to the Convenors of the Committees within 30 days from the date of payment of compensation where the amount of compensation awarded was higher than market value. District Collectors were also requested<sup>74</sup> to instruct the officials concerned to send copies of land acquisition awards and conversion orders to convenors of MV revision committees.

Audit observed that copies of compensation awards were not received in any of the 37 offices test checked. The Registration Department also did

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<sup>73</sup> No.MV1/14671/2013, dated 3 December 2013.

<sup>74</sup> Letter No.MV1/2365/2014, dated 6 February 2014.

not pursue the matter. The committees also did not consider such cases where land acquisition compensation was paid to the land owners in excess of market values.

- **Incorrect classification of land used for non-agricultural purposes**

As per Section 5 of AP Agricultural Land (Conversion for Non-agricultural Purposes) Act, 2006, agricultural land can be converted to non-agricultural use by Revenue Divisional Officers (RDOs). Commissioner had issued instructions<sup>75</sup> to the DRs/SRs to collect copies of conversion orders issued by RDOs. Also, agricultural land converted for non-agricultural purposes was to be classified as 'agricultural land fit for house sites'. Lands, in respect of which layouts have already been approved, were to be classified as 'house sites'. As per Rule 7 of APRMVG Rules, different values have to be fixed for house sites and agricultural land fit for house sites.

Audit observed that copies of conversion orders were not received in any of the 37 offices test checked. The Registration Department also did not pursue with the RDOs to obtain the same. The committees also did not consider such cases of conversion of land use.

Rule 4(1)(ii) *ibid* provides for valuation of agricultural land and non-agricultural land for levy of stamp duty. For agricultural land, acreage rates and for non-agricultural land, square yard rates have to be adopted for levy of stamp duty.

In nine offices<sup>76</sup> of DR/SRs, 16 documents (Sale/AGPA/GPA/Release deeds) were registered between March 2013 and March 2015. Cross verification with the Land Revenue Department / Panchayat Raj and Rural Development / Municipal Administration and Urban Development Department showed that the properties in these documents had already been converted into non-agricultural lands / layouts before the market values were due for revision (1 August every year for urban areas and every alternate year for rural areas). Audit observed that due to non-revision of market values, these properties continued to be wrongly classified as agricultural lands at the time of registration also. Therefore, the properties were valued at ₹ 2.60 crore instead of ₹ 7.67 crore and this resulted in under-valuation of properties and consequent short levy of duties of ₹ 29.59 lakh.

In response, the Government accepted (October 2016) the observation and stated that the matter was being pursued through District Collectors for issuing instructions to the land revenue authorities to furnish the land acquisition awards and land conversion orders to the registering officers to propose the appropriate values to the properties. It was also stated that

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<sup>75</sup> Memo Nos.MV1/8794/2011, dated 10 June 2011 and 22 July 2011.

<sup>76</sup> DRs - Kurnool and Rajahmundry; SRs - Kankipadu, Mangalagiri, Nallapadu, Samalkot, Sarpavaram, Stonehousepet and Tadepalligudem.

registering officers were directed to verify the documents pointed out by Audit and to collect the deficit duties.

#### **4.4.8 Incorrect fixation of market value**

As per MV guidelines, values are fixed for general classification of 'house sites' in rural areas on acreage basis (Form-III). For urban areas values for 'house sites' with door/ward numbers are fixed on square yard basis (Form-I). The rates in Form-I are higher than Form-III rates as areas listed in Form-I have greater access to amenities like roads, electricity, water and drainage etc. Form-I rates are also specific and can be identified by door / ward numbers whereas Form-III gives the general guideline value to be adopted if door/ward numbers are not available. Valuation committee needs to take into account these factors and ensure that Form-III rates are lower than Form-I rates on a per unit area basis.

Audit observed in two offices<sup>77</sup> that values fixed in Form-III for four villages, ranging from ₹ 1,500 to ₹ 10,000 per square yard, for house sites, was more than the values fixed in Form-I ranging from ₹ 1000 to ₹ 6,500 per square yard. In 74 documents registered between April 2013 and March 2015, in these villages, the registering parties declared lower rates of Form-I, declaring the near door number or ward number, though the properties were actually located in rural areas. As such the house site rate of rural areas fixed was applicable to these properties. This was not detected by the Registry. Due to this the properties in the above documents were valued at ₹ 23.35 crore instead of ₹ 40.29 crore. Thus, incorrect fixation of lower rate in Form-I than Form-III resulted in loss of revenue to the tune of ₹ 1.04 crore.

While fixing market values, land abutting National Highway/State Highway/Zilla Praja Parishad/Mandal Praja Parishad (NH/SH/ZPP/MPP) has to be separately classified. The Committee has to ensure that survey numbers alongside such roads are classified properly. In Tadepalle village under the jurisdiction of SR, Mangalagiri, though the property with survey number 76/A,B,C was abutting ZPP road, it was not classified as 'land abutting NH/SH/ZPP/MPP road' but as 'house sites' with lower value. While it should have been valued at ₹ 6.63 crore at the rate of ₹ 5,000 per square yard, it was valued at ₹ 3.32 crore at the rate of ₹ 2,500 per square yard. This had resulted in short levy of duties of ₹ 2.20 lakh.

Thus, due care was not taken by the MV committees while revising market values.

In response, the Government stated (October 2016) that the Registering officers were instructed to take steps for rectification of the inconsistency in fixing values and to collect differential duties.

<sup>77</sup> DR, Vijayawada and SR, Madanapalle.

#### 4.4.9 Implementation of MV guidelines

Once the market values are revised, these are to be uploaded into CARD to act as basis for valuation. APRMVG Rules prescribe the formats in which market value guidelines registers are to be maintained. The properties in residential localities are listed (ward and block wise) in Form-I of MV Guidelines Register and door numbers of commercial properties or properties with higher values than common values are listed in Form-II. Properties enlisted in Form-I and Form-II are valued on square yard basis. Agricultural lands are listed as per their classification such as dry land, wet land, land fit for house site, house sites and lands abutting NH/SH/ZPP/MPP roads etc., in Form-III and as per survey number in Form-IV. Agricultural lands are valued on acreage basis. To find out the rate of a particular agricultural land, Form-IV is to be checked first. Only if the details are not available in Form-IV, Form-III is to be used for arriving at market value. All Forms have been built into CARD. The SRs concerned upload the revised market values in the CARD system and after verification by the DR concerned, the revised market values have to be adopted.

As per Rule 227 of AP Registration Rules, the details of the registration check slip<sup>78</sup> and receipt are to be verified by the registering officer with reference to the original document to satisfy himself as to the compliance with the Act, Rules and the adequacy of stamp duty paid.

**4.4.9.1** Audit observed in six offices<sup>79</sup> of DR/SRs that (out of 37 sampled offices), in 12 documents registered (between May 2012 and January 2015), the market values were entered incorrectly in to the master data of CARD system. This led to incorrect adoption of market value of ₹ 2.04 crore instead of ₹ 3.25 crore while registering the above documents. This resulted in short levy of duties of ₹ 7.72 lakh.

In response, Government stated (October 2016) that all the registering officers would be instructed to collect deficit stamp duties in all the cases pointed out by Audit.

**4.4.9.2** CARD also provides for manual entry of market value in exceptional circumstances<sup>80</sup>. Audit observed that in 154 documents registered in 11 offices<sup>81</sup> of DRs/SRs (registered between November 2012 and March 2015), market values were incorrectly entered into the CARD system manually. Based on this, the Department adopted the market value of ₹ 18.62 crore

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<sup>78</sup> Check slip contains the details of the executants, claimants, nature of the document, description of the property together with its boundaries and generated through the computer.

<sup>79</sup> DR Kakinada, SRs - Kadapa (Rural), Lankelapalem, Madanapalle, Samalkot and Sarpavaram.

<sup>80</sup> Rule 233 of AP Rules under the Registration Act 1908 provides for registration of documents manually for (1) categories of documents not notified by the Government; (2) when the CARD system is out of order and (3) document which in the opinion of the registering officer cannot be registered under CARD.

<sup>81</sup> DRs - Kakinada, Kurnool, Nellore, Ongole, Vijayawada and Visakhapatnam; SRs - Kadiam, Madanapalle, Mangalagiri, Nallapadu and Ranasthalam.

instead of ₹ 33.26 crore. This resulted in under-valuation of properties by ₹ 14.64 crore and consequential short levy of duties of ₹ 46.82 lakh.

In response, Government stated (October 2016) that all the registering officers would be instructed to collect deficit stamp duties in all the cases pointed out by Audit. DR, Ongole collected (March 2016) an amount of ₹ 1.34 lakh and remitted the same to Government account.

**4.4.9.3** Audit observed in two SR offices<sup>82</sup> that in four documents (registered between January and December 2014) though the properties were abutting NH/SH/ZPP/MPP roads, the Registry did not adopt higher rate fixed in Form-III. In these cases, market value of ₹ 1.71 crore was adopted instead of ₹ 4.06 crore. This resulted in short collection of duties of ₹ 14.08 lakh due to adoption of incorrect market value.

Similarly, in one document registered in SR, Bheemunipatam, though specific market value of ₹ 4,000 per square yard for a layout was fixed in Form-I in ward number 16, wherein the layout was located, the Registry adopted rate of ₹ 3,500 per square yard resulting in short levy of duties of ₹ 1.84 lakh.

In response, Government stated (October 2016) that all the registering officers would be instructed to collect deficit stamp duties in all the cases pointed out by Audit.

**4.4.9.4** As per Rule 4(2) of APRMVG Rules, the MV Revision Committee has to fix composite values on square foot basis for Apartments/portion of multi-storeyed buildings. In case of finished apartments/multi-storeyed buildings, for CARD to calculate the values, the Registering Officer has to confirm in CARD that the construction was complete.

Audit observed that in seven documents registered (between April 2014 and February 2015) in five offices<sup>83</sup> of DRs/SRs, as per recitals of the documents, the construction of multi-storeyed buildings/apartments was complete. However, the Registering Officers did not confirm the fact of completion in the CARD system. As such, the CARD system did not adopt composite values for these properties. Therefore, the CARD system generated check slip for the market value of ₹ 11.30 crore instead of ₹ 13.63 crore resulting in short levy of duties of ₹ 10.65 lakh.

In response, the Government stated (October 2016) that the matter was being pursued with the DRs concerned for collection of deficit stamp duties. SR, Kavali collected (November 2016) an amount of ₹ 0.27 lakh and remitted the same to Government account.

**4.4.9.5** Other than errors in the master data, incorrect market values were adopted and details of the property incorrectly entered in the system while registering the documents. In 2,220 documents test checked by Audit, as mentioned at para 4.4.7.3, in all the cases boundaries were vaguely described

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<sup>82</sup> SRs Gannavaram and Kadapa (Rural).

<sup>83</sup> DRs - Guntur, Kakinada and Nellore; SRs - Kavali and Mangalagiri.

and in 458 cases, addresses were not mentioned. In the absence of complete data, Audit was not in a position to verify that applicable market rates were actually adopted.

In response, the Government stated (October 2016) that instructions would be issued to all the registering officers to ensure correct noting of address and description of boundaries for the properties while registering the documents.

**4.4.9.6** Properties also get undervalued if amenities available, parking space etc., are omitted while entering the data in CARD. According to Section 2(6) of Registration Act, immovable property includes land, buildings, rights to ways etc. CIGRS had instructed<sup>84</sup> that value of open terrace be computed at 70 per cent of site value while revising the rates of structures for various types of buildings.

Audit observed in eight offices<sup>85</sup> of DRs / SRs that in 23 documents (Sale/Development Agreement cum General Power of Attorney registered between December 2013 and March 2015), the registering officers had accepted the value declared by the parties excluding terrace area (17,909 sft), parking / stilt area (40,481 sft) and area left for roads and amenities (18,369 square yards). The registering officers had failed to verify the above areas mentioned in the documents. Due to this, the properties in the above documents were valued at ₹ 57.03 crore instead of ₹ 87.65 crore. Thus, under-valuation of properties resulted in short levy of duties amounting to ₹ 18 lakh.

In response, the Government stated (October 2016) that the matter was being pursued with the DRs concerned to collect the deficit duties in the cases pointed by Audit. SR, Kavali collected (November 2016) an amount of ₹ 0.32 lakh and remitted the same to Government account.

**4.4.9.7** As per CIGRS instructions<sup>86</sup>, when a building/structure not bearing house number or whose house number was not found in Form-II but when house numbers were mentioned in the boundaries, the maximum land rate of house numbers mentioned in the boundaries would have to be adopted. It was also clarified that when such rate could not be found with survey numbers mentioned in schedule of property, rate of Form-IV for the survey numbers mentioned in boundaries would have to be adopted. However, CARD has no inbuilt mechanism to automatically calculate higher values in such cases.

Audit observed in four offices<sup>87</sup> of DRs that in respect of seven sale deeds (registered between May 2013 and November 2014) the registering officers had adopted market values ranging from ₹ 1,260 to ₹ 30,000, as declared by the parties. However, as per the above instructions, the value fixed for the bounded properties ranged from ₹ 3,100 to ₹ 40,000. Therefore, the properties in the above documents were valued at ₹ 3.69 crore instead of ₹ 6.62 crore.

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<sup>84</sup> Proceedings No.MV/30324/2000, dated 2 November 2001.

<sup>85</sup> DRs - Gunadala, Kurnool, Ongole and Vijayawada; SRs - Kavali, Mangalagiri, Patamata and Samalkot.

<sup>86</sup> Circular No.MV1/8483/2013-2, dated 10 October 2013.

<sup>87</sup> DRs - Guntur, Kakinada, Rajahmundry and Visakhapatnam.

Thus, due to non-adherence to the instructions, the properties were undervalued and thereby the duties amounting to ₹ 18.07 lakh were not levied.

In response, the Government stated (October 2016) that instructions were issued to the registering officers for collection of deficit duties. It was also stated that instructions were issued to the CARD section to develop the software in view of the Audit observations.

#### **4.4.10 Internal control mechanism**

Internal control mechanism is important for ensuring proper and effective functioning of a system for detection and prevention of control weaknesses. It also provides a reasonable assurance on enforcement of laws, rules and departmental instructions. The internal control mechanism of the Department has not been effective, as discussed in the succeeding paragraphs.

##### **4.4.10.1 Absence of alerting mechanism leading to loss of revenue**

As per CIGRS instructions<sup>88</sup>, the registering officer has to adopt higher value fetched earlier as market value for that particular property in all future transactions.

Audit observed, on cross verification with link documents, cases of under-valuation of properties due to non-compliance with these instructions, as discussed below:

- In five DRs/SR offices<sup>89</sup>, Audit observed that in five sale/gift documents (registered between October 2013 and November 2014), the Registering Officers had not adopted higher values fetched in previous transactions (registered between April 2008 and March 2014) for the same properties. There was no mechanism available in the Department to alert the registering officer about higher values adopted earlier for the properties. Contrary to these instructions, the properties were valued at ₹ 6.62 crore instead of ₹ 8.54 crore resulting in short levy of duties of ₹ 8.85 lakh.

In response, Government stated (October 2016) that apart from usage of Management Information System, a provision would be made in CARD to alert the registering officers to watch the higher values fetched in the previous documents while registering such properties. It was also stated that instructions were issued to the registering officers to collect the deficit duties in the cases pointed by Audit. SR, Kankipadu collected (June 2016) an amount of ₹ 2.18 lakh and remitted the same to Government account.

- It was also observed in seven offices<sup>90</sup> of DR/SRs that in 15 sale deeds (registered between December 2012 and February 2015) the registering

<sup>88</sup> Circular No.MV1/20363-A/90, dated 10 August 1990.

<sup>89</sup> DR - Kurnool and SRs - Kankipadu, Madhurawada, Renigunta and Tadepalligudem.

<sup>90</sup> DRs - Gunadala, Ongole and Visakhapatnam and SRs - Kavali, Madhurawada, Nallapadu and Srikalahasti.

parties, while mortgaging their properties with financial institutions, had declared higher value for the properties mortgaged which were registered (between March 2012 and October 2014) as Deposit of Title Deeds. However, the Registering Officers did not consider this higher value declared by the parties in the subsequent sale deeds for the same properties. The Registering Officers had adopted ₹ 4.34 crore instead of ₹ 9.03 crore which resulted in short levy of duties of ₹ 32.45 lakh.

In response, Government stated (October 2016) that steps would be taken to avoid the recurrence of under-valuation of properties in future and that the registering officers were already instructed to collect the deficit duties in the cases pointed by Audit.

#### **4.4.11 Conclusion**

The Department did not adhere to the MV Guidelines Rules, 1998, on periodicity of revision of market values and did not maintain any documents for the surveys conducted and collection of inputs/requisite data to ascertain the prevailing market values from time to time for use at the time of revision. The Department also did not insist upon furnishing address and boundaries of the properties in the documents. Lack of coordination with other Departments like Revenue, Panchayat Raj and Rural Development, Municipal Administration and Urban Development resulted in short levy/non levy of duties due to misclassifications and under-valuation of properties. In none of the 37 offices audited requisite monthly extract of instruments with considerations higher than the market values were furnished by registering officers to the convenors. Market value information and intelligence registers containing information regarding higher values and developments in the areas were not maintained. No mechanism was in place to monitor maintenance of such reports/registers. Adoption of incorrect market values, under-valuation of properties and non-adherence to instructions on valuation of properties resulted in significant short levy of duties.



#### **4.4.12 Recommendations**

Government should consider taking steps to

- ensure that the MV revision committees obtain required data from Revenue and other departments;
- derive a formal mechanism with specific procedures to be adopted for revision of market values for valuation of properties considering various developmental factors with proper documentation;
- make a provision in CARD for generation of reports that are to be considered while revising the market values like statements of documents registered with higher values and to alert the registering officers and to facilitate trend analysis during revision;
- analyse the reasons for variation between the approved market values and the price realised in open market and initiate steps to minimise the gaps;
- make modifications in CARD to enter details like complete description of boundaries with door numbers/survey numbers for more accurate calculation of market values and also to reduce the scope for manual entries;
- ensure greater scrutiny of documents where manual entries were made to prevent wrong entries.

The Government accepted (October 2016) all the recommendations and agreed to implement the same in ensuing revisions.

#### **4.5 Short levy of Stamp Duty and Registration Fee on Agricultural Lands converted to Non-agricultural use**

Section 27 of IS Act, requires that an instrument contains details like consideration, market value of the property and all other facts and circumstances affecting the levy of duty on it without any suppression. 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 Market Value Guidelines Rules, 1998, different values have been fixed for agricultural lands fit for house sites/ residential localities. Acreage rate for agricultural land and square yard rate for non-agricultural land have to be adopted for levy of stamp duty.

**4.5.1** During test-check of records of offices of 5 DRs<sup>91</sup> and 30 SRs<sup>92</sup>, Audit observed (between April 2015 and March 2016) that in 78 documents (involving 69 sale deeds, two General Powers of Attorney (GPA), four settlement deeds, one Agreement cum GPA (AGPA), one sale agreement cum GPA and one partition deed) executed between November 2010 and March 2015, the registering officers, while registering the documents, had adopted agricultural rate for the land, which had already been converted to non-agricultural use by revenue authorities. Due to non-verification of facts by registering authorities, the properties were undervalued, resulting in short levy of stamp duty and registration fee of ₹ 2.68 crore.

After Audit pointed out these cases, the Government contested (January 2017) that the fact of conversion of lands to non-agricultural purpose under NALA Act was not intimated to them by the revenue authorities and so the values would be revised in the ensuing revision considering the fact of conversion of land.

The reply was not acceptable as the properties commented upon by Audit had already been converted to non-agricultural purposes through conversion orders issued by revenue authorities and the registering authorities did not verify the facts before registration as provided under Section 27 of the IS Act. This indicated lack of coordination between the two wings of Revenue Department which resulted in short collection of revenue. Action needs to be taken by the registering authorities for collection of deficit duties.

**4.5.2** During scrutiny of records of SR, Pedakakani, Audit observed (February 2016) that in three sale deeds registered in February and March 2013, the registering authority, had adopted the agricultural rate for the land which had already been converted to non-agricultural purpose by revenue authorities. This was evident from the gift settlement deed wherein the scheduled property was part of an approved layout. Thus, suppression of facts by the executants and the non-verification of facts by the registering authorities resulted in the properties being undervalued and consequent short levy of stamp duty and registration fee by ₹ 3.53 lakh.

After Audit pointed out the cases, the Government accepted (January 2017) the audit observation and intimated that instructions were being issued to collect the Stamp Duty.

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<sup>91</sup> Eluru, Kakinada, Ongole, Proddatur and Rajahmundry.

<sup>92</sup> Addanki, Achanta, Akividu, Alluru, Amaravathi, Anantapur (Rural), Anaparthi, Bhimadolu, Bhogapuram, Cherukupally, Chilamathur, Chodavaram, Kakumanu, Kamalapuram, Kollipara, Kothavalasa, Mangalagiri, Nallapadu, Nuzvid, Orvakal, Parvathipuram, Pentapadu, Penugonda, Penukonda, Pidimgoyya, Pithapuram, Renigunta, Sarpavaram, Tenali West and Undi.

#### 4.6 Short levy of Stamp Duty and Registration Fee due to delay in implementation of revised rates from the effective date

As per Section 3 read with Article 47-A of Schedule I-A to IS Act, instruments of sale are chargeable to stamp duty at the rates notified from time to time on the amount set forth in the instrument or market value of the property, whichever is higher. In addition, transfer duty is also to be levied<sup>93</sup> on sale deeds at the rates applicable under provisions of various Acts of local bodies, besides levy of registration fee.

Government orders<sup>94</sup> dated 26 November 2014, specified that registration fee was enhanced to one *per cent* (from 0.5 *per cent*) and stamp duty was enhanced to five *per cent* (from four *per cent*) on sale deeds. Stamp duty on settlement and gift deeds (in favour of family members) was enhanced to two *per cent* of the MV (earlier one *per cent*). Stamp duty leviable on settlement deeds/gift deeds in favour of other than family members was enhanced by one *per cent* (now leviable at three *per cent* and five *per cent* respectively). While stamp duty on partition deeds in favour of family members and others had been enhanced to one *per cent* and two *per cent* respectively.

During scrutiny of records of offices of six DRs<sup>95</sup> and 31 SRs<sup>96</sup>, Audit observed (between April 2015 and March 2016) that in 561 cases involving sale deeds, settlements deeds and gift deeds registered on 26 November 2014, the registering officers, while registering the documents, had not implemented the enhanced rates of stamp duty and registration fee as applicable on that date. Non-implementation of the revised rates from the effective date by registering authorities resulted in short levy of stamp duty and registration fee on properties by ₹ 72.05 lakh.

After Audit pointed out these cases, the DIGRS contested (December 2016) that the registering authorities could not implement the revised rates due to the delay in communication of the Government order. Hence, the proposals were being sent to the Government for waiving the same. Government endorsed (January 2017) DIGRS's views. As the duty and fee have not been waived by the Government, the revised rates of duty and fee stand recoverable.

<sup>93</sup> G.O.Ms.No.239, PR & RD (PTSI) Department, dated 30 June 2005.

G.O.Ms.No.226, PR & RD (PTSI) Department, dated 6 April 2013.

<sup>94</sup> G.O.Ms.Nos.393 to 395, Revenue (Registration-I) Department, dated 26 November 2014.

<sup>95</sup> Anantapur, Chittoor, Guntur, Sri Balaji Tirupati, Vijayawada East and Ongole.

<sup>96</sup> Ananthapally, Anantapur (Rural), Bhimadolu, Bhogapuram, Chebrole, Chinthalapudi, Giddalur, Gopalapatnam, Gunipudi, Guntakal, Jangareddigudem, Kanchikacherla, Kavali, Koretipadu, Kotarautla, Kothavalasa, Nallapadu, Parvathipuram, Pedakakani, Pendurthi, Pithapuram, Podili, Ponduru, Rajampet, Ramachandrapuram, Rayachoti, Tallarevu, Tirupati, Tuni, Vinukonda and Yellamanchili.

## 4.7 Short levy of Stamp Duty due to misclassification of documents

**4.7.1** As per Article 6(B) of Schedule I-A to IS Act read with Government order<sup>97</sup> dated 30 November 2013, Development Agreements cum General Power of Attorney (DGPAs) are to be charged with stamp duty at one *per cent* on the amount of market value of property or sale consideration shown in document or estimated market value for land and complete construction made or to be made in accordance with the schedule of rates approved by the CIGR, whichever is higher.

During scrutiny of records in DR, Narasaraopet and two offices of SRs<sup>98</sup>, Audit observed (between April 2015 and March 2016) that in three documents titled as Development Agreements, the land owners had authorised the developers to gift, sell, enter into agreement of sale with third parties, to lease or sub-lease the share of the property of the developer and to sign the sale deeds on behalf of them. Thus, the documents were to be treated as DGPAs and stamp duty of one *per cent* levied on the market value of the properties. However, the registering authorities treated the documents as Development Agreements and levied duties accordingly. This misclassification of documents resulted in short levy of stamp duty amounting to ₹ 3.77 lakh.

After Audit pointed out the cases, the Government accepted (January 2017) the Audit observation in respect of SR, Tirupati. In respect of the cases pertaining to DR, Narasaraopet and SR, Chodavaram, it was contested (January 2017) that there was no GPA clause in respect of the share of the landlord. The reply was not acceptable as the recitals in the document clearly stated that the developer was authorised to gift, sell, enter into agreement of sale, to lease or sub-lease the share of the property etc., which were the requisites for enforcing power of attorney on the developer by the landowner.

**4.7.2** As per clause (d) of Article 47-A of Schedule I-A to IS Act, if the sale of property relates to multi-unit house or unit of apartment, etc. then provisions of Andhra Pradesh Apartment (Promotion of Construction and Ownership) Act, 1987, becomes applicable on such structures.

Government order<sup>99</sup> dated 13 June 2005 effective from 1 July 2005 specifies stamp duty to be levied at five *per cent* on sale of flats/apartments including semi-finished structures. Besides, transfer duty is to be levied as per the rates notified by the Government from time to time.

During scrutiny of records of the office of DR, Kadapa (October 2014), Audit observed that the vendor/developers had got approval (June 2011 and February 2012) for construction of apartments / residential complex and had subsequently executed (May and June 2012) sale of the undivided land along with construction agreement in a single document, in favour of purchasers.

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<sup>97</sup> G.O.Ms.No.581, Revenue (Registration-I) Department, dated 30 November 2013.

<sup>98</sup> Chodavaram and Tirupati.

<sup>99</sup> G.O.Ms.No.1127, Revenue (Registration-I) Department, dated 13 June 2005.

As the developer had the approval for construction of apartment, it cannot be treated as sale of undivided share of land and construction agreement. However, the developer / vendor had executed a single deed with two distinct issues i.e., sale of land followed by construction agreement.

As the developer had constructed the structure as per the approved plan (and not the plan of purchaser), it is clear that the Developer/vendor was selling the flats. Hence, the amount paid by the purchaser had to be treated as cost of flats and stamp duty and registration fee levied accordingly. The sale of flats had been disguised as sale of undivided land followed by construction agreement resulting in short levy of duties amounting to ₹ 4.30 lakh.

After Audit pointed out the case, the Government accepted (January 2017) the Audit observation.

#### **4.8 Short levy of Stamp Duty and Registration Fee on Leases**

Article 31 of Schedule I-A to IS Act, prescribes the rates of stamp duty<sup>100</sup> to be levied on leases. 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 taken to be part of the rent and duties levied accordingly.

Besides stamp duty, registration fee is also to be levied at applicable rates<sup>101</sup> on the value of Average Annual Rent (AAR) as per the provisions of Registration Act, 1908.

During scrutiny of records of the offices of DR Visakhapatnam and three SRs<sup>102</sup>, Audit observed (between November 2015 and March 2016) that in six lease deeds (registered between June 2014 and March 2015), specific clauses stipulated that service tax was to be paid by the lessees on behalf of the lessors. The registering authorities did not take into account the service tax payable by the lessee on behalf of the lessor for computation of total rent payable which resulted in short levy of stamp duty and registration fee of ₹ 7.04 lakh.

After Audit pointed out the cases, the Government accepted (January 2017) the audit observation and directed all the DRs to collect the deficit Stamp Duty.

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<sup>100</sup> G.O.Ms.No.588, Revenue (Registration-I) Department, dated 4 December 2013.

<sup>101</sup> G.O.Ms.No.463, Revenue (Registration-I) Department, dated 17 August 2013.

<sup>102</sup> Bheemunipatnam, Chandragiri and Kankipadu.

## 4.9 Non-levy / Short levy of Duties and Fees due to under-valuation of properties

**4.9.1** As per Section 3 read with Article 47-A of Schedule I-A to IS Act, instruments of sale are chargeable to stamp duty at the rates notified<sup>103</sup> from time to time on the amount set forth in the instrument or market value of the property, whichever is higher. In addition, transfer duty is also to be levied<sup>104</sup> on sale deeds at applicable rates under provisions of various Acts of local bodies, besides levy of registration fee.

As per Rule 7 of AP Revision of MV Guidelines Rules, 1998, read with Government order<sup>105</sup> dated 30 July 2010, formats for the registers of market value guidelines pertaining to rural properties are maintained in Form-III (habitation and classification wise value) and Form-IV (survey number and classification wise value). Acreage rate for agricultural land and square yard rate for non-agricultural land have to be adopted for levy of stamp duty. Commissioner, in a circular<sup>106</sup> dated 10 October 2013 had instructed that when the rates for sub-division of any main survey number was not available in Form IV, the rate available for that specific main survey number had to be adopted.

During scrutiny of records of the offices of two DRs<sup>107</sup> and six SRs<sup>108</sup>, Audit observed (between May 2015 and March 2016) that in 8 out of 11 sale deeds registered between May 2011 and October 2014, the registering authorities had adopted lesser values for levying stamp duty, transfer duty and registration fee although specific rates for the relevant survey numbers and sub-division of main survey number were available in Forms III and IV. In two cases<sup>109</sup>, where rates for sub-division of main survey number were not available in Form IV, the registering officers had adopted the lesser value of sale consideration instead of market value of the relevant main survey number prevailing in the locality. In the office of SR, Pedana, though market value for specific survey number was available in Form-IV, lesser value of sale consideration was adopted in violation of instructions. This resulted in under-valuation of property and consequent short levy of duties and registration fees amounting to ₹ 9.39 lakh.

After Audit pointed out these cases, the Government accepted (January 2017) the audit observation in respect of six offices<sup>110</sup> and directed the DRs to collect the deficit stamp duty. In respect of SR, Bhimadolu, the Department accepted

<sup>103</sup> G.O.Ms.No.585, Revenue (Registration-I) Department, dated 30 November 2013.

G.O.Ms.No.719, Revenue (Registration-I) Department, dated 30 July 2010.

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

G.O.Ms.No.394, Revenue (Registration-I) Department, dated 26 November 2014.

<sup>104</sup> G.O.Ms.No.239, PR & RD (PTSI) Department, dated 30 June 2005.

G.O.Ms.No.226, PR & RD (PTSI) Department, dated 6 April 2013.

<sup>105</sup> G.O.Ms.No.720, Revenue (Registration-I) Department, dated 30 July 2010.

<sup>106</sup> C&IG's circular memo No. MVI/8483/2013-2, dated 10 October 2013.

<sup>107</sup> Bhimavaram and Proddatur.

<sup>108</sup> Bhimadolu, Chilamathur, Duggirala, Pedana, Sajjapuram and Vuyyuru.

<sup>109</sup> Bhimavaram and Duggirala.

<sup>110</sup> Bhimavaram, Proddatur, Chilamathur, Pedana, Sajjapuram and Vuyyuru.

(August 2016) audit observation in two out of three cases. In another case, the Government contested (January 2017) that the valuation method adopted by Audit was not in accordance with Commissioner's instructions, dated 30 July 2013. The reply is not acceptable as the valuation method adopted by Audit was in line with the Commissioner's instructions.

**4.9.2** As per Article 42 (g) of Schedule I-A to IS Act read with Note (ii) thereunder, where Power of Attorney is given for construction or development of or sale or transfer of any immovable property, stamp duty at one *per cent* is to be levied. Besides stamp duty, registration fee is also leviable at the rate of 0.5 *per cent* subject to minimum of ₹ 1,000 and maximum of ₹ 20,000.

Government of Andhra Pradesh had issued orders<sup>111</sup> dated 21 February 2009 for alienation of 92.11 acres in favour of Anantapur District Police Cooperative House Building Society at the rate of ₹ one lakh per acre.

During scrutiny of records of SR, Anantapur (Rural), Audit observed (September 2015) that the Society had appointed six General Power of Attorney (GPA) Agents through six Power of Attorney deeds registered in 2014 for executing sale deeds of the plots and to carry out activities incidental thereon. In the GPA deeds executed, the market value of the property was adopted as ₹ one lakh per acre, instead of ₹ 10.89 lakh per acre applicable to house sites as specified in Form III. This had resulted in under-valuation of properties and consequent short levy of stamp duty and registration fee amounting to ₹ 9.84 lakh.

After Audit pointed out the cases, the Government accepted (January 2017) the audit observation and intimated that orders were being issued to collect the deficit amount under Section 41A of IS Act.

**4.9.3** As per Section 27 of IS Act, the consideration, if any, the MV of the property and all other facts and circumstances affecting the levy of duty on any instrument, shall be fully and truly set forth therein.

During scrutiny of records of SR, Tirupati (Rural), Audit observed (September 2015) that in a sale deed registered in July 2014, the registering authority did not consider the value of the structures while computing market value of the property as the same was not disclosed in the document. The property was valued at ₹ 41.53 lakh, instead of ₹ 135.20 lakh, resulting in under-valuation by ₹ 93.67 lakh. This under-valuation of property resulted in short levy of stamp duty, transfer duty and registration fee of ₹ 5.62 lakh.

After Audit pointed out the cases, the Government accepted (January 2017) the audit observation and stated that orders were being issued to collect the deficit stamp duty under section 41A of IS Act.

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<sup>111</sup> G.O.Ms.No.247, Revenue (Assn.V) Department, dated 21 February 2009.

**4.9.4** As per Article 6(B) of Schedule I-A to IS Act read with Government order<sup>112</sup>, Development Agreements cum General Power of Attorney (DGPAs) are to be charged with stamp duty at one *per cent* on the amount of market value of property as per basic value guidelines or sale consideration shown in document or estimated market value for land and complete construction made or to be made in accordance with the schedule of rates approved by the CIGR, whichever is higher.

Section 2 (10) of the IS Act defines 'goodwill' as a property which is capable of being conveyed independently of the land. Where it is conveyed, the instrument by which it is conveyed will be liable to stamp duty as a conveyance on sale. The prescribed stamp duty for conveyance on sale is five *per cent*.

Construction rates of structures and buildings were prescribed as per the Commissioner's proceedings<sup>113</sup> dated 30 July 2008 (effective from 1 August 2008) and the same were revised from 1 April 2013.

During scrutiny of records of DR, Sri Balaji Tirupati and four SRs<sup>114</sup>, Audit observed (between September 2015 and January 2016) that in three documents styled as DGPAs, the parking area/ stilt area were not included while evaluating the structure, which resulted in under-valuation of the properties. In another case (SR, Pidimgoyya), stamp duty on DGPA document was levied short. This resulted in short levy of stamp duty amounting to ₹ 2.78 lakh.

In three cases (SR, Addanki), it was observed that although a Gram Panchayat had been upgraded as Nagar Panchayat, the registry did not adopt the structure rates as applicable to Nagar Panchayats, resulting in under-valuation of the property and subsequent short levy of stamp duty amounting to ₹ 0.71 lakh. Further, in one document (SR, Chirala), it was observed that the developer had paid goodwill of ₹ 20 lakh to the land owners on the day of executing (28 July 2012) the document. Stamp duty at five *per cent* was to be levied on this payment as the amount paid towards goodwill was to be treated as conveyance on sale. However, the Department did not levy stamp duty on the goodwill amount paid to the land owners. This resulted in short levy of stamp duty of ₹ 1 lakh. Thus, the total non-levy / short levy of stamp duty on DGPAs amounted to ₹ 4.49 lakh.

After Audit pointed out the cases, the Government accepted (January 2017) the audit observation and directed the DRs to collect the stamp duty under Section 41A of IS Act.

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<sup>112</sup> G.O.Ms.No.568, Revenue (Registration-I) Department, dated 01 April 2008.

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

<sup>113</sup> Proceedings no. MV6/10440/2008, dated 30 July 2008.

Proceedings no. MV6/12658/2012, dated 2 February 2013.

<sup>114</sup> Addanki, Chirala, Kanumole and Pidimgoyya.



***CHAPTER V***  
***TAXES ON VEHICLES***



## CHAPTER V

### TAXES ON VEHICLES

#### 5.1 Tax Administration

The Transport Department of Government of Andhra Pradesh is governed by Motor Vehicles (MV) Act, 1988, Central Motor Vehicles (CMV) Rules, 1989, Andhra Pradesh Motor Vehicles Taxation (APMVT) Act, 1963, Andhra Pradesh Motor Vehicles Taxation Rules, 1963 and Andhra Pradesh Motor Vehicles Rules, 1989. 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 Department is headed by Principal Secretary (Transport, Roads and Buildings Department) at Government level. Transport Commissioner (TC) is in charge 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.

#### 5.2 Internal Audit

Internal Audit provides a reasonable assurance of proper enforcement of laws and Departmental instructions, and this is a vital component of the internal control framework. There was no system of internal audit in the Department to ascertain compliance with Rules / Government orders by the Department.

### 5.3 Results of Audit

Test-check of records of 20 offices of Transport Department conducted during the year 2015-16 showed preliminary audit observations involving underassessment of tax and other irregularities involving ₹ 21.83 crore in 107 cases, which broadly fell under the categories as given in Table 5.1.

**Table 5.1: Results of Audit**

(₹ in crore)			
Sl.No.	Category	No. of cases	Amount
1.	Non-levy of Quarterly Tax and Penalty	20	14.95
2.	Non-monitoring of renewal of Fitness Certificates	20	2.50
3.	Non-levy of Green Tax	20	1.09
4.	Non-realisation of Compounding Fee	20	0.80
5.	Non-realisation of Bilateral Tax and Penalty	3	0.22
6.	Non/short levy of Life Tax	18	0.19
7.	Other irregularities	6	2.08
<b>Total</b>		<b>107</b>	<b>21.83</b>

During the year 2015-16, the Department accepted under-assessment and other deficiencies of ₹ 2.14 crore in ten cases. An amount of ₹ 0.11 crore was realised in four cases during the year 2015-16. A few illustrative cases involving ₹ 10.21 crore are discussed in the succeeding paragraphs.

### 5.4 Non-realisation of Quarterly Tax and penalty

Section 3 of APMVT 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 read with Government order<sup>115</sup> stipulates that tax shall be paid in advance either quarterly, half yearly or annually within one month from the commencement of the quarter. As per Section 6 of the Act read with Rule 13 of the APMVT Rules, 1963, penalty for belated payment of tax beyond two months from the beginning of the quarter shall be leviable at twice the rate of quarterly tax in cases of detection and at 50 *per cent* in cases of voluntary payment.

During the scrutiny of records and analysis of data in the offices of eight DTCs<sup>116</sup> and six RTOs<sup>117</sup>, Audit observed (between April 2015 and March 2016) that quarterly tax of ₹ 4.37 crore for the years 2012-13 to 2014-15 was neither paid by the owners of 3,014 transport vehicles nor demanded by the Department. Besides, penalty of ₹ 2.19 crore at fifty *per cent* of quarterly tax for delay over two months in all the cases was to be levied. Not doing so resulted in non-realisation of tax and penalty amounting to ₹ 6.56 crore.

After Audit pointed out these cases, RTO, Gudivada replied (August 2016) that ₹ 5.34 lakh was collected in 22 cases, registration was cancelled in 16 cases and show-cause notices had been issued in the remaining cases.

<sup>115</sup> G.O.Ms.No.96, Transport, Roads & Buildings (Tr-II) Department, dated 21 May 1993.

<sup>116</sup> Anantapur, Kadapa, Kakinada, Ongole, Srikakulam, Vijayawada, Visakhapatnam and Vizianagaram.

<sup>117</sup> Anakapalle, Gudivada, Nandigama, Proddatur, Rajamahendravaram and Tirupati.

DTC, Anantapur and Srikakulam replied (April and June 2015) that show-cause notices were issued for collection of tax and penalty. DTC, Vijayawada replied (June 2015) that action would be taken by issue of notices for collection of tax with penalty. The remaining authorities replied (between April 2015 and March 2016) that details of the vehicles would be verified and action taken under intimation to Audit.

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

### **5.5 Non-monitoring of renewal of Fitness Certificates**

As per Section 56 of the MV Act, 1988, a transport vehicle shall not be deemed to be validly registered, unless it carries a certificate of fitness issued by the prescribed authority. As per Rule 62 of the CMV Rules, 1989, the certificate of fitness in respect of the transport vehicles shall be renewed every year. Rule 81 of CMV Rules prescribes the fee for conducting fitness test of a vehicle for grant and renewal of the certificate of fitness. Non-renewal of Fitness Certificates (FC) jeopardises road safety besides loss of revenue to Government towards FC fee.

During the scrutiny of FC granting registers in the offices of 11 DTCs<sup>118</sup> and eight RTOs<sup>119</sup>, Audit observed (between April 2015 and March 2016) that there was no inbuilt mechanism in the Department's software package (Citizen Friendly Services in Transport Department (CFST)) to monitor validity of FC. Audit observed that during the year 2014-15, FCs of 69,214 transport vehicles had not been renewed. Non-renewal of FC led to loss of renewal fee of ₹ 1.63 crore.

After Audit pointed out these cases, DTC, Kakinada replied (April 2015) that none of the vehicles was inspected by motor vehicle inspectors and contested that since no inspection was done, no fee needed to be collected. RTOs, Bhimavaram and Proddatur replied (March 2016) that taxes for the vehicles pointed out by Audit were paid online where no check for verification of FC was available. The reply was not acceptable as under Section 56 of MV Act, it was mandatory to renew FC. Further, allowing vehicles to ply without verifying their fitness would be unsafe for all the road users. As the enforcement staff cannot check every vehicle plying without FC, an inbuilt mechanism needs to be put in place to monitor the validity of fitness certificates by giving alerts. The remaining authorities replied (between April 2015 and March 2016) that FC fee would be collected as and when the registered owner approached the Department for renewal and the enforcement staff seize the vehicles plying on road without valid FCs.

<sup>118</sup> Anantapur, Eluru, Guntur, Kadapa, Kakinada, Kurnool, Nellore, Ongole, Srikakulam, Visakhapatnam and Vizianagaram.

<sup>119</sup> Anakapalle, Bhimavaram, Gudivada, Hindupur, Nandigama, Proddatur, Rajamahendravaram and Tirupati.

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

## **5.6 Non-levy of Green Tax**

As per Government order<sup>120</sup> dated 23 November 2006, “green tax” shall be levied on the transport vehicles and non-transport vehicles completing 7 and 15 years of age, respectively, from the date of registration. The rate of tax is ₹ 200 per annum for transport vehicles, ₹ 250 per annum for motorcycles and ₹ 500 for other vehicles for every five years.

During scrutiny of data related to Green Tax in the offices of 10 DTCs<sup>121</sup> and four RTOs<sup>122</sup>, Audit observed (between April 2014 and March 2016), that green tax aggregating ₹ 86.22 lakh on 21,002 transport vehicles and 4,274 non-transport vehicles, which had completed 7 and 15 years of age respectively, was not levied for the period from April 2012 to March 2015.

While exploring reasons for non-levy of green tax, Audit observed that in the CFST package, in respect of non-transport vehicles, levy of green tax is linked with renewal of registration, as green tax is also to be collected after 15 years. However, as per provisions of CMV Rules, registration of a vehicle can be renewed 60 days before expiry of its validity. Hence, vehicles, whose registrations were renewed before completion of 15 years, escaped payment of green tax.

Similarly, in respect of transport vehicles, payment of green tax was linked in CFST package with granting of fitness certificate, which is also due every year. Vehicles that did not turn up for fitness certificate escaped payment of green tax. This could have been avoided by linking payment of green tax with renewal of FC or with other procedures like issue of permits, payment of quarterly tax etc.

After Audit pointed out these cases, DTC, Vijayawada replied (June 2015) that their computer software was designed in such a way that it would prompt for payment of green tax only if the vehicle had completed 7 or 15 years of age as the case may be and so green tax can not be collected unless the vehicle was in existence and in operation. The remaining authorities replied (between April 2014 and March 2016) that green tax would be demanded by the system after completion of the prescribed period and hence any amount due would be collected as and when the owners approached that office for any transaction.

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

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<sup>120</sup> G.O.Ms.No.238, Transport, Roads and Buildings (TR.I) Department, dated 23 November 2006

<sup>121</sup> Anantapur, Eluru, Guntur, Kadapa, Kakinada, Kurnool, Nellore, Srikakulam, Vijayawada and Vizianagaram.

<sup>122</sup> Anakapalle, Hindupur, Nandigama and Narasaraopet.

## 5.7 Non-realisation of Compounding Fee

As per Section 200 of MV Act, 1988 read with Government order<sup>123</sup>, offences like overloading, driving without licence, registration certificate, fitness certificate, under age driving, driving at excessive speed, wrong parking etc. are punishable under the Act, may be compounded by collecting fee at the rates specified by the Government. In case, compounding fee was not collected on the spot, the Vehicle Check Reports (VCRs) had to be sent to the Regional Transport Authorities concerned for collection of the compounding fee.

During scrutiny of the data relating to VCRs for the years 2012-13 to 2014-15 of the offices of 12 DTCs<sup>124</sup> and 8 RTOs<sup>125</sup>, Audit observed (between April 2015 and March 2016) that in 1,737 VCRs, compounding fee for offences relating to violation of transport laws was not realised. Compounding fee not realised amounted to ₹ 78.63 lakh.

After Audit pointed out these cases, RTOs, Bhimavaram (September 2016) and Gudivada (August 2016) replied that ₹ 4.96 lakh was collected in 104 cases and show-cause notices were issued in the remaining cases. RTO, Hindupur replied (October 2016) that action had been initiated for recovery. The remaining authorities replied (between April 2015 and March 2016) that action would be taken for collection of compounding fee under intimation to Audit.

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

## 5.8 Non-realisation of Bilateral Tax and penalty

Interstate vehicular traffic of goods is regulated by bilateral agreements under the provisions of MV Act and Rules made thereunder. In terms of Section 88 of the MV Act, a permit granted by State Transport Authority (STA) / Regional Transport Authority (RTA) of any State/Region shall not be valid in any other State/Region, unless the permit had been countersigned by the STA of that State or by the RTA concerned.

As per Government Order<sup>126</sup> dated 16 December 2008, bilateral tax of ₹ 5,000 per annum shall be levied on every goods carriage covered by countersignature permit which are normally registered in the states of Karnataka, Maharashtra, Odisha and Tamil Nadu and were plying in Andhra Pradesh. Tax shall be paid in advance in lumpsum before fifteenth of April

<sup>123</sup> G.O.Ms.No.108, Transport, Roads and Buildings (TR.I) Department, dated 18 August 2011.

<sup>124</sup> Anantapur, Eluru, Guntur, Kadapa, Kakinada, Kurnool, Nellore, Ongole, Srikakulam, Vijayawada, Visakhapatnam and Vizianagaram.

<sup>125</sup> Anakapalle, Bhimavaram, Gudivada, Hindupur, Nandigama, Proddatur, Rajamahendravaram and Tirupati.

<sup>126</sup> G.O.Ms.No.362, Transport, Roads and Buildings (TR.I) Department, dated 16 December 2008.

every year failing which an additional sum of ₹ 100 for each calendar month of default shall be charged as penalty.

During the scrutiny of data pertaining to countersignature permits in the offices of DTCs, Anantapur and Srikakulam, Audit observed (April and June 2015) that bilateral tax (₹ 15.75 lakh) and penalty (₹ 5.31 lakh) totalling ₹ 21.06 lakh, for the years 2012-13 to 2014-15, were not collected in respect of 213 goods vehicles registered in Karnataka and Odisha.

Further, there was no mechanism to monitor payment of bilateral tax after granting countersignature permits and it was being collected only when the owners approached for payment of tax.

After Audit pointed out these cases, DTC, Srikakulam replied (December 2015) that STA, Odisha was addressed to intimate whether permits of those vehicles were in force. DTC, Anantapur replied (April 2015) that tax payments made by the vehicle owners at places other than the counter of Secretary, RTA was not being updated and the same could not be checked. The reply was not acceptable since the payment details could be checked online.

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

## **5.9 Short levy of tax on non-transport vehicles**

As per fifth proviso to Section 3(2) of APMVT Act, 1963, tax in respect of second and 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 as specified in the seventh schedule to the Act.<sup>127</sup>

During the scrutiny of data (from April 2015 to March 2016) on registration of vehicles in the offices of seven DTCs<sup>128</sup> and six RTOs<sup>129</sup>, Audit observed that tax on 438 second and subsequent non-transport vehicles owned by individuals was collected (between April 2012 and March 2015) at rates less than 14 *per cent*, resulting in short levy of tax amounting to ₹ 16.19 lakh.

After Audit pointed out these cases, RTO, Bhimavaram replied (September 2016) that notices had been issued to the registered owners for payment of differential tax. DTC, Vijayawada replied (June 2015) that details of vehicles would be verified and action taken for collection of differential tax. The remaining authorities replied (between April 2015 and March 2016) that the matter would be examined and action taken under intimation to audit.

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

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<sup>127</sup> Act No.11/2010, dated 31 July 2010.

<sup>128</sup> Anantapur, Guntur, Kurnool, Nellore, Ongole, Vijayawada and Vizianagaram.

<sup>129</sup> Anakapalle, Bhimavaram, Nandigama, Proddatur, Rajamahendravaram and Tirupati.



### 5.10 Arrears of revenue in Transport Department

As per Section 7 of the APMVT Act, 1963, any tax, penalty or fine due under this Act may be recovered in the same manner as an arrear of land revenue.

Demand, Collection and Balance (DCB) statement and its periodical review is an important control mechanism to pursue taxes due. Improper maintenance and ineffective use of this control mechanism results in omission of demands and bringing the correct picture of dues recoverable.

Scrutiny (December 2015 and January 2016) of records relating to arrears of revenue in four offices<sup>130</sup> of the Transport Department showed that arrears of ₹ 112.59 crore were pending recovery at the end of December 2015 from 1,38,148 vehicle owners, as detailed below:

Name of the Office	Total No. of vehicles	Arrears due for recovery (₹ in crore)
DTC, Eluru	10,006	8.42
DTC, Kurnool	18,235	11.32
DTC, Nellore	49,421	39.92
DTC, Guntur	60,486	52.93
<b>Total</b>	<b>1,38,148</b>	<b>112.59</b>

Out of 1,38,148 vehicles, the arrears pertaining to the period from 2011-12 to 2014-15 were analysed in respect of 21,601 vehicles and it was observed that the arrears were outstanding up to four quarters in respect of 12,714 vehicles, upto 8 quarters in respect of 8,685 vehicles and upto 12 quarters in respect of 7,218 vehicles, as shown below:

Name of the Office	Vehicles for which arrears outstanding up to four quarters	Vehicles for which arrears outstanding for five to eight quarters	Vehicles for which arrears outstanding for nine to twelve quarters	Total
DTC, Eluru	3,824	2,783	2421	9,028
DTC, Kurnool	3,993	2,028	1,441	7,462
DTC, Nellore	4,455	3,551	3,039	11,045
DTC, Guntur	442	323	317	1,082
<b>Total</b>	<b>12,714</b> (45 per cent)	<b>8,685</b> (30 per cent)	<b>7,218</b> (25 per cent)	<b>28,617</b>

The arrears in respect of the remaining 1,09,531 vehicles remained outstanding for more than three years.

Out of the 28,617 vehicles mentioned above, Audit analysed the quantum of arrears pertaining to 2,355 vehicles of different classes viz., goods vehicles, trailers for commercial use, maxi cabs, motor cabs vis-à-vis period of pendency. It was observed that an amount of ₹ 3.21 crore towards tax and ₹ 1.61 crore towards penalty were due from these vehicles.

<sup>130</sup> DTCs - Eluru, Guntur, Kurnool and Nellore.

The details are as follows:

Pendency period	No. of vehicles	Tax arrears (₹ in crore)	Penalty at 50 per cent (₹ in crore)	Total (₹ in crore)	Percentage of arrears to total arrears
Upto four quarters	1,388	1.06	0.53	1.59	33
Five to twelve quarters	967	2.15	1.08	3.23	67
<b>Total</b>	<b>2,355</b>	<b>3.21</b>	<b>1.61</b>	<b>4.82</b>	

As seen from the above, 67 per cent of revenue (₹ 3.23 crore) was pending for more than a year.

When the above observations were pointed out by Audit, DTC, Guntur replied that regular checking by executive staff was conducted in order to reduce arrears. DTC, Nellore replied that efforts were made to identify registered owners and show-cause notices were being issued. It was stated that cancellation of registration was recommended in cases where vehicle owners were not residing/ available. DTC, Kurnool stated that non-payment list was communicated to motor vehicle inspectors for monitoring through enforcement and vehicles, for which tax was not paid, were seized and show-cause notices issued to registered owners for payment of tax. DTC, Eluru stated that the matter would be examined and reply intimated to Audit.

#### **Incorrect depiction of arrears**

All the functions of the Transport Department viz., grant of licences, permits, fitness, checking of new vehicles, enforcement, collection of fees etc. were fully computerised since 2001. A scrutiny of DCB statements showed that tax due from Andhra Pradesh State Road Transport Corporation's own vehicles was being shown as 'zero' (0) against ₹ 13.86 crore actually due from 2,512 vehicles at the end of December 2015, indicating understatement of arrears to that extent.

Apart from the data analysed (December 2015 and January 2016) in the selected four offices as discussed above, the DCB data was scrutinised in the office of the DTC, Srikakulam where it was observed that demands of bilateral tax and compounding fee were not being taken to DCB statement indicating incorrect depiction of arrears despite computerisation. Suitable steps need to be taken to maintain accurate data on DCB position.

Further, Audit did not find on record any action taken to invoke provisions of AP Revenue Recovery Act, 1864.

Thus, failure of the Department in effectively monitoring the recovery of tax dues resulted in arrears getting accumulated over a period of time as well as inaccurate depiction of DCB position.

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

***CHAPTER VI***  
***LAND REVENUE***



## CHAPTER VI

### LAND REVENUE

#### 6.1 Tax Administration

The Chief Commissioner of Land Administration (CCLA) is responsible for administration of Revenue Board's Standing Orders (BSO), Andhra Pradesh (AP) Irrigation, Utilisation and Command Area Development Act, 1984, AP Water Tax Act, 1988, AP Agricultural Land (Conversion for Non-agricultural Purposes) Act, 2006 and Rules and orders issued thereunder. The State of Andhra Pradesh consists of 13 districts, each of which is headed by a District Collector who is responsible for the administration of the respective district. Each district is divided into revenue divisions and further into *mandals*<sup>131</sup>, which are kept under administrative charge of Revenue Divisional Officers (RDOs) and Tahsildars, respectively. Each village in every *mandal* is administered by a Village Revenue Officer (VRO) under the supervision of the Tahsildar. VROs prepare tax demands under all the Acts mentioned above for each *mandal* from the village accounts and get them approved by the *Jamabandi* officers<sup>132</sup> concerned. VROs/Revenue Inspectors are entrusted with the work of collection of revenue / taxes such as water tax, conversion tax for agricultural lands etc. At Government level, Principal Secretary (Revenue) is in overall charge of administration of the Revenue Department.

#### 6.2 Internal Audit

Department did not have a structured Internal Audit Wing that would plan and conduct Audit in accordance with a scheduled audit plan.

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<sup>131</sup> *Mandal* is the jurisdictional area of each Tahsildar.

<sup>132</sup> *Jamabandi* officer is District Collector or any other officer nominated by him not below the rank of Revenue Divisional Officer.

### 6.3 Results of Audit

Test-check of records of 44 offices of Land Revenue Department conducted during the year 2015-16 showed non-levy / short realisation of conversion tax/penalty and other irregularities involving ₹ 1.64 crore in 24 cases, which broadly fell under the categories as given in Table 6.1.

**Table 6.1: Results of Audit**

(₹ in crore)			
Sl. No.	Category	No. of cases	Amount
<b>Revenue Receipts</b>			
1.	Non-Levy / Short Levy of Conversion Tax and Penalty on Conversion of Agricultural Land for Non-Agricultural Purpose	16	1.17
2.	Other Irregularities	3	0.42
	<b>Total</b>	<b>19</b>	<b>1.59</b>
<b>Revenue Expenditure</b>			
1.	Excess Payment of Land Compensation	3	0.02
2.	Other Irregularities	2	0.03
	<b>Total</b>	<b>5</b>	<b>0.05</b>
<b>Total</b>		<b>24</b>	<b>1.64</b>

During the year 2015-16, the Department accepted under-assessments and other deficiencies of ₹ 93.86 lakh in six cases pointed out during the year 2015-16. An amount of ₹ 18.21 lakh was realised in these cases during the year 2015-16.

A few illustrative cases, involving ₹ 91.55 lakh, are discussed in the succeeding paragraphs.

### 6.4 Maintenance of Land Records

#### 6.4.1 Introduction

Entry 18 under List II-State List of the Seventh Schedule to the Constitution, *inter alia*, empowers the State Government to legislate on land, that is to say, rights in or over land, land tenure, collection of rent, transfer and alteration of agricultural land, land improvement, etc. Maintenance of land records, survey for revenue purposes and records of rights fall within the scope of Entry 45 under the said State List of the Seventh Schedule to the Constitution.

As per Standing Order<sup>133</sup> (BSO) 34 A of Andhra Pradesh Board of Revenue, it is necessary to maintain and update the land records based on day to day changes such as sale, alienation, change of classification etc., to protect Government lands from encroachment, settle boundary disputes, correctly assess taxes and enable *ryots*<sup>134</sup> to establish their rights over land in the court of law.

<sup>133</sup> BSOs are the standing orders concerning revenue issued by the Andhra Pradesh Board of Revenue during its existence. Later, it was replaced by the Revenue Commissioners under the Andhra Pradesh Board of Revenue (Replacement by Commissioners) Act 1977.

<sup>134</sup> *Ryots* means farmers.

### 6.4.2 Scope and Objectives

Audit on maintenance of land records was conducted from November 2015 to May 2016 covering the period of five *fasli*<sup>135</sup> years from 1420 to 1424 (01 July 2010 to 30 June 2015). Audit of 40 *mandal* offices<sup>136</sup> (including pilot study of one office at Jangareddygudem) was taken up by selecting three *mandals* from each of the thirteen districts.

Audit was conducted to assess the status of availability of basic land records and their maintenance at village and *mandal* levels by regular updation, completion of *Jamabandi*<sup>137</sup> within the stipulated timeframe and to ascertain the mechanism for proper maintenance and updation of land records.

The basic land records to be maintained are:

- Re-Settlement Register (RSR) (also known as “A” Register) which contains details of survey numbers of Revenue Village, total area, ownership, nature of land (*Inam*<sup>138</sup>, Government / *Poramboke*<sup>139</sup>), type of soil, source of irrigation, etc. This Register is necessary to identify the ownership, to make assessments and to dispose of land transfers.
- Field Measurement Book (FMB) is the pictorial representation of survey fields / sub-divisions recorded in RSR. It contains the details of total extent of land in survey number, location of the land, its directions and boundaries.
- Village Map (village plan) is an index to FMB and enables an inspecting officer to identify any field on the ground and useful in investigation of disputed boundaries, detection of encroachments, etc.

Deputy Director / Assistant Director, Survey and Land Records (DD / AD, S and LR) is responsible for preparation and maintenance of RSRs, FMBs and Village Maps of all the villages in a district. Copies of RSRs, FMBs and Village Maps are provided to Tahsildar offices to be maintained by the *Mandal* Surveyor and Village Revenue Officers (VROs). Tahsildar is responsible for overall maintenance of land records. VRO is responsible for preparation and maintenance of village accounts.

<sup>135</sup> *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.

<sup>136</sup> Alluru, Anantapuram, Bandi Atmakur, Bobbili, Bommanahal, Chirala, Chittoor, Dharmavaram, Guntur, Jangareddygudem, Jiyyammavalasa, Kadapa, Kakinada Urban, Karamchedu, Kavali, Kurnool, Nandyal, Narasaraopet, Nathavaram, Nellore, Nidadavole, Ongole, Palasa, Pedana, Penamaluru, Pentapadu, Proddatur, Railway Kodur, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Santhabommali, Srikakulam, Srikalahasti, Tadepalligudem, Tirupati Urban, Vijayawada Urban, Visakhapatnam Rural, Visakhapatnam Urban and Vizianagaram.

<sup>137</sup> *Jamabandi* means finalisation of Village Accounts.

<sup>138</sup> *Inam* lands are lands gifted by rulers in recognition of services.

<sup>139</sup> *Poramboke* means the lands which are not assessed to revenue records and belong to the entire community i.e., Government lands.

At *Mandal* level, Record of Rights in Form I B (ROR I B), Government Land Register (Village Account No.1), Register of Changes (Village Account No.2), *Adangal*<sup>140</sup> (Village Account No.3) and Register of Assignments, Register of Transfer of Lands, Register of Leased out Lands, Bought-in-Lands Register are important land records. Audit was confined to maintenance of these records.

### **Audit Findings**

Audit observed number of compliance deficiencies which are discussed in the subsequent paragraphs.

#### **6.4.3 Not conducting Re-Survey despite expiry of first settlement period**

As per Para I of Chapter XVI of Hyderabad Survey and Settlement Manual, first settlement is guaranteed only for a period of 30 years. For re-settlement re-survey has to be conducted. As per Para 3 of Introduction to the Andhra Pradesh Survey Manual of Departmental Rules (Vol. I), re-survey is conducted when the changes in occupation and in the boundaries of fields are too numerous to be dealt with by the Revenue staff, or when the previous survey is considered defective. It gives an account of the extent, ownership, fertility of the soil, source of irrigation, etc. As such re-survey has to be taken up to project the ground realities.

Based on the information furnished by the Office of the Commissioner, Survey Settlement and Land Records, Andhra Pradesh, Audit observed that no re-survey has been conducted in the State during the last 69 years.

Not conducting re-survey for such a long period gives rise to land disputes among *Pattadars*<sup>141</sup> and between *Pattadars* and Government.

#### **6.4.4 Not conducting Re-Survey on abolition of *Inams* and Estates**

Fair Land Register (FLR) is a land record prepared for *Inam* / Estate villages<sup>142</sup>. It is prepared on the basis of survey / re-survey and settlement operations and is essential to know the ownership, extent, nature of lands, irrigation source, etc.

In six Tahsildar offices<sup>143</sup> Audit observed that eight villages<sup>144</sup> were *Inam* / Estate villages. Survey of these villages was not taken up even after the abolition of *Inams* or Estates 60 years ago i.e., in 1956 through enactment of

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<sup>140</sup> *Adangal* is an important land record which contains details of land such as owner's details, extent, assessment, water rate, soil type, nature of possession of the land, liabilities, tenancy and crops grown etc.

<sup>141</sup> Lands which are owned by individuals (private lands).

<sup>142</sup> Estate villages were the villages granted in favour of certain persons to collect land revenue on behalf of king.

<sup>143</sup> Narasaraopet, Nidadavolu, Pentapadu, Rompicherla, Tirupati Urban and Visakhapatnam Rural.

<sup>144</sup> Adavivaram, Lingamguntla Agraharam, Pentapadu, Sankarapuram, Settupalli, Umamaheshwaram, Venkatapuram and Vipparlapalli Agraharam.



“The Andhra Pradesh (Andhra Area) *Inams* (Abolition and conversion into Ryotwari) Act” and that no FLR was prepared.

#### 6.4.5 Status of availability of basic Land Records

As per BSO 34 A of Andhra Pradesh Board of Revenue (Vol.II), each village in the *mandal* must have one RSR, one village map and each survey number of the village must have FMB. After preparing the basic land records through survey and settlement operations, they are required to be maintained and updated on a regular basis.

Offices of 40 Tahsildars test checked have 903 villages. Hence, these offices are required to maintain 903 RSRs and village maps. When Audit called for the information in respect of availability of these land records, 38 *mandals* furnished information on availability of RSRs, 17 *mandals* furnished information on FMBs and 30 *mandals* furnished information on village maps.

Status of availability of basic land records is given below:

No. of <i>Mandals</i> which furnished information	No. of records to be maintained	Available	Missing
38 (Out of 40 <i>mandals</i> test checked)	<b>RSRs</b>		
	877	840	37
17 (Out of 40 <i>mandals</i> test checked)	<b>FMBs</b>		
	1,16,530	1,14,202	2,338
30 (Out of 40 <i>mandals</i> test checked)	<b>Village Maps</b>		
	618	595	23

Details of records available/missing in 40 selected *mandals* are given in Annexure-I. From the above it is evident that 37 RSRs, 2,338 FMBs and 23 village maps were missing in the *mandals*. Further, information on RSRs from 2 *mandals*<sup>145</sup>, village maps from 10 *mandals*<sup>146</sup> and FMBs from 23 *mandals*<sup>147</sup> has not been received (December 2016).

The Department did not take any precautionary measures to maintain and preserve the land records intact.

<sup>145</sup> Jangareddygudem and Kakinada Urban.

<sup>146</sup> Railway Kodur, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Santhabommali, Srikakulam, Srikalahasti, Tadepalligudem, Vijayawada Urban and Vizianagaram.

<sup>147</sup> Alluru, Bobbili, Chirala, Jangareddygudem, Jiyammavalasa, Kadapa, Kakinada Urban, Karamchedu, Kavali, Narasaraopet, Nathavaram, Nellore, Ongole, Palasa, Proddatur, Railway Kodur, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Santhabommali, Srikakulam, Vijaywada Urban and Vizianagaram.

#### 6.4.6 Scanning / Computerisation of Land Records

Government of Andhra Pradesh had issued orders<sup>148</sup> (March 1995) to scan and computerise the basic land records.

When the information on scanning / computerisation of basic land records was called for in the 40 Tahsildar offices test-checked, 38 *mandals* furnished information on availability of RSRs and 30 *mandals* furnished information on Village Maps. However, in respect of FMBs, only 17 offices had furnished information.

Status of scanning of the basic land records is as detailed below:

No. of Mandals which furnished information	Total	Available	Scanned	Not scanned
38 (Out of 40 <i>mandals</i> test checked)	<b>RSRs</b>			
	877	840	827	13
17 (Out of 40 <i>mandals</i> test checked)	<b>FMBs</b>			
	1,16,530	1,14,202	1,14,202	0
30 (Out of 40 <i>mandals</i> test checked)	<b>Village Maps</b>			
	618	595	506	89

From the table, it is evident that though 13 RSRs and 89 village maps were available, they were not scanned. Further, information on scanning of RSRs from 2 *mandals*<sup>149</sup>, village maps from 10 *mandals*<sup>150</sup> and FMBs from 23 *mandals*<sup>151</sup> has not been received (December 2016). Details of scanning of these records *mandal*-wise are given in Annexure-II.

#### Consequences of improper Maintenance of Land Records

Proper maintenance of land data / records at village / *mandal* level and conducting periodical re-surveys and regular updation of basic land records are of vital importance. A few cases of land disputes due to incorrect maintenance of land records are discussed below:

##### 6.4.7.1 Failure to alienate land for public purpose

Audit observed (January 2016) in office of Tahsildar, Nidadavole that a piece of land measuring 0.20 acres in Survey Number 906/2 of Sammisrigudem village was proposed to be alienated in favour of Home Department for construction of police station. Tahsildar had forwarded the alienation proposals (18 January 2013) to the Revenue Divisional Officer, Kovvuru. The alienation proposals could not be finalised as there was discrepancy between

<sup>148</sup> G.O.Ms.No.166, Revenue (SS) Department, dated 30 March 1995.

<sup>149</sup> Jangareddygudem and Kakinada Urban.

<sup>150</sup> Railway Kodur, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Santhabommali, Srikakulam, Srikalahasti, Tadepalligudem, Vijayawada Urban and Vizianagaram.

<sup>151</sup> Alluru, Bobbili, Chirala, Jangareddygudem, Jiyammavalasa, Kadapa, Kakinada Urban, Karamchedu, Kavali, Narasaraopet, Nathavaram, Nellore, Ongole, Palasa, Proddatur, Railway Kodur, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Santhabommali, Srikakulam, Vijaywada Urban and Vizianagaram.

the names of *pattadars* in Fair Land Register (FLR) i.e., Permanent Register and the *Adangal*.

It was further observed that in *Adangal (fasli 1423)*, the total area of land was 2.91 acres against the above survey number. Out of this, an extent of 1.50 acres was in the name of *Mandal* Parishad Development Office and the balance of 1.41 acres was in the name of another person. However, in FLR, 2.91 acres of land was shown in the names of two other persons. Thus, due to discrepancy in the ownership between two registers, alienation proposal in favour of the Police Department could not be finalised.

In reply, Tahsildar stated that the detailed reply would be submitted after examining the matter.

#### **6.4.7.2 Alienation of Government Land without maintenance of proper Land Records**

As per BSO 24 of Andhra Pradesh Board of Revenue (Vol.I), Government land can be alienated for any bonafide public/ private purposes by the competent authority. Alienation of Government land will be granted after preparing the sub-division record (sub-division of survey number concerned). The details of transfer of land due to alienation will be noted in the Village Account 1, *Adangal* and Settlement Fair *Adangal*<sup>152</sup> (SFA).

In Tahsildar, Visakhapatnam Urban *mandal*, Audit observed that an extent of 1,445 acres of land in survey number 55 of Mulagada village was recorded as *Konda Poramboke*<sup>153</sup> in SFA. Out of this, six new survey numbers (56 to 61) were carved out (September 1988) with a total of extent of land of 25.94 acres. Of these newly carved out survey numbers, an extent of 14.53 acres (survey numbers 57, 58 and 59) was alienated in favour of religious and educational institutions, etc. Against 14.53 acres alienated, details of 14.00 acres were not reflected in SFA. For the remaining three survey numbers (56, 60 and 61), covering an extent of 11.41 acres, Village Account 1 (Government Land Register) was not maintained.

In reply, Tahsildar stated that action would be taken to rectify the errors.

However, in the absence of records, it is not clear as to how the Department would rectify the above errors.

<sup>152</sup> SFA is the Settlement Fair *Adangal* which is prepared for an estate village and is equivalent to RSR.

<sup>153</sup> Lands on hillocks which are reserved for State or communal purposes.

#### **6.4.8 Non-maintenance of village level Land Records**

Government of Andhra Pradesh had introduced integrated village accounts through an order<sup>154</sup> (March 1992) and prescribed nine village accounts<sup>155</sup> to be maintained for different purposes. During the scrutiny of records, it was observed that in a number of cases village accounts were not being maintained.

In three *mandals*<sup>156</sup>, Village Account 1 (Government Land Register), in 10 *mandals*<sup>157</sup>, Village Account 2 (Register of Changes), and in the office of the Tahsildar, Visakhapatnam Urban *mandal*, Village Account 3 (*Adangal*) were not being maintained.

When this was brought to notice of the Department, all the Tahsildars (except Visakhapatnam Urban) replied that village accounts would be maintained henceforth. Tahsildar, Visakhapatnam Urban replied that as this was an urban *mandal*, village accounts were not required to be maintained. The reply is not tenable as Government did not dispense with maintenance of the above village accounts in urban *mandals*.

#### **6.4.9 Improper maintenance of village level Land Records**

##### **6.4.9.1 Discrepancy in extent of land**

During the scrutiny of records of office of the Tahsildar, Dharmavaram *mandal*, Audit observed that there was discrepancy in the extent of land between RSR and *Adangal*. As per the RSR, the total extent of land in Dharmavaram village was 8,996.66 acres whereas in *Adangal* (2011-12) the extent was 9,783.82 acres.

In reply, Tahsildar stated that action would be taken to rectify the difference.

##### **6.4.9.2 Discrepancy between manual and computerised records**

As per provisions of AP Survey Manual, whenever a survey number is sub-divided, *Mandal* surveyor should prepare sub-division record. On approval of sub-division by the Department of Survey and Settlement of Land Records, sub-division number should be recorded in FMB and RSRs. Accordingly, Tahsildar has to update these changes in ROR I B and Village Account 3.

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<sup>154</sup> G.O.Ms.No.265, Revenue (L.R.-II) Department, dated 10 March 1992.

<sup>155</sup> Village Account 1 (Government Land Register), Village Account 2 (Register of Changes), Village Account 3 (*Adangal*), Village Account 4 (Register of holidays and Asami-wise Land Revenue Demand Register), Village Account 5 (Demand, Collection and Balance Register), Village Account 6 (Chitta – Daily Collection Register), Village Account 7 (Irsalnama - Register of Reconciliation), Village Account 8 (Register of Irrigation sources) and Village Account 11 (Receipt Register).

<sup>156</sup> Kadapa, Visakhapatnam Rural and Visakhapatnam Urban.

<sup>157</sup> Bandi Atmakur, Dharmavaram, Guntur, Kadapa, Pentapadu, Penamaluru, Nandyal, Vijayawada Urban, Visakhapatnam Rural and Visakhapatnam Urban.

During the scrutiny of the land records such as *Adangal*, Village Account 2 and ROR I-B pertaining to Meenavalluru village of Pentapadu *mandal*, the following discrepancies were observed.

As per RSR and Village Account 3 (*Adangal*), an extent of 1.20 acres of land was in the names of 'X' and 'Y' in Survey No.46/1. 'Y' sold his land of 0.60 acres to two persons in 2015. Audit observed that the prescribed procedure for sub-dividing the land was not being followed. As a result, the fact of sub-dividing the land was not recorded in the ROR I-B and Village Account 3. However, when transaction was updated in the system, survey number was automatically sub-divided into 46-1/A and 46-1/B. Thus, creation of sub-division in computerised register without approval and consequent discrepancy in manual and computerised register was not in order.

In reply, Tahsildar stated that the discrepancy was due to computer software which was designed in such a way that whenever a division occurs in any survey number, it would automatically sub-divide existing numbers and allots a new sub-division number to the land newly carved out.

However, automatic sub-division of survey numbers in computerised records without making changes in manual records creates mismatch between manual and computerised land records. Therefore, the Department needs to rectify computer software and record changes parallelly in the registers manually maintained.

#### **6.4.9.3 Procedural lapses in maintaining village accounts**

As per Government order<sup>158</sup> (March 1992) village accounts are to be maintained in the prescribed format, on a printed form on yearly basis.

During scrutiny of records it was observed that in the following Tahsildar offices, records were not being properly maintained.

In two Tahsildar offices<sup>159</sup> Audit observed that Village Account 1 was not maintained in the prescribed format. Besides, the same register was continued for four years, instead of maintaining it on yearly basis.

Tahsildar, Jangareddygudem maintained Village Account 2 in a note book. In Tadepalligudem *mandal*, Village Account 2 register was continued for five years (*fasli* 1420 to 1424) instead of maintaining it on annual basis.

On this being pointed out, three Tahsildars<sup>160</sup> replied that the village accounts would be maintained in prescribed format and on printed form.

<sup>158</sup> G.O.Ms.No.265, Revenue (L.R.-II) Department, dated 10 March 1992.

<sup>159</sup> Jangareddygudem and Pentapadu.

<sup>160</sup> Jangareddygudem, Pentapadu and Tadepalligudem.

#### **6.4.9.4 Discrepancies between village level Land Records and *mandal* level Land Records**

In Vanukuru village of Penamaluru *mandal*, there was discrepancy in the area of Government land in some survey numbers between *Mandal* Government Land Register and Village Account 1 {detailed in Annexure-III (a)}.

In Vidyadharapuram village of Vijayawada Urban *mandal*, in three cases, difference in names and extent of land was observed in Village Account 1 and Village Account 3 for *fasli* year 1421 {detailed in Annexure-III (b)}.

Following discrepancies were observed in the registers maintained at Jingeru village of Pedana *mandal*:

- Government land as per *Mandal* Government Land Register was 205.51 acres; whereas in *Adangal* it was shown as 206.55 acres. Thus, there was discrepancy of 1.04 acres.
- Similarly in survey number 5/11, the extent of land as per *Mandal* level Government Land Register was 0.81 acres whereas it was shown as 0.51 acres in Village Account 3.
- Extent of land purchased in survey number 186/2C was recorded in Village Account 2 as 0.29 acres for *fasli* year 1420. The same was however shown as 0.31 acres in Village Account 3 for *fasli* year 1421 {detailed in Annexure-III (c)}.

On this being pointed out, three Tahsildars<sup>161</sup> replied that the above errors would be rectified.

#### **6.4.10 Incorrect classification of patta land as assigned land**

As per BSO 15, Government lands are assigned to the landless poor either on payment of market value or free of cost. Provisions of Andhra Pradesh Assigned Lands (Prohibition of Transfers) Act, 1977, prohibit assigned lands being alienated. Section 22 A (1) of Registration Act, 1908, contains list of lands which are not to be registered and includes 'assigned lands'.

During scrutiny of records of Diguvamasapalli village of Chittoor *mandal*, Audit observed that there were discrepancies between Village Account 1 and 3 as detailed below.

As per Village Account 3 (*Adangal* for *fasli* 1421) 'X' was the *pattadar* of an extent of 0.30 acres. However, the same was classified as 'assigned land' in Village Account 1 (Government Land Register) and included (2015) in the list of lands prohibited from registration under the provisions of Registration Act, 1908. As such, the rights of the *pattadar* were in jeopardy as the *pattadar* cannot alienate the land by sale, gift, etc.

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<sup>161</sup> Pedana, Penamaluru and Vijayawada Urban.

Further, Audit observed from the village accounts pertaining to Thenebanda village of Chittoor *mandal*, that as per Village Account No.1 an extent of 0.10 acres (survey no.290/7) was acquired from Mr. 'A' for construction of houses under Indiramma Housing Scheme for weaker sections. On cross verification of this land with the list of lands mentioned under Section 22 A (1) of Registration Act, the said land continued to be in the name of Mr. 'A' which was incorrect.

On this being brought to notice, Tahsildar replied that these errors would be rectified.

#### **6.4.11 Omission to include Government Land in inventory register**

As per Section 22 A (1) of Registration Act, 1908, Government prohibited certain categories of land from registration.

During scrutiny of the records in Tahsildar, Bandi Atmakur *mandal*, Audit observed that 38 survey numbers / sub-survey numbers with total extent of land of 69.58 acres recorded in RSR and *Adangal* as Government lands were omitted from inclusion in *Mandal* Government Land inventory register.

Non-inclusion of the above survey numbers in *Mandal* Government Land inventory register might lead to encroachment of Government lands.

In reply, Tahsildar stated that the omitted survey numbers would be included in the list of lands prohibited from registration under the Registration Act.

As land records are very important, action needs to be taken to rectify these errors.

#### **6.4.12 Failure to maintain registers / records at *mandal* level**

As per the provisions of BSO and *Mandal* Accounts Manual, Register of Bought-in-Lands, Register of Leased out Lands, Register of Relinquishment and Register of Transfer of Lands are to be maintained in *mandal* offices.

During scrutiny of records, Audit observed that in all the 40 *mandals* none of these registers was maintained.

In reply, all the Tahsildars except Srikakulam stated that action would be taken to maintain all the registers. Tahsildar, Srikakulam stated that these were not readily traceable.

#### **6.4.13 Failure to complete *jamabandi* within prescribed time**

As per the instructions issued in BSO 12(5), *jamabandi* is to be completed before the end of *fasli* i.e., 30 June. *Mandal* demand statements must be closed within 15 days after the completion of *fasli*, so as to finalise the settled demand in respect of water tax, road cess and preparation and updation of land records such as Government Land Register (Village Account 1), Register of Changes (Village Account 2) and *Adangal* (Village Account 3).

Audit scrutinized *jamabandi* records for five *fasli* years from 1420 to 1424 of the 40 selected *mandals*.

Out of 200 *jamabandis* due in 40 *mandals* during the last five *fasli* years, only 86 *jamabandis* (43.00 per cent) were completed with delays ranging from one to more than three years. In Anantapuram *mandal*, one *Jamabandi* (0.50 per cent) i.e. *jamabandi* for the *fasli* 1420 was completed in time. In eight cases (4.00 per cent), though *jamabandi* was completed, the dates of completion of *jamabandi* could not be ascertained. In 105 cases (52.50 per cent) *jamabandi* was not completed.

Out of the above 105 cases, *jamabandi* was not completed in four *mandals*<sup>162</sup> (20 cases) for any of the five *fasli* years (1420 to 1424) as detailed in Annexure-IV.

After Audit pointed out the cases, 29 Tahsildars<sup>163</sup> replied that the matter would be brought to the notice of higher authorities for taking necessary action; seven Tahsildars<sup>164</sup> replied that the matter would be examined; three Tahsildars<sup>165</sup> replied that *jamabandi* for the *faslis* 1420 to 1422 was completed and that for the *faslis* 1423 and 1424 *jamabandi* was under process. Tahsildar, Kakinada Urban replied that the *jamabandi* could not be completed in time due to administrative reasons.

#### **6.4.14 Conclusion**

Audit observed that in many offices Provisions of Land Laws relating to maintenance of land records were not complied with. Settlement is guaranteed for a period of 30 years. Even though more than 60 years had elapsed no re-survey was taken up. Early precautionary measures such as scanning/computerisation were not taken up to preserve basic land records. Government lands which do not have proper records were alienated. Discrepancies were observed between computerised and manual records. Lands were incorrectly classified. Government lands were not included in the Government land inventory. Basic land records, registers maintained at *mandal* level and Village Accounts were either not being maintained or maintained improperly. Further, there was undue delay in finalisation of Village Accounts.

The matter was referred to the Government in August 2016; reply has not been received (December 2016).

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<sup>162</sup> Chirala, Guntur, Kadapa and Srikakulam.

<sup>163</sup> Alluru, Bandi Atmakur, Chirala, Chittoor, Guntur, Jangareddygudem, Kadapa, Karamchedu, Kavali, Kurnool, Nandyal, Narasaraopet, Nellore, Nidadavole, Ongole, Pedana, Penamaluru, Pentapadu, Proddatur, Railway Kodur, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Srikalahasti, Tadepalligudem, Tirupati Urban, Vijayawada Urban, Visakhapatnam Rural and Visakhapatnam Urban.

<sup>164</sup> Bobbili, Jiyammavalasa, Nathavaram, Palasa, Santhabommali, Srikakulam and Vizianagaram.

<sup>165</sup> Anantapuram, Bommanahal and Dharmavaram.



## 6.5 Levy of conversion tax and penalty

As per Section 3(1) of AP Agricultural Land (Conversion for Non-agricultural Purposes) Act, 2006, no agricultural land in the State shall be put to non-agricultural purpose, without the prior permission of the competent authority. Section 4(1) provides that every owner<sup>166</sup> or occupier of agricultural land shall pay conversion tax at the rate of nine *per cent* of the basic value<sup>167</sup> of the land converted for non-agricultural purposes. If any agricultural land has been put to non-agricultural use without obtaining permission, the RDO who, under Section 5, is the competent authority to convert the land use from agricultural use to non-agricultural use, shall impose a penalty of 50 *per cent* of the conversion tax under Section 6(2).

As per Rule 6(i) of AP Agricultural Land (Conversion for Non-agricultural Purposes), Rules, 2006, for the purpose of calculation of conversion tax, the basic value as notified by Government from time to time, for the land as on the date of application shall be taken into account. Further, as per Rule 6(iv), where land is deemed to have been converted for non-agricultural purposes, the date for purpose of calculation of basic value shall be the earliest of (i) the date of detection of conversion by the competent authority, (ii) the date of entry into village accounts or (iii) the date of application by owner/occupier.

### 6.5.1 Non-levy of conversion tax and penalty on approved layouts due to lack of Coordination between Revenue and Panchayat Raj Departments

As per Rule 6 of AP Gram Panchayat Land Development (Layout and Building) Rules, 2002, Gram Panchayats are the executive authorities to sanction permission for layout proposals. Division Level Panchayat Officers (DLPOs) exercise supervision, control and provide guidance to the Gram Panchayats under their jurisdiction<sup>168</sup>.

During the course of audit, layouts approved by the Gram Panchayats coming under DLPOs' jurisdiction were cross verified with the conversion granted in the office of Sub-Collector, Parvathipuram. Audit observed (August 2015) that in 32 cases, layouts were approved by Gram Panchayats and 143.96 acres of land were converted without authorisation from the Sub-Collector. Neither had the individuals / organisations approached the office concerned nor did the Department make any effort to levy conversion tax in these cases. Thus, lack of coordination between the Department of Revenue and Panchayat Raj Department led to non-levy of conversion tax (₹ 43.02 lakh) and penalty (₹ 21.51 lakh) amounting to ₹ 64.53 lakh.

<sup>166</sup> As per Section 2(m) of the Act, 'owner' includes any lessee/local authority to whom lands have been leased out by State Government or the Central Government.

<sup>167</sup> 'Basic value' means the land value entered in the Basic Value Register notified by Government from time to time and maintained by the Sub-Registrar.

<sup>168</sup> G.O.Ms.No.70, PR & RD (Rules) Department, dated 29 February 2000.

After Audit pointed out (August 2015) the cases, Government replied (September 2016) that an amount of ₹ 10.90 lakh had been remitted in four cases and action was being initiated in the remaining cases.

### **6.5.2 Non-levy / short levy of conversion tax and penalty on mining or quarry leases due to lack of Coordination between Revenue and Industries & Commerce Departments**

As per Rules 11 and 12 of the AP Minor Mineral Concession Rules, 1966, (APMMCR) Director, Mines and Geology (DMG) and Deputy Directors (DDs) are empowered to grant mining / quarry leases for minor minerals in the State. As per Rules 10 and 31 of the APMMCR, Assistant Director, Mines and Geology (ADMG) is the administrative authority who monitors the mining / quarrying operations carried out by the leaseholders in the area under his jurisdiction.

Section 2(m) (i) of the AP Agricultural Land (Conversion for Non-agricultural Purposes) Act, 2006 defines “Owner” so as to include any lessee to whom lands have been leased out by the State Government or Central Government. Section 4(1) of the Act provides that every owner or occupier of agricultural land shall pay conversion tax for using the land for non-agricultural purposes. Hence, every land leased for mining/quarrying is to be converted and is liable for levy of conversion tax.

Audit obtained information (September 2015) from ADMG, Eluru on mining/quarry leases that were executed between 1 April 2013 and 31 March 2015. This was cross checked with the permissions issued by RDO, Eluru. Audit observed (September 2015) in the office of RDO, Eluru, that though 11 quarry leases covering an area of 15.43 acres were granted (between April 2013 and March 2015), none of the lessees had applied for conversion of their lands from agricultural use to non-agricultural use; nor did the Department take any action to levy conversion tax/penalty. Thus, lack of coordination between the Department of Revenue and the Department of Industries and Commerce (Mines and Geology) led to non-levy of conversion tax (₹ 11.06 lakh) and penalty (₹ 5.53 lakh) amounting to ₹ 16.59 lakh.

After Audit pointed out (September 2015) the cases, Government replied (September 2016) that the matter would be pursued.

### **6.5.3 Short levy of conversion tax due to under-valuation**

During scrutiny of records in the office of RDO, Srikakulam, Audit observed (June 2015) that an individual had applied (23 April 2013) for conversion of 1.55 acres of agricultural land for non-agricultural purposes and paid conversion tax accordingly. However, RDO had accorded permission for conversion of the land by adopting basic value of ₹ 10 lakh per acre instead of ₹ 77.44 lakh per acre. Thus, due to adoption of land value as ₹ 15.50 lakh instead of ₹ 120.03 lakh, the Department levied tax of ₹ 1.44 lakh against ₹ 10.80 lakh (at nine *per cent*) leviable. This resulted in short levy of conversion tax of ₹ 9.36 lakh.

After Audit pointed out (June 2015) the case, Government replied (September 2016) that an amount of ₹ five lakh had been collected from the applicant and the remaining amount would be collected soon.

#### **6.5.4 Non-levy of penalty on conversion of agricultural land to non-agricultural use without prior permission**

During scrutiny of records in the office of RDO, Eluru, Audit observed (September 2015) that the competent authority had issued (April 2013) permission to an applicant for conversion of 1.49 acres of agricultural land to non-agricultural use and collected appropriate conversion tax. However, as per the inspection report (March 2013) of the Tahsildar, the layout had already been approved (2008) by the Panchayat; roads were formed and a few plots were sold to others. As the land was converted from agricultural use to non-agricultural use without prior permission, penalty under Section 6(2) of the Act was to be levied. However, authorities had levied only conversion tax of ₹ 2.15 lakh leaving aside penalty to the tune of ₹ 1.07 lakh.

After Audit pointed out (September 2015) the case, Government replied (September 2016) that the matter would be pursued.



***CHAPTER VII***  
***OTHER TAX***  
***AND***  
***NON-TAX RECEIPTS***



## CHAPTER VII

### OTHER TAX AND NON-TAX RECEIPTS

#### 7.1 Results of Audit

Test-check of records of 58 offices<sup>169</sup> of Revenue, Industries and Commerce, Energy and Endowments Departments conducted during the year 2015-16 led to preliminary audit observations involving under-assessment of tax and other irregularities involving ₹ 471.02 crore in 82 cases, which broadly fell under the categories as given in Table 7.1.

**Table 7.1: Results of Audit**

(₹ in crore)			
Sl. No.	Category	No. of cases	Amount
<b>I</b>	<b>REVENUE DEPARTMENT</b>		
	<b>Land Revenue</b>		
1.	Non-levy / short levy of water tax	4	1.04
2.	Non-levy / short levy of interest on arrears of water tax	13	0.42
3.	Unauthorised occupation of land	1	4.35
	<b>Endowments Department</b>		
1.	Short collection of Common Good Fund & Endowment Administration Fund	1	46.50
2.	Non-registration of lease deeds	1	0.02
3.	Short recovery of IT, VAT	2	0.02
4.	Other irregularities	2	0.22
<b>II</b>	<b>INDUSTRIES AND COMMERCE DEPARTMENT</b>		
	<b>Mines and Minerals</b>		
1.	Short Levy of Seigniorage Fee	3	0.04
2.	Short Levy of Royalty	14	414.81
3.	Short Levy of Dead Rent	10	0.24
4.	Short Levy of Stamp Duty	4	0.04
5.	Non-Recovery of Amount towards National Mineral Exploration Trust	11	1.76
6.	Non-Forfeiture of Security Deposit	11	0.24
<b>III</b>	<b>Energy Department</b>		
1.	Non-Realisation of Fee for periodical inspections	4	0.01
2.	Shortfall in Collection of Electricity Duty	1	1.31
	<b>TOTAL</b>	<b>82</b>	<b>471.02</b>

During the year 2015-16, the Department accepted under-assessment and other deficiencies of ₹ one crore in 14 cases.

A few illustrative cases involving ₹ one crore are discussed in the succeeding paragraphs.

<sup>169</sup> Number of offices under Industries and Commerce (Mines and Geology) Department: 27; Energy Department: 13; Endowments Department: 18; 44 offices of Land Revenue Department are included at Para 6.3 in Chapter VI - Land Revenue.

## REVENUE DEPARTMENT

### 7.2 Non-levy of interest on arrears of water tax collected

As per Section 8 of Andhra Pradesh (AP) Water Tax Act, 1988, water tax payable by a landowner in respect of any land shall be deemed to be public revenue due upon the land and provisions of AP Revenue Recovery (APRR) Act, 1864 shall apply. Further, under Section 7 of APRR Act, arrears of revenue shall bear interest at the rate of six *per cent* per annum.

During scrutiny (February and March 2016) of consolidated statements of demand, collection and receipt books of eight Tahsildar offices<sup>170</sup>, Audit observed that during *fasli* years from 1416 to 1423 (1 July 2006 to 30 June 2014), arrears of land revenue towards water tax amounting to ₹ 6.36 crore was collected. However, interest of ₹ 38.16 lakh to be levied under Section 7 of APRR Act was not levied.

Interest was computed by Audit on a conservative estimate (calculated at the rate of six *per cent* for minimum period of one year) as the period of delay could not be checked on account of not maintaining or improper maintenance of Demand, Collection and Balance (DCB) registers at village level.

After Audit pointed out these cases, Government accepted (September 2016) the observation and stated that suitable amendment to the Act was being made to waive the interest amount.

## INDUSTRIES AND COMMERCE DEPARTMENT

### Mines and Minerals

#### 7.3 Short levies on mineral revenue

##### 7.3.1 Short levy of Royalty

As per Section 9 of Mines and Minerals (Development and Regulation) (MMDR) Act, 1957, the holder of a mining lease shall pay royalty in respect of any mineral removed or consumed by him or by his agent, manager, employee, contractor or sub-lessee from the leased area at the rates specified in the Second Schedule<sup>171</sup> in respect of the mineral.

As per Rule 64 D of The Mineral Concession (MC) Rules, 1960, every mine owner, his agent, manager, employee, contractor or sub-lessee shall compute the amount of royalty on minerals taking into consideration the sale price published by Indian Bureau of Mines (IBM) for different minerals where such royalty is charged on advalorem basis. For this purpose, state-wise sale price for different minerals as published by IBM shall be the sale price for

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<sup>170</sup> Allur, Bandi Atmakur, Kavali, Nandyal, Nellore, Pedana, Penamaluru and Proddatur.

<sup>171</sup> GSR 574 (E), dated 13 August 2009.  
GSR 630 (E), dated 1 September 2014.



computation of royalty in respect of any mineral produced any time during a month in any mine in that State.

The rates of royalty to be adopted for Laterite, Quartz, Ball clay and Garnet are 25 per cent, 15 per cent, 8 per cent and 4 per cent of sale price respectively (the rate of royalty on Garnet was 3 per cent up to 31 August 2014).

During scrutiny of lease files and Mineral Revenue Assessments (MRA) of four offices<sup>172</sup> of the Assistant Director of Mines and Geology (ADMG), it was observed (February and March 2016) from the assessment files relating to 12 leases for the period 2014-15 that the Department had not adopted the monthly sale price published by IBM for the minerals despatched. The MRAs were finalised by adopting incorrect sale price and this resulted in short levy of royalty amounting to ₹ 55.30 lakh.

After Audit pointed out these cases, two ADsMG<sup>173</sup> replied (February and March 2016) that the MRAs would be revised. ADMG, Dachepalli replied (August 2016) that MRAs were revised in respect of two mining leases for the year 2014-15 duly taking the IBM rates and royalties into consideration as pointed out by Audit. ADMG, Srikakulam replied (September 2016) that the MRA for the year 2014-15 was revised duly adopting IBM rates of garnet on the despatched quantity as per the annual return submitted by the lessee.

### 7.3.2 Short levy of Seigniorage Fee

As per Rule 10 of AP Minor Mineral Concession (APMMC) Rules, 1966, seigniorage fee<sup>174</sup> or dead rent<sup>175</sup>, whichever is higher shall be charged on all minor minerals despatched or consumed from the land at the rates specified in the schedules to the Rules. Government revised the rates of seigniorage fee on minor minerals through Government order<sup>176</sup> dated 13 August 2009.

During scrutiny of lease files and MRAs in the office of ADMG, Anakapalle, Audit observed (March 2016) from the MRAs for the year 2013-14 that in one case, seigniorage fee was levied at ₹ 13.22 lakh instead of ₹ 16.94 lakh on the minor mineral, Colour Granite, consumed / despatched during the period. This resulted in short levy of seigniorage fee amounting to ₹ 3.72 lakh.

After Audit pointed out the case, ADMG replied (March 2016) that the MRA would be revised under intimation to Audit.

<sup>172</sup> Anakapalle, Dachepalli, Eluru and Srikakulam.

<sup>173</sup> Anakapalle and Eluru.

<sup>174</sup> 'Seigniorage fee' is fee charged on minor minerals.

<sup>175</sup> 'Dead rent' is rent payable on a mining lease though there is no mining activity.

<sup>176</sup> G.O.Ms.No.198, Industries and Commerce (M-I) Department, dated 13 August 2009.

### 7.3.3 Short levy of Dead Rent

As per Section 9A of MMDR Act, 1957, the holder of a mining lease shall pay dead rent in respect of any area covered under a mining lease at such rates as specified in the third Schedule. As per General Supplementary Rules<sup>177</sup> (GSR), dated 13 August 2009, dead rent is payable at the rate of ₹ 1,500 per hectare per annum for the fourth year of lease and ₹ 3,000 per hectare per annum from the fifth year of lease in case of lease granted for high value minerals, i.e., semi-precious stones. These rates were revised to ₹ 3,000 and ₹ 6,000 respectively through GSR<sup>178</sup>, dated 1 September 2014.

During scrutiny of lease files and MRAs in the office of ADMG, Anakapalle, Audit observed (March 2016) from the MRAs for the year 2014-15 that dead rent on semi-precious stones was levied at pre-revised rates in respect of 13 lessees. This resulted in short levy of dead rent amounting to ₹ 3.31 lakh.

After Audit pointed out these cases, ADMG replied (March 2016) that the MRA would be revised under intimation to Audit.

Thus, the total short levies on mineral revenues amounted to ₹ 62.33 lakh.

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

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<sup>177</sup> 575 (E), dated 13 August 2009.

<sup>178</sup> 631 (E), dated 1 September 2014.

***CHAPTER VIII***  
***FOLLOW-UP AUDIT***



## **CHAPTER VIII**

### **FOLLOW-UP AUDIT**

#### **8.1 Follow-up Audit on the Audit recommendations pertaining to the Performance Audit on “Functioning of the Prohibition and Excise Department”**

##### **8.1.1 Introduction**

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 Standalone Audit Report was tabled in the undivided Andhra Pradesh State Legislature in December 2011. The following nine recommendations were included to enable the Government to address the deficiencies and irregularities pointed out in the Report.

1. Monitor closely the manufacture of Rectified Spirit (RS) by the State distilleries commensurate with the licensed capacity.
2. Make it mandatory for the distilleries to commence production within the validity period of application for licence and frame suitable penal provisions to encourage timely commencement of production.
3. Expedite the process of introducing barcoding system.
4. Factor in the sales potential of the sales outlets while determining their upset prices, based on the material lifted by them in the previous cycles or introducing a system of charging additional licence fee for the goods lifted by the outlets beyond specified limits.
5. Computerise the entire process of dispatch of liquor bottles from the distilleries to marketing depots and to the sales outlets in order to trace and track their movement using their identification numbers so as to prevent and monitor unauthorised sales.
6. Carry out a State-wide review of liquor shops operating near educational / religious institutions and hospitals, ignoring the distance limits prescribed in the Act, and to enforce condition of grant of licence strictly to ensure that outlets are not permitted near educational / religious institutions.
7. Introduce a system of recording the complaints in a register, which may be monitored by a responsible officer for their timely disposal.
8. Strengthen the border check posts in the districts which are proven to be vulnerable to illicit distillation, with competent excise staff and better communication facilities for the purpose of handling excise offences.
9. Frame a training policy that makes training a compulsory requirement for all the officers and the enforcement staff at periodical intervals. Review the curriculum followed at the State Excise Academy to make

it contemporary and to include sessions on topics like communication and analysis of criminal evidence to equip the enforcement staff in meeting the challenges of changing crime scenario.

The residuary State of Andhra Pradesh accepted two recommendations (No.3 and 5) clearly. In respect of two recommendations (No.4 and 7) no reply was furnished regarding acceptance, though fully implemented.

### **8.1.2 Audit Objective**

Audit was conducted between October 2015 and July 2016 to assess the progress made on the recommendations made in the Standalone Audit Report.

### **8.1.3 Audit Findings**

The status of implementation of recommendations has been brought out under three categories i.e., fully implemented, substantially implemented and insignificant or no progress. The Department had completed action on three recommendations (No. 3, 4 and 7), while in the case of three other recommendations (No. 5, 8 and 9), the Department had initiated action for implementation but the same was not completed. In respect of the remaining three recommendations (No. 1, 2 and 6), the Department had not taken any action.

Action taken by the Department and results of verification of the implementation of recommendations are discussed in the following paragraphs.

#### **Fully Implemented**

**8.1.3.1** It was recommended (No.3) to expedite the process of introducing barcoding system.

Government had introduced (July 2014) Hedonic Path Finder System (HPFS) to track and trace manufacture and sale of Indian Made Foreign Liquor (IMFL). This system included computerisation at three levels i.e. distillery, depots and retail sales outlets. This system also included affixture of Holographic Excise Adhesive Label (HEAL) embedded with barcode on bottles of IMFL in distilleries. Holographic Excise Adhesive Labels (HEAL) were being affixed on liquor bottles manufactured at distilleries.

**8.1.3.2** It was recommended (No.4) to factor in the sales potential of the sales outlets while determining their upset prices, based on the material lifted by them in the previous cycles or introducing a system of charging additional licence fee for the goods lifted by the outlets beyond specified limits.

Excise policy based on the auction system was dispensed with, in the year 2012-13. A new Excise Policy based on fixed licence fee was implemented in the year 2012-13. In the new Excise Policy, Government levied privilege fee on sale of liquor at the rate of eight per cent and VAT thereon when the cumulative value of purchase(s) during the licence year exceeded six times the annual licence fee. Privilege fee was levied and collected up to the year

2014-15. The provision of levy and collection of privilege fee was deleted from the Excise Policy in the licence year 2015-16.

Government replied (June 2016) that levy and collection of privilege fee was given up as the levy of privilege fee on the sales over and above the optimum level had dampened the spirit of the licensees to improve their sales. It acted as an impediment to the growth of IMFL sales as the increase in sales did not give any additional income to the licensee.

Information obtained from Andhra Pradesh Beverages Corporation Limited (APBCL) in respect of sale of liquors eligible for levy of privilege fee, showed that the sales had come down during the year 2014-15 as compared to the year 2013-14 which substantiated the cause for deletion of provision to levy privilege fee.

**8.1.3.3** It was recommended (No.7) to introduce a system of recording the complaints in a register, which may be monitored by a responsible officer for their timely disposal.

Complaint register was being maintained in the Control Room in the office of the Director of Enforcement. Complaints received over phone and by post were being recorded in complaints register. The complaints received were being referred to officers concerned for necessary action. Follow-up of complaints referred to officers concerned was being taken up for ensuring their timely disposal.

#### **Substantially Implemented**

**8.1.3.4** It was recommended (No.5) to computerise the entire process of dispatch of liquor bottles from the distilleries to the marketing depots and to the sales outlets in order to trace and track their movement using their identification numbers so as to prevent and monitor unauthorised sales.

Government had introduced (July 2014) HPFS to track and trace manufacture and sale of IMFL. This system included computerisation at three levels i.e. distilleries, depots and retail sales outlets. This system also included affixture of HEAL on bottles of IMFL in distilleries. Computerisation at distilleries and depots level was completed and computerisation of retail sales outlets was pending.

**8.1.3.5** It was recommended (No.8) to strengthen the border check posts in the districts which were vulnerable to illicit distillation, with competent excise staff and better communication facilities for the purpose of handling excise offences.

Government had set up 39 check posts in 10 districts. Out of these, 14 new border check posts were set up in June 2014. However, no new posts were sanctioned to operate the Border Check Posts (BCP). Information obtained from Prohibition and Excise Superintendents (P&ES) (Chittoor, Gudur, Palasa, and Penukonda) showed that the number of persons posted against

sanctioned strength remained the same for the past five years and vacancies were yet to be filled up.

Government replied (June 2016) that mobile phone connections were provided to Circle Inspector cadre and above. Information obtained from four Prohibition and Excise Superintendents (P&ES) (Anantapuram, Gudur, Chittoor and Palasa) showed that no communication facilities were provided to the check posts till 2014-15. However, P&ESs (Chittoor and Gudur) stated that tab facility was provided to them in the year 2016.

**8.1.3.6** It was recommended (No.9) to frame a training policy that made training a compulsory requirement for all the officers and the enforcement staff at periodical intervals. It was also suggested to review the curriculum followed at the State Excise Academy to make it contemporary, by including sessions on topics like communication and analysis of criminal evidence to equip the enforcement staff in meeting the challenges of changing crime scenario.

After formation of Telangana State (2 June 2014), Government of India had declared Excise Academy to be in Schedule X and was to be managed jointly by Andhra Pradesh and Telangana states. However, the Academy was under the control of Government of Telangana. As seen from the reply furnished by the Government of Telangana, focus on training improved and a total of 889 personnel were imparted training during the years 2012-13 and 2013-14 in the undivided State of Andhra Pradesh. The recommendation was implemented up to 2013-14 and not continued thereafter because of dispute between Governments of Andhra Pradesh and Telangana over the control of Excise Academy.

#### **Insignificant or No progress**

**8.1.3.7** It was recommended (No. 1) to monitor closely the manufacture of RS by the State distilleries commensurate with the licensed capacity.

Audit observed that the actual production ranged from 50 to 60 *per cent* of licensed capacity of the distilleries during the period from 2012-13 to 2014-15, which indicated that this was even lower than the production capacity (between 59 and 69 *per cent*) utilised during the period 2006-07 to 2009-10.

Causes of underutilisation of licensed capacity of RS distilleries were not analysed and examined by the Government. The Government replied (November 2015) that suitable action was being taken to fully utilise the licensed capacity of distilleries.

**8.1.3.8** It was recommended (No.2) to make it mandatory for the distilleries to commence production within the validity period of application for licence and frame suitable penal provisions to encourage timely commencement of production.

Nine Letters of Intent (LOI) were issued for the establishment of distilleries during the period 2010-2013. An LOI was issued to a distillery on



22 July 2011. The distillery commenced production belatedly on 1 May 2015, instead of July 2013. In two cases, LOI was extended up to 31 July 2016 and in the remaining six cases, the production did not commence till June 2016.


As per Rules 5(g) and 8 of AP Distillery (Manufacture of Spirits) Rules, 2006 if the holder of LOI fails to commence production within two years from the date of issue of LOI, right over LOI and on the licence are to be forfeited.

The Government did not forfeit LOI and licence in any of the nine cases where production did not commence within the stipulated time. The Government did not frame suitable penal provisions for delay in commencement of production. Though AP Excise (Manufacture of Spirits) Rules, 2006 and AP (Winery) Rules, 2006 did not provide for extension of LOI, Government continued to extend the validity period of LOI.

**8.1.3.9** It was recommended (No. 6) to carry out a State-wide review of the liquor shops operating near the educational/religious institutions and hospitals, ignoring the distance limits prescribed in the Act, and to enforce condition of grant of licence strictly to ensure that outlets are not permitted near educational/religious institutions.

It was observed that State-wide review for bars and shops was yet to be conducted and no action was taken by the Department to shift / alter / modify the premises of sales outlets pointed out in the Standalone Audit Report earlier.

Hyderabad  
The 24 February 2017

  
(Lata Mallikarjuna)  
Accountant General  
(Economic & Revenue Sector Audit)  
Andhra Pradesh & Telangana

Countersigned

New Delhi  
The 01 March 2017

  
(Shashi Kant Sharma)  
Comptroller and Auditor General of India



***ANNEXURES  
AND  
GLOSSARY***



**Annexure-I**  
**Para 6.4.5**  
**(Status of availability of basic land records)**

Sl. No.	Name of the Mandal	No. of villages	RSRs /FLRs/Fair Adangal			Village Maps			FMBs		
			To be maintained	Available	Missing	To be maintained	Available	Missing	To be maintained	Available	Missing
1	Alluru	15	15	15	0	15	15	0	NA	NA	NA
2	Anantapuram	20	20	20	0	20	20	0	9,654	9,608	56
3	Bandi Atmakur	15	15	15	0	15	11	4	9,432	8,932	500
4	Bobbili	44	44	44	0	44	NA	NA	NA	NA	NA
5	Bommanahal	16	16	16	0	16	16	0	5,010	5,010	0
6	Chirala	5	5	5	0	5	NA	NA	NA	NA	NA
7	Chittoor	24	24	18	6	24	22	2	10,907	10,548	359
8	Dharmavaram	14	14	14	0	14	14	0	7,166	7,014	152
9	Guntur	13	13	13	0	13	13	0	7,494	7,449	45
10	Jangareddygudem	22	22	NA	NA	22	NA	NA	NA	NA	NA
11	Jiyyammavalasa	58	58	58	0	58	NA	NA	NA	NA	NA
12	Kadapa	11	11	11	0	11	11	0	NA	NA	NA
13	Karamchedu	7	7	7	0	7	7	0	NA	NA	NA
14	Kakinada Urban	4	4	NA	NA	4	NA	NA	NA	NA	NA
15	Kavali	15	15	15	0	15	15	0	NA	NA	NA
16	Kurnool	25	25	23	2	25	25	0	10,183	9,516	667
17	Nandyal	20	20	20	0	20	20	0	10,960	10,764	196
18	Narasaraopeta	17	17	16	1	17	16	1	NA	NA	NA
19	Nathavaram	39	39	39	0	39	NA	NA	NA	NA	NA
20	Nellore	34	34	34	0	34	34	0	NA	NA	NA
21	Nidadavole	26	26	25	1	26	25	1	5,878	5,878	0
22	Ongole	19	19	19	0	19	NA	NA	NA	NA	NA
23	Palasa	79	79	79	0	79	79	0	NA	NA	NA
24	Pedana	31	31	30	1	31	31	0	7,933	7,920	13
25	Penamaluru	10	10	10	0	10	10	0	3,069	3,041	28
26	Pentapadu	22	22	20	2	22	12	10	6,496	6,492	4
27	Proddatur	18	18	15	3	18	17	1	NA	NA	NA
28	Railway Kodur	14	14	7	7	14	14	0	NA	NA	NA
29	Rajahmundry Urban	1	1	1	0	1	1	0	NA	NA	NA
30	Ramachandrapuram	22	22	22	0	22	22	0	NA	NA	NA
31	Rompicherla	14	14	13	1	14	13	1	NA	NA	NA
32	Santhabommali	39	39	39	0	39	NA	NA	NA	NA	NA
33	Srikakulam	31	31	31	0	31	NA	NA	NA	NA	NA
34	Srikalahasti	67	67	66	1	67	66	1	7,793	7,719	74
35	Tadepalligudem	22	22	22	0	22	22	0	10,349	10,345	4
36	Tirupati Urban	7	7	6	1	7	7	0	1,575	1,543	32
37	Vijayawada Urban	10	10	10	0	10	10	0	NA	NA	NA
38	Visakhapatnam Rural	13	13	5	8	13	11	2	1,682	1,474	208
39	Visakhapatnam Urban	16	16	13	3	16	16	0	949	949	0
40	Vizianagaram	24	24	24	0	24	NA	NA	NA	NA	NA
<b>Total:</b>		<b>903</b>	<b>903</b>	<b>840</b>	<b>37</b>	<b>903</b>	<b>595</b>	<b>23</b>	<b>1,16,530</b>	<b>1,14,202</b>	<b>2,338</b>

**Annexure-II**  
**Para 6.4.6**  
**(Status of scanning of land records)**

Sl. No.	Name of the Mandal	No. of villages	RSR/FLR/SFA				Village Maps			FMBs			
			Total	Available	Scanned	Balance	Available	Scanned	Balance	Total	Available	Scanned	Balance
1	Alluru	15	15	15	15	0	15	15	0	NA	NA	NA	NA
2	Anantapuram	20	20	20	20	0	20	20	0	9,654	9,608	9,608	0
3	Bandi Atmakur	15	15	15	15	0	11	11	0	9,432	8,932	8,932	0
4	Bobbili	44	44	44	44	0	NA	NA	NA	NA	NA	NA	NA
5	Bommanahal	16	16	16	16	0	16	16	0	5,010	5,010	5,010	0
6	Chirala	5	5	5	5	0	NA	NA	NA	NA	NA	NA	NA
7	Chittoor	24	24	18	18	0	22	22	0	10,907	10,548	10,548	0
8	Dharmavaram	14	14	14	14	0	14	14	0	7,166	7,014	7,014	0
9	Guntur	13	13	13	13	0	13	13	0	7,494	7,449	7,449	0
10	Jangareddygudem	22	22	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
11	Jiyyammavalasa	58	58	58	58	0	NA	NA	NA	NA	NA	NA	NA
12	Kadapa	11	11	11	11	0	11	11	0	NA	NA	NA	NA
13	Kakinada Urban	4	4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
14	Karamchedu	7	7	7	7	0	7	7	0	NA	NA	NA	NA
15	Kavali	15	15	15	15	0	15	15	0	NA	NA	NA	NA
16	Kurnool	25	25	23	23	0	25	25	0	10,183	9,516	9,516	0
17	Nandyal	20	20	20	20	0	20	20	0	10,960	10,764	10,764	0
18	Narasaraopet	17	17	16	16	0	16	16	0	NA	NA	NA	NA
19	Nathavaram	39	39	39	39	0	NA	NA	NA	NA	NA	NA	NA
20	Nellore	34	34	34	34	0	34	34	0	NA	NA	NA	NA
21	Nidadavole	26	26	25	25	0	25	25	0	5,878	5,878	5,878	0
22	Ongole	19	19	19	19	0	NA	NA	NA	NA	NA	NA	NA
23	Palasa	79	79	79	79	0	79	0	79	NA	NA	NA	NA
24	Pedana	31	31	30	30	0	31	31	0	7,933	7,920	7,920	0
25	Penamaluru	10	10	10	10	0	10	10	0	3,069	3,041	3,041	0
26	Pentapadu	22	22	20	20	0	12	12	0	6,496	6,492	6,492	0
27	Proddatur	18	18	15	15	0	17	17	0	NA	NA	NA	NA
28	Railway Kodur	14	14	7	7	0	14	14	0	NA	NA	NA	NA
29	Rajahmundry Urban	1	1	1	1	0	1	1	0	NA	NA	NA	NA
30	Ramachandrapuram	22	22	22	20	2	22	22	0	NA	NA	NA	NA
31	Rompicherla	14	14	13	13	0	13	13	0	NA	NA	NA	NA
32	Santhabommali	39	39	39	39	0	NA	NA	NA	NA	NA	NA	NA
33	Srikakulam	31	31	31	31	0	NA	NA	NA	NA	NA	NA	NA
34	Srikalahasti	67	67	66	66	0	66	66	0	7,793	7,719	7,719	0
35	Tadepalligudem	22	22	22	22	0	22	22	0	10,349	10,345	10,345	0
36	Tirupati Urban	7	7	6	6	0	7	7	0	1,575	1,543	1,543	0
37	Vijayawada Urban	10	10	10	0	10	10	0	10	NA	NA	NA	NA
38	Visakhapatnam Rural	13	13	5	4	1	11	11	0	1,682	1,474	1,474	0
39	Visakhapatnam Urban	16	16	13	13	0	16	16	0	949	949	949	0
40	Vizianagaram	24	24	24	24	0	NA	NA	NA	NA	NA	NA	NA
<b>TOTAL</b>		<b>903</b>	<b>903</b>	<b>840</b>	<b>827</b>	<b>13</b>	<b>595</b>	<b>506</b>	<b>89</b>	<b>1,16,530</b>	<b>1,14,202</b>	<b>1,14,202</b>	<b>0</b>

## Annexure-III (a)

## Para 6.4.9.4

## Discrepancies between village level Land Records and mandal level Land Records

Discrepancy between <i>Mandal</i> Government Land Register, <i>Adangal</i> and Village Accounts				
Sl. No.	Name of the <i>Mandal</i> & Village	Extent as per <i>Mandal</i> Govt. Land Register and <i>Adangal</i>	Extent as per Village Account 1	Difference
1	Penamaluru (M) & Vanukuru (V) (Sy.No.147/1A)	0.33 acres	0.22 acres	0.11 acres
2	Penamaluru (M) & Vanukuru (V) (Sy.No.147/5)	Not recorded	0.88 acres	0.88 acres

## Annexure-III (b)

## Para 6.4.9.4

Sl. No.	Name of the <i>Mandal</i> & Village	Extent as per <i>Adangal</i> (F 1421)	Extent as per Village Account 1 (F 1421)	Nature of irregularity
1	Vijayawada Urban (M) & Vidyadharapuram (V)	0.21 - Puntha	0.21- Rifil Range Poramboke	Names were different
2	-do-	40/1A 1A1A – 190.82 acres – Hill Poramboke	40/1A 1A1A – 190.76 acres – Hill Poramboke & 0.04 acres – Pingali Venkaiah Bhavan	Difference in extent and names
3	-do-	Nil	40/1A 1E – 0.06 acres – Valmiki Boya Seva Sangham	No recordings in <i>Adangal</i>

## Annexure – III (c)

## Para No. 6.4.9.4

Name of the village	As per <i>Mandal</i> Level Government Land Register	As per Village Account No.3 ( <i>Adangal</i> )	Remarks
Jingeru (V), Pedana (M)	Total Government land in the village – 205.51	Total Government land – 206.55	Discrepancy of 1.04 acres in extent
	5/11 - 0.81 acres – Grave yard	5/11 – 0.51 – Grave yard	Discrepancy of 0.30 acres in extent
	Village Account 2 (Mutations Register)		Remarks
Jingeru (V), Pedana (M)	Sy.No.186/2 C – 0.29 acres	Sy.No.186/2 C – 0.31 acres	Mrs. 'Z' purchased an extent of 0.29 acres of land in survey No.186/2 C in Jingeru village of Pedana <i>mandal</i> and this was recorded in Village Account No.2 for the <i>Fasli</i> 1420. However, an extent of 0.31 acres of land was recorded against the above <i>pattadar</i> in <i>Adangal</i> for the year 1421. Thus, there was a variation of 0.02 acres of land.

**Annexure – IV**  
**Para No. 6.4.13**  
**Failure to complete *jamabandi* within prescribed time**

Sl. No.	Fasli year	Completed in one year	Completed in the second year	Completed in the third year	Completed after three years	Completed (dates not known)	Total completed	Not completed at all	Total
1	1420	Bobbili, Jiyyammavalasa, Narasaraopet, Nidadavole, Palasa, Santhabommali, Tirupati Urban, Vizianagaram	Bandi Atmakur, Bommanahal, Chittoor, Kurnool, Nandyal, Nathavaram, Nellore, Pedana, Penamaluru, Proddatur, Ramachandrapuram, Rompicherla, Srikalahasti, Visakhapatnam Rural.	Kakinada Urban, Rajahmundry Urban, Vijayawada Urban.	Allur Jangareddy-gudem, Karamchedu, Kavali, Ongole.	Dharmavaram, Pentapadu, Railway Kodur, Tadepalligudem, Visakhapatnam Urban.	35	Chirala, Guntur, Kadapa, Srikakulam.	4
2	1421	Anantapuram, Bandi Atmakur, Bommanahal, Nandyal, Nathavaram, Nellore, Pedana, Penamaluru, Rompicherla, Santhabommali, Tadepalligudem, Tirupati Urban, Visakhapatnam Rural.	Chittoor, Kakinada Urban, Narasaraopet, Pentapadu, Proddatur, Rajahmundry Urban, Srikalahasti, Vijayawada Urban.	Bobbili, Jangareddygudem, Karamchedu, Nidadavole, Ramachandrapuram	Allur, Railway Kodur, Jiyyamma-valasa, Kavali, Ongole.	Dharmavaram, Visakhapatnam Urban.	33	Chirala, Guntur, Kadapa, Kurnool, Palasa, Srikakulam, Vizianagaram.	7
3	1422		Anantapuram, Bobbili, Bommanahal, Jangareddygudem, Kakinada Urban, Karamchedu, Nidadavole, Pentapadu, Proddatur, Santhabommali, Tadepalligudem.	Allur, Jiyyammavalasa, Kavali Railway Kodur.		Dharmavaram	16	Bandi Atmakur, Chirala, Chittoor, Guntur, Kadapa, Kurnool, Nandyal, Narasaraopet, Nathavaram, Nellore, Ongole, Palasa, Pedana, Penamaluru, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Srikakulam, Srikalahasti, Tirupati Urban, Vijayawada Urban, Visakhapatnam Rural, Visakhapatnam Urban, Vizianagaram.	24



Sl. No.	Fasli year	Completed in one year	Completed in the second year	Completed in the third year	Completed after three years	Completed (dates not known)	Total completed	Not completed at all	Total
4	1423	Jangareddygudem, Nidadavole, Pentapadu, Proddatur, Tadepalligudem.	Alluru, Kavali, Railway Kodur, Santhabommali.				9	Anantapuram, Bandi Atmakur, Bobbili, Bommanahal, Chirala, Chittoor, Dharmavaram, Guntur, Jiyyammavalasa, Kadapa, Kakinada Urban, Karamchedu, Kurnool, Nandyal, Narasaraopet, Nathavaram, Nellore, Ongole, Palasa, Pedana, Penamaluru, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Santhabommali, Srikakulam, Srikalahasti, Tirupati Urban, Vijayawada Urban, Visakhapatnam Rural, Visakhapatnam Urban.	31
5	1424	Tadepalligudem.					1	Alluru, Anantapuram, Bandi Atmakur, Bobbili, Bommanahal, Chirala, Chittoor, Dharmavaram, Guntur, Jangareddygudem, Jiyyammavalasa, Kadapa, Kakinada Urban, Karamchedu, Kavali, Kurnool, Nandyal, Narasaraopet, Nathavaram, Nellore, Nidadavole, Ongole, Palasa, Pedana, Penamaluru, Pentapadu, Proddatur, Railway Koduru, Rajahmundry Urban, Ramachandrapuram, Rompicherla, Santhabommali, Srikakulam, Srikalahasti, Tirupati Urban, Vijayawada Urban, Visakhapatnam Rural, Visakhapatnam Urban, Vizianagaram,	39
6	All 5 Faslis							Chirala, Guntur, Kadapa, Srikakulam,	
<b>Total:</b>		<b>27</b>	<b>37</b>	<b>12</b>	<b>10</b>	<b>8</b>	<b>94</b>		<b>105</b>

**Note:** Jamabandi in respect of Anantapuram mandal for the fasli year 1420 has been completed in time.

## GLOSSARY

AA	Assessing Authority
AAR	Average Annual Rent
AC	Assistant Commissioner
AC (CT)	Assistant Commissioner (Commercial Taxes)
ACTO	Assistant Commercial Tax Officer
AD	Assistant Director
ADC	Appellate Deputy Commissioner
ADMG	Assistant Director of Mines and Geology
ADSLR	Assistant Director of Survey and Land Records
AGPA	Agreement of Sale cum General Power of Attorney
AP	Andhra Pradesh
AP VAT	Andhra Pradesh Value Added Tax
APBCL	Andhra Pradesh Beverages Corporation Limited
APMMC Rules	Andhra Pradesh Minor Mineral Concession Rules
APMVT	Andhra Pradesh Motor Vehicles Taxation
APRMVG	Andhra Pradesh Revision of Market Value Guidelines.
APRR Act	Andhra Pradesh Revenue Recovery Act
BCP	Border Check Post
BSO	Board's Standing Order
CARD	Computer Aided Administration in Registration Department
CCLA	Chief Commissioner of Land Administration
CCRA	Chief Controlling Revenue Authority
CCT	Commissioner of Commercial Taxes
CFST	Citizen Friendly Services in Transport Department
CMV Rules	Central Motor Vehicles Rules
CST	Central Sales Tax
CT	Commercial Taxes
CTD	Commercial Taxes Department
CTO	Commercial Tax Officer
CVAC	Central Valuation Advisory Committee
DC	Deputy Commissioner
DC (CT)	Deputy Commissioner (Commercial Taxes)

DCB	Demand, Collection and Balance
DCTO	Deputy Commercial Tax Officer
DD	Deputy Director
DGPA	Development Agreement cum General Power of Attorney
DIG	Deputy Inspector General
DIGRS	Director and Inspector General of Registration and Stamps
DLPO	Division Level Panchayat Officer
DMG	Director of Mines and Geology
DMU	Debt Management Unit
DR	District Registrar
DTC	Deputy Transport Commissioner
FC	Fitness Certificate
FEC	Final Eligibility Certificate
FLR	Fair Land Register
FMB	Field Measurement Book
GO	Government Order
GPA	General Power of Attorney
GSR	General Supplementary Rules
HEAL	Holographic Excise Adhesive Label
HPFS	Hedonic Path Finder System
IBM	Indian Bureau of Mines
IMFL	Indian Made Foreign Liquor
IR	Inspection Report
IS Act	Indian Stamps Act
IST	Interstate Wing
IT	Information Technology
ITC	Input Tax Credit
JC (CT)	Joint Commissioner (Commercial Taxes)
LAO	Land Acquisition Officer
LOI	Letter Of Intent
LTU	Large Tax Payer Unit
MC Rules	Mineral Concession Rules
MIS	Management Information System
MMDR Act	Mines and Minerals (Development and Regulation) Act

MPP	Mandal Praja Parishad
MRA	Mineral Revenue Assessment
MRO	Mandal Revenue Officer
MV	Motor Vehicle
MVI	Motor Vehicle Inspector
NH	National Highway
NIC	National Informatics Centre
P&ES	Prohibition and Excise Superintendent
P&L	Profit and Loss
PA	Performance Audit
R&T	Registration and Turnover
RDO	Revenue Divisional Officer
ROR	Record of Rights
ROR I-B	Records of Rights in Form I-B
RSR	Re-Settlement Register
RTA	Regional Transport Authority
RTO	Regional Transport Officer
S & LR	Survey and Land Records
SDRF	Stamp Duty and Registration Fee
SEZ	Special Economic Zone
SFA	Settlement Fair Adangal
SH	State Highway
SR	Sub-Registrar
STA	State Transport Authority
STAT	Sales Tax Appellate Tribunal
TC	Transport Commissioner
TD	Transfer Duty
TDS	Tax Deducted at Source
TIN	Taxpayer Identification Number
TOT	Turnover Tax
V&E	Vigilance and Enforcement
VAT	Value Added Tax
VCR	Vehicle Check Report
VRO	Village Revenue Officer

w.e.f.	with effect from
WP	Writ Petition
ZPP	Zilla Praja Parishad

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