

**Report of the
Comptroller and Auditor General of India
on
Revenue Sector**

for the year ended March 2017

Government of Andhra Pradesh
Report No. 1 of 2018

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P R E F A C E

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

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

The instances mentioned in this Report are those, which came to notice in the course of test audit during the period 2016-17 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; instances relating to the period subsequent to 2016-17 have also been included, wherever necessary.

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

OVERVIEW

This Report contains 36 paragraphs including two detailed Compliance Audits and one Performance Audit. Some of the major findings are mentioned below:

I GENERAL

- The total revenue receipts of the Government for the year 2016-17 amounted to ₹ 98,984 crore against ₹ 88,648 crore in the previous year. Of this, 50 *per cent* was raised by the State through tax revenue (₹ 44,181 crore) and non-tax revenue (₹ 5,193 crore). The balance 50 *per cent* was received from the Government of India in the form of State's share of divisible Union Taxes (₹ 26,264 crore) and Grants-in-Aid (₹ 23,346 crore).

(Paragraph 1.1.1)

- Test-check of the records of the tax and non-tax receipts revealed under-assessment / short levy / loss of revenue and other observations amounting to ₹ 607.51 crore in 1,541 cases in the year 2016-17.

(Paragraph 1.9.1)

II VALUE ADDED TAX AND CENTRAL SALES TAX

Detailed Compliance Audit on 'Recovery of sales tax deferment availed by industrial units in Andhra Pradesh' revealed the following deficiencies:

- Eleven industrial units under the jurisdiction of six offices had availed deferred sales tax incentive of ₹ 12.18 crore between 1998-99 and 2002-03. Assessing Authorities had not initiated any action to recover the deferred sales tax though they were due for recovery from 2012.

(Paragraph 2.4.3.1)

- The Assessing Authorities had not levied interest of ₹ 16.99 crore on delayed payment of deferred sales tax in 28 cases in 15 offices.

(Paragraph 2.4.3.3)

- Allowance of excess discount to an industrial unit in one office resulted in short collection of deferred sales tax of ₹ 87.05 Lakh.

(Paragraph 2.4.3.4)

Other Audit findings:

- Input Tax Credit (ITC) of ₹ 5.03 crore was incorrectly admitted on purchases related to exempt sales of “Power” in one office.

(Paragraph 2.5.1)

- In five offices involving six dealers, ITC was not correctly restricted resulting in excess claim of ITC of ₹ 92.18 lakh.

(Paragraph 2.5.2)

- The Assessing Authorities did not levy/short levied penalty of ₹ 1.41 crore on under-declared tax in 16 cases in 11 offices.

(Paragraph 2.6.1)

- The Assessing Authorities did not levy/short levied penalty of ₹ 1.05 crore on wilful under-declaration of tax by 11 dealers in 10 offices.

(Paragraph 2.6.2)

- The taxable turnover of five works contractors was determined incorrectly by the Assessing Authorities resulting in non-levy/short levy of tax of ₹ 1.20 crore in four offices.

(Paragraph 2.7.1)

- In nine offices involving nine dealers, interstate sale turnover was not correctly determined resulting in non-levy/short levy of tax of ₹ 60.62 lakh.

(Paragraph 2.8.1)

- Incorrect assessment by the Assessing Authorities had resulted in non-levy/short levy of tax of ₹ 6.39 crore towards hire charges in 11 cases in six offices.

(Paragraph 2.9)

- In 18 offices, incorrect exemption of sale turnover of 'textiles and fabrics' in 37 cases resulted in non-levy of tax of ₹ 5.80 crore.

(Paragraph 2.10)

- Incorrect computation of taxable turnover by the Assessing Authorities resulted in short levy of VAT of ₹ 2.89 crore in 31 cases in 17 offices.

(Paragraph 2.11)

- Interest of ₹ 62.36 lakh and penalty of ₹ 2.22 crore were not levied by the Assessing Authorities in 13 offices though 55 dealers had paid tax with delays ranging from one day to 463 days.

(Paragraph 2.12)

- Application of incorrect rates of tax resulted in under-declaration of tax and consequential short levy of tax of ₹ 2.15 crore in 12 cases in 10 offices.

(Paragraph 2.13)

- The sales turnover of High Security Registration Plates of ₹ 5.63 crore was under declared. As a result, VAT of ₹ 81.58 lakh was short levied.

(Paragraph 2.17)

III STATE EXCISE DUTIES

- Government had foregone revenue of ₹ 60 crore due to reduction in production capacity of a distillery from 2,000 lakh Proof Litres to 1,000 lakh Proof Litres in violation of provisions.

(Paragraph 3.4)

- Club licence fee of ₹ 2.15 crore was short levied for the period from 2011-12 to 2016-17 on account of not charging the applicable licence fee.

(Paragraph 3.5)

IV STAMP DUTY AND REGISTRATION FEES

- Agricultural rate was adopted in respect of lands which had already been converted to non-agricultural use by 10 offices of District Registrars/Sub-Registrars. This led to short levy of stamp duty and registration fees of ₹ 2.78 crore.

(Paragraph 4.4)

- Two companies secured loans from various banks by creating charge on instruments on '*pari passu*' basis which required to be registered by charging 0.5 *per cent* on the loan amount. Registering authorities collected ₹ 10,000 on each instead of charging 0.5 *per cent* of the amount of loan resulting in short levy of registration fee of ₹ 30.17 lakh.

(Paragraph 4.5)

V TAXES ON VEHICLES

Performance Audit on 'Enforcement Activities of Transport Department including implementation of High Security Registration Plates Project' revealed the following deficiencies:

- Quarterly tax was collected for 28,150 vehicles, which did not have valid Fitness Certificates (FCs). Non-renewal of FC jeopardises public safety besides it led to non-realisation of FC fee of ₹ 1.76 crore.

(Paragraph 5.4.7.1)

- Scrutiny of data in three offices indicated that 268 seized vehicles were plying on roads and subsequent offences were booked against the same seized vehicles.

(Paragraph 5.4.7.4)

- Analysis of the data in 13 offices disclosed that registration of 10,20,089 non-transport vehicles had expired on March, 2016. These vehicles were required to be checked for their fitness to ply on roads for renewal of the validity of registration. Vehicles plying on road without fitness is a cause of safety concern besides it led to non-realisation of green tax amounting to ₹ 32.85 crore.

(Paragraph 5.4.7.5)

- Data analysis indicated that there was no consistency in identifying the nature of offences vis-à-vis class of vehicles. It was noticed that 1,242 helmet related offences were booked against vehicles other than two wheelers and 314 seat belt related offences were booked against motorcycles.

(Paragraph 5.4.7.11)

- Analysis of Citizen Friendly Services of Transport Department data disclosed that offences relating to overloading of vehicles were compounded in 72,964 cases. The excess load of these vehicles was not offloaded. Failure of the Department in curbing the over loaded vehicles was in violation of the Rules. This affects not only public safety but damages the roads and causes more emission of greenhouse gases.

(Paragraph 5.4.7.13)

- Analysis of the data revealed that 74,725 cases out of 1,26,606 cases booked related to repetition of offence. Levy of ₹ 1,000 on each offence instead of ₹ 2,000 on second and subsequent offences resulted in short collection of fee of ₹ 7.47 crore.

(Paragraph 5.4.8.1)

- Analysis of data of cases booked, disclosed that out of total 16,07,397 cases booked, 20,250 cases were pending for disposal since April, 2011. The compounding fee involved in these cases was ₹ 6.71 crore.

(Paragraph 5.4.8.4)

- In one office, 17 offences relating to ‘construction equipment vehicles’ booked between 2010 and 2013 involved road tax of ₹ 10.13 crore. However, these cases were not finalised till January 2017.

(Paragraph 5.4.8.5)

- Audit noticed that 4,76,525 Vehicle Check Reports (history sheet of offences involving a vehicle) out of 28,57,075 were submitted by checking officers to concerned jurisdictional authority with delay. The delay ranged from five days to 1,992 days. This led to delay in initiation of action besides locking up of compounding fee of ₹ 3.82 crore.

(Paragraph 5.4.9.1)

- Awarding contract for affixation of High Security Registration Plates at a higher price (₹ 220.34 per plate) in Andhra Pradesh as compared to Madhya Pradesh and Delhi States (₹ 146 and ₹ 119 per plate respectively) rendered undue benefit to the firm to an extent of ₹ 15.88 crore besides putting additional burden on vehicle owners of the state.

(Paragraph 5.4.10.1 (i))

- No periodical testing procedure was evolved and applied to have an assurance on the quality of High Security Registration Plates affixed to vehicles.

(Paragraph 5.4.10.1 (iii))

Other Audit findings:

- Quarterly tax of ₹ 1.71 crore and penalty of ₹ 0.86 crore were not realised from owners of 1,186 transport vehicles in 13 offices.

(Paragraph 5.5)

- Green tax amounting to ₹ 41.16 lakh was not levied in respect of 17,411 transport vehicles and 1,744 non-transport vehicles by 12 offices.

(Paragraph 5.6)

VI LAND REVENUE

- An area of 119.29 acres of land was converted into layouts (arrangement into plots) without the approval of the competent authority. This resulted in non-levy of conversion tax and penalty amounting to ₹ 6.50 crore by two offices.

(Paragraph 6.4.1)

VII OTHER TAX AND NON-TAX RECEIPTS

Detailed compliance Audit on 'Functioning of Chief Electrical Inspector to Government' revealed the following deficiencies:

- Electricity duty of ₹ 24.42 crore was short levied due to adoption of provisional figures and non-reconciliation with the audited figures.

(Paragraph 7.2.3.1)

- Electricity duty of ₹ 5.28 crore on 880 million units was not recovered by Director of Electrical Safety & Chief Electrical Inspector from private power generating companies.

(Paragraph 7.2.3.2 (i))

- Electricity duty of ₹ 1.19 crore was not levied on sale of 197.64 million units to private parties by Andhra Pradesh Gas Power Corporation.

(Paragraph 7.2.3.2 (ii))

- Rural Electric Supply Co-operative Societies paid electricity duty based on monthly returns instead of Audited figures by Director of Electrical Safety and Chief Electrical Inspector to Government. This led to non-levy of electricity duty of ₹ 2.51 crore.

(Paragraph 7.2.3.3)

LAND REVENUE (WATER TAX)

- Water tax amounting to ₹ 57.78 lakh was short levied due to application of incorrect rate of tax and adoption of lesser extent of land by two Tahsildar offices.

(Paragraph 7.3)

INDUSTRIES AND COMMERCE

- An amount of ₹ 44.59 lakh was not collected towards National Mineral Exploration Trust fund on royalty of ₹ 22.30 crore collected from the leaseholders in five offices.

(Paragraph 7.5)

CHAPTER I

GENERAL

CHAPTER I GENERAL

1.1 Trend of revenue receipts

1.1.1 The revenue receipts of the State for the year 2016-17 comprised of:

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

The details along with the corresponding figures for the preceding four years have been depicted in **Table 1.1**.

Table 1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2012-13*	2013-14*	1 April 2014 to 1 June 2014*	2 June 2014 to 31 March 2015	2015-16	2016-17 ¹
1.	Revenue raised by the State Government						
	• Tax revenue	59,875.05	64,123.53	12,761.15	29,856.87	39,907	44,181
	• Non-tax revenue	15,999.14	15,472.86	2,794.62	8,181.35	4,920	5,193
	Total	75,874.19	79,596.39	15,555.77	38,038.22	44,827	49,374
2.	Receipts from the Government of India						
	• Share of Net Proceeds of Divisible Union Taxes and Duties	20,270.77	22,131.89	3,852.96	11,446.29	21,894	26,264
	• Grants-in-Aid	7,685.32	8,990.55	5,568.32	16,210.89	21,927	23,346
	Total	27,956.09	31,122.44	9,421.28	27,657.18	43,821	49,610
3.	Total revenue receipts of the State Government (1 and 2)	1,03,830.28	1,10,718.83	24,977.05	65,695.40	88,648	98,984
4.	Percentage of 1 to 3	73	72	62	58	51	50

Source: Finance Accounts for the year 2016-17 of Government of Andhra Pradesh.

* Data pertains to composite State of Andhra Pradesh for 23 districts. The figures in the last three columns relate to the successor State of Andhra Pradesh with 13 districts.

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

In the year 2016-17 revenue raised by the State Government (₹ 49,374 crore) was 50 per cent of total revenue receipts. The balance (₹ 49,610 crore) 50 per cent of the receipts was from the Government of India.

1.1.2 The details of the Tax Revenue raised during the period 2012-13 to 2016-17 are given in Table 1.2.

Table 1.2
Details of tax revenue raised

Sl. No.	Head of Revenue	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		2016-17		Percentage of increase (+)/ decrease (-) in 2016-17 over 2015-16
		BE	Actuals	BE	Actuals				BE	Actuals	BE	Actuals	
1.	Taxes on Sales, Trade etc.	45,000	40,715	52,500	48,737	28,749	8,852	21,672	32,840	29,104	37,435	32,484	(+) 11.61
2.	State Excise	10,820	9,129	7,500	6,250	4,027	710	3,642	4,680	4,386	5,756	4,645	(+) 5.90
3.	Stamp Duty and Registration Fee	4,968	5,115	6,414	4,393	2,460	689	2,561	3,500	3,527	5,180	3,476	(-) 1.45
4.	Taxes on Vehicles	3,640	3,356	4,351	3,335	1,384	2,264	1,423	1,977	2,082	2,412	2,467	(+) 18.49
5.	Others	1,593	1,560	1,676	1,409	17,616	246	559	1,426	808	1,535	1,109	(+) 37.25
	Total	66,021	59,875	72,441	64,124	54,236	12,761	29,857	44,423	39,907	52,318	44,181	(+) 10.71

Source: Budget Estimates, Finance Accounts for the year 2016-17 of Government of Andhra Pradesh.

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

There has been increase of 10.71 per cent of tax revenue during the year 2016-17 over the previous year. The revenue under the heads – VAT, State Excise, Taxes on Vehicles had increased. There was a marginal decline under revenue head – Stamp Duty and Registration Fees.

Department of Registration and Stamps intimated that variation between budget estimates and actuals was due to overall shortfall in the number of documents registered, exemptions in Stamp Duty & Registration Fees in the notified villages and negative growth trends in net revenue during 2016-17.

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

1.1.3 The details of the non-tax revenue raised during the period 2016-17 are indicated in **Table 1.3**.

Table 1.3
Details of non-tax revenue raised

Sl. No.	Head of revenue	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		2016-17		Percentage of increase(+) or decrease (-) in 2016-17 over 2015-16
		BE	Actuals	BE	Actuals				BE	Actuals	BE	Actuals	
1.	Interest Receipts	8,632	9,626	8,656	8,646	4,813	198	4,597	154	133	154	113	(-) 15.04
2.	Mines and Minerals	2,734	2,771	3,083	2,731	1,226	408	811	1,359	1,523	1,705	1,628	(+) 6.89
3.	Education, Sports, Art and Culture	274	1,196	1,219	1,676	90	342	1,087	1,136	856	1,031	577	(-) 32.59
4.	Others	2,213	2,406	2,436	2,420	2,882	1,847	1,686	2,692	2,408	2,605	2,875	(+) 19.39
	Total	13,853	15,999	15,394	15,473	9,011	2,795	8,181	5,341	4,920	5,495	5,193	(+) 5.55

Source: Budget Estimates, Finance Accounts for the year 2016-17 of Government of Andhra Pradesh.

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

There had been increase of non-tax revenue by 5.55 *per cent* during the year 2016-17 over the previous year.

The revenue under the head Mines and Minerals had increased by 6.89 *per cent*. Revenue under the heads - Interest Receipts, Education, Sports, etc., had declined over the previous year.

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

1.2 Analysis of Arrears of Revenue

The arrears of revenue as on 31 March 2017 on some principal heads of revenue amounted to ₹ 11,371.28 crore as detailed in the **Table 1.4**.

Table 1.4
Arrears of Revenue

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2017	Amount outstanding for more than five years as on 31 March 2017	Replies of Department
A – Tax Revenue				
0040 - Taxes on Sales, Trade, etc.				
1.	Taxes / VAT on Sales, Trade etc.	3,293.10	1,524.06	Department did not furnish the reasons for pendency in arrears outstanding for more than five years.
0039 – State Excise				
2.	State Excise	166.10	162.78	Department did not furnish the reasons for pendency in arrears outstanding for more than five years.

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2017	Amount outstanding for more than five years as on 31 March 2017	Replies of Department	
0030 – Stamp Duty and Registration Fees					
3.	Stamp Duty and Registration Fees	49.02	49.02	Department did not furnish the reasons for pendency in arrears outstanding for more than five years.	
0041-Taxes on Vehicles					
4.	Taxes on vehicles	1997.11	---	Transport Commissioner stated (November 2017) that an amount of ₹ 1,996.09 crore was due from A.P. State Road Transport Corporation and the Corporation did not pay taxes from 2012-13.	
0029-Land Revenue					
5.	Land Revenue	361.31	357.19	Chief Commissioner of Land Administration stated (November 2017) that due to drought and unseasonal conditions pending amount could not be realised.	
0043-Taxes and Duties on Electricity					
6.	Taxes and Duties on Electricity	3,775.93	3,620.02	Department stated reasons of arrears as under:	
				• Recovery due from A.P. Gas Power Corporation Ltd. (covered by AP RR Act).	138.31
				• Amount due from Rural Electric Supply Co-operative Societies	2.70
				• Amount due from licencees and generating companies (covered by AP RR Act).	570.88
				• Amount due from APGENCO (Government had been addressed for waiver of the duty).	3,028.04
• Duties due from A.P. Southern / Eastern / Central Power Distribution Corporations.	36.00				
0853-Mines & Minerals					
7.	Mines & Minerals	1728.71	329.06	Director (M&G) stated (October 2017) that amounts were due on account of filing of revision petitions before the Government, Stay Orders of Hon'ble High Court, and under referral to APRR Act. It was intimated that stringent efforts were being made to collect the arrears.	
Total		11,371.28	6,042.13		

Source: Information furnished by the Departments concerned.

It would be seen from the above that 53.13 per cent of the total outstanding amount was due for more than five years. Out of total arrear amount of ₹ 11,371.28 crore, an amount of ₹ 1,038.25 crore (9.13 per cent) was blocked up in disputes and was under referral to A.P. Revenue Recovery Act. Government may take necessary measures to recover arrears amounting to ₹ 10,333.03 crore constituting more than 90 per cent of revenue due for recovery.

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 1.5**.

Table 1.5
Arrears in Assessments

Name of tax	Opening balance ²	New cases due for assessment during 2016-17	Total assessments due	Cases disposed off during 2016-17	(No. of cases)	
					Balances at the end of the March, 2017	Percentage of column 5 to 4
CST	51,278	27,294	78,572	41,360	37,212	52.64
VAT	2,377	4,219	6,596	3,722	2,874	56.43
Luxury Tax	1,458	829	2,287	1,660	627	72.58
Total	55,113	32,342	87,455	46,742	40,713	53.44

Source: Information furnished by the Commercial Taxes Department.

It would be seen from above that more than 45 *per cent* of assessments due for clearance needs to be disposed off to avoid blockage of revenue since fresh cases get added up every year. The speedy disposal mechanism needs to be evolved by the department.

Further, there was no reliability on the information furnished by the department, as the closing balances of previous year do not match with the opening balances of current year.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Departments, cases finalised, the demands of additional tax raised and cases pending finalisation as on 31 March 2017 are given in **Table 1.6**.

Table 1.6
Evasion of tax

Sl. No.	Name of Tax/Duty	Cases pending as on 31 March 2016	Cases detected during 2016-17	Total	No. of cases in which assessments/investigations completed and additional demand including penalty etc., raised (₹ in crore)		No. of cases pending finalisation as on 31 March 2017
					No. of Cases	Amount of demand	
1.	VAT	9,056 ²	8,437	17,493	6,957	736.02	10,536
2.	Stamp Duty and Registration Fee	250	534	784	784	0.34	0
3.	Seigniorage Fee and Royalty	5,874	981	6,855	6,278	2,259.53	577
	Total	15,180	9,952	25,132	14,028	2,995.89	11,104

Source: Information furnished by Departments of Commercial Taxes, Registration & Stamps and Mines and Geology.

² The opening balances furnished by the department do not tally with their closing balance for the year ended 31 March 2016. The matter had been taken up with the department.

It would be seen from above that only 40 *per cent* of assessments/investigations were completed by the Commercial Taxes Department (VAT). In view of the number of cases that get accumulated every year, there is a need for early finalisation.

There was no reliability on the figures furnished by Commercial Taxes department, as the closing balance of previous year varies with the opening balance of current year.

Department of Transport furnished the information as 'NIL', while other Departments (Prohibition and Excise, Land Revenue and Energy) did not furnish the information though called for (May and September 2017).

1.5 Pendency of Refund Cases

The claims outstanding at the beginning of the year as on 1 April 2016, claims received during the period till 31 March 2017, refunds made during the period and the cases pending as on 31 March 2017, as reported by the Departments are given in **Table 1.7**.

Table 1.7
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	State Excise		Registration & Stamps		Commercial Tax ³		Transport	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year as on 1 April 2016	3	0.54	67	0.13	386	91.39	0	0
2.	Claims received during the year	0	0	559	2.37	257	111.32	20	0.44
3.	Refunds made during the year	3	0.54	557	2.35	215	113.90	20	0.44
4.	Cases pending as on 31 March 2017	0	0	69	0.15	428	88.81	0	0

Source: Information furnished by the Departments concerned.

It would be seen from the above that though the pendency had decreased in terms of amount, number of cases increased in respect of Commercial Taxes Department. Hence, suitable steps need to be taken for speedy disposal.

Department of Mines and Geology furnished the information as 'NIL' and other Departments (Land Revenue, Energy) did not furnish the information though called for (May and September 2017).

1.6 Response of the Government / Departments towards Audit

The Principal Accountant General (Audit), Andhra Pradesh conducts periodical inspection of the Government Departments to test check the

³ Number of cases and amount as furnished by the department to the end of 31 March 2016 do not tally with the claims outstanding as on 1 April 2016. The matter has been taken up with the Department.

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. The IRs 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 upto December 2016 disclosed that 17,274 paragraphs involving ₹ 3,079.14 crore relating to 4,942 IRs remained outstanding at the end of June 2017 as shown below along with the corresponding figures for the preceding two years in **Table 1.8**.

Table 1.8
Details of pending Inspection Reports

	June 2015	June 2016	June 2017
Number of IRs pending settlement	4,197	4,436	4,942
Number of Paragraphs outstanding	11,681	14,336	17,274
Amount of revenue involved (₹ in crore)	1,288.81	2,303.83	3,079.14

Source: Records of Office of Principal Accountant General (Audit), A.P.

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

Table 1.9
Department-wise details of IRs

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	1,667	6,278	1,524.49
		State Excise Duty	238	633	47.73
		Land Revenue	950	3,064	229.85
		Stamp Duty and Registration Fee	1,538	4,879	251.75
2.	Transport, Roads and Buildings	Taxes on Vehicles	233	1,159	131.97
3.	Industries and Commerce	Mines and Minerals	274	1,187	187.53
4.	Energy	Taxes and duties on Electricity	42	74	705.82
Total			4,942	17,274	3,079.14

Source: Records of Office of Principal Accountant General (Audit), A.P.

Audit did not receive even the first replies in respect of 142 IRs issued during 2016-17 from the heads of offices within one month from the date of issue of the IRs. Pendency of IRs due to non-receipt of the replies was indicative of lack of action for rectification of defects, omissions and irregularities pointed out in the IRs.

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

1.6.2 Departmental Audit Committee Meetings

The Government has set up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During the year 2016-17, two Audit Committee Meetings were held by the Registration & Stamps Department. The Committee settled 227 paragraphs involving Money value of ₹ 99 lakh.

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. 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.

Nature of records not made available to Audit during the year 2016-17, in 82 offices, is given in **Table 1.10**.

Table 1.10
Details of non-production of records

Name of the Office/ Department		Number of offices which did not produce documents for Audit	Nature of documents not produced
Revenue	Commercial Taxes	52	Reconciliation register, cheque register, annual Accounts of dealers, Demand, Collection and Balance(DCB) etc.
	Prohibition and Excise	10	Retail liquor shop files.
	Registration and Stamps	12	Challan remittance registers, stock and sales registers, transfer duty ledgers, contingent registers etc.
	Land Revenue	6	Month wise receipt registers, <i>Mandal Chitta, Jamabandi</i> files, Mutation registers DCB etc.
Transport, Roads and Buildings	Transport	2	Cash book, stock registers, construction equipment files.
Total		82	

Source: Records of Office of Principal Accountant General (Audit), A.P.

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

Audit forwarded 49 draft paragraphs including one Performance Audit (PA) and two detailed Compliance Audits to the Principal Secretaries / Secretaries of the respective Departments (between July and October 2017). The Principal Secretaries / Secretaries of the Departments furnished replies to 32 draft paragraphs which include one performance Audit and two detailed compliance Audits. Replies for nine draft paragraphs were received from Head of the Department. Replies for the remaining eight draft paragraphs are awaited from the Government (January 2018).

1.6.5 Follow-up on the Audit Reports-summarised position

The Report of the Comptroller and Auditor General of India is laid in the Legislative Assembly. The internal working system of the Public Accounts Committee laid down that the departments shall submit the explanatory notes on audit paragraphs within three months of tabling the Report. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports are delayed inordinately.

Reports of the Comptroller and Auditor General of India on Revenue Sector of the Government of Andhra Pradesh contained 153 paragraphs (including five Performance Audits) for the years from 2011-12 to 2015-16. These Audit Reports were placed before the State Legislative Assembly between June 2013 and March 2017. Of these, 78 paragraphs pertain exclusively to Andhra Pradesh and 75 paragraphs were common to both Andhra Pradesh and Telangana. Explanatory notes in respect of these 153 paragraphs from eight Departments⁴ have not been received.

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

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

The performance of Registration and Stamps Department under revenue head 0030-Stamps and Registration Fees and cases detected in local audit during

⁴ Commercial Taxes, Endowment, Energy, Industries and Commerce, Prohibition and Excise, Land Revenue, Registration and Stamps and Transport, Roads & Buildings.

the last six years have been discussed. Further, the cases included in the Audit Reports for the years 2011-12 to 2016-17 have also been discussed in the succeeding paragraphs 1.7.1 to 1.7.2. 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 Registration and Stamps Department, issued during the last six years in the 13 Districts of the successor state of Andhra Pradesh, paragraphs included in these reports and their status as on 31 March 2017 are detailed in **Table 1.11**.

Table 1.11
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	2011-12	1228	2803	331.04	220	716	10.14	21	111	2.80	1427	3408	338.38
2	2012-13	1427	3408	338.38	23	232	0.01	143	578	33.89	1307	3062	304.50
3	2013-14	1307	3062	304.50	19	167	5.64	7	23	1.03	1319	3206	309.11
4	2014-15	1319	3206	309.11	99	693	34.09	1	38	0.14	1417	3861	343.06
5	2015-16	1417	3861	343.06	137	868	12.11	190	677	117.04	1364	4052	238.13
6	2016-17	1364	4052	238.13	208	1035	17.07	16	164	0.71	1556	4923	254.49

Source: Records of Office of Principal Accountant General (Audit), A.P.

The above position indicates that the overall performance of the Department in clearance of Inspection Reports and Paragraphs was not encouraging. There was increase of IRs and Paragraphs by 328 and 2,120 respectively⁵. However, money value had decreased by ₹ 76.55 crore over the period of six 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 with a request to furnish their replies and to take follow-up action. 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.

⁵ Closing balance for the year 2016-17 (-) opening balance for the year 2011-12.

The Performance Audits relating to Registration and Stamps Department featured in the last five years' Reports, details of recommendations and their status are given in **Table 1.12**.

Table 1.12
Status of Audit recommendations

Year of Report	Name of the Performance Audit	Status
2012-13	Functioning of Registration and Stamps department including Information Technology (IT) audit of CARD	
Details of recommendations:		Explanatory Notes from Government is awaited.
1. Ensure inspection of public offices under Section 73 immediately so as to detect the leakage of revenue;		
2. evolve a mechanism with departments (Transport, Income Tax, Revenue, etc.) to ensure proper collection of stamp duty;		
3. strengthen internal audit and make it more effective;		
4. incorporate business rule changes into the application in a timely manner;		
5. get into the role of data owner with ability to utilise on the information resources; and		
6. co-ordinate with NIC regarding source code rights, database and application support provisions, documentation (SRS/URS/SDD etc.) and knowledge transfer.		
2015-16	Revision and implementation of Market Value Guidelines	
Details of recommendations:		Explanatory Notes from Government is awaited.
1. Ensure that the MV revision committees obtain required data from Revenue and other departments;		
2. 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;		
3. 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;		
4. analyse the reasons for variation between the approved market values and the price realised in open market and initiate steps to minimise the gaps;		
5. 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;		
6. ensure greater scrutiny of documents where manual entries were made to prevent wrong entries.		

The matter regarding furnishing of Explanatory Notes from the Government is being pursued by the Audit. Departments in their replies had stated (September 2017) that the action taken on recommendations was submitted to the Government. However, the Government has not submitted the Explanatory Notes to Audit.

1.8 Audit Planning

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

During the year 2016-17, there were 1,437 auditable units of which 377 units had been planned and 369 were audited which constituted 26 *per cent* of the total auditable units.

1.9 Results of Audit

1.9.1 Position of local audit conducted during the year

Test-check of the records of 369 units of Commercial Taxes, Prohibition and Excise, Transport, Land Revenue, Registration and Stamps and other departmental offices conducted during the year 2016-17 showed under-assessment / short levy / loss of revenue aggregating ₹ 607.51 crore in 1,541 cases. During the course of the year, the Departments accepted under-assessment and other deficiencies of ₹ 103.12 crore in 589 cases, of which 316 cases involving ₹ 20.08 crore were pointed out in earlier years. An amount of ₹ 1.68 crore was realised in 215 cases during the year 2016-17. Of this, recovery of ₹ 0.94 crore in 173 cases relate to previous years.

1.9.2 Coverage of this Report

This Report contains 36 paragraphs selected from the audit findings detected during the local audits carried out in 2016-17 and in earlier years, which could not be included in previous reports.

The financial effect of the paragraphs of this report is ₹ 235.61 crore. The Departments / Government have accepted audit observations involving ₹ 81.80 crore out of which ₹ 0.28 crore had been recovered. The replies in the paragraphs involving ₹ 65.65 crore have not been received (January 2018). These are discussed in succeeding chapters II to VII.

CHAPTER II
VALUE ADDED TAX
AND
CENTRAL SALES TAX

CHAPTER II VALUE ADDED TAX AND CENTRAL SALES TAX

2.1 Tax Administration

Value Added Tax and Central Sales Tax Act and Rules framed thereunder are administered at the Government level by the Special Chief Secretary, Revenue Department of Andhra Pradesh. The Commissioner of Commercial Taxes (CCT) is the Head of the Commercial Tax wing of the Revenue Department assisted by three Additional Commissioners and two Joint Commissioners in Commissionerate. In field, the CCT is assisted by 21 Deputy Commissioners (DCs), 31 Assistant Commissioners (ACs) and other staff. There are 13 Large Tax Payer Units (LTUs) and 104 circles in the State, functioning under the administrative control of DCs. They administer the relevant tax laws and rules under Andhra Pradesh Value Added Tax Act, 2005 (VAT Act) and Central Sales Tax Act 1956 (CST Act). Besides, there is an Inter-State Investigation Wing within the Enforcement Wing for checking tax evasion and interstate transactions.

2.2 Internal Audit

The Department did not have a dedicated Internal Audit Wing that would conduct audit in accordance with a scheduled audit plan. Each LTU/circle is audited by five members headed by either Commercial Tax Officers (CTO) s or Deputy CTOs. Commissioner intimated that 377 audit observations were included in Internal Audit Report during the year 2016-17. A total of 975 audit observations were outstanding at the end of March 2017, after clearing 29 audit observations.

2.3 Results of Audit

In 2016-17, test-check of the records in 102 offices of the Department showed under-assessment of VAT, CST and other irregularities involving ₹ 269.87 crore in 919 cases as shown in **Table 2.1**.

Table 2.1: Results of Audit

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
1.	Recovery of Sales Tax Deferment sanctioned to Industrial Units in Andhra Pradesh State	1	18.21
2.	Excess/ Incorrect claim of Input Tax Credit	139	16.10
3.	Non-levy/Short levy of Interest and Penalty	168	38.63
4.	Non-levy/Short levy of tax on works contracts	38	21.07
5.	Non-levy/Short levy of tax under CST Act	177	114.62
6.	Non-levy/Short levy of VAT	180	31.21
7.	Other irregularities	216	30.03
	Total	919	269.87

During the year, the Department accepted under-assessments and other deficiencies in 423 cases involving ₹ 59.66 crore. Of these, ₹ 40.22 crore involving 214 cases were pointed out by Audit during the year 2016-17 and the rest in earlier years. An amount of ₹ 83.51 lakh in 86 cases was realised during the year 2016-17.

A few illustrative cases involving revenue of ₹ 52.72 crore are discussed in the succeeding paragraphs.

Audit observations

During scrutiny of records of Commercial Taxes Department, Audit observed cases of non-observance of provisions of Acts/Rules, which are discussed in succeeding paragraphs. These cases are illustrative and are based on test-checks carried out by Audit. Audit points out similar omissions by Assessing Authorities every year. However many of the irregularities persisted and remained undetected until an audit was conducted. The Government needs to improve the internal control system including strengthening of internal audit to avoid occurrence of such cases.

2.4 Recovery of sales tax deferment sanctioned to industrial units in Andhra Pradesh State

2.4.1 Introduction

With a view to accelerate the growth of Industries in the State, Industries Department had notified⁶ a scheme 'Target-2000' for providing sales tax incentives in the form of Sales Tax Holiday (Exemption)⁷ and Sales Tax Deferment⁸ to Industrial Units. The Scheme was operative during the period from 15 November 1995 to 31 March 2000. Government extended the benefit under the scheme to those units, which were in existence on December 1999 and had commenced commercial production before 31 March 2002⁹. Commissioner of Industries issues a Final Eligibility Certificate (FEC) indicating the monetary limit and period of sales tax incentives for assessing availment and recovery of deferred tax by the Commercial Taxes Department.

2.4.2 Objectives, criteria and scope of Audit

Audit was conducted to ensure that

- the demands relating to deferment of sales tax availed were taken to Debt Management Unit (DMU) and collected on the due dates.
- the interest due was levied for belated payments of deferred tax.

⁶ G.O.Ms.No.108 (Ind. &Com. Dept.) dated.20 May 1996, under the new industrial policy, 1995.

⁷ Sales tax holiday (exemption) –Units availing sales tax exemption for seven years or less, do not collect tax from the customers; therefore they need not pay tax to the department.

⁸ Sales tax deferment – Units availing sales tax deferment for 14 years, collect sales tax during the availment period and repay the amount availed in a year at the end of 14th year.

⁹ G.O.Ms.No.588 Industries and Commerce (IP) Department dated 20 November 2000.

Audit objectives were bench marked against APVAT Act 2005, APVAT Rules 2005 and Sales tax incentive scheme guidelines, Government orders/circulars and clarifications issued in this regard.

Audit was conducted for the period from 2013-14 to 2015-16 between November 2016 and March 2017. A sample of 14 offices¹⁰ were selected¹¹ for the audit. Audit observations of similar nature noticed in offices not selected in the sample were also included in the Report.

During the period from 1996 to 2002, an amount of ₹ 3,642.45 crore was sanctioned as Sales Tax Incentive (STI) to 331 Industrial Units in the State. In the 14 selected offices, ₹ 564.08 crore was sanctioned as Sales Tax Incentive covering 113 units.

2.4.3 Audit findings

The Audit findings are summarised below:

2.4.3.1 Sales Tax Deferment - Deferred sales tax not recovered

According to Target-2000 scheme guidelines, the industrial units availing Sales Tax Deferment, can avail deferment to the extent of eligibility fixed by Industries Department, for a period of 14 years or less. The deferment allowed to a unit in the first year should be paid at the end of 14th year without interest. Similarly deferment allowed in second year should be paid at the end of 15th year and likewise for subsequent years.

- During test check of records of three¹² LTUs and three¹³ circles Audit observed that 11 (out of 32) industrial units (cases), had availed¹⁴ deferred tax of ₹ 12.18 crore between 1998-99 to 2002-03. The units, however, had not paid the deferred tax by the due dates. Assessing Authorities (AAs) had not initiated action to recover the deferred tax though they were due for recovery since 2012.

In response to Audit observation, Government replied (January 2018) that in five cases ₹ 11.53 crore was collected. In two cases, partial amount of ₹ 0.02 crore was collected leaving a balance of ₹ 0.10 crore. In four cases involving ₹ 0.53 crore, it was replied that notices were issued (June 2017). The recoveries were made at the instance of Audit.

¹⁰ 3 AC(CT)LTUs (Nellore, Vijayawada and Visakhapatnam), 11 CTOs (Alcot gardens, Chinawaltair, Gajuwaka, Hindupur, Ibrahimpatnam, Jagannaikpur, Kurnool-III, Nandigama, Ongole-II, Steel plant and Tirupati-II).

¹¹ Considering the geographical jurisdiction of offices containing potential industrial units as their assessees in Andhra Pradesh State.

¹² AC(CT)(LTU)s-Ananthapuram, Kurnool and Nellore.

¹³ CTOs - Ibrahimpatnam, Srikakulam and Steel plant.

¹⁴ Between 1997-98 and 2002-03.

2.4.3.2 Tax holiday converted into deferment- deferred sales tax not recovered

With the introduction of AP VAT Act from 1 April 2005, all sales tax Holiday/Exemptions sanctioned prior to the enactment of APVAT Act were converted¹⁵ as sales tax deferment cases. The period leftover for availing tax deferment was doubled without any change in monetary limit of the amount sanctioned.

As per Rule 67(5) of AP VAT Rules, 2005 (VAT Rules), the amount availed in the first year, in which the unit is converted from Tax holiday Scheme to Deferment Scheme, shall be paid in the month succeeding the month in which the period for which the Unit is eligible for availment of the incentives is completed and the amount availed in the second year, shall be paid in the year, subsequent to the year in which the amount, availed in the first year is paid or payable and so on.

During test check of records¹⁶ of four¹⁷ circles, Audit observed that 31 (out of 53) industrial units had availed sales tax deferment between 2005-06 and 2009-10. However, the assesseees had not paid the deferred sales tax as per the due dates. Assessing Authorities had not initiated any action to recover the deferred tax of ₹ 1.07 crore due for recovery from 2006 onwards. Nineteen (out of 31) industrial units pertaining to three¹⁸ circles, which availed tax deferment of ₹ 73.27 lakh had closed their business. Department did not initiate any action for recovery by attaching their assets although 11 years had elapsed.

In response to Audit observation, Government replied (January 2018) that in one case an amount of ₹ 0.03 crore was collected. Notices were issued (June 2017) in 30 cases involving ₹ 1.04 crore.

2.4.3.3 Non-levy of interest on belated payments of deferred tax

As per the conditions stipulated in FEC¹⁹, the deferment allowed to a unit in the first year should be paid at the end of 14th year without any interest. In case of failure to remit the tax on due date, an interest at the rate 21.5 *per cent* per annum was liable to be charged from the due date till the date of payment. Commissioner of Commercial Taxes had clarified in December 2012²⁰ the due date for repayment. The due date for sales tax deferment availed in the year 1996-97 was 31 March 2010 and in the year 1997-98 was 31 March 2011 and likewise for subsequent years.

¹⁵ Section 69 of AP VAT Act, 2005.

¹⁶ Between November 2016 and March 2017.

¹⁷ CTOs-Ibrahimpatnam, Kurnool-III, Ongole-II and Srikakulam.

¹⁸ CTOs-Ibrahimpatnam, Kurnool-III and Ongole-II.

¹⁹ Final Eligibility Certificate

²⁰ CCT's reference No.AII (3)/373/2012 dated. 19 December 2012.

- i. Based on test check of records of five LTUs²¹ and ten circles²², Audit observed²³ that 28 (out of 49) industrial units had availed tax deferment during 1997-98 to 2002-03. The units had repaid the deferred tax of ₹ 123.85 crore belatedly with delay ranging from 10 to 1,398 days. The AAs had not levied the interest as per rules on the belated payment. The interest leviable on the belated payment worked out to ₹ 16.99 crore.

In response to Audit observation, Government replied (January 2018) that demands were raised in 14 cases²⁴ out of which an amount of ₹ 2.32 lakh had been recovered in three cases²⁵. Notices were issued in 11 cases²⁶. In three cases²⁷ it was contended that the tax was paid by due dates. Audit, however, observed that due date for payment of tax was not correctly reckoned by the department. Interest was thus leviable in these cases, as there was delay in payment of tax.

- ii. During test check of records of AC (LTU) Kurnool and six²⁸ circles, Audit observed²⁹ that 11 industrial units (out of 69) availed tax deferment during the period from 2005-06 to 2008-09. The units had repaid the deferred tax of ₹ 2.00 crore belatedly with delay ranging from 8 to 2,342 days. The AAs had not levied the interest on the belated payments. The interest leviable on the belated payment worked out to ₹ 34.23 lakh.

In response to Audit observation, Government replied (January 2018) that an amount of ₹ 3.67 lakh had been recovered in two cases (CTO, Benz Circle). In six cases³⁰ demands were raised and in four cases³¹ notices were issued (May 2017 to October 2017). In remaining one case³², the amount was repayable at the end of the 14th year. The reply is not correct as the industrial unit was converted from tax holiday scheme to deferment scheme and hence, repayment would commence in the month succeeding the month of completion of availment.

2.4.3.4 Short collection of deferred sales tax due to excess discount

Rule 67(6) of VAT Rules prescribes that an industrial unit that availed the tax deferment may be allowed to pay the Net Present Value (NPV) of tax deferment. Net Present Value is to be calculated at a discounted rate

²¹ AC(CT)LTUs-Ananthapuram, Kadapa, Kurnool, Nellore and Visakhapatnam.

²² CTOs-Alcot gardens, Ananthapuram-I, Bhimavaram, Guntakal, Hindupur, Ibrahimpatnam, Kadapa-I, Srikakulam, Steel plant, and Tirupati-II.

²³ Between July 2016 and March 2017.

²⁴ DCs – Ananthapuram, Kadapa, Kurnool and Visakhapatnam and CTOs - Alcot Gardens, Ananthapuram-I, Ibrahimpatnam, Kadapa-I, Guntakal, Steel Plant and Tirupati-II.

²⁵ CTOs – Hindupur, Ibrahimpatnam and Kadapa-I.

²⁶ CTOs – Bhimavaram, Ibrahimpatnam, Kadapa-I and Srikakulam.

²⁷ Involving ₹ 9.39 crore.

²⁸ CTOs- Benz circle, Chinawaltair, Gudur, Hindupur, Kurnool-III, and Nandyal-I.

²⁹ Between June 2016 and March 2017.

³⁰ Involving ₹ 17.16 lakh.

³¹ Involving ₹ 16.52 lakh.

³² Involving ₹ 0.55 lakh.

prescribed by the Government in the notification. Government of Andhra Pradesh notified³³ the rate as 6.75 *per cent* for calculating the discount and repaying the balance at NPV of the deferred tax. The validity of the notification was one year from the date of its issue.

During test check of records of AC (LTU), Visakhapatnam, Audit observed (March 2017) that an industrial unit was sanctioned sales tax deferment for ₹ 17.15 crore. The unit availed the amount fully during the period from 1999-2000 to 2010-11. The unit opted (July 2016) to repay the outstanding deferred sales tax in one lumpsum under one time settlement scheme. An amount of ₹ 5.53 crore availed by the unit during 1999-2000 to 2001-02 had been repaid. The balance outstanding amount of deferred sales tax for the period from 2002-03 to 2010-11 was ₹ 11.62 crore. Commissioner accorded permission (September 2016) for payment of deferred sales tax at the discounted rate. Accordingly, the AC (LTU), Visakhapatnam allowed discount of ₹ 2.90 crore for the amount availed from 2002-03 to 2010-11.

Audit noticed that the discount allowed was irregular, as the due date for repayment of deferred sales tax availed during the year 2002-03 was 31 March 2016. As the permission was accorded in September 2016, the scheme was applicable for the payments that become due after this date. While computing discount for the period from 2003-04 to 2010-11 discount was reckoned for the full year instead of proportionately restricting it. Thus, incorrect allowance of discount for the year 2002-03 and incorrect computation of discount led to excess discount of ₹ 87.05 lakh.

In response to Audit observation, Government replied (January 2018) that notice was issued (November 2017) for payment of excess discount allowed.

2.4.3.5 Conclusion

Audit observed that no action was initiated by the Department for effecting the recovery from the industrial units. Assessing Authorities had not initiated action to recover the deferred tax of ₹ 13.25 crore though payments were due since 2006. Of this, an amount of ₹ 11.58 crore had been collected at the instance of Audit. Interest of ₹ 17.33 crore was not levied on belated payments of deferred tax.

³³ G.O.Rt.No.965 Revenue (CT-II) Department dated 07 October 2015.

2.5 Input tax credit

2.5.1 Inadmissible input tax credit on purchases relating to exempt sales

As per Section 13(1) 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, made during the tax period, if such goods are for use in the business. Further, as per Section 13(5)(d) of the Act, no ITC shall be allowed in case of exempt sale. As per Rule 9 of VAT Rules, dealers intending to set up a business in ‘taxable goods’ may claim ITC under start-up of business. Rule 9(4) stipulates that the ITC claimed in respect of tax paid on inputs must relate to the prospective taxable business activities.

The commodity “Power or Electrical Energy” is listed under Schedule-I of the Act and hence the sale of power is exempted from levy of tax.

During the test-check of records of Peddapuram circle, Audit observed (July 2016) in one case that the AA had allowed ITC of ₹ 3.69 crore, on the purchases³⁴ utilised for generation and sale of “Power”. ITC was inadmissible on sale of Power under provisions of the Act, as “Power” is exempt commodity. In addition, Assessing Authority also did not restrict the inadmissible ITC of ₹ 1.34 crore, on the proportionate purchases related to generation of ‘Power’, claimed by the dealer upto September 2012. The total inadmissible ITC relating to the exempt sales amounted to ₹ 5.03 crore.

On this being pointed out, the Government replied (January 2018) that file was sent (February 2017) for revision.

2.5.2 Excess claim of input tax credit due to incorrect 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) of VAT Act, 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 *per cent*³⁵. Further, as per sub rules (7) and (8) of Rule 20 of the VAT Rules, a VAT dealer making taxable sales, exempt sales and exempt transactions of taxable goods shall restrict his ITC as per the prescribed formula³⁶. As per Rule 20(10) of VAT Rules, where a dealer also makes sale of exempt goods, ITC which was fully claimed initially, shall be restricted at the end of March by applying formula. Exempt transactions shall be included in taxable turnover during such restriction.

³⁴ Relating to the period from October 2012 to March 2014.

³⁵ Four *per cent* up to 13 September 2011, five *per cent* from 14 September 2011.

³⁶ $A \times B / C$, where A is the ITC for common inputs for each tax rate, B is the taxable turnover and C is the total turnover.

During the test check of records of five circles³⁷, Audit observed³⁸ that ITC was not correctly restricted³⁹ in respect of six dealers who effected exempt sales and branch transfer⁴⁰ of taxable goods. Total excess claim of ITC was ₹ 92.18 lakh.

On this being pointed out, the Government replied (January 2018) that, in respect of CTO, Chittoor-II, an amount of ₹ 0.77 lakh was collected. In respect of CTO, Benz Circle, it was replied that show cause notice was issued (September 2017). In three other cases⁴¹, it was replied that file was sent (between April 2017 and August 2017) for revision. In respect of CTO, Kurupam Market, final reply was not received.

2.5.3 Incorrect claim of ITC and non-forfeiture of excess tax collected

As per Section 4(9)(b) and (d) of the VAT Act, every dealer, running a hotel with status lower than three star or running an eating establishment whose gross annual turnover is more than ₹ 7.50 lakh and less than ₹ 1.50 crore, shall pay tax at the rate of five *per cent* of the taxable turnover of the sale or supply of goods. As per Section 13(5)(h) of the Act, such dealers are not entitled to claim ITC. Further, as per Section 57(2) and (4) of the Act, no dealer shall collect tax exceeding the rate at which tax was liable to be paid under the provisions of the Act. Any such excess amount collected shall be forfeited to the Government.

During the test check of VAT records of three Circles⁴², Audit observed⁴³ in five cases⁴⁴ that ITC was claimed incorrectly and excess collected tax of ₹ 15.09 lakh was not forfeited. In CTO Chinawaltair, a hotel dealer with lower than three star category, liable to pay tax at the rate of five *per cent*, had collected tax at the rate of 14.5 *per cent*. The dealer also claimed ITC of ₹ 2.26 lakh in contravention to the provisions of Section 13(5) (h) of the Act. Four other dealers with annual turnover between ₹ 7.5 lakh and ₹ 1.50 crore, collected tax at the rate of 14.5 *per cent* instead of at five *per cent* besides incorrect claim of ITC of ₹ 7.43 lakh. This had resulted in incorrect claim of ITC of ₹ 9.69 lakh and non-forfeiture of excess tax collection of ₹ 15.09 lakh, in all the five cases.

On this being pointed out, the Government replied (January 2018) that, in one case (CTO, Benz circle), show cause notice was issued (November 2017). In remaining four cases⁴⁵, it was replied that file was sent (between November 2016 and February 2017) for revision.

³⁷ Benz Circle, Chittoor-II, Kurupam Market, Patnam Bazar and Steel Plant.

³⁸ Between October 2016 and February 2017.

³⁹ For the period from 2011-12 to 2014-15.

⁴⁰ Branch transfers to other states are “exempt transactions”.

⁴¹ CTOs: Patnam bazar and Steel Plant.

⁴² Anakapalle, Benz Circle and Chinawaltair.

⁴³ Between July and November 2016.

⁴⁴ For the assessment period from 2011-12 to 2015-16.

⁴⁵ CTOs: Anakapalle, Benz Circle and Chinawaltair.

2.5.4 Incorrect allowance of input tax credit

According to Sections 13(1) and 13(3)(a) of the VAT Act, ITC shall be allowed to the VAT dealer for the tax charged on all purchases of taxable goods, made by that dealer during the tax period, provided the dealer was in possession of valid tax invoice issued by another VAT dealer of Andhra Pradesh. As per Rule 27(1)(d) of the VAT Rules, tax invoice should have printed or computer generated serial numbers. As per Rule 9(4) of the VAT Rules, a dealer registered as a start-up business, may claim ITC for a maximum period of 24 months prior to making taxable sales. Further, as per Section 13(7) of the VAT Act, where any works contractor pays tax under Section 4(7)(a) of the Act, the ITC shall be limited to 75 per cent of the related input tax.

During the test-check of records (in seven cases⁴⁶) of five circles⁴⁷, Audit observed⁴⁸ that in two cases (CTO Dharmavaram), ITC was incorrectly allowed on the goods purchased from the VAT dealers of other states. In two cases (CTO Kurnool-III), ITC was incorrectly allowed on invalid tax invoices which contained manual serial numbers. In respect of Chittoor-II circle, ITC was incorrectly allowed in one case though the relevant VAT return and tax records were not submitted. A works contractor in Kadapa-I circle, who paid tax on the value of goods incorporated in work, was allowed ITC in full instead of limiting it to 75 per cent. In another case (CTO Kakinada), ITC was allowed to a 'startup business' dealer, who did not make taxable sales even after the maximum period of 24 months. The incorrect allowance of ITC by the AAs in all the seven cases amounted to ₹ 18.35 lakh.

On this being pointed out, the Government replied (January 2018) that, assessments were rectified in four cases⁴⁹ and in one case of Dharmavaram Circle demand was taken to Debt Management Unit (DMU). In one case (Chittoor), file was sent (January 2017) for revision. In another case (Kurnool-III) show cause notice was issued (August 2017).

2.5.5 Excess allowance of ITC 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 within the State during the tax period, if such goods are for use in business. Para 5.12 of AP VAT Audit Manual prescribed mandatory basic checks for conducting VAT audit, which include cross check of figures reported by VAT dealers in their monthly VAT returns, with those recorded in certified annual accounts, so as to detect under-declaration of tax, if any.

⁴⁶ For the period from 2011-12 to 2015-16.

⁴⁷ Chittoor-II, Dharmavaram, Kadapa-I, Kakinada and Kurnool-III.

⁴⁸ Between October 2016 and January 2017.

⁴⁹ CTOs: Dharmavaram, Kakinada and Kadapa-I.

During the test check of records of three circles⁵⁰, Audit observed⁵¹ that in three cases⁵² the AAs had adopted excess purchase turnover of ₹ 54.08 lakh for ITC, than that reported in relevant annual accounts. This had resulted in excess allowance of ITC of ₹ 5.48 lakh over the excess purchase turnover of ₹ 54.08 lakh.

On this being pointed out, the Government replied (January 2018) that show cause notices were issued (between October 2016 and September 2017) in all the cases⁵³.

2.6 Levy of penalty

2.6.1 Non-levy / short levy of penalty for under-declaration of tax

As per Section 53(1) of the VAT Act, where any dealer under-declared the tax and 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 the VAT Rules, for the purpose of Section 53 of the Act, the tax under-declared means the excess of ITC claimed over and above the amount entitled or the difference between output tax actually chargeable and the output tax declared in the returns. As per Section 13(5)(h) of the VAT Act read with Section 4(9)(d), the dealers running any restaurants or eating establishments etc., with annual turnover of less than ₹ 1.50 crore, are not entitled to claim ITC.

During the test-check of assessment records of two divisions⁵⁴ and nine circles⁵⁵, Audit observed⁵⁶ that in 16 cases⁵⁷ output tax was under-declared and excess ITC was claimed, for reasons other than fraud or wilful neglect. In these cases, AAs have either short levied or did not levy any penalty. This had resulted in non-levy / short levy of penalty of ₹ 1.41 crore over the under-declared tax of ₹ 8.69 crore.

On this being pointed out, the Government replied (January 2018) that in seven cases⁵⁸ the assessment was rectified. In case of CTO Aryapuram show cause notice was issued (December 2016). In four cases⁵⁹ the file was sent (between November and December 2016) for revision. In remaining cases, report was not received.

⁵⁰ Anakapalle, Benz Circle and Kurnool-I.

⁵¹ Between June and November 2016.

⁵² For the assessment years 2012-13 and 2014-15.

⁵³ CTOs: Anakapalle, Benz Circle and Kurnool-I

⁵⁴ Kadapa and Vizianagaram.

⁵⁵ Aryapuram, Benz Circle, Brodipet, Chinawaltair, Markapur, Steel plant, Suryabagh, Tadipatri and Vuyyuru.

⁵⁶ Between June 2016 and February 2017.

⁵⁷ For the assessment period from 2009-10 to 2015-16.

⁵⁸ DC Vizianagaram, CTOs: Benz Circle, Markapur, Steel Plant, Tadipatri and Vuyyuru.

⁵⁹ DC Kadapa, CTOs: Benz Circle, Brodipet and Suryabagh

2.6.2 Non-levy / short levy of penalty due to wilful under-declaration of tax

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

During the test-check of records of ten circles⁶⁰, Audit observed⁶¹ in 11 cases⁶² that there was wilful under-declaration of tax of ₹ 1.37 crore for which an equal amount of penalty was leviable. However in four cases, the AAs did not levy any penalty for under-declared tax of ₹ 7.02 lakh. In seven other cases, penalty of only ₹ 32.45 lakh was levied against the leviable penalty of ₹ 1.30 crore. This had resulted in non-levy/short levy of penalty of ₹ 1.05 crore.

On this being pointed out, the Government replied (January 2018) that, in two cases⁶³, assessment was rectified. In five cases⁶⁴, show cause notice was issued (between February 2017 and November 2017) and in remaining four cases⁶⁵, file was sent (between December 2016 and April 2017) for revision.

2.7 VAT on works contracts

2.7.1 Non-levy/short levy of tax due to incorrect determination of taxable turnover under works contract

Under 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. To arrive at the value of goods at the time of incorporation, the deductions prescribed under Rule 17(1)(e) of the 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 charges⁶⁶, transportation charges etc.

During the test-check of assessment records in four circles⁶⁷, Audit observed⁶⁸ that in four cases the AAs had incorrectly determined⁶⁹ the taxable turnover during their assessment. The AAs had allowed certain inadmissible deductions and taxable turnover was incorrectly calculated. This resulted in non/short

⁶⁰ Anakapalle, Brodipet, Gajuwaka, Kavali, Narasaraopet, Puttur, Steel Plant, Suryabagh, Suryaraopet and Tadipatri.

⁶¹ Between June 2016 and February 2017.

⁶² For the assessment period from 2010-11 to 2015-16.

⁶³ CTOs: Kavali and Tadipatri.

⁶⁴ CTOs: Anakapalle, Gajuwaka, Narasaraopet, Puttur and Suryaraopet.

⁶⁵ CTOs: Brodipet, Gajuwaka, Steel Plant and Suryabagh.

⁶⁶ "Seigniorage charges" are charges for the Minor Minerals used in the execution of works.

⁶⁷ Gajuwaka, Markapur, Proddatur-II and Steel Plant.

⁶⁸ Between July 2016 and February 2017.

⁶⁹ Assessment period from 2008-09 to 2014-15.

levy of tax of ₹ 1.14 crore. In one case, CTO Proddatur-II while finalising the assessment for the year 2014-15, had not assessed works contract turnover of ₹ 1.03 crore for levy of tax of ₹ 0.06 crore. The total non-levy/short levy of tax in respect of all five works contractors amounted to ₹ 1.20 crore.

On this being pointed out, the Government replied (January 2018) that, in respect of CTO, Markapur, assessment was rectified. In remaining four cases⁷⁰, file was sent (between November 2016 and April 2017) for revision.

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

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. However, as per Rule 17(1)(g) of the 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. In such cases, the works contractor / VAT dealer shall not be eligible to claim ITC.

During the test-check of records of three circles⁷¹, Audit observed⁷² that turnover of two works contractors was assessed⁷³ according to the method prescribed for those who maintain detailed work accounts. However, as the dealers did not maintain detailed work accounts, tax was leviable at 14.5 *per cent* on 60/70⁷⁴ *per cent* of the turnover without allowing any ITC on purchases. In one case pertaining to CTO Tirupati-I, though detailed accounts were not maintained, works turnover was incorrectly treated as sale transaction and ITC of ₹ 1.55 lakh was allowed. This had resulted in short levy of tax of ₹ 27.44 lakh due to non-assessment of the turnover under Rule 17(1)(g).

On this being pointed out, the Government replied (January 2018) that, in two cases⁷⁵, file was sent (between December 2016 and February 2017) for revision. In one case of CTO, Kurupam Market, it was replied that file would be sent for revision (December 2017).

⁷⁰ CTOs: Gajuwaka, Proddatur-II and Steel Plant.

⁷¹ Kurupam Market, Suryabagh and Tirupati-I.

⁷² Between September 2016 and February 2017.

⁷³ Assessment period from 2010-11 to 2014-15.

⁷⁴ 60 *per cent* for Printing dealer and 70 *per cent* for civil contractor.

⁷⁵ CTOs: Suryabagh and Tirupati-I.

2.8 Tax on interstate sales

2.8.1 Non-levy/short levy of tax due to incorrect determination of taxable turnover under CST Act

As per Section 9(2) of the 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 Para 5.12 of VAT Audit Manual 2012, the audit officer is required to verify the details given by the dealer in VAT/CST returns and to reconcile with those reported in certified annual accounts for that period. According to Sub Rules (8), (9) and (10) of Rule 14-A of CST (AP) Rules, 1957, if the whole or any part of the turnover of business of a dealer escaped assessment or under-assessed in any year, the AA, may to the best of his judgment, assess the correct tax payable by the dealer within the prescribed time period. As per Sections 5, 6, 6A and 8 of the CST Act read with Rule 12 of CST (Registration and Turnover) Rules, 1957, if any dealer fails to submit necessary statutory forms in support of exports, branch transfers, transit sales etc., the relevant transactions have to be treated as interstate sales not covered by 'C' forms and tax shall be levied at the rates applicable to the sale of goods inside the appropriate State.

The commodities listed under Schedule-IV to the VAT Act are taxable at the rate of five *per cent*⁷⁶. The commodities which are not listed in Schedules-II to IV and VI, fall under Schedule-V and are taxable at the rate of 14.5 *per cent*.

During the test-check of records of nine circles⁷⁷, Audit observed⁷⁸ in nine cases that the taxable turnover under the CST Act was not correctly determined⁷⁹. The turnovers were not reconciled between the VAT and CST returns, ledgers, VAT and CST assessment orders, CST way bill utilisation reports and Profit and Loss accounts. This had resulted in non-levy/short levy of tax of ₹ 60.62 lakh on the under-assessed turnover of ₹ 12.55 crore.

On this being pointed out, the Government replied (January 2018) that, assessment had been rectified in one case (Ananthapuram-II circle) and demands were taken to DMU in two cases⁸⁰. Show cause notices were issued (between November 2016 and November 2017) in three cases⁸¹ and in one case (Steel Plant circle) file was sent for revision. In remaining two cases⁸², replies were not received.

⁷⁶ Four *per cent* up to 13 September 2011.

⁷⁷ Ananthapuram-II, Dharmavaram, Kadapa-I, Kasibugga, Kurupam Market, M.G. Road (West), Nandyal-I, Peddapuram and Steel Plant.

⁷⁸ Between June 2016 and February 2017.

⁷⁹ Assessment period from 2011-12 to 2015-16.

⁸⁰ CTOs: Dharmavaram and Kadapa-I.

⁸¹ CTOs: Kurupam Market, Nandyal-I and Peddapuram.

⁸² CTOs: Kasibugga and MG Road (West).

2.8.2 Short levy of tax due to application of incorrect rate of tax under CST Act

As per Section 8(1) of the CST Act read with Rule 12(1) of CST (R&T) Rules, 1957, interstate sales not supported by 'C' Forms are liable to tax at the rate applicable to sale of such goods inside the concerned 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. As per Section 4(8) of 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 business shall pay tax on the total amount received by him at the rates applicable to such goods.

'Medium Density Fibre (MDF) Boards', 'Rolling Shutters' and 'Vehicles/Lorry' fall under Schedule-V to the VAT Act and are liable for tax at 14.5 *per cent*.

During the test-check of CST records of three circles⁸³, Audit observed⁸⁴ in three cases that tax was incorrectly applied on interstate sale turnover of ₹ 63.82 lakh not supported by 'C' forms. These three dealers had dealt with 'MDF Boards', 'Rolling Shutters' and hiring of 'Vehicles'. Audit noticed that AAs had levied tax⁸⁵ at incorrect rate of four/five *per cent* instead of 14.5 *per cent*. This had resulted in short levy of tax of ₹ 6.31 lakh.

On this being pointed out, the Government replied (January 2018) that, in one case of CTO, Markapur, an amount of ₹ 0.37 lakh was collected. Assessment was rectified in case of Ananthapuram-II Circle and file was sent (October 2017) for revision in respect of CTO, Chinawaltair.

2.9 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. "Machinery" is taxable at five *per cent* under Schedule IV to the VAT Act. "Automobiles" and "Generator" are not classified in any of the Schedules to the VAT Act and are therefore liable to tax at 14.5 *per cent*.

During the test-check of assessment records of six circles⁸⁶, Audit observed⁸⁷ in 11 cases⁸⁸ that the AAs had either not levied or short levied tax on income received towards transfer of right to use goods. The hire charges turnover of ₹ 44.17 crore of these dealers was liable for tax at the rate of 14.5 / five *per cent*. The incorrect assessments by the AAs had resulted in non-levy/short levy of tax of ₹ 6.39 crore.

⁸³ Ananthapuram-II, Chinawaltair and Markapur.

⁸⁴ Between August and September 2016.

⁸⁵ For the years 2011-12 to 2013-14.

⁸⁶ Chinawaltair, Chittoor-II, Gudur, Kurupam Market, Tirupati-I and Vizianagaram (West).

⁸⁷ Between July 2016 and February 2017.

⁸⁸ For the assessment years 2011-12 and 2012-13.

On this being pointed out, the Government replied (January 2018) that, assessments were rectified in three cases⁸⁹ and show cause notices issued (between July 2017 and November 2017) in seven cases⁹⁰. In one case of CTO, Chinawaltair, file was sent (November 2016) for revision.

2.10 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 order⁹¹ dated 08 July 2011, the commodity ‘textiles and fabrics’ was added to Schedule-IV and made taxable at five *per cent*⁹². However, as per Ordinance No. 9 of 2012 dated 05 November 2012, the dealers of ‘textiles and fabrics’ may opt to pay tax at the rate of one *per cent* under composition scheme. Later, Government by another order⁹³ included the said commodity in Schedule-I from 07 June 2013 and exempted sales thereof. Hence, tax was liable to be paid at the rate of five *per cent* from 08 July 2011 to 06 June 2013, if the dealers had not opted for composition scheme.

During the test check of records of 18 circles⁹⁴, Audit observed⁹⁵ that in 37 cases, the AAs had incorrectly exempted the sale turnover of ₹ 116.15 crore of ‘textiles and fabrics’ during 08 July 2011 to 06 June 2013. The exempted sale turnover was liable for tax at the rate of five *per cent* as the dealers did not opt for composition scheme. Incorrect exemption by the AAs had resulted in non-levy of tax of ₹ 5.80 crore.

On this being pointed out, the Government replied (January 2018) that, assessments were rectified in four cases⁹⁶. Files were sent (between October 2016 and August 2017) for revision in 16 cases⁹⁷ and show cause notices issued (between October 2016 and November 2017) in 10 cases⁹⁸. In remaining seven cases⁹⁹, replies were not received.

2.11 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 unsatisfactory, the AA shall assess the tax payable to the best of his judgement on Form VAT 305 within four years from the due date or date of filing the return, whichever is later. As per Section 21(4) of the Act, the

⁸⁹ CTOs: Chittoor-II, Gudur and Tirupati-I.

⁹⁰ CTOs: Chittoor-II, Kurupam Market and Vizianagaram (West).

⁹¹ G.O.Ms.No.932, Revenue (CT-II) Department dated 08 July 2011.

⁹² Four *per cent* upto 13 September 2011.

⁹³ G.O.Ms.No.308, Revenue (CT-II) Department dated 07 June 2013.

⁹⁴ Akividu, Ananthapuram-II, Aryapuram, Brodipet, Chinawaltair, Chittoor-I, Eluru, Hindupur, Kakinada, Kurnool-I, Kurupam Market, Narsaraopet, Patnam Bazar, Puttur, Rajahmundry, Suryabagh, Tanuku-I and Tuni.

⁹⁵ Between June 2016 and February 2017.

⁹⁶ CTOs: Ananthapuram-II, Hindupur and Suryabagh.

⁹⁷ CTOs: Aryapuram, Brodipet, Kakinada, Narsaraopet, Puttur and Suryabagh.

⁹⁸ CTOs: Kurnool-I, Kurupam Market, Patnam Bazar, Rajamundry and Tuni.

⁹⁹ CTOs: Akividu, Chinawaltair, Chittoor-I, Eluru, Tanuku.

authority prescribed may conduct a detailed scrutiny of the accounts of any VAT dealer based on the available information and where any assessment becomes necessary after such scrutiny, 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 have to furnish the statements of manufacturing / trading, profit and loss accounts, balance sheet and annual report for every financial year, duly certified by a Chartered Accountant, on or before 31st December of the succeeding year. As per Para 5.12 of VAT Audit Manual 2012, the audit officer is required to verify the details declared by the dealer in VAT returns and to reconcile with those reported in certified annual accounts for that period.

During the test-check of records of 31 dealers in two divisions¹⁰⁰ and 15 circles¹⁰¹, Audit observed¹⁰² that in 28 cases, the sale¹⁰³ turnover as per their annual accounts was more than the turnover declared in VAT returns. In one case, warranty claims on replacement of spares received by the dealer were not subjected to tax. In two cases, the dealers had not declared tax on sale of used machinery and computers. The incorrect determination of taxable turnover by the AAs in 31 cases had resulted in short levy of tax of ₹ 2.89 crore.

On this being pointed out, the Government replied (January 2018) that assessments were rectified in six cases¹⁰⁴ and show cause notices were issued (between October 2016 and November 2017) in 12 cases¹⁰⁵. In six cases¹⁰⁶ the files were sent (between October 2016 and July 2017) for revision. In remaining cases, reply was not received.

2.12 Non-levy of interest and penalty on 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) 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* per month for the period of delay. Further, under Section 51(1) of the Act, if a dealer fails to pay the tax due (on the basis of the return submitted) by the last day of the month in which it was due, he shall be liable to pay a penalty of 10 *per cent* of the amount of tax due, in addition to such tax.

During the test-check of records of four divisions¹⁰⁷ and nine circles¹⁰⁸, Audit observed¹⁰⁹ in 55 cases that the dealers paid tax¹¹⁰ after the due dates.

¹⁰⁰ DCs: Ananthapuram and Vizianagaram.

¹⁰¹ Anakapalle, Bapatla, Benz Circle, Chinawaltair, Eluru, Gudivada, Gudur, Jagannaikpur, Kurnool-I, Markapur, Nandyal-I, Peddapuram, Steel Plant, Tuni and Vuyyuru.

¹⁰² Between June 2016 and February 2017.

¹⁰³ For the period from 2010-11 to 2014-15.

¹⁰⁴ CTOs: Gudivada, Gudur, Markapur and Vuyyuru

¹⁰⁵ CTOs: Benz Circle, Jagannaikpur, Kurnool-I, Nandyal-I, Peddapuram and Tuni

¹⁰⁶ DC Ananthapuram and Vizianagaram, CTOs: Anakapalle, Peddapuram and Steel Plant

¹⁰⁷ Kadapa, Kakinada, Nellore and Visakhapatnam.

¹⁰⁸ Akividu, Benz Circle, Bhimavaram, Chinawaltair, Gudivada, Krishnalanka, Kurupam Market, Proddatur-II and Steel Plant.

¹⁰⁹ Between October 2015 and February 2017.

¹¹⁰ For the period from 2012-13 to 2015-16.

The delays were ranging from 1 to 463 days. However, the AAs did not levy any interest and penalty in these cases for belated payment of tax. This had resulted in non-levy of interest of ₹ 62.36 lakh and penalty of ₹ 2.22 crore.

On this being pointed out, the Government replied (January 2018) that, an amount of ₹ nine lakh had been recovered (between December 2016 and July 2017) in four cases¹¹¹. Assessments were revised (between March 2017 and November 2017) in 31 cases¹¹² and in two cases (Kurupam Market) penalty notices were issued (November 2017). Replies were not received in remaining 18 cases¹¹³.

2.13 Under-declaration of tax due to application of incorrect rate of tax

As per Section 4(9)(c) of the VAT Act, every dealer, whose annual total turnover is ₹ 1.50 crore and above, shall pay tax at the rate of 14.5 *per cent* on the taxable turnover representing sale or supply of food. Under Section 4(1) of VAT Act, VAT is leviable at the rates prescribed in Schedules II to IV and VI to the Act. The rate of tax for goods falling under Schedule-IV to the Act, was enhanced from four to five *per cent* from 14 September 2011. Commodities not specified in any of the Schedules fall under Schedule-V and are liable to VAT at 14.5 *per cent* from 15 January 2010. As per 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 and payment of tax for such tax period.

The commodities, ‘Air Conditioners’, ‘Aluminium Doors/Windows’, ‘Dumper Bins’, ‘Furniture, Timber and sizes’ and ‘Physical fitness Equipment’ are taxable at the rate of 14.5 *per cent*.

During the test-check of VAT records of 10 circles¹¹⁴, Audit observed¹¹⁵ that in five cases, correct rate of tax at 14.5 *per cent* was not applied over the taxable turnover¹¹⁶. These dealers, who dealt with ‘Air Conditioners’, ‘Aluminium Doors/Windows’, ‘Dumper Bins’, ‘Furniture, Timber and sizes’, ‘Fitness Equipment’, had under-declared tax at four/five *per cent*. In four cases, dealers running bar and restaurant declared their annual total turnover below ₹ 1.50 crore without including liquor sales and paid tax at five *per cent* on sale of food. These dealers were liable to pay tax at 14.5 *per cent* as their annual total turnover exceeded ₹ 1.50 crore after including liquor sales. In three cases, dealers involved in food sales declared tax at five *per cent* though their annual turnover exceeded ₹ 1.50 crore. The AAs had applied incorrect

¹¹¹ DC Nellore; CTOs: Benz circle and Gudivada.

¹¹² DCs(CT): Kadapa, Kakinada and Nellore; CTOs: Benz circle, Krishnalanka, Proddatur-II and Steel Plant.

¹¹³ DC Visakhapatnam; CTOs: Akividu, Bhimavaram, Chinawaltair and Kurupam Market.

¹¹⁴ Benz Circle, Bhimavaram, Daba Gardens, Eluru, Gudivada, Gudur, Kurnool-I, Kurupam Market, Tanuku-I and Tirupati-I.

¹¹⁵ Between June 2016 and February 2017.

¹¹⁶ For the period from 2010-11 to 2015-16.

rates of tax in all the 12 cases leading to under-declaration / short levy of tax of ₹ 2.15 crore on total turnover of ₹ 22.02 crore.

On this being pointed out, the Government replied (January 2018) that the assessments were rectified in three cases¹¹⁷ and show cause notices were issued (between October 2016 and November 2017) in three cases¹¹⁸. In case of CTO Gudivada file was sent (November 2016) for revision. In remaining cases, reply was not received.

2.14 Short levy of tax / penalty due to calculation error

The levy of taxes under the VAT Act is governed by Section 4 of the Act and tax under the CST Act is levied under the provisions of Section 8 of the CST Act.

During the test-check of assessment files¹¹⁹ in five circles¹²⁰, Audit observed¹²¹ that in 12 cases, the AAs had short levied tax of ₹ 1.35 crore due to arithmetical error, on the interstate sale turnover not covered by statutory forms. In one case, CTO Kurnool-I had short levied tax of ₹ 46.88 lakh due to incorrect computation of tax for the year 2013-14. In one case, CTO Anakapalle had incorrectly calculated penalty on under-declared tax¹²² leading to short levy of ₹ 1.50 lakh. The short levy of penalty/tax due to arithmetical errors in all the 14 cases amounted to ₹ 1.83 crore.

On this being pointed out, the Government replied (January 2018) that, revision orders were passed (October/November 2017) in ten cases¹²³. Show cause notice was issued (October 2016) in one case pertaining to Kurnool-I Circle. Reply was not received in remaining three cases¹²⁴.

2.15 Short payment of tax and non-levy of penalty due to non-conversion as VAT dealer

As per 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 and pay tax at applicable VAT rates from thereon. As per Section 17(5)(h) of the Act, every dealer engaged in sale of food items including sweets etc., whose 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 *suomotu* register a dealer, who is liable to apply for registration as VAT dealer. In terms of Section 49(2) of the VAT Act, any dealer who fails to apply for registration, shall pay a penalty of 25 *per cent* of the tax due prior to the date of registration.

¹¹⁷ CTOs: Benz Circle, Daba Gardens and Gudur

¹¹⁸ CTOs: Daba Gardens, Kurnool-I and Kurupam Market

¹¹⁹ For the years 2011-12 to 2013-14.

¹²⁰ Akividu, Anakapalle, Kurnool-I, Mandapeta and Nellore-I.

¹²¹ Between September 2015 and September 2016.

¹²² For the period from 2011-12 to 2013-14.

¹²³ CTOs: Anakapalle and Nellore.

¹²⁴ CTOs: Akividu and Mandapeta.

During the test-check of Turnover Tax (TOT) records of six circles¹²⁵, Audit observed¹²⁶ that in 10 cases, the taxable turnover¹²⁷ had crossed the threshold limit¹²⁸, making dealers liable for VAT registration. The subsequent turnover liable for levy of VAT amounted to ₹ 5.05 crore on which VAT of ₹ 46.67 lakh was payable; but these dealers paid tax of only ₹ 4.80 lakh. These TOT dealers had neither applied for VAT registration nor were they registered by the respective AAs as VAT dealers. The AAs had not levied any penalty on these dealers who failed to apply for VAT registration. This had resulted in short payment of tax of ₹ 41.87 lakh and non-levy of penalty of ₹ 6.57 lakh.

On this being pointed out, the Government replied (January 2018) that, an amount of ₹ 5.94 lakh was collected in respect of CTO, Rajam. Assessments were rectified in two cases¹²⁹ and show cause notices issued (between March 2017 to November 2017) in four other cases¹³⁰. In remaining three cases¹³¹, reply was not received.

2.16 Non-forfeiture of excess collected tax and non-levy of penalty

As per Section 57(2) of the VAT Act, no dealer shall collect tax exceeding the rate at which tax was liable to be paid. Under Section 57(4) of the VAT Act, any excess tax so collected shall be forfeited to the Government and the dealer shall be liable to pay an equal amount of penalty.

During the test-check of records of two circles¹³², Audit observed¹³³ that in two cases, tax of ₹ 8.17 lakh was collected¹³⁴ by the dealers in excess of their tax liability. However, the AAs did not forfeit the excess collected tax to the Government account. Further, a penalty equal to the amount of excess collected tax, i.e., ₹ 8.17 lakh, was not levied.

On this being pointed out, the Government replied (January 2018) that, assessment was rectified in one case (Nellore-III circle) and show cause notice issued (November 2017) in another case (Dwarakanagar circle).

2.17 Non-payment/short payment of VAT due to under-declaration of sales turnover of High Security Registration Plates

Government of India had issued the Motor Vehicles (New High Security Registration Plates) order, 2001 through a Gazette notification dated 22

¹²⁵ Anakapalle, Bhimavaram, Chinawaltair, Kurnool-III, Rajam and Suryabagh.

¹²⁶ Between June 2016 and February 2017.

¹²⁷ For the period from October 2012 to March 2016.

¹²⁸ Limit of ₹ 50 lakh.

¹²⁹ CTOs: Anakapalle and Bhimavaram.

¹³⁰ CTOs: Anakapalle, Kurnool-III and Suryabagh.

¹³¹ CTOs: Chinawaltair and Suryabagh

¹³² Dwarakanagar and Nellore-III.

¹³³ Between December 2015 and February 2017.

¹³⁴ For the period from 2010-11 to 2013-14.

August 2001. Accordingly, Central Motor Vehicle Rules were amended and HSRP Rules were introduced.

Government of Andhra Pradesh entrusted¹³⁵ the work of implementation of HSRP to Andhra Pradesh State Road Transport Corporation (APSRTC).

Government through order¹³⁶ of December 2013 selected a Firm¹³⁷ to sell and affix HSR plates in AP at the rates specified therein. The High Security Registration Plate includes unit made of Aluminium complying with size and specifications as per HSRP Rules.

The base price of the High Security Registration (HSR) Plate was exclusive of Excise Duty (ED) and user charges at 30 *per cent* to APSRTC and Transport Department. Excise Duty is payable at 12.36 *per cent* and VAT is payable on the gross value so arrived. As per Section 4(1) of AP VAT Act 2005, every dealer registered or liable to be registered as a VAT dealer, shall be liable to pay tax on every sale of Goods in the State at the rates specified in the schedules. Aluminium and its products are not listed in any of the Schedules from I to IV of VAT Act. HSR plates are therefore chargeable to tax at 14.5 *per cent*.

(i) Analysis of data¹³⁸ pertaining to Transport Department and APSRTC disclosed that the firm failed to declare the sale turnover of HSR Plates of ₹ 61.05 lakh for the period from June to August 2014. VAT payable on the turnover at the rate of 14.5 *per cent* worked out to ₹ 8.85 lakh.

(ii) Analysis of data of Transport Department and VAT ledgers of Commercial Taxes Department revealed that the firm under-declared the sale turnover of HSR Plates. The turnover under-declared was to the extent of ₹ 5.63 crore for the period from September 2014 to March 2017. This resulted in short payment of VAT of ₹ 81.58 lakh at the rate of 14.5 *per cent* on the under-declared turnover of ₹ 5.63 crore.

On this being pointed out, the Principal Secretary (Transport, Roads and Buildings) replied (December 2017) that the contractor was addressed for payment of VAT by APSRTC.

¹³⁵ G.O.Ms.No.148 Transport, Roads and Buildings (Tr.I) Department, dated 24 December 2011.

¹³⁶ G.O.Ms.No.110 Transport, Roads and Buildings (Tr.I) Department, dated 02 December 2013.

¹³⁷ M/s. Link Auto Tech Private Limited (TIN 37573757983).

¹³⁸ For the period from June 2014 to March 2017.

CHAPTER III

***STATE EXCISE
DUTIES***

CHAPTER III STATE EXCISE DUTIES

3.1 Tax Administration

Functioning of the Prohibition and Excise (P&E) Department 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. Commissioner 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) supervised the overall functioning of the offices of P&ESs.

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 existence of internal audit wing in the Department, Commissioner intimated (October 2017) that there was no Internal Audit wing in the Department.

3.3 Results of Audit

Test check of records of 16 offices of Prohibition and Excise Department conducted during the year 2016-17 revealed under-assessment and other observations. These irregularities involved monetary impact of ₹ 83.46 crore in 32 cases. These Audit observations broadly fall under the categories as given in Table 3.1.

Table 3.1: Results of Audit

(₹ in crore)

Sl.No.	Category	No. of cases	Amount
1.	Reduction in production capacity of a distillery	01	60.00
2.	Non-levy of interest on arrears	01	15.11
3.	Short levy of licence fee	01	2.19
4.	Non-levy of additional licence fee	08	5.56
5.	Non-levy of interest on belated payment of licence fee	08	0.08
6.	Non-levy of permit room licence fee	02	0.06
7.	Short levy of toddy rentals	02	0.02
8.	Other irregularities	09	0.44
Total		32	83.46

During the year 2016-17, the Department accepted under-assessment and other deficiencies of ₹ 37.97 lakh in 22 cases. Of these, ₹ 29.79 lakh involving 11 cases were pointed out during the year 2016-17 and the rest in earlier years. An amount of ₹ 21.18 lakh was realised in 19 cases during the year 2016-17. A few illustrative cases, involving ₹ 62.27 crore, are discussed in the succeeding paragraphs.

3.4 Revenue foregone due to reduction in production capacity of a distillery

As per Section 16 of AP Excise Act, 1968 read with Rule 4 of A.P. Distillery (Manufacture of Indian Made Foreign Liquor (IMFL) other than Beer and Wine) Rules, 2006, no Letter of Intent (LOI) shall be issued for establishment of any new manufactory or expansion of the production capacity of any existing machinery without previous notification by the Government expressing the intention to grant the same from time to time.

As per Rule 8 of AP Distillery Rules, Government shall fix the production capacity of the manufactory and licence fee shall be fixed by the Commissioner based on production capacity. The production capacity fixed shall not be reduced under any circumstances.

As per Rule 5(2)(b), no licence for manufactory shall be granted unless a non-refundable and non-adjustable fee as well as special fee was paid within the validity period of LOI. This LOI was valid for a period of three years from

the date of issue and subsequently extended¹³⁹ for a period of four years. Government in its order¹⁴⁰ dated 25 January 2011 enhanced the fee rates with effect from 27 January 2011.

Scrutiny of records (April 2017) in office of the Commissioner of Prohibition & Excise disclosed that two applicants were issued LOI for establishment of new manufactories. This was in response to Government Notification¹⁴¹ dated 10 June 2008 for which 18 applications were received (seven for establishing manufactory and eleven for expansion of production capacity).

One of these applicants was granted LOI in October 2008 with production capacity of 2,000 lakh Proof Litres (PLs). Accordingly, LOI holder was liable to pay the enhanced fees amounting to ₹ 129 crore.

In June 2012, the LOI holder applied for reducing the production capacity by 50 per cent of LOI.

Based on the application, Government issued¹⁴² memo for reduction of production capacity of LOI holder from 2,000 lakh PLs to 1,000 lakh PLs. Commissioner, in turn, issued (April 2014) demand notice for ₹ 51 crore (taking into account ₹ 18 crore which was already paid) for the reduced production capacity.

The reduction in production capacity was in violation of the provisions and that too after rejection of all other applications. Consequently, Government had lost LOI fee of ₹ 60 crore (₹ 129 crore less ₹ 69 crore) from the LOI holder.

In response, the Government replied (January 2018) that the production capacity (2,768.99 lakh PLs of IMFL) of the combined State and single LOI (2,000 lakh PLs) was very high and accordingly it had reduced the production capacity of LOI holder from 2,000 lakh PLs to 1,000 lakh PLs. The reply was not tenable, as the Commissioner issued the LOI for production capacity of 2,000 lakh PLs by considering the requirement of the State. Further, provisions of Distillery Rules stipulated that production capacity once fixed should not be reduced under any circumstances.

3.5 Short levy of club licence fee

As per Section 28 of AP Excise Act, 1968 read with Rule 7 (2)(a)(i) of AP Excise (Grant of licence of selling by in-house and conditions of licence) Rules, 2005, club licence shall not be granted unless the applicant is a registered club under the Societies Registration Act, 1860 with a bona fide membership of not less than 500 members and functioned as a club for not less than three years. However, as per the proviso to this Rule, the clubs which are not registered under Societies Registration Act, 1860 and which are proprietary in nature i.e., owned by individuals, partnership firm or companies

¹³⁹ G.O.Ms.No.881, Revenue (Excise-III) Department, dated 23 August 2010.

¹⁴⁰ G.O.Ms.No.67, Revenue (Excise-III) Department, dated 25 January 2011.

¹⁴¹ G.O.Ms.No.728, Revenue (Excise-III) Department, dated 10 June 2008.

¹⁴² Memo No. 20132/Excise III(1)/2011-8, dated 17 April 2013.

shall be considered for grant of licence on payment of licence fee on par with Bar licence.

Under Rule 10 of AP Excise (Grant of licence of selling by Bar and conditions of licence) Rules 2005, the annual licence fee for the Bar licence shall be levied on the basis of population and at the rates notified by Government from time to time.

Scrutiny (April 2017) of Club licence files in office of the Commissioner, disclosed that Club licence was granted¹⁴³ to a Club by charging licence fee of ₹ six lakh per annum. As the Club was registered under Companies Act, 1913 and not under the Societies Registration Act, 1860, licence should have been granted on payment of fee on par with Bar licence. Thus, Club licence was issued without payment of licence fee applicable to Bar licence. This had resulted in short levy of licence fee of ₹ 2.15 crore for the licence period from 2011-12 to 2016-17.

After Audit pointed out the case, the Government replied (January 2018) that the club was registered under Indian Companies Act, 1913 and was not a proprietary concern. Therefore, it was contended that annual licence fee as applicable to bar licence was not payable by the club. The reply was not tenable, as the proviso to Excise Rules specify that clubs not registered under Societies Registration Act, 1860 and owned by companies should be considered for grant of bar licence. Hence, licence fee on par with bar licence was payable by the club.

3.6 Non-levy of additional licence fee

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.

Scrutiny (January 2017) of Bar licences in office of the P&ES, Visakhapatnam disclosed that 10 *per cent* additional licence fee¹⁴⁴ of ₹ 12.30 lakh was not levied on six restaurants and bars with non-contiguous consumption enclosures. These include cases where consumption areas were situated in different floors having separate access.

After Audit pointed out the cases, the Government replied (January 2018) that notices were issued to licencees and concerned authority had been directed to collect additional licence fee.

¹⁴³ For the licence period from 2011-12 to 2016-17.

¹⁴⁴ For the licence period from July to December 2015.

CHAPTER IV

***STAMP DUTY AND
REGISTRATION FEES***

CHAPTER IV STAMP DUTY AND REGISTRATION FEES

4.1 Tax Administration

Receipts from stamp duty and registration fee are regulated under the Indian Stamp Act 1899, (IS Act), Registration Act, 1908 and the rules framed thereunder as applicable in Andhra Pradesh State. These are administered at the Government level by the Principal Secretary, Revenue (Registration & Stamps). The Director and Inspector General of Registration and Stamps (DIGR) is the head of the Department, who is empowered with the task of superintendence and administration of registration work in the State. Director and Inspector General of Registration and Stamps is assisted by zone-wise Deputy Inspectors General (DIG). The District Registrar (DR) is in charge of the district. District Registrar 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 143 offices of Registration and Stamps Department conducted during 2016-17 revealed under-assessment and other observations. These irregularities involved monetary impact of ₹ 8.88 crore in 392 cases. The Audit observations broadly fall 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.	Short levy of stamp duty and registration fee due to conversion of agricultural lands to non-agricultural purposes	237	5.77
2.	Short levy of duties due to under-valuation of properties	39	1.22
3.	Short levy of duties due to adoption of incorrect rates	17	0.22
4.	Short levy of duties due to misclassification of documents	29	0.22
5.	Other irregularities	70	1.45
Total		392	8.88

During the year 2016-17, the Department accepted under-assessment and other deficiencies of ₹ 63.71 lakh in 121 cases. Of these, 27 cases involving ₹ 27.89 lakh were pointed out during the year 2016-17 and the rest in earlier years. An amount of ₹ 44.00 lakh in 108 cases was realised during the year 2016-17.

A few illustrative cases of short levy of duties and fees involving ₹ 3.65 crore are discussed in the succeeding paragraphs.

4.4 Short levy of duties and registration fees on agricultural lands converted for non-agricultural use

Section 27 of Indian Stamp Act requires that an instrument contains details like consideration, Market Value (MV) 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 MV 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.

Scrutiny¹⁴⁵ of records in one DR¹⁴⁶ and nine SR¹⁴⁷ offices disclosed that in 23 documents¹⁴⁸, agricultural rate had been adopted for the lands which had already been converted¹⁴⁹ to non-agricultural use. Due to suppression of fact of conversion by executants and also non-verification of facts by registering authorities, the properties were under-valued. This resulted in short levy of stamp duty and registration fee of ₹ 2.78 crore.

In response, Director & Inspector General of Registration and Stamps (DIGR) contended (December 2017) that there was no information to the registering officers about conversion of the land from the revenue authorities. Further, they had adopted Market Values as per the guidelines prescribed. The reply was not tenable as the registering authorities did not verify the facts before registration as provided under Section 27 of IS Act. Further, Sub-Registrar, Sullurpet accepted audit observation in two cases and ordered collection of stamp duty and registration fees.

¹⁴⁵ Between April and December 2016.

¹⁴⁶ Hindupur.

¹⁴⁷ Allagadda, Kallur, Kamavarapukota, Madakasira, Penukonda, Rayadurg, Renigunta, Sullurpet and Tadipatri.

¹⁴⁸ 20 sale deeds, one release deed, two settlement deeds (executed between January 2013 and March 2016).

¹⁴⁹ Converted by RDOs between November 2010 and October 2015.

4.5 Short collection of registration fees on instruments creating ‘*Pari passu*’¹⁵⁰ charge

Government in its order¹⁵¹ dated 17 August 2013, prescribed registration fee of 0.5 per cent on the amount of loans secured on instruments creating charge on ‘*Pari passu*’ basis. Commissioner and Inspector General of Registration and Stamps (CIGR) in his proceedings¹⁵² dated 15 October 1982, clarified that the ‘*Pari passu*’ Agreements come into existence when an industrial firm/company obtain credit facilities from more than one financial institution by offering securities on ‘*Pari passu*’ basis in the form of ‘Simple Mortgage’, ‘Mortgage by Deposit of Title Deeds’ and ‘Hypothecation of movable properties’.

Scrutiny¹⁵³ of records in offices of two SRs¹⁵⁴ disclosed that in two documents¹⁵⁵, the companies secured loans from various banks by creating charge on ‘*Pari passu*’ basis on their properties. The registering authorities, however, collected registration fee of ₹ 10,000 each instead of charging fee at 0.5 per cent on the amount of loan secured. This resulted in short collection of registration fee of ₹ 30.17 lakh.

In response, DIGR contended (December 2017) that the instrument of ‘*Pari passu*’ charge was not defined either in IS Act, Registration Act or in the Transfer of Property Act. The reply was not acceptable in view of the above quoted Government Order and CIGR’s instructions. Hence, registration fee was to be collected.

4.6 Short levy of duties and registration fees due to under-valuation of properties

As per Section 3 read with Articles 6(B) and 47A of Schedule I-A to IS Act, instruments of Sale and Agreement of sale cum General Power of Attorney (AGPA) are chargeable to stamp duty on Market Value (MV) of the property or consideration, whichever is higher. Transfer duty¹⁵⁶ is also to be levied on sale deeds besides registration fee. Instruments of Settlement under Article 49(b) and GPA under Article 42(g), which are given in favour of other than family members, are chargeable to stamp duty on the MV of the property besides registration fee.

¹⁵⁰ The rights, in the properties, created in favour of the lenders would rank equal without any preference or priority for any lender over the others for all intents and purposes.

¹⁵¹ G.O.Ms.No.463, Revenue (Registration-I) Department, dated 17 August 2013.

¹⁵² CIGR Proceedings No. S2/24846/82, dated 15 October 1982.

¹⁵³ May and November 2016.

¹⁵⁴ Pulivendula and Renigunta.

¹⁵⁵ Memorandum of Deposit of Title Deeds (Pulivendula) and Supplemental Memorandum relating to deposit of title deeds (Renigunta) (registered in September 2015 and February 2016 respectively).

¹⁵⁶ Transfer duty is leviable in respect of transfer of immovable property situated in the jurisdiction of local bodies.

Scrutiny¹⁵⁷ of records in offices of eight SRs¹⁵⁸ disclosed that in 15 documents¹⁵⁹, properties valuing ₹ 6.91 crore were under-valued by ₹ 3.65 crore. This was in contravention to the MV guidelines and instructions issued by the Commissioner and Inspector General of Registration and Stamps (CIGR). The properties were under-valued, for reasons like not adopting MVs, exclusion of building value from valuation, adoption of lesser MV by splitting land abutting highway, adoption of agricultural land value for layout of plots etc. Under-valuation of these properties resulted in short levy of duties and fees amounting to ₹ 18.65 lakh.

In response to audit observation, DIGR accepted (December 2017) the audit observations in respect of five SRs¹⁶⁰ and issued instructions to DRs concerned to collect the deficit stamp duty.

In respect of SR, Anaparthi, it was contended that there were no structures in the scheduled property as on the date of presentation of the document. The reply was not acceptable since it was recited in the document itself that the property consisted of land along with rice mill.

In respect of SR, Rajanagaram, it was replied that the MV of agricultural lands was adopted since no conversion orders were received from the revenue authorities. The reply was not tenable as the properties had already been converted to non-agricultural properties through conversion orders issued by the revenue authorities.

In respect of SR Yemmiganur, DIGR contended that the procedure of assessing market value on the basis of 18 times annual value was dispensed with from 6 October, 2012. The reply was not acceptable as the relevant documents were registered prior to this date and thus duties, fees short levied were to be recovered.

4.7 Short realisation of stamp duty on leases

As per Article 31 of Schedule I-A to IS Act, read with Government orders¹⁶¹, the rates of stamp duty on lease deeds are to be decided on the basis of tenure of lease and lease rentals. Further, as per Explanation to the Article *ibid*, if the lessee undertakes to pay any recurring charge on behalf of the lessor including taxes / fees due to the Government, it shall be taken to be part of the rent and duties levied accordingly. Apart from lease rentals, stamp duty is also leviable where leases are granted for a fine or premium or for money advanced in addition to rent reserved. Besides stamp duty, registration fee is also to be levied at the rates applicable on the value of Average Annual Rent according to the provisions of Registration Act, 1908.

¹⁵⁷ Between September 2014 and November 2016.

¹⁵⁸ Anaparthi, Badvel, Banaganapalle, Dharmavaram, Mydukur, Pidimgoyya, Rajanagaram and Yemmiganur.

¹⁵⁹ Ten sale deeds, three Settlement deeds, two GPA and one AGPA documents (registered between December 2011 and July 2015).

¹⁶⁰ Badvel, Banaganapalle, Dharmavaram, Mydukur and Pidimgoyya.

¹⁶¹ G.O.Ms.No.408, Revenue (Registration-I) Department, dated 11May 2010, G.O.Ms.No.588, Revenue (Registration-I) Department, dated 4 December 2013.

As per Rule 11 of AP Distillery (Manufacture of IMFL other than beer and wine) Rules, 2006, the Commissioner of Prohibition and Excise may permit the licence holder of a distillery to sub-lease the manufactory / distillery on payment of a sum equal to 10 *per cent* of the proportionate licence fee.

Scrutiny (January 2017) of records in office of the Assistant Commissioner of Distilleries and Breweries, Vijayawada disclosed that a distillery licensee entered into annual sub-lease agreements¹⁶². The licenced capacity of distillery along with land, buildings, plant and machinery was sub-leased for monthly rentals. It was recited in the lease deeds that lessee should pay service tax on lease rentals and also reimburse annual licence fee to be paid by the lessor to the Department of Prohibition and Excise. The registering authority while registering these lease deeds did not ascertain the amount of licence fee to be reimbursed by the lessee and service tax to be paid by the lessee on behalf of the lessor. This resulted in short realisation of stamp duty and registration fee amounting to ₹ 11.25 lakh.

During scrutiny in the office of SR, Dwarakanagar, Audit noticed (September 2016) that in two lease deeds¹⁶³, specific clauses stipulated that service tax was to be paid by the lessees on behalf of the lessors. The registering authority did not take into account the service tax payable by the lessee on behalf of the lessor for computation of total rent payable. This resulted in short levy of stamp duty and registration fee of ₹ 0.63 lakh.

DIGR contended (December 2017) in one case (SR, Dharmavaram) that the documents were registered prior to date of instructions (March 2016) for levy of stamp duty on service tax paid in lease deeds. With regard to Vijayawada office, it was replied that the amount of annual licence fee agreed to be paid by the lessee was not disclosed in the documents.

The reply was not acceptable since the provision of treating any government revenue paid by the lessee on behalf of lessor, as rent already exists under explanation to Article 31. Regarding, annual licence fee agreed to be reimbursed by lessee, the department did not collect the details of amounts paid by the lessee though the fact of reimbursement was already recited in documents.

4.8 Non-realisation of stamp duty and registration fees on account of not registering agreements of sale of immovable property

As per Section 17(1)(g) of the Registration Act, documents of Agreement of sale of immovable property were to be compulsorily registered¹⁶⁴. Under Section 3 of IS Act read with Article 6(B) of Schedule I-A to IS Act, in case of agreements relating to sale of property without possession, stamp duty¹⁶⁵ shall be leviable at 0.5 *per cent* on the amount of consideration or the MV of the

¹⁶² For the years 2011-12 to 2015-16.

¹⁶³ Registered in April and November 2014.

¹⁶⁴ AP Amendment Act No. 4 of 1999.

¹⁶⁵ G.O.Ms.No.581, Revenue (Registration-I) Department, dated 30 November 2013.

property whichever is higher. Registration fee¹⁶⁶ shall be chargeable at 0.5 per cent subject to a minimum of ₹ 1,000 and maximum of ₹ 20,000.

Scrutiny¹⁶⁷ of records and cross verification¹⁶⁸ of documents in two DR¹⁶⁹ and four SR¹⁷⁰ offices disclosed that 39 sale agreements had been entered into prior to the date of registration¹⁷¹ of the sale deeds. But none of these agreements of sale was registered though they were compulsorily registerable. Not registering these documents of Agreements of sale resulted in non-realisation of stamp duty amounting to ₹ 7.82 lakh.

In response, DIGR contended (December 2017) that there was no reference to execution of any sale agreement between the parties in either the sale deeds or the deposit of title deeds. The reply was not tenable as the fact of existence of un-registered agreements of sale duly executed prior to registration of respective sale deeds was expressly mentioned in documents of Deposit of Title deeds. This had resulted not only in violation of statutory provisions but also led to loss of revenue of ₹ 7.82 lakh to the Government.

4.9 Short levy of stamp duty on documents involving distinct¹⁷² matters

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

During the scrutiny¹⁷³ of records in four offices of DRs/SRs¹⁷⁴, Audit noticed from recitals that four documents¹⁷⁵ contained distinct matters. These distinct matters were (i) release of property for consideration in partition deeds, (ii) conveyance of cash (in DGPA) and (iii) partition of properties (in GPA). The registering authorities while registering the documents did not consider these distinct matters valuing ₹ 2.37 crore for levy of stamp duty. The stamp duty short levied on this account amounted to ₹ 7.29 lakh.

In response, DIGR accepted (December 2017) the audit observations in respect of two offices¹⁷⁶ involving an amount of ₹ 5.06 lakh and partially accepted in respect of DR, Kakinada. No reply was received in respect of DR, Ananthapuram.

¹⁶⁶ G.O.Ms.No.463, Revenue (Registration-I) Department, dated 17 August 2013.

¹⁶⁷ Between March and December 2016.

¹⁶⁸ Cross verification of sale deeds with memorandum of deposit of title deeds.

¹⁶⁹ Chittoor and Rajamahendravaram.

¹⁷⁰ Bukkapatnam, Kadiri, Renigunta and Tadipatri.

¹⁷¹ Registered between June 2014 and February 2016.

¹⁷² Separate transactions embodied in one document.

¹⁷³ Between December 2014 and March 2016.

¹⁷⁴ DRs-Ananthapuram and Kakinada SRs-Chilakaluripet and Yellamanchili.

¹⁷⁵ Two partition deeds, one Development Agreement cum GPA document (DGPA) and one GPA document registered between September 2012 and March 2015.

¹⁷⁶ SRs-Chilakaluripet and Yellamanchili.

4.10 Short realisation of stamp duty on instruments of Development Agreements/Development Agreements cum General Power of Attorney

As per Article 6(B) of Schedule I-A to IS Act, read with Government orders¹⁷⁷, instruments of Development Agreements and Development Agreements cum General Power of Attorney (DGPAs) are chargeable to stamp duty at 0.5 *per cent* and one *per cent* respectively on the MV of property as per basic value guidelines or the estimated MV of land and complete construction made or to be made in accordance with the schedule of rates approved by the CIGR, whichever is higher.

- Scrutiny¹⁷⁸ disclosed that in six offices of DR/SRs, Development Agreement/DGPAs¹⁷⁹ were executed for development of land into plots/building of multi-storied residential complexes, villas. Audit noticed following irregularities in eight documents resulting in short realisation of stamp duty of ₹ 5.89 lakh:

Table 4.2: Short levy of stamp duty on Development Agreements/Development Agreements cum General Power of Attorney.

(₹ in lakh)

Sl. No.	Name of the office	Nature of irregularity	No. of documents / month and year of registration	Market value To be adopted / adopted	Stamp duty leviable / levied	Short levy of stamp duty
1	DR, Bhimavaram	Entire parking area was not taken into account for computation of market value	1 / July 2014	1151.30 / 1082.14	11.51 / 10.82	0.69
2	SR, Santhanuthalapadu		3 / July 2011, February 2012 and March 2013	725.96 / 647.06	7.26 / 6.48	0.78
3	SR, Ananthapuram (Rural)	Total built up area was not taken into account for valuation	1 / October 2014	2948.27 / 2735.21	14.74 / 13.73	1.01
4	SR, Ichapuram	Misclassified Development Agreement-cum-General Power of Attorney as Development Agreement	1 / March 2014	193.00 / 193.00	1.92 / 0.96	0.96
5	SR, Kothavalasa	Adopted the value declared in document instead of total market value of the property proposed for development	1 / October 2012	459.33 / 400.16	4.60 / 4.00	0.60

¹⁷⁷ G.O.Ms. No.1481, Revenue (Registration-I) Department, dated 30 November 2007.

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.

¹⁷⁸ Between May 2015 and August 2016.

¹⁷⁹ Registered between July 2011 and February 2016.

(₹ in lakh)

Sl. No.	Name of the office	Nature of irregularity	No. of documents / month and year of registration	Market value To be adopted / adopted	Stamp duty leviable / levied	Short levy of stamp duty
6	SR, Palakonda	Only land value was taken into account leaving aside value of the proposed construction	1 / February 2016	198.35 / 21.97	2.18 / 0.33	1.85
	Total		8	5676.21 / 5079.54	42.21 / 36.32	5.89

After Audit pointed out these cases, DIGR contended (December 2017) in respect of four offices¹⁸⁰ that as per clarification¹⁸¹ of May 2013 with regard to SR, Koretipadu, the total plinth area was inclusive of parking area, hence separate calculation was not necessary. The reply was irrelevant as the clarification was issued with reference to document registered at SR, Koretipadu and not applicable to other cases.

In respect of SR, Ananthapuram (Rural) it was replied that there was no mention of stilt floor in the document. It was added that there was no loss of revenue as observed by audit since the value of the land, cost of proposed construction were taken into account. The reply was not tenable as the Audit observation was not based on stilt floor but on non-adoption of the built up area of complete construction. Thus, stamp duty was leviable on the under-valued property.

With regard to SR, Ichapuram, DIGR contended (December 2017) that in the document the land owners had permitted the developer to sell the flats allocated to him. The reply was not tenable as the recitals in the document clearly stated that the developer was given power to sell his share of flats by executing sale agreements. Hence it was to be treated as DGPA.

4.11 Short levy of duties and fees on instruments of exchange, gift, sale and power of attorney

During scrutiny of records in five offices, the following irregularities were noticed resulting in short levy of duties and fees amounting to ₹ 5.17 lakh:

Table 4.3: Short levy of duties and fees on instruments of sale, gift etc.

(₹ in lakh)

Sl. No.	Name of the Sub-Registrar office	Nature of document	Act / Rule provisions	Nature of irregularity	No. of documents	Duties and fees leviable / levied	Short levy
1	Chilamathur	Power of Attorney	Article 42(g) to Schedule I-A of Indian Stamp Act	Registration fees was incorrectly adopted	13	0.79 / 0.13	0.66

¹⁸⁰ DR-Bhimavaram, SRs-Kothavalasa, Palakonda and Santhanuthalapadu.

¹⁸¹ Memo No. MV6/5127/2013 dated 3 May 2013.

Sl. No.	Name of the Sub-Registrar office	Nature of document	Act / Rule provisions	Nature of irregularity	No. of documents	Duties and fees leviable / levied	Short levy
2	Kamavarapukota	Lease deed and mortgage deed	Article 35 of Schedule I-A to Indian Stamp Act	Separate documents were executed by Mortgagor though lessor and lessee are same	1	0.93 / 0.06	0.87
3	Madanapalle	Gift deed	Article 29 of Schedule I-A to Indian Stamp Act	Transfer duty was not levied	1	3.76 / 2.26	1.50
4	Madhurawada	Exchange deed	Section 118 of Transfer of Property Act	Stamp duty was incorrectly adopted	3	4.61 / 3.69	0.92
5	Yelamanchili	Power of Attorney	Article 42(g) to Schedule I-A of Indian Stamp Act	Misclassification of GPA in favour of 'other than family member' as 'family member'	1	1.23 / 0.01	1.22
	Total				19	11.32 / 6.15	5.17

In response, DIGR accepted (December 2017) the audit observations in respect of four SRs¹⁸² and issued instructions to the DR concerned to collect the deficit stamp duty.

In respect of SR, Kamavarapukota, it was replied that stamp duty was leviable on 'instrument' and not on 'transaction'. It was further stated that the documents were separate instruments and so duties were levied separately based on the recitals of the documents. The reply was not tenable as the mortgagor had leased out the property prior to registration of mortgage deed. The instrument was, therefore, to be treated as mortgage with possession in view of the explanation to the Article.

¹⁸² Chilamathur, Madanapalle, Madhurawada and Yellamanchili; in 18 cases involving an amount of ₹ 4.31 lakh.

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. These Acts/Rules include provisions for collection of taxes, fees, issue of driving licences, certificates of fitness, registration of motor vehicles, grant of 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, rules and departmental instructions, and this is a vital component of the internal control frame work. 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 13 offices of Transport Department conducted during 2016-17 revealed under-assessments and other observations. These irregularities involved monetary impact of ₹ 88.93 crore in 43 cases. The audit observations broadly fall 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.	Performance Audit on 'Enforcement activities of Transport Department including implementation of High Security Registration Plates Project'	01	70.88
2.	Non-levy of tax on non-transport vehicles	14	10.37
3.	Non-levy of quarterly tax and penalty	15	6.57
4.	Non-levy of green tax	13	1.11
Total		43	88.93

During the year 2016-17, the Department accepted under-assessment and other deficiencies of ₹ 17.48 crore in 11 cases. A few illustrative cases, involving ₹ 73.92 crore, are discussed in the succeeding paragraphs.

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

Introduction

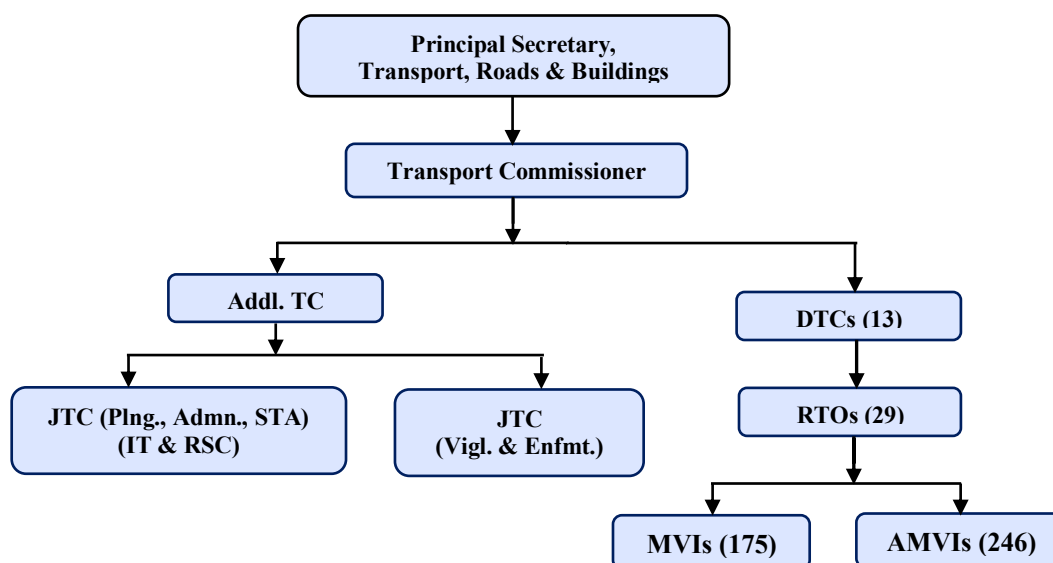
The Andhra Pradesh Transport Department (Department) was established for enforcement of the provisions of Motor Vehicles Act (MV Act), 1988; Andhra Pradesh Motor Vehicles Taxation Act (APMVT Act), 1963 and the rules framed thereunder. The Department primarily functions under the provisions of Section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

5.4.1 Organisational setup

Principal Secretary, Transport, Roads and Buildings, is overall in charge of administration of the Department. The Transport Department is headed by the Transport Commissioner (TC). He is assisted by one Additional Transport Commissioner, two Joint Transport Commissioners (JTC).

In the field, the TC is assisted by 13 Deputy Transport Commissioners (DTC) and 29¹⁸³ Regional Transport Officers (RTOs). The RTOs are assisted by 175 Motor Vehicles Inspectors (MVI). The MVIs are assisted by 246 Assistant Motor Vehicle Inspectors (AMVI). There are 56 Administrative Officers in addition to other ministerial staff working in support of the functionaries.

Organogram



¹⁸³ 14 Functional and 15 administrative.

JTC (Vigilance and Enforcement) is responsible for ensuring the enforcement of the provisions of the Acts and Rules¹⁸⁴. At the field level, enforcement staff consisting of MVIs and AMVIs perform the duties of enforcement. They report to DTC/RTO concerned. Apart from this, the JTC (Vigilance and Enforcement) would

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

5.4.2 Functions of enforcement wing

Functions of the enforcement wing in the department are to

- ensure that vehicles that are plying on road have valid certificate of registration;
- verify fitness certificate, certificate of insurance, certificate of life tax/ annual tax etc.,
- ensure valid permit, pollution under control certificate, emissions do not exceed the norms etc. Similarly they seek to ensure that drivers have valid driving licence, wear seat-belt/helmet while driving etc.

5.4.3 Audit Objectives

The Performance Audit was conducted with a view to assess whether

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

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

¹⁸⁴ Motor Vehicles Act, 1988, Andhra Pradesh Motor Vehicles Taxation Act, 1963, Central and State Rules made there under and related notifications etc.

5.4.4 Audit scope and methodology

The Performance Audit for the period of five years i.e., 2011-12 to 2015-16 was taken up during November 2016 to July 2017. Nine out of 13 DTCs and four out of 14 RTOs were covered during the audit. The sample was selected based on the geographical location, existence of check posts. The vehicular strength was also kept in view for selection of sample. Besides, the Citizen Friendly Services of Transport Department (CFST) software data of vehicles, provided by the TC was also analysed.

5.4.5 Audit criteria

The Audit criteria were sourced from Motor Vehicles Act (MV Act), 1988; Central Motor Vehicles Rules (CMV Rules), 1989; Andhra Pradesh Motor Vehicles Rules (APMV Rules), 1989; Andhra Pradesh Motor Vehicles Taxation Act (APMVT Act), 1963; Andhra Pradesh Motor Vehicles Taxation Rules (APMVT Rules), 1963; Andhra Pradesh Value Added Tax Act 2005 (AP VAT Act) etc.

5.4.6 Acknowledgement

The entry conference was held with the Joint Secretary to Government (Transport), Andhra Pradesh on 9 January 2017 wherein Audit objectives, criteria, scope and methodology were explained. The Exit conference was held with Department (Transport), Andhra Pradesh on 06 December 2017, wherein Audit observations and recommendations were discussed and response of the Department obtained and incorporated in the relevant paragraphs. Audit acknowledges co-operation extended by the Department in providing server data and other records.

Audit findings

During the Performance Audit, the following deficiencies relating to enforcement wing were noticed as discussed in subsequent paragraphs:

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

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

An analysis of computerised data and records relevant to grant of FCs at 13 selected offices revealed that 98,006 vehicles did not possess valid FCs. Out of these, the department collected road/registration tax from the owners of 28,150 vehicles without testing the fitness of the vehicles and without realisation of prescribed fitness fee. Not observing the provisions had led to non-realisation of fitness fee of ₹ 1.76 crore, besides jeopardising the safety of the public.

The Government stated (December 2017) that FC issued under MV Act 1988 is not a pre-requisite for collection of quarterly tax prescribed under APMVT Act. However, there exists a provision in the CFST software to send SMS alerts when FC gets expired.

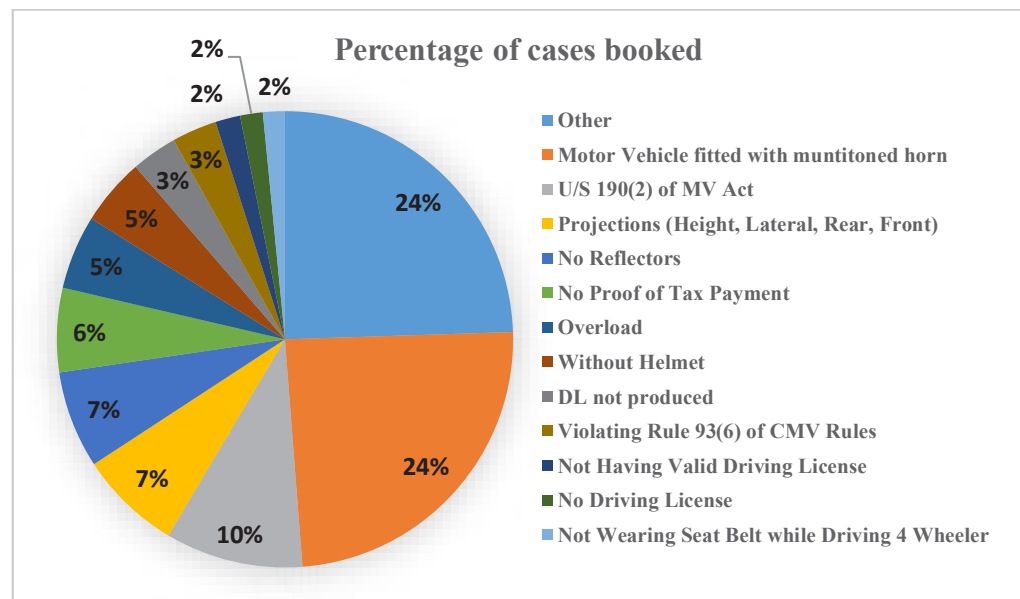
The reply is not acceptable as the authorities should have insisted upon fitness certificate in respect of the vehicles before collection of road/registration tax. Besides, plying of such vehicles on public roads may compromise Safety.

5.4.7.2 Non-recording of all offences

According to Section 158 of Motor Vehicles Act, the duty of enforcement officials include checking the authenticity of valid documents like driving licence, registration certificate, insurance etc. Lapses if any, identified were to be recorded in the vehicle check reports.

Data analysis for the period from April 2011 to March 2016 revealed that the enforcement officials booked 20,64,606 offences during this period. It was seen that 5,05,352 offences fell under one category, i.e., 'Motor vehicle fitted with multi-toned horn'. This constituted 24 per cent of total offences detected/booked.

Chart-1



The data also indicates that the vehicles booked under the offence of multi-toned horn were also involved in other offences like non-possession of FCs (55,494 cases); valid insurance (65,705 cases) and non-payment of taxes (85,627 cases). These offences were not mentioned in vehicle check reports for appropriate action.

On this being pointed out, the Government replied (December 2017) that offence falling under the category of 'motor vehicles fitted with multi toned horn offence' were generally booked against other State vehicles entering into AP State. Further, added that these vehicles would have valid tax, insurance and fitness.

The reply on other State vehicles regarding the required documents is not acceptable. The analysis of above data revealed that other state vehicles as well as AP State vehicles (10,592) did not have the required documents. However, these deficiencies were not recorded during enforcement.

5.4.7.3 Lack of assurance on checks conducted while issuing fitness certificates

Rule 62 of Central Motor Vehicles Rules 1989 prescribed the checks to be conducted before granting of fitness of vehicles. In order to issue renewal certificate of Fitness of Transport vehicle, Motor Vehicle Inspector (MVI)/Assistant Motor Vehicle Inspector (AMVI) have to conduct 15 specified tests on various aspects of vehicles.

Audit noticed that 23,46,323 FCs were issued by 60 Motor Vehicle Inspectors/Asst. Motor Vehicle Inspectors during the period 2011-16. This worked out to 30 fitness certificates on an average per day per MVIs/AMVIs. These certificate were issued by MVIs/AMVIs in addition to performing their regular duties.

- Conducting 15 tests per vehicle on 30 vehicles per day, by one MVI/AMVI in addition to other duties was not practically possible. Thus, an assurance on the quality of tests conducted while issuing FC cannot be ensured.

This may also lead to compromising on the vehicle condition, impacting road safety and other environmental issues.

On this being pointed out, the Government replied that (December 2017) there was a plan to introduce computerised fitness testing centres in future.

5.4.7.4 Seized vehicles plying on roads

As per Section 207 of MV Act, 1988, vehicles shall be seized and detained, if the detecting officer has reason to believe that a motor vehicle has been or is being used in contravention of provisions of Sections 3, 4 or 39 or Section 66(1) of Motor Vehicles Act. These seized vehicles would be accounted for and kept under safe custody until the disposal of case.

Data of three offices¹⁸⁵ indicated that 268 vehicles were seized by the enforcement officials. Analysis of data revealed that subsequently MVIs/AMVIs had booked these vehicles under different cases. This indicates that these vehicles were not under safe custody and may cause loss of human life and property.

On this being pointed out, the Government replied (December 2017) that the details would be verified.

¹⁸⁵ DTCs Guntur (13 cases), Kakinada (75 cases) and Nellore (180 cases).

5.4.7.5 Non-detection of vehicles with expired registrations

As per Rule 52(3) of Central Motor Vehicle Rules, a motor vehicle other than a transport vehicle shall not be deemed to be validly registered, after expiry of the period of validity entered in the certificate of registration and no such vehicle shall be used in any public place until its certificate of registration is renewed.

As per Government orders¹⁸⁶ an additional tax called green tax shall be levied on transport vehicles and non-transport vehicles that have completed seven years and 15 years of age respectively from the date of registration.

Analysis of data in 13 offices¹⁸⁷ relating to validity of registration certificates, disclosed that registration of 10,20,089 non-transport vehicles had expired as on March, 2016. These vehicles need to be checked for their fitness to ply on the roads and renew their validity. Audit observed that, the department had neither issued any show cause notice, nor ensured the vehicles were off the roads. Non-transport vehicles plying without fitness would also result in non-collection of green tax amounting to ₹ 32.85 crore.

On this being pointed out, Government replied (December 2017) that as and when vehicle comes for any transaction green tax was levied. Reply is not acceptable, as the Department had not evolved a mechanism to ensure that vehicle owners approach the authorities for re-registration of vehicles and pay green tax. Hence, the Department needs to evolve such a mechanism.

5.4.7.6 Non-detection of vehicles plying without High Security Registration (HSR) Plates

In test checked offices¹⁸⁸ audit noticed¹⁸⁹ that, 4,12,833 vehicles were registered during the period December 2013 and March 2017. These were required to be affixed with HSR plates. However, 49,634 vehicles (12 *per cent*) were not provided with HSR plates till July 2017. Moreover, not even a single case was booked by the enforcement officials for deficiency of HSR plates. This indicated the deficiency in monitoring by the Transport Department.

On this being pointed out, the Government had not furnished the relevant reply (December 2017).

5.4.7.7 Lack of co-ordination with Commercial Taxes Department

Integrated Check posts are meant to keep an effective watch on interstate vehicular traffic in line with norms prescribed by Departments of Commercial Taxes, Transport, State Excise, Mines & Geology etc.

¹⁸⁶ G.O.Ms.No.238 TR& B (TR-1) Department, dated 23 November 2006.

¹⁸⁷ DTCs Chittoor, Eluru, Guntur, Kakinada, Kurnool, Nellore, Srikakulam, Vijayawada and Visakhapatnam and RTOs Gudur, Hindupur, Narasaraopet and Tirupati for the period April 2011 to March 2016.

¹⁸⁸ DTCs Guntur, Kakinada, Kurnool, Srikakulam and Vijayawada and RTOs Hindupur, Narasaraopet and Tirupati.

¹⁸⁹ Between January 2017 and July 2017.

Tax on Construction Equipment Vehicles (CEVs)¹⁹⁰ shall be levied at the rates prescribed in the fourth schedule to Section 3 of APMVT Act. Life tax is to be collected on the gross price of CEVs including other local taxes. Local taxes also include entry tax of Commercial Taxes Department (CT Department) on such new vehicles coming from other States. Enforcement officials of Transport Department are required to obtain clearance certificate from CT Department to ensure payment of entry tax, before collecting life tax.

Audit noticed (March 2016 and April 2017) that in RTO, Tirupati in three cases clearance certificates from CT Department were not obtained. The entry tax involved in these cases was ₹ 54.82 lakh which attract life tax at the rate of 7.5 per cent. It was noticed that the life tax of ₹ 4.11 lakh on the entry tax was not realised.

On this being pointed out, the Government replied (December 2017) that life tax would be realised when the vehicle owner approaches for permanent registration. Audit noted that though, more than three years had elapsed, these vehicles were not permanently registered and the amount was due (April 2017).

5.4.7.8 Lapses on interstate vehicular movement

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

Every goods carriage which is normally kept in the neighbouring States¹⁹¹ and operating routes lying partly in the respective state and partly in Andhra Pradesh are covered by countersignature permits granted by Government of Andhra Pradesh.

Government of Andhra Pradesh in its order¹⁹², directed to levy bilateral tax of ₹ 5,000 per annum per vehicle. Further, ordered to levy a penalty of ₹ 100 per month or part thereof on belated payment of bilateral tax.

Audit noticed¹⁹³ in two offices of DTCs¹⁹⁴ that the bilateral tax and penalty, amounting to ₹ 25.60 lakh was not collected from the owners of 326 vehicles¹⁹⁵. The enforcement officials at check posts also did not insist upon the payment of bilateral tax and penalty.

On this being pointed out, the Government replied (December 2017) that the details would be verified.

¹⁹⁰ Section 4a(a) read with Circular Memo No./31/15118/D2/96, dated 14 September 1996.

¹⁹¹ Karnataka, Maharashtra, Odisha and Tamil Nadu.

¹⁹² G.O.Ms.No.362, Transport (R&B) (Tr.I) Department, dated 16 December 2008.

¹⁹³ Between November 2016 and January 2017

¹⁹⁴ Chittoor and Srikakulam.

¹⁹⁵ These vehicles were registered in Karnataka, Odisha and Tamil Nadu.

5.4.7.9 Lack of planning and documentation for enforcement activities

As per Para 3.6(b) (Chapter III) of Manual of the Transport department the MVIs/AMVIs are responsible for submitting diaries on time explaining in detail the work turned out. No such diaries were maintained/submitted by the MVIs/AMVIs. Tour plan of the enforcement activities and documentation thereof was necessary to keep a watch on enforcement activities.

Audit observed in four offices¹⁹⁶ that the enforcement officials checked vehicles without any planning.

Further analysis of data of cases booked in DTC Visakhapatnam revealed that enforcement officials booked 1,06,872 cases¹⁹⁷. Among these cases, 25,321 were noticed in the city limits of Visakhapatnam. The enforcement officials did not mention the place of checking in Visakhapatnam city. They did not produce their tour note. Similarly, in DTC Vijayawada out of 1,37,013 cases booked, 22,736 cases pertained to Vijayawada city limits. The enforcement officials did not mention the place of checking.

In the absence of a tour plan it was difficult to make an assessment of the efficiency and effectiveness of the enforcement activity.

On this being pointed out, the Government replied (December 2017) that there was a growth of enforcement revenue collection during last three years and road safety scenario had improved due to enforcement activities. It was therefore concluded that enforcement was properly planned and executed.

However, Audit observation related to lack of planning for coverage of areas before hand and not documenting the results of enforcement regarding persons deployed etc.

5.4.7.10 Inflated performance of enforcement staff

Transport Department fixed monthly revenue target to enforcement staff. Audit noticed that the achievements of revenue collection targets by the enforcement officials were inclusive of taxes paid voluntarily by the vehicle owners. As voluntary tax was collected without any efforts of the enforcement, its inclusion in the target achievement leads to inflating the performance of the enforcement staff.

When the observation was brought to notice, Government replied (December 2017) that the authorities at Check Posts were authorised to collect taxes paid voluntarily by the person in charge of the vehicle plying from other States.

The reply is not relevant as the Audit observation pertains to enforcement staff working in places other than check posts.

¹⁹⁶ DTCs Nellore and Vijayawada and RTOs Hindupur and Tirupati.

¹⁹⁷ Between April 2011 and March 2016

5.4.7.11 Inconsistency in booking the cases

(i) 'Without helmet' cases booked on vehicles other than motor cycles

As per Section 129 of Motor Vehicles Act, read with Rule 437 of APMV Rules 'every person driving or riding (otherwise than in a side car, on a motor cycle of any class or description) shall, while in a public place, wear protective ISI headgear'.

From the analysis of Citizen Friendly Services of Transport Department (CFST) data of 74,328 cases (for the period April 2011 to March 2016) on helmet related offences, Audit noticed that 1,242 relate to vehicles other than two wheelers¹⁹⁸.

(ii) 'Without seat belt' cases on motor cycles

As per Rule 125 and 125 (I-A) of Central Motor Vehicles Rules, the manufacturer of every motor vehicle of M-1 category¹⁹⁹ shall equip every motor vehicle other than motor cycle and three wheelers with a seat belt for a person, occupying the front facing the rear seat.

During the analysis of CFST data Audit noticed that of 19,941 cases booked (during April 2011 to March 2016), without wearing seat belt relate to 314 motor cycles.

Above mentioned lapses indicated the lackadaisical approach of the enforcement staff in identifying the nature of offences vis-a-vis class of vehicles.

On this being pointed out, the Government replied (December 2017) that the registration number would not have been entered properly and the same would be got corrected. Audit noticed that the VCR also reflected the same error. It can be inferred that due to lack of system validations, class of vehicles and offence booked against vehicle were not correlated.

5.4.7.12 Lack of infrastructure

As per the provisions²⁰⁰ of MV Act, the duty of enforcement officials also includes the task of identifying offences relating to driving by a person under the influence of drugs/alcohol. This offence was not included in the list of compoundable offence²⁰¹ by the State Government. Hence, the offenders are being prosecuted.

In three offices²⁰² Audit noticed (between January 2017 and May 2017) that the breath analysers were not provided to the enforcement officials for conducting the checks independently. Enforcement officials were wholly

¹⁹⁸ Autorickshaws, goods carriages etc.

¹⁹⁹ Vehicles used for carriage of passengers, comprising not more than eight seats in addition to the drivers = 9.

²⁰⁰ Sections 184, 185 and 203 of MV Act.

²⁰¹ Fee collected by enforcement staff for violation of Motor Vehicles Rules.

²⁰² DTCs Nellore and Srikakulam and RTO Tirupati.

dependent on Home Department for joint operations. The Department identified 3,175 cases during joint operations with Home Department (between April 2011 and March 2016) which constitute less than 0.2 *per cent* of total 16,07,397 cases booked.

Drunk driving impacts public safety and leads to increase in road accidents. This leads to deaths, disabilities, hospitalisations with socio economic costs across the State. However, there was no focus on identifying such cases.

The Government replied (December 2017) that booking of drunk driving cases was time consuming and difficult; hence it was decided that these cases would be booked in co-ordination with Home Department. Reply is not acceptable as it is primary responsibility of Transport Department to detect drivers under the influence of alcohol. Department should have the required infrastructure and manpower to detect the cases of drunk driving so that there is increased compliance in this regard to ensure road safety.

5.4.7.13 Overloaded goods vehicles

As per Section 113(3) of the Act, no motor vehicle should be allowed to be driven in any public place, the unladen weight of which exceeds the limit specified in the RC of the vehicle or the laden weight of which exceeds the gross vehicle weight specified in the RC. Section 114(1) prescribed that the authorities shall direct the driver to offload the excess weight at his own risk. Further, the vehicle shall not be removed from the place until the laden weight had been reduced.

Analysis of CFST data (out of 79,837 cases detected²⁰³), disclosed that 72,964 cases²⁰⁴ were compounded. However, the drivers were not instructed to offload the excess weight before allowing to ply further. Remaining cases of 6,873 were not-compounded and were prosecuted. Inconsistency in disposing of the offences resulted in increase in number of such offences.

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

On this being pointed out, the Government replied (December 2017) that provisions of Section 113(3) of MV Act do not state that authorities should direct the driver of any vehicle found with excess load to offload the excess weight at his own risk and not remove the vehicle from the place until laden weight had been reduced.

Reply of the Government was not relevant, as Section 113 of the MV Act prescribes maximum load to be allowed. Section 114(1) specified that excess weight was required to be off-loaded before letting the vehicle to proceed. Audit noted that overloaded vehicles were allowed to ply thus compromising with safety on the roads.

²⁰³ Between April 2011 and March 2016.

²⁰⁴ Includes 6244 cases analysed in audit at DTC, Vijayawada.

5.4.7.14 Incorrect fixation of sale price and delay in auction of seized vehicles

As per Section 7 of APMVT Act 1963 the motor vehicles in respect of which the tax, penalty or fine is due, its accessories may be seized and sold whether or not such motor vehicle or accessories are in the possession or control of the person liable to pay the tax, penalty or fine.

As per para 3.6 b (15) of the Manual of Transport Department, the enforcement functionaries are required to fix the upset price of a vehicle to be auctioned, basing on its conditions mentioned (Form 2 of AP RR Act, 1864).

In RTO Hindupur, Audit observed that 13 vehicles were not valued before the auction. Of them, 2 new vehicles²⁰⁵ with temporary registration were disposed of as scrap at meagre price of ₹ 22,100 as against the invoice price of ₹ 5,98,300.

Audit observed in 11 offices²⁰⁶ that 1,551 vehicles were available under seizure since 2010 without being put to auction.

On this being pointed out, the Government replied (December 2017) that the district officers would be directed to conduct auctions every three months. The reply was silent on other issues.

5.4.8 Lapses in disposal of offences

5.4.8.1 Application of incorrect rate of fine

According to Section 190(2) of the MV (Central) Act 'any person who drives or causes or allows to be driven, in public place, a motor vehicle which violates the standards prescribed in relation to road safety, control noise and air pollution shall be punishable for the first offence with a fine of ₹ 1,000 and for any second and subsequent offence with a fine of ₹ 2,000.

Government of Andhra Pradesh issued order²⁰⁷, prescribing schedule of rates for penalties for different offences. However, Government did not prescribe the rate applicable for second and subsequent offences.

Analysis of Citizen Friendly Services of Transport Department (CFST) data²⁰⁸ revealed that 74,725 cases out of total 1,26,606 cases booked, related to repetition of the same offence. The re-occurrence of offences ranged from 2 to 19 times. Enforcement officials levied ₹ 1,000 on each offence instead of ₹ 2,000 on second and subsequent offences as prescribed in the Act. Thus, the application of lower rates resulted in short collection of fine of ₹ 7.47 crore.

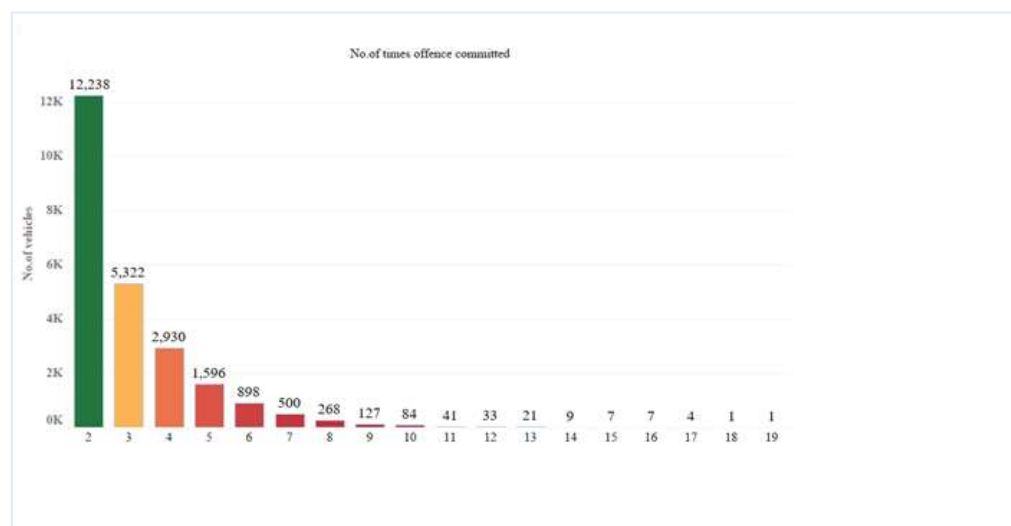
²⁰⁵ Manufactured in April 2012 and July 2013 respectively.

²⁰⁶ DTCs Chittoor, Eluru, Guntur, Kakinada, Srikakulam, Vijayawada and Visakhapatnam and RTOs Gudur, Hindupur, Narasaraopet and Tirupati.

²⁰⁷ G.O.Ms.No.108, Transport, Roads and Buildings(Tr.1) Department, dated 18 August 2011.

²⁰⁸ For the period 2011-16.

Chart - 2



Frequency of offences committed Vs. No. of vehicles

On this being pointed out, the Government replied (December 2017) that the enforcement officials were not empowered to collect compounding fee at higher rate than the fee prescribed by Government.

Reply was not tenable, as Government order²⁰⁹ did not prescribe any fee for second and subsequent offences which was in violation of the provisions of the Central Act. There is a need to evolve a system which prompts adoption of changes in rates in accordance with the provisions of Central Act.

5.4.8.2 Short collection of compounding fee

Analysis of State data of 1,26,328 cases, revealed that in 1,090 cases, the enforcement officials did not collect compounding fee at minimum prescribed rate. This resulted in short realisation of compounding fee amounting to ₹ 10.18 lakh.

Lack of system validations on prompting minimum fee collectable, enabled officials collecting the fee use discretionary powers to the disadvantage of revenue.

On this being pointed out, the Government replied (December 2017) that the details would be verified. Hence, the Government needs to provide for validation controls to levy minimum compounding fee.

5.4.8.3 Releasing other State vehicles without collecting compounding fee

According to Section 158 of the Motor Vehicles Act, any person driving a motor vehicle in any public place shall produce on demand, the certificate of insurance, certificate of registration, driving licence; in case of a transport vehicle, also the certificate of fitness and the permit, relating to the use of the vehicle.

²⁰⁹ G.O.Ms.No.108, Transport, Roads and Buildings (Tr.1) Department, dated 18 August 2011.

The checks prescribed above had to be verified by the enforcement officials and for violations either compounding fee is to be collected or vehicle seized.

Scrutiny of Vehicle Check Reports in five offices²¹⁰ disclosed that 1,256 vehicles relating to other State had to pay compounding fee of ₹ 35.56 lakh. The vehicles were released without impounding the documents. Thus, vehicle owners did not return to clear the dues to get the original documents released.

On this being pointed out, Government replied (December 2017) that the details would be verified and necessary action taken by the DTCs for collection.

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

Section 200 of Motor Vehicle Act, read with Government order²¹¹ provides for collection of Compounding Fee (CF), at specified rates, at the time of checking vehicles for the offences committed. In cases, where Compounding Fee was not collected Vehicle Check Reports (VCRs) are to be sent to RTA²¹² concerned, duly specifying the offence committed. However, no time limit was prescribed for disposal of the cases.

Analysis of CFST²¹³ data revealed that out of 16,07,397 cases booked (between April 2011 and March 2016), 20,250 cases were pending for disposal since April 2011. The compounding fee involved in these cases was ₹ 6.71 crore.

In 12 offices²¹⁴ Audit observed that 1,043 such cases were pending from April 2014 onwards. The compounding fee involved in these cases was ₹ 35.61 lakh. Absence of prescribed time limit for disposal of Vehicle Check Reports resulted in increasing pendency of cases of offences, leading to non-realisation of compounding fee.

On this being pointed out, Government replied (December 2017) that the details would be verified. However, the Government should prescribe time limit for finalisation of Vehicle Check Reports.

5.4.8.5 Inordinate delay in finalisation of enforcement cases

As per the Fourth Schedule to Section 3 of APMVT Act, life tax on Construction Equipment Vehicles (CEVs) shall be levied at the rates prescribed in the Schedule.

²¹⁰ DTCs Eluru, Kakinada, Srikakulam, Vijayawada and RTO Hindupur.

²¹¹ G.O.Ms.No.108 Tr. R&B (TR-1) Department, dt.18 August 2011.

²¹² Please see glossary

²¹³ Please see glossary

²¹⁴ DTCs Chittoor, Eluru, Guntur, Kakinada, Kurnool, Nellore, Srikakulam, Vijayawada and Visakhapatnam and RTOs Gudur, Hindupur and Tirupati.

It was observed (January 2017) in DTC, Visakhapatnam that 17 VCRs²¹⁵ (booked between 2010 and 2013), relating to CEVs, involving life tax amounting to ₹ 10.13 crore were not finalised till January 2017.

It was stated by DTC that these cases were pending, as vehicle owners were disputing the liability of tax. Further, audit noticed that the Hon'ble High Court instructed²¹⁶ the Transport Commissioner to finalise the issue within two months from the date of pronouncement (March 2011) of the judgement. However, the Transport Commissioner had not finalised the issue so far (December 2017), though more than six years elapsed.

On this being pointed out, the Government replied (December 2017) that the details would be verified and necessary action taken for collection of the same.

5.4.8.6 Compounding of offences relating to live stock

Rule 253 of APMV Rules prescribes norms to carry livestock in goods vehicles. Government issued orders²¹⁷ on compounding the offence of overloading based on the big or small size of the animal which has been prescribed in the schedule.

Audit observed²¹⁸ that in eight offices²¹⁹, enforcement officials booked 1,119 cases of 'overloading of animals'. The cases were compounded by collecting fee of ₹ 2,000 for the offence in each case. However, the details of excess animals overloaded and size of the animals were not recorded. Hence it could not be ensured whether compounding fee was collected correctly.

Fig.1



Fig.2



Vehicles carrying overloaded animals

On this being pointed out, the Government replied (December 2017) that the offence relating to overload of animals was treated as permit violation; hence levied fee of ₹ 2,000. The offence of overload had no relevance to number of excess animals in the vehicle or size of the animals.

²¹⁵ Please see glossary

²¹⁶ Writ petition No.5049 of 2011 dated 1 March 2011.

²¹⁷ No. 332 dated 13 November 2008 Transport, Roads & Buildings (Tr.1) Department.

²¹⁸ Data for the period 2011-16.

²¹⁹ DTCs Guntur, Kakinada, Kurnool, Srikakulam, Vijayawada and Visakhapatnam and RTOs Hindupur and Tirupati.

Reply is not tenable, as the offence, as per the Government orders shall be compounded by arriving at excess animals being carried.

5.4.9 Internal controls

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

5.4.9.1 Non-submission / belated submission of Vehicle Check Reports (VCRs)

As per the instructions²²⁰, the VCRs prepared by the checking officers had to be handed over in the jurisdictional office on the same day or next day in case of seizure of vehicle. In other cases, VCRs may be sent within 15 days from the date of check to the office for further action.

i) Audit noticed²²¹ that out of 28,57,075 cases, the enforcement officials had submitted 4,76,525 VCRs (16.68 *per cent*) to the jurisdictional DTC / RTO belatedly. The delay ranged from 5 to 1,992 days.

As a result there was a delay in taking action on the cases involved in offences. It also delayed collection of compounding fee of ₹ 3.82 crore.

In eight selected offices²²², it was found that 14,913 cases were belatedly submitted by the enforcement officials. The delay ranged from 30 days to 960 days in cases of seizure and 30 to 1,630 days in other cases.

On this being pointed out, the Government replied (December 2017) that the details would be verified and reply furnished in due course.

ii) During enforcement, officials check the correctness²²³ of the documents and other lapses, collect the compounding fee if found guilty. In case of non-collection of compounding fee, the documents are to be impounded and forwarded to the jurisdictional registering authority for further action.

Audit observed in eight offices²²⁴ that 1,456 vehicles pertaining to other RTAs were impounded on various offences like invalid RC, licence, permit etc. However, documents impounded were not forwarded to jurisdictional authorities for collection of compounding fee. This resulted in non-realisation of compounding fee amounting to ₹ 14.56 lakh during the period 2011-12 to 2015-16.

²²⁰ Circular Memo of Transport Commissioner, No.44/13907/R2/2002, dated 13 September 2002.

²²¹ Data relating to April 2011 to March 2016.

²²² DTCs Chittoor, Guntur, Kakinada, Kurnool, Nellore and Vijayawada and RTOs Hindupur and Tirupati.

²²³ As prescribed under Section 158.

²²⁴ DTCs Chittoor, Eluru, Guntur, Kurnool, Srikakulam and Visakhapatnam and RTOs Hindupur and Tirupati.

On this being pointed out, the Government replied (December 2017) that the details would be verified.

5.4.9.2 Lack of monitoring of Pollution under Control Units

Rule 486(9) of the Andhra Pradesh Motor Vehicles Rules, prescribes that the holder of a licence of Pollution under control certificate (PuC) unit granted under sub-rule (5) shall maintain on an annual basis, a register indicating the vehicles tested for emission levels with the following details:

(i) Pollution under control certificate number (ii) the registration number, make, model and year of registration of the vehicle tested (iii) gas / smoke levels at the time of inspection.

License holder should submit monthly returns in duplicate by fifth of succeeding month to the licensing authority concerned. The information shall contain the number of vehicles inspected, results of inspections, and number of PuCs issued.

Audit noticed (June 2017) in the office of the DTC Vijayawada that the 30 PuC units out of 40 units had not furnished monthly returns.

Further, Audit noticed that no field inspections were conducted by the enforcement officials on PuCs units.

On this being pointed out, the Government replied (December 2017) that the detailed instructions were issued to district officers for checking vehicles plying without PuC certificates. The reply furnished was not specific to the audit observation.

5.4.10 Implementation of High Security Registration Plates (HSRP) Project

Rule 50 of Central Motor Vehicles Rules, 1989, prescribed the form and manner of display of registration mark on Motor Vehicles. Government of India notified²²⁵ the rules on High Security Registration Plates. As per clause 4(x) of these Rules, the State Transport Authority is empowered to select the vendor or the manufacturer. Government of Andhra Pradesh entrusted the work of implementation of HSRP to APSRTC²²⁶.

²²⁵ Motor Vehicles (New High Security Registration Plates) Order, 2001 (HSRP Rules) on 22 August 2001.

²²⁶ Andhra Pradesh State Road Transport Corporation.

5.4.10.1 Irregularities in tendering process and award of contract

(i) Award of contract at higher rate

APSRTC issued (between 2011 and 2012) tender notice, invited bids for manufacturing and affixing of HSR plates. A consortium of M/s. Utsav Safety Systems Private Limited (M/s. USSL) (which had TAC²²⁷) and M/s. Link Point Infrastructure Private Limited (M/s. LIPL) quoted weighted average price of ₹ 281.017 per registration plate and was the lowest bidder. After negotiations with the lowest bidder, the contract was awarded (October 2012) at a rate of ₹ 220.34 per plate.

The successful consortium bidder formed SPV²²⁸ with M/s. Link Autotech Pvt. Ltd., and entered into agreement with APSRTC (February 2013) for implementation of the project.

The successful bidder had entered into similar agreement in December 2011 and March 2012 with the Governments of Madhya Pradesh and Delhi. The weighted average price was ₹ 146 and ₹ 119 respectively. Government of Andhra Pradesh awarded the contract to the same firm at a weighted average price of ₹ 220.34 which was much higher as compared to the rates in above two States. Awarding contract at a higher price in Andhra Pradesh rendered undue benefit to the firm to an extent of ₹ 15.88 crore²²⁹ as on March 2017 and put additional burden to that extent on vehicle owners.

On this being pointed out, Government replied (December 2017) that there was dire need to implement the project at the earliest as per directive of Hon'ble Supreme Court of India, necessitating captive power production with higher capital out lay and energy costs.

Reply is not acceptable, as the Hon'ble Supreme Court of India had directed (October 2011) all the States across the country to implement the project immediately. However, Government of Andhra Pradesh implemented after passing of two years of judgement. Similarly, applicability of higher energy costs was not unique for Andhra Pradesh alone. It was equally applicable to the States of Madhya Pradesh and Delhi as well.

(ii) Antecedents of the firm

As per clause 4 (xa) of the HSRP Rules, the State Government or Union Territory administration shall ensure that *the vendor, if convicted of a cognizable offence, violation of FERA Act, detained under the National Security Act, 1980, adjudged guilty by Security Exchange Board of India (SEBI), found to be associated in any manner in organised crime syndicates and connected with activities prejudicial to the national security is not to be considered for selection as manufacturer or vendor for supply of HSR Plates.*

²²⁷ Type Approval Certificate.

²²⁸ Special Purpose Vehicle.

²²⁹ ₹ 74.34 per plate (₹ 220.34 - ₹ 146.00 = ₹ 74.34) X 21.36 lakh plates.

Audit noticed the following issues during award of contract;

- (i) APSRTC requested²³⁰ the Central Bureau of Investigation (CBI) for verification of antecedents of bidders. In reply, CBI in their letter dated 10 May 2012 intimated that a case²³¹ was registered against contact person of M/s. LIPL. However, APSRTC did not verify the antecedents of firm. Audit noticed that the same contact person was the director of M/s. Link Autotech Pvt. Ltd., to whom the HSRP contract was awarded by APSRTC.
- (ii) The Ministry of Road Transport and Highways (MoRTH) in its letter²³² directed all Secretaries of Transport across the country that HSR plates with illegal security features and false propaganda were being marketed throughout the country by M/s. USSL. Further, MoRTH alerted all the States on the activities of the said firm. However, APSRTC did not consider these directions and awarded the contract to the consortium of M/s. Utsav Safety Pvt. Ltd.
- (iii) High Court of Himachal Pradesh found M/s. USSL guilty of violation of HSRP Rules in its order²³³ of December 2012. The consortium involving the indicted firm was allowed to enter into contract against the legal opinion of APSRTC standing counsel.

APSRTC had not inquired into the credentials of the firm with any other agencies like State Police, Enforcement Directorate, SEBI etc., as prescribed under the notification despite knowing the facts.

(iii) Contract clauses in favour of the vendor

(a) Customers' feedback mechanism

Rule 50(i) prescribed that the registration plate shall be guaranteed for imperishable nature for minimum period of five years. No mechanism was prescribed either in the agreement or citizen charter to obtain feedback of the customers on quality of plates. Thus, the authorities were not aware of the quality and effective life of the plates.

Results of periodic review: As per Article 2.4 of the contract, at the end of each period of five years, there shall be a comprehensive review on equipment installed, effectiveness of manufacturing base, infrastructural arrangements etc. However, there is no mention about penalty for lapses, if any, identified during periodical review. Hence, such feedback mechanism needs to be evolved.

Transport Commissioner accepted the audit observations.

²³⁰ Dir.V&S/487(1)/2012 dated 8 May 2012.

²³¹ RC-2.1994/ Patna.

²³² 11028/2/09/MVI, dated 8 October 2009.

²³³ WP(C) 5662/2012 dated 10 December 2012.

(b) Quality assurance

As per Article 10.1(a) of the Contract, *the Authority²³⁴ will have the liberty²³⁵ to select a sample from the raw materials and/or the HSRPs send them for quality verification to an authorized test agency/laboratory so as to obtain assurance that the quality of the HSRP conforms to the standards notified by Government of India.*

However, since implementation of the HSRP project, no sample was selected by the APSRTC to verify the quality of plates. No periodical testing procedure was evolved. Thus there was no assurance on the quality of all HSR plates being affixed to the vehicles.

On this being pointed out, the Government replied (December 2017) that testing reports were sent to testing agency and all were in order. However, the details of samples picked up, sent and received by APSRTC were not furnished to audit.

(c) Operating without Type Approval Certificate

As per clause 4.1²³⁶ of the HSRP Rules read with notification dated 16 September 2001, the manufacturer shall have a certificate of TAC from CRRI²³⁷ or any one of the testing agencies authorised by the Central Government.

ARAI²³⁸, a testing agency notified under HSRP Rules for granting TAC, issued notice²³⁹ to M/s. USSL to suspend the Conformity of Production (CoP)²⁴⁰ of HSRP.

Further, CSIR- Central Road Research Institute (CRRI) cancelled the TAC of M/s. LIPL in January 2014.

APSRTC did not verify these issues and no action was initiated against the firm.

5.4.10.2 Non-fixing of HSR Plates

The task²⁴¹ of affixing HSRPs on vehicles registered prior to the implementation of HSRP project shall be completed by 10 December 2015. Audit observed that there were approximately 62.40 lakh in-use vehicles. However, in violation of orders of Government, no in-use vehicle was affixed

²³⁴ APSRTC.

²³⁵ As per Article 10.1(a) of the agreement entered with the supplier.

²³⁶ Clause (xix) of the Gazette Notification dated 16 September 2001.

²³⁷ Central Road Research Institute.

²³⁸ Automotive Research Association of India (ARAI).

²³⁹ January 2014.

²⁴⁰ Conformity of Production (COP) is meant for evidencing the ability to produce a series of products that exactly match the specification, performance and marking requirements outlined in the type approval certificate.

²⁴¹ Government Orders issued during December 2013.

HSRP till date²⁴². Thus, the objective of fixing uniform pattern of number plates was not achieved.

No remarks from Government were received on the above lapses pointed out by audit.

5.4.10.3 Operating without security features

The technical partner of the consortium M/s. USSL informed (December 2013) the Government that they were not supplying security features to M/s. LIPL in Andhra Pradesh. However, the authorities²⁴³ did not take this into account and allowed vendor to continue manufacturing and fixing HSR Plates.

M/s. USSL started supplying security features from April 2014 onwards. Thus, the contractor functioned without supply of security features from December 2013 to March 2014 and without technical support. However, no action was taken by the Authorities. This lackadaisical approach of authorities on security of the vehicles defeated the objective of ensuring security standards in fixing registration plates.

5.4.10.4 Penalty charges

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

Audit test check in the office of RTO Hindupur (March 2017) revealed that 8,678 vehicles were not fixed with HSR plates within prescribed time. The delay in fixation of HSR plates ranged between 5 to 629 days. However, in no case rebate was offered to the vehicle owners. Department had not prescribed any mechanism to provide rebate or create awareness among the vehicle owners on availability of this penalty clause.

On this being pointed out, the Government replied (December 2017) that a show cause notice was issued to the contractor so as to refund the rebate amount of ₹ 9.92 crore to vehicle owners. The case was referred to arbitration and was in process.

However, the reply was silent on observation made by the audit regarding prescription of mechanism for claiming the rebate was not mentioned in the contract. Hence, the Government needs to prescribe rebate mechanism.

²⁴² August 2017.

²⁴³ APSRTC and Transport Department.

5.4.11 Conclusion

The Department had not ensured the proper documentation of the activities of enforcement staff. The correct rate of fine on collection of compounding fee was not applied. Checks conducted for issuing fitness certificate were not ensured, impacting road safety and environmental issues. In absence of time limit for disposal on VCR cases, there was accumulation of the pendency and blockage of revenue. Safety related rules such as allowing transport vehicles with proper fitness certificates, prevention of drunken driving, checking excessive speed of vehicle etc., were not fully enforced. There was poor progress in fixing of High Security Registration Plates on used vehicles and new vehicles in the State.

5.4.12 Recommendations

1. There is a need to have a comprehensive enforcement plan and document the enforcement activities by the field staff.
2. An inbuilt mechanism may be evolved in CFST software so that system prompts compounding fee for the offences at a prescribed rate and to avoid non/short realisation by human intervention.
3. A provision in the FC module in CFST software may be designed to capture the fitness test results to avoid manual intervention so as to assure the quality of FC tests.
4. Time limit may be prescribed for the finalisation of vehicle check reports to avoid pendency as well as blockage of revenue.
5. VCR module is to be re-designed with data validation controls to ensure consistency in identification of offences.
6. HSR agreement may be reviewed to ensure economy, effective implementation of the project.

5.5 Non-realisation of quarterly tax and penalty

Section 3 of Andhra Pradesh Motor Vehicles Taxation (APMVT) Act, 1963 stipulates that every owner of a motor vehicle is liable to pay tax at rates specified by the Government from time to time. Section 4 of the Act read with Government order²⁴⁴, specifies that tax shall be paid in advance either quarterly, half yearly or annually within one month from the commencement of quarter. As per Section 6 of the Act read with Rule 13 of 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.

²⁴⁴ G.O.Ms.No.96, Transport, Roads & Buildings (Tr.II) Department, dated 21 May 1993.

Analysis of the data²⁴⁵ in the offices of nine DTCs²⁴⁶ and four RTOs²⁴⁷ revealed that quarterly tax of ₹ 1.71 crore²⁴⁸ was not paid by the owners of 1,186 transport vehicles. The department had also not issued any demand notice to these defaulters. This resulted in non-realisation of tax of ₹ 1.71 crore and penalty of ₹ 0.86 crore (at 50 per cent of quarterly tax).

After Audit pointed out these cases, four DTCs / RTOs²⁴⁹ replied (between January and March 2017) that the list of these vehicles would be communicated to enforcement staff for immediate action. Four DTCs²⁵⁰, replied (between April and July 2017) that tax and penalty would be collected under intimation to Audit. The remaining five officers replied (between November 2016 and April 2017) that details of vehicles would be verified and action taken.

The matter was referred to the Government in September 2017; replies have not been received (January 2018).

5.6 Non-levy of green tax

As per Government order²⁵¹ 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 motor cycles and ₹ 500 for other vehicles for every five years. As per provisions of CMV Rules, registration of a vehicle could be renewed 60 days before expiry of its validity.

Analysis²⁵² of data in the offices of nine DTCs²⁵³ and three RTOs²⁵⁴ disclosed that green tax was not levied on 17,411 transport vehicles and 1,744 non-transport vehicles²⁵⁵. These vehicles have already completed the prescribed age limit and are plying on the road. Green tax leviable on these vehicles amounting to ₹ 41.16 lakh was not realised.

After Audit pointed out, three DTCs/RTOs²⁵⁶ replied²⁵⁷ that green tax was demanded by the system as and when the owner approached office for any

²⁴⁵ Between November 2016 and July 2017.

²⁴⁶ Chittoor, Eluru, Guntur, Kakinada, Kurnool, Nellore, Srikakulam, Vijayawada and Visakhapatnam.

²⁴⁷ Gudur, Hindupur, Narasaraopet and Tirupati.

²⁴⁸ For the period 2014-15 to 2015-16.

²⁴⁹ Eluru, Visakhapatnam, Gudur and Narasaraopet.

²⁵⁰ Guntur, Kakinada, Nellore and Vijayawada.

²⁵¹ G.O.Ms.No.238, Transport, Roads & Buildings (Transport-I), Department, dated 23 November 2006.

²⁵² Between November 2016 and July 2017.

²⁵³ Chittoor, Eluru, Guntur, Kakinada, Kurnool, Nellore, Srikakulam, Vijayawada and Visakhapatnam.

²⁵⁴ Hindupur, Narasaraopet and Tirupati.

²⁵⁵ For the period from April 2014 to March 2016.

²⁵⁶ Chittoor, Vijayawada and Guntur.

²⁵⁷ Between November 2016 and July 2017.

transaction. Five DTCs²⁵⁸ replied²⁵⁹ that in respect of non-transport vehicles, registration was renewed prior to expiry of validity and hence system could not demand green tax. Three DTCs/RTOs²⁶⁰ replied²⁶¹ that collection of green tax was a continuous process during enforcement. DTC Kurnool replied (June 2017) that arrears of green tax would be collected when the owner approaches for future transactions.

The reply was not tenable, as department should have devised a suitable mechanism for collection of green tax in respect of non-transport vehicles in accordance with provisions of MV Act to safeguard the Government revenue and to control activities which affect the environment.

The matter was referred to the Government in September 2017; replies have not been received (January 2018).

5.7 Short levy of tax in respect of non-transport vehicles owned by individuals

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 schedule²⁶² to the Act.

Scrutiny (between January and June 2017) of vehicle registration data in the offices of four DTCs²⁶³ disclosed that tax on 67 second and subsequent non-transport vehicles owned by individuals was short collected. Tax in these cases was collected at rates less than 14 *per cent*, resulting in short levy of tax amounting to ₹ 6.18 lakh.

After Audit pointed out these cases, DTC, Guntur replied (June 2017) that action would be taken for realisation of the differential tax by issuing show cause notices to the registered owners. The remaining DTCs replied (January and April 2017) that the list of vehicles would be verified and action taken intimated to Audit.

The matter was referred to the Government in September 2017; replies have not been received (January 2018).

²⁵⁸ Hindupur, Kakinada, Nellore, Srikakulam and Tirupati.

²⁵⁹ Between January and May 2017.

²⁶⁰ Eluru, Narasaraopet and Visakhapatnam.

²⁶¹ Between January and April 2017.

²⁶² Act No.11/2010, dated 31 July 2010.

²⁶³ Guntur, Kakinada, Srikakulam and Visakhapatnam.

CHAPTER VI
LAND REVENUE

CHAPTER VI LAND REVENUE

6.1 Tax Administration

The Chief Commissioner of Land Administration 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, Rules and orders issued thereunder. Andhra Pradesh State 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*²⁶⁴. Revenue Divisions are kept under administrative charge of Revenue Divisional Officers (RDOs) and *mandals* are under the charge of Tahsildars. Each village in every *mandal* is administered by a Village Revenue Officer (VRO) under the supervision of the Tahsildar. Village Revenue Officers prepare tax demands under all the Acts mentioned above for each *mandal* from the village accounts and get them approved by *Jamabandi Officers*²⁶⁵ concerned. Revenue Inspectors/VROs 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 charge of overall administration of Land Revenue Department.

6.2 Internal Audit

Internal Audit provides a reasonable assurance of proper enforcement of laws, rules and departmental instructions. This is a vital component of the internal control frame work. The information regarding functioning of Internal Audit wing was sought from the Department. It was replied (July 2017) that Internal Audit wing did not exist.

²⁶⁴ *Mandal* is the jurisdictional area of each Tahsildar.

²⁶⁵ *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 56 offices of Land Revenue Department conducted during the year 2016-17 revealed non-levy/short realisation of conversion tax/penalty and other irregularities. The monetary impact involved ₹ 7.25 crore in 35 cases, which broadly fall under the categories as given in **Table 6.1**.

Table 6.1: Results of Audit

(₹ in crore)

Sl.No.	Category	No. of cases	Amount
	Revenue Receipts		
1.	Non-levy/short levy of conversion tax and penalty on conversion of agricultural land for non-agricultural purpose	21	6.91
2.	Non-levy of road cess	04	0.10
3.	Non-realisation of cost of land alienated	03	0.14
4.	Other irregularities	01	0.01
	Total	29	7.16
	Revenue Expenditure		
1.	Excess payment of land compensation	01	0.02
2.	Other irregularities	05	0.07
	Total	06	0.09
	Total	35	7.25

During the year 2016-17, the Department accepted under-assessment and other deficiencies of ₹ 19.95 lakh in four cases. Of these, ₹ 18.89 lakh involving three cases were pointed out during the year 2016-17. An amount of ₹ 12.92 lakh was realised in one case during the year 2016-17. A few illustrative cases, involving ₹ 6.76 crore, are discussed in the succeeding paragraphs.

6.4 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 should be put to non-agricultural purpose, without the prior permission of the competent authority. Section 4(1) prescribes that every owner²⁶⁶ or occupier of agricultural land should pay conversion tax at the rate of nine *per cent* of the basic value²⁶⁷ of the land converted for non-agricultural purposes. If any agricultural land has been put to non-agricultural purpose without obtaining permission, the competent authority (RDO) should impose a penalty of 50 *per cent* of the conversion tax under Section 6(2).

²⁶⁶ 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.

²⁶⁷ 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.

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 notified by Government, for the land as on the date of application should 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 should 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.

6.4.1 Non-levy of conversion tax and penalty on layouts

As per Rule 6 of AP Gram Panchayat Land Development (Layout²⁶⁸ 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 jurisdiction²⁶⁹.

Cross-verification of layout data under the jurisdiction of DLPOs with the conversions granted by Revenue Divisional Officers (RDOs)²⁷⁰ disclosed (June 2016) that in 22 cases, 119.29 acres of agricultural land was put to non-agricultural use. The agricultural lands in these cases were converted into layouts²⁷¹ without the approval of Gram Panchayats/RDOs. Neither the individuals/organisations had approached the office concerned nor the Department had made any effort to levy conversion tax in these cases. This resulted in non-levy of conversion tax (₹ 4.33 crore) and penalty (₹ 2.17 crore) amounting to ₹ 6.50 crore.

6.4.2 Non-levy of penalty on conversion of agricultural land for non-agricultural purposes without prior permission

Scrutiny (June 2016) of records of two RDOs²⁷² disclosed that the permissions for conversion of 49.51 acres of agricultural land to non-agricultural use was issued²⁷³. The conversion tax of ₹ 8.03 lakh was levied without penalty of ₹ 4.01 lakh. It was evident from inspection reports²⁷⁴ of Tahsildars that the land was already converted from agricultural use to non-agricultural use without prior permission from the competent authority.

After Audit pointed out these cases, the RDOs replied (June 2016) that the matter would be examined and detailed reply sent in due course.

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

²⁶⁸ Layout means the way in which plots are arranged.

²⁶⁹ G.O.Ms.No.70, PR & RD (Rules) Department, dated 29 February 2000.

²⁷⁰ Dharmavaram and Kalyanadurgam.

²⁷¹ Between the period from 01 April 2013 to 31 March 2015.

²⁷² Ananthapuram and Penukonda.

²⁷³ Between August 2008 and October 2014 to seven applicants.

²⁷⁴ Between July 2008 and September 2014.

6.5 Non-realisation of cost of alienation of land

As per Revenue Board's Standing Order (BSO) No.24, alienation of Government land to a company, institution or private individuals for any public purpose will normally be on collection of its market value and subject to the terms and conditions prescribed in the BSO. The BSO allows the competent authorities to permit possession of the land in advance by the applicant in the event of any emergent circumstances pending formal approval of the alienation proposal.

Scrutiny (August and September 2016) of records in three Tahsildar²⁷⁵ offices, disclosed that the competent authorities had given²⁷⁶ advance possession of 7.77 acres of land.²⁷⁷ Advance possession of land was given, pending finalisation of alienation proposals. In the absence of prescribed time limit, the alienation proposals were not finalised even after three to twelve years of handing over possession of these lands. Thus, non-finalisation of alienation proposals resulted in non-realisation of ₹ 13.88 lakh in nine cases towards value of land.

After Audit pointed out these cases, Tahsildar, Ardhavedu replied (September 2016) that action would be taken under intimation to Audit. The remaining two Tahsildars replied (August and September 2016) that the matter would be examined.

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

6.6 Non-levy of road cess in command areas of irrigation projects

Under Section 27 of AP Irrigation, Utilisation and Command Area Development Act, 1984, for the purpose of laying out roads and their proper upkeep and maintenance, road cess in the form of a tax shall be collected on lands in the Command Areas of Nagarjunasagar, Sriramsagar and Tungabhadra Projects from the beneficiaries of schemes undertaken under the Act.

Government in their notifications²⁷⁸ specified that Land Revenue Authorities had to collect the road cess at the rate of ₹ 12.35 per hectare per annum from 15 September 1988 from all *ayacutdars*²⁷⁹.

Scrutiny (February 2015 - September 2016) of *jamabandi* records in offices of four Tahsildars²⁸⁰, disclosed that road cess was not levied during the *fasli*

²⁷⁵ Ardhavedu, Marripadu and Vinjamur.

²⁷⁶ Between 2005 and 2014.

²⁷⁷ In nine cases to three organisations.

²⁷⁸ G.O.Ms.No.48, Irrigation & Command Area Development, dated 25 June 1986. G.O.Ms.No.299, Irrigation & Command Area Development, dated 7 September 1988.

²⁷⁹ *Ayacutdar* means 'owner of the land in command areas of irrigation projects (Ayacut).

²⁸⁰ Kakumanu, Ongole, Parchur and Santhamagalur.

years 1418 to 1423²⁸¹. The road cess leviable on an extent of 18,298 hectares under the above projects worked out to ₹ 8.33 lakh.

After the cases were pointed out, Tahsildars, Kakumanu (March 2015) and Ongole (May 2016) replied that action would be taken to levy and collect road cess. The remaining two Tahsildars replied (September 2016) that the matter would be examined and Audit intimated in due course.

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

²⁸¹ Fasli years 1418 to 1423, i.e., 01 July 2008 to 30 June 2014.

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 39 offices²⁸² conducted during 2016-17 revealed under-assessment and other observations involving an amount of ₹ 149.12 crore in 120 cases. These Audit observations broadly fall under the categories as given in **Table 7.1**.

Table 7.1: Results of Audit

(₹ in crore)			
Sl.No.	Category	No. of cases	Amount
I	ENERGY DEPARTMENT		
1.	Functioning of Chief Electrical Inspector to Government of Andhra Pradesh	01	35.16
II	REVENUE DEPARTMENT		
	Land Revenue		
A	Water tax		
1.	Short levy of water tax due to incorrect adoption of irrigated extent	03	0.60
2.	Non/short levy of interest on arrears of water tax	17	0.20
	Commercial Taxes		
B	Professions tax		
1.	Short collection of professions tax	57	0.59
C	Entertainments tax		
1.	Short levy of entertainments tax	02	1.19
III	INDUSTRIES AND COMMERCE DEPARTMENT		
1.	Non-raising of demand for arrears of District Mineral Fund	12	96.65
2.	Non/ short levy of royalty	10	6.73
3.	Non/ short levy of seigniorage fee/dead rent	06	0.45
4.	Other irregularities	12	7.55
Total		120	149.12

During the year 2016-17, the Department accepted under-assessment and other deficiencies of ₹ 24.76 crore in eight cases. Of this, seven cases involving ₹ 24.56 crore were pointed out during the year 2016-17 and the rest in earlier years. An amount of ₹ 0.07 crore was realised in one case during the year 2016-17. A few illustrative cases, involving ₹ 36.30 crore, are discussed in the succeeding paragraphs.

²⁸² Energy, Revenue, Industries and Commerce Departments; 56 offices of Land Revenue Department are included at Para 6.3 in Chapter VI - Land Revenue and 102 offices of Commercial Taxes Department are included at Para 2.3 in Chapter II- VAT and CST.

ENERGY DEPARTMENT

7.2 Functioning of Chief Electrical Inspector to Government of Andhra Pradesh

7.2.1 Introduction

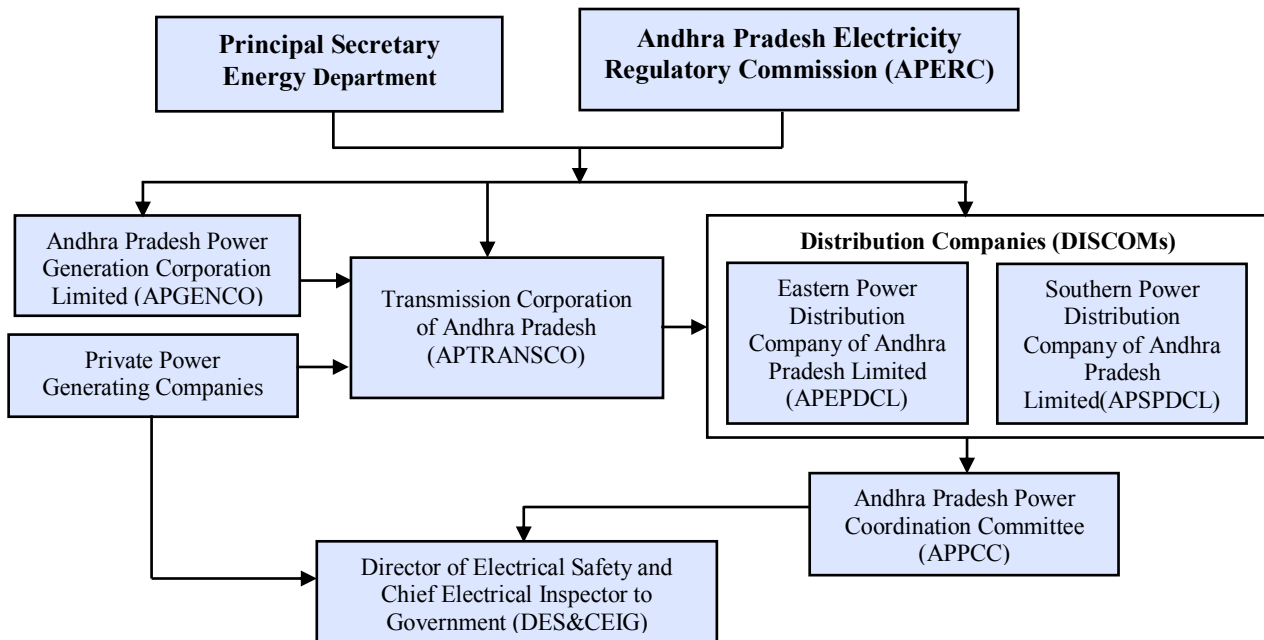
Director of Electrical Safety and Chief Electrical Inspector to Government of Andhra Pradesh (DES&CEIG)²⁸³ under the administrative control of Principal Secretary, Energy Department, is responsible for

- (i) levy and collection of Electricity Duty under AP Electricity Duty Act, 1939 and Rules made thereunder from the licensees on the sale of energy effected by them,
- (ii) approval for High Tension (HT) electric installations and their periodical inspections to ensure safety aspects under the Electricity Act, 2003 and Rules, Regulations and Government Orders thereunder.
- (iii) implementation of quality control of electric goods (Quality Control) order 2003.

Director of Electrical Safety and Chief Electrical Inspector to Government is assisted by one Deputy Chief Electrical Inspector, three Electrical Inspectors (EIs) and 12 Deputy Electrical Inspectors (DEIs) at field level in discharging the duties. The total staff strength of the organisation as on 31 March 2016 was 121.

The following is the overview of electricity sector in Andhra Pradesh.

Organisational setup



²⁸³ Consequent to bifurcation of state into Andhra Pradesh and Telangana, the post of CEIG in Andhra Pradesh has been renamed as Director of Electrical Safety and Chief Electrical Inspector to Government(DES&CEIG) through G.O.Ms.No.8, Energy Department, dated 5 March 2016.

7.2.2 Audit scope, objectives and methodology

Audit conducted during March/ April 2017 covered the period of three years i.e., from 2013-14 to 2015-16 to examine the implementation of functions under the Rules/Regulations. Audit verified the records relating to electricity duty, periodical inspection files and licensees in six offices²⁸⁴.

Audit findings

Audit findings are summarised below:

7.2.3 Levy and Collection of Electricity Duty

As per section 3(1) of Andhra Pradesh Electricity Duty Act, 1939, every licensee in the State shall pay duty every month to the State Government calculated at the rate of six paise per unit of energy in respect of all sales of energy (except sales to privileged customers²⁸⁵). The accounts wing of the DES&CEIG office conducts the periodical audit on the accounts of DISCOMs to determine the Electricity duty and raise the demand who in turn levy and collect as part of the electricity bill, from the consumers.

7.2.3.1 Short levy of electricity duty due to non-adoption of audited figures

The electricity duty due from DISCOMs was required to be worked out on the basis of audited figures. Short levy of electricity duty with reference to the payments as per the provisional return should be demanded from DISCOMs through Andhra Pradesh Power Co-ordination Committee (APPCC).

Audit observed that the electricity duty of ₹ 503.50 crore²⁸⁶ was due from the DISCOMs²⁸⁷ as per the audited²⁸⁸ figures of DES&CEIG. Against this a demand of ₹ 479.08 crore was raised. The short demand of electricity duty of ₹ 24.42 crore (**Table 7.2**) was due to adoption of provisional figures furnished by APPCC without reconciling them with the audited figures.

Table 7.2: Short demand of Electricity Duty

(₹ in crore)			
Year	Duty Due	Duty Demanded	Duty short demanded/ received
2013-14	148.88	147.54	1.34
2014-15	169.39	154.05	15.34
2015-16	185.24	177.50	7.74
Total	503.50	479.08	24.42

²⁸⁴ Director of Electrical Safety & Chief Electrical Inspector to Government, Guntur; Deputy Chief Electrical Inspector, Vijayawada; Electrical Inspectors - Guntur, Kurnool and Visakhapatnam and Deputy Electrical Inspector, Kakinada.

²⁸⁵ Privileged customer means the Central Government or the federal Railway authority or a Railway company operating federal Railway.

²⁸⁶ ₹ 192.62 crore (APEPDCL) + ₹ 310.88 crore (APSPDCL).

²⁸⁷ For the period 2013-14 to 2015-16.

²⁸⁸ Between September 2014 and February 2017.

On this being pointed out (April 2017), the Government confirmed (January 2018) the short levy. It was intimated that notices were issued (October 2017) to the DISCOMs for payment of balance electricity duty.

7.2.3.2 Non-levy of electricity duty on the sales through open access

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

- (i) Review of audited²⁸⁹ records of DISCOMs revealed that 880 million units were sold by private generating companies through open access to various consumers. Electricity duty recoverable towards supply through open access by the generating companies worked out to ₹ 5.28 crore at six paise per unit. The same was not demanded from the private generating companies.

On this being pointed out (April 2017), the Government replied (January 2018) that demand was not raised due to non-availability of details of developers. The reply is not acceptable as the wheeling of electricity was done through APTRANSCO/State Load Dispatch Centre (SLDC) which is a State Government Company. The Department could have approached TRANSCO/SLDC to get the details of Generating units/Developers and levied the duty.

- (ii) Andhra Pradesh Gas Power Corporation Limited (APGPCL) is a Power Generating Company established under Public Private Partnership mode. Sale of energy to its shareholders amounted to captive consumption and was exempted from payment of duty.

The corporation sold 197.64 million units of energy to private parties (other than share holding companies). Audit noticed (April 2017) that duty of ₹ 1.19 crore leviable on sale of energy was not levied.

On this being pointed out (April 2017), the Government replied (January 2018) that energy was sold to its share holding companies and electricity duty payment was thus exempted. The reply of the Government was not acceptable as sales made by the corporation included sales to private parties and duty was payable on such sales.

7.2.3.3 Short levy and collection of Electricity duty from Co-operative Societies

There are three²⁹⁰ Rural Electric Supply Co-operative Societies (RESCOS) in Andhra Pradesh which draw power from DISCOMs and sell it to their consumers in the respective areas. These societies make payment of Electricity duty directly to the DES&CEIG on sales made by them.

²⁸⁹ By DES&CEIG during 2013-14 to 2015-16.

²⁹⁰ The Anakapalle Rural Electric Co-operative Society Ltd., The Cheepurupalle Rural Electric Co-operative Society Ltd., The Kuppam Rural Electric Co-operative Society Ltd.

Cross verification of the monthly returns of RESCOS with the Audit Reports²⁹¹ of DES&CEIG, disclosed that RESCOS had paid Electricity Duty on sale of 57,37,77,804 units of electrical energy. However the energy supplied by DISCOMs was 99,21,34,333 units. Non-reconciliation of units reflected in monthly returns of RESCOS with those in the Audit Reports of the DES&CEIG resulted in non-levy of electricity duty. The duty recoverable on supply of 41,83,56,529 units amounted to ₹ 2.51 crore at the rate of six paise per unit.

On this being pointed out (April 2017), the Government replied (January 2018) that shortfall of units was due to distribution losses. The reply was not acceptable as even after adopting maximum projected percentage of distribution loss (10.68) as per annual accounts of DISCOMs, there was still short receipt of electricity duty amounting to ₹ 1.48 crore. Of this, an amount of ₹ 6.50 lakh had been recovered (July 2017). The remaining duty of ₹ 1.42 crore needs to be realised by the Department.

7.2.3.4 Short levy of Electricity Duty due to incorrect grant of exemption

During verification of audited records of DISCOMs (APEPDCL), Audit noticed (April 2017) that energy consumed by staff quarters of Defence establishments and Airport, Bus stations were exempted. These were treated as privileged customers. However, these do not fall under the category of privileged customers. Hence duty was leviable on the quantum of 3,38,02,330 units supplied to the non-privileged customers. The duty leviable on these units amount to ₹ 20.28 lakh.

On this being pointed out (April 2017), the Government replied (January 2018) that electricity was supplied through HT connection which belongs to defence establishments. Hence, duty need not be levied. The reply was not acceptable as only Union Government offices were exempted from payment of electricity duty and not the staff quarters of defence establishments or airport bus stations.

7.2.3.5 Short payment of electricity duty on sale of energy by a company

During audit, it was observed that a private power generating company in Visakhapatnam had sold 86,91,97,423 units of power to AP DISCOMs and other private companies. The electricity duty payable on sale of energy worked out to ₹ 5.22 crore at 6 paise per unit. However the company paid only ₹ 2.45 crore resulting in short payment of electricity duty amounting to ₹ 2.77 crore as detailed below.

²⁹¹ For the period from 2013-14 to 2015-16.

Table 7.3: Short payment of electricity duty

(₹ in crore)

Year	Total units produced	Plant consumption	Units sold	Duty at 6 paise per unit	Duty paid	Short payment of duty
2013-14	33,87,08,652	5,15,28,442	28,71,80,210	1.72	0.80	0.92
2014-15	35,76,01,846	5,33,22,206	30,42,79,640	1.83	0.70	1.13
2015-16	35,52,72,393	7,75,34,820	27,77,37,573	1.67	0.95	0.72
Total	105,15,82,891	18,23,85,468	86,91,97,423	5.22	2.45	2.77

On this being pointed out (April 2017), the Government replied (January 2018) that the said company did not fall under the definition of the licensee. The reply was not acceptable since Company was a licensee as per the notification²⁹² issued in November 2003 and hence was liable to pay duty on sale of energy.

7.2.3.6 Non-realisation of electricity duty on sale of power by private generating companies

There were 34 private generating companies in Andhra Pradesh State engaged in sale of power to private parties in respect of which the electricity duty was pending. From the details furnished by the Department, Audit observed that electricity duty of ₹ 311.25 crore was due from 32 companies as on 31 March, 2016. An amount of ₹ 116.56 crore related to the period 2013-14 to 2015-16 and ₹ 196.49 crore related prior to 2013-14.

On this being pointed out (April 2017), the Government replied (January 2018) that the generating companies do not fall under the definition of the 'licensee' and hence need not pay duty. The reply was not acceptable as every power generating company was a licensee as per notification²⁹³ issued in November 2003 and hence was liable to pay duty on sale of power.

Further, notices were served on one of these power generating companies from whom bulk amount (₹ 130.36 crore) was due and the same was intimated to the District Collector for initiating action under AP Revenue Recovery (APRR) Act, 1864. As major portion (₹ 117.11 crore) of the dues was more than five year old, concrete steps should have been taken for recovery of the Electricity duty.

7.2.4 Inspection of HT installations

As per Order 2011 of AP Electrical Inspectorate (Measures relating to Safety and Electric Supply) read with Government order²⁹⁴ dated 19 November 2011 relating to safety and electric supply Regulations, 2010, every electrical installation exceeding 650V should be inspected on annual basis.

²⁹² Gazette Notification No.59, dated 18 November, 2003 issued by Government of Andhra Pradesh.

²⁹³ Gazette Notification No.59, dated 18 November, 2003 issued by Government of Andhra Pradesh.

²⁹⁴ G.O Ms No 42, Energy (services) Department, dated 19 November 2011.

7.2.4.1 Short fall in conducting periodical inspections of HT installations

During test check of four Divisional/Sub-Divisional offices²⁹⁵, Audit noticed shortfall in conducting periodical inspection of HT installations. The short fall ranged between 3.05 to 22.87 per cent.

When shortfall of inspections was pointed out (March 2017), all Divisional/Sub-Divisional Heads replied (December 2017) that shortage of inspections was due to non-receipt of inspection fee from installation owners. The reply was not tenable as periodical inspections have to be conducted as a preventive measure for safety of the unit to avoid loss of property and human lives in the event of any accident.

7.2.4.2 Non-receipt of compliance reports

As per Government Order²⁹⁶ of February 2012, failure to rectify the defects in installations pointed out by the Electrical Inspector within the prescribed time, is punishable with fine which may extend to five hundred rupees. If the breach is continued, further fine is leviable which may extend upto fifty rupees per day after the first breach during which such breach continued.

Examination of periodical inspection files of HT installations in four²⁹⁷ Divisions and one sub-division (Kakinada) revealed that no compliance reports were furnished by the installation owners²⁹⁸.

On this being pointed out (April 2017), the Government replied (January 2018) that disconnection of power supply would be recommended besides applying the penalty clause for non-receipt of compliance reports.

7.2.5 Verification of quality of electrical appliances

Under Clause 2(b) of the Electrical Wires, Cables, Appliances and Protection Devices and Accessories (Quality Control) Order, 2003, read with Government Order²⁹⁹ of December 2003, CEIG/DCEIG is empowered to call for samples of electric appliances, cables etc., from manufacturers, enter and search any premises, seize them, if they are not of specified standards.

During the course of audit of four³⁰⁰ divisional offices, Audit observed that four divisional officers had not conducted search and seizure operations as prescribed.

The divisional officers replied (April 2017) that search and seizure operations were not conducted for the reason that orders were issued prior to bifurcation of the State. It was also stated that matter would be brought to the notice of the

²⁹⁵ DCEIG- Vijayawada, DEI, Kakinada, EIs Guntur and Visakhapatnam.

²⁹⁶ G.O.Ms.No.8, Energy (Services) Department, dated 13 February 2012.

²⁹⁷ Vijayawada, Guntur, Kurnool and Visakhapatnam.

²⁹⁸ Such as hospitals and cinema halls.

²⁹⁹ G.O.Ms.No.138, Energy (PR.II) Department, dated 9 December 2003.

³⁰⁰ Vijayawada, Guntur, Kurnool and Visakhapatnam.

Government for issue of fresh orders. The reply of the Department was not tenable as search and seizure operations were entrusted to the then CEIG, the position continued in the bifurcated State of Andhra Pradesh. Not implementing the said order in letter and spirit could result in sale and use of sub-standard appliances and goods.

7.2.6 Conclusion

The Department short levied the electricity duty amounting to ₹ 35.16 crore from the DISCOMs/RESCOS/third party traders during last three years. Huge amount of ₹ 311.25 crore towards electricity duty was outstanding from various power generating companies. There had been shortfall in conducting periodical inspections of HT installations. Quality of electrical appliances was not verified.

REVENUE DEPARTMENT

LAND REVENUE

7.3 Short levy of water tax

As per Section 3 of the Andhra Pradesh Water Tax Act, all Government sources of irrigation classified as major and medium projects shall be regarded as category-I. All other sources which are capable of supplying water for not less than four months in a year shall be regarded as category-II. The rate of water tax for first or single wet crop in a *fasli* year³⁰¹ under category-I is ₹ 200 per acre. The rate for second wet crop of that *fasli* year is ₹ 150 per acre. For category-II source, ₹ 100 per acre is to be adopted for first/single wet crop or second crop.

Government in their orders³⁰² laid down the procedure for raising water tax demand. As per this procedure, Executive Engineers of Project areas/irrigated sources are required to communicate the extent of area irrigated for fixation of water tax demand by Tahsildar. In case of variation between actual area irrigated as indicated by Irrigation Department and that of Revenue Department, *Joint azmoish*³⁰³ should be conducted to arrive at area irrigated.

³⁰¹ *Fasli* year means the period of 12 months from 1 July to 30 June. By adding 590 to *fasli* year one can get the corresponding calendar year.

³⁰² G.O.Ms.No.115, Revenue (LR.3) Department, dated 13 February 2001.

G.O.Ms.No.96, Irrigation & C.A.D (Gen.IV-2) Department, dated 08 June 2007.

³⁰³ *Joint azmoish* means joint inspection of irrigated land conducted by Irrigation, Agriculture and Revenue Departments.

During scrutiny of village accounts (May 2016) of two Tahsildar offices³⁰⁴, Audit observed that in office of the Tahsildar, Chirala, water tax was short levied for the *fasli* years 1414 to 1417. This was due to application of incorrect rate of water tax per acre for single wet crop on an irrigated extent of 5,795.42 acres. This resulted in short levy of water tax amounting to ₹ 25.22 lakh. In the office of Tahsildar, Karamchedu, water tax demand for the *fasli* years 1418 to 1,422 was finalised on an area lesser than the irrigated extent. This had resulted in short levy of water tax of ₹ 32.56 lakh.

Thus, the total short levy of water tax amounted to ₹ 57.78 lakh by the Tahsildars for the *fasli* years from 1414 to 1422.

After Audit pointed out the cases, Tahsildar, Chirala replied (May 2016) that necessary action would be taken to review the water tax under intimation to Audit. Tahsildar, Karamchedu replied (May 2016) that the matter would be examined and result intimated.

The matter was referred to the Government in June 2017; their replies have not been received (January 2018).

7.4 Non-levy of interest on arrears of water tax collected

As per Section 8 of 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 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 (May and August 2016) of records³⁰⁵ in six offices of Tahsildars³⁰⁶, Audit observed that arrears of land revenue towards water tax amounting to ₹ 193.97 lakh was collected (from *fasli* 1413 to 1424), without interest. The interest of ₹ 11.63 lakh leviable under Section 7 of APRR Act was not collected.

Interest was computed by Audit on a conservative estimate (calculated at the rate of six *per cent* for minimum period of one year). This was due to the reason that the period of delay could not be checked on account of non/improper maintenance of Demand Collection and Balance (DCB) registers at village level.

³⁰⁴ Chirala and Karamchedu.

³⁰⁵ Consolidated statements of Demand, Collection and Receipt Books.

³⁰⁶ Bobbili, Jiyamavalasa, Karamchedu, Nathavaram, Rompicherla and Vinjamur.

After Audit pointed out, Tahsildar, Rompicherla replied (November 2017) that efforts were being made for collection of water tax and interest accrued from the farmers. The remaining five Tahsildars³⁰⁷ replied (May and August 2016) that interest would be collected under intimation to Audit.

The matter was referred to the Government in June 2017; replies have not been received (January 2018).

INDUSTRIES AND COMMERCE DEPARTMENT

MINES AND MINERALS

7.5 Non-collection of amount towards National Mineral Exploration Trust Fund

As per Section 9 of Mines and Minerals (Development & Regulation) Act, 1957, the holder of a mining lease shall pay royalty in respect of any mineral (other than minor minerals) removed or consumed by him from the leased area at the rates specified.

National Mineral Exploration Trust (NMET) was formed under Section 9(c) of Mines and Minerals (Development & Regulation) Act, 1957 and NMET Rules were notified³⁰⁸. Accordingly, Director of Mines and Geology directed³⁰⁹ that all royalty payments may be collected along with NMET component at the rate of two *per cent* of the royalty and no royalty payment should be accepted without mandatory contribution towards the NMET Fund. It was also clarified that liability of payment towards the NMET Fund accrues from the date amended Act came into force (12 January 2015) and needs to be collected from mining lease holders.

During scrutiny of records³¹⁰ in five offices³¹¹ Audit observed³¹² that the Department had collected ₹ 22.30 crore towards royalty from the mining lease holders. However, this contribution equivalent to two *per cent* of the royalty was not collected. Thus, an amount ₹ 44.59 lakh was not collected from the leaseholders towards NMET Fund due to lack of monitoring.

³⁰⁷ Bobbili, Jiyyamavalasa, Karamchedu, Nathavaram and Vinjamur.

³⁰⁸ GSR 632(E), dated 14 August 2015.

³⁰⁹ Memo No.21543/NMET/2015, dated 01 October 2015.

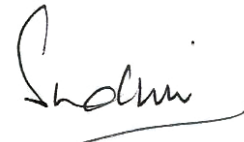
³¹⁰ From the permit registers and mining lease files.

³¹¹ Assistant Directors of Mines and Geology (ADMG), Anakapalle, Eluru, Nellore, Rajamahendravaram and Srikakulam.

³¹² February and March 2016.

Principal Secretary and Director of Mines & Geology replied (January 2018) that the amount towards NMET fund was deductible from 12 January 2015 to 10 February 2015 only as Government of India declared 31 major minerals as minor minerals vide Gazette Notification³¹³. The reply was not tenable as the Department collected royalty on these major minerals (from February 2015 to November 2015) as the State Government amended Rules in November 2015 based on Government of India notification. Accordingly, two *per cent* on realised royalty was required to be collected towards NMET fund for this period.


Hyderabad
The



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Principal Accountant General (Audit)
Andhra Pradesh

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Comptroller and Auditor General of India

³¹³ GS No.423(E) dated 10 February 2015.

GLOSSARY

GLOSSARY

AA	Assessing Authority
AC	Assistant Commissioner
ACTO	Assistant Commercial Tax Officer
ADMG	Assistant Director of Mines and Geology
AG	Accountant General
AGPA	Agreement of Sale cum General Power of Attorney
AMVI	Assistant Motor Vehicle Inspectors
AP	Andhra Pradesh
AP VAT	Andhra Pradesh Value Added Tax
APEPDCL	Eastern Power Distribution Company of Andhra Pradesh Limited
APERC	Andhra Pradesh Electricity Regulatory Commission
APGENCO	Andhra Pradesh Power Generation Corporation Limited
APGPCL	Andhra Pradesh Gas Power Corporation Limited
APMV Rules	Andhra Pradesh Motor Vehicles Rules
APMVT	Andhra Pradesh Motor Vehicle Taxation
APPCC	Andhra Pradesh Power Coordination Committee
APPTC	Andhra Pradesh Power Trading Committee
APRR Act	Andhra Pradesh Revenue Recovery Act
APSPDCL	Southern Power Distribution Company of Andhra Pradesh Limited
APSRTC	Andhra Pradesh State Road Transport Corporation
APTRANSCO	Transmission Corporation of Andhra Pradesh
BE	Budget Estimate
BSO	Board's Standing Order
CARD	Computer-Aided Administration of Registration Department
CCT	Commissioner of Commercial Taxes
CEVs	Construction Equipment Vehicles
CF	compounding fee
CFST	Citizen Friendly Services of Transport Department
CIGR	Commissioner and Inspector General of Registration and Stamps
CMV	Central Motor Vehicle
CMV Rules	Central Motor Vehicles Rules
CST	Central Sales Tax
CT	Commercial Taxes
CTD	Commercial Taxes Department
CTO	Commercial Tax Officer
DC	Deputy Commissioner
DCB	Demand, Collection and Balance
DCTO	Deputy Commercial Tax Officer
DES&CEIG	Director of Electrical Safety and Chief Electrical Inspector to Government

DGPA	Development Agreement cum General Power of Attorney
DIG	Deputy Inspector General
DIGR	Director and Inspector General of Registration and Stamps
DISCOM	Distribution Company
DLPO	Division Level Panchayat Officer
DMU	Debt Management Unit
DR	District Registrar
DTC	Deputy Transport Commissioner
ED	Excise Duty
FC	Fitness Certificate
FEC	Final Eligibility Certificate
GO	Government Order
GPA	General Power of Attorney
HSRP	High Security Registration Plates
HT	High Tension
IMFL	Indian Made Foreign Liquor
IR	Inspection Report
IS Act	Indian Stamp Act
IT	Information Technology
ITC	Input Tax Credit
JC	Joint Commissioner
JTC	Joint Transport Commissioners
LOI	Letter of Intent
LTU	Large Tax Payer Unit
MDF	Medium Density Fibre
MT	Metric Tonne
MV	Market Value
MV	Motor Vehicle
MV Act	Motor Vehicles Act
MVI	Motor Vehicle Inspector
NIC	National Informatics Centre
NMET	National Mineral Exploration Trust
NPV	Net Present Value
NREDCAP	New and Renewable-Energy Development Corporation of Andhra Pradesh
P&E	Prohibition and Excise
P&ES	Prohibition and Excise Superintendent
P&L	Profit and Loss
PA	Power of Attorney
PL	Proof Litre
PuC	Pollution under Control Units
R&T	Registration and Turnover
RC	Registration Certificate
RDO	Revenue Divisional Officer
RESCOS	Rural Electric Supply Co-operative Societies
RFP	Request for proposal

RTA	Regional Transport Authority
RTO	Regional Transport Officer
SLDC	State Load Dispatch Centre
SR	Sub-Registrar
STA	State Transport Authority
TC	Transport Commissioner
TOT	Turnover Tax
VAT	Value Added Tax
VCR	Vehicle Check Report
VC&MD	Vice Chairman And Managing Director
VRO	Village Revenue Officer

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COMPTROLLER AND AUDITOR GENERAL OF INDIA
2018