

CHAPTER IV

REVENUE RECEIPTS

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4.1 Trend of Revenue Receipts

4.1.1 The tax and non-tax revenue raised by the Union Territory Government of Puducherry and the grants-in-aid received from the GOI during the year 2015-16 and the corresponding figures for the preceding four years are mentioned in **Table 4.1**.

Table 4.1 - Trend of revenue receipts

(` in crore)

Sl. No.	Category	2011-12	2012-13	2013-14	2014-15	2015-16
I	Revenue raised by the Government					
	(a) Tax revenue	1,329.43	1,917.22	1,904.51	1,992.74	2,260.34
	(b) Non-tax revenue	153.31	118.15	1,192.59	1,300.36	1,137.75
	Total (I)	1,482.74	2,035.37	3,097.10	3,293.10	3,398.09
II	Receipts from the GOI – Grants-in-aid	1,288.68	1,110.77	1,210.51	1,464.80	1,689.86
III	Total receipts of the Government (I + II)	2,771.42	3,146.14	4,307.61	4,757.90	5,087.95
IV	Percentage of I to III	54	65	72	69	67

(Source: Finance Accounts of the respective years)

During the year 2015-16, the revenue raised (` 3,398.09 crore) by the UT Government was 67 *per cent* of the total revenue receipts (` 5,087.95 crore), as against 69 *per cent* in the preceding year. The balance (` 1,689.86 crore) 33 *per cent* of the receipts during 2015-16 were obtained from the GOI as grants-in-aid and contributions.

4.1.2 The details of tax revenue raised during the period from 2011-12 to 2015-16 are given in the following **Table 4.2**.

Table 4.2 - Details of Tax Revenue raised

(` in crore)

Sl. No.	Heads of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+)/ decrease (-) in 2015-16 over 2014-15
		Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	
1	Taxes on Sales, Trade, etc.	1,481.83	750.15	1,395.61	1,287.10	1,505.00	1,256.71	1,380.00	1,313.13	1,510.00	1,438.89	(+) 9.58
2	State Excise	778.00	447.27	688.49	503.98	620.00	511.72	560.00	544.67	630.00	673.75	(+) 23.70
3	Stamps and Registration Fees	113.96	77.43	121.29	72.67	98.00	82.79	96.00	74.96	115.00	76.37	(+) 1.88
4	Taxes on Vehicles	89.86	53.55	87.66	52.64	66.00	51.95	63.00	58.46	83.00	69.34	(+) 18.61
5	Land Revenue	1.42	0.80	1.35	0.55	0.80	1.14	0.80	1.30	1.75	1.93	(+) 48.46
6	Others	0.93	0.23	0.29	0.28	0.20	0.20	0.20	0.22	0.25	0.06	(-) 72.73
Total		2,466.00	1,329.43	2,294.69	1,917.22	2,290.00	1,904.51	2,100.00	1,992.74	2,340.00	2,260.34	

(Source : Finance Accounts of the respective years)

4.1.3 The details of non-tax revenue, raised during the period from 2011-12 to 2015-16 are given in the following **Table 4.3**.

Table 4.3 - Details of Non-tax revenue raised

(` in crore)

Sl. No.	Heads of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) / decrease (-) in 2015-16 over 2014-15
		Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	Budget	Actuals	
1	Power	Nil	58.73	Nil	29.58	1,200.00	1,055.15	1,220.00	1,159.92	1,300.00	990.60	(-) 14.60
2	Interest Receipts, Dividends and Profits	71.91	38.72	39.87	35.64	36.29	68.44	81.62	93.28	93.28	91.88	(-) 1.50
3	Medical and Public Health	10.04	8.46	16.43	13.94	14.50	9.46	10.97	9.15	12.54	16.58	(+) 81.20
4	Education, Sports, Art and Culture	1.19	0.84	0.30	0.73	0.26	0.91	1.00	0.99	1.14	2.22	(+) 124.24
5	Crop Husbandry	0.48	0.48	0.52	0.51	0.46	0.38	0.41	0.43	0.47	0.66	(+) 53.49
6	Other receipts	46.38	46.08	63.88	37.75	58.49	58.25	46.00	36.59	52.57	35.81	(-) 2.13
Total		130.00	153.31	121.00	118.15	1,310.00	1,192.59	1,360.00	1,300.36	1,460.00	1,137.75	

(Source : Finance Accounts of the respective years)

4.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2016 under the principal heads of revenue amounted to ` 599.09 crore, of which ` 229.73 crore were outstanding for more than five years, as detailed in **Table 4.4**.

Table 4.4 - Arrears of revenue

(` in crore)

Sl. No.	Departments	Total arrears	Arrears outstanding for more than five years	Remarks
(1)	(2)	(3)	(4)	(5)
1	Accounts and Treasuries	0.51	0.29	Arrears were due to non-remittance of audit fee by religious institutions
2	Agriculture	0.32	0.25	Arrears due from PASIC and local bodies towards rent, cost of seeds and other services
3	Commercial Taxes	268.81	146.73	Arrears related to collection of tax under PGST/CST and VAT Acts and major portion were covered under court cases
4	Co-operative	0.07	Nil	Arrears related to societies which were dormant/under liquidation
5	Electricity	258.67	63.88	Arrears were due to non-payment of electricity charges
6	Excise	49.84	10.02	Arrears were mainly due to non-payment of <i>kist</i> by the lessees of <i>arrack</i> and <i>toddy</i> shops
7	Fisheries and Fishermen Welfare	0.02	0.02	Arrears of lease amount on fish farm at Coringa river, Yanam
8	Government Automobile Workshop	1.18	0.36	Arrears were due from Government departments towards sale of petrol, oil and lubricants and work bills
9	Hindu Religious Institutions and Wakf Board	0.53	0.22	Arrears were due to shortfall in collection of dues from temples
10	Industries and Commerce	0.11	0.10	Arrears related to rent and loan due from defunct industrial units
11	Information and Publicity	0.13	0.13	Arrears of rent to be collected mainly from PRTC
12	Judicial	0.07	0.03	Arrears were due to accused undergoing imprisonment in some cases and pendency of appeals in courts

(1)	(2)	(3)	(4)	(5)
13	Public Works	17.54	7.15	Arrears related to non-collection of licence fee, annual track rent and water charges due from consumers
14	Stationery and Printing	0.56	0.07	Arrears related to non-recovery of dues from Government departments
15	Tourism	0.11	0.04	Arrears were mainly due from Guests and Government officials towards room rent
16	Town and Country Planning	0.01	0.01	Arrears related to final cost of plots due from the allottees of various housing schemes
17	Transport	0.61	0.43	Arrears were due to non-recovery of motor vehicles tax
	Total	599.09	229.73	

Other Departments did not furnish (November 2016) the details of arrears of revenue, if any.

4.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year, as furnished by the Commercial Taxes Department (CTD), in respect of Value Added Tax, are shown below in **Table 4.5**.

Table 4.5 - Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2015-16	Total assessments due	Cases disposed of during 2015-16	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
VAT Scrutiny Assessment	18,543	Nil	18,543	2,511	16,032	13.54

As the percentage of disposal is very low, the Department may take adequate steps for speedy finalisation of cases which were selected for detailed scrutiny.

4.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the CTD, cases finalised and the demands for additional tax raised as reported by the Department are given in **Table 4.6**.

Table 4.6 - Evasion of Tax

(` in lakh)

Head of revenue	Cases pending as on 31 March 2015	Cases detected during 2015-16	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc., raised		Number of cases pending for finalisation on 31 March 2016
				Number of cases	Amount of demand	
Sales Tax/VAT	313	58	371	4	2.82	367

It would be seen from the above table that the number of cases pending at the end of the year had increased compared to the number of cases pending at the beginning of the year. The Department may institute appropriate measures for finalisation of pending cases, so as to ensure early realisation of revenue.

4.5 Pendency of refund cases

The number of refund cases pending at the beginning of the year 2015-16, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2015-16, as reported by CTD, is given in **Table 4.7**.

Table 4.7 - Details of pendency of refund cases

Sl. No.	Particulars	Number of cases	Amount
1.	Claims outstanding at the beginning of the year	Nil	Nil
2.	Claims received during the year	1	10,000
3.	Refunds made during the year	1	10,000
4.	Balance outstanding at the end of the year	Nil	Nil

4.6 Response of the Departments / Government towards audit

On behalf of the C&AG of India, the Accountant General (Economic and Revenue Sector Audit), Tamil Nadu conducts periodical audit inspection of

the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as per the prescribed rules and procedures. These audit inspections are followed up with Inspection Reports (IRs). Important irregularities are included in the IRs, issued to the Heads of offices inspected with copies to the next higher authorities, for taking corrective action. The Heads of offices/departments are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report compliance to the office of the Accountant General within one month from the dates of issue of the IRs. Serious irregularities are also brought to the notice of the Heads of Departments by the office of the Accountant General.

Inspection Reports issued upto 31 December 2015 disclosed that 785 paragraphs involving revenue impact of ₹ 270.46 crore relating to 209 IRs remained outstanding at the end of June 2016, along with the corresponding figures for the preceding two years, as mentioned below in **Table 4.8**.

Table 4.8 - Details of pending IRs

Inspection reports	June 2014	June 2015	June 2016
Number of outstanding IRs	180	192	209
Number of outstanding audit observations	678	696	785
Amount involved (in crore)	290.26	245.36	270.46

(Source: As per data maintained in the Office of the AG (E&RSA), Tamil Nadu)

4.6.1 Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amounts involved are mentioned in **Table 4.9**.

Table 4.9 - Department-wise details of IRs

Sl. No.	Tax Heads	Outstanding		Amount
		Inspection Reports	Audit Observations	
1	Sales Tax	59	328	124.20
2	Stamp Duty and Registration Fee	71	196	4.37
3	Taxes on Vehicles	44	182	4.95
4	State Excise	35	79	136.94
	Total	209	785	270.46

(Source: As per data maintained in the Office of the AG (E&RSA), Tamil Nadu)

4.6.2 Non-production of records to audit for scrutiny

The programme of local audit of commercial tax offices is prepared sufficiently in advance and intimated to the Department one month before the commencement of local audit to enable them to keep relevant records ready for audit scrutiny.

During 2015-16, 138 sales tax assessment records relating to three offices were not made available for audit.

The delay in production of records for audit would render audit scrutiny ineffective, as rectification of under-assessments, if any, might become time barred by the time these records are produced for audit.

The matter regarding non-production of records in each office and arrears in assessment is brought to the notice of the Department through the IRs of the respective offices.

4.6.3 Response of the Departments to draft Audit Paragraphs

One Performance Audit and one paragraph proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2016 were forwarded to the Secretaries of the respective Departments during September 2016 through demi-official letters. The Secretary of the Department of Revenue and Disaster Management did not send reply to the paragraph (November 2016). This paragraph has been included in the Report without the response of the Secretary of the Department.

4.6.4 Follow-up on Audit Reports

The internal working system of the PAC, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. Fifteen paragraphs included in the Revenue Chapter of the Reports of the Comptroller and Auditor General of India relating to the UT Government of Puducherry for the years ended 31 March 2010, 2011, 2012, 2013 and 2014 were placed before the Legislative Assembly of UT between April 2010 and May 2015. The action taken explanatory notes from the concerned Departments in respect of 10 paragraphs were received late with average delay of more than 10 months, while in respect of five paragraphs included in the Audit Reports for the year ended 31 March 2013 and 31 March 2014, explanatory notes were yet to be received (November 2016).

Fourteen paragraphs included in the Audit Reports of the Comptroller and Auditor General of India for the years 2009-10 to 2013-14 are yet to be discussed by PAC, while action taken notes in respect of 50 recommendations pertaining to paras discussed by PAC were awaited from the Departments concerned.

4.7 Analysis of the mechanism for dealing with the issues raised by the C&AG of India

To analyse the system of addressing the issues highlighted in the IRs and Audit Reports by the Departments and Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 4.7.1 to 4.7.3 discuss the performance of the Excise Department under revenue head '0039' and cases detected in the course of local audit during the last 10 years and also the cases included in the Audit Reports for the years 2005-06 to 2014-15.

4.7.1 Position of Inspection Reports

The summarised position of the IRs issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2016 are tabulated in **Table 4.10**.

Table 4.10 - Position of Inspection Reports

(in crore)

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
2006-07	25	54	6.04	2	3	0.03	2	5	Nil	25	52	6.07
2007-08	25	52	6.07	5	10	Nil	3	4	Nil	27	58	6.07
2008-09	27	58	6.07	5	6	0.21	4	7	0.25	28	57	6.03
2009-10	28	57	6.03	2	3	0.16	6	8	0.21	24	52	5.98
2010-11	24	52	5.98	1	2	0.09	1	8	Nil	24	46	6.07
2011-12	24	46	6.07	7	21	132.78	10	20	3.27	21	47	135.58
2012-13	21	47	135.58	6	11	0.41	1	4	0.56	26	54	135.43
2013-14	26	54	135.43	8	23	0.72	Nil	3	0.02	34	74	136.13
2014-15	34	74	136.13	Nil	Nil	Nil	1	3	0.02	33	71	136.11
2015-16	33	71	136.11	3	10	0.82	Nil	Nil	Nil	36	81	136.93

(Source: As per data maintained in the office of the AG (E&RSA), Tamil Nadu)

As against 25 IRs involving 54 paragraphs which were pending at the beginning of 2006-07, the number at the end of 2015-16 had increased to 36 IRs involving 81 paragraphs. This indicates that response to the local audit reports was poor and adequate steps need to be taken by the department to clear the outstanding IRs and paragraphs.

4.7.2 Recovery in respect of accepted cases

During the last 10 years, five draft paragraphs, including two Performance Audits involving ₹ 106.30 crore were included in the Revenue Receipts Chapter of the Report of the Comptroller and Auditor General of India, UT

Government. The Department accepted audit observations involving ₹ 5.09 crore and recovered ₹ 1.92 crore.

4.7.3 Action taken on the recommendations accepted by the Department/Government

The draft Performance Audits (PAs) are forwarded to the concerned Department / Government for their information with a request to furnish their replies. These PAs reviews are also discussed in exit conference. The views of the Departments / Government are considered while finalising PAs for inclusion in the Audit Reports.

Two Performance Audits, viz., “Receipts from state excise” and “Functioning of State Excise Department of the UT of Puducherry” were included in the Reports of the Comptroller and Auditor General of India for the year ended 31 March 2009 and 31 March 2015 respectively. The following recommendations were accepted by the Government relating to:

- incorporating provisions in the Act for levy of penalty for non-lifting of minimum guaranteed quantity of arrack;
- collection of security deposit equal to 12 months’ *kist*¹;
- framing a suitable provision in the Act for levy of interest on belated payment of dues of excise duty; and
- fixing a time limit for periodical revision of licence fee in the Act.

We, however, observed that necessary amendments to the Pondicherry Excise Act and Rules were awaited.

4.8 Audit planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations, nature/volume of transactions, etc. The annual audit plan is prepared on the basis of risk analysis which, *inter-alia*, includes statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during the past five years, etc.

¹ *Kist* is an instalment

During the year 2015-16, the audit universe comprised 33 auditable units. Fourteen units were planned and audited during the year 2015-16, *i.e.*, 42.42 *per cent* of the total auditable units.

4.9 Results of audit

Test check of the records of sales tax/value added tax, state excise, stamp duty and registration fees and taxes on vehicles conducted during the year 2015-16 revealed under-assessment/short levy / loss of revenue amounting to ` 50.08 crore in 100 cases. During the course of the year, the Department accepted and recovered under-assessments and other deficiencies in 13 cases involving ` 92.79 lakh. Out of this, four cases involving ` 17.08 lakh were pointed out in 2015-16 and the rest in earlier years.

4.10 Coverage of this Chapter

This Chapter contains a Performance Audit relating to “System of assessment under Value Added Tax in the Union Territory of Puducherry” and one paragraph on Stamp Duty and Registration Fee involving money value of ` 47.33 crore. The Department / Government accepted audit observations, involving ` 4.47 crore, of which, ` 1.26 crore had been recovered by the Department.

COMMERCIAL TAXES DEPARTMENT

4.11 Performance Audit on System of Assessment under Value Added Tax in the Union Territory of Puducherry

Highlights

Non-adherence to the instructions regarding random scrutiny of tax returns and utilisation of details contained in MIS reports resulted in non-levy of purchase tax of ` 1.34 crore and irregularities in claim of input tax credit of ` 1.52 crore.

(Paragraphs 4.11.9.1 to 4.11.9.3)

System of assessment requires strengthening as large number of cases selected for detailed assessment was pending finalisation.

(Paragraph 4.11.10)

Failure of the assessing authorities to apply correct rate of tax and effect reversal of input tax credit, while finalising the detailed assessments resulted in under-assessment of tax of ` 1.65 crore.

(Paragraphs 4.11.10.1 and 4.11.10.2)

Lack of coordination with other Departments to gather information and use of same in assessment process hampered the revenue augmentation measures of the Commercial Taxes Department.

(Paragraphs 4.11.12.1 and 4.11.12.2)

Huge pendency in finalisation of detailed assessment, absence of VAT manual and non-conduct of internal audit was indicative of weak internal control and monitoring system.

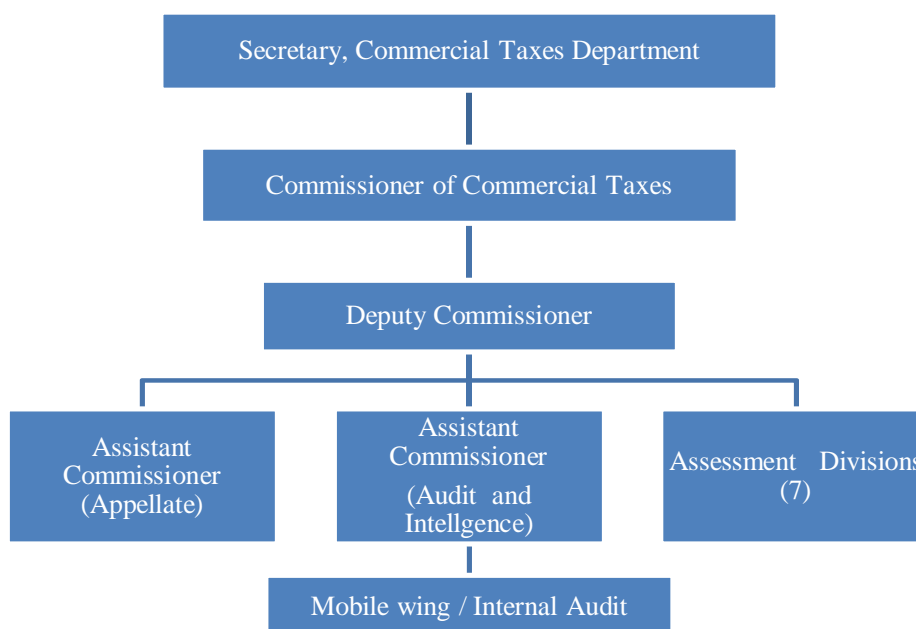
(Paragraph 4.11.14)

4.11.1 Introduction

The Union Territory Government of Puducherry had introduced Value Added Tax (VAT) with effect from 1 July 2007. The Puducherry Value Added Tax Act, 2007 (PVAT Act) and the Puducherry Value Added Tax Rules, 2007 (PVAT Rules) framed thereunder govern the assessment and collection of VAT in the UT. VAT is a multi-stage tax levied at each stage of value addition with provision to allow credit for tax paid on earlier purchases. VAT is administered in Puducherry by the Commercial Taxes Department (CTD) and it contributes almost two-thirds of the own tax revenue of the Puducherry Government.

4.11.2 Organisational setup

The Commissioner of Commercial Taxes (CCT) is the Head of CTD and is assisted by a Deputy Commissioner and two Assistant Commissioners. There are seven assessment divisions in CTD, viz., four assessment divisions in Puducherry region and one each in the outlying regions of Karaikal, Mahe and Yanam. The Commercial Tax Officers (CTOs), Deputy Commercial Tax Officers (DCTOs) and Assistant Commercial Tax Officers (ACTOs) are the Assessing Authorities (AA) responsible for the levy and collection of tax and arrears thereof in the respective assessment divisions. Besides, there is a 'Mobile Wing' formed for the purpose of conducting surprise inspections and unearthing sales suppression and evasion of taxes. The monitoring and control at the Government level is exercised by the Secretary, Commercial Taxes Department. The organisational set up of the department is shown as under:



4.11.3 System of Assessment

The word “assessment” in the context of indirect or direct tax enactments means quantification of tax liability. The word “assessment” also includes the whole procedure laid down for imposing the liability on taxpayers. Hence, assessment comprises of the provisions relating to the subject matter of taxation, rate of tax, basis of quantum of tax, the exemptions to be given and the authorities for enforcing tax liability.

4.11.4 Audit objectives

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

- the statutory provisions regarding system of assessment were complied with and the extent of their compliance;
- effective coordination existed between assessment divisions and other wings of the Department, including use of the reports/information for assessment;
- information technology was effectively used in system of assessment to plug leakage and augment revenue; and;
- sound internal control mechanism existed to monitor assessment activities.

4.11.5 Audit criteria

The audit criteria were derived from the following.

- Puducherry Value Added Tax Act, 2007 (PVAT Act).
- Puducherry Value Added Tax Rules, 2007 (PVAT Rules).
- Orders and Notifications issued by the Government.

4.11.6 Scope and methodology

The Performance Audit was conducted from March to August 2016, covering the transactions pertaining to the period from 2010-11 to 2014-15. The assessment activity carried out by the Department upto March 2016 was also taken up for audit, irrespective of the assessment year. The PA was conducted in all the seven² assessment divisions of the CTD. The audit observations relating to earlier periods, wherever considered necessary, have also been included in the report.

An entry conference was held in March 2016 during which the Department was apprised of the objectives, scope and methodology of audit. The draft Performance Audit report was forwarded to the Government in August 2016 and was discussed in the Exit conference held in November 2016. The views expressed by the Government and the Department during the Exit Conference and replies furnished by the Department have been taken into account and incorporated in the relevant paragraphs of the report.

² Puducherry I, II, Industrial Assessment Circle (IAC), Intelligence Wing (IW), Karaikal, Mahe and Yanam

4.11.7 Acknowledgment

The Indian Audit and Accounts Department acknowledges the co-operation of the Commercial Taxes Department in providing the necessary information and records to us.

4.11.8 Trend of Revenue

The details of revenue collected by CTD during the years 2010-11 to 2014-15 along with the total tax receipts of the UT are given in the following **Table 4.11**.

Table 4.11- Trend of revenue

(` in crore)

Year	Budget estimates	Actual receipts	Variation Shortfall (-)	Percentage of variation (Col.4 to 2)	Total tax receipts of the UT	Percentage of actual receipts vis-à-vis total tax receipts (Col.3 to 6)
1	2	3	4	5	6	7
2010-11	*680.78	*595.00	(-) 85.78	(-) 12.60	1,074.47	55.38
2011-12	1,481.83	1,008.28	(-) 473.55	(-) 31.96	1,329.43	75.84
2012-13	1,395.61	1,287.10	(-) 108.51	(-) 7.78	1,917.22	67.13
2013-14	1,505.00	1,256.72	(-) 248.28	(-) 16.50	1,904.51	65.99
2014-15	1,380.00	1,313.13	(-) 66.87	(-) 4.85	1,992.74	65.90

*Does not include central sales tax

The above table indicates that though the tax receipts of CTD had registered an increasing trend over the five year period except for a shortfall in 2013-14, the share of the same vis-à-vis the total tax receipts of the UT, which was as high as 76 per cent during 2011-12 had come down to 66 per cent during 2014-15. There was shortfall in collection during the years 2010-11 to 2014-15, when compared to budget estimates of the respective years.

Audit Findings

4.11.9 Scrutiny of returns

The white paper on State level VAT by the Empowered Committee of State Finance Ministers envisaged cent *per cent* scrutiny of returns to detect mistakes and recover short payment of taxes, if any, from the dealers. The PVAT Act, however, does not prescribe the procedure, extent and time limit for completion of scrutiny of returns. Moreover, the Department had also not framed its Manual prescribing the procedures to be followed by the AAs on receipt of monthly returns filed by the dealers. Besides, the CCT also had not issued any instructions regarding the quantum of scrutiny of returns to be undertaken by the AAs.

On being asked by us, the Department stated that introduction of online filing of returns had obviated the need for filing of physical copy of the return and the correctness of tax payable, amount of carry forward of Input Tax Credit (ITC) and provision for automatic levy of compounding fee and penalty for belated filing of return was being ensured through the computer system. The Department further stated that instructions were issued to the AAs in May 2015 to make use of the ITC Module/MIS provided in PVAT software to cross verify the ITC claims of dealers.

We, however, had observed that the software application was merely ensuring the arithmetical accuracy based on the details available in the tax returns. However, adherence to the provisions of the Act/Rules regarding claims/availing of ITC cannot be automatically ensured by the computer system as the same has to be ascertained on the basis of an analysis of the details mentioned in the Annexure to the tax returns by way of proper scrutiny by the departmental authorities.

As a result of audit analysis of the details furnished in the returns submitted by the dealers, we noticed various instances of ITC claims filed after the expiry of the prescribed time period, claim of ITC in respect of purchases effected from dealers whose registration certificates (RCs) were cancelled and non-levy of purchase tax. These lapses have been discussed in the following paragraphs.

4.11.9.1 Honouring ITC claims after expiry of stipulated time period

As per Rule 17 (12) of PVAT Rules, if a registered dealer fails to claim ITC in respect of any transaction of taxable purchase in any month, he shall make the claim before the end of the financial year or before ninety days from the date of purchase, whichever is later.

Audit analysis of the CTD database provided by National Informatics Centre (NIC), Puducherry revealed that 216 dealers of five³ assessment divisions had claimed ITC after the stipulated time period in respect of purchases made from registered dealers, during the years 2013-14 and 2014-15. The period of delay ranged between five months and 38 months. Such incorrect claim of ITC amounted to ` 60.27 lakh.

After we pointed this out in June 2016, the Department recovered ` 2.93 lakh in 42 cases. The Department replied (November 2016) that in respect of 90 dealers, verification of invoices had revealed that the claim of ` 10.42 lakh was made within the stipulated time period and the discrepancy was due to error in entering invoice dates. Reply in respect of the remaining cases was awaited (November 2016).

³ Puducherry I, II, Industrial Assessment Circle, Intelligence Wing and Karaikal

4.11.9.2 Availing of ITC in respect of purchases effected from dealers whose Registration Certificates (RC) were cancelled

As per Rule 17 (18) of PVAT Rules, where a registered dealer has purchased any taxable goods from another dealer and has availed ITC in respect of the said goods and if the RC of the selling dealer is cancelled by an appropriate registering authority, such registered dealer, who has availed ITC, shall pay the amount availed as ITC to Government with effect from the date from which the order of cancellation of RC takes effect.

We examined the database of CTD provided by NIC, Puducherry and observed that 328 dealers of five⁴ assessment divisions had availed ITC in respect of purchase of goods made from dealers whose RCs were cancelled during the years 2013-14 and 2014-15. The ITC of ` 1.49 crore availed by the dealers was, however, not paid by them. We observed that though the relevant information regarding cancellation of RCs of the dealers was available in the database of CTD, but the scrutiny of returns filed by the dealers were not made by the AAs, due to which, the claim of ITC in respect of purchase of goods made from RC cancelled dealers could not be identified by the Department and thus, the same was not demanded by the AAs.

Thus, we noticed that there were system deficiencies due to which the AAs could not check the cancellation of RCs of the dealers from whom the purchases had been made. Such system lapses indicated availment of ITC which was not due to the claimants, which had taken place due to not linking the data available in the data base of the CTD.

After we pointed this out in May 2016, the Department stated (November 2016) that out of ` 1.02 crore which was actually recoverable from 263 dealers, ` 4.48 lakh had been recovered. The Department stated that claim of ` 47.08 lakh was in order as the purchasing dealers had erroneously mentioned the old Taxpayers Identification Number (TIN) pertaining to cancelled RC of the selling dealers, though new TIN had been obtained by the selling dealers due to reasons of change in status of business, style of business, etc. Reply of the Department regarding recovery of remaining amount was awaited (November 2016).

4.11.9.3 Non levy of Purchase Tax

As per entry 1 of Part B of Second Schedule to the PVAT Act, old and beaten gold or silver jewellery are taxable at the rate of one *per cent* at the point of last purchase.

⁴ Puducherry I, II, Industrial Assessment Circle, Intelligence Wing and Karaikal

During test check of records in three⁵ divisions, we noticed that four assesses had purchased old gold and silver from the customers for ₹ 134.25 crore during the years 2009-10 to 2014-15. The dealers reported this turnover in their tax returns but had not paid tax on purchase value even though they were liable to pay tax at last purchase point amounting to ₹ 1.34 crore.

After we pointed this out (between February 2014 and May 2016), the AA, Karaikal division recovered purchase tax of ₹ 0.20 lakh in one case. The AAs of Intelligence Wing and Mahe divisions stated that as the assesses had not availed ITC on purchase of old gold, the concept of purchase tax was not applicable.

The reply of the AAs was not tenable as levy of tax at the point of last purchase of old gold and silver is mandatory under the provisions of the PVAT Act and the subsequent non-availing of ITC by the assesses cannot be cited as a reason for the earlier omission on the part of the AAs to levy tax at the point of last purchase of old gold and silver. During Exit Conference, the Additional Secretary to Government stated that AAs were instructed to check randomly the returns submitted by the dealers so that every dealer is covered annually. He further stated (November 2016) that MIS reports covering all categories of discrepancies in the returns are generated on quarterly basis and these are forwarded to the AAs for further verification. Thus, this process ensures the purpose of scrutiny of returns in a systematic and comprehensive manner.

The reply was not acceptable as AAs had not adhered to the instructions regarding random scrutiny of returns and use of ITC module/MIS reports. Thus, there were cases of incorrect claim of ITC and claim of ITC in respect of purchases made from dealers, whose RCs were cancelled. The audit observations also indicate that MIS reports stated to be generated by use of IT were not effectively used by the AAs, thereby resulting in failure to unearth leakage of revenue.

We, therefore, recommend that the monitoring system should be strengthened to ensure effective utilisation of the details contained in the ITC module/MIS reports so as to prevent leakage and thereby augment revenue.

4.11.10 Detailed assessment under PVAT Act

As per Section 24(2) of the PVAT Act, the returns submitted by the dealer along with tax due thereon shall be accepted as self-assessed and the AA may select, either at his discretion or as directed by the Commissioner, any dealer for detailed assessment by scrutiny of accounts.

⁵ Intelligence Wing, Karaikal and Mahe

In terms of Section 24(5) of the PVAT Act, no assessment shall be made after a period of three years from the end of the year to which return relates. Delay in selection of cases for scrutiny/completion of assessment would result in cases becoming time barred and the cases escaping scrutiny. The CCT had adopted “Business Intelligent Software” for selection of cases for detailed assessment on the basis of quantum of tax paid and ITC availed.

Information regarding cases selected for detailed scrutiny by the Commissioner, number of cases in respect of which assessments were made and the number of assessments which were pending finalisation as of 31 March 2016 are given in the following **Table 4.12**.

Table 4.12 – Scrutiny of assessments

Stage of selection of scrutiny by CCT	Assessment year	Number of registered dealers	Date of selection	Number of cases selected for scrutiny	Number of cases in respect of which assessments were made	Pending finalisation as on 31 March 2016	Percentage of completion
Stage I	2008-09	9,511	28.10.2009	4,663	1,608	3,055	34.48
Stage II	2011-12	10,436	03.07.2013	4,525	1,534	2,991	33.90
Stage III	2012-13	11,329	2013-14	5,933	1,074	4,859	18.10
Stage IV	2013-14	12,176	2014-15	6,082	955	5,127	15.70
Total				21,203	5,171	16,032	24.39

(Source: Details furnished by the Department)

We observed as under:

- Cases relating to assessment years 2009-10 and 2010-11 had not been selected for detailed assessment by the CCT.
- Out of 21,203 cases selected for detailed assessment, scrutiny was completed only in respect of 5,171 cases as of 31 March 2016 (24.39 per cent). Though only one post of CTO was vacant in Karaikal during the period from March 2011 to October 2014, there was huge pendency in assessment of cases.

After we pointed this out, the CCT stated (October 2016) that 4,506 dealers (out of 12,475 dealers) were selected for the year 2014-15 for detailed scrutiny during May 2016 and the AAs were instructed to take into account the details of previous years also for scrutiny, wherever there was implication for additional revenue and this takes care of the assessments

pertaining to the years 2009-10 and 2010-11. The Department stated that notices calling for production of accounts have been issued in all cases and thus, these cases were not time barred. However, reasons for not having finalised the cases after issue of notices were awaited.

Thus, the collection of taxes was adversely hampered by the delay in finalisation of assessments by the AAs. The department, however, had not devised any action plan for fixation of targets in terms of number of cases for each AA and time period within which pending cases should be disposed.

We recommend that the Government may strengthen the system of detailed assessments by fixing a prescribed time period for finalisation of assessments and ensuring adherence to the same by the AAs by putting in place a proper monitoring system.

Deficiencies noticed in detailed assessment cases

4.11.10.1 Application of incorrect rate of tax

As per Section 14(1) of the PVAT Act, a registered dealer whose total turnover for a year exceeds ` five lakh, shall pay tax on the taxable turnover in each tax period at the rate and at the point as specified in the Schedules.

Electrical and electronic home appliances were taxable at the rate of eight *per cent* with effect from 27 February 2009. The rate was increased to 10 *per cent* with effect from 1 January 2012. Hardware items were taxable at 10 *per cent* with effect from 1 January 2012 and at eight *per cent* with effect from 1 August 2013. The goods not specified elsewhere in any of the Schedules were taxable under Part A of the Fourth Schedule, the rate of tax being 12.5 *per cent* upto 31 December 2011 and 14.5 *per cent* thereafter.

During test check of records in three⁶ divisions, we noticed that while finalising the assessment of six dealers relating to the assessment years 2009-10 to 2013-14, the AAs had levied tax at incorrect rates on sale of electrical home appliances, gas, old machinery and hardware items. This had resulted in short levy of tax of ` 9.65 lakh as mentioned in the following **Table 4.13**.

⁶ Puducherry I, Industrial Assessment Circle and Mahe

Table 4.13 – Application of incorrect rate of tax

(` in lakh)

Name of the assessment circle	Assessment year	Commodity	Turn-over	Rate of tax		Short levy of tax
				Applicable	Applied	
				(in per cent)		
Puducherry I	2009-10	Electrical home appliances	24.14	8	4	0.97
Puducherry I	2012-13 2013-14	Hardware	28.68	10 8	5	1.27
IAC Puducherry	2013-14	Old machinery	60.16	5	2	1.20
Mahe	2011-12 2013-14	Home appliances & Electrical appliances	13.62	8 10	4 6 5	0.41
Mahe	2009-10 2010-11 2011-12	Electrical and Electronic Home appliances	35.15	8	6	0.70
Puducherry I	2011-12 2012-13	Chlorofluoro-carbon gas (CFC)	20.98 34.87	12.5 14.5	4 5	5.10

After we pointed this out, the AAs revised the assessments in five cases and collected ` 4.19 lakh. The appeal filed by a dealer before the appellate authority was stated to be pending. The AA, Puducherry-I Assessment Circle stated that CFC falls under serial 35 of the Appendix relating to industrial inputs and therefore correctly assessed to tax.

The reply was not tenable as the said entry at serial 35 relates to Carbon only (carbon blacks and other forms of carbon not elsewhere specified or included). The CFC is an organic compound that contains carbon, chlorine and fluorine and produced as a volatile derivative of methane, ethane and propane. The CFC is used as refrigerant gas in air conditioning units, freezers etc. Hence, applying tax at the rate of five *per cent* for whole CFC compound was not justified for the reason that only the element carbon alone falls under industrial inputs.

4.11.10.2 Non-reversal of ITC

As per Proviso (ii) to Section 16 (1) of PVAT Act and Rule 17 (5) of PVAT Rules, ITC shall be allowed on tax paid or payable in the UT on purchase of goods, in excess of the rate prevailing under the Central Sales Tax Act, 1956 (CST Act) to such purchases for transfer to a place outside the UT otherwise than by way of sale or for use in manufacture of other goods and transfer to a place outside the UT otherwise than by way of sale. If a dealer has already availed ITC, there shall be a reversal of credit against such transfer. As per Rule 17 (14), no ITC shall be claimed or be allowed to a registered dealer on the tax paid on purchase of goods sold in interstate trade and commerce falling under sub-section (2) of Section 8 of CST Act.

During scrutiny of records in three⁷ divisions, we noticed that the assessments of 19 dealers (in respect of 6,650 cases examined during audit) finalised under the CST Act between April 2013 and January 2016 involved levy of tax in respect of interstate sale of goods without declarations in Form-C and allowance of exemption in respect of stock transfer of goods to other States. As ITC is not eligible for interstate sale of goods not covered by declarations in Form-C and ITC in excess of the rate prevailing under the CST Act is allowable for stock transfer of goods, reversal of ITC already availed by the dealers was required to be made. The AAs, while finalising between April 2013 and January 2016, the assessments of dealers relating to the years 2007-08 to 2013-14 under the PVAT Act, however, had failed to consider CST assessment of the dealers finalized by them and consequently failed to effect reversal of ITC of ` 1.77 crore in respect of interstate sales not covered by declaration forms and stock transfer of goods to other States.

After we pointed this out between March 2015 and July 2016, the Department replied (November 2016) that actual amount reversible was ` 1.56 crore, of which ` 1.51 crore was raised by revision of assessment. The Department had recovered ` 63.78 lakh as of November 2016. In respect of three cases involving ` 4.62 lakh, notices had been issued. Further report about recovery of balance amount and revision of assessment in the remaining cases was awaited (November 2016).

4.11.11 Coordination between various wings of the department and utilisation of reports in assessment

4.11.11.1 Delay in implementation of Shop Inspection proposals

As per Section 55 (2) of the PVAT Act, all accounts, registers, records and other documents maintained by a dealer in the course of his business, the goods in his possession and his offices, shops, godowns, vessels or vehicles shall be open to inspection at all reasonable times by any officer empowered by the Commissioner in this behalf.

The shop inspection is conducted as per Section 55 (1) of the PVAT Act by an officer not below the rank of ACTO, who is empowered to inspect at all reasonable time the accounts, registers, record and other documents maintained by the dealer in the course of his business, the goods in his possession and his offices, shops, godowns, vessels.

The details furnished to Audit indicated that in seven divisions during 2010-11 to 2014-15, shop inspection was conducted in respect of 290 dealers, involving tax and penalty of ` 20.22 crore. An amount of ` 4.32 crore was recovered as a result of reassessment from 258 dealers and the balance amount of ` 15.90 crore was yet to be recovered from 32 dealers as indicated in the following **Table 4.14**.

⁷ Puducherry I, Industrial Assessment Circle and Karaikal

Table 4.14 – Details of shop inspection

(` in lakh)

Year	Total Number of dealers	Shop inspections conducted		Cases finalised		Pending cases	
		Number	Amount	Number	Amount recovered	Number	Amount involved
2010-11	10,434	16	16.84	16	16.84	Nil	Nil
2011-12	10,436	26	48.97	25	48.97	1	*
2012-13	11,329	74	77.04	72	63.02	2	14.02
2013-14	12,176	72	1,594.57	55	162.52	17	1,432.05
2014-15	12,475	102	284.09	90	140.23	12	143.86
Total		290	2,021.51	258	431.58	32	1,589.93

* Amount not finalised by IW Division.

(Source: Details furnished by the Department)

Audit scrutiny of 32 shop inspection files revealed the following:

- Seven shop inspection files pertaining to IW division in which the amount of tax was not quantified were not produced for audit. After we pointed this out, the Department stated (November 2016) that the files had since been traced out and scrutiny of records in three cases did not reveal evasion of tax. The Department further stated that while ` 0.61 lakh was collected in two cases, notices involving reversal of ITC and levy of tax and penalty of ` 10.83 lakh were issued by the AAs in two cases. Further report was awaited (November 2016).
- Shop inspection of a dealer in timber pertaining to Karaikal division was conducted by Intelligence Wing division during January 2014. However, the report of such inspection was not issued to Karaikal division. Therefore, even after a lapse of more than two years since inspection, no action was taken in Karaikal division to recover the amount of tax and penalty of ` 26.16 lakh involved therein. After we pointed out this, the Department stated (November 2016) that the report was issued to Karaikal division in October 2016. Further report regarding recovery was awaited (November 2016).
- Eleven cases were covered by appeals filed by the dealers before the Appellate Assistant Commissioner (CT)/ Sales Tax Appellate Tribunal, while one dealer had filed a writ petition in the High Court of Madras.
- Shop inspection of a dealer pertaining to IAC division was conducted by the inspection party of Division II, Puducherry in February 2013. Though the inspection was carried out in February 2013, the file was transmitted to the Deputy Commissioner (CT) for

onward transmission to AA of IAC division only on the last day of December 2015. The amount involved therein, therefore, remained uncollected.

- Shop inspection of a dealer was conducted by officials attached to Division II, Puducherry during August 2014 and a notice involving tax and penalty of ` 28.27 lakh was issued to the dealer on 21 November 2014. The file was, however, transmitted to AA of IAC division only in September 2015. Though the case was finalised in October 2016, the demand was pending for recovery even after a lapse of more than two years since the conduct of inspection.
- We noticed in one case that though the notice was issued to the dealer in August 2013, action had not been initiated under the RR Act for recovery of unpaid penalty amount of ` 2.43 lakh. After we pointed this out, the Department stated (November 2016) that considering the poor health condition of the dealer, coercive action under RR Act had not been initiated and the amount was being recovered in instalments from the heir of the dealer, the first instalment of ` 40,000 having been realised in September 2016.

Thus, the delay in finalisation of shop inspection cases adversely hampered the realisation of revenue as recovery of the additional demand becomes a remote possibility with the passage of time.

As such, we recommend the department to issue instructions prescribing specific time period for finalisation of shop inspection cases and ensure adherence to such time period, so as to ensure early realisation of revenue.

4.11.11.2 *Audit report in Form CC*

As per Section 54 of the PVAT Act and Rule 52 of PVAT Rules, every registered dealer whose total turnover in a year exceeds ` 50 lakh, shall get his accounts audited by Chartered Accountants or Cost Accountants and shall submit a copy of the audited statement of accounts and certificate in Form CC to the AA on or before 30th September of the year succeeding to which it relates. The dealers are required to furnish the details of local purchases in Annexure I of the Certificate. The receipt of Form CC along with Annexure-I would enable the department to ensure correctness of ITC claimed by the dealer.

While drawing attention of the Department to the increase in percentage of non-filers of Form CC, a mention was made in Para 4.9.6.4 of the Performance Audit on “Implementation of Value Added Tax in Union Territory of Puducherry” included in the Report of the Comptroller and Auditor General of India for the year ended March 2013, about the failure of the department to invoke penal provisions of the Act/Rules against the

dealers, who had failed to file the certificates to act as effective deterrent against such non-filing of certificates.

The details of non-filers of Form CC during the years 2010-11 to 2014-15 are given in the following **Table 4.15**.

Table 4.15 – Filing of Form CC

Year	Eligible dealers required to file Form CC	Dealers who have filed Form CC	Dealers who have not filed Form CC	Percentage of non-filers
2010-11	3,288	1,650	1,638	49.81
2011-12	3,718	1,852	1,866	50.19
2012-13	3,860	1,780	2,080	53.88
2013-14	4,038	1,704	2,334	57.80
2014-15	3,200	917	2,283	71.34

The above table indicates that the position regarding filing of audit certificate in Form CC had not improved and 71 *per cent* of the dealers had not filed the certificate relating to the year 2014-15. We observed that the department had levied a meagre amount ranging from ` 50 to ` 1,000 as penalty for failure of dealers to file Form CC within the prescribed time period though Section 62 of the PVAT Act provides for levy of penalty of maximum amount of ` 5,000 for offences committed under the Act. The action to levy penalty for belated submission did not take into account the period of delay and the turnover of the dealer.

The assessment of tax under VAT system being based on self assessed returns filed by the dealers, the requirement for filing of Form CC by dealers whose turnover in a year is in excess of ` 50 lakh is a means of ensuring the correctness of the turnover declared by the dealers as the certificate in Form-CC is based on the audited accounts of the dealer. The failure of the dealers to comply with the statutory provisions of filing of Form CC, therefore, deprives the Department of a means of ensuring the correctness of turnover of the dealer, unless the assessment of the dealer is selected for detailed check of accounts.

Thus, in the absence of a specific provision in the PVAT Act or Rules for levy of fixed amount of penalty in respect of non-filing of Form CC, varying amounts levied by the AAs at their discretion has not acted as an effective deterrent against non-adherence by the dealers in this regard.

We recommend that the quantum of penalty should be fixed taking into account the period of delay in submission of Form CC and also the turnover of the dealer, in order to act as an effective deterrent to erring dealers.

During Exit Conference, the Additional Secretary to Government stated that instructions had since been issued at our instance prescribing the

compounding fees to be collected by the AAs for delay in filing of Form CC by the dealers, the amount ranging from ₹ 1,000 to a maximum of ₹ 5,000 in cases of delay of more than one year in filing of Form CC. The CCT further stated that modifications were made (26 September 2016) in the PVAT software to eliminate any discretion and to ensure collection of stipulated compounded fee for delayed filing of Form CC.

Non-utilisation of information contained in Form CC

We examined 657 Form CCs and found that the AAs of Puducherry I division and IAC division had failed to utilise the information available in the audit certificate in Form CC to initiate action for reversal of ITC of ₹ 42.79 lakh in eight cases.

After we pointed this out (between March 2015 and May 2016), the AAs recovered ₹ 37.18 lakh from the dealers and in one case, the short reversal of ₹ 5.51 lakh was rectified while passing assessment order.

Thus, the failure of AAs to make use of the information regarding details of purchases/sales and claim of ITC contained in the audit certificate in Form CC defeated the very purpose for which it was intended to be filed by the dealers.

As such, the Government may take remedial measures for ensuring utilisation by the AAs of the information contained in the audit certificate in Form CC.

4.11.12 Coordination with other Departments

Database analysis helps in identifying areas of evasion of tax. Third party data verification helps in arresting leakage of revenue. One such information is the data which can be collected from the Customs department to ensure proper accounting of imports by the dealers and thereby guard against leakage of revenue. As separate check posts have not been set up in the UT, access to check post records of adjoining State would facilitate the monitoring of movement of goods into and from the UT. Cross verification with the database of CTD of other States would also help in arresting loss of revenue to the UT.

4.11.12.1 Data relating to import of goods from Customs department

We observed that the CTD of Puducherry did not follow the practice of obtaining data from Customs Department to ascertain the details of imports made by the dealers situated in the UT and compare the same with the amount of imports declared by the dealers in the monthly returns and in the audit certificate in Form CC.

The Department replied that details of imports made by dealers of IAC division during the financial years 2013-14 to 2015-16 were obtained from

the customs authorities at Chennai and Tuticorin Port for the purpose of cross verification. The Department further stated that in respect of other divisions, the customs authorities have been requested in this regard and their reply was awaited (November 2016).

Non/short reporting of imports by dealers

We cross verified the details of imports made by the dealers of Puducherry during the year 2013-14 with the CTD database by NIC, Puducherry. Such cross verification of records revealed the following:

- Twenty seven dealers of four⁸ assessment divisions, who had imported goods valued at ` 71.88 crore had not reported the same in their monthly returns filed by them with CTD. This included import of goods valued at ` 8.43 crore by two dealers of Karaikal division, whose RCs were cancelled.

After we pointed this out, the Department stated (November 2016) that scrutiny of records produced by five dealers subsequent to issue of notice revealed that there was no suppression of import purchases. Reply of the Department in respect of the remaining cases was awaited (November 2016).

- Twenty seven dealers of five⁹ assessment divisions had imported goods valued at ` 1,007.45 crore during 2013-14. The value of imports declared by the dealers in the monthly returns filed by them with CTD was, however, ` 666.31 crore. Thus, there was short reporting of imports of ` 341.14 crore by the dealers. This included the short reporting of import of ` 86.07 crore by two deregistered dealers.

After we pointed this out, the Department stated (November 2016) that scrutiny of records produced by 15 dealers subsequent to issue of notice revealed that there was no suppression of import purchases. The Department revised the assessment in two cases (November 2016) and raised additional demand of tax of ` 16.20 lakh; the collection particulars of which was awaited (November 2016). Reply of the Department in respect of the remaining cases was awaited (November 2016).

Thus, the failure to obtain customs data deprived the Department from undertaking cross verification of imports with reference to the purchases reported by the dealers in the returns filed by them with CTD.

We recommend the Department to obtain the details of imports from the Customs department and cross verify the same with the monthly returns

⁸ Puducherry I, II, Industrial Assessment Circle and Karaikal

⁹ Puducherry I, II, Industrial Assessment Circle, Karaikal and Mahe

filed by the dealers with CTD to ensure the correctness of reporting of import purchases by the dealers.

During Exit Conference, the Additional Secretary to Government stated that Memorandum of Understanding was being signed between CTD and Central Board of Excise and Customs, Ministry of Finance, GOI for mutual sharing of data and if the system of sharing of data was put in place, the process of cross verification of import purchases with reference to the purchase reported by the dealer would be carried out in a regular manner.

4.11.12.2 *Incorrect availing of concessional rate of tax by compounding dealers*

As per Section 19(1) of PVAT Act, any dealer who effects second and subsequent sales of goods purchased within the UT and whose total turnover under this Act and under the CST Act does not exceed ` 50 lakh in a year, may at his option, pay by way of composition, tax at the rate of 0.5 *per cent* of his taxable turnover.

We cross-verified the data base of CTD, Puducherry with the CTD database of Tamil Nadu and observed that 105 dealers, who were paying tax under compounding rate as per Section 19(1) of PVAT Act, were found to have made interstate purchases from dealers in Tamil Nadu during the year 2014-15. The dealers, who had made interstate purchases, were not eligible for payment of tax at compounded rate. The Department, however, did not devise a mechanism to ensure due adherence to the provisions of the Act by the dealers who had opted to pay tax at compounded rate. Thus, dealers who made interstate purchases also were allowed to pay tax at the compounded rate of 0.5 *per cent* on their taxable turnover, instead of tax being collected at the schedule rates applicable to the commodities dealt with by them. This resulted in short payment of tax of ` 80.38 lakh.

After we pointed this out to the Department in July 2016, the CCT stated (November 2016) that all the 105 dealers were taken away from the composition scheme and ` 8.07 lakh was recovered from 14 dealers. Recovery of the balance amount in the remaining cases was awaited (November 2016).

Thus, the failure of the Department to obtain data from other Departments/agencies and to undertake cross verification of the same with the details furnished by the dealers in the monthly returns resulted in their failure to identify cases of misuse of the provisions of payment of tax at concessional rate by ineligible dealers.

We recommend that the data may be obtained from other Departments/agencies and the details contained therein may be cross verified with the returns filed by the dealers with CTD to optimise the collection of revenue.

4.11.13 Other points of interest

Application of reduced rate of tax to industrial inputs

Section 75 of the PVAT Act empowers the Government to alter, add or cancel any of the schedules by issue of notification. A bill to give effect to the notification shall be placed on behalf of the Government during the next session of the Legislative Assembly following the date of issue of notification, to seek the approval of the Assembly to the proposed amendment.

Section 31 of the PVAT Act, however, empowers the Government to notify reduction of tax in respect of any goods. Such delegated powers shall not be used where a notification seeks to amend the Schedules of the Act.

The Act passed by the Legislature specifically classified 166 items as industrial inputs and packing materials, which were taxable at the rate of four *per cent* upto 31 December 2011 and five *per cent* thereafter. By issue of Notification (July 2007), the rate of tax on sale of industrial inputs and packing material was reduced from four *per cent* to one *per cent*.

Government subsequently issued a Notification (September 2007) under Section 31 of the Act to the effect that all industrial inputs were taxable at one *per cent*. The rate was increased to three *per cent* with effect from 1 January 2012 by issue of another Notification in December 2011.

A mention was made in Paragraph 4.9.6.8 of the Performance Audit on “Implementation of Value Added Tax in Union Territory of Puducherry” included in the Report of the Comptroller and Auditor General of India for the year ended March 2013 regarding improper action of the Government to include items which did not find a place in the Appendix as industrial inputs by issue of Notification under the delegated powers of Section 31 of the PVAT Act.

The Department had stated during exit conference (August 2013) that since the intention of Government was to allow reduced rate of tax in respect of all industrial inputs, amendment to entry 68 would be made under Section 75 of the PVAT Act. However, necessary amendment to entry 68 was not made and goods which were not mentioned in the Appendix were continued to be treated as industrial inputs.

During scrutiny of records, we noticed that the reduced rate of tax was continued to be allowed on sale of commodities¹⁰ other than the 166 items

¹⁰ Aluminium wire rods, compact disks, plastic granules, soap stone powder, master batches, linear alkyl benzene, tower parts, electrical goods, computer monitor, electronic components, skimmed milk powder, IT products, acid slurry, washing machine and its parts, ACSR conductors, injected moulded plastic components, waste paper, mosquito coil, metal sheets, ferrous and non-ferrous industrial articles

on the basis of these Notifications issued by the Government. We noticed in four¹¹ divisions that the AAs, while finalising assessment between 2013-14 and 2015-16 relating to 33 dealers for the years 2007-08 to 2013-14, had levied tax at reduced rates of tax on the sale of goods valued at ` 1,520.54 crore. Thus, inaction on the part of the Government to carry out amendment to entry 68 resulted in short realisation of tax of ` 41.32 crore in the cases test checked by us. As such, the state wide implication of this lapse would be much higher, which is detrimental to the revenue of the Government. Thus, this calls for immediate action to carry out amendment in the Act without any delays.

During Exit Conference held in November 2016, the Department assured that amendment to the PVAT Act would be made. Further report regarding amendment was awaited (November 2016).

4.11.14 Internal control and monitoring system

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. Monitoring is a key component of internal control system. The existence of continuous and effective monitoring system is essential to secure the success of the internal control system.

The huge pendency in finalisation of assessments selected by Commissioner for detailed scrutiny is indicative of ineffective monitoring of the activity relating to finalisation of assessments by AAs. Though internal audit was required to be conducted on an annual basis, we noticed that due to vacancy in the post of AC (A&I), DCTO and ACTO, internal audit was not conducted in any of the Divisions from 2010-11 to 2012-13. In 2013-14, the internal audit of Mahe Division alone was conducted by a special team while, in 2014-15, internal audit of only two Divisions were conducted. We, further, noticed that the Department did not have any Manual prescribing the procedures to be followed in respect of various activities encompassing registration, return scrutiny, assessment, internal audit, shop inspection, etc.

Thus, due to the absence of manual, scrutiny of returns filed by the dealers was not being undertaken due to which the AAs were remaining unaware of cases of incorrect claim of ITC, non-payment of purchase tax and payment of tax at incorrect rates. These also remained unnoticed as annual internal audit of the offices was also not undertaken.

During Exit Conference, the Additional Secretary to Government stated that the procedures and methods to be adopted are self contained in the PVAT Act and Rules and also instructions were given to the AAs from time to time.

¹¹ Puducherry I, II, Industrial Assessment Circle and Intelligence Wing

Though the procedures and methods are self contained in the PVAT Act, we recommend that the Government may prescribe a Manual describing the nature of duties and responsibilities of the AAs and the procedures to be followed by them to effectively administer the system of VAT in Puducherry.

4.11.15 Audit observations against the audit objectives

The audit observations of this Performance Audit as against the audit objectives are mentioned briefly as under:

(i) Compliance to statutory provisions regarding system of assessment

During Performance Audit, we noticed the following non-compliance to the provisions of the PVAT Act:

- There were irregularities in ITC claims;
- There were cases of non-levy of purchase tax;
- The ITC claims were not reversed in respect of interstate sale without declaration forms and stock transfer of goods to other states and
- We found cases where incorrect rate of tax was being applied leading to loss of revenue.

(ii) Use of reports/information for assessment and existence of coordination between the assessment divisions and other wings of the Department

- There were delays in implementation of shop inspection proposals
- The information contained in Form CC was not utilised for increase in revenue defeating the very purpose of getting the same.

(iii) Use of Information Technology in system of assessment to plug leakage and augment revenue

We noticed that the failure of AAs to use information technology in assessment process resulted in:

- Claim of ITC in respect of purchases effected from dealers whose RCs were cancelled and
- Incorrect availing of concessional rate of tax by compounding dealers who had made interstate purchases.

(iv) Existence of sound internal control mechanism to monitor assessment activities

The weaknesses in the existing system of internal controls and monitoring were evidenced from the following observations:

- There was huge pendency in finalisation of detailed assessment;
- There was no VAT manual in place to guide the assessing authorities for management and assessment of revenue matters; and
- The internal audit was not conducted which can help the management for course correction.

The above audit observations have been explained in detail at various paragraphs of the performance audit report.

4.11.16 Conclusion

We noticed that the instructions regarding random scrutiny of returns and utilisation of details contained in ITC module/MIS reports were not effectively used by the AAs in the system of assessment. Though online filing of monthly returns was made mandatory, IT system was not effectively utilised to prevent leakage of revenue. The revenue augmentation measures suffered due to non-collection of data from other departments and analysis of the same with the database of the CTD and the failure to utilise the information contained in the audit certificate in Form CC. The huge pendency in finalisation of cases selected for detailed assessment by the CCT, absence of VAT manual and non-conduct of internal audit indicated weak internal control and monitoring system.

4.11.17 Recommendations

We recommend the Government to;

- Strengthen the system of detailed assessments by fixing a prescribed time period for finalisation of assessments and ensuring adherence to the same by the AAs by a proper monitoring system;
- Ensure utilisation of the information contained in the audit certificate in Form CC by the AAs;
- Ensure coordination with other Departments for collection of data and utilisation of the same in revenue augmentation; and
- Ensure effective utilisation of IT in plugging leakage and generating additional revenue.

REVENUE AND DISASTER MANAGEMENT DEPARTMENT

4.12 Short collection of stamp duty and registration fee

As per Article 23 of Schedule 1 to the Indian Stamp Act, 1899 in the case of conveyance of immovable property, stamp duty shall be charged at the rate of 10 per cent including surcharge on the market value of the property conveyed. As per Table of Fees prepared under Section 78 of the Registration Act, 1908 the registration fees is leviable at the rate of ` 145 for first ` 10,000 and ` 5 for each ` 1,000.

During test check (October 2015) of records in Sub-Registry, Thirukkanur, we noticed that an extent of 104 ares¹² or 1,11,904 square feet (sqft) of land situated in Vadanur village was sold through two sale deeds executed in March 2013 and registered in April 2013. The consideration set forth in the instruments was ` 10.97 lakh. Stamp duty of ` 1.10 lakh and registration fee of ` 5,000 was collected.

We, however, observed that the guideline value, which was indicative of the market value of the property conveyed was ` 1.12 crore at the rate of ` 100 per sqft applicable for the year 2013-14. Therefore, the stamp duty and registration fee of ` 11.75 lakh was required to be collected as against ` 1.15 lakh collected by the department. Thus, the omission on the part of the Registering Officer to adopt the guideline value applicable on the date of presentation of the above sale deeds for registration, for the purpose of levy of stamp duty and registration fee, resulted in short collection of stamp duty and registration fee of ` 10.60 lakh.

After we pointed this out (October 2015), the Registering Officer replied (December 2015) that agricultural land was conveyed through the sale deed presented for registration on 18 April 2013. As such, it was valued at ` 10,400 per are. The guideline rate per sqft was applicable with effect from the date of conversion of use of the land as house site (29 April 2013).

The reply was not tenable because as per the guideline register, the value applicable from 1 April 2013 was ` 100 per sqft. This value had to be adopted for determination of value of the land conveyed and registered on 18 April 2013 and the Registering Officer, cannot, *suo motu* adopt a different value for the land conveyed.

Thus, the failure of the Registering Officer to adopt the correct guideline for determination of market value of property for the purpose of levy of stamp duty and registration resulted in short levy of stamp duty and registration fee of ` 10.60 lakh. Moreover, the plea of the Registering Officer that agricultural land was conveyed was also not tenable as the

¹² 1 Are = 1,076 sqft

guideline rate for the survey number in which the property was situated indicated the same to be house site.

The matter was referred to the Government in March 2016. Reply was awaited (November 2016).