

## Executive summary

### Content

Commercial Taxes Department contributes about 75 per cent of the revenue of the State which includes General Sales Tax, Value Added Tax and Central Sales Tax. Kerala Value Added Tax was introduced with effect from 01 April 2005. As part of e-governance initiative, the Kerala Value Added Tax Information System (KVATIS), application software was deployed during 2007 and became operational from 2007-08 onwards in a phased manner. This was developed by CMC Ltd., a TATA enterprise, as a web based application with 12 modules. Up to March 2010 total expenditure incurred on the project was ₹ 29.75 crore and three modules were fully operational. In this context, an audit of effectiveness of KVATIS on the tax administration was taken up.

### In this Report

The audit was conducted from February to December 2013 and data was collected from the Information Technology Management Cell (ITMC) in the Commissionerate of Commercial Taxes. The entire data in the system for the period upto May 2013 was extracted and analysed using the Interactive Data Extraction and Analysis (IDEA) software. The audit observations were cross verified on a sample basis with the assessment details in the Assessment Circle Offices. The results of audit of information in the modules like Dealer information system, Checkpost management system and Return Processing System are narrated in Chapters II to IV and other deficiencies noticed in Chapter V of this Report.

### Material value of Audit Findings

Audit observed several deficiencies/defects in the application of the system for tax administration. Some key risks resulting from weak systemic controls are highlighted in this Report which involves a tax effect of ₹ 4,653.43 crore. A maximum penalty of ₹ 7,311.81 crore and security deposit of ₹ 317.15 crore were also leviable.

### Dealer information system

Audit found that the system accepted multiple registrations ranging from two to 18 on a single Permanent Account Number (PAN). Either a single PAN was used by different individuals or the same individual used same PAN for getting more than one registration. The dealers either avoided tax liability by keeping their turnover under each registration below ₹ 10 lakh, the threshold minimum for tax liability or minimised their tax liability by bringing the turnover below ₹ 50 lakh/₹ 60 lakh per year which was fixed as the threshold limit for presumptive tax. The system failed to generate any alerts by aggregating these multiple registrations. Audit also found cases of non-renewal of registration,

non-existence of a system for monitoring the expiry of security instruments etc. Short levy of tax including interest in the above cases amounted to ₹ 2.46 crore. A maximum penalty of ₹ 2.65 crore was also leviable.

*[Chapter II]*

### **Check Post Management System**

Audit found that in the absence of an inbuilt control mechanism in the system to check inter state transportation of goods by dealers who have not renewed or cancelled their registration, such dealers transported goods without payment of security deposit (SD) at Check Post. Further, Audit found that 1,450 dealers were effecting inter state sales to dealers either without TIN or with defective TIN but claiming concessional rate for their inter-state sales. There were cases in which dealers short reported/short accounted inter-state purchase/stock transfer in their returns filed, cases in which transit passes were not surrendered, release of consignments brought by dealers for own use without verifying the genuineness of the purpose/details entered etc. In all these instances the information available in the system could have been better utilised for efficient monitoring and tax administration. Short levy of tax including interest in the above cases amounted to ₹ 1,928.45 crore. A maximum penalty of ₹ 2,888.96 crore and a security deposit of ₹ 317.15 crore was also leviable.

*[Chapter III]*

### **Return Processing System**

Audit found that the absence of a system to generate demand notice for penalty for non-filing of returns resulted in non-imposition of penalty. Further, audit pointed out cases of inappropriate mapping of business rules resulting in short fixation of compounded tax for gold dealers, defects/deficiencies in accounting of purchases/sales/opening and closing stock for the financial year, short payment of tax due, scrutiny of presumptive tax payments etc. Short levy of tax including interest in the above cases amounted to ₹ 2,722.52 crore. A maximum penalty of ₹ 4,420.20 crore was also leviable.

*[Chapter IV]*

### **Other Important Points**

Audit found that there was significant dependence on inefficient manual procedures due to non-utilisation of some modules like Audit Assessment Module, Refund System Module, Arrear Recovery System Module etc which were not operational.

*[Chapter V]*

### **Conclusion and Recommendation**

The application software was only partially effective with respect to the modules which were operational. The Department continues to rely on manual controls which underutilises the possibilities that the system offers. Moreover, there existed many deficiencies due to non-utilisation of remaining modules.

Audit recommends that Government/Department may take early action to update/upgrade the software in a time bound manner rectifying the defects pointed out. The updating will be cost effective since it would generate additional recurring revenue to the exchequer.

Further, the system of monitoring and scrutiny merits a revisit as the selection of cases need to be risk-based with appropriate use of data available in the system across modules.