

**Report of the
Comptroller and Auditor General of India
(Revenue Sector)**

for the year ended March 2014

Government of Andhra Pradesh
Report No. 1 of 2015

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P R E F A C E

This report pertaining to the erstwhile composite State of Andhra Pradesh for the year ended March 2014 has been prepared for submission to Governors of Andhra Pradesh and Telangana under Article 151 of the Constitution of India and in accordance with Section 45(1) of the Andhra Pradesh Reorganisation Act 2014.

The Report contains significant results of the performance audit and compliance audit of the Departments of the Government of Andhra Pradesh under the Revenue Services including Departments of Commercial taxes, Prohibition and Excise, Transport, Roads & Buildings, Registration and Stamps etc. However, Departments relating to Economic Sector as well as General and Social Sector are excluded and covered in separate reports.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2013-14 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 2013-14 have also been included, wherever necessary.

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

OVERVIEW

The report contains 34 paragraphs involving ₹ 1236.88 crore relating to non/short levy of taxes, interest, penalty, etc., and a performance audit on “Public service delivery including functioning of IT services (CFST) in Transport Department” involving ₹ 749.52 crore with total financial impact of ₹ 1986.40 crore. Some of the significant Audit findings are mentioned below.

1 GENERAL

- The total revenue receipts of the State Government for the year 2013-14 amounted to ₹ 110718.83 crore against ₹ 103830.28 crore for the previous year. State tax and non-tax revenue accounted for 72 *per cent* of this (₹ 64123.53 crore and ₹ 15472.86 crore respectively). The remaining 28 *per cent* was received from Government of India as State share of divisible Union taxes (₹ 22131.89 crore) and Grants-in-aid (₹ 8990.55 crore).

(Paragraph 1.1.1)

- Test check of 279 units of VAT, Land revenue, State excise, Motor vehicles, Stamp duty and Registration fees and other departmental offices conducted during 2013-14 revealed preliminary audit findings involving non levy/short levy of taxes, duties etc., amounting to ₹ 2314.38 crore in 1784 cases.

(Paragraph 1.10.1)

2 TAXES / VAT ON SALES, TRADE etc.

Audit noticed that

- in three offices of CTOs, incorrect exemption on goods worth ₹ 765.04 crore purchased from outside the State and incorporated in works led to short levy of tax of ₹ 92.60 crore.

(Paragraph 2.4.4)

- in five offices, tax of ₹ 30.88 crore collected in excess of liability from works contractors was not forfeited to Government account.

(Paragraph 2.4.5)

- there was short levy of tax of ₹ 5.22 crore on 27 works contractors due to incorrect determination of their taxable turnovers.

(Paragraphs 2.4.6 and 2.10.1.1)

- failure to file appeal in High Court on time against an order of STAT lead to opportunity lost of safeguarding revenue of ₹ 4.21 crore.

(Paragraph 2.4.7)

- refund of ₹ 62 lakh was made to an unregistered works contractor in contravention to the provisions of the APVAT Act.

(Paragraph 2.4.8)

- sales tax arrears of ₹ 9.29 crore were incorrectly written off though the dealers were not qualified for such exemption.

(Paragraph 2.5.5)

- in 38 offices of Commercial Taxes Department, 50 dealers claimed excess ITC of ₹ 8.73 crore.

(Paragraph 2.6)

- incorrect computation of turnovers/application of incorrect rates of tax for the assessment years 2009-10 to 2012-13 resulted in short levy of tax of ₹ 8.08 crore by 21 CTOs on 67 dealers.

(Paragraph 2.7)

- in 20 offices, interest of ₹ 9.07 crore was not levied on 31 dealers for belated payment of tax/deferred tax.

(Paragraphs 2.8 and 2.9)

- in 24 cases, tax of ₹ 1.82 crore was short levied on interstate sales not covered by “C” forms.

(Paragraph 2.11)

- in eight cases, purchase tax of ₹ 1.33 crore was not levied on goods.

(Paragraph 2.12)

- penalty of ₹ 1.17 crore was not levied on 27 dealers for failure to file returns/belated payment of tax/using invalid invoices.

(Paragraph 2.13)

- export sales/high sea sales reported by 10 dealers were exempted without documentary evidence, leading to short levy of tax of ₹ 89.91 lakh.

(Paragraphs 2.14 and 2.18)

- there was non-levy of penalty of ₹ 60.20 lakh on misuse of “C” declaration forms for interstate purchase of commodities not included in the certificate of registration.

(Paragraph 2.15)

- incorrect computation of taxable turnover led to short levy of tax of ₹ 48.06 lakh.

(Paragraphs 2.17)

3 STATE EXCISE DUTIES

- In six offices of Prohibition and Excise, Additional Licence Fee of ₹ 55 lakh was not levied on eight bars and restaurants.

(Paragraph 3.4)

- In case of 25 liquor shops, permit room licence fee was not/short levied by ₹ 24.49 lakh.

(Paragraph 3.5)

4 STAMP DUTY AND REGISTRATION FEES

- Misclassification of 18 PPP lease agreements led to non-levy of stamp duty of ₹ 665.38 crore.

(Paragraph 4.4.3)

- Non registration of 33 BOT lease agreements led to non-levy of stamp duty and registration fees of ₹ 43.77 crore.

(Paragraph 4.4.4)

- In 69 documents executed between March 2011 and March 2013, stamp duty and registration fees of ₹ 2.52 crore was short levied due to non-verification of facts.

(Paragraph 4.6.1)

- Under valuation of properties in 15 documents registered during 2011-12 to 2013-14 resulted in short levy of stamp duty, transfer duty and registration fees of ₹ 47.93 lakh.

(Paragraph 4.7)

- 24 lease deeds involved in issue of bar licences were not registered which led to non-levy of stamp duty and registration fees of ₹ 55.49 lakh.

(Paragraph 4.8)

5 TAXES ON MOTOR VEHICLES

A Performance Audit on ‘**Public service delivery including functioning of IT services (CFST) in Transport Department**’ with money value of ₹ 749.52 crore revealed the following:

- Absence of time limit in AP Motor Vehicle Taxation Act/ Rules led to non-initiation of action for issue of final demands leading to non-realisation of revenue of ₹ 461.32 crore.

(Paragraph 5.4.8)

- There is no provision in the AP Motor Vehicle Rules, prescribing time limit for permanent registration of motor vehicles on account of which due date for renewal gets extended, impacting tax revenue.

(Paragraph 5.4.9)

- Ineffective monitoring resulted in non-realisation of quarterly tax and penalty amounting to ₹ 23.22 crore.

(Paragraph 5.4.11.2)

- Belated adjustment of demand drafts with delay ranging from 11 to 80 days, resulted in loss of interest amounting to ₹ 1.96 crore.

(Paragraph 5.4.12.4)

IT Services

- Ad hoc approach was adopted in capacity planning while implementing three-tier architecture for the software package called Citizen Friendly Services in Transport department (CFST).

(Paragraph 5.4.15.2)

- No provision was made in CFST to identify vehicles which were issued No Objection Certificates (NOC) for transfer to other States. In the absence of this, risk of vehicles re-entering and plying within the State without payment of life-tax remains.

(Paragraph 5.4.16.1)

- DCB statements generated through systems had shown incorrect figures of revenue earned, balance due and arrears to be realised.

(Paragraph 5.4.16.3)

- Scrutiny of data revealed that vehicles remained in active status though validity of their registration had expired.

(Paragraph 5.4.17.1)

- There were no documented plans for disaster recovery and business continuity.

(Paragraph 5.4.20.2)

6 LAND REVENUE

- Conversion tax of ₹ 85.96 lakh was not levied on the Government land of 752.40 acres alienated to eight allottees in four RDOs.

(Paragraph 6.4.3)

- In 32 Revenue divisions, conversion tax of ₹ 170.01 crore and penalty of ₹ 85 crore were not levied on 13,782.62 acres irregularly converted for non-agricultural purposes.

(Paragraph 6.4.4.1)

- On 2041 mining leases executed during 2008-2013, conversion tax of ₹ 40.11 crore and penalty of ₹ 20.06 crore were not levied.

(Paragraph 6.4.4.2)

- Non-finalisation of alienation proposals for advance possession of Government land resulted in non-realisation of revenue of ₹ 25.45 crore.

(Paragraph 6.5)

7 OTHER TAX AND NON-TAX RECEIPTS

- In six Mandals, there was short-levy of water tax of ₹ 96.86 lakh due to incorrect finalisation of demand.

(Paragraph 7.2.6)

- In 20 Tahsildar offices, there was non/short levy of road cess of ₹ 55.37 lakh in command areas of Irrigation Projects.

(Paragraph 7.2.9)

CHAPTER-I

GENERAL

CHAPTER - I GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Andhra Pradesh during the year 2013-14, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table - 1.1.1**.

Table - 1.1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14 ¹
1.	Revenue raised by the State Government					
	• Tax revenue	35,176.68	45,139.55	53,283.41	59,875.05	64,123.53
	• Non-tax revenue	7,802.26	10,719.72	11,694.34	15,999.14	15,472.86
	Total	42,978.94	55,859.27	64,977.75	75,874.19	79,596.39
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	12,141.71	15,236.75	17,751.15	20,270.77	22,131.89
	• Grants-in-aid	9,557.70	9,900.28	10,824.79	7,685.32	8,990.55
	Total	21,699.41	25,137.03	28,575.94	27,956.09	31,122.44
3.	Total revenue receipts of the State Government (1 and 2)	64,678.35	80,996.30	93,553.69	1,03,830.28	1,10,718.83
4.	Percentage of 1 to 3	66	69	69	73	72

The above table indicates that during the year 2013-14, the revenue raised by the State Government (₹ 79,596.39 crore) was 72 per cent of the total revenue receipts. The balance 28 per cent of the receipts during 2013-14 was from the Government of India.

¹ For details please see Statement No.11- Detailed accounts of revenue by minor heads in the Finance Accounts of Andhra Pradesh for the year 2013-14. Figures under the major heads '0020-Corporation tax, 0021-Taxes on income other than corporation tax, 0028-Other taxes on income and expenditure, 0032-Taxes on wealth, 0037-Customs, 0038-Union excise duties, 0044-Service tax and 0045-Other taxes and duties on commodities and services - share of net proceeds assigned to states booked in the Finance Accounts under A-Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this table.

1.1.2 The details of the tax revenue raised during the period 2009-10 to 2013-14 are given in **Table 1.1.2**.

Table 1.1.2
Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14 ²		Percentage of increase (+) or decrease (-) in 2013-14 over 2012-13
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1.	Taxes on sales, trade etc.	27,685	23,640	31,838	29,145	38,306	34,910	45,000	40,715	52,500	48,737	(+)19.7
2.	State excise duties	6,260	5,849	7,512	8,265	9,014	9,612	10,820	9,129	7,500	6,250	(-)31.54
3.	Stamp Duty and Registration Fees	3,224	2,639	3,546	3,834	4,240	4,385	4,968	5,115	6,414	4,393	(-)14.12
4.	Motor Vehicles Tax	2,315	1,995	2,778	2,627	3,434	2,986	3,640	3,356	4,351	3,335	(-)0.64
5.	Others	13,942	1,054	1,325	1,270	1,445	1,389	1,593	1,559	1,676	1,408	(-) 9.7
	Total	53,426	35,177	46,999	45,141	56,439	53,282	66,021	59,874	72,441	64,123	(+) 7.10

The respective Departments reported the following reasons for large variations:

State Excise: Revenue decreased due to enhancement of APBCL margins, additional trade margins and increase of VAT.

Stamp Duty and Registration Fees: Revenue decreased due to slowdown in Real Estate, monsoon failure and agitations for State's bifurcation.

1.1.3 The details of the non-tax revenue raised during the period 2009-10 to 2013-14 are indicated in **Table 1.1.3**:

Table 1.1.3
Details of Non-tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+) or decrease (-) in 2013-14 over 2012-13
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1.	Interest receipts	4,456	4,852	7,097	5,774	7,164	6,279	8,632	9,626	8,656	8,646	(-)10.17
2.	Mines & Minerals	2,450	1,887	2,695	2,065	2,995	2,337	2,734	2,771	3,083	2,731	(-)1.46
3.	Education, Sports, Art and Culture	185	55	194	238	204	675	274	1,196	1,219	1,676	(+)40.12
4.	Others	5,863	1,008	5,717	2,643	1,976	2,404	2,213	2,407	2,436	2,420	(+)0.57
	Total	12,954	7,802	15,703	10,720	12,339	11,695	13,853	16,000	15,394	15,473	(-)3.29

² Source : Statement 11 of Finance Accounts 2013-14.

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2014 on some principal heads of revenue as provided by the concerned departments, amounted to ₹ 7326.52 crore of which ₹ 2337.06 crore was outstanding for more than five years, as detailed in the **Table -1.2**.

Table 1.2
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2014	Amount outstanding for more than 5 years as on 31 March 2014
1	State Excise Duties	65.10	59.80
2	Taxes on Vehicles	3,955.87	2,002.67
3	Stamp Duty and Registration Fees	103.10	44.47
4	Mines and Minerals	90.22 [#]	74.96 [#]
5	Land Revenue	395.85	NF*
6	Taxes and duties on electricity	2,716.38	155.16
Total		7,326.52	2,337.06

[#] These figures belong to the 10 districts (Adilabad, Hyderabad, Karimnagar, Khammam, Mahbubnagar, Medak, Nalgonda, Nizamabad, Rangareddy and Warangal) only.

* Not furnished.

It would be seen from the table that recovery of ₹ 2337.06 crore was pending for more than five years.

The Commercial Tax Department did not furnish the information of arrears of revenue though called for.

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 three years. However, no information was furnished by Commercial Tax Department on arrears of CST assessments.

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 for additional tax raised and cases pending for finalization as on 31 March 2014, in respect of different heads of revenue were called for from the concerned Departments. In respect of State Excise Duties, Motor Vehicles Taxes and receipts from Mines and Minerals, the concerned Departments have reported that no such case was detected, finalized or pending. However, Departments of Commercial taxes, Stamps and Registration, Land Revenue and Electricity did not furnish any information in this regard.

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2013-14, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2013-14 as reported by the Departments is given in **Table 1.5**.

Table 1.5
Details of pendency of refund cases

Sl. No.	Particulars	State Excise	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	106	0.85
2.	Claims received during the year	6	0.89
3.	Refunds made during the year	14	1.45
4.	Balance outstanding at the end of year	98	0.29

(₹ in crore)

The Commercial Tax Department did not furnish information on refund cases though called for.

1.6 Response of the Government / departments towards audit

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

Inspection reports issued up to December 2013 disclosed that 31,179 paragraphs involving ₹ 13,954.59 crore relating to 9,892 IRs remained outstanding at the end of June 2014 as mentioned below along-with the corresponding figures for the preceding two years in **Table 1.6**.

Table 1.6
Details of pending Inspection Reports

	June 2012	June 2013	June 2014
Number of IRs pending for settlement	11,444	10,925	9,892
Number of outstanding audit observations	34,117	32,118	31,179
Amount of revenue involved (₹ in crore)	12,873.06	12,909.94	13,954.59

1.6.1 The Department-wise details of the IRs and audit observation outstanding as on 30 June 2014 and the amounts involved are mentioned in the **Table 1.6.1**.

Table 1.6.1
Department-wise details of IRs

(₹ in crore)

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Commercial Taxes	Taxes on Sales, Trade etc. Entertainment & luxury tax etc.	4,048	14,892	3,714.7
2.	Excise	State Excise	757	2,133	210.94
3.	Revenue	Land Revenue	1,933	3,722	3,972.67
4.	Transport	Taxes on motor vehicles	482	2,602	2,681.24
5.	Stamps and Registration	Stamp duty and registration fees	2,346	6,754	774.67
6.	Mines and Geology	Non-ferrous mining and metallurgical industries	310	1,056	1,790.92
7.	Electricity	Electricity	16	20	809.45
Total			9,892	31,179	13,954.59

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs, for 126 IRs issued during 2013-14. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

1.6.2 Departmental audit committee meetings

The Government departments set up audit committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2013-14 and the paragraphs settled are mentioned in **Table 1.6.2**.

Table 1.6.2
Details of Departmental audit committee meetings

(₹ in crore)

Sl. No.	Head of revenue	Number of meetings held	Number of paras settled	Amount
1.	Land Revenue	5	1,733	3.82

1.6.3 Non-production of records to audit for scrutiny

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

During the year 2013-14 as many as 87 assessment files, returns, refunds, registers and other relevant records were not made available to audit. Break up of these cases is given in **Table 1.6.3**.

Table 1.6.3
Details of non-production of records

Name of the Office/ Department	Year in which it was to be audited	Number of cases not audited
Sales Tax / VAT etc.	2013-14	63
State Excise	2013-14	10
Stamp Duty and Registration Fee	2013-14	4
Motor Vehicle Tax	2013-14	1
Land Revenue	2013-14	9
Total		87

1.6.4 Response of the Departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the AG to the Principal Secretaries / Secretaries of the concerned Departments, drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

34 draft paragraphs and one performance audit were sent to the Principal Secretaries/ Secretaries of the respective Departments by name between July 2014 and October 2014. The Principal Secretaries/ Secretaries of the Departments did not send replies to any draft paragraphs including performance audit despite issue of reminders and the same have been included in this Report without the response of the Departments.

1.6.5 Follow up on the Audit Reports- summarised position

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and 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. 234 paragraphs (including performance audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Andhra Pradesh for the years ended 31 March 2008, 2009, 2010, 2011 and 2012 were placed before the State Legislative Assembly between September 2009 to June 2013. The action taken/ explanatory notes from the concerned Departments on these paragraphs were received in respect of 65 paragraphs only with average delay of 18 months, 11 months and 14 months in respect of Audit Reports for the years ended 31 March 2008, 2009 and 2010 respectively. Action taken/explanatory notes in respect of

220 paragraphs from 13 departments (Commercial Taxes, Excise, Land Revenue, Transport, Registration, Industries & Commerce, Energy, Forest, Co-operation, Finance, Irrigation, Municipal Administration and General Administration) had not been received for the Audit Reports from year ended March 2001 to March 2012 so far (October 2014).

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

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

The succeeding paragraphs 1.7.1 to 1.7.2 discuss the performance of the Mines & Geology Department under revenue head 0853 and cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2003-04 to 2012-13.

1.7.1 Position of Inspection Reports

The summarised position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2014 are tabulated in **Table - 1.7.1** below.

Table 1.7.1
Position of Inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Additions during the year			Clearance during the year			Closing balance during the year		
		IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
1.	2003-04	92	153	864.70	20	34	296.33	2	6	179.77	110	181	981.26
2.	2004-05	110	181	981.26	35	68	554.35	1	12	2.80	144	237	1532.81
3.	2005-06	144	237	1532.81	18	25	19.96	2	5	0.10	160	257	1552.66
4.	2006-07	160	257	1552.66	27	35	39.59	2	2	5.93	185	290	1586.32
5.	2007-08	185	290	1586.32	15	17	7.59	3	5	1.71	197	302	1592.20
6.	2008-09	197	302	1592.20	12	21	16.64	5	8	0.87	204	315	1607.97
7.	2009-10	204	315	1607.97	34	63	84.83	3	4	0.06	235	374	1692.73
8.	2010-11	235	374	1692.73	30	60	61.64	18	42	25.04	247	392	1729.33
9. & 10.	2011-12 & 2012-13	247	392	1729.33	0	1	22.62	0	0	0	247	393	1751.95

The Government arranges Audit Committee meetings between the Department and AG's office to settle the old paragraphs. As would be evident from the above table, against 92 outstanding IRs with 153 paragraphs as on start of 2003-04, the number of outstanding IRs increased to 247 with 392 paragraphs at the end of 2012-13. This is indicative of the fact that adequate steps were not taken by the Department in this regard resulting in increase of the outstanding IRs and paragraphs.

1.7.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned in **Table 1.7.2**.

Table 1.7.2

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases as of 31 March 2012
2003-04	2	3.20	1	2.70	0.26	0.26
2004-05	1	183.55	1	1.15	Nil	Nil
2005-06	4	3.44	4	1.35	0.27	0.27
2006-07	2	1.33	1	1.16	Nil	Nil
2007-08	2	0.87	2	0.83	Nil	Nil
2008-09	5	3.81	5	3.63	0.02	0.02
2009-10	6	69.82	5	69.45	Nil	Nil
2010-11	2	2.71	2	0.47	Nil	Nil
2011-12*	0	NA	NA	NA	NA	NA
2012-13	1	22.62	1	16.09	0.82	0.82

* Since no paragraph in respect of the Department of Mines and Geology was included in the audit report of that year, remaining columns are Not Applicable (NA).

It is evident from the above table that during the last ten years recovery even in accepted cases was Nil. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. The Department replied that ADM&Gs have finalised the MRAs and the same are sent to the concerned DDM&Gs for approval. However, the Department did not furnish any data. The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

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

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

The following reviews on the Departments of Commercial taxes, Land Revenue, Mines & Geology, Prohibition & Excise, Stamps & Registration and Transport, were featured in the last five years Reports. The details of recommendations and their status is given in **Table 1.8** below:

Table 1.8

Year of Report	Name of the PA	No. of recommendations	Status
2008-09	Citizen Friendly Services in Transport Department (CFST)	5	Action taken/ explanatory notes have been submitted by the Government. This para is however yet to be discussed by the Committee on Public Accounts.
	Transition from Andhra Pradesh General Sales Tax to Andhra Pradesh Value Added Tax	8	Action taken/ explanatory notes are yet to be submitted by the Government
2009-10	Functioning of the Prohibition and Excise Department	9	
2010-11	Taxation of works contracts under the APVAT Act	5	
	Cross verification of Declaration Forms used in Inter State Trade	7	
	Alienation of Government land and conversion of agricultural land for non-agricultural purposes	3	
2011-12	VAT Audits and Refunds	3	
2012-13	Functioning of the Directorate of Mines & Geology	6	
	Functioning of Registration and Stamps Department including Information Technology (IT) Audit of CARD in Andhra Pradesh	6	

1.9 Audit Planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which inter-alia include critical issues in Government revenues and tax administration i.e. budget speech, white paper on state finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during past five years etc.

There were a total of 2270 auditable units, of which 280 units were planned and 279 units had been audited during the year 2013-14, which is 12.29 *per cent* of the total auditable units. Besides the compliance audit mentioned above, one performance audit was also taken up to examine the efficacy of the tax administration of revenue receipts.

1.10 Results of Audit

1.10.1 Position of local audit conducted during the year

Test check of the records of 279 units of Value Added Tax, State Excise, Motor Vehicles, Land Revenue, Stamp Duty and Registration Fees etc. conducted during the year 2013-14 showed under assessment/short-levy/ loss of revenue aggregating ₹ 2314.38 crore in 1784 cases. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 885.94 crore involved in 249 cases which were pointed out in audit during 2013-14. The Departments collected ₹ 1.96 crore in 117 cases during 2013-14, pertaining to the audit findings of previous years.

1.11 Coverage of this Report

This Report contains 34 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports) including one Performance audit on 'Public Service Delivery including Functioning of IT services (CFST) in Transport Department', involving financial effect of ₹ 1986.40 crore.

The Departments/ Government have accepted audit observations involving ₹ 885.85 crore out of which ₹ 0.63 crore had been recovered. These are discussed in succeeding Chapters II to VII.

CHAPTER-II

***Taxes / VAT on Sales,
Trade etc.***

CHAPTER II

Taxes / VAT on Sales, Trade etc.

2.1 Tax administration

Commercial Taxes Department is under the purview of Principal Secretary to Revenue Department at Government level. The Department is mainly responsible for collection of taxes and administration of AP Value Added tax (VAT) Act, Central Sales Tax (CST) Act, AP Entertainment Tax Act, AP Luxury Tax Act and rules framed thereunder. Commissioner of Commercial Taxes (CCT) is Head of Department entrusted with overall supervision and is assisted by Additional Commissioners, Joint Commissioners (JC), Deputy Commissioners (DC) and Assistant Commissioners (AC). Commercial Tax Officers (CTOs) at circle level are primarily responsible for tax administration and are entrusted with registration of dealers and collection of taxes while the DCs are controlling authorities with overall supervision of the circles under their jurisdiction. There are 218 offices (25 Large Tax Payer Units (LTUs) headed by ACs and 193 Circles headed by CTOs) functioning under the administrative control of DCs. Further, there is an Inter State Wing (IST) headed by a Joint Commissioner within Enforcement wing, which assists CCT in cross verification of interstate transactions with different states.

2.2 Internal Audit

Department did not have a structured Internal Audit Wing that would plan and conduct audit in accordance with a scheduled audit plan. Internal audit is organized at Divisional level under the supervision of Assistant Commissioner (CT). There are 25 Large Tax Payers Units (LTUs) and 193 circles in State. Each LTU/circle is audited by audit teams consisting of five members headed by either CTOs or Deputy CTOs. Internal audit report is submitted within 15 days from the date of audit to DC (CT) concerned, who would supervise rectification work giving effect to findings in such report of internal audit.

2.3 Results of Audit

In 2013-14, test check of the assessment files, refund records and other connected documents of the Commercial Taxes department showed underassessment of sales tax and other irregularities involving ₹ 494.06 crore in 1,476 cases which fall under the following categories as given in **Table - 2.1**.

Table – 2.1

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
1	Audit of “Refunds of tax made to Works Contractors”	1	131.62
2	Audit of “Arrears of Revenue under VAT/Sales Tax”	1	9.56
3.	Excess Input Tax allowed	182	34.57
4.	Non-levy/Short levy of Interest and Penalty	150	47.28
5.	Short levy of tax on works contract	103	29.06
6.	Excess authorization of refunds	15	8.01
7.	Incorrect exemption of taxable turnover	247	57.53
8.	Short levy of tax due to application of incorrect rate of tax	260	46.75
9.	Under-declaration of VAT	159	38.43
10.	Other irregularities	358	91.25
	Total	1476	494.06

During the year, Department accepted under-assessments and other deficiencies of ₹ 164.52 crore in 703 cases, including ₹ 43.55 crore of 488 cases which were pointed out in audit during the earlier years. An amount of ₹ 1.26 crore was realized in 95 cases during the year 2013-14.

Audit of “Refunds of tax made to Works Contractors” involving ₹ 131.62 crore, audit of “Arrears of Revenue under VAT/Sales Tax” involving ₹ 9.56 crore and a few illustrative cases involving ₹ 36.89 crore are discussed in the following paragraphs:

Audit observations

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

2.4 Audit of Refunds made to works contractors

2.4.1 Introduction

Andhra Pradesh Value Added Tax (AP VAT) Act, 2005 was introduced with effect from 1 April 2005, replacing the erstwhile Andhra Pradesh General Sales Tax (APGST) Act, 1957. Credit for tax paid on purchases i.e., input tax credit (ITC) was introduced in the VAT Act. The system of annual assessment was done away with and a system of audit of dealers selected based on various parameters prescribed in the department VAT Audit manual (Manual) was introduced instead.

According to Section 38 of the AP VAT Act, all VAT dealers whose ITC is in excess of output tax due are entitled to claim refund subject to the conditions prescribed. In Rule 59(1) (12) of AP VAT Rules, following delegation of powers has been prescribed for authorizing refunds.

Authority	Powers to authorize refunds
Commercial Tax Officer (CTO)	In cases where the amount determined to be refunded does not exceed ₹ 50,000.
Assistant Commissioner (Commercial Taxes) {AC(CT)}	In the case of LTU dealers where the amount determined to be refunded does not exceed ₹ two lakhs.
Deputy Commissioner (Commercial Taxes) {DC(CT)}	In cases where the amount determined to be refunded does not exceed ₹ 10 lakhs.
Joint Commissioner (JC)/ Additional Commissioner(AC) (CT)	In cases where the amount determined to be refunded exceeds ₹ 10 lakhs.

As per Para 6 (3)(d) of the VAT Audit Manual of Commercial Taxes Department, the Commercial Tax Officer (CTO)/Assistant Commissioner (AC){Large Taxpayers' Unit (LTU)} should monitor all refund returns and select cases requiring audit in accordance with the guidelines prescribed.

“Works Contract” as defined under Section 2(45) of AP VAT Act, includes any agreement for carrying out, for cash or for deferred payment or for any other valuable consideration, building construction, manufacture, processing, fabrication, erection, installation, laying, fitting out, improvement,

modification, repair or commissioning of any movable or immovable property. The taxable event, taxability and calculation of tax are all dealt with under Section 4 of the Act read with Rule 17 of APVAT Rules.

2.4.2 Objectives, Scope and Methodology

The audit was taken up to check whether the procedure prescribed for authorizing refunds of taxes to the works contractors and verifying their claims was properly followed.

Observations made during the scrutiny of 70 out of 99 cases in respect of works contractors involving refund of more than ₹ 10 lakhs authorized during 2011-13 and certain procedural lapses noticed in nine DC(CT)s³ and 52 circle offices⁴ have been included in this report.

Audit findings

2.4.3 Non verification of ITC refund claims

As per circular instructions⁵ issued (June 2009) by Commissioner of Commercial Taxes (CCT), the claim for refund has to be verified by the CTO concerned before submission of file to JC (CT)/DC (CT) for authorization of refund. The CTO is required to ensure that the claim of ITC refund on purchases made by a dealer has been cross verified with the records of the selling dealers by the respective officers of the Commercial Taxes Department, under whose jurisdiction the selling dealers are registered.

Audit noticed (between November 2013 and March 2014) in two DC (CT) offices⁶ and 11 circles⁷ that during the period 2011-12 and 2012-13, ITC refunds amounting to ₹ 15.08 crore in 42 cases of works contractors were authorized. Though references for cross verification of ITC claims were sent to respective jurisdictional authorities, verification reports were received only in nine cases for an amount of ₹ 1.40 crore against the total amount of ₹ 1.60 crore involved. In remaining 33 cases, ITC claims of ₹ 13.48 crore were admitted and refunds authorised without any cross verification of the purchase details with the records of the selling dealers as no verification reports were received.

³ Abids, Begumpet, Hyderabad (Rural), Nellore, Punjagutta, Saroornagar Secunderabad, Vijayawada-I and Warangal.

⁴ Aghapura, Ashoknagar, Autonagar, Balanagar, Basheerbagh, Benz Circle, Dabagardens, Dwarakanagar, Gajuwaka, Gandhinagar, General Bazar, Hindupur, Hyderguda, Jagannaikpur, Jeedimetla, Jubilee Hills, Kadapa-I, Kadapa-II, Khairatabad, Kurnool-II, MG Road, Machilipatnam, Madhapur, Mahankali Street, Mahboobnagar, Maharajgunj, Malakpet, Mangalagiri, Miryalaguda, Nacharam, Nampally, Nandyal-II, Nellore-II, Nellore-III, Peddapally, Proddutur-I, Punjagutta, Rajampet, Rajendranagar, Ramgopalpet, Ranigunj, R.P. Road, S.D. Road, Sanathnagar, Saroornagar, Somajiguda, Special Commodities, Srinagar Colony, Steel Plant, Tadipatri, Tarnaka and Vengalaraonagar.

⁵ CCT's Ref. No. BVI(I)/76/2006 dated 08 June 2009.

⁶ Abids and Punjagutta.

⁷ Benz Circle, Dwarakanagar, Gajuwaka, Punjagutta, R.P. Road, Rajampet, Rajendranagar, Sanathnagar, Somajiguda, Srinagar Colony and Steel Plant.

2.4.4 Incorrect refund due to exemption of turnover related to interstate purchases

Under Section 4(7)(g) of AP VAT Act, no tax shall be leviable on the turnover of transfer of property in goods involved in the execution of works contract, if such transfer from the contractor to the contractee constitutes a sale in the course of inter-state trade or commerce under Section 3, or a sale outside the State under Section 4, or a sale in the course of import or export under Section 5 of the Central Sales Tax Act, 1956. The AP Sales Tax Appellate Tribunal (STAT) based on the A.P. High Court judgment in the case of Gannon Dunkerly & Co. and others vs State of Andhra Pradesh held that goods purchased by a contractor from outside the state where the contractee has not issued 'C' forms are liable to be taxed under the local law at the time of use of goods in the work.

As per instructions⁸ issued by the CCT to all the assessing authorities, if as per the terms, the contractors were not under contractual obligation to purchase the goods to be used from outside the State, these purchases were also to be included in the assessment. If it were under contractual obligation, the contractee would be assessed.

Audit noticed (November 2013) in three circles⁹ that in four cases, for which assessments had been completed for the period 2007-08 to 2010-11, purchase turnovers of contractors were allowed exemption even though the purchases were not made under contractual obligation. The incorrect exemption of turnover of ₹ 765.04 crore resulted in non-levy of tax of ₹ 92.60 crore. Besides, in these cases refund of ₹ 16.95 crore was authorized.

After Audit pointed out the cases, the Department replied (May 2014) that in two cases the revision was under process and in remaining cases (November 2013), the matter would be examined and action taken intimated to audit.

2.4.5 Non-forfeiture of excess collection of tax and incorrect refund

The Government issued orders¹⁰ that four *per cent* of the cost of work may be provided in the estimates towards VAT where value of the material component in the work is more than 10 *per cent* of the value of the total work. According to Section 57(2) of the AP VAT Act, no dealer shall collect any amount by way of tax at a rate exceeding the rate at which he is liable to pay tax under the provisions of the Act. If any tax is collected in excess of the liability, it shall be forfeited to the Government under Section 57(4) of the Act. Further, according to Rule 18(3) (b) of AP VAT Rules, with effect from 01 May 2009, if the contractors, executing works for Government or local authority where tax is added separately to the estimated value of the contract, have not opted for composition¹¹, such tax collected at source in excess of their liability shall be forfeited.

⁸ CCT's Ref. No. A1(3)/911/2005-1, dated 23 January 2006.

⁹ Kadapa-II, Punjagutta and R.P. Road.

¹⁰ G.O.Ms.No.11 Finance (Works and Projects) Department dated 29 July 2005.

¹¹ Works contractors can pay tax in two ways – if they are under composition, they pay tax at a uniform rate on the entire value of the works contract. Otherwise, they have to maintain accounts and pay tax on goods incorporated at the rates applicable.

Audit noticed (between November 2013 and February 2014) in the offices of two DC (CT)s¹² and three circles¹³ that during the period 2005-12, in seven cases, refund of ₹ 30.88 crore was authorized. Scrutiny of records revealed that in these cases, tax collected at source in respect of works executed for Government was in excess of tax liability which ought to have been forfeited. Excess tax collected amounting to ₹ 30.88 crore was not forfeited and this resulted in incorrect grant of refund.

After Audit pointed out the cases two Assessing Authorities (AAs)¹⁴ replied (April and June 2014) in four cases that assessments were under revision. In one case, CTO Rajampet contended (April 2014) that Rule 18(3)(b) was effective from 1 May 2009 and was not applicable for the earlier period. The reply is not tenable as tax was added separately to the estimates and the excess tax collected during the period from 2005-09 was liable to be forfeited under Section 57(4) of the Act. For the remaining two cases, final reply is awaited.

2.4.6 Excess grant of refund due to incorrect determination of taxable turnover

Under Section 4(7) (a) of the AP VAT Act, tax is payable on the value of goods at the time of incorporation of such goods in the works at the rates applicable. To determine such value of goods incorporated in the works contract, deductions like labour, hire charges of machinery, consumables, cost of establishment and expenses relatable to supply of labour and services, profit on labour and amounts paid to sub-contractors as prescribed under Rule 17(1) (e) of AP VAT Rules are to be allowed.

Further, in the absence of detailed accounts to determine the taxable turnover under Rule 17(1) (e) of the Rules, tax at the rate of 14.5 *per cent* shall be levied after allowing the standard deduction prescribed under Rule 17(1)(g) i.e., 30 *per cent* of the total consideration received in respect of civil works.

Audit noticed (between October 2013 and March 2014) in seven circles¹⁵ that, in eight cases assessed during the period 2011-13, taxable turnover for the assessment periods from December 2006 to March 2012 was incorrectly determined at ₹ 47.21 crore instead of ₹ 76.87 crore. In six cases, deductions inadmissible under Rule 17(1)(e) such as bank guarantee commission, loading and unloading expenses, income tax payments, salaries, telephone charges, etc. were allowed. In one case, pre-incorporated expenditure like labour charges and service tax payments incurred for fabrication were admitted and also inadmissible deductions such as mobilization advance and VAT payments were allowed. In the remaining case, the details of exemptions allowed were not furnished. Where details of exemption are not furnished, taxable turnover is to be determined under Rule 17(1) (g). Incorrect determination of taxable turnover

¹² Hyderabad Rural and Nellore-I.

¹³ Dwarakanagar, Rajampet and Srinagar Colony.

¹⁴ DC(CT), Nellore and CTO Srinagar Colony.

¹⁵ Dabagardens, Dwarakanagar, Gajuwaka, Madhapur, Punjagutta, Special Commodities and Steel Plant.

under Rule 17(1) (e) instead of under Rule 17(1)(g) resulted in short levy of tax of ₹ 3.31 crore. However, in these cases, refund of ₹ 2.93 crore was authorized.

After Audit pointed out the cases, two AAs¹⁶ in two cases replied (between December 2013 and January 2014) that the audit files would be sent to DC for revision. In one case involving ₹ 20 lakh, CTO Steel plant replied that the allowance of exemption was correct. The reply is not tenable as labour charges and service tax on account of fabrication of steel are pre-incorporated expenditure and are not allowable deductions. Mobilization advance and VAT are also not allowable deductions under the Act. In another case involving incorrect refund of ₹ eight lakh, CTO Dwarakanagar replied that the purchases were made from outside the State. The reply is not relevant. Final replies are awaited in the remaining four cases.

2.4.7 Insufficient efforts by the Department to safeguard revenues

Under Section 5-F of the APGST Act, 1957, every dealer executing works contracts shall pay tax on his turnover on transfer of property in goods involved in the execution of works contract. To determine the taxable turnover, deductions as prescribed under Rule 6(2) of APGST Rules are allowable while calculating the taxable turnover of the dealer. However, under Rule 6(3)(i) in cases where the execution of works contracts extends over a period of more than one year, the total turnover for the purpose of taxation for that year shall be deemed to be the value of goods purchased for being supplied or used in the execution of such contract in that year.

In view of a judgment¹⁷ of the Supreme Court on the issue of valuing the goods incorporated, the CCT issued guidelines¹⁸ according to which the taxable turnover under Rule 6(3)(i) shall be determined as the value of the goods at the time of incorporation. The time limit for preferring an appeal in the High Court against the order of the Sales Tax Appellate Tribunal (STAT) is 90 days.

Audit noticed (January 2014) in case of an assessee in DC(CT), Abids, that the assessment was revised by DC (CT), Abids on 8 January 2013 on the judgment of STAT¹⁹ and tax under Rule 6(3)(i) was levied on purchase value of goods i.e., ₹ 40.90 crore, instead of on the value of goods at the time of incorporation, ₹ 93.54 crore. Tax due and tax paid as per revised assessment were ₹ 3.27 crore and ₹ 4.05 crore respectively. Excess tax paid was thus arrived at ₹ 0.77 crore and was allowed as refund. Though the appeal against the order had to be filed in 90 days, the Department preferred the appeal against the STAT order in the A.P. High Court on 28 November 2012, i.e., after 14 months of passing of orders. There were no reasons on record for the delay. The appeal was rejected by the A.P. High Court being time-barred.

Thus, due to failure to file an appeal against the orders of STAT within the timeframe, Department lost the opportunity to put forth their opinion and to

¹⁶ CTOs- Dabagardens and Special Commodities.

¹⁷ M/s. Gannon Dunkerly & Others vs. State of Rajasthan & Others (88 STC 204).

¹⁸ Circular No. AII(1)/407/2005 dated 4 October 2005.

¹⁹ T.A.No. 1172/2007 dated 27 September 2011.

attempt to levy/save revenue amounting to ₹ 4.98 crore (₹ 4.21 crore of Tax + ₹ 77 lakh of refund authorized).

After Audit pointed it out (March 2014), the AA replied that the refund was authorized as per the order of STAT. However, delay in filing the appeal indicated that though Department had strong grounds against the STAT orders, there were insufficient efforts on its part for safeguarding tax revenue.

2.4.8 Incorrect authorization of refund to unregistered works contractor

Under Section 38(1) of AP VAT Act, 2005, a VAT dealer shall be eligible for refund of tax subject to the conditions prescribed. Any person not registered as a VAT dealer though liable to be registered is not eligible for refund.

Audit noticed (December 2013) in DC(CT) Nellore-I that during the period 2008-11, a contractor, though required to be registered under the Act remained unregistered and executed Government works contracts as a sub-contractor. The tax of ₹ 62 lakh collected in excess of liability and available at the credit of the contractor was refunded under Section 38 of the Act though he was ineligible for refund.

After audit pointed out the case, the AA replied (June 2014) that the contractor was not liable to be registered under the APVAT Act. The reply is not acceptable as the contractor executed works contracts for the Government and therefore was liable to be registered under the provisions of Section 17(5)(h) of the Act.

The observation was communicated to the Department (April 2014) and reply is awaited (November 2014).

2.4.9 Non-availability of records

According to Rule 59 read with Rule 35 of AP VAT Rules, the DC (CT) is empowered to refund upto ₹ 10 lakh and JC (CT) or Additional Commissioner (CT) is empowered to authorize refunds exceeding ₹ 10 lakh. The claim for refund is to be first processed by the jurisdictional CTO and submitted for approval to the authority concerned. However, it has not been prescribed to return the file to the respective jurisdictional offices with which the dealers are registered. The files relating to a single dealer are thus spread across offices and it is difficult for the Department as well as Audit to establish a history of the dealer.

Audit noticed (between November 2013 and March 2014) that in the office of DC(CT), Punjagutta and in 12 circles²⁰, refund of ₹ 31.08 crore was authorized during the years 2011-12 and 2012-13 to 24 dealers (29 cases) but the relevant records were not available at offices where the dealers were registered. The respective jurisdictional officers replied that refund audit records were not available with them or had not been returned by the respective JC (CT)/DC

²⁰ Basheerbagh, Chinawaltair, Dabagardens, Dwarakanagar, Hyderguda, Hindupur, Jubilee Hills, Kadapa-I, Mahankali Street, S.D.Road, Sanathnagar and Srinagar Colony.

(CT). Due to unavailability of records the correctness of refunds authorized could not be verified by Audit. In the absence of these records, audit was in no position to verify the correctness or otherwise of refunds.

2.4.10 Conclusion

The Commercial Taxes Department failed to ensure compliance with the procedure for checking the refund claims and cross verification of claims for input tax credit was not completed in spite of the instructions of CCT. There were cases of excess refund due to incorrect assessments of turnover. The Department failed to forfeit the excess tax collected at source and authorized refunds there-against to works contractors executing works for the Government.

2.5 Audit of Arrears of revenue under VAT/Sales Tax

2.5.1 Introduction

Andhra Pradesh Value Added Tax (AP VAT) Act was introduced in April 2005 to replace the Andhra Pradesh General Sales Tax (AP GST) Act, 1957. According to Section 4 (1) of APVAT Act, save as otherwise provided in the Act, 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. If tax is found to be due from an assessee on final assessment by assessing authority, a demand notice shall be issued to the assessee for payment of dues within prescribed time.

Central Sales Tax (CST) Act, 1956 deals with taxation of interstate transactions. In terms of Section 9 (2) of CST Act, the authorities empowered to collect dues under the Sales Tax Act of the state may exercise the same powers for collection of dues under CST Act also.

2.5.2 Objectives, Scope and Methodology

The audit of arrears of revenue pertaining to two DC(CT)s and 22 circles²¹ was taken up during June-July 2014 with an objective to

- check whether the system adopted was adequate for collecting and consolidating information relating to arrears of revenue at various levels of Commercial Taxes (CT) Department viz. Commissionerate, Divisions and Circles;
- scrutinize the selected high value arrear cases to ascertain the effectiveness of action taken, and the recoverability of such high value arrear claims;

In the process, records relating to arrears of revenue for the period 2008-09 to 2012-13 of 24 offices were scrutinized vis-a-vis the data available with Debt Management Unit (DMU) portal.

²¹ DC(CT)s- Ananthapur and Nizamabad; CTOs - Afzalgunj, Ananthapur-I, II, Bodhan, Dharmavaram, Guntakal, Hindupur, Kamareddy, Madanapalli, Medak, Nellore, Nizamabad I, II, III, Rajahmundry, Sangareddy, Seetharampuram, Siddipet, Sultan Bazar, Tadipatri, Vengalaraonagar and Vuyyur.

Audit findings

Observations made during the process have been included in this report. The system and compliance deficiencies are discussed in the succeeding paragraphs.

2.5.3 Lack of accurate arrears figures with Commercial Taxes Department

If tax is found to be due from an assessee on final assessment by an assessing authority, a demand notice shall be issued to him for payment of dues within prescribed time. Demands so raised should also be posted in the Demand, Collection and Balance (DCB) Register and collection thereof watched through the Register. The Commissioner of Commercial Taxes (CCT) also in his circular (May 2007)²², reiterated that the maintenance of prescribed manual DCB Register was necessary. Apart from maintaining manual DCB Registers, all arrear figures are to be entered into the DMU package for monitoring their collection. The CCT also routinely calls for the DCB figures from the subordinate offices.

Audit noticed (July 2014) in Ananthapur Division that the arrear figures for the period 2008-09 to 2012-13 furnished to audit by the Division from the DMU portal did not match those furnished (December 2013) by the CCT. Further it was noticed from the statement of arrears of revenue for the years 2007-08 to 2012-13 furnished by the CCT that the balance amount in any particular year did not match the opening balance of the subsequent year. It was also noticed that the year-wise arrears position furnished in respect of 14 Divisions²³ were not matching with that of arrears position furnished in Division-wise consolidated statement. Audit also noticed (June to July 2014) that during the years 2008-09 to 2012-13, in two LTUs²⁴, and eight Circles²⁵, the offices did not maintain manual DCB Registers.

After Audit pointed out the above discrepancy, the offices in two LTUs and in two circles²⁶ replied (between June and July 2014) that DCB modules and Debt Management Unit (DMU) package were available in the new Value Added Tax Information System (VATIS) and so separate DCB registers were not being maintained. Two circles²⁷ confirmed that the registers were not being maintained, and the remaining four circles did not furnish any reply.

The circular instructions of Commissioner of Commercial Taxes issued from time-to-time, however, prescribe that both DCB registers and DMU portal data should be maintained and updated simultaneously. The DMU portal, which replicates the data contained in the DCB registers maintained manually, is yet to be stabilised and the intention behind the CCT's circular in May 2007

²² B.Vi(i)/109/2007 dated 29 May 2007.

²³ Begumpet, Charminar, Chittoor, Guntur-I, Eluru, Kadapa, Kakinada, Kurnool, Nellore, Nizamabad, Secunderabad, Vijayawada-I & II, Visakhapatnam.

²⁴ Ananthapur, Nizamabad.

²⁵ Afzalgunj, Madanapalli, Nellore, Rajamundry, Seetharampuram, Sultan Bazar, Vengalraonagar, Vuyyur.

²⁶ Madanapalli and Vuyyur.

²⁷ Afzalgunj and Nellore-II.

requiring maintenance of manual DCB register was to ensure a mechanism for data validation of the DMU package. The mismatch between the data shows data inconsistency and lack of data integrity in the package and also points to the consequent inability of Department to ensure accuracy of figures in the absence of DCB registers. There is also a possibility of irretrievable loss of data due to the absence of DCB registers.

2.5.4 Issues relating to data in DMU portal

Audit noticed (July 2014) in AC (LTU), Nizamabad Division, from the Debt Management Unit (DMU) Portal that the arrears figure of an assessee was initially overstated by ₹ 27.48 lakh due to posting the same demand multiple times. Subsequently, the total demand was shown as written off though arrears of ₹ 20.88 lakh were due. The data available in the DMU portal and the files do not support either the excess demand or the write-off.

Audit further noticed (July 2014) in AC(LTU) Ananthapur Division that in case of an assessee, against the tax due of ₹ 31.05 lakh for the year 2007-08, tax paid was ₹ 30.51 lakh with a balance of ₹ 0.54 lakh. However, the balance amount is not displayed in the DMU. The DC replied (September 2014) that a notice was issued to the dealer to pay the amount or to show the payment particulars if already paid.

In these cases, documents supporting the changes were not available in the files. In the absence of any reference to the write-off orders in the DMU portal, the veracity of data could not be ascertained in audit.

The issue was brought to the notice of the department (July 2014), reply is awaited (November 2014).

2.5.5 Incorrect waiver of realisable demand

As per the provisions of Section 9 (1) of the APGST Act, 1957, the Government, may, by notification in the Andhra Pradesh Gazette, make an exemption or reduction in rate, in respect of any tax or interest payable under the Act. In terms of Section 5(3) of the CST Act, 1956, the last sale or purchase of any goods made preceding the export of those goods out of the territory of India shall also be deemed to be in the course of such export.

Audit noticed (July 2014) that GST arrears of ₹ 9.29 crore due from dealers on account of sales of turmeric and chilli in four Divisions were written off by Government²⁸. These purchases were made by dealers within the state which were subsequently sold to parties outside the state, for eventual export out of India. They were not to be covered under the exemption provided by Section 5(3) as they were not the immediate purchases made before export. The amounts due are as detailed below:

²⁸ G.O.Ms.No.617 dt 28 April 2008.

(₹ in crore)

Sl. No.	Commodity	Total Amount	Division	Amount
1.	Chilli	2.56	Guntur Division	1.69
			Warangal Division	0.87
2.	Turmeric	6.73	Nizamabad Division	2.50
			Guntur-I Division	4.23
Total				9.29

The Government raised the demands for tax but waived the demands later on a representation from the dealers who were under ‘a *bona fide* belief’ that their purchases were not liable to tax under Section 5(3) of the CST Act. The waiver order given by the Government in the aforesaid cases was not in conformity with the provisions of the said Act, resulting in incorrect waiver of realisable demand of ₹ 9.29 crore.

The issue was brought to the notice of the Department (July 2014), reply is awaited (November 2014).

2.5.6 Lack of follow-up action by the Department

As per Section 28 (1) of the AP VAT Act as well as Section 17-C (1) of AP GST Act, Deputy Commissioner (DC) shall have the powers of a District Collector under the Andhra Pradesh Revenue Recovery Act, 1864 (AP RR Act) for the purpose of recovery of any amount due under the AP VAT Act or AP GST Act. Further, as per Section 28(2) of AP VAT Act/Section 17-C (2) of AP GST Act, a Deputy Commercial Tax Officer (DCTO) shall, for the purposes of recovery of any amount due under the Act, have the powers of a Mandal Revenue Officer under the Andhra Pradesh Rent and Revenue Sales Act, 1839 for the sale of property seized for any amount due under the respective Act.

Audit noticed (July 2014) in AC (LTU), Nizamabad Division that in the case of an assessee firm from which arrears of ₹ 5.34 lakh was due on account of AP GST for the period 1990-91, the assessing authority finally issued notices to the partners and its sureties in December 2003 and December 2005 respectively. These could not be served for the reason (as recorded on the undelivered notices) that the said persons were not available on the premises registered with the department. Even after tracing out the address of one of the partners of the firm, the Assessing Authority did not take any action under AP RR Act to recover the dues but instead asked (7 February 2006) the Gram Panchayat office²⁹ concerned to withhold permission to sell his properties. No response was received from the Gram Panchayat.

In spite of not receiving any reply, the Department did not make any efforts thereafter for more than one year to realize the arrears. The assessing authority finally addressed the jurisdictional authority of the Revenue Department on 26 September 2007 disclosing the identity of the partner and requesting him to collect the arrears of ₹ 5.34 lakh due, if necessary, by taking action to invoke the provisions of APRR Act. No reply was received and no further action was taken.

²⁹ Armoor

The issue was brought to the notice of the department (July 2014), reply is awaited (November 2014).

2.5.7 Cases which fell into arrears because of non-adherence to procedures

As per Commissioner's instructions³⁰ an advisory visit should be made to the place of business of newly registered dealers before issuing statutory forms, to ascertain the genuineness of the purpose for which the issue of statutory forms was sought.

Audit noticed (July 2014) in AC (LTU), Ananthapur Division from the assessment records of an assessee falling under the jurisdiction of Ananthapur-II Circle that the assessing authority raised demands (July 2008) of ₹ 68.56 lakh and ₹ 49.45 lakh as taxes payable by the dealer under VAT and CST Acts respectively for the year 2008-09. The dealer did not respond to the assessment orders and the demands were included in the DMU portal. The above demands were shown as non-realizable in DMU portal (8 July 2014).

It was noticed that the assessing authority, without considering the advice of the officer assigned to complete the advisory visit not to issue statutory forms to the assessee till the procedure was complete, issued 180 and 130 way bills to the assessee to meet the requirements under VAT and CST Acts respectively. The advisory visit was not completed as the officer deputed recorded that the dealer was "out of station". As per the assessment order, these waybills were used for tax evasion. The department did not make any effort to ascertain the details of the properties of the assessee. Issuing of way bills before completion of advisory visit and failure of the department in determining the property details of the assessee resulted in arrears of ₹ 1.18 crore under both the Acts. No further action was taken in the case.

The issue was brought to the notice of the department (July 2014), reply is awaited.

2.5.8 Non-production of records

In Nizamabad and Ananthapur Divisions, 30 files relating to arrears were called for out of which 12 files were not made available to Audit. Further, in Ananthapur Division, the case-wise details along with the relevant files in respect of 361 cases pertaining to APGST and 798 cases pertaining to CST for which write-off proposals were submitted were not produced to Audit.

The Department replied (July 2014) that the files were not readily traceable and would be submitted shortly. Further reply is awaited (November 2014).

³⁰ Circular Ref. No. A III (1)-5/2005, dated 27 October 2005.

2.5.9 Conclusion

The Commercial Taxes Department failed to maintain proper data in respect of arrears affecting their collection. The Department also failed to pursue the cases to their logical conclusion by following them up.

2.6 Input tax credit (ITC)

2.6.1 Excess claim of input tax credit

In terms of Section 13(5) of the AP VAT Act, 2005 (Act), no input tax credit (ITC) shall be allowed on sale of exempted goods (except in the course of export), exempt sales and transfer of exempted goods outside the State otherwise than by way of sale. As per Section 13(6) of the Act, ITC for transfer of taxable goods outside the State otherwise than by way of sale (exempt transactions) shall be allowed for the amount of tax in excess of four *per cent* (five *per cent* with effect from 14 September 2011).

As per sub rules (7), (8) and (9) of Rule 20 of AP VAT Rules 2005, a VAT dealer making taxable sales, exempted sales and exempt transactions of taxable goods shall restrict his ITC as per the formula prescribed i.e. $A*B/C$, where A is the input tax for common inputs for each tax rate, B is the taxable turnover and C is the total turnover.

Entry 59 was inserted in Schedule I of the Act, with effect from 1 June 2008, by Act 28 of 2008, exempting sale of goods to any unit located in Special Economic Zone (SEZ) from levy of VAT.

Under Section 20(3) of the Act, every return shall be subject to scrutiny to verify the correctness of calculation, application of correct rate of tax and input tax claimed therein and full payment of tax payable for such tax period. If any mistake is detected as a result of such scrutiny made, the authority prescribed shall issue a notice of demand in the prescribed form for any short payment of tax or for recovery of any excess ITC claimed.

During the test check of VAT records of offices of eight Deputy Commissioners of Commercial taxes (DC (CT)) and 13 circles³¹ for the assessment period from 2005-06 to 2012-13, Audit noticed (between May 2011 and March 2014) that in VAT returns of 14 cases for the assessment period 2007-08 to 2012-13, though sale transactions of the dealers involved taxable sales, exempt sales and also exempt transactions, they claimed ITC in excess, without proper restriction as per the formula prescribed. Further, the returns had not been scrutinised by the Assessing Authorities (AAs) as mandated under the Act. In 12 other cases, the AAs, while finalising the VAT assessments of these dealers between December 2009 and November 2012 for the assessment years 2005-06, 2006-07 and 2008-09 to 2011-12 had not restricted ITC correctly as per the

³¹ DC(CT)s - Anantapur, Begumpet, Charminar, Eluru, Kadapa, Nalgonda, Nizamabad, and Visakhapatnam; CTOs - Basheerbagh, Bhimavaram, Bowenpally, Begumpet, Ferozguda, Hydernagar, IDA-Gandhinagar, Jubilee Hills, M.G. Road, S.D Road, Somajiguda, Vengalaraonagar and Vidyanagar.

formula prescribed. This resulted in excess claim of ITC of ₹ 2.04 crore in 26 cases.

After audit pointed out the cases, three DC(CT)s³² and 11 CTOs³³ in 14 cases, stated (between February 2013 and September 2014) that the assessment would be revised. Two DC(CT)s and two CTOs³⁴ in four cases, stated (between February 2014 and August 2014) that revision show cause notices were issued to the dealers. Two CTOs³⁵ in three cases (between June 2012 and February 2014), stated that the matter would be examined and report submitted in due course. Two DC (CT)s and two CTOs³⁶ in four cases stated (between February 2014 and November 2014) that the assessments were revised, though no documentary evidence was furnished.

In one case (February 2014), the DC(CT) Kadapa contended that restriction of ITC was not applicable to the dealer, as he was not dealing in any exempt goods. The reply is not acceptable as the dealer had made exempt sales (SEZ sales) also and no ITC was admissible on such sales.

2.6.2 Under-declaration of tax due to incorrect claim of input tax credit

Under Section 13(1) of the 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 by that dealer during the tax period, if such goods are meant for use in the business of the VAT dealer. As per Section 13(4) of the Act read with Rule 20(2)(a), (h), (i), (q) and (r) of APVAT Rules 2005, a VAT dealer is not entitled to ITC on purchase of automobiles, coal, inputs used in construction or maintenance of any building, other fuels like LPG etc., used in manufacture or processing units, and cement used in manufacture of RCC or PCC pipes or cement poles unless the dealer is in the business of dealing in these goods. CCT clarified³⁷ that usage of LPG in hotels should be treated as manufacturing activity and its purchase was not eligible for ITC.

Under Section 4(9)(d) of the Act, the dealers running any restaurant or eating establishments etc., having annual turnover between ₹ five lakh and ₹ 1.50 crore are not entitled to claim ITC and are required to pay tax at the rate of four *per cent* (five *per cent* with effect from 15 September 2011) on the taxable turnover.

Audit noticed (between August 2013 and February 2014), during test check of VAT records of DC(CT) Chittoor and 11 circles³⁸ that in 19 cases, the dealers incorrectly claimed ITC amounting to ₹ 1.23 crore on purchase of automobiles, LPG, coal and cement (used in manufacture of spun pipes) for the period from 2008-2009 to 2011-2012, though these goods were not indicated in their

³² DC(CT)s - Charminar, Eluru and Visakhapatnam.

³³ Basheerbagh, Begumpet, Bhimavaram, Bowenpally, Ferozguda, Hydernagar, IDA Gandhinagar, Jubilee Hills, Somajiguda, Vengalaraonagar and Vidyanagar.

³⁴ DC(CT)s - Begumpet and Nalgonda; CTOs- Jubilee Hills and SD Road.

³⁵ Basheerbagh and Vengalaraonagar.

³⁶ DC(CT)s- Ananthapur and Nizamabad; CTOs – MG Road and Vengalaraonagar.

³⁷ Advance Ruling -A.R.Com/79/2012, dt.21 February 2013.

³⁸ CTOs Ashoknagar, Basheerbagh, Begumpet, Ferozguda, Jubilee Hills, Keesara, Khairatabad, Madhapur, Malakpet, Nampally and Tadipatri.

registration certificates. In two other cases the dealers running canteen/restaurant and paying tax under composition as per the provisions of Section 4(9)(d) incorrectly claimed ITC of ₹ 3.86 lakh during 2011-12 and 2012-13, though not entitled. This resulted in excess claim of ITC of ₹ 1.27 crore in all 21 cases.

After audit pointed out the cases, the CTOs Nampally and Khairatabad stated in three cases (January 2014) that VAT audit was under progress and rectification report would be submitted in due course. Four CTOs³⁹ in five cases (November 2013 to September 2014), stated that VAT audit file would be submitted to DC(CT) for revision. In four cases CTOs Khairatabad and Malakpet stated (between January 2014 and February 2014) that revision show cause notices were issued to the dealers and in the remaining nine cases, the AAs stated (between September 2013 and January 2014) that the matter would be examined and report submitted in due course.

2.6.3 Incorrect allowing of input tax credit

Audit cross checked (between November 2013 and March 2014), the ITC claims of dealers in two circles⁴⁰ with the sales reports of the selling dealers in Value Added Tax Information System (VATIS) for the period 2010-11 and 2011-12. In respect of two VAT dealers, Audit noticed that the sellers either reported less or 'Nil' sales turnovers during the period. However, the AAs without cross-checking the sales turnovers, incorrectly allowed ITC of ₹ 14.96 lakh.

After audit pointed out the cases, in one case (February 2014), CTO Sanathnagar stated that the matter would be examined with reference to the records of the dealer concerned and final reply submitted in due course. In another case (November 2013), CTO Srinagar Colony stated that the dealer was in possession of valid tax invoice and hence ITC was allowed to the dealer. The reply is not tenable as the correctness of the invoice was not verified by the AA before allowing ITC claim/refund. Since the sales report of the sellers in VATIS showed less sales/'Nil' sales during the tax period, the invoice was not valid tax invoice.

The matter was referred to the Department between March and May 2014. Their reply has not been received (November 2014).

2.6.4 Short levy of tax due to incorrect allowing of notional input tax credit

According to Sections 13(1) and 13(3) (a) of the Act, ITC shall be allowed to a VAT dealer for the tax charged in respect of all purchases of taxable goods, made by that dealer during the tax period subject to the condition that on the date the goods are received by him, he is in possession of tax invoices obtained from other VAT dealers. As per the provisions of Rule 20(2)(a) of AP VAT Rules, no ITC is allowed to the VAT dealers on purchase of automobiles unless

³⁹ Basheerbagh, Begumpet, Ferozguda and Keesara.

⁴⁰ CTOs -Sanathnagar and Srinagar Colony.

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

As per Section 21(3), read with Rule 25(5) of APVAT Rules 2005, where any VAT return filed by the dealer appears to be incorrect or incomplete, the authority prescribed shall assess the tax payable to the best of his judgement on Form VAT 305 after affording a reasonable opportunity to the dealer and raise a demand in Form VAT 202. Dealer shall pay the sum within the time and manner specified.

Audit noticed (December 2013) during the test check of VAT records of DC(CT), Visakhapatnam that in one case for the assessment year 2009-10, AA allowed notional ITC on the purchases of used cars made by a car dealer from persons/entities other than VAT dealers for resale. Since no tax was paid on such purchases, notional ITC was not allowable under Rule 20(3)(a), it resulted in incorrect allowing of ITC amounting to ₹ 5.27 crore.

After audit pointed out the case, the AA stated that (March 2014) the dealer had furnished documentary evidence in proof of purchase and ITC was allowed as per Rule 20(3)(a) of the Act and the Advance Ruling⁴¹ issued by a Committee appointed by the CCT. However, the rule is clear that the admission of such ITC is valid only when supported by documentary evidence. The credit notes and proof of payments made by the dealer for purchase of vehicles cannot be considered as documentary evidence. In the absence of tax invoices application of Rule 20(3)(a) was not in order. Advance ruling issued is against the provisions of Section 13 of the Act as ITC is allowable for the tax charged for the purchase of taxable goods. In the present case, since no tax was charged on purchases, allowing notional ITC was incorrect.

The matter was referred to the Department in March 2014. Their reply has not been received (November 2014).

2.7 Under-declaration of tax due to adoption of incorrect rate of tax

Under Section 4(1) of the Act, tax on sales is leviable at the rates prescribed in Schedule I to IV and VI to the APVAT Act, 2005. Commodities not specified in any of these schedules fall under Schedule V and are liable to VAT at the rate of 12.5 *per cent* (14.5 *per cent* with effect from 15 January 2010).

The dealers dealing in the commodities viz., imitation jewellery and HDPE woven sacks (Schedule IV goods) and the works contractors who opt to pay tax under composition are liable to pay tax at the rate of four *per cent*⁴².

⁴¹ Advance Ruling 64/200, dt. 23 April 2010.

⁴² Five *per cent* with effect from 14 September 2011 vide G.O.Ms.No.1718 Rev(CT II) dated 13 September 2011

Further, as per Section 4(9)(c) of the Act, with effect from 26 April 2010, every dealer whose annual total turnover is ₹ 1.5 crore and above shall pay tax at the rate of 14.5 *per cent* on the taxable turnover representing sale or supply of food or any other article for human consumption or drink served in restaurants, sweet-stalls, clubs or any other eating houses or anywhere whether indoor or outdoor or by caterers. The commodities viz., broken glass, purlin, galvalume galvanized coloured coated sheets, composite gutter columns and rafters and pre-engineered buildings⁴³ are not specified in any of the Schedules of the Act and therefore fall under Schedule V and are taxable at the rate of 14.5 *per cent*.

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

Audit noticed (between February 2012 and March 2014) during the test check of VAT records of 21 circles⁴⁴ for the assessment period from 2009-10 to 2012-13 that 57 works contractors who opted to pay tax under composition and one dealer dealing in HDPE woven sacks paid tax at the rate of four *per cent* and one dealer dealing in imitation jewellery, paid tax at one *per cent* instead of five *per cent* for the transactions effected after 14 September 2011. Six dealers running hotel/sweet shops etc., two dealers dealing in broken glass and one dealer dealing in the commodity 'purlin, galvalume galvanized coloured coated sheets, composite gutter columns and rafters and pre-engineered buildings' paid tax at less than 14.5 *per cent*. The incorrect application of rate of tax resulted in under declaration of tax of ₹ 8.08 crore on the turnover of ₹ 214.37 crore by 67 dealers.

After audit pointed out the cases, the five CTOs⁴⁵ stated (between December 2012 and August 2014) in six cases that audit of these dealers would be taken up with the permission of DC(CT) concerned, and rectification report submitted after completion of audit. CTOs Bowenpally, Nampally and Nidadavole in 12 cases stated (between November 2013 and August 2014), that notices would be issued to these dealers proposing higher rate of tax. CTO Barkatpura stated (November 2012), that in one case, the dealer is yet to receive TDS (Tax Deducted at Source) certificates for the balance tax recovered, and in another case, that the dealer submitted TDS certificates for the balance tax due. However, no evidence was furnished in support of the same and in the remaining 47 cases (between February 2012 and March 2014), the AAs stated that the matter would be examined and report furnished in due course.

The matter was referred to the Department between October 2012 and May 2014. Their reply has not been received (November 2014).

⁴³ Advance ruling No.A.R.Com/57/2011 dated 10 November 2011 also confirmed the rate of tax as 14.5 *per cent*.

⁴⁴ CTO - Ashoknagar, Barkatpura, Beet Bazaar, Begumpet, Bowenpally, Dabagardens, Fort Road, Gajuwaka, Kothagudem, Madhapur, Malkajgiri, Nampally, Narayanguda, Nidadavole, Ramgopalpet, R.P.Road, Saroornagar, Somajiguda, Sultan Bazaar, Tarnaka and Vengalaraonagar

⁴⁵ Beet bazaar, Narayanguda, Saroornagar, Somajiguda and Vengalaraonagar.

2.8 Non-levy of interest

According to Section 22(2) of the APVAT Act, if any dealer fails to pay the tax due on the basis of return submitted by him under the Act within the time prescribed or specified thereunder, he shall pay, in addition to the amount of such tax or penalty or any other amount, interest calculated at the rate of one *per cent* per month (1.25 *per cent* with effect from 15 September 2011) for the period of delay.

Audit noticed (between May 2012 and February 2014) during the test check of the VAT records of DC (CT)-Kakinada and nine circles⁴⁶ for the assessment period from March 2006 to March 2013 that in 11 cases, the dealers paid tax of ₹ 1,957 crore as declared in their monthly VAT returns with delays upto 1,892 days from the due date of payment. In three cases, the dealers paid the under-declared tax of ₹ 77.09 lakh as pointed out by the AAs (April 2011 and February 2012) with delay upto 1,380 days. However, the AAs did not levy/short levied interest on belated payment of tax. This resulted in non/short levy of interest of ₹ 5.50 crore in all 14 cases.

In response to audit observation, three CTOs⁴⁷ stated in five cases (between April 2013 and February 2014) that notices would be issued to the dealers, four CTOs⁴⁸ in six cases stated (April 2013 to January 2014) that the matter would be examined. In one case, CTO, Aghapura stated (November 2014) that the file would be sent to DC concerned for revision.

In one case (March 2013) the DC(CT) contended that interest was levied from the date of passing of assessment order, as per the judgement of High Court of Andhra Pradesh⁴⁹. However, the judgement quoted is irrelevant since the present case is not even in similarly placed category. Section 22(2) of the Act clearly provides for levy of interest for delay from the due date i.e. the date of submission of returns under Section 20(1), which is the case here. In the other case (February 2014), CTO, Basheerbagh contended that payments were made through cheques within the time period and there was no late payment. But the payment was made through post-dated cheques.

The matter was referred to the Department between March 2013 and May 2014. Their reply has not been received (November 2014).

⁴⁶ CTO- Aghapura, Basheerbagh, Chittoor-II, IDA Gandhinagar, Jubilee Hills, Nacharam, Nellore-II and Punjagutta.

⁴⁷ IDA Gandhinagar, Jubilee Hills, and Special commodities.

⁴⁸ Chittoor-II, Nacharam, Nellore II and Punjagutta.

⁴⁹ M/s Viceroy Hotels Limited, Hyderabad vs CTO General Bazar, Hyderabad WP No.17110 of 2010, dated 23 February 2011.

2.9 Sales tax deferment

2.9.1 Non levy of interest on belated repayment of sales tax deferment

According to 'Target 2000 sales tax incentive scheme' promulgated by State Government in 1996, sales tax incentives such as tax deferment and tax exemption were sanctioned to certain industrial units for products manufactured by them to the extent of incentive limit as mentioned in the Final Eligibility Certificate (FEC).

As per the provisions of Section 69 of the Act, all sales tax exemption cases sanctioned prior to the enactment of the Act were converted to sales tax deferment by doubling the period left over, without change in monetary limit of the amount sanctioned. Further, as per the Government order⁵⁰ dated 8 May 2009, repayment of deferred sales tax was to commence after the end of the period of availing. In case of non-remittance of deferred tax on the due dates, interest at the rate of 21.5 per cent per annum was to be charged as per the guidelines of the sales tax deferment scheme.

During test check of deferment records of three DC(CT)s and five circles⁵¹, Audit noticed (between February 2011 and January 2014) that in 17 cases, where the dealers availed sales tax deferment but repaid the deferred tax amounting to ₹ 438.67 crore belatedly (delays upto 1,371 days), no interest was levied. This resulted in non-levy of interest of ₹ 3.57 crore.

After audit pointed out the cases, two DC(CT)s and two CTOs⁵² stated that in eight cases (between May 2011 and April 2014), notices would be issued to the dealers and payment particulars furnished within a short period. In one case DC(CT) Chittoor stated (July 2014) that the assessment file was sent for revision. In one case, DC(CT) Secunderabad stated (October 2014) that interest calculated by Audit on the belated payments was incorrect. The reply is not tenable as the Department adopted incorrect due dates for calculation of interest. In the remaining eight cases, CTOs Somajiguda, Nacharam and SD Road stated (between December 2013 and April 2014) that the matter would be examined and rectification report submitted in due course.

The matter was referred to the Department between January 2014 and May 2014. Their reply has not been received (November 2014).

⁵⁰ G.O.Ms.No.503 dated 8 May 2009.

⁵¹ DC(CT)-Chittoor, Nalgonda, Secunderabad, CTO-Benz circle, Jubilee Hills, Nacharam, SD Road and Somajiguda.

⁵² DC(CT) Nalgonda and Secunderabad, CTO- Benz circle and Jubilee Hills.

2.10 VAT on works contracts

2.10.1 Payment of VAT under non-composition

2.10.1.1 Short realization of tax due to incorrect determination of taxable turnover/ application of incorrect rate of tax

Under Section 4(7) (a) of the APVAT Act, 2005 (Act), tax on works contract is payable on the value of goods incorporated in the work at the rates applicable to such goods. To determine the value of goods incorporated, deductions prescribed under Rule 17(1) (e) of APVAT Rules are to be allowed from the total consideration received or receivable, and the balance turnover is taxable at the same rates at which the purchase of goods were made and in the same proportion.

Audit noticed (between February 2011 and February 2014) during test check of the VAT returns and assessment files of 17 circles⁵³ that the AAs while finalising the assessments in 17 cases for the years from 2005-06 to 2012-13 between August 2010 and March 2013, incorrectly determined the taxable turnover by allowing inadmissible deductions like bank interest, partner's remuneration, machinery repair charges, administrative charges, depreciation on material etc., from gross turnovers which are not prescribed under the rules. It was also observed that in some of these cases, charges such as sub-contract payments, job work charges, expenditure on high sea sales, etc. were deducted from the taxable turnover; subsequently those charges were again included in the establishment charges relatable to labour deductible from taxable turnover, leading to double deductions availed on the same allowable charges.

In one case, the CTO, Special commodities circle did not adopt correct turnovers in one year while the turnover in other two years was not assessed under Rule 17(1)(e) though required. In another case, an assessee, during 2011-12, though he had paid taxes at different rates on his purchases and claimed input tax credit at those rates, reported his output tax on sales turnover at five *per cent* only, which was lower than the rates at which he had claimed the input credit.

All these cases resulted in short levy/ under-declaration of tax of ₹ 1.91 crore.

After audit pointed out the cases (between February 2011 and February 2014), seven CTOs⁵⁴ stated in seven cases (between April 2013 and August 2014), that assessment files were submitted to DC (CT) concerned for revision. CTO Nampally and Vengalaraonagar stated (July 2014 and August 2014) in two cases that revision show cause notice was issued to the dealer. Seven CTOs⁵⁵ in seven cases (between May 2012 and February 2014) stated that the matter

⁵³ CTO-Aghapura, Basheerbagh, Benz circle, Bhimavaram, Dabagardens, Dwarakanagar, Hydernagar, Jeedimetla Jubilee Hills, Keesara, Kurupam Market, Nampally, Nellore-II, Punjagutta, Special commodities, Steel Plant, and Vengalaraonagar.

⁵⁴ Benz circle, Dabagardens, Dwarakanagar, Hydernagar, Keesara, Special Commodities and Vengalaraonagar.

⁵⁵ CTO Basheerbagh, Jeedimetla, Jubilee Hills, Nampally, Nellore-II, Punjagutta, and Steel plant.

would be examined and report submitted in due course. In one case CTO Kurupam Market stated (August 2014) that the assessment was revised, though no documentary evidence was furnished.

In respect of one case (April 2012), CTO Hydernagar contended that administrative expenses were exempt as they were not taxable. However, administrative expenses to the extent relatable to labour only are exempt under Rule 17(1)(e)(v). Reply of the CTO Aghapura in one case was irrelevant.

The matter was referred to the Department (February 2013 and April 2014); their reply has not been received (November 2014).

2.10.1.2 Under-declaration of tax by works contractors who did not maintain detailed accounts

As per Rule 17(1) (g) of AP VAT Rules, where the VAT dealer has not maintained detailed accounts to determine the correct value of the goods at the time of incorporation, he shall pay tax at the rate of 12.5 per cent (14.5 per cent with effect from 26 April 2010) on the total consideration received or receivable, subject to the deductions specified. In such cases the contractor VAT dealer shall not be eligible to claim ITC.

Audit noticed (between July 2013 and January 2014) during the test check of VAT audit files in the office of DC(CT), Karimnagar and two circles⁵⁶ that in two cases for the period from 2008-09 to 2010-11, the AAs did not assess the taxable turnover of ₹ 1.36 crore for the period from 2008-09 to 2010-11; in the remaining case where the dealer's turnover of ₹ 1.84 crore for the period from 2009-10 to 2011-12 was assessed as per Rule 17(1)(g), the AA levied tax at the rates applicable to the goods instead of at the rate of 12.5 per cent (14.5 per cent with effect from 26 April, 2010). This resulted in a total short levy of tax of ₹ 25.54 lakh.

After audit pointed out the cases, the CTO Vengalaraonagar stated (August 2013) that the audit file would be submitted to DC(CT) for further necessary action. In two other cases, the DC(CT) Karimnagar and CTO Nampally stated (between July 2013 and September 2013) that the matter would be examined and result intimated in due course.

The matter was referred to the Department between February 2014 and May 2014. Their reply has not been received (November 2014).

2.10.2 Payment of tax under composition method

2.10.2.1 Short levy of tax on works contract under composition

As per Section 4(7) (b) of AP VAT Act, 2005 (Act), every dealer executing works contract may, in lieu of the amount of tax payable by him under clause (a) of Section 4(7) of Act opt to pay tax by way of composition at the rate of four per cent (five per cent with effect from 14 September, 2011) of the total

⁵⁶ Nampally and Vengalaraonagar.

amount received or receivable by himself towards execution of the works contract. No deductions are permissible to these dealers except payments made to sub-contractors.

As per Section 4(7)(e) of Act, if any dealer having opted for composition, purchases or receives any goods from outside the State or India or from any dealer other than a dealer in the State and uses such goods in the execution of the works contracts, such dealer shall pay tax on such goods at the rates applicable to them under the Act and the value of such goods shall be excluded from the total turnover for the purpose of computation of the turnover on which tax by way of composition at the rate of four *per cent* is payable.

During test check of VAT records of nine circles⁵⁷ during the period from 2007-08 to 2011-12 of the works contractors who had opted to pay tax under composition, Audit noticed (between October 2011 and March 2014) that in three cases, dealers during 2011-12 under-declared taxable turnover by ₹ 3.02 crore in monthly VAT returns compared to the turnover as per TDS certificates.

In case of one dealer during 2007-08 and 2008-09, the AA incorrectly allowed exemption on labour charges of ₹ 1.67 crore though not permissible. In five cases during 2008-09 to 2011-12, the AAs determined taxable turnover of ₹ 58.59 crore when the actual turnovers received by the dealers was ₹ 66.53 crore and in one of these cases the AA allowed exemption on labour charges though not permissible. In the remaining case, during 2007-08 to 2009-10, the AA levied tax on the goods purchased from outside the state at lesser rates. All these cases, resulted in short levy/payment of tax of ₹ 58.55 lakh.

After audit pointed out the cases, three CTOs⁵⁸ in three cases stated (between November 2013 and February 2014) that files would be submitted to DC (CT) for revision. In four cases, three CTOs⁵⁹ stated (between October 2013 and October 2014) that revision show cause notices were issued to the dealers and in the remaining three cases, three CTOs⁶⁰ (between September 2013 and March 2014) stated that the matter would be examined and report submitted in due course.

The matter was referred to the Department between September 2013 and May 2014. Their reply has not been received (November 2014).

2.10.2.2 Short levy of tax on builders

Under Section 4(7)(b) of APVAT Act 2005 (Act), a VAT dealer executing works contract before commencement of work may opt to pay tax by way of composition at the rate of four *per cent* (five *per cent* with effect from 14 September 2011) on the total consideration received or receivable.

⁵⁷ CTO Autonagar, Gajuwaka, Gandhinagar, Hyderguda, Jubilee Hills, Keesara, Khairatabad, Kothagudem and Ramannapet.

⁵⁸ Autonagar, Keesara and Khairatabad.

⁵⁹ CTO- Gandhinagar, Hyderguda and Ramannapet.

⁶⁰ Gajuwaka, Jubilee Hills and Kothagudem.

However, under Section 4(7)(d) of Act, every dealer engaged in construction and selling of residential apartments, houses, buildings or commercial complexes may opt to pay tax by way of composition at the rate of four *per cent* on 25 *per cent* (five *per cent* on 25 *per cent* w.e.f. 14 September 2011) of the amount, received or receivable towards the composite value of both land and building or the market value fixed thereon for the purpose of stamp duty, whichever is higher. Rule 17(4)(i) of the APVAT Rules 2005 provides that VAT is to be paid to Registration Department at the time of registration of the property in the form of demand draft drawn in favour of CTO.

The rights of ownership/title to the properties are said to have been transferred upon execution of sale deed and payment of tax under Section 4(7)(d). Any additional works carried out thereafter by entering into separate agreement becomes a 'works contract' under APVAT Act between such buyer and dealer and attracts tax under Section 4(7)(d) of the Act, i.e. the rate of four/five *per cent* of the total consideration received. The Advance Ruling⁶¹ dated 16 October 2012 also confirmed this. Therefore, amount received towards subsequent works for finishing/completion of flats was liable to VAT at the rate of four/five *per cent* instead of four/five *per cent* on 25 *per cent* of consideration.

During the test check of VAT audit files in seven circles⁶² for the assessment period from 2006-07 to 2011-12 Audit noticed (between August 2013 and March 2014) that in five cases, the AAs levied tax at the rate of four *per cent* on 25 *per cent* of the amounts received by the apartment builders towards execution of additional works in finishing of apartments after sale deeds were executed by entering into separate construction agreements with buyers, instead of at the applicable rate of four *per cent* on the total value of the works.

Out of the two other cases, in one case of CTO, Beet Bazar, Audit observed that during the assessment period 2009-10 and 2010-11, a dealer paid VAT at the rate of four *per cent* on 25 *per cent* of the total value of 45 apartments constructed on the land owned by another individual. Payment of tax treating the transaction as sale of all the apartments was not in order, as 16 out of the 45 apartments belonged to the land owner and construction work executed for the land owner was to be treated as works contract taxable under Section 4(7)(b) at four *per cent* of the value of work. In the other case in the office of CTO, Somajiguda, as per the Profit and Loss accounts for the years 2007-08 and 2009-10 of a dealer, the consideration received was more than the turnover declared by him in his returns, leading to short levy of tax. AAs did not detect the discrepancies in these two cases.

Application of incorrect rate of tax and omission of turnover resulted in short levy of tax of ₹ 64.73 lakh in these seven cases.

After audit pointed out the cases, the three CTOs⁶³ stated in three cases (between January 2014 and June 2014) that audit files would be submitted to the DC(CT)s

⁶¹ A.R.Com/66/2011 dt. 16 October 2012

⁶² Beet Bazar, Dwarakanagar, Gandhinagar, Jubilee Hills, Khairatabad, Sanathnagar and Somajiguda.

⁶³ Jubilee Hills, Khairatabad and Sanathnagar.

concerned for revision, in another three cases (August 2014), three CTOs⁶⁴ stated that revision show cause notices were issued and in the remaining case (March 2013), CTO Dwarakanagar stated that the matter would be examined and report submitted in due course.

The matter was referred to the Department between January 2014 and May 2014; their reply has not been received (November 2014).

2.11 Tax on interstate sales

2.11.1 Short levy of tax on interstate sales

According to Section 8(2) of the Central Sales Tax (CST) Act (Act) read with Rule 12 of the CST (Registration & Turnover) Rules (CST R&T Rules), every dealer, who in the course of interstate trade or commerce sells goods to a registered dealer located in another State, shall be liable to pay tax under the Act at the rate of four *per cent* (three *per cent* with effect from 1 April 2007 and two *per cent* with effect from 1 June 2008), provided the sale is supported by a declaration in form 'C'. Otherwise, tax shall be calculated at the rate of 10 *per cent* or at the rate applicable to the sale of such goods inside the State, whichever is higher up to 31 March 2007. With effect from 1 April 2007, the respective State rate was applicable to all goods not covered by 'C' forms. As per Advance Ruling⁶⁵ dated 2 July 2009, any interstate sale made by Special Economic Zone (SEZ) dealer to a dealer of Domestic Tariff Area (DTA)⁶⁶ is taxable.

Blades, granites, mosquito repellents, retreaded tyres, timber, machinery, fruit pulp, air filters, spare parts to LPG equipment, construction material, moulded furniture, cosmetics, noodles and toys which fall under Schedule V to the APVAT Act are liable to be taxed at the rate of 12.5 *per cent* (14.5 *per cent* with effect from 15 January 2010); similarly, analytical instruments, aluminium conductors and software fall under Schedule IV to the Act *ibid* and are taxable at the rate of four *per cent*.

Audit noticed (September 2013 to March 2014) during the test check of assessment files of 14 circles⁶⁷ that in 21 cases the AAs, while finalising the CST assessments between March 2012 and March 2013 for the years 2002-03, 2008-09 and 2009-10, levied tax on turnover of ₹ 2.08 crore representing interstate sales of goods not supported by 'C' forms at rates less than the applicable rates. In another case of an SEZ dealer, the AA did not levy tax on interstate DTA sale of software of ₹ 23.18 crore for the period from 2006-07 to 2008-09 and in the other case, the AA did not assess the interstate sale turnover of aluminium conductors of ₹ 2.64 crore for the period 2009-10 though covered by 'C' forms. In all, there was a short levy of ₹ 1.79 crore on the taxable turnover of ₹ 27.89 crore.

⁶⁴ CTO Beet Bazaar, Gandhinagar and Somajiguda.

⁶⁵ A.R. No. 52/2008 dated 2 July 2009.

⁶⁶ DTA means the whole of India including territorial waters and continental shelf but does not include areas of the Special Economic Zone.

⁶⁷ CTOs Benz Circle, Brodipet, Gajuwaka, Jeedimetla, Jubilee Hills, Keesara, Khammam-II, Madhapur, Nacharam, Nampally, Punjagutta, Rajendranagar, Ranigunj and Sanathnagar.

After audit pointed out the cases, six CTOs⁶⁸ in six cases stated (November 2013 and July 2014), that assessment files were submitted to DC (CT) concerned for revision. In one case, CTO, Keesara stated (November 2013), that the assessment would be revised. Eight CTOs⁶⁹ in 15 cases stated (September 2013 and March 2014) that the matter would be examined. In another case, CTO Nacharam is yet to furnish reply.

The matter was referred to the Department between January and May 2014. Their reply has not been received (November 2014).

2.11.2 Short levy of tax due to incorrect determination of taxable turnover under CST Act

As per Section 2(h) of CST Act, 1956, “sale price” means the amount payable to a dealer as consideration for the sale of any goods, less any sum allowed as cash discount, but inclusive of any sum charged for anything before the delivery thereof other than the cost of freight in cases where such cost is separately charged. AP Sales Tax Appellate Tribunal (STAT) held⁷⁰ that interest charged for belated payment of the bill amount also forms part of the sale consideration.

During the test check of CST assessment file of DC (CT), Visakhapatnam for the period 2009-10, Audit noticed (between November 2013 and December 2013) that in one case the AA did not include the interest received on belated payments into consideration while arriving at the taxable turnover. This resulted in short levy of tax of ₹ 3.24 lakh due to incorrect determination of taxable turnover.

After audit pointed out the case, the AA stated (September 2014) that revision show cause notice was issued to the dealer.

The matter was referred to the Department (April 2014). Their reply has not been received (November 2014).

2.12 Non-payment of purchase tax

Under Section 4(4) of the APVAT Act, 2005, every VAT dealer, who in the course of business purchases any taxable goods from a person or a dealer not registered as a VAT dealer or from a VAT dealer in circumstances in which no tax is payable by the selling VAT dealer, shall be liable to pay tax at the rate of four *per cent* on the purchase price of such goods, if after such purchase, the goods are used as inputs for products which are exempt from tax under the Act, or used as inputs for goods, (i) which are disposed of otherwise than by way of sale in the State or (ii) dispatched outside the State otherwise than by way of sale in the course of interstate trade and commerce (exempt transactions) or by way of export out of the territory of India.

⁶⁸ CTOs Benz circle, Khammam II, Madhapur, Punjagutta, Rajendranagar and Sanathnagar.

⁶⁹ CTOs Brodipet, Gajuwaka, Jeeditmetla, Jubilee Hills, Nacharam, Nampally, Ranigunj, Sanathnagar.

⁷⁰ AP Paper Mills vs State of Andhra Pradesh (44 STC P.61).

Provided that wherever a common input is used to produce goods, the turnover taxable under this sub-section shall be the value of the inputs, proportionate to the value of the goods, used or disposed of.

Audit noticed (between August 2011 and February 2014) during the test check of VAT records of two DC (CTs)⁷¹ and three circles⁷² for the period 2008-09, 2010-11 to 2012-13, that in eight cases, the dealers reported exempt transactions of chillies, cotton and sale of exempted goods such as cotton seed hull, husk of paddy and pulses derived from taxable goods such as cotton, pulses and paddy. In all these cases, the dealers purchased taxable goods from unregistered dealers. Out of the total purchase of taxable goods worth ₹ 288.77 crore from unregistered dealers, the purchase price of ₹ 27.60 crore corresponding to the exempt transactions and exempt sales attracted purchase tax. However, neither did the dealers pay the tax nor was the same levied by the AAs. This resulted in non-payment of purchase tax of ₹ 1.33 crore.

After audit pointed out these cases, the CTO Machilipatnam stated (April 2014) in one case that VAT audit file was submitted to the DC(CT) for revision. In one case, CTO Jubilee hills stated (January 2014) that show cause notice was issued to the dealer. In two cases, DC(CT) Guntur-II stated (April 2014) that VAT audit of the dealers was taken up and final orders would be passed. In one case, CTO Maharajgunj stated (March 2014) that the matter would be examined.

In the remaining three cases, DC (CT) I, Guntur contended (March 2013) that the dealers were not liable to pay purchase tax as they did not dispose of the husk otherwise than by way of sale or consumption. However, the dealers, in their returns had shown sale of husk in the column of exempted sales and hence, purchase tax payable by them was worked out accordingly. Advance ruling⁷³ dated 5 January 2012 also supports the audit view.

The matter was referred to the Department (between September and May 2014) and to the Government in August 2014. Their reply has not been received (November 2014).

2.13 Levy of penalties

2.13.1 Non levy of penalty for failure to file returns/belated payment of tax

Under Section 51(1) of the APVAT Act, a dealer who fails to pay tax due on the basis of the return submitted by him by the last day of the month in which it is due, shall be liable to pay tax and a penalty of 10 *per cent* of the amount of tax due. Under Section 50(3) of the APVAT Act, where a dealer files a return after the last day of the month in which it is due, shall be liable to pay a penalty of 15 *per cent* of the tax due.

As per Section 9 (2A) of CST Act, 1956, all the provisions relating to offences, interest and penalties of the sales tax law of each State shall, with necessary

⁷¹ Guntur I and II.

⁷² Jubilee Hills, Machilipatnam and Maharajgunj.

⁷³ Advance Ruling No. AR/Com/73/2012.

modifications, apply in relation to the assessment, re-assessment, collection and the enforcement of payment of any tax required to be collected under the CST Act in such State as if the tax under the Act were a tax under such State sales tax law.

Audit noticed (between February 2012 and March 2014) during the test check of VAT records of seven circles⁷⁴ for the period 2005-06 to 2012-13 that in 10 cases the dealers paid tax of ₹ 1.91 crore due on the monthly returns submitted by them after the last day of month in which it was due. The AAs did not levy penalty of 10 *per cent* of the amount of tax due on belated payment of tax. In another case, the AA while finalising the CST assessments (March 2012) for the years 2010-11 and 2011-12, did not levy any penalty on belated payment of tax and for filing returns after the due date. The total non-levy of penalty was ₹ 48.3 lakh.

After audit pointed out the cases, the AAs stated that in two cases⁷⁵ (between December 2013 and January 2014), penalty was levied in November 2013 and January 2014. However, no documentary evidence in proof of raising the demand was furnished. In one case, CTO, Steel plant stated (January 2014), that the assessment file was submitted to DC (CT) and on receipt of orders further report would be submitted. In four more cases (between January and June 2014), two CTOs⁷⁶ stated that penalty show cause notices were issued to the dealers and in the remaining four cases, three CTOs⁷⁷ stated (between October 2013 and March 2014) that the matter would be examined and report submitted in due course.

The matter was referred to the Department between October 2013 and April 2014. Their reply has not been received (November 2014).

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

As per Section 53(1) of AP VAT Act, 2005, where any dealer has under-declared the tax, and where it has not been established that fraud or wilful neglect has been committed and where the under-declared tax is (i) less than 10 *per cent* of the tax, a penalty shall be imposed at ten *per cent* of such under-declared tax; (ii) more than 10 *per cent* of the tax due, a penalty shall be imposed at 25 *per cent* of such under-declared tax. Under Section 53(3) of APVAT Act (Act), any dealer who has under-declared the tax and where it is established that fraud or wilful neglect has been committed he shall be liable to pay penalty equal to the tax under-declared.

During the test check of the VAT audit files in DC(CT), Visakhapatnam Division and nine circles⁷⁸ during the period 2007-08 to 2011-12, Audit noticed (between September 2013 and March 2014) that in eight out of 15 cases where

⁷⁴ CTO- Bhimavaram, Kadapa I, Madhapur, Mahboobnagar, R.P. Road, Sanathnagar and Steel Plant circle.

⁷⁵ CTO-Bhimavaram and Mahboobnagar.

⁷⁶ RP Road and Sanathnagar.

⁷⁷ CTO-Kadapa-I, Madhapur, and R.P. Road.

⁷⁸ CTOs Dwarakanagar, Ferozguda, Fort Road, Gajuwaka, Jubilee Hills, Maharajgunj, Nacharam, N.S.Road and Saroornagar.

the dealers under-declared tax of ₹ 1.91 crore for reasons other than due to fraud or wilful neglect, AAs did not levy any penalty. In three cases, on the under-declared tax of ₹ 19.46 lakh which was more than 10 *per cent* of the total tax due, AAs levied penalty at the rate of 10 *per cent* only. In four other cases, though the dealers under-declared tax of ₹ 20.65 lakh wilfully, AAs either did not levy or short levied penalty as per the provisions of the Act. This resulted in non/short levy of penalty of ₹ 61.35 lakh.

After audit pointed out the cases the AA stated in seven cases⁷⁹ (between September 2013 and March 2014) that files would be sent to DC(CT) concerned for revision and in the remaining eight cases⁸⁰ (between November 2013 and February 2014) that the matter would be examined and report submitted in due course.

The matter was referred to the Department between January 2014 and May 2014. Their reply has not been received (November 2014).

2.13.3 Short levy of penalty for using invalid tax invoice

According to Section 55(2) of the APVAT Act, 2005 (Act) any VAT dealer who issues a false tax invoice or receives and uses a tax invoice knowing it to be false, shall be liable to pay a penalty of 200 *per cent* of tax shown on the false invoice.

Audit noticed (December 2013), during the test check of VAT records of DC(CT)I-Vijayawada that in one case, the AA while finalising the assessment (May 2012) for the years 2007-08 to 2011-12 disallowed ineligible input tax credit (ITC) of ₹ 4.19 lakh on the invalid tax invoices issued by two dealers whose VAT registrations were cancelled. However, the AA levied penalty at the rate of 25 *per cent* of the ineligible ITC only, though penalty of 200 *per cent* was leviable as per the provisions of Section 55(2) of the Act. This resulted in short levy of penalty of ₹ 7.33 lakh.

After audit pointed out the case, the AA stated (September 2014) that revision show cause notice was issued to the dealer by proposing penalty at the rate of 200 *per cent* and result would be intimated in due course.

The matter was referred to the Department between January 2014 and May 2014. Their reply has not been received (November 2014).

⁷⁹ CTOs Ferozguda, Fort Road, Jubilee Hills, Nacharam and N.S. Road.

⁸⁰ DC(CT) Visakhapatnam, CTOs Dwarakanagar, Gajuwaka and Maharajgunj.

2.14 Non-levy of tax on export sales not covered by documentary evidence

As per Sections 5(1) and 5(3) of CST Act, export of goods and goods sold for export are not liable to tax.

Further, under Section 5(4) of the CST Act read with Rule 12(10) of the CST (R&T) Rules, 1957, the dealer selling the goods shall furnish documentary evidence such as bill of lading, purchase order, 'H' form duly filled and signed by the exporter in support of the transaction, failing which the transaction is required to be treated as inter-state sale not covered by 'C' form and tax levied under Section 8(2) of the Act at the rates applicable to the sale or purchase of such goods inside the State.

The commodities barite powder, software and chillies fall under Schedule IV to the AP VAT Act and are liable to tax at the rate of four *per cent*. The commodities electrical transformers, machinery and cables fall under Schedule V to the AP VAT Act, 2005 and are liable to tax at the rate of 12.5 *per cent* (14.5 *per cent* with effect from 15 January 2010).

During the test check of the CST assessment files of two DC (CTs)⁸¹ and four circles⁸² for the period 2007-08 to 2010-11, Audit noticed (between January 2012 and February 2014) that out of eight cases where the assessments were completed between December 2010 and March 2013, in five cases, the AAs incorrectly allowed exemption on export sales which were not supported by proper documentary evidence. In two cases, incorrect export turnovers were adopted by the AAs. In the remaining case, the 'H' form issued by the exporter was not in name of the assessee. The incorrect exemption on commodities worth ₹ 8.06 crore allowed in these cases resulted in non-levy of tax of ₹ 48.66 lakh.

After audit pointed out the cases, the DC(CT) Secunderabad in one case (August 2014) stated that file was submitted for revision. In two cases, CTO Somajiguda and DC(CT) Warangal stated (August 2014) that revision show cause notices were issued. Three AAs⁸³ in remaining five cases stated (between March 2013 and February 2014) that the matter would be examined and report submitted in due course.

The matter was referred to the Department between February and May 2014 and to the Government in July 2014. Their reply has not been received (November 2014).

2.15 Non-levy of penalty for misuse of 'C' form on interstate purchases

As per the provisions of Section 8(4) of the CST Act (Act) read with Rule 12(1) of CST(R&T) Rules a registered dealer under Section 7 of the Act may purchase

⁸¹ Secunderabad and Warangal.

⁸² CTO- Kadapa-I, Madhapur, Nacharam and Somajiguda.

⁸³ CTO-Kadapa-I, Madhapur and Nacharam.

any goods from the dealers outside the State at concessional rate of tax on issue of 'C' form.

As per Section 8(3)(b) of CST Act, the goods purchased on issue of 'C' form shall be as specified in the Registration Certificate (RC) (Form B) of the purchaser and the purchases so made shall be for the purpose of (i) resale, (ii) use in the manufacture or processing of goods for sale, (iii) use in mining, (iv) use in the generation or distribution of electricity or any other form of power or (v) use in the packing of goods for sale /resale.

In Circular⁸⁴ dated 30 August 2012, the CCT also clarified that works contractors cannot issue 'C' forms for the purposes other than those mentioned under Section 8(3)(b) of the CST Act.

As per Section 10 A of CST Act, 1956 penalty not exceeding one and half times has to be levied if the dealer violates the provisions mentioned under Section 8(3) (b) of the CST Act.

Audit noticed (November 2012 and March 2014) during the test check of CST records of two DC(CT)s⁸⁵ and three circles⁸⁶ for the period 2006-07 to 2012-13 that in three cases the dealers made interstate purchase of paints, rubber products, PVC products, plastic containers, electric motors and leather products etc., which were not specified in their RCs, by issuing 'C' forms. In three other cases, works contractors used 'C' forms for purchase of goods and machinery which were not incorporated in works. Thus the assessee misused 'C' forms by violating the conditions laid down under Section 8(3)(b) of the CST Act and the AAs did not take any penal action. Penalty on the turnover of ₹ 5.73 crore could have been levied (₹ 60.20 lakh), if penal action under Section 10A of the CST Act had been taken for misuse of 'C' forms.

After audit pointed out the cases, the CTO Kodad stated (September 2013) in two cases that the matter would be brought to the notice of the higher authorities for proposing penal proceedings. In another case, DC(CT) II Guntur stated (September 2014) that notice was issued to the dealer. In another case CTO Begumpet stated (August 2013) that the matter would be examined and a detailed reply furnished soon. In one case, the DC (CT) Charminar stated (July 2014) that the matter was referred to the CTO concerned to verify the correctness of the claim and the verification report is yet to be received. In the remaining case (August 2014), CTO SD Road, stated that on raising demand after completion of assessment, the dealer preferred an appeal with ADC Panjagutta which is yet to be disposed of.

The matter was referred to the Department between December 2013 and May 2014; their reply has not been received (November 2014).

⁸⁴ CCT Circular No. AII(2)/292/2012, dated 30 August 2012.

⁸⁵ Charminar and Guntur II.

⁸⁶ CTO-Begumpet, Kodad and S.D. Road.

2.16 Under-declaration of VAT due to incorrect computation of taxable turnover

As per Section 21(3) of the AP VAT Act, read with Rule 25(5) of the AP VAT Rules, if the AA is not satisfied with a return filed by the VAT dealer or if return appears to be incorrect or incomplete, he shall assess the tax payable to the best of his judgment on form VAT 305 within four years of due date of the return or within four years of the date of filing the return, whichever is earlier.

As per Section 21(4) of the Act, the authority prescribed may, based on any information available or on any other basis, conduct a detailed scrutiny of the accounts of any VAT dealer and where any assessment, as a result of such scrutiny, becomes necessary, such assessment shall be made within a period of four years from the end of the period for which assessment is to be made.

Rule 25(10) of AP VAT Rules requires all the VAT dealers to furnish to the prescribed authority for every financial year, the statements of manufacturing/trading, profit and loss accounts, balance sheet and annual report duly certified by a Chartered Accountant on or before 31 December subsequent to the financial year to which the statements relate.

As per Para 5.11.4 of VAT Audit Manual 2005, the audit officer is required to verify the disparity between the details given by the dealer on VAT returns and annual accounts for that period.

During the test check of VAT records/VAT assessment files of 10 circles⁸⁷ in respect of 10 cases for the assessment period from 2008-09 to 2011-12 including eight audited cases (audited between July 2011 and March 2013), Audit noticed (between April 2013 and March 2014) that the turnovers declared by the dealers in monthly VAT returns/determined by the AAs were less than the turnovers as per the trading, profit and loss accounts by ₹ 12.23 crore. Consequently there was under-declaration of tax of ₹ 58.01 lakh.

After audit pointed out the cases, the seven CTOs⁸⁸ stated (between November 2013 and September 2014) that in seven cases, the concerned Audit files were submitted to DC (CT) for revision. In one case, CTO Fort Road stated (February 2014) that show cause notice was issued to the dealer and final report would be submitted in due course. In the remaining two cases, the CTOs⁸⁹ stated (between September 2013 and March 2014) that the matter would be examined and report submitted in due course.

The matter was referred to the Department between January 2014 and May 2014. Their reply has not been received (November 2014).

⁸⁷ CTO - Benz circle, Brodipet, Dabagardens, Ferozguda, Fort Road, General Bazar, Jubilee Hills, M.G. Road, Srinagar Colony and Tarnaka.

⁸⁸ CTO - Benz circle, Dabagardens, Ferozguda, General Bazar, MG Road, Srinagar colony and Tarnaka.

⁸⁹ CTO - Brodipet and Jubilee Hills.

2.17 Under-declaration of tax due to incorrect exemption

‘Safety Valves’ for LPG and other Petroleum Gases, and probiotic drinks, fall under Schedule V to the AP VAT Act and are to be taxed at the rate of 12.5 *per cent* (14.5 *per cent* w.e.f. 15 January 2010). Under Section 4(9) (c) of the Act, food sales in restaurants having annual total turnover of ₹ 1.5 crore and above also attract tax at the rate specified in Schedule V of the Act. “Red chillies” are classified under Entry 59 of Schedule IV of the Act and are taxable at four *per cent* up to 13 September 2011 and at five *per cent* thereafter.

Audit noticed (between August 2013 and March 2014), during the test check of VAT records of four circles⁹⁰ for the assessment years 2005-06 to 2012-13 that in case of three dealers, AAs allowed exemption on a turnover of ₹ 5.10 crore relating to taxable sales of LPG safety valves, food sales in restaurants, and red chillies. In another case, the dealer declared sale turnover of probiotic drinks of ₹ 57.99 lakh as exempted sales. The misclassification of these sales resulted in short levy/ under declaration of tax of ₹ 48.06 lakh.

After audit pointed out the cases, the CTO, Ferozguda replied (November 2013) in one case that VAT audit file would be submitted to DC(CT), Hyderabad (Rural) for necessary action. CTO, Saroornagar in another case stated (February 2014) that VAT audit would be taken up to assess the turnovers, and in the remaining two cases, AAs⁹¹ stated (between August 2013 and October 2013) that the matter would be examined.

Audit referred the matter to the Department between January 2014 and May 2014. Their reply has not been received (November 2014).

2.18 Non levy of tax due to incorrect exemption on high sea sales

Under Section 5(2) of the CST Act, all sales in the course of import (High sea sales) are exempt from tax. A sale or purchase of goods shall be deemed to have taken place in the course of the import of goods into the territory of India only if the sale either occasions such import or is effected by a transfer of documents of title to the goods before the goods have crossed the customs frontiers of India. To claim exemption on High Sea sales documents such as high sea sale agreement, copy of import bill, bill of lading, airway bill, bill of entry in the name of the purchaser and proof of payment of customs duty are required to be furnished. In the absence of documentary evidence, such transaction shall have to be treated as interstate sale not covered by ‘C’ forms and tax levied at the rates applicable to the goods inside the State under the AP VAT Act.

Audit noticed (January 2014) during the test check of CST assessment files of two circles⁹² for the assessment year 2009-10 that in two cases, where the assessments were finalised between December 2012 and February 2013, AAs incorrectly allowed exemption on high sea sales turnover of ₹ 10.31 crore, in respect of copper coated steel and non-coking coal taxable at the rate of four *per*

⁹⁰ CTO-Ferozguda, Madhapur, Saroornagar and Tarnaka.

⁹¹ CTOs Madhapur and Tarnaka.

⁹² CTOs - Ranigunj and S.D. Road.

cent, without proper documentary evidence. This resulted in non-levy of tax of ₹ 41.25 lakh.

After audit pointed out the cases, the CTO SD Road stated (January 2014) in one case that the bill of entry would be obtained and in another case⁹³ that the reply would be submitted in due course.

The matter was referred to the Department in May 2014. Their reply has not been received (November 2014).

2.19 Incorrect grant of concessional rate of tax due to acceptance of invalid 'C' forms

According to Section 8(4) of the CST Act, 1956 read with Rule 12(1) of CST (R&T) Rules, 1957 every dealer shall file a single declaration in form 'C' covering all transactions of sale, which take place in a quarter of a financial year between the same two dealers with effect from 1 October 2005, to claim concessional rate of tax as per Section 8(2) of the Act at the rate of four *per cent* (three *per cent* with effect from 1 April 2007 and two *per cent* with effect from 1 June 2008). Otherwise, tax shall be calculated at double the rate in case of declared goods and in case of goods other than the declared goods, tax shall be levied at the rate of 10 *per cent* or at the rate applicable on sale of such goods within the State, whichever is higher. With effect from 1 April 2007, the respective State rates are applicable to all goods.

Audit noticed (between August 2013 and March 2014) during the test check of the CST assessments by two DC(CT)s and four circles⁹⁴ that AAs while finalising assessments in six cases between March 2011 and January 2013 for the years 2008-09 to 2010-11, incorrectly allowed concessional rate of tax on the sale turnover of steam coal, VRLA batteries, cotton yarn, injection mould, cream, ghee, and glass amounting to ₹ 10.99 crore on the basis of invalid 'C' forms, e.g. covering transactions extending beyond a quarter period of time, photocopies of 'C' forms instead of the original etc. This resulted in short levy of tax of ₹ 40.23 lakh.

After audit pointed out the cases, AAs stated that in one case⁹⁵ (February 14), as per CCT's Circular⁹⁶ 'C' forms and 'F' forms can be accepted, either based on the date of dispatch of goods or on the date of receipt of goods in the absence of specific mention in the Act for reckoning the period. The reply is not acceptable as there was wide variation between dates of transactions. In another case, CTO Kurupam market stated that file was sent to DC(CT) for revision. In the remaining four cases⁹⁷ (between August 2013 and February 2014), AAs stated that the matter would be examined and report submitted.

⁹³ CTO Ranigunj

⁹⁴ DC(CT)s-Begumpet, Chittoor, CTOs Begumpet, Charminar, Kurupam Market and Nampally.

⁹⁵ DC(CT) Begumpet.

⁹⁶ CCT's circular No.10 dt. 10 May 2012.

⁹⁷ DC(CT) -Chittoor, CTO-Begumpet, Charminar, and Nampally.

The matter was referred to the Department between January and May 2014. Their reply has not been received (November 2014).

2.20 Short payment of tax due to non-conversion of TOT dealer as VAT dealer

Under Section 17(3) of the AP VAT Act, 2005 every dealer whose taxable turnover exceeds either ₹ 10 lakh in the preceding three months (up to 30 April 2009) or ₹ 40 lakh in the preceding 12 months shall be liable to be registered as a VAT dealer.

Audit noticed (between September 2010 and March 2014) during the test check of Turnover Tax (TOT) dealer records of six circles⁹⁸ that in seven cases, though turnovers exceeded ₹ 10 lakh in preceding three months or ₹ 40 lakh in preceding 12 months, AAs did not convert these dealers into VAT dealers. The turnover that exceeded the threshold limits in these cases amounted to ₹ 4.41 crore on which VAT of ₹ 30.11 lakh was leviable, had they been registered as VAT dealers. The dealers had neither applied for registration nor were they registered by AAs. This resulted in short realisation of revenue of ₹ 25.79 lakh.

After audit pointed out the cases, the AAs stated that in four cases⁹⁹ (January 2014 and March 2014), the matter would be examined and report submitted in due course. In another case, CTO MG Road stated (September 2014) that books of accounts of the dealer were called for. In one case, CTO Suryapet stated (August 2014) that demand was raised but no documentary evidence was furnished in proof of the same. In the remaining case, CTO Ranigunj contended (January 2014), that the turnover of the dealers was within the limit if seen financial year-wise. The reply is not acceptable to audit as reckoning the period financial year-wise was not prescribed under Section 17(3) of the AP VAT Act.

The matter was referred to the Department between March and May 2014 and to the Government in August 2014. Their reply has not been received (November 2014).

2.21 Non-levy of VAT on hire charges

As per Section 4(8) of AP VAT Act, 2005, every VAT dealer who transfers the right to use goods taxable for any purpose whatsoever, whether or not for a specified period, to any lessee or licensee for cash, deferred payment or other valuable consideration in the course of his business shall, on the total amount realized or realizable by him, pay a tax for such goods at the rates specified in the Schedules.

Audit noticed (December 2013) during the test check of records of CTO, Dabagarden circle that in one case, the AA while finalising the assessments for the years from 2007-08 to 2010-11 did not levy tax on a turnover of

⁹⁸ CTO- Dwarakanagar, Gajuwaka, Maharajgunj, M.G.Road, Ranigunj and Suryapet.

⁹⁹ CTO-Dwarakanagar, Gajuwaka, Maharajgunj and Suryapet.

₹ 41.85 lakh pertaining to lease rentals of Audio systems. This resulted in non-levy of VAT of ₹ 5.40 lakh.

After Audit pointed out the case, the AA replied (May 2014) that the audit file was submitted to Dy. Commissioner (CT), Visakhapatnam Division for revision.

The matter was referred to the Department in April 2014. Their reply has not been received (November 2014).

CHAPTER III

***STATE EXCISE
DUTIES***

CHAPTER III STATE EXCISE DUTIES

3.1 Tax administration

The Prohibition and Excise (P&E) Department is governed by the Andhra Pradesh Excise Act, 1968, the Narcotic Drugs and Psychotropic Substances Act, 1985, the Andhra Pradesh Prohibition Act, 1995 etc. The Principal Secretary to Government, Revenue Department is the controlling authority at Government level. The Commissioner, Prohibition and Excise Department is the head of the Department in all matters connected with administration of these Acts. He is assisted by Director of Enforcement for implementation of the Acts. The 23 districts of the State, each headed by a Deputy Commissioner (DC), are classified under 53 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 23 DCs and Assistant Commissioners (AC) supervise the overall functioning of the offices of Excise Superintendents.

3.2 Internal audit

Internal audit is an important part of internal control 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, among others, 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.

No internal audit was conducted in the offices of Deputy Commissioners (23)/ Assistant Commissioners (28)/Prohibition and Excise Superintendents (53).

3.3 Results of Audit

Test check of records of 20 offices of Prohibition and Excise Department conducted during the year 2013-14 revealed non levy/short realisation of fees and other irregularities involving ₹ 5.18 crore in 57 cases which fall under the following categories:

(₹ in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Non-levy of Additional Licence Fee	8	1.05
2.	Non/Short levy of interest on belated payment of licence fee	15	0.30
3.	Non disposal of A4 shops	1	2.60
4.	Non-levy and collection permit room licence fee	7	0.40
5.	Short collection of licence fee	4	0.74
6.	Non collection of Professions tax	13	0.05
7.	Other irregularities	9	0.04
Total		57	5.18

During the year 2013-14 the department accepted under assessment and other deficiencies of ₹ 1.04 crore in 15 cases of which, five cases involving ₹ 35 lakh were pointed out during the year 2013-14 and the rest in earlier years. An amount of ₹ 64.74 lakh was recovered in four cases during the year 2013-14. A few illustrative cases involving ₹ 91.90 lakh are mentioned in the succeeding paragraphs.

3.4 Non-levy of Additional Licence Fee (ALF) on non-contiguous additional enclosures

As per Section 28 of the Andhra Pradesh (AP) Excise Act, 1968, 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 ALF at 10 *per cent* of the annual licence fee.

In terms of explanation given below the 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 ALF. The Commissioner clarified¹⁰⁰ that parking area between two consumption halls also amounts to non-contiguity.

During test check of the records of six offices¹⁰¹ of Prohibition & Excise Superintendent (P&ES), and physical verification conducted by audit and excise authorities jointly, of premises of bars and restaurants, it was noticed (between July 2013 and February 2014) that these P&ESs did not levy ALF amounting to ₹ 55.00 lakh for the years 2011-12 and 2012-13 in respect of non-contiguous consumption enclosures of eight bars and restaurants.

Commissioner replied (April 2014) in five cases¹⁰² that notices were issued to licensees for payment of ALF of ₹ 35 lakh. In one case in respect of (P&ES), Tenali, Commissioner replied (November 2013) that three consumption halls in first portion were separated by consumption halls in rear portion and all of them were in contiguity. The reply was not tenable as the layout plan indicated that consumption enclosures were separated by parking area and a passage leading to a separate exit point which amounts to non-contiguity as per Commissioner's clarification. In respect of one case, P&ES Kakinada contended that the consumption halls were under one roof and hence were contiguous. Reply was not tenable since two consumption halls were separated by a lobby and a separate entrance was provided for each which made them non-contiguous. P&ES Kurnool contended (September 2014) that the three consumption enclosures including the one with ACC roof sheets are in contiguity and there was no other utility between these consumption enclosures and therefore do not attract any ALF. The reply is not tenable as the third consumption enclosure is facing separate entrance and there is a clear gap separating this from the other two consumption enclosures and therefore non-contiguous.

¹⁰⁰ Proceedings Cr.No.10084/2009/CPE/73 dt 17 September 2013.

¹⁰¹ Bheemavaram, Kakinada, Kurnool, Nalgonda, Ongole and Tenali.

¹⁰² P&ES, Bhimavaram, Nalgonda, Ongole and Kakinada.

The matter was referred to the department in May 2014, their reply has not been received (November 2014).

3.5 Non-levy / Short realisation of permit room¹⁰³ licence fee

As per Section 28 of the AP Excise Act, 1968, read with Rule 27-A of AP Excise (Lease of Right of Selling by Shop and conditions of licence) Rules, 2005, the holder of the licence (in form A-4) may be granted a Permit Room Licence (in form A-4 (B)) after payment of Licence Fee of ₹ two lakh which is valid for a period of two years. From the period 2012-13 onwards, the permit room licence fee for a year or part thereof shall be ₹ one lakh and is payable in lump sum.

During test check of the records of four offices¹⁰⁴ of P&ESs Audit noticed (between December 2013 and March 2014) that in respect of 21 out of 25 A-4 shops, for the year 2012-13, the P&ESs did not levy the licence fee of A-4(B) licences amounting to ₹ 21 lakh. In the other four cases, for the year 2010-12, licence fee of ₹ 3.5 lakh was short-collected resulting in short-realisation of licence fee of ₹ 24.49 lakh.

After Audit pointed out these cases, the Commissioner of P&E, in respect of P&ES Mancherial and P&ES Kothagudem replied (October 2014) in respect of seven cases of non-levy of ₹ seven lakh that licence fee would be collected. In the remaining 18 cases, P&ESs replied (between December 2013 and March 2014) that the matter would be examined and final reply sent in due course.

The matter was referred to the department in May 2014. Their reply is awaited (November 2014).

3.6 Non-levy of interest on belated payment of licence fee

Rule 16(3) of the AP Excise (Grant of licence of selling by shop and conditions of licence) Rules, 2012 provides that the applicants selected for grant of A-4 licence who opt to pay the licence fee in instalments, shall pay a sum equal to 1/3rd of the balance amount as first instalment on the day of selection or the succeeding working day. However, the permit room licence (A-4 (B) licence) fee of ₹ one lakh shall be payable in one lump at the time of completing the formalities for grant of licence.

As per Rule 3 of AP Excise (Levy of Interest on Government Dues) Rules, 1982, (APELIGD Rules) the arrears of money recoverable shall bear interest at the rate of 18 *per cent* per annum.

Audit noticed (between November 2013 and April 2014) during test check of four P&ES offices¹⁰⁵ that though 373 licence holders paid licence fee (for A-4 and A-4(B) licences) with delays ranging from one month to seven months during the period from June 2012 to December 2012, P&ESs did not levy any

¹⁰³ Permit room is an authorised consumption premises allowed to the customers of A4 shop licensee.

¹⁰⁴ Kothagudem, Machilipatnam, Mancherial and Rajahmundry.

¹⁰⁵ Eluru, Machilipatnam, Narasaraopet, and Tirupati.

interest on the belated payments. This resulted in non-levy of interest amounting to ₹ 12.41 lakh.

After being pointed out, P&ES Eluru replied that it was nowhere mentioned in the Rules that penal interest should be collected for belated payment. Licence fee was collected as and when they had applied for permit room and hence the question of penal interest does not arise. However, all payments which are not made by the due date are arrears and attract interest as per Rule 3 of APELIGD Rules. Further, from 2012-13 onwards, licence fee for A-4(B) licence was also due on the date of grant of A-4 licence. Remaining offices replied that the matter would be examined and after collection of penal interest reply would be submitted.

The matter was referred to the department in June 2014. Their reply has not been received (November 2014).

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 (IR Act) and the rules framed thereunder as applicable in Andhra Pradesh State and are administered at the Government level by the Principal Secretary (Revenue). The Commissioner and Inspector General of Registration and Stamps (CIGR) is the head of the Revenue Department who is empowered with the task of superintendence and administration of registration work. He is assisted by 12 Deputy Inspectors General (DIG), 38 District Registrars (DR) and 417 Sub-Registrars (SR) respectively.

4.2 Internal audit

There is a separate Internal Audit wing in the department to examine the lapses of the registering officers if any, in the cases of undervaluation of properties registered which cause loss of revenue to the State exchequer. Monthly audit programmes are drawn up and teams consisting of DR (Market Value & Audit) and SR (Market Value & Audit) would conduct Audit of SRs and DRs of the State as per the given programme. An officer in the rank of DIG (Registration & Stamps) would supervise and review the Audit procedures.

4.3 Results of Audit

In 2013-14, the test check of records of 50 units of Registration and Stamps Department, showed non/short levy of stamp duty and registration fees etc. and other irregularities amounting to ₹ 717.54 crore in 178 cases, which fall under the categories given in **Table 4.1**.

Table 4.1

(₹ in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Audit of Public Private Partnership (PPP) Agreements	1	709.48
2.	Short levy of duties due to suppression of facts	89	2.82
3.	Undervaluation of properties	47	1.27
4.	Short levy of duties due to adoption of incorrect rate	18	0.64
5.	Misclassification of documents	18	0.44
6.	Other irregularities	5	2.89
Total		178	717.54

During the course of the year, the Department accepted under-assessments and other deficiencies of ₹ 64.01 lakh in 34 cases, of which ₹ 45.77 lakh in six cases

were pointed out in earlier years. An amount of ₹ 13.27 lakh in 20 cases was realised during the year 2013-14.

Audit of certain Public Private Partnership (PPP) Agreements involving tax effect of ₹ 709.48 crore and a few illustrative cases involving ₹ 3.91 crore are discussed in following paragraphs.

4.4 Levy of Stamp Duty and Registration Fee on Public Private Partnership (PPP) Agreements

4.4.1 Introduction

Public-Private-Partnership or PPP is a mode of implementing government programmes/schemes in partnership with the private sector. The term private in PPP encompasses all non-government agencies such as the corporate sector, voluntary organizations, self-help groups, partnership firms, individuals and community based organizations. PPP involves a long-term relationship between the public sector and the private sector. While the collaboration between the two, may take various forms like buyer-seller relationship, donor-recipient relationship, the most stable partnership is in the form of 'contract' binding on both the parties¹⁰⁶. Since such contracts (also known as concession agreements or PPP agreements) provide for transfer of properties on terms equivalent to lease, these contracts are to be registered compulsorily and attract payment of stamp duty and registration fee.

Under Section 17(1)(d) of the Registration Act, 1908, all leases are to be compulsorily registered from 1 April 1999. Registration fee as notified by the Government from time to time will be applicable to them and is calculated as a certain percentage of the Average Annual Rent (AAR) received by the lessor from the lessee. Article 31 (Schedule 1-A) of IS Act specifies the rates of stamp duty on leases.

4.4.2 Objectives, scope and methodology of audit

An analysis of treatment of PPP agreements entered into by various Corporations and Departments of the State of Andhra Pradesh by the Commissioner and Inspector General (Registration and Stamps) was taken up during July 2013 to December 2013 to check whether the PPP agreements were correctly classified for registration and correct amounts of stamp duty and registration fees were levied.

Data relating to the PPP agreements entered into by various Departments/Corporations of the State government were obtained from the PPP cell of State Government and scrutinized with reference to the provisions of Indian Stamp Act 1899 and Registration Act 1908. As per the data available, there were 111 PPP agreements entered into by the Corporations/Departments during the period from April 1999 to August 2013¹⁰⁷.

¹⁰⁶ Source: Planning Commission's 'Report of the PPP Sub-Group on Social Sector' (2004).

¹⁰⁷ Data was sought in the beginning of audit i.e. in July 2013.

Audit Findings

Audit scrutiny revealed that out of the 111 PPP agreements, 34 were executed as lease agreements whereas 18 agreements contained clauses which made them leases, but were not executed as leases. As all these 52 agreements were executed on or after 1 April 1999, they were all to be registered compulsorily. Audit observed that only one of the 52 was registered. As the remaining agreements were not registered, stamp duty was not levied on any of them. Even in the one agreement which was registered, there was short levy of stamp duty. Details are explained in the following paragraphs.

4.4.3 Non-levy of stamp duty due to misclassification of leases

According to Section 105 of the Transfer of Property Act, 1882, a lease of an immovable property is the transfer of right to enjoy such property, made for a certain time, express or implied, or for perpetuity in consideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically on specified occasions to the transferor by the transferee who accepts the transfer on such terms.

Under Article 31(d) of Schedule 1A to IS Act, where the lessee undertakes to effect improvements in the leased property and agrees to make the same to the lessor at the time of termination of lease, stamp duty is to be levied at five *per cent* on the value of the improvements contemplated to be made by the lessee as set forth in the deed in addition to the duty chargeable under other clauses of Article 31.

Audit noticed that 18 PPP agreements as noted above were executed between April 1999 and August 2013 on ₹ 100 non-judicial stamp papers. A scrutiny of recitals of these agreements revealed that those agreements fulfilled all conditions as provided in the definition of lease in terms of Section 105 of the Transfer of Property Act. Hence, these agreements were to be classified as leases and were to be registered compulsorily under Section 17 of the Registration Act 1908. Registration fee under Section 78 (Article 1C) of Registration Act 1908 and stamp duty under Article 31 of Schedule 1A to IS Act were leviable.

In these 18 agreements, the concessionaires (private parties) had to make certain improvements in the land/space provided to them by the Departments/Corporations and at the end of the period of agreement, transfer the property along with the improvements to the respective Department/Corporation. These agreements, therefore, attracted stamp duty under Article 31(d) of the IS Act on improvements made.

The misclassification of these 18 documents as agreements or memoranda of agreements instead of treating them as leases resulted in non-registration and consequent non-levy of stamp duty of ₹ 665.38 crore¹⁰⁸.

¹⁰⁸ ₹ 35.25 lakh under Article 31(c) and ₹ 665.03 crore under Article 31(d).

4.4.4 Non levy of stamp duty and registration fee on documents executed as leases

As per the provisions of Section 33 of the IS Act any instrument chargeable under Stamp Act is liable to be impounded by the Public Officers¹⁰⁹ before whom that instrument is produced or comes before him in the performance of his functions.

It was noticed that of 34 PPP agreements under Build Operate Transfer (BOT) schemes executed as leases during the period from April 1999 to August 2013, 33 had not been registered although they were required to be registered compulsorily under Section 17 of Registration Act. In addition to the registration fee, stamp duty as per Article 31(c) of the IS Act, was also leviable by taking into account the fine or premium or money advanced in addition to the rent reserved. Since, in all these cases, the concessionaire had to pay Annual Ground Licence Fee (AGLF), Additional Development Premium (ADP) or one-time Upfront Development Fee (UDF)/premium, these payments were to be taken into consideration for levy of stamp duty.

Total stamp duty and registration fee leviable on these 33 documents has been calculated in the following table:

(₹ in lakh)

Sl. No.	Lease Period (in years)	No. of documents [#]	Project cost	Premium/ Advance Fee	Annual Average Rent (AAR)	Market value (where applicable)	SD leviable	RF leviable
1	5-10	1	120	15	6.45	NA	7.23	0.03
2	10-20	3	430	14.50	27.34	NA	24.96	0.14
3	20-30	1 (Before 01 August 2005)	65	0.5	2	NA	3.58	0.01
		10 (Between 01 August 2005 and 13 May 2010)	7617	103.56	313.1	NA	464.30	1.57
4	>30	8 (Before 1 August 2005)	16225	56	544.82	NA	1085.01	3.57
		4 (Between 1 August 2005 and 13 May 2010)	35380	1649	863.84	NA*	2283.37	43.19
		6 (From 14 May 2010)	6809	2057.85	344.82	571.15	442.79	17.24
Total		33 documents					4311.24	65.75
							4376.99	

with the period of execution as rates were revised during those spans.

* As the value calculated on the basis of AAR is higher.

Since the documents/lease agreements were executed by the governmental agencies, it was the responsibility of public officers to ensure registration of these documents by impounding them and referring to the jurisdiction Collectors. Non-compliance of the provisions of Section 33 by the Public Officers resulted in non-registration of these 33 documents and consequently in non-levy of stamp duty and registration fee amounting to ₹ 43.77 crore.

¹⁰⁹ Every person having by law or consent of parties authority to receive evidence, and every person-in-charge of a public office.

The matter was brought to the notice of the Department between September and December, 2013.

In response, the Commissioner and Inspector General of Registration and Stamps stated (December 2013 and February 2014) that the matter would be pursued with the respective Departments wherever such observations were made as the documents were not presented before the Registration and Stamps Department or sent for collection of deficit stamp duty by public officers.

4.4.5 Short levy of stamp duty on improvements made in the leased property

Under Article 31(d) of Schedule 1A to IS Act, where the lessee undertakes to effect improvements in the leased property and agrees to make the same to the lessor at the time of termination of lease, stamp duty is to be levied at five *per cent* on the value of the improvements contemplated to be made by the lessee as set forth in the deed in addition to the duty chargeable under other clauses of Article 31.

In case of one PPP agreement, which was executed and registered as a lease, stamp duty on improvements worth ₹ 6.70 crore, under Article 31(d) was not levied, resulting in short levy of stamp duty of ₹ 33.50 lakh.

The matter was brought to the notice of the Department in March 2014. The reply is awaited (November 2014).

4.4.6 Conclusion

Absence of coordination between the CIGR and the Departments/Corporations executing PPP agreements (who are public officers as per Section 33 of IS Act) to ensure compulsory registration of the documents pertaining to such agreements has caused loss of ₹ 709.50 crore to the government.

4.5 Non-levy of stamp duty on vehicles registered with hypothecation agreements

As per Article 7(b) of Schedule I-A to the Indian Stamp Act 1899, the pawn, pledge or hypothecation of movable property, where such pawn, pledge or hypothecation has been made by way of security for the repayment of money advanced by way of loan or an existing or future debt; 0.5 *per cent* of the amount secured subject to a maximum of ₹ two lakh towards stamp duty, shall be levied, if such loan or debt is repayable on demand or more than three months from the date of the instrument, evidencing the agreement. Further, every instrument has to be properly stamped as per the provisions of the Act.

During the test check of data relating to registration of vehicles, it was noticed that 11,80,586 vehicles were hypothecated to private banks during the period from July 2012 to December 2013 on which stamp duty amounting to ₹ 93.24 crore was not levied resulting in foregoing of revenue by the Government. As the amount of loan secured was not available in the vehicle

registration files/data, audit adopted 80 *per cent* of the cost of the vehicles amounting to ₹ 14,917.72 crore as the total loan amount.

Though a comment was made on the above subject in the Report for the year 2012-13 (financial year 2010-11) recommending the adoption of a mechanism to ensure co-ordination between the CIGR and the Transport Commissionerate, no steps were taken in this regard.

In response, the Transport Commissioner replied (January 2014) that during the meeting held in December 2013, the Principal Secretary, Revenue (Registration & Stamps) assured to examine the issue and make necessary amendments in their laws to collect the stamp duty on such vehicles as officials of Transport Department were not empowered to ask for hypothecation documents.

Matter was referred to Department in August 2014 and to Government in September 2014. Their reply has not been received (November 2014).

4.6 Short levy of duties due to non-verification of facts

4.6.1 As per Section 27 of the IS Act, the consideration, if any, the market value of the property and all other facts and circumstances affecting the levy of duty on any instrument, shall be fully and truly set forth therein. The section provides that a 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 the Rule 7 of AP Revision of Market Value Guidelines Rules, different values have been fixed for agricultural lands fit for house sites/residential localities under the classification code 25. Further, Rule 4 (1)(ii)(a) of the Rules *ibid* provides for different rates for valuation of agricultural land and non-agricultural land for levy of stamp duty and registration fee. Section 64A of the IS Act provides for recovery of deficit stamp duty, if any.

During test check of records of eight DRs¹¹⁰ and eight SRs¹¹¹, Audit noticed (between July 2012 and April 2014) that in respect of 62 sale deeds, six Sale Agreements cum General Power of Attorney (SAGPA) and one gift deed executed between March 2011 and March 2013, the registering authorities, while registering the documents, did not verify the status and category of the land from the Land Revenue authorities and adopted the agricultural rate for the lands which had already been converted for non-agricultural purposes. The properties were thus undervalued resulting in short levy of stamp duty and registration fees of ₹ 2.52 crore.

After audit pointed out these cases, two registering officers¹¹² while accepting the suppression of the facts in five cases (between January 2014 and April 2014) stated that the higher stamp duty could not be collected as the

¹¹⁰ DRs – Adilabad, Bhimavaram, Chittoor, Eluru, Karimnagar, Nalgonda, Proddutur and Vizianagaram.

¹¹¹ SRs – Bhongir, Farooqnagar, Jadcherla, Kalwakurthy, Medchal, Prattipadu, Wanaparthy and Warangal (Rural).

¹¹² DR Proddutur and SR Wanaparthy

revenue authorities had not communicated the change in the nature of land. Similarly, two other SRs¹¹³ in respect of three cases, stated (January 2014 and August 2014) that the registering officers were not at fault as the fact of conversion was not disclosed by the parties. However, the provisions of Section 64A of the IS Act can be invoked by the registering officers to collect the deficit stamp duty. In the remaining 61 cases (between September 2013 and April 2014), registering officers replied that the matter would be examined and reply sent in due course.

The matter was referred to the department in May 2014. Their reply has not been received (November 2014).

4.6.2 The CIGR in circular¹¹⁴ dated 11 July 2008 instructed all sub-registrars to check undervaluation of property and to plug all loopholes to arrest leakage of revenue. These instructions were issued in the wake of splitting of the high valued land abutting National Highways by their owners with a view to escape stamp duty.

During test check of records of SR, Warangal (Rural) it was noticed (September 2013) that sale of land measuring 3.45 acres was registered (May 2012) on two consecutive days by splitting into two documents (3.25 and 0.20 acres), and adopting two different market values of ₹ 10.00 lakh and ₹ 26.62 lakh per acre respectively. The documents were split up in such a way that the smaller plot of high market value abutted the National Highway and bigger plot of lesser market value had no direct access to the road. In both these transactions, the vendors were the same and there was a common vendee. The registering authorities did not check undervaluation by linking the documents which resulted in short levy of duties of ₹ 5.12 lakh.

Sub Registrar replied that the matter would be examined and detailed reply furnished in due course. The matter was referred to the department in December 2013 and their reply is awaited (November 2014).

4.7 Short levy of duty due to undervaluation of properties

Under Section 3 of the IS Act read with Article 47-A of Schedule 1-A to the IS Act, instruments of sale are chargeable to stamp duty at five *per cent* on the amount set forth in the instrument or market value of the property, whichever is higher. Transfer duty is leviable at three *per cent* under provisions of various Acts of Local Bodies, besides registration fee leviable at 0.5 *per cent*.

Instruments of “settlement” are chargeable to stamp duty on the market value of the property as per Article 49A. Further, as per Article 6(B) of the Schedule, documents relating to agreement of sale combined with GPA are chargeable to stamp duty on sale consideration or market value, whichever is higher.

¹¹³ Bhongir and Kalwakurthy.

¹¹⁴ Rc.No.MV2/10472/2008 dt 11 July 2008.

During test check of records of six DRs¹¹⁵ and SR Mangalagiri, Audit noticed (between November 2013 and March 2014) that while registering four gift deeds and 11 sale deeds (between April 2011 and February 2014), the registering officers undervalued the properties for the reasons mentioned in the following table.

Name of the office	Documents		Date of registration	Reasons for undervaluation
	Type	No.		
DR Anakapally	Gift deed	1	October 2012	Rates of lands as per basic value registers were more.
	Sale deed	1	April 2012	
DR Karimnagar	Sale deeds	3	January and February 2012	
DR Mahboobnagar	Gift deeds	2	April 2011	In two gift deeds registered on same date, the donor adopted two different rates for the land split and donated to a donee.
	Gift deed	1	June 2012	The value of building/structure was not considered in a gift deed.
	Sale deeds	2	June 2011 and April 2012	Rates of lands as per basic value registers were more.
SR Mangalagiri	Sale deed	1	June 2012	Lesser value was adopted by omitting the fact about the land being adjacent to Highway.
DR Narasaraopet	Sale deed	1	March 2011	The value of buildings/structures was not considered in the sale deed.
DR Nizamabad	Sale deed	1	April 2012	The land registered was in municipal limits of Nizamabad town but rural area rates were adopted for valuation instead of urban rates.
	Sale deed	1	February 2014	Lesser value was adopted for valuation whereas the same property was mortgaged to bank at higher value.
DR Srikakulam	Sale deed	1	April 2011	Land rate as per basic value register was more.

Undervaluation of these properties resulted in short levy of stamp duty, transfer duty and registration fees of ₹ 47.93 lakh.

After audit pointed out the cases, the DR Anakapally contended (April 2014) that the land in question is a vacant residential land whereas audit objection was based on nearest vacant commercial land and these higher rates are not applicable to the residential lands though falling in the same area. The reply was not supported by any documentary evidence. In the remaining cases, the registering authorities replied (between November 2013 and February 2014) that the matter would be examined and reply sent in due course.

The matter was reported to the Commissioner and Inspector General of Registration and Stamps between January and July 2014. Their reply is awaited (November 2014).

¹¹⁵ DR- Anakapally, Karimnagar, Mahboobnagar, Narasaraopet, Nizamabad and Srikakulam.

4.8 Leakage of stamp revenue on account of unregistered lease deeds

As per Section 17(1)(d) of the Registration Act, 1908, all leases are to be compulsorily registered and as per Article 31 of Schedule 1A to IS Act 1899, a lease deed is chargeable with stamp duty as applicable from time to time. Registration fee at 0.5 *per cent* on average annual rent shall also be levied. As per Section 73 of Indian Stamp Act, 1899, the inspections of Public Offices are intended to curb leakage of stamp revenue. The CIGR, through a Circular¹¹⁶ dated 11 April 2012, issued instructions to subordinate officers to conduct audit of at least five public offices every month and to take effective steps to collect duty due, if any.

Audit collected information from four¹¹⁷ offices of Prohibition and Excise Superintendents (P&ES) (between March 2012 and March 2013) about bar licenses and observed that in respect of 24 cases, lease deeds submitted by the licensees for obtaining licences were not registered, resulting in non-realisation of stamp duty and registration fees. This resulted in non-levy of stamp duty and registration fee amounting to ₹ 55.49 lakh.

The matter was brought to the notice of the Department in September 2014. Their replies are awaited (November 2014).

4.9 Short levy of stamp duty and registration fees due to misclassification of documents

Under Section 3 of IS Act read with Article 41(C) of Schedule 1A where the property belonging to one or more partners is distributed or allotted or given to another partner or partners, when the partnership is dissolved, stamp duty is chargeable at five *per cent* on the market value of the property so distributed under the instrument of dissolution.

Article 49 (A)(a) of Schedule IA to IS Act, read with Government Order¹¹⁸, stamp duty in respect of gift settlement in favour of family members was reduced to one *per cent* of the market value of the property settled. In any other case, settlements are chargeable with stamp duty at six *per cent* under Article 49 (A) (b) of Schedule IA to the Act.

According to Section 27 of IS Act, the consideration if any, the market value of the property and all other facts and circumstances affecting the chargeability of any instrument with duty and the amount of duty with which it is chargeable shall be fully and truly set forth therein.

As per Article 16 of Schedule IA to the Indian Stamp Act, 1899, in case of Certificate of Sale granted to the purchaser of any property sold through public auction by a Civil or Revenue Court or Collector or other Revenue Officer,

¹¹⁶ S5/11266/11, dt. 11 April 2012.

¹¹⁷ Dhoolpet, Hyderabad, Rajendranagar and Secunderabad.

¹¹⁸ G.O.Ms.No.1129 Revenue (Regn-I) Department dated 13 June 2005 effective from 01 July 2005.

stamp duty is to be levied at the same rates applicable to a conveyance. In all other cases of public auction, the transactions should be treated as sale as defined in Section 54 of the Transfer of Property Act, 1882 and duty levied as per Article 47-A of Schedule 1-A to IS Act.

As per Article 35 (a) of Schedule IA, a mortgagor, who gives or has given to the mortgagee a power of attorney to collect rents, or has given to the mortgagee a lease of the property mortgaged or part thereof, is deemed to have given possession thereof within the meaning of this Article. Section 3 of IS Act read with Section 78 of Registration Act, provides for levy of stamp duty at five *per cent*, registration fee at 0.5 *per cent* and transfer duty at three *per cent* on the loan secured.

Audit noticed (March 2013 to April 2014) during test check of records of three¹¹⁹ DRs and SR, Nagarkurnool, that four documents were misclassified resulting in short levy of stamp duty, transfer fee and registration fee amounting to ₹ 10.66 lakh as detailed in the following table :

(₹ in lakhs)

Sl. No.	Registering Authority	Documents registered as	Documents should have been registered as	Case details	Duties short levied
1.	DR, Narsaraopet	Partition Deed	Dissolution of Partnership Deed	Land, buildings with machinery and assets belonging to a partnership firm were distributed among its partners and the firm was dissolved. Instead of treating it as a deed for dissolution of a partnership firm under Article 41(C), DR registered this as a partition deed.	4.08
2.	DR, Nizamabad	Settlement deed among family members	Settlement deed among others	Partners of a firm settled the schedule of property belonging to the firm, in favour of one partner who was their brother also. Property settled was of the firm and both the executants and the claimant were partners of the firm, but the DR treated the deed as 'settlement among family members' instead of 'settlement among others' under Article 49 (A)(b) of Schedule 1A.	2.82
3.	DR, Proddutur	Conveyance Deed	Sale Deed	A private bank had taken the possession of the scheduled property for failure to repay the loan amount and issued a Sale Certificate in favour of the claimant after conducting an auction. The transaction was treated as 'conveyance' instead of 'sale'. While registering the property it was undervalued too.	1.91
4.	SR, Nagarkurnool	Simple mortgage	Mortgage with possession	Loan amount of ₹ 23.70 lakh was raised against mortgage of a property. Although the document contained clauses allowing the mortgagee to grant, convey and transfer the mortgaged land and buildings, which was tantamount to possession, the SR registered the documents as 'Simple Mortgage' instead of 'Mortgage with possession',	1.85
Total					10.66

¹¹⁹ Narsaraopet, Nizamabad and Proddutur

The Registering Authorities replied (March 2013-April 2014) that the matter would be examined and detailed report furnished in due course.

The cases were referred to the Department during May 2013 to May 2014. Their reply is awaited (November 2014).

4.10 Short-levy of stamp duty on DGPA's due to undervaluation

Under Article 6(B) of schedule I-A to IS Act read with Government Order dated 10 April 2008 and 30 November 2007¹²⁰, Development Agreements-cum-General Power of Attorney (DGPA) are chargeable to stamp duty at one *per cent* on the amount of sale consideration or the market value or estimated market value for land and complete construction made or to be made in accordance with the schedule of rates approved by the CIGR, whichever is higher.

Audit noticed (between February and April 2014) during test check of records of offices of two SRs¹²¹ and two DRs¹²² that in six out of eight DGPA's registered between June 2011 and March 2013 for development of the land by building multi-storied residential/commercial complexes, the Registering Authorities did not consider the stilt area of the structures for computation of market value of the properties; in two other cases, certain part of the land and the structure to be constructed was not taken into consideration and thus the property registered was undervalued. This resulted in short levy of stamp duty of ₹ 6.86 lakh.

After Audit pointed out these cases, all the registering officers replied that the matter would be examined and reply sent in due course.

The matter was referred to the department between February and September 2014. Their reply is awaited (November 2014).

4.11 Non-registration of partition deed resulted in non-levy of stamp duty

As per Section 17 of the Registration Act 1908, partition deeds are to be compulsorily registered. Under Section 2(15) of the IS Act read with Article 40 of Schedule I-A to IS Act, in case of partition of property among family members, stamp duty shall be leviable at one *per cent* on the amount or the market value of the separated share/shares of the property partitioned after exempting the major share. Act 17 of 1986¹²³ effective from 16 August 1986 extended the definition of partition given in Section 2(15) to include any memorandum or Agreement relating to past partitions, which thus became chargeable under Article 40 of Schedule-IA, as partitions.

Audit noticed (April 2014) during test check of records of DR, Rangareddy (East), that in respect of a sale deed registered in January 2013, the recitals

¹²⁰ G.O.Ms.No.568 Revenue (Regn.I Dept.) dated 10 April 2008 and G.O.Ms.No.1481 Revenue (Regn.I) Dept. dated 30 November 2007.

¹²¹ Medchal and Quthbullapur.

¹²² Narasaraopet and Nizamabad.

¹²³ Indian Stamp (Andhra Pradesh) Amendment Act 1986.

disclose that the vendor had got the schedule of land measuring 1.17 acres through partition among family members. The above sale deed was executed without proper execution of the Partition deed which is against to the provisions of Section 17 of the Registration Act 1908. Non-registration of partition deed resulted in non-levy of stamp duty of ₹ 12.80 lakh.

After Audit pointed out the case, the Registrar, Rangareddy (East) replied (April 2014) that the matter would be examined and reply sent in due course.

The matter was referred to the department in May 2014. Their reply is awaited (November 2014).

CHAPTER-V

***TAXES ON
VEHICLES***

CHAPTER V TAXES ON VEHICLES

5.1. Tax administration

Transport Department of Government of Andhra Pradesh is governed by Motor Vehicles (MV) Act, 1988, Central Motor Vehicle (CMV) Rules, 1989, Andhra Pradesh Motor Vehicles Taxation (APMVT) Act, 1963, Andhra Pradesh Motor Vehicles Taxation Rules, 1963 and Andhra Pradesh Motor Vehicle (APMV) Rules 1989. Transport Department is primarily responsible for enforcement of provisions of Acts and Rules framed thereunder which inter alia include provisions for collection of taxes and fees, issue of driving licences and certificates of fitness to transport vehicles, registration of motor vehicles and granting regular and temporary permits to vehicles. At Government level, Principal Secretary (Transport, Roads and Buildings Department) heads Transport Department. Transport Commissioner (TC) is in charge of the Department. At district level, there are Deputy Transport Commissioners (DTC) and Regional Transport Officers (RTOs) who are in turn assisted by Motor Vehicles 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 department to ascertain compliance with Rules/Government orders by Department. When this was pointed out in Audit Report 2008-09, department assured that internal audits would be conducted in future. However, department did not furnish information regarding its implementation (November 2014).

5.3 Results of Audit

In 2013-14 test check of records of 19 units relating to token tax, special road tax, registration fee, permit fee, driving licence fee, conductor licence fee, penalties and composite fee under the National Permit Scheme showed under-assessment of tax and other irregularities involving ₹ 749.52 crore.

During the course of the year, the Department accepted under-assessments and other deficiencies of ₹ 734.51 crore, of which, an amount of ₹ 0.63 crore was realised.

A Performance Audit on 'Public service delivery including functioning of IT services (CFST) in Transport Department' having money value of ₹ 749.52 crore is discussed in the following paragraphs.

Performance audit of Public Service Delivery including functioning of IT Services (CFST) in Transport Department

5.4 Introduction

The Andhra Pradesh Transport Department (Department) was established for enforcement of the provisions of Andhra Pradesh Motor Vehicles Taxation Act, 1963, Motor Vehicles Act, 1988, and the rules framed there under. The Department primarily functions under the provisions of Section 213 of the Motor Vehicles Act, 1988.

It performs a multitude of functions broadly under the following five categories as per its Citizen Charter:

- i. Providing citizen-centric services like issue of driving licences, registration of motor vehicles, grant of permits, etc.
- ii. Contribution of revenue to Government exchequer through collection of taxes.
- iii. Taking measures for safety on roads.
- iv. Taking measures to control vehicular pollution.
- v. Assisting other organisations in the development of transport facilities.

This performance audit deals mainly with the first four functions besides an IT Audit of the software package, 'Citizen Friendly Service in Transport Department' (CFST), which was implemented by the Department in May 2000 with a two-tier architecture to help discharge its functions with greater public participation. Subsequently, CFST was upgraded to a complete three-tier architecture by April 2013.

HIGHLIGHTS

- **Absence of time limit in AP Motor Vehicles Taxation Act/ Rules led to non-initiation of action for issue of final demands leading to non-realisation of revenue of ₹ 461.32 crore.**
(Paragraph 5.4.8)
- **There is no provision in the AP Motor Vehicles Rules, prescribing time limit for permanent registration of motor vehicles on account of which due date for renewal gets extended, impacting tax revenue.**
(Paragraph 5.4.9)
- **Ineffective monitoring resulted in non-realisation of quarterly tax and penalty amounting to ₹ 23.22 crore.**
(Paragraph 5.4.11.2)
- **Belated adjustment of demand drafts with delay ranging from 11 to 80 days resulted in loss of interest amounting to ₹ 1.96 crore.**
(Paragraph 5.4.12.4)

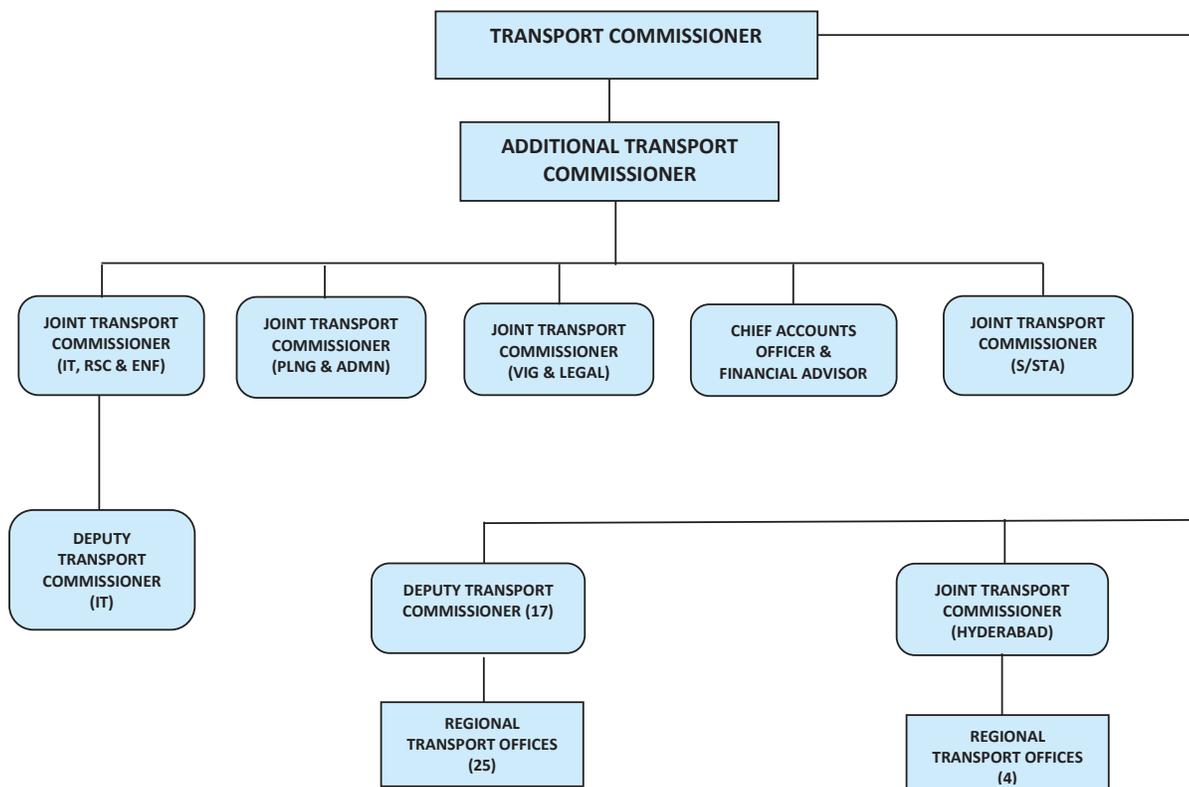
IT Services:

- **Ad hoc approach was adopted in capacity planning while implementing three-tier architecture for the software package called Citizen Friendly Services in Transport Department (CFST).**
(Paragraph 5.4.15.2)
- **There was no provision in CFST to identify vehicles which were issued No Objection Certificates (NOC) for transfer to other States. In the absence of this, risk of vehicles re-entering and plying within the State without payment of life-tax remains.**
(Paragraph 5.4.16.1)
- **DCB statements generated through systems had shown incorrect figures of revenue earned, balance due and arrears to be realised.**
(Paragraph 5.4.16.3)
- **Scrutiny of data revealed that vehicles remained in active status though validity of their registration had expired.**
(Paragraph 5.4.17.1)
- **There were no documented plans for disaster recovery and business continuity.**
(Paragraph 5.4.20.2)

5.4.1 Organisational setup

Principal Secretary, Transport, Roads and Buildings is in charge of the administration of the Department. The Transport Department is headed by the Transport Commissioner (TC). He is assisted by one Additional Transport Commissioner, four Joint Transport Commissioners (JTC), two Assistant Secretaries, an Assistant Secretary as State Representative before State Transport Appellate Tribunal (STAT), a Secretary of STAT in the cadre of Assistant Secretary of Transport Commissioner's Office and an Accounts Officer in the Head Office.

In the field, he is assisted by one Joint Transport Commissioner (JTC) in charge of Hyderabad, 18 Deputy Transport Commissioners (DTC), 45 Regional Transport Officers (RTO), two Assistant Accounts Officers, 257 Motor Vehicles Inspectors (MVI), 358 Assistant Motor Vehicle Inspectors (AMVI) and 117 Administrative Officers besides other ministerial staff.



5.4.2 Audit Objectives

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

- Whether adequate systems exist for timely and effective public service delivery and collection of revenue therefrom.
- Whether the legal provisions relating to pollution control and public safety are being enforced effectively.
- Whether transition into and maintenance of three-tier architecture in CFST has been adequate to meet the current and future requirements.

The first objective deals with systems and procedures in place for fulfilling the first two functions of the Department while the second objective deals with the next two functions. The third objective has been included to evaluate the IT system in place.

5.4.3 Audit Criteria, Scope and Methodology

The Audit Criteria was derived from the following

- The Motor Vehicles Act (MV Act), 1988
- The 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

- Citizen's Charter of the Department
- Circular instructions issued from time to time

Public Service Delivery including functioning of CFST in Transport Department for the period from 2009-10 to 2013-14 covering the offices of the Transport Commissioner, JTC, Hyderabad Central Zone, six DTCs¹²⁴ out of 18 and 12 RTOs¹²⁵ out of 25 was reviewed during the period from August 2013 to July 2014. The sample was selected taking into consideration the geographical divisions in the state as well as revenue collection. As a part of the Performance Audit, IT audit of CFST was done, in which general and application controls and data relating to all the 43 field offices were analysed and checked.

5.4.4 Acknowledgement

Audit acknowledges co-operation extended by the Department in providing server data, records and other necessary information. The entry conference was held with the Principal Secretary, Transport, Roads and Buildings Department, on 19 December 2013. The draft report on Performance Audit of Public Service Delivery including functioning of CFST in Transport Department was forwarded to Government and Department in September 2014. The exit conference was held with Government on 10 December 2014. Views expressed in the exit conference have been taken into consideration while finalising the report.

Audit findings

5.4.5 Services to Citizens and Revenue Collection

Public service delivery by the Transport Department involves providing timely citizen-centric services and maintaining a smooth revenue collection mechanism. Since the introduction of CFST, problems relating to service delivery have been occurring mainly because of incorrect mapping of business rules or inadequate provisions in the software package. Deficiencies noticed in providing citizen-centric services, discrepancies in existing rules and non-compliance therewith affecting revenue collection are discussed in the succeeding paragraphs.

5.4.6 Achieving Citizen's Charter targets

The Citizen's Charter of Transport Department sets the service delivery standards for it. As per the Charter, driving licence and registration certificates should be given on the same day the application is made. In the offices test-checked, the targets have been met with the following exceptions:

¹²⁴ Chittoor, Kadapa, Krishna, Rangareddy, SPSR Nellore and Vishakhapatnam.

¹²⁵ Anakapally, Gudivada, Hyderabad (East Zone, North Zone, West Zone), Ibrahimpatnam, Medchal, Nandigama, Proddutur, Rangareddy East, Tirupati and Hindupur.

- In two DTCs¹²⁶ and two RTOs¹²⁷, there was delay ranging between two to 29 days in printing of cards. In RTO, Anakapally no smart card could be printed after 13 April 2014 till the date of audit. The Department attributed the reasons to non-availability of blank cards. However, no effort was made to rectify the situation till the time of Audit (May 2014).
- It was also observed in DTC, Rangareddy and RTO, Proddutur that the cards were not printed in time as the card printers were frequently not in working condition for want of repairs.
- Scrutiny of log books in RTO, Proddutur revealed that the connectivity was disrupted for 38 days intermittently during the period from June 2013 to June 2014. In the absence of any back up arrangements to establish uninterrupted connectivity, delivery of public services got disrupted.

When the same was pointed out by audit, the RTO, Proddutur replied (April 2013) that the matter had been brought to the notice of the TC. However, no remedial action had been taken by the TC though the problem was intimated to the TC in April 2013.

Inaction on these cases by the Department is affecting service delivery and preventing it from fully achieving service delivery standards.

The Government replied (December 2014) during the Exit Conference that the problem occurred in very few cases due to non-availability of cards. Regarding the faulty card printers, it was stated that as the card printers were imported, there was delay in getting the spares. The reply is not acceptable as the Department failed to redistribute the cards as per the requirements of the offices. It also could not ensure that the service provider maintained the inventory of required spare parts.

5.4.7 Non-monitoring of Transport revenue collected by other Departments

As per Section 178 of MV Act, ticketless travel is an offence and is punishable with fine. The checking squads of APSRTC collect penalties for ticketless travel in APSRTC buses.

AP Government had authorized¹²⁸ the officers of the Police Department not below the rank of Sub-Inspector of Police (Traffic) in cases where separate traffic police stations exist and Inspectors of Police in other places to compound certain offences by collecting compounding fee. The fee and the penalty are to be remitted into treasury under the Head of Account - 0041 Taxes on vehicles - 101 Receipts under MV Act - 01 Receipts under MV Act by the Police Department.

¹²⁶ Rangareddy and Visakhapatnam.

¹²⁷ Gudivada and Hyderabad North zone.

¹²⁸ G.O.Ms.No.54, dated 28 March 2006 and G.O.Ms.No.108, T&RB (Tr-I) dated 18 August 2011.

Audit obtained the receipt figures from the Police Department in six Municipal Corporation areas¹²⁹ and found that the receipts collected against compounding fee of traffic offences amounting to ₹ 103.40 crore¹³⁰ have been credited into the Police Department's Head of account during the period from 2009-10 to 2013-14 in violation of Government orders.

However, when particulars of compounding fee collected by Police Department were called for, JTC, Hyderabad Central Zone and two DTCs¹³¹ and RTO Tirupati stated that they were not aware whether the receipts were being remitted into the Head of account of the Transport Department. DTC Kadapa replied that the matter would be pursued with Police Department. DTC Vijayawada furnished the details for the years 2011-12 to 2013-14.

Similarly, as per its Annual Accounts, APSRTC retained the revenues collected by the checking squads from the ticketless passengers as penalty under the provisions of Section 178 of MV Act amounting to ₹ 60.16 lakh during the period 2011-13.

Non-remittance of Transport Department revenues collected by Police Department and APSRTC resulted in incorrect accounting of Transport revenues. In response, the TC replied that APSRTC would be addressed to remit fines and penalties collected under the MV Act.

Matter was referred to Department in September 2014 and to Government in September 2014. During the Exit Conference, Government replied (December 2014) that the matter would be taken up with the Police Department and APSRTC.

5.4.8 Absence of time-limit to finalise the assessment of Motor Vehicle Tax

According to Section 6-A of AP MVT Act 1963 read with Government Orders¹³², every registered owner who owns or keeps in his possession or control more than 2000 motor vehicles for plying on hire or rewards shall pay tax in respect of all such vehicles at five *per cent* and seven *per cent* on Gross Traffic Earnings (GTE) of city services and other services respectively.

As per Rule 14 of APMVT Rules, the owner has to file a preliminary declaration in Form 5 before fifth of April every year indicating estimated GTE for the year. The licensing authority shall communicate an order of provisional assessments in Form 6 before 30th April. The registered owner shall submit the final declaration before 30th June and the final amount of tax payable shall be determined based on it. The licensing authority shall then issue and order the final assessment, after duly calling for any information of records for examination. The difference of tax, if any payable, shall be paid by the registered owner within three months from the date of final assessment.

¹²⁹ Chittoor, Hyderabad, Kadapa, Rangareddy, Tirupati and Vijayawada.

¹³⁰ Up to 1 June 2014.

¹³¹ Chittoor and Rangareddy.

¹³² G.O.Ms.No.118, TR. R&B (TR. III) Dept., dated 07 June 2005.

However, there is no provision in APMVT Act/Rules prescribing a time limit to finalise the assessment after submission of final accounts. There are also no penal provisions to discourage delay in submission of accounts by the assesseees.

APSRTC had furnished final declaration of GTE of ₹ 4,871.84 crore and ₹ 5,253.10 crore for the years 2010-11 and 2011-12 in July 2011 and July 2012 respectively. However, the Department had not issued the final demand notices for ₹ 435.85 crore and ₹ 25.47 crore for these years till the date of audit (January 2014). Further, APSRTC did not furnish the final declaration of GTE for the year 2012-13 till the date of audit (January 2014) for which tax amounting to ₹ 548.29 crore as calculated by audit from the GTE figures of unaudited annual accounts of APSRTC will be realisable.

The Department did not take any action for issue of final demands for the years 2010-11 and 2011-12 which resulted in non-realisation of revenue amounting to ₹ 461.32 crore. Further, Department did not pursue the timely submission of final declaration of GTE for the year 2012-13.

In response, the TC replied that action would be taken to issue final demand notices for the years 2010-11 to 2012-13.

Matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.9 Non-prescription of time limit for permanent registration after payment of penalty

Section 43 of the MV Act prescribes that the owner of a motor vehicle may apply to any registering authority or other prescribed authority to have vehicle temporarily registered. Under Section 43(2), the validity of temporary registration mark shall not exceed one month and shall not be renewable. The validity of registration of the vehicle is counted from the date of permanent registration only.

Though Rule 94 of APMV Rules prescribes a maximum penalty of ₹ 100 for not getting the vehicle registered within one month, there is no provision in the Rules prescribing a time limit before which a vehicle can be registered from the date of temporary registration, if the owner is willing to pay the penalty.

Data analysis by audit revealed that out of 15,67,042 vehicles sold during the period from April 2012 to December 2013, in respect of 7,49,133 vehicles there was time lapse ranging from 30 days to 2,220 days between the date of temporary registration and permanent registration. Owing to delay in permanent registration, the due date for renewal also gets extended correspondingly, which has the following effects on revenue:

- i. Due date for collection of Green tax also gets extended by the number of days the permanent registration gets delayed.

- ii. In case of vehicles moving to other States due to change of residence of the owner or transfer of ownership, refund of life tax is given based on the age of the vehicles which is calculated from the date of permanent registration instead of the date of temporary registration, which results in excess refund of life tax.

The current quantum of penalty i.e., a maximum of ₹ 100, irrespective of the actual delay, encourages belated registration of vehicles resulting in the above mentioned effects.

Matter was referred to Department in September 2014 and to Government in September 2014. Government replied during the Exit Conference (December 2014) that the procedure being followed was in order and that the statutory provisions as envisaged in the Act were being followed. It was further stated that it can only be a regulatory issue.

5.4.10 Inadequate monitoring on disposal of seized vehicles

As per Section 207 of MV Act, 1988, any police officer or other person authorized in this behalf by the State Government may seize and detain the vehicle, if he has a reason to believe that a motor vehicle has been or is being used in contravention of provisions of Section 3, 4 or 39 or without permit required under Section 66(1) or in contravention of any condition of such permit relating to the route on which or the area in which or the purpose for which the vehicle may be used.

As per Section 8 of APMVT Act, any tax due in respect of any motor vehicle which has not been paid as specified under Section 4, such officer as may be prescribed, may seize and detain the motor vehicle in respect of which the tax is due. Further, as per Rule 216(4) of APMV Rules, any officer of Transport Department, not below the rank of an AMVI, shall be competent to sell the motor vehicles in respect of which the arrears have accrued. As per Section 12 of APMVT Act, any person aggrieved by seizure may appeal to the prescribed authority within a period of 30 days from the date of seizure.

Any arrears due under Rule 216 of APMV Rules or under Section 7 of APMVT Act shall be recovered in the same manner as arrears of land revenue.

5.4.10.1 It was noticed during the audit (between September 2013 and July 2014) of JTC, Hyderabad Central Zone, six DTCs¹³³ and 10 RTOs¹³⁴ that a total of 3633 vehicles seized during the period January 2003 to July 2014 were lying undisposed and that the follow up action to be taken after one month as per the provisions of the Act has not been taken.

It was replied (between September 2013 and July 2014) by the offices that action would be taken to dispose of the seized vehicles by conducting auctions.

¹³³ Chittoor, Kadapa, Rangareddy, SPSR Nellore, Vijayawada and Visakhapatnam.

¹³⁴ Anakapally, Gudivada, Hindupur, Hyderabad (North Zone, West Zone), Ibrahimpatnam, Medchal, Nandigama, Rangareddy (East) and Tirupati.

5.4.10.2 It was also observed during the audit of four DTCs¹³⁵ and RTO, Tirupati that an amount of ₹ 3.50 lakh remained unrecovered from 54 vehicle owners due to short realisation of amount in auction as compared to the actual taxes and compounding fee due. No action was initiated to recover the dues as arrears of land revenue.

It was replied (between June 2014 and July 2014) by the offices that action would be taken to realise the balance amounts from the vehicle owners.

Matter was referred to Department in September 2014 and to Government in September 2014. Government replied in the Exit Conference (December 2014) that instructions were issued to conduct e-auctions henceforth.

5.4.11 Inadequate monitoring of collection of revenue

The cases mentioned below involve either large scale tax-evasion or systematic non-compliance with existing legal provisions. The observations in latter category detailed in the paragraphs below point to inadequate enforcement and monitoring by the Department.

5.4.11.1 Short levy due to under-declaration of earnings by APSRTC

According to Section 6-A of APMVT Act read with Government Orders¹³⁶, every registered owner who owns or keeps in his possession or control more than 2000 motor vehicles for plying on hire or rewards shall pay tax in respect of all such vehicles at five *per cent* and seven *per cent* on Gross Traffic Earnings (GTE) of city services and other services respectively.

APSRTC provides subsidies/concessions in fares to different categories of public which are fully reimbursed by the Government of Andhra Pradesh¹³⁷. It was observed from the Annual Accounts of APSRTC for the years 2009-10 to 2012-13 that the amount reimbursed by the Government had not been included in the final declaration of GTE. Since these reimbursements were made in lieu of the traffic earnings forgone due to subsidies/concessions in fares, these were also to form a part of GTE and are taxable under APMVT Act. Non-inclusion of amounts reimbursed by Government during the years 2009-10 to 2012-13 amounting to ₹ 2849.51 crore resulted in short declaration of tax liability amounting to ₹ 142.48 crore.

In response, the Department replied (December 2013 - January 2014) that APSRTC would be addressed to include the concessions reimbursed by the Government for arriving at GTE. In the Exit Conference Government replied (December 2014) that if the subsidies were not included in the GTE, they will take necessary action to include the amounts and send a revised demand notice.

¹³⁵ Chittoor, SPSR Nellore, Vijayawada and Visakhapatnam.

¹³⁶ G.O.Ms.No.118, TR. R&B (TR. III) Dept., dated 07 June 2005.

¹³⁷ Annual Accounts of APSRTC.

5.4.11.2 Non-realization of Quarterly tax due to ineffective monitoring

Section 3 of APMVT Act stipulates that every owner of a motor vehicle is liable to pay the tax at rates specified by Government. Section 4 specifies that tax shall be paid in advance either quarterly, half yearly or annually within one month from commencement of quarter. Under Section 6 of APMVT Act read with Rule 13(1) of APMVT Rules, penalty for belated payment of tax shall be leviable at the rate equivalent to quarterly tax demanded, if tax is paid within two months and at twice the rate of quarterly tax if tax is paid beyond two months from beginning of quarter on cases detected.

In terms of Section 53 of the MV Act, read with Rule 102 of MV Rules, registering or other prescribed authority may suspend registration of a motor vehicle by sending a notice in case of non-compliance with the Act.

During the data analysis of records in the offices of JTC, Hyderabad Central Zone, six DTCs¹³⁸ and 12 RTOs¹³⁹, audit noticed (between August 2013 and July 2014) that there was accumulation of arrears of quarterly tax for the period from April 2011 to March 2014 amounting to ₹ 7.93 crore in respect of 3447 transport vehicles. Besides, as calculated by audit, penalty of ₹ 15.86 crore under Rule 13(1) of APMVT Rules was also leviable. This resulted in non-realisation of quarterly tax and penalty amounting to ₹ 23.79 crore out of which the Department recovered an amount of ₹ 57 lakh at the instance of Audit. No notices were issued in any of the cases pointed out.

In response, it was replied by all the 19 offices (between August 2013 and July 2014) that list of vehicles would be verified and action taken.

Matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.11.3 Non/Short realisation of life tax on construction equipment vehicles

As per the Fourth Schedule to the Amendment Act 11 of 2010¹⁴⁰, life tax on Construction Equipment Vehicles (CEVs) shall be levied at the rates prescribed in the schedule. It was also specified in the Act that life tax shall be levied on old CEVs registered prior to the enactment of the Act.

Under Section 200 of the MV Act, the assessing authority may compound certain offences punishable under the Act by collecting Compounding fee in lieu of penal action as prescribed by the Government. The Checking Officers of the Transport Department prepare Vehicle Check Reports (VCRs) on the motor vehicles checked by them and forward these to the RTOs for taking action against the defaulting permit holders/owners of the vehicles.

¹³⁸ Visakhapatnam, Kadapa, Chittoor, SPSR Nellore, Rangareddy and Vijayawada.

¹³⁹ Anakapally, Gudivada, Hindupur, Hyderabad (East Zone, North Zone, West Zone), Ibrahimpatnam, Medchal, Nandigama, Proddutur, Tirupati and Rangareddy (East).

¹⁴⁰ Amended on 31 July 2010.

During data analysis and test check of records of offices of two DTCs¹⁴¹, and three RTOs¹⁴², Audit noticed (between August 2013 and July 2014) that in DTC, Visakhapatnam and RTO Ibrahimpatnam, life tax amounting to ₹ 6.48 crore was not realized in respect of 125 CEVs for which the details were available with the authorities.

Further, in DTC, Chittoor and three RTOs¹⁴³, though the enforcement officers collected compounding fee against the offence of non-payment of life tax for 14 CEVs, life tax itself was not levied. The quantum of life tax due in respect of these CEVs could not be arrived at by audit due to unavailability of invoice prices. After Audit pointed out the cases, the offices replied (between August 2013 and July 2014) that action would be taken to collect life tax and audit intimated.

Matter was referred to Department in August 2014 and to Government in September 2014. Government replied during Exit Conference (December 2014) that Government of India was addressed for clarification on classification of certain vehicles, which was awaited. For some vehicles, as the vehicle owners were second or third owners, they were unable to produce the invoices, and the Department was not in a position to assess the tax liability.

The reply is not acceptable as the classification has to be decided by the Commissioner as per the orders of the AP High Court¹⁴⁴. Moreover, tax has not been levied even in cases where invoices were available.

5.4.11.4 Non-levy of tax on vehicles covered by countersignature permits

Interstate vehicular traffic of goods is regulated by bilateral agreements under provisions of MV Act and Rules made thereunder. As per Section 88 of the Act, permits 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 it has been countersigned by the latter STA/ RTA.

Government ordered¹⁴⁵ the levy of bilateral tax of ₹ 5,000 per annum (under APMVT Act) on every goods carriage which are registered in the states of Odisha, Maharashtra, Karnataka and Tamil Nadu, and are covered by countersignature permits. Tax shall be paid in advance in lumpsum before fifteenth of April every year failing which an additional sum of ₹ 100 for each calendar month of default shall be charged as penalty.

Audit noticed (June 2014) during analysis of data and scrutiny of the DCB registers in the office of the DTC Chittoor, the only office among those covered in audit which issued countersignature permits, that bilateral tax amounting to ₹ 11.30 lakh and penalty of ₹ 2.71 lakh was not collected from the owners of 91 and 104 vehicles registered in Karnataka and Tamil Nadu respectively

¹⁴¹ Chittoor and Visakhapatnam.

¹⁴² Anakapally, Hyderabad (West Zone) and Ibrahimpatnam.

¹⁴³ Anakapally, Hyderabad (West Zone) and Ibrahimpatnam.

¹⁴⁴ WP No.8587 of 2011, M/s. Vizag Seaport Pvt. Ltd. Vs Government of Andhra Pradesh.

¹⁴⁵ G.O.Ms.No.362, Transport, Roads and Buildings (Tr. II) department dated 16 December 2008.

though they were granted countersignature permits of Andhra Pradesh during the period 2011-14. This resulted in non-realization of revenue amounting to ₹ 14.01 lakh.

There is no mechanism to monitor payment of bilateral tax and RTAs are collecting the tax only when the owners approach for payment of tax.

In response the DTC, Chittoor replied (June 2014) that the list of vehicles would be verified and action will be taken.

Matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.11.5 Incorrect exemption of life tax

Under Section 9(1) of APMVT Act, Government has exempted various categories of entities from payment of life tax on their vehicles. Temporary registration was done by the dealers at the time of delivery of vehicles sold by them. TC delegated the powers¹⁴⁶ to collect the life tax to the dealers at the time of temporary registration. The Transport Department officials are required to check the correctness of the tax collected by the dealers at the time of permanent registration.

Audit observed (between June and July 2014) in JTC, Hyderabad Central Zone, DTC Chittoor and RTO Proddutur that in 17 cases, the dealers did not collect life tax amounting to ₹ 5.64 lakh though the vehicles did not fall in the exempted category. The Departmental officials did not verify whether the vehicles were actually exempt from payment of life tax and permanent registration was affected.

When the same was brought to notice, JTC, Hyderabad Central Zone replied (November 2014) that e-Seva vehicles were eligible for exemption as Government of Andhra Pradesh recognized the Director, e-Seva as one of the Heads of the Department. The reply is not acceptable as e-Seva is a corporate body and the expenditure on purchasing the vehicles was not met from the Consolidated Fund of the State. DTC, Chittoor and RTO, Proddutur replied (between June and July 2014) that taxes would be collected for the vehicles pointed out by Audit.

Matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.12 Weaknesses in internal control and monitoring systems

Internal controls are essential in any organization to safeguard its interests. In addition to a sound internal audit, other systems for ensuring the organizational integrity are also important and are required to be in place.

¹⁴⁶ Circular Memo No.13/4515/R1/2008, dated 30 August 2008.

5.4.12.1 Not conducting inspections

Government issued instructions¹⁴⁷ that District offices and their subordinate offices are to be inspected by the Heads of Departments periodically and Inspection Reports are to be furnished in the form of questionnaires prescribed. Government emphasized through Circular instructions¹⁴⁸, the need for inspection of Government offices. Further, as per the Government Orders¹⁴⁹, it is the responsibility of the Accounts Branch of the Head of the Department to conduct Internal Audit of the offices of the Department at least once in a year.

Audit observed (between August 2013 and July 2014) that during the period covered in audit, Departmental Inspection of JTC, Hyderabad Central Zone and six DTCs¹⁵⁰ was not conducted by the TC office. Similarly Departmental Inspection of nine RTOs¹⁵¹ by JTC, Hyderabad Central Zone and six DTCs¹⁵² was not conducted for the period 2011-12 to 2013-14. Non-conducting of Departmental Inspection is an indication of ineffective monitoring.

In response, all the offices replied (between August 2013 and July 2014) that inspection of the subordinate offices would be taken up henceforth.

Matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.12.2 Non-reconciliation of demand drafts (DDs) from Border Check posts

The transport vehicles coming from other states pay their taxes by way of DDs at Border Check Posts (BCPs) of AP or to other State Transport Authorities which are then sent to the TC office. A scrutiny of registers relating to receipt of DDs from BCPs and other states towards grant of Interstate Permits/penalty on taxes in the office of TC revealed the following:

The details of day-wise receipts and remittances into treasury and details of time barred demand drafts, list of DDs requiring revalidation etc. relating to BCPs were not being maintained in the TC office. Thus the office cannot reconcile the figures of number of DDs received from the BCPs, the numbers remitted and those remaining. A further observation is made in this regard:

The TC office requested the State Bank of India (SBI), Nampally Branch in March 2012 to issue a DD for a consolidated amount of ₹ 1.27 crore in favour of STA Hyderabad, in lieu of lapsed demand drafts for the same amount. However, SBI issued a DD in June 2012 for an amount of ₹ 1.23 crore only

¹⁴⁷ G.O.Ms.No.247 of G.A.D., dated 08 February 1962.

¹⁴⁸ Circular No.42050/Ar-III/97-7 of GAD dated 26 July 1997.

¹⁴⁹ G.O.Ms.No.34 Finance Department, dated 23 January 1989 and G.O.Rt.No.1416, Finance & Planning Department, dated 01 July 1997.

¹⁵⁰ Chittoor, Kadapa, Rangareddy, SPSR Nellore, Vijayawada and Visakhapatnam.

¹⁵¹ Anakapally, Gudivada, Hindupur, Hyderabad (East Zone, North Zone, West Zone), Ibrahimpatnam, Medchal, Nandigama, Proddutur, Rangareddy (East) and Tirupati.

¹⁵² Chittoor, Kadapa, SPSR Nellore, Rangareddy, Vijayawada and Visakhapatnam.

which was short by ₹ 3.26 lakh. The amount of ₹ 3.26 lakh was not received from SBI by the office till date (January 2014) even after a lapse of two years.

Further, instead of remitting amount of ₹ 1.23 crore immediately into the Treasury, the Department remitted it in July 2012 i.e., after one month. Retaining the DD without depositing immediately into the Government account is against financial propriety.

When this was brought to notice, it was replied (January 2014) that demand drafts worth ₹ 3.26 lakh were yet to be realized from SBI Nampally branch, Hyderabad. The reply is silent on the issue regarding non-maintenance of details of DDs received from BCPs.

The matter was referred to Department in September 2014 and to Government in September 2014. On non-reconciliation of DDs received by the TC office from the BCPs, the Government replied during Exit Conference (December 2014) that follow up action would be taken to get them adjusted. However, since the National permits are now being issued by the Central Government, the problem may not be relevant now. The reply is not acceptable as DDs relating to interstate permits are still being received by TC office which have to be remitted into the Government Account.

5.4.12.3 Non-reconciliation of departmental receipts with the Treasury

As per Article 9 of the A.P.F.C Volume I, the Departmental Receipt figures have to be reconciled with those of the treasury every month to detect misclassification, spurious challans, etc., if any, and a certificate of reconciliation has to be obtained from the treasury officer. Further, all the challans relating to payment of fees and taxes remitted through DDs have to be posted in consolidated challans register with reference to which monthly reconciliation has to be done. Variation between departmental remittances and the treasury credits are to be analyzed and this aspect has to be verified by the inspecting staff.

Audit noticed (between August 2013 and July 2014) in the TC Office, three DTCs¹⁵³ and six RTOs¹⁵⁴ out of 20 offices test checked that the receipt figures for the years 2011-12 to 2013-14 were not reconciled with those of treasury. In view of this, the offices would not be able to detect any loss of revenue due to misclassification, spurious challans, etc.

In response, the offices replied (between August 2013 and July 2014) that action would be taken to reconcile the figures and audit intimated.

Matter was referred to Department in September 2014 and to Government in September 2014.

¹⁵³ Kadapa, Rangareddy and SPSR Nellore.

¹⁵⁴ Hyderabad (East Zone, North zone, West Zone), Ibrahimpatnam, Nandigama and Tirupati.

Government replied during the Exit Conference (December 2014) that non-reconciliation of departmental receipts with Treasury would be monitored to ensure timely reconciliation.

5.4.12.4 Belated adjustment of demand drafts by banks resulting in loss of interest

According to Section 11 of APMV Act, payment of every amount due under the Act shall be made before the licensing officer by the production of a DD obtained from any Scheduled Bank as defined in the Reserve Bank of India Act, 1934 for the value for which payment is required or in such other manner as may be prescribed.

The revenue realized by the Transport Department such as fees, taxes, user charges etc., is collected in the form of cash or DDs. The amounts so received by the RTA Authorities from various vehicle owners shall be remitted into the Government account in a scheduled bank which in turn would be adjusted by the bank into the Treasury.

During the test check of records relating to remittance of DDs in JTC, Hyderabad Central Zone it was revealed that 185 DDs amounting to ₹ 248.82 crore received and remitted into the banks by these offices during 2012-13 and 2013-14 were adjusted belatedly by the bank authorities. The delay ranged from 11 days to 80 days. The delay in adjustment resulted in loss of interest amounting to ₹ 1.96 crore calculated at the rate of six *per cent*.

When this was brought to notice, it was replied by JTC, Hyderabad Central Zone (June 2014) that the banking authorities will be addressed for avoiding such delays.

Matter was referred to Department in September 2014 and to Government in September 2014.

Government replied in Exit Conference (December 2014) that follow up action was being taken up with the banks. Further the Government was implementing Centralized Financial Management System (CFMS) which will address the problem.

5.4.12.5 Rebate forgone on BNPL payments

Transport Department collects ₹ 15 and ₹ 35 from customers towards despatch of document by speed post for local area and outside local area respectively, through BNPL (Book now pay later) which is a facility extended by the postal authorities. At the end of each month, a demand is received from the postal authorities for arranging the payments for the subsequent months. If the payment is made within the prescribed date, the postal department allows a rebate at the rates admissible from time to time (minimum was five *per cent*).

During the course of audit (between April 2014 and July 2014), a scrutiny of records relating to BNPL payments for the period from May 2012 to May 2014

in JTC, Hyderabad Central Zone and six DTCs¹⁵⁵ revealed that an amount of ₹ 2.75 crore was belatedly paid to the Postal Department towards these payments. The delayed payments resulted in forgoing rebate amounting to ₹ 13.74 lakh (calculated at five *per cent* on ₹ 2.75 crore).

In response, the JTC, Hyderabad Central Zone and six DTCs replied (between April and July 2014) that the matter would be brought to the notice of the TC.

It is clear from the above observations that further improvements are possible, especially in the revenue collection and monitoring systems.

The matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.13 Public Safety and Pollution Control

The third and fourth functions of the Department deal with road safety and pollution control. The Department is assisted in these functions by the Police Department and other agencies. Audit concentrated mainly on the limited activities the Department performs to achieve road safety and pollution control. In this connection, the following observations are made:

5.4.13.1 Not providing adequate infrastructure for effective enforcement

During the course of audit of the office of the TC (December 2013), it was observed that the Department, with a view to improve infrastructure and strengthen human resource capacity of Enforcement, procured five mobile interceptors¹⁵⁶ at a cost of ₹ 1.70 crore. However, they were procured without Annual Maintenance Contract (AMC). These mobile interceptors were allotted to the JTC, Hyderabad Central zone and four DTCs¹⁵⁷.

Audit verified the utilisation certificates furnished to the TC by the respective offices and found that they were working in two DTCs¹⁵⁸ but were not functional in JTC, Hyderabad Central Zone and DTC, Chittoor. DTC, Rangareddy replied (August 2014) that the mobile interceptor was not provided to the office, though utilisation certificate for the same was given to the TC in January 2014.

Further, in three of the offices¹⁵⁹, the breath-analysers of the mobile interceptors were not working, rendering the efforts of the Department in detecting drunken driving cases ineffective.

Procuring the Mobile interceptors without providing AMC shows lack of financial prudence and resulted in their sub-optimal utilization.

¹⁵⁵ Chittoor, Kadapa, Rangareddy, SPSR Nellore, Vijayawada and Visakhapatnam.

¹⁵⁶ Vehicles fitted with speed laser guns, high speed surveillance cameras, breath analyzers, pollution testing equipment.

¹⁵⁷ Chittoor, Rangareddy, Vijayawada and Vishakhapatnam.

¹⁵⁸ Vijayawada and Visakhapatnam.

¹⁵⁹ JTC, Hyderabad Central Zone, DTCs, Chittoor and Rangareddy.

Matter was referred to Department in September 2014 and to Government in September 2014.

Government replied during Exit Conference (December 2014) that various road safety activities were being taken up by the Department to ensure road safety. However, the reply is silent on the aspects pointed out by audit.

5.4.13.2 Non-monitoring of renewal of Fitness Certificates

As per Section 56 of the MV Act, a transport vehicle shall not be deemed to be validly registered, unless it carries a certificate of fitness (FC) issued by prescribed authority. As per Rule 62 of the CMV Rules, FC of the transport vehicles shall be renewed every year. Rule 81 of CMV Rules prescribes fees for conducting test of a vehicle for grant and renewal of FC.

Audit noticed (between August 2013 and July 2014) during test check of records relating to grant of FCs and analysis of the data for the period 2011-12 to 2013-14 of the offices test checked that quarterly tax was collected for 1,75,134 vehicles at the office counters/e-Seva/AP Online centre for vehicles which did not have valid FCs. Their status was active as per CFST database. 'Active' status implies that the vehicle has all the requisite certificates. Renewal of FCs was not insisted upon in these cases. Non-renewal of FC jeopardises public safety besides non-realisation of FC fee of ₹ 6.51 crore.

In response, it was replied by the offices (between August 2013 and July 2014) that FCs were being renewed whenever the owner produced the vehicle in roadworthy condition. The officials also stated that the vehicles plying without valid FCs would be intercepted by MV inspectors.

The presumption that all vehicles without FCs would be invariably checked by enforcement authorities and that vehicles not so detected were not plying on roads, does not absolve the Department from responsibility of taking preventive action. Absence of an inbuilt mechanism in the CFST package to give alerts regarding validity of FC while issuing/renewal of permits, payment of quarterly tax etc., led to non-monitoring of fitness of vehicle.

Matter was referred to Department in September 2014 and to Government in September 2014. Government replied (December 2014) that a detailed reply would be sent separately.

5.4.13.3 Non-disposal of cases

Government has prescribed¹⁶⁰ minimum rates of compounding fee for various types of offences and no discretionary powers have been given to the detecting authorities.

Audit noticed (between August 2013 and July 2014) during test check of VCRs/ VCR Registers for the years 2011-12 and 2013-14 in the offices test checked that 2488 cases of compoundable offences were registered during the period. In all these cases, neither was any penal action taken nor minimum compounding

¹⁶⁰ G.O.Ms.No.332 (Transport Roads & Buildings (TR-1)), dated 13 November 2008.

fee levied. This resulted in non-realisation of compounding fee of ₹ 1.63 crore out of which the Department recovered an amount of ₹ 5.74 lakh at the instance of Audit.

In response the offices replied (between August 2013 and July 2014) that action would be taken to dispose of the VCRs and audit intimated.

Matter was referred to Department in August 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.13.4 Not monitoring the functioning of Pollution Testing Units

As per Rule 486 of APMV Rules read with Rule 115 of the CMV Rules, every applicant has to apply with a security bond of ₹ 5,000 for opening pollution testing centres. Rule 486(b) stipulates that monthly returns have to be submitted by every pollution Testing Centre on the fifth day of the succeeding month, duly furnishing the details of vehicles checked during the month along with copies of 'Pollution under Control' (PuC) certificates. The Pollution Testing Units (PTUs) are also required to have calibration certificates as per the test procedure¹⁶¹ specified under Rule 116 (3) of CMV Rules.

During the course of audit of JTC, Hyderabad Central Zone and six DTCs¹⁶² (between August 2013 and July 2014) the following observations were made:

Monthly returns as prescribed in the rules were not being submitted by any of the PTUs nor were the duplicate copies of PuC certificates being furnished. Though the PTUs had valid licences, the calibration certificates were not current in 91 out of 354 cases. In these circumstances, placing reliance on the reports of these PTUs may compromise the pollution control measures.

All DTCs were obtaining National Savings Certificate (NSC) in the name of the operator of the PTU towards security deposit. However, the original certificate was being retained by the operator in all the cases. Even the details of the deposits made by the PTUs were not available in three DTCs¹⁶³.

In response, the concerned offices (between August 2013 and July 2014) stated that all the PTUs will be inspected and necessary action will be taken.

Matter was referred to Department in September 2014 and to Government in September 2014.

Government replied in Exit Conference (December 2014) that PTUs would be monitored and steps taken to ensure that requirements such as having valid calibration certificates are met by them.

¹⁶¹ Specified in Annexure of CMVR TAP 115-116.

¹⁶² Chittoor, Kadapa, Rangareddy, SPSR Nellore, Vijayawada and Vishakhapatnam.

¹⁶³ Rangareddy, SPSR Nellore and Vishakhapatnam.

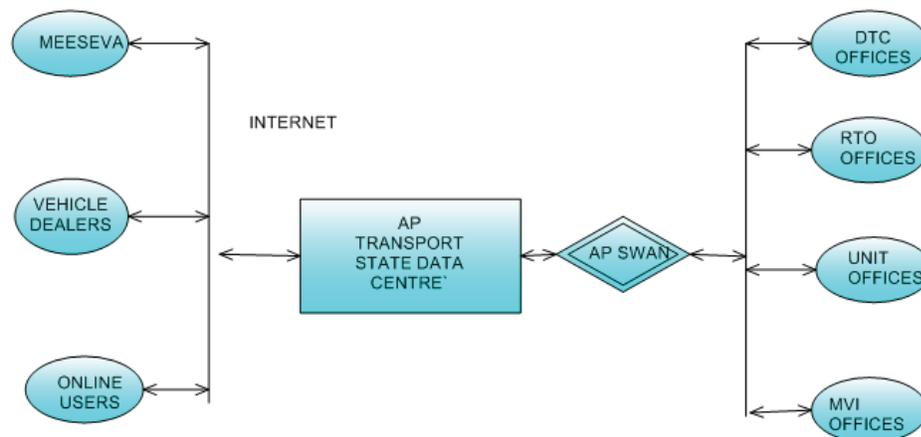
IT Report

5.4.14 Introduction

The Transport Department (Department) implemented a software called ‘Citizen Friendly Services in Transport Department (CFST)’ in May 2000. CFST aimed to build a comprehensive database of vehicles and users and to provide online services to the public. The core functions of the department, i.e., issue of driving licences, registration of vehicles, collection of taxes, fee etc., have been computerised in CFST. There are five modules in the CFST for issue of driving licences, registration of the vehicles, issue of permits, tax collection and issue of fitness certificates. The initial implementation which had two-tier architecture (Server and Client system), was developed by Tata Infotech Limited and Electronics Corporation of India Limited (ECIL). It was implemented by Raasi Enterprise Solutions Limited (RESL). The Department shifted to three-tier architecture (Client, Application Server and Data Server) developed by CMS Computers Limited (CMS) in a phased manner from July 2008. The shift to three-tier architecture was completed in April 2013.

The CFST has service oriented architecture (SOA) with web enabled applications. The Regional Transport Authorities (RTAs) are connected to the Collectorates of respective districts through lines leased out from Bharat Sanchar Nigam Limited (BSNL) and from the Collectorates to the Data Centre (Transport Commissionerate) through Andhra Pradesh State Wide Area Network (APSWAN) as detailed below.

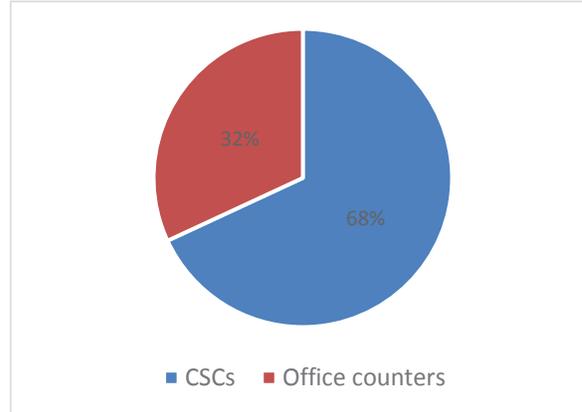
Connectivity diagram of RTAs



Andhra Pradesh Technology Services Limited (APTSL) is the nodal agency for procurement of IT and IT related services for the Department as per the orders¹⁶⁴ of the Government. The services of two agencies providing citizen services viz., e-Seva and AP Online are being utilised by the Department to collect revenue. Collection through such agencies constituted about 68 *per cent* of revenue of the Department when test checked for a month as shown in the following chart.

¹⁶⁴ G.O.Ms.No.45, Finance and Planning (Plg.Wing-20) Department, dated 9 July 1990.

Percentage of revenue collected in CSCs and Office Counters for the month of April 2013



Data dump obtained (November 2013) was analysed using Computer Aided Audit Techniques (CAATs). The general controls and application controls were evaluated with reference to the Audit objectives. The period covered in Audit was from July 2010 to June 2014.

Audit Findings

5.4.15 IT Governance

IT Governance is the alignment of business goals and the IT strategy. This would involve appropriate ownership of project management, planning, hardware sizing, data migration and other project components.

5.4.15.1 Capacity planning and Hardware sizing

With a view to provide web enabled services and to have a Centralised database, the Department planned to migrate from the existing Client Server Architecture to three-tier architecture in July 2008. Though the migration from two-tier to three-tier architecture began in July 2009, only four districts and five Integrated Check Posts (ICP) had migrated completely to three-tier architecture by July 2010. The remaining offices migrated to three-tier architecture between October 2012 and April 2013. The migration to three-tier architecture was completed in April 2013. CFST currently covers all the 44 RTAs in the erstwhile State of Andhra Pradesh. During the Performance Audit of CFST, a few issues regarding upgradation of the system were observed as follows:

5.4.15.2 Ad hoc approach in capacity planning while implementing three tier Architecture

The Department selected three offices (Hyderabad Central Zone, Vijayawada and Kadapa) as pilot project offices for its project of implementation of three-tier architecture. The contract for implementing the pilot project was awarded to CMS (service provider) in July 2007 on Build-Own-Maintenance-Transfer (BOMT) basis for 12 quarters after a tendering process conducted by APTSL. The Joint Transport Commissioner (IT) and Transport Commissioner monitored the IT activities including change management in coordination with APTSL but

no project management team was constituted to help in implementation of the project.

To facilitate the migration to three tier architecture, the Department procured servers for ₹ 10.28 crore from July 2007 to April 2013. During the initial phase of migration in July 2008 in the three pilot sites, an amount of ₹ 4.63 crore, which included the cost of servers of ₹ 2.71 crore, was paid to the service provider for development of the project on BOMT basis. When the migration was extended to 11 more offices in 2010, the Department again procured eight servers and other accessories through APTSL for ₹ 3.83 crore in June 2010, for which the same service provider was given the contract.

The procurement of servers by the Department shows that neither APTSL, which drafted the terms and conditions for the BOMT contract, nor CMS, which was the service provider for upgradation of the offices, had conducted proper study of the requirements of the Department and thereby the Department had to go for ad hoc procurement of servers without safeguarding its interest in July 2010. The ad hoc nature is further borne out by the fact that the Department once again procured 64-bit servers at a cost of ₹ 4.28 crore in March 2013, at the request of the service provider to which APTSL also was a party.

When the same was brought to notice, the Department replied (January 2014) that initially the service provider had installed the rack servers at data centre to meet the load of three pilot offices. On extending the services to additional offices, the existing data centre capacity was not sufficient to meet the requirements and the server was upgraded to higher capacity by purchasing additional servers at the cost of ₹ 3.83 crore. At the time of rolling out three-tier architecture to all the offices, the service provider requested the Department to upgrade the server and the Department had procured the servers.

On the ad hoc approach in capacity planning, Government replied during Exit Conference (December 2014) that none of the servers procured were lying idle and that they were being used for various activities. Further, additional activities such as giving access to Police for checking vehicle details, National Informatics Centre for updating in the National portal, online slot booking etc., were being done and hence there was a necessity for additional servers. It was also stated that day by day new functions were being added.

The reply is not tenable as the Department was aware of the implementation of the three tier architecture at various sites but did not plan the procurement of servers accordingly.

5.4.15.3 Excess charges paid for data migration

Data migration is the transfer of data from one location, storage medium or hardware/software system to another location. In CFST, data migration involved transfer of data from the two-tier to three-tier server.

Following the implementation of three-tier architecture in the pilot offices, the Department decided (July 2008) to expand the existing three-tier application to 11 more offices in Hyderabad, Rangareddy, Krishna and Kadapa districts. The Department requested CMS to carry out the upgradation.

The Committee constituted (August 2010) by the Government for extension of three-tier application to other offices recommended payment of ₹ 20.06 lakh towards data migration charges in the 11 offices without tendering process. These charges as recommended by the Committee were paid by the Department to CMS.

While awarding the work of pilot study covering the three offices which included significant data migration, data migration charges were not incorporated separately. However, data migration charges of ₹ 20.06 lakh were included and paid in the case of 11 offices which were subsequently upgraded. In the final phase of upgradation involving 29 more offices, when tenders were called for awarding the work, only an amount of ₹ 15.50 lakh was paid towards data migration charges. Thereby the Department paid higher charges for data migration in case of 11 offices as no tendering process was undertaken, which resulted in undue benefit to the service provider.

When the same was brought to notice, the Department replied (January 2014) that there was no separate component indicated for data migration in original commercial proposal submitted by CMS as it was a pilot study involving only three offices and to arrive at data migration charges in the extended offices, a method was adopted. Government in the Exit Conference (December 2014) while endorsing the Department's reply also stated that the Committee constituted by the Government recommended the price taking various factors into consideration and hence the tendering process was not followed and there was no excess payment. Moreover, the system stabilized by the time the 29 offices were migrated and hence the costs were low.

Reply is not acceptable as the Department did not undertake tendering process and thereby paid an amount of ₹ 20.06 lakh for data migration in 11 offices which is disproportionate when compared with payment of ₹ 15.50 lakh in respect of 29 offices to the same service provider.

5.4.15.4 Undue benefit given to third party

During the scrutiny of files relating to procuring the services of outsourced personnel from other departments, it was noticed that the TC had instructed the Department in February 2011 to procure manpower with knowledge of Developer 2000, Oracle database applications, NET and SQL 2008 and sufficient experience in development and support for maintenance of two-tier

and three-tier applications and allied IT related activities of the Department at TC's office.

Accordingly, the Department procured the services of outsourced personnel from AP Online between March 2011 and March 2013 to provide the technical services for online reservation of registration numbers, Asset management application and stock inventory. During this period the Department was already utilising the services of a technical engineer from APTSL, of RESL for Annual Maintenance Contract and Facility Management of two-tier architecture in 29 offices, and of CMS Computers for maintaining the other 14 offices which were in three-tier architecture.

In this connection, audit observed that the Department consulted neither APTSL nor the two existing service providers i.e., CMS (for three-tier architecture) and RESL (for two-tier architecture) for providing manpower for technical services. Further, while all the sites were under maintenance of two service providers, procuring personnel from AP Online for maintenance of application of two-tier and three-tier and allied IT related activities of the Department and paying an amount of ₹ 50.38 lakh to AP Online for their services for the period from March 2011 to March 2013 is not justified as the requirement was not assessed properly.

When this was brought to notice, the Department replied (January 2014) that in the headquarters office the existing staff strength was inadequate for looking after functional and technical aspects. Government replied in the Exit Conference (December 2014) that the services were procured as it was felt that the staff available in TC office were not adequate and that the outsourced personnel were utilized for developing Asset management system, stores inventory management application and an application for online reservation of registration numbers.

Reply is not acceptable for the following reasons:

The purpose for which the services of the personnel were procured and the purpose for which they were stated to have been utilised by the department are different. Also, the TC office already had technical manpower deputed from APTSL, RESL and CMS to look after the technical aspects of both two-tier and three-tier applications at the time. The performance issues in the application software were to be attended to by the service providers, RESL and CMS as per the provisions of their Annual Maintenance Contracts. Besides, application for online reservation of numbers has not materialized (July 2014). Hence, the expenditure of ₹ 50.38 lakh incurred on procuring outsourced personnel from AP Online on the orders of TC was not justified.

5.4.15.5 Non-deriving benefits of utilising smart card based Hand Held Terminals besides blockage of money

Hand Held Terminals (HHTs) are devices that can be used by the Enforcement wing of the Transport Department to check the genuineness of Smart Cards, validity of permits, fitness and history of offences. It can support writing of VCRs and update the central data base on real time basis.

The Department requested (February 2007) APTSL to procure 400 handheld smart card based read and write devices (HHTs) for which APTSL sent proforma invoice for an amount of ₹ 1.2 crore. Accordingly, the Department transferred 90 *per cent* of total cost i.e., ₹ 1.08 crore to APTSL (February 2008).

The Tender cum Purchase Committee (TCPC) finalized the supply contract with the lowest bidder, Bharat Electronics Limited Bangalore (BEL) for an amount of ₹ 1.34 crore (₹ 1.2 crore towards supply, installation and application development and training and ₹ 14 lakh for development of client application software). Accordingly, an agreement was entered into by the Department with the BEL in August 2008, for supply, installation and application development of HHTs besides training of Transport Department officials in their usage.

BEL supplied 400 hand held smart card reading/writing and communication devices (June 2010). As the quality assurance tests conducted on the devices failed, BEL was addressed to rectify the defects but they failed to do so.

The Department could not derive the benefits of utilisation of HHTs even after a lapse of six years from the date of payment and is still dependent on manual VCRs.

When this was brought to notice (December 2013) it was replied by the Department that the amount had not been paid to BEL. Government replied (December 2014) that after procuring the HHTs, BEL was asked to incorporate additional features which could not be provided by BEL. Hence, no payment was made to BEL. The reply is not acceptable as the Department's funds amounting to ₹ 1.08 crore were kept with APTSL since February 2008 which resulted in blockage of funds and the department could not derive any benefits due to defective HHTs.

5.4.16 Application functionality deficiencies

5.4.16.1 Dependence on manual system for refund of Life tax

The Government issued orders¹⁶⁵ on refund of life tax in respect of motor vehicles removed to other states or converted as motor cabs.

CFST provides for maintenance of B-registers used for creation and maintenance of database of vehicles, which contain all the details such as the engine number, chassis number, tax payment particulars, etc., relating to them. However, a module on the refund of life tax in respect of vehicles moving to other States has not been developed in CFST, necessitating manual calculation of the same.

A test check was conducted on manual refund files maintained in the offices of DTC, Vijayawada and JTC, Hyderabad Central Zone which revealed that in DTC, Vijayawada life tax amounting to ₹ 2.67 lakh was refunded in excess due to arithmetical inaccuracy. Similarly, in JTC, Hyderabad Central Zone, it was

¹⁶⁵ G.O.Ms.No.411, (TR-II), dated 28 April 1987.

observed (June 2014) that in cases relating to refund of life tax for vehicles which had moved to other states, the refund files were processed manually. It was also observed that the details of issue of NOC/ refund have to be manually entered in the remarks column of the B-Register.

Manual calculations have led to incorrect refunds as stated above. Also, the system does not automatically put a vehicle in 'inactive' status whenever NOC/refund of life tax is granted as the same is not generated through CFST.

Audit test checked the records relating to JTC, Hyderabad Central Zone and found that in three out of 71 cases relating to the period 2012-13 to 2013-14, the remarks column of B-Register was not updated with the particulars of refund of life tax. The vehicles were also not in inactive status. In the absence of this, these vehicles can re-enter both States without payment of life tax.

When the same was brought to notice, DTC, Vijayawada replied (June 2014) that the matter would be verified and action would be taken. JTC, Hyderabad Central Zone replied (June 2014) that the data relating to details of No Objection Certificates (NOCs) issued in two-tier regime had not been uploaded in the three-tier server.

Government replied in Exit Conference (December 2014) that refund of life tax cases would be few in number and hence no module has been provided for in CFST.

Reply is not acceptable as the Department needs to develop this module also as all the functions are now being attended to in CFST. Further, the CFST does not provide the details that can identify the vehicles which were issued NOC for transfer to other states as the refund process is done manually. In the absence of this provision, these vehicles may re-enter and ply in the states without payment of life tax for which refund was already made.

5.4.16.2 Manual calculation of taxes for stage carriages and contract carriages

As per Section 2 (7) of MV Act, a "Contract Carriage (CC)" means a motor vehicle which carries passengers for hire or reward and is engaged under a contract, for the use of such vehicle for carriage of passengers (a) on time basis, or (b) from one point to another, without stopping to pick up or set down passengers not included in contract anywhere during journey. In terms of Section 2(40) of the MV Act, a "Stage Carriage (SC)" means a motor vehicle which carries more than six passengers excluding driver for hire or reward at separate fares paid by or for individual passengers, either for whole journey or for stages of journey. In respect of SCs there are eight slabs of quarterly tax (QT) depending on the distance and the nature of service i.e., whether it is express service or ordinary service. Similarly, in respect of CCs there are six slabs of quarterly tax depending on the nature of permit.

The quantum of taxes realised on CCs and SCs other than Andhra Pradesh State Road Transport Corporation constitute about five *per cent* of the total quarterly tax collections.

The taxation of State carriage and Contract Carriage buses is done based on the route length, number of trips and number of seats etc. However, there is no provision in CFST to automatically generate demand for these vehicles. When the 'Calculate tax' button is clicked, zeros are displayed in the demand fields as shown.

Screen shot of stage carriage Tax collection

The screenshot displays the CFST Re-engineering web application interface. The browser address bar shows the URL: <http://192.16.254.11:99/APCFST/Modules/Permit%20and%20Tax/CCOTax.aspx?value=18>. The application is titled "CFST Re-engineering".

At the top, there are input fields for "Application Number", "Application Date" (15/11/2014), "Cash" (0), "Demand Draft" (0), "Applied for" (TAX), "Particulars" (TAX), "Challan" (0), and "Total Amount" (0). A "CALCULATE TAX" button is visible on the right.

The main interface is divided into several sections:

- Registration Details:** Includes fields for "Vehicle is*" (NEW), "Registration Category*" (TRANSPORT), "Class of Vehicle*" (STAGE CARRIAGES), "Regn. Number" (AP16TB1500), "Date of Regn." (07/05/2009), "Ownership Type*" (INDIVIDUAL), "Registration Valid Upto" (02/05/2015), "Trailer Type" (NONE), "Issuing Authority" (RTA VDAYAWADA), "Number of Trailers", "Registration Status" (ACTIVE), "Remarks", "Fitness Certificate Number" (FC/15862/2014/AP01), and "To Be Registered At" (AP016 - RTA VDAYAWADA).
- Challan:** A section for generating a tax receipt, containing fields for "Challan Number", "Eseva Trans. Number", "Last Paid Upto" (30/06/2014), "Type of Tax" (QUARTERLY), "Tax Arrears (Rs.)" (0), "Penalty Arrears (Rs.)" (0), "Tax Amount (Rs.)" (0), "Penalty (Rs.)" (0), "Compounding Fee (Rs.)" (0), "Service Fee (Rs.)" (0), "Exempt Service Fee (Rs.)", "Exempted Amount (Rs.)", and "Total" (0).
- Received Amount in Rs.:** A section for recording payments, with fields for "Cash", "Draft", and "Treasury Challan", each with a corresponding input field and a right-pointing arrow button.

The bottom of the screenshot shows the Windows taskbar with several open applications, including "CFST Re-engin...", "audit_icisa", "NONPAYMENT A...", "scs", "screens - Micros...", and "Canon LBP2900". The system clock shows 8:17 AM.

The user manually enters the details and calculates the total demand of tax. Even after 12 years of computerisation and shifting to three-tier architecture, the module for calculation of taxes of stage carriage and contract carriages has not been developed, necessitating manual intervention.

Government replied (December 2014) that very few stage carriages are plying in the State. However, steps were being taken to develop the modules.

5.4.16.3 Non-generation of/ Incorrect Demand, Collection and Balance figures

There is a provision in CFST to generate the details of Demand, Collection and Balance of revenue figures, office-wise in a report known as DCB. DCB helps the Department in assessing the revenue due, realized and balance to be collected and plays a significant role in internal control and monitoring mechanism.

Screenshot of DCB

Office Code: RTA VIJAYAWADA
 Quarter Ending Date: 31 12 2014
 GENERATE REPORT

DCB PROFORMA 1
 ANDHRA PRADESH TRANSPORT DEPARTMENT
 RTA VIJAYAWADA - AP016
 Report On :15/11/2014

Serial No	Description	On Roll Vehicle Count	Demand Vehicle Count	Demand Amount	Collected Vehicle Count	Collected Amount	Balance Vehicle Count	Balance Amount	Government Vehicle Count	Government Amount	Stoppage Vehicle Count	Stoppage Amount
I	Stage Carriages											
	a) Stage Carriages (APSRTC)	1317	1317	43619774.00	7	0.00	1310	43619774.00	1310	43619774.00	1	16520.00
	b) Stage Carriages (HIRE)	256	256	5968781.00	71	0.00	185	5968781.00	0	0.00	2	29800.00
	c) Stage Carriages (PRIVATE)	0	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
	Total Stage Carriages (a+b+c)	1573	1573	49588555.00	78	0.00	1495	49588555.00	1310	43619774.00	3	46320.00
II	Goods Carriages											

Audit noticed that the DCB statements generated through system in 17 out of 19 offices were showing the incorrect figures of revenue earned, balance due and arrears to be realized. The reasons for such incorrect DCB figures are given below:

- The DCB could not be generated after the bifurcation of the State. This was observed in JTC, Hyderabad Central Zone and RTO, Rangareddy (East).
- If the Contract carriages/Stage carriages are registered at DTC Office and taxes collected at RTOs, which are branch offices of the DTC, the figures appear in both offices, which results in overstatement.
- The quarterly taxes of APSRTC vehicles are levied by the central office. However, the same are exhibited in the DCBs of DTCs and RTOs also resulting in inflation of arrear figures of DTCs and RTOs.
- Government vehicles, which are exempted from payment of taxes, also appear as defaulters in DCB statements.
- Vehicles under stoppage, seizure etc., were not made inactive¹⁶⁶ in the system to prevent their figures from appearing in DCB. This results in overstatement of demand amount.

When the consolidated DCB figures showing the total number of vehicles and demand, collection and balance of revenue so as to enable the Department to

¹⁶⁶ Active status in two-tier and Valid status in three-tier architecture indicate further transactions can be carried out on these vehicles whereas Inactive status in two-tier and Invalid status in three-tier flags the vehicles and do not allow further transactions.

arrive at the actual arrears was called for, the Department stated (December 2013) that consolidated demand collection and balance details were not available in the present system and that steps were being taken to redesign the system to generate consolidated DCB figures for the entire state.

Incorrect DCB/non-generation of DCB will deprive the management of the vital information required to arrive at any policy matters on taxation.

Government replied during Exit Conference (December 2014) that module for generation of consolidated DCB would be developed.

5.4.16.4 Inadequate provision for entering results of tests conducted to check fitness of vehicles

According to Rule 62 of CMV Rules, 1989, a certificate of fitness in respect of a transport vehicle, granted under Section 56 shall be in Form 38 which shall be valid for a period of two years in the first instance and for one year each for each subsequent renewal.

The renewal of fitness certificate shall be made only after the Inspecting Officer has carried the tests specified under Rule 62 such as tests on spark plug, safety glass, braking system, steering gear, etc. Granting of FC was computerized in Transport Department between 2009 and 2012 and system generated Form 38 was being issued to the vehicles owners.

Audit noticed (between April and August 2014) that the MVI screens did not have the fields for entering the results of tests conducted as per Rule 62. Entering the details of the results of tests against each category of test will provide an assurance on the condition of the vehicle and its roadworthiness. In the absence of the required fields, the procedure is heavily dependent on the discretion of the MVI while issuing fitness certificates.

When clarification on whether the tests prescribed as per Rule 62 were being conducted was sought, it was replied (between April and August 2014) that Form 38 (FC form) was being issued after the MVI or AMVI is satisfied that the vehicles meet the physical standards as per Rule 62.

Reply is not tenable as there is no assurance that the checks have been carried out by the MVIs/AMVIs. Lack of appropriate fields/screens to capture the details of tests conducted may result in tests being not conducted altogether, leading to breakdown of the system for monitoring the fitness of vehicles.

Government replied in Exit Conference (December 2014) that as the Inspection is done manually by the MVIs and has not been automated, providing a screen with the details of the tests conducted does not make any difference. It was also stated that the Department is considering automating fitness testing.

Non-mapping of Business rules

5.4.17 Non/incorrect incorporation of business rules and other weaknesses in the system

Audit observed instances where business rules were not/incorrectly incorporated into the system, resulting either in incorrect outcomes or necessitating manual intervention to correct the mistakes. The observations are as follows:

5.4.17.1 Non-monitoring of the validity of Registration Certificates of non-transport vehicles

As per Rule 52(3) of CMV Rules 1989, 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.

Scrutiny of data relating to non-transport vehicles in JTC, Hyderabad Central Zone, six DTCs¹⁶⁷ and 12 RTOs¹⁶⁸ revealed that 14,769 vehicles remained in active status though the validity of their certificates of registration had expired. Vehicles in active status will be allowed further transactions whereas transactions relating to vehicles in inactive status will be blocked.

Data analysis in DTC, Kadapa revealed that 14,052 vehicles remained in active status though the validity of the certificates of registration had expired. However as per the front end data generated at DTC, Kadapa, the validity of the certificates of registration had expired for only 823 vehicles which raises some questions about the reliability of the database/ MIS reports.

Details of validity expired vehicles at front end

Vehicle Class	Vehicles Not Renewed Count
COMPRESSOR MOUNTED	1
Crane Mounted	1
Crane For Private Use	1
Jeep	9
MOTOR CAR	72
MOTOR CYCLE	110
Omnibus for Private Use	60
Rig Mounted	4
Road Roller	1
Tractor for Private Use	129
Tractor for Commercial Use	1
Trailer for Agriculture Purpose	433
Trailer For Commercial Use	1

¹⁶⁷ Chittoor, Kadapa, Rangareddy, SPSR Nellore, Vijayawada and Visakhapatnam.

¹⁶⁸ Anakapally, Gudivada, Hindupur, Hyderabad (East Zone, North Zone, West Zone), Ibrahimpatnam, Medchal, Nandigama, Proddutur, Rangareddy (East) and Tirupati.

In response JTC, Hyderabad Central Zone, six DTCs¹⁶⁹ and 12 RTOs¹⁷⁰ replied that renewal of registrations was being done whenever the owners approached the office for any transaction. It was also replied that enforcement authorities would be provided with list of vehicles and directed to watch if they were plying on the roads.

The reply is not acceptable as no provision has been incorporated in the system to automatically change the status of vehicles to inactive after the expiry of the certificate of registration. Further, the variation in the data between front end and database is also a matter of serious concern.

Matter was referred to Department in August 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.17.2 Compounding of non-compoundable offences

As per Section 86(5) of MV Act, 1988 read with Government Orders¹⁷¹ and Section 200 of the MV Act, 1988, read with Government Orders¹⁷², certain offences can be compounded and the amount of compounding fee to be levied for the offences have been specified in the Government Orders *ibid*. Rule 93 of the CMV Rules, 1989 specifies the dimensions to which each of the categories of vehicles should conform. Offences relating to violation of Rule 93, i.e., alteration of the body dimensions of a vehicle are not listed as a compoundable offence under any of the Government Orders.

It was observed in 14 offices¹⁷³ during the scrutiny of VCRs and data relating to offences compounded for the period from April 2011 to March 2014 that 40,830 offences, relating to altering of body dimensions in violation of Rule 93 of CMV Rules, 1989, were compounded. Though altering of body dimensions is a non-compoundable offence, the same was included in the list of compoundable offences in the system. Incorporation of incorrect business rule resulted in compounding a non-compoundable offence.

¹⁶⁹ Chittoor, Kadapa, Rangareddy, SPSR Nellore, Vijayawada and Visakhapatnam.

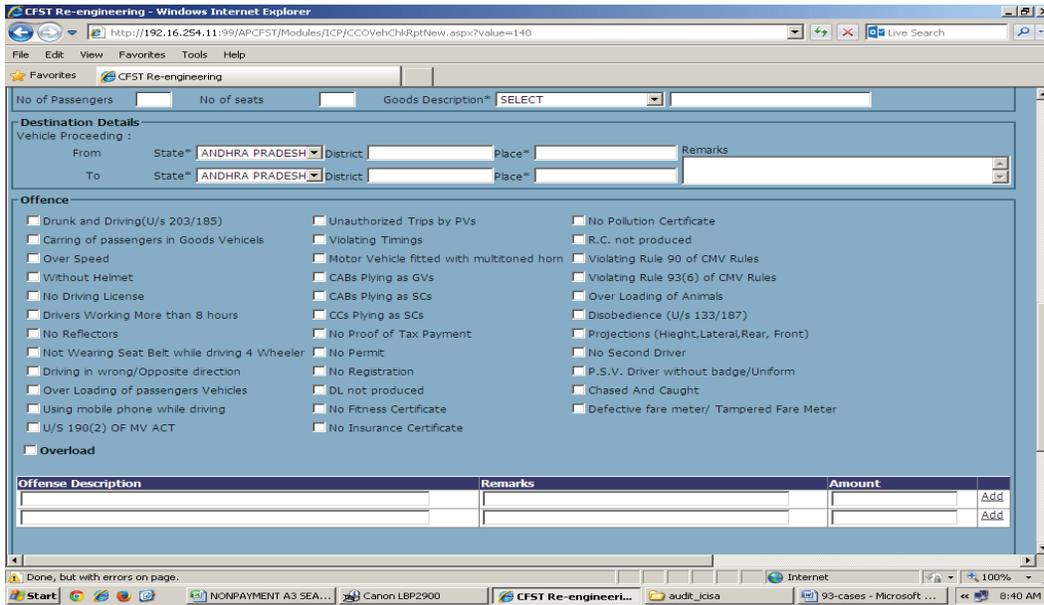
¹⁷⁰ Anakapally, Gudivada, Hindupur, Hyderabad (East Zone, North Zone, West Zone), Ibrahimpatnam, Medchal, Nandigama, Proddutur, Rangareddy (East) and Tirupati.

¹⁷¹ G.O.Ms.No.332, TR & B (TR-I) Department, dated 13 November, 2008.

¹⁷² G.O.Ms.No.108, TR & B (TR-I) Department, dated 11 August, 2011.

¹⁷³ JTC Central Zone, DTCs Chittoor, Kadapa, SPSR Nellore, Rangareddy, Vijayawada and Visakhapatnam. RTOs Anakapally, Gudivada, Hindupur, Proddutur, Secunderabad, Tirupati and Rangareddy (East).

Screen shot of offences given in the list of compoundable offences



When the same was brought to notice, it was replied by all the offices except DTC, Rangareddy and SPSR Nellore districts that the matter would be brought to the notice of higher authorities. DTC, Rangareddy and SPSR Nellore replied that the offences were being compounded under Section 190(2) of MV Act. The reply is irrelevant as the offence pointed out is a non-compoundable offence under Rule 93 of CMV Rules.

Matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.18 Data quality and related risks

5.4.18.1 Duplicate Engine, Chassis and Demand draft numbers

The engine and chassis numbers of each vehicle is unique and it indicates the make and model of the vehicle. As such, there cannot be a duplication of these numbers for any other vehicle. An analysis of data revealed the following:

Out of 74,49,703 records relating to registration of vehicles in the period from May 2009 to December 2013, the engine number was repeated in respect of 59,018 vehicles and the repetition ranged from two to 13,141. Further, some of the numbers were irrelevant characters/ numbers viz., INA,0000, **** etc.

Same Chassis No.

Government of Andhra Pradesh
Transport Department

A.P. Transport Department Online Services

Home Stamp Contact

LICENSE DEALER CONTRACT CARGAGE PERMIT

Vehicle Registration Search

Select Search Element: TR.NO
Enter Search Element: AP22TH74763

GET DATA CLEAR

Vehicle Details	
Registration No: AP20DE289	Fuel Type: PETROL
Owner Name: [REDACTED]	Vehicle Color: BLACK
Vehicle Class: MOTOR CYCLE	Maker's Name: HONDA MOTOR CO. LTD.
Mfg Year: 01/2010	Maker's Class: PASSION PLUS DRUM SPOKE WHEEL
Engine No: H10E94H1204	Date Of Registration: 20/02/2010
Chassis No: BLH1410E94H2022	Financier:
Prev Registration No:	Registration Authority:
	Status: ACTIVE

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Government of Andhra Pradesh
Transport Department

A.P. Transport Department Online Services

Home Stamp Contact

LICENSE DEALER CONTRACT CARGAGE PERMIT

Vehicle Registration Search

Select Search Element: TR.NO
Enter Search Element: AP22TH79530

GET DATA CLEAR

Vehicle Details	
Registration No: AP14H9580	Fuel Type: PETROL
Owner Name: [REDACTED]	Vehicle Color: BLACK
Vehicle Class: MOTOR CYCLE	Maker's Name: HONDA MOTOR CO. LTD.
Mfg Year: 01/2010	Maker's Class: PASSION PLUS DRUM SPOKE WHEEL
Engine No: H10E94H11693	Date Of Registration: 20/02/2010
Chassis No: BLH1410E94H2022	Financier:
Prev Registration No: AP12TH79530	Registration Authority:
	Status: ACTIVE

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Same Engine No.

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Vehicle Registration Search

Select Search Element: TR.NO
Enter Search Element: AP581231

GET DATA CLEAR

Vehicle Details	
Registration No: AP30CP7638	Fuel Type: DIESEL
Owner Name: [REDACTED]	Vehicle Color: WHITE
Vehicle Class: MOTOR CAR	Maker's Name: MARUTI SUZUKI LTD.
Mfg Year: 01/02/2011	Maker's Class: CORPO L12 2400K MCRD-HRDC/107SEAT 890
Engine No: AP581231	Date Of Registration: 02/02/2011
Chassis No: MA1743PH932073	Financier:
Prev Registration No: AP50TV79937	Registration Authority:
	Status: ACTIVE

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Vehicle Registration Search

Select Search Element: TR.NO
Enter Search Element: AP581231

GET DATA CLEAR

Vehicle Details	
Registration No: AP37AC2888	Fuel Type: DIESEL
Owner Name: [REDACTED]	Vehicle Color: WHITE
Vehicle Class: MOTOR CAR	Maker's Name: MARUTI SUZUKI LTD.
Mfg Year: 01/02/2011	Maker's Class: CORPO L12 2400K MCRD-HRDC/107SEAT 890
Engine No: AP581231	Date Of Registration: 02/02/2011
Chassis No: MA1743PH932073	Financier: EDNA AUTO FINANCE COMPANY
Prev Registration No: [REDACTED]	Registration Authority: RFA WEST GODAVARI-ELURU
	Status: ACTIVE

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Similarly, out of these 74,49,703 records, the chassis numbers were repeated in respect of 49,348 vehicles and a repetition of the chassis numbers ranged from two to 65 times.

Repetition of Engine number and Chassis number will have serious implications when misused by the owners of the vehicles as they cannot be detected.

It was also found that the numbers of Demand Drafts (DDs) submitted by the vehicle owners towards payment of taxes, Special number fee etc., were replicated in 157 cases (between January 2010 and December 2013), which is a matter of serious concern. Repetition of DD numbers may be indicative of utilisation of the same DD more than once which is a source of concern.

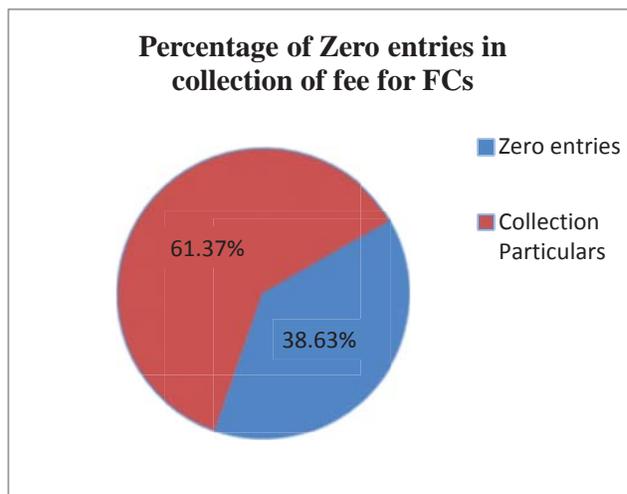
The Department failed to provide proper validations to ensure that the numbers of Engine, Chassis and Demand drafts are not repeated even in three-tier architecture indicating failure of validation controls.

Matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.18.2 Zero entries in FC collection data

As per Section 56 of the MV Act, a transport vehicle shall not be deemed to be validly registered, unless it carries a certificate of fitness (FC) issued by prescribed authority. As per Rule 62 of the CMV Rules, FC of the transport vehicles shall be renewed every year. Rule 81 of CMV Rules prescribes fees for conducting test of a vehicle for grant and renewal of FC.

While issuing an FC, the system generates an FC number and fee collection particulars are entered into the system. However, audit observed that out of the 19,89,287 entries relating to collection of fitness fee made between May 2009 and December 2013, in respect of 7,68,417 cases, i.e., 38.63 per cent, the entries in the field relating to collection of the fee was zero indicating probable loss of revenue to the Government and that the input controls were ineffective.

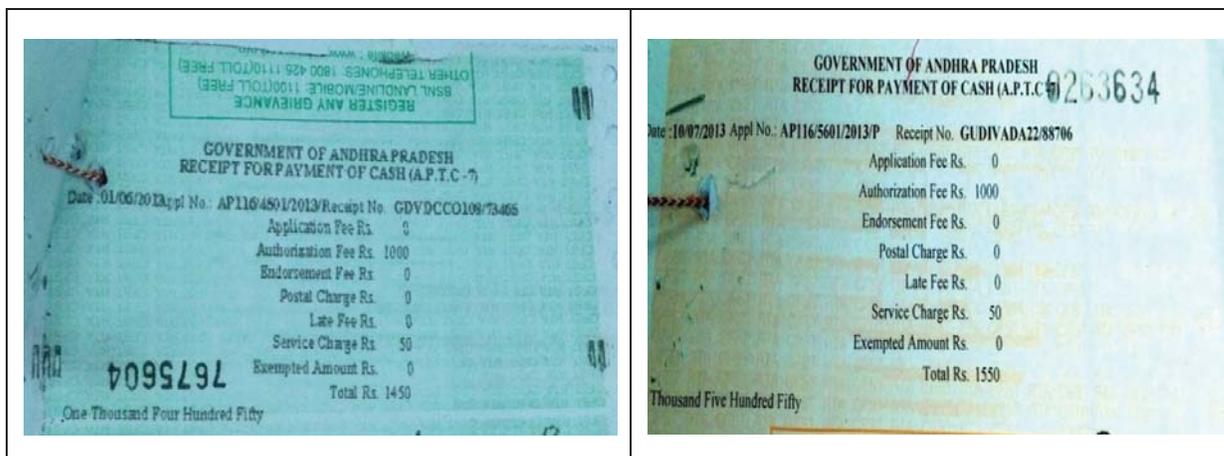


The matter was referred to Department in September 2014 and to Government in September 2014. Government replied in the Exit Conference (December 2014) that the data relates to the migration period from two-tier to three-tier architecture. Whenever any Transport vehicle comes for any transaction in three tier architecture for the first time, the Department has been updating details of RC by giving exemption in FC fee column as already FC fee was collected earlier in two-tier system. Hence, there is no lacking of input controls in this regard.

Reply is not acceptable as zero entries in FC fee were found in December 2013 in the offices migrated to three tier architecture in July 2008 itself i.e., in the first phase. Further, as per the reply of the Department all the 19,89,287 vehicles should have zero entry in FC but zero entry was found in respect of only 7,68,417 vehicles.

5.4.18.3 Incorrect generation of receipts

The fee prescribed for granting National Permit (NP) Authorization is ₹ 1,000 per annum with a service charge of ₹ 50. However, in six DTC/RTOs¹⁷⁴ it was observed that the totals in the receipts were more than the sums of the NP Authorization fee and service charge. This was due to the fact that the offices were collecting late fee and including it in the total in the receipts though such collection is unauthorized. The fact that the total field in the receipt generation system can be manipulated shows lack of validation controls in the system.



Matter was referred to Department in August 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.18.4 Non-incorporation of adequate alerts to prompt for collecting green tax

As per Government orders¹⁷⁵ 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. In respect of transport vehicles, the subsequent renewals in the form of Fitness Certificates are given for one year. As per Rule 52(1) of CMV Rules 1989, an application by or on behalf of the owner of a motor vehicle other than a transport vehicle, for the renewal of a certificate of registration shall be made to the Registering Authority (RA) not more than 60 days before the date of its expiry.

¹⁷⁴ DTCs Chittoor, SPSR Nellore, Vijayawada and Visakhapatnam, RTOs Gudivada and Hindupur.

¹⁷⁵ G.O.Ms.No.238 TR& B (TR-1) Department, dated 23 November 2006.

Scrutiny of the Green tax table in JTC, Hyderabad Central Zone, six DTCs and 12 RTOs for the period 2012-13 and 2013-14 revealed that 2983 non-transport vehicles which were registered during the period 1997-1999 were given Fitness Certificates without collecting Green tax amounting to ₹ 13.36 lakh. Further, it was observed in these offices that Transport Vehicles Green tax amounting to ₹ 49.03 lakh on 17,248 transport vehicles had not been levied.

In case the owner approaches the office for any of these purposes before the end of validity of fitness certificate/registration certificate, the system does not prompt for collection of Green tax as detailed below in respect of four transactions as an example.

Sl. No.	Vehicle number and type of vehicle	Date of registration	Date up to which registration is valid	Date of application for renewal of registration	Date upto which further validation was given	Remarks
1	AP16H4497 Non-transport	8 September 1995	7 September 2010	16 August 2010	9 September 2015	No demand for green tax was raised
2	AP09S5863 Non-transport	30 May 1998	29 May 2013	29 May 2013	28 May 2018	No demand for green tax was raised
3	ATN7929 Transport	21 November 1986	20 November 1993	15 September 2008	14 September 2013	No demand for green tax was raised
4	AP03U2871 Transport	23 September 2000	22 September 2007	31 December 2014	12 September 2013	No demand for green tax was raised

When the observation was brought to notice, JTC, Hyderabad Central Zone replied that the system was not generating prompts for collection of green tax in cases of vehicles having bi-fuel facility. For remaining vehicles it would be collected whenever the vehicles are coming for fitness certificates.

Reply is not tenable as the government had not exempted the vehicles having bi-fuel facility. The system is not prompting for collection of Green tax for vehicles not having bi-fuel facility also, if the owner was approaching the office for renewal of fitness certificate/registration certificate before the expiry of their validity. There is a need for the Department to incorporate alerts for collection of Green Tax if the vehicle owners approach the Registering Authority during the validity of RCs/FCs.

Matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.19 Other issues

5.4.19.1 Life tax on second and subsequent personal vehicles

As per Section 4(aa) of APMVT Act 1963, the tax levied under the second proviso to Section 3(2) shall be for the lifetime of the motor vehicle and shall be paid in advance in lump sum by the registered owner of the motor vehicle or

any other person having possession or contract thereof. In accordance with the provisions of the seventh schedule to the APMVT Act, life tax payable in respect of second and subsequent personal vehicles having seating capacity up to 10 in all was enhanced to 14 *per cent* with effect from February 2010.

TC delegated the powers to collect the life tax to the dealers concerned at the time of temporary registration from vehicles owners. At this juncture the dealer is deciding the tax liability i.e., whether it is exempted from life tax, percentage of life tax to be levied, whether the tax is to be levied at a higher rate on the second and subsequent vehicle, etc. Subsequently, at the time of permanent registration of the vehicle, the Departmental personnel have to check whether the vehicle owner has another vehicle already registered on his name. Hence the user will have the discretion to either collect the enhanced tax or to register the vehicle without collecting the enhanced rate of tax in respect of second vehicle.

Test check of the data on registration of vehicles in 19 offices revealed that life tax was collected at lesser rates instead of at the enhanced rate of 14 *per cent* after February 2010 resulting in short levy of life tax amounting to ₹ 49.34 lakh due to discretionary powers allotted to the user dealers.

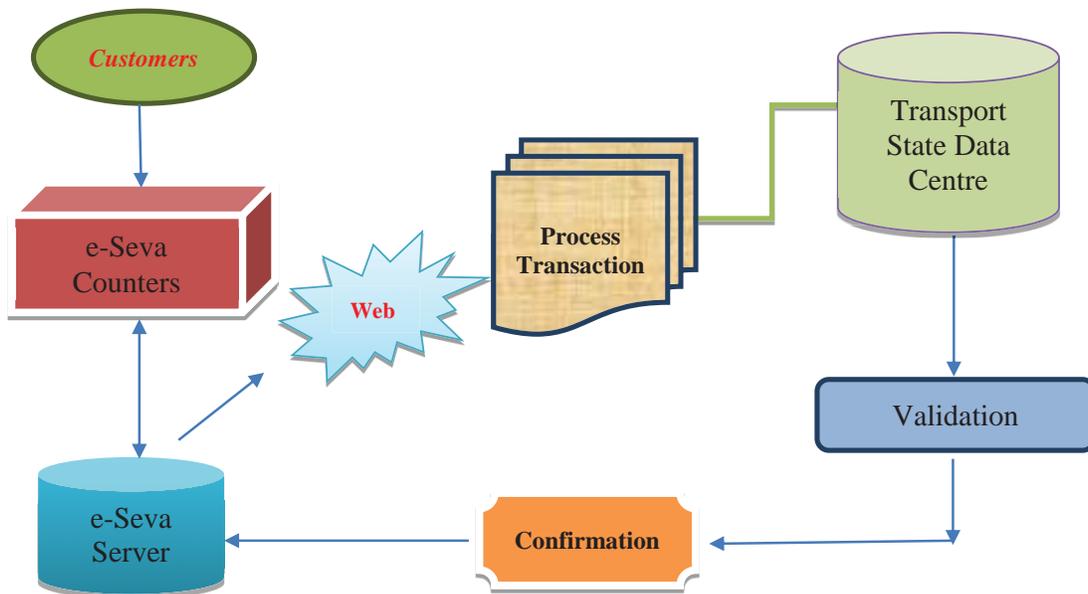
Data analysis revealed that a total of 13,52,739 vehicles belonging to two categories¹⁷⁶ of personal vehicles were registered between December 2011 and December 2013, out of which on 36,449 vehicles, life tax at 14 *per cent* was levied treating them as second and subsequent personal vehicles. However, 26,987 more vehicles were identified by Audit as vehicles requiring 14 *per cent* life tax to be levied on them which amounted to ₹ 9.51 crore as differential life tax. Further analysis revealed that the total life tax amounting to ₹ 1,728.30 crore was collected for the year 2013-14. The enhanced life tax on 26,987 vehicle owners for second and subsequent vehicles for a period of two years i.e., the period between December 2011 and December 2013 was a meagre 0.55 *per cent* of the revenue amounting to ₹ 1,728.30 crore collected for one year i.e., 2013-14.

When the observation was brought to notice, all the DTCs/RTOs replied (between August 2013 and July 2014) the details of short levy would be verified and collected. Government replied (December 2014) that a unified rate of tax dispensing with the additional tax on second and subsequent personal vehicles had been proposed by the Department.

5.4.19.2 Variation in number of transactions between e-Seva, AP Online and Department servers

The citizen service agencies, AP Online and e-Seva collect revenues on behalf of Department by charging ₹ five per transaction.

¹⁷⁶ Motor cycles and motor cars.



Though the transactions of e-Seva are executed on real-time basis, it was observed from the records of payments made to e-Seva that there were variations ranging between (-) 2,668 to 5,38,613 per quarter in the number of transactions between e-Seva and Transport Department central server. Further, during the course of audit of the office of the TC it was noticed that for the month of November 2011, the number of transactions attended to by AP Online as per its reports (2,74,353) varied with the entries in the Department servers (2,58,254).

Though the Department paid service charges to both e-Seva and AP Online for transactions as per the data in its server, the large variations in the number of transactions is a source of concern, as the variation may be indication of non-updating of data relating to collection of taxes from the customers and possible loss of revenue. The Department is addressing the issue only to the extent of payment of service charges for the number of transactions and is ignoring the fact that the numbers of transactions stated to have been attended by the CSC have not been correspondingly updated in the departmental server. The Department needs to improve its systems to ensure proper reconciliation of the number of transactions.

Department delayed the implementation of automated transaction reconciliation system which was proposed to be developed in July 2010 till August 2014. Consistent variations in data provided by outsourcing service provider and data available in Department's server indicates that the Department is not in a position to monitor or initiate action to prevent such differences.

The matter was referred to Department (December 2013) and to Government in September 2014. Government replied during Exit Conference (December 2014) that an automated reconciliation module has been developed and is being used to sort out the differences.

Department may take steps to ensure that transactions relating to earlier periods are also reconciled.

5.4.20 Environmental controls

Besides ensuring information security through logical access, validation and physical access controls, it is essential to provide physical security to the components of the system which are critical to its functioning. Smooth functioning of the system can be ensured only if information security and physical security of the critical components of the system are ensured. The following observations regarding weaknesses in these aspects were made during the audit:

5.4.20.1 Not providing Physical security and fire-fighting equipment

Computer security covers all the processes and mechanisms by which computer based equipment, information and services are protected from unauthorised access, change or destruction and is of growing importance in line with the increasing reliance on computer systems.

Though fire safety is an important component in ensuring the physical safety of any premises, it was observed that no fire-fighting equipment was available in eight offices¹⁷⁷ out of 19 offices test checked.

The matter was referred to Department in September 2014 and to Government in September 2014. Reply is awaited (December 2014).

5.4.20.2 Disaster recovery and business continuity plans

It is important for an organisation to not only take back up of data at specified regular intervals, but also to maintain a copy of the same offsite. This helps in recovering the data during contingencies where the data at the processing/storage centre is lost. In the case of CFST, which is the core application of the Transport Department, the importance of backup site cannot be overstated.

It was observed (December 2013) from the files on data maintenance and availability of back up facility that the backup server which was to be a hot site at a different location as per the Request for Proposal (RFP) document, was not being maintained and that there was no documented backup policy.

Further, after migrating to three-tier architecture, all the transactions and data updating are done on a real-time basis. The business continuity and disaster recovery plans are very important for restoring the services in case of disruption. However, it was observed that there were no documented plans relating to disaster recovery and business continuity. Further, no information on mock drills conducted, if any, was furnished to audit.

¹⁷⁷ DTC Kadapa and SPSR Nellore, RTOs Anakapally, Hindupur, Ibrahimpatnam, Medchal, Nandigama and Proddutur.

The issue was brought to the notice of the Department (August 2014) and to Government in September 2014. Government replied (December 2014) that there is no backup at present and that there is a proposal to maintain a backup server at a different location.

5.4.21 Conclusion

Audit scrutiny revealed that there are lacunae in the revenue collection system of the Department. Timelines have not been fixed for disposal of VCRs or disposal of seized vehicles. There is inadequate support for the staff when it comes to enforcement activities especially detection of cases of drunken driving, checking the fitness of vehicles and compliance with emission norms.

There was absence of adequate controls in the procurement of hardware, software and other services for upgradation into three-tier architecture. Data validation controls are not in place for some transactions and the system requires more refining to cater to the needs of the Department. Though a major portion of revenue is collected through AP Online and e-seva, there is no system of reconciliation of figures. Instances of improper mapping of Business rules were noticed. There is no disaster recovery or business continuity plan and because of which adequate assurance on the ability of the Department to resume core business functions in case of any disruption at the Data centre cannot be given.

5.4.22 Recommendations

Department may consider

- Introducing deadlines for remitting the revenue into Government account and fixing responsibility in the case of delay.
- Fixing reasonable time limits for disposal of VCRs and seized vehicles.
- Putting in place a project management structure for change management of CFST and for better control over procurement of IT/ IT related services.
- Incorporating necessary validation controls in the system data and cleaning of vehicle registration database for efficient business delivery to stakeholders.
- Drawing up Business Continuity and Disaster Recovery plans to avoid inconvenience to the users. The backup server may also be maintained in a geographically distant location.

CHAPTER-VI
LAND REVENUE

CHAPTER VI LAND REVENUE

6.1 Tax administration

At the apex level, Chief Commissioner of Land Administration (CCLA) is responsible for administration of Revenue Board's Standing Orders (BSO), Andhra Pradesh (AP) Water Tax Act, 1988, AP Agricultural land (Conversion for non-agricultural purpose) Act, 2006, AP Irrigation, Utilisation and Command Area Development Act, 1984 and Rules and orders issued thereunder. State is divided into 23 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 Mandals¹⁷⁸, which are kept under administrative charge of Revenue Divisional Officers (RDOs) and Tahsildars respectively. Each village in every Mandal is administered by a Village Revenue Officer (VRO) under the supervision of the Tahsildar. VROs prepare tax demands under all the Acts mentioned above for each Mandal from the village accounts and get it approved by the concerned *Jamabandi* officers¹⁷⁹. VROs/Revenue Inspectors are entrusted with work of collection of revenue/taxes such as water tax, conversion fee for agricultural lands etc. At Government level, Principal Secretary (Revenue) is in charge of overall administration of Revenue Department.

6.2 Internal audit

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

6.3 Results of Audit

Test check of the records of Land Revenue Offices conducted during the year 2013-14 revealed under-assessments of tax amounting to ₹ 342.81 crore in four cases which broadly fall under the following categories:

(₹ in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Thematic report on Levy and collection of tax for conversion in respect of agricultural land for non-agricultural purposes	1	317.25
2.	Non-finalization of alienation proposals on advance possession	2	25.45
3.	Excess payment of compensation for acquisition of land	1	0.11
Total		4	342.81

¹⁷⁸ Mandals are the jurisdictional area of each Tahsildar.

¹⁷⁹ *Jamabandi* officer is District Collector or any other officer nominated by him not below the rank of Revenue Divisional Officer.

During the year 2013-14 the department accepted underassessment and other deficiencies of ₹ 30.22 crore in 92 cases of which four cases involving ₹ 27.85 crore was pointed out during the year 2013-14 and the rest in the earlier years.

A few illustrative cases involving ₹ 342.81 crore are mentioned in the succeeding paragraphs.

6.4 Levy and collection of tax for conversion of agricultural land for non-agricultural purposes

6.4.1 Introduction

The Andhra Pradesh Agricultural Land (Conversion for Non-Agricultural purposes) Act, 2006, came into force with effect from 2 January 2006 (hereafter called the Act) to enable the Government to monitor activities to discourage indiscriminate conversion of agricultural land for non-agricultural purposes and to accord necessary permission for conversion of land for non-agricultural purposes (like industrial, commercial, residential, etc.). It prescribes One-time Conversion Tax¹⁸⁰ (OTT) to be levied on all agricultural lands converted for non-agricultural purposes on or after the commencement of the Act.

The Act mainly provides that

- no agricultural land in the State shall be put to non-agricultural purpose, without prior permission of the competent authority (Section 3(1)). The competent authority in this regard is the Revenue Divisional Officer (RDO).
- every owner¹⁸¹ or occupier of agricultural land shall pay a conversion tax at the rate of nine *per cent*¹⁸² of the basic value¹⁸³ of the land converted for non-agricultural purposes except the lands converted in the areas of Greater Hyderabad Municipal Corporation (GHMC), Greater Visakhapatnam Municipal Corporation (GVMC) and Vijayawada Municipal Corporation (VMC) where the conversion tax is payable at the rate of five *per cent* (Section 4(1)).
- if the conversion tax so paid is found to be less than tax prescribed, a notice shall be issued by competent authority to the applicant within 30 days of the receipt of application intimating the deficit amount to him. In case no intimation is received by the applicant from the Department within 30 days about the deficit payment of the conversion tax, it shall be deemed that the amount paid is sufficient for the purpose (Sections 3 (3) and 3 (5));

¹⁸⁰ Substituted for 'fee' vide G.O.Ms.No.396 dated 19 June 2012.

¹⁸¹ As per Section 2 (m) of the Act, "Owner" includes any lessee/local authority to whom lands have been leased out by the State Government or the Central Government.

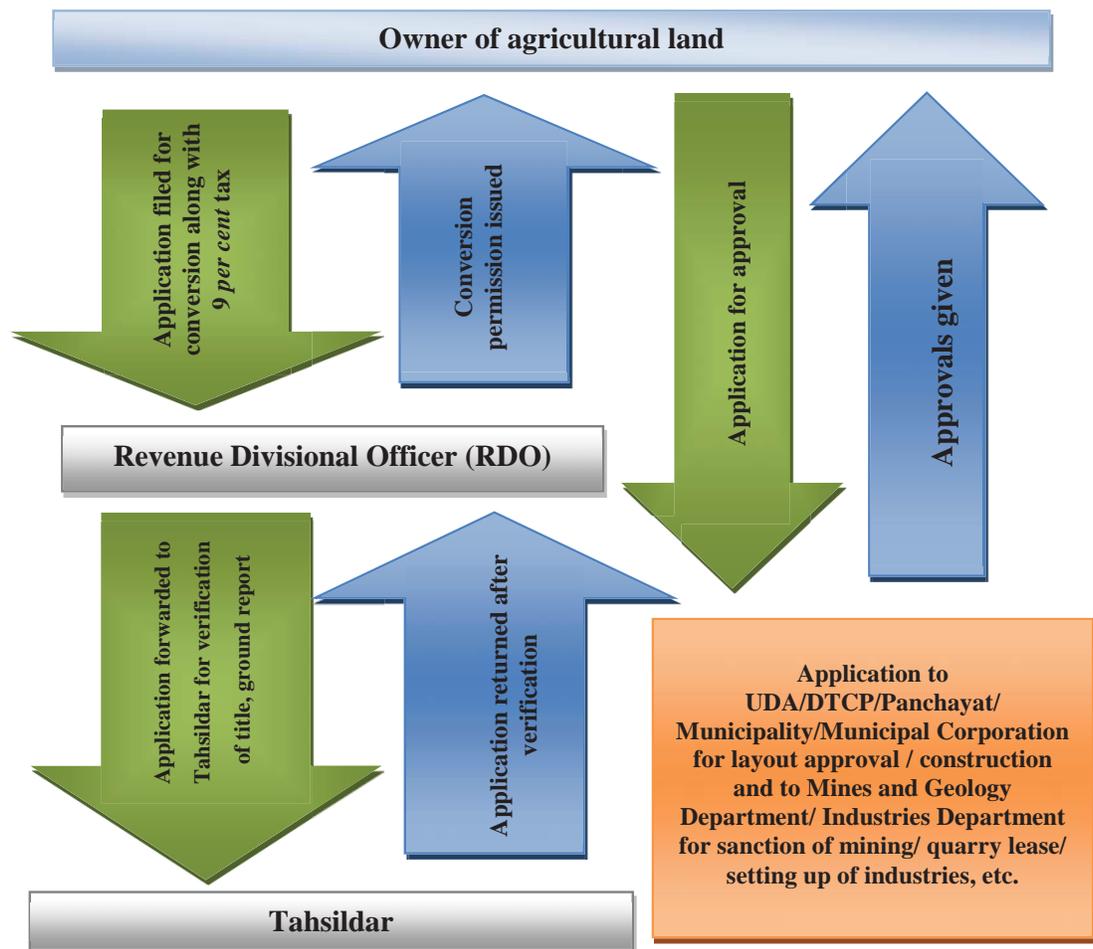
¹⁸² Conversion tax was revised from 10 *per cent* to nine *per cent* vide G.O.Ms.No.396 dated 19 June 2012.

¹⁸³ '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.

- if any agricultural land had been put to non-agricultural purpose without obtaining permission of the RDO, he shall impose a penalty of 50 *per cent* over and above the conversion tax (Section 6(2)); and
- any tax or penalty which remains unpaid after the date specified shall be recoverable as per the provisions of the Andhra Pradesh Revenue Recovery (RR) Act, 1864 (Section 6(4)).

According to Rule 6(iv) of AP Agricultural Land (Conversion for non-agricultural purposes) Rules, 2006, where land is deemed to have been converted for non-agricultural purposes, the date for the purpose of calculation of basic value shall be the earliest of (i) the date of detection of conversion by the competent authority, (ii) the date of entry into village accounts, or (iii) the date of application by owner/occupier.

The following flow chart describes the process of conversion of agricultural lands for non-agricultural purposes process and payment of conversion tax:



For administration of the Act, at the apex level, the Chief Commissioner of Land Administration (CCLA) is responsible for administration of Board Standing Orders (BSO), AP Agricultural Land (Conversion for non-agricultural

purposes) Act, 2006, Rules and related orders issued. He is assisted by District Collectors at district level. Each district is divided into revenue divisions headed by Revenue Divisional Officer (RDO)/Sub-collector¹⁸⁴ and further sub-divided into Mandals¹⁸⁵, which are under the administrative charge of Tahsildars. Each village in a Mandal is administered by a Village Revenue Officer (VRO) under the supervision of the Tahsildar. VROs/Revenue Inspectors are entrusted with maintenance of land records, field inspection duties etc. RDO is the assessing authority in respect of land conversion and the District Collector is the appellate authority.

6.4.2 Objectives, scope and methodology of audit

Audit was conducted with a view to examine whether there exists

- a proper system for levy and collection of conversion tax/ penalty due to the Government; and
- proper co-ordination with other departments/bodies.

Audit was conducted between July 2013 and March 2014 for the period from 2008-09 to 2012-13 in 32¹⁸⁶ out of 84 RDOs/Sub-Collector offices in the State. These offices were selected excluding the 16 offices covered in the CAG's Audit Report No.4 of 2014 on Revenue Sector of Andhra Pradesh for the year ended 31 March 2013 and keeping in view the developments in real estate sector, land use details obtained from mining/quarrying leases granted by the Mines & Geology Department and details of the industries set up during the period obtained from the Industries and Commerce Department, etc.

In the selected units, 10 *per cent* (1,361) of 13,601 conversion cases finalised during the period 2008-09 to 2012-13 by the RDOs were selected at random¹⁸⁷. Cases noticed during the regular audit of 11 Tahsildar offices¹⁸⁸ have also been included in this report.

Information about land use was obtained from the local bodies¹⁸⁹, District Industries Centre, Directorate of Mines & Geology and Vigilance and Enforcement Department of Government of Andhra Pradesh. Information/documents obtained were cross-verified with the permissions issued by the RDOs and notices issued by the department to check the non-levy/correctness of levy of conversion tax.

¹⁸⁴ Sub-Collector is a Group-I officer who is the head of the Revenue Division.

¹⁸⁵ Mandal is the jurisdictional area of Tahsildar.

¹⁸⁶ Ananthapur, Chittoor, Dharmavaram, Eluru, Gudivada, Gudur, Hyderabad, Jangaon, Kandukur, Karimnagar, Khammam, Kovvur, Machilipatnam, Mancherla, Miryalaguda, Nalgonda, Nandyal, Narasaraopet, Narayanpet, Narsapur, Narsipatnam, Nizamabad, Nuzivid, Peddapuram, Secunderabad, Siddipet, Srikakulam, Suryapet, Tenali, Vikarabad, Vizianagaram and Wanaparthy

¹⁸⁷ As the selected RDOs were covering IInd and IIIrd grade cities/towns, there were no high value cases. Hence, conversion cases were selected randomly.

¹⁸⁸ Addanki, Balanagar, Bhainsa, Bonakal, Dharmapuri, Jadcherla, Kothakota, Mahboobnagar, Makthal, Mudigonda and Panyam.

¹⁸⁹ Local bodies viz. Hyderabad Metropolitan Development Authority (HMDA), Municipal Corporations/Municipalities, Divisional Level Panchayat Offices (DLPO).

The following were the sources of audit criteria:

- The A.P Agricultural Land (Conversion for non-agricultural purposes) Act, 2006 and Rules thereunder; and
- Notifications and Orders issued by the Government from time to time.

Audit Findings

6.4.3 Non-levy of conversion tax in respect of alienation orders

During the scrutiny of alienation records, audit noticed in the offices of four RDOs¹⁹⁰ that Government land to the extent of 752.40 acres was alienated (between 2008 and 2013) in favour of eight allottees (Public Sector Undertakings/Corporations/private entities) for purposes such as industrial development, tourism, construction of electrical sub-stations, etc.

Under Section 4(1) of the Act, 2006, when land is being converted for non-agricultural purposes, RDOs have to levy conversion tax at nine *per cent* on the value of the land. Through the alienation orders, only the title of the land was changed for using the same for specific non-agricultural purposes. The land still had to be converted under the A.P Agricultural Land (Conversion for non-agricultural purposes) Act, 2006, on payment of appropriate amount of conversion tax. Alienation orders were not to be construed as conversion orders. However, neither did the allottees apply for conversion of land nor did the RDOs take any action to levy the conversion tax. This resulted in non-levy and collection of conversion tax amounting to ₹ 85.96 lakh (**Annexure I**). RDO, Chittoor (one case) alone contributed to 46.85 *per cent* of the total tax realisable.

Two RDOs¹⁹¹ replied (August 2013 and February 2014) that notices would be issued; RDO, Miryalaguda replied (October 2013) that matter would be examined; RDO, Ananthapur stated (July 2013) that as the lands alienated were Government lands, question of payment of conversion tax did not arise. The fact remains that once the lands were alienated, they were no more Government lands and were liable for levy of conversion tax.

¹⁹⁰ Ananthapur, Chittoor, Jangaon and Miryalaguda.

¹⁹¹ Chittoor and Jangaon.

6.4.4 Lack of co-ordination between Revenue and other Departments

6.4.4.1 Various layouts/construction/industries approving authorities

Audit collected information/documents from other departments for cross verification with records of the selected RDOs to test check the monitoring mechanism of the Department. In this process the following information was obtained from various sources as described below:

- **Divisional Level Panchayat Officers (DLPOs):** As per Clause 6 of Notification issued on 26 February 2002, Gram Panchayats are the administrative sanctioning authorities for layouts. Hence, details of the layouts approved by the Gram Panchayats were collected from 28 DLPOs¹⁹².
- **Urban Development Authority (UDA):** UDAs are the layout approving authorities for urban areas falling outside municipal limits as well as District Town and Country Planning limits in the State wherever UDAs have been formed. Information about layouts approved by one UDA i.e., HMDA¹⁹³ was collected.
- **Municipal Corporations/Municipalities:** Audit collected information from 10 Municipal Corporations/Municipalities¹⁹⁴ regarding all the layouts/constructions which came up between 1 April 2008 and 31 March 2013.
- **Industries and Commerce Department:** Audit collected information from one District Industries Centre, Srikakulam regarding lands used by the units that were set up after 1 April 2008 in the test checked divisions.

Information collected from these sources was cross checked with the records relating to conversion permissions and notices for conversions issued by the RDOs. In the 32 test checked divisions, Audit observed 2,921 cases through which 13,782.62 acres of land were converted for non-agricultural purposes with layout approvals/permissions issued by the above mentioned agencies. In none of these cases, was payment of conversion tax made or permission taken from the Revenue Department for conversion. Neither did the individuals/organizations approach the RDOs/Sub-Collectors concerned for obtaining the conversion permissions, nor did the department make any effort to levy conversion tax. Since there were no provisions in the Act for sharing information about grant of permissions by other departments for using agricultural land for non-agricultural purposes, there was no compulsion exercised for coordination with other agencies in the matter hence, conversion

¹⁹² Chittoor, Eluru, Gudivada, Gudur, Jangaon, Kandakur, Karimnagar, Khammam, Kovvur, Machilipatnam, Mancherial, Miryalaguda, Nalgonda, Nandyal, Narsapur, Narasaraopet, Narayanpet, Narsipatnam, Nizamabad, Nuzivid, Peddapuram, Siddipet, Srikakulam, Suryapet, Tenali, Vikarabad, Vizianagaram and Wanaparthy.

¹⁹³ Hyderabad Metropolitan Development Authority, Hyderabad.

¹⁹⁴ Chittoor, Gudivada, Machilipatnam, Miryalaguda, Nandyal, Narsipatnam, Nuzivid, Peddapuram, Srikakulam and Vizianagaram.

tax and penalty amounting to ₹ 255.01 crore was not levied as shown in the following table:

(₹ in crore)

Sl. No.	Source	No. of cases	Extent (Ac-Cts)	Total value of the land [#]	Conversion Tax @ 9%	Penalty at 50% of CT	Total Tax and Penalty
1	Divisional Level Panchayat Officers (DLPOs)	2,884	13,372.43	1,723.48	155.11	77.56	232.67
2	Urban Development Authorities (UDA)	2	15.85	128.02	6.40*	3.2	9.6
3	Municipal Corporations/ Municipalities	32	326.34	92.29	8.31	4.15	12.46
4	Industries and Commerce Department	3	68.00	2.06	0.19	0.09	0.28
TOTAL		2,921	13,782.62	1,945.85	170.01	85.00	255.01

* Conversion tax at five *per cent* in Greater Hyderabad Municipal Corporation (UDA).

[#] Calculated on the basis of basic values maintained by Registration and Stamps Department.

6.4.4.2 Mining/quarry leases

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

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

Audit obtained information from the DMG, Hyderabad and 26 ADsMG¹⁹⁵ on mining/quarry leases that were executed between 1 April 2008 and 31 March 2013. This was cross checked with the permissions issued by the Revenue Divisions (26) concerned. It was observed that though 2,041 mining/ quarrying leases covering an area of 17,798.86 acres were granted/executed during the above period, none of the lessees had applied for conversion of their lands from agricultural use to non-agricultural use nor did the department take any action

¹⁹⁵ Chittoor, Dharmavaram, Eluru, Gudivada, Gudur, Jangaon, Kandukur, Karimnagar, Khammam, Kovvur, Mancherial, Miryalaguda, Nalgonda, Nandyal, Narasaraopet, Narayanpet, Narsipatnam, Nizamabad, Nuzivid, Peddapuram, Siddipet, Srikakulam, Suryapet, Vikarabad, Vizianagaram and Wanaparthy.

to levy conversion tax/penalty. This resulted in non-levy of conversion tax and penalty of ₹ 60.17 crore (**Annexure II**).

Eight RDOs¹⁹⁶ replied (November 2013 to March 2014) that notices would be issued and 18 RDOs¹⁹⁷ replied (August 2013 to March 2014) that matter would be examined.

6.4.5 Non-levy of conversion tax and penalty in cases of unauthorised conversions despite it being noticed in Tahsildars' offices

During test check of conversion tax records, Audit noticed that in the offices of two Tahsildars¹⁹⁸, 13 cases were detected in which individuals/entities had converted 23.35 acres of land for non-agricultural purposes without taking the prior permission of competent authority. Since RDO is the competent authority to levy conversion tax and penalty in such cases, the Tahsildars should have brought the cases to the notice of the respective RDOs for taking suitable action to curb such unauthorised conversions. However, as observed from the files, no action was taken by the Revenue Department. There was non-levy of conversion tax and penalty of ₹ 10 lakh and ₹ five lakh respectively in these cases.

In response RDO, Nirmal (in respect of Tahsildar, Bhainsa) replied (October 2014) that in one case conversion tax was realized and in remaining four cases notices would be issued. RDO, Khammam (in respect of Tahsildar, Bonakal) replied (October 2014) that the information would be furnished after verification.

6.4.6 Non-levy of penalty in cases of conversion without prior permission

During the scrutiny of conversion cases, it was noticed that in the offices of 13 RDOs¹⁹⁹ and in six Tahsildar offices²⁰⁰, in 83 cases, RDOs had issued permissions for conversion of 408.59 acres of agricultural land for non-agricultural purposes and collected the conversion tax. However, as per the reports of Tahsildar/Revenue Inspector/VRO, these lands were already being used for non-agricultural purposes without prior permission of the competent authority. Hence, 50 per cent of the conversion fee as penalty under Section 6(2) of the Act was also leviable. RDOs, however, had levied only the conversion tax, which resulted in non-levy of penalty to the tune of ₹ 37.64 lakh in the test checked cases (**Annexure III**).

¹⁹⁶ Gudivada, Kandakur, Mancherial, Narasaraopet, Narsipatnam, Peddapuram, Srikakulam and Vizianagaram.

¹⁹⁷ Chittoor, Dharmavaram, Eluru, Gudur, Jangaon, Karimnagar, Khammam, Kovvur, Miryalaguda, Nalgonda, Nandyal, Narayanpet, Nizamabad, Nuzivid, Siddipet, Suryapet, Vikarabad, and Wanaparthy.

¹⁹⁸ Bhainsa and Bonakal.

¹⁹⁹ Eluru, Hyderabad, Jangaon, Kandukur, Karimnagar, Miryalaguda, Nalgonda, Nandyal, Nizamabad, Siddipet, Srikakulam, Suryapet and Tenali.

²⁰⁰ Addanki, Balanagar, Dharmapuri, Jadcherla, Kothakota and Mahboobnagar.

In response, six RDOs²⁰¹ and two Tahsildars²⁰² replied (between August 2013 and November 2014) that notices would be issued; five RDOs²⁰³ and Tahsildar, Addanki replied (November 2013 to January 2014) that matter would be examined; two RDOs²⁰⁴ replied (October 2013) that fact of conversion would be ascertained before taking any action. Tahsildars Dharmapuri and Jadcherla replied (February 2014 and November 2014) that the matter would be brought to the notice of the RDO concerned. Tahsildar Balanagar replied that levy of penalty was exempted by the competent authority. The reply is not tenable as no discretion was allowed in the Act for levy of penalty.

6.4.7 Short levy of conversion tax due to undervaluation

Audit noticed that in the offices of five RDOs²⁰⁵ and four Tahsildars²⁰⁶, in 10 out of 12 cases, individuals/entities had applied for conversion of 37.88 acres of agricultural land for non-agricultural purposes and paid the conversion tax. It was noticed that lands were undervalued due to adoption of incorrect basic values which were less than the rates specified by Registration and Stamps Department. The Revenue Department had levied conversion tax of ₹ 7.17 lakh in these cases instead of ₹ 56.54 lakh resulting in short levy of conversion tax of ₹ 49.37 lakh. Remaining two cases were reported by Vigilance and Enforcement Department wherein land admeasuring 13 acres was unauthorisedly converted for non-agricultural purposes and RDO Jangaon had issued notices. While issuing notices, RDO adopted lesser basic value of land resulting in short levy of conversion tax and penalty of ₹ 19.10 lakh.

In response three RDOs²⁰⁷ and two Tahsildars²⁰⁸ stated (between August 2013 and November 2014) that demand notices would be served; two RDOs²⁰⁹ and Tahsildar, Panyam stated (November 2013 to January 2014 and April 2012) that matter would be examined; Tahsildar, Mahboobnagar stated (November 2014) that matter would be brought to the notice of RDOs concerned.

6.4.8 Short collection due to ineffective recovery process

As per Section 6(4) of the Act, any tax / penalty which remain unpaid after the date specified shall be recoverable as per the provisions of the Andhra Pradesh Revenue Recovery (RR) Act, 1864. Sections 8 and 9 of the RR Act prescribe the procedure to be adopted for recovering the dues.

²⁰¹ Jangaon, Kandukur, Nalgonda, Nizamabad, Siddipet and Srikakulam.

²⁰² Kothakota and Mahboobnagar.

²⁰³ Eluru, Hyderabad, Nandyal, Suryapet and Tenali.

²⁰⁴ Karimnagar and Miryalaguda.

²⁰⁵ Hyderabad, Jangaon, Nizamabad, Suryapet and Tenali.

²⁰⁶ Jadcherla, Mahboobnagar, Makthal, and Panyam.

²⁰⁷ Jangaon, Nizamabad, Suryapet.

²⁰⁸ Jadcherla and Makthal.

²⁰⁹ Hyderabad and Tenali.

Audit noticed that 10 RDOs²¹⁰ had raised demands in respect of conversion tax not levied/short levied during the period from 2008-09 to 2012-13. It was seen from the Demand Collection and Balance (DCB) statements maintained by the RDOs that as on 31 March 2013, out of the total demand of ₹ 25.73 crore in 919 cases, only ₹ 3.04 crore pertaining to 119 cases was collected, leaving ₹ 22.69 crore (800 cases) pending collection. No action under RR Act had been taken to recover these arrears. It was also noticed that the reconciliation of conversion tax remittances made into the treasury was not conducted since 2008.

RDOs replied (December 2013 to February 2014) that necessary steps would be taken to recover the outstanding amount.

6.4.9 Conclusion

Land alienated in favour of semi/non-governmental entities was not converted, leading to non-collection of conversion tax. Absence of any system of cross verification and co-ordination between the Revenue department and other departments/local bodies resulted not only in non-levy of conversion tax/penalty but also in unauthorized use of agricultural land for non-agricultural purposes. Ineffective recovery process and non-reconciliation of remittances with treasury have also been observed. Audit has pointed out short/non-levy of conversion tax/penalty amounting to ₹ 317.25 crore.

6.5 Non-finalisation of alienation proposals on advance possession

According to Board Standing Order (BSO) No.24, alienation of Government land to a company, private individuals or institution 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 provisions allow the authorities competent to permit possession of the land in advance by the applicant in cases of emergency, pending formal approval of the alienation proposal.

Audit noticed (between January and March 2014) during test check of the records in two RDO offices²¹¹ that advance possession of Government land measuring 4.22 acres valued at ₹ 25.46 crore was given to three different entities, i.e., a Government of India enterprise, a State government company and a local body at various stages between 1998 and 2013. Although periods ranging from one year to 16 years have elapsed after transfer of the possession of land, alienation proposals have not been finalised. Non-finalisation of alienation proposals for advance possession of Government land in a time bound manner resulted in non-realisation of revenue ₹ 25.45 crore.

Audit observed that there is no specific provision in the BSO for timely finalisation of alienation proposals. No action for avoiding such delay was

²¹⁰ Chittoor, Eluru, Gudur, Jangaon, Karimnagar, Khammam, Machilipatnam, Narasaraopet, Narsapur and Nizamabad.

²¹¹ Peddapuram and Secunderabad.

taken despite this being pointed out in Audit Report No. 3 (Revenue Receipts) of 2011.

After audit pointed out these cases, RDO, Peddapuram replied (March 2014) that notices would be issued to the agencies concerned to recover the cost of the land. RDO Secunderabad replied (January 2014) that the matter would be brought to the notice of higher authorities for initiating necessary action.

The matter was referred to the department in April 2014. Their response has not been received (August 2014).

6.6 Excess payment of compensation for acquisition of land

Under the provisions of Section 23(1A) of the AP Land Acquisition Act 1894 (Act), read with the judgment of Supreme Court of India²¹² (March 2004), the land owners whose land is acquired in public interest are entitled to Additional Market Value (AMV) of 12 *per cent* per annum on the market value fixed on the date of publication of Draft Notification (DN) and thus no AMV is payable before the publication of DN. In case of advance possession, as per the guidelines issued by the Government of AP (September 2007), the land acquisition officer (LAO) shall adopt the market value as on the actual date of possession for calculation of damages. Damages/lease rent have to be paid from the date of possession of the land till the date of DN at the prevailing interest rate on Public Provident Fund from time to time.

Audit noticed (October 2013) during audit of the Office of the Sub Collector, Vikarabad, Rangareddy District, that 36.90 acres of land in Somangurthy village of Pudur Mandal were acquired under urgency clause by Irrigation Department for formation of Low Bund Tank across Peddacheruvu. The land was taken into advance possession in January 2006 pending completion of land acquisition proceedings by the LAO. DN was issued for the land in September 2009. Instead of adopting ₹ 0.75 lakh per acre which was the market rate prevailing at the time of actual possession of the land, the LAO adopted ₹ 1.70 lakh per acre which was the rate finalised after issue of the DN for calculating the lease rent payable to the land owners. Further, AMV of ₹ 6.27 lakh was also paid though it was not permissible in view of the possession of the land before the DN. This resulted in total excess payment of land compensation of ₹ 10.98 lakh.

After Audit pointed out the case, the LAO replied (October 2013) that the matter would be examined and detailed report submitted.

The matter was referred to the Department in May 2014. Their reply has not been received (July 2014).

²¹² CA No.5515/87 dated 12 March 2004.

CHAPTER-VII
OTHER TAX AND NON
TAX RECEIPTS

CHAPTER VII OTHER TAX AND NON TAX RECEIPTS

7.1 Results of Audit

Test check of the records of 144 offices of the Revenue Department conducted during the year 2013-14, revealed preliminary audit findings of under-assessments of tax and other irregularities involving ₹ 4.63 crore in 60 cases, which fall under the following categories:

(₹ in crore)			
Sl. No.	Nature of irregularity	No. of cases	Amount
I	REVENUE DEPARTMENT		
	A. Water Tax		
1.	Levy and collection of water tax and road cess	1	1.69
	B. Professions tax		
1.	Non-levy of professions tax	51	0.96
	C. Entertainment and Betting tax		
1.	Short collection of Entertainment tax	8	1.98
	Total	60	4.63

In respect of receipts on account of water supplied during the course of the year 2013-14, the departments accepted under-assessments and other deficiencies of ₹ 0.90 crore.

7.2 Levy and collection of Water tax and road cess

7.2.1 Introduction

Receipts on account of water supplied by the State Government consist of water tax and road cess receipts. Land receiving water for irrigation from any Government source of irrigation notified under the Act for each *fasli*²¹³ year is subject to levy of water tax at rates specified in the schedule to the Andhra Pradesh Water Tax Act (Act) 1988 as amended in 1997, which governs assessment and collection of water tax. Similarly, under the Andhra Pradesh Irrigation, Utilization and Command Area Development Act, 1984, read with the notification issued thereunder, road cess at the rate of ₹ 12.35 per hectare per annum is to be levied for construction and maintenance of roads in the command areas of Nagarjunasagar, Sriramsagar and Tungabhadra Projects. According to a clarification²¹⁴ issued in August 1989 by Chief Commissioner of Land Administration, road cess is to be levied on all *ayacutdars*²¹⁵ irrespective of the formation of roads and supply of water in the command areas of the above projects.

²¹³ Period of 12 months from July to June.

²¹⁴ Z2/486/88 dated 28 August, 1989.

²¹⁵ Owners of the "land in Command areas of Irrigation Projects" (Ayacut).

The Revenue Department is headed by the Principal Secretary to Government. The Chief Commissioner of Land Administration (CCLA) is the administrative head for Land Revenue Department and is responsible for administration of the Revenue Board's Standing Orders (BSO), AP Irrigation, Utilisation and Command Area Development Act 1984 and Rules 1985, AP Water Tax Act, 1988 and Rules 1988, AP Agricultural Land (Conversion for non-agricultural purpose) Act, 2006, and orders issued thereunder. He is assisted by District Collectors at district level. Each district is divided into revenue divisions headed by Revenue Divisional Officers (RDOs) and further sub-divided into mandals, which are under administrative charge of Tahsildars. Each village in a Mandal is administered by a Village Revenue Officer (VRO) under the supervision of the Tahsildar. VROs/Revenue Inspectors are entrusted with the work of maintaining land records, collection of water tax and road cess, field inspection duties etc.

The basic record for computation of water tax and road cess is the village account, which contains survey number, extent of land, pattadar, nature of crop, source of irrigation etc. The Village Revenue Officer (VRO) prepares the demand for both water tax and road cess in respect of the villages under his jurisdiction and Tahsildars consolidate the demand for each Mandal²¹⁶. In accordance with instructions contained in BSO 12 (5) the final accounts called *Jamabandi*²¹⁷ are to be completed before the end of *fasli* and Mandal demand statements must be closed within 15 days after end of the *fasli* year, so as to finalise the settled demands in respect of water tax and road cess.

7.2.2 Objectives, Scope and Methodology of audit

Audit of levy and collection of Water Tax and Road Cess was conducted to

- examine whether the *Jamabandi* was completed within the stipulated timeframe;
- ascertain that correct water tax rates were applied and interest was levied/realised on arrear collections; and
- verify whether road cess was levied and collected on the entire localised *ayacut* in the command areas of the three irrigation projects;

Out of 221 mandals of the command area of Nagarjunasagar, Sriramsagar and Tungabhadra projects, 61 mandals were selected for audit based on extent of localised *ayacut* under each project. Audit of 35 mandals was conducted during the year 2012-13 and audit observations were included in the Report of the Comptroller and Auditor General of India (Revenue Sector) Report No.4 of 2014 for the year ended 31 March 2013. This year audit of remaining 26 mandals²¹⁸ was conducted during the period from December 2013 to March

²¹⁶ Mandals are the jurisdictional area of each Tahsildar.

²¹⁷ Finalisation of village accounts and demand.

²¹⁸ Addanki, Bonakal, C.Belagal, Chimakurthy, Dharmapur, Gollapalli, Gudur, Inkollu, J.Pangaluru, Kallur, Kamanpur, Karamchedu, Kodumuru, Kosigi, Mallapur, Manthani, Martur, Nandavaram, Ongole, Penubally, Raikal, Santhanuthalapadu, Sultanabad, Tallada, Tripuranthakam and Veenavanka.

2014 covering the period from 2008-09 to 2011-12²¹⁹. Detailed check of records relating to village selected for audit under each Mandal and test check of remaining villages in the mandals were conducted with reference to observations on water tax and road cess. Audit observations on non/short levy of road cess noticed in three mandals²²⁰ between February and May 2012 have also been included.

The audit objectives were benchmarked against the following sources of audit criteria.

- Board’s Standing Orders (BSO);
- AP Irrigation Utilisation and Command Area Development Act, 1984 and Rules 1985;
- AP Water tax Act, 1988 and Rules 1988;
- AP Revenue Recovery Act, 1864;
- AP Financial Code (APFC);
- AP Budget Manual; and
- Orders/notifications issued by the Government/Department from time to time.

Audit findings

7.2.3 Failure to complete *Jamabandi* within stipulated time

As per the instructions issued in B.S.O. 12(5), *Jamabandi* is to be completed before the end of *fasli* and Mandal demand statements must be closed within 15 days, so as to finalise the settled demand in respect of water tax, road cess and other revenue.

Audit scrutinised *jamabandi* records pertaining to five *fasli* years from 1418 to 1422 (1 July 2008 to 30 June 2013) of the selected mandals. Scrutiny revealed that out of the 26 sampled mandals, details of *jamabandi* pertaining to last five years were available only in respect of 22 mandals²²¹. Age analysis of completion of *jamabandi* is as given in the following table:

²¹⁹ No period limit was considered for non/short levy of water tax/road cess, i.e. observations were taken in respect of all pending cases from the earliest year from which water tax/road cess was not levied upto the year of completion of *jamabandi*.

²²⁰ Garladinne, Konijerla and Kamalapur.

²²¹ Addanki, Bonakal, C.Belagal, Chimakurthy, Dharmapuri, Gollapalli, Gudur, Inkollu, J.Pangaluru, Kallur, Kamanpur, Karamchedu, Kosigi, Mallapur, Manthani, Martur, Nandavaram, Ongole, Santhanuthalapadu, Sultanabad, Tallada and Tripuranthakam.

Fasli year	Completed in one year	Completed in the second year	Completed in the third year	Completed after three years	Total completed	Not completed at all	Total
1418	2	7	2	3	14	8	22
1419	7	3	3	1	14	8	22
1420	1	6	3	-	10	12	22
1421	4	-	-	-	4	18	22
1422	-	-	-	-	0	22	22
Total	14	16	8	4	42	68	110*
	12.73%	14.55%	7.27%	3.64%	38.19%	61.81%	

* Total *Jamabandis* to be completed in 22 mandals during last five *fasli* years.

Analysis of above data revealed that out of 110 *jamabandis* due in 22 mandals during the last five *fasli* years only 42 *jamabandis* (38.19 per cent) were completed till the time of audit, with delays ranging from one year to more than three years. No *jamabandi* was completed in respect of remaining 68 (61.81 per cent) cases. In eight mandals²²² *jamabandi* for the five *fasli* years from 1418 to 1422 was not completed (**Annexure-IV**).

After audit pointed out the cases, four Tahsildars²²³ replied that *jamabandi* for *fasli* years 1421 and 1422 were under preparation/approval. Remaining Tahsildars stated that the matter would be referred to higher authorities for timely completion of *jamabandi*.

Delay in completion of *jamabandi* has resulted in non-finalisation of demands and consequently non-realisation of revenue. Though provisional demands are being raised, there is no assurance that it truly reflects the revenue to be recovered.

7.2.4 Non-maintenance of Demand, Collection and Balance Registers

As per Government Order²²⁴ dated 5 January 1990, village accounts are to be scrutinized and approved by the Mandal Revenue Officer (MRO)/Tahsildar. In order to integrate the village accounts of both Telangana and Andhra regions, Government of AP have introduced integrated village accounts in their order²²⁵ dated 10 March 1992, and prescribed Demand Collection and Balance register (DCB) to be maintained by Village Revenue Officer as Village Account No.5.

Articles 8 and 9 of Andhra Pradesh Financial Code (APFC) also prescribe that every departmental controlling officer should closely watch the progress of the realisation of the revenue under his control and obtain regular returns from his subordinates for the amounts received by them.

²²² Chimakurthy, Inkollu, Kamanpur, Karamchedu, Manthani, Martur, Ongole and Tripuranthakam.

²²³ Manthani, Martur, Kosigi and Nandavaram.

²²⁴ GO Ms No. 3 of Revenue Department dated 5 January 1990.

²²⁵ 265 Revenue.LR-II Department dated 10 March, 1992.

Audit noticed that out of the 26 test checked mandals DCB registers were maintained only in one mandal (Ongole) for the period from 1 July 2008 to 30 June 2013 (*Fasli* years 1418 to 1422), and not in other 24 mandals²²⁶. In Kallur mandal, DCB register was stated to be untraceable. In the absence of village-wise DCB registers, action taken if any, to recover arrears could not be properly monitored.

Tahsildars replied that DCB Registers would be prepared and maintained.

7.2.5 Non-reconciliation of remittance figures with those of treasury

As per Para 19.6 of the AP Budget manual read with Government instructions issued from time to time, departmental receipts are to be reconciled every month with those booked by the treasury in order to detect in time, misclassifications, accounting errors, fraudulent and spurious challans etc., if any.

Audit noticed in 15 mandals²²⁷ that accounts of revenue realised and remitted towards water tax were not reconciled with treasury accounts during the *fasli* years from 1418 to 1422 (1 July 2008 to 30 June 2013). As a result the department did not have a system in place for detecting misclassification, accounting errors, fraudulent and spurious challans etc.

In response, all the Tahsildars replied that reconciliation would be completed and audit intimated.

7.2.6 Short levy of water tax due to incorrect finalisation of demand

Government vide orders dated 13 February 2001 and 8 June 2007 laid down the procedure for raising water tax demand. As per this procedure, Executive Engineers of Project areas/irrigated sources are required to communicate to Tahsildar 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*²²⁸ should be done and the actual figures of area irrigated should be arrived at.

Audit noticed from *Jamabandi* records of six mandals²²⁹ that as per the joint *Azmoish* statements, water tax amounting to ₹ 182.10 lakh was leviable on an extent of 98,515.80 acres for the *fasli* years from 1411 to 1420 (1 July 2001 to 30 June 2011). But demand of only ₹ 85.24 lakh was finalised by *Jamabandi*

²²⁶ Addanki, Bonakal, C.Belagal, Chimakurthy, Dharmapuri, Gollapalli, Gudur, Inkollu, J.Panguluru, Kamanpur, Karamchedu, Kodumuru, Kosigi, Mallapur, Manthani, Martur, Nandavaram, Penubally, Raikal, Santhanuthalapadu, Sultanabad, Tallada, Tripuranthakam and Veenavanka.

²²⁷ Gollapalli, Gudur, Inkollu, Kamanpur, Karamchedu, Kodumuru, Kosigi, Manthani, Marturu, Nandavaram, Penubally, Raikal, Santhanuthalapadu, Sultanabad and Tallada.

²²⁸ Joint *azmoish* means joint inspection of irrigated land conducted by Irrigation, Agriculture and Revenue Departments.

²²⁹ Addanki, Gollapalli, J.Pangaluru, Karamchedu, Manthani and Sultanabad.

Officers²³⁰ (**Annexure-V**). This resulted in short levy of water tax amounting to ₹ 96.86 lakh.

In response, four Tahsildars²³¹ stated that action would be taken to levy the tax during subsequent *fasli* years under intimation to audit. Addanki and Manthani Tahsildars stated that the matter would be examined.

7.2.7 Short levy of water tax due to adoption of incorrect rate/area

As per Water tax Act, 1988, all major and medium irrigation projects are regarded as Category I. As per Schedule to Section 3 of the Act, the rates of water tax for Category I source is ₹ 200 per acre for first or single wet crop in a *fasli*, whereas for second wet crop of that *fasli* water tax is leviable at ₹ 150 per acre and for dry crop water tax is leviable at ₹ 100 per acre.

In Tallada Mandal, scrutiny of village account no.4 revealed that water tax was short levied for the *fasli* year 1419 by applying incorrect rate applicable for second wet crop (₹ 150 per acre) instead of applying single wet crop rate (₹ 200 per acre) on an irrigated extent of 6,359 acres resulting in short levy of water tax of ₹ 3.18 lakh. It was also noticed in two other Mandals²³² that water tax was levied on an extent of 268.65 acres of dry land instead of levying on an extent of 5019.13 acres thereby resulting in short levy of tax of ₹ 4.75 lakh on an extent of 4750.48 acres (**Annexure-VI**). Thus there was short-levy of water tax of ₹ 7.93 lakh in these three mandals.

In response, Tahsildar, Tallada replied that the dry crops were irrigated during Rabi season and hence ₹ 150 per acre was levied. The reply is not relevant as the records indicated that single wet crop was irrigated during the second half (Rabi) of the *fasli* and water tax was leviable as per the rates applicable to first/single crop. The remaining Tahsildars replied that action would be taken to levy the tax during subsequent *fasli* years under intimation to audit.

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

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 and provisions of Andhra Pradesh Revenue Recovery (APRR) Act, 1864 shall apply. Further, under Section 7 of APRR Act, arrears of revenue shall bear interest at the rate of six *per cent* per annum.

²³⁰ Officer not below the rank of Revenue Divisional officer is authorized to finalise village accounts.

²³¹ Gollapalli, J.Panguluru, Karamchedu and Sultanabad.

²³² Inkollu and Santhanuthalapadu.

During scrutiny of consolidated statements of demand and collection and receipt books of nine Tahsildar offices²³³, audit noticed that during *fasli* years from 1414 to 1421 (1 July 2004 to 30 June 2012), arrears of land revenue towards water tax amounting to ₹ 1.51 crore was collected²³⁴. However, interest leviable under Section 7 of APRR Act was not levied. Interest of ₹ 9.09 lakh was computed by audit on a conservative estimate (calculated at the rate of six *per cent* for minimum period of one year) as the period of delay could not be checked on account of non/improper maintenance of DCB registers at village level (**Annexure-VII**).

In response, all Tahsildars stated that interest on arrears would be collected.

7.2.9 Non/Short-levy of road cess in command areas of the Irrigation Projects

During the test check of *jamabandi* record i.e. village Accounts 4 and 8 of 20 Tahsildar offices²³⁵, audit noticed that road cess of ₹ 30.77 lakh was short levied in nine offices²³⁶ for the *fasli* years from 1410 to 1422 (1 July 2000 to 30 June 2013) as only the irrigated extent of the land was taken into account instead of entire *ayacut* of the command area. In the remaining 11 offices²³⁷ road cess of ₹ 24.60 lakh was not levied from *ayacutdars* in command areas of the irrigation projects. The reasons for not levy were not found on record. This resulted in non/short levy of road cess of ₹ 55.37 lakh (**Annexure-VIII**).

In response, Garladinne and Nandavaram Tahsildars replied that matter would be examined and reply furnished in due course. Remaining Tahsildars replied that road cess would be levied during subsequent *fasli* years and audit intimated.

²³³ Bonakal, Dharmapuri, Gollapalli, Karamchedu, Kosigi, Mallapur, Raikal, Santhanuthalapadu and Veenavanka.

²³⁴ In the absence of DCB registers total amount of arrears could not be ascertained, only details of amount collected were available.

²³⁵ Addanki, Bonakal, C.Belagal, Garladinne, Gudur, J.Pangaluru, Kallur, Kamalapur, Kodumur, Konijerla, Kosigi, Manthani, Martur, Nandavaram, Ongole, Penubally, Sulthanabad, Tallada, Tripuranthakam and Veenavanka.

²³⁶ Bonakal, Garladinne, Konijerla, Nandavaram, Ongole, Sultanabad, Tallada, Tripuranthakam and Veenavanka.

²³⁷ Addanki, C.Belagal, Gudur, J.Pangaluru, Kallur, Kamalapur, Kodumuru, Kosigi, Manthani, Martur and Penubally.

7.2.10 Conclusion

In several cases there were delays in completion of *jamabandi* each year. Non-maintenance of DCB registers and non-reconciliation of revenue receipts with treasury were indicative of weak monitoring by the department. Water tax demands were finalised without verifying the correct extent of the irrigated land and incorrect rates were applied. Interest under AP Revenue Recovery Act on collected arrears was not levied by the Department. In contravention to the extant provisions in the relevant Act, road cess was levied only on the irrigated area instead of on the entire *ayacut*.

Hyderabad
The

(Lata Mallikarjuna)
Accountant General
(Economic and Revenue Sector Audit)
Andhra Pradesh and Telangana

Countersigned

New Delhi
The

(Shashi Kant Sharma)
Comptroller and Auditor General of India

***ANNEXURES
AND
GLOSSARY***

Annexure I
Paragraph 6.4.3
Non-levy of conversion tax in respect of alienation orders

(₹ in lakh)

Sl. No.	Name of Division	No. of cases	Extent (Acres)	Total Value of the land	CT to be levied at nine per cent
1	Ananthapur	5	557.48	250.17	22.51
2	Chittoor	1	49.710	447.39	40.27
3	Jangaon	1	136.21	248.60	22.37
4	Miryalaguda	1	9.00	9.00	0.81
TOTAL		8	752.40	955.16	85.96

Annexure-II
Paragraph 6.4.4.2
Mining/quarry leases

(₹ in crore)

Sl. No.	Name of office	No. of cases	Extent (Acs - Cts)	Total value of land	CT @ 9%	Penalty @50% on CT	Total
1	Chittoor	204	1228.411	23.72	2.13	1.07	3.20
2	Dharmavaram	2	5.906	0.09	0.01	0.0039	0.0118
3	Eluru	28	79.045	4.92	0.44	0.22	0.66
4	Gudivada	1	6.140	0.37	0.03	0.02	0.05
5	Gudur	32	419.890	5.78	0.52	0.26	0.78
6	Jangaon	9	30.890	0.30	0.03	0.01	0.04
7	Kandukur	2	19.198	0.29	0.03	0.01	0.04
8	Karimnagar	131	971.820	23.59	2.12	1.06	3.18
9	Khammam	46	190.468	8.98	0.81	0.40	1.21
10	Kovvur	72	406.850	22.65	2.04	1.02	3.06
11	Mancherial	14	4071.340	91.73	8.26	4.13	12.38
12	Miryalaguda	54	531.090	9.64	0.87	0.43	1.30
13	Nalgonda	38	262.150	4.36	0.39	0.20	0.59
14	Nandyal	457	3080.450	54.89	4.94	2.47	7.41
15	Narasaraopet	149	557.530	22.62	2.04	1.02	3.05
16	Narayanpet	31	119.150	1.11	0.10	0.05	0.15
17	Narsipatnam	47	282.630	9.98	0.90	0.45	1.35
18	Nizamabad	57	319.310	6.52	0.59	0.29	0.88
19	Nuzivid	133	857.300	34.79	3.13	1.57	4.70
20	Peddapuram	127	1351.190	41.92	3.77	1.89	5.66
21	Siddipet	12	74.226	0.95	0.09	0.04	0.13
22	Srikakulam	55	199.100	3.99	0.36	0.18	0.54
23	Suryapet	51	262.320	4.77	0.43	0.21	0.64
24	Vikarabad	194	1703.830	38.43	3.46	1.73	5.19
25	Vizianagaram	78	702.760	28.72	2.58	1.29	3.88
26	Wanaparthy	17	65.869	0.58	0.05	0.03	0.08
TOTAL		2041	17798.863	445.68	40.11	20.06	60.17

Annexure III
Paragraph 6.4.6
Non-levy of penalty in cases of conversion without prior permission

(₹ in lakh)

Sl. No.	Name of office	No. of cases	Extent (Acres-Cts)	Conversion tax levied	Penalty to be levied
1	R.D.O, Eluru	4	2.71	2.08	1.04
2	R.D.O, Hyderabad	1	0.21	3.01	1.50
3	R.D.O, Jangaon	3	15.18	1.74	0.87
4	R.D.O, Kandukur	11	93.41	3.39	1.69
5	R.D.O, Karimnagar	10	24.91	8.66	4.33
6	R.D.O, Miryalaguda	6	9.83	1.37	0.68
7	R.D.O, Nalgonda	3	8.08	1.98	0.99
8	R.D.O, Nandyal	3	7.95	3.10	1.55
9	R.D.O, Nizamabad	4	25.73	1.27	0.64
10	R.D.O, Srikakulam	3	22.94	4.87	*2.39
11	R.D.O, Suryapet	7	50.46	11.37	5.69
12	R.D.O, Siddipet	3	24.00	1.62	*0.68
13	Sub-Collector, Tenali	6	11.15	5.44	*2.63
14	Tahsildar, Addanki	4	71.95	16.45	8.22
15	Tahsildar, Balanagar	2	4.28	1.88	0.94
16	Tahsildar, Dharmapuri	6	7.13	1.30	0.65
17	Tahsildar, Jadcherla	4	24.35	4.50	2.25
18	Tahsildar, Kothakota	1	1.00	1.09	0.54
19	Tahsildar, Mahboobnagar	2	3.35	0.70	0.35
TOTAL		83	408.59	75.79	37.64

*Excess conversion tax paid adjusted towards penalty payable

Annexure-IV
Paragraph 7.2.3
Details of Jamabandi completion

<i>Fasli</i> year	Completed within one year	Completed after one year to two years	Completed after two to three years	Completed after three or more years	Not completed at all	Total
1418	Bonakal, Tallada	C.Belagal, Dharmapuri, Gollapalli, Gudur, Kallur, Kosigi, Nandavaram	Mallapur, Sultanabad	Addanki, J.Panguluru, Santhanuthalapadu	Chimakurthy, Inkollu, Kamanpur, Karamchedu, Manthani, Martur, Ongole, Tripuranthakam	22
1419	C.Belagal, Dharmapuri, Gollapalli, Gudur, Kallur, Kosigi, Nandavaram	Mallapur, Sultanabad, Tallada	Addanki, J. Panguluru, Santhanuthalapadu	Bonakal	Chimakurthy, Inkollu, Kamanpur, Karamchedu, Manthani, Martur, Ongole, Tripuranthakam	22
1420	Gudur	C.Belagal, J. Pangaluru, Kallur, Kosigi, Nandavaram, Santhanuthalapadu	Dharmapuri, Mallapur, Tallada		Addanki, Bonakal, Chimakurthy, Gollapalli, Inkollu, Kamanpur, Karamchedu, Martur, Manthani, Sultanabad, Ongole, Tripuranthakam	22
1421	Gudur, Kallur, Kosigi, Nandavaram				Addanki, Bonakal, C.Belagal, Chimakurthy, Dharmapuri, Gollapalli, Inkollu, J.Panguluru, Kamanpur, Karamchedu, Mallapur, Manthani, Martur, Ongole, Santhanuthalapadu, Sultanabad, Tallada, Tripuranthakam	22
1422					Addanki, Bonakal, C.Belagal, Chimakurthy, Dharmapuri, Gudur, Gollapalli, Inkollu, J.Panguluru, Kallur, Kamanpur, Karamchedu, Kosigi, Mallapur, Manthani, Martur, Nandavaram, Ongole, Santhanuthalapadu, Sultanabad, Tallada, Tripuranthakam	22

Annexure-V
Paragraph 7.2.6
Short levy of Water tax due to incorrect finalisation of demand

(₹ in lakh)

Sl. No.	Name of the Mandal	Period (Fasli years)	Extent in acres	Water tax to be levied	Water tax levied	Short levy
1	Addanki	1418-1419	6332.00	12.66	0.15	12.51
2	Gollapalli	1415	1440.18	1.7	1.05	0.65
3	J.Panguluru	1420	14641.00	21.72	10.37	11.35
4	Karamchedu	1415-1417	31505.76	63.01	52.36	10.65
5	Manthani	1411-1413	41289.58	78.61	18.51	60.10
6	Sultanabad	1417-1418	3307.28	4.40	2.8	1.60
Total			98515.8	182.1	85.24	96.86

Annexure-VI
Paragraph 7.2.7
Short levy of Water tax due to adoption of incorrect rate/area

(₹ in Lakh)

Sl. No.	Name of the Mandal	Period (Fasli years)	Extent in acres	Total extent in acres	Water tax to be levied	Water tax levied	Short levy
1	Inkollu	1417	92.36 (wet) 3422.76 (dry)	3,515.12	3.60	0.18	3.42
2	Santhanuthalapadu	1420	499.99 (wet) 1596.37 (dry)	2,096.36	2.60	1.27	1.33
3	Tallada	1419	6,359 (wet)	6,359.00	12.72	9.54	3.18
Total				11,970.48	18.92	10.99	7.93

Annexure-VII
Paragraph 7.2.8
Non-levy of interest on collected arrears of water

(₹ in lakh)

Sl. No.	Name of the Mandal	Period (Fasli years)	Water Tax Collected	Interest to be levied
1	Bonakal	1415-1419	13.26	0.8
2	Dharmapur	1417-1420	12.12	0.73
3	Gollapalli	1414, 1416, 1417, 1419	25.83	1.55
4	Karamchedu	1415-1417	11.47	0.69
5	Kosigi	1418-1421	20.74	1.24
6	Mallapur	1414-1420	16.57	0.99
7	Raikal	1420	9.64	0.58
8	Santhanuthalapadu	1418-1420	13.54	0.81
9	Veenavanka	1419-1420	28.19	1.7
Total			151.36	9.09

Annexure - VIII
Paragraph 7.2.9
Non/Short levy of Road cess in command areas of the Irrigation Projects

(₹ in lakh)

Sl. No.	Name of the office of Tahsildar	Period (Fasli years)		Localised Ayacut (Hectares)	Road Cess to be levied at ₹ 12.35 per Hectare*No. of Fasli years	Road cess levied	Short/ Non-levy of Road Cess
1	Addanki	1418-1419	2	12656	3.13	0	3.13
2	Bonakal	1419	1	8440.55	1.04	0.35	0.69
3	C. Belagal	1418-1420	3	4767.03	1.77	0	1.77
4	Garladinne	1410-1419	10	3477.19	4.30	2.80	1.50
5	Gudur	1418-1421	4	3853.84	1.90	0	1.90
6	J.Panguluru	1418-1420	3	10325.79	3.83	0	3.83
7	Kallur	1418-1421	4	1122.03	0.55	0	0.55
8	Kamalapur	1412-1414	3	6899.88	2.56	0	2.56
9	Kodumuru	1420-1421	2	4265.50	1.05	0	1.05
10	Konijerla	1412-1418	7	7046.96	6.09	3.82	2.27
11	Kosigi	1418-1421	4	4067.57	2.01	0	2.01
12	Manthani	1411-1413	3	8346.40	3.09	0	3.09
13	Martur	1414-1417	4	6220.06	3.07	0	3.07
14	Nandavaram	1412-1421	10	1964.20	2.43	0.34	2.09
15	Ongole	1414-1417	4	7191.46	3.55	0.10	3.45
16	Penubally	1415-1422	8	1659.68	1.64	0	1.64
17	Sultanabad	1413-1419	7	8829.06	7.63	3.88	3.75
181	Tallada	1415-1420	6	10536.36	7.81	0.56	7.25
19	Tripuranthakam	1414-1417	4	8746.86	4.32	0.62	3.70
20	Veenavanka	1414-1419	6	8581.46	6.35	0.28	6.07
Total				128997.88	68.12	12.75	55.37

GLOSSARY

AA	Assessing Authority
AAR	Average Annual Rent
AC	Assistant Commissioner
AC(CT)	Assistant Commissioner (Commercial Taxes)
ADMG/ADM&G	Assistant Director of Mines and Geology
ADP	Additional Development Premium
AG	Accountant General
AGLF	Annual Ground Licence Fee
ALF	Additional Licence Fee
AMC	Annual Maintenance Contract
AMV	Additional Market Value
AMVI	Assistant Motor Vehicle Inspector
AP	Andhra Pradesh
AP MCR	Andhra Pradesh Mineral Concession Rules
AP RR Act	Andhra Pradesh Revenue Recovery Act
AP VAT	Andhra Pradesh Value Added Tax
APBCL	Andhra Pradesh Beverages Corporation Limited
APELIGD	Andhra Pradesh Excise (Levy of Interest on Government Dues) Rules, 1982
APFC	Andhra Pradesh Financial Code
APGST	Andhra Pradesh General Sales Tax
APMV Rules	Andhra Pradesh Motor Vehicle Rules
APMVT	Andhra Pradesh Motor Vehicle Taxation
APSRTC	Andhra Pradesh State Road Transport Corporation
APSWAN	Andhra Pradesh State Wide Area Network
APTSL	Andhra Pradesh Technology Services Limited
BCP	Border Check Post
BE	Budget Estimate
BEL	Bharat Electronics Limited
BNPL	Book Now Pay Later
BOMT	Build-Own-Maintain-Transfer
BOT	Build-Operate-Transfer
BSNL	Bharat Sanchar Nigam Limited
BSO	Board's Standing Orders
CAAT	Computer-aided Audit Techniques
CAG	Comptroller and Auditor General of India
CC	Contract Carriage
CCLA	Chief Commissioner of Land Administration
CCT	Commissioner of Commercial Taxes
CEV	Construction Equipment Vehicle

CFST	Citizen Friendly Services in Transport
CIGR	Commissioner and Inspector General of Stamps and Registration
CMV Rules	Central Motor Vehicle Rules
CSC	Customer Service Centre
CST	Central Sales Tax
CST (R&T) Rules	Central Sales Tax (Registration and Turnover) Rules
CT	Commercial Taxes
CT	Conversion Tax
CTO	Commercial Taxes Officer
DC	Deputy Commissioner
DC(CT)	Deputy Commissioner (Commercial Taxes)
DCB	Demand Collection Balance
DCTO	Deputy Commercial Taxes Officer
DD	Demand Draft
DD	Deputy Director
DDMG/DDM&G	Deputy Director of Mines and Geology
DGPA	Development Agreement and General Power of Attorney
DLPO	Divisional Level Panchayat Officer
DMG	Director of Mines and Geology
DMU	Debt Management Unit
DN	Draft Notification
DR	District Registrar
DTA	Domestic Tariff Area
DTC	Deputy Transport Commissioner
DTPC	District and Town Planning Committee
E&RSA	Economic and Revenue Sector Audit
ECIL	Electronics Corporation of India Limited
FC	Fitness Certificate
FEC	Final Eligibility Certificate
G.O	Government Order
GHMC	Greater Hyderabad Municipal Corporation
GST	General Sales Tax
GTE	Gross Traffic Earnings
GVMC	Greater Vishakhapatnam Municipal Corporation
HDPE	High Density Poly Ethylene
HHT	Handheld Terminal
HMDA	Hyderabad Metropolitan Development Authority
ICP	Integrated Check Post
IR	Inspection Report
IR Act	Registration Act
IS Act	Indian Stamp Act
IST	Inter State Wing

IT	Information Technology
ITC	Input Tax Credit
JC	Joint Commissioner
JTC	Joint Transport Commissioner
LAO	Land Acquisition Officer
LTU	Large Taxpayers Unit
MIS	Management Information System
MRO	Mandal Revenue Officer
MV Act	Motor Vehicles Act
MVI	Motor Vehicle Inspector
NOC	No Objection Certificate
NP	National Permit
NSC	National Savings Certificate
OTT	One Time conversion Tax
P&E	Prohibition and Excise
P&ES	Prohibition and Excise Superintendent
PPP	Public Private Partnership
PTU	Pollution Testing Unit
PuC	Pollution under Control
QT	Quarterly Tax
RC	Registration Certificate
RDO	Revenue Divisional Officer
RESL	Raasi Enterprise Solutions Limited
RFP	Request For Proposal
RR Act	Revenue Recovery Act
RTA	Regional Transport Authority
RTO	Regional Transport Officer
SAGPA	Sale Agreement and General Power of Attorney
SBI	State Bank of India
SC	Stage Carriage
SEZ	Special Economic Zone
SQL	Structured Query Language
SR	Sub Registrar
STA	State Transport Authority
STAT	Andhra Pradesh Sales Tax Appellate Tribunal
STAT	Andhra Pradesh State Transport Appellate Tribunal
TC	Transport Commissioner
TCPC	Tender-cum-Purchase Committee
UDA	Urban Development Authority
UDF	Upfront Development Fee
VAT	Value Added Tax
VATIS	Value Added Tax Information System

VCR	Vehicle Check Report
VMC	Vijayawada Municipal Corporation
VRLA	Valve Regulated Lead Acid
VRO	Village Revenue Officer
w.e.f	with effect from
W.P	Writ Petition