

Executive Summary

Section 16 of CAG's (DPC) Act, 1971 mandates CAG to audit receipts payable into consolidated fund of India and to satisfy that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed. We examined functions of Service Tax Department relating to scrutiny, internal audit etc. and verified records of assessees, which form the basis for tax calculation, to examine the extent of effectiveness of the systems in place in ensuring that assessees comply with extant rules and procedures in this era of self-assessment. Besides regular audit of departmental functions and compliance by the assessees, this year we conducted a subject specific compliance audit (SSCA) on Commercial Training or Coaching Service.

This Report has 196 audit observations on Service Tax, having financial implication of ₹ 352.86 crore. The Ministry/Department had, till September 2017, accepted 176 audit observations involving revenue of ₹ 205.26 crore and reported recovery of ₹ 100.70 crore in 116 cases. Some significant observations and findings are as follows: -

Chapter I: Service Tax Administration

- Service Tax revenue collection was ₹ 2,54,499 crore during financial year 2016-17 (FY17) and accounted for 29.52 per cent of Indirect Tax revenue in FY17.

(Paragraph 1.6)

- Arrear cases involving revenue implication of ₹ 1,17,935 crore were pending for recovery as on 31 March 2017.

(Paragraph 1.10)

- Cases involving revenue of ₹ 1,22,008 crore were pending in appeals in FY17 registering a 26 per cent increase over the amount pending at the end of FY16. Early disposal by the various authorities is important to bring in possible revenue of ₹ 1,22,008 crore to the Government coffers.

(Paragraph 1.15)

- The department had shifted from revenue based selection of units due for audit to risk based selection by factoring in the manpower available in the Audit Commissionerates. Despite the change of methodology in selection of assessees for audit, the shortfall in audit is still more than 50 per cent in the large and medium units.

(Paragraph 1.17)

Chapter II: Service Tax on Commercial Training or Coaching Service

The Service Tax revenue generated from Commercial Training or Coaching service has increased from ₹ 880.09 crore in FY13 to ₹ 1,950.08 crore in FY16 proving that the business of coaching centres is expanding day by day. The average annual growth rate of Service Tax from this service over last three years was not commensurate with the growth rate projected for this sector. We conducted a SSCA on this sector in 18 selected Commissionerates out of 117 Commissionerates dealing with Service Tax. Significant observations are:

- Efforts by the department to widen the tax net were inadequate as compared to the pace of growth of this sector and this had implication of revenue loss as evidenced by independent verification conducted by Audit.
 - The special cells, mandated with the task of identifying potential assesseees were non-existent/non-functional in all the selected Commissionerates.

(Paragraph 2.5.2)
 - Audit detected 1,005 number of unregistered assesseees out of which in 250 cases, we were able to quantify Service Tax liability of ₹ 6.11 crore.

(Paragraph 2.4)
- The department's performance in respect of scrutiny of returns was also found to be deficient.
 - In 10 selected Commissionerates, 46.25 per cent returns out of total returns due were not filed by the assesseees relating to this sector but action was initiated on non-filers only in five Commissionerates.

(Paragraph 2.6.1)
 - The department failed to carry out Review and Correction (R&C) in 98 per cent of the returns marked for R&C during the period FY14 to FY16.

(Paragraph 2.6.3)
- A sample verification of records of the assesseees by the Audit revealed 179 cases of non/short payment of Service Tax, irregular availing of CENVAT credit, non/short payment of interest etc. by registered assesseees involving revenue of ₹ 88.26 crore.

(Paragraph 2.4)

Chapter III: Non-compliance with Rules and Regulations

- Audit observed instances of non-payment/short-payment of Service Tax, incorrect availing/utilisation of CENVAT credit and non-payment of interest on delayed payments having financial implication of ₹ 92.61 crore.

(Paragraph 3.1)

Chapter IV: Effectiveness of Internal Control

- Audit observed deficiencies in scrutiny and internal audit carried out by departmental officers, delayed issue of show cause notice etc., having financial implication of ₹ 165.88 crore.

(Paragraph 4.2)