REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

on

REVENUE SECTOR

for the year ended March 2015

Government of Kerala
Report No. 2 of the year 2016

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Preface

This Report of the Comptroller and Auditor General of India has been prepared for submission to the Governor under Article 151 of the Constitution of India for being laid before the State Legislature.

The Report contains significant results of the Performance Audit and Compliance Audit of the Departments of Government of Kerala under Revenue Sector, including Commercial Taxes Department, Revenue and Disaster Management Department, Motor Vehicle Department, Department of Power and State Excise Department.

The instances mentioned in this Report are those, which came to notice in the course of test audit of records during the year 2014-15 as well as those which came to notice in earlier years but could not be reported in previous Audit Reports; instances relating to the period subsequent to 2014-15 have also been included wherever necessary.

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

Overview

Overview

The Report contains 31 paragraphs including Performance Audit relating to non/short levy of tax, interest etc., involving ₹ 4,506.23 crore. Some of the major findings are mentioned below:

I. General

Total revenue receipts of the State Government for the year 2014-15 amounted to ₹ 57,950.47 crore against ₹ 49,176.93 crore for the previous year. Seventy three *per cent* of this was raised by the State through tax revenue (₹ 35,232.50 crore) and non-tax revenue (₹ 7,283.69 crore). The balance 27 *per cent* was receipt from the Government of India as State's share of divisible Union taxes (₹ 7,926.29 crore) and grants-in-aid (₹ 7,507.99 crore).

(Paragraph 1.1.1)

As on 30 June 2015, 3,193 Inspection Reports (IRs) in respect of various Departments containing 24,691 observations involving money value of ₹ 9,146.67 crore were outstanding.

(Paragraph 1.7)

II. Taxes/VAT on sales, trade etc.

A Performance Audit on System of Assessment under KVAT revealed the following:

Department failed to bring majority of dealers under tax net by registering them to the VAT system. Though Economic Census 2013 reported that there were 13.41 lakh establishments operating with fixed structure outside the house hold having different economic activities other than agricultural service and defence, during 2013-14, but only 2.20 lakh dealers were registered for VAT in the State. Test check by Audit revealed non-levy of tax of ₹ 200.94 crore including interest and penalty on transactions of un- registered dealers.

(Paragraph 2.4.7.1)

Though it is mandatory to verify all the VAT returns submitted, the system of scrutiny of returns was not properly defined in the Act or in the guidelines issued by the Government. This resulted in absence of scientific method in selection of files for detailed scrutiny.

(Paragraph 2.4.7.2)

Non-adherence to provisions of Act and Rules while completing the assessment resulted in non/short levy of tax of ₹ 744.99 crore including interest and penalty.

(Paragraph 2.4.7.6)

Lack of co-ordination with other Departments in collecting data useful for the completion of assessment resulted in non/short levy of ₹ 117.62 crore including interest and penalty.

(Paragraph 2.4.7.7)

There was no system in place for analysis and utilisation of the data available in the KVATIS before acceptance of self assessments/ completion of assessments. Scrutiny of cases revealed non/short levy of tax of ₹ 128.17 crore including interest and penalty due to these deficiencies.

(Paragraph 2.4.7.8)

The assessing authorities did not detect the defect and assessed to tax the escaped turnover or the turnover misclassified in five cases. This resulted in short payment of tax, cess and interest of ₹ 26.08 crore.

(Paragraph 2.5)

In four cases, the assessees misclassified the items taxable at higher rate as goods taxable at lower rate to evade tax. This resulted in short payment of tax, cess and interest of ₹ 6.19 crore.

(Paragraph 2.6.1)

Audit found in three cases that though the bakery products sold by the assessees were under brand name, the assessees self assessed tax on sales turnover of bakery products at four/five *per cent* instead of at 12.5 *per cent* or 13.5 *per cent* for the respective years. This resulted in short payment of tax, cess and interest of ₹ 1.81 crore.

(Paragraph 2.6.2)

The works contract receipts from the work of Government of Kerala and local bodies for the years 2010-11 to 2012-13 were self assessed to tax by M/s Uralungal Labour Contract Co-operative Society Ltd., Vadakara at three *per cent* against the correct rate of four *per cent*. Application of incorrect rate of tax resulted in short payment of tax and interest of ₹ 2.95 crore.

(Paragraph 2.6.3)

Works contractors, while filing annual returns conceded taxable turnover which were less than the turnover arrived at as per the provision of KVAT Rules 2005. This resulted in short payment of tax, cess and interest of ₹ 4.12 crore in five cases.

(Paragraph 2.7.1)

Audit found that in the case of seven cement dealers, the discount/incentive received subsequent to sale were not reckoned as turnover for assessing to tax, though the dealers concerned sold goods purchased by them at prices lower than at which they were purchased. This resulted in short payment of tax, cess and interest of ₹ 1.41 crore.

(Paragraph 2.7.2)

Audit found that six assessees having annual sales turnover above rupees five crore with more than 75 *per cent* of their sales through retail business and more than 50 *per cent* of their stock imported from outside the State/country, the output tax payable was not increased by a surcharge at 10 *per cent* as per the provisions of KST Act, 1957. This resulted in short payment of surcharge and interest of ₹ 6.09 crore.

(Paragraph 2.8)

M/s. Kalyan Jewellers, Kollam a dealer in gold jewellery, though liable to pay purchase tax proportionate to the purchases made from unregistered dealers, had not paid any purchase tax. This resulted in non-payment of tax, cess and interest of ₹ 2.31 crore for the years 2011-12 and 2012-13.

(Paragraph 2.10)

M/s HCL Infosystems Ltd., Kochi a dealer in computer and accessories, availed of excess exemption against the actual eligible exemption which resulted in short payment of tax and interest of ₹ 37.95 lakh.

(Paragraph 2.11)

In four cases, the excess input tax credit/special rebate were availed which resulted in short payment of tax of ₹ 43.29 lakh.

(Paragraph 2.12)

III. Taxes on Agricultural Income

In the case of M/s. Kannan Devan Hills Plantations Company Private Limited, Munnar, non finalisation of assessment within the stipulated time resulted in escape of income from assessment and consequent loss of revenue of ₹ 1.95 crore.

(Paragraph 3.4)

The assessing officer allowed replantation allowance more than that admissible as per the statute which resulted in short levy of AIT of ₹ 1.35 crore.

(Paragraph 3.5)

In three cases assessee companies claimed exemption/deduction for some expenses which were not admissible as per KAIT Act, 1991 from the taxable agricultural income. The assessing authority while finalising assessments admitted these expenses which resulted in short levy of AIT of ₹ 1.54 crore

(Paragraph 3.6)

IV. Taxes on Vehicles

In 37 RTOs/SRTOs, the Regional Transport Officers/Joint Regional Transport Officers short levied one time tax due to incorrect calculation of the age of vehicle and application of incorrect percentage of tax. This resulted in short levy of tax of ₹ 1.39 crore in 1,182 cases.

(Paragraph 4.4)

In 32 RTOs/SRTOs the Motor Vehicle Inspectors/Assistant Motor Vehicle Inspectors who inspected the overloaded vehicles allowed them to proceed without following the procedure prescribed in the Act, after recording the offence in the check reports. The fine of ₹ 45.26 lakh was not levied in 737 cases.

(Paragraph 4.5)

V. Land Revenue and Building Tax

In 20 *Taluk* offices failure of the Village Officers to send the list of completed buildings to *Tahsildars* resulted in non-identification of the buildings completed, for assessment which resulted in non-assessment of buildings and consequent non levy of tax of ₹ 2.24 crore.

(Paragraph 5.4.1)

In 14 *Taluk* offices, the *Tahsildars* failed to levy and assess tax even on the buildings the completion of which were reported by the Village Officers. Inaction on the part of the *Tahsildars* to assess these buildings resulted in non-levy of building tax of ₹ 2.26 crore.

(Paragraph 5.4.2)

In 2,597 cases luxury tax was not assessed and demanded, though building tax was assessed, which resulted in non-realisation of luxury tax and interest amounting to ₹ 1.24 crore. In 1,464 cases, the *Tahsildars* accepted the delayed payments of luxury tax after the prescribed due dates without collecting the interest prescribed which resulted in non-realisation of interest of ₹ 4.93 lakh.

(Paragraph 5.5)

VI. State Excise

In seven offices of the Excise Inspectors, on the direction issued by the Excise Commissioner, which was contrary to Rule 34 of FL Rules, 3,034 consignments of IMFL were released in which shortage was found to be less than one case of liquor without realising the fine prescribed. This resulted in non-realisation of fine of ₹ 4.35 crore.

(Paragraph 6.4)

VII. Other Tax Receipts

A– ELECTRICITY DUTY

A Performance Audit on Levy, Collection and Accounting of Electricity Duty, Surcharge and Inspection Fee revealed the following:

The Department had not streamlined mechanism to ensure the levy and collection of electricity duty/surcharge/inspection fee timely. This resulted in non/short levy of electricity duty/surcharge/fee amounting to ₹ 67.61 crore.

(Paragraph 7.4.8.2)

The Department failed to ensure the collection of interest on belated payments of duty/surcharges resulting in non-collection of interest to the tune of ₹ 2,699.02 crore.

(Paragraph 7.4.8.3)

Incorrect grant of exemptions, irregular retention of collection charge resulted in non/short collection of duty/surcharge of ₹ 272.77 crore.

(Paragraph 7.4.8.4)

The Department failed to conduct inspections of electrical installations, accounts and returns of licensees. This resulted in non/short levy/collection of inspection fee of ₹ 1.43 crore in addition to the threat raised to public safety.

(Paragraph 7.4.8.5)

B – STAMP DUTY AND REGISTRATION FEES

In two sale deeds suspected cases of undervaluation amounting to ₹ 93.17 lakh were not reported by Sub Registrar to District Registrar which resulted in short levy of stamp duty and registration fee of ₹ 9.32 lakh.

(Paragraph 7.8)

Chapter I
General

CHAPTER-I
GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by Government of Kerala during the year 2014-15, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-aid received from Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table- 1.1**

Table -1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	**Revenue raised by the State Government**					
	• **Tax revenue**	21,721.69	25,718.60	30,076.61	31,995.02	35,232.50
	• **Non-tax revenue**[1]	1,930.79 (1,739.58)	2,592.18 (2,228.97)	4,198.51 (3,272.25)	5,575.03 (4,059.49)	7,283.69 (5,097.95)
	Total	23,652.48 (23,461.27)	28,310.78 (27,947.57)	34,275.12 (33,348.86)	37,570.05 (36,054.51)	42,516.19 (40,330.45)
2.	**Receipts from Government of India**					
	• **Share of net proceeds of divisible Union taxes and duties**	5,141.85	5,990.36	6,840.65	7,468.68	7,926.29
	• **Grants-in-aid**	2,196.62	3,709.22	3,021.53	4,138.20	7,507.99
	Total	**7,338.47**	**9,699.58**	**9,862.18**	**11,606.88**	**15,434.28**
3.	• **Total revenue receipts of the State Government (1 and 2)**	30,990.95 (30,799.74)	38,010.36 (37,647.15)	44,137.30 (43,211.04)	49,176.93 (47,661.39)	57,950.47 (55,764.73)
4.	**Percentage of 1 to 3**	**76**	**74**	**78**	**76**	**73**

Source: Finance Accounts prepared by PAG(A&E), Kerala.

The above table indicates that during the year 2014-15, the revenue raised by the State Government (₹ 42,516.19 crore) was 73 *per cent* of the total revenue receipts. The balance 27 *per cent* of the receipts during 2014-15 was from the Government of India.

[1] The difference between the figures shown in column and bracket represent expenditure on prize winning tickets of lotteries conducted by the Government.

1.1.2 The details of the tax revenue raised during the period 2010-11 to 2014-15 are given in **Table - 1.2**.

Table -1.2
Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	0040 - Tax on sales, trade etc.	15,125.69	15,833.11	19,427.90	18,938.83	23,450.52	22,511.09	28,456.62	24,885.25	31,913.47	27,908.33	12.15	12.15
2.	0030-Stamps and Registration fees	2,187.51	2,552.49	3,252.17	2,986.55	3,775.71	2,938.38	4,207.01	2,593.29	3,733.67	2,659.02	(-) 11.25	2.53
3.	0041 - Taxes on vehicles	1,301.88	1,331.37	1,410.73	1,587.13	1,694.49	1,924.62	2,570.65	2,161.09	2,799.82	2,364.95	8.91	9.43
4.	0039 - State Excise	1,836.21	1,699.54	2,059.05	1,883.18	2,550.65	2,313.95	2,801.75	1,941.72	3,208.36	1,777.42	14.51	(-) 8.46
5.	0029 - Land Revenue	155.13	55.97	162.84	60.75	127.72	121.58	135.49	88.78	169.57	139.03	25.15	50.60
6.	0043 - Taxes and Duties on Electricity	64.40	20.71	29.31	21.28	250.00	24.71	284.15	42.25	309.14	48.71	8.72	15.29
7.	0022 - Taxes on Agricultural Income	12.00	46.97	14.49	42.86	15.98	18.92	23.99	21.55	26.35	8.60	9.84	(-) 60.09
8.	Others[2]	289.04	181.53	285.06	198.02	257.14	223.36	291.44	261.09	307.11	326.44	5.38	25.03
	Total	**20,971.86**	**21,721.69**	**26,641.55**	**25,718.60**	**32,122.21**	**30,076.61**	**38,771.10**	**31,995.02**	**4,2467.49**	**35,232.50**	**9.53**	**10.12**

Source: Budget Estimates and Finance Accounts of the respective years.

The respective Departments reported the following reasons for variation.

Commercial Taxes: The Department stated that under sales tax, the receipts were less than the budget estimates due to fall in collection of tax on certain commodities such as rubber, motor vehicles, petroleum products, Indian made foreign liquor, gold etc.

In the case of agricultural income tax, the major revenue derived from the assessees were from rubber and tea. The decrease in the receipts for the year was due to decrease in production and sales of rubber and tea and fall in price of rubber. Tea plantations showed loss due to decrease in price and increase in plantation expenses.

[2] Taxes on immovable property other than agricultural land, Luxury tax and Entertainment tax.

Taxes on vehicles: The increase in receipts for 2014-15 over 2013-14 was due to increase in tax rate and arrear collection through one time settlement. There was a decrease in the actual receipts over the budget estimates for 2014-15. The Department stated that this was due to decrease in number of vehicles registered.

Land Revenue: The increase in revenue receipts was due to the upward revision of rates of building tax.

State Excise: There was drastic reduction in the actual receipts during 2014-15 compared to the budget estimates. The Department stated (December 2015) that the excise duty collected is directly related to the volume of the sale of Indian Made Foreign Liquor. The sale of liquor is showing a negative growth rate when compared to the sale volume in previous years. The Department stated that the Deputy Commissioner, Kerala State Beverages (M&M) Corporation Limited has been directed to furnish the actual reason for variation in receipts for 2014-15 over the receipts for 2013-14. This has not been received.

Power: The Department stated (November 2015) that the decrease of actual receipts over budget estimates was due to non-remittance of electricity duty and surcharge by Kerala State Electricity Board Limited. There was an increase in revenue receipts during the year which was due to increase in arrear collection.

The reason for variation between revenue receipts for 2014-15 and 2013-14 was called for from various Departments. The details were not furnished by Registration Department (January 2016).

1.1.3 The details of non-tax revenue raised during the period 2010-11 to 2014-15 are indicated in **Table - 1.3**.

Table -1.3
Details of Non-Tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	0075-Miscellaneous General Services 103 – State Lotteries	464.60	380.25	462.05	919.53	1,381.20	1,747.51	2,307.00	2,280.15	2,875.00[3]	3,259.14[4]	24.62	42.94

[3] From gross receipts (budget estimates) of ₹ 4,235 crore, expenditure on prize winning tickets of lotteries (budget estimate) of ₹ 1,360 crore has been deducted, but other expenditure like commission to agents (budget estimate - ₹ 1,200 crore), establishment expenses (budget estimates - ₹ 256 crore) have not been deducted.

[4] From gross receipts of ₹ 5,444.88 crore, expenditure of ₹ 2,185.74 crore on prize winning tickets has been deducted, but other expenditure like commission to agents (₹ 1,792.67 crore), establishment expenses (₹ 280.22 crore) etc. have not been deducted.

(₹ in crore)

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
2.	0406 – Forestry and Wild Life	360.11	274.10	330.12	220.52	321.26	237.33	328.83	329.95	376.17	300.40	14.40	(-) 8.96
3.	0202 – Education, Sports, Art and Culture	164.25	150.83	183.61	164.96	222.07	182.78	259.18	308.13	253.15	246.41	(-)2.33	(-)20.03
4.	Others[5]	1,095.35	934.40	1,306.25	923.96	1,092.08	1,104.63	1,333.56	1,141.26	1,473.15	1,292.00	10.47	13.21
	Total	**2,084.31**	**1,739.58**	**2,282.03**	**2,228.97**	**3,016.61**	**3,272.25**	**4,228.57**	**4,059.49**	**4,977.47**	**5,097.95**	**17.71**	**25.58**

Source: Budget estimates and Finance Accounts of the respective years.

State Lotteries: The Department attributed the reasons for increased revenue receipts to improved sale of lottery tickets due to revised prize structures, increased face value of four lottery tickets and hike in agency registration fees.

Stationery: During the year 2014-15, there was decrease in stationery receipts over 2013-14 and decrease in the actual receipts over budget estimates for 2014-15. The Department stated that the reason for decrease in revenue was due to failure of the Government undertakings in payment of stationery charges.

Printing: There was a decrease in the revenue for 2014-15 when compared to the revenue for 2013-14. The Department furnished the reason for this as increased arrear collection during 2013-14 over 2014-15.

Forestry & Wild Life: The Department stated that the budget estimates were prepared based on the timber extraction work proposed. Due to delay in preparation of working plan, labour problems etc., extraction work could not be taken up in all the final felling areas and hence the estimated revenue could not be realised.

Agriculture: There was decrease in actual receipt for 2014-15 over that in 2013-14. The Director of Agriculture stated that this was due to decrease in distribution of planting materials.

Animal Husbandry: There was decrease in actual receipts over the budget estimate for 2014-15. This was due to outbreak of avian influenza and slight decrease in the demand for poultry products and sale thereof. The increase in receipts for 2014-15 over 2013-14 was due to increase in the sale of farm products and periodical revision in price of some farm products like hen, egg, chicks etc.

[5] Receipts from Interest receipts, Medical and Public Health, Crop Husbandry, Animal Husbandry, Public Works, Other Administrative Services, Police, Co-operation, Major Irrigation Projects, Judiciary, Jail, Stationery, etc.

Public Works: The nature of receipts includes rent from office buildings, centage charges, sale proceeds, etc. There was increase in the receipts for 2014-15 over 2013-14, which was due to enhancement in rates. The actual receipts for 2014-15 were less than the budget estimates. The Department attributed the reason for this due to shortfall in works, due to non-occupancy of buildings and poor sale proceeds.

The reason for variation between the receipts for 2014-15 over 2013-14 and that of budget estimates and actual receipts for 2014-15 were called for from various departments (May 2015). This was not furnished by Departments of Crop Husbandry and Health (January 2016).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 on some principal heads of revenue amounted to ₹ 10,435.55 crore of which ₹ 1,872.12 crore was outstanding for more than five years, as detailed in the **Table -1.4**.

Table – 1.4
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than 5 years as on 31 March 2015	Replies of Departments
1.	0040- Tax on sales, trade etc.	6,398.31	1,374.51	In Commercial Taxes Department, an amount of ₹ 3,673.98 crore is pending due from individuals, private firms, private companies which relate to the period from 1974-75 onwards. An amount of ₹ 2,384.23 crore is pending due from public sector undertakings of Government of India, ₹ 197.23 crore from public sector undertakings of Government of Kerala, ₹ 135.20 crore from other State Governments, ₹ 7.01 crore from Government of India and ₹ 0.66 crore from local bodies. An amount of ₹ 4,459.10 crore is under revenue recovery proceedings, recoveries involving ₹ 1,266.57 crore are under stay by High Court and other judicial authorities and by Government. The Department attributed (December 2015) the reason for delay in collection of revenue to stayal of proceedings by various authorities. However, only ₹ 1,266.57 crore (19.79 *per cent*) out of a total of ₹ 6,398.31 crore was covered under such judicial intervention.
2.	0029- Land Revenue	2,057.43	Not furnished by Commissioner (Land Revenue)	In the Revenue and Disaster Management Department, the nature of demand includes land revenue and revenue recovery dues. An amount of ₹ 1,974.92 crore is under stay by High Courts and other judicial authorities and by Government. However, an amount of ₹ 82.51 crore was collectible balance. The Department attributed (November 2015) the reasons for delay in collection of revenue to stays by Government, Court and appellate authorities and that the Department has taken legal steps to realise the arrears.

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than 5 years as on 31 March 2015	Replies of Departments
3.	0041-Taxes on vehicles	1,279.46	85.98	The arrears of ₹ 984.49 crore are pending due from Kerala State Road Transport Corporation and ₹ 294.97 crore are pending due from individuals, private firms, private companies etc. Revenue recovery certificates have been issued for an amount of ₹ 80.87 crore and ₹ 0.30 crore have been stayed by High Courts and other judicial authorities. The Transport Department stated (October 2015) that demand notices have been sent to the registered owners of the vehicles and the dues would be collected.
4.	0406-Forestry and Wild Life	411.55	187.61	The nature of demand in the Forest Department includes value of timber, teak stumps, lease rent, penal interest, re-auction loss, centage charges etc. An amount of ₹ 0.67 crore pending for more than five years is due from Government of India, ₹ 0.23 crore from other State Governments, ₹ 3.51 crore from public sector undertakings of Government of India, ₹ 393.35 crore from public sector undertakings of Government of Kerala and other States and ₹ 13.67 crore from individuals, private companies etc and ₹ 0.12 crore from local bodies. The Department attributed (October 2015) the reason for delay in collecting the revenue to pending revenue recovery steps taken against the defaulters, court cases, stay orders etc. The Department stated that necessary action has been initiated to realise the arrears of lease rent and other dues from departments and Public sector undertakings through discussions at Government level.
5.	0039-Excise	193.50	190.72	The abkari arrears in the Department are pending from 1952 onwards. The abkari arrear dues are ₹ 0.85 lakh from public sector undertakings of Government of Kerala and ₹ 193.50 crore from individuals, private firms, private companies etc. The Department attributed (July 2015) the reasons for delay in collection of revenue to pending revenue recovery action and stay by court. The reason furnished by the Commissioner is not acceptable since only ₹ 15.68 crore (8.11 *per cent*) out of a total of ₹ 193.50 crore was covered under judicial intervention.
6.	0070-60-110- Fees for Government audit	35.15	Not furnished by Director, Local Fund Audit Department	The arrears of revenue pending collection towards audit charge are ₹ 14.36 crore from universities, ₹ 3.32 crore from Devaswom Boards, ₹ 0.84 crore from temples and ₹ 16.63 crore from miscellaneous institutions and development authorities. The Local Fund Audit Department stated (July 2015) that demand notices are being sent to defaulters and proposals have been submitted to the Government for realising audit charge from the grants given to these bodies/institutions.
7.	0058-Printing and Stationery	16.55	9.58	The amounts due to the Stationery Department are ₹ 13.32 crore from Government of Kerala, ₹1.96 crore from public sector undertakings of Government of Kerala, ₹ 1.25 crore from Government of India and ₹ 1.43 lakh from public

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than 5 years as on 31 March 2015	Replies of Departments
				sector undertakings of Government of India and ₹ 0.42 lakh from local bodies. The Department stated (July 2015) that reminders are being sent to the offices concerned who have not remitted the amounts.
8.		41.49	23.49	The nature of demand of the Printing Department includes printing charges charged from Departments of Education, Public Service Commission, High Court, Medical Council, Universities etc. An amount of ₹ 0.08 crore is due from Government of India and ₹ 41.41 crore is due from local bodies, public sector undertakings of Kerala and from Government of Kerala. The Department attributed (November 2015) the reason for the delay in collection of revenue to delay in settlement of arrears by the departments concerned. The Department stated that frequent reminders are being sent for settlement of outstanding arrears and that meetings had been held at Government level.
9.	0230-Labour and Employment	1.20	0.06	The nature of demand of the Department of Factories and Boilers was fee for renewal of licence of factories. An amount of ₹ 0.11 crore and ₹ 1.09 crore is due from public sector undertakings of Government of Kerala and individuals, private firms and private companies respectively. The Director stated (August 2015) that the delay in collection was due to the fact that most of the factories, which have arrears, are not working.
10.	0853-Non-Ferrous Mining and Metallurgical Industries	0.91	0.17	The nature of demand made by Mining and Geology Department is royalty of minerals. The arrears of revenue pending collection are ₹ 30.21 lakh from Co-operative Society, ₹ 25.92 lakh from public sector undertakings of Government of Kerala and ₹ 35.36 lakh from individuals, private firms, private companies etc. The Department stated (June 2015) that the reason for delay in collection of revenue was due to dispute regarding the claims, court stays, appeals and Government stays and that action was being taken to redress the dispute and to vacate the stays.
	Total	**10,435.55**	**1,872.12**	

It could be seen from the table that recovery of ₹ 1,872.12 crore was pending for more than five years and no effective efforts were being made to recover them. Also arrears of ₹ 2,138.17 crore were pending with the departmental authorities. The cases referred for write off (₹ 70.14 crore) were also not being pursued by the departments with the offices concerned.

The arrears of revenue pending for collection in respect of Town Planning Department and Registration Department were shown as Nil (November 2015) despite huge dues pending recovery under revenue recovery proceedings in the case of Registration Department. The exact dues pending recovery with Revenue Department was not made available by Registration Department despite called for

(December 2015) from the IG of Registration. Further the details of arrears of revenue called for in May 2015 have not been furnished by Police, Power, Labour and Ports Departments (January 2016).

The enforcement of the systems existed in the Departments for the realisation of arrears of revenue was inadequate and inefficient. The indifferent attitude of the officials concerned in vacating the stay, enforcing revenue recovery proceedings, etc., also resulted in poor recovery of arrears of revenue.

Departmental instructions for fixing accountability on assessing officers for inefficiencies in revenue collection may be considered for issue.

1.3 Arrears in assessments

The particulars regarding the arrears in assessment such as cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year 2014-15 were called for (May 2015) from the Revenue and Disaster Management (R&DM) Department and the Commercial Taxes Department. The details furnished (between November and December 2015) by the R&DM Department and Commercial Taxes Department are given in **Table -1.5**.

Table – 1.5
Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2014-15	Total assessments due	Cases disposed of during 2014-15	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Revenue and Disaster Management Department						
Building Tax	10,863	1,43,028	1,53,891	1,37,457	16,434	89.32
Plantation tax	4,318	1,085	5,403	2,585	2,818	47.84
Commercial Taxes Department						
1) a) Sales Tax	2,259	1,168	3,427	1,542	1,885	45.00
b. Motor Sprit Tax	82	75	157	90	67	57.32
c. Luxury Tax	6,207	7,139	13,346	5,994	7,352	44.91
d. Tax on Works Contracts	724	828	1,552	624	928	40.21
e. Others	7,314	5,346	12,660	6,325	6,335	49.96
Total	**16,586**	**14,556**	**31,142**	**14,575**	**16,567**	**46.80**
2) Taxes on Agricultural Income	2,060	433	2,493	1,546	947	62.01

Audit found that during the year, clearance of the arrear cases of building tax and plantation tax in R&DM Department were 7,168 and 1,567 respectively which

were 67.78 *per cent* and 36.65 *per cent* respectively. In the Commercial Taxes Department the clearances in sales tax and agricultural income tax assessments were 1,198 and 1,421 respectively which were 53.03 *per cent* and 68.32 *per cent* respectively.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Department was called for by Audit in May 2015 and reminded in September and October 2015. The details as furnished by the Commercial Taxes, State Excise and Transport Departments and the Chief Electrical Inspectorate are given in **Table - 1.6**.

Table -1.6
Details of evasion of tax detected

(₹ in crore)

Sl. No.	Head of revenue	Cases pending as on 31 March 2014	Cases detected during 2014-15	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Number of cases pending for realisation as on 31 March 2015
					Number of cases	Amount of demand	
1.	0040- Tax on sales, trade etc.	3,213	4,953	8,166	4,633	83.91	3,445
2.	0039 - State Excise	795	-	795	30	241.05	765
3.	0041 - Taxes on vehicles	2,898	279	3,177	1,752	3.73	1,425
4.	0043-101-99 Electricity duty	-	4	4	4	24.81	4[6]

The Agriculture, State Lotteries, Health Services, Animal Husbandry, Printing and Stationery Departments stated (between May and June 2015) that no case of evasion of tax was detected by them.

The Commissioner of Land Revenue stated (November 2015) that the details are being gathered from District Collectors. Final reply has not been received as of January 2016. Details had also not been furnished by Public Works and Forest Departments as of January 2016.

[6] Though investigation has been completed and demand raised in four cases, amount is pending realisation.

1.5 Pendency of refund cases

The details of refund cases pending at the beginning of the year 2014-15, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2014-15 as reported by the Commercial Taxes and Excise Departments are given in **Table -1.7**.

Table- 1.7
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	State Excise		Commercial Taxes	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year 2014-15	6	1.72	4,271	142.30
2.	Claims received during the year	2	0.05	4,966	140.32
3.	Refunds made during the year	2	0.97	3,874	92.09
4.	Balance outstanding at the end of the year 2014-15	6	0.80	5,363	190.53

The closing balance of refund cases for 2013-14 furnished by the Commissioner, Excise Department was four involving an amount of ₹ 1.69 crore. The Department furnished opening balance for 2014-15 as six involving an amount of ₹ 1.72 crore and explained (October 2015) that the Government orders for refund of two claims pertaining to 2013-14 were received only on 2014-15. However, the Department showed this in the clearance of 2013-14 itself, thereby making the closing balance of 2013-14 as four and ₹ 1.69 crore. This was irregular.

In Commercial Taxes Department, out of the 5,363 outstanding cases, 5,358 cases pertain to refund of value added tax. The reason for pendency though called for (May 2015) in Audit had not been explained by the Department (January 2016).

1.6 Analysis of stay granted

An analysis of arrears of revenue which were under various stages of collection revealed that the arrears pending collection as on 31 March 2015 included collections stayed by various authorities at various stages on some principal heads of revenue as detailed in the **Table -1.8.**

Table – 1.8
Stages of stay granted

(₹ in crore)

Sl. No.	Head of revenue	Total arrear amount	Stage wise details of		Total amount under stay	% of stay to total arrear
			Stay by Court and other judicial authorities	Stay by Government		
1.	0040- Tax on sales, trade etc.	6,398.31	1,056.90	209.67	1,266.57	19.80
2.	0029- Land Revenue	2,057.43	1,214.34	760.58	1,974.92	95.99
3.	0041-Taxes on vehicles	1,279.46	0.30	0	0.30	0.02
4.	0406-Forestry and Wild Life	411.55	2.73	79.14	81.87	19.89
5.	0039- State Excise	193.50	15.68	0	15.68	8.10
6.	0853-Non-Ferrous Mining and Metallurgical Industries	0.91	0.12	0.40	0.52	57.14
	Total	**10,341.16**	**2,290.07**	**1,049.79**	**3,339.86**	**32.30**

An amount of ₹ 3,339.86 crore was pending under stay, which is 32.20 *per cent* of the total arrear amount. The Departments had not taken effective action to vacate the stay and to realise the amounts.

The arrears of revenue pending under stay in respect of Registration Department, Printing Department, Stationery, Local Fund and Town Planning Department were Nil. The details of arrears pending under stay were not furnished by Power Department (January 2016).

1.7 Response of the Government/Departments to Audit

The Principal Accountant General (E&RSA), Kerala, conducts periodical inspection of the Government Departments to test check the transactions and verifies the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with 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 furnish first reply within four weeks from the date of receipt of the Inspection Report. Even if final reply to certain paras in Inspection Report could not be furnished within the prescribed time limit, an interim reply may be furnished indicating the action taken to rectify the defects pointed out by Audit. Serious financial irregularities are reported to the heads of the Departments and the Government.

Inspection reports issued upto December 2014 disclosed that 24,691 paragraphs involving ₹ 9,146.67 crore relating to 3,193 IRs were outstanding at the end of

June 2015 as mentioned below with the corresponding figures for preceding two years in **Table 1.9.**

Table – 1.9
Details of pending Inspection Reports

	June 2013	June 2014	June 2015
Number of IRs pending for settlement	2,906	3,027	3,193
Number of outstanding audit observations	22,189	23,324	24,691
Amount of revenue involved (₹ in crore)	2,794.17	6,018.52	9,146.67

1.7.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amounts involved are mentioned in the **Table 1.10**.

Table - 1.10
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	Tax on sales, trade, etc.	1,695	19,003	5,538.04
		Taxes on agricultural income	186	756	141.31
2.	Power	Electricity duty	22	74	3,176.12
3.	Revenue	Land Revenue	376	1,702	208.34
4.	Transport	Taxes on motor vehicles	339	1,869	56.28
5.	Excise	State Excise	186	445	14.98
6.	Stamps and Registration	Stamp duty and registration fees	375	824	9.59
7.	Lotteries	Receipts from lotteries	14	18	2.01
Total			**3,193**	**24,691**	**9,146.67**

Audit did not receive even the first replies in case of 443 IRs within four weeks from the date of issue of the IRs from seven heads of offices during 2014-15. 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 PAG in the IRs and it also showed the failure to monitor effectively the clearance of pending Audit observations by the Audit Monitoring Committees at Secretary level and Apex Committee at Chief Secretary level.

The Government needs to have more effective system for ensuring prompt and appropriate response to audit observation within the time frame prescribed in the

Circular[7] issued by the Finance Department by improved monitoring and putting in further checks and balances and incentives and disincentives into this mechanism.

1.7.2 Departmental Audit Committee Meetings

The Government set up Audit Committees to monitor and expedite the progress of settlement of local audit reports and paragraphs in the local audit reports. The details of the audit committee meetings held during the year 2014-15 and the paragraphs settled are mentioned in **Table 1.11.**

Table 1.11
Details of Departmental Audit Committee Meetings

(₹ in crore)

Head of revenue	Number of meetings held	Number of audit observations pending as on 31 March 2014	Number of paragraphs settled	Amount involved in settled paragraphs
Taxes on vehicles	5	1,673	437	5.81
Tax on sales, trade etc.	4	19,025	709	43.94
State Excise	3	423	52	0.97
Stamp duty and registration fees	1	674	14	0.01
Land Revenue and Building Tax	1	1,773	75	0.80
Total	**14**	**23,568**	**1,287**	**51.53**

An amount of ₹ 8.61 crore was recovered after discussion in these meetings. The progress of settlement of paragraphs pertaining to the Commercial Taxes Department, Transport Department and Revenue Department was negligible compared to the huge pendency of the local audit reports and paragraphs despite holding Departmental Audit Committee Meetings.

1.7.3 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 2014-15 files relating to KVAT assessments in which the turnover of the assessee was above ₹ 60 lakh and KGST assessments in which the tax effect was above ₹ two lakh were called for by Audit for scrutiny in Commercial Taxes Department. However, 6,355 tax assessment files relating to

[7] Circular memorandum No. 57374/Ins.2/65/Fin. Dated 15 November 1965.

80 offices were not made available to Audit. Of these 2,421 files pertained to 20 special circles and works contract offices, where assessments of major dealers are dealt with as given in **Appendix I**.

Circle/division wise analysis showing the names of head of offices for the years 2010-11 to 2014-15 is given in **Appendix II**.

Non-production of large number of transaction records involving substantial revenue not only hinders Audit in discharging the constitutional responsibility but also comes in the way of assuring the State Government about the quality and risk involved in these transactions involving revenue for the State Government. The possibility of fraud or misappropriation or business malfeasance remaining hidden/surpassed and escaping detection during audit also remains high.

The matter was brought to the notice of the Chief Secretary and the Additional Chief Secretary (Finance) to Government by the Principal Accountant General in September 2015. The Additional Chief Secretary (Finance) stated (October 2015) that the matter of non production of records by Departments may be taken up as an agenda item in Audit Monitoring Committee (AMC) meeting conducted quarterly by Departments. Directions have been given (October 2015) to all Departments that the AMC should monitor and ensure production of necessary records and replies to the audit parties and to take stringent action against the officers for non compliance.

1.7.4 Response of the Departments to the draft paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are sent by the Principal Accountant General to the Principal Secretaries/Secretaries of the respective Departments drawing their attention to audit findings and requesting their response within six weeks.

Eighty seven draft paragraphs including two performance audits were sent to the Principal Secretaries/Secretaries of the respective Departments by name between June and October 2015. The Principal Secretaries/ Secretaries of the Departments furnished replies to all the compliance audit paragraphs and to the Performance Audit Reports on System of Assessment under Kerala Value Added Tax and Levy, Collection and Accounting of Electricity Duty, Surcharge and Inspection Fee and the same has been included in this Report.

1.7.5 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. 215 paragraphs (including performance audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Kerala for the years ended 31 March 2009 to 31 March 2013 were placed before the State Legislature Assembly between 01 March 2010 and 17 July 2014. The action taken explanatory notes from the Departments concerned on 183 paragraphs were received late in respect of each of these Audit Reports. Action taken explanatory notes in respect of 30 paragraphs from four departments (Taxes, Revenue and Disaster Management, Transport and Power) had not been received for the Audit Report for the year ended 31 March 2014 so far (January 2016).

It was noticed that six out of nine departments did not submit action taken explanatory notes as of December 2015 in respect of 62 paragraphs (56 individual and six PAs/Review paragraphs) featured in the C&AG's Audit Reports in respect of Audit Reports from the year 2012. For 56 individual transaction audit paragraphs, compliance was not furnished by four Departments. The Departments largely responsible for non-submission of action taken explanatory notes were Taxes, Revenue and Disaster Management and Transport.

The PAC discussed 146 paragraphs pertaining to the Audit Reports for the years from 2009 to 2013 and its recommendations on 77 paragraphs were incorporated in their Reports brought out during their respective tenure for the period 2008-16. However, ATN have not been received in respect of 138 recommendations of the PAC from the Departments concerned as mentioned in the **Table 1.12.**

Table 1.12

Year of PACs [8]	Name of the Department										Total
	Taxes	Transport	Land Revenue	Forest& Wildlife	Finance	Home	Education	Power	Co-operation	Water resources	
2008-11	30	3	9	-	-	2	1	1	1	-	47
2011-14	9	12	2	-	-	-	-	2	-	-	25
2014-16	20	12	8	6	1	1	1	-	16	1	66
Total	**59**	**27**	**19**	**6**	**1**	**3**	**2**	**3**	**17**	**1**	**138**

The Departments largely responsible for non-submission of ATN were Taxes, Transport, Revenue and Disaster Management and Co-operation.

The non receipt of ATN have been brought to the notice of Chief Secretary to the Government in Apex Committee meetings held (May and December 2015) and through DO letter by the Principal Accountant General to the Chief Secretary to Government.

[8] Year represents tenure of the PAC.

1.8 Status of the mechanism for dealing with the issues raised in 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 following paragraphs 1.8.1 to 1.8.2 discuss the performance of the Commercial Taxes Department under revenue head 0040-Tax on sales, trade etc. 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 2004-05 to 2013-14.

1.8.1. 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 2015 are tabulated below in **Table 1.13.**

Table 1.13
Position of Inspection Reports

(₹ in crore)

Sl No.	Year	Opening Balance			Addition 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	2004-05	1,418	12,396	442.85	149	1,932	165.17	145	1,036	18.18	1,422	13,292	589.84
2	2005-06	1,422	13,292	589.84	166	1,837	51.81	891	8,454	487.13	697	6,675	154.52
3	2006-07	697	6,675	154.52	167	1,568	43.48	95	948	17.72	769	7,295	180.28
4	2007-08	769	7,295	180.28	195	1,770	91.91	8	537	13.37	1,033	9,182	540.66
5	2008-09	1,033	9,182	540.66	178	2,826	92.46	88	1,237	5.11	1,123	10,769	628.01
6	2009-10	1,123	10,769	628.01	295	4,916	622.11	278	4,240	44.35	1,140	11,445	1,205.77
7	2010-11	1,140	11,445	1,205.77	206	4,401	515.36	86	1,048	50.91	1,260	14,798	1,670.22
8	2011-12	1,260	14,798	1,670.22	159	3,212	858.84	50	783	16.44	1,369	17,227	2,512.62
9	2012-13	1,369	17,227	2,512.62	161	2,802	243.85	26	1,783	261.89	1,504	18,246	2,494.58
10	2013-14	1,504	18,246	2,494.58	147	2,493	516.54	2	1,214	42.31	1,649	19,525	2,968.81

The Government arranges Audit Committee meetings between the Department and office of the Principal Accountant General to settle the old paragraphs. As would be evident from the above table, against 1,418 outstanding IRs with 12,396 paragraphs as on start of 2004-05, the number of outstanding IRs increased to 1,649 with 19,525 paragraphs at the end of 2013-14. This is indicative of the fact that the response to the local audit reports was poor and the steps taken by the Department to clear the outstanding IRs and paragraphs were inadequate.

1.8.2. Recovery in 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 1.14**.

Table 1.14
Details of paragraphs included in Audit Reports

(₹ in crore)

Sl. No.	Year of Audit Report	Number of paragraphs included	Money value of paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases as of 31.03.2014
1	2004-05	9	40.69	8	11.93	0	0.12
2	2005-06	8	25.52	7	1.96	0.09	0.66
3	2006-07	12	12.54	10	3.23	0	0.52
4	2007-08	9	253.11	8	10.98	0.09	4.55
5	2008-09	16	632.19	14	305.78	0.08	17.24
6	2009-10	20	463.59	13	276.77	0	1.77
7	2010-11	27	449.65	22	379.82	7.78	8.88
8	2011-12	16	290.50	9	238.06	0	4.26
9	2012-13	16	12,902.39	15	12,886.24	0.33	1.97
10	2013-14	14	75.52	8	18.57	0.46	0.46

It is evident from the above table that the progress of recovery in accepted cases was slow throughout during the last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the parties concerned. No mechanism for pursuance of the accepted cases had been put in place by the Department/ Government as of December 2015.

The reasons for poor recovery even in accepted cases though called for had not been furnished by the Department (January 2016).

1.9 Action taken on the recommendations accepted by the Departments/Government

The draft reports of performance Audits conducted by the Principal Accountant General are forwarded to the Department concerned/Government for their information with a request to furnish their replies. These reports are also discussed in an Exit Conference and the views of the Department/Government are included while finalising the Audit Reports.

The details of Performance Audits on the Departments of Commercial Taxes, Registration, Excise, Transport and Revenue and Disaster Management featured

in the Reports for the last five years along with recommendations and their status are given in **Appendix - III**.

1.10 Audit planning

The unit offices under various Departments were categorised into high, medium and low risk units according to their revenue position, past trends of audit observations, complaints, media reports, non-production of records, information regarding malpractice obtained through RTI and misappropriation. The annual audit plan was prepared on the basis of risk analysis which *inter-alia* included critical issues in government revenue, tax administration i.e. budget speech, white paper on finances, reports of the Finance Commission (State and Central), recommendation 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 the past five years etc.

During the year 2014-15, there were 849 audit units, of which 451 units were planned and audited, which is 53.12 *per cent* of the total audit units.

1.11 Results of audit

Position of local audit conducted during the year

Test check of the records of 443 units[9] of sales tax/Value Added Tax, State Excise, Motor Vehicles and other Departmental offices conducted during the year 2014-15 showed under-assessment/short levy/loss of revenue aggregating ₹ 5,148.21 crore in 2,647 cases. During the course of the year, the Departments concerned accepted under-assessment and other deficiencies of ₹ 658.95 crore involved in 230 cases which were pointed out in audit during 2014-15. The Departments collected ₹ 15.27 crore in 949 cases during 2014-15, pertaining to the audit findings of previous years.

1.12 Coverage of this Report

The Report contains 31 paragraphs involving financial effect of ₹ 4,506.23 crore. The Department/Government had accepted audit observations involving ₹ 710.29 crore out of which ₹ 6.94 crore had been recovered. These are discussed in succeeding Chapters II to VII.

[9] In the case of remaining 8 units, IRs were issued during the year 2015-16.

Chapter II
Taxes/VAT on Sales, Trade etc.

CHAPTER-II
TAXES/VAT ON SALES, TRADE ETC.

2.1 Tax administration

Kerala General Sales Tax (KGST)/Kerala Value Added Tax (KVAT) laws and rules made thereunder are administered at the Government level by the Principal Secretary, Taxes. The Commissioner of Commercial Taxes (CCT) is the head of the Commercial Taxes Department who is assisted by Joint Commissioners (JC), Deputy Commissioners (DC), Assistant Commissioners (AC) and Commercial Tax Officers. The assessment, levy and collection of tax are done by Assistant Commissioners and Commercial Tax Officers.

KGST is leviable on sale of Ganja and opium, foreign liquor and certain petroleum products. VAT is leviable on the intrastate sale of remaining commodities and Central Sales Tax (CST) on inter-State sales.

2.2 Internal audit

The internal audit wing (IAW) in the Commercial Taxes Department commenced functioning from 1 June 2009. The wing headed by the Deputy Commissioner is assisted by two Assistant Commissioners and five Commercial Tax Officers. During 2014-15, the wing planned 356 units but could audit only 85 units. Potential cases and collection fall cases are compulsorily checked by the wing. Out of an overall outstanding of 4,595 paras only 448 paras (9.74 *per cent)* were cleared. The reason for low clearance of observations made by IAW, though called for (April 2015) has not been furnished by the CCT (December 2015). This indicates the poor response of the CCT to the observations of the IAW and in enforcing clearance of the paras by addressing the shortcomings/deficiencies pointed out by the wing.

2.3 Results of audit

Test check of the records relating to KVAT/KGST and CST assessments and connected documents in 160 out of 169 offices of the Commercial Taxes Department conducted during 2014-15 showed underassessment of tax and other irregularities involving ₹ 1,771.71 crore in 1,812 cases which fall under the following categories given in **Table - 2.1**.

Table - 2.1

			(₹ in crore)
Sl. No.	**Categories**	**Number of cases**	**Amount**
1.	Performance Audit on "System of Assessment under KVAT"	1	1,191.72
2.	Turnover escaping assessment	976	431.61
3.	Grant of irregular exemption	204	33.29
4.	Application of incorrect rate of tax	44	13.90
5.	Grant of excess input tax credit	140	6.34
6.	Other lapses	447	94.85
	Total	**1,812**	**1,771.71**

During the course of the year, the Department accepted underassessment and other deficiencies involving ₹ 187.09 crore in 1,162 cases which were pointed out in Audit. An amount of ₹ 8.49 crore was realised in 628 cases during the year 2014-15 of which 51 cases involving ₹ 0.60 crore were pointed out in 2014-15 and the rest in earlier years.

Department recovered full amount in a draft paragraph issued, pertaining to M/s Five Star Cone Crusher and Hollow Bricks, Peravoor and involving ₹ 9.69 lakh based on the Audit observation, in November 2013.

The reasons for non/short realisation of the amounts even in cases accepted by the Department were called for in September 2015. This has not been received (January 2016).

A Performance Audit on System of Assessment under KVAT with financial impact of ₹ 1,191.72 crore and a few illustrative audit observations involving ₹ 55.52 crore are mentioned in the following paragraphs.

Value Added Tax

2.4. Performance Audit on System of Assessment under KVAT

2.4.1 Highlights

- Department failed to bring majority of dealers under tax net by registering them to VAT system. Though Economic Census 2013 reported that there were 13.41 lakh establishments operating with fixed structure outside the house hold having different economic activities other than agricultural, service and defence, during 2013-14, but only 2.20 lakh dealers were registered for VAT in the State. Test check by Audit revealed non-levy of tax of ₹ 200.94 crore including interest and penalty on transactions of un-registered dealers.

[Paragraph 2.4.7.1]

- Non-adherence to provisions of Act and Rules while completing the assessment resulted in non/short levy of tax of ₹ 744.99 crore including interest and penalty.

[Paragraph 2.4.7.6]

- Lack of co-ordination with other Departments in collecting data useful for the completion of assessment resulted in non/short levy of ₹ 117.62 crore including interest and penalty.

[Paragraph 2.4.7.7]

- There was no system in place for analysis and utilisation of the data available in the KVATIS before acceptance of self assessments/completion of assessments. Scrutiny of cases revealed non/short levy of tax of ₹ 128.17 crore including interest and penalty due to these deficiencies.

[Paragraph 2.4.7.8]

- Internal control mechanism existing in the Department was not sufficient.

[Paragraph 2.4.7.10]

2.4.2 Introduction

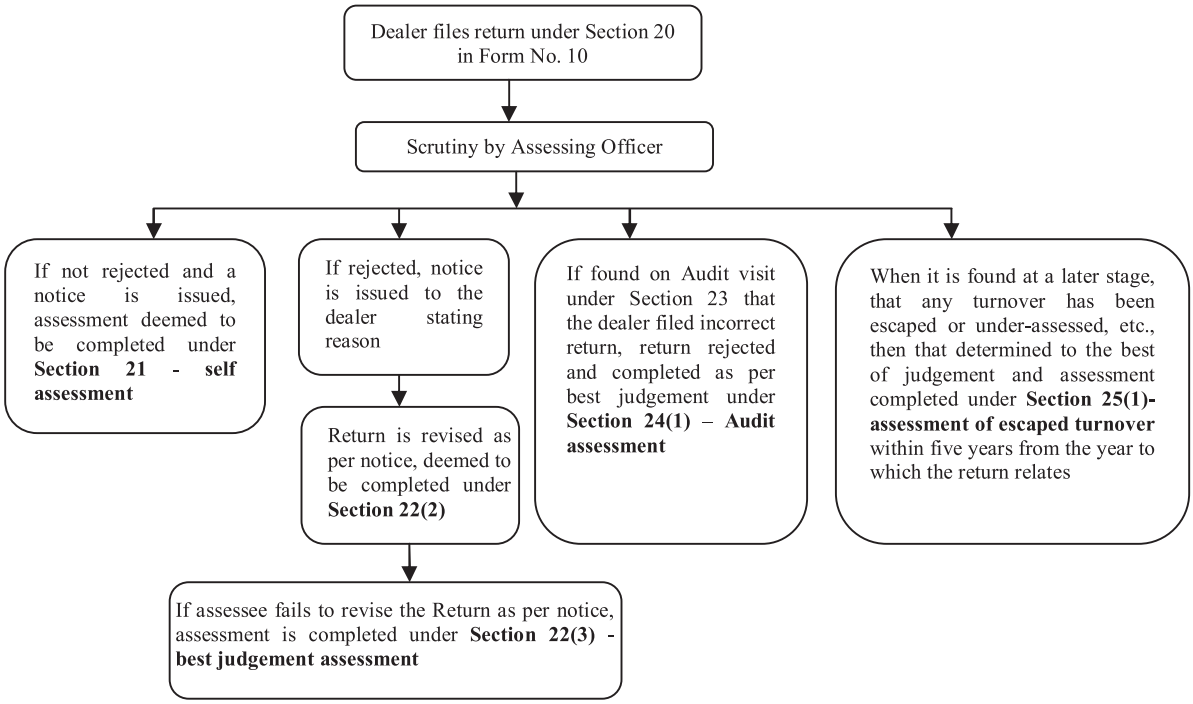
The Kerala Value Added Tax (KVAT) Act, 2003 and KVAT Rules, 2005 regulate the levy and collection of tax on sales and purchases of goods in the State. The system of value added taxation was introduced in the State with effect from 1 April 2005.

VAT is a multi-stage tax levied at each stage of the value addition chain, with a provision to allow Input Tax Credit (ITC) on tax paid at an earlier stage, which can be appropriated against the VAT liability on subsequent sale. VAT constitutes major portion of State revenue and hence assessment of VAT has a direct bearing on the tax collection and quality of tax administration.

With the introduction of VAT, the concept of assessment by assessing officers was basically withdrawn and the system of self assessment was introduced. Under the self assessment system, the dealers are required to file periodical returns and if the return so submitted is in the prescribed manner and accompanied by the prescribed documents, the assessment for the return period shall be deemed to have been completed. Provisions for reopening of the self assessments consequent to the detection of any turnover escaping assessment, application of incorrect rate of tax etc., have also been provided in the Act.

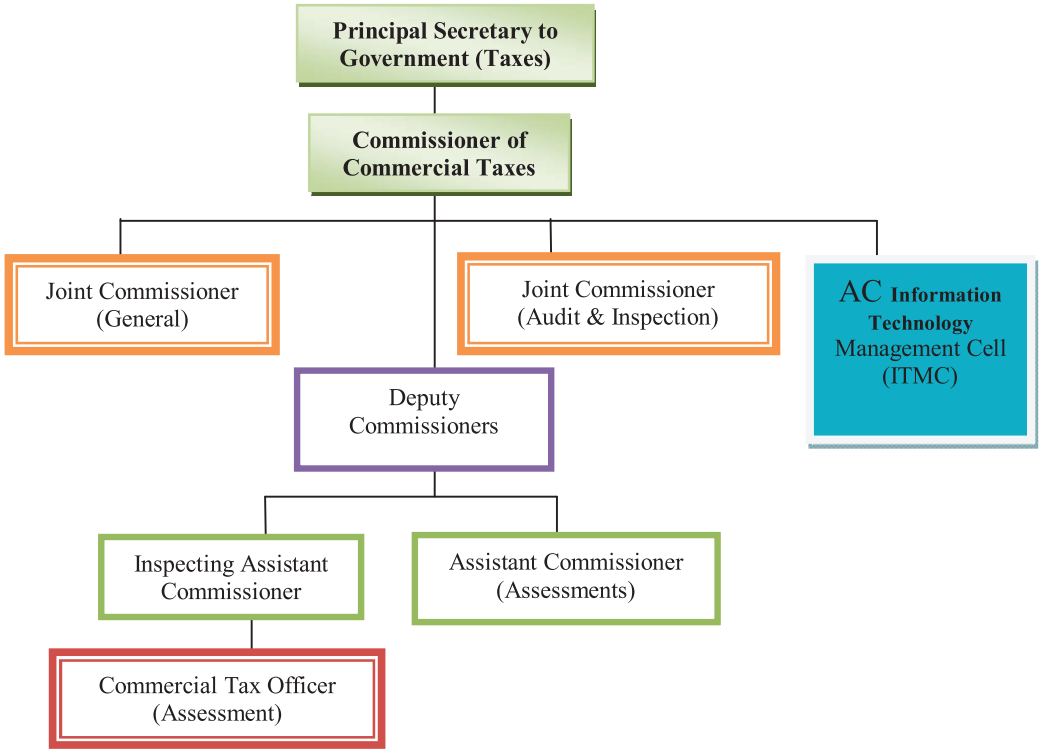
As part of the e-governance initiative and the introduction of VAT, the Department had introduced an application software system called KVATIS, to capture the complete workflow of the Department in all functional areas. The main objective of KVATIS was to develop a user-friendly IT solution for the effective and transparent tax administration with maximum tax collection and thereby reduce the tax evasion and corruption. The project also aimed at greater tax compliance by simplifying the procedures and timely delivery of better services to the stakeholders. The application software became operational during 2007-08.

The system of assessment prevailing under KVAT Act, 2003 is as under:



2.4.3 Organisational setup

The organisational setup of the assessment wing of the Department has been shown below:



2.4.4 Audit Objectives

The review was conducted to ascertain whether:

- the taxpayers are identified properly and the assessments are done according to provisions of the Act, Rules and orders.
- the assessment criteria has been prescribed for selection of files for detailed scrutiny and if so, the selection was made as per the prescribed criteria.
- a mechanism has been established to monitor internal control and the quality of the assessment orders.

2.4.5 Scope and methodology of audit

The Performance Audit (PA) was conducted between February 2015 and September 2015 covering the period from 2010-11 to 2014-15. Audit selected 36[1] out of the 73 assessment circles in six districts (fifty *per cent*). This selection was based on simple random sampling method. At each assessing officer's level, assessment files were selected through risk analysis based on gross turnover (GTO), commodity dealt, ITC claimed, sales return, check post transactions etc. During the audit, inter- departmental data from Customs department on imports of goods by dealer along with the data from other Central/State Government agencies were gathered to cross verify the same with the inputs provided by the assessees in KVATIS. Various Local Audit Reports covering audit observations relating to KVAT assessments were also reviewed in addition to assessment records maintained at selected units.

An entry conference was conducted on 20 May 2015 with the Principal Secretary (Taxes) wherein the scope and methodology adopted for the PA were explained. An Exit conference was held on 01 December 2015 with the Principal Secretary (Taxes) where-in the audit findings were discussed.

• Acknowledgement

Audit acknowledges the co-operation rendered by the Commercial Taxes Department in providing records and other facilities. Audit also acknowledges the co-operation extended by the Customs and Central Excise Department and Income Tax Department for sharing of data, which has become helpful in conducting PA.

[1] **Thiruvananthapuram** - Special Circle, CTO (Works contract), I and II Circles Thiruvananthapuram, **Kottayam**- Special Circle, CTO (Works contract), II Circle Kottayam and I Circle Changanassery, **Ernakulam**- Special Circle I, II and III, CTO (Works contract), I and II Circle Ernakulam, Special Circle Mattancherry at Aluva, Special Circle (Produce), CTO (Works contract) Mattancherry, Special Circle Perumbavoor, I and II Circles Kalamassery, I and II Circles Tripunithura and CTO Aluva, **Palakkad**- Special Circle, CTO (Works contract), I and II Circles Palakkad, **Kozhikode-** Special Circle I and II, CTO (Works contract), I Circle Kozhikode and CTO Perambra, **Kannur-** Special Circle, CTO (Works contract), I and II Circles Kannur.

2.4.6 Audit Criteria

The audit criteria was derived from the following Acts and Rules.

- Kerala Value Added Tax Act, 2003.
- Kerala Value Added Tax Rules, 2005.
- Notifications and Orders issued by Government.
- Circulars and Clarifications issued by the Department.
- Circulars issued by Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs(CBEC).

2.4.7 Audit findings

2.4.7.1 Failure to bring dealers under tax net and consequent escapement of turnover from assessment

Section 15 of the KVAT Act, 2003 stipulates that every dealer whose total turnover in any year is not less than rupees five lakh shall get himself registered under VAT. Further, this turnover shall not apply in case of casual trader, contractors, dealers registered under Central Sales Tax Act, 1956 etc. Section 15 C of the KVAT Act, 2003 envisages that every person who intends to establish an industrial unit may get himself registered.

As of 31 March 2014, a total of 2.20 lakh dealers were registered with the CTD as per the data furnished by the Commissioner of Commercial Taxes (CCT).

The Sixth Economic Census 2013 conducted by the Department of Economics and Statistics revealed that there were 13.41 lakh establishments operating with fixed structure outside the household having different economic activities other than agricultural, service and defence. Moreover, The Economic Review (2014) of the State Planning Board showed that the total number of Small Scale Industries and Micro, Small and Medium enterprises registered in the State as of 31 March 2014 was 2.34 lakh. The CTD had failed to collect the data available with other Departments like Economic and Statistics, State Planning Board, District Industries Centre, Kerala State Industrial Development Corporation and Kerala Financial Corporation and to make use of the same to analyse and find whether all those dealers who were liable to be registered under the Act were actually registered or not. As per data available in KVATIS, Audit found that the CTD failed to bring all the dealers under tax net who were compulsorily to be registered. This resulted in escapement of dealers from assessment and consequent non levy of tax as narrated in the following paragraphs.

Government stated (December 2015) that measures have been initiated to widen the tax base by introducing a scheme called ‘One time incentive to new registrant scheme’, by simplifying the registration procedures of entities engaged in

electronic commerce etc. However, the details of dealers registered under scheme called for had not been furnished.

- **Non levy of tax on transportation of goods outside the State by non-registered dealers**[2]

Audit analysed the data relating to inter-State transaction of goods sent outside the State through various check-posts and found that 140 non-registered dealers transported goods amounting to ₹ 156.82 crore outside the State (**Appendix IV**). Though this data was readily available with the CTD, no action was taken to register the dealers and levy tax on the transfer of goods. Non levy of tax including interest and penalty worked out to ₹ 26.61 crore.

Analysis of data by Audit revealed that deviation from the provisions of the Act was by 102 dealers by transporting readymade garments having tax effect of ₹ 21.20 crore, 10 dealers in chassis with tax effect of ₹ 0.57 crore, five dealers in tea with tax effect of ₹ 2.72 crore and 23 dealers in multiple commodities with tax effect of ₹ 2.12 crore.

Government stated (December 2015) that since the security amount collected were not ascertainable from the online system, such transaction will be ascertained from the respective check posts. Reply of the Government is not tenable, as the observation was not about the collection of security amount but transportation of goods by dealers without registration escaping the tax net and consequent loss of revenue to Government.

- **Loss of revenue due to non-registration of Online traders**

Section 2[xliii] of KVAT Act, 2003 defines sales as a transfer of goods in the course of trade for a consideration and Section 2[xv] of the Act defines a 'dealer' as a person who, carries on the business of buying, selling, supplying or distributing goods for cash, or for deferred payment.

In the Online business, the customer can get an online market platform provided by a company, place the order for purchase of his choice from the vast variety of products either by paying cash or deferred payment and the company's responsibility is to deliver the goods at the place of the customer's choice. Since a direct business to customer relationship can be established only at the *situs* of sale, the right of levying tax on the sale lies with the destination State. Hence, the online trade comes under the purview of local sales attracting tax under KVAT Act, 2003 when delivery takes place in Kerala.

[2] Who transported goods valued more than ₹ 10 lakh, having tax liability.

Even though there were 30[3] major online dealers in Kerala, Audit found that no action was taken by the Department under the KVAT Act, 2003 to levy tax on the online business taking place in Kerala, except in the case of two dealers who had paid ₹ 3.30 crore as tax during 2014-15. The loss of revenue for the three years 2012, 2013 and 2014 worked out to ₹ 174.33 crore as shown in **Table - 2.2.**

Table – 2.2

			(₹ in crore)
Items	**2012**	**2013**	**2014**
Total estimated online trading in India	47,400.00	53,400.00	81,600.00
Estimated towards sales of goods (37%)	17,538.00	19,758.00	30,198.00
Percentage of Share of State of Kerala (4)	701.52	790.32	1,207.92
Turnover of Exempted goods (9.46%)	66.36	74.76	114.27
Turnover of 1% taxable goods (17.50%)	122.77	138.31	211.39
Turnover of 5% taxable goods (44.06%)	309.09	348.22	532.21
Turnover of 14.5% taxable goods (28.98%)	203.30	229.03	350.05
Tax due @ 1%	1.22	1.38	2.11
Tax due @ 5%	15.45	17.41	26.61
Tax due @ 14.5%	29.48	33.21	50.76
Total tax due	46.15	52.00	79.48
Total due for the three years			**177.63**
Less Tax Collected			**3.30**
Balance tax due			**174.33**

Government stated (December 2015) that online transactions could not be taxed under KVAT Act as there is no explicit provision to tax them. The reply is not tenable as provisions of Section 2[xliii] of the Act cited are enough to bring these online traders under the tax net.

Audit found that the Department was not using various inputs available in KVATIS to monitor the trade activities of unregistered dealers. Audit found that the increase in the number of dealers registered was not commensurate with the number of dealers as reported by other agencies discussed above.

Recommendation No. 1 - ***Department may take measures to bring all dealers into the tax net by utilising the inputs available in KVATIS and with other agencies.***

[3] Flipkart.com, Jabong.com, Myntra.com, Snapdeal.com, amazon.in, ebay.in, naaptol.com, yebhi.com, yepme.com, infibeam.com, Homeshop18.com, Shopclues.com, Indiatimes shopping, Rediff shopping, inkfruit.com, pepperfry.com, Fashionara.com, Firstcry.com, Babyoye.com, Zovi.com, Koovs.com, cromaretail.com, Fashionandyou.com, Shopperstop.com, Grabmore.in, Shop.seventymm.com, Tradus.in, Futurebazaar.com, edabba.com and Govasool.com.

2.4.7.2 The system of scrutiny of returns not properly defined in the Act or in any guidelines issued

Sections 22, 24 and 25 of the Act envisages detailed scrutiny on returns filed. Audit examined whether any criteria existed in CTD regarding selection of files for detailed scrutiny. As per the Act, it is mandatory to verify all the tax returns submitted, but has not been prescribed whether all or any of the return so submitted are to be scrutinised in detail by the assessing authority. The CCT had not issued any instructions regarding criteria for selection of cases for detailed scrutiny. Hence the assessing officers were selecting assessment files for scrutiny arbitrarily.

On introduction of VAT, compulsory assessment was done away with. Scrutiny of returns is the only mechanism to ensure whether legitimate tax due has been remitted to Government account. After the introduction of KVATIS, the Department issued instructions[4] for the scrutiny of returns through KVATIS and the assessing authority was to endorse a certificate in KVATIS to that effect. Audit analysed the quantum of online scrutiny of periodical/annual returns by assessing officers in twenty[5] assessment units done during 2012-13 and 2013-14 and found the extent of scrutiny to be very meager as shown in **Table – 2.3.**

Table – 2.3

Year	2012-13	2013-14
Number of dealers in the 20 units selected	17,966	20,139
Number of Periodical Returns filed in the 20 units	2,04,029	2,25,705
Number of Periodical Returns scrutinised	11,703	8377
The percentage of scrutiny of Periodical return	**5.73**	**3.71**
Number of Annual returns filed in the 20 units	16,389	18,429
Number of Annual returns scrutinised	247	400
The percentage of scrutiny of Annual return	**1.50**	**2.17**

In the absence of scrutiny, assessees, especially dealers having high GTO and dealers dealing in evasion prone commodities will have a tendency to understate their liability to pay tax.

Government stated (December 2015) that many parameters have been fixed for selection of returns which are discussed in the review meetings. For improving system based scrutiny, a departmental committee has furnished a detailed proposal which will be implemented as soon as the server constraints are

[4] Circular No. 29/2011

[5] CTO, Special Circle, CTO, I and II Circles Thiruvananthapuram, CTO, Special Circle I, II and III and CTO, I and II Circle Ernakulam, CTO, Special Circle and CTO, Special Circle (Produce) Mattancherry, CTO, Special Circle Perumbavoor, CTO I and II Circles Kalamassery, CTO, I and II Circles Tripunithura, CTO, Aluva, CTO, Special Circle I and II, CTO, I Circle, Kozhikode and CTO, Perambra.

resolved. However, details of implementation of proposals of the Departmental Committee called for had not been furnished (January 2016).

Further, Audit called for the details of scrutiny, both online and manual for the years 2010-11 to 2014-15. However, since online scrutiny commenced only in 2013-14 and the details of manual scrutiny during 2014-15 were not complete, Audit verified the scrutiny for the year 2013-14 conducted in 12 Special Circles[6] and found that during the year 2013-14, 735 out of 4,984 assessment files were selected for detailed scrutiny. In the absence of any instructions or guidelines, Audit found that criteria like turnover of the dealer, commodities dealt, the quantum of ITC availed, the volume of goods transported into the State etc, were not adopted in selecting the files for detailed scrutiny. Thus, such adhocism was affecting the transparency in the selection process of files for scrutiny and permitting the assessing officers to use their discretion in selecting files, which was currently unfettered in the absence of such norms/ guidelines/ instructions. An analysis of the dealers with their GTO and selection of their files for detailed audit is shown in **Table – 2.4.**

Table – 2.4

Year	2013-14
Number of dealers in the twelve special circles	4,984
Number of files selected for scrutiny	735
Number of self assessment reopened and completed	235
Additional tax demand created (₹ in crore)	51.85
Number of top dealers whose GTO is above ₹ 10 crore	1,965
Number of files scrutinised on the top dealers	230
Number of self assessment of the top dealers reopened and completed	75
Additional tax demand created on top dealers (₹ in crore)	44.35
Number of self assessment of other dealers reopened and completed	160
Additional tax demand created on other dealers (₹ in crore)	7.50
Additional tax demand created per file of top dealers (₹ in lakh)	59.13
Additional tax demand created per file of other dealers (₹ in lakh)	4.68

Audit observed that more than thirty *per cent* of the self assessment cases selected for scrutiny were reopened and the assessments were completed by creating additional tax demand. It was noticed that the additional demand created on the files of top dealers was more than twelve times in respect of other dealers.

Government stated (December 2015) that instructions have been issued setting forth important criteria. System of centralised selection of files has also been

[6] CTO, Special Circle I, II and III Ernakulam, CTO, Special Circle Kottayam, CTO, Special Circle and CTO, Special Circle (Produce) Mattancherry, CTO, Special Circle Perumbavoor, CTO, Special Circle I and II Kozhikode, CTO, Special Circle Palakkad, CTO, Special Circle Kannur and CTO, Special Circle Thiruvananthapuram.

implemented now. However, the details of instructions issued for the selection of files though called for had not been furnished (January 2016).

Audit looked at Central Revenue Departments such as CBDT and CBEC which issues guidelines each year regarding selection of assessees for detailed scrutiny and monitoring mechanism for assessment cases.

Audit found that no such system is existing in the Department for selection of scrutiny of files.

Recommendation No. 2 - ***Government may examine the guidelines issued for selection of files for desk review by CBDT/CBEC and similar system of selection with relevant parameters be put in place in the State for VAT cases.***

2.4.7.3. Absence of review mechanism of reports of scrutiny

As per Circular[7] of CCT every assessing officer should send monthly reports to the jurisdictional Deputy Commissioners (DC) showing the details of scrutiny such as period, number of files selected and results etc., done by them. Audit verified whether these reports were received, reviewed and analysed to see whether the selection of files for scrutiny was fair and adequate and also whether any directions were issued for strict compliance.

Scrutiny of the minutes of the monthly conferences conducted in three districts[8] during 2012-13 by the DCs revealed that though there was lack of scientific approach in the selection of files for detailed scrutiny, no specific directions were issued. The monthly/quarterly reviews were limited only to collection of tax against the target fixed and an analysis of reports of scrutiny was not being done regularly.

Government stated (December 2015) that this has been emphasised in all the review meetings of the Deputy Commissioners. Nodal officer mechanism involving senior officers is in place to monitor every district since 2015. Also that thematic review meeting is conducted periodically for specific areas of evasion of tax. Reply is not acceptable as documents to substantiate the statement were not made available to Audit (January 2016).

Recommendation No. 3 - ***The CCT may issue guidelines to the DCs regarding the aspects to be considered while reviewing the monthly/quarterly reports.***

2.4.7.4 Time limit for completion of assessment reopened not prescribed in the statute

As per Sections 22, 24 and 25 of KVAT Act, 2003, it is mandatory to issue notice to the dealer for being heard about the discrepancies noticed in the return or

[7] Circular No. 18/2005 dated 17.08.2005 of Commissioner of Commercial taxes.
[8] Ernakulam, Kannur and Kozhikode.

accounts before proceeding for assessment to the best of assessing authority's judgement. However, there was no provision in the statute fixing a time limit to complete the assessment if no reply is received within the time limit of one to two weeks prescribed in the notice or if the reply received from the dealer is not satisfactory.

In the absence of such a provision in the statute, Audit found that in eight cases[9] out of 120 files test checked in three assessment circles, assessments were not completed even after five years though pre-assessment notices to reopen the self assessments had been issued.

Analysis by Audit revealed that these assessees were engaged in building/ construction business. The assessments of M/s Koroth Gulf Link Builders (P) Ltd were pending since 2010 and that of M/s Heavenly Homes (P) Ltd since 2012, under Commercial Tax Office (Works Contract), Ernakulam.

Thus, non-completion of assessments by the assessing officers in which discrepancies were detected affected the collection of tax.

Government stated (December 2015) that supervisory officers have been directed to have a close monitoring. The directions issued in this regard and compliance there on called for by Audit had not been furnished.

Recommendation No. 4 - ***Government may consider fixing the time limit for completion of assessments.***

2.4.7.5 Lack of a Department Manual to formulate a system in the assessment of tax under KVAT Act, 2003

A Department manual is essential for regulating and streamlining its functions and activities which has offices functioning throughout the State and has deployed its manpower in all offices. Though there was a manual in the erstwhile KGST regime where the assessment was totally different from VAT, the Department failed to formulate a manual to be followed in VAT assessments even after ten years of introduction of the new system. In the absence of a manual, the following discrepancies were noticed.

- **Non maintenance of registers**

Audit found that the field offices were not maintaining important registers such as DCB register, Scrutiny register, Audit visit register, Notice issued register, Assessment register, Appeals pending register etc. in connection with the assessment/collection of tax.

[9] CTO (WC) Palakkad- One case, CTO (WC) Kannur-2 cases and CTO (WC) Ernakulam – 5 cases.

In the absence of these registers, the details of important information in an office such as period up to which the returns were scrutinised in the cases of each assessees, details of permission sought/ received for conducting Audit visit, details of self assessments reopened etc., were not available. The non maintenance of registers affected both transparency in selection of files and effectiveness in collection of tax.

- **Lack of clarity in the assignment of duty to men in position**

After the introduction of the KVATIS, the works attended by the supporting staff in the assessment circles were considerably reduced due to automation of functions. Thus, the Department could have utilised their service effectively in areas such as scrutiny of returns of presumptive tax dealers/returns with less turnover reported, conduct street survey etc., towards ensuring better tax collection regime.

Audit observed that though the Department issued directions[10] specifying the duties and responsibilities of the Assessing Officers and clerks, the duties mentioned for clerks in the circular were not relevant after the introduction of KVATIS system. The directions were silent on duties and responsibilities of other important categories like Inspector, Junior Superintendent etc.

Government stated (December 2015) that the above issues would be looked into. Further developments in this regard had not been intimated.

Recommendation No. 5 - ***Department may prepare a manual detailing all aspects of assessment to ensure uniformity in the system of assessment. Further, it may be ensured that necessary reports are generated automatically from the KVATIS.***

2.4.7.6 Non adherence to provisions of Act and Rules while completing the assessment

Sections 22, 24 and 25 of the Act provide for assessment of tax under KVAT. Section 31(5) states that if tax due was not paid in time, interest at the rate of one per cent per month will accrue on it. As per section 67, if any dealer acts in contravention to the provisions of Act and Rules, penalty at twice the rate of tax due from him may be imposed upon him. Specific provisions of the Act/Rule relating to the irregularities are mentioned in the succeeding paragraphs.

Audit scrutinised 3,417 annual returns filed by 1,496 dealers in the selected 36 assessment circles and cross verified the details with other manual and e-data collected and found that the assessing officers failed to follow the provisions in the Act and Rules, which affected the quality of assessment as under.

[10] Circular No.1-C/2007.

- **Accounted sales escaping assessment**

Section 42 (1) of KVAT Act, 2003 stipulates that every dealer whose total turnover in a year exceeds rupees sixty lakh shall get his accounts audited annually by a Chartered Accountant or Cost Accountant and shall submit a copy of the audited statement of accounts and certificate in Form 13 & 13A. Section 24(1)(a) of the Act, stipulates rejection of the return, if there is discrepancy between the return filed and audited accounts and to complete the assessment to the "best of judgement". As per section 42(2) of the Act, the dealer is liable to pay any additional tax with reference to the audited figures, interest thereon under Section 31(5) and penal interest at twice the rate of interest accrued.

Audit noticed that in 14 assessment circles, 15 dealers failed to report the accounted sales whereas 14 dealers failed to report the turnover accounted as 'other receipts'.

The 'other receipts' were warranty claim, AMC receipt, trade discount, subsidy or other receipts to make up the loss sustained etc. which were liable for tax. The total turnover escaped from assessment of tax worked out to ₹ 323.22 crore and the resultant short levy of tax including interest under Section 31(5), penal interest and penalty under Section 67 amounted to ₹ 105.30 crore **(Appendix V).** The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.5.**

Table – 2.5

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover escaped	Total Tax due
Deputy Commissioner, Ernakulam	15	139.67	43.38
Deputy Commissioner, Mattancherry	7	114.14	49.02
Deputy Commissioner, Kottayam	3	0.41	0.11
Deputy Commissioner, Palakkad	2	24.82	4.25
Deputy Commissioner, Kozhikode	1	40.28	6.89
Deputy Commissioner, Thiruvananthapuram	1	3.90	1.65
Total	**29**	**323.22**	**105.30**

Audit observed that amongst the defaulters, M/s Hindustan Unilever Limited of Special Circle Mattancherry was the biggest defaulter with tax effect of ₹ 41.61 crore. The nature of business dealt with by other dealers are given below:

- Four in Fast Moving Consumer Goods with tax effect of ₹ 51.09 crore.
- Four in Supermarket with tax effect of ₹ 7.50 crore.
- Three in batteries with tax effect of ₹ 4.50 crore.
- Eighteen in multiple commodities with tax effect of ₹ 42.21 crore.

Thus, failure of assessing officers to adhere to the provisions of the Act and rules resulted in non-detection of irregularities.

- **Failure to report turnover accounted as interstate stock transfer out**

The movement of goods from one State to another State that occasioned otherwise than by way of sale is treated as local sale and tax shall be levied under section 6 of KVAT Act, if the transfer is not supported by statutory Forms.

Audit found that eight[11] out of 17 dealers scrutinised in five assessment circles failed to report in their annual return, the transactions accounted as interstate stock transfer out. The dealers did not report the transaction and also failed to submit statutory Forms to claim exemption. Though statutory declarations were not filed, the assessing officer did not levy tax on the turnover of goods treating it as a local sale. Non-reporting of transactions worth ₹ 384.79 crore resulted in short levy of tax including interest and penalty of ₹ 140.53 crore. The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.6.**

Table – 2.6

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover escaped	Total Tax due
Deputy Commissioner, Ernakulam	4	260.83	94.27
Deputy Commissioner, Palakkad	2	10.1	1.59
Deputy Commissioner, Mattancherry	1	110.72	43.54
Deputy Commissioner, Thiruvananthapuram	1	3.14	1.13
Total	**8**	**384.79**	**140.53**

Audit observed that amongst the defaulters, M/s Mondelez India Foods Limited of Special Circle II Ernakulam was the biggest defaulter with tax effect of ₹ 68.37 crore.

- **Turnover exempted without mentioning the nature of exemption**

As per Rule 10 of the KVAT Rules, 2005, the allowable deductions from the local sale of taxable goods are (1) sale of goods to units in Special Economic Zone (SEZ) (2) sale to his agent or principal (3) sale of medicines purchased on invoices in Form 8H.

Audit found that in case of 25 out of 42 dealers whose returns scrutinised in nine assessment circles, the assessees availed exemption of turnover of ₹ 671.45 crore

[11] Asian Paints Ltd (₹ 10.50 crore), Mondelez India Foods Limited, (₹ 68.37 crore), Parle Biscuits (P) Ltd. (₹ 14.18 crore), Concord Enterprises (₹ 1.22 crore), Hindustan Unilever Limited (₹ 43.54 crore), South Indian Federation of Fishermen (₹ 1.13 crore), Kiran Global Chems Ltd (₹ 1.17 crore), Precot Meridian Limited (₹ 0.42 crore).

from their local sales turnover without mentioning the nature of exemption. Since no exemption is allowable from the local sales of a dealer under the Act other than those mentioned above, the exemption availed was not in order. However, the assessing authority accepted the returns without assessing the irregular exemptions. This resulted in short levy of tax including interest under Section 31(5) and penalty under Section 67 of ₹ 234.89 crore (**Appendix VI**). The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.7.**

Table – 2.7

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover of exemption availed	Total Tax due
Deputy Commissioner, Ernakulam	17	476.68	196.99
Deputy Commissioner, Thiruvananthapuram	2	22.66	5.07
Deputy Commissioner, Kottayam	2	68.38	10.59
Deputy Commissioner, Mattancherry	1	24.31	9.84
Deputy Commissioner, Kozhikode	1	3.87	1.25
Deputy Commissioner, Palakkad	1	32.78	4.44
Deputy Commissioner, Kannur	1	42.77	6.71
Total	**25**	**671.45**	**234.89**

Audit observed that amongst the defaulters, M/s Indian Oil Corporation of Special Circle II Ernakulam was the biggest defaulter with tax effect of ₹ 148.64 crore. The nature of business dealt by these dealers are indicated below:

- Four in Automobiles with tax effect of ₹ 38.79 crore.
- Three in Hill produce with tax effect of ₹ 15.02 crore.
- Three in Fast Moving Consumer Goods with tax effect of ₹ 11.69 crore.
- Fifteen in multiple commodities with tax effect of ₹ 169.39 crore.

Audit noticed that M/s Indian Oil Corporation, M/s Concorde Motors India Ltd of Special Circle II Ernakulam, M/s Hindustan Unilever Limited of Special Circle Mattancherry and National Handloom Development Corporation Ltd. of CTO, II Circle, Kannur repeated the default for three years.

- **Irregular exemption of sales to units situated in Special Economic Zone**

As per Section 6(7)(b) of the KVAT Act, 2003, sale of any building materials, industrial inputs, plant and machinery including components, spares, tools and consumables in relation thereto to any developer or industrial unit or establishments situated in any SEZ in the State for setting up the unit or use in the manufacture of other goods shall, subject to such conditions or restrictions, as may be prescribed, shall be exempted from tax.

Audit found that eight out of 14 dealers whose returns were scrutinised in four assessment circles, under Deputy Commissioner, Ernakulam, the assessees availed exemption of turnover of ₹ 108.97 crore treating it as the sales to units situated in SEZ. Audit found that the goods sold were surgical equipments, furniture, computers, electronic goods, petroleum, furnace oil, etc. Since these goods do not fall under the exempted category of goods as mentioned in Section 6(7)(b), the exemption availed was irregular. Lack of scrutiny by assessing officers even though the data was available in KVATIS resulted in short levy of tax including interest and penalty works out to ₹ 43.80 crore (**Appendix VII**).

Audit observed that amongst the defaulters, M/s Bharat Petroleum Corporation Ltd. of Special Circle II, Ernakulam was the biggest defaulter with tax effect of ₹ 15.60 crore.

Audit noticed that M/s Bharat Petroleum Corporation Ltd and M/s Blue Star Limited of Special Circle II, Ernakulam repeated the default for three years.

- **Turnover exempted without furnishing the statutory documents**

As per Rule10 of the KVAT Rules, the dealer is entitled to deduct the turnover 2005 if the turnover is supported by Form 43, Form 25F, Form 8H invoices, Form E1 or the documents supporting high sea sales as the case may be.

Audit observed that 22 out of 37 dealers in 12 assessment circles exempted a turnover of ₹ 1,007.71 crore by claiming that the goods were sold (1) to a unit situated in SEZ, (2) through auction (3) as tax previously suffered on its MRP. However, no statutory documents such as Form 43, Form 25F or Form 8H, were produced to prove their claims. Audit found that the assessing officers were not completing the assessments, even in the absence of such statutory declarations. In the absence of such statutory forms, the exemption claimed was not in order resulting in short levy of tax including interest u/s 31(5) and penalty u/s 67 amounting to ₹ 151.38 crore (**Appendix VIII**). The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.8.**

Table – 2.8

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover exempted	Total Tax due
Deputy Commissioner, Ernakulam	7	108.04	20.07
Deputy Commissioner, Mattancherry	5	342.89	50.70
Deputy Commissioner, Kozhikode	5	46.75	6.71
Deputy Commissioner, Kottayam	3	422.72	62.09
Deputy Commissioner, Thiruvananthapuram	2	87.31	11.81
Total	**22**	**1007.71**	**151.38**

Audit observed that amongst the defaulters, M/s JMJ Traders of Special Circle Kottayam was the biggest defaulter with tax effect of ₹ 51.37 crore. The nature of business dealt by these dealers are as follows:

- Seven in Medicine with tax effect of ₹ 40.79 crore.
- Five in Tea auction with tax effect of ₹ 50.70 crore.
- Six were sellers to Special Economic Zone with tax effect of ₹ 58.55 crore.
- Four were sub contractors with tax effect of ₹ 1.34 crore.

- **Output Tax (OPT) reversed without furnishing requisite documents**

As per Rule 10 of KVAT Rules, 2005, the dealer is entitled to deduct from his turnover, all amounts allowed to purchasers in respect of goods returned by them, where the goods are taxable on the amount for which they have been sold. Section 41 of the Act stipulates that the selling dealer shall issue credit notes and the purchaser effecting the sales return shall issue debit notes in Form No.9. Proviso to Rule 59 states that a credit note claim shall be supported by debit notes.

Audit observed that 27 out of 41 dealers whose returns were scrutinised in ten assessment circles had adjusted ₹ 19.66 crore from their tax due, claiming it as the tax element on sales return. However, the claim was not supported by the corresponding debit notes issued by the purchasers to the credit note of the dealers. Lack of scrutiny by assessing officer resulted in escapement of such omissions undetected. The short levy of tax on this account worked out to ₹ 64.45 crore. The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.9.**

Table – 2.9

(₹ in crore)

Name of the Tax District	Number of dealers	Tax on sales return reversed	Total Tax due
Deputy Commissioner Ernakulam	16	3.96	12.78
Deputy Commissioner Thiruvananthapuram	4	13.69	45.12
Deputy Commissioner Mattancherry	3	1.08	3.42
Deputy Commissioner Kannur	1	0.38	1.30
Deputy Commissioner Kottayam	2	0.08	0.26
Deputy Commissioner Kozhikode	1	0.47	1.57
Total	**27**	**19.66**	**64.45**

Audit observed that amongst the defaulters, M/s TV Sundaram Iyenger & Sons Private Limited of Special Circle Thiruvananthapuram was the biggest defaulter with tax effect of ₹ 44.20 crore.

Audit noticed that M/s Nestle India Limited and M/s Prism Cement Limited of Special Circle I Ernakulam repeated the default for three years and M/s T.V Sundram Iyengar & Sons Private Limited of Special Circle Thiruvananthapuram repeated the default for four years.

- **Excess claim of special rebate**

As per Section 12(1) of the Act, a dealer is entitled to deduct from the tax payable by him, a sum equal to the tax paid under sub-Section (2) of Section 6 where such goods are intended for resale or for use in the manufacture of taxable goods or for use in the execution of works contract or for use as containers or packing materials for the packing of taxable goods in the state.

Audit noticed that three out of seven dealers whose returns were scrutinised in two assessment circles had availed special rebate of ₹ 6.13 crore against a purchase tax due/paid amounting to ₹ 5.97 crore during the year 2012-13. Since the claim of special rebate cannot be in excess of purchase tax due, the excess claim of special rebate resulted in short levy of tax including interest and penalty of ₹ 0.51 crore as shown in **Table – 2.10.**

Table – 2.10

(₹ in crore)

Name of the office	Name of the dealer	TIN	Special rebate available (purchase tax due plus paid)	Special rebate claimed	Short levy including interest and penalty
CTO, Special Circle, Kottayam	JMJ Traders	32051107585	0.21	0.28	0.23
	St Mary's Rubbers Pvt. Limited	32050276345	4.09	4.13	0.12
CTO, Special Circle III, Ernakulam	Rubber Mark	32070491155	1.67	1.72	0.16
	Total		**5.97**	**6.13**	**0.51**

- **Non reversal of ITC on interstate sale of rubber**

The Government, through a notification[12], exempted the payment of tax on the interstate sale of natural rubber subject to the condition that the natural rubber has suffered tax under the Act. The CCT issued direction[13] that if the sale of a goods is exempted through notification, no ITC shall be allowed on the purchase turnover of such goods sold during interstate.

Audit found that two out of eight dealers whose returns were scrutinised in two assessment circles were liable to reverse their ITC claim of ₹ 2.33 crore, being the tax suffered on the purchase turnover of rubber sold interstate, but reversed only ₹ 2.08 crore. This resulted in short payment of tax including interest and penalty of ₹ 0.83 crore as show in **Table – 2.11.**

[12] SRO 753/2011.
[13] Circular No.17/2013.

Table – 2.11

(₹ in crore)

Name of the office	Name of the dealer	TIN	Year	IPT to be reversed	IPT reversed	Short levy including interest and penalty
CTO, Special Circle, Kottayam	St Mary's Rubbers Pvt. Limited	32051107585	2012-13	0.17	0	0.56
			2013-14	0.04	0	0.13
CTO, Special Circle III, Ernakulam	Rubber Mark	32070491155	2012-13	2.12	2.08	0.14
	Total			**2.33**	**2.08**	**0.83**

Government stated (December 2015) that detailed verification was needed in all the cases pointed out and that final report will be submitted after verification. Audit feels that the Government may explore the possibilities of investigation in all the cases.

- **Irregular claim of exemption from the contract receipt by dealers who opted to pay tax under compounding scheme**

As per Section 8(a) of the Act, a dealer, instead of paying tax under Section 6, can opt for payment of tax at the rate stipulated for the whole amount of contract. As such, a dealer who opted to pay tax under Section 8(a), is not eligible to deduct any amount from the contract receipt received by him. This position was upheld in a judicial review by the High Court of Punjab and Haryana[14].

Audit found that 12 out of 22 works contractors/ builders in four assessment circles had availed exemption of the value of land amounting to ₹ 33.14 crore from their contract receipt to arrive at the taxable turnover. This is against the provisions of the Act and had resulted in short payment of tax including interest and penalty of ₹ 3.30 crore (**Appendix IX**). The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.12.**

Table – 2.12

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover exempted	Total Tax due
Deputy Commissioner Palakkad	4	5.47	0.53
Deputy Commissioner Ernakulam	3	4.11	0.40
Deputy Commissioner Kozhikode	3	17.05	1.75
Deputy Commissioner Kannur	2	6.51	0.62
Total	**12**	**33.14**	**3.30**

[14] CWP Case No. 5730 of 2014 in CHD Developers Vs The State of Haryana and others.

Audit observed that amongst the defaulters, M/s Hilite Builders of Works Contract Office, Kozhikode was the biggest defaulter with tax effect of ₹ 1.19 crore. Audit noticed that M/s Pazheri Properties & Developers (P) Ltd of Works Contract Office Kozhikode repeated the default for three years.

Audit found that acceptance of returns of the dealers who were not adhering to the provisions in the statute led to evasion of tax.

Government stated (December 2015) that the Law department had opined that land value was excluded in the works contract. Reply was not tenable as the audit objection was based on provisions of the Act which had also been upheld judicially.

2.4.7.7 Lack of coordination between other departments in collecting data useful for the completion of assessment

The white paper published by empowered committee on State level Value Added Tax emphasised the need for cross verification of data between various implementing and taxation authorities so as to check tax evasion and to ensure growth of revenue.

Audit found that the Department was not collecting these details from any other Central/State Government agencies and compiling a data bank either in the macro or in the micro level. Audit found suppression in import purchase reported at Customs and turnover reported at Income Tax Department escaped from assessment as detailed below:

- **Suppression of import purchases than that reported with Customs Department**

Audit collected the data of import made through Kochi, Mangalore and Tuticorin ports by the dealers in Kerala from the Director General of Systems and Management, Central Excise and Customs, New Delhi and cross verified it with their assessment records. Audit cross checked the import details furnished by 79 dealers and found that 40 dealers in 14 assessment circles had imported marble/tile, timber and cement amounting to ₹ 817.57 crore against which ₹ 569.19 crore only was conceded. The suppression of import purchase worked out to ₹ 248.38 crore and the resultant short levy of tax, interest and penalty worked out to ₹ 108.38 crore (**Appendix X**). The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.13.**

Table – 2.13

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover suppressed	Total Tax due
Deputy Commissioner, Ernakulam	12	23.65	10.25
Deputy Commissioner, Kozhikode	9	103.02	44.48
Deputy Commissioner, Mattancherry	8	81.07	35.71
Deputy Commissioner, Kannur	7	4.18	1.82
Deputy Commissioner, Kottayam	3	36.36	16.08
Deputy Commissioner, Thiruvananthapuram	1	0.10	0.04
Total	**40**	**248.38**	**108.38**

Audit observed that amongst the defaulters, M/s Hillwood Furniture of Special Circle II, Kozhikode was the biggest defaulter with tax effect of ₹ 30.97 crore.

Audit noticed that M/s Southern Timber depot of Special Circle, Kottayam repeated the default for five years and M/s Hillwood furniture of Special Circle II, Kozhikode repeated the default for four years.

The nature of business dealt by these dealers is indicated below.

- Twenty four in Timber with tax effect of ₹ 87.98 crore.
- Twelve in Marble/tiles with tax effect of ₹ 13.01 crore.
- Four in Cement with tax effect of ₹ 7.39 crore.

The Principal Secretary (Taxes) agreed in the exit meeting (December 2015) to take measures to improve the co-ordination with other Departments.

- **Short return of turnover than that reported with Income Tax Department**

Audit collected the details of scrutiny assessments completed for the financial year 2010-11 and 2011-12 in Corporate Circle 1(1), Corporate Circle 1(2) and Corporate Ward 1(3), Ernakulam of the Income Tax Department. The cross verification of this data with the turnover details returned by 22 dealers in four assessment circles of Commercial Taxes Department revealed that four dealers short reported their turnover than that reported with the Income Tax Department. The consequent short payment of tax including interest and penalty worked out to ₹ 9.24 crore as shown in **Table – 2.14.**

Table – 2.14

(₹ in crore)

Name of the Office	Name and TIN	Turnover escaped		Total Tax due
		2010-11	2011-12	
CTO, Special Circle II, Ernakulam	India Techs Ltd 32070389512	3.52	3.96	1.60
CTO, Special Circle III, Ernakulam	Hi Build Coatings 32070469195	0.45	0.45	0.12
Works Contract Office, Ernakulam	Holyfaith Constructions 32072022472	5.20	11.00	4.88
CTO, II Circle, Thripunithura	Kerala Shipping and Inland Navigation Corporation Limited 32070335095	2.71	6.11	2.64
Total		**11.88**	**21.52**	**9.24**

Department failed in utilising the data available with Government agencies to generate additional revenue.

Audit observed that there is no system in place in the Department to collect data relating to various taxable events from other Departments and cross verifying the same to analyse whether tax due was paid or not.

Recommendation No. 6 - ***A system may be established to collect the data relating to the taxable events from other departments and transfer the results of analysis to the lower/sub-ordinate level for utilising in the assessment process.***

2.4.7.8 Data in KVATIS not relied upon for analysis before accepting the self assessments/ completing the assessments

The KVATIS is capturing all the details of transportation of goods in and out of the State through various check posts, the purchases made by a registered dealer from another registered dealer in the State, the sales effected by a registered dealer, the commodity traded and its rate of tax, the certified statement of accounts etc. However, the Software was not equipped with self assessing the tax due from a dealer by analysing the data captured through different modules in the system.

Audit found that all aspects of taxable transactions were not considered while accepting the self assessments since data in KVATIS was not relied upon. Though there were differences in the turnover as per returns filed and that captured by other modules in KVATIS, the assessments were finalised without reconciling the differences. The shortfall in the collection of tax due to under-utilisation of data in KVATIS is discussed in succeeding paragraphs:

- **Failure to pay tax on the entire sales effected through invoices.**

As per Section 20A of the Act, every dealer shall file his return as well as purchase and sales list through electronic filing in addition to hard copy to be filed along with the return.

Audit found that 52 out of 74 dealers scrutinised in 14 assessment circles issued sales invoices worth ₹ 1,248.60 crore, whereas the turnover reported for paying tax was only ₹ 1,175.01 crore resulting in short reporting of turnover by ₹ 73.58 crore. The resultant short levy of tax including interest and penalty worked out to ₹ 16.41 crore (**Appendix XI**). The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.15.**

Table – 2.15

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover escaped	Total Tax due
Deputy Commissioner Thiruvananthapuram	25	49.61	11.37
Deputy Commissioner Ernakulam	23	21.11	4.6
Deputy Commissioner Kozhikode	2	2.22	0.33
Deputy Commissioner Kottayam	2	0.64	0.11
Total	52	73.58	16.41

Audit observed that amongst the defaulters, M/s Marikar (Motors) Ltd. of Special Circle, Thiruvananthapuram was the biggest defaulter with tax effect of ₹ 5.63 crore. The nature of business dealt by these dealers was as under:

- Five in Grocery with tax effect of ₹ 0.69 crore.
- Five in Iron and Steel with tax effect of ₹ 0.24 crore.
- Three in Computer with tax effect of ₹ 0.30 crore.
- Thirty nine in multiple commodities with tax effect of ₹ 15.18 crore.

Audit observed that though these details were available in the KVATIS, the Department failed to address the issue. Thus, the Government needs to streamline the working of the Department and that the Departmental officials need to be vigilant about the availability of such details while doing assessment.

- **Short return of interstate purchases than that was reported at the check posts**

Audit found that 30 out of 56 dealers scrutinised in 11 assessment circles assessees transported into the State through various check posts, goods worth ₹ 1,148.16 crore as interstate purchase and interstate stock transfer against which only ₹ 921.85 crore was reflected in the annual returns. Though the data was readily available in KVATIS, the assessing officers failed to utilise the same,

resulting in short reporting of purchases by ₹ 213.59 crore. The resultant short levy of tax including interest and penalty worked out to ₹ 63.62 crore. The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.16.**

Table – 2.16

(₹ in crore)

Name of the Tax District	Number of dealers	Purchase short reported	Total Tax due
Deputy Commissioner, Ernakulam	22	203.08	61.88
Deputy Commissioner, Kottayam	5	5.67	0.99
Deputy Commissioner, Thiruvananthapuram	3	4.84	0.75
Total	**30**	**213.59**	**63.62**

Audit observed that amongst the defaulters, M/s Indus Motors Light Commercial Vehicles Pvt. Ltd. of Special Circle II, Ernakulam was the biggest defaulter with tax effect of ₹ 30.08 crore.

In exit meeting (December 2015) the Principal Secretary (Taxes) stated that once the process of upgrading the server capacity and application upgradation is completed, full use of the information would be made.

- **Excess claim of ITC than the Output Tax (OPT) paid to Government account**

Audit found 10 out of 24 dealers scrutinised in eight assessment circles availed ITC of ₹ 91.12 crore for their purchases from eight selling dealers whereas the sales details of these dealers show that they had paid only ₹ 85.23 crore as tax collected from the above 10 dealers. Since the OPT paid by the selling dealers is less than the ITC claim of the purchasing dealers, the allowance of entire claim of ITC means excess withdrawal of money from Government account amounting to ₹ 5.88 crore. The resultant short levy of tax including interest and penalty worked out to ₹ 19.84 crore (**Appendix XII**). The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.17.**

Table – 2.17

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover escaped	Total Tax due
Deputy Commissioner, Ernakulam	4	2.12	6.93
Deputy Commissioner, Mattancherry	2	1.52	5.33
Deputy Commissioner, Thiruvananthapuram	1	1.15	4.02
Deputy Commissioner, Kozhikode	1	0.06	0.19
Deputy Commissioner, Palakkad	1	0.43	1.41
Deputy Commissioner, Kannur	1	0.60	1.96
Total	**10**	**5.88**	**19.84**

Audit observed that amongst the defaulters, M/s T.V Sundram Iyengar & Sons Pvt. Ltd. of Special Circle Thiruvananthapuram was the biggest defaulter with tax effect of ₹ 4.02 crore.

- **Input tax credit was claimed through invoices without valid registration**

Section 2(xxiii) of KVAT Act, 2003 defines input tax as the tax paid or payable under the Act by a registered dealer to another registered dealer on the purchase of goods in the course of business.

Audit found that 11[15] out of 23 dealers scrutinised in seven assessment circles availed ITC of ₹ 23.83 crore. Out of this, ITC amounting to ₹ 0.82 crore was claimed by furnishing either the dealer's own registration number or registration numbers which were not assigned. Since the purchases were not from a registered dealer, the ITC claimed to that extent was to be disallowed. The resultant short levy of tax including interest and penalty worked out to ₹ 2.70 crore. The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.18.**

Table – 2.18

(₹ in crore)

Name of the Tax District	Number of dealers	Excess claim of ITC	Total Tax due
Deputy Commissioner Kottayam	5	0.42	1.39
Deputy Commissioner Ernakulam	3	0.30	0.98
Deputy Commissioner Thiruvananthapuram	2	0.05	0.16
Deputy Commissioner Kozhikode	1	0.05	0.17
Total	**11**	**0.82**	**2.70**

The under utilisation of data captured in KVATIS resulted in under-assessment of tax.

Analysis revealed that two assessees traded in rubber with tax effect of ₹ 0.52 core and the rest nine dealers traded multiple commodities with tax effect of ₹ 2.18 crore.

Audit observed that though these details were available in the KVATIS, the Department failed to address the issue. Thus, the Government needs to streamline the working of the Department and that the Departmental officials need to be vigilant about the availability of such details while doing assessment.

[15] Rose Flames (₹ 0.67 crore), Plant Lipids (P) Ltd (₹ 0.24 crore), ABT Industries Limited (₹ 0.17 crore), Manju.L.John Timbers (₹ 0.09 crore), Gopan Rubber Company (₹ 0.30 crore), India Rubber & Chemicals, (₹ 0.16 crore) Kavanar Latex Ltd (₹ 0.22 crore), JMJ Traders (₹ 0.62 crore), Mehar Reynold(₹ 0.09 crore), Cosmic Group (₹ 0.07 crore), Aiswarya Enterprises (₹ 0.07 crore).

Government stated (December 2015) that detailed verification is needed in all the cases pointed out. Final report would be submitted after verification.

Recommendation No. 7 - *Department may ensure that the final assessments are completed by utilising the data captured in KVATIS.*

2.4.7.9 Failure to assess dealers who did not comply with the provisions in the Act

Audit found that failure to assess the dealers who did not comply with the provisions of the Act resulted in non levy of tax as shown below.

- **Assessments not completed in respect of assessees who failed to file returns**

As per Section 20(1) of the Act, every registered dealer and every dealer liable to be registered under the Act shall submit to the assessing authority such return or returns before such dates and in such manner and accompanied by such documents as may be prescribed. Under Section 22(3), if any dealer fails to submit any return as provided under Section 20(1), the assessing authority shall estimate the turnover of the return period and complete the assessment to the best of its judgment.

In four assessment circles, 123 dealers out of the 3,791 dealers failed to file their annual returns during 2013-14. The best judgement assessments under Section 22 were initiated against only eight dealers. Audit verified 74 out of the 115 cases on which assessments were pending and found that 10 dealers[16] had tax liability. Deputy Commissioners were not monitoring the assessments in respect of return defaulters resulting in non levy of tax of ₹ 22.40 crore including interest and penalty. The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.19.**

Table – 2.19

(₹ in crore)

Name of the Tax District	Number of dealers	Turnover escaped	Total Tax due
Deputy Commissioner, Ernakulam	6	121.89	22.26
Deputy Commissioner, Thiruvananthapuram	4	0.66	0.14
Total	**10**	**122.55**	**22.40**

[16] Eureka Forbes Limited (₹ 3.62 crore), MMTC Limited (₹ 15.57 crore), Leela Soft Pvt Ltd. (₹ 1.42 crore), Hindalco Industries Limited (₹ 1.39 crore), Bharath Glass House (₹ 0.21 crore), Chemplast Sanmar Limited (₹ 0.05 crore), Foot Care (₹ 0.03 crore), OG Arcade (₹ 0.05 crore), Nasr Trade Links (₹ 0.03 crore), Gift Palace (₹ 0.03 crore).

Audit found that of the 10 cases, five were on account of short reporting of inter state purchase, three on account of irregular exemption claimed and two on account of short reporting of sales invoices.

- **Failure to assess tax due from the dealers at the time of cancellation of their registration**

As per Section 2(xlii) of the Act and Rule 15 of the KVAT Rules, if any goods for which input tax credit has been availed but such goods remain unsold at the time of cancellation of registration, the input tax so availed would be reversed. Similarly, if any goods imported into the State by issuing statutory forms remain unsold, tax should be levied on such goods, treating it as sale within the State. As per Section 22(3), if any dealer fails to submit any return as provided under Section 20(1) for a period of time and later his registration is cancelled, then the assessing authority shall estimate the turnover of such return periods and complete the assessment to the best of its judgment.

Audit noticed that out of 75 dealers in five assessment circles whose registrations were cancelled during the years 2010-11 to 2013-14, assessment was completed in 11 cases only. All dealers who cancelled their registration are to be assessed which is not being done. Audit verified balance 64 cases and found 10 dealers[17] had tax liability. Deputy Commissioners were not monitoring the assessments on cancelled dealers resulting in non levy of tax of ₹ 3.20 crore including interest and penalty. The Tax district-wise deviation from provisions of the Act/Rules is detailed in **Table – 2.20.**

Table – 2.20

(₹ in crore)

Name of the Tax District	Number of dealers	Total Tax due
Deputy Commissioner, Kozhikode	5	2.19
Deputy Commissioner, Ernakulam	2	0.82
Deputy Commissioner, Kannur	2	0.18
Deputy Commissioner, Palakkad	1	0.01
Total	**10**	**3.20**

Audit found that failure to analyse the outstanding tax liability of the assessees at the time of cancellation of their registration resulted in non demand of tax.

Further, analysis revealed that M/s Calicut Gas in the rolls of Commercial Tax Officer, Special Circle II, Kozhikode alone had tax liability of ₹ 2.03 crore.

[17] Malabar Agencies (₹ 0.0045 crore), Maneesh Pharmaceuticals (₹ 0.12 crore), Sunitha Furniture and Foam Palace (₹ 0.16 crore), Sreechakra Agencies (₹ 0.02 crore), Calicut Gas (₹ 2.03 crore), KM Wood (₹ 0.0023 crore), VS Timbers (₹ 0.03 crore), Allied System (₹ 0.01 crore), Tebma Shipyard (₹ 0.69 crore), Asian Electronics (₹ 0.13 crore).

Government stated (December 2015) that detailed verification is needed in all the cases pointed out. Final report would be submitted after verification.

2.4.7.10 Inadequate Internal control mechanism

- **Internal Audit Wing**

Internal audit is intended to examine and evaluate the level of compliance with the rules and procedures so as to provide a reasonable assurance on the adequacy of internal control. An efficient functioning of internal auditing can improve an organisation's operations.

Though the VAT was introduced in April 2005, the internal audit wing was formed in June 2009 only. The wing does not have any internal audit manual. The details of coverage of internal audit for the year 2010-11 to 2014-15 were as detailed in **Table – 2.21.**

Table – 2.21

Year	No. of units to be audited	No. of units audited	Percentage of coverage	No. of paras involved	Amount involved	Amount realised
					(₹ in lakh)	
2010-11	356	46	13	919	330.53	Not available
2011-12	356	32	9	445	2,738.20	
2012-13	356	56	16	369	1,488.88	
2013-14	356	60	17	1,333	1,675.15	
2014-15	356	85	25	1,976	3,492.00	

Audit found that the coverage of units audited was less than twenty five *per cent* of the total units which needs to be widened. The low coverage of internal audit depicts the ineffectiveness of the internal audit wing.

Government stated (December 2015) that now the wing consists of one Deputy Commissioner, two assistant commissioners and five commercial tax officers. The shortfall in conducting internal audit is attributed to acute shortage of staff.

Reply was not acceptable viewed in the light of the fact that deficiencies and non-compliance by officials called for strengthening of internal control mechanism including internal audit.

- **Lack of follow up action in crime cases reported by the intelligence wing**

Reports on crime cases received from the intelligence wing should be utilised for creating additional demands by reopening the self assessment. Audit found that in four assessment circles test checked, action was not initiated in 82 crime cases involving ₹ 0.89 crore reported by the Intelligence Wing (**Appendix XIII**). In

eight cases, three years had elapsed after reporting the crime by the Intelligence Wing indicating the lapse of proper monitoring mechanism in the Department.

Audit found that all the 82 cases related to Builders/Works contractors in the office of the Commercial Tax Officer (Works Contract), Kannur, Kozhikode and Palakkad.

Government stated (December 2015) that out of 82 cases pointed out, assessments in 27 cases have been completed and instructions issued to assessing authorities to verify the remaining cases.

- **Lack of follow up action in realising additional demand created through assessment**

Audit found that additional demand created amounting to ₹ 2.75 crore through 101 assessment files in five assessment circles was not realised. Follow up action was not initiated to collect demand in seven cases even after four years of its creation resulting in lack of proper monitoring mechanism to collect the arrears of revenue.

Though the assessing officers had sent the details of defaulters to the respective Inspecting Assistant Commissioners responsible for initiating RR action, but the cases were pending for want of action. The reasons stated by the Inspecting Assistant Commissioners were: (a) Stay by courts and others, (b) whereabouts of the dealers were not traceable, (c) RR proceedings were in the initial stage etc.

Government stated (December 2015) that out of 101 cases pointed out, one case had been quashed by Court and final reply would be submitted in the remaining cases.

- **Lack of a system to ensure quality of assessments**

As per Section 55 of the Act, any person aggrieved by any order or proceedings passed by an assessing authority may within thirty days from the date on which the order was served on him, appeal against such order to the Deputy Commissioner (Appeals), if the order was passed by Assistant Commissioner. If the order was passed by Commercial Tax Officer, AC (Appeal) is the Appellate Authority. The Appellate Authority after hearing and examination of related records, disposes the appeals, by an order stating the reasons for arriving at the decision such as the appeal is allowed, dismissed or modified or set aside.

Audit had called for details in respect of cases of appeals disposed in all the seven appellate authorities, however, data was made available only from one appellate authority. Audit found that the Appellate authority[18] had disposed of 794 cases of appeals during 2013 and 2014 out of which 527 cases were disposed of as allowed in favour of the assessee or stood modified. Audit test checked 121 of these cases

[18] Deputy Commissioner (Appeal)-II, Ernakulam.

and found that the assessments were completed in contravention of the provisions of the Act such as non-affording of opportunity of being heard, non-availability of material evidence, non-verification of records produced etc., or the claim made by the assessee was not rebutted which led to its disposal as above.

The quality of an assessment depends on its sustainability with law and the collection of demanded tax. But the assessments were completed without analysing all provisions of the Acts and Rules. In order to ensure the quality of assessment orders, in Central Receipts, Chief Commissioners/ Director General of Income tax are required to analyse at least 50 quality assessments of their respective charges and send the report to the respective Zonal Member.

Government stated (December 2015) that a peer review mechanism is being implemented to minimize the apparent legal and factual errors creeping into the assessment orders.

Recommendation No. 8 - ***Department may ensure the quality of assessments by adopting the system prevailing in Central Receipts as basis so that the number of cases which are failing in judicial review would be on a lower side.***

Conclusion

Audit arrived at the following conclusions:

- VAT is a self-assessment system, which contemplates that the tax liability is calculated and paid by the tax payer (assessee) through periodical returns. Thus, it is necessary to check and ensure that the tax payers are disclosing their tax liability properly while filing the returns. Certain dealers are evading/minimising the tax liability through various methods such as, unaccountal of purchases and corresponding sales, concealment of a portion of turnover, ineligible/incorrect claiming of input tax on bogus purchase invoices, incorrect claiming of concessional rate and exemption of tax, non-filing the periodical returns though they are conducting business and not paying the legitimate tax due to Government.

- KVATIS is not robust enough to ensure the accuracy of the returns filed. Hence, scrutiny of the return filed by dealers, detailed audit of returns and books of accounts of the errant dealers are imperative in the administration of VAT.

- Internal Control mechanism existing in the Department was not adequate to maximise tax collection.

Fifty five cases which were considered by Audit for inclusion in the Audit Report noticed during regular audit are also given in the following paragraphs.

2.5. Short payment of tax due to non revision of self assessments having defects/deficiencies

Assessing authorities did not re-assess tax in the case of defective self assessments.

As per Section 25(1) of KVAT Act, 2003 where for any reason the whole or any part of turnover of business of a dealer has escaped assessment to tax in any year or has been assessed at a rate lower than the rate at which it is assessable, or where any input tax credit or special rebate has been wrongly availed of the assessing authority may, at any time within five years from the last date of the year to which the return relates, proceed to determine, to the best of its judgement, the turnover which has escaped assessment to tax or has been assessed at a rate lower than the rate at which it is assessable or input tax credit or special rebate that has been wrongly availed of and assess the tax payable on such turnover or disallow the input tax credit or special rebate wrongly availed of.

Audit noticed between June 2013 and November 2014 irregularities such as purchase suppression, sales suppression, misclassification of commodities etc., in the annual returns filed by the assessees in five cases. However, the assessing authorities did not detect the defect and assessed to tax the escaped turnover or the turnover misclassified. This resulted in short payment of tax, cess and interest of ₹ 26.08 crore as detailed in the following paras**.**

- **CTO, Special Circle, Kottarakkara**

M/s Sree Vinayaka Motors, Kottarakkara, a dealer in motor vehicles and spare parts while filing the revised return for 2011-12, had not included interstate purchase turnover of ₹ 54.03 crore relating to motor vehicles and spare parts. This resulted in short payment of tax, cess and interest of ₹ 10.65 crore. In addition, penalty of ₹ 15.10 crore was also leviable under Section 67 of KVAT Act, 2003.

The Government stated (July 2015) that the assessment had been revised creating additional demand of ₹ 11.39 crore. It was also stated (October 2015) that the dealer approached the Hon'ble High Court of Kerala and the Hon'ble High Court allowed (April 2015) instalment facility for remittance of the amount in 12 equal instalments with accrued interest from 30 April 2015. The dealer remitted (between July 2015 and September 2015) ₹ 2.06 crore. Upto September 2015, the assessee had to remit ₹ 4.75 crore with interest against which amount remitted was only ₹ 2.06 crore. Government had not explained the reason for the short

remittance of the dues by the assessee. Further report had not been received (January 2016).

- **CTO, Special Circle, Mattancherry**

M/s Labtech Medico Private Ltd., Karukutty, a dealer in laboratory scientific equipments and Medical surgical equipments and spares including bandages conceded in their annual return for 2011-12 import of the above items taxable at 12.5 *per cent* and four *per cent* for ₹ 68.07 lakh and ₹ 158.48 lakh respectively. Audit found from the HSN[19] code affixed on the bill of entry that the assessee imported goods taxable at 12.5 *per cent* and four *per cent* for ₹ 210.51 lakh and ₹ 16.23 lakh respectively during the year. Thus, the assessee had misclassified import purchase of goods taxable at 12.5 *per cent* amounting to ₹ 1.42 crore as four *per cent* taxable goods. Misclassification of purchase turnover and corresponding sales turnover resulted in short payment of tax, cess and interest of ₹ 15.69 lakh.

The Government stated (January 2016) that assessment of the dealer had been completed (July 2015) creating additional demand of ₹ 17.59 lakh and the demand was advised for RR proceedings. Further report had not been received (January 2016).

- **CTO, Kuthiathode**

M/s. Royal Ocean, Aroor was a manufacture and dealer in meat and fish products. During 2012-13, they conceded a total sales turnover of ₹ 16.76 crore as exports sales. However, as per Form 13 A, forming part of annual accounts certified by Chartered Accountant, filed by the assessee, they had a local sales turnover of ₹ 1.25 crore, which was not self assessed to tax by the assessee. This resulted in short payment of tax and interest of ₹ 7.08 lakh.

Government stated (May 2015) that assessment had been completed creating total additional demand of ₹ 21.98 lakh. The assessee had remitted ₹ 6.60 lakh (January 2015) as per the stay condition of DC (Appeal) Kollam. Further report had not been received (January 2016).

- **CTO, Special Circle, Thrissur**

M/s Superstone Diamonds, Thrissur, was a dealer in jewellery and precious stones. Audit found that the assessing authority while finalising the assessment for 2010-11 allowed special rebate of ₹ 5.50 lakh to the assessee which was not admissible. Further, the assessing authority after allowing special rebate of ₹ 5.50 lakh refunded ₹ 3.52 lakh, instead of demanding balance tax due amounting to ₹ 1.98 lakh. The incorrect allowance of special rebate resulted in short levy of tax and interest of ₹ 6.98 lakh.

[19] Harmonised System of Nomenclature.

Government stated (October 2015) that the DC, Thrissur had been directed to re-examine the case. Further report had not been received (January 2016).

- **CTO, II Circle, Kozhikode**

M/s. PVR Enterprises, Kozhikode, a dealer in toughened glasses and automobile spare parts filed annual return for 2011-12 conceding sales turnover of item taxable at 4 *per cent* and 12.5 *per cent* as ₹ 77.61 lakh and ₹ 48.11 lakh respectively. Audit found from Form 13A that sales turnover of items taxable at 12.5 *per cent* conceded by the assessee was ₹ 35.65 lakh less than the cost of goods sold which amounted to ₹ 83.76 lakh. There was corresponding difference between purchase and sales turnover of four *per cent* taxable items. Application of incorrect lower rate of tax on sales turnover of goods taxable at higher rate resulted in short payment of tax, cess and interest of ₹ 3.46 lakh.

Government stated (August 2015) that assessment had been completed (October 2013) creating additional demand of ₹ 5.56 lakh. The assessee had paid ₹ 2.50 lakh and the remaining dues were under revenue recovery. Further report had not been received (January 2016).

Though the assessments were completed in the cases where the short levy was pointed out by Audit, it was seen that most of the defects were similar to those pointed out during previous years. No action was however found taken on assessing officers for persistent omissions to improve the quality of assessment to avoid by way of institutional reforms at Government level. The Department had failed to improve the system to avoid the similar defects in succeeding years. Moreover, penalty under Section 67 of KVAT Act was also not levied in these cases.

2.6. Short payment of tax due to application of incorrect rate of tax

Rate of tax applied on the taxable turnover was less than the rate applicable as per the statute.

2.6.1 Government issued a notification[20] in January 2006 including a list of goods which are taxable at 12.5 *per cent*. The rate of tax was enhanced to 13.5 *per cent* with effect from 1.4.2012.

Audit noticed between November 2013 and December 2014 that in four cases, the assessees applied incorrect rate of tax resulting in short payment of tax, cess and interest of ₹ 6.19 crore as detailed in the following cases.

[20] SRO No. 82/2006 (GO(P) No. 4/2006/TD dated 21 January 2006.

- **CTO, Special Circle I, Ernakulam**

M/s. 3F Industries Ltd., Kochi, was a dealer in edible oil, milk products etc. During 2012-13, they assessed to tax sales turnover of edible oil for ₹ 56.54 crore at one *per cent.* Audit found from the check post module of KVATIS that during 2012-13, the assessee had interstate purchase and interstate stock transfer of margarine into the State for ₹ 85.52 lakh and ₹ 36.87 crore respectively. However corresponding sales turnover of margarine was misclassified by the assessee as edible oil and self assessed to tax at one *per cent* instead of the applicable rate of 13.5 *per cent.* Application of incorrect rate of tax on the sales turnover of margarine resulted in short payment of tax and interest of ₹ 5.33 crore.

Government stated (October 2015) that based the audit objection, a notice under Section 25A had been issued by the assessing authority and the case had not been finalised. Further report had not been received (January 2016).

- **CTO, Ettumanoor**

M/s Jojo Industries, Ettumanoor, self assessed to tax local sales turnover of parts of space craft, spacecraft launch vehicles etc., for ₹ 44.11 lakh, ₹ 87.88 lakh, ₹ 204.47 lakh and ₹ 254.71 lakh respectively for the years 2008-09, 2009-10, 2010-11 and 2011-12 at four *per cent* classifying as steel and iron products. Audit found that the entire local sales were made to Vikram Sarabhai Space Centre, Indian Space Research Organisation, Thiruvananthapuram for use as parts in spacecraft, suborbital and spacecraft launch vehicles which are taxable at 12.5 *per cent*. Application of incorrect rate of tax resulted in short payment of tax, cess and interest of ₹ 65.17 lakh.

Government stated (July 2015) that assessment had been completed (February and March 2015) creating additional demand of ₹ 81.29 lakh. It was also stated (December 2015) that the assessee had remitted ₹ 11.17 lakh as per the direction of the Hon'ble High Court of Kerala.

The details of collections though called for (November 2015) had not been received (January 2016).

- **CTO, II Circle, Palakkad**

Audit observed that M/s Kottukapilly Sand and Metals Pvt. Ltd., Palakkad, a dealer in sand and metal had assessed the sales turnover of metals of various sizes produced with the aid of crushing machines for ₹ 128.87 lakh at five *per cent* instead of the applicable rate of 13.5 *per cent* during 2012-13. Application of incorrect rate of tax resulted in short payment of tax and interest of ₹ 13.04 lakh.

Government stated (July 2015) that assessment had been completed (February 2015) creating additional demand of ₹ 14.41 lakh. The assessee had remitted (March 2015) an amount of ₹ 4.32 lakh. Recovery of the balance amount was

under interim stay by Hon'ble High Court of Kerala.

The details of collections though called for (November 2015) had not been received (January 2016).

- **CTO, Koothuparamba**

M/s Malabar Construction Materials (P) Ltd, Kannavam, was an assessee engaged in crushing of metal. During 2010-11, the assessee self assessed to tax the sales turnover of M- sand for ₹ 73.3 lakh, at four *per cent* instead of the applicable rate of 12.5 *per cent*. Application of incorrect rate of tax resulted in short payment of tax, cess and interest of ₹ 8.18 lakh.

Government stated (July 2015) that assessment of the dealer had been completed (January 2014) creating additional demand of ₹ 8.36 lakh and dues were advised for Revenue Recovery. The assessee had remitted 40 *per cent* of the demand and preferred appeal before DC (Appeal) Kozhikode who had issued modification (January 2015) directing the assessing authority to give exemption to the sales turnover of M-Sand conceded by the assessee. The DC, Kannur had reported that there was no scope for second appeal against the order of the DC (Appeal), Kozhikode, as the dealers who had opted for compounding were exempted from payment of tax on the turnover of M-Sand as per the proviso to Section 8 (b) of KVAT Act, 2003. The reply was not acceptable since the crushers compounded and the crusher used for producing M-Sand were different.

Audit noticed that though the assessments were completed in the above cases where the short levy was pointed out by Audit, it was seen that most of the defects were similar to those pointed out during previous years. Thus, Department failed to improve the system to avoid the similar defects in succeeding years.

2.6.2 Bakery items

Bakery products including biscuits sold under brand name, registered under the Trade Mark Act, 1999 are liable to be taxed at 12.5 *per cent* and 13.5 *per cent* during 2011-12 and 2012-13 respectively, under Sl No. 11 of list of goods notified[21] under KVAT Act, 2003.

Audit noticed between June 2013 and December 2014 that in three cases, the assessees self assessed tax on sales turnover of bakery products at four/five *per cent*. Audit found that the bakery products sold by the assessees were under brand name. This resulted in short payment of tax, cess and interest of ₹ 1.81 crore as given in succeeding paragraphs**.**

[21] SRO No. 82/2006.

- **CTO, Special Circle II, Ernakulam**

M/s Elite Foods Private Limited, Ernakulam, was a manufacturer of Bakery products selling goods under a brand name 'Elite' under Trade Mark Act, 1999. They self assessed to tax the sales turnover of bakery products for the period from April 2012 to September 2012 amounting ₹ 16.22 crore at five *per cent* instead of the applicable rate of 13.5 *per cent*. This resulted in short payment of tax and interest of ₹ 1.64 crore.

Government stated (July 2015) that assessment had been completed (June 2015) creating an additional demand of ₹ 1.75 crore and the amount was under collection. Further report had not been received (January 2016).

- **CTO, II Circle, Kozhikode**

M/s Ojin Bakes, Nadakkavu, was a manufacturer and dealer of bakery products. During 2011-12, they self assessed tax on sales turnover of bakery products for ₹ 1.18 crore at four *per cent*. Audit found that the bakery products sold by the assessee were under brand name 'OJIN' registered under Trade Mark Act, 1999 and as such taxable at 12.5 *per cent*. Application of incorrect rate of tax resulted in short payment of tax, cess and interest of ₹ 11.46 lakh.

Government stated (September 2015) that assessment had been completed (May 2015) creating total additional demand of ₹ 13.89 lakh. Further report had not been received (January 2016).

- **CTO, III Circle, Kozhikode**

M/s Ojin Bakes, Kozhikode was a dealer of bakery products. They self assessed tax on sales turnover of bakery products at four *per cent* on ₹ 31.22 lakh during 2011-12 and at five *per cent* on ₹ 23.94 lakh during 2012-13. Audit found that the bakery products sold by the assessee were under the brand name 'OJIN' registered under Trade Marks Act, 1999 and were liable to be taxed at 12.5 *per cent* and 13.5 *per cent* during 2011-12 and 2012-13 respectively. Application of incorrect rate of tax resulted in short payment of tax, cess and interest of ₹ 5.79 lakh.

Government stated (August 2015) that assessment of the dealer had been completed (March 2015) creating additional demand of ₹ 6.17 lakh. Further report had not been received (January 2016).

As per Section 67 of KVAT Act, the assessing officer may impose penalty upto double the tax evaded or sought to be evaded. Though the assessees evaded tax by filing returns showing incorrect rate of tax for goods dealt with, no penalty was levied by the assessing officer.

Though Audit had pointed out the same defect in respect of the same assessee in Audit Report 2012, Government had not addressed the issue. The Principal Secretary (Taxes) and Commissioner of Commercial Taxes were requested (November 2015) to take remedial action. Their replies had not been received (January 2016).

2.6.3 Works Contract

Under Section 8 (a)(ii) of KVAT Act, works contractors registered under the provisions of CST Act, 1956 or an importer, when opted for payment of compounded tax, are liable to pay tax at three *per cent* of the contract amount after deducting the purchase value of goods excluding freight and gross profit element consigned into the State on stock transfer or purchased from outside the State and for the purchase value of goods so deducted shall pay tax at the scheduled rate applicable to such goods. Further, the compounded tax payable by any works contractor registered under the provisions of CST Act, 1956 or an importer shall be four *per cent* of the whole contract amount in respect of contract awarded by Government of Kerala.

- **CTO (WC), Kozhikode**

M/s Uralungal Labour Contract Co-operative Society Ltd., Vadakara, was a contractor, who was also an importer. Audit found that during 2010-11, 2011-12 and 2012-13, the works contract receipts from the work of Government of Kerala and local bodies amounting to ₹ 72.73 crore, ₹ 72.59 crore and ₹ 65.03 crore were self assessed to tax by the assessee at three *per cent* against the correct rate of four *per cent*. Application of incorrect rate of tax resulted in short payment of tax and interest of ₹ 2.95 crore.

Government stated (October 2015) that based on the audit objection, the assessment of the dealer for the year 2012-13 had been completed (August 2015) taking into account other defects also, creating total additional demand of ₹ 4.02 crore which included the amount pointed out by Audit also. The dealer remitted (between September and November 2015) ₹ 86.39 lakh. Further report for the remaining period had not been received (January 2016).

- **CTO, Aluva**

M/s. Padmaja Specialties, Aluva, was a works contractor who had trading of chemicals also. During 2012-13, they had inter-State purchase of chemicals taxable at 13.5 *per cent* for ₹ 1.44 crore. Though chemicals valued at ₹ 1.08 crore effected through inter-State purchase were incorporated into the work during the year, the assessee self assessed the entire works contract receipts of ₹ 6.45 crore at three *per cent* only. Non levy of tax at 13.5 *per cent* on the inter-State purchase turnover of goods resulted in short payment of tax and interest of ₹ 18.15 lakh.

Government stated (August 2015) that assessment had been completed (July 2015) creating additional demand of ₹ 21.53 lakh. Further report had not been received (January 2016).

- **CTO (WC), Kozhikode**

Shri. T Asokan, Kozhikode, was a works contractor registered under CST Act, 1956. During 2010-11, 2011-12 and 2012-13, he self assessed to tax his contract receipts of ₹ 5.62 crore, ₹ 2.38 crore and ₹ 5.96 crore received from Government of Kerala and local bodies at three *per cent* instead of the applicable rate of four *per cent*. Application of incorrect rate of tax resulted in short payment of tax and interest of ₹ 15.44 lakh.

Government stated (July 2015) that assessment for the year 2012-13 had been completed (August 2014) creating additional demand of ₹ 6.36 lakh and the assessee had paid the amount of ₹ 6.63 lakh including up-to-date interest. Further report for the years 2010-11 and 2011-12 had not been received (January 2016).

2.6.4. PVC Panels

Under Sl.No.29 (1)(a) of list of goods notified under KVAT Act, 2003 vide SRO No. 82/2006, doors, windows and their frames and thresholds for doors having HSN code 3925.20.00 are liable to be taxed at 12.5 *per cent* during 2010-11 and 2011-12 and at 13.5 *per cent* during 2012-13. Further, PVC ceiling panels with hole and Celluca PVC Board (White) are not covered by any other entry of that list or any entry of the schedule to the KVAT Act, 2003 and hence taxable at the above rate as per Sl. No. 103 of the above list.

Audit noticed in June 2014 that in the following two cases the assessees misclassified the items taxable at higher rate as goods taxable at lower rate to evade tax. This resulted in short payment of tax, cess and interest of ₹ 68.84 lakh as detailed in the following cases.

- **CTO, Special Circle (Produce), Mattancherry**

M/s. Jaihind Aluminium Traders, Kochi, was dealing with PVC panels taxable at 12.5 *per cent* during 2010-11 and 2011-12 and 13.5 *per cent* during 2012-13. However, the assessee misclassified sales turnover of the above commodities and assessed to tax at four/five *per cent.* This resulted in short payment of tax, cess and interest of ₹ 60.23 lakh.

Government stated (September 2015) that assessments for the years 2010-11 to 2012-13 had been completed creating total additional demand of ₹ 87.97 lakh. The assessee had remitted (between October 2014 and December 2014) ₹ 26.97 lakh as per the stay condition of DC (Appeal) Ernakulam. Further report had not been received (January 2016).

- **CTO, Special Circle (Produce), Mattancherry**

M/s. Jaihind International, Mattancherry, was dealing with PVC panels which were taxable at 13.5 *per cent* during 2012-13. However, the assessee misclassified sales turnover of the above commodities amounting to ₹ 89.63 lakh at five *per cent*. This resulted in short payment of tax, cess and interest of ₹ 8.61 lakh.

Government stated (August 2015) that assessment had been completed (August 2014) creating additional demand of ₹ 12.02 lakh. The assessee had remitted (December 2014) ₹ 4.40 lakh as per the stay condition of DC (Appeal) Ernakulam. Further report had not been received (January 2016).

2.7. Short levy of tax due to escape of turnover from assessment

Turnover conceded in the return was less than that arrived at as per Rule

2.7.1. As per Rule 10(2)(a) of the KVAT Rules, 2005, in relation to works contract in which transfer of property takes place not in the form of goods but in some other form, the taxable turnover in respect of the transfer of property involved in the execution of works contract, shall be arrived at after deducting labour and other charges specified thereunder from the total amount received for the execution of the works contract. However, if the taxable turnover so arrived at falls below the cost of goods transferred in the execution of works contract, an amount equal to the cost of goods transferred in the execution of works contract together with profit, if any, shall be the taxable turnover in respect of such works contract. As per Explanation therein cost of goods means the price of goods together with all expenses incurred by the contractor in bringing the goods to the work site.

Audit noticed between January 2014 and January 2015 that in the following five cases, the works contractors while filing annual returns conceded taxable turnover which were less than the turnover arrived at as per the provision of KVAT Rules, 2005. This resulted in short payment of tax, cess and interest of ₹ 4.12 crore as given in the following paras.

- **CTO (WC&LT), Ernakulam**

M/s ABB Ltd., Kochi, a works contractor filed annual return for 2011-12 conceding total and taxable turnover of ₹ 25.31 crore and ₹ 6.04 crore respectively availing ₹ 19.27 crore as exemption under Rule 10. Audit found that cost of goods transferred to the works during the year was ₹ 17.15 crore. Thus the taxable turnover should not be less than ₹ 17.15 crore against which the assessee assessed to tax ₹ 6.04 crore only. Escape of turnover of ₹ 11.11 crore from assessment due to filing of incorrect return by the assessee resulted in short payment of tax, cess and interest of ₹ 1.70 crore.

Government stated (July 2015) that assessment had been completed (May 2015) creating total additional demand of ₹ 1.52 crore. As per the application for rectification filed by the assessee, the assessment order had been rectified (May 2015). After giving credit to the TDS which was omitted to be taken earlier, the additional demand was reduced to ₹ 1.28 crore. Further report had not been received (January 2016).

- **CTO (WC & LT), Alappuzha**

M/s KEC International Limited, Mavelikkara, self assessed to tax a contract receipts of ₹ 2.87 crore during 2012-13 availing exemption of ₹ 2.94 crore from the total contract receipt of ₹ 5.81 crore. Audit found that cost of goods transferred to the work during the years was ₹ 7.99 crore. As such the taxable turnover should not be less than ₹ 7.99 crore. Escape of turnover from assessment resulted in short payment of tax and interest of ₹ 89.77 lakh.

Government stated (August 2015) that assessment had been completed (May 2015) creating additional demand of ₹ 2.58 crore. The demand was under conditional stay before DC (Appeal), Kollam. Assessee paid (September 2015) ₹ 40 lakh and bank guarantee for ₹ 2.18 crore as per direction of Hon'ble High Court of Kerala in writ petition filed by the assessee. Further report had not been received (January 2016).

- **CTO (WC&LT), Ernakulam**

M/s Essar Projects (India) Limited, Kochi, a works contractor self assessed to tax a turnover of ₹ 9.03 crore and ₹ 7.70 crore during 2011-12 and 2012-13 respectively. Audit found that the cost of goods transferred in the execution of work was ₹ 12.88 crore and ₹ 10.24 crore during these years. As such the taxable turnover should not be less than ₹ 12.88 crore and ₹ 10.24 crore. Escape of turnover from assessment resulted in short payment of tax, cess and interest of ₹ 74.63 lakh.

Government stated (July 2015) that assessment for the year 2011-12 had been completed (June 2015) creating additional demand of ₹ 91.64 lakh and action was being initiated to collect the demand. Though the details of action taken to collect the amount were called for from Government in October 2015, their reply had not been received (January 2016).

- **CTO (WC&LT), Alappuzha**

M/s. New Modern Technomech Pvt. Ltd., Thakazhy, a works contractor filed annual return for 2010-11 to 2012-13 conceding total and taxable turnover for the above years as given in **Table-2.22.**

Table - 2.22

			(₹ in crore)
	2010-11	**2011-12**	**2012-13**
Total turnover	7.34	3.98	2.80
Taxable turnover	3.34	0.80	0.55
Cost of goods consumed	3.55	1.13	1.90

The assessee failed to include the cost of goods consumed as taxable turnover. This resulted in short levy of tax, cess and interest of ₹ 53.04 lakh.

Government stated (July 2015) that assessment for the year 2010-11 had been completed (March 2015) creating total additional demand of ₹ 37.68 lakh. The assessee had remitted (July 2015) an amount of ₹ 15.07 lakh as per the stay condition of DC (Appeal), Kollam. Further report for the remaining period had not been received (January 2016).

- **CTO (WC&LT), Alappuzha**

Sri. John Panackal Peter, Alappuzha, a works contractor filed annual return for 2011-12 and 2012-13 conceding the turnover given in **Table-2.23.**

Table - 2.23

			(₹ in crore)
Year	**Total turnover**	**Exemption availed**	**Taxable turnover**
2011-12	5.42	3.05	2.37
2012-13	9.62	6.31	3.31

Audit found that the cost of goods transferred to the work during 2011-12 and 2012-13 were ₹ 3.03 crore and ₹ 4.27 crore respectively. As such, the taxable turnover during the years should not be less than ₹ 3.03 crore and ₹ 4.27 crore. Against this the taxable turnover conceded were ₹ 2.37 crore and ₹ 3.31 crore respectively. This led to short levy of tax of ₹ 24.34 lakh.

Government stated (July 2015) that assessments had been completed creating additional demand of ₹ 13.67 lakh and ₹ 12.47 lakh for 2011-12 and 2012-13 respectively. The assessee had remitted (July 2015) an amount of ₹ 3.80 lakh for the year 2012-13 and balance amount was under revenue recovery. Further reports had not been received (January 2016).

The defects pointed out above are similar to those pointed out in the previous Audit Reports. No preventive/precautionary measures were taken by Government to avoid repetition of cases pointed out by Audit. Thus, the Government did not

take care to ensure system improvements to guard against the loss of revenue every year despite having been pointed out by Audit year after year.

2.7.2. Explanation VII under Section 2(lii) of the KVAT Act, 2003 stipulates that where a dealer sells any goods purchased by him at a price lower than that at which it was purchased and subsequently receives any amount from any person towards reimbursement of the balance of the price, the amount so received shall be deemed to be turnover in respect of such goods.

Test check of the records of the Commercial Taxes Department, Government of Kerala revealed that seven dealers of cement under four CTOs had done self-assessment of the tax in respect of their sales but while doing so they had evaded tax to the tune of ₹ 140.63 lakh along with interest by not taking in to account the amount of discount received by them subsequent to sale at a price lower than purchase price. The details of the amount of tax evaded by these dealers are given in the following **Table 2.24**.

Table-2.24

(₹ in lakh)

Sl. No.	Name of the dealer	Assessing authority	Period	Amount of discount	Short levy of tax including interest
1	M/s A.B Traders, Amaravila	CTO, Special Circle, Thiruvananthapuram	2011-12	208.00	30.71
2	Sri. M. Abubaker		2011-12	91.39	13.50
3	M/s Star Traders, Thiruvananthapuram		2009-10 to 2011-12	212.61	34.53
4	M/s Arya Agencies, Malayinkeezhu		2010-11& 2011-12	83.73	12.37
5	M/s Kizhakkedathu Enterprises, Pazhavangadi	AIT & CTO, Ranni	2008-09 to 2012-13	180.42	31.23
6	M/s Krishna Hardwares, Kalpeta	AIT & CTO, Vythiri	2009-10 to 2011-12	67.90	11.89
7	M/s Akhil Ansu Agencies, Kidangoor	CTO, Pala	2011-12	42.96	6.40
				Total	**140.63**

Audit brought above cases to the notice of Department between October 2013 and December 2015 and to Government between February 2015 and December 2015. In response to audit observations, the Government stated that assessments have been revised by creating additional demand of ₹ 64.93 lakh in six cases.

It was further observed by the Audit that after paying mandatory amount of tax (which is quite small when compared with total tax amount), these dealers had filed appeals against the demand for additional tax created by the assessing

authorities. Further action taken by the Department and the Government was awaited (January 2016).

Audit had pointed out many such instances (37 cases involving tax effect of ₹ 4.40 crore) repeatedly in the past. Present position of those cases is given in the following **Table 2.25**:

Table-2.25

Year of Report		**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
No. of cases		1	Nil	10	20	6	**37**
Amount (₹ in crore)		0.34	Nil	2.07	1.38	0.61	**4.40**
Assessment not completed				3	1	1	**5**
Assessment completed	**Full payment**			2	4		**6**
	Part payment				2		**2**
	Nil payment					1	**1**
Appeal	**Court**			1	3		**4**
	AC/DC	1		2	6	2	**11**
	Tribunal			2	4	2	**8**
Amount remitted in appeal cases (₹ in lakh)		0.01		0.01	0.12	0.06	**0.20**

Further audit scrutiny of the records revealed as under:

- Out of 37 cases pointed out in earlier Reports, 23 cases are under appeal/court out of which in eight, second appeal has been filed against the decision on first appeal. Out of eight cases pending before Tribunal, six cases were filed by the Department.
- No action had been taken by the Department and the Government in cases after appeals were filed.
- There had been delays in taking decision in appeal cases.
- Government had taken action only in individual cases pointed out by Audit and issued instructions in such cases.

There had been no action on the part of the Government to stem the problem by issuing instructions in a consolidated manner to carry out systemic changes to avoid reoccurrence of such cases in future.

- **CTO, Special Circle, Palakkad**

M/s Ramesh Iron and Steel Company India Private Limited was a dealer in iron & steel and its products. During 2012-13, the dealer self assessed tax on a sales turnover of ₹ 109.72 crore while its purchase cost was ₹ 111.22 crore. Though the assessee sold goods at a price lower than the purchase price discount of ₹ 240.19 lakh received subsequently was not reckoned as turnover and assessed to tax. This resulted in the short payment of tax and interest of ₹ 10.73 lakh.

Government stated (July 2015) that assessment had been completed (May 2015) creating additional demand of ₹ 14.05 lakh. The assessee paid ₹ 4.22 lakh and the balance amount was under collection. Though the details of action taken to collect the amount had been called for from Government in October 2015, their reply was still awaited (January 2016).

2.7.3. Under Section 42(2) of KVAT Act, 2003 where any dealer detects any omission or mistake in the annual return submitted by him with reference to the audited figures, he shall file along with the audit certificate, revised annual return rectifying the mistake or omission and if the tax liability increases, the revised return shall be accompanied by proof of payment of such tax, interest due thereon and twice the interest as penal interest. Under Section 91 of the Act, when payment towards tax or any other amount due is made, it shall be appropriated first towards interest accrued, the balance available shall be appropriated towards principal outstanding.

- **CTO, Special Circle, Kottarakkara**

M/s. Sree Vinayaka Motors, Kottarakkara, a dealer in motor vehicles submitted (May 2012) annual return for 2011-12, after remitting tax of ₹ 6.20 crore. Subsequently, the assessee revised the annual return with total tax liability of ₹ 7.20 crore. Audit found that though the assessee had paid differential tax and cess payable as per the revised annual return, they had not remitted the interest and penal interest due thereon. Moreover, payment made by the assessee amounting to rupees one crore was not appropriated first towards interest. Non levy of interest and non appropriation of payment first towards interest resulted in short payment of tax, interest and penal interest of ₹ 33.74 lakh.

Government stated (July 2015) that assessment had been completed (December 2014) creating additional demand of ₹ 13.74 lakh and the demand had been advised for revenue recovery. Commissioner of Commercial Taxes (November 2015) informed that the assessing authority had demanded (November 2015) penal interest of ₹ 21.19 lakh. Further report had not been received (January 2016).

2.7.4. Section 2 (xliv) of the KVAT Act, 2003 provides that sale price includes any sum charged for anything done by the dealer in respect of the goods or services at the time of or before delivery thereof.

- **CTO, Special Circle, Palakkad**

M/s Sivasakthi Engineering and Fabrications, Walayar, was a manufacturer of cement products. The sales turnover disclosed by the assessee as per the annual returns and transportation charges received by the assessee as per P&L account during the years 2008-09, 2009-10, 2010-11 and 2012-13 are as detailed in **Table – 2.26.**

Table – 2.26

Year	2008-09	2009-10	2010-11	2012-13
Sales turnover disclosed	₹ 5.83 crore	₹ 4.60 crore	₹ 2.26 crore	₹ 9.63 crore
Transportation charges received	₹ 51.67 lakh	₹ 59.44 lakh	₹ 31.61 lakh	₹ 1.56 crore

Audit found that the assessee had entered into agreement with KSEB for supply of electric poles to various electrical circles during the above period. In the agreement with KSEB, it was stipulated that contract was for manufacture and delivery of poles within or outside the concerned electrical circles. As such, the transportation charges received would form part of the turnover. However, the assessee did not assess to tax the above turnover. This resulted in short payment of tax and interest of ₹ 17.51 lakh.

Government stated (July 2015) that assessment for 2012-13 had been completed (January 2015) creating additional demand of ₹ 9.38 lakh. The assessee had remitted 30 *per cent* of the demand as per the stay condition of DC (Appeal), Ernakulam. Further report for the remaining period had not been received (January 2016).

2.8. Non/short payment of surcharge

Surcharge leviable under Kerala Surcharge on Taxes (KST) Act, 1957 was either not levied or short levied.

Under Section 3(1A) of the KST Act, 1957, in the case of national or multinational companies functioning in the State as retail chains or direct marketing chains who import not less than 50 *per cent* of their stock from outside the state or country and not less than 75 *per cent* of whose sales are retail business, and whose total turnover exceeds five crore rupees *per annum*, tax payable under Section 6 of KVAT Act, 2003 shall be increased by a surcharge at the rate of ten *per cent*.

Audit noticed between January 2013 and September 2015 that in the case of following six assessees having annual sales turnover above rupees five crore, though more than 75 *per cent* of sales of the assessee were through retail business and more than 50 *per cent* of their stock were imported from outside the State/country, the output tax payable was not increased by a surcharge at 10 *per cent* as per the provisions of KST Act, 1957. This resulted in short payment of surcharge and interest of ₹ 6.09 crore as detailed below:

- **CTO, Special Circle I, Ernakulam**

M/s Joy Alukkas India Private Ltd., Ernakulam, a multi-national company dealing with gold jewellery imported more than 50 *per cent* of their stock from outside the State or country during 2008-09 and 2009-10. Though their sales turnover for 2008-09 and 2009-10 amounting to ₹ 546.68 crore and ₹ 568.02 crore respectively, exceeded rupees five crore *per annum* and more than 75 *per cent* of their sales were retail business, they had not paid surcharge at the rate of ten *per cent* on the output tax payable. This resulted in short payment of surcharge and interest of ₹ 4.30 crore.

Government stated (October 2015) that the levy of surcharge was applicable only to big retail chains and direct marketing chains. Moreover, the assessee had not given any franchisee agreement to anybody to conduct business in their name. As such, the assessee is not liable to pay surcharge.

As per the Explanation 1 below Section 3(1A), big retail chains and direct marketing chains means retail sales outlets or part of retails sales outlet of companies having a registered business name which share a registered business name or commercial name by way of franchisee agreement or otherwise with standardized sales, purchase and promotional activities. As per Explanation II, retail business shall mean sales to persons other than registered dealer. M/s. Joy Alukkas India Pvt. Ltd. is a company having retail sales outlet and a registered business name. Besides, more than 75 *per cent* of the sale were effected to persons other than to registered dealers. Hence the assessee will come under the meaning of big retail chain. As such, the assessee is liable to pay surcharge. Hence the reply furnished by the Government was not acceptable.

- **CTO, Special Circle, Thiruvananthapuram**

➢ M/s Pothys Garments, Thiruvananthapuram, an assessee in garments had more than 75 *per cent* of sales through retail business and more than 50 *per cent* of their stocks were imported from outside the State/ country during 2012-13 and 2013-14. Though their total turnover exceeded rupees five crore *per annum*, the output tax of ₹ 4.80 crore and ₹ 4.98 crore respectively were not increased by a surcharge at 10 *per cent* as per the provisions of KST Act, 1957. This resulted in short payment of surcharge and interest of ₹ 1.18 crore.

➢ M/s Pothys Textiles, Thiruvananthapuram, an assessee in textile business had more than 75 *per cent* of sales through retail business and more than 50 *per cent* of their stocks were imported from outside the State/ country during 2012-13 and 2013-14. Though their total turnover exceeded rupees five crore *per annum*, the output tax of ₹ 20.56 lakh and ₹ 28.70 lakh respectively were not increased by a surcharge at 10 *per cent* as per the provisions of KST Act, 1957. This resulted in short payment of surcharge and interest of ₹ 5.86 lakh.

Government stated (December 2015) that the above points would be verified and final reply submitted on completion of verification. Further reports had not been received (January 2016).

- **CTO, Special Circle II, Ernakulam**

➢ M/s. Lulu International Shopping Mall Private Ltd. was a retail venture by the Lulu Group. Audit found that during 2012-13, more than 75 *per cent* of sales of the assessee were through retail business and more than 50 *per cent* of their stocks were imported from outside the State/ country. Though their total turnover exceeded rupees five crore *per annum*, the output tax of ₹ 195.63 lakh was not increased by a surcharge at 10 *per cent* as per the provisions of KST Act, 1957. This resulted in short payment of surcharge and interest of ₹ 23.13 lakh.

Government stated (July 2015) that assessment had been completed (December 2014) creating additional demand of ₹ 23.52 lakh. The assessee had remitted an amount of ₹ 19.60 lakh. Balance amount was under revenue recovery. Further report had not been received (January 2016).

➢ M/s Fab India Overseas (P) Ltd., Kochi, a shopping mall was liable to pay surcharge under Section 3(1A) since their entire purchase were from outside the State and entire sales were to customers within the State. Audit found that during 2012-13 surcharge of ₹ 14.35 lakh was due from the assessee on the out put tax of ₹ 143.52 lakh disclosed by them. But the assessee paid ₹ 2.29 lakh only towards surcharge. Short remittance of surcharge and interest worked out to ₹ 14.23 lakh.

Government stated (July 2015) that assessment had been completed (February 2015) creating additional demand of ₹ 17.65 lakh. The assessee remitted (March 2015) an amount of ₹ 7.50 lakh as per the conditional stay granted by Hon'ble High Court of Kerala in writ petition filed by the assessee. Further report had not been received (January 2016).

- **CTO, II Circle, Kalamassery**

M/s Monavie India Enterprises Private Limited, Palarivattom, was a multinational company involved in direct marketing of health drinks. As per Annual returns for 2011-12 and 2012-13 filed by the assessee, the entire product for sale were stock transferred from outside the state and sales turnover for the years were ₹ 6.70

crore and ₹ 5.40 crore respectively. Though their entire sales were through direct marketing/retail chain the output tax of ₹ 83.70 lakh and ₹ 69.39 lakh were not increased by a surcharge at 10 *per cent* as per the provisions of the KST Act, 1957. This resulted in short payment of surcharge and interest of ₹ 18.31 lakh.

Government stated (July 2015) that assessment of the year 2011-12 had been completed (June 2013) creating additional demand of ₹ 9.54 lakh. The appeal filed by the assessee had been allowed (July 2014) by the AC (Appeal) Ernakulam. Against this order, the DC, Ernakulam filed (January 2015) second appeal before Hon'ble Tribunal, Ernakulam. Further report for 2012-13 had not been received (January 2016).

Though similar cases were pointed out by Audit in previous Audit Reports, no preventive/precautionary measures were taken by Department/Government to avoid the defect during succeeding years. Details of action taken by the Government on the previous paras though called for had not been received (January 2016).

2.9. Short levy of tax due to misclassification

Commodities were misclassified which resulted in short levy of tax.

- **CTO, Special Circle II, Ernakulam**

M/s Crompton Greaves Ltd., Kochi, was a dealer in electrical goods, pump sets and parts etc. During 2012-13, sales turnover of Home UPS for ₹ 110.91 lakh was classified as that of computer systems and peripherals and assessed at five *per cent* instead of at the applicable rate of 13.5 *per cent*. The misclassification resulted in the short payment of tax and interest of ₹ 11.22 lakh.

Government stated (July 2015) that assessment had been completed (June 2015) creating total additional demand of ₹17.89 lakh and the assessee had remitted (July 2015) ₹ 5.50 lakh. Further report had not been received (January 2016).

- **CTO, I Circle, Thrissur**

M/s Sreehari Metals, Thrissur was a dealer in rubber products and lubricants. During 2011-12, the assessee self assessed to tax the turnover of lubricants for ₹ 166.01 lakh assessable at the rate of 12.5 *per cent* at a lower rate of four *per cent*. Application of incorrect rate of tax resulted in short payment of tax, cess and interest of ₹ 16.82 lakh.

Government stated (October 2015) that the assessment of the dealer had been completed (December 2013) creating additional demand of ₹ 19.87 lakh incorporating other defects also. The dealer filed appeal against the assessment.

The Assistant Commissioner (Appeal), Thrissur set aside the above assessment order (January 2014) and directed the assessing authority to re-examine the assessment. The reassessment was pending for disposal. The current status though called for (November 2015) had not been received (January 2016).

- **CTO, II Circle, Ernakulam**

M/s. Malabar Laminates, Kochi a dealer in bamboo and plywood products conceded in their annual return for 2012-13 sales turnover of ₹ 2.38 crore and ₹ 50.08 lakh respectively. The inter-State purchase turnover of these products conceded in the return were ₹ 1.71 crore and ₹ 84.92 lakh respectively. However as per the certified annual accounts of the company the purchase turnover accounted was ₹ 2.17 crore and ₹ 38.97 lakh respectively for the same sales turnover returned. Audit found from the check post module[22] of KVATIS that the inter-State purchase turnover of plywood of this company was more than ₹ 85 lakh. Thus, the assessee misclassified the purchase turnover and corresponding sales turnover of plywood as that of bamboo products to evade tax. This resulted in short payment of tax and interest of ₹ 8.02 lakh.

Government stated (September 2015) that assessment had been completed (June 2015) creating additional demand of ₹ 8.76 lakh. The assessee had remitted ₹ 2.63 lakh and furnished security for the balance amount as per the stay condition of Assistant Commissioner (Appeal) Ernakulam. No action was taken to get the stay vacated. Further report had not been received (January 2016).

- **CTO, Special Circle, Thodupuzha**

M/s Sree Vijayalekashmi Traders, Thodupuzha was a dealer in grocery and pulses. Audit cross verified the annual return of the assessee for 2012-13 with the check post transaction in KVATIS module and found that the interstate stock transfer in to the state and interstate purchase turnover of items taxable at five *per cent* conceded in the annual return was less than that in the KVATIS check post transaction while the turnover of goods taxable at one *per cent* conceded was more than that in the KVATIS check post transaction. It was evident that the assessee had wrongly classified five *per cent* taxable goods as one *per cent* taxable goods. Misclassification of goods resulted in the short payment of tax and interest of ₹ 7.59 lakh.

Government stated (July 2015) that assessment had been completed (February 2015) creating additional demand of ₹ 9.17 lakh. Further report had not been received (January 2016).

[22] Module of the KVATIS in which the transactions of check post are recorded.

2.10 Non- payment of purchase tax

The assessee did not pay purchase tax for the purchases made from unregistered dealers

- **CTO, Special Circle, Kollam**

Under Section 6(2)(b) of the KVAT Act, 2003 every dealer who purchases taxable goods from unregistered dealers and despatches the goods to any place outside the State otherwise than by way of sale in the course of inter-State trade or export, shall pay tax on the purchase turnover of the goods at the rates specified under Section 6(1), provided that the maximum rate leviable under this clause shall not exceed four *per cent.*

M/s. Kalyan Jewellers, Kollam, a dealer in gold jewellery stock transferred gold jewellery amounting to ₹ 51.18 crore and ₹ 94.06 crore outside the State, which constituted 29.59 *per cent* and 42 *per cent* of their total disposal during the year 2011-12 and 2012-13. They made local purchase of gold jewellery from unregistered dealers for ₹ 43.98 crore and ₹ 60.14 crore in the year 2011-12 and 2012-13 respectively. Though the assessee was liable to pay purchase tax proportionate to the purchases made from unregistered dealers, they had not paid any purchase tax. This resulted in non-payment of tax, cess and interest amounting to ₹ 2.31 crore.

Government stated (July 2015) that the assessee had opted for Gold Compounding Scheme under Section 8 of KVAT Act, 2003 and the Section does not permit a portion of the turnover being taxed under Section 6(1) over and above the quantum of tax fixed under Section 8(f). Hence, purchase tax assessable on portion proportionate to stock transfer out and the disallowance of special rebate for the same vide provision to Section 12 of the KVAT Act, 2003 is ultra vires to the provision of Section 8 of the KVAT Act, 2003. The reply was not acceptable since the compounded dealers had not been specifically exempted from payment of purchase tax. Further report had not been received (January 2016).

2.11. Short payment of tax due to incorrect exemption allowed

The assessee availed exemption in excess of that admissible as per Rule

Rule 10(2)(b) of KVAT Rules,2005 stipulates that where the actual turnover, in respect of the works contract in which the transfer of goods takes place not in the form of goods but in some other form, is not ascertainable from the books of accounts, the total turnover in respect of such works contract shall be computed after deducting labour and other charges as given in the table

below the Rule from the total amount of contract. Labour and other charges deductable in works contract in respect of Annual Maintenance Contract (AMC) is 50 *per cent* of contract receipts. As per Section 6(1) (f) of KVAT Act, 2003 in the case of transfer of goods involved in the execution of works contract, where the transfer is not in the form of goods, but in some other form the rate of tax shall be 13.5 *per cent.*

- **CTO, Special Circle II, Ernakulam**

➢ M/s HCL Infosystems Ltd., Kochi, was a dealer in computer and accessories. During 2011-12, they claimed exemption of ₹ 4.95 crore from the total receipt of ₹ 5.95 crore towards AMC against the actual eligible exemption of ₹ 2.97 crore. During 2012-13, they claimed exemption of ₹ 4.65 crore from the total receipt of ₹ 6.40 crore towards AMC, against the actual eligible exemption of ₹ 3.20 crore. Availing of excess exemption resulted in short payment of tax and interest of ₹ 29.42 lakh and ₹ 8.53 lakh during 2011-12 and 2012-13.

Government stated (July 2015) that the assessment for the year 2012-13 had been completed (June 2015) creating additional demand of ₹ 9.68 lakh and the amount is under collection. Further report for the remaining period had not been received (January 2016).

➢ M/s Crompton Greaves Limited, Kochi, was a dealer in electrical goods, pump sets and parts etc. During 2012-13, they self assessed to tax at five *per cent* turnover of AMC amounting to ₹ 57.66 lakh after availing deduction under Rule 10(2) (b) for ₹ 60.54 lakh from the total turnover of ₹ 118.19 lakh. Since the turnover was arrived at under Rule 10(2) (b), the deduction admissible is ₹ 59.10 lakh (50 *per cent)* only and the balance turnover should have been assessed at 13.5 *per cent*. Failure to do this resulted in short payment of tax and interest of ₹ 6.06 lakh.

Government stated (July 2015) that assessment had been completed (June 2015) creating additional demand of ₹ 17.89 lakh. Further report had not been received (January 2016).

2.12. Short payment of tax due to incorrect claim of input tax credit/special rebate allowed

Excess input tax credit/special rebate was availed resulting in short payment of tax

2.12.1 Section 11(m) of KVAT Act, 2003, read with Rule 58(10)(i) of KVAT Rules, 2005, stipulates that no input tax credit shall be allowed for the purchases of goods where tax invoice in form No.8 is not available with the

dealer or there is evidence that the same has not been issued by the selling dealer.

- **CTO, II Circle, Ernakulam**

M/s Sreeragh General Finance Limited, Kochi, a dealer in motor vehicles and computer products, availed input tax credit of ₹ 1.09 crore during 2012-13, on the purchase of goods for ₹ 8.13 crore. Audit found from the KVATIS that this included input tax credit of ₹ 16.15 lakh on the purchase of goods for ₹ 1.20 crore from two dealers; but not supported by proper invoices issued to the assessee. The invoices filed by the assessee were issued by these two dealers in Form 8B applicable to end customers. Availing input tax credit without proper invoice was not in order. The incorrect availing of input tax credit had resulted in short payment of tax and interest of ₹ 19.21 lakh.

Government stated (October 2015) that necessary instructions had been given (August 2015) to the DC, Ernakulam to re-examine the case. Further report had not been received (January 2016).

2.12.2 Under proviso 3 to Section 11(3) of KVAT Act, 2003, where any goods purchased in the State are subsequently sent outside the State or used in the manufacture of goods and the same are sent outside the State otherwise than by way of sale in the course of inter- State trade or export, input tax credit shall be limited to the amount of input tax paid in excess of five *per cent* on the purchase turnover of such goods sent outside the State.

- **CTO, II Circle, Palakkad**

M/s Mascon Tillers and Tractors, Palakkad, was a dealer in tillers, tractors etc. During 2010-11, 2011-12 and 2012-13, the assessee purchased tillers and tractors for ₹ 6.48 crore, ₹ 4.15 crore and ₹ 9.42 crore respectively and availed input tax credit of ₹ 27.68 lakh, ₹ 33.23 lakh and ₹ 47.08 lakh respectively. Audit found that out of the total disposal of goods for ₹ 9.09 crore, ₹ 10.06 crore and ₹ 12.61 crore, 9.41 *per cent,* 6.23 *per cent* and 9.39 *per cent* respectively were stock transferred outside the State during the above period. As such four/five *per cent* input tax credit proportionate to interstate stock transfer to outside the State had to be reversed which was not done. Availing of excess input tax credit resulted in short payment of tax and interest of ₹ 10.57 lakh.

Government stated (July 2015) that assessment for the year 2012-13 had been completed (February 2015) and the assessee had remitted the amount of ₹ 5.26 lakh. Further report for the remaining period had not been received (January 2016).

- **CTO, Tirurangadi**

M/s Classic Foot Care (India) Private Limited, Malappuram, was a manufacturer of footwear. During 2012-13, they availed input tax credit of ₹ 41.02 lakh on a local purchase of ₹ 5.78 crore. They reversed input tax of ₹ 7.43 lakh against stock transferred to outside the State, goods for ₹ 3.29 crore. Audit found that five *per cent* input tax credit to be reversed proportionate to inter-State stock transfer would come to ₹ 13.42 lakh. Availing of excess input tax credit resulted in short payment of tax and interest of ₹ 7.07 lakh.

Government stated (July 2015) that assessment had been completed (January 2015) creating total additional demand of ₹7.12 lakh. The assessee had remitted (between March 2015 and May 2015) an amount of ₹4.50 lakh. Further report had not been received (January 2016).

2.12.3 Under Section 12(2) of KVAT Act, 2003 dealer paying compounded tax under Section 8 shall not be eligible for rebate under Section 12(1).

- **CTO, Chalakudy**

M/s Institute of Indian Therapies, Annamanada was a dealer in medicine paying tax under Section 8(e) of the Act. Audit found that during 2010-11, the assessee availed special rebate of ₹ 5.19 lakh corresponding to the purchase turnover of ₹ 119.06 lakh. Incorrect availing of special rebate resulted in short payment of tax, cess and interest of ₹ 6.44 lakh.

Government stated (August 2015) that assessment had been revised disallowing special rebate of ₹ 4.86 lakh. Special rebate of ₹ 0.32 lakh was allowed for the raw materials for the manufacturing of medicine. Further report had not been received (January 2016).

2.13. Non-imposition of penalty

Penalty leviable as per CST Act, 1956 was not levied.

- **CTO, Chittur**

As per Section 8 of the CST Act, 1956, goods purchased by issuing declaration in Form C should be intended for re-sale or for use in the manufacturing or processing of goods for sale or in mining or in the generation or distribution of electricity or any other form of power. Under Section 10A read with Section 10(d) of the Act, for the misuse of C form, penalty not exceeding one and a half times of the tax which would have been levied under sub-section (2) of Section 8 should be levied.

M/s Five Star Metals (P) Ltd., Pallavur, a metal crushing unit purchased (December 2010) an electric generator set for ₹ 31.21 lakh. The assessee in response to a notice issued by the Intelligence officer declared (January 2011) that the generator set with accessories purchased by them was for own use and had no direct connection to their business. Though the generator was purchased for purposes other than that connected with the manufacturing or processing of goods, the assessee issued Form - C declaration for the above purchase (March 2011) which would attract penalty under Section 10(d) of the CST Act, 1956. Amount of penalty that could be imposed comes to ₹ 5.85 lakh.

Government stated (July 2015) that assessment of the dealer had been completed (November 2013) creating additional demand of ₹5.85 lakh. The appeal filed by the dealer had been allowed (February 2014) by the AC (Appeal) Palakkad. The second appeal filed by the State was dismissed (March 2015) by the Appellate Tribunal. Further report had not been received (January 2016).

Audit found that most of the cases mentioned above are cases pointed out in earlier Reports. The defects could have been detected and addressed, had the monthly/annual returns were scrutinised by the assessing officers.

Sales Tax

2.14. Short levy of turnover tax due to non revision of assessment order

The revision of turnover tax for the previous year was not reckoned while computing the compounded tax for subsequent years.

- **CTO, Special Circle I, Kozhikode**

Under Section 7 of the KGST Act, 1963, bar attached hotel of and below two star, situated in municipal area, may, pay turnover tax on the turnover of foreign liquor calculated at (a) one hundred and forty *per cent* of the purchase value of such liquor, or (b) one hundred and fifteen *per cent* of the highest turnover tax payable by him as conceded in the return or accounts or the turnover tax paid for any of the previous consecutive three years, whichever is higher. The Commissioner of Commercial Taxes, vide Circular No. 44/2006 had issued directions that if on a subsequent date the tax payable by a dealer who had opted for payment of tax under compounding scheme is revised by virtue of an appellate order or an assessment order, the compounded tax payable shall be based on the revised tax liability fixed as per such orders.

M/s Sea Queen Hotel, Kozhikode, was a bar attached two star hotel situated in municipal area, who opted for compounding scheme for payment of turnover tax. The turnover tax assessment for 2009-10 was completed (March 2014) and

turnover tax was fixed as ₹ 30.43 lakh at 115 *per cent* of ₹ 26.46 lakh, the turnover tax assessed for previous year 2008-09. Turnover tax assessment for 2010-11, 2011-12 and 2012-13 were completed based on the turnover tax for previous years and fixed as ₹ 34.99 lakh, ₹ 40.24 lakh and ₹ 46.27 lakh respectively. Subsequently based on the suppression detected by the Intelligence Officer, the assessment for the year 2008-09 was revised (March 2014), fixing the turnover tax as ₹ 37.24 lakh. However, assessments for 2009-10 to 2012-13 were not revised by the assessing authority based on the revised assessment order for 2008-09. The omission on the part of the assessing officer resulted in short levy of tax, cess and interest of ₹ 66.90 lakh.

Government stated (July 2015) that the assessments had been revised creating additional demand of ₹ 26.21 lakh. The assessee had filed appeal before DC (Appeal). Further report had not been received (January 2016).

2.15. Short levy of tax due to incorrect computation of compounded tax

While computing the compounded tax, rate was applied on incorrect turnover tax reckoned for previous year.

Section 7 of the KGST Act, 1963 stipulates that any bar attached hotel not being a star hotel of and above three star hotel, heritage hotel or club, situated in Municipal area, may at its option pay turnover tax on the turnover of foreign liquor calculated at (a) one hundred and forty *per cent* of the purchase value of such liquor, or (b) one hundred and fifteen *per cent* of the highest turnover tax payable by it as conceded in the return or accounts or the turn over tax paid for any of the previous consecutive three years, whichever is higher for the year 2009-10 and at (a) one hundred and eighty *per cent* of the purchase value of such liquor, or (b) one hundred and twenty five *per cent* of the highest turnover tax payable by him as conceded in the return or accounts or the turnover tax paid for any of the previous consecutive three years, whichever is higher for the year 2010-11.

- **CTO, II Circle, Tripunithura**

M/s Polakulathu Tourist Home, Vyttila, was an assessee engaged in the business of running a bar attached hotel. The turnover tax assessment of the assessee for 2009-10 was completed by the assessing authority (December 2012) taking the turnover as 140 *per cent* of the purchase value of liquor and turnover tax was fixed at ₹ 16.01 lakh. Audit found that 115 *per cent* of the turnover tax payable for 2008-09 amounted to ₹ 48.79 lakh which was higher than the turnover tax fixed by the assessing authority. Incorrect computation of turnover tax resulted in short levy of tax, cess and interest of ₹ 37.74 lakh.

Government stated (June 2015) that assessment had been completed (June 2014) creating additional demand of ₹ 38.07 lakh and revenue recovery efforts had been initiated for recovery of the dues. Further report had not been received (January 2016).

- **CTO, Special Circle I, Kozhikode**

M/s Kalyan Residency, Koyilandy, was a bar attached hotel of three star category. The turnover tax assessment of the assessee for 2010-11 was completed (May 2014) by the assessing authority taking the turnover as 180 *per cent* of the purchase value of liquor during the year and the turnover tax was fixed as ₹ 29.99 lakh. However, Audit found that the turnover tax of the assessee for 2009-10 fixed by the assessing authority was ₹ 16.90 lakh. Since the assessee started business from October 2009 only, the turnover tax payable for a financial year would be ₹ 33.80 lakh. Hence, 125 *per cent* of the turnover tax payable for 2009-10 amounted to ₹ 42.26 lakh. Incorrect computation of compounded tax by the assessing officer resulted in short levy of tax, cess and interest of ₹ 17.47 lakh.

Government stated (July 2015) that assessment had been completed (March 2015) creating additional demand of ₹ 20.11 lakh. Further report had not been received (January 2016).

2.16. Short levy of tax due to incorrect assessment

Incorrect reckoning of turnover tax resulted in short levy of compounded tax.

As per Section 5(2) of the KGST Act, 1963, bar attached hotels are liable to pay turnover tax at 10 *per cent* on turnover of foreign liquor sold by them. However, as per Section 7 of KGST Act, 1963 bar hotels of below three star can opt for payment of such tax at compounded rate. For bar hotels, the rate effective from 1 July 2006 is higher of (a) the turnover tax on the turnover of foreign liquor calculated at 135 *per cent* of purchase value of liquor, for hotels situated in *panchayat* area and at 140 *per cent* of purchase value of liquor for bar hotels situated in municipal corporation area or (b) 115 *per cent* of highest turnover tax payable by it as conceded in the return or accounts or the turnover tax paid, for any of the previous consecutive three years. As per Rule 13(3) of Foreign Liquor Rules, 1953 (FL Rules, 1953) from 1 April 2007, only three star hotels and above are eligible for bar license but existing licensees not having above classification and functioning on 31 March 2007 shall be regularised.

- **CTO, Ettumanoor**

The turnover tax assessment of M/s Palakkunnel Tourist Hotel, Ettumanoor, a bar hotel, which opted payment of tax at compounded rate, was finalised accepting the claim of the assessee that their business was transferred as a whole to the new

partnership firm with effect from 1 October 2008 and hence a new business. The turnover tax for 2009-10 was assessed to ₹ 33.69 lakh being 135 *per cent* of purchase turnover of liquor. Consequently, the turnover tax for 2010-11 and 2011-12 were also fixed based on the turnover tax fixed for 2009-10. Audit found that the business was done in the name and style M/s Palakkunnel Tourist Home upto 30 September 2008 and the business was continued with effect from 1 October 2008 under the name and style M/s Palakkunnel Tourist Hotel. The assessee cannot be considered as a separate entity from the existing one on the fact that if they were new entities, Rule 13(3) of FL Rules, 1953 ought to have prevented it from grant of bar license as the hotel had no three-star status. Hence, the compounded tax to be fixed for the year 2009-10 was ₹ 38.88 lakh being 115 *per cent* of the tax paid during 2008-09 (highest turnover tax paid, of three preceding years). Incorrect fixation of compounded tax for the year 2009-10 resulted in consequent short fixation of tax for the years 2010-11 and 2011-12 also. Total short levy of tax, cess and interest amounted to ₹ 22.70 lakh.

Government stated (October 2015) that based on the audit observation, the assessment was reopened under Section 19 of the KGST Act, 1963. While deciding the appeal filed by the dealer, the Deputy Commissioner (Appeals) Kottayam quashed the assessment. Government had issued necessary direction to the DC, Kottayam to file second appeal in the case. Further report had not been received (January 2016).

Chapter III
Taxes on Agricultural Income

CHAPTER-III
TAXES ON AGRICULTURAL INCOME

3.1 Tax administration

The levy and collection of taxes on agricultural income is governed by The Kerala Agricultural Income Tax (KAIT) Act, 1991 and is administered by Commissioner of Commercial Taxes (CCT). The assessment, levy and collection are done by Inspecting Assistant Commissioners (IAC), Agricultural Income Tax and Commercial Tax Officers (AIT & CTO). The Commercial Taxes Department is under the control of the Secretary to Government (Taxes) at the Government level.

The Companies and persons, who derive agricultural income within the State are liable to pay Agricultural Income Tax (AIT). In respect of Companies, tax is chargeable at the rates prescribed in the Schedule to the KAIT Act, 1991. From April 2000, persons holding landed property upto 500 hectares may opt to pay tax at compounded rate. No tax is payable on first five hectares.

3.2 Internal audit

The details on working of internal audit wing, though called for (June 2015) have not been furnished by the Department (January 2016).

3.3 Results of audit

In 2014-15, test check of the records of 32 Agricultural Income Tax and Commercial Tax Offices[1] relating to agricultural income tax assessments showed underassessment of tax and other irregularities involving ₹ 48 crore in 77 cases which fall under the following categories as given in **Table -3.1.**

Table – 3.1

(₹ in crore)

Sl. No.	Categories	Number of cases	Amount
1.	Income escaped assessment	34	15.55
2.	Inadmissible expenses	36	19.86
3.	Other irregularities	7	12.59
	Total	**77**	**48.00**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 54.21 lakh in three cases which were pointed out in audit

[1] This includes 10 offices of Inspecting Assistant Commissioner (AIT) where only AIT assessments are being done and 22 Agricultural Income Tax and Commercial Tax Offices where both sales tax and agricultural income tax assessments are being done.

during the earlier years. An amount of ₹ 3.69 lakh was realised in two cases during the year 2014-15, which were pointed out during previous years.

On being asked about the reason for non/short realisation of amounts even in accepted cases, the Department stated (December 2015) that the short realisation was due to the amount being adjusted towards loss which was carried forward from the previous year.

A few illustrative audit observations involving ₹ 4.93 crore are mentioned in the following paragraphs.

3.4 Loss of revenue due to non-finalisation of assessments in time

The non finalisation of assessment within the stipulated time resulted in escape of income from assessment and consequent loss of revenue.

Explanation II below Section 5 of KAIT, Act, 1991 stipulates that in case of any deduction towards gratuity or bonus, the deduction shall be allowed in the year in which the actual payment is made to the employee or to any fund recognised in this behalf by the Government irrespective of the method of accounting. As per Section 2(1) (a) of KAIT Act, 1991 any rent or revenue derived from land which is used for agricultural purposes is agricultural income. As per Section 39(6) of the KAIT Act, 1991 AIT assessment should be completed within a period of two years from the date of filing of returns.

- **IAC (AIT), Kattappana**

➢ M/s. Kannan Devan Hills Plantations Company Private Limited, Munnar, conceded agricultural income of ₹ 15.35 crore and ₹ 5.28 crore for assessment years 2010-11 and 2011-12 respectively. As per Note 20 forming part of annual accounts ₹ 805.12 lakh and ₹ 845.90 lakh were charged to the P&L account of the respective years on account of Defined Contribution Benefits. Audit found that ₹ 2.48 crore and ₹ 1.57 crore being amount paid towards gratuity during 2009-10 and 2010-11 respectively were also deducted from total income in agricultural income tax computation statement of respective years. Allowance of both expenditure as deduction in AIT computation is against the provisions of KAIT Act. This resulted in short computation of agricultural income of ₹ 2.43 crore and consequent short payment of AIT. As the assessing authority had not finalised the assessment within the stipulated time, the short levy could not be demanded from the assessee. The loss of revenue due to non-finalisation of assessment within the stipulated time worked out to ₹ 1.22 crore.

Government stated (September 2015) that as the assessing authorities failed to complete the provisional assessment within the time prescribed, the assessments became time barred by limitation and as such assessment of escaped income could not be possible. It was also stated that disciplinary action had already been

initiated in respect of the delinquent officers in this case. Further report had not been received (January 2016).

➢ M/s. Kannan Devan Hills Plantations Company Private Limited, Munnar, conceded agricultural income of ₹ 15.35 crore and ₹ 5.28 crore while filing annual return for assessment years 2010-11 and 2011-12 respectively. They received ₹ 242.72 lakh and ₹ 123.66 lakh towards income from lease of properties during the years which was credited to the P&L account. However, while computing agricultural income tax, only 60 *per cent* of the income from lease was reckoned as agricultural income. Hence 40 *per cent* of the above income amounting to ₹ 146.55 lakh escaped from assessment. As the assessing authority had not finalised the assessment within the stipulated time, the short levy could not be demanded from the assessee. The loss of revenue due to non-finalisation of assessment within the stipulated time worked out to ₹ 73.28 lakh.

Government stated (September 2015) that as the assessing authorities failed to complete the provisional assessment within the time prescribed, the assessments became barred by limitation and as such assessment of escaped income was not possible in this case and short levy could not be made good. It was also stated that disciplinary action had been initiated against the officers responsible in this case. Further report had not been received (January 2016).

There should be a mechanism in the Department to ensure that all the assessments are completed within a prescribed time period so that the assessments do not become time barred.

3.5 Short levy of AIT due to deduction of replantation allowance in excess

The assessing officer allowed replantation allowance in excess of admissibility as per the statute.

As per Section 5(m) of KAIT Act, 1991, agricultural income of a person shall be computed after deducting replantation allowance, subject to such limits, conditions or restrictions as may be prescribed. As per Rule 3 of KAIT Rules, 1991, replantation allowance for rubber and tea shall be limited to actual expenses incurred and not exceeding 2.5 *per cent* and 1.5 *per cent* respectively of the agricultural income of the previous year.

- **IAC (AIT), Mattanchery**

M/s The Cochin Malabar Estates and Industries Ltd., Kochi, a domestic company claimed deduction of ₹ 1.23 crore and ₹ 1.24 crore towards replantation allowance for rubber and ₹ 99.58 lakh and ₹ 1.67 crore towards replantation allowance for tea during 2009-10 and 2010-11 respectively. The assessing authority finalised

the assessments (December 2012 and December 2013) allowing the above deduction. Audit found that admissible replantation allowance during the years for rubber were ₹ 29.61 lakh and ₹ 40.41 lakh and that for tea were ₹ 4.63 lakh and ₹ 2.90 lakh respectively. Excess deduction of replantation allowance resulted in short levy of AIT of ₹ 1.35 crore.

Government stated (September 2015) that the Commissioner of Commercial Taxes had issued direction to the Deputy Commissioner, Mattancherry to revise the assessment based on the audit objection. Further report had not been received (January 2016).

3.6 Short payment of AIT due to inadmissible deductions allowed

The assessing authority allowed inadmissible deductions from total agricultural income.

Under Section 5(l) of the KAIT Act, 1991, the agricultural income of a person shall be computed after making deduction towards any expenditure wholly and exclusively for the purpose of deriving the agricultural income. The fee paid for RPG License will not come under the above category. As per proviso (1) to Section 39(6) of KAIT Act, 1991, in the case of assessment of agricultural income derived from rubber, coffee and manufactured tea, if the assessment under the Income Tax Act, 1961 (Central Act 43 of 1961), is not completed when the Agricultural Income Tax officer proceeds to complete the assessment, he may provisionally accept the agricultural income as per the return filed by him and revise such assessment in accordance with the order of the Income tax authority. Any sum paid to an employee as bonus and gratuity during the previous year are allowable deductions as per Section 5(i) and 5(k) of the Act. Provision for bonus and gratuity are not allowable deduction as per Section 5 of the Act. Employee's contribution towards provident fund is not an expenditure incurred by the company and hence not an allowable expenditure.

Audit noticed in December 2014 that in three cases, the assessee companies had claimed exemption/deduction from the taxable agricultural income, some expenses which were not admissible as per KAIT Act, 1991. The assessing authority while finalising assessments admitted these expenses. This resulted in short levy of AIT of ₹ 1.54 crore as given in following paragraphs.

- **IAC (AIT), Mattancherry**

M/s. Harrisons Malayalam Ltd., Cochin, an assessee company filed their annual return for the assessment year 2010-11 conceding a loss of ₹ 2.63 crore. In arriving at the taxable agricultural income, the assessee claimed exemption towards RPG license fee in respect of manufactured tea and rubber for ₹ 1.35

crore and ₹ 97.64 lakh respectively. The claim for exemption was allowed by the assessing authority while completing the assessment. Though the income tax authorities disallowed these deductions while finalising income tax assessment, the assessing authority failed to revise the assessment based on the Income Tax assessment orders. This resulted in incorrect allowance of expenditure to the tune of ₹ 2.32 crore and consequent short levy of tax of ₹ 72.12 lakh.

The Commissioner of Commercial Taxes had issued direction to the Deputy Commissioner, Mattancherry to complete the final assessment immediately. Further report had not been received (January 2016).

- **IAC (AIT), Kattappana**

➢ M/s. Hope Plantations, Peermade, an assessee company while furnishing their annual return for the assessment year 2010-11 claimed ₹ 35.14 lakh and ₹ 47.30 lakh towards provision for bonus and gratuity respectively, as deduction from total agricultural income in the income computation statement which were not allowable as per KAIT Act, 1991. Audit found that the net income arrived at was after charging the above expenditure in the P&L account. The IAC (AIT), Kattappana while completing the assessment (March 2013) allowed the above deductions, instead of adding back the same, being ineligible expenditure. Incorrect computation of income resulted in escape of agricultural income to the tune of ₹ 98.93 lakh and consequent short levy of tax of ₹ 49.46 lakh.

Government stated (September 2015) that assessment under Section 41(1) of KAIT Act, 1991 had been completed (August 2015) with total demand of ₹ 75.29 lakh incorporating other defects pointed out by Audit also and demand notice had been issued to the dealer. Further report had not been received (January 2016).

➢ M/s. Hope Plantations, Peermade, an assessee company furnished their annual return for the assessment year 2010-11, claiming deductions of ₹ 54.69 lakh and ₹ 53.38 lakh towards employer's contribution to provident fund and employee's contribution to provident fund respectively from agricultural income. The assessing authority completed the assessment allowing the deductions claimed by the assessee. Audit found that the P&L account of the assessee had already been debited with ₹ 59.55 lakh being expenditure incurred towards employer's contribution to provident fund. Hence the deduction of ₹ 54.69 lakh claimed from the net income towards employer's contribution was not admissible. Further, deduction of ₹ 53.38 lakh claimed by the assessee towards employee's contribution was not an expenditure incurred by the assessee and hence should have been disallowed. The failure of assessing authority to disallow above deductions resulted in escape of agricultural income to the tune of ₹ 64.84 lakh being 60 *per cent* of the above inadmissible deductions and consequent short levy of tax of ₹ 32.42 lakh.

Government stated (September 2015) that assessment under Section 41(1) of the KAIT Act, 1991 had been completed (August 2015) with total demand of ₹ 75.29

lakh incorporating other defects pointed out by Audit also and demand notice had been issued to the dealer. Further report had not been received (January 2016).

3.7 Loss of interest on admitted tax

Interest for belated payment of advance tax was not levied and payment received were not appropriated first towards interest due.

- **IAC (AIT), Kattappana**

As per Section 37(1) of KAIT Act, 1991, every person liable to furnish a return under the Act shall pay tax of previous year on or before the end of February of the previous year on the estimated total agricultural income which shall not be less than eighty *per cent* of the total agricultural income as per return. As per Section 37(4) of the Act, any person who fails to pay tax, under the Section is liable to pay interest at the rate of 12 *per cent per annum* for every month of delay or part thereof, on the unpaid balance tax. As per Section 91 A of the Act, where any tax or any other amount due or demanded is paid by an assessee, the payment so made shall be appropriated first towards interest accrued on such tax or other amount on such date of payment and the balance available shall be appropriated towards principal outstanding.

M/s. Kannan Devan Hills Plantations Company Private Limited, Munnar, filed (February 2012) annual return for the year 2010-11 conceding total agricultural income of ₹ 15.35 crore and AIT due as ₹ 7.26 crore. Against the advance tax payable of ₹ 5.80 crore (being 80 *per cent* of admitted tax) the assessee paid ₹ 5.75 crore only. Non-payment of advance tax attracts levy of interest at 12 *per cent per annum*. Audit found that interest was not levied on unpaid advance tax. Further, payments made by the assessee amounting to ₹ 1.50 crore subsequently were not appropriated first towards interest. Non levy of interest and non appropriation of payments resulted in loss of revenue of ₹ 8.96 lakh.

Government stated (August 2015) that there was an excess payment of ₹ 44.06 lakh for the year 2009-10 and that amount could have been adjusted for the interest dues for the year 2010-11. It was also stated that the assessments for the years 2010-11 and 2011-12 had not been completed under Section 39(3) of the KAIT Act, 1991 and that became barred by limitation. Since the assessment is time barred the amount could not be realised. But Government did not inform as to why no action had been taken against the delinquent officer for allowing assessment to become time barred causing loss to Government.

Though similar observations were made in the previous Audit Reports, such lapses still recur. Government/Department had not evolved an effective system to ensure that the AIT assessments are completed in a timely manner.

Chapter IV
Taxes on Vehicles

CHAPTER-IV
TAXES ON VEHICLES

4.1 Tax administration

The receipts from the Transport Department are regulated under the provisions of the Central and the State Motor Vehicle Acts and rules made thereunder. The Transport Department functions under the administrative control of the Transport Commissioner. The levy and collection of tax in the State are governed by the Motor Vehicles (MV) Act, 1988, Central Motor Vehicles (CMV) Rules, 1989 and the Kerala Motor Vehicles Taxation (KMVT) Act, 1976.

4.2 Internal audit

Finance Officer attached to the office of the Transport Commissioner (TC) conducts annual audit of offices of the Deputy Transport Commissioners and Regional Transport Officers (RTOs). The Senior Superintendents attached to the office of the Deputy TC conduct internal audit of Sub RTOs. Two Accounts Officers and two Senior Superintendents comprise the Internal Audit team in the office of the Transport Commissioner. The internal audit function of the Deputy TC's offices in four zones is looked after by eight Senior Superintendents and eight clerks (two each in each zones). No special training has been imparted to the personnel of the Internal Audit Wing (IAW). An annual inspection programme schedule is prepared well in advance and the internal audit is being conducted as per the schedule and when an inspection is scheduled a team is constituted by deploying officials from other sections of the office due to shortage of staff in the Inspection Wing. Against the target of 86 units, 69 units were audited during 2014-15. The periodicity of audit of all offices is 'annual' but the Department could not achieve the target due to lack of proper training, lack of software, increase in number of vehicles registered and the increase in number of defaulters. The Department has not prepared a separate Internal Audit Manual. During 2014-15 the Department could clear 392 paras which was only 14.45 *per cent* of the outstanding 2,713 paras during the year. The Department attributed the reason for low clearance of audit observations to delay in getting final rectification reports from the sub offices audited.

4.3 Results of audit

Test check of records of all the 78 offices of Motor Vehicles Department in 2014-15 relating to token tax, registration fee, permit fee, driving license fee, conductor license fee, penalties and composite fee under National Permit Scheme showed non/short levy of tax and other irregularities involving ₹ 15.23 crore in 426 cases which fall under the following categories as given in **Table – 4.1**.

Table – 4.1

			(₹ in crore)
Sl. No.	**Categories**	**Number of cases**	**Amount**
1.	Non/short levy of tax	160	2.81
2.	Non/short levy of tax due to irregular exemption	11	0.12
3.	Other lapses	255	12.30
	Total	**426**	**15.23**

During the course of the year, the Department accepted non/short levy of tax and other deficiencies amounting to ₹ 9.71 crore in 259 cases which were pointed out by Audit. An amount of ₹ 5.10 crore was realised in 246 cases during the year 2014-15, of which ₹ 4.59 crore in 160 cases were pointed out in earlier years.

The reasons for short collection of tax in accepted cases were called for from the Department in August 2015. The Department stated (December 2015) that it has taken all possible measures to realise the short collection pointed out in the local audit reports. It was also stated that notices had been issued to the defaulters and that in the case of compounding, neither revenue recovery steps nor prosecution steps could be initiated. Regarding short collection pointed out in the case of driving license, it was stated that the same occurred due to the delay in communication of Government orders for enhancement of fees. The reply furnished was not acceptable when advanced communication facilities were available.

A few illustrative audit observations involving ₹ 2.09 crore are mentioned in the following paragraphs.

4.4 Short levy of one time tax on reclassified vehicles

One time tax realised on reclassified vehicles was less than that prescribed as per the statutes.

- **12 RTOs/25 SRTOs[1]**

Section 3(1) of the KMVT Act, 1976 as amended vide Finance Act, 2007 stipulates that one time tax shall be levied in the case of vehicles registered on or after 1 April 2007 and reclassified from the category of transport vehicles depending on the age of vehicle from the month of original registration at the rates prescribed in the Schedule.

During the audit of 37 RTOs/SRTOs, the Regional Transport Officers/Joint Regional Transport Officers short levied one time tax in 1,182 vehicles reclassified from the category of transport vehicles during the period 2010-2014. The mistake was due to incorrect calculation of the age of vehicle and application of incorrect percentage of tax. This resulted in short levy of tax of ₹ 1.39 crore in 1,182 cases.

Audit found that maximum cases was from RTO, Malappuram involving ₹ 24.65 lakh. The irregularity persisted even after being pointed out repeatedly the same by Audit. It is, thus recommended that a system may be put in place to generate the age of the vehicles and calculate percentage of tax automatically instead of capturing the data manually.

The Government stated (September 2015) that ₹ 46.21 lakh had been realised in 376 cases and action was being expedited by Transport Commissioner to collect the dues in remaining cases.

In the exit meeting held in November 2014, the Secretary to Government, Transport Department assured to fix responsibility in cases where such deficiencies were noticed. Audit found that no progress had been made in this regard.

[1] **RTOs**: Attingal, Kannur, Kollam, Kozhikode, Malappuram, Muvattupuzham Palakkad, Pathanamthitta, Thiruvananthapuram, Thrissur, Vadakara and Wayanad
SRTOs: Alathur, Chalakkudy, Changanassery, Chengannur, Guruvayur, Irinjalakuda, Kayamkulam, Kazhakuttom, Koduvally, Kothamangalam, Kottarakkara, Koyilandy, Mallappally, Mannarkkad, Ottappalam, Pattambi, Perumbavoor, Punalur, Thaliparamba, Thalassery, Thiruvalla, Tirur, Uzhavoor, Vandiperiyar and Wadakkancherry

4.5 Non-imposition of fine in cases of overloaded vehicles

Fine as prescribed in the Act was not realised on overloaded vehicles

- **11 RTOs/21 SRTOs[2]**

Under Section 79 of the MV Act, 1988 while issuing goods carriage permit, the authority shall mention the maximum gross vehicle weight of the vehicles used in the permit. Under Section 113 of the MV Act, 1988, no person shall drive any motor vehicle or trailor, the laden weight of which exceeds the gross vehicle weight specified in the certificate of registration. Under Section 114 of the MV Act, 1988, if on weighment, the vehicle is found to contravene any provisions of the above Section regarding weight, the authorized officers of the motor vehicle department, may by order in writing direct the driver to off load the excess weight at his own risk and not to remove the vehicle from that place until the laden weight has been reduced so that it complies with Section 113. Under Section 194 of MV Act, whoever drives a motor vehicle or causes or allows a motor vehicle to be driven in contravention to the provisions of Section 113 shall be punishable with minimum fine of ₹ 2,000 and an additional amount of ₹ 1,000 per tonne of excess load together with liability to pay charges for off loading the excess load. As per Section 86 of MV Act the transport authority which granted a permit may cancel the permit or may suspend it for such period as it thinks fit on the breach of any conditions specified in Section 84, which *inter-alia* checks the driving of vehicles to which the permit relates in contravention of the provision of Section 113. Under notification[3] issued (April 2010) by Government the offence can be compounded at the prescribed rates which is equivalent to the rate of fine mentioned above. The Committee on Public Accounts (2014-16) in its 89 Report had recommended that transport department should chalk out effective measures to ensure that overloaded vehicles are levied with compounding fee at higher rate and excess weight is off loaded.

Audit scrutiny (between November 2013 and November 2014) in 32 RTOs/SRTOs revealed that the Motor Vehicle Inspectors/Assistant Motor Vehicle Inspectors who inspected the vehicles allowed them to proceed without following the procedure prescribed in the Act, after recording the offence in the check reports. The fine prescribed in the Act was not collected. This resulted in non-levy of fine of ₹ 45.26 lakh in 737 cases.

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2 **RTOs:** Attingal, Kannur, Kollam, Kozhikode, Muvattupuzha, Palakkad, Pathanamthitta, Thiruvananthapuram, Thrissur, Vadakara, Wayanad
SRTOs: Chalakudy, Changanassery, Chengannur, Guruvayoor, Irinjalakuda, Koduvally, Kothamangalam, Kottarakkara, Koyilandy, Mallappally, Ottapalam, Parassala, Pattambi, Perumbavoor, Punalur, Thalassery, Thaliparamba, Thiruvalla, Thodupuzha, Tirur, Vandiperiyar

3 SRO No. 221/2010 with effect from 1 April 2010.

Maximum cases of non imposition of fine were noticed in SRTO Perumbavur, involving ₹ 4.86 lakh.

Government stated (October 2015) that ₹ 17.89 lakh had been collected from 297 cases and action was being expedited by the Transport Commissioner to collect the dues in the remaining cases. Further report had not been received.

While considering similar paras in previous Audit Reports, the PAC (2011-14) in its 34 Report had recommended that the Department should strictly adhere to the law and should levy the fine as specified in the Act. It also recommended to cancel the permit of those vehicles found overloaded. However, Audit found that Department/Government had not taken appropriate action in this regard.

The Secretary to Government, Transport Department stated in the exit conference held in November 2014 that the Government was thinking about fixing responsibility in cases where such deficiencies were noticed. Progress about action taken was awaited (January 2016) from the Government.

4.6 Short levy of one time tax on registration of new vehicles

One time tax realised on vehicles was less than that prescribed as per the statutes.

- **4 RTOs/3 SRTOs[4]**

Section 3(1) of the KMVT Act, 1976 stipulates that in respect of new motor vehicles, onetime tax shall be levied at the rate specified in Schedule to the Act at the time of first registration of the vehicle. With effect from 1 April 2012, the rates of onetime tax leviable were six *per cent*, eight *per cent*, 10 *per cent* and 15 *per cent* of the value of vehicles having purchase value upto ₹ five lakh, more than ₹ five lakh and upto ₹ 10 lakh, more than ₹ 10 lakh and upto ₹ 15 lakh and more than ₹ 15 lakh respectively.

During the audit of seven RTOs/SRTOs, it was noticed that during the period 2012-14, onetime tax was short levied in 29 cases amounting to ₹ 17.09 lakh.

Maximum short levy of tax on vehicles were noticed in RTOs Kannur and Kozhikode and SRTOs Punalur and Koduvally involving ₹ 9.13 lakh.

Government stated (August 2015) that ₹ 2.21 lakh had been collected in six cases and action was being expedited by the Transport Commissioner to collect the dues in remaining cases. Further report had not been received (January 2016).

[4] **RTOs:** Kannur, Kozhikode, Palakkad and Thiruvananthapuram.
SRTOs: Koduvally, Punalur and Vandiperiyar.

Audit found that the irregularity persisted even after repeatedly pointing out the same in audit. As such, necessary system may be put in place to calculate percentage of tax automatically instead of capturing the data manually.

4.7 Short levy of tax due to incorrect fixation of seating capacity

Tax realised on stage carriages was less than those prescribed as per the statutes.

- **4 RTOs**[5]

Under Section 3(1) of the KMVT Act, 1976, tax shall be levied, based on the seating capacity on stage carriages for use in the State at the rates prescribed in the Schedule. Rule 269 of KMV Rules, 1989 prescribes the minimum seating capacity of a stage carriage which shall be directly proportional to the wheel base of the vehicle. Further, the minimum number of seats may be reduced by one fifth in respect of stage carriages operating as city/town service.

Audit observed (between December 2013 and October 2014) that in four Regional Transport Offices, the seating capacity computed by the Regional Transport Officers were not as per the wheel base of the vehicles as prescribed in the KMV Rules. The tax on the vehicles was levied based on the incorrectly computed seating capacity. This resulted in short levy of tax of ₹ 7.72 lakh in 13 cases for the period 2001-2013.

Short levy of tax was noticed maximum in RTO Pathanamthitta involving ₹ 4.76 lakh.

Government stated (October 2015) that ₹ 1.20 lakh had been collected in six cases, there was no short collection of tax in seven cases as the wheel base had since been corrected in the registration certificate after inspection of the vehicles by MVIs/JRTOs, one case was pending with Hon'ble HC of Kerala and revenue recovery action for ₹ 64,200 was being taken in another case.

The Government had not furnished the reason for non-levy of tax for the seating capacity proportional to the wheel base which was originally recorded in the certificate of registration. It had also not been explained as to how the mistake had occurred while recording the wheel base. The details of action taken in the remaining cases had also not been furnished by the Government.

[5] Kollam, Kozhikode, Palakkad and Pathanamthitta.

Chapter V
Land Revenue and Building Tax

CHAPTER-V
LAND REVENUE AND BUILDING TAX

5.1 Tax administration

The Revenue and Disaster Management (R&DM) Department is under the control of the Principal Secretary at the Government level with the Commissioner of Land Revenue as its head. The revenue collection of the Department includes collection of basic tax, building tax, lease rent and plantation tax. The Department realises arrears of public revenue under the Kerala Revenue Recovery Act, 1968 (KRR Act, 1968) with interest and cost of process prescribed.

5.2 Internal audit

The Internal Audit Wing (IAW) of the Office of the Commissioner of Land Revenue is supervised by a Senior Finance Officer under the Commissioner of Land Revenue. The audit of *taluk* offices, Revenue Divisional Offices and Revenue Recovery offices, Offices of Vigilance Deputy Collector and stamp depot is conducted in a period of two to three years and on random selection without conducting any risk analysis. During 2014-15, the wing planned and conducted audit of 24 units. Out of an overall outstanding of 22,765 paras, only 136 paras (0.59 *per cent)* were cleared. This clearly suggests that the Commissioner of Land Revenue failed to accord necessary attention to the observations of the IAW and ensure clearance of the paras by taking care the shortcomings/deficiencies.

5.3 Results of audit

The records of 49 units out of total 107 units relating to land revenue and building tax were test checked during 2014-15. Under-assessment of tax and other irregularities involving ₹ 55.21 crore were detected in 210 cases which fall under the following categories as given in **Table – 5.1**.

Table – 5.1

(₹ in crore)

Sl. No.	Categories	Number of cases	Amount
1	Under-assessment and loss under building tax	171	12.07
2	Under-assessment and loss under other items	39	43.14
	Total	**210**	**55.21**

During the course of the year, the Department accepted under-assessments and other deficiencies involving ₹ 0.87 crore in 67 cases; of which four cases having monitory value of ₹ 49.09 lakh were pointed out in audit during 2014-15. An amount of ₹ 2.17 crore was realised in 158 cases during the year; of which, four cases involving ₹ 5.06 lakh pertained to 2014-15. The Department replied that the non/short realisation of dues were due to the pendency of Court cases and appeals.

A few illustrative audit observations involving ₹ 5.99 crore are mentioned in the following paragraphs.

5.4 Non-assessment of building tax

The completion of buildings were either not reported by Village Officers or the buildings were not assessed to building tax by the assessing authority though reported by Village Officers for assessment.

As per Section 5(1) of the Kerala Building Tax Act, 1975 (KBT Act, 1975), building tax shall be charged on every building the construction of which is completed on or after 10 February 1992 based on the plinth area of the buildings at the rates prescribed. Section 7(1) of the KBT Act, 1975 stipulates that the owner of every building the construction of which is completed or to which major repair or improvement is made on or after 10 February 1992 shall furnish to the assessing authority a return in the prescribed form along with a copy of the plan approved by the local authority or such other authorities as may be specified by the Government in this behalf. As per Rule 3 of the Kerala Building Tax (Plinth Area) Rules, 1992 every Village Officer shall transmit to the assessing authority, within five days of the expiry of each month, a monthly list of buildings liable to assessment, together with extracts from building application register of the local authority within whose area the buildings included in the list are situated. As per Section 7(3) of the KBT Act, 1975 if the assessing authority is of opinion that any person is liable to furnish a return under subsection (1), it may serve a notice upon that person requiring him to furnish within such period a return in the prescribed form. If any person fails to make a return in response to any notice issued under subsection 3 of Section 7, the assessing authority shall assess the amount payable by the person as building tax to the best of its judgement.

5.4.1 Cases which were not reported by Village Officers

- **20 *Taluk* Offices[1]**

Audit collected the details of buildings completed from the local authorities which were cross-verified with the building tax assessment registers of 20 *Taluk* Offices, the booking registers and collection registers of 48 village offices. Audit found that 563 buildings, completed between January 2007 and March 2014 and a building completed in 1993 were not reported to the *Tahsildars* for assessment. Root cause for non-identification of the new buildings completed was non filing of return by the building owners as envisaged in the Act. Though a penalty clause

[1] Aluva, Ambalapuzha, Chengannur, Cherthala, Chirayinkeezhu, Chittur, Ernad, Kanayannur, Kasargod, Kodungallur, Kottayam, Kozhencherry, Kozhikode, Mananthavady, Mannarkkad, Palakkad, Sultan Bathery, Tirur, Tirurangadi and Udumbanchola.

had been envisaged in the Act, this was not being enforced. The Village Officers also failed to forward the monthly list of completed buildings to *Tahsildars.* Non-reporting of the completion of the buildings by the building owners and failure of the Village Officers to send the list of completed buildings to *Tahsildars* resulted in non-identification of the buildings completed for assessment. This resulted in non-assessment of buildings and consequent non levy of tax of ₹ 2.24 crore.

Audit found that four *Taluk* Offices having maximum cases of non levy of building tax where the village officers had not reported the buildings for assessment noticed as given below.

- *Taluk* Office, Kottayam – 112 cases; ₹ 27.78 lakh.
- *Taluk* Office, Kozhikode – 85 cases; ₹ 70.57 lakh.
- *Taluk* Office, Chengannur – 55 cases; ₹ 8.29 lakh.
- *Taluk* Office, Chirayinkeezhu – 52 cases; ₹ 9.68 lakh.

The Government stated (July 2015) that ₹ 46.41 lakh had been recovered in 62 cases, two cases involving ₹ 3.92 lakh had been exempted and action was being taken to realise the balance amount. Justification for exemption and details of realisation in remaining cases had not been received (January 2016).

Thus, it is felt that in the case of new buildings, Government may consider issuing directions to the Kerala Water Authority/Kerala State Electricity Board Limited to ensure that water/electricity supply connections are given to buildings for which building tax assessments have been completed.

5.4.2 Cases which were reported by Village Officers

- **14 *Taluk* Offices**[2]

Audit cross-verified the building tax assessment registers of 14 *Taluk* Offices with the booking registers and collection registers of 156 village offices and found that 986 buildings completed during 2011-14 were reported by Village Officers to the *Tahsildars* for assessment. The *Tahsildars* failed to levy and assess tax even on the buildings the completion of which were reported by the Village Officers. Inaction on the part of the *Tahsildars* to assess the buildings resulted in non-levy of building tax of ₹ 2.26 crore.

Audit found that short levy of building tax involving ₹ 1.60 crore was noticed maximum in the following *Taluk* Offices.

- *Taluk* Office, Palakkad --295 cases; ₹ 60.04 lakh.

[2] Ambalapuzha, Chengannur, Kanayanoor, Kodungallur, Kothamangalam, Kottarakkara, Kozhenchery, Kozhikode, Mukundapuram, Nedumangad, Palakkad, Peerumade, Tirur, and Tirurangadi

- *Taluk* Office, Kozhikode – 124 cases; ₹ 45.45 lakh.
- *Taluk* Office, Tirur – 198 cases; ₹ 29.41 lakh.
- *Taluk* Office, Kanayannur--23 cases; ₹ 25.07 lakh.

The Government stated (July 2015) that ₹ 35.93 lakh had been recovered in 295 cases, four cases involving ₹ 65,475 had been exempted and action was being taken to realise the balance amount. Justification for exemption and details of realisation in balance cases had not been received (January 2016).

Audit found that failure of the Village Officers to send the list of buildings coupled with the failure of *Tahsildars* to assess these buildings, the completion of which were reported by Village Officers resulted in the failure of prescribed mechanism of identification of buildings to be assessed to tax. Audit found that survey system prevailed in the Department was inadequate to identify the new buildings for assessment of tax.

Audit noticed that the Government was taking action only after defects/ deficiencies were being pointed by Audit. As such, Government needs to put in place necessary system to take care of all such cases in a timely manner.

5.5 Non-realisation of luxury tax and non-demand of interest

Luxury tax was not assessed and demanded though building tax was assessed. Further, interest was not levied though luxury tax was paid after the prescribed dates.

As per Section 5A of the KBT Act, 1975, a luxury tax is leviable at the rate of ₹ 2,000 *per annum* on all residential buildings completed on or after 1 April 1999, having a plinth area of 278.7 square metres or more. The rate was revised to ₹ 4,000 *per annum* from 1 April 2014. As per the KBT Act, 1975 luxury tax is to be paid in advance on or before 31 March every year. As per Section 19 of the KBT Act, 1975 in case of default, such amount shall be recoverable under the law relating to the recovery of arrears of public revenue due on land. Further, the arrears of tax shall attract interest at six *per cent per annum* from the date of default.

- **17 *Taluk* Offices[3]**

As per the luxury tax assessment records maintained in 17 *Taluk* Offices, the assessees either did not pay luxury tax or paid the tax partially during the period 1999-2000 to 2014-15 in 2,597 cases. Audit found that the building owners had

[3] Aluva, Ambalapuzha, Cherthala, Kanayannur, Kasargod, Kodungallur, Kollam, Kottarakkara, Kottayam, Kozhencherry, Kozhikode, Mallappally, Mannarkad, Nedumangad, Palakkad, Thiruvalla and Udumbanchola

not paid the luxury tax in advance in above cases and the assessing officers were not reviewing the building tax register containing the details of building tax assessments to ensure that the luxury tax due was paid by the owners of buildings regularly. The absence of such a system led to failure of *Tahsildars* concerned to take action under Section 19 resulting in non-realisation of luxury tax and interest amounting to ₹ 1.24 crore.

Audit observed that maximum cases where luxury tax was either not levied or levied short were noticed in *Taluk* Offices, Kanayannur and Kodungallur involving ₹ 38 lakh.

The Government stated (October 2015) the luxury tax of ₹ 46.29 lakh was realised in 1,309 cases, 17 cases with money value ₹ 1.46 lakh was exempted and 27 cases with ₹ 1.86 lakh were appeal/Court cases pending disposal. Justification for granting exemption had not been furnished by the Government. Further report had not been received (January 2016).

- **11 *Taluk* Offices**[4]

On a scrutiny (between March 2014 and January 2015) of the luxury tax registers of 11 *Taluk* Offices, Audit found that in 1,464 cases, the assessees paid luxury tax for the years 1999-2000 to 2013-14 after the prescribed due dates. The delay in payment ranged between one to 179 months. The *Tahsildars* accepted the delayed payments of luxury tax without collecting the interest prescribed. Omission on the part of the *Tahsildars* to realise interest under Section 19 amounted to ₹ 4.93 lakh in above 1,464 cases.

Audit observed that maximum cases of non levy of interest on luxury tax were noticed in *Taluk* Offices Kasargod, Kanayannur and Palakkad involving ₹ 3.70 lakh.

The Government stated (July 2015) that ₹ 26,400 had been recovered in 189 cases and two cases involving ₹ 890 were pending for disposal of appeal and action was being taken to realise the balance amount. Further report had not been received (January 2016).

On this being pointed out (September 2015) Principal Secretary to Government Revenue Department stated (September 2015) that District Collectors had been directed to ensure that appropriate action will be taken for collection of building tax and to take disciplinary action in case of non compliance.

PAC (2006-2008) in their 68 Report had commented on the lapses and irregularities in the assessment and collection of building tax supplemented by procedural drawbacks. The Committee had also noted that when irregularities were pointed out by Audit or otherwise, the Department issued circulars directing

[4] Ambalapuzha, Cherthala, Chirayinkeezhu, Kanayannur, Kasargode, Kozhikode, Mallappally, Mannarkkad, Palakkad, Peermade and Udumbanchola.

the sub-offices not to repeat such irregularities, but no follow up was taken by the Department and the irregularities were being repeated. The Committee recommended that along with issuing circulars, the Department should ensure with the use of a capable internal audit system, whether the circular directions were being carried out. In response to the recommendation of PAC, the Department stated that the internal audit wing of the Department had been strengthened in such a way as to go through each and every nook and corner of building tax assessment files and it had also been made sure that the inspections were being made at regular intervals. Despite the assurance made by the Department to the PAC, the irregularities were persisting and these systemic issues had resulted in considerable leakage of revenue.

Though, every year the Audit points out large number of such cases in which either luxury tax was not collected or interest was not levied in cases of delayed payments of luxury tax, Government had not evolved an effective system to detect such cases and make good the short/non collection of tax/interest.

5.6 Non collection of cess on building tax

Cess on buildings with plinth area of 4,000 square feet and above was not demanded and collected.

- **31 *Taluk* Offices[5]**

As per Section 5(1) of the KBT Act, 1975, building tax shall be charged on every building the construction of which is completed on or after 10 February 1992 based on the plinth area of the buildings at the rates prescribed. As per the Kerala Finance Act 2011, a cess at the rate of two *per cent* on the building tax shall be levied for residential buildings having a plinth area of 4,000 square feet and above, completed after 19 July 2011. As per Section 19 of the KBT Act, 1975 in case of default, such amount shall be recoverable under the law relating to the recovery of arrears of public revenue due on land. Further, the arrears of cess shall attract interest at six *per cent per annum* from the date of default.

In 31 *Taluk* offices, though building tax of ₹ 3.37 crore was collected in 870 buildings having plinth area of 4,000 sq.ft and above, completed between 20 July 2011 and March 2014, the *Tahsildars* did not demand cess for such buildings. Failure of *Tahsildars* of the *Taluk* offices concerned to demand cess in 870 cases resulted in non-realisation of cess of ₹ 6.73 lakh besides interest.

[5] Aluva, Ambalapuzha, Chengannur, Cherthala, Chirayinkeezhu, Ernad, Kanayannoor, Kasargod, Kochi, Kollam, Kottarakkara, Kottayam, Kozhencherry, Kozhikode, Kunnathunad, Mallappally, Mananthavady, Mannarkkad, Mukundapuram, Ottappalam, Palakkad, Perinthalmanna, Ponnani, Sulthan Bathery, Thalassery, Thaliparamba, Thiruvalla, Thrissur, Tirur, Tirurangadi and Vaikom.

Audit found that non-levy of cess on building tax was noticed maximum in *Taluk* Offices, Kanayannur and Thrissur involving ₹ 2.25 lakh.

Further, it was found that though the details of residential buildings having a plinth area of 4,000 sq feet and above were available in the building tax assessment register of the *Taluk* Offices the Department had not evolved an effective system to identify such cases reviewing the entries in the register regularly and for raising demand timely. Inaction on the part of *Tahsildars* resulted in non demand of cess in above cases.

The Government stated (July 2015) that ₹ 99,199 had been realised in 191 cases, 49 cases involving ₹ 71,260 had been exempted and action was being taken to realise the amount in balance cases. Justification for exemption granted and details of realisation in remaining cases had not been received (January 2016).

5.7 Short levy of tax due to short assessment of plinth area

Assessing authority failed to assess the extended plinth area of the building.

- ***Taluk* Office, Manathavady**

As per Section 5(4) of the Kerala Building Tax Act, 1975, where the plinth area of the building, the construction of which is completed after 10 February 2002 is subsequently increased by new extensions or major repair or improvement, building tax shall be computed on the total plinth area of the building including that of the new extension or repair or improvement and credit shall be given to the tax already levied and collected, if any, in respect of the building before such extension, or repair or improvement. Section 7(1) of the Act stipulates that the owner of the building the construction of which is completed to which major repair or improvement is made on or after the appointed day shall furnish to the assessing authority a return in the prescribed form within the prescribed period along with a copy of the plan approved by the local authority.

In *Taluk* Office, Mananthavady, the assessments of newly constructed/extended areas[6] were not made in three cases[7] during 2012-14 and hence tax was not demanded. Audit found that though the details of constructions/extensions were available in building tax assessment records, same was not utilized by the *Tahsildar* while completing the assessment. Hence Audit requested for joint verification. On such a joint physical verification (March 2015) of the premises by Audit and village officer, it was found that plinth area of 1,145.51 sq.m was omitted for assessment. Failure of the *Tahsildar*, Mananthavady to take action

[6] 304.62 sq.m, 762.80 sq.m, 78.09 sq.m,
[7] Sri. Ambilikunnan Ahammed, Sri. K. Noushad, Sri. Rasheed.

resulted in non-levy of building tax of ₹ 13.21 lakh[8] as shown below in foot note. There was no prescribed mechanism in the Rules for recheck of the assessments made by a *Tahsildar* by a superior officer, except in case of a dispute.

On the matter being pointed out by Audit (March 2015), the *Tahsildar*, Mananthavady stated (June 2015) that on re-examination, new extensions/construction were found in all three cases and demand notices had been issued to realise the balance tax.

Government stated (September 2015) that in one case the assessee had remitted ₹ 54,000 and in the remaining two cases, the assessees had filed writ petitions against the assessment orders of *Tahsildar*. The Hon'ble High Court of Kerala had set aside (August 2015) the assessment orders of the *Tahsildar* and directed to re-inspect the building and issue fresh assessment orders within three months. Further it was stated (January 2016) that in another case the assessment was completed and demanded ₹ 34,755 including fine. In the third case, no amount had been demanded since the area computed previously was seen wrong.

[8] ₹ 2.91 lakh, ₹ 7.53 lakh, ₹ 2.76 lakh.

Chapter VI
State Excise

CHAPTER-VI
STATE EXCISE

6.1 Tax administration

The Principal Secretary to the Government (Taxes) is the administrative head of the Excise Department at Government level. The Department is headed by the Excise Commissioner. The Department has been divided into three[1] zones which are headed by the Joint Excise Commissioners, South, Central and North zone. The divisions at the district level are working under the Deputy Commissioners. Besides, Excise Inspectors under the control of the Deputy Commissioner of the respective districts are deputed to oversee collection of excise duties, license fee etc.

6.2 Internal audit

The Internal Audit Wing (IAW) in the State Excise Department is headed by the Joint Commissioner of Excise and is assisted by one Assistant Excise Commissioner, three superintendents, three excise inspectors and six preventive officers.

The wing had to conduct inspections in the 313 sub offices annually based on the questionnaire for inspection contained in the Excise Manual in accordance with the guidelines issued by the Finance (IAC) Department as well as Departmental instructions issued from time to time.

Out of the total 313 units to be audited, the wing planned and audited 101 units during 2014-15 as against 46 units audited during 2013-14. There were 119 IRs with 334 observations involving ₹ 109.33 crore outstanding at the end of the year. There was a clearance of only 22.5 *per cent* of outstanding audit observations. Even after 35 years of inception of the Wing in 1980, the Department has not prepared a separate internal audit manual, which is indicative of lack of initiative for ensuring good governance.

6.3 Results of audit

In 2014-15, test check of the records of 40 offices[2] under Excise Department relating to excise duty, license fee receipts etc., showed non/short realisation of excise duty/license fee/interest/ penalty and other irregularities involving ₹ 14.98 crore in 47 cases which fall under the following categories as given in **Table – 6.1.**

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[1] South zone (Alappuzha, Kollam, Kottayam, Pathanamthitta and Thiruvananthapuram), Central zone (Ernakulam, Idukki, Palakkad and Thrissur) and North zone (Kannur, Kasargod, Kozhikode, Malappuram and Wayanad).

[2] Out of 128 Offices.

Table – 6.1

			(₹ in crore)
Sl. No.	**Categories**	**Number of cases**	**Amount**
1.	Non-levy of excise duty on transit/bottling wastage	6	0.32
2.	Non levy of excise duty/licence fee	10	0.24
3.	Short remittance of gallonage fee	5	0.07
4.	Non imposition of fine	7	4.09
5.	Others	19	10.26
	Total	**47**	**14.98**

During the course of the year, the Department accepted underassessment and other deficiencies involving ₹ 58.26 lakh in 12 cases which were pointed out during previous years. The Department realised an amount of ₹ 57.93 lakh in the above 12 cases during the year 2014-15.

When the reason for short realisation of amount pointed out by Audit was called for in August 2015 and subsequently in October 2015, the Department stated (November 2015) that this would be furnished on receipt of the reports from sub offices. This had not been received (January 2016).

A few illustrative audit observations involving ₹ 4.44 crore are mentioned in the following paragraphs.

6.4 Non-imposition of fine in cases of shortage in consignment of liquor

Fine was not imposed on the directions of Excise Commissioner which was against the statutes

- **7 Offices[3] of the Excise Inspectors**

As per Rule 11 of Foreign Liquor (FL) Rules, 1953, the Excise Inspector at the destination shall verify the consignment on arrival and see that the quantity is duly credited in the accounts where the transport is by a licencee. Rule 34 of the FL Rules, 1953 stipulates that infraction of any of the Rules or conditions of a licence issued under these rules either by a licencee or by a person in his employment shall entail on the licencee or agent or both a fine[4] or cancellation of the licence or both.

A scrutiny of transport permits and goods receipt register in seven offices of the Excise Inspectors attached with FL-9 Warehouses of Kerala State Beverages

[3] Alappuzha, Aluva, Pappinissery, Thavakkara, Ayurkunnam, S.H. Mount, Tripunithura.
[4] ₹ 10,000 upto 11.9.2012 and thereafter at ₹ 15,000.

Corporation, revealed that during the period 2012-14, the Excise Inspectors released 3,034 consignments of IMFL in which shortage was found to be less than one case[5] of liquor without realising the fine prescribed. This was based on the directions[6] issued by the Excise Commissioner, which was contrary to Rule 34 of FL Rules. This resulted in non realisation of fine of ₹ 4.35 crore.

The DC (Excise), Alappuzha stated (July 2015) that demand notice had since been issued. The Government stated (October 2015) that there was no direction to collect the fine for the consignment having shortage of less than one case and the Excise Commissioner had no intention to collect fine on shortage of liquor if found less than one case. The Government reply was not acceptable since the permit holder violated the permit conditions prescribed under Section 11 of the Abkari Act and was liable to pay penalty under Rule 34 of Foreign Liquor Rules. Further report had not been received (January 2016).

6.5 Short levy of duty due to allowance of excess wastage

Duty as stipulated in the statutes was not levied for excess wastage of liquor.

- **Office of Excise Inspector, Devicolam Distilleries Ltd. Kakkanad**

Rule 10(5) of the Kerala Foreign Liquor (Compounding, Blending & Bottling) (KFL(CB&B)) Rules, 1975 stipulates that while bottling of spirits are carried out in the bottling warehouses, an allowance of not more than half *per cent* shall be allowed for loss in bottling and the wastage shall be calculated on the quantity. Any deficiency in excess of half *per cent* shall be charged with duty at the rate[7] of ₹ 20 per proof litre[8] (PL) applicable to Indian made foreign spirits.

Scrutiny (November 2014) of the registers of bottling operations in the office of Excise Inspector attached with Devicolam Distilleries Limited, Kakkanad revealed that during the period 2012-2014, wastage of 25,826.26 PL liquor in excess of permissible limits was allowed to the distillery by the Excise Inspector while bottling the liquor. This resulted in short levy of duty of ₹ 5.17 lakh.

Government stated (October 2015) that counter signed challan for remitting the duty short levied had been issued to the distillery. Further report had not been received (January 2016).

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5 Box containing eight bottles of liquor.
6 Circular No. XC1-5090/10 dated 29.8.2010.
7 GO(P)No.97/2010/TD dated 3 April 2010.
8 Spirit having same alcohol content as one litre of proof spirit.ie., a mixture of alcohol and water with alcohol 57.06 *per cent* by volume at 60^0 F.

6.6 Short realisation of fine and penalty

Fine and penalty realised were less than those stipulated as per the Statutes.

- **Excise Commissionerate, Thiruvananthapuram**

As per Section 67(2) read with 67(3) of Abkari Act, the Commissioner may impose a fine[9] of ₹ 3 lakh each on any person or persons holding a license or permit for violation by way of reconstitution, alteration or modification without the permission of the Commissioner of any deed on strength of which the license is granted and the Commissioner may regularise such irregular reconstitution on payment of fine and on application from the licensee. Under Rule 19(iii) of Foreign Liquor Rules, 1953 reconstitution of partnership/Directors of a company may be allowed on payment[10] of ₹ one lakh.

M/s Hotel Dona Castle, Kollam is a company having bar license. The Board of Directors of the company was reconstituted twice in March 2013 without the permission of the Commissioner. The Commissioner regularised[11] these two reconstitutions treating them as a single one and levied ₹ four lakh by way of fine and penalty. The Abkari Act envisages fine and penalty for each reconstitution and hence the action taken by the Commissioner was not correct. This resulted in short realisation of fine and penalty of ₹ four lakh.

The Government stated (October 2015) that revision petition to Government had been rejected and the Excise Commissioner had been directed to realise the short remittance of fee and fine from the licencee.

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[9] Ordinance No. 32 of 2013 issued in Notification no. 5211/LegA2/2013/Law dated 26.4.2013.
[10] GO(P) No. 161/2012/TD dated 12.9.2012.
[11] Proceedings No. XC.7-20249/2013/R.Dis dated 9.9.2013 of Commissioner of Excise, Thiruvananthapuram.

Chapter VII
Other Tax Receipts

CHAPTER-VII
OTHER TAX RECEIPTS

A– ELECTRICITY DUTY

7.1 Tax administration

The Kerala Electricity Duty Act, 1963 and Kerala State Electricity Surcharge (Levy and Collection) Act, 1989 and Rules made thereunder govern the levy of duty/surcharge on the sale and consumption of electrical energy. Power Department is under the control of the Secretary at the Government level and the Chief Electrical Inspector administers the Act with the assistance of Additional Chief Electrical Inspector, Deputy Chief Electrical Inspectors, Electrical Inspectors, Deputy Electrical Inspectors and Assistant Electrical Inspectors on technical matters in Headquarters office.

7.2 Internal audit

The internal audit wing (IAW) in the Chief Electrical Inspectorate is monitored by the Chief Electrical Inspector and the Accounts Officer. The IAW consists of one Senior Superintendent, one Junior Superintendent and four clerks. During 2014-15, the wing planned and audited 16 units. No internal audit observations are pending since the responses of the auditee offices are very positive and mistakes pointed out are not found repeated in most of the cases.

7.3 Results of audit

Test check of the records of nine offices relating to the Power Department in 2014-15 showed non/short levy of electricity duty, license fee etc., involving ₹ 3,241.83 crore in six cases as given in **Table – 7.1.**

Table – 7.1

(₹ in crore)

Sl. No.	Categories	Number of cases	Amount
1.	Performance Audit on Levy, Collection and Accounting of Electricity Duty, Surcharge and Inspection Fee	1	3,241.44
2	Non-realisation of license fee	1	0.03
3.	Short levy/collection of electricity duty	4	0.36
	Total	**6**	**3,241.83**

During the course of the year, the Department accepted ₹ 541.51 crore involving one case which was pointed out in earlier year. No amount was realised during the year 2014-15.

When the reason for non-realisation of amount in accepted cases was called for (August 2015), the Department stated (November 2015) that the licencee, Thrissur Municipal Corporation had not remitted the arrears and since revenue recovery action was in progress for the period up to March 2012, the arrear could be collected once the revenue recovery proceedings is completed.

A Performance Audit on Levy, Collection and Accounting of Electricity Duty, Surcharge and Inspection Fee with financial impact of ₹ 3,241.44 crore is mentioned in the following paragraphs.

7.4. Performance Audit on Levy, Collection and Accounting of Electricity Duty, Surcharge and Inspection Fee

7.4.1. Highlights

- The licensees failed to identify the consumers/persons who were liable to pay electricity duty/surcharge. Department had no effective mechanism for detecting such lapses/omissions of licensees. The Department failed to identify the low tension consumers to be inspected though KSEBL, a licensee, themselves had 88 lakh consumers as on 31 March 2014.

[Paragraph 7.4.8.1]

- The Department had not streamlined mechanism to ensure the levy and collection of electricity duty/surcharge/inspection fee timely. This resulted in non/short levy of electricity duty/surcharge/fee amounting to ₹ 67.61 crore.

[Paragraph 7.4.8.2]

- The Department failed to ensure the collection of interest on belated payments of duty/surcharges resulting in non-collection of interest to the tune of ₹ 2,699.02 crore.

[Paragraph 7.4.8.3]

- Incorrect grant of exemptions, irregular retention of collection charge resulted in non/short collection of duty/surcharge of ₹ 272.77 crore.

[Paragraph 7.4.8.4]

- The Department failed to conduct inspections of electrical installations, accounts and returns of licensees. This resulted in non/short levy/collection of inspection fee of ₹ 1.43 crore in addition to the threat raised to public safety.

[Paragraph 7.4.8.5]

7.4.2. Introduction

In Kerala, Electricity Duty is levied on licensees and consumers under sections 3 and 4 respectively of the Kerala Electricity Duty Act, 1963. Besides, a surcharge is levied on High Tension (HT) and Extra High Tension (EHT) consumers under the provisions of the Kerala State Electricity Surcharge (Levy and Collection) Act, 1989. Government of Kerala have also issued notifications prescribing fee for inspection and testing of installations of various classes of consumers viz, EHT, HT, Medium Voltage (MV) and Low Voltage (LV), under Central Electricity Authority (Measures relating to safety and electric supply) Regulations 2010, which replaced Indian Electricity Rules 1956.

7.4.3. Organisational setup

The Chief Electrical Inspector (CEI) is the head of the Department of Electrical Inspectorate. He is under the administrative control of the Secretary, Department of Power at Government level. The CEI is responsible for the implementation of the Acts and Rules. The main function of the Department is to ensure safety of all electrical installations connected to electrical supply system in Kerala.

7.4.4. Audit Objectives

Performance Audit was conducted with the objectives to assess whether:

- the system of identifying licensees / persons liable to pay electricity duty, surcharge and inspection fee is robust to prevent evasion of electricity duty, surcharge and inspection fee.

- electricity duty, surcharge and inspection fee in respect of all licensees/ persons were levied at prescribed rates and collected, remitted and accounted for correctly.

7.4.5. Scope of audit

The Performance Audit (PA) was conducted by checking the records in the Office of the Chief Electrical Inspector and district offices in seven[1] selected districts. Offices of all the licensees[2] (except Military Engineering Service) were also visited. Government files were verified at the Office of the Secretary to Power Department at Government Secretariat. The PA covered the period from 2010-11 to 2014-15.

[1] Thiruvananthapuram, Kottayam, Ernakulam, Idukki, Thrissur, Palakkad, Kozhikode.

[2] Kerala State Electricity Board Ltd, Technopark, Cochin Port trust, Infopark, KINESCO, CSEZ, Rubber Park India(P) Ltd, Kannan Devan Hill Plantations (KDHP), Thrissur Corporation, Military Engineering Service.

7.4.6. Audit methodology

Seven districts were covered in this PA. All the four (Thiruvananthapuram, Ernakulam, Idukki, Thrissur) districts having presence of licensees were selected and the remaining three (Kottayam, Palakkad, Kozhikode) were chosen based on simple random sampling. Data was collected and evidence gathered by scrutiny of files, issuing audit enquiries and questionnaires. An entry conference was held on 15 May 2015 with Secretary to Government, Power Department in which the objectives, scope and methodology of audit were explained. The draft Performance Audit Report was sent to Government on 16 October 2015. An exit conference was also held on 16 November 2015.

- **Acknowledgement**

The Indian Audit and Accounts Department acknowledges the co-operation of the Department of Electrical Inspectorate and licensees in providing necessary information and records for audit.

7.4.7. Audit criteria

Criteria for this Performance Audit were drawn from the following documents.

- Electricity Act, 2003.
- Indian Electricity Rules 1956.
- Central Electricity Authority (Measures relating to safety and electric supply) Regulations 2010.
- Kerala Electricity Duty Act, 1963.
- Kerala Electricity Duty Rules, 1963.
- Kerala State Electricity Surcharge (Levy and Collection) Act, 1989.
- Kerala Electricity Surcharge (Levy and Collection) Rules, 1992.
- Kerala Lifts and Escalators Act, 2013.
- Kerala Lifts and Escalators Rules, 2012.
- Orders issued by Government of Kerala.

7.4.8. Audit findings

Important audit findings have been given in the following paragraphs.

7.4.8.1 Identification of installations/persons liable to pay electricity duty/inspection fee

Levy and collection of duties/surcharge on electricity prescribed under various Act/Rules can be made effectively only if a streamlined monitoring system is in

place in the Department to ensure that the licensees are identifying the consumers/persons liable to pay duty correctly. Audit revealed that there was failure on the part of licensees to identify the persons etc. liable to pay duty/surcharge and an effective system was absent in the Department to detect and correct lapses/omissions on the part of the licensees as narrated in the following paragraphs.

- **Non-identification of cable TV poles**

The Chief Electrical Inspector had formulated technical and statutory requirements for drawing cable TV network lines through KSEB poles to ensure safety. Government in an order issued in March 2000 had instructed KSEBL to obtain safety certificate issued by CEI before permitting cable TV operators to draw cables through its poles. Fee prescribed for inspection of poles and issue of safety certificate was ₹ five per pole per year.

Poles of KSEBL

Audit observed that KSEBL permitted cable TV operators for drawing cables through its poles after levying a fee. Data collected from all the 38 divisional offices of KSEBL functioning in the seven districts selected for audit showed that it had permitted cable TV operators for drawing cables through 30.08 lakh poles[3] during 2011-12 to 2014-15. But Electrical Inspectors of district offices had inspected and collected inspection fee for 9.46 lakh poles only. Non-inspection of 20.62 lakh poles resulted in loss of revenue of ₹ 1.03 crore at the rate of ₹ five per pole per year, besides jeopardising public safety.

Audit found that Asianet Satellite Communication was the major beneficiary as the non-payment of inspection fee by it was ₹ 70.37 lakh.

Cable TV operators in Kannan Devan Hill Plantations Company Private Limited (KDHP) area

As per data collected from KDHP, there were 55 Cable TV operators spread over six estates in their licensed area, drawing cables through 485 poles. But Electrical Inspector had not inspected the poles.

Poles of M/s Reliance Jio Infocom

Audit found that Cable TV /mobile operators use their own poles or that of KSEBL for drawing cables for their network. As permitted by Thrissur Corporation in January 2015, M/s Reliance Jio Infocom erected 1,425 iron pipes along the roads falling under its jurisdiction covering a distance of 28.54 km for drawing optical fiber cables network. But Electrical Inspector had not inspected and fees not levied on the poles.

[3] This is the total of poles relating to four years from 2011-12 to 2014-15.

Operators registered with Telecom Regulatory Authority of India (TRAI)

As per official website of TRAI, there were 3,461 cable TV operators registered in Kerala. Department inspected poles of only those cable TV operators who remitted the inspection fee and therefore no inspection was pending as per records. It had taken no efforts to verify the existence of other cable TV operators as per TRAI list to ensure that none was functioning without inspection, compromising public safety and remittance of fee.

Audit observed that KSEBL permitted cable TV operators to draw cables through the poles without obtaining safety certificate from the Department. Audit noticed that instructions issued by Government cover KSEBL poles only. Department had reported to State Assembly that accidents due to electric shock from cable TV connections were increasing in the State and seven persons met with such accidents in 2013-14 out of which five persons met with the accidents from non-inspected cable TV networks.

Secretary to Government, Power Department stated (January 2016) that inspection of 30 lakh odd poles was an impractical proposition. To avoid revenue loss, Government shall consider collection of the inspection fee by licensee and remitting the same to Government account in consultation with the Department and the licensee and inform the position. The reply is not acceptable as safety issues apply to all poles irrespective of ownership, instructions of Government to limit inspection only to KSEBL poles, compromised public safety. Besides, licensees may be instructed not to issue permits to cable TV operators without production of safety certificate from the Department.

Non-identification of low voltage installations

As per Rule 46 of Indian Electricity Rules 1956 and Regulation 30 of Central Electricity Authority (Measures relating to Safety and Electric Supply) Regulations, 2010, all electrical installations connected to a supply system shall be periodically inspected and tested by the Department or licensee at intervals not exceeding five years.

As per Government of Kerala notification (April 1994), periodical inspection of Low Tension installations was entrusted to Kerala State Electricity Board Limited (KSEBL) and levy of inspection fee was dispensed with. Later, as per notification issued in May 2013, the responsibility of periodical inspection was entrusted to the Department. But KSEBL and Department had not inspected any of the installations during the period of audit.

Audit found that Department did not have any information on the Low Tension consumers to be inspected. Number of consumers taking supply from KSEBL and not inspected by KSEBL/Department was 87.89 lakh as of 31 March 2014.

Secretary to Government, Power Department stated (January 2016) that inspection of around 90 lakh low voltage installations was practically an

impossible task due to staff shortage. The reply is not acceptable as the inspection was mandatory under the rules/regulations issued by Central Government under Electricity Act 2003 and non-inspection may compromise safety aspects.

Recommendation No. 1 - ***Government may:***

- ***identify all LV installations/cable TV poles which are now left out and instruct licensees not to issue permit to cable TV operators without production of safety certificate from the Department.***

- ***work out a practical process of assessing and realising the revenue from the inspection of cable TV poles.***

7.4.8.2 Non/short levy of inspection fee/electricity duty

As per Section 7 of the Kerala Electricity Duty Act, 1963, the CEI is responsible for ensuring that the duties/fees/ surcharge prescribed under the statutes relating to the usage of electricity and inspections of electrical installations are collected at the prescribed rates and accounted for correctly. Department need to take corrective measures if the licensees/consumers were defaulting in the payment of duties/fees. Audit scrutiny revealed that an effective system was absent in the Department to ensure that duties/fees leviable were collected and remitted to Government correctly and in a timely manner. Illustrative cases are given in the following paragraphs.

- **Non-levy of duty due to failure to take meter readings of self-generating sets[4]**

As per schedule to Section 4 of Kerala Electricity Duty Act 1963, duty at the rate of 1.2 paise per unit was to be paid by the consumers who generate electricity from the self-generating sets and consume for their own use. After approval by Department and energisation by licensee, it was the responsibility of the licensee to take readings of the generating sets and collect duty from the consumers and remit to Government account. It was noticed that five[5] licensees had not taken readings of any of the 234 generating sets installed under their jurisdiction. The details of date of installation of generating sets were not available with the licensees. As per the available records furnished by Techno Park, the date of installation ranged from 2007 to 2014. Chief Electrical Inspector, who was responsible for monitoring the collection of duty, also failed to ensure that the licensees complied with the requirements. As readings were not taken, amount of duty not levied could not be worked out.

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[4] Self generating sets are used in places without connection to a power grid, or as emergency power supply if the grid fails.

[5] Thrissur Corporation, Cochin Special Economic Zone, Rubber Park India (P) Ltd, Technopark, KINESCO.

Audit analysis revealed that consumers most benefited were Wipro, Nitta Gelatin India Limited, Infosys Limited and TCS Peepul Park as duty was not levied due to failure of licensees in taking meter readings.

In the exit conference, Secretary to Government, Power Department directed CEI to intimate all licensees about the provision and to avoid occurrence of such omissions in future. In respect of new self- generating sets, it was directed to include a condition in the sanction order, directing licensees to levy electricity duty as specified in the Act.

- **License fee for existing/ new lifts and escalators**

As per Section 5 of Kerala Lifts and Escalators Act, 2013, existing lifts and escalators shall not be continued to work after such period prescribed, from the date of effect of Kerala Lifts and Escalators Rules, 2012. The rules came into force from 31 January 2013 and the period prescribed for obtaining the license was two months ie upto 31/3/2013. License fee prescribed was ₹ 1,000 per lift/escalator per year and Department was authorised to disconnect power supply to the lifts and escalators, which had not obtained license. Besides, renewal was also applicable to new lifts and escalators which were issued licenses under the Act from 2013-14.

In seven districts selected for audit, 4,865 lifts and escalators (existing and new) were functioning during 2013-14. Audit found that the licenses were renewed based on the applications received from the license holders. Audit observed that if applications were not received, there was no system in the Department to detect the lifts/escalators functioning in the State unauthorisedly. 6,884 (aggregate for 2013-14 and 2014-15) lifts and escalators were functioning without valid license. Loss of license fee at the rate of ₹ 1,000 was ₹ 68.84 lakh. Besides, these lifts and escalators continued to function at the risk of public safety.

The details of Lifts/Escalators for which license not issued / renewed as stipulated in the Kerala Lifts & Escalators Act 2013 in the selected districts are as shown in **Table-7.2**.

Table-7.2

District	No. of lifts/escalators for which licenses not issued / renewed (2013-14 & 2014-15)	License fee involved (₹)
Ernakulam	2,933	29,33,000
Thiruvananthapuram	1,972	19,72,000
Thrissur	946	9,46,000
Kozhikode	663	6,63,000
Kottayam	221	2,21,000
Idukki	149	1,49,000

Audit analysis revealed that most of these lifts/escalators belonged to Techno park Phase III, Aerens Goldsouk international, Hotel ABAD Plaza and MPG Hotel and Infrastructure Ventures.

Secretary to Government, Power Department stated (January 2016) that electric supply of lifts and escalators alone could not be disconnected as it does not stand as a separate unit. It was further stated that Government was considering amendment of the provisions in this regard. Reply was not acceptable as non-obtaining/non-renewal of license presupposes a possibility of safety risk and the remedy for that can only be non-operation of lift/escalator till license is obtained. While amending the rules, provisions for safeguarding public safety may also be taken into account.

- **Electricity duty on sale of self-generated electricity to consumers**

As per Section 3 of Kerala Electricity Duty Act, 1963, every licensee shall pay each month to Government a duty calculated at the rate of six paise per unit on energy sold at a price of more than 12 paise per unit. As per Section 4, every consumer belonging to any of the classes specified in schedule to the Act shall pay each month to Government a duty calculated at the rate specified in the schedule.

Audit observed that self generating sets in Technopark buildings consisted of those owned by i) consumers and ii) licensee (Technopark). Technopark generated electricity from diesel generating sets owned by them and installed in various buildings in the campus for consumption of its consumers during power failure. Electricity so generated was sold to the consumers located in such buildings and cost of production of electricity was recovered from them by issuing invoices without showing electricity charges separately. Being sale of electricity by the licensee to its consumers, electricity duty under Sections 3 and 4 was to be remitted to Government account. But Technopark had not remitted the duty since its inception as it treated the sale as own consumption and remitted duty applicable to energy generated for own consumption from self- generating sets at 1.2 paise per unit. From 2010-11 to 2014-15, 30.45 lakh units of electricity involving energy charges of ₹ 1.26 crore was sold, for which duty not remitted was ₹ 14.38 lakh (₹ 1.83 lakh under Section 3 and ₹ 12.55 lakh under Section 4).

Secretary to Government, Power Department stated that Technopark generated power for and on behalf of the consumers and collected the diesel charges alone, which was not a sale. Under the Act, consumer who generated the power should use it, for being eligible to pay duty under item 5 of schedule to Section 4. Reply was not acceptable as Technopark was not consuming the power generated by it and payment under item 5 was not in order. The matter may be reported to KSERC for clarification on this type of generation of electricity.

- **Irregular adjustment of subsidy**

As per schedule to Section 4 of Kerala Electricity Duty Act 1963, domestic consumers were liable to pay electricity duty at the rate of 10 *per cent* of energy charges indicated in the invoice. KSERC increased electricity charges with effect from 1 July 2012. Government of Kerala, in August 2012, exempted domestic consumers with monthly consumption up to 120 units and agriculture consumers from payment of increased electricity charges ordered by KSERC. It was also ordered that the loss sustained by KSEBL on account of the exemption would be compensated by Government by providing cash subsidy. Government provided ₹ 987.69 crore to KSEBL as cash subsidy for the period from July 2012 to March 2015.

Audit observed that KSEBL had collected electricity duty on energy charges from such consumers after deducting subsidy instead of actual energy charges indicated in the invoices. This had resulted in non-collection of electricity duty on the entire energy charges from domestic consumers with monthly consumption upto 120 units and agriculture consumers. As Government had not exempted subsidy portion from duty, non-collection of electricity duty for subsidy was irregular. This had resulted in short collection of electricity duty of ₹ 63.49 crore

Secretary to Government, Power Department stated that the intention of Government was to protect the consumers from any tariff hike and therefore levying electricity duty on increased tariff would obviously be against the intention. If Government had intended so, it should have exercised powers under the Act to exempt such category of consumers from the duty on increased tariff, which was not done and therefore the reply was not tenable.

- **Electricity duty for energy charges for which Government provided cash subsidy**

Government had exempted consumers having monthly consumption not exceeding 20 units (non-paying group) from payment of energy charges. Amount of energy charges not received by KSEBL due to such exemption was made good by Government by paying equivalent amount as cash subsidy under section 65 of Electricity Act 2003.

KSEBL had been implementing the concession to non-paying group (NPG) consumers from 1991 to March 2012 without assistance from State Government. In the tariff order for 2012-13, KSERC had not recognised the NPG consumers and directed KSEBL to obtain subsidy from Government from 2012-13 to continue the concession. KSEBL received the subsidy from Government from April 2012.

As per Section 3 of Kerala Electricity Duty Act, 1963, licensees should pay electricity duty at the rate of six paise per unit for the energy sold at a price of more than 12 paise per unit. It was noticed that KSEBL had not paid electricity

duty for the sale of energy to the non-paying group consumers. As KSEBL received cash subsidy from Government on behalf of the consumers, in lieu of energy charges, duty under Section 3 was payable on the energy sold to such consumers.

Audit observed that from April 2012 to October 2013, 3.22 million units of energy was sold to non-paying group consumers, for which duty not paid by KSEBL was ₹ 1.93 lakh and interest on the same worked out to ₹ 0 .41 lakh.

Secretary to Government, Power Department stated (January 2016) that the intention of the Government in giving subsidy was to exempt the most economically vulnerable group of domestic consumers from payment of electricity charge to alleviate their financial burden. Hence, charging electricity duty from such category of consumers would obviously be against the intention of the Government. Audit observation was on non-payment of electricity duty payable under section 3 by KSEBL from its own revenue and not on duty payable by consumers under Section 4, which was not covered in the reply.

- **Irregular deduction of power factor incentive from energy charges**

As per Section 4 of Kerala Electricity Duty Act, 1963, electricity duty at the rate of 10 *per cent* was leviable on the price of energy indicated in the invoices issued by the licensees. Tariff orders issued by KSERC for KSEBL prescribed incentive/ penalty to HT/EHT consumers for power factor improvement. Incentive was 0.15 *per cent* of energy charges for each 0.01unit increase in power factor from 0.90 and penalty was one *per cent* of energy charges for every 0.01 fall in power factor from 0.90.

Audit scrutiny of 1.22 lakh invoices issued to non-industrial HT/EHT consumers by KSEBL from 2010-11 to 2014-15, revealed that electricity duty was collected on energy charges after deducting/adding power factor incentive/penalty. Total amount of power factor incentive deducted from the energy charges in respect of 85,677 invoices was ₹ 32.65 crore from 2010-11 to 2014-15. As electricity duty was to be levied on the price of energy indicated in the invoice, deduction of power factor incentive from the price of energy for calculation of electricity duty was irregular. Failure of CEI to detect the erroneous deduction of power factor incentive from energy charges resulted in short levy of electricity duty of ₹ 3.27 crore at the rate of 10 *per cent* and undue benefit to non-industrial HT consumers falling under commercial, agricultural and general categories. Interest was also leviable. Audit analysis revealed that consumers most benefited were Lulu International Shopping Mall Private Limited, Petronet LNG Ltd., Cochin International Airport Ltd., Amritha Institute of Medical Science and Research Centre and International Airport Authority of India.

Secretary to Government, Power Department assured to examine the matter.

Recommendation No. 2 - In order to prevent non/short levy, Government may consider taking the following measures;

- ***instruct CEI to ensure that the licensees are levying electricity duty/license fee from consumers/persons liable to pay it.***
- ***licensees may be directed to calculate electricity duty on the price of energy indicated in the invoice.***
- ***evolve a mechanism to collect the electricity duty/license fee payable by the consumers/persons liable for their payment.***

7.4.8.3 Non levy of interest

CEI is responsible for ensuring timely collection of duties/fees and its remittance into Government account without delay. In case of delay, interest at the rates prescribed in the Act/Rules is to be levied. Audit found that in many cases, Department failed to collect interest on the belated payments of duty/fee as shown in the illustrative cases below.

- **Delayed payment of balance amount of electricity duty**

As per order[6] issued in March 1970, Government permitted the licensees to make advance payment of electricity duty subject to the following conditions.

- Average amount of electricity duty paid for the previous three months will be the amount of advance.
- Balance amount should be remitted within 45 days from the due date with interest at the rate of 12 *per cent per annum.*

In Thrissur Corporation, where the system prescribed by Government was followed, it was found that duty paid in advance was always less than the average amount of duty paid for the previous three months. Due to this, balance amount was to be paid in respect of every month, but interest was not paid for remittances made beyond 45 days from the due date.

Audit found that interest not paid for the balance amount remitted 45 days beyond due date was ₹ 45.25 lakh from April 2013 to March 2015.

Audit also found that from April 2013 to March 2015, total amount of advance remitted short was ₹4.20 crore. Short remittance per month ranged from ₹ 4.05 lakh to ₹ 41.61 lakh. Undue financial gain received by the licensee by way of bank interest at the rate of four *per cent per annum* for the amount remitted short was ₹ 16.04 lakh.

[6] GO(Rt) No. 103/70/W&P dated 30 March 1970.

CEI had conducted inspection upto 2012-13 only and inspections for 2013-14 and 2014-15 were pending.

Secretary to Government, Power Department stated (January 2016) that the Hon'ble High Court of Kerala had stayed the revenue recovery proceedings and action was being taken to vacate the stay orders.

- **Exclusion of interest in netting-off KSEBL dues**

As per Kerala Electricity Duty Act, 1963 and Kerala State Electricity Surcharge (Levy and Collection) Act, 1989, licensees were liable to remit electricity duty and surcharge to Government account. Interest at the rate of 18 and 12 *per cent* was leviable under Section 8 of Kerala Electricity Duty Act, 1963 and Section 6 of Kerala State Electricity Surcharge (Levy and Collection) Act, 1989 respectively for delayed remittances.

Government had issued orders for netting-off the dues of KSEBL against sums payable by Government to KSEBL. Total amount of KSEBL dues netted off for the period from 4/2002 to 10/2013 was ₹ 6,028.51 crore out of which ₹ 5,128.03 crore related to electricity duty and surcharge. It was noticed that while netting-off the dues, Government excluded the interest payable by KSEBL for delayed remittance of electricity duty and surcharge. As Government had no powers under the Acts to exempt a licensee from payment of interest, the exclusion of interest was unlawful. The 121 Report of the Public Accounts Committee (2001) opined that proposal for waiving penal interest was contrary to the provisions of the Act.

Audit observed that KSEBL had not been remitting electricity duty and surcharge to Government from 2002-03 onwards and the total amount of interest payable and excluded from netting-off was ₹ 2,678.84 crore from April 2002 to October 2013, out of which ₹ 1,474.20 crore relates to period from April 2010 to October 2013 (accounts upto 31 October 2013 only was finalised) as shown in **Table-7.3.**

Table-7.3

Period	Interest (₹ in crore)
2002-03 to 2009-10	1,204.64
2010-11 to 31 October 2013	1,474.20
Total	**2,678.84**

Source: KSEBL Accounts of relevant years.

Secretary to Government, Power Department, justified the exclusion of interest stating that at any point of time over the years, the amount payable to the KSEBL by Government was much more than the Electricity Duty and surcharge payable by KSEBL to Government and therefore imposition of interest only on the duty/ surcharge arrears of KSEBL was not deemed reasonable. As the Act had not

provided powers to Government for exempting interest under any circumstances, the reply was not acceptable.

- **Exclusion of interest collected from consumers on delayed payment of electricity duty by KSEBL from netting-off**

Audit observed that as part of a one-time settlement, of ₹ 783.06 crore payable by Kerala Water Authority (KWA) to KSEBL as arrears of electricity dues upto 31 March 2008, Government agreed to pay ₹ 533.06 crore on behalf of KWA. Later, Government netted-off this amount against dues payable by KSEBL to Government as on 31 March 2008. The amount of ₹ 533.06 crore included two Government receipts ie., electricity duty of ₹ 28.94 crore and interest of ₹ 12.15 crore on delayed payment of electricity duty receivable from KWA. Of these, amount of electricity duty only was considered for netting-off and interest on delayed payment of electricity duty was excluded. Exclusion of this amount from netting-off resulted in illegal retention of Government revenue of ₹ 12.15 crore with KSEBL.

Audit also noticed that, from 2010-11 to 2013-14, KSEBL had collected ₹ 7.58 crore from consumers as interest on delayed payment of electricity duty. But KSEBL had not remitted this amount to Government account, which resulted in loss of revenue of ₹ 7.58 crore to Government.

Total loss of revenue to Government due to irregular retention of interest on delayed payment of electricity duty was ₹ 19.73 crore.

Secretary to Government, Power Department did not provide a specific reply to the audit observation, which was on interest collected by KSEBL from KWA/consumers and not remitted to Government account.

Recommendation No. 3 - ***Department may expedite revenue recovery proceedings for early realisation of arrears of government revenue. Government may include interest leviable from KSEBL while netting-off.***

7.4.8.4 Irregular grant of exemption

Electricity duty, surcharge etc., are to be collected and remitted by the licensee as prescribed in the statutes. Exemption from payment of duty is also provided for certain categories of consumers. Audit found many cases in which licensees/ consumers had incorrectly availed exemption from payment of electricity duty/ surcharge. Illustrative cases are given below.

- **Surcharge from Railways**

As per Section 3(1)(a) of Kerala State Electricity Surcharge (Levy and Collection) Act, 1989, a surcharge at the rate of 2.5 paise per unit, on all HT/EHT supplies

made by KSEBL should be levied, collected and remitted to Government account, for which no exemption was available.

Audit observed that KSEBL supplied 95.41 crore units of energy to Railways from 2010-11 to 2014-15 through 30 HT/EHT connections. Surcharge at the rate of 2.5 paise per unit was leviable on above amounted to ₹ 2.39 crore. This was not levied and remitted to Government account. Interest leviable on the above non remittance at the rate of 12 *per cent* per annum worked out to ₹ 66.07 lakh.

Secretary to Government, Power Department stated (January 2016) that a provision for empowering Government to exempt a consumer from payment of surcharge, similar to electricity duty was under consideration. Reply was silent on the non-levy of surcharge pointed out by audit.

- **Electricity consumed for lighting licensees' premises**

As per Section 4 of Kerala Electricity Duty Act, 1963, energy consumed for public lighting was exempted from electricity duty. Based on this provision, licensees were not paying electricity duty for the energy consumed for lighting their premises. As the premises belonged to the licensees and were not public places, exemption from electricity duty was not applicable. Such consumption falls under public lighting in campuses for which the energy charge applicable was ranging from ₹ 0.90 to ₹ 3.60 per unit and electricity duty leviable was 10 *per cent* of energy price.

Audit observed that from 2010-11 to 2014-15, four[7] licensees consumed 59.77 lakh units of electricity costing ₹ 1.38 crore for lighting their premises for which electricity duty not paid was ₹ 13.85 lakh. Interest was also leviable on the duty not paid.

Audit analysis revealed that licensees benefited were Cochin Port Trust, Technopark, Rubber Park India(P) Ltd. and Infopark.

Secretary to Government, Power Department stated (January 2016) that power consumed for street lighting was sold to none or consumed by Technopark but was enjoyed by people who travel through that area and therefore it comes under public lighting. As per Kerala Municipality and Panchayat Raj Acts, local bodies are mandatorily responsible for providing public lighting in Kerala. Separate tariff is available for public lighting, which is paid only by local bodies in Kerala. As public lighting is exempted from electricity duty, it is not levied from local bodies. In the case of the licensees mentioned in the para, had it been public lighting, the local body would have met the expenses, which was not the case.

[7] Technopark, Infopark, Cochin Port Trust, Rubber Park India(P) Ltd.

- **Unlawful collection charges**

As per Section 4 of Kerala Electricity Duty Act, 1963, duty payable shall be collected and remitted to Government account by licensees. Act did not provide for retaining collection charge on electricity duty and therefore the entire amount collected should be remitted. But licensees retained one percent of electricity duty collected as collection charges, based on Rule 3(3) of the Kerala Electricity Duty Rules, 1963 and remaining amount only was remitted. As the Act did not provide for a collection charge, inclusion of the provision in the rules and retention of collection charge based on such provision were not lawful. Amount of electricity duty short remitted by nine[8] licensees due to irregular retention of collection charge was ₹ 14.55 crore from 2010-11 to 2014-15. Interest was also leviable. The retention of collection charges by licensees implies that the Government had received less electricity duty to that extent.

Secretary to Government, Power Department stated (January 2016) that collection charge was allowed based on the provisions under Rules. The reply was not tenable as the rules framed should be in line with provisions of the Act.

- **Electricity duty on energy consumed for other purposes by the Indian Railways**

As per Section 12 of Kerala Electricity Duty Act, 1963, Indian Railways were exempted from payment of duty for the electricity consumed in its construction, maintenance or operation ie. the exemption was not applicable for the electricity consumed for other purposes like staff quarters and commercial stalls at railway stations.

A mention was made in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2002, on non-demand of duty by KSEBL from the occupants of railway residential complexes and staff quarters etc as of March 2002.

Audit found that Thiruvananthapuram and Palakkad divisions of Southern Railway had consumed 3.54 crore units of energy for staff quarters and commercial stalls at railway stations from 2010-11 to 2014-15 for which electricity charges involved was ₹ 19.55 crore. Electricity duty not remitted at the rate of 10 *per cent* of electricity charges worked out to ₹ 1.95 crore as shown in **Table-7.4**. Interest also was leviable for non-remittance of these charges.

[8] Kerala State Electricity Board Ltd, Technopark, Cochin Port Trust, Infopark, KINESCO, CSEZ, Rubber Park India(P) Ltd, KDHP, Thrissur Corporation.

Table-7.4

Period	Units consumed (in lakh)			(₹ in lakh)	
	Thiruvananthapuram	Palakkad	Total	Energy charges involved	Duty not remitted
2010-11	33.61	37.25	70.86	152.72	15.27
2011-12	36.52	33.32	69.84	317.76	31.78
2012-13	37.21	35.72	72.93	423.54	42.35
2013-14	34.55	34.85	69.40	508.68	50.87
2014-15	34.96	35.67	70.63	552.21	55.22
Total	**176.85**	**176.81**	**353.66**	**1954.91**	**195.49**

Audit also noticed that the duty not remitted by Thiruvananthapuram division included ₹ 22.09 lakh collected as electricity duty from occupants of staff quarters. Keeping Government revenue without remitting was unauthorised.

Secretary to Government, Power Department accepted (January 2016) the audit observation and assured to take action.

- **Electricity duty on excess availing of Transmission and Distribution (T&D) loss**

The rate of T&D loss prescribed by KSERC while approving Aggregate Revenue Requirement and Expected Revenue Collection (ARR&ERC) of licensees for each year, ranged from 1.5 to 16 *percent* during 2010-11 to 2014-15. Audit found that seven licensees[9] had availed T&D loss in excess of the limits prescribed, which resulted in non-levy of electricity duty for the unauthorised T&D loss availed. Duty not levied on excess T&D loss availed by licensees from 2010-11 to 2014-15 was ₹ 3.42 crore (calculated at rates applicable to self-consumption). Interest was also leviable on the non-levy of duty.

Audit analysis revealed that licensees most benefited were KSEBL, Thrissur Corporation, Technopark and KINESCO.

Department stated (August 2015) that in May 1994 State Government had fixed the maximum T&D loss as eight *per cent* for all licensees except KSEBL. With the enactment of Electricity Act 2003, KSERC is the authority for approving ARR&ERC of each licensee every year, for which it considers items of income, expenses, percentage of T&D loss etc., and finally approves ARR&ERC. Therefore, percentage fixed by Government is not valid. It was also stated that Act contains no provisions on the levy of electricity duty on energy lost beyond permissible limits. The reply is not tenable since the Act has not been amended

[9] Kerala State Electricity Board Ltd, Technopark, Cochin Port Trust, Infopark, KINESCO, Rubber Park India(P) Ltd., Thrissur Corporation.

prescribing levy of duty on transmission loss in excess of limits prescribed by KSERC.

Secretary to Government, Power Department stated (January 2016) that amendment of Act was under consideration of Government to define T&D loss for the purpose of levying duty. However, the reply was silent on the non-levy pointed out by Audit.

- **Fixed rates not favourable to Government revenue**

Audit observed that two types of rates existed in Kerala Electricity Duty Act, 1963 and Kerala State Electricity Surcharge (Levy and Collection) Act, 1989 for the levy of electricity duty and surcharge as shown in **Table-7.5**.

Table-7.5

Type of rate	Rate of levy	Applied on
Percentage rate	10 *per cent*	energy price
Fixed rates	1.2 ps/2 ps/2.5 ps/6 ps/ 10 ps	unit of energy

These rates were in existence since the commencement of the Acts and are continuing even now (January 2016).

The highest of the fixed rates of electricity duty now levied was 10 ps per unit from industrial consumers drawing energy at 11 KV and above. This rate was introduced in 1988, replacing percentage rate of 30 *per cent*.

A comparison of this rate for the years 1988 and 2015 as shown in **Table-7.6**.

Table-7.6.

In 1988			In 2015		
energy charge per unit	duty at the rate of 10 ps	equivalent to	energy charge per unit	duty at the rate of 10 ps	equivalent to
35 ps	10 ps	29 *per cent*	520 ps	10 ps	2 *per cent*

By continuing the fixed rate from 1988 without any change, industrial consumers indirectly received reduction in duty rates from 29 to 2 *per cent*, due to increase in tariff effected periodically.

Audit found that at 29 *per cent*, amount of duty per unit worked out 151 paise, but duty leviable was 10 paise only. Difference was 141 paise per unit. During 2013-14, total number of units for which duty paid at the rate of 10 paise per unit was 1,770.68 million units, from which duty received was ₹ 17.71 crore. Had percentage rate been continued, Government would have received ₹ 249.66 crore additionally at the rate of ₹ 1.41 per unit for 2013-14 alone.

Secretary to Government, Power Department stated (January 2016) that the revision of rates was under consideration of Government. Further report had not been received (January 2016).

Recommendation No. 4 - *Government may:*

- ***avoid irregular grant of exemptions to railways and for lighting.***
- ***amend Rule relating to collection charges which should be in line with the Act and in the interest of the Government and objective of the Act.***
- ***consider amendment of the Act incorporating the treatment of excess T&D loss.***

7.4.8.5 Inspections, returns, accounting and related matters

CEI is responsible for initial and periodical inspections of electrical installations as per periodicity fixed under CEA Regulations 2010. Inspection fee at the rates prescribed by the Government shall be collected for the inspections. Since the non-inspection of Electrical installation affects the safety of the public adversely, this has a social significance. Audit found that the Department was not conducting inspections regularly as mentioned in the following paragraphs.

- **Discontinuance of inspection of lifts and escalators**

CEI inspected lifts and escalators and levied inspection fee under Indian Electricity Rules, 1956 issued under Electricity Act, 2003. These rules were replaced by Central Electricity Authority (Measures relating to safety and electric supply) Regulations, 2010 with effect from 20 September 2010. In notification issued under the Regulations on 20 May 2013, Government of Kerala ordered that lifts and escalators may be inspected periodically every year and charge an inspection fee of ₹ 1,000.

Audit found, in seven districts selected for audit, Electrical Inspectors discontinued the inspection of lifts and escalators and levy of inspection fee with effect from 2013-14. Due to this, lifts and escalators were functioning under risk of public safety and security, besides loss of revenue. The loss of revenue due to non-levy of inspection fee was ₹ 91.92 lakh for 8,995 lifts and 197 escalators from 2013-14 to 2014-15.

In the exit conference, the Additional Chief Electrical Inspector stated that since it was not practical to conduct two inspections in a year, steps would be taken to amend the provisions in the notifications. Secretary to Government, Power Department stated (January 2016) that provisions of the Kerala Lift and Escalators Act, 2013, being a special law relating to lift and escalators, prevailed over the Regulations. It was further stated that the observation of audit that total

loss of ₹ 91.92 lakh incurred due to non conduct of periodical inspection under regulation was incorrect.

As per Section 21 of Kerala Lift and Escalators Act 2013, its provisions shall not affect the Electricity Act 2003. Regulations issued under the Electricity Act 2003 was independent of Kerala Lift and Escalators Act 2013 and therefore the reply was not tenable.

- **Shortfall in inspecting medium voltage installations**

As per notifications issued by Government of Kerala under Rule 46 of Indian Electricity Rules 1956 and regulation 30 of Central Electricity Authority (Measures relating to safety and electric supply) Regulations, 2010, all medium voltage installations were to be periodically inspected once in two years.

Audit noticed that medium voltage installations were not inspected by the Department as per periodicity prescribed. From 2010-11 to 2014-15, out of 23,754 medium voltage installations to be inspected in the selected seven districts, Department had inspected 9,126 installations only, which resulted in non-levy of inspection fee of ₹ 51.10 lakh calculated at the minimum fee prescribed (at the rate of ₹ 100 upto 2012-13 and ₹ 500 thereafter) and 1,338 deaths had occurred due to electrical accidents during 2010-11 to 2014.

Secretary to Government, Power Department cited (January 2016) shortage of staff as the reason for short fall in inspections and action was being taken to fill the vacancies. As safety of electrical installations was the primary responsibility of the Department, it should have filled the vacancies well in time.

- **Shortfall in inspection of accounts of licensees**

Department of Electrical Inspectorate conducted inspection of books of accounts of licensees on yearly basis by visiting their premises. For KSEBL, inspection of accounts of 53 out of 65 divisions was pending from 2008-09 to 2013-14 and in respect of four[10] licensees, inspection was pending for the year 2013-14.

Secretary to Government, Power Department cited (January 2016) shortage of staff as the reason for short fall in inspections and stated that action was being taken to fill the vacancies. Audit found that Government had deferred the proposal for filling the vacancies, due to which arrears in inspection continued to exist.

- **Non/delayed submission of returns by licensees**

As per Section 6 of Kerala Electricity Duty Act, 1963 and section 4 of Kerala State Electricity Surcharge (Levy and Collection) Act, 1989 and rules made there-under, licensees were required to submit returns to Chief Electrical Inspector

[10] KDHP, Technopark, Cochin SEZ, KINESCO.

monthly/quarterly/annually, failing which fine not exceeding ₹ 1,000 was payable as punishment upon conviction.

Audit noticed that out of 1,284 monthly returns to be submitted by six[11] licensees during 2010-11 to 2014-15, only 14 monthly returns were submitted on due dates. Delay in the submission of remaining returns ranged from 1 to 796 days. Four[12] licensees did not submit quarterly returns. Delay by the other two licensees ranged from 16 to 422 days. Annual returns were not submitted by any of the licensees.

Returns were the only source of information for the Department to monitor whether the licensees had actually remitted electricity duty/surcharge into Government account before due dates and also to verify the correctness of its calculation. As returns were delayed/not submitted, Chief Electrical Inspector could not monitor timely remittance of duty into Government account and its correctness. Chief Electrical Inspector, who was responsible, had not initiated action for imposing the fine from the licensees through conviction.

Secretary to Government, Power Department stated (January 2016) that existing provisions were inadequate to impose penalty and cited practical difficulty in getting conviction from courts. The reply was not acceptable, as provisions in the Acts are clear and specific on penalty and Government should have finalised the procedures for its implementation. Moreover, the Department had not even initiated action in any of the cases. As such, practical difficulty could not be cited as a reason for inaction.

- **Non-accounting of revenue in Government accounts due to netting-off KSEBL dues**

As per Kerala Electricity Duty Act, 1963 and Kerala State Electricity Surcharge (Levy and Collection) Act, 1989, licensees were statutorily liable to remit electricity duty and surcharge to Government. But KSEBL stopped remitting the dues to Government account from the year 2002-03 onwards on the contention that Government had not paid the sums due to it. Government accepted non-payment of dues by KSEBL and issued orders for netting-off such dues against sums payable by it to KSEBL. It was noticed that Government had not prescribed a clearly defined procedure to ensure the accounting of the receipts and payments involved in the netting-off process in Government accounts. Government had netted off electricity duty and surcharge of ₹ 5,128.03 crore, relating to the period from April 2002 to October 2013, as shown below, which were not routed through Government accounts as shown in **Table-7.7.**

[11] KSEBL, Technopark, Infopark, Cochin Port Trust, Rubber Park India (P) Ltd, Thrissur Corporation.

[12] KSEBL, Technopark, Rubber Park India (P) Ltd, Thrissur Corporation.

Table-7.7

GO No. and date	Period to which netting off relate	Amount netted off (₹ in crore)		Electricity duty and surcharge involved (₹ in crore)
		Government payments	KSEBL dues	
GO(Ms) No.42/11/PD dated 3/11/2011	2002-03 to 2007-08	5,231.97	3,632.15	2,731.67
GO(P) No.46/2013/PD dated 31/10/2013	4/2008 to 10/2013	1,960.74	2,396.36	2,396.36
Total		**7,192.71**	**6,028.51**	**5,128.03**

Audit observed that due to non-accounting, electricity duty and surcharge of ₹ 5,128.03 crore was understated in Government accounts and legislative scrutiny was bypassed. Moreover, the practice being followed was against the accounting principles.

Secretary to Government, Power Department cited (January 2016) some action taken in this regard, but the non- accounting of revenue in Government accounts due to netting-off process remained as such.

- **Non submission of annual reconciliation statements**

As per paragraph 74 of Kerala Budget Manual, Heads of Departments should reconcile its figures with that of Principal Accountant General (A&E). Unless discrepancies, if any, are detected and pointed out in time, it may not be possible for the PAG to make adjustments in the accounts of the year. For this, Heads of Departments should furnish annual reconciliation statements of receipts and expenditure in respect of every financial year to Principal Accountant General (A&E) before 31 May of next year. It was noticed that Chief Electrical Inspector had not submitted annual reconciliation statements for the receipt head of account '0043 Taxes and Duties on Electricity' in respect of the years from 2010-11 to 2014-15. For 2012-13, annual reconciliation statement was furnished to PAG(A&E) on 28 November 2013, after the finalisation of finance accounts. Due to this, difference of ₹ 4.96 crore existed between figures of AG and Department in 2012-13.

Secretary to Government, Power Department admitted (January 2016) non-submission of annual reconciliation statements.

- **Non reconciliation of remittances made through *Janasevana Kendrams*[13] (JSK)**

As per Kerala Budget Manual, it was the responsibility of the Drawing and Disbursing Officers (DDOs) to reconcile receipt figures with accounts of the treasury. Receipts of the Department were permitted to be remitted through JSK and challans submitted by applicants were accepted as proof of remittance. JSK remitted their daily collection into District Treasury, Thiruvananthapuram and monthly statements were forwarded to Department.

Audit observed that in seven districts covered in audit, ₹ 31.41 crore were remitted through JSK from 2010-11 to 2014-15, but the remittances were not reconciled by DDOs of the Department with treasury figures.

Secretary to Government, Power Department admitted (January 2016) that remittances through JSK were not reconciled by Department at present. The reply was silent on the continued non-compliance of provisions of Kerala Budget manual.

- **Irregular netting-off electricity duty due to incorrect calculation of Government share of terminal liability**

As per their orders dated 31 October 2013, State Government permitted KSEBL to retain electricity duty collected from 1 April 2008 to 31 March 2012 as Government share[14] of terminal liability on pension fund of KSEBL. While computing Government share of terminal liability as on 31 October 2013 (date of conversion of KSE Board into company), electricity duty permitted to be retained by KSEBL for the above period was taken as ₹ 1,301 crore instead of actually collected amount of ₹ 1,522 crore. Non-inclusion of ₹ 221 crore (1,522-1,301) resulted in additional liability of ₹ 122.17 crore[15] to Government. As Government was continuously netting-off electricity duty receivable from KSEBL against amounts payable by it to KSEBL, the incorrect calculation resulted in irregular retention of electricity duty with KSEBL. As on 31 March 2015, Government provisionally netted off ₹ 17.31 crore of electricity duty towards additional liability of ₹ 122.17 crore, which was irregular.

Secretary to Government, Power Department did not provide a specific reply on the additional liability caused to Government.

Audit also noticed that Government had included ₹ 524 crore (arrears of KWA already netted-off against electricity duty as on 31 March 2008), in calculating additional liability of Government. Government, as per orders dated 3 November 2011, had ordered to provide the amount as budgetary support over a period of 10

[13] *Janasevana Kendram* is a single window system provided by Government under Kerala State IT Mission to receive revenues of various departments in each district.
[14] 35.4 *per cent* of total pension liability.
[15] 221 x 35.4 *per cent* = ₹ 78.234 crore + interest for 10 years (₹ 43.938 crore) = ₹ 122.17 crore.

years at the rate of ₹ 52.40 crore per year, based on which ₹ 77.40 crore was paid upto 31 March 2015. Ordering budgetary support for an amount which was already netted-off was irregular, due to which the payment of ₹ 77.40 crore was made twice.

On compensating ₹ 524 crore separately as budgetary support, Secretary to Government, Power Department stated (January 2016) that the actual amount of duty to be netted-off was ₹ 2,228.31 crore instead of ₹ 2,731.61 crore. The contention was not acceptable as the amount included in the final netting off orders issued in May 2015 for the period upto 31 October 2013 was ₹ 2,731.61 crore.

- **Delayed receipt of Government money due to non-uniform dates for remittance**

Licensees collected electricity duty and surcharge from consumers on monthly basis along with energy charges in the same invoice. But Kerala Electricity Duty Rules, 1963 and Kerala Electricity Surcharge (Levy and Collection) Rules, 1992 prescribed non-uniform dates for their remittance into Government account, details of which are as shown in **Table-7.8**.

Table-7.8.

Type of revenue	Period of collection by licensees	Due date for remittance	Maximum period permitted for retention	Delay in receipt of Government moneys
Electricity duty	Monthly	before close of the succeeding month	30 days	15 days[$]
Surcharge	Monthly	before 15 of the month following each quarter	75/45/15 days	60 days[#]/ 30 days[*]

$ after deducting least of the periods now permitted.ie 15 days.

for surcharge collected in the first month of the quarter.

* for surcharge collected in the second month of the quarter.

Audit found that by fixing non-uniform dates for remittance of Government revenue collected in the same invoice delayed receipt of Government money by 15 to 60 days and also gave undue benefit to the licensees by way of bank interest due to prolonged retention.

Secretary to Government, Power Department did not provide a specific reply in this regard.

Recommendation No. 5- ***Government may:***

- ***take remedial measures to take care of inspection of lifts and escalators under regulations issued by Central Government and to ensure that MV installation and accounts of licensee are inspected as per periodicity prescribed.***

- ***invoke penal provision on licensee not submitting returns***

- ***ensure that receipts involved in netting-off with KSEBL were included in Government accounts and***

- ***ensure that remittances through JSK are reconciled as per Kerala Budget Manual***

Conclusions

Audit arrived at the following conclusions based on the PA

- ✓ **The licensees were not identifying all LV installations/cable TV poles, which led to non-inspection of such poles, resulting in loss of revenue on inspection fee, besides risking public safety. No streamlined system existed in the Department for monitoring the identification of LV installations/cable TV poles. KSEBL permitted cable TV operators to draw cables without production of safety certificate from the department.**

- ✓ **Licensees failed in collecting the electricity duty/surcharge payable by the consumers. The Department was also not monitoring effectively to detect lapses/omissions of collection/remittance of electricity duty/surcharge by the licensees. Government lost revenue due to grant of irregular exemptions, irregular deductions from energy charges, non-levy of interest from licensees**

- ✓ **There was lapse on the part of the Department in discharging the main function of the Department viz., ensure safety of electrical installations connected to electrical supply system in the State by conducting initial/periodical inspections of electrical installations.**

B – STAMP DUTY AND REGISTRATION FEES

7.5 Tax administration

Receipts from stamp duty and registration fee are regulated under the Indian Stamp Act, 1899 (IS Act), Indian Registration Act, 1908 (IR Act) and the rules framed there-under as applicable in Kerala and are administered at the Government level by the Principal Secretary to Government, Taxes Department. The Inspector General of Registration (IGR) is the head of the Registration Department who is empowered with the task of superintendence and administration of registration work. He is assisted by the District Registrars (DR) and Sub Registrars (SR).

7.6 Internal audit

Inspector General of Registration (IGR), Kerala monitors the functioning of the Internal Audit Wing (IAW) of the Registration Department. The District Registrar (DR) (Audit) and team do the audit in the district. The sub-registry offices are audited annually. The total number of staff deputed for the internal audit work in this Department is sixty nine. There is no separate manual for internal audit in the Department. Training of staff in the audit wing is included in the Department training programme undertaken through the Institute of Management in Government. The auditee offices are selected after giving special preference to those offices where the Registering Officer is due to retire shortly which itself is a risk analysis aimed at avoiding revenue loss. During 2014-15, IAW audited 267 units out of 298 units planned for audit. During the year 2014-15, 1,295 audit observations could be cleared out of the 9,028 outstanding observations, which was only 14.34 *per cent* of the outstanding observations.

7.7 Results of audit

The records of 88 offices relating to Registration Department were test checked during 2014-15. Non/short levy of stamp duty and registration fee and other irregularities amounting to ₹ 0.84 crore were detected in 66 cases which fall under the following categories as given in **Table-7.9.**

Table – 7.9

			(₹ in crore)
Sl. No.	**Categories**	**No. of cases**	**Amount**
1	Non/short levy of stamp duty and registration fees	19	0.20
2	Other irregularities	47	0.64
	Total	**66**	**0.84**

During the course of the year, the Department accepted under-valuation and other deficiencies involving ₹ 0.65 crore in 48 cases which involved one case amounting to ₹ 4.41 lakh pointed out during the year. An amount of ₹ 10.24 lakh was realised in 45 cases during the year of which one case involving ₹ 4.41 lakh pertained to 2014-15.

The reason for non/short realisation of amounts pointed out by Audit even in cases accepted by the Department were called for in October 2015. The Department stated (November 2015) that cases related to undervaluation were settled through One Time Settlement Compounding scheme during 2009-12 and hence the amount realised does not coincide with the amount pointed out by Audit. Also, in undervaluation cases, on finalisation of *suo motu* proceedings the amount pointed out by Audit and the amount determined by the District Registrar may differ. The Department also stated that *suo motu* proceedings and revenue recovery proceedings take long duration for completion and causes delay to collect the deficit amount.

The chapter contains one illustrative case involving ₹ 9.32 lakh.

7.8 Short levy of stamp duty and registration fee due to undervaluation of documents

Suspected cases of undervaluation were not reported by Sub Registrar to District Registrar.

- **Sub Registry Office, Olavakode**

Government notified[16] the fair value of land in Kerala by classifying entire land into 15 categories based on usage of land. Government issued instructions[17] that when the instruments were brought for registration, if it was found that fair value has been omitted to be fixed in respect of the survey/resurvey/sub division numbers of the properties, the Sub Registrars should report the same to the District Collector for necessary action. Section 45 B (1) of Kerala Stamp Act (KSA), 1959 stipulates that if the registering authority has reason to believe that the value of the property or the consideration has not been fully set forth in the instrument brought before him for registration, he may after registering the document, refer the same to the District Collector for determination of the value or consideration and proper duty payable thereon. As per Section 45B (3) of the KSA, 1959, the District Collector may *suo-motu* within two years from the date of registration of any instruments not already referred to him under sub section (1) above, call for and examine the instrument and if he has reason to believe that the value or consideration has not been truly set forth in the instrument he may determine the value and the duty which shall be payable by the person liable to pay the duty.

In Sub Registry Office, Olavakode two sale deeds[18] involving 84.82 Ares[19] and 66.16 Ares were registered in 2012 and 2013 for ₹ 21.96 lakh and ₹ 20.75 lakh respectively. Audit found (February 2015) that the value per Are adopted for the land in above cases were less than the fair value of ₹ 90,000 per Are prescribed for the property with similar classification in that survey number. Suspected undervaluation in the cases amounted to ₹ 93.17 lakh and consequent short levy of stamp duty and registration fee of ₹ 9.32 lakh. However, the Sub Registrar did not report the matter to District Collector as a suspected case of undervaluation.

Government stated (September 2015) that based on the audit observation, District Registrar had taken *suo-motu* action in July 2015 on both documents as per Section 45(B) (3) of KSA, 1959 for suspected undervaluation related to omission of proper classification in the fair value register. Since the parties did not respond

[16] GO (P)/515 dated 06.03.2010.
[17] GO (Ord) No. 77/10/TD dated 27.03.2010.
[18] Doc. No. 381/2012 and Doc. No. 592/2013
[19] Unit of measuring land 100 Ares = 1 Hectare.

to the notice issued, action would be taken to issue provisional orders for making good the short levy. Final report had not been received (January 2016).

Thiruvananthapuram,
The

(AMAR PATNAIK)
Principal Accountant General
(Economic and Revenue Sector Audit)
Kerala

Countersigned

New Delhi,
The

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

Appendix

Appendix – I

(Ref: Paragraph 1.7.3)

Statement showing details of Special Circles and Works Contract offices where non production of files were noticed

Sl. No.	Name of office	Year in which it was to be audited	Number of assessment cases not submitted		
			VAT	KGST	Total
1	CTO, Special Circle, Alappuzha	2012-13	73	0	73
2	CTO, Special Circle, Kottayam	2014-15	42	4	46
3	CTO, Special Circle, Mattancherry	2014-15	44	0	44
4	CTO, Special Circle, Palakkad	2014-15	15	0	15
5	CTO, Special Circle, Perumbavoor	2014-15	40	0	40
6	CTO, Special Circle, Thrissur	2012-13	3	8	11
7	CTO, Special Circle, Thiruvananthapuram	2014-15	179	70	249
8	CTO, Special Circle I, Ernakulam	2014-15	126	5	131
9	CTO, Special Circle I, Kozhikode	2013-14	57	0	57
10	CTO, Special Circle II, Ernakulam	2014-15	150	12	162
11	CTO, Special Circle III, Ernakulam	2014-15	370	0	370
12	CTO (WC), Ernakulam	2014-15	736	0	736
13	CTO (WC&LT), Kannur	2011-12	58	0	58
14	CTO (WC&LT), Kattappana	2012-13	0	12	12
15	CTO (WC&LT), Mattancherry	2014-15	226	0	226
16	CTO (WC&LT), Kozhikode	2014-15	19	0	19
17	CTO (WC&LT), Kollam	2014-15	13	0	13
18	CTO (WC&LT), Palakkad	2014-15	55	0	55
19	CTO (WC&LT), Thrissur	2012-13	0	59	59
20	CTO (WC&LT), Thiruvananthapuram	2013-14	45	0	45
Total			**2,251**	**170**	**2,421**

Appendix – II

(Ref: Paragraph 1.7.3)

Statement showing details of files not produced, circle/division with names of heads of offices

Name of office	No. of files /Name of Head of office									
	2010-11		2011-12		2012-13		2013-14		2014-15	
	KGST	VAT	KGST	VAT	KGST	VAT	KGST	VAT	KGST	VAT
CTO, Special Circle Kollam	Ajayaghosh Kumar		Ajayaghosh Kumar		Pratibha Jnanasundram		M. Gopal Krishanan		Belraj Kumar G.	
	363	55			0	37	0	167	-	251
CTO Special Circle, Thiruvananthapuram			Pratibha Jnanasundram		LS. SreeKumari		Pratibha Jnanasundram		Suresh Kumar S. Manacaud	
			32	108	86	394	0	344	70	179
CTO Special Circle, Kannur	Sri. Tony Thomas (AC)		K. Sivaraman (AC)		T.K. Ravendran (AC)		T.K. Ravendran (AC)		-	
	311	11	0	34	-	33	-	19	-	-
CTO Special Circle (Produce), Mattancherry	P.D Unnikrishnan Nair (AC), C.K Vinodh, K.B. Sudha		P.D Unnikrishnan Nair (AC)		P.D Unnikrishnan Nair (AC), K. Sugathan (AC)		K. Sugathan (AC), E.P. Chandra babu (AC)		-	
	274	0	274	44	271	1	318	61	-	-
CTO Special Circle, Thrissur	G. Santhosh Kumar (AC)		M.K. Sugathan (AC)		M.K. Sugathan (AC)		MG. Remadevi (AC)			
	268	41	-	-	0	4	3	3	8	3
CTO, Special Circle II, Ernakulam	Mohammed Basheer (AC)		H. Muhammed Basheer (AC), S. Sivankutty (AC)		Sivankutty (AC)		K.P. Zelina (AC)		Sivankutty (AC), K.P. Zelina (AC)	
	212	0	10	31	10	58	0	76	12	150
CTO Special Circle III, Ernakulam	R.K. Satheesh Kumar (AC)		Sathish Kumar R.K. (AC), P.O. Thomas (AC)		Valsalapani (AC)		V.G. Umadevi (AC)		V.G. Umadevi (AC)	

	179	34	220	28	220	28	0	27	0	370
CTO Special Circle, Malappuram	----------		M. Gopala Krishana P. Narayanan Kutty		P. Narayanan Kutty		P. Narayanan Kutty		B. Arun	
	158	89	158	134	151	121	0	52	158	4
CTO Special Circle, Palakkad	Bhaskaran M		K.C. Chandran		K.G. Rama Bai		V.S Satayanaranan		R. Rajesh	
	55	57	50	57	45	12	0	42	0	15
CTO (WC&LT), Ernakulam	M.K. Hajra (AC)		M.P. Sajan (AC) N.R. Raghunathan (CTO)		M.K. Hajra (AC), K.A. Shahul Hameed, BT. Varghese , H. Mohammed Basheer		P.K. Satheesh Kumar (AC)		V.A. Raghunathan (AC), Raji. S. Anil. V. Nair, Anil Kumar A., Bazil L. Kizhekaden , C.J. Johny, C.K. Premji , M.O. Johnson,	
	28	79	5	77	5	84	0	394	0	736
CTO, Vadakara	T.M. Assainar		M. Suresh Babu		TM. Assainar		G. Suchithra		K.K. Krishnan	
	279	-	279	-	270	-	270	11	21	30
CTO V Circle, Kozhikode	-		Bovas. K CTO		P.P Chandran CTO		G. Lorancee CTO		Livy Jacintha CTO	
	-	-	10	-	270	-	-	34-	0	20
CTO (WC&LT), Mattancherry	K. Asokan (AC), P.I. Poius (CTO), S.Omanakuttan (CTO), K.M. Sidu (CTO)		S. Omanakuttan (CTO)		M.P. Sajan (AC), N.R. Raghunathan (CTO)		A.V. Salila (AC) N.R. Raghunathan (CTO)		N. Santhoshkumar, CTO, Johnson Chacko, CTO	
	68	138	72	200	65	177	19	174	0	226

Appendix – III

(Ref: Paragraph 1.9)

Details of reviews featured in the Reports for the last five years and their status

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
31 March 2009	Cross verification of purchase/ sale effected under KGST/ KVAT/CST Acts	5	The Government may consider • fixing targets for the intelligence officers for carrying out cross verification of records of the entry and exit check posts • shifting the check post at Kunjippally to a more strategic location closer to the actual border with Mahe to arrest scope of evasion of tax • prescribing a system of carrying out regular cross verification of declaration forms and issuing guidelines for checks to be conducted before accepting declaration forms • issuing immediate orders withdrawing the waiver of tax, interest and penalty from the defaulting dealers • making the internal audit wing functional and effective.	PA examined by PAC (15.09.2010)and their recommendations furnished in Report No. 9 (2011-14).The Committee agreed with the audit recommendation to fix targets for intelligence officers for carrying out cross verification of records and noted the impropriety in maintaining a check post at Kunjipally and recommended expansion of the checkpost at the entrance of Mahe and urged that the issue of uniform floor rate of tax between Kerala and Mahe be taken up with Govt of India. The Committee also noted that the internal audit wing of the department was ineffective. The Dept observed in the Action Taken Report that uniform floor rate for petrol and diesel was a recommendation of the empowered committee when VAT was implemented but the states are reluctant to implement it. Once implemented, Kerala will also be bound by the same. Checkpost at Kunjipally is maintained to avoid smuggling through the bye-route i.e., Kunhipally-Monthal Road. Shortage of staff makes it difficult to strengthen the Internal Audit Wing.
	Information technology	11	Audit recommends that • Officers should be nominated for effective liaison with NIC for	PA examined by PAC (04.01.2012)and their recommendations furnished in Report No.18 (2011-

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
	review of Package for effective administration of registration laws (PEARL)		completion and acceptance of the project of computerisation of Registration Dept. • Validation of data should be given utmost priority. • Individual databases should be merged and centralized. • AMC conditions should be strictly enforced. • Data backup policy should be revised. Offsite storage of daily backup should be made. • Digitisation of documents should be commenced. • A suitable Business Continuity/Disaster Management Plan should be formulated and implemented. • A password policy should be formulated and compliance ensured. • Environmental/physical access control weaknesses should be remedied in a timely fashion. • Enactment required for the computerised operation should be made. • A business process re-engineering should be done.	14). During the discussion, the Secretary Taxes stated that the department had developed a modified version of PEARL i.e., PEARL 3.1 rectifying the deficiencies pointed out by the Accountant General. Separate module for audit was also incorporated in the version.
	Recovery of arrears of revenue under the Revenue Recovery Act	8	The Government may • prescribe a time limit/procedure to be followed by the RR officers for follow-up action on stay cases • evolve a rational/scientific method in fixing targets and any shortfall in collection may be viewed critically • insist that RRC should be returned only after exploring all means of realising the arrears by the requisitioning departments • direct the requisitioning department to resort to revenue recovery action only after the expiry of appeal period • insist that the Excise Department should take care of the realisation of arrears under RR Act • enforce the timeframe prescribed strictly and periodic reconciliation of the RR cases • serve a copy of the notice to the concerned Sub Registrar under	PA examined by PAC (29.11.2012) and their recommendations furnished in Report No. 35(2011-14). The Committee noted that the performance of the Revenue Dept in RR collection was pathetic and urged that earnest efforts should be made to realise the amount due. The Committee also recommended a monitoring mechanism in this regard. The Committee reiterated the view of audit that the Excise Department should take care of realisation under RR in the cases under its purview. In their reply, the Revenue &DM department stated that a special drive is conducted every financial year for stepping up revenue collection. Implementation of a State level online monitoring

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
			his acknowledgement so as to comply with the provisions of the Transfer of Registry Rules 1966 • dispense with the system of direct collection by requisitioning department after the commencement of RR action and in special schemes enabling direct collection, RRC should be recalled from the RR department.	system is in progress with the technical assistance of NIC. The Excise department submitted that they are carrying out enforcement activities under Abkari Act and NDPS Act and other relevant rules despite insufficient manpower.
	Transition from Sales Tax to VAT (standalone)	16	The Government/Department may • introduce at the earliest a comprehensive manual of VAT specifying procedures for administration of Act and Rule • make provisions in the KVAT Rules for mandatory verification of records of Income Tax/Central Excise departments and TINXSYS while conducting audit assessments/assessment of escaped turnover • consider amendment of Act/Rules to make mandatory deposit of percentage of tax, interest and penalty in dispute, before entertaining appeal cases to ensure registration of genuine appeal cases only and lessen the scope of evasion/run away cases • amend the Act/Rules to fix a minimum penalty for each and every offence based on its magnitude to avoid unfettered discretion of the assessing officer. • effectively monitor disposal of pending assessments and collection of arrears of pre-VAT period • evolve a foolproof mechanism for detection of unregistered dealers and bring them under the tax net • publish in departmental website details of cancelled and suspended registrations to verify whether dealers avail ITC on goods purchased from such dealers • create a database for uploading the stock position of dealers for future reference • include an Audit Module in the KVATIS software • enforce strict compliance of the provisions regarding filing of the returns and prescribe specific penal provisions for delayed	PA examined by PAC (09.10.2013) and their recommendations furnished in Report No. 54 (2014-16). The Committee reiterated the audit recommendations regarding computerisation, development of an audit module in KVATIS, publication of a comprehensive Manual on KVAT, effective monitoring over completion of assessments of Pre-VAT period, compulsory registration of all dealers and amending the KVAT Act to strengthen the provision regarding imposition of penalty for first and subsequent offences. The department submitted that all the check posts having power supply, permanent building and connectivity are provided with online facility. Measures to rectify discrepancies in KVATIS are in progress. The department is putting in efforts to get the stay vacated by various courts to get the assessments of pre-VAT period completed.

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
			filing of returns to arrest cases of delayed/non-filing of returns • direct the AAs to conduct thorough scrutiny of the returns especially with reference to the figures of the enclosures to the audit certificate/P&L account submitted by the dealers • take actions such as imposition of penalty, suspension of registration etc. against those who fail to furnish the prescribed documents along with the returns, without it being limited to levy of penalty alone • enforce compliance of time limit prescribed in the Act for disposal of the appeal cases • give direction to the AAs for maintenance of basic records in the circles • store details of monthly diary received from circles/check posts in computer so that they can consolidate and retrieve it, whenever required and thus avoid wastage of time and manpower in collecting the same data again • ensure that internal audit is strengthened.	
31 March 2010	Levy and collection of Motor Vehicles Tax	7	The Government may consider • adequate change in the fee for duplicate driving licence covering the cost of card • strengthen the enforcement wing to plug the offences committed under motor vehicle laws • securing the computer servers by providing necessary passwords • strengthen the input controls and validation checks • ensuring the quality of the infrastructure developed by the service provider • consider ways to render prompt services to the public without delay • strengthening the internal control mechanism	PA Examined by PAC (30.07.2014) and their recommendations furnished in Report No. 89(2014-16). The Committee observed that there is necessity of forming a taxation wing and restructuring of staff pattern in the Transport department in order to strengthen the enforcement wing. It was advised that the department should put efforts into realising the arrears. A mechanism to ensure that the Tax payee invariably obtains a fitness certificate should be developed. It was suggested that effective measures should be chalked out to ensure that overloaded vehicles are either levied with compounding fee at higher rate or off loaded. The Committee recommended that penalty should be imposed on stage carriages which are exhibiting

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
				advertisements without prior approval and the computer servers should be made secure by providing necessary passwords. Statement of action taken by the Department has not been received.
	Working of Co-operation Department	7	The Government may consider • devising suitable measures for monitoring the demand and levy of interest and penal interest • evolving appropriate mechanism for watching the realisation of dividend declared by the societies • strengthening the mechanism for watching the collection of guarantee commission • evolving a system for ascertaining the eligibility of beneficiaries before sanctioning the assistance • taking steps to avoid retention of huge amount received as loan from NCDC on behalf of beneficiaries in TP account for long period • taking effective steps for the realisation of amount under revenue recovery • issuing guidelines to improve the quality and functioning of internal audit wing.	PA Examined by PAC (27.08.2014)and their recommendations furnished in Report No. 94(2014-16).The Committee recommended that the department should scrutinise the loan proposal considering their viability before sanctioning a loan. The financial management in RUBCO and the functioning of KERAFED should be looked into. The Committee urged that necessary measures should be taken to impose financial discipline among cooperative societies and a restructuring strategy should be formulated. It was observed that there was delay in completing the liquidation proceedings by the department. Statement of action taken by the Department has not been received.
31 March 2011	Compounding Schemes in Commercial Taxes Department	3	The Government may consider • review of works contract compounding by a senior/supervisory officer • prescribing proper registers of implement IT systems to watch the details of dealers who have opted for payment of tax under the compounding scheme • conducting periodic inspection of metal crusher units to ascertain the number of units in the possession of the assessee from time to time.	PA examined by PAC (05.02.2015). Report has not been received.

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
	Utilisation of declaration forms in inter-state trade	2	The Government may consider • issuing instructions regarding the checks to be carried out before accepting declarations for allowing concession/exemption • strengthening the internal control mechanism.	PA examined by PAC (26.02.2015). Report has not been received.
	Levy and collection of stamp duty and registration fee	7	The Government may • implement a time bound action plan to settle outstanding undervaluation cases • consider creating awareness amongst public officers regarding their responsibility in respect of under stamped instruments produced before them • consider an Economic Intelligence Unit to obtain data and verify that documents have been registered when due for the right value • consider an amendment to the Kerala Stamp Act to include provision for collection of stamp duty on ad-valorem basis on issue of shares and levy of stamp duty on license agreements as lease. • direct registering officers to insist on production of agreements relating to purchase/sale of flats at the time of registration • making internal audit/inspection of sub offices mandatory and up to date • inspection of public offices to plug leakage of revenue.	PA examined by PAC (24.09.2014).
	Computerisation in motor vehicles department	3	The Department may • replace the existing system of storing data at independent servers in various locations with a centralised server system • enable e-payment/online submission of application to facilitate online services • consider recruiting qualified personnel to administer the IT applications.	PA examined by PAC (13.05.2015). Report has not been received.

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
	Performance Audit of State Excise Dept(Standalone)	11	The Government/Department may • prepare a strategic plan covering mission, vision and objectives • ensure that security labels are printed under its direct supervision • take immediate steps to levy and recover the permit fees under Section 11 of the Abkari Act for the period from 2006-07 onwards • consider amending the Rules (like prescribing aerial distance) to ensure that the distance restriction principle of prohibiting functioning of bars near educational institutions, places of worship etc are applied in practice • immediately provide the required infrastructure support to the enforcement wing • prescribe norms for leakage of seized spirit and monitor adherence of such norms • start fresh toddy collection centres under direct supervision of the Excise Dept • take timely action to equip enforcement employees with arms, ammunition and provide other support facilities like boat • prescribe time limits for completion of chemical analysis and submission of test results • consider taking action to prescribe clear parameters for identifying natural or artificial toddy • carry out a work study to clearly assess the manpower needs.	PA examined by PAC (12.11.2014). Report has not been received.
31 March 2012	Levy and collection of VAT on evasion prone commodities/areas in Commercial Taxes	5	The Government/Department may consider • restoring audit assessment wing, Commercial Investigation Wing, and strengthening the Internal Audit Wing to ensure compliance of the provision of the Acts and Rules • introducing a system of obtaining information periodically from other Departments/Boards etc. in respect of the persons registered with them and cross verify the same with KVATIS to trace the dealers whose turnover crossed the threshold limit	PA examined by PAC (07.10.2015). Report has not been received.

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
	Department		• taking follow up action on goods brought into the state in view of its potential misuse of items covered by Form 16 • notifying the nature of transactions which would come under the scope of intangible and incorporeal good eligible to tax as featured in the schedule attached to the Maharashtra VAT Act • taking timely action to revise floor rates in respect of evasion prone commodities.	
	Conduct of Lotteries in the State	5	The Department may • ensure that provisions for ascertaining the genuineness of tickets before payment of prizes are observed • pursue the cases with the crime branch for ensuring credibility • finalise accounts of lotteries scheme wise for the efficient conduct of lotteries • fix a timeframe for e-payment • ensure a databank of all the persons involved directly or indirectly by making suitable provisions in the software LIMS.	Action taken explanatory notes not received.
31 March 2013	Performance Audit on Assessment, levy and collection of VAT on transfer of goods involved in the execution of works/supply contract	6	The Government/Department may ensure that • separate identification numbers/code are assigned to work contractors • separate account subhead is provided for accounting receipts under works contracts • regular survey and inter-departmental cross verification of data are conducted to identify the works contractors by strengthening the intelligence wing and suitable measures for registration are taken promptly • valid documents in support of compounding are produced by the applicant timely • internal control mechanism is adequate to plug revenue loss, detecting the defects/deficiencies promptly • various declaration forms in support of claims for concession/exemptions are verified properly.	Action taken explanatory notes not received.

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
	Land Management by the Government of Kerala with special focus on land for Aranmula Airport and Smart City Kochi (Standalone)	13	Audit recommends for • taking steps for effective implementation of the land management policy so as to generate maximum revenue to Government since the supply/availability of land is very limited • identifying and inventorising all government lands on a war footing by surveying and demarcating the land • prescribing and maintaining a register in the Taluk/District/Division level for noting the details of the lease such as order number, area under lease, name of the lessee, date of expiry of lease, periodical renewal details and demand, collection and balance of lease rent etc in respect of each lease • developing a mechanism to fix lease rent and renew the lease within the time period stipulated in Act/Rules and fix a mechanism to revise fair value of land at frequent intervals • prescribing a heavy fine and punitive action against those who violate lease conditions and initiate effective action against encroachment and prompt implementation of provisions of KLCA • fixing conditions for assignment of land on registry putting in place a reporting system from village level to Commissioner of Land Revenue level for monthly reporting of lease cases such as total cases, time expired cases, demand, collection and balance of lease rent, resumed cases under resumption procedure etc. • identifying and inventorising all forest lands on a war footing by surveying and demarcating the land • developing a mechanism to monitor and renew the lease/lease rent within the time period stipulated in Act/Rules • putting in place a mechanism to realise lease rent dues promptly • ensuring that agreements are executed in all lease cases. • conducting an in-depth study on the need for a fifth airport in the small state of Kerala and that too at Aranmula which is less than 150 Kms from Thiruvananthapuram and Kochi international airports	Action taken explanatory notes not received.

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
			• conducting an in depth study on the impact of the project on the ecology/environment on the basis of the issues raised in the Reports of the Legislature Committee on Environment, Kerala State Biodiversity Board and the Expert Committee appointed by AAI and take effective action to resolve the impacts • conducting an independent enquiry into the cases of violations of provisions of various Act/Rules including the lapses that has occurred at all levels including that of the secretariat departments which supported the illegal acts of the individual/company	
	Effectiveness of Kerala Value Added Tax Information System (KVATIS) in the Tax Administration of Commercial Taxes Department (Standalone)	20	• Business Rules regarding registration may be mapped properly to avoid acceptance of multiple registrations by the system unless specifically permitted by Commissioner of Commercial Taxes under Section 20(3). • The system be updated to cover the risk of tax evasion by dealers having multiple registration, working out their aggregate turnover as specified in Section 20(4) of KVAT Act. • Department may conduct periodical analysis of dormant registration numbers, other than application for temporary stoppage of business (vide Section 16), and take timely action for issuing notices for renewal or otherwise cancel the registration of dealers who had no business transactions for more than two years, to avoid misuse of Registration Certificate. • System should generate appropriate alerts for renewal of Bank guarantees before its date of expiry and while dealers are effecting transactions. • Necessary modifications may be made to the system to adequately capture the results of manual verification done by Assessing Officers. • The department may provide adequate controls in the software to detect and alert the interstate transactions by cancelled dealers and the dealers who have not renewed their registration. • Entering of valid registration numbers in the field for Consignee	Action taken explanatory notes not received.

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
			TIN/Consignor TIN in the e-declaration format for generating e-token may be made mandatory. • System generated alerts needs to be devised for tracking consignment of goods in bulk quantity to prevent misuse of the facility for transporting consignments 'for own use' without payment of tax. • The system should be enabled to provide information about the non-surrendered transit passes to authorities including the intelligence wing of the department so as to track such vehicle. • Department may ensure that all business Rules are mapped to the system properly, that the system provides all necessary input and that there exists adequate process controls and validation checks to detect shortfalls in payment of tax. • Government may consider strengthening KVATIS for monitoring the scrutiny of returns through it. • The Department may incorporate a provision in the KVATIS to ensure that the closing stock shown in the certified accounts in Form 13-A of a year is correctly taken as the opening stock of the succeeding year. • Proper controls be built into the system so that the system can scrutinise returns collecting details from different databases. • Department/Govt may initiate early action for the upgradation of the present server which would be cost effective in terms of improvement of revenue realisation it would fetch. • The Department may operationalise the Audit Assessment Module with suitable modifications for the selection of high risk dealers through KVATIS for detailed audit. • The Department may initiate action to make use of other Modules so that the disposal of appeals, the nature of penalty levied, progress of collecting arrears etc can easily be monitored. • Important/required MIS reports may be made available in the software. • The Department may impart sufficient training to all officers	

Year of Report	Name of the PA	No. of recommendations	Details of recommendations	Status
			and staff periodically. • The upgradation of the present system/server which is slow, would be cost effective in terms of improvement of revenue realisation, which was one of the primary goals of implementation of KVATIS. • The Department may lay down norms for check of physical records on the basis of reports generated through KVATIS indicating risk areas.	

Appendix -IV

(Ref: Paragraph 2.4.7.1 - bullet 1)

Details of dealers permitted to transport goods outside the State without taking registration

(₹ in crore)

Sl. No.	Name of the unregistered dealer who transported the goods to other States	Value of goods transported	Tax Due	Interest	Penalty	Total due
1	A.C.N.Tex Private Limited	1.81	0.0906	0.0172	0.1811	0.29
2	A.N.P Apparel	6.36	0.2181	0.0414	0.4362	0.7
3	Agni Apparels	0.4	0.0199	0.0038	0.0397	0.06
4	AKR Textile	8.7	0.4352	0.0827	0.8704	1.39
5	Akruthi Apparrel	3.28	0.164	0.0312	0.328	0.52
6	Al Saj Convention Centre	0.1	0.0135	0.0026	0.027	0.04
7	Alagar Aparels	0.25	0.0124	0.0024	0.0247	0.04
8	Ambo Exports Ltd	12.33	0.6251	0.1188	1.2502	1.99
9	Antony	0.61	0.0562	0.0107	0.1124	0.18
10	Anushri Fashion India Private Limited	0.68	0.0339	0.0064	0.0678	0.11
11	Apep	0.48	0.024	0.0046	0.048	0.08
12	Apparel World	0.31	0.0155	0.003	0.0311	0.05
13	Arvind Limited	0.59	0.0293	0.0056	0.0587	0.09
14	AS Exports	0.32	0.0158	0.003	0.0315	0.05
15	Aswath Creations	0.48	0.0239	0.0045	0.0478	0.08
16	Authentik Export	0.33	0.0166	0.0032	0.0332	0.05
17	Ayva Apparels	0.22	0.0112	0.0021	0.0224	0.04
18	B.N.T Innovations Private Limited	1.33	0.0667	0.0127	0.1334	0.21
19	Benso Garmenting	0.43	0.0216	0.0041	0.0431	0.07
20	Benzer Trading India Pvt Ltd	0.66	0.0331	0.0063	0.0662	0.11
21	C.R Apparel	0.21	0.0103	0.002	0.0206	0.03
22	C.R.Garments	0.36	0.0181	0.0034	0.0362	0.06
23	Carona Industries (P) Ltd	0.41	0.0206	0.0039	0.0412	0.07
24	Cee Dee Garments	0.36	0.0178	0.0034	0.0356	0.06
25	Chippy Exports,	0.52	0.026	0.0049	0.052	0.08
26	D2D International	3.22	0.1611	0.0306	0.3222	0.51
27	Damodar Industries Ltd	0.77	0.0383	0.0073	0.0765	0.12
28	Different Shades	0.22	0.0112	0.0021	0.0224	0.04
29	Dollar Industries Limited	7.34	0.3672	0.0698	0.7344	1.17
30	East Coast Clothing Company Pvt Ltd	1.53	0.0763	0.0145	0.1526	0.24
31	Eastman Exports Global Clothing Pvt Ltd	7.44	0.3722	0.0707	0.7445	1.19
32	Elgi Equipments Ltd	0.32	0.0429	0.0081	0.0857	0.14
33	ESS Gee Garments	0.29	0.0146	0.0028	0.0292	0.05
34	Essel Shyam Communication Limited	0.15	0.0199	0.0038	0.0399	0.06
35	Exel Sourcing Company	0.57	0.0284	0.0054	0.0569	0.09

(₹ in crore)

Sl. No.	Name of the unregistered dealer who transported the goods to other States	Value of goods transported	Tax Due	Interest	Penalty	Total due
36	Exim Trade	0.76	0.0378	0.0072	0.0757	0.12
37	Fair And Flair Garments,	7.23	0.3616	0.0687	0.7232	1.15
38	Fashion (Asia) Pvt Ltd	0.23	0.0116	0.0022	0.0231	0.04
39	Fashion Gate	2.77	0.1386	0.0263	0.2771	0.44
40	Finefair India Pvt Ltd	0.9	0.045	0.0085	0.0899	0.14
41	Flower Kniting Mills	0.26	0.0131	0.0025	0.0262	0.04
42	Gangai Garments	2.54	0.1271	0.0242	0.2543	0.41
43	Gates Wears	0.44	0.0221	0.0042	0.0443	0.07
44	Geetha Garments P.N.Road	0.64	0.0867	0.0165	0.1734	0.28
45	Gene Apparels	1.65	0.0826	0.0157	0.1652	0.26
46	Girnar Food & Beverages Pvt Ltd,	0.24	0.012	0.0023	0.024	0.04
47	Gowtham Knit Garments	0.49	0.0244	0.0046	0.0487	0.08
48	Green Field Apparels,	0.22	0.0108	0.0021	0.0217	0.03
49	Green Way Clothing	0.97	0.0487	0.0093	0.0975	0.16
50	HHA Tank Terminal Pvt Ltd	0.06	0.016	0.003	0.032	0.05
51	Hue Chem Textiles Pvt Ltd	2.71	0.1355	0.0258	0.2711	0.43
52	IDP Shipping Services	0.21	0.0103	0.0019	0.0205	0.03
53	J S Fashions (International) Pvt Ltd	0.27	0.0133	0.0025	0.0266	0.04
54	Japan International	3.25	0.1751	0.0333	0.3502	0.56
55	Jaya Valli Fashions,	0.21	0.0107	0.002	0.0213	0.03
56	JCB India Ltd	0.2	0.027	0.0051	0.054	0.09
57	Jeena & Co	0.61	0.0307	0.0058	0.0615	0.1
58	JFK International	0.32	0.0158	0.003	0.0316	0.05
59	K Nisha	0.1	0.0141	0.0027	0.0282	0.04
60	K.M.Garments	0.2	0.0101	0.0019	0.0201	0.03
61	K.P.R Mill Limited	9.14	0.4571	0.0869	0.9143	1.46
62	K T Garments	1.05	0.0524	0.01	0.1047	0.17
63	Karapagham Tex	1.28	0.0642	0.0122	0.1285	0.2
64	Karvy Data Management Services Ltd	0.51	0.0257	0.0049	0.0514	0.08
65	Kgi Clothing Pvt Ltd	3	0.1502	0.0285	0.3005	0.48
66	KM Textiles	0.32	0.0162	0.0031	0.0325	0.05
67	Knit Home Garments	0.69	0.0344	0.0065	0.0688	0.11
68	Knit India Inc	0.31	0.0156	0.003	0.0313	0.05
69	Krillo Garments	1.18	0.0588	0.0112	0.1176	0.19
70	Lara Knit Wear	1.03	0.0513	0.0097	0.1025	0.16
71	Laxmi Garments	0.6	0.0298	0.0057	0.0596	0.1
72	Leeds Fashion	0.3	0.0152	0.0029	0.0305	0.05

(₹ in crore)

Sl. No.	Name of the unregistered dealer who transported the goods to other States	Value of goods transported	Tax Due	Interest	Penalty	Total due
73	Leela Hotel	0.1	0.0129	0.0025	0.0258	0.04
74	Limtex (India) Ltd	2.17	0.1087	0.0207	0.2175	0.35
75	Lux Industries Ltd	1.15	0.0574	0.0109	0.1147	0.18
76	M.S.M Spermo Knit Wear	0.3	0.0152	0.0029	0.0305	0.05
77	MAF Clothing Pvt Ltd	1.59	0.0796	0.0151	0.1592	0.25
78	Mectech Inifabs Pvt Ltd	7.68	0.3838	0.0729	0.7675	1.22
79	Merrcedz Garments	0.21	0.0103	0.002	0.0207	0.03
80	MG Cotton Company Pvt Ltd	0.49	0.0246	0.0047	0.0491	0.08
81	Midas Creation	0.55	0.0274	0.0052	0.0547	0.09
82	Morning Staar Apparels	0.71	0.0353	0.0067	0.0706	0.11
83	Mr Harilal	0.14	0.0184	0.0035	0.0368	0.06
84	Mr Karthik	0.14	0.0185	0.0035	0.037	0.06
85	Mr O R Venu Gopalan	0.14	0.0184	0.0035	0.0369	0.06
86	Mr Vijaykumar	0.14	0.0187	0.0035	0.0373	0.06
87	Mr. Sudheer T S	0.14	0.0187	0.0036	0.0374	0.06
88	Nagreeka Exports Limited	0.45	0.0225	0.0043	0.0451	0.07
89	Naseema	0.13	0.0182	0.0035	0.0364	0.06
90	Network Clothing Company Pvt Ltd	0.68	0.034	0.0065	0.068	0.11
91	Next Generation Clothing Pvt Ltd	0.91	0.0453	0.0086	0.0907	0.14
92	Norman Yong Engineering Products Private Ltd	0.14	0.0194	0.0037	0.0387	0.06
93	Npol	0.19	0.0257	0.0049	0.0513	0.08
94	Oasis Exporters	0.13	0.0179	0.0034	0.0358	0.06
95	OCC Apparels India Private Limited	0.48	0.0241	0.0046	0.0481	0.08
96	P A James	0.14	0.0191	0.0036	0.0382	0.06
97	PKP Tex	0.43	0.0216	0.0041	0.0431	0.07
98	Prateek Apparels Pvt Ltd	1.84	0.0919	0.0175	0.1838	0.29
99	Proline Exports Pvt Ltd	1.06	0.053	0.0101	0.106	0.17
100	Prospper Exports	0.38	0.0192	0.0036	0.0383	0.06
101	PTR Garments	0.83	0.0413	0.0078	0.0826	0.13
102	Rakesh	0.14	0.0187	0.0036	0.0374	0.06
103	Ravi Garments	0.52	0.0258	0.0049	0.0516	0.08
104	Rearl Fashions	0.27	0.0133	0.0025	0.0265	0.04
105	Reia Fashions	1.11	0.0553	0.0105	0.1106	0.18
106	Rgi Clothing Pvt Ltd	0.67	0.0334	0.0063	0.0667	0.11
107	Ridha Fashions,	0.24	0.0118	0.0022	0.0236	0.04
108	Roots Impex	1.19	0.0594	0.0113	0.1189	0.19
109	S Kesavan	0.12	0.0158	0.003	0.0316	0.05
110	Sairam Garments	0.21	0.0104	0.002	0.0208	0.03
111	Samridhi E-Seva Solution Pvt Ltd	0.28	0.0141	0.0027	0.0283	0.05
112	Sangeetha Creations	0.39	0.0193	0.0037	0.0387	0.06

(₹ in crore)

Sl. No.	Name of the unregistered dealer who transported the goods to other States	Value of goods transported	Tax Due	Interest	Penalty	Total due
113	Sarayana Agency	0.12	0.0159	0.003	0.0317	0.05
114	SE Garments	0.29	0.0143	0.0027	0.0286	0.05
115	Seagull Clothing	0.54	0.027	0.0051	0.0541	0.09
116	Shah Brothers	1.83	0.0913	0.0173	0.1826	0.29
117	Shiny Knitwear	2.37	0.1183	0.0225	0.2366	0.38
118	Siddhi Apparel House	1.63	0.0816	0.0155	0.1632	0.26
119	Silk Fashion Exports	1.14	0.0572	0.0109	0.1143	0.18
120	SKL Exports	0.28	0.0141	0.0027	0.0281	0.04
121	Sonia Exports	0.51	0.0256	0.0049	0.0512	0.08
122	Spice Islands Apparels Ltd	0.38	0.0192	0.0036	0.0384	0.06
123	SPL Textile	1.79	0.0894	0.017	0.1788	0.29
124	Sri Venkateswara Diatilaries	0.15	0.1379	0.0262	0.2759	0.44
125	Sri Anuragavi Garments	0.7	0.035	0.0067	0.07	0.11
126	Stowa Garments	0.22	0.011	0.0021	0.022	0.04
127	Subhash Wires & Cables Pvt Ltd	0.55	0.0274	0.0052	0.0549	0.09
128	Sudhan Trading (P) Ltd	0.41	0.0206	0.0039	0.0412	0.07
129	Sukumaran	0.14	0.0189	0.0036	0.0377	0.06
130	Suregaa Exports (Prop S P K Selvakumar)	0.21	0.0106	0.002	0.0211	0.03
131	Suvidhee Apparels	1.65	0.0827	0.0157	0.1655	0.26
132	Swaraj Fashions	0.61	0.0305	0.0058	0.061	0.1
133	Swarna Kaleeswara Knitting	0.91	0.0455	0.0086	0.091	0.15
134	Swathi Creations	0.39	0.0196	0.0037	0.0391	0.06
135	Swift Merchandise	0.27	0.0136	0.0026	0.0273	0.04
136	T.S. Sudheer	0.14	0.0187	0.0036	0.0374	0.06
137	Team Knits	1.14	0.0572	0.0109	0.1144	0.18
138	Team Sport Clothings (K.P Ramasamy)	0.83	0.0413	0.0078	0.0826	0.13
139	Tex India Apparels	0.53	0.0265	0.005	0.0529	0.08
140	Texwin Impex	0.24	0.0121	0.0023	0.0242	0.04
	Total	**156.82**	**8.3445**	**1.5859**	**16.6887**	**26.61**

Appendix -V

(Ref: Paragraph 2.4.7.6 - bullet 1)

Details of accounted sales escaped assessment

(₹ in crore)

Sl. No.	Office Name	Name of assessee / TIN/Year	Other receipts not returned / Rate of tax	Tax Due	Interest Due	Penal Interest	Penalty	Total due
1	CTO, Special Circle I, Ernakulam	Godrej & Boyce Mfg. Co. Ltd/ 32070248212/2013-14	5.75 / 5%-10/ 14.5%-90	0.7795	0.1091	0.2183	1.5589	2.67
2		Benetton India Private Limited/ 32070286989/2013-14	0.2415 / 5% - 87.50/ 14.50% - 12.50	0.0149	0.0021	0.0042	0.0298	0.05
3		Amararaja Batteries Ltd/ 32071542682/2013-14	2.83 / 14.5%	0.4097	0.0574	0.1147	0.8194	1.4
4		Arvind Retail Ltd/ 32070283007/2013-14	5.41 / 5%-96 14.5%-4	0.2912	0.0408	0.0815	0.5824	1
5		Eveready Industries India Ltd. / 32070249944/2013-14	5.65 / 5%-34 14.5%-66	0.6368	0.0892	0.1783	1.2737	2.18
6		Asian Paints Ltd./ 32070289814/2013-14	4.18 / 14.5%	0.6058	0.0848	0.1696	1.2116	2.07
7		Havells India Limited/ 32070220885/2013-14	8.09 / 5%-42 14.5%-58	0.8507	0.1191	0.2382	1.7015	2.91
8		Nestle India Limited/ 32070216745/2013-14	21.15 / 5%-28 14.5%-72	2.5038	0.3505	0.7011	5.0077	8.56
9	CTO, Special Circle II, Ernakulam	Wipro GE Health Care (P) Ltd. 32070319705/2013-14	7.53 / 5%-99/ 14.5%-1	0.3838	0.0537	0.1075	0.7676	1.31
10		Supermax Personal Care Pvt. Ltd./ 32070310839/ 2012-13	3.39 / 13.5%	0.4575	0.119	0.2379	0.9151	1.73

(₹ in crore)

Sl. No.	Office Name	Name of assessee / TIN/Year	Other receipts not returned / Rate of tax	Tax Due	Interest Due	Penal Interest	Penalty	Total due
11		Supermax Personal Care Pvt. Ltd./ 32070310839/ 2013-14	5.41 / 14.5%	0.7851	0.1099	0.2198	1.5702	2.69
12	CTO, Special Circle III, Ernakulam	Reliance Trends Limited/ 32070422103/2013-14	14.82 / 5%-98 14.5%-2	0.7692	0.1077	0.2154	1.5385	2.63
13		Tata Autocomp GY Batters (P) Ltd/ 32071313204/2013-14	1.86 / 14.5%	0.2696	0.0377	0.0755	0.5392	0.92
14	CTO, Special Circle Mattancherry at Aluva	Berger Paints India Ltd. / 32150272994/2013-14	2.71 / 5%-2/ 14.5%-98	0.3882	0.0543	0.1087	0.7764	1.33
15		Hindustan Unilever Limited/ 32150254454/2013-14	97.14 / 1%-9/ 5%-8/ 14.5%-83	12.1671	1.7034	3.4068	24.3342	41.61
16		Beacon Power Systems/ 32150812882/2013-14	0.2018 / 14.5%	0.0293	0.0041	0.0082	0.0585	0.1
17		Orma Marble Palace / 32150236364/ 2013-14	4.27 / 5%-3 14.5%-97	0.607	0.085	0.17	1.214	2.08
18	CTO, Special Circle, (Produce) Mattancherry	Tata Coffee Limited/ 32150341855/2013-14	3.17 / 5%-92/ 14.5%-8	0.1828	0.0256	0.0512	0.3655	0.63
19	CTO, Special Circle, Kottayam	Muthoottil Traders/ 32050977142/2013-14	0.1823 / 14.5%	0.0264	0.0037	0.0074	0.0529	0.09
20	CTO, Special Circle, Palakkad	Kunnath Paper Mills Pvt. Ltd. 32090221945/2013-14	19.82 / 5%	0.9911	0.1388	0.2775	1.9822	3.39
21		Paragon Steels (P) Ltd. / 32090250802/2013-14	5 / 5%	0.2501	0.035	0.07	0.5002	0.86

(₹ in crore)

Sl. No.	Office Name	Name of assessee / TIN/Year	Other receipts not returned / Rate of tax	Tax Due	Interest Due	Penal Interest	Penalty	Total due
22	CTO, Special Circle, Thiruvananthapuram	T.V. Sundaram Iyengar & Sons Ltd./ 32010188782/2013-14	3.9 / 5%-22 14.5%-78	0.4837	0.0677	0.1354	0.9674	1.65
23	CTO, Special Circle I, Kozhikode	KVN Impex (P) Ltd. / 32110288424/2013-14	40.28 / 5%	2.014	0.282	0.5639	4.028	6.89
24	CTO, I Circle Kalamassery	P P Tyres and Traders/ 32071293336/2013-14	0.1323 / 5% - .03/ 14.50 – 99.97	0.0192	0.0027	0.0054	0.0384	0.06
25	CTO II Circle, Kalamassery	Ajas N.S/ 32071311382/2013-14	41.29 / 5%-83/ 14.5%-17	2.7316	0.3824	0.7648	5.4631	9.34
26	CTO, Aluva	AVT Natural Products Ltd. 32150355052/2013-14	3.56 / 5%-2/ 14.5%-98	0.509	0.0713	0.1425	1.018	1.74
27		Janatha Trading Corporation/ 32150217172/2013-14	3.09 / 14.5%	0.4481	0.0627	0.1255	0.8962	1.53
28	CTO, II Circle, Kottayam	Amala Super Market/ 32050649856/2013-14	0.1162 / 20% - 0.34/ 1% - 2.90 / 5% - 5.92/ 14.50% - 20.85/ 0% - 69.99	0.004	0.0006	0.0011	0.0079	0.01
29		Sabas Rubbers/ 32050698952/2013-14	0.1029 / 5%	0.0051	0.0007	0.0014	0.0103	0.01
30	CTO, II Circle, Tripunithura	Reliance Digital Retail Ltd./ 32070465808/2013-14	11.94 / 5%-53 14.5%-47	1.1297	0.1582	0.3163	2.2593	3.86
		Total	**323.22**	**30.744**	**4.3592**	**8.7181**	**61.4881**	**105.30**

Appendix -VI

(Ref: Paragraph 2.4.7.6 - bullet 3)

Details of turnover of goods exempted without mentioning the nature

(₹ in crore)

Sl No.	Name of Office	Name of assessee TIN/year	Exemption claimed for local sales Rate of tax	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing officer	Remarks
1	CTO, Special Circle I, Ernakulam	Pest Control (India) Pvt. Ltd. 32070287182/2012-13	6.50 5.00%	0.3250	0.0845	0.6500	1.06	Reply not received	Final reply not received
2		G.H. Associates 32071594972/2011-12	2.22 12.50%	0.2770	0.1053	0.5540	0.94	Pre assessment notice based on the Audit observation was issued	Final reply not received
3		Ashok Leyland Ltd 32071200174/2013-14	2.09 14.50%	0.3029	0.0424	0.6058	0.95	Pre assessment notice based on the Audit observation was issued	Final reply not received
4	CTO, Special Circle II, Ernakulam	Indian Oil Corporation Ltd. 32070300862/2011-12	40.88 12.50%	5.1104	1.9420	10.2208	17.27	Replied that the exemption is on High sea sales, but no documents submitted by the dealer in support of the claim	Final reply not received
5		Indian Oil Corporation Ltd. 32070300862/2012-13	147.83 13.50%	19.9576	5.1890	39.9153	65.06	Replied that the exemption is on High sea sales, but no documents submitted by the dealer in support of the claim	Final reply not received
6		Indian Oil Corporation Ltd. 32070300862/2013-14	150.58 5%-5 14.5%-95	21.1189	2.9567	42.2379	66.31	Replied that the exemption is on High sea sales, but no documents submitted by the dealer in support of the claim	Final reply not received
7		HCL Infosystems Limited 32070312742/2011-12	0.62 12.50%	0.0780	0.0296	0.1560	0.26	Pre assessment notice based on the Audit observation was issued	Final reply not received
8		HCL Infosystems	0.92	0.1247	0.0324	0.2495	0.41	Pre assessment notice based	Final reply not

(₹ in crore)

Sl No.	Name of Office	Name of assessee TIN/year	Exemption claimed for local sales Rate of tax	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing officer	Remarks
		Limited 32070312742/2012-13	13.50%					on the Audit observation was issued	received
9		Concorde Motors India Ltd 32070314002/2011-12	3.19 12.50%	0.3988	0.1515	0.7976	1.35	Reply not received	Final reply not received
10		Concorde Motors India Ltd 32070314002/2012-13	3.17 13.50%	0.4286	0.1114	0.8571	1.40	Reply not received	Final reply not received
11		Concorde Motors India Ltd 32070314002/2013-14	2.18 14.50%	0.3158	0.0442	0.6316	0.99	Reply not received	Final reply not received
12		Associated Chemicals Industry 32070390794/2012-13	5.57 5.00%	0.2783	0.0724	0.5566	0.91	Pre assessment notice based on the Audit observation was issued	Final reply not received
13		Lulu International Shopping Mall (P) Ltd. 32070393922/2013-14	1.81 5%-23 14.5%-77	0.2229	0.0312	0.4458	0.70	Pre assessment notice based on the Audit observation was issued	Final reply not received
14		Aswin Paper Company 32071774972/2013-14	5.30 5.00%	0.2651	0.0371	0.5303	0.83	Pre assessment notice based on the Audit observation was issued	Final reply not received
15	CTO, Special Circle III, Ernakulam	Popular Vehicles and Services Ltd. 32070401234/2011-12	35.77 12.50%	4.4706	1.6988	8.9413	15.11	Reply not received	Final reply not received
16		Popular Vehicles and Services Ltd. 32070401234/2012-13	37.71 13.50%	5.0904	1.3235	10.1808	16.59	Reply not received	Final reply not received
17		Usha International Ltd, 32070428752/2011-12	2.37 4%-15	0.2659	0.1011	0.5319	0.90	Reply not received	Final reply not received
18		Eorinetal Timbers 32070455144/2011-12	2.62 12.50%	0.3279	0.1246	0.6557	1.11	Reply not received	Final reply not received
19		Rubber Mark 32070491155/2011-12	14.25 4.00%	0.5699	0.2166	1.1397	1.93	Reply not received	Final reply not received
20		Rubber Mark	1.46	0.0731	0.0190	0.1462	0.24	Reply not received	Final reply not

(₹ in crore)

Sl No.	Name of Office	Name of assessee TIN/year	Exemption claimed for local sales Rate of tax	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing officer	Remarks
		32070491155/2012-13	5.00%						received
21		V-Star Creations Pvt Ltd. 32070438652/2013-14	0.19 5.00%	0.0096	0.0013	0.0192	0.03	Replied that the exemption is discount allowed through invoices.	Verified and found that there were quantitative invoices also, which is taxable. Revised observation was issued. Final reply not received
22		Wipro Limited 32070439912/2013-14	5.56 5.00%	0.2781	0.0389	0.5561	0.87	Reply not received	Final reply not received
23	CTO, Special Circle, Kottayam	Francis Trading Company 32050859984/2011-12	6.51 4.00%	0.2605	0.0990	0.5210	0.88	Reply not received	Final reply not received
24		JMJ Traders 32051107585/2013-14	61.87 5.00%	3.0937	0.4331	6.1875	9.71	Reply not received	Final reply not received
25	CTO, Special Circle, Thiruvananthapuram	SML Isuzu Limited 32010181345/2011-12	5.69 12.50%	0.7114	0.2703	1.4227	2.40	Reply not received	Final reply not received
26		S.V. Granite and Tiles 32011020112/2013-14	16.97 5.00%	0.8485	0.1188	1.6969	2.66	Reply not received	Final reply not received
27	CTO, Special Circle, Mattancherry	Hindustan Unilever Limited 32150254454/2011-12	9.12 12.50%	1.1401	0.4333	2.2803	3.85	Pre assessment notice issued based on the Audit observation	Final reply not received
28			1.08 4.00%	0.0432	0.0164	0.0863	0.15	Pre assessment notice issued based on the Audit observation	Final reply not received
29		Hindustan Unilever Limited 32150254454/2012-13	12.80 13.50%	1.7284	0.4494	3.4568	5.63	Pre assessment notice issued based on the Audit observation	Final reply not received

(₹ in crore)

Sl No.	Name of Office	Name of assessee TIN/year	Exemption claimed for local sales Rate of tax	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing officer	Remarks
30		Hindustan Unilever Limited 32150254454/2012-13	1.30 5.00%	0.0650	0.0169	0.1301	0.21	Pre assessment notice issued based on the Audit observation	Final reply not received
31	CTO, Special Circle, Palakkad	Ruchi World Wide LTD. 32090600992/2011-12	32.78 4.00%	1.3112	0.4982	2.6223	4.43	Reply not received	Final reply not received
32	CTO, Special Circle I, Kozhikode	Wipro Enterprises Limited 32110227707/2013-14	3.87 5%-44 14.5%-56	0.3995	0.0559	0.7991	1.25	Reply not received	Final reply not received
33	CTO, I Circle, Ernakulam	LIA Marketing 32071555192/2013-14	1.36 14.50%	0.1972	0.0276	0.3944	0.62	Pre assessment notice issued based on the Audit observation	Final reply not received
34	CTO, II Circle, Kalamassery	Mathewsons Food Specialities Private Limited 32071354626/2013-14	2.53 14.50%	0.3669	0.0514	0.7339	1.15	Reply not received	Final reply not received
35	CTO, II Circle, Kannur	National Handloom Devp Corp.Ltd 32120627185/2011-12	9.07 4.00%	0.3628	0.1379	0.7256	1.23	Pre assessment notice issued based on the Audit observation	Final reply not received
36		National Handloom Devp Corp.Ltd 32120627185/2012-13	30.44 5.00%	1.5218	0.3957	3.0437	4.96	Pre assessment notice issued based on the Audit observation	Final reply not received
37		National Handloom Devp Corp.Ltd 32120627185/2013-14	3.25 5.00%	0.1626	0.0228	0.3252	0.51	Pre assessment notice issued based on the Audit observation	Final reply not received
			671.45	**72.5025**	**17.3801**	**145.0049**	**234.89**		

Appendix -VII

(Ref: Paragraph 2.4.7.6 - bullet 4)

Details of irregular exemption of sales to units situated in special economic zone

(₹ in crore)

Sl. No.	Name of Office	Name of assessee TIN/Year	Name of the Goods sold to SEZ	Exemption Claimed for Local Sales Rate of Tax	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing Officer	Remarks
1	CTO, Special Circle II, Ernakulam	Blue Star Limited 32070302335/2011-12	Works contract on Air condition installation	7.46 12.50%	0.9328	0.3545	1.8655	3.15	Replied that the work is executed in SEZ and the exemption is supported by Form 43 certificate	The reply is not acceptable since the work of air conditioning is not covered under Sec.6(7) of KVAT Act
2		Blue Star Limited 32070302335/2012-13	Works contract on Air condition installation	8.04 13.50%	1.0852	0.2822	2.1704	3.54	Replied that the work is executed in SEZ and the exemption is supported by Form 43 certificate	The reply is not acceptable since the work of air conditioning is not covered under Sec.6(7) of KVAT Act
3		Blue Star Limited 32070302335/2013-14	Air Conditioners and Works contract on Air-condition installation	11.40 14.50%	1.6529	0.2314	3.3057	5.19	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Name of Office	Name of assessee TIN/Year	Name of the Goods sold to SEZ	Exemption Claimed for Local Sales Rate of Tax	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing Officer	Remarks
4		Bharat Petroleum Corporation Ltd 32070398984/2011-12	Petroleum furnace oil	11.27 12.50%	1.4086	0.5353	2.8172	4.76	Replied that bitumen is used as raw materials to produce certain goods and furnace oil is an industrial input used in the running of boilers	The reply is partially acceptable. Bitumen case is accepted. In the case of industrial inputs, the goods are specified in List A to III Schedule and furnace oil is not specified there. Hence the Original objection revised.
5		Bharat Petroleum Corporation Ltd 32070398984/2012-13	Petroleum furnace oil	9.89 13.50%	1.3356	0.3473	2.6712	4.35	Replied that bitumen is used as raw materials to produce certain goods and furnace oil is an industrial input used in the running of boilers	The reply is partially acceptable. Bitumen case is accepted. In the case of industrial inputs, the goods are specified in List A to III Schedule and furnace oil is not specified there. Hence the Original objection revised.
6		Bharat Petroleum Corporation Ltd 32070398984/2013-14	Petroleum furnace oil, LPG (Comml)	14.25 14.50%	2.0663	0.2893	4.1327	6.49	Reply not received	Final reply not received
7	CTO, Special Circle III, Ernakulam	Primus Gloves Pvt Limited 32070429955/2012-13	surgical equipments, bandages	4.86 5.00%	0.2432	0.0632	0.4864	0.79	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Name of Office	Name of assessee TIN/Year	Name of the Goods sold to SEZ	Exemption Claimed for Local Sales Rate of Tax	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing Officer	Remarks
8		SFO Technologies Digital Pvt Ltd. 32070415803/ 2011-12	electronic goods	20.38 12.50%	2.5476	0.9681	5.0953	8.61	Reply not received	Final reply not received
9		SFO Technologies Digital Pvt Ltd. 32070415803/ 2012-13	electronic goods	3.26 13.50%	0.4402	0.1144	0.8804	1.44	Reply not received	Final reply not received
10	CT O, II Circle Kalamassery	Safe Care Rubber Product Pvt Ltd 32070425275/2011-12	Surgical equipments	6.36 4.00%	0.2544	0.0661	0.5088	0.83	Replied that the files were not yet transferred to the office. Hence the Audit observation were not verified	Final reply not received
11		Leela Soft Pvt Ltd 32070471906/2011-12	Electronic goods, furniture, lubricants	1.53 12.50%	0.1912	0.0727	0.3825	0.65	Replied that the files were not yet transferred to the office. Hence the Audit observation were not verified	Final reply not received
12		Leela Soft Pvt Ltd 32070471906/2011-12	Electronic goods, furniture, lubricants	1.79 4.00%	0.0717	0.0186	0.1434	0.23	Reply not received	Final reply not received
13		Outsource Partners International Pvt Ltd 32071382201/2013-14	Health drinks	0.18 14.50%	0.0259	0.0036	0.0517	0.08	Reply not received	Final reply not received
14	CTO(WC), Ernakulam	Honey Automation India Ltd 32072013472/2012-13	Electronic goods	6.11 13.50%	0.8247	0.2144	1.6495	2.69	Reply not received	Final reply not received
15		Honey Automation India Ltd 32072013472/2013-14	Electronic goods	2.18 14.50%	0.3167	0.0443	0.6334	0.99	Reply not received	Final reply not received
		TOTAL		**108.97**	**13.3971**	**3.6055**	**26.7942**	**43.80**		

Appendix - VIII

(Ref: Paragraph 2.4.7.6 - bullet 5)

Details of turnover exempted without furnishing the statutory documents

(₹ in crore)

Sl. No.	Name of office	Name of assessee TIN/Year	Nature of exemption	Turnover of Exemption Claimed Rate of Tax %	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing Officer	Remarks
1	CTO, Special Circle 1, Ernakulam	Prism Cement Limited 32070239223/2011-12	SEZ Sales	5.20 12.50	0.6499	0.2469	1.2997	2.20	Reply not received	Final reply not received
2		Prism Cement Limited 32070239223/2012-13	SEZ Sales	6.18 13.50	0.8340	0.2168	1.6680	2.72	Reply not received	Final reply not received
3	CTO, Special Circle II, Ernakulam	Lulu International Shopping Mall (P) Ltd. 32070393922/2013-14	Medicine II sale	1.91 5.00	0.0955	0.0134	0.1910	0.30	Pre assessment notice issued based on the objection	Final reply not received
4	CTO, Special Circle III, Ernakulam	Primus Gloves Pvt Limited 32070429955/2012-13	SEZ Sales	0.88 5.00	0.0438	0.0114	0.0875	0.14	Reply not received	Final reply not received
5	CTO, (Produce), Mattanchery	Harrisons Malayalam Limited 32150322101/2011-12	Tea Auction	55.51 4.00	2.2202	0.8437	4.4404	7.50	Reply not received	Final reply not received
6		Tata Coffee Limited 32150341855/2011-12	Tea Auction	29.55 4.00	1.1819	0.4491	2.3638	3.99	Reply not received	Final reply not received
7		Tata Coffee Limited 32150341855/2012-13	Tea Auction	36.12 5.00	1.8059	0.4695	3.6118	5.89	Reply not received	Final reply not received
8		Forbes 32150344904/2011-12	Tea Auction	15.17 4.00	0.6067	0.2305	1.2133	2.05	Reply not received	Final reply not received
9		Forbes 32150344904/2012-13	Tea Auction	18.16 5.00	0.9079	0.2361	1.8158	2.96	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Name of office	Name of assessee TIN/Year	Nature of exemption	Turnover of Exemption Claimed Rate of Tax %	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing Officer	Remarks
10		J.Thomas &Co.Pvt Ltd. 32150391625/2011-12	Tea Auction	19.41 4.00	0.7766	0.2951	1.5531	2.62	Reply not received	Final reply not received
11		J.Thomas &Co.Pvt Ltd. 32150391625/2012-13	Tea Auction	23.28 5.00	1.1639	0.3026	2.3278	3.79	Reply not received	Final reply not received
12		Parry Agro Industries Ltd 32150398915/2011-12	Tea Auction	66.54 4.00	2.6617	1.0114	5.3233	9.00	Reply not received	Final reply not received
13		Parry Agro Industries Ltd 32150398915/2012-13	Tea Auction	79.15 5.00	3.9576	1.0290	7.9152	12.90	Reply not received	Final reply not received
14	CTO, Special Circle Kottayam	JMJ Traders 32051107585/2011-12	High Sea Sales	211.44 4.00	8.4575	3.2139	16.9151	28.59	Reply not received	Final reply not received
15		JMJ Traders 32051107585/2011-12	SEZ Sales	0.27 4.00	0.0106	0.0040	0.0212	0.04	Reply not received	Final reply not received
16		JMJ Traders 32051107585/2012-13	High Sea Sales	139.53 5.00	6.9767	1.8139	13.9533	22.74	Reply not received	Final reply not received
17		St Marys Rubbers Private Limited 32050276346/2013-14	SEZ Sales	5.75 5.00	0.2874	0.0402	0.5748	0.90	Reply not received	Final reply not received
18	CTO, Special Circle Thiruvananthapuram	Amrita Enterprises (P), Ltd 32010108524/2011-12	Medicine II sale	71.95 4.00	2.8780	1.0936	5.7559	9.73	Reply not received	Final reply not received
19		K.N. Mathew Sons 32010142735/2011-12	Medicine II sale	15.36 4.00	0.6142	0.2334	1.2285	2.08	Pre assessment notice issued based on the objection	Final reply not received
20	CTO, Special I Circle Kozhikode	Kerala Trade Wing 32110665535/2012-13	Medicine II sale	32.92 5.00	1.6461	0.4280	3.2922	5.37	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Name of office	Name of assessee TIN/Year	Nature of exemption	Turnover of Exemption Claimed Rate of Tax %	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing Officer	Remarks
21	CTO, I Circle, Ernakulam	LIA Marketing 32071555192/2013-14	Medicine II sale	1.61 5.00	0.0807	0.0113	0.1614	0.25	Reply not received	Final reply not received
22	CTO, I Circle, Kalamassery	Sneha Distributors Pvt Ltd 32070208274/2011-12	Medicine II sale	30.26 4.00	1.2102	0.4599	2.4205	4.09	Replied that the files were not yet transferred to the office. Hence the objections were not verified	Final reply not received
23		Sneha Distributors Pvt Ltd 32070208274/2012-13	Medicine II sale	30.53 5.00	1.5265	0.3969	3.0530	4.98	Replied that the files were not yet transferred to the office. Hence the objections were not verified	Final reply not received
24	CTO, II Circle, Kalamassery	Uni Pharma 32070227264/2011-12	Medicine II sale	14.92 4.00	0.5968	0.2268	1.1935	2.02	Replied that the files were not yet transferred to the office. Hence the objections were not verified	Final reply not received
25		Uni Pharma 32070227264/2012-13	Medicine II sale	14.27 5.00	0.7135	0.1855	1.4269	2.33	Replied that the files were not yet transferred to the office. Hence the objections were not verified	Final reply not received
26		Outsource Partners International Pvt Ltd. 32071382201/2013-14	SEZ Works Contract	2.29 14.50	0.3324	0.0465	0.6648	1.04	Reply not received	Final reply not received
27	CTO, II Circle, Kottayam	Kottayam Drug House 32050283995/2011-12	Medicine II sale	32.03 4.00	1.2811	0.4868	2.5622	4.33	Reply not received	Final reply not received
28		Kottayam Drug House 32050283995/2012-13	Medicine II sale	33.70 5.00	1.6849	0.4381	3.3699	5.49	Reply not received	Final reply not received
29	CTO, (WC), Kozhikode	M/s Malabar Builders India Limited 32522961115/2012-13	Sub Contract work	10.45 3.00	0.3135	0.0815	0.6271	1.02	Reply not received	Final reply not received
30		M/s Home land builders 32111573464/2013-14	Sub Contract	1.11 3.00	0.0334	0.0047	0.0669	0.10	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Name of office	Name of assessee TIN/Year	Nature of exemption	Turnover of Exemption Claimed Rate of Tax %	Tax Due	Interest Due	Penalty	Total due	Reply of the Assessing Officer	Remarks
			work							
31		M/s Appollo Build Tec India (P) Ltd 32111574906/2013-14	Sub Contract work	0.71 3.00	0.0213	0.0030	0.0426	0.07	Reply not received	Final reply not received
32		M/s Monarch Builders and Developers 32111500893/2013-14	Sub Contract work	1.57 3.00	0.0471	0.0066	0.0942	0.15	Reply not received	Final reply not received
				1007.71	**45.6174**	**14.5302**	**91.2348**	**151.38**		

Appendix -IX

(Ref: Paragraph 2.4.7.6 - bullet 9)

Details of irregular claim of exemption by contractors opted for compounding

(₹ in crore)

Sl. No.	Name of office	Name of assessee TIN/Year	Exemption Claimed in respect of sale value of land Rate of Tax %	Tax Due	Interest Due	Penalty	Total Due
1	CTO (WC), Palakkad	Classic Builders 32091640863/2010-11	0.32 3.00	0.0095	0.0005	0.0190	0.03
2		Classic Builders 32091640863/2012-13	0.48 3.00	0.0143	0.0037	0.0287	0.05
3		Pazheri Properties & Developers (P) Ltd 32091608709/2011-12	0.29 3.00	0.0088	0.0034	0.0177	0.03
4		Pazheri Properties & Developers (P) Ltd 32091608709/2012-13	0.25 3.00	0.0075	0.0019	0.0150	0.02
5		Pazheri Properties & Developers (P) Ltd 32091608709/2013-14	0.12 3.00	0.0035	0.0005	0.0069	0.01
6		Chanthankulam Projects & Developers (P) Ltd 32091659717/2011-12	0.79 3.00	0.0238	0.0091	0.0477	0.08
7		Chanthankulam Projects & Developers (P) Ltd 32091659717/2012-13	0.73 3.00	0.0219	0.0057	0.0437	0.07
8		Rajan K 32589750916/2012-13	2.49 3.00	0.0747	0.0194	0.1493	0.24
9	CTO (WC), Kannur	Sreerosh Properties (P) Ltd 32121266804/2012-13	1.03 3.00	0.0309	0.0080	0.0618	0.10
10		Sreerosh Properties (P) Ltd 32121266804/2013-14	4.70 3.00	0.1411	0.0198	0.2822	0.44
11		SB Developers 32121208045/2011-12	0.38 3.00	0.0115	0.0044	0.0230	0.04
12		SB Developers 32121208045/2012-13	0.40 3.00	0.0121	0.0031	0.0242	0.04
13	CTO (WC), Kozhikode	Beeline Builders and Developers Pvt. Ltd. 32111511849/ 2012-13	0.18 3.00	0.0053	0.0014	0.0107	0.02
14		M/s Pentium Construction 32111514595/2011-12	3.74 3.00	0.1122	0.0426	0.2244	0.38
15		M/s Pentium Construction 32111514595/2012-13	1.63 3.00	0.0489	0.0127	0.0977	0.16
16		M/s Hilite Builders 32111555084/2010-11	6.57 3.00	0.1971	0.0986	0.3942	0.69
17		M/s Hilite Builders 32111555084/2011-12	4.93 3.00	0.1479	0.0562	0.2957	0.50
18	CTO (WC), Ernakulam	M/s Jayaraj Properties 32072015935/2010-11	0.20 3.00	0.0060	0.0030	0.0120	0.02
19		M/s Oxoniya Builders and Developers (P) Ltd	0.52 3.00	0.0155	0.0022	0.0310	0.05

(₹ in crore)

Sl. No.	Name of office	Name of assessee TIN/Year	Exemption Claimed in respect of sale value of land Rate of Tax %	Tax Due	Interest Due	Penalty	Total Due
		32072022628/2013-14					
20		M/s Sophia Builders 32072048605/2013-14	1.49 3.00	0.0447	0.0063	0.0895	0.14
21		M/s Sophia Builders 32072048605/2012-13	1.90 3.00	0.0570	0.0148	0.1141	0.19
			33.14	**0.9942**	**0.3171**	**1.9884**	**3.30**

Appendix -X

(Ref: Paragraph 2.4.7.7 - bullet 1)

Suppression of import purchases than that reported with Customs Department

(₹ in crore)

Sl. No.	Name of the Office	Name of the assessee / TIN/Year	As per customs data	As per annual returns	Suppression of turnover	Total due including interest and penalty
1	CTO, Special Circle, Kannur	ABC Impex/ 32122208633/2010-11	0.4304	0.0948	0.3356	0.15
2		Hollywood Panels 32121087952/2010-11	0.7927	0.7664	0.0263	0.01
3		Hollywood Panels 32121087952/2013-14	1.1488	1.0973	0.0515	0.02
4		IBNA Plywood & Decors 32120256025/2010-11	2.0923	2.05	0.0423	0.02
5		Wood Board 32120699354/2013-14	1.248	1.2151	0.0329	0.01
6	CTO, Special Circle 1, Kozhikode	Mermeritalia Bldg Products 32110870307/2012-13	2.8654	2.4754	0.39	0.17
7		Mermeritalia Bldg Products 32110870307/2014-15	2.8103	1.2454	1.5649	0.69
8		Spaniso Studio 32110684457/2012-13	16.2975	14.3335	1.964	0.86
9		Spaniso Studio 32110684457/2013-14	18.7102	16.4999	2.2103	1.01
10	CTO, Special Circle II, Kozhikode	Marble Gallery 32110337812/2012-13	2.6205	2.1739	0.4466	0.2
11		Marble Gallery32110337812/2013-14	5.3757	5.1013	0.2744	0.12
12		Thai Impex(P) Ltd 32110787962/2013-14	38.7394	32.2658	6.4736	2.95
13		Thai Impex(P) Ltd 32110787962/2014-15	44.8854	35.9187	8.9667	3.93
14		Excel Timber 32110338025/2010-11	11.118	10.1505	0.9675	0.42
15		Excellent Timber Imp & Exp 32110366825/2010-11	2.1761	0.7264	1.4497	0.64
16		Excellent Timber Imp & Exp 32110366825/2011-12	2.2222	1.8924	0.3298	0.14
17		Hillwood furniture 32110373744/2010-11	35.5343	21.1085	14.4258	6.33
18		Hillwood furniture 32110373744/2011-12	64.0134	34.1808	29.8326	11.75
19		Hillwood furniture 32110373744/2013-14	69.4508	41.1415	28.3093	12.89
20		Hillwood Imports and Exports 32110371112/2012-13	37.9623	32.6002	5.3621	2.36
21	CTO, I Circle, Kozhikode	Stone Impex 32110787902/2014-15	0.0516	0	0.0516	0.02
22	CTO Special Circle 1, Ernakulam	Kajaria Ceramics 32071516042/2014-15	44.3881	44.2712	0.1169	0.05
23		Espion International 32071577837/2012-13	2.8053	1.1898	1.6155	0.71
24		Westwood floorings 32071536202/2011-12	0.449	0.3123	0.1367	0.06
25		Westwood floorings 32071536202/2012-13	0.9168	0.8774	0.0394	0.02

(₹ in crore)

Sl. No.	Name of the Office	Name of the assessee TIN/Year	As per customs data	As per annual returns	Suppression of turnover	Total due including interest and penalty
26	CTO, Special Circle II, Ernakulam	Purnima Distributors 32070326905/ 2011-12	0.6349	0	0.6349	0.27
27		Purnima Distributors 32070326905/2012-13	0.4733	0	0.4733	0.21
28		Purnima Distributors 32070326905/2013-14	0.7178	0	0.7178	0.33
29	CTO, Special Circle III, Ernakulam	Somany Ceramics 32070445604/2010-11	4.988	0	4.988	2.19
30		Tayash Trade Impex (P) Ltd 32070455109/2010-11	0.0938	0.0617	0.0321	0.01
31		Kairali Granite 32070446392/2012-13	4.1103	3.4854	0.6249	0.28
32		Oriental Timber 32070415824/2010-11	0.7474	0.37	0.3774	0.17
33		Oriental Woods 32070405824/2011-12	18.4942	10.6015	7.8927	3.34
34		Premier Timbers 32070437212/2012-13	3.918	3.0077	0.9103	0.4
35		Premier Timbers 32070437212/2013-14	2.9307	2.6453	0.2854	0.13
36		Royal Impex 32070430923/2011-12	26.6942	24.9028	1.7914	0.76
37		Royal Impex 32070430923/2012-13	30.9031	29.3513	1.5518	0.68
38		The Wood Ind 32071304204/2011-12	13.9636	13.6138	0.3498	0.15
39		The Wood Ind 32071304204/2013-14	6.9393	6.5194	0.4199	0.19
40		The Wood Ind 32071304204/2014-15	4.9502	4.2561	0.6941	0.3
41	CTO, Special Circle, Mattancherry	Safee Systems 32150797086/2011-12	0.4523	0.2103	0.242	0.1
42		Surabhi Woods 32150836024/2011-12	9.9561	7.545	2.4111	1.02
43		Surabhi Woods 32150836024/2013-14	4.612	3.004	1.608	0.73
44		Ukkens Timbers 32150869784/2011-12	1.2348	0	1.2348	0.52
45		Ukkens Timbers 32150869784/2012-13	1.2348	1.1931	0.0417	0.02
46	CTO, Special Circle (Produce) Mattancherry	Popular Timbers 32150601628/2011-12	16.4735	15.7955	0.678	0.29
47		Popular Timbers 32150601628/2012-13	23.875	18.8792	4.9958	2.2
48		Popular Timbers 32150601628/2014-15	17.5722	15.5695	2.0027	0.88
49	CTO, Special Circle, Perumbavoor	Classic wood and veneers 32151335534/2012-13	2.7926	2.477	0.3156	0.14
50		Classic wood and veneers 32151335534/2013-14	2.2777	1.627	0.6507	0.3
51		Classic wood and veneers 32151335534/2014-15	0.6569	0.4227	0.2342	0.1

(₹ in crore)

Sl. No.	Name of the Office	Name of the assessee / TIN/Year	As per customs data	As per annual returns	Suppression of turnover	Total due including interest and penalty
52		Delta Wood Panel 32151258112/2012-13	0.4683	0.2667	0.2016	0.09
53		Delta Wood Panel 32151258112/2013-14	0.285	0.2599	0.0251	0.01
54		United Timber industries 32151480682/2011-12	5.8152	2.4018	3.4134	1.45
55		United Timber industries 32151480682/2013-14	1.9874	0.6741	1.3132	0.6
56		VS Timbers Industries 32151458305/2011-12	26.8232	18.8492	7.974	3.38
57		VS Timbers Industries 32151458305/2012-13	37.0385	18.6668	18.3717	8.09
58		VS Timbers Industries 32151458305/2013-14	36.3444	17.8426	18.5018	8.42
59		VS Timbers Industries 32151458305/2014-15	40.9998	24.1434	16.8564	7.38
60	CTO, I Circle, Kannur	SmartIndia Exports & Imports 32120589611/2012-13	0.35	0.3047	0.0453	0.02
61		SmartIndia Exports & Imports 32120589611/2013-14	1.7211	1.0262	0.6949	0.32
62	CTO, II Circle, Kannur	Goodwood Products 32120657155/2010-11	0.1198	0	0.1198	0.05
63		Goodwood Products 32120657155/2011-12	1.37	0	1.37	0.58
64		Goodwood Products 32120657155/2014-15	1.433	0	1.433	0.63
65		Prestige Veeneers 32120607104/2014-15	0.7943	0.7689	0.0254	0.01
66	CTO, Special Circle, Thiruvananthapuram	Binoy Marbles & Granites 32010673454/2014-15	0.3807	0.2809	0.0998	0.04
67	CTO, Special Circle, Kottayam	Southern Timber depot 32050997155/2010-11	3.873	2.8639	1.0091	0.44
68		Southern Timber depot 32050997155/2011-12	1.9567	1.3868	0.5699	0.24
69		Southern Timber depot 32050997155/2012-13	5.1503	3.4099	1.7404	0.77
70		Southern Timber depot 32050997155/2013-14	2.9109	2.8652	0.0457	0.02
71		Southern Timber depot 32050997155/2014-15	19.9798	1.6422	18.3376	8.03
72		Sree & Co32050566506/2011-12	1.0825	0.9554	0.1271	0.05
73		Sree & Co32050566506/2012-13	1.4276	1.3511	0.0765	0.03
74		Travancore cements32050212265/2012-13	5.2577	0	5.2577	2.31
75		Travancore cements32050212265/2013-14	9.1985	0	9.1985	4.19
		Total	**817.57**	**569.19**	**248.38**	**108.38**

Appendix -XI

(Ref: Paragraph 2.4.7.8 - bullet 1)

Details of turnover short reported by dealers with reference to the sales invoices issued by them

(₹ in crore)

Sl. No.	Name of Office	Name of assessee TIN/Year	Turnover as per invoices / Conceded in the return	Turnover difference / Rate of tax	Tax due	Interest due	Penalty	Total due	Reply of the Assessing Officer	Remarks
1	CTO, Special Circle I, Ernakulam	Aswathywud 32070216205/ 2011-12	9.59 / 9.30	0.29 / 4%-5, 12.5%-95	0.0361	0.0137	0.0721	0.12	Pre assessment notice issued based on the Audit observation	Final reply not received
2		M/S. B.H. Mammi 32070281152/ 2012-13	14.04 / 13.81	0.23 / 5%	0.0119	0.0031	0.0238	0.04	Reply not received	Final reply not received
3		Modern Sports Industries 32070274705/2010-11	8.47 / 7.32	1.15 / 4%-95, 12.5%-5	0.0509	0.0255	0.1018	0.18	Pre assessment notice issued based on the Audit observation	Final reply not received
4		National Steel Company 32070297442/2010-11	30.15 / 29.84	0.31 / 4%	0.0126	0.0063	0.0252	0.04	Pre assessment notice issued based on the Audit observation	Final reply not received
5		Playwell Sports. 32071674442/2012-13	12.10 / 11.71	0.39 / 5%-96, 13.5%-4	0.0208	0.0054	0.0415	0.07	Pre assessment notice issued based on the Audit observation	Final reply not received
6		Shree Mahaveer Traders 32070235015/2012-13	24.00 / 22.46	1.54 / 1%	0.0154	0.0040	0.0308	0.05	Pre assessment notice issued based on the Audit observation	Final reply not received
7	CTO, Special Circle II, Ernakulam	Build Aid Corporation 32071886414/2012-13	8.57 / 8.46	0.11 / 5%-39, 13.5%-61	0.0115	0.0030	0.0229	0.04	Replied that the dealer paid the entire tax collected	The observation is not on collected tax, but suppression of taxable turnover on which no tax was collected.
8		Rashtriya Ispat Nigam Ltd. 32070312595/2012-13	445.39 / 445.07	0.32 / 5%	0.0158	0.0041	0.0316	0.05	Reply not received	Final reply not received
9	CTO, Special Circle III, Ernakulam	Tayash Trade 32070455109/2012-13	6.55 / 6.21	0.34 / 5%-89,	0.0204	0.0053	0.0408	0.07	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Name of Office	Name of assessee TIN/Year	Turnover as per invoices Conceded in the return	Turnover difference Rate of tax	Tax due	Interest due	Penalty	Total due	Reply of the Assessing Officer	Remarks
				13.5%-11						
10		Reliance Footprint Limited 32070473908/2011-12	12.40 9.01	3.39 4%- 13, 12.5%-87	0.3865	0.1469	0.7730	1.31	Reply not received	Final reply not received
11		True Coat Paints (P) Ltd 32070474325/2011-12	7.73 7.28	0.45 12.50%	0.0562	0.0213	0.1124	0.19	Reply not received	Final reply not received
12		Traco Cable Co. Ltd 32070491572/2012-13	53.55 53.17	0.38 5%	0.0189	0.0049	0.0378	0.06	Reply not received	Final reply not received
13		Super LPG Services 32071203292/2010-11	11.60 11.04	0.56 4%- 28, 12.5%- 72	0.0571	0.0285	0.1143	0.20	Reply not received	Final reply not received
14		Essar Pipes & Profiles 32071214362/2012-13	7.14 6.88	0.26 5%	0.0130	0.0034	0.0260	0.04	Reply not received	Final reply not received
15	CTO, Special Circle, Kottayam	M & T Steels 32050266625/2011-12	2.86 2.70	0.16 4% -72, 12.5%-28	0.0105	0.0040	0.0210	0.04	Based on the Audit observation, Assessment completed creating additional demand	Collection particulars awaited
16		Rubber Dealer 32051028925/2010-11	3.98 3.50	0.48 4%	0.0192	0.0096	0.0384	0.07	Reply not received	Final reply not received
17	CTO, Special Circle, Thiruvananthapuram	ICICI Bank Limited 32010192584/2010-11	16.65 12.78	3.87 1%	0.0387	0.0193	0.0773	0.14	Reply not received	Final reply not received
18		ICICI Bank Limited 32010192584/2011-12	45.89 31.32	14.57 1%	0.1457	0.0553	0.2913	0.49	Reply not received	Final reply not received
19		Marikar(Motors)Ltd. 32010120325/2010-11	71.34 58.28	13.06 4%-2 12.5%-98	1.6095	0.8047	3.2190	5.63	Pre assessment notice issued based on the Audit observation	Final reply not received
20		QRS Retail Limited 32010155605/2010-11	191.76 190.74	1.02 4% -17, 12.5%-83	0.1125	0.0563	0.2251	0.39	Reply not received	Final reply not received
21		Variety Marbles 32010979634/2011-12	69.67 65.00	4.67 12.50%	0.5833	0.2217	1.1667	1.97	Reply not received	Final reply not received
22	CTO, Special I Circle, Kozhikode	The Calicut Tile Company 32110231015/2010-11	7.50 6.00	1.50 4%	0.0597	0.0298	0.1194	0.21	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Name of Office	Name of assessee TIN/Year	Turnover as per invoices Conceded in the return	Turnover difference Rate of tax	Tax due	Interest due	Penalty	Total due	Reply of the Assessing Officer	Remarks
23	CTO, I Circle Ernakulam	Gowri Enterprises 32071524715/2011-12	2.28 1.70	0.58 4%-80, 12.5%-20	0.0333	0.0126	0.0666	0.11	Pre assessment notice issued based on the Audit observation	Final reply not received
24		Sparkle Sales 32071557892/2010-11	4.50 4.20	0.30 12.50%	0.0380	0.0190	0.0760	0.13	Pre assessment notice issued based on the Audit observation	Final reply not received
25	CTO I Circle Thiruvananthapuram	Blossom 32010683387/2011-12	0.28 0.18	0.10 12.50%	0.0125	0.0047	0.0250	0.04	Pre assessment notice issued based on the Audit observation	Final reply not received
26		Getech-Doppler Elevators Private Limited 32010663609/2012-13	0.54 0.23	0.31 13.50%	0.0415	0.0108	0.0830	0.14	Reply not received	Final reply not received
27		H.A.K Home Shoppee 32010601162/2011-12	0.44 0.33	0.11 4%-38 12.5%-62	0.0098	0.0037	0.0196	0.03	Reply not received	Final reply not received
28		Janatha 32010682465/2011-12	1.50 0.14	1.36 12.50%	0.1702	0.0647	0.3404	0.58	Reply not received	Final reply not received
29		Kopab 32010695256/2012-13	2.74 0.27	2.48 5%	0.1238	0.0322	0.2475	0.40	Reply not received	Final reply not received
30		M/S Abhay Busines Corporation 32010686807/2012-13	2.79 2.69	0.10 5%- 5, 13.5%-95	0.0132	0.0034	0.0263	0.04	Reply not received	Final reply not received
31		M/S Falcon Systems 32010647117/2011-12	12.67 12.37	0.30 4%	0.0121	0.0046	0.0242	0.04	Reply not received	Final reply not received
32		Metro Watches And Mobiles 32010665861/2010-11	2.02 1.70	0.32 12.5%	0.0402	0.0201	0.0804	0.14	Reply not received	Final reply not received
33		Sharief N Sharief 32010670361/2010-11	3.56 3.07	0.49 4%	0.0197	0.0098	0.0394	0.07	Pre assessment notice issued based on the Audit observation	Final reply not received
34		Vishnu Fashion Jewellery 32010627262/2010-11	0.67 0.01	0.66 4%	0.0264	0.0132	0.0526	0.09	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Name of Office	Name of assessee TIN/Year	Turnover as per invoices Conceded in the return	Turnover difference Rate of tax	Tax due	Interest due	Penalty	Total due	Reply of the Assessing Officer	Remarks
35	CTO, II Circle, Thiruvananthapuram	Kailas Enterprises 32010776897/2010-11	0.75 0.45	0.30 1% -8, 4%-92	0.0112	0.0056	0.0224	0.04	Reply not received	Final reply not received
36		Karthika Enterprises 32010755231/2010-11	0.37 0.04	0.33 12.5%	0.0408	0.0204	0.0816	0.14	Reply not received	Final reply not received
37		KMS Traders 32010789442/2010-11	0.37 0.21	0.16 4% -36, 12.5%-64	0.0148	0.0074	0.0297	0.05	Reply not received	Final reply not received
38		M.F Agencies & Provision Store 32010730986/2011-12	1.10 0.73	0.37 4%	0.0147	0.0056	0.0294	0.05	Reply not received	Final reply not received
39		Matha Agencies 32010747581/2012-13	7.44 7.05	0.39 13.5%-46, 20%- 54	0.0665	0.0173	0.1329	0.22	Reply not received	Final reply not received
40		Pamba Associates 32010787855/2011-12	0.38 0.02	0.36 4%	0.0145	0.0055	0.0290	0.05	Reply not received	Final reply not received
41		Royal Leather 32010755499/2011-12	0.42 0.07	0.35 4%- 74, 12.5%-26	0.0214	0.0081	0.0428	0.07	Reply not received	Final reply not received
42		Sabarinathan Iron & Traders 32010196555/2012-13	1.43 1.02	0.41 5%	0.0209	0.0054	0.0418	0.07	Reply not received	Final reply not received
43		Shibu Agencies 32010795562/2011-12	6.47 6.34	0.13 12.50%	0.0159	0.0060	0.0317	0.05	Reply not received	Final reply not received
44		Sree Manikandan Stores 32010764253/2011-12	8.30 5.10	3.20 4%	0.1279	0.0486	0.2557	0.43	Reply not received	Final reply not received
45		Sreelekshmi Agencies 32010785414/2012-13	0.22 0.01	0.21 5%	0.0101	0.0026	0.0201	0.03	Reply not received	Final reply not received
46	CTO, I Circle Kalamassery	Jemis Enterprise 32071228885/2010-11	11.87 11.60	0.27 4%- 14, 12.5%- 86	0.0308	0.0154	0.0616	0.11	Pre assessment notice issued based on the Audit observation	Final reply not received
47	CTO, II Circle Kalamassery	Noveon Systems 32071356832/2011-12	55.92 54.84	1.08 4%	0.0431	0.0164	0.0863	0.15	Replied that the files were not yet transferred to the	Final reply not received

(₹ in crore)

Sl. No.	Name of Office	Name of assessee TIN/Year	Turnover as per invoices Conceded in the return	Turnover difference Rate of tax	Tax due	Interest due	Penalty	Total due	Reply of the Assessing Officer	Remarks
									office. Hence the Audit observation were not verified	
48		Sreepriya Agencies 32070204922/2011-12	1.68 1.58	0.10 12.50%	0.0126	0.0048	0.0251	0.04	Replied that the files were not yet transferred to the office. Hence the Audit observation were not verified	Final reply not received
49	CTO, I Circle, Thripunithura	Vinsa Todays 32070332586/2012-13	4.46 3.34	1.12 0%-22, 1%-13, 5%-29, 13.5%-35, 20%- 1	0.0728	0.0189	0.1456	0.24	Reply not received	Final reply not received
50	CTO, II Circle Thripunithura	Macronet Mercantile (P) Ltd. 32070204696/2012-13	0.86 0.49	0.37 5%	0.0184	0.0048	0.0369	0.06	Reply not received	Final reply not received
51		Reliance Hypermart Limited 32070425804/2011-12	45.96 39.20	6.76 0%-14, 1%-4, 4%-61, 12.5%-19, 20%- 2	0.3553	0.1350	0.7106	1.20	Reply not received	Final reply not received
52		Web Solutions India Limited 32070447562/2010-11	2.09 1.27	0.82 4%	0.0328	0.0164	0.0656	0.11	Reply not received	Final reply not received
53	CTO, I Circle Kozhikode	Janatha Agencies 32110226651/2011-12	3.58 2.86	0.72 0%-13, 1%-1, 4%-70, 12.5%-16	0.0345	0.0131	0.0690	0.12	Reply not received	Final reply not received
			1,248.60 **1,175.01**	**73.58**	**4.7951**	**2.0271**	**9.5902**	**16.41**		

Appendix -XII

(Ref: Paragraph 2.4.7.8 - bullet 3)

Details of excess claim of input tax credit than the output tax paid to Government account

(₹ in crore)

Sl. No.	Office name of purchaser Name of purchaser TIN/Year	Office name of seller Name of seller TIN/Year	ITC availed for the purchase from the seller	Corresponding OPT paid by the seller	Excess IPT claimed	Interest due	Penalty	Total due	Reply of the assessing officer	Remarks
1	CTO, Special Circle Mattanchery Steel House 32150242225/ 2010-11	CTO, Special Circle II Ernakulam Chettinad Cement Corporation Ltd 32070316342/2010-11	4.19	3.24	0.9462	0.4731	1.8923	3.31	CTO Special Circle Aluva replied that Steel India's purchase is correct, hence Chettinad should be assessed.	Reply of the CTO Special Circle II Ernakulam is awaited
2	CTO, Special Circle Mattanchery Janatha Trading Corporation 32150217172/ 2010-11	CTO, Special Circle II Ernakulam Chettinad Cement Corporation Ltd 32070316342/2010-11	5.07	4.50	0.5777	0.2889	1.1555	2.02	CTO Special Circle Aluva replied that the file was transferred to CTO Aluva	Reply of the CTO Special Circle II Ernakulam and CTO Aluva are awaited
3	CTO, Special Circle Thiruvananthapuram T.V Sundram Iyengar & Sons Ltd 32010188782/2010-11	CTO, Special Circle I, Ernakulam Ashok Leyland Ltd 32070200174/2010-11	30.64	29.49	1.1472	0.5736	2.2945	4.02	Based on the Audit observation the self assessment of Ashok Leyland re-opened and completed by creating additional demand of ₹ 1.78 crore	Collection particulars awaited.
4	CTO, Special Circle Palakkad Eram Motors Private Ltd. 32090664216/2012-13	CTO, Special Circle III, Ernakulam Mahindra and Mahindra Ltd. 32070475214/2012-13	44.19	43.76	0.4312	0.1121	0.8625	1.41	Reply not received	Final reply not received
5	CTO, Special Circle I,	CTO, Special Circle II,	1.16	0.27	0.8898	0.2313	1.7796	2.90	Reply not received	Final reply not received

(₹ in crore)

Sl. No.	Office name of purchaser Name of purchaser TIN/Year	Office name of seller Name of seller TIN/Year	ITC availed for the purchase from the seller	Corresponding OPT paid by the seller	Excess IPT claimed	Interest due	Penalty	Total due	Reply of the assessing officer	Remarks
	Ernakulam Max Enterprise 32071561389/2012-13	Ernakulam Supermax Personal Care Pvt. Ltd. 32070310839/2012-13								
6	CTO, Special Circle I, Ernakulam Nook Micro Distribution 32070209499/2012-13	CTO, Special Circle 1 Ernakulam Redington India Ltd. 32070276865/2012-13	0.66	0.06	0.6014	0.1564	1.2028	1.96	Reply not received	Final reply not received
7	CTO, Special Circle, Kannur Sangam Stationery 32120547682/2012-13	CTO, Special Circle II, Ernakulam Supermax Personal Care Pvt. Ltd. 32070310839/2012-13	0.73	0.13	0.6023	0.1566	1.2047	1.96	Reply not received	Final reply not received
8	CTO, Special Circle III, Ernakulam Eorinetal Timbers 32070455144/2012-13	CTO, Special Circle III, Ernakulam Oriental Woods 32070405824/2012-13	1.94	1.88	0.0581	0.0151	0.1161	0.19	Reply not received	Final reply not received
9	CTO, Special Circle III, Ernakulam Oriental Woods 32070405824/2012-13	CTO, Special Circle III, Ernakulam Eorinetal Timbers 32070455144/2012-13	2.35	1.77	0.5781	0.1503	1.1562	1.88	Reply not received	Final reply not received
10	CTO, Special Circle I, Kozhikode ABT Industries Limited 32110278895/2012-13	CTO, Special Circle, Palakkad Castrol India Ltd 32090264425/2012-13	0.19	0.14	0.0590	0.0153	0.1179	0.19	Reply not received	Final reply not received
			91.12	**85.23**	**5.88**	**2.1728**	**11.7821**	**19.84**		

Appendix -XIII

(Ref: Paragraph 2.4.7.10 - bullet 2)

Details of OR/CR cases reported on which no action was taken

(₹ in crore)

Sl. No.	Office Name	Dealer Name	Assessment year	Crime No. of the Intelligence wing	Date of receipt of the case	Amount of penalty/CF
1	CTO (WC), Palakkad	M/s Premier Builders, Palakkad	2010-11	VCR-IV/149/11-12	20.09.12	0.0015
2		M/s Poshak Agrivael (P) Ltd	2011-12	E-123/11-12/VLM	18.12.12	0.0016
3		M/s Malabar Borewells	2011-12	E-395/10-11/LR	24.6.13	0.0008
4		Consolidated Consurtium Ltd	2013-14	OR-777/13-14	23.9.13	0.0189
5			2012-13	OR-1102/13-14	10.10.13	0.0034
6		Oceanus Dwelling(P) Ltd	2011-12	OR-755/11-12	28.11.13	0.0005
7		Vinod Kumar	2009-10	OR-173/1 09-10	13.2.14	0.0004
8		Cheerans Structurals, Chalissery	13-14	OR-764/13-14	21.4.14	0.0012
9		PCM Automotive Designers	2011-12	VC-VIII/896/11-12	15.5.14	0.0012
10			2012-13	VC-VIII/192/12-13	15.5.14	0.0007
11		Span Constructions, Ottapalam	2013-14	IB(A)/14/2013-14 dated 28.4.14	25.5.14	0.0016
12		M/s Supergood homes, Metupalayam	2012-13	IB(B)67/2013-14	2.6.14	0.0008
13		P Manikandan, HK Constructions	2012-13	VC-IV/642/12-13 dated 6.5.13	16.6.14	0.0006
14		M/s Keechery Solutions (P) Ltd	2010-11	VC-I/686/2010-11 dated 2.5.12	23.6.14	0.0005
15		M/s Eagle and Omega Computers, Meenakshipuram	2012-13	VC-IV/683/12-13dated 28.12.12	7.7.14	0.0010
16		M/s Medha Servo Drivers	2013-14	VCR 46/13-14 of IO, Rapid Action, Kozhikode	11.7.14	0.0149
17		M/s Eagle and Omega Constructions	2013-14	VC-IV/17/13-14 dated 15.7.14	5.9.14	0.0017
18		Anil Santhosh Associates	2014-15	VC-V/22/14-15 dated 18.7.14	5.9.14	0.0045
19		Consolidated construction Consortium	2011-12	E-161/11-12 dated 2.7.13	5.9.14	0.0004
20		M/s RPP Infra Projects Ltd	2011-12	E/33/11-12 of CTO (E), Palakkad	19.9.14	0.0015
21		K Manoj, Elapully	2011-12	E/1833/11-12	19.9.14	0.0009
22		Consolidated Construction Consortium	2010-11	E-1320/10-11 dated 2.9.13 of CTO(E), Palakkad	10.10.14	0.0006
23			2012-13	E-71/12-13 dated 19.9.13 of CTO (E), Palakkad	10.10.14	0.0030
24			2012-13	E-16/12-13 dated 19.9.13 of CTO (E), Palakkad	10.10.14	0.0142
25		M/s Sandhya Construction, Palakkad	2011-12	IPD/III/37/11-12 dated 24.2.12 of IO Squad No. III, Palakkad	25.10.14	0.0758
26		Shri Manikantan, Kanjikode	2013-14	VC-VII/584/2013-14 dated 22.9.14 of IO, Squad No. VII, CT, Palakkad	5.11.14	0.0015

(₹ in crore)

Sl. No.	Office Name	Dealer Name	Assessment year	Crime No. of the Intelligence wing	Date of receipt of the case	Amount of penalty/CF
27	CTO (WC), Kannur	M/s Kancos Kadirur	2012-13	IB-1-3/14-15 dated 31.5.14 of IO (IB), Kozhikode	23.7.14	0.0020
28		M/s Peak Developers, Kannur	2012-13	Order No. 15©5/14-15 of IO, Squad No. IV, Kannur	23.9.14	0.0177
29	CTO (WC), Kozhikode	M/s Kaliyan Erectors, Kozhikode	2010-11	VCR NO.1075/2010-11 dated 22.06.11 of the IO, Rapid action	22.2.12	0.0020
30		M/s Gunja Constructions	2011-12	Order No. SQ V/Or-233/2011-12 dated 22.3.12 of IO, Sq IV Kozhikode	26.6.12	0.0800
31		M/s Techno Plumping and Sanitary works, Kozhikode	2011-12	Order No. ER.V/2/2012-13 dated 21.4.12 of IO, Squad IV, Kozhikode	26.6.12	0.0033
32		M/s SS New life style, RC road, Kozhikode	2009-10	Order No. IB.II/E/18/11-12/E dated 30.11.12 of IO(IB) Kozhikode	20.7.12	0.0141
33		M/s SS New life style, RC road, Kozhikode	2010-11	Order No. IB.II/E/18/11-12/E dated 25.8.12of IO(IB) Kozhikode	3.9.12	0.0758
34		M/s Malabar Aluminium Fabricators, Orkateri	2011-12	Order No. TCR 15/11-12 dated 22.9.12 of IO, Sq. IV Kozhikode	7.1.13	0.0208
35		M/s Soubhaya Builders, Kozhikode	2011-12	Order No. IB.II/E/2/12-13/D dated 16.5.13 of IO(IB), Kozhikode	14.6.13	0.0032
36		M/s Rods and Creels, Malaparamba	2010-11	Order No. VCR.341/10-11 dated 5.6.12 of IO, Rapid Action	27.6.13	0.0013
37		M/s PMK Constructions, Kozhikode	2010-11	Order No. ER 84/11-12 OR No.162/10-11 dated 19.8.13 of STO (E), Kozhikode	26.8.13	0.0004
38		M/s Safe Coating system (P) Ltd	2011-12	Order No. IB.II/E/2/12-13/D dated 7.12.13 of IO(IB), Kozhikode	10.1.14	0.0001
39			2011-12	Order No. IB.II/E/19/12-13/E dated 7.12.13 of IO(IB), Kozhikode	10.1.14	0.0010
40		M/s Bharat Geo System (P) Ltd	2011-12	Order No ER 557/11-12 dated 8.1.14 of STO (E), Kozhikode	21.1.14	0.0042
41		M/s Alfa Architectural System	2011-12	Order No VCR No.344/11-12	24.1.14	0.0022
42		M/s Rods and Creels, Calicut	2011-12	ER 617/11-12 dated 15.3.14	21.3.14	0.0030
43		M/s Gina Enterprises	2012-13	VCR 3247/12-13	24.3.14	0.0035
44		Universal road marketing	2012-13	VCR No.234/12-13	24.3.14	0.0115

(₹ in crore)

Sl. No.	Office Name	Dealer Name	Assessment year	Crime No. of the Intelligence wing	Date of receipt of the case	Amount of penalty/CF
45		Express Foundation, Calicut	2012-13	ER 92/12-13/OR81/1/12-13 dated 21.3.14 of STO (E), Kozhikode	12.5.14	0.0047
46		Safiyulla KV, Calicut	2011-12	IB.IIE 17/13-14 of IO (IB) II, Calicut	30.5.14	0.0093
47		Hajee AP Bava, Calicut	2012-13	VCR518/12-13 dated 12.2.14 of IO (I), Rapid action, Kozhikode	26.6.14	0.0135
48		M/s Sigma Machine and Engineering Co	2013-14	IB.II.E/01/14-15 dated 31.5.14	26.6.14	0.0014
49		IP Steel Decors, Calicut	2014-15	IB.II/2/14—15/F	6.8.14	0.0054
50		Origin Consultants	2012-13	IBI/E75/14-15	7.8.14	0.0016
51		Aluminium World, Calicut	2012-13	ER 609/12-13	18.9.14	0.0031
52		Sabi Engg. Co	2013-14	VCR OR 124/13-14 dated 13.5.14 of IO, Rapid action, Kozhikode	4.10.14	0.0094
53		PS Constructions Chalappuram	2013-14	VCR II/308//13-14 dated 3.4.14 of IO, Rapid action, Kozhikode	14.10.14	0.0003
54		Metro tech, Calicut	2013-14	IB II E14*2013-14/D dated 12.11.14 of IO (IB) II, Kozhikode	4.12.14	0.0057
55	CTO (WC), Ernakulam	M/s Infra interiors, Palarivattom	2009-10	OR.III/246/09-10 dated 8.10.10 of IO, Squad No.III, Ernakulam	6.3.14	0.0007
56		M/s L&T Ltd, Ernakulam	2008-09	OR No. II/VC/777/2007-08 dated 12.2.14 of IO, Squad No. II, Ernakulam	8.3.14	0.0056
57		M/s L&T Ltd, Ernakulam	2007-08	OR No. II/VC/776/2007-08 dated 12.2.14 of IO, Squad No. II, Ernakulam	8.3.14	0.0034
58		M/s Travancore Communications	2011-12	OR III/847/11-12 dated 14.1.13 of the IO, Squad III, Ernakulam	11.3.14	0.0006
59		M/s Universal Electricals, Vytilla	2011-12	OR No.III/1081/2011-12 dated 14.1.13 of the IO, Squad No. III, Ernakulam	11.3.14	0.0009
60		M/s Skyline Builders, Kochi	2008-09	OR No. VII/235/12-13 dated 10.2.14 of IO, Squad No. III, Ernakulam	13.3.14	0.0082
61		M/s Suncon Some JV, Rohini	2008-09	OR 470/A-1/08-09 dated 1.1.14 of the CTO (E) Mattanchery	20.3.14	0.0035
62		Wire less TT Info services	2008-09	OR 994/6/08-09 dated 17.1.14 of the CTO (E), Mattanchery	20.3.14	0.0016
63		Alacets Enterprises, Kochi	2008-09	OR-189/08-09 dated 20.06.13 of the CTO (E), Mattancherry	20.3.14	0.0010
64		Escon Elevators (P) Ltd	2009-10	OR I/834/2009-10	25.3.14	0.0298

(₹ in crore)

Sl. No.	Office Name	Dealer Name	Assessment year	Crime No. of the Intelligence wing	Date of receipt of the case	Amount of penalty/CF
				dated 14.2.2014 of Squad No. I, Ernakulam		
65		Ajila Charms & Controls	2011-12	CR-02/11-12 dated 27.5.13 of the IO, Squad No. IV Ernakulam	28.3.14	0.0050
66		L & T, Ernakulam	2008-09	E-2279/08-09/WLR dated 16.09.09 of CTO (E), Palakkad	28.3.14	0.0008
67		Geographic infra Structure	2009-10	ORI/686/2009-10 dated 27.01.2013 of IO, Squad No.I, Ernakulam	28.3.14	0.0071
68		M/s Olive Builders	2011-12	Order No.IBE/OR-23/2013-14 dated 26.2.14 of IO(IB), Ernakulam	1.4.14	0.0302
69		M/s Sree Narayana Shopping Complex	2012-13	Order No IBH-I/IP-150/12-13 dated 15.1.2014	7.5.14	0.0006
70		Assured Services (P) Ltd	2011-12	Order No. IBE-IIIR-101/2013-14 dated 27.02.14 of the IO(IB), Ernakulam	20.6.14	0.0400
71		Infra Constructions, Vallarpadom	2008-09	Order No. 4093/08-09 dated 30.9.13 of the CTO (E), Mattanchery	18.7.14	0.0127
72		KM Elias Constructions, Kakkanad	2013-14	Order No. IBM/IV/IP-32/13-14 dated 29.5.14 of the IO(IB), Mattanchery	2.8.14	0.0028
73		M/s Square Associates, Kochi	2010-11	Order No IBE-IV/OP-5/2014-15 dated 10.06.14 of IO(IB), Ernakulam	14.08.14	0.0057
74		Seawood Homes (India)(P) Ltd	2011-12	Order No. IBE/V/OR-3/2013-14 dated 20.11.13 of the IO(IB), Ernakulam	14.8.14	0.0063
75			2012-13	Order No. IBE/V/OR-4/2013-14 dated 20.11.13 of the IO(IB), Ernakulam	14.8.14	0.0516
76		KA Hassanair, Kakkand	2014-15	Order No. IBM-IV/IR-16/14-15/OR-9/ dated 10.6.14 of IO(IB), Mattancherry	29.9.14	0.0005
77		Incration Designs & Contracts (P) Ltd	2011-12	Order No. IBM/III/OR-19/14-15 dated 23.06.14 of IO(IB), Mattancherry	27.9.14	0.0029
78		Kirloskar Brothers (P) Ltd	2009-10	Order No. OR-307/09-10 dated 17.7.14 of the CTO (E), Mattancherry	4.10.14	0.0016
79		Valiyilil Engineers, Kalamassery	2014-15	Order No. CR V/07/14-15 dated 22.07.14 of IO, Squad	4.10.14	0.0010

(₹ in crore)

Sl. No.	Office Name	Dealer Name	Assessment year	Crime No. of the Intelligence wing	Date of receipt of the case	Amount of penalty/CF
				No. IV, Ernakulam		
80		Arvin Interiors (P) Ltd, Cochin	2009-10	Order No. E-346/09-10/MLR dated 28.3.12 of the CTO (E), Palakkad	23.10.14	0.0005
81		Flair Alliance Builders, Kaloor	2012-13	Order No. IR-59/14-15/OR-17/14-15 dated 22.08.14 of the CTO (E), Mattancherry	23.10.14	0.1063
82		Soma Enterprises Ltd, Cheranallur	2009-10	Order No. OR 240/3/09-10 dated 13.9.14 of the CTO (E), Mattancherry	7.11.14	0.1024
Total						**0.89**

Glossary of terms

Are	Unit of measuring land; 100 ares = one hectare
Check post module	Module of the KVATIS in which the transactions of check post are recorded.
JanaSevena Kendram	Single window system provided by Government under Kerala State IT Mission to receive revenues of various departments in each district.
One case	Box containing eight bottles of liquour
Special Circle	Circle dealing with assessment files having tax effect more than ₹ 10 lakhs
ARR&ERC	Aggregate Revenue Requirement & Expected Revenue from Charges
CEI	Chief Electrical Inspector
EHT	Extra High Tension
EI	Electrical Inspector
HT	High Tension
JSK	JanaSevana Kendram
KDHP	Kannan Devan Hills Plantations Company (P) Ltd
KSEBL	Kerala State Electricity Board Limited
KSERC	Kerala State Electricity Regulatory Commission
T&D	Transmission and Distribution
TRAI	Telecom Regulatory Authority of India