

**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
(2011-2014)**

**NINTH REPORT**

(Presented on 26<sup>th</sup> June, 2012)



SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2012

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**On**

**Paragraphs relating to Taxes and Power Departments contained in the Report  
of the Comptroller and Auditor General of India for the year  
ended 31<sup>st</sup> March, 2009 (RR)**

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\*Resigned on 29<sup>th</sup> March, 2012.

## INTRODUCTION

I, the Chairman, Committee on Public Accounts having been authorised by the Committee to present this Report on their behalf present the Ninth Report on Paragraphs relating to Taxes and Power Departments contained in the Report of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2009 (RR).

The Report of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2009 (RR) was laid on the Table of the House on 1<sup>st</sup> March, 2010.

The Committee considered and finalised this Report at the meeting held on 28<sup>th</sup> March, 2012.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General in the examination of the Audit Report.

Thiruvananthapuram,  
26<sup>th</sup> June, 2012.

DR. T. M. THOMAS ISAAC,  
*Chairman,*  
*Committee on Public Accounts.*

## REPORT

### TAXES AND POWER DEPARTMENTS

#### AUDIT PARAGRAPH

#### Results of Audit

Test check of sales tax assessments, refund cases, value added tax (VAT) assessments and connected documents of commercial taxes offices conducted during the year 2008-09 revealed under assessment of turnover, non-levy of interest, grant of incorrect exemption, application of incorrect rate of tax etc., amounting to ₹ 459.11 crore in 2181 cases which fall under the following categories:

<i>(Rupees in crore)</i>			
<i>Sl. No.</i>	<i>Category</i>	<i>No. of Cases</i>	<i>Amount</i>
<b>A. Sales Tax</b>			
1	Cross verification of purchase/sale effected under KGST/KVAT/CST Acts (A review)	1	322.73
2	Grant of irregular exemption	93	8.58
3	Turnover escaping assessment	164	4.63
4	Grant of excess credit	31	4.11
5	Application of incorrect rate of tax	111	2.07
6	Non/short levy of interest	34	0.80
7	Incorrect grant of concessional rate of tax	11	0.06
8	Other lapses	264	23.11
<b>B. VAT</b>			
9	Application of incorrect rate of tax	270	15.94
10	Turnover escaping assessment	195	12.12
11	Grant of irregular exemption	196	8.54
12	Grant of excess input tax credit	224	8.32
13	Non/short levy of interest	43	1.53
14	Incorrect grant of concessional rate of tax	19	0.62
15	Other lapses	525	45.95
	Total	2181	459.11

During the year 2008-09, the department accepted under assessments and other deficiencies of ₹ 25.17 crore involved in 291 cases of which 73 cases involving ₹ 4.37 crore was pointed out during 2008-09 and the rest in earlier years. The department recovered ₹ 1.28 crore in 203 cases of which 63 cases involving ₹ 65.46 lakh were pointed out during 2008-09 and the balance to the earlier years.

A review of “*Cross verification of purchase/sale effected under KGST/KVAT/CST Acts*” involving ₹ 322.73 crore and few other audit observations involving ₹ 14.22 crore are mentioned in the succeeding paragraphs.

### **Cross certification of purchase/sale effected under KGST/KVAT/CST Acts**

#### *Highlights*

- Absence of control over movement of goods under transit pass resulted in short levy of ₹ 32.41 crore.
- Non-conducting of cross verification of declaration in Form 25 led to evasion of tax of ₹ 43.94 crore.
- Short levy of ₹ 172.93 crore due to acceptance of invalid/defective declaration forms.
- The Government unauthorisedly waived tax, interest and penalty of ₹ 96.87 crore leviable under the Central Sales Tax Act.
- Non-accounting of import purchase/purchase through Form 25 resulted in non-levy of tax of ₹ 18.43 crore.

#### **Introduction**

The Kerala General Sales Tax (KGST) Act, 1963 (up to 31st March, 2005), Kerala Value Added Tax (KVAT) Act, 2003 (introduced from 1st April, 2005) and Central Sales Tax Act, 1956 govern the levy and collection of tax on sale or purchase of goods in the State. Under the KGST Act, tax on the turnover of sale or purchase of goods are leviable only at the specified point and at the specified rate. The sale or purchase of goods at all other points, other than the points specified for levy of tax, are exempt subject to the condition that the dealer claiming exemption shall furnish supporting documents or prescribed declaration/certificate. Under the KVAT Act, tax on the turnover of sale of goods is leviable at all points. The Assessing Authorities (AA) are required to confirm the genuineness of these declarations or documents through cross verification of records of other dealers/State and utilise the information gathered from check post before finalising the assessment.

A review on 'Cross verification of purchase/sale effected under KGST/ KVAT/CST Acts' was conducted by audit which revealed a number of deficiencies as discussed in the succeeding paragraphs.

### **Organisational set-up**

The Department of Commercial Taxes, which administers the levy and collection of sales tax/VAT under KGST, KVAT and CST Acts, is headed by the Principal Secretary (Taxes) at the Government level and the Commissioner of Commercial Taxes (CCT) at the department level. The CCT functions with the assistance of Joint Commissioners, Deputy Commissioners and Inspecting Assistant Commissioners. Assessment, levy and collection is done by Assistant Commissioners (Assessment) and Commercial Tax Officers (CTO).

### **Scope of audit**

During the review, records of 34 out of 135 assessment circles and eight out of 57 check posts, spread over 11 revenue districts for the period 2003-04 to 2007-08 were test checked by audit. Selection of offices was made particularly based on the availability of check posts under its jurisdiction, nature of commodity dealt by the dealers registered under these offices etc. Details such as import particulars, check post declarations, transit passes, purchases effected by issuing form\* 25, and sales/transfers effected by issuing form† C/F etc., were collected from the assessment circles/check posts/Cochin Customs House and cross verified with the records of other circles/check posts.

### **Audit objectives**

The review was conducted with a view to ascertain whether:

- The department have introduced an effective system of cross verification of the documents furnished by the dealers;
- Claims for exemption on the basis of declarations/documents were allowed after verifying its genuineness through cross verification;
- Exemptions/reductions in rate of tax are in accordance with the provisions in the Acts; and
- Internal control mechanism existed in the department and was effective.

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\* Declaration to prove that a dealer is not the last purchaser within the State.

† C form—Declaration to prove that the interstate sale was effected to registered dealers and F form—is to prove that transfer of goods to other States otherwise than by way of sale.

**Acknowledgement**

Indian Audit and Accounts Department acknowledges the co-operation of the Commercial Taxes Department in providing necessary information and records for audit. An entry conference was held with the Principal Secretary (Taxes) who is also functioning as Commissioner of Commercial Taxes and was apprised of the scope, methodology and objectives of the review. The review report was forwarded to the department and to the Government in April 2009. An exit conference was conducted in July 2009, which was attended by the Principal Secretary (Taxes) cum Commissioner of Commercial Taxes. The reply of the Department/Government has not been received (September 2009).

**Audit findings***Absence of control over movement of goods under transit pass*

Under section 48 of the KVAT Act, in case where any vehicle carrying goods from any place outside the State and bound for any place outside the State passes through the State, the owner or driver or any other person in-charge of the vehicle shall obtain a transit pass in triplicate in Form 7B from the person in-charge of the check post at the entry point and surrender the original and duplicate copy to the officer-in-charge of the check post at the exit point. If the owner or driver or person in-charge of the vehicle fails to surrender the TP to the designated exit check post, it shall be presumed that the goods have been sold within the State and the driver, owner or any person in-charge of the goods shall be assessed to tax and penalty not exceeding twice the amount of such tax shall be levied on him. The officers in-charge of the entry and exit check posts shall send the information of entry/exit of goods to the concerned CTO who shall enter such information in a TP register for monitoring.

The CCT in his instructions\* inter alia, directed that the Sales Tax Inspector who issues the transit pass should pass on such information to the Deputy Commissioner of that district through e-mail/post within 24 hours and the non-receipt of the information of moving of the goods out of the State through the exit check post should be reported to the Intelligence Officer (CI) of the area within one week. Further it has been directed that on receipt of such information, the Intelligence Officer should get the details of transit pass issued and the goods moving out of the States from the Deputy Commissioner's office or from the check posts concerned and cross check these within seven days and make an endorsement in the transit pass register of the check posts weekly.

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\* Circular Nos. 8 of 2003 and 13 of 2005.

Audit scrutiny of eight\* commercial tax check posts (check posts) revealed severe shortcomings in the process of control on movement of goods through the State. Instances of deficiencies noticed are that entries in the TP register were not completed and not authenticated; copies of Transit passes were not forwarded to the CTOs/DCs concerned; details of the exit check posts were not noted, periodical review of the register by the controlling officer were not conducted and non-receipt of exit pass were not reported to the IO(CI)/CTO/DC etc.

Due to these deficiencies, the following observations were made during the review.

Test check of the register of Transit passes in eight check posts revealed that in respect of 2813 Transit passes† covering goods valued at ₹ 100.60 crore issued during the period from August 2003 to March 2008, details regarding the surrender of the Transit passes at the exit check post were not available.

In the absence of details of exit of the goods, it is evident that the goods have been sold in the State. Thus, due to failure of the control mechanism devised by the department, timely action could not be taken to detect delivery of goods within the State and consequently there was non-levy of tax of ₹ 31.72 crore (including penalty).

The rate of tax on the sale of goods under the Pondicherry Sales Tax Act is comparatively lesser than that in Kerala. National highway 17 passes through Mahe. Movement of goods to Mahe from southern part of Kerala is mainly regulated through the check post, Kunjippally which is situated about 4 km. away from the actual border of Mahe. There are number of pocket roads in between the check posts and the actual border of Mahe through which vehicles can easily be diverted to various places within Kerala after getting clearance from the check post at Kunjippally.

Due to the difference in rate of tax prevailing in Mahe and Kerala, by availing the facility of pocket roads in between the check posts and Mahe border, unscrupulous dealers transport the goods under the intention for use in Mahe and sell the goods in Kerala thereby evading tax otherwise due to Government of Kerala.

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\* Amaravila, Aryankavu, B. Manjeswar, Gopalapuram, Muthanga, Naduppunni, Walayar and Commercial Tax facilitation centre, Willingdon Island.

† Amaravila 94, Aryankavu 17, B. Manjeswar 932, Facilitation centre, W. Island 119, Gopalapuram 741, Muthanga 85, Naduppunni 308 and Walayar 517.

Audit scrutiny of five commodities only revealed that during the period from January to December 2008, taxable goods valued at ₹ 374.02 crore involving tax effect of ₹ 119.02 crore (in Kerala) intended for delivery at Mahe was transported through the check post, Kunjippally and New Mahe\* as detailed below:

*(Rupees in lakh)*

Commodity	Rate of tax		Entry check post in Kerala	Exit check post in Kerala	Quantity	Value	Tax effect
	In Kerala	In Mahe					
Petrol & Diesel	24.69	12.50	(Goods initiated from Kerala)	Kunjippally	75089000 litre	22,772.66	5,622.57
IMFL	90.00	0.00	Muthanga, B. Manjeswar	Kunjippally & New Mahe	4811976 litre	5,743.16	5,168.84
Chicken	12.50	0.00	Gopalapuram	Kunjippally	9415314 Kg.	4,499.10	562.39
Ghee	12.50	4.00	Gopalapuram	Kunjippally	102404 cases	2,837.32	354.67
Tiles	12.50	8.00	B. Manjeswar & Koottupuzha	New Mahe	790240 Sqm.	1,549.91	193.74
Total							11,902.21

Mahe is a part of a Union Territory with an area of about 9 sq.km. and population of 36823 (2001 census) with total vehicle strength of 341 and geographically situated within Kerala. Considering the population and vehicles figures it can be easily inferred that such huge quantity of goods cannot be consumed at Mahe. Thus, Mahe is being used as a pocket for evasion of tax legitimately due to the Kerala State exchequer. Leakage of revenue on account of tax on the above commodities transported to Mahe during just one year (2008) works out to ₹ 119.02 crore. During exit conference, the Principal Secretary (Taxes) agreed that Mahe is a problematic point and stated that action was being taken to minimise the loss of revenue by introducing journey pass for petrol and diesel and also by strengthening the intelligence wing.

\* Check post situated in Kerala, outside Mahe.

Commercial tax facilitation centre at Willingdon Island is the exit check post for the goods transported for export through Cochin Port. So, transit pass obtained for transportation of goods for export is required to be surrendered at this point. The commercial tax facilitation centre is stationed within the area of Cochin Port Trust. However, the Commercial Taxes Department has not introduced infrastructural facilities such as barricade etc., for monitoring transportation of goods through the area.

During the year 2006-07, molasses valued at ₹ 49.93 lakh from Tamil Nadu and intended for export through Cochin port was allowed to pass through the State by issuing a total number of 101 Transit passes by check post, Walayar. The last check post before entering Cochin port is commercial tax facilitation centre, Willingdon Island, Cochin and so the Transit passes should have been surrendered at that centre so as to ensure that the goods were not delivered in the State. But, the Transit passes were incorrectly surrendered at the internal check post at Karukutty which is situated about 50 km. before Cochin port.

Similarly, during the years 2006-07 and 2007-08, coffee beans valued at ₹ 15.06 crore from Karnataka and intended for export through Cochin port was allowed to pass through the State by issuing 122 Transit passes from check post, Muthanga. Instead of surrendering the Transit passes at commercial tax facilitation centre at Willingdon Island which is the last check post before Cochin port, the Transit passes were incorrectly surrendered at check post, Kottappuram which is about 25 km. before commercial tax facilitation centre, Willingdon Island.

Thus, irregular acceptance of Transit passes by check posts at Karukutty and Kottappuram allowed the transporters the scope to divert/sell the goods within Kerala and evade tax.

In another case, coffee beans valued at ₹ 62.87 lakh intended for export through Cochin port was allowed to pass through check post, Muthanga from Karnataka without issuing Transit passes.

These defeats the basic objective of monitoring movement of interstate goods prescribed for prevention of evasion. In such circumstances the possibility of disposal of goods by way of sale in the State cannot be ruled out.

However, no record was available at commercial tax facilitation centre to show that the goods actually passed through that check posts. So it can be

inferred that the goods were actually sold out in the State. Tax effect involved in these transactions worked out to ₹ 69 lakh. Though a system has been prescribed for sending the details of entry and exit of goods through various check posts to the concerned CTOs and DCs for monitoring and cross verification, the authorities could not detect the defects as mentioned above and initiate remedial measures to plug the scope of leakage of revenue.

#### **Non-utilisation of check post declaration**

As per KGST Act and the rules made thereunder, no person shall transport within the State any consignment of goods by any vehicle unless it is accompanied by an invoice or a delivery note or certificate of ownership. According to the instructions in the departmental manual and circulars\* issued by the CCT, officials-in-charge of the check posts should collect the declarations and send them to the AAs concerned for verification at the time of assessment. The AAs should cross check the details available in the declaration with the returns filed by the assessee to ensure that there was no evasion of tax by the dealers. Audit scrutiny revealed that there was lack of co-ordination between the check posts and the unit offices. It was noticed that in some cases, the declarations were sent to some other unit offices instead of the respective office, while in other cases, though the check post authorities have sent the copies of check post declarations to the unit offices, neither any action was taken to file them in the respective assessment files, nor did the AAs cross verify the particulars of the declarations while finalising the assessments. Due to the non-observance of the above provisions, the following cases were noticed during the review.

Cross verification of details from five† check posts with the assessment records of eight‡ assessment circles revealed that 122 declarations relating to the period from May 2003 to January 2007 covering goods valued at ₹ 6.45 crore were not seen filed in the concerned files. Verification of details available with the respective assessment files revealed that purchase covered in the declarations were omitted to be accounted for. Short levy of tax due to the unaccounted purchase worked out to ₹ 1.47 crore.

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\* Circular Nos. 26 of 1987 and 15 of 2004.

† Aryankavu, Amaravila, Gopalapuram, Muthanga and Walayar.

‡ First Circle-Palakkad, Kalpetta, Punalur, Special Circle-Kottayam, Special Circle-Kollam, Special Circle III-Ernakulam, Special Circle-Kottarakkara and Special Circle-Palakkad.

On this being pointed out, the AAs of seven\* assessment circles agreed (between September 2008 and March 2009) to examine the case. The AA† in one assessment circle stated (December 2008) that since the assessment of the dealers were already completed and in the absence of details of consignor, invoice number etc., verification and further action were not possible to substantiate evasion of tax. However, the fact remains that the details of transportation of goods which the dealer had omitted to account is evidenced in audit. Hence, the AA was bound to gather the details and to make good the revenue loss.

Test check of records of check post at Amaravila revealed that 39 declarations pertaining to the period from June 2003 to October 2003 covering goods valued at ₹ 2.44 crore were not properly despatched to the AAs concerned but to some other offices, thereby defeating the purpose of statutory provisions. To test check, audit visited some of the offices and, there the records were not available. Hence audit could not ascertain whether turnover covered by those declarations were properly accounted. The maximum tax effect involved worked out to ₹ 27.88 lakh.

Thus, due to non/improper forwarding of the check post declarations by the check post authorities to the AAs, the system of cross verification of these declarations to ensure non-evasion of tax at the time of finalising assessments got defeated.

#### **Non-conducting of cross verification of declarations in form 25**

Under the KGST Act and Rules made thereunder, a dealer who purchases goods taxable at the last purchase point shall not be liable to pay tax, if he proves that he is not the last purchaser within the State. For this, he shall file declaration in form 25 in duplicate issued by the purchasing dealer. The correctness of exemption claimed by a dealer can be ascertained, only if the duplicate copy of the declaration filed by the particular dealer is sent to the assessing circle of the purchasing dealer for cross verification. Rubber and pepper (purchased within the State) were taxable at the last purchase point.

In nine assessment circles, it was noticed that while finalising the assessments of 37 dealers for the years 2002-03 to 2004-05 between January 2005 and February 2008, the AAs allowed exemption on the purchase turnover of

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\* CTO-Kalpetta, First Circle-Palakkad, Kottarakkara, Kottayam, Palakkad, Punalur and Special Circle Kollam.

† Assistant Commissioner (Assessment), Special Circle III-Ernakulam.

rubber and pepper valued ₹ 355.01 crore supported by declaration in form 25 without ascertaining its genuineness by cross verification of records of the AAs of the purchasing dealer. Exemption allowed without ascertaining its genuineness was not in order. Tax effect is worked out to ₹ 43.94 crore as detailed below:

(Rupees in crore)

<i>Sl. No</i>	<i>Name of Office</i>	<i>Number of dealers</i>	<i>Commodity</i>	<i>Turnover allowed exemption</i>	<i>Tax involved</i>
1	CTO, Ponkunnam	5	Rubber	106.82	13.51
2	CTO, Pala	9	Rubber	103.19	13.05
3	CTO, Aluva	2	Rubber	371.62	9.06
4	CTO, Nedumangad	7	Rubber	38.47	4.87
5	CTO II Circle, Perumbavur	2	Rubber	18.70	2.37
6	CTO, Nedumkandam	6	Pepper	10.61	0.49
7	CTO, Neyyattinkara	4	Rubber	3.10	0.39
8	Special Circle, Kottayam	1	Rubber	1.12	0.14
9	CTO, Devikulam	1	Pepper	1.38	0.06
			Total	355.01	43.94

#### **Acceptance of invalid/defective declaration forms**

Under Section 8(1) of the CST Act, as it stood during the relevant period, turnover of inter-state sales of goods to registered dealers, where the rate of tax of which under the State Act is more than four per cent, would attract tax at the rate of four per cent up to 31st March 2007 and from 1st April 2007 at the rate of three per cent or rate of tax under the local VAT Act whichever is lower. As provided under Section 8(4) of the Act read with Rule 12(1) of CST (Return and Turnover) Rules, 1957, in order to prove that the transactions would fall under Section 8(1), the dealer had to file a declaration in Form C duly filled and signed by the registered dealer to whom the goods are sold containing the prescribed particulars in the prescribed form. Declarations not duly filled and not containing the prescribed particulars are to be treated as defective. Besides, under Section 6A of the CST Act read with Rule 12(5) of CST (R&T) Rules, transfer of goods from one State to another other than by way of sale are exempted from tax provided the same is covered by declaration in Form F. A single declaration shall cover transactions pertaining to one calendar month only.

Under the CST (R&T) Rules, as amended by Union Finance Act, 2005 (with effect from 1st April 2005), the declaration in Form C or F should be furnished within three months after the end of the period to which the declaration relate. As provided under Section 8(2) of the CST Act, tax on the turnover of goods not covered by valid declaration in Form C, were taxable at the rate of ten per cent or the rate of tax under the local Act whichever is higher up to 31st March 2007 and from 1st April 2007 at the rate applicable under the KVAT Act.

It was, however, noticed during the review that the department has not devised a regular system of cross verification of declaration forms to ensure its genuineness. Also, the department has not issued any instruction regarding the checks to be carried out before accepting declaration forms before allowing reduction/exemption of tax.

During scrutiny of records in CTO Special Circle I, Ernakulam it was observed that while finalising the assessments of 10 dealers for the assessment years 2005-06 and 2006-07, turnover of ₹ 309.98 crore returned without declarations in Form C was accepted. Since the turnover was not supported by valid declaration in Form C, the turnover was to be assessed at the higher rate specified under Section 8(2) of the CST Act. Omission in this regard resulted in short levy of tax, interest and penalty of ₹ 103.14 crore.

During scrutiny of records in CTO Special Circle, Mattancherry at Aluva, it was observed that though a dealer had not filed valid declaration in Form C, the turnover was shown as taxable at two per cent and tax due was paid accordingly. The returns were summarily accepted by the AA and thereby the assessments were deemed to have been completed under Section 9(2) of the CST Act read with Section 21 of the KVAT Act, 2003. Omission in this regard had resulted in short levy of tax, interest and penalty of ₹ 37.62 crore.

Test check of records of six\* assessment circles revealed that while finalising the assessments of seven dealers for the years 2002-03 to 2004-05, the AAs accepted 69 declarations of Form C covering a turnover of ₹ 103.43 crore, which were defective for the reasons that the same were not duly filled and not containing the prescribed particulars such as date of issue, to whom issued, registration number etc. This showed that the forms were not scrutinised properly before accepting them. Acceptance of defective Form C resulted in short levy of tax of ₹ 27.63 crore including interest and penalty.

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\* Mattancherry at Aluva, Palakkad First circle, Palakkad, Perumbavoor, Special circles Ernakulam II and Thiruvananthapuram.

Test check of assessment records of four dealers in four\* assessment circles revealed that while finalising the assessments for 2004-05 and 2005-06 during March 2007 and September 2008, the AAs accepted Form F declarations for ₹ 45.36 crore covering transactions for more than one month in violation of the provisions in the statute. Thus, allowance of exemption without verification of the declaration forms resulted in short levy of tax of ₹ 4.54 crore.

#### **Incorrect waiver of Central Sales tax**

The CST Act and the Rules made thereunder govern the levy, collection and distribution of taxes on sales of goods in the course of inter-state trade or commerce. Under the Act, State Governments are empowered to assess, re-assess, collect and enforce payment of tax payable by a dealer under the Act and the proceeds in any financial year of any tax levied on behalf of Government of India shall be assigned to State and retained by it. Further, Section 8(5) of the Act empowers the State Government, if it is satisfied in public interest, to issue notification in the official gazette to exempt any dealer from payment of tax or reduce the rate of tax, etc. Since the CST Act is enacted by the Parliament, only Parliament can make any amendment in the Act. As such, State Government has no power to issue an executive order waiving the tax, interest and penalty due and levied under the CST Act.

The cashew dealers in the State disposes off huge quantity of cashew kernel by way of inter-state sales/branch transfer and claimed concessional rate of tax/turnover exemption by filing declarations in Form C/F. On getting information that most of the declarations filed by cashew dealers were bogus or issued by bogus dealers (dealers not in existence), the intelligence wing of the department conducted inter-state investigation and detected dealers who issued bogus form/name of bogus dealers. Details so gathered were made available to the assessing officers for information.

Cross verification of records of two† assessment circles revealed that in respect of 220 dealers, the turnover of inter-state sales/stock transfers made during the years 2002-03 to 2005-06 were supported by bogus forms/forms issued by bogus dealers.

It was further noticed that based on representations made by certain organisations of cashew dealers, the Government vide a notification‡ ordered

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\* Special Circles-Ernakulam I, Kollam and Kozhikode II and CTO-Punalur.

† Special Circle II-Ernakulam and Special Circle-Kollam.

‡ G.O.(Ms.) dated 7th July 2008.

waiver of penalty, interest and all amount in excess of four per cent which were due and leviable under the Act on the turnover involved in the bogus C/F Form. Such unauthorised and arbitrary order issued by the State Government not only extended moral support to the dealers who wilfully evaded legitimate tax due to the State but also resulted in minimum loss of revenue of ₹ 96.87 crore in the two circles test checked by audit.

#### **Non-accounting of import purchases**

Cross verification of details of import of selected goods viz., timber and ceramic tiles gathered from Cochin Customs House (CCH) with assessment files of 25 dealers in 14 assessment circles revealed that during the years 2003-04 to 2006-07, the dealers did not account for import purchase of goods valued at ₹ 33.82 crore which escaped the notice of the AAs also. This resulted in non-levy of ₹ 18.43 crore towards tax, interest, and penalty worked out on its corresponding sales turnover of ₹ 40.24 crore estimated by adding admitted gross profit rate where accounts are available and by adding a minimum gross profit of 10 per cent in other cases.

#### **Grant of irregular exemption**

Cross verification of details gathered from three\* assessment circles with the assessment records of five purchasing dealers in three other assessment circles revealed that purchase of rubber effected during the years 2003-04 & 2004-05 by issuing 10 numbers of Form 25 declarations covering a total purchase value of ₹ 1.16 crore were not accounted for by the purchasing dealers. The unaccounted purchase resulted in short levy of tax of ₹ 49 lakh including interest and penalty.

In Neyyattinkara assessment circle, it was noticed that while finalising the assessment of a dealer for the year 2004-05 in June 2007, purchase turnover of rubber worth ₹ 31 lakh was allowed exemption without Form 25 declarations. This resulted in short levy of tax of ₹ 13.28 lakh including interest and penalty.

#### **Internal audit**

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 the internal control. Effective internal audit system both in the manual as well as computerised environments are a pre-requisite for the efficient functioning of any department. However, in the department there is no internal audit wing with the introduction of VAT with effect from 1st April 2005.

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\* CTOs-Aluva and Pala and Special Circle-Kottayam.

### **Conclusion**

The review revealed a number of deficiencies in the system of cross verification of purchase/sales. Departmental directions and instructions regarding co-ordination between the entry and exit check posts to monitor the movement of goods meant for other States through Kerala to ensure non-delivery of goods within the State causing evasion of tax were not adhered to. Due to defect in the system of information sharing between the check post and the assessing authorities, in many cases assessments were finalised without considering the check post declarations. There is evasion of tax by dealers using Mahe as a pocket. There was no system of regular cross verification of declaration forms to verify the genuineness of the forms. Also, there was no guidelines on checks to be conducted before allowing exemption/reduced rate of tax. Irregular waiver of tax, interest and penalty of CST in excess of four per cent by the State Government resulted in loss of revenue. The internal control mechanism was weak as evidenced by absence of an internal audit wing due to which the department remained unaware of the deficiencies pointed out in this review.

### **Recommendations**

The Government may consider implementing the following recommendations for rectifying the system and compliance deficiencies:

- Issue strict orders for compliance of departmental orders regarding monitoring of movement of goods on transit pass through the State. Targets may also be fixed for the intelligence officers for carrying out cross verification of records of the entry and exit check posts;
- Shift the check post at Kunjippally to a more strategic location closer to the actual border with Mahe to arrest scope of evasion of tax. Besides, matter may be taken up with the Central Government for ensuring uniform floor rate of tax between Kerala and Mahe to safeguard revenue of the State;
- Prescribe a system of carrying out regular cross verification of declaration forms and issuing guidelines for checks to be conducted before accepting declaration forms for allowing exemption/reduced rate of tax;
- Issue immediate orders withdrawing the waiver of tax, interest and penalty above four per cent under the CST Act with retrospective effect and taking steps to realise the dues from the defaulting dealers who have submitted bogus declaration forms; and
- Make the internal audit wing functional and effective.

[Paragraph 2.1 and 2.2 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2009 (RR) Vol I].

Note received from Government on the above audit paragraph is included as Appendix II.

Based on the audit para regarding the absence of control over movement of goods under transit pass the Committee noticed that even though the relevant provisions in the Kerala Value Added Tax Act, 2003 (KVAT Act) explicitly lays down that the transit pass obtained by a vehicle owner from the check post at the entry point should invariably be surrendered to the officer-in-charge of the check post at the exit point and the officers-in-charge of the entry and exit check posts shall send the information of entry/exit of goods to the concerned Commercial Tax Officer who shall enter such information in a TP register for monitoring, it was not seen scrupulously followed in any of the eight commercial tax check posts test checked by Audit. Details regarding the surrender of 2813 transit passes covering goods valued at ₹ 100.60 crore issued during the period from August 2003 to March 2008 were not available at the exit check posts, which the Committee considered as highly appalling.

2. The Committee was informed by the Commissioner of Commercial Taxes (CCT) that there were 48 by-routes in between the check post at Kunjippally and the actual border of Mahe and that the check post was still being operated there. The Committee questioned the legitimacy of maintaining the check post at Kunjippally which was 4 km. away from the Mahe border and opined that it would be advantageous if the check post at the entrance to Mahe is expanded with adequate staff if there is space constraint then possibility of acquiring sufficient land should also be examined. The Commissioner of Commercial Taxes replied that action was being taken to develop the existing check post at Mahe. Consultations were made with Cashew Development Corporation for acquiring necessary land.

3. The Committee, taking into account the difference in rate of tax for various commodities in Mahe and Kerala, was disappointed at the lethargy of the Department and felt that land acquisition proceedings could have been done well before. Unscrupulous traders were taking advantage of the existing lacunae in the check post. The loss on this account according to Audit was ₹ 119.02 crore during the period from January to December 2008. Also 75089000 litre of petrol and diesel were transported through Kunjippally check post during the said period for delivery at Mahe with total vehicle strength of 341 which meant that approximately 603.29 litre of fuel was consumed per day which the Committee reckoned quite uncomprehensible. The Committee

intended to know whether any strategy was developed by the Department to plug evasion of tax and the resultant loss of revenue to the State exchequer. The Commissioner of Commercial Taxes explained that a journey pass system was introduced two years ago but with little success. The amount of fuel that was crossing the check post still remained the same even after its implementation. On an investigation by the Deputy Commissioner (Intelligence), Kozhikode it was noticed that invariably all vehicles from Kerala were filling fuel from Mahe and thus making monetary gains.

4. The Committee noticed that in respect of four other items viz, IMFL, Chicken, Ghee and Tiles also, the situation was not different. The loss of revenue in respect of these commodities during January to December 2008 were ₹ 51.68 crore, ₹ 5.63 crore, ₹ 3.54 crore and ₹ 1.93 crore respectively. The Commissioner of Commercial Taxes revealed that the rate of tax in respect of ghee has been flattened. He also disposed that squads have been formed for surveillance of the area and the Deputy Commissioner in his report had stated that IMFL was transported in small lots in cars and buses and hence escape monitoring. Excise Department alone had the authority to check cars and buses. A check post of the Department was examining such matters and they had identified many cases.

5. The Committee noted that even though a full fledged check post of the Excise Department was keeping track of such cases, incidents of tax evasion was continuing unabated which naturally raised doubts about the involvement of officers posted there. The Committee realising the gravity of the situation decided to recommend for a full-fledged check post of Sales Tax Department at Mahe besides ensuring the effective functioning of the existing check post of Excise Department. The Commissioner of Commercial Taxes at this juncture disclosed that a new computerised declaration system is being introduced in all check posts and as a prelude the system has been implemented at Amaravila. Soon it would be extended to all other check posts as well. Each and every vehicle would be registered at the entry point and it would be identified at the exit point also. Officers on bikes would be posted at various places to identify transportation in small quantities. The Committee could not digest the fact that even though two intelligence Squads for 24 hour surveillance in the check post area of Kunjippally and New Mahe and two squads for conducting vehicle checking in Thalassery and one squad at Vadakara were formed to curb illegal movement of the commodities it had not fetched the desired results. Moreover, the absence of any worthwhile action against the erring officials by the Excise Department was also viewed very seriously by the Committee.

6. The Committee enquired about the reasons for the non surrender of transit passes issued in respect of molasses valued at ₹ 49.93 lakh from Tamil Nadu and coffee beans valued at ₹ 15.06 crore from Karnataka intended for export through Cochin Port, at the facilitation centre at Willingdon Island which was the exit check post for the goods. The Commissioner of Commercial Taxes stated that Willingdon Island was only a facilitation centre and that the commercial taxes authorities were not allowed to stop and check vehicles. Hence, during the period of Audit the vehicles were allowed to surrender transit passes at Karukutty and Kottappuram check posts. At that time only one shift for eight hours was operated at Willingdon Island. At present the situation has been corrected and three shifts running round the clock has been introduced. The Karukutty and Kottappuram check posts have also been abolished. Squads have been posted at the facilitation centre and manual checking of vehicles and collection of relevant papers are also undertaken.

7. The Committee aspired to know the action taken on the 122 cases where declarations covering goods valued at ₹ 6.45 crore were not filed in the concerned assessment files, resulting in short levy of tax of ₹ 1.47 crore. The Commissioner of Commercial Taxes responded that the declarations filed by vehicle owners entering the State would be bundled together and send to respective offices, for further action. Recently after computerisation, the abstract of the declarations would be entered at the check post itself and mailed to different offices. The bundles would also be forwarded to the respective offices subsequently. Data entry in respect of e-consignment declarations by Kudumbashree workers would take some time. Once the declarations are found to be in order, it would automatically get tallied with assessee's account.

8. Regarding the observation of Audit that invoice, delivery note, ownership certificate etc. were not properly filled up by the dealers, the Commissioner of Commercial Taxes submitted that the observation was true in respect of one case where there was actually no revenue loss.

9. The Committee needed clarification as to why the department in its earlier reply had agreed to the facts and figures pointed out by the Accountant General and now stating that there was no loss of revenue. The Commissioner of Commercial Taxes confessed that a mistake had occurred while tendering the first reply and the facts had come to his notice only thereafter. The Committee criticised the callous approach of the Department in the matter.

10. To a query as to whether there was an Internal Audit Wing in the Department to monitor such irregularities, the Commissioner of Commercial

Taxes answered in the affirmative. The Committee noticed that the Internal Audit Wing was not effective and the defects pointed out by the Accountant General were not detected by them. The Committee desired to have the details regarding the number of cases of non-filing of declarations etc. detected during the last five years by the Wing. The Commissioner of Commercial Taxes added that things would be set right after the completion of computerisation of check posts.

11. Regarding the non/improper forwarding of 39 check post declarations at Amaravila check post, the Commissioner of Commercial Taxes submitted that assessments in respect of individual cases were done using abstracts and physical forms were usually kept as back up data. The 39 mis sent forms would have been redirected to the respective offices. He added that a software has been developed recently for the fool proof accounting of declaration forms. The computerisation in Amaravila check post would be completed within three months and that in respect of other check posts were expected to be completed within the financial year itself.

12. With respect to the Audit finding that in Commercial Tax Office, Special Circle – I, Ernakulam, assessments of 10 dealers for the assessment years 2005-06 and 2006-07, turnover of ₹ 309.98 crore was accepted without declaration in Form C, the Commissioner of Commercial Taxes pointed out that most of them were corporate dealers like Joy Alukkas, Voltas, Nerolac etc. Assessments have been completed in six cases and ₹ 7,28,099 recovered. Action is being pursued in two cases and exemption has been granted in two cases.

13. Regarding the acceptance of defective Form C by the Assessing Authorities resulting in short levy of tax of ₹ 27.63 crore as pointed out in paragraph 2.2.10.3, the Commissioner of Commercial Taxes revealed that out of 7 cases, assessments were revised and the amount realised in three cases under Amnesty Scheme. Reassessment was being done in two cases and in the remaining two cases, the forms were found to be genuine. The Committee wanted to know whether responsibility has been fixed and action pursued against the officers who failed to scrutinize the forms, before accepting them. The Commissioner of Commercial Taxes replied that action including suspension had been taken in various cases. The Committee sought a detailed report in this regard.

14. The Committee, from the Remedial Measures Taken Statement furnished by Government, found that permission to re-open the assessment relating to M/s. Begreecha Enterprises, Kanjikode, Palakkad has been granted by the

Commissioner of Commercial Taxes vide Order dated 21-4-2010. The Committee urged to forward the details regarding the date of submission of declaration form by the dealer, the date of finalisation of the assessment and its latest position.

15. When the Committee enquired about the system now existing in the Department to verify whether the short comings pointed out by Audit had occurred in any of the offices other than those test checked by them, the Commissioner of Commercial Taxes answered that it was the duty of the Assessing Officers to verify such matters. Moreover, strict instructions were also issued from time to time. Now C and F Forms are downloadable and hence partial submission of data is not possible and, every deficiency would be resolved only when the system moves to the electronic platform.

16. Pertaining to the audit finding that Form F declarations were accepted by Assessing Authorities from four dealers in four assessment circles in violation of statutory provisions resulting in short levy of tax of ₹ 4.54 crore, the Commissioner of Commercial Taxes replied that in three cases, the assessee had produced valid F Forms and remaining one case is being processed. The procedural violation has since been rectified.

17. The Committee noticed that the State Government by a notification had ordered waiver of penalty, interest and all amount in excess of four per cent which were due and leviable under the Central Sales Tax Act based on representations made by certain organisations of cashew dealers that too on the turnover involved in bogus C/F Forms. To this, the Commissioner of Commercial Taxes replied that it was done in public interest and was also mentioned in the budget speech.

#### **Conclusion/Recommendation**

**18. The Committee criticises the irresponsible approach of the Commercial Taxes Department in the proper maintenance of T.P Registers at the check posts. Knowing that the details regarding surrender of 2813 transit passes covering goods at ₹ 100.60 crore issued during the period from August 2003 to March 2008 were not kept at the exit check posts, the Committee recommends to issue strict directions for compliance of departmental orders regarding monitoring of movement of goods on transit pass through the State and Targets may also be fixed for the intelligence officers for carrying out cross verification of records of the entry and exit check posts. Pointing out the impropriety of maintaining the check post at Kunjippally which was 4 Km farther from Mahe border, the Committee**

recommends to expand the check post at the entrance of Mahe, urgently with adequate staff for minimizing the loss of revenue and space constraint has to be solved by acquiring sufficient land.

19. The Committee understands that all the vehicles from Kerala were filling fuel from Mahe resulting a huge loss of revenue to the State exchequer and recommends to formulate strategies to plug evasion of tax of various commodities through check posts. The Committee urges the department to take up the matter with Government of India for ensuring uniform floor rate of tax between Kerala and Mahe to safeguard the revenue of the State.

20. The Committee surprisingly infers that huge amount of money was lost by way of commercial tax for the items of IMFL, Chicken, Ghee and Tiles. So the Committee recommends to take up adequate measures to curtail the illicit transportation of IMFL through check posts. As such, it recommends for a full-fledged check post of Sales Tax Department at Mahe along with the existing check post of the Excise Department. The Committee emphasises the need for strengthening the facilitation centre at Willingdon Island.

21. The Committee strongly criticises the lethargic attitude of the Excise Department in preventing illegal movement of Commodities through check post and in taking disciplinary action against erring officials.

22. Regarding the audit enquiry about non-utilization of check post declaration, the Committee expresses its grave dissatisfaction over the contradictory replays put forward by the department during witness examination. Criticizing the callous approach of the department in this matter, the Committee observes that the internal audit wing of the department was not effective.

23. The Committee seeks a detailed report regarding the acceptance of defective Form C by the Assessing Authorities resulting in a short levy of tax of ₹ 27.63 crore. Knowing that permission was granted to re-open the assessment relating to M/s. Begreecha Enterprises, Kanjikode, Palakkad, the Committee directs the department to furnish the details regarding the date of declaration form by the dealer, the date of finalisation of the assessment and its latest position.

24. Regarding the observation of Accountant General on waiver of penalty, the Committee reminds that Taxes Department should be more cautious in putting forward such amnesty schemes in future.

## AUDIT PARAGRAPH

**Results of audit**

Test check of records of the department of Commercial Taxes, Excise and Electrical Inspectorate conducted during 2008-09 revealed short levy of luxury tax, non/short levy of tax/fees/duty and other deficiencies amounting to ₹ 53.78 crore in 89 cases, which fall under the following categories:

(Rupees in crore)			
<i>Sl. No.</i>	<i>Category</i>	<i>No. of cases</i>	<i>Amount</i>
<b>A. Luxury Tax</b>			
1	Short levy of luxury tax	2	0.13
<b>B. State Excise</b>			
2	Loss due to non-levy of import fee	13	30.00
3	Non/short levy of gallonage fee	17	21.02
4	Blocking up of revenue due to non/short levy of excise duty	4	1.13
5	Non-remittance of additional security	2	0.80
6	Non/short levy of cost of establishment	22	0.21
7	Loss of revenue due to short collection of interest	3	0.15
8	Other lapses	15	0.06
<b>C. Taxes and Duties on Electricity</b>			
9	Non/short levy of tax	7	0.21
10	Other lapses	4	0.07
Total		89	53.78

During the year 2008-09, the concerned departments accepted under assessment and other deficiencies of ₹ 32.32 crore involved in 41 cases. The department recovered ₹ 4.57 lakh in 11 cases of which two cases involving ₹ 2.42 lakh were pointed out during 2008-09.

After the issue of draft paragraphs, the Electrical Inspectorate recovered an amount of ₹ 2.21 lakh in one case in full.

A few audit observations involving ₹ 52.21 lakh are mentioned in the succeeding paragraphs.

### **Audit observations**

*Scrutiny of records of various Commercial Tax Offices, State Excise Offices and Electrical Inspectorate revealed several cases of non-compliance of the provisions of the Kerala Tax on Luxuries Act, 1976, Kerala Rectified Spirit Rules, 1972 and Kerala Electricity Duty Act, 1963 and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of the CTOs/Excise Officer/Chief Electrical Inspector are pointed out in audit each year but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for Government to improve the internal control system.*

### **Short levy of luxury tax**

*Luxury tax on services like ayurveda, travel, trekking etc., though leviable under the Kerala Tax on Luxuries Act, was not levied on two hotels.*

Under the Kerala Tax on Luxuries Act, every amenity and service provided in the hotel that ministers comfort are exigible to luxury tax.

During scrutiny of the records in two CTOs\* between January 2008 and March 2008, it was noticed that while finalising the assessments of two hotels for the years 2003-04 and 2002-03 to 2004-05 between June 2006 and November 2006 respectively, the assessing authorities did not levy tax on the income amounting to ₹ 2.49 crore, derived from services such as ayurveda, travel and trekking charges, activity charges, health club, beauty parlour etc., provided in the hotels. This resulted in short levy of tax of ₹ 24.36 lakh.

After the matter was reported to the department in March and April 2008 and Government in August 2008, the Government stated in December 2008 that in one case† the assessments for the years 2003-04 and 2004-05 were revised with an additional demand of ₹ 13.80 lakh and that for the year 2002-03 had been cancelled as it had become time barred. The additional demand created was advised for revenue recovery.

In the other case‡, the AA stated in January 2008 that the income received for other amenities relates to those received from agencies for providing the facilities available in the hotel for their tourists in the package tours and was not within the ambit of Luxury Tax Act. However, on verification of records of the

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\* Works contracts and Luxury tax (WC & LT), Ernakulam and Kattappana

† WC & LT, Kattappana

‡ WC & LT, Ernakulam.

concerned unit, it was noticed that the assessment has been revised in February 2009 in the lines of audit observation and additional demand of ₹ 12.82 lakh raised.

A report on recovery in the former case and a reply of the Government confirming reassessment in the latter had not been received (September 2009).

[Paragraph 7.1 to 7.3 contained in the Report of the C& AG of India for the year ended 31st March 2009 (RR) Vol.I].

Note received from Government on the above audit paragraph is included as Appendix II.

25. Regarding short levy of luxury tax of ₹ 24.36 lakh, the Commissioner of Commercial Taxes revealed that certain items were admissible and hence granted exemption. Demand for ₹ 12,81,000 had been raised in respect of the remaining items as it was under stay from the Court.

#### **Conclusion/Recommendation**

#### **26. No Comments.**

#### **Loss of revenue due to non-realisation of gallonage fee**

*Gallonage fees was not levied on excess allowance of transit/godown wastage.*

Under Rule 14 of the Kerala Rectified Spirit Rules, 1972, gallonage fee shall be collected on rectified spirit issued from a distillery at the rate in force at the time of such issue. Rule 55 of the Distillery & Warehouse Rules envisages that no wastage would be allowed on spirits after they have been bottled and as per Section 17 and 18 of the Abkari Act, duty includes excise duty and gallonage fee.

During scrutiny of the records in eight distilleries between August 2008 and February 2009 it was noticed that 2.66 lakh bulk litres of Indian made foreign liquor and beer was allowed as transit wastage and storage wastage, for which there was no provision. Though excise duty was paid on the above quantity, gallonage fee was not levied. The gallonage fee leviable at the rate of ₹ 6.75 per bulk litres worked out to ₹ 17.93 lakh.

After the case was pointed out, it was stated (May 2009) that the difference in stock of Indian made foreign liquor/beer would be reconciled and the gallonage fee would be realised at the earliest. Further developments have not been reported (September 2009).

The case was reported to the Government in February 2009; their reply has not been received (September 2009).

[Paragraph 7.4 contained in the Report of the C&AG of India for the year ended 31st March 2009 (RR) Vol.I].

Note received from Government on the above audit paragraph is included as Appendix II.

27. The Assistant Commissioner of Excise (Administration) informed the Committee that necessary amendment for prescribing provision for wastage had been made on 7-4-2010. He stated that an amount of ₹ 21 crore had been outstanding on account of 17 cases. Two cases involving ₹ 10.14 crore and ₹ 5.61 crore had been settled. Notice has been served to the Kerala State Beverages Corporation for reclaiming the balance amount of almost ₹ 5.26 crore.

#### **Conclusion/Recommendation**

#### **28. No Comments.**

AUDIT PARAGRAPH

#### **Excess transmission loss**

*Though two licensees availed excess transmission loss, the department did not raise demand for recovery of duty.*

Under the Kerala Electricity Duty Act, 1963, every licensee is liable to pay the duty calculated at the rate specified against that class worked out on the basis of energy purchased from Kerala State Electricity Board after deducting the quantum of transmission loss allowable to the licensees. Transmission loss allowable in these cases were eight per cent.

During scrutiny of records in the office of Chief Electrical Inspector, Thiruvananthapuram, in January 2009, it was noticed that during the year 2007-08, two licensees had availed transmission loss of 16.5 per cent and 11.36 per cent. This was in excess of the allowable limit of eight per cent by 8.5 per cent and 3.36 per cent. This resulted in short levy of electricity duty of ₹ 7.02 lakh.

After the case was pointed out, the Chief Electrical Inspector stated in May 2009 that the arrear bill on the excess claim of transmission loss had been demanded. A report on recovery has not been received (September 2009).

The matter was reported to the Government in April 2009; their reply has not been received (September 2009).

[Paragraph 7.5 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2009 (RR) Vol. I].

Note received from Government on the above audit paragraph is included as Appendix II.

29. Regarding the audit observation that even though two licensees availed excess transmission loss, the Department did not raise demand for recovery of duty, the witness, Principal Secretary, Power Department responded that the matter was taken up with the licensees Thrissur Corporation and Technopark. Even though demand for ₹ 5,37,720 and ₹ 1,64,292 respectively had been raised from them, they have not complied to the same. The Committee recommended that since transmission loss has now been reduced considerably due to the commissioning of many new substations, the quantum of transmission loss should be ascertained by a fresh study and that the limit should be revised accordingly. Also, the outstanding amount with interest should be deducted from the Government grant extended to these institutions.

#### **Conclusion/Recommendation**

**30. The Committee recommends that the quantum of transmission loss of electricity allowable to licensees should be ascertained by the department by a fresh study and that the limit should be revised accordingly. The Committee also recommends to deduct the outstanding amount with interest from the Government grant extended to these licensees.**

#### AUDIT PARAGRAPH

##### **Non-levy of interest**

*For belated payment of electricity duty, interest of ₹ 2.90 lakh though leviable, was not levied.*

Under the Kerala Electricity Duty Rule, 1963, every licensee is liable to pay duty payable under the Act for each month before the expiry of the next month, failing which, interest at the rate of 18 per cent shall be levied for such belated payment.

During scrutiny of records in the office of the Chief Electrical Inspector, Thiruvananthapuram in January 2009, it was noticed that during the year 2007-08, interest was not levied on the belated payment of electricity duty by a licensee. This resulted in non-levy of interest of ₹ 2.90 lakh.

After the case was pointed out, the Chief Electrical Inspector stated in May 2009 that interest of ₹ 2.90 lakh has been demanded. A report on recovery has not been received (September 2009).

The matter was reported to the Government in April 2009; their reply has not been received (September 2009).

[Paragraph 7.6 contained in the Report of the C&AG of India for the year ended 31st March 2009 (RR) Vol. I.]

Note received from Government on the above audit paragraph is included as Appendix II.

31. Regarding the non-levy of interest of ₹ 2.90 lakh for belated payment of electricity duty by Thrissur Corporation, the witness, Principal Secretary, Power Department revealed that even though demand had been raised, it was not remitted by the Corporation. The Committee directed to levy the amount from the grant extended by Government to the licensee.

**Conclusion/Recommendation**

**32. The Committee recommends the Power Department to realise the amount of electricity duty and its interest from the grant extended to Thrissur Corporation by Government.**

Thiruvananthapuram,  
26th June 2012.

DR. T. M. THOMAS ISAAC,  
*Chairman,*  
*Committee on Public Accounts.*

## APPENDIX I

## Summary of Main Conclusion/Recommendation

<i>Sl. No.</i>	<i>Paragraph No.</i>	<i>Department concerned</i>	<i>Conclusion/Recommendation</i>
(1)	(2)	(3)	(4)
1	18	Taxes	The Committee criticises the irresponsible approach of the Commercial Taxes Department in the proper maintenance of T.P. Registers at the check posts. Knowing that the details regarding surrender of 2813 transit passes covering goods at ₹ 100.60 crore issued during the period from August 2003 to March 2008 were not kept at the exit check posts, the Committee recommends to issue strict directions for compliance of departmental orders regarding monitoring of movement of goods on transit pass through the State and Targets may also be fixed for the intelligence officers for carrying out cross verification of records of the entry and exit check posts. Pointing out the impropriety of maintaining the check post at Kunjippally which was 4 km. farther from Mahe border, the Committee recommends to expand the check post at the entrance of Mahe, urgently with adequate staff for minimising the loss of revenue and space constraint has to be solved by acquiring sufficient land.
2	19	„	The Committee understands that all the vehicles from Kerala were filling fuel from Mahe resulting a huge loss of revenue to the State exchequer and recommends to formulate strategies to plug evasion of tax of various commodities through check posts. The Committee urges the department to take up the matter with Government of India for ensuring uniform floor rate of tax between Kerala and Mahe to safeguard the revenue of the State.

(1)	(2)	(3)	(4)
3	20	Taxes	The Committee surprisingly infers that huge amount of money was lost by way of commercial tax for the items of IMFL, Chicken, Ghee and Tiles. So the Committee recommends to take up adequate measures to curtail the illicit transportation of IMFL through check posts. As such, it recommends for a full-fledged check post of Sales Tax Department at Mahe along with the existing check post of the Excise Department. The Committee emphasises the need for strengthening the facilitation centre at Willingdon Island.
4	21	„	The Committee strongly criticises the lethargic attitude of the Excise Department in preventing illegal movement of Commodities through check post and in taking disciplinary action against erring officials.
5	22	„	Regarding the audit enquiry about non-utilization of check post declaration, the Committee expresses its grave dissatisfaction over the contradictory replays put forward by the department during witness examination. Criticising the callous approach of the department in this matter, the Committee observes that the internal audit wing of the department was not effective.
6.	23	„	The Committee seeks a detailed report regarding the acceptance of defective Form C by the Assessing Authorities resulting in a short levy of tax of ₹ 27.63 crore. Knowing that permission was granted to re-open the assessment relating to M/s. Begreecha Enterprises, Kanjikode, Palakkad, the Committee directs the department to furnish the details regarding the date of declaration form by the dealer, the date of finalisation of the assessment and its latest position.

(1)	(2)	(3)	(4)
7	24	Taxes	Regarding the observation of Accountant General on waiver of penalty, the Committee reminds that Taxes Department should be more cautious in putting forward such amnesty schemes in future.
8	30	Power	The Committee recommends that the quantum of transmission loss of electricity allowable to licensees should be ascertained by the department by a fresh study and that the limit should be revised accordingly. The Committee also recommends to deduct the outstanding amount with interest from the Government grant extended to these licensees.
9	32	„	The Committee recommends the Power Department to realise the amount of electricity duty and its interest from the grant extended to Thrissur Corporation by Government.