AUDIT REPORT
ON
THE ACCOUNTS OF
FEDERAL BOARD OF REVENUE
(INLAND REVENUE)
AUDIT YEAR 2014-2015

AUDITOR-GENERAL OF PAKISTAN

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ABBREVIATIONS & ACRONYMS

ACIR	Assistant Commissioner Inland Revenue
AGP	Auditor General of Pakistan
AGPR	Accountant General Pakistan Revenue
AOP	Association of Persons
APPM	Accounting Policies & Procedures Manual
ATIR	Appellate Tribunal Inland Revenue
ATL	Active Taxpayer List
BKO	Bricks Kiln Owners
BMR	Balancing Modernization and Replacement
CAO	Chief Accounts Officer
CBR	Central Board of Revenue
CDA	Capital Development Authority
CDGL	City District Government Lahore
CGA	Controller General of Accounts
CIR	Commissioner Inland Revenue
CIR(A)	Commissioner Inland Revenue (Appeal)
CNG	Compressed Natural Gas
CPR	Computerized Payment Receipt
CPWC	Central Public Works Account Code
CSTRO	Central Sales Tax Refund Office
DAC	Departmental Accounts Committee
DAO	District Accounts Office
DCIR	Deputy Commissioner Inland Revenue
DDO	Drawing & Disbursing Officer
DP	Draft Para
DPC	Data Processing Centre
DR	Departmental Representative
DR&S	Director Research & Statistics
DTRE	Duty and Tax Remission for Exports
E&D	Efficiency & Disciplinary
ECC	Economic Coordination Committee
ERS	Expeditious Refund System
FATE	Facilitation and Taxpayer Education
FBR	Federal Board of Revenue

FED	Federal Excise Duty
FTO	Federal Treasury Officer/Federal Tax Ombudsman
FTR	Final Tax Regime
FY	Financial Year
GD	Goods Declaration
GDP	Gross Domestic Product
GFR	General Financial Rules
GST	General Sales Tax
HQ	Headquarter
HRM	Human Resource Management
I&I	Intelligence and Investigation
INTOSAI	International Organisation of Supreme Audit Institutions
IPD	Information Processing Division
IPP	Independent Power Producer
IPSAS	International Public Sector Accounting Standards
IR	Inland Revenue
IRS	Inland Revenue Service
ITAT	Income Tax Appellate Tribunal
KIBOR	Karachi Inter Bank Offer Rate
LTU	Large Taxpayers Unit
MFDAC	Memorandum for Departmental Accounts Committee
MPR	Monthly Performance Report
MR	Management Report
NBP	National Bank of Pakistan
NHA	National Highway Authority
NTDC	National Transmission and Despatch Company
NTN	National Tax Number
NTR	Normal Tax Regime
OIO	Order-in-Original
PAC	Public Accounts Committee
PaCCS	Pakistan Customs Computerised System
PAO	Principal Accounting Officer
PCT	Pakistan Customs Tariff
PIA	Pakistan International Airlines
PMU	Project Management Unit
POL	Petroleum Oil Lubricants

PRA	Post Refund Audit
PRAL	Pakistan Revenue Automation Limited
PT&T	Pakistan Telephone & Telegraph
PTA	Pakistan Telecommunication Authority
PTR	Presumptive Tax Regime
Pvt	Private
RMS	Risk Management System
RPO	Refund Payment Order
RTO	Regional Tax Office
SAP	System Applications & Products
SBP	State Bank of Pakistan
SED	Special Excise Duty
SESCO	Sukkur Electric Supply Company
SOP	Standard Operating Procedures
SPR&S	Strategic Planning and Research & Statistics
SRB	Sindh Revenue Board
SRO	Statutory Regulatory Order
STARR	Sales Tax Automated Refund Repository
STGO	Sales Tax General Order
STRN	Sales Tax Registration Number
TARP	Tax Administration Reforms Project
TEVTA	Technical Education and Vocational Training Authority
TFC	Tax Facilitation Centre
VAT	Value Added Tax
WDV	Written Down Value
WHT	Withholding Tax
WLL	Wireless Local Loop
WWF	Workers Welfare Fund

Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973 read with sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 require the Auditor General of Pakistan to conduct audit of expenditure and receipts of Government of Pakistan.

The report is based on compliance with authority and expenditure audit of the Federal Board of Revenue for the financial year 2013-14. The report also includes observations relating to previous years. The Directorates General Audit Inland Revenue (North and South) conducted audit during the audit year 2014-15 on test check basis with a view to report significant findings to the stakeholders. The main body of the Audit Report includes only the systemic issues and audit findings carrying value of Rs 1 million or more. Relatively less significant issues are listed in the Annexure-I of the Audit Report which shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the audit observation will be brought to the notice of the Public Accounts Committee through the next year's Audit Report.

Audit findings indicate the need for adherence to regularity framework besides instituting and strengthening internal controls to avoid recurrence of violations and irregularities.

Audit observations included in this report have been finalized in the light of departmental response, where received, and discussions in DAC meetings.

The Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before the both Houses of Majlis-e-Shoora [Parliament].

Dated: 04 March 2015

Muhammad Akhtar Buland Rana
Auditor-General of Pakistan

EXECUTIVE SUMMARY

The Directorates General of Audit Inland Revenue (North & South) carry out audit of Federal Receipts on account of Inland Revenues i.e. Income Tax, Sales Tax, Federal Excise Duty and expenditure under four Grants i.e. Revenue Division, Federal Board of Revenue, Inland Revenue and Development Expenditure of Revenue Division. The Directors General Audit Inland Revenue have a human resource of 132 officers and staff with 32,868 mandays and annual budget of Rs 156.27 million. The Directorates are mandated to conduct regularity audit (financial audit and compliance with authority audit) and performance/sectoral audit of FBR. Regularity audit of 155 formations was conducted during second half of audit year 2013-14 and first half of audit year 2014-15 by utilizing planned mandays, incurring an expenditure of Rs 155.14 million.

a. Scope of Audit

FBR collected inland revenue of Rs 1,987,826 million against revised target of Rs 2,019,590 million for the FY 2013-14. It paid refund aggregating to Rs 56,837 million on account of Income Tax, Sales Tax and Federal Excise Duty. The Directorates General of Audit Inland Revenue conducted audit of receipts (including refunds) of Rs 954,156 million relating to Income Tax, Sales Tax and Federal Excise Duty. Since the FBR did not provide assessment record of sales tax and federal excise duty, the Audit had to rely upon the available soft data pertaining to the returns of sales tax and federal excise duty. The FBR incurred expenditure of Rs 12,676 million against final grant of Rs 12,790 million for which audit of Rs 10,141 million was also conducted. The total outlays audited were 48% of total population of Rs 2,000,502 million pertaining to FBR.

b. Recoveries at the instance of Audit

Audit pointed out recovery of Rs 444,301.01 million in this report. The FBR reported recovery of Rs 7,656.39 million on pointation of Audit from January to December 2014 which was verified by Audit.

c. Audit Methodology

The desk audit methods/techniques were applied using SAP/R3 data maintained by AGPR for audit of expenditure relating to Revenue Division, Federal Board of Revenue, Inland Revenue and Development Expenditure Grants. Initial accounts of receipts are maintained by FBR's treasuries and are automated by PRAL. The FBR provided data containing three fields which was insufficient for risk analysis. This constrained Audit to rely upon limited soft data for desk audit and sample selection. The sample was selected randomly rather than on criteria basis. For sampling, this office used Audit Command Language (ACL) and Computer Assisted Audit Techniques (CAATs). This facilitated, to some extent, in understanding the system, procedures and environment of FBR and identification of high risk areas for substantive testing in the field.

d. Audit Impact

- After 18th amendment in the Constitution of Islamic Republic of Pakistan, sales tax on services became a provincial subject. While conducting audit of Telecom Sector at LTU Islamabad, Audit observed that after promulgation of provincial sales tax laws, two independent levies were in the field i.e. FED in VAT mode and provincial sales tax which created ambiguity and overlapping effect in tax laws. On pointation by Audit in September 2013, the Federal Government through Finance Act 2014 has made an amendment in the Federal Excise Act, 2005 to remove this anomaly by excluding the telecom services from the ambit of FED where respective provinces have already imposed provincial sales tax and have started collecting the same through their own Board or Authority.
- Audit identified 140 tax payers in nine field offices of FBR which were liable to be registered under the Sales Tax Act 1990 having revenue implication of Rs 2,899.72 million. On recommendation by Audit, the department initiated registration of taxpayers to bring them in the sales tax regime.

e. Comments on Internal Control and Internal Audit

While conducting compliance with authority audit, internal controls of the FBR were found weak and ineffective as various control lapses were identified repeatedly for several years by Audit. These shortcomings include; excess reporting of receipts, non/short realization of sales tax, federal excise duty, default surcharge and penalty etc. Moreover, some instances of non recovery of arrears, inadmissible zero rating, irregular claim of exemption, inadmissible/excess payment of refund, non/short realization of minimum tax, incorrect computation of taxable income, non-apportionment of input tax and expenses were also pointed out. Audit also observed that there was inadequate monitoring of withholding agents and lack of seriousness on part of tax authorities.

Recurrence of the above irregularities shows that internal controls are not functioning. FBR is not taking necessary measures to rectify the lapses to improve the internal controls which resulted in revenue loss in billions of rupees. Had the FBR taken appropriate measures and shown compliance to Audit's observations and the PAC/DAC's directives, the department would never had to revise its targets and it would had been able to collect more revenue than budgeted.

This office required internal audit reports to evaluate performance of Internal Audit of FBR. However, nothing was provided to Audit despite repeated written and verbal requests. In the absence of Internal Audit reports, this office was unable to comment on its performance.

Audit emphasizes timely completion of internal audit reports by FBR and provision of the same to Audit. Moreover, internal controls may be strengthened by continuous review and recurring lapses be avoided in future.

f. The key Audit Findings of the Report

This report includes audit observations of Rs 444,301.01 million in respect of compliance with authority audit of receipts and expenditure relating to Inland Revenue for the FY 2012-13 and the FY 2013-14, audited from January to November 2014. The observations include cases

of; non/short assessment of taxes, grant of exemptions, excess carry forward and set off of losses, non-levy of default surcharge, delay in adjudication proceedings, non recovery of adjudged revenue, input tax, sanction of refunds etc. Systemic deficiencies are also identified with recommendations for preventing recurrence of irregularities in the future.

The key findings are as under:

i) Non-production of auditable record maintained by and available with tax authorities.[1]
ii) Non-registration of taxpayers in sales tax regime resulting in potential loss of revenue on account of sales tax of Rs 2,899.72 million.[2]
iii) Inadmissible zero rating of goods resulting in non-realization of sales tax of Rs 8,058.35 million.[3]
iv) Non/short realization of sales tax amounting to Rs 7,223.14 million.[4]
v) Non-recovery of adjudged dues/arrears of Rs 27,970.27 million.[5]
vi) Short realization of sales tax due to inadmissible adjustment of input tax of Rs 1,786.00 million.[6]
vii) Non/short realization of withholding of sales tax of Rs 4,108.76 million.[7]
viii) Inadmissible refund of sales tax amounting to Rs 30.58 million.[8]
ix) Non-levy of minimum tax on the income of certain persons amounting to Rs 1,507.45 million.[9]
x) Non-levy of tax on concealment of income or assets amounting to Rs 95,566.88 million.[10]
xi) Short levy of tax due to allowing inadmissible expenses amounting to Rs 1,165.82 million.[11]

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[1]Para 3.1.1
[2]Para 4.1.1
[3]Para 4.1.2
[4]Para 4.1.7, 4.1.8, 4.1.9, 4.1.11, 4.1.15
[5]Para 4.1.6
[6]Para 4.1.3, 4.1.13, 4.1.18, 4.1.25, 4.1.26
[7]Para 4.7.2
[8]Para 4.2.2
[9]Para 4.4.1
[10]Para 4.4.5
[11]Para 4.4.3

xii) Excess and inadmissible expenditure on account of pay and allowances of Rs 10.63 million.[12]

xiii) Unauthorized payment of conveyance and performance allowance - Rs 5.01 million.[13]

Recommendations

FBR is required to:

i) ensure timely production of auditable data/ record and those hindering the audit activity be proceeded against under the rules,

ii) invoke provisions of laws holistically for recovery of duty and taxes,

iii) devise a mechanism to detect and deter tax evasion by enforcing legal provisions against defaulters,

iv) strengthen mechanism for adjustment/ issuance of refund of tax,

v) upgrade the existing internal controls to avoid recurrence of similar irregularities every year,

vi) improve monitoring of withholding tax as it constitutes a major portion of revenue collection of income tax,

vii) improve financial management for incurring expenditure according to financial rules.

g. Memorandum for Departmental Accounts Committee (MFDAC)

Audit observations of Rs 61,974.01 million are included in MFDAC Annexure-1. In view of cost effectiveness it was decided that paras involving amount less than one million will be pursued with the PAO at the DAC level. The FBR and its field formations need to accord priority to the disposal of audit observations embodied therein through gearing up DAC.

The compliance of audit observations involving Rs 530.33 million out of pointed out amount of Rs 14,548.71 million was reported by the Principal Accounting Officer pertaining to MFDAC of previous year 2013-14 as given in Annexure-1A and no response was given on audit observations involving Rs 14,018.38 million. The recovery of Rs 3.51 million was reported during compliance of audit observations in MFDAC.

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[12]Para 4.8.1
[13]Para 4.8.6

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SUMMARY TABLES

SUMMARY TABLES

Table 1: Audit Work Statistics

(Rs in million)

Sr. No.	Description	No.	Actual	
			Receipts	Expenditure
1	Total Entities (Ministries/PAOs) in Audit Jurisdiction	1	1,987,826	12,676
2	Total formations in audit jurisdiction	159	1,987,826	12,676
3	Total Entities (Ministries/PAOs) Audited	1	954,156	10,141
4	Total Formations Audited	119	954,156	10,141
5	Audit & Inspection Reports	119	537,997	2,690
6	Performance Audit Reports	-	-	-

Table 2: Audit Observations Classified by Categories

(Rs in million)

Sr. No.	Description	Amount Placed under Audit Observations
1	Unsound Asset Management	-
2	Weak Financial Management	534,958.49
3	Weak Internal Controls Relating to Financial Management	5,728.66
4	Others	-
	Total	**540,687.15**

Table 3: Outcome Statistics

(Rs in million)

Sr. No.	Description	Receipts	Expenditure	Audit Year 2014-15	Audit Year 2013-14
1	Outlays Audited	954,156.00	10,141.00	964,297.00	815,832.80
2	Monetary value of audit observations	537,997.28	2,689.87	540,687.15	170,031.00
3	Recoveries pointed out by Audit	444,186.99	114.02	444,301.01	143,569.00
4	Recoveries accepted/ established at the instance of Audit	240,118.23	114.02	240,232.25	110,541.40
5	Recoveries realized at the instance of Audit	7,624.52	31.87	7,656.39	4,465.30

Table 4: Irregularities Pointed Out

(Rs in million)

Sr. No.	Description	Amount Placed under Audit Observation
1	Violation of rules and regulations and violation of principles of propriety and probity in public operations.	294,726.24
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	-
3	Accounting Errors	-
4	Weaknesses of internal control systems.	5,728.66
5	Recoveries and overpayments, representing cases of established overpayment or misappropriations of public money.	240,232.25
6	Non-production of record.	392 cases
7	Others, including cases of accidents, negligence etc.	-

Table 5: Cost-Benefit Analysis

(Rs in million)

Sr. No.	Description	Audit Year		
		2014-15	2013-14	2012-13
1	Outlays Audited (Items 1 of Table 3)*	964,297	815,832.80	1,161,927
2	Expenditure on Audit	155.14	139.45	69.60
3	Recoveries realised at the instance of Audit	7,656.39	4,465.41	2,878.73
4	Cost-Benefit ratio	1:49	1:32	1:41

**Including amount of receipt Rs 954,156 million & expenditure Rs 10,141 million.*

PUBLIC FINANCIAL MANAGEMENT ISSUES

CHAPTER-1 PUBLIC FINANCIAL MANAGEMENT ISSUES

1.1 Wrong consolidation of figures of tax receipts by DR&S, FBR for the purpose of reconciliation with AGPR Islamabad - Rs 8,927.77 million

Criteria

According to Para 5 (d) of System of Financial Reporting and Budgeting each Principal Accounting Officer is required to make sure that the accounts of receipts are maintained properly and reconciled on monthly basis.

Fact

Scrutiny of reconciliation statement of tax receipts with AGPR Islamabad by Director Research and Statistics FBR Islamabad revealed that while consolidating the figures of tax receipts, the DR&S FBR adopted AGPR's figures for reconciliation instead of Departmental figures which were reconciled by FBR treasuries. This resulted in variation (excess/less) of Rs 8,927.77 million between the figures taken by DR&S and actual figures of FBR, summarized as follows:

(Rs in million)

Sr. No.	Head of Account	*Actual (FBR's Figures as per Reconciliation Certificates)	**Figures reconciled by DR&S with AGPR, Islamabad	Variation excess taken / less taken
1	Direct tax	856,149.54	853,359.93	2,789.61
2	Sales Tax	1,000,574.28	996,381.60	4,192.68
3	FED	128,504.67	126,559.10	1,945.57
4	Excise duty on Natural Gas	11,548.90	11,548.99	(0.09)
	Total	**1,996,777.39**	**1,987,849.62**	**8,927.77**

* Figures from reconciliation certificates of FBR treasuries for June final 2014.

** Figures reconciled by DR&S with AGPR Islamabad June final 2014.

Implication

The above position showed a variation of Rs 8,927.77 million between the adopted and actual figures of FBR in FY 2013-14. This impaired the true and

fair picture of tax receipts, also affecting the distribution of shares among the provinces. This shows that the Directorate, Research and Statistics, FBR had not carried out a meaningful reconciliation rather accepted figures of AGPR to finalize the reconciliation.

Management Reply

The matter was discussed with Director Research & Statistics FBR in a meeting held on 2nd December 2014, it was replied that the variation occurred due to deposit of tax receipts of various RTOs/LTUs in the jurisdiction of other RTOs/LTUs. It was decided that matter will be taken up by the DR&S FBR with the concerned quarters to reconcile the variations and appropriate measures will be taken to resolve the issue.

DAC's Recommendations

The para could not be discussed in the DAC meeting held in January 2015 due to non submission of working papers.

Audit Comments

Director Research & Statistics FBR should adopt departmental figures instead of AGPR's figures for the purpose of reconciliation so that real picture of revenue collection may be presented to the stakeholders.

[Para-01 of MR-FBR 2013-14]

1.2 Variation in figures due to wrong reporting of Receipts Rs 26,763.07 million and Refunds 116.71 million by field offices of FBR

Criteria

According to Para 5 (d) of System of Financial Reporting and Budgeting, 2006 the Principal Accounting Officer is required to ensure that the accounts of receipts are maintained properly and reconciled on monthly basis.

Fact

During the course of financial attest for the financial year 2013-14, it was observed that five field offices of FBR had reported a different figure to FBR through MPRs and reconciled another figure with AGPR on account of receipts and refunds. This further revealed that internal reconciliation between

treasuries and RTOs was not carried out prior to financial reporting to AGPR and FBR which is obvious violation of accounting procedures.

Implication

This resulted in variation of Rs 26,763.07 and 116.71 million pertaining to receipts and refunds respectively.

Management Reply

No reply was furnished by the management.

DAC's Recommendations

The para could not be discussed in the DAC meeting held in January 2015 due to non submission of working papers.

Audit Comments

- FBR treasuries and field offices should carry out internal reconciliation prior to reporting of receipts and refunds figures to AGPR and FBR.
- Responsibility of wrong reporting should be fixed and those responsible for it should be proceeded against under relevant disciplinary rules.

[Para-10&11 of MR-FBR 2013-14, Annexure-3]

1.3 Non-carrying out of reconciliation with NBP/SBP and with respective DAOs by FBR Treasuries

Criteria

According to Para 3.4.2.12 of Manual of Accounting Principles, the entity will reconcile its books of accounts with the bank records at the close of each month. This reconciliation is to be performed in accordance with the policies and procedures set out in the Accounting Policies Procedure Manual, GFR and Federal / Provincial Treasury Rules.

Fact

Scrutiny of FBR record relating to reconciliation of revenue receipts figures with AGPR revealed that FBR treasuries reconciled the revenue figures with AGPR without prior reconciliation with respective branches of NBP/SBP.

Moreover, FBR treasuries were also not carrying out the requisite reconciliation with DAOs for receipts collected by B & C category branches.

Implication

Non-reconciliation impaired the true and fair presentation of revenue figures to stake holders.

Management Reply

The matter was discussed with FBR in a meeting held on 2nd December 2014. FBR agreed with the observation and decided to issue instructions to treasuries to ensure reconciliation with NBP/SBP, AGPR and DAOs.

DAC's Recommendations

The para could not be discussed in the DAC meeting held in January 2015 due to non submission of working papers.

Audit Comments

- Proper arrangements are required to be made by FBR for carrying out the requisite bank reconciliation by nominating the coordinating treasury for the purpose of reconciliation with respective NBP/SBP regional offices. Similarly, such reconciliation with NBP/SBP head offices may be carried out by consolidating the bank reconciliation statements of field offices on the pattern of reconciliation with AGPR.
- Responsibility should be fixed and those responsible for it should be proceeded against under relevant rules.

[Para-6 of MR-FBR 2013-14]

CHAPTER-2 FEDERAL BOARD OF REVENUE

2.1 Introduction

The Central Board of Revenue (CBR) was created on April 01, 1924 through enactment of the CBR Act 1924. In the wake of restructuring of its functions through a new Act, CBR was renamed as Federal Board of Revenue (FBR) in July 2007. The Chairman FBR is the executive head of the Board.

In order to remove impediments in the exercise of administrative powers of a secretary to the government, and effective formulation and implementation of fiscal policy measures, a new division i.e. Revenue Division was established in 1991. In January 1995, Revenue Division was abolished and CBR reverted back to the pre-1991 position. However, Revenue Division was, once again, established on 1st December 1998 and it continues as a Division under the Ministry of Finance and Revenue. It is a Federal Government entity with centralized accounting system.

The Chairman FBR, being the executive head of the Board as well as Secretary of the Revenue Division is responsible for:

- Formulation and administration of fiscal policies,
- Levy and collection of federal duties and taxes,
- Quasi-judicial function of hearing of appeals.

Responsibilities of the Chairman also include interaction with the offices of the President, the Prime Minister, all economic Ministries as well as trade and industry.

The Chairman, FBR/Secretary, Revenue Division is assisted by two Operational Members i.e. Member Customs (Ex-Officio Additional Secretary Revenue Division) and Member Inland Revenue (Ex-Officio Additional Secretary Revenue Division), five Functional Members i.e. Member Facilitation

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Source: FBR's website (www.fbr.gov.pk)

and Taxpayer Education (FATE), Member Accounting , Member Enforcement, Member Taxpayer Audit and Member HRM, six Support Members i.e. Member Strategic Planning and Research & Statistics (SPR&S), Member Legal, Member Administration, Member Inland Revenue(Policy), Member Information Technology and Member Training. Besides the thirteen members, the Chairman, FBR has the support of seven Directors' General.

Inland Revenue Wing consists of twenty one field offices, i.e. three Large Taxpayer Units (LTUs) at Karachi, Lahore and Islamabad and eighteen Regional Taxpayer Offices (RTOs) at Karachi (three), Hyderabad, Sukkur, Quetta, Lahore (two), Multan, Bahawalpur, Faisalabad, Sarghoda, Gujranwala, Sialkot, Rawalpindi, Islamabad, Abbotabad and Peshawar. Each office headed by Chief Commissioner is responsible to provide efficient services to taxpayers.

2.2 Comments on Budget and Accounts

This report deals with direct taxes and indirect taxes (excluding customs duty) collected by the FBR and its expenditure.

Audit analyzed the performance of FBR. The objectives of this analysis were to identify grey areas of tax collection and to give recommendations for improving tax collection mechanism. In order to perform this analysis, Audit used various analytical tools including tabular and graphical analysis.

After conducting current audit activity, the Audit is of the view that FBR needs to improve compliance of tax laws and strengthen its operational efficiency to achieve revenue targets.

RECEIPTS

2.2.1 Revenue Collection vs Targets

A comparison between estimated and actual receipts for the FY 2013-14 is as follows:

TABLE 2.2.1

(Rs in million)

Tax	[1]Budget Estimates	[2]Revised Estimates	[3]AGPR Financial Statement	Excess (+) / Shortfall (-) With respect to	
				Budget estimates (4-2)	Revised estimates (4-3)
1	**2**	**3**	**4**	**5**	**6**
Direct Taxes	954,700	876,590	853,353	-101,347	-23,237
Sales tax	1,053,500	1,005,000	996,389	-57,111	8,611
Federal Excise	166,800	138,000	138,084	-28,716	84
Total Inland Revenue	**2,175,000**	**2,019,590**	**1,987,826**	**-187,174**	**-31,764**

[1]Explanatory Memorandum of Federal Receipts 2013-2014
[2]Ibid
[3]AGPR Financial Statement 2013-2014

The FBR collected Rs 1,987,826 million during FY 2013-14 as compared to revised targets of Rs 2,019,590 million. There is an overall shortfall of Rs 187,174 million as compared to estimates of receipts and Rs 31,764 million with reference to revised estimates of receipts for FY 2013-14.

2.2.2 Variance analysis of revenue collection in FY 2013-14 and 2012-13

A comparison of net collection in FY 2013-14 vs 2012-13 is tabulated below:

(Rs in million)

Tax Heads	Collection		Difference	
	FY: 2013-14	FY: 2012-13	Absolute	Percentage
Direct Tax	853,353	721,558	131,795	15.44%
Sales Tax	996,389	842,529	153,860	15.44%
Federal Excise Duty	138,084	120,964	17,120	12.39%
Total	**1,987,826**	**1,685,051**	**302,775**	**15.23%**

FBR's collection for the FY 2013-14 (Rs 1,987,826 million) depicted an increase of Rs 302,775 million or 15.23% over Rs 1,685,051 million for FY 2012-13. Collection of direct taxes, sales tax and federal excise duty exhibited increase of 15.44%, 15.44% and 12.39% respectively.

Sales Tax emerged as the main source of revenue generation. It constituted 50.12 % of total collection of federal taxes of Rs 1,987,826 million excluding customs duty. Last year it constituted 50% of total collection of Rs 1,685,051 million of federal taxes excluding customs duty.

Direct Taxes constituted 42.9 % of total collection of federal taxes in FY 2013-14. Last year it constituted 42.8 % of total collection.

Federal excise duty constituted 7.9 % of the total federal taxes excluding customs duty in FY 2013-14. Last year it constituted 7.2% of total collection.

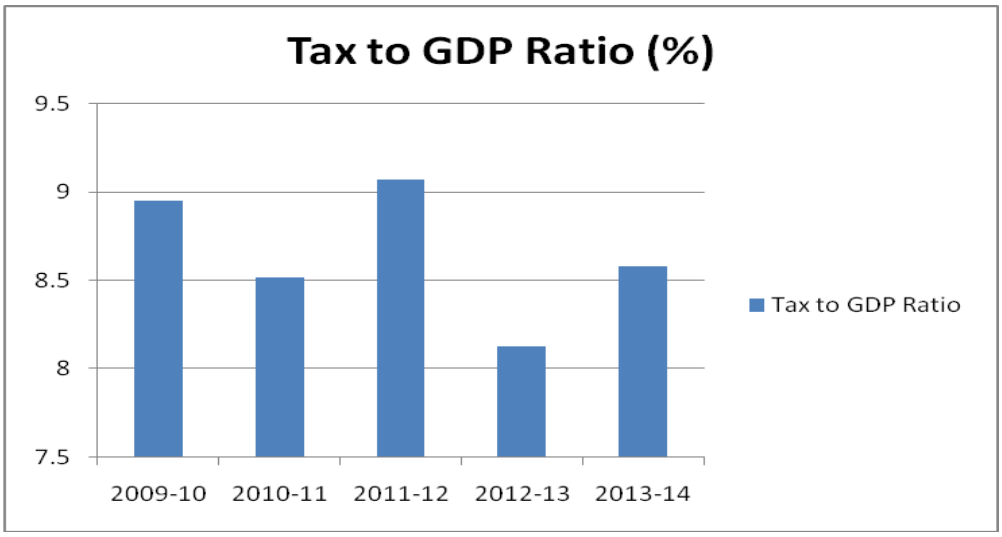
2.2.3 Tax to GDP Ratio from FY 2009-10 to 2013-2014

TABLE 2.2.3

(Rs in million)

Financial Years	Actual Total Tax Collection (including customs)[1]	GDP at market price[2]	Tax to GDP Ratio %
	A	B	C (A/B X 100)
2009-10	1,327.70	14,837.00	8.95
2010-11	1,538.20	18,063.00	8.52
2011-12	1,864.30	20,547.00	9.07
2012-13	1,924.50	23,655	8.13
2013-14	2,230.63	26,001	8.58

[1]Financial Statements 2009-2010 to 2013-2014
[2]Economic Survey of Pakistan 2009-2010 to 2013-2014, Table 4.4



2.2.4 Low Tax to GDP Ratio

Pakistan is one of those countries which have the lowest Tax-GDP ratio in the world. Tax-GDP ratio has slightly increased in 2013-14 as compared to 2012-13. Comparative analysis of the statistics regarding this ratio in the recent past has shown disappointing results. From 2009 to 2011 there was a steep fall and the ratio declined to 8.52 % of GDP. There was some increase in 2011-12 up to 9.07% while in 2012-13 it again decreased to 8.13%. It is worth mentioning that FBR initiated TARP in 2005, one of the main objectives of which was to improve tax to GDP ratio. When the project ended in 2011 the tax to GDP ratio reached its lowest level in more than two decades. It is also relevant to mention that as long back as in 1998-99, this ratio was 12.6 % ever highest in the history and, at that time, there was no concept of reforms agenda like TARP in FBR.

2.2.5 Reasons for Low Tax to GDP Ratio

Tax-GDP ratio is one of the primary indicators used to gauge the health of a country's economy. Several possible reasons for the low tax to GDP ratio in Pakistan include:

a) A narrow tax base
b) Large undocumented informal sectors
c) Small contribution in taxes from major sectors i.e. agricultural and services as compared to their share in GDP

d) Low tax compliance
e) Wide spread exemptions
f) Absence of efficient tax system
g) Structural deficiencies in tax administration system and
h) Weak audit and enforcement functions of the FBR.

Audit suggests FBR to increase the tax to GDP ratio by broadening its tax base, and ensuring enforcement and compliance of law.

EXPENDITURE

2.2.6 Overview of Appropriation Accounts (FBR Grants only)

TABLE 2.2.6

(Rs in million)

	As Per Appropriation Accounts prepared by AGPR, Islamabad				
Demand/Grant No	**Original Grant**	**Suppl. Grant**	**Final Grant**	**Actual Exp.**	**Excess/ (Savings)**
37- Revenue Division	280.346	0.031	265.286	263.627	(1.659)
38- FBR	2,742.904	398.013	2,953.028	2,937.789	(15.239)
40- Inland Revenue	9,151.171	510.072	9,388.560	9,307.303	(81.257)
114-Development Grant	533.346	-	183.338	167.426	(15.912)
Total	**12,707.767**	**908.116**	**12,790.212**	**12,676.145**	**(114.067)**

Grant No. 37,38,40,114 — There is saving in all heads aggregating Rs 114.067 which shows unrealistic budgeting and weak budgetary control.

2.3 Brief comments on the status of compliance with PAC directives

By taking aggregate mean from the table given below, only 37% compliance of the of PAC directives has been observed. This reflects lack of seriousness by Federal Board of Revenue. Resultantly audit observations involving substantial revenue are piling up year after year and there is a little action on the part of the FBR to address them. The situation is alarming as chances of recovery of revenue diminish with the passage of time.

Direct Taxes

Sr. No.	Audit Report Year	Total outstanding paras	Compliance received	Compliance not received	Percentage of Compliance (%)
1	1987-88	14	12	02	85.71
2	1988-89	39	27	12	69.23
3	1989-90	32	09	23	28.13
4	1990-91	41	18	23	43.90
5	1991-92	50	13	37	26.00
6	1992-93	64	35	29	54.69
7	1993-94	74	12	62	16.22
8	1994-95	46	07	39	15.22
9	1995-96	94	41	53	43.62
10	1996-97	71	05	66	7.04
11	1997-98	109	42	67	38.53
12	1998-99	63	-	63	-
13	1999-00	69	17	52	24.64
14	2000-01	88	49	39	55.68
15	2001-02	72	10	62	13.89
16	2002-03	49	-	49	-
17	2003-04	21	-	21	-
18	2004-05	36	10	26	27.78
19	2005-06	30	04	26	13.33
20	2006-07	29	02	27	6.90
21	2007-08	37	-	37	-
22	2008-09	47	09	38	19.15
23	2009-10	31	Not yet discussed in PAC		
24	2010-11	34	Not yet discussed in PAC		
25	2011-12	50	Not yet discussed in PAC		
26	2012-13	31	Not yet discussed in PAC		
27	2013-14	27	Not yet discussed in PAC		

(Continued)

Indirect Taxes

Sr. No.	Audit Report Year	Total outstanding paras	Compliance received	Compliance not received	Percentage of Compliance (%)
28	1985-86	44	38	6	86.36
29	1986-87	55	25	30	45.45
30	1987-88	43	10	33	23.26
31	1988-89	32	27	5	84.38
32	1989-90	217	147	70	67.74
33	1990-91	67	49	18	73.13
34	1991-92	76	46	30	60.53
35	1992-93	99	44	55	44.44
36	1993-94	77	30	47	38.96
37	1994-95	72	40	32	55.56
38	1995-96	83	44	39	53.01
39	1996-97	72	40	32	55.56
40	1997-98	83	60	23	72.29
41	1998-99	106	21	85	19.81
42	1999-00	71	18	53	25.35
43	2000-01	89	42	47	47.19
44	2001-02	78	40	38	51.28
45	2002-03	84	20	64	23.81
46	2003-04	35	11	24	31.43
47	2004-05	36	13	23	36.11
48	2005-06	45	8	37	17.78
49	2006-07	63	25	38	39.68
50	2007-08	140	34	106	24.29
51	2008-09	149	62	87	41.61
52	2009-10	154	Not yet discussed in PAC		
53	2010-11	82	Not yet discussed in PAC		
54	2011-12	83	Not yet discussed in PAC		
55	2012-13	72	Not yet discussed in PAC		
56	2013-14	87	Not yet discussed in PAC		

COMPLIANCE WITH AUTHORITY AUDIT

(AUDIT PARAS)

CHAPTER-3 NON-PRODUCTION OF RECORD

3.1 According to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 "the Audit of the accounts of Federal and of the Provincial Governments and the accounts of any authority or body established by or under the control of Federal or a Provincial Government shall be conducted by the Auditor General, who shall determine the extent and nature of such audit".

Section 12 of the Auditor-General's Ordinance, 2001 empowers the Auditor-General of Pakistan to conduct audit of Receipts. Under section 14 of the Ordinance, he shall have authority to inspect any office of accounts including treasuries and such offices responsible for the keeping of initial or subsidiary accounts and to require that any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection. Further, the officer incharge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. Any person or authority hindering the auditorial function of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules.

For the last five years, the FBR is not providing the auditable record of sales tax and federal excise duty maintained by the registered persons as required under the Sales Tax Act 1990 and Federal Excise Act 2005 which makes the basis of assessment to see the accuracy of tax collection. FBR refused to provide auditable record on the plea that the matter was subjudice. Audit is of the view that plea of the department is not correct being based upon a judgement of Honourable Peshawar High Court which was a result of mis-representation of facts by FBR regarding Audit. Afterwards, on 7th July 2010, the Honourable Lahore High Court Rawalpindi Bench did not accept the petitioner's plea filed on the basis of earlier court decisions and upheld that the AGP office had the mandate to ask the FBR and its subordinate offices to summon the sales tax record of assessment for audit by staff of the AGP office.

As per Rules of Business of Federal Government, the matter was also referred to Law and Justice Division three times by Audit and FBR for advice which was endorsed in favour of Audit. The PAC and various judicial fora including Federal Tax Ombudsman and Appellate Tribunals had also upheld the mandate of Auditor-General of Pakistan. In spite of upholding the stance of Audit by the Law and Justice Division and all of the above mentioned fora through clarifications and decisions that "Auditor General's Department had the mandate to ask the FBR and its subordinate offices to provide the auditable record of sales tax maintained by the registered persons under the Sales Tax Act, 1990" FBR is not paying any heed to resolve the issue. Non compliance/undue litigation by the Board, even not being aggrieved party in the issue, is not only creating hindrance in discharging constitutional role of the Auditor General's Department but is also depriving the government of cash recoveries which could be effected at the instance of audit.

In view of the forgoing facts, the PAC may like to know the reasons from the FBR for non provision of auditable record on the plea of undue litigation, thereby creating hindrance in discharging the Constitutional role of Auditor-General of Pakistan and defiance of the directives of the Parliament.

3.1.1 Non-production of auditable record maintained by and available with tax authorities

According to section 14 of the Auditor-General's Ordinance 2001, Auditor General of Pakistan has the authority to require any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection. Any person or authority hindering the auditorial function of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules.

Eleven field offices of the FBR did not provide the auditable record which was requisitioned by the field audit teams during the course of audit despite pursuance. The requisite record was being maintained by and available with the functionaries of FBR. The non-production of record is not only a serious violation of law but it is also a hindrance in performance of audit.

Management reply

During the DAC meetings held in January 2015, the department reported that the auditable record is now available for Audit.

DAC's Recommendations

The DAC in its meetings held in January 2015 expressed serious concern over non production of record and directed the department to identify the persons responsible and ensure production of record to the next visiting audit teams.

Audit Emphasizes upon

- timely production of auditable record during the course of audit.
- fixing of responsibility for preventing audit offices from discharging their constitutional duties.

[Annexure-4]

CHAPTER-4 IRREGULARITIES AND NON-COMPLIANCE

4.1 Sales Tax

4.1.1 Non-registration of taxpayers in sales tax regime resulting in potential loss of revenue on account of sales tax - Rs 2,899.72 million

According to sections 14 & 2(5AB) of the Sales Tax Act 1990 read with rules 4 & 6 of Sales Tax Rules 2006, any manufacturer having annual turnover of taxable supplies of more than five million rupees or utilities bills of more than seven hundred thousand rupees (Rs 700,000) per annum is liable for compulsory registration. Section 3 read with section 26 of the Act provides that, any person making taxable supplies shall pay sales tax at prescribed rate and shall furnish true and correct information about his taxable activity while filing his sales tax return. Further, section 170(3)(b&c) of the Income Tax Ordinance 2001, requires that where the Commissioner is satisfied that tax has been overpaid, the Commissioner shall apply the balance of the excess, if any, in reduction of any outstanding liability of the taxpayer to pay other taxes and refund the remainder, if any, to the taxpayer.

One hundred and forty taxpayers of nine offices of FBR deriving income from manufacturing/supply of various taxable goods either claimed refund of income tax or adjusted tax deducted on their utility bills in the tax years 2009-2014. Tax deducted on their electricity bills showed that either their utility bills were more than seven hundred thousand rupees or annual turnover was more than five million rupees. They were required to be registered under the Sales Tax Act 1990 and pay sales tax on their taxable supplies. As per soft data of FBR, they were not registered with sales tax department and were not paying sales tax. Refund sanctioning authorities paid refund of income tax without getting them registered in sales tax regime and did not recover sales tax on taxable supplies. This resulted in potential loss of revenue on account of sales tax amounting to Rs 2,899.72 million.

Management Reply

The department replied that the process of registration of taxpayers under sales tax regime had been initiated. As a result an amount of Rs 440.39 million was under legal action, Rs 3.69 million was not due and Rs 17.32 million was contested whereas no response was given in cases of remaining amount of Rs 2,438.32 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication proceedings and get the position verified by Audit in contested cases and settled the para to the extent of amount not due. Further, the DAC expressed serious concern over non-compliance in non responded cases and directed to ensure tangible progress by 28th February 2015.

Audit Emphasizes upon

- initiation of necessary measures towards broadening of tax base through registration of taxpayers under the Sales Tax Act 1990,
- completion of legal action within stipulated time period,
- furnishing of reply in non-responded cases,
- fixing of responsibility against personnel responsible.

[Annexure-5]

4.1.2 Inadmissible zero rating of goods resulting in non-realization of sales tax - Rs 8,058.35 million

According to section 4 of the Sales Tax Act, 1990 read with various SROs, supply of certain goods shall be charged to sales tax at the rate of zero percent subject to fulfilment of certain conditions/requirements laid therein.

Eight registered persons of six field offices of FBR supplied taxable goods but did not charge and pay sales tax during the year 2013-14. They claimed them as zero rated without fulfilling the conditions of law summarized as follows:

(Rs in million)

Sr. No.	Office	Cases	Amount	Law violated
1	RTO Gujranwala	1	533.15	Section 3 of Sales Tax Act 1990, SRO 509(I)2007 dated 09.06.2007
2	RTO-II Lahore	1	15.58	SRO 549(I)2008 dated 11.06.2008
3	LTU Karachi	2	7,475.63	Section 4(b) of the Sales Tax Act 1990
4	RTO-II Karachi	1	6.78	SRO 607(I)/2013 dated 18.07.2013
		1	0.51	SRO 863(I)/2007 dated 24.07.2007 read with SRO 500(I)/2013 dated 12.06.2013
5	RTO-III Karachi	1	8.76	STGO No. 03 of 2004 dated 12.06.2004
6	RTO Hyderabad	1	17.94	SRO 549(I)/2008 dated 11.06.2008
Total		**8**	**8,058.35**	

This resulted in non-realization of sales tax amounting to Rs 8,058.35 million.

Management Reply

The department replied that an amount of Rs 0.51 million was under recovery, Rs 551.09 million was under adjudication, Rs 7,475.63 was subjudice but no progress was reported in remaining cases of Rs 31.12 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the recovery/adjudication proceedings, pursue the subjudice cases at appropriate forum and furnish updated reply in non-responded cases by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery and adjudication proceedings,
- pursuance of subjudice cases,
- investigation of the cases for mis-utilization of zero rating facility,
- furnishing of reply in non-responded cases,
- fixing of responsibility against the personnel involved.

[Annexure-6]

4.1.3 Inadmissible adjustment of input tax resulting in short realization of sales tax - Rs 933.85 million

The Sales Tax Act 1990 and relevant SROs issued by FBR provide that adjustment of input tax is allowed subject to fulfilment of certain conditions.

One hundred and thirty five registered persons of fourteen field offices of FBR claimed adjustment of input tax without fulfilling the conditions of law but the department did not take action against them as summarized below.

(Rs in million)

Sr. No.	Office	Cases	Amount	Law/rule violated
1	RTO-II Lahore	12	53.22	Sections 7(2) & 8(1) (2) of the Sales Tax Act, 1990 & SRO 490(I)2004 dated 12.06.2004
2	RTO Multan	11	2.69	Section 8(1)(a) of the Sales Tax Act 1990, SRO 490(I)2004 dated 12.06.2004, SRO 450(I)2013 dated 27.05.2013 and rule 3 of Sales Tax Special Procedure Withholding Rules 2007
3	LTU Lahore	25	144.80	Section 8(1)(a) of the Sales Tax Act 1990, SRO 490(I)2004 dated 12.06.2004 and SRO 450(I)2013 dated 27.05.2013
4	RTO Faisalabad	16	24.26	-do-
5	RTO Gujranwala	1	3.76	-do-
6	RTO Islamabad	2	0.67	Rule 3 of Sales Tax Special Procedure Withholding Rules 2007
7	RTO Sialkot	1	2.10	Sections 7(2) and 8(1)(a) of the Sales Tax Act 1990.
8	LTU Karachi	13	410.54	Sections 7(2), 8(1)(a) & 73 of the Sales Tax Act 1990.
9	RTO-I Karachi	3	1.41	SRO 450(I)/2013 dated 27.05.2013 and Section 73 of the Sales Tax Act 1990
10	RTO-II Karachi	16	121.27	Sections 7(2), 8(b) & 73 of the Sales Tax Act 1990
11	RTO-III Karachi	6	26.97	Sections 7(2) & 8(2) of the Sales Tax Act 1990
12	RTO Hyderabad	5	56.35	Section 73 of the Sales Tax Act 1990.
13	RTO Sukkur	10	25.73	SROs 649(I)/2013, 140(I)/2014, 490(I)/2004 dated 12.06.2004 & section 8(B)(1) of the Sales Tax Act 1990.
14	RTO Quetta	14	60.08	SRO 490(I)/2004 dated 12.06.2004, Sections 7(2), 8(1)(ca) and 8(2) of the Sales Tax Act 1990.
	Total	**135**	**933.85**	

This resulted in short realization of sales tax amounting to Rs 933.85 million.

Management Reply

The department replied that an amount of Rs 590.95 million was under adjudication, Rs 28.13 million was under recovery, an amount of Rs 47.36 million was under examination and cases of Rs 15.08 million were referred to FBR for clarification, whereas no progress was reported in remaining cases of Rs 252.33 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the recovery/adjudication proceedings and get the matter clarified from FBR. The DAC also expressed serious concern over non compliance or non responded cases and asked to report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery and adjudication proceedings of the dues,
- improvement in the monitoring process of input tax adjustment,
- furnishing of reply in non-responded cases,
- fixing of responsibility against the personnel at fault.

[Annexure-7]

4.1.4 Potential loss of revenue on account of sales tax caused by bricks kiln owners - Rs 6,583.90 million

According to section 3 of the Sales Tax Act 1990, there shall be charged, levied and paid sales tax at the prescribed rate of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him. Section 3B of the Act provides that any person who has collected or collects any tax or charge, and the incidence of which has been passed on to the consumer, shall pay the amount of tax or charge so collected to the Federal Government.

Sales Tax on bricks was levied through Finance Act in July 2011. FBR was required to enforce the law through registration of the Brick Kiln Owners

(BKOs) under the Sales Tax Act 1990 for levy and collection of tax. FBR did not take any action for registration, levy and collection of tax from 2150 Brick Kiln Owners (BKOs) pertaining to four field formations during the year 2013-14. The BKOs (whether registered or not in sales tax regime) increased the price of bricks from Rs 4,000 to Rs 6,000 per thousand due to levy of sales tax. As the incidence of tax had been passed on to the consumer, it was the duty of the department to realize the tax collected by the BKOs which was not done. The inaction by the department resulted in potential loss of revenue on account of sales tax amounting to Rs 6,583.90 million during tax years 2012 to 2014. The revenue loss was calculated by taking the minimum production and market price of bricks in illustrative cases only. The inaction prevails in Brick Kiln Industry all over the country.

Management Reply

RTOs Sialkot and Multan furnished no progress. Whereas, RTO Gujranwala contested the para on the plea that the observation was based on assumption and had no legal footings to establish the sales tax demand. The RTO further replied that the increase in price of brick was due to the inflation factor. The contention of the RTO was not tenable because increase in price of bricks was due to levy of sales tax and not due to inflation. Moreover, the observation was based on the minimum production capacity and sales value of the brick kilns. The RTO Peshawar reported that legal proceedings had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to conduct study of Brick Kilns for determination of their exact production capacity/turn over and furnish report by 28th February 2015.

Audit Emphasizes upon

- evolving a comprehensive and effective mechanism for enforcement of law on Brick Kiln Industry,
- determining the exact tax liability since July 2011 onward,
- taking action for non-enforcement of law against the personnel responsible.

[Annexure-8]

4.1.5 Non-realization of minimum value added tax at import stage - Rs 4,706.46 million

Under Rule 58(B) of the Sales Tax Special Procedure Rules 2007, sales tax on account of minimum value addition shall be levied and collected at import stage, at the rate of three percent of the value of goods in addition to the tax chargeable under section 3 of the Sales Tax Act 1990.

Some offices of FBR did not realize minimum value added tax from six taxpayers at import stage during the year 2013-14. This resulted in non-realization of sales tax amounting to Rs 4,706.46 million.

Management Reply

The department replied that cases of Rs 14.71 million were under adjudication whereas no reply was furnished in cases of Rs 4,691.75 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication, furnish comprehensive reply in non-responded cases and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery and adjudication proceedings,
- furnishing of reply in non-responded cases.

[DP No.5977 & 5911-ST/K]

4.1.6 Non-recovery of adjudged dues/arrears - Rs 27,970.27 million

Section 48 of the Sales Tax Act 1990 read with Sales Tax Rules 2006 provides that sales tax due from any person may be recovered by sales tax officers in accordance with the procedures laid down therein.

Test check of recovery record pertaining to eleven field offices of FBR revealed that tax collecting authorities did not take prescribed measures for recovery of adjudged government dues resulting in non recovery of Rs 27,970.27 million in four hundred and seventy seven cases during financial years 2012-13 and 2013-14.

Management Reply

The department replied that an amount of Rs 163.67 million had been recovered and verified by Audit and an amount of Rs 9.08 million also recovered but yet to be verified by Audit. It was further reported that an amount of Rs 13,933.53 million was under recovery, Rs 90.29 million was under adjudication, Rs 13,525.55 was subjudice, Rs 0.94 million not due, whereas cases of Rs 9.48 million had been vacated in adjudication proceedings but no progress was reported in remaining cases of Rs 237.73 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery and adjudication proceedings, pursue the subjudice cases at appropriate forum and furnish updated reply by 28th February 2015. The DAC settled the para to the extent of amount recovered, not due and vacated of Rs 174.08 million. The DAC also directed the department to get verify the recovered amount of Rs 9.08 million.

Audit Emphasizes upon

- expeditious recovery of adjudged amount and adjudication proceedings,
- completion of legal action within stipulated period of time,
- fixing of responsibility against the personnel for non-enforcement of recovery.

[Annexure-9]

4.1.7 Short realization of sales tax due to under valuation-Rs 2,228.15 million

According to section 3 read with section 2(46) of the Sales Tax Act 1990, there shall be charged, levied and paid sales tax at the specified rate of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him. And value of supply means that in respect of a taxable supply, the consideration in money including all Federal and Provincial duties and taxes, if any, which the supplier receives from the recipient for that supply but excluding the amount of tax.

A tax payer of LTU Karachi did not include the amount of infrastructure cess in the value of supplies for the purpose of levy of sales tax during the year 2013-14. This resulted in short realization of sales tax amounting to Rs 2,228.15 million.

Management Reply

The department replied that the case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious completion of legal action / recovery of amount involved,
- justification of non-monitoring of self-assessment of tax by the department,
- fixing of responsibility against the personnel responsible.

[DP No.5966 -ST/K]

4.1.8 Short payment of sales tax due to suppression of sales - Rs 1,782.64 million

Under section 3(1) (a) read with section 2(46) of the Sales Tax Act 1990, there shall be charged, levied and paid sales tax at the rate of seventeen per cent of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him.

M/s Sukkur Electric Supply Company (SESCO) under RTO Sukkur purchased electricity of Rs 38,729.62 million during the year 2013-14. Out of these purchases, electricity of Rs 37,621.39 million was purchased from different IPPs and NTDC. Against these purchases of electricity, SESCO had shown sales of electricity of Rs 27,135.30 million. As electricity is an item which cannot be stored, therefore, it can be assumed that there was suppression of sales of Rs 10,486.09 million involving sales tax of Rs 1,782.64 million.

Management Reply

The department replied that the case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the adjudication and report progress by 28th February 2015.

Audit emphasizes upon expeditious adjudication/recovery of the dues.

[DP No. 5874-ST/K]

4.1.9 Non-realization of sales tax - Rs 1,731.01 million

According to rule 58H (4) of Sales Tax Special Procedures Rules 2007, ship breakers shall pay sales tax @ Rs 5,862 per metric ton on re-rollable scrap supplied by them. The sales tax liability shall be discharged by ship breakers either on completion of clearance of goods obtained from breaking of vessel or within the maximum time period allowed, whichever is earlier.

Ten registered persons of RTO-III Karachi imported 32 vessels/floating ships weighing 418,844.83 MT for breaking purposes during the year 2012-13. The weight of re-rollable scrap (70.5 % of the total weight) was worked out to 295,293.09 metric ton. The imported ships were assessed by Customs authorities at Custom House Gaddani and sales tax amounting to Rs 1,731.01 million was required to be paid by the importers after a period of 8 months of filing of GD (Goods Declaration). However, the due amount was neither deposited by the importers nor recovered by the department. Non-realization of tax also attracted default surcharge and penalty leviable under section 33 and 34 of the Sales Tax Act 1990.

Management Reply

The department reported recovery of Rs 352.25 million, whereas no reply was furnished in cases of Rs 1,378.76 million.

DAC's Recommendations

The DAC in its meeting held in January 2015, directed to furnish updated position by 31st January 2015 and settled the para to the extent of recovered amount of Rs 352.25 million. However, progress was not reported till finalization of the report.

Audit Emphasizes upon

- expeditious recovery of the dues,
- furnishing of reply in non-responded cases.

[DP No.5833-ST/K]

4.1.10 Non-realization of sales tax on disposal of fixed assets - Rs 1,612.18 million

According to section 3 read with section 2(35) of the Sales Tax Act 1990, disposal of fixed assets is taxable supply if not otherwise exempted under Sr. No 6 of Table II of Sixth Schedule of the Act.

Forty three registered persons of four field formations of FBR supplied fixed assets which were liable to sales tax but neither tax was paid by the taxpayers nor realized by the tax authorities during the years 2012-13 and 2013-14. This resulted in non-realization of sales tax amounting to Rs 1,612.18 million which also attracted penalty and default surcharge leviable under the law.

Management Reply

The department replied that cases of Rs 531.31 million were under recovery, cases of Rs 948.22 million were under adjudication and cases of Rs 29.52 million were contested whereas no progress was reported in remaining cases of Rs 103.13 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to get the contention verified by Audit and expedite recovery and adjudication proceedings. The DAC expressed serious concern over non responded cases and directed to ensure tangible progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery / legal proceedings,
- furnishing of reply in non-responded cases,
- fixing of responsibility against the personnel at fault.

[Annexure-10]

4.1.11 Non/short realization of sales tax - Rs 1,259.62 million

According to section 3 of the Sales Tax Act 1990, there shall be charged, levied and paid sales tax at the prescribed rate of the value of taxable supplies

made by a registered person in the course or furtherance of any taxable activity carried on by him. Further, section 26 of the Act provides that, every registered person shall furnish not later than the due date a true and correct return in the prescribed form. In case of non compliance, penalty and default surcharge is also recoverable under sections 33 and 34 of the Act.

Fifty six registered persons of eight field offices of FBR had declared two different figures of sales in their sales tax profiles and income tax returns/annual accounts during the year 2013-14. The sales shown in income tax returns were on higher side as compared to those declared in sales tax profile which implied that the registered persons had suppressed their sales to evade payment of sales tax. This resulted in non/short realization of sales tax amounting to Rs 1,259.62 million. The non-payment also attracted default surcharge and penalty.

Management Reply

The department replied that an amount of Rs 2.38 million was under recovery, Rs 14.44 million was under adjudication, Rs 0.84 million not due and Rs 261.01 million was contested whereas no response was given in cases involving Rs 980.95 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication/recovery proceedings, expressed serious concern over non-responded cases and directed to ensure tangible progress by 28th February 2015 and settled the para to the extent of amount not due.

Audit Emphasizes upon

- expeditious recovery of amount pointed out besides evolving a comprehensive and effective mechanism of monitoring,
- timely completion of legal action,
- furnishing of reply in non-responded cases.

[Annexure-11]

4.1.12 Non/short realization of sales tax - Rs 642.87 million

Section 3 (1)(a) of the Sales Tax Act 1990 provides that there shall be charged, levied and paid sales tax at the prescribed rate of the value of taxable

supplies made by a registered person. In case of late payment, penalty and default surcharge is also recoverable under section 33 and 34 of the Act.

One hundred and seventy one registered persons of ten field offices of FBR made taxable supplies of various goods and did not declare their sales in sales tax returns in certain cases. Resultantly, either due amount of tax was not paid or paid less than the amount due from them. This resulted in non/short realization of sales tax amounting to Rs 642.87 million. The non payment also attracted default surcharge and penalty.

Management Reply

The department replied that an amount of Rs 0.05 million had been recovered, Rs 0.09 million was under recovery, Rs 56.93 million was under adjudication, Rs 39.01 million was contested whereas in remaining cases of Rs 546.79 million no progress was reported.

DAC's Recommendations

The DAC in its meeting held in January 2015, directed to expedite recovery/adjudication proceedings and reduced the para to the extent of recovered amount of Rs 0.05 million. The DAC further directed the department to furnish comprehensive reply in non-responded cases and report progress by 28th Feb 2015.

Audit Emphasizes upon

- evolving a comprehensive and effective mechanism for monitoring of payment of tax due,
- expeditious recovery of amount pointed out,
- completion of legal action within stipulated time.

[Annexure-12]

4.1.13 Inadmissible adjustment of input tax - Rs 617.65 million

According to section 7(2) of the Sales Tax Act 1990, a registered person shall not be entitled to deduct input tax from output tax unless he holds a tax invoice in his name and bearing his registration number in respect of taxable supply for which a return is furnished. Non/short payment of tax also attracted penalty and default surcharge under sections 33 and 34 of the Act.

a) Four registered persons of three field offices of FBR claimed input tax of Rs 292.47 million against sales tax invoices issued by them against their own name and NTN during the tax period from April 2012 to March 2013. It was evident that the purchasers and the sellers were same. Hence, the claim of input tax was not admissible to them under the law.

b) Twenty two registered persons of nine field offices of FBR claimed input tax of Rs 325.18 million against sales tax invoices pertaining to suppliers who were either null/non-filers or in some cases no supply was made by them to the claimants. Hence, input adjustment was not admissible but the department did not take appropriate action against them. Hence, the claim of input tax was not admissible to them under the law.

Management Reply

The department replied that the issue was under examination and further compliance report would be communicated shortly.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the dues,
- fixing of responsibility against the personnel at fault.

[Annexure-13]

4.1.14 Non-realization of further tax and extra tax - Rs 310.32 million

According to section 3(A) of the Sales Tax Act 1990, in case of supply of taxable goods made to non-registered persons, further tax at the rate of one per cent of the value shall be charged in addition to the rate specified w.e.f 13th June 2013. Further SRO 896(I) 2013 dated 4th October 2013 and rule 58 S of Sales Tax Special Procedure Rules 2007 provide that, extra sales tax @ 2% shall be levied and collected on supply of specified goods and according to SRO

509(I)/2013 dated 12th June 2013, extra tax was chargeable at the rate of 5% of the total billed amount of electricity and natural gas to the persons having industrial or commercial connection and whose bill in any month exceeds rupees fifteen thousand but who have neither obtained sales tax registration number nor are on Active Taxpayers List maintained by FBR.

Sixty eight registered persons of nine field offices of FBR made taxable supplies to the registered and non-registered persons during the year 2013-14 but did not collect and pay further tax and extra tax as leviable under the law. This resulted in non-realization of further tax and extra tax amounting to Rs 310.32 million.

Management Reply

The department replied that an amount of Rs 17.21 million had been recovered and verified, Rs 0.33 million was also recovered but yet to be verified, Rs 1.95 million was under recovery, Rs 255.43 million was under adjudication and no progress was reported in remaining cases of Rs 35.40 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the recovery/adjudication proceedings and furnish updated reply in non-responded cases and get verify the position of Rs 0.33 million by 28th February 2015. The DAC settled the para to the extent of amount recovered and verified.

Audit Emphasizes upon

- expeditious recovery/adjudication proceedings in remaining cases,
- furnishing of comprehensive reply in non-responded cases,
- fixing of responsibility against the personnel at fault.

[Annexure-14]

4.1.15 Non/short realization of sales tax - Rs 221.72 million

SRO 1125 (I)/2011 dated 31st December 2011 provides that the government has extended the facility of lower rate of sales tax i.e. @ 5% on supply of certain goods specified in the table with the conditions that the benefit of this lower rate of tax shall be available to every such person doing business in

textile (including jute), carpets, leather, sports and surgical goods sectors and is registered as manufacturer, importer, exporter and wholesaler.

Twelve registered persons of three field offices of FBR made supplies of the above mentioned goods to non-registered persons but neither sales tax was paid by the taxpayers nor realized by the department. This resulted in non-realization of sales tax amounting to Rs 221.72 million during the years 2011-2014.

Management Reply

The department replied that an amount of Rs 72.4 million was under recovery and an amount of Rs 17.06 million was not due, whereas no progress was reported in remaining cases of Rs 132.26 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to initiate the legal proceedings including pursuance of the recovery and expressed serious concern over non-responded cases and directed to furnish tangible progress by 28th February 2015. The DAC settled the para to the extent of amount not due of Rs 17.06 million.

Audit Emphasizes upon

- expeditious recovery of amount pointed out,
- furnishing of reply in non-responded cases,
- fixing of responsibility against the personnel responsible.

[Annexure-15]

4.1.16 Irregular claim of sales tax exemption - Rs 176.42 million

SROs issued by FBR provide exemption of sales tax, subject to fulfilment of certain conditions/requirements.

Five field offices of FBR did not take action against thirteen registered persons who claimed exemption of sales tax in violation of the law mentioned as follows.

(Rs in million)

Sr. No.	Office	DP No.	Cases	Amount pointed out	Law/rule violated
1	LTU Karachi	5948-ST/K	1	11.04	Section 13 of the Sales Tax Act 1990
2	RTO-II Karachi	5853-ST/K	1	10.34	SRO 1007(I)/2005 & 551(I)/2008 dated 11.06.2008
		5850-ST/K	1	0.95	
		5973-ST/K	7	101.10	Section 13 of the Sales Tax Act 1990
3	RTO Hyderabad	5940-ST/K	1	5.10	SRO 727(I)/2011 dated 01.08.2011
4	RTO Quetta	5896-ST/K	1	11.66	SRO 408(I)/2012 dated 19.04.2012
5	RTO Sukkur	5885-ST/K	1	36.23	Sr. No 4 of table II of Sixth Schedule of Sales Tax Act 1990
		Total	**13**	**176.42**	

This resulted in non-realization of sales tax due to irregular exemption of sales tax amounting to Rs 176.42 million.

Management Reply

The department replied that cases of Rs 51.67 million were under adjudication, Rs 11.66 million were under scrutiny whereas no reply was furnished for cases involving Rs 113.09 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication proceedings, furnish comprehensive reply in remaining cases and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious adjudication/recovery of the dues,
- furnishing of reply in non-responded cases,
- fixing of responsibility against the personnel responsible.

4.1.17 Inadmissible adjustment of input tax against exempt supplies - Rs 174.04 million

According to section 8(2) read with rule 25 of the Sales Tax Rules 2006, if a registered person deals in taxable and non-taxable supplies, he can reclaim only such proportion of input tax as is attributable to taxable supplies. Input tax paid on raw materials relating wholly to the taxable supplies shall be admissible and input tax paid on raw materials relating wholly to exempt supplies shall not be admissible.

Thirteen registered persons of five offices of FBR made taxable as well as exempt supplies and adjusted whole amount of input tax during the years 2012-13 and 2013-14. They were required to make apportionment of input tax incurred against taxable supplies for the purpose of adjustment but the same had not been done. This resulted in inadmissible adjustment of input tax amounting to Rs 174.04 million.

Management Reply

The department replied that legal proceedings had been initiated in cases of Rs 131.12 million whereas no progress was reported in remaining cases of Rs 42.92 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings, furnish comprehensive reply in non-responded cases and report progress by 28th February 2015.

Audit Emphasizes upon

- completion of legal action within stipulated period,
- furnishing of updated replies in non-responded cases,
- fixing of responsibility against the personnel at fault.

[Annexure-16]

4.1.18 Inadmissible adjustment of input tax resulting in non/short realization of sales tax - Rs 209.61 million

According to sections 8 (1) (ca) read with section 7 (2) of the Sales Tax Act 1990, a registered person shall not be entitled to reclaim or deduct input tax

paid on the goods in respect of which sales tax has not been deposited in the government treasury by the respective suppliers.

Thirty three registered persons of two field offices of FBR adjusted input tax without fulfilling the requirements of law as evident from declarations of buyers and suppliers of taxpayers. This resulted in inadmissible adjustment of input tax which led to non/short realization of sales tax amounting to Rs 209.61 million during the year 2013-14.

Management Reply

The department replied that in cases of Rs 201.71 million legal proceedings had been initiated, Rs 0.20 million were under adjudication, an amount of Rs 0.02 million was contested, whereas no progress was reported in cases of Rs 7.68 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite legal proceedings, furnish replies in non responded cases and to get contested position reconciled with Audit and report by 28th February 2015.

Audit Emphasizes upon

- strengthening of online validation checks in e-filing system to ensure due payment of tax.
- fixing of responsibility against the personnel for non-enforcement of law.

[Annexure-17]

4.1.19 Non/short realization of sales tax - Rs 132.57 million

SRO 283(I)/2011 dated 1st April, 2011 provides that the supply of certain specified goods by the registered manufacturer of textile sector to non-registered persons shall be charged to sales tax at the rate of four percent.

Sixteen registered persons of four field offices of FBR supplied specified goods to non-registered persons during the years 2011-2014, which were liable to sales tax but neither the sales tax was paid by the taxpayers nor realized by the

department. This resulted in non/short realization of sales tax amounting to Rs 132.57 million.

Management Reply

The department replied that in cases of Rs 41.35 million legal proceedings had been initiated whereas no progress was reported in remaining cases of Rs 91.22 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite legal proceedings including pursuance of the recovery and furnish replies in non responded cases and report progress by 28th February 2015.

Audit Emphasizes upon

- timely completion of legal proceedings,
- furnishing of updated replies in non-responded cases,
- fixing of responsibility against the personnel responsible.

[Annexure-18]

4.1.20 Non/short realization of sales tax - Rs 63.96 million

According to section 11A of the Sales Tax Act, 1990 where a registered person pays the amount of tax less than the tax due as indicated in his return, the short paid amount of tax alongwith default surcharge and penalty shall be recovered from such person by stopping removal of any goods from his business premises and through attachment of his business bank accounts, without giving him a show cause notice.

Twelve registered persons of four field offices of FBR either did not pay or paid short amount of sales tax actually payable while filing their sales tax returns. Under the law, tax authorities should have enforced recovery proceedings without giving them show cause notice but no action was taken against them by the department. This resulted in non/short realization of Rs 63.96 million on account of sales tax. The non payment also attracted default surcharge and penalty leviable under the law.

Management Reply

The department replied that cases of Rs 13.66 million were under adjudication whereas no reply was furnished for cases of Rs 50.30 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings, furnish comprehensive reply in non-responded cases and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious adjudication of the amount pointed out,
- furnishing of updated replies in non-responded cases,
- strengthening of the monitoring mechanism to ensure payment of tax due,
- fixing of responsibility against the personnel responsible.

[Annexure-19]

4.1.21 Non-realization of penalty and default surcharge - Rs 77.65 million

According to section 33 & 34 of the Sales Tax Act 1990, if a registered person does not pay sales tax due or part thereof in time, he shall in addition to the tax due, pay penalty at the rate of five percent and default surcharge at the rate of KIBOR plus three percent per annum of the tax due.

Four field offices of FBR did not recover the amount of penalty and default surcharge from twenty nine registered persons who paid sales tax after due date during the year 2013-14. This resulted in non-realization of default surcharge and penalty amounting to Rs 77.65 million as detailed below:

(Rs in million)

Sr. No.	Office	DP No.	No of cases	Amount
1	LTU Karachi	5952-ST/K	01	54.98
2	RTO-II Karachi	5915-ST/K	04	0.11
3	RTO Hyderabad	5913-ST/K	01	2.51
4	RTO Quetta	5880-ST/K	22	19.15
		5900-ST/K	01	0.90
		Total	**29**	**77.65**

Management Reply

The department replied that cases of Rs 76.75 million were under adjudication and Rs 0.90 million were under recovery.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication/recovery proceedings and report progress by 28th February 2015.

Audit emphasizes upon expeditious adjudication/recovery of the dues.

4.1.22 Short realization of sales tax due to concealment of purchases - Rs 45.01 million

According to section-3 read with section 26 of the Sales Tax Act 1990, there shall be charged, levied and paid sales tax at the prescribed rate of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him and every registered person shall furnish not later than the due date a true and correct return in the prescribed form. Moreover, as per section 33(11)(c) of the Act, any person who knowingly or fraudulently makes false statement etc shall pay a penalty of twenty five thousand rupees or one hundred *per cent* of the amount of tax involved, whichever is higher.

A registered person of RTO Gujranwala had shown different figures of purchases in three sets of accounts i.e. sales tax profile, income tax return and withholding statement which depicted that the taxpayer had concealed its purchases leading to suppression of production and sales. This resulted in short realization of sales tax and penalty aggregating to Rs 45.01 million during the tax year 2013.

Management Reply

The RTO Gujranwala replied that the matter was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the RTO to expedite the adjudication proceedings and report progress by 28th February 2015.

Audit emphasizes upon completion of legal proceedings within stipulated period.

[DP No. 15028-ST]

4.1.23 Non-realization of sales tax - Rs 39.12 million

According to section 26 (1) read with section 3 of the Sales Tax Act 1990, every registered person shall furnish not later than the due date a true and correct return in the prescribed form to a designated bank or any other office specified by the Board, indicating the purchases and the supplies made during a tax period, the tax due and paid and such other information, as may be prescribed.

A taxpayer under Jurisdiction of RTO Peshawar declared low volume of sales against the electricity consumption as compared to electricity consumption of other taxpayers of the same activity. This resulted in potential loss of revenue on account of sales tax amounting to Rs 39.12 million during 2013-14.

Management Reply

The RTO Peshawar replied that the case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the RTO to expedite the adjudication proceedings and report progress by 28th February 2015.

Audit emphasizes upon completion of adjudication proceedings within stipulated period.

[DP No. 15065-ST]

4.1.24 Non-realization of sales tax from retailers/wholesalers - Rs 30.64 million

According to rule 5 & 58 of the Sales Tax Special Procedure Rules 2007, a retailer/wholesaler shall, in respect of the supplies made by him, pay sales tax at the rate specified therein.

Six taxpayers of two field formations of FBR did not pay retail tax on their taxable supply during the year 2013-14 but no action was taken by the department. This resulted in non-realization of sales tax amounting to Rs 30.64 million.

Management Reply

The department replied that cases of Rs 7.46 million were under adjudication whereas no reply was furnished for cases of Rs 23.18 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication proceedings, furnish comprehensive reply in non-responded cases and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious adjudication proceedings,
- furnishing of updated replies in non-responded cases.

[DP No.5840, 5884, 5888-ST/K]

4.1.25 Excess adjustment of input tax resulting in short realization of sales tax - Rs 17.56 million

According to section 8(B) of the Sales Tax Act 1990, a registered person shall not be allowed to adjust input tax in excess of ninety percent of the output tax for the tax period for which the return is filed.

Thirteen registered persons of RTO Multan adjusted whole amount input tax instead of 90% of the output tax as allowed under the above law. This resulted in non-realization of sales tax of Rs 17.56 million due to excess adjustment of input tax during the years 2012-13 and 2013-14.

Management Reply

The RTO Multan replied that the cases were under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the adjudication proceedings and report progress by 28th February 2015.

Audit emphasizes upon completion of adjudication proceedings within stipulated period.

[DP No.15042-ST]

4.1.26 Irregular adjustment of input tax - Rs 7.33 million

According to SRO 488(I)/2004 dated 12th June 2004, a registered person shall not be entitled to reclaim or deduct input tax in case of supplies of filter rods to non-registered persons. The FBR disallowed sale of filter rods to non-registered persons vide SRO 61(I)/2010 dated 4th February, 2010 by rescinding its earlier SRO dated 12th June 2004.

A registered person of RTO Quetta made taxable supplies of filter rods to non-registered persons valuing Rs 102.507 million and claimed input tax adjustment in full of Rs 38.95 million during the year 2013-14. The department neither disallowed the input tax adjustment nor stopped the sale of filter rods to non-registered persons. This resulted in unlawful adjustment of input tax of Rs 7.33 million.

Management Reply

The RTO Quetta replied that the recovery action could not be initiated against the registered person as the matter was subjudice before Honourable High Court of Sindh.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to pursue the case in court of law and report progress by 28th February 2015.

Audit emphasizes upon vigorous pursuance of subjudice case.

[DP No. 5902-ST/K]

4.2 Refund of Sales Tax

4.2.1 Excess payment of sales tax refund - Rs 304.02 million

Sales Tax Act 1990 read with Sales Tax Rules 2006 and various SROs issued by FBR allows payment of refund subject to fulfilment of certain requirements.

Refund of sales tax of Rs 304.02 million was sanctioned and paid by six field formations of FBR in twenty four cases in excess of the due amount in violation of various provisions of law as detailed below:

(Rs in million)

Sr. No.	Office	No. of cases	Amount	Law/rule violated
1	RTO-I Lahore	3	12.26	Sections 8(1)(a) & 10(1) of Sales Tax Act 1990, Rule 7(1) of Sales Tax Rules 2006
2	RTO-II Lahore	14	117.58	Sections 8(2), 10(1), 13 of Sales Tax Act, 1990, Rules 33 of Sales Tax Rules, 2006. SRO 549(I)/2008 dated 11.06.2008 & SRO 1125(I)/2011 dated 31.12.2011.
3	RTO Faisalabad	1	0.98	Section 73 of Sales Tax Act & SRO 1125(I)/2011 dated 31.12.2011.
4	LTU Lahore	4	172.36	Rule 33 of Sales Tax Rules 2006 & Rule 38 of Sales Tax Special Procedures Rule, 2007
5	RTO Gujranwala	1	0.13	Rule 33 of Sales Tax Rules 2006
6	RTO Sialkot	1	0.71	Rule 33 of Sales Tax Rules 2006
Total		**24**	**304.02**	

This resulted in excess payment of sales tax refund of Rs 304.02 million.

Management Reply

The department replied that an amount of Rs 0.26 million was under recovery and Rs 1.82 million was under adjudication, whereas no progress was reported in remaining cases of Rs 301.94 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery, adjudication proceedings and furnish updated reply in non responded cases by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery/adjudication of amount pointed out,
- furnishing of updated replies in non-responded cases,
- fixing of responsibility against the personnel responsible for the lapse.

[Annexure-20]

4.2.2 Inadmissible refund of sales tax - Rs 30.58 million

Sales Tax Act, 1990 read with Sales Tax Rules 2006 and various SROs/instructions issued by FBR, allows payment of refund subject to fulfilment of certain requirements laid therein.

Refund of sales tax of Rs 30.58 million was sanctioned and paid in eleven cases by four field offices of FBR which was in violation of various provisions of law and also attracted penalty as well as default surcharge as detailed below:

(Rs in million)

Sr. No.	Office	No. of cases	Amount pointed out	Law violated
1	RTO-II Lahore	3	15.62	Section 8(1)(a) of Sales Tax Act 1990
2	RTO-I Lahore	2	13.49	Section 8(1)(a) of Sales Tax Act, 1990 read with SRO 308(I)/2008 dated 24.03.2008
3	LTU Lahore	1	0.81	Section 8(1)(a) of Sales Tax Act, 1990 read with SRO 490(I)/2004 dated 12.06.2004
4	RTO Sukkur	3	0.44	Section 7(2) of the Sales Tax Act 1990 & Rule 29 of Sales Tax Rules, 2006
		2	0.22	
Total		**11**	**30.58**	

This resulted in inadmissible payment of sales tax refund of Rs 30.58 million.

Management Reply

The department replied that cases of Rs 0.66 million were under adjudication whereas no reply was furnished in remaining cases of Rs 29.92 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite legal proceedings and furnish comprehensive reply by 28th February 2015.

Audit Emphasizes upon

- expeditious adjudication proceedings,
- furnishing of comprehensive reply as directed by the DAC,
- fixing of responsibility against the personnel responsible.

[Annexure-21]

4.2.3 Unlawful sanction of sales tax refund - Rs 12.73 million

According to rule 28 of the Sales Tax Refund Rules 2006, no refund claim shall be entertained if the claimant fails to furnish the claim on refund claim preparation software along with supporting documents within the prescribed period of 60 days (till 30th June 2008) or within 120 days (w.e.f. 1st July 2008) of the filing of return.

Refund of Rs 12.73 million was sanctioned and paid by three field offices of FBR in seventeen cases which were time barred. This resulted in unlawful sanction of sales tax refund amounting to Rs 12.73 million which also attracted penalty and default surcharge.

Management Reply

The department replied that an amount of Rs 1.03 million was under recovery and cases of Rs 0.20 million were under adjudication whereas no progress was reported regarding an amount of Rs 10.90 million. The department contested an amount of Rs 0.60 million on the plea that refund claim was filed by the registered person within the stipulated period.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to initiate legal proceedings including pursuance of the recovery, furnish updated reply in non

responded cases and settled the para to the extent of amount contested Rs 0.60 million.

Audit Emphasizes upon

- expeditious recovery of the amount pointed out,
- furnishing of updated replies in non-responded cases,
- fixing of responsibility against the personnel responsible.

[Annexure-22]

4.2.4 Inadmissible sanction of sales tax refund due to non-observance of codal formalities - Rs 398.14 million

According to provisions of section-73 of Sales Tax Act 1990, payment of the amount for a transaction exceeding fifty thousand rupees shall be made through a banking instruments showing transfer of the amount of the sales tax invoice in favour of the supplier from the business bank account of the buyer within one hundred and eighty days of issuance of the tax invoice. Subsection (2) of the section provides that the buyer shall not be entitled to claim refund of tax if the payment for the amount is made otherwise than in the manner prescribed therein.

Refund was sanctioned to sixty claimants by RTO Faisalabad against the invoices exceeding fifty thousand rupees without verifying the proof of payments through banking channels. The refund sanctioning authorities allowed refund against such invoices despite the fact that stipulated period of 180 days had already elapsed. This resulted in inadmissible sanction of sales tax refund of Rs 398.14 million during the year 2013-14.

Management Reply

The RTO informed that post refund audit of the cases was in progress.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to complete post refund audit by 28th February 2015.

Audit Emphasizes upon

- compliance of law in letter and spirit,
- completion of legal action within stipulated time.

[DP No.14819-ST]

4.3 Federal Excise Duty

4.3.1 Non-realization of federal excise duty - Rs 10,417.91 million

According to first schedule of the Federal Excise Act 2005 read with rule 41A of the Federal Excise Rules 2005, goods and services are chargeable to federal excise duty at the rate of 16 %.

Nine registered persons of LTU Karachi had provided services and collected charges of Rs 64,847.61 million during the tax year 2013-14 but federal excise duty on the services of terminal operators, banking services and courier services was neither paid nor demanded by the department. This resulted in non-realization of federal excise duty of Rs 10,417.91 million.

Management Reply

The department replied that the cases were under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the adjudication proceedings and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the dues,
- fixing of responsibility against the personnel responsible.

[DP No. 5956, 5959 & 5970-FE/K]

4.3.2 Non-realization of the federal excise duty - Rs 4,442.28 million

According to section 3(1)(d) of the Federal Excise Act 2005 read with rules 43A (2), 44, & 47 of the Federal Excise Rules 2005, the duty shall be paid by the franchisee, or as the case may be, the head office of the franchisee at the rate of 10% of the value of taxable services, which shall be the gross amount or the franchise fee or the deemed franchise fee or technical fee or royalty charged by the franchiser from the franchisee for using the right to deal with the goods or services of the franchiser.

Four field formations of FBR did not realize federal excise duty from thirty three registered persons who paid royalty, technical services fee and franchise fee to their associated companies during the tax years 2007-2014. The issue of same nature had already been upheld for recovery in quasi judicial process. This resulted in non-realization of federal excise duty of Rs 4,442.28 million which also attracted levy of default surcharge and penalty.

Management Reply

The department reported that an amount of Rs 2,912.33 million was subjudice, Rs 852.72 million was under recovery, Rs 184.16 million was under adjudication, an amount of Rs 348.62 million was contested and no reply was furnished in remaining cases of Rs 144.45 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to pursue subjudice cases, expedite adjudication/recovery and furnish comprehensive reply in non-responded cases. The DAC further directed to get the contention verified by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery/adjudication proceedings,
- pursuance of the subjudice cases vigorously,
- furnishing of reply in non-responded cases,
- strengthening the internal controls to avoid recurrence in future,
- fixing of responsibility against the personnel responsible.

[Annexure-23]

4.3.3 Inadmissible adjustment of federal excise duty - Rs 1,010.09 million

According to SRO 478(I)/2009, federal excise duty @ 16% shall be levied and collected on services provided or rendered in respect of travel by air within Pakistan and inland carriage of goods by air, as if it were a tax payable under section 3 of the Sales Tax Act 1990. Through this specification, input duty was made adjustable against output duty. However services provided or rendered in respect of travel by air of the passengers on international journey are not specified in the SRO.

A registered person of LTU Islamabad adjusted amount of input duty attributed to international travel services against output duty in violation of the above law. This resulted in inadmissible adjustment of federal excise duty amounting to Rs 1,010.09 million during the period 2011-2013.

Management Reply

The LTU Islamabad replied that the legal proceedings were underway.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings.

Audit Emphasizes upon

- expeditious legal proceedings,
- strengthening of internal controls to avoid recurrence in future,
- fixing of responsibility against the personnel responsible.

[DP No. 15255-FED]

4.3.4 Short realization of federal excise duty - Rs 155.06 million

According to SRO 77(I)/2013 dated 7th February 2013, the Federal Government specified the rate of duty @ 0.5 percent instead of 8 percent on the value of local supply of white crystalline sugar equivalent to quantity exported as per quota allotted by Economic Coordination Committee (ECC).

Three registered persons of two offices of FBR paid federal excise duty at the concessionary rate of 0.5 % on the value of local supply of crystalline white sugar against export of sugar during the year 2013-14 but the proof of export of sugar required to avail the concessionary rate of duty as per quota approved by the ECC was not provided. This resulted in short realization of federal excise duty of Rs 155.06 million.

Management Reply

The RTO Sukkur replied that two cases of Rs 50.28 million were under adjudication and LTU Karachi contested a case of Rs 104.78 million on the plea that FED @ 0.5% was correctly charged on the local supply of sugar equivalent to the quantity actually exported.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the adjudication proceedings and provide export documents, quota allocation for verification to Audit and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious adjudication proceedings,
- furnishing of documents as directed by the DAC.

[DP No.5861, 5881 & 5958-ST/K]

4.3.5 Non-realization of default surcharge - Rs 582.05 million

According to section 8 of the Federal Excise Act 2005, if a person does not pay duty due or part thereof within the prescribed time, he shall pay default surcharge at the rate of KIBOR plus 3 % per annum of the duty due.

M/s PIA under the jurisdiction of LTU Karachi paid federal excise duty of Rs 6,084.01 million on air tickets but failed to deposit the duty within due date. The period of delay was ranging from 75 to 485 days. However, LTU Karachi did not recover default surcharge amounting to Rs 582.05 million during the year 2013-14.

Management Reply

The department replied that show cause notice had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the action and submit a report by 28th February 2015.

Audit emphasizes upon recovery of default surcharge uptill due time of payment.

[DP No. 5955-FE/K]

4.3.6 Non-realization of the federal excise duty - Rs 345.64 million

Section 3 of the Federal Excise Act 2005 read with first schedule provides that services of shipping agents are liable to federal excise duty at the rate of 16 % of the charges received.

Thirty seven shipping companies under the jurisdiction of RTO-III Karachi received charges of Rs 2,035.53 million on account of sea and coastal freight and NEC (Not Elsewhere Classified) services as per income tax return 2012 and 2013. The department did not realize the federal excise duty amounting to Rs 345.64 million during the period from July 2011 to June 2013.

Management Reply

The department replied that the issue had been referred to FBR for clarification.

DAC's Recommendations

The DAC in its meeting held in January 2015 deferred the para till clarification from FBR.

Audit Emphasizes upon early clarification by FBR.

[DP No 5838-ST/K]

4.3.7 Non-realization of special excise duty - Rs 29.33 million

Under section 3A of the Federal Excise Act 2005 read with SRO 655(I)/2007 dated 29th June 2007, there shall be levied, collected and paid special excise duty at the rate of 1% of the value of the specified goods produced, manufactured or imported in Pakistan except the goods excluded in the said SRO. Non/short/late-payment of duty also attracted levy of penalty and default surcharge under sections 8 and 19 of the Act.

Two offices of FBR did not realize special excise duty from two registered persons who manufactured and supplied taxable goods during January 2009 to June 2011. This resulted in non-realization of special excise duty of Rs 29.33 million and also attracted penalty and default surcharge.

Management Reply

RTO Gujranwala replied that the show cause notice had been issued to the registered person. No reply was furnished by the RTO-II Lahore.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the RTO Gujranwala to expedite the legal proceedings for early conclusion as per law.

DAC directed the RTO-II Lahore to furnish updated reply by 28th February 2015.

Audit Emphasizes upon

- completion of legal action within stipulated period,
- furnishing of updated reply as directed by the DAC.

[DPs No. 15181&15026-FED]

4.3.8 Irregular exemption from federal excise duty - Rs 21.89 million

According to provision of section 16 (1) of the Federal Excise Act 2005, the goods and service specified in the third schedule shall be exempt from duty, subject to conditions and restrictions specified therein.

M/s Habib Metropolitan Bank Limited under the jurisdiction of LTU Karachi had provided banking services valuing Rs 136.83 million and claimed exemption of duty which was accepted by the department. The exemption under said schedule was available only to services of marine, life, health, crop and livestock insurance but not for banking services. This resulted in non-realization of federal excise duty amounting to Rs 21.89 million.

Management Reply

The department replied that the case was under examination and progress would be intimated in due course.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the action and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the dues,
- justification for inaction against claim of exemption.

[DP No. 5945-FE/K]

4.3.9 Short payment of federal excise duty and sales tax - Rs 5.58 million

Federal excise duty and sales tax on production capacity (Aerated Water) Rules, 2013 issued vide SRO 649(I)/2013 dated 9th July 2013 provide that the

annual tax liability is required to be assessed by the tax collectors. The assessed amount shall be paid in installments by the registered person along with his monthly sales tax return. The rates of federal excise duty and sales tax were revised and enhanced in February 2014 through SRO 140(I)/2014 dated 28th February 2014.

M/s Sukkur Beverages (Pvt.) Ltd under the jurisdiction of RTO Sukkur was assessed at annual gross amount payable of Rs 75.20 million which was later enhanced to Rs 105.28 million from the month of February 2014. However, the registered person made short payment of monthly installment of federal excise duty and sales tax for the months of July 2013 and February to March, 2014. Due to short payment, government sustained a loss of Rs 5.58 million as follows:

(Rs in million)

Tax Period	Gross amount of monthly installment	Percentage of annual amount payable	Amount of monthly installment of tax payable	Tax paid	Short payment
July 2013	7.52	10%	7.52	6.45	1.07
Feb 2014	5.26	05%	5.26	3.76	1.50
March 2014	10.53	10%	10.53	7.52	3.01
				Total	**5.58**

Management Reply

The department replied that case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication proceedings and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the dues,
- ascertaining the reasons for non-recovery of dues and fixing of responsibility.

[DP No. 5863-FE/K]

4.3.10 Non/late-registration of taxpayers resulting in non-realization of special excise duty - Rs 3.19 million

According to section 3A read with section 4 of the Federal Excise Act, 2005 and SRO 655(I)/2007 dated 29th June 2007, there shall be levied, collected and paid special excise duty at the rate of 1% of the value of the specified goods produced, manufactured or imported in Pakistan, in addition to the duty leviable under section 3 of the Act except the goods exempted by the government. Further, sections 14 & 2(5AB) of the Sales Tax Act 1990 read with rule 4 & 6 of the Sales Tax Rules 2006 provide that any manufacturer having annual turnover of more than 5 million rupees or having utilities bills of more than Rs 700,000 per annum is liable to compulsory registration.

RTO Sargodha either did not register or registered with delay, sixteen taxpayers who were deriving income from manufacturing/supply of various goods. They were required to be registered under the Sales Tax Act 1990 as either their turnover was more than five million rupees or their electricity bills were more than seven hundred thousand rupees (700,000). Refund sanctioning authorities paid refund of income tax without getting them registered in sales tax regime. This resulted in non-realization of special excise duty of Rs 3.19 million during the years 2009 to 2013.

Management Reply

The department replied that an amount of Rs 0.24 million was under recovery, Rs 2.92 million was under adjudication and Rs 0.03 million was contested by the department.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the amount of Rs 0.24 million, expedite the adjudication proceedings of Rs 2.92 million and reduced the para to the extent of contested amount of Rs 0.03 million.

Audit Emphasizes upon

- expeditious recovery / completion of adjudication proceedings,
- taking of necessary measures towards broadening of tax base,
- fixing of responsibility against the personnel responsible.

[DP Nos. 14680 & 14683-FED]

4.4 Income Tax

4.4.1 Non-levy of minimum tax on the income of certain persons - Rs 1,507.45 million

Section 113 of the Income Tax Ordinance 2001 provides that minimum tax on the turnover of the taxpayers at prescribed rate is payable, if no tax is payable due to any reason, including assessment of losses or allowing any tax credit, or the tax payable is less than the minimum tax. This provision of the law is applicable only to the resident company, association of persons and individuals having turnover of rupees fifty million or above.

In eighteen field formations of FBR, the minimum tax on declared turnover was not paid by the 298 taxpayers. The department did not initiate any legal proceedings to levy the tax without any justification. This resulted in non-levy of tax amounting to Rs 1,507.45 million.

Management Reply

The department replied that the tax of Rs 288.60 million had been charged out of which an amount of Rs 45.51 million recovered. The department further reported that legal proceedings for charging the tax of Rs 1,125.41 million had also been initiated but not yet finalized. Reply was not furnished in the cases involving Rs 93.44 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the charged amount, finalize the assessment proceedings, furnish comprehensive reply in non-responded cases and report progress by 28th February 2015.

Audit Emphasizes upon

- recovery of the amount involved,
- finalization of the proceedings in pending cases,
- furnishing of comprehensive reply in non-responded cases,
- initiating appropriate action against responsible personnel.

[Annexure-24]

4.4.2 Short levy of tax due to unauthorized issuance of SRO - Rs 1,136.05 million

According to section 153 read with section 53 of the Income Tax Ordinance 2001, every prescribed person while making a payment to a resident person for the rendering or providing of services shall deduct tax at the prescribed rates, the tax so deducted shall be a minimum tax liability. Further, the Federal Government, by notification in the official Gazette, make such amendment in the law by adding or omitting any clause therein with the condition that all proposed amendments shall be placed before the National Assembly for approval of the legislature.

The Federal Board of Revenue through an SRO 1003(I)/2011 dated 31st October 2011 inserted clause 79 in Part IV of the Second Schedule to the Income Tax Ordinance 2001, minimum tax was made adjustable for corporate sector. However, the SRO was not placed before the National Assembly therefore it had no validity. In view of the said SRO, thirty two taxpayers of four field formations of FBR claimed refund of Rs 1,136.05 million despite the fact that the tax deductions on rendering or providing services was minimum tax liability and no refund was to be made to the taxpayers

Management Reply

The department reported that an amount of Rs 3.71 million had been charged and recovered, legal proceedings in cases involving Rs 251.78 million were initiated but not yet finalized and cases amounting to Rs 880.56 million were contested on the basis of the SRO. The contention was not tenable, as only the legislature was empowered to amend the taxation regime.

DAC's Recommendations

The DAC in its meeting held in January 2015, considered the departmental point of view and concluded that the case might be referred to PAC for consideration.

Audit emphasizes upon taking of appropriate action against the personnel responsible for providing undue benefit to the taxpayers.

[Annexure-25]

4.4.3 Short levy of tax due to allowing inadmissible expenses - Rs 1,165.82 million

Section 21 of the Income Tax Ordinance 2001 provides that various expenses are not admissible to taxpayers who earn income from business under the law in a tax year and these expenses are calculated at the time of assessment of taxable income and tax liability.

In seven field formations of FBR, inadmissible expenses, such as, expenses where no withholding tax was deducted and payments were made other than banking channel, were allowed to twenty eight taxpayers while calculating taxable income, thereby, causing short assessment of taxable income. This resulted in under assessment of income causing short levy of tax of Rs 1,165.82 million.

Management Reply

The department replied that the tax of Rs 75.71 million had been charged, legal proceedings initiated in the cases involving Rs 1,090.11 million but not yet finalized.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the charged amount and finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the charged amount,
- finalization of the proceedings in the pending cases,
- fixing of responsibility against the personnel responsible.

[Annexure-26]

4.4.4 Incorrect computation of taxable income - Rs 2,049.39 million

Section 221 of the Income Tax Ordinance 2001 provides that any income tax authority on its own motion may amend any order passed by it to rectify any mistake appearing on the record for proper taxation. The taxpayer can also bring such mistake into the notice of the authority.

In nine field formations of FBR, taxable income of ninety taxpayers was under assessed due to calculation mistakes which could be rectified by the department, however, the legal proceedings under the above mentioned law were not initiated by the department. This resulted in short levy of tax of Rs 2,049.39 million.

Management Reply

The department reported that legal formalities to levy the tax of Rs 2,042.31 million had been initiated. No reply was furnished by the department in the cases involving Rs 7.08 million

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings, furnish reply in non-responded cases and report progress by 28th February 2015.

Audit Emphasizes upon

- finalization of the proceedings to levy the tax,
- furnishing of reply in non-responded cases,
- fixing of responsibility against officers.

[Annexure-27]

4.4.5 Non-levy of tax on concealment of income or assets - Rs 95,566.88 million

Section 111 of the Income Tax Ordinance 2001 provides for taxation of concealed income which is not offered for tax. According to the provision, where a person is the owner of any moveable or valuable article or has made any investment or credited any amount in the books of accounts, the amount shall be chargeable to tax if not adequately explained by the taxpayer.

In sixteen field formations of FBR, the assessing officers did not investigate the cases of 120 taxpayers in view of the above provision of the law irrespective of the fact that the taxpayers concealed the income to avoid incidence of proper taxation. This resulted in non-levy of tax amounting to Rs 95,566.88 million.

Management Reply

The department replied that the tax of Rs 0.64 million had been charged but not yet recovered, legal proceedings had been initiated in cases involving Rs 95,334.61 million. Reply was not furnished in the cases involving Rs 190.20 million and cases of Rs 41.43 million were subjudice.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the charged amount and finalize the assessment proceedings. The DAC further directed to furnish reply in non-responded cases and pursue the subjudice cases at appropriate appellate fora and report progress by 28th February 2015.

Audit Emphasizes upon

- finalization of proceedings within stipulated time period,
- initiating appropriate action against responsible personnel,
- furnishing of reply in non-responded cases,
- pursuance of the subjudice cases at appellate fora.

[Annexure-28]

4.4.6 Non-taxation of income under the head "Income from Other Sources" - Rs 367.39 million

Section 39 of the Income Tax Ordinance, 2001 provides that income of any kind received by a taxpayer in a tax year shall be chargeable to tax in that year under the head "Income from Other Sources" if it is not included in any other head specified in the Ordinance.

In the jurisdiction of two field formations of FBR, twelve taxpayers earned taxable income on account of interest received from bank, profit on debt and waived off loan. These amounts were chargeable to tax as income from other sources under the above provision of law. The department did not levy tax on such income, which resulted in non-levy of tax amounting to Rs 367.39 million.

Management Reply

The department replied that an amount of Rs 14.07 million had been charged but not yet recovered, legal proceedings initiated in cases involving Rs 162.23 million and cases of Rs 191.09 million were subjudice.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the recovery of amount charged, finalize the assessment proceedings by 28th February 2015 and pursue the subjudice cases at appropriate fora.

Audit Emphasizes upon

- finalization of the proceedings within stipulated time period,
- initiating appropriate action against responsible persons,
- pursuance of subjudice cases at appellate fora.

[Annexure-29]

4.4.7 Incorrect application of tax rates - Rs 1.93 million

Section 2(59A) of Income Tax Ordinance 2001 explains the term of a small company as a company registered on or after the first day of July 2005, whose paid up capital does not exceed twenty five million rupees and whose annual turnover does not exceed two hundred and fifty million rupees. The applicable tax rate on small company is 25% instead of 35%.

In three field formations of FBR, four taxpayers calculated their tax liability at the rate which was applicable to small company as per above provision of the law. Whereas, the taxpayers could not be treated as small company and they were required to be taxed otherwise. No remedial action under the law was initiated which resulted in short levy of tax of Rs 1.93 million.

Management Reply

The department reported that an amount of Rs 1.36 million had been charged but not yet recovered. Legal proceedings had been initiated in the cases involving Rs 0.57 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the recovery of charged amount, finalize the assessment proceedings and report compliance by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the charged amount,
- finalization of the proceedings in the pending cases,
- initiating appropriate action against responsible personnel.

[Annexure-30]

4.4.8 Non-treatment of withholding tax as a final tax - Rs 287.94 million

Section 153 (a)&(c) read with section 169 of the Income Tax Ordinance 2001 provides that withholding tax deduction of a taxpayer on account of contracts, supplies of goods and commercial imports will be treated as final discharge of tax liability for that tax year. This tax will not be accounted for any other tax liability of the taxpayer.

In eight field formations of FBR, withholding tax deductions of twenty four taxpayers were not treated as final discharge of tax liability rather it was adjusted against other tax liabilities of the taxpayers. No remedial action under the law was taken by the department to rectify the mistake. This resulted in loss of revenue amounting to Rs 287.94 million.

Management Reply

The department reported that an amount of Rs 92.29 million had been charged but not yet recovered and legal proceedings had been initiated in cases involving Rs 195.65 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the charged amount and finalize the assessment proceedings and report compliance by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the amount charged,
- finalization of the legal proceedings,
- initiating appropriate action against the responsible personnel.

[Annexure-31]

4.4.9 Non-levy of default surcharge - Rs 1,939.16 million

According to section 205 of the Income Tax Ordinance 2001, where a taxpayer fails to discharge his tax liability on or before the due date of payment, shall pay default surcharge at the prescribed rate in addition to the original tax liability.

In nine field formations of FBR, 139 taxpayers did not pay the due tax within the specified time. The department failed to discharge its statutory obligation to levy and recover the default surcharge as per above provisions of law. The irregularity resulted in non-realization of tax of Rs 1,939.16 million.

Management Reply

The department replied that an amount of Rs 1.72 million had been charged but not yet recovered. Legal action had been initiated in the cases involving Rs 1,937.30 million and reply was not furnished in cases involving Rs 0.14 million

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery of the charged amount and finalize the proceedings and furnish reply in pending cases by 28th February 2015.

Audit Emphasizes upon

- recovery of the charged amount,
- finalization of the legal proceedings,
- initiating appropriate action against responsible personnel.

[Annexure-32]

4.4.10 Incorrect adjustment of brought forward losses - Rs 1,149.08 million

Section 57 of the Income Tax Ordinance 2001 provides that if a taxpayer sustained a loss in business for a tax year then the loss will be carried forward to the six following tax years and will be adjusted only against profit and gains of such business.

In three field formations of FBR, income of eight taxpayers was assessed at loss for tax year 2013. These losses were either assessed incorrectly or carried forward erroneously in tax year 2013 and set off against business income beyond the prescribed limit. This resulted in non-levy of tax amounting to Rs 1,149.08 million.

Management Reply

The department replied that legal proceedings had been initiated in all the cases.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- finalization of the legal proceedings,
- initiating appropriate action against responsible personnel.

[Annexure-33]

4.4.11 Non-payment of tax along with tax return - Rs 40.44 million

Section 137 of the Income Tax Ordinance 2001 provides that the tax liability calculated by a taxpayer on his taxable income for a tax year shall be paid at the time of furnishing the tax return.

In three field formations of FBR, forty five taxpayers did not pay the tax liability along with the tax return. The dapartment did not initiate the legal proceedings against the taxpayers who did not pay the tax within due dates. This resulted in non-payment of tax amounting to Rs 40.44 million.

Management Reply

The department replied that the legal proceedings had been initiated to recover the amount of Rs 40.44 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- finalization of the legal proceedings,
- initiating appropriate action against responsible personnel.

[Annexure-34]

4.4.12 Incorrect computation of tax under respective heads of income - Rs 16.07 million

According to section 11 of the Income Tax Ordinance 2001, total income is computed for charging of tax under the heads; income from salary, income from property, income from business, income from capital gain and income from other sources.

In five field formations of FBR, tax liability was not correctly computed in respective heads of income. Legal action was not initiated by the assessing officers under the relevant provision of the law for correct computation of tax. This resulted in short recovery of tax amounting to Rs 16.07 million in ten taxpayers.

Management Reply

The department replied that an amount of Rs 0.57 million had been charged but not yet recovered. Legal proceedings had been initiated in cases of Rs 9.71 million and reply was not furnished in cases involving Rs 5.79 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the charged amount, finalize the assessment proceedings and furnish reply by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the charged amount,
- finalization of the legal proceedings,
- furnishing of reply in non-responded cases,
- initiating appropriate action against responsible personnel.

[Annexure-35]

4.4.13 Short levy of tax due to inadmissible depreciation allowance - Rs 41.89 million

Section 22 of the Income Tax Ordinance 2001 provides that a taxpayer shall be allowed depreciation allowance in a tax year at prescribed rates against taxable income. This allowance will only be allowed if the depreciable assets are used in the business of the taxpayer in the tax year.

In three field formations of FBR, nine taxpayers either claimed excess depreciation on written down value or claimed accounting depreciation which was inadmissible as per law. The department failed to take remedial action as per law. The excess allowance resulted in short assessment of income and consequent loss of revenue amounting to Rs 41.89 million.

Management Reply

The department replied that legal proceedings initiated in cases of Rs 38.50 million but not yet finalized. Reply was not furnished in cases involving Rs 3.39 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings and furnish reply by 28th February 2015.

Audit Emphasizes upon

- finalization of the legal proceedings,
- initiating appropriate action against responsible personnel.

[Annexure-36]

4.4.14 Non-taxation of share of profit received from AOP- Rs 5.233 million

According to section 88(A) read with section 92 of the Income Tax Ordinance 2001, the share of profits derived by a company from an association of person (AOP) shall be added to the taxable income of the company and tax would be levied accordingly.

A taxpayer falling under the jurisdiction of RTO-I Lahore whose taxable income for the tax year 2013 comprised of share of profit received from an AOP

but he did not offer it for taxation. This resulted in short assessment of taxable income and consequently loss of government revenue amounting to Rs 5.233 million.

Management Reply

Reply was not furnished by the department.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish reply by 28th February 2015.

Audit Emphasizes upon

- furnishing of reply and finalization of the proceedings,
- taking of appropriate action against personnel responsible.

[DP No. 14912-IT]

4.4.15 Non-taxation of recouped expenditure - Rs 23.40 million

Section 70 of the Income Tax Ordinance 2001 provides that where a taxpayer has been allowed expenditure in a tax year and subsequently the person has received such expenditure, the amount so received shall be included in the income chargeable under that head for the tax year in which it is received.

A (Pvt) Limited company, (NTN-1544972-6) being assessed under the jurisdiction of Large Taxpayers Unit, Islamabad was allowed an expenditure of Rs 67.351 million. The said expense was recouped in the tax year 2013 but was not included in the taxable income. No remedial action was taken by the department to tax such amount. This resulted in non-realization of tax of Rs 23.40 million.

Management Reply

The department intimated that the legal proceedings had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- finalization of the legal proceedings,
- initiating appropriate action against responsible personnel.

[DP No.14861-IT]

4.4.16 Non-treatment of withholding tax as minimum tax - Rs 716.48 million

The provisions of section 148 of the Income Tax Ordinance 2001, provides that withholding tax will be collected by the custom authorities at the time of import of edible oil and packing material. This tax collected will be treated as minimum tax if the tax liability of the taxpayer is otherwise less than the withholding tax already collected.

In six field formations of FBR, withholding tax collected on account of import of edible oil and packing material was treated as adjustable instead of minimum tax in 19 cases. The department did not take remedial action to recover loss of revenue amounting to Rs 716.48 million.

Management Reply

The department reported that legal proceedings to recover the tax had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- fixing of responsibility against the responsible personnel.

[Annexure-37]

4.4.17 Non-payment of tax on capital gain - Rs 7.67 million

Section 37A of the Income Tax Ordinance 2001 provides that capital gain tax at the specified rate will be imposed on the capital gain arising from disposal of securities held for a period of less than a year.

In the LTU Islamabad, capital gain tax was not levied on two taxpayers during tax year 2013. The department did not take remedial action to recover the government revenue. This resulted in non-payment of tax amounting to Rs 7.67 million.

Management Reply

The department reported that legal proceedings to recover the tax had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- fixing of responsibility against the responsible personnel.

[DP No.14863, 14885-IT]

4.4.18 Inadmissible claim of tax credit - Rs 129.50 million

Section 65 of the Income Tax Ordinance 2001 provides that a tax credit shall be allowed against the tax payable at prescribed rate if the taxpayer purchases plant and machinery through hundred per cent new equity. The credit shall be allowed in the year in which the plant and machinery is installed. Further, tax credit on balancing modernization and replacement of plant and machinery (BMR) is also admissible to the taxpayers.

In five field formations of FBR, tax credit was allowed to twelve taxpayers despite the fact that new equity was not introduced in the relevant tax year. No remedial action under the law was initiated by the department to rectify the apparent mistake. This resulted in short recovery of tax amounting to Rs 129.50 million.

Management Reply

The department reported that legal proceedings to recover the tax had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- fixing of responsibility against the responsible personnel.

[Annexure-38]

4.4.19 Loss of revenue due to excess depletion allowance - Rs 116.67 million

According to rule-3 Part-II of Fifth Schedule to the Income Tax Ordinance 2001 depletion allowance shall be allowed to the taxpayer carrying business of exploration and production of oil and gas. The rate of the allowance shall be equal to twenty per cent of the taxable income.

In the case of a taxpayer (NTN- 657090-9) assessed under the jurisdiction of the Large Taxpayers Unit Islamabad, excess depletion allowance was allowed for the tax year 2013. The department did not initiate remedial action to rectify the excess depletion allowance. This resulted in short assessment of income and consequent loss of revenue amounting to Rs 116.67 million.

Management Reply

The department reported that legal proceedings to recover the tax had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- fixing of responsibility against the responsible personnel.

[DP No.14882-IT]

4.4.20 Non-allocation of proportionate expenses - Rs 13.67 million

Section 67 of the Income Tax Ordinance 2001 read with rule 13 of the Income Tax Rules 2002 provides for apportionment of expenses amongst various business activities carried out by a taxpayer under final tax regime and normal tax regime.

In two cases assessed under the jurisdiction of the RTO-II Karachi, the taxpayers carried out business under final and normal tax regime but their claimed expenses were not apportioned accordingly. The department did not initiate legal action to rectify the assessment order prejudicial to revenue. This resulted in short assessment of income and consequent loss of revenue amounting to Rs 13.673 million for the tax years 2009 to 2012.

Management Reply

The department reported that legal proceedings to recover the tax had been initiated against the taxpayers.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- fixing of responsibility against the responsible personnel.

[DP No.754/K]

4.4.21 Discrepancies in issuance of exemption certificates

The provisions of sections 153 and 148 of Income Tax Ordinance 2001 provides that withholding agent will deduct tax at the time of making payment to the taxpayer and custom authority will collect tax at the time of import. However, the Commissioner has the authority, under section 159, to issue exemption certificate by stating that the withholding tax will not be deducted or deducted at lower rate, after being satisfied that no tax is pending against the taxpayer and other legal formalities have also been fulfilled.

In twelve cases assessed under the jurisdiction of the RTO-II Lahore the commissioner, while issuing exemption certificates did not observe the legal

formalities as tax liability was outstanding against the taxpayers during the period from July 2013 to June 2014. The issuance of invalid exemption certificates resulted in short realization of tax.

Management Reply

The department reported that matter had been taken up to identify the reasons for issuance of wrong exemption certificates.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to justify the position by 28th February 2015.

Audit emphasizes upon fixing of responsibility against the responsible personnel.

[Draft Para No. 14916-IT]

4.4.22 Non-recovery of tax demand - Rs 494.23 million

Section 138 of the Income Tax Ordinance, 2001 provides that income tax due from any person may be recovered by tax authorities in accordance with the procedures laid down therein.

RTO Multan did not recover the tax demand of Rs 494.232 million for the tax year 2012 from a taxpayer bearing NTN 3011207-9 despite the fact that the tax was levied by the department on factual as well as on legal grounds and the levy was also up held in different appellate forum. Further, Honourable High Court granted the stay against the recovery of the demand, but after lapse of the period of the stay, no recovery was made from the taxpayer.

Management Reply

Reply was not furnished by the department.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the RTO to furnish comprehensive reply by 28th February 2015.

Audit Emphasizes upon

- furnishing of comprehensive reply,
- expeditious recovery of the dues.

[DP No.14997-IT]

4.5 Refund of Income Tax

4.5.1 Unlawful issuance of refund - Rs 3,780.93 million

According to section 170 of the Income Tax Ordinance 2001 read with FBR circular No.5 of 2003, a taxpayer is entitled to a refund if the tax paid is more than the tax due after adjustment of outstanding liabilities.

In eight field formations of FBR, refund was issued to sixty six taxpayers without adjustment of outstanding liabilities. Moreover, the credit of final tax was also given without verification. The department did not take corrective action to recover the unlawful refund of Rs 3,780.93 million.

Management Reply

The department replied that an amount of Rs 0.92 million had been charged but not yet recovered. Legal proceedings had been initiated in cases involving Rs 3,695.78 million but not yet finalized. Reply was not furnished in the cases involving Rs 83.77 million and cases of Rs 0.45 million were reported as subjudice.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the charged amount, finalize the assessment proceedings and furnish reply by 28th February 2015 and pursue the subjudice cases at appellate fora.

Audit Emphasizes upon

- expeditious recovery/assessment proceedings,
- furnishing of reply in non-responded cases,
- pursuance of subjudice cases,
- fixing of responsibility against the responsible personnel,

[Annexure-39]

4.5.2 Excess determination of refund - Rs 237.99 million

Section 114 of the Income Tax Ordinance 2001 provides that the return filed by the taxpayer shall be complete in all respects. Further, under section 170

a taxpayer is entitled to claim refund if the paid tax is more than the due tax after adjustment of outstanding liabilities.

In four field formations of FBR, twenty seven taxpayers calculated their tax liability incorrectly and claimed refund instead of tax payable. The department did not take any legal action to recover the due tax from the taxpayers until the discrepancy was pointed out. This resulted in excess determination of refund amounting to Rs 237.99 million.

Management Reply

The department reported that legal proceedings had been initiated to rectify the excess determination of refund.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the proceedings,
- fixing of responsibility against the responsible personnel.

[Annexure-40]

4.5.3 Loss of revenue due to negligence on the part of tax authorities - Rs 90.20 million

According to section 171 of the Income Tax Ordinance, 2001, where a refund due to a taxpayer is not paid within three months of the date on which it becomes due, the Commissioner shall pay to the taxpayer an amount by way of compensation at prescribed rate. Further, the Federal Tax Ombudsman has given its findings in the case of a compensation paid to a taxpayer that the delay in payment of the compensation constitutes maladministration and the person(s) responsible for this negligence need to be held accountable for such a lapse on their part.

A tax authority of LTU Lahore paid a compensation worth of Rs 90.20 million to a taxpayer in the year 2013 due to delayed sanctioning of refund pertaining to tax years 1994-1995 and 1998-99 to 2002-2003. In the instant case

the Federal tax Ombudsman had remarked that *"prima facie the department's contention in the matter seems to be devoid of any merit and betrays gross ignorance of the law by the relevant functionaries……." Further, remarked that "the departmental lapse of not adhering to statutory limitation for issuance of refund eventually ends up in significant payment to the complainant by way of compensation and is a burden on the exchequer that could be easily avoided provided that departmental functionaries simply followed the law and issued refund claims in time as per statutory stipulation. The person(s) responsible for this negligence needed to be held accountable for such a lapse on their part".*

Audit was of the view that payment of compensation was due to inaction by the department for inordinate delay in determination and sanction of refund pertaining to period of up to a decade. This resulted in loss to public exchequer of Rs 90.20 million.

Management Reply

When pointed out by Audit, the department replied that the case was subjudice and the department refrained from issuance of refund. Whereas, as per contents of the FTO's findings, the department stated that the compensation was not admissible to the complainant as the refund application was not filed on the prescribed form.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to provide the detail of litigation by 28th February 2015.

Audit Emphasizes upon

- fixing of responsibility against the responsible personnel as directed by the FTO,
- justification of matter besides recovery of the amount involved.

[DP No 14689-IT]

4.6 Workers Welfare Fund

4.6.1 Non-realization of workers welfare fund - Rs 2,596.53 million

Under section 4 of the Workers Welfare Fund Ordinance 1971, every industrial establishment, whose total annual income exceeds a statutory threshold, is required to pay Workers Welfare Fund @ 2 percent of its total income.

In eighteen field formations of FBR, WWF was not paid by nine hundred taxpayers for the tax years 2009 to 2013. The concerned assessing authorities also did not take action to recover the amount. This resulted in non-realization of WWF amounting to Rs 2,596.53 million.

Management Reply

The department replied that an amount of Rs 187.94 million had been charged out of which Rs 41.27 million recovered and verified by Audit. The department further reported that legal proceedings for charging the WWF amounting to Rs 2,090.18 million had also been initiated but not yet finalized. Reply was not furnished in cases involving Rs 172.31 million and cases of Rs 146.10 million were reported as subjudice.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the charged amount, finalize the proceedings and furnish updated reply in non-responded cases by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery / early finalization of legal proceedings,
- furnishing of reply in non-responded cases,
- fixing of responsibility against the responsible personnel.

[Annexure-41]

4.7 Withholding Taxes

Sales Tax

4.7.1 Non-deduction/realization of sales tax from government suppliers/ vendors and DDOs - Rs 167.75 million

According to rule-2(2) of the Sales Tax Special Procedure (Withholding) Rules 2007, a withholding agent shall deduct an amount equal to 1/5th of the total sales tax shown in the sales tax invoice issued by a registered person. Further rule 3(2) of the rules provides that, the registered supplier shall file monthly return and shall adjust total input tax against output tax under sections 7, 8 and 8B of the Sales Tax Act 1990, taking due credit of the sales tax deducted by the withholding agent. Furthermore non/short payment of tax also attracted penalty and default surcharge leviable under sections 33 and 34 of the Sales Tax Act 1990.

Audit identified 173 DDOs who either partially withheld or did not withhold 1/5th of sales tax from the claims of certain suppliers. When verified from the "Tax-sys" of the FBR, it was confirmed that seventy nine suppliers of these withholding agents pertaining to four offices of FBR had neither paid 4/5th amount of sales tax nor filed their sales tax returns. Resultantly 1/5th of sales tax was either partially withheld or not withheld by the withholding agents and the remaining 4/5th amount of sales tax was also not deposited by the suppliers in the public exchequer. This resulted in non-realization of sales tax amounting to Rs 167.75 million for the years 2012-13 and 2013-14 besides penalty and default surcharge.

Management Reply

The department replied that an amount of Rs 0.10 million had been recovered, Rs 0.17 million was under recovery, Rs 14.45 million under adjudication whereas no progress was reported by the department in remaining amount of Rs 153.03 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings for recovery and adjudication proceedings. The DAC further

directed the department to furnish updated reply in non-responded cases and settled the para to the extent of recovered amount of Rs 0.10 million.

Audit Emphasizes upon

- expeditious recovery and adjudication proceedings,
- furnishing of reply in non-responded cases,
- proper monitoring of withholding agents for timely filing of returns and payment of tax.

[Annexure-42]

4.7.2 Non-realization of withholding sales tax - Rs 4,108.76 million

According to rule 2(2) and 2(3)(i) of the Sales Tax Special Procedure (Withholding) Rules 2007, a withholding agent shall deduct an amount equal to one fifth of the total sales tax shown in the sales tax invoice issued by a registered person and on purchase of taxable goods from non-registered person, shall deduct sales tax at the applicable rate of the value of taxable supplies made to him from the payment due to the supplier.

Fifty withholding agents of seven offices of FBR made taxable purchases from registered and non-registered persons. The withholding agents were required to deduct sales tax at the prescribed rates. Forty one withholding agents deducted sales tax whereas nine withholding agents did not deduct the same while making payment to the suppliers. The collected tax was not deposited in public exchequer. No legal action was taken by the department. This resulted in non-realization of sales tax of Rs 4,108.76 million during the financial years 2012-13 and 2013-14.

Management Reply

The department replied that an amount of Rs 88.77 million had been recovered, Rs 1,329.74 million was not due, Rs 128.97 million were under recovery and Rs 1,223.90 million were under adjudication. No progress was reported by the department in cases of remaining amount of Rs 1,337.38 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated reply and expedite recovery/adjudication proceedings and report progress by

28th February 2015 and settled the para to the extent of recovered as well as not due amount of Rs 1,418.51 million.

Audit Emphasizes upon

- expeditious recovery/adjudication proceedings and furnishing of reply in non-responded cases,
- taking effective measures for proper monitoring of withholding tax,
- fixing of responsibility for inaction by the concerned.

[Annexure-43]

4.7.3 Non-realization of government dues - Rs 16.84 million

According to rule-1(2) of the Sales Tax Special Procedure (Withholding) Rules 2007, there are six classes of registered persons who have been declared as withholding agents. Non-registered persons have not been categorized as withholding agents.

Four taxpayers of RTO-III Karachi made taxable supplies to non-registered persons and showed Rs 16.84 million as tax withheld by the buyers. However, the buyers were non-registered and as per law, non-registered person can not be a withholding agent. On one side the sales tax was paid less by the suppliers and on the other, the non-registered buyers did not pay the amount of tax withheld by them. This resulted in non-realization of government revenue amounting to Rs 16.84 million due to non-monitoring by the department as detailed below.

(Rs in million)

Sr. No.	Office	No. of cases	Amount pointed out	DP No.
1	RTO-III Karachi	3	5.85	5841-ST/K
		1	10.99	Para 6.4.5 of SSR on Blacklisted
Total		**4**	**16.84**	

Management Reply

The department replied that matter involving Rs 5.85 million had been referred to FBR for clarification whereas no reply was furnished in case of Rs 10.99 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to get the matter clarified at the earliest, furnish reply in non-responded case and report progress by 28th February 2015.

Audit Emphasizes upon

- early clarification on the matter,
- furnishing of reply in non-responded case,
- expeditious recovery of the dues pointed out,
- fixing of responsibility for inaction by the personnel responsible.

Income Tax

4.7.4 Non-realization of withholding tax - Rs 48,977.81 million

According to section 161 of the Income Tax Ordinance, 2001 where a withholding agent fails to deduct tax or does not deposit the deducted tax, is personally liable to pay the amount of tax.

In seventeen field formations of FBR, 878 withholding agents did not deduct tax while making payments on account of sale of goods or supplies. It was the statutory obligation of the department to collect the tax from the taxpayers, however, no such action was taken by the department. The irregularity resulted in non-realization of tax of Rs 48,977.81 million.

Management Reply

The department replied that the tax of Rs 466.68 million had been charged out of which an amount of Rs 274.52 million recovered. The department further reported that legal proceedings for charging the tax of Rs 45,391.83 million had also been initiated. Reply was not furnished in the cases involving Rs 423.80 million and cases of Rs 2,695.50 million were reported as subjudice.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the charged amount, finalize the assessment proceedings and furnish reply by 28th February 2015 and pursue the subjudice cases at appropriate appellate fora.

Audit Emphasizes upon

- expeditious recovery and finalization of the proceedings,
- pursuance of the subjudice cases,
- furnishing of reply in non-responded cases,
- initiating appropriate action against responsible personnel.

[Annexure-44]

4.7.5 Non-realization of withholding tax on salary - Rs 503.28 million

According to section 149(1) read with section 161 every employer paying salary to an employee shall deduct tax from the amount of salary at the time of payment. The deduction shall be made at average rate of tax computed at the rates specified.

In five field formations of FBR, withholding tax on salary income in respect of twenty taxpayers was not correctly deducted by the withholding agents at the time of making payment. The assessing authority also did not take remedial action under the law to recover such tax. This resulted in non-realization of tax amounting to Rs 503.28 million.

Management Reply

The department reported that legal proceedings to recover the tax had been initiated in cases of Rs 344.07 million and reply was not furnished in cases of Rs 159.21 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the proceedings, furnish reply in non-responded cases and report progress by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- furnishing of reply in non-responded cases,
- fixing the responsibility against the responsible personnel.

[Annexure-45]

4.7.6 Non-realization of withholding tax on dividend - Rs 5,023.05 million

Section 150 read with section 161 of the Income Tax Ordinance 2001 provides that every person paying a dividend shall deduct tax from the gross amount of the dividend paid at specified rate.

In six field formations of FBR, withholding agents while making payment on account of dividend, failed to deduct the tax in twenty eight cases. The department did not take legal action to collect the tax from the defaulters. This resulted in non-realization of tax amounting to Rs 5,023.05 million.

Management Reply

The department reported that an amount of Rs 8.26 million had been charged but not yet recovered and legal proceedings to recover the tax were initiated in cases of Rs 5,014.79 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the recovery of amount charged and finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of charged amount,
- early finalization of the legal proceedings,
- fixing of responsibility against the responsible personnel.

[Annexure-46]

4.7.7 Non-realization of withholding tax on profit on debt - Rs 852.21 million

According to section 151 read with section 161 of the Income Tax Ordinance 2001, a banking company and financial institution shall deduct withholding tax at specified rate at the time of making payment of any profit on a debt.

In three field formations of FBR, the withholding agents did not deduct tax while making payment of profit on debt in eleven cases. No remedial action

was initiated by the department to recover the tax from the defaulters. This resulted in non-realization of tax amounting to Rs 852.21 million.

Management Reply

The department reported that legal proceedings had been initiated to recover the tax.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the proceedings,
- fixing of responsibility against the responsible personnel.

[Annexure-47]

4.7.8 Non-levy of tax on payments to non-residents - Rs 33.89 million

Section 152 of the Income Tax Ordinance 2001 provides that every person while making payment on account of royalty or fees for technical services to a non-resident person shall deduct tax on specified rate from the gross amount paid.

A withholding agent under the jurisdiction of LTU Lahore failed to deduct tax while making payment on account of technical services to a non-resident. Legal action under the law was not taken by the department to recover the tax. This resulted in non-recovery of tax of Rs 33.89 million for tax year 2013.

Management Reply

The department reported that legal proceedings to recover the tax had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- fixing of responsibility against the responsible personnel.

[DP No.15153]

4.7.9 Non-levy of tax on brokerage and commission - Rs 165.07 million

The provision of section 233 read with section 161 of the Income Tax Ordinance 2001 provides that withholding agent is required to deduct a tax at prescribed rate while making payment on account of brokerage or commission. The tax so deducted shall be the final tax on the income of such taxpayer.

In the case of three taxpayers assessed in two field formations of FBR, the tax was either not deducted or the tax deducted was less than the prescribed rate. The department did not take remedial action under the law to recover the government revenue. This resulted in short levy of tax Rs 165.07 million.

Management Reply

The department reported that legal proceedings had been initiated to recover the tax.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- fixing of the responsibility against the responsible personnel.

[Annexure-48]

4.7.10 Non recovery of tax on income from property - Rs 39.32 million

According to section 155 of the Income Tax Ordinance 2001 every prescribed person while making a payment in full or part, including a payment by way of advance, to any person on account of rent of immovable property shall deduct tax from the gross amount of rent paid at the specified rate.

In two field formations of FBR, nine withholding agents did not deduct withholding tax while making payment on account of rent of the property. The department did not take remedial action to recover the government revenue. This resulted in non-levy of tax of Rs 39.32 million.

Management Reply

The department reported that an amount of Rs 0.42 million had been recovered and legal proceedings to recover the balance amount of Rs 38.90 million had also been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to finalize the assessment proceedings by 28th February 2015.

Audit Emphasizes upon

- early finalization of the legal proceedings,
- fixing the responsibility against the responsible personnel.

[DP No.14857, 14674-IT]

4.8 Expenditure

4.8.1 Excess and inadmissible expenditure on account of pay and allowances - Rs 10.63 million

According to para-3 of Sr. No. 46 of Civil Establishment Code (ESTA Code), the fixation of pay in the higher scale will be allowed at a stage next above the existing basic in the lower scale without any premature increment, which is allowed only on a promotion from a lower to higher post. Further, according to Revised Leave Rules 1980 and rule 7-A of Supplementary Rules, any employee proceeding on leave for more than 120 days is entitled to half pay only and conveyance allowance is not admissible during leave period. In case of extra ordinary leave, no pay and allowance are admissible to government servants. Further, according to Finance Division's U.O. No. F.1(4)R-3/2013-677 dated 18.12.2013 regular employee of the Prime Minister's Office who have been placed on surplus pool, are allowed fuel and electricity subsidy, President House Allowance and facility of rent free accommodation, unless and until they are finally absorbed in other Ministries/Divisions/Departments where more favourable perks and allowances are granted.

Contrary to the above provision of law, the FBR (HQ) and its eight field formations paid inadmissible pay and allowances of Rs 10.63 million to 179 officers/officials due to wrong fixation of pay, continuity of pay and conveyance allowance during EOL, deputation allowance, presidency allowance and fuel/electricity subsidy allowance even after permanent absorption in FBR. This resulted in excess and inadmissible payments on account of pay and allowances of Rs 10.63 million during the financial years 2012-13 & 2013-14.

Management Reply

FBR (HQ) replied that the pay of officers was fixed by AGPR. The AGPR Office had been requested to revise the pay slips accordingly so that the overpaid amount could be recovered. In remaining cases, the recovery had been initiated and progress will be communicated to Audit in due course of time.

DAC's Recommendations

The DAC meeting held in January 2015 directed the FBR (HQ) and its subordinate formations to expedite the recovery process.

Audit Emphasizes upon

- recovery of inadmissible paid amount,
- rectification of pay fixation from AGPR,
- discontinuity of the inadmissible allowances.

[Annexure-49]

4.8.2 Inadmissible payment / short realization of government dues on account of transport monetization and performance allowance - Rs 2.12 million

According to rules/policy for monetization of transport facility to civil servants (BPS-20 to BPS-22) issued by the Government of Pakistan, Cabinet Secretariat (Cabinet Division) vide No.6/7/2011-CPC, dated 12th December 2011, the recovery installment at the depreciated price of the vehicle shall not be less than Rs 25,000 per month and in such a way that the entire cost is recovered from the officers before the date of their superannuation. Such officers of BPS-20 to BPS-22 are not entitled to draw Transport Monetization Allowance during the LPR or any other kind of leave, except for medical leave up to one month and casual leave. Performance allowance is also not admissible in case of leave exceeding 48 days during a year.

In five cases of FBR (HQ) and Directorate of Internal Audit Lahore, transport monetization and performance allowance were wrongly paid during leave period to the officers. In one case, balance amount on account of monetized vehicle was not recovered from the officer prior to the date of his retirement. This resulted in inadmissible payment/short realization of government dues on account of transport monetization amounting to Rs 2.12 million during the financial year 2013-14.

Management Reply

In four cases the department replied that recovery will be initiated from January 2015. In another case amount will be recovered from the pension of the retired officer.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the amount involved.

Audit Emphasizes upon expeditious recovery of the dues.

[Annexure-50]

4.8.3 Inadmissible payment of hired residential accommodations - Rs 1.85 million

According to Ministry of Housing and Works letter No.F.2(3)/2003-Policy dated 31.07.2004, the employee of the department shall locate a house according to his entitlement and submit an application to his Office alongwith requisite documents for permission to occupy the house. Further, according to Para 8(10) of Chapter 6 of Accommodation Allocation Rules 2002, a hired or requisitioned house shall be allotted at the station of posting of the Federal Government servant.

Directorate of Internal Audit Lahore and FBR (HQ) allowed hiring to the employees at places other than their place of posting in two cases and paid rent for Rs 1.02 million. Further, RTO and LTU Islamabad sanctioned nine cases of accommodation prior to the date of submission of application and paid rent of Rs 0.83 million. This resulted in inadmissible payment of hired residential accommodation aggregating to 1.85 million.

Management Reply

The department replied that proceedings had been initiated in a case where amount was recoverable. An amount of Rs 0.76 million was contested and no documentary proof was provided for amount of Rs 0.07 million. Moreover, no reply was furnished for amount of Rs 0.31 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to pursue the recovery from the concerned and report progress in the remaining cases by 28th Feb 2015.

Audit emphasizes upon expeditious recovery of the dues.

[Annexure-51]

4.8.4 Irregular expenditure on account of POL/CNG and repair/ maintenance of vehicles - Rs 10.97 million

According to Rule 15 of the Staff Car Rules 1980, proper record i.e. Log Books, Movement Registers and Requisition Slips are required to be maintained in respect of all government vehicles for effective control on expenditure on POL and Repair & Maintenance of the official vehicles.

Nine offices of FBR incurred expenditure of Rs 10.97 million on account of POL/CNG and repair/maintenance of 190 official vehicles without maintaining necessary record under Staff Car Rules, 1980. This resulted in irregular expenditure of Rs 10.97 million during the financial year 2013-14.

Management Reply

The department contested that the expenditure had correctly been incurred on account of POL/CNG, repair and maintenance of vehicles. The contention of the department was not tenable as no evidence of compliance with Staff Car Rules was produced to Audit.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to show compliance of Staff Car Rules 1980 and report progress by 28th February 2015.

Audit Emphasizes upon

- recovery of amount from the concerned,
- fixing of responsibility against the personnel.

[Annexure-52]

4.8.5 Wasteful expenditure on purchase of building - Rs 25.70 million

According to Para 10 (ii) of GFR Vol-I "expenditure should not be prima facie more than the occasion demands. Every government officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money and public money should not utilized for the benefits of a particular person or community".

Additional Director (Internal Audit) Hyderabad purchased a portion of building during the year 2001 at the cost of Rs 19.700 million. The acquired portion has thirty (30) rooms and four (04) halls for the requirement of office work. The whole expenditure has been wasted due to bad planning on the following grounds:

i. Out of 30 rooms and 04 halls, only 07 rooms are under the official use and 75% of the acquired portion has remained empty and locked since 2001.
ii. Though the building was owned by the Hyderabad Development Authority, yet the FBR department installed a lift costing Rs 6.00 million without any justification.
iii. Un-utilized portion of 23 rooms and 04 halls should have been rented out to earn revenue, as building is situated at the prime location of the city. The same was not done since 2001, thus millions have been wasted on this account as well.

Management Reply

The para could not be discussed in the DAC meeting held in January 2015 due to non submission of working papers by the department.

DAC's Recommendations

The DAC directed the department to furnish comprehensive reply by 28th February 2015.

Audit emphasizes upon

- justification for wastage of expenditure,
- fixing of responsibility for purchase of building,
- ascertaining the reasons for not renting out the unoccupied portion.

[DP No.238-Exp/K]

4.8.6 Unauthorized payment of conveyance and performance allowance - Rs 5.01 million

According to rule 7-A of Supplementary Rules, conveyance allowance is not admissible during leave or temporary transfer. Further, FBR's Circular No.

01(4)/M(HRM)/2012 dated 23rd July 2012, provides that the Performance Allowance will be admissible upto the period of 48 days earned leave whether availed together or separately in a calendar year. As per rule 5(9) of the Staff Car Rules 1980, the use of staff car /official vehicle shall not be allowed to an officer/official who is in receipt of conveyance allowance.

FBR (HQ) and its eight offices did not deduct conveyance allowance from salaries of 215 officers/officials who were either on leave or drawing monetization allowance or availing pick and drop facility of official transport. Three offices of FBR also did not deduct special/performance allowance from the salaries of ten officers/officials who availed leave beyond the specified period. This resulted in unauthorized payment of conveyance and performance allowance of Rs 5.01 million during the year 2013-14.

Management Reply

FBR (HQ) its field formations informed that recovery from the pay of concerned had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to recover the amount involved and report progress to Audit.

Audit Emphasizes upon

- expeditious recovery of the amount involved,
- fixing of responsibility against the responsible personnel.

[Annexure-53]

4.8.7 Irregular payment of cash reward - Rs 37.63 million

According to rule 39 to 43 of the General Financial Rules, the Ministry of Finance, on behalf of President of Pakistan, is competent to frame rules pertaining to the financial matters. Further, according to para 2(a) of Unified Reward Rules 2006, officers and staff of FBR who render meritorious services shall be paid reward and such reward shall be restricted to two months basic salary. Further, as provided in PC-I of the project preparation facility (PPF) for RMP, there were total nineteen (19) activities which were to be completed up to

June, 2013 and budget allocation was also made in accordance with the size of each activity.

Contrary to the above, nine offices of FBR during the year 2012-13 and 2013-14 paid reward of Rs 37.63 million to their 1687 officers/officials under Unified Reward Rules, 2006 which was not admissible due to the reasons given below:

(a) The Unified Reward Rules, 2006 have been issued by the Revenue Division but not approved and notified by the Finance Division which was a pre-requisite for payment.
(b) Project Management Unit of Revenue Mobilization Project paid cash reward equal to six months of basic pay to their officers/officials instead of maximum limit of two months. Further, cash reward and budget honorarium equal to one or two month basic pay was also paid to them from the annual budget grant of FBR (HQ).
(c) As per rules, the payment of reward was a kind of incentive to be paid for rendering meritorious services or showing extraordinary performance but performance of project indicate only 5% achievement level and amount incurred on payment of cash reward worked out to 44% of total expenditure incurred in PPF upto June, 2013.

This resulted in irregular payment of cash reward of Rs 37.63 million during the financial year 2012-13 and 2013-14.

Management Reply

FBR (HQ) informed the DAC that cash reward sanctioned by the Administration Wing with the approval of Principal Accounting Officer was justified under Unified Reward Rules 2006. Further, Project Management Unit of Revenue Mobilization Project replied that reward sanctioned to the employees out of Revenue Mobilization Project was the payment of incentive from project funds. The reward was covered under the provision of loan agreement with World Bank read with Finance Division's instructions issued vide letter No. F.16(1)/ Regulation-14/2003 dated 18th April, 2012. Therefore, the audit observation was not in order as the payment did not fall under the purview of Reward Rules, 2006. Further the cash reward was approved by the FBR on submission of necessary justification in respect of extraordinary performance.

However, the department admitted that recommended employees exceeded the 40% limit of the total working strength. Contention of the department was not tenable on the ground that the PMU of RMP even did not complete the activities assigned in PC-I of the project.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the FBR to submit copy of recommendation by the Member/PD RMP which was sent to Admn Wing for payment of cash reward of two salaries. Further, DAC directed the department that either recovery of differential amount be made or excess payment be got regularized from the competent authority.

Audit Emphasizes upon

- approval of Unified Reward Rules, 2006 from the Ministry of Finance,
- recovery of irregular payment of reward,
- fixing of responsibility against the responsible personnel.

[Annexure-54]

4.8.8 Non-realization of sales tax on account of advertisement and purchase of goods - Rs 8.56 million

According to rules 1, 2(2A) & (3A) of the Sales Tax Special Procedure (Withholding) Rules 2007, a withholding agent shall deduct sales tax @ 17% on purchase of taxable goods from non-registered persons. A person who receives advertisement services shall deduct the amount of sales tax as mentioned in the invoice. In case the sales tax amount is not indicated on the invoice, the recipient shall deduct sales tax at the applicable rate against the value of taxable services.

FBR (HQ) and RTO Faisalabad did not deduct the amount of sales tax at the prescribed rate at the time of making payment on account of advertisement services and purchase of goods. This omission resulted in non-realization of sales tax for Rs 8.56 million during the financial year 2013-14.

Management Reply

The department informed that the recovery had been initiated.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to pursue the recovery of amount involved.

Audit emphasizes upon expeditious recovery of the dues.

[D.P No. 14597, 14790 & 14800-Exp]

4.8.9 Misuse of monetization of transport facility - Rs 8.62 million

According to Cabinet Division notification No.6/7/2011-CPC, Islamabad dated 12th December 2011, for monetization of the transport facility for civil servants, Ministries/Divisions/Departments needing operational vehicles shall get their authorization of such vehicles from the Vehicle Committee constituted with a representative each from Cabinet Division, Finance Division and the respective Ministry/Division/Department.

In RTO Hyderabad, fifty three official vehicles were under the use of local office, but authorization thereof was not obtained from the concerned authorities. The vehicles were being misused by the officers (BS-17 to BS-20) and they were also drawing monthly monetization /conveyance allowance. Thus, expenditure of Rs 8.62 million was irregular.

Management Reply

The department stated that the matter of approval of operational vehicles had been taken up with the FBR and final outcome would be intimated to Audit.

DAC's recommendations

The DAC observed in its meeting held in January 2015 that after introduction of monetization policy in 2011, RTO/LTU in Sindh and Balochistan had not obtained necessary approval/authorization from Cabinet Division. All RTOs were directed to submit cases of authorization of operational vehicles by 15th February 2015. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- taking measures to prevent misuse of officials vehicles,
- providing proof of authorization from Cabinet Division for use of operational vehicles.

[D.P No.235-Exp/K]

4.8.10 Irregular expenditure on account of janitorial services - Rs 2.93 million

According to para 130(1) of the GFR Vol-I the financial powers of subordinate authority to sanction expenditure are regulated by general or special order as may be issued by the government in this behalf. Further, according to Sr. No. 27 of the financial powers delegated to the Ministries/Division's vide para 8(a) of the Finance Division's OM No.F.3(2)exp-III/2006 dated 13th September 2006, payment to others for services rendered will be sanctioned with the approval of Ministries/Divisions.

In two field offices of FBR, an amount of Rs 2.93 million was paid to two contractors on account of janitorial services in presence of available strength of sanitary workers during the year 2013-14. In spite of the fact that eighteen sanitary workers were already on the sanctioned strength of these two field offices, the work for janitorial service was awarded and that too without calling open tenders in violation of PPRA rules.

Management Reply

The matter was pointed out during September to November 2014. The department replied that sanitary workers were hired as per requirement of the building, as available workers were not sufficient to do the required job. Audit pointed out that open tenders were not called for in violation of PPRA rules.

DAC's recommendations

The DAC in its meeting held in January 2015 directed to produce waiver/exemption from tenders as claimed and approval of competent authority for hiring of the janitorial workers.

Audit Emphasizes upon

- observance/compliance of PPRA rules,
- fixing of responsibility for violation of rules.

[D.P.No.192, 219-Exp/K]

CHAPTER-5 AUDIT OF SPECIFIC AREAS

5.1 TAXATION ISSUES IN TELECOM SECTOR

a) Introduction

Telecommunication has emerged as one of the fastest growing sectors of the economy in recent years. This sector comprises six major segments; Mobile Sector, Fixed Line Sector, Wireless Local Loop Sector, Payphone Services, Internet Services and Voice over Internet Protocol (IP). Telecom sector has been contributing to national exchequer in terms of taxes, regulatory fee, activation tax and other charges. During the financial year 2011-12, this sector made a record contribution of Rs 132.5 billion compared to Rs 117 billion in previous year. Telecom sector is the largest contributor in GST collection from services in the country. The GST / FED collected from telecom was Rs 56.9 billion in financial year 2011-12 compared to Rs 52.7 billion in the previous year, thus showing a growth of eight percent.

The impact of telecom deregulation policy on overall economy is quite obvious as the sector has seen an exponential growth after the deregulation. The mobile telephone market has grown fourteen-fold since 2000 to reach a subscriber base of 121 million users in 2013, one of the highest mobile tele-densities in the entire world. In addition, there are over six million landlines in the country with 100 % fiber-optic network and coverage via WLL even in the remote areas. Pakistan has entered into the age of telecom revolution and this sector is by far the most attractive in Pakistan in terms of Foreign Direct Investment in the country. Since liberalization, over the past four years, telecom sector in Pakistan has attracted more than $10 billion in foreign investments. Keeping in view the telecom sector as huge emerging service providing industry and second largest revenue spinner for the national kitty, Audit selected the specific area for audit.

b) Audit Objectives

The audit objectives were to see whether:

i) compliance of relevant tax laws was being made by the telecom companies and it was ensured by the tax authorities,
ii) monitoring mechanisms were in place and functioning effectively.

c) Audit Scope and Methodology

Initially, it was planned to conduct the audit of telecom sector in collaboration with the office of the Director General Audit PT&T Lahore, which is having audit jurisdiction of Pakistan Telecom Authority (PTA). The PTA did not provide auditable record on the plea of some administrative issues faced within the authority. So, the field audit team confined its audit program only to the record available with LTU Islamabad, where most of the telecom sector companies were registered.

LTU Islamabad did not provide auditable record relating to value added services and data about activation of cell phone numbers. Hence, Audit was constrained to rely upon the data obtained from FBR (HQ), soft data of tax returns mostly pertaining to financial year 2011-2012 and data from some other sources such as news papers, tax journals and various research papers etc.

d) Audit Findings and Recommendations

Audit findings and recommendations are enumerated in the succeeding paragraphs:

5.1.1 Inadmissible sanction of refund of Rs 3,761.48 million and excess determination of refund of Rs 2,488.91 million on account of tax deducted on imports aggregating to Rs 6,250.39 million

According to section 2 (29) (c) of the Income Tax Ordinance 2001 read with clarification issued by FBR vide C.No.1 (9) WHT/ 2006 dated 1st April 2011, telecom sector does not fall under the definition of 'industrial undertaking'. Further, section 148 (7) (a) provides that tax deducted at import stage shall be final tax on the income of the importer arising from imports and

this subsection shall not apply in the case of import of raw material, plant, machinery and parts by an industrial undertaking for its own use.

Contrary to the above provision of law, the tax authorities of LTU Islamabad sanctioned refund of income tax amounting to Rs 3,761.48 million to three telecom companies during the tax years 2012 and 2013 on account of tax deducted on imports. Further, six telecom companies claimed adjustment of Rs 2,488.91 million on account of tax deducted on import of raw material, machinery, equipment and parts while filing their income tax returns. Tax authorities also did not take remedial measure to ascertain the actual tax liability against the taxpayers as required under section 122 of the Income Tax Ordinance, 2001. This resulted in inadmissible refund of Rs 3,761.48 million sanctioned by tax authorities and excess determination of refund of Rs 2,488.91million due to wrong adjustment claimed by the taxpayers causing aggregate loss of government revenue Rs 6,250.39 million.

Audit was of the view that refund sanctioned and adjustment of tax paid at import stage was not admissible on the following grounds:

i. As the telecom sector did not fall under the definition of "industrial undertaking", as given in the Ordinance and also clarified by the Board vide C.No.1 (9) WHT/ 2006 dated 01.04.2011; tax deducted u/s 148 (7) was the final tax liability of the taxpayer.
ii. Telecom companies did not bear any expense on account of 'cost of manufacturing', meaning thereby, no manufacturing process was involved in goods imported by the taxpayer.
iii. Telecom companies are also not paying worker welfare fund (WWF) on the plea that the sector did not fall under the definition of industrial undertaking which also substantiated the Audit's view point as stated above.

Management Reply

The LTU informed that an amount of Rs 110.57 million had been charged and the demand was adjusted against refund claimed by the taxpayer. The amount of Rs 471.83 million was under recovery. The amount of Rs 1,577.95 million was reported as subjudice and Rs 328.56 million reported

under legal process. In case of refund sanctioned the department reported that the legal proceedings had been initiated to recover the incorrect refund issued.

DAC's Recommendations

The DAC in its meetings held in September 2014 and January 2015 directed the LTU to expedite recovery proceedings, pursue the subjudice cases, complete assessment process for early recovery of government dues and explain reasons for issuance of inadmissible refund and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery proceedings,
- early finalization of legal/assessment proceedings,
- fixing of responsibility against the personnel responsible.

(A.O No.59, 71 & DP No.14887-IT)

5.1.2 Short realization of income tax due to inadmissible adjustment of activation charges - Rs 495.64 million

According to SRO 542 (I)/2008 dated 11.06.2008 and amended on 04.04.2013 and 30.05.2013, cellular companies shall charge, collect and pay sales tax at the time of activation of cellular handsets and shall deposit the same through a monthly sales tax return.

Two cellular phone companies under the jurisdiction of LTU Islamabad either claimed activation charges as expense, making them as part of cost of goods sold, or reflected these charges as distribution and selling expenses. The irregularity in both cases resulted in loss of government revenue with aggregate tax effect of Rs 495.64 million as given below:

(Rs in million)

Tax Year	Taxpayer name	NTN	Activation charges	Tax @ 35%
2011	Pak Telecom	1161581-8	418.21	146.37
2012	Pak Telecom	1161581-8	802.15	280.75
2012	Warid Telecom	2071329-7	195.83	68.54
		Total	**1,416.19**	**495.67**

Management Reply

The irregularities were pointed out to the department in November 2013. The department informed that the cases were presently under legal process.

DAC's Recommendations

The DAC in its meeting held in September 2014 directed to expedite the amendment/assessment proceedings and report progress by 30th November 2014. Compliance of DAC directives were sought by Audit from the LTU in December 2014. In response LTU reported that updated compliance would be reported in second quarter of January 2015. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- expeditious legal proceedings for early recovery of the dues,
- ensuring accurate deposit of sales tax at the time of activation of cellular sets by the telecom companies.

(A.O No. 58 & 69)

5.1.3 Non-realization of federal excise duty on interconnect charges - Rs 6,422.86 million

According to section 3 (1) (d) of the Federal Excise Act 2005, read with SRO 550 (I) /2006 dated 5th June 2006, there shall be levied and collected duty of excise at the rates applicable from time to time.

LTU Islamabad did not recover federal excise duty from two registered persons who collected revenue on account of inter connect services. This resulted in non-realization of federal excise duty amounting to Rs 6,422.86 million as detailed below:

(Rs in million)

Sr. No.	Name of company	Tax period	Revenue on account of interconnect charges	FED leviable	Reference
1	M/s CM Pak (Pvt) Ltd.	2010-11	2,680.45	522.69	A.O. No.70 of Telecom Report
		2011-12	4,062.19	792.13	-do-
		2013-14	5,448.86	1,008.04	DP No.15246
2	M/s Warid Telecom	2013-14	22,162.16	4,100.00	-do-
			Total	6,422.86	

Management Reply

The department replied that the case was subjudice before Honourable Islamabad High Court.

DAC's Recommendations

The DAC in its meetings held in September 2014 and January 2015 directed the LTU to pursue the cases for early decision.

Audit Emphasizes upon

- vigorous pursuance of the cases,
- fixing of responsibility against the personnel responsible.

5.1.4 Non/short realization of minimum tax - Rs 545.04 million

Section 113 of the Income Tax Ordinance 2001 provides that minimum tax on the turnover of the taxpayers at prescribed rate is payable, if no tax is payable due to any reason, including assessment of losses or allowing any tax credit, or the tax payable is less than minimum tax. This provision of the law is applicable only to the resident company, association of persons and individuals having turnover of rupees fifty million or above.

Twelve taxpayers pertaining to telecom sector, under the jurisdiction of LTU Islamabad, declared losses in their annual income tax returns for the tax year 2012 but the minimum tax liability as per above law was either not paid or short paid by them. The tax authorities also did not take any action to get the non-paid amount realized. This resulted in non/short realization of minimum tax liability aggregating to Rs 545.04 million.

Management Reply

The irregularity was pointed out to the department in October 2013. The LTU informed that an amount of Rs 376.05 million had been charged and recovered. These cases involving an amount of Rs 95.27 million were under recovery and Rs 46.79 million was not due. The department contested the para to the extent of Rs 79.71 million and an amount of Rs 2.32 million was reported as under adjudication. The position was verified by Audit.

DAC's Recommendations

The DAC in its meeting held in September 2014 recommended the para for settlement to the extent of amount recovered and amount not due. It was further directed to expedite recovery of balance amount and to complete assessment process for Rs 2.324 million. The compliance of DAC directives was sought by Audit from the LTU Islamabad in December 2014. In response, the LTU reported that updated compliance will be intimated in second quarter of January 2015. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- expeditious recovery of balance amount,
- early finalization of the legal proceedings.

(A.O 17,20,21,29,31,47,51,56,66,72,73 & 76)

5.1.5 Loss of government revenue due to non-apportionment of expenses and unlawful refund - Rs 75.13 million

Section 67 of the Income Tax Ordinance 2001 read with Rule 13 of the Income Tax Rules 2002 provides for apportionment of expenses amongst various business activities carried out by a taxpayer under final tax regime and normal tax regime to arrive at taxable income.

A resident company falling under the jurisdiction of LTU Islamabad was rendering information technology and other computer services. The income of the taxpayer was assessable under final as well as normal tax regime. Therefore, the expenses were required to be apportioned under the above provision of law which was not done by the taxpayer. The tax authorities instead of taking remedial action issued refund on the basis of the income tax return as filed by the taxpayer which resulted in loss of government revenue to the tune of Rs 75.13 million as tabulated below:

(Rs in million)

Tax Year	Refund issued	Tax leviable	Total tax recoverable
2007	4.76	23.87	28.63
2008	9.17	12.21	21.38
2009	11.67	13.45	25.12
Total	**25.60**	**49.53**	**75.13**

Management Reply

The irregularity was pointed out to the department in November 2013. The LTU informed that 2nd Appeal had been filed in respect of tax years 2007 & 2008 before ATIR. Audit was of the view that for the tax year 2009 de-novo action needed to be completed within 45 days. The CIR (Appeals) rejected the case involving Rs 38.349 million for tax year 2007 as being time barred.

DAC's Recommendations

The DAC in its meeting held in September 2014 directed the LTU to pursue the subjudice case for early decision. The DAC further directed the LTU to expedite de-novo proceedings in respect of tax year 2009.

Audit Emphasizes upon

- fixing of responsibility specifically in time barred cases of tax year 2007,
- pursuance of the subjudice case for early decision,
- expeditious legal proceedings under the law.

(A.O.No.61, 62 & 63)

5.1.6 Claim of excess deductions resulting in short assessment of government revenue - Rs 119.75 million

According to section 34(3) of the Income Tax Ordinance 2001, an amount shall be payable by a person when all the events that determine liability have occurred and the amount of the liability can be determined with reasonable accuracy. Section 122 of the law further provides that the Commissioner may amend an assessment order treated as issued under section 120 or section 121 by making such alterations or additions as the Commissioner considers necessary.

Two telecom companies, under the jurisdiction of LTU Islamabad, claimed excess deductions on various accounts during the tax year 2012, which resulted in short assessment of taxable income having aggregate tax effect of Rs 119.75 million as tabulated below:

(Rs in million)

Taxpayer name	NTN	Inadmissible expenses	Tax @ 35%
M/S Pak Datacom Ltd.	0657139-5	25.49	8.92
M/S CM Pak Ltd	0711579-2	316.65	110.83
	Total	**342.14**	**119.75**

Management Reply

The above irregularities were pointed out to the department in November 2013. The LTU informed that the case was presently under legal process and likely to be finalized by the end of September 2014.

DAC's Recommendations

The DAC in its meeting held in September 2014 directed to finalize the assessment by 15th October 2014. The compliance of DAC directives was sought by Audit from the LTU Islamabad in December 2014. In response, the LTU reported that updated compliance would be intimated in 2nd quarter of January 2015. However, no progress was reported till finalization of the report.

Audit emphasizes upon expeditious assessment proceedings as directed by the DAC.

(A.O 60 & 67)

5.1.7 Claim of inadmissible tax credit on dividend income - Rs 140.00 million

According to section 5 (1) read with section 8 of the Income Tax Ordinance 2001, a tax shall be imposed on every person who receives a dividend from a company at the rate specified in Division III of Part I of the First Schedule and it shall be treated as final discharge of tax liability. Section 8 (d) further provides that the tax payable by a person shall not be reduced by any tax credits allowed under this Ordinance.

Assessment record of tax year 2012 of a telecom company revealed that the company excluded from its taxable income an amount of dividend of Rs 1,400 million for treating it under separate block of income. However, at the time of computing its income tax liability, the dividend had been treated as exempt income and the company claimed withholding tax on dividend as adjustable. This resulted in inadmissible tax credit amounting to Rs 140.00 million.

Management Reply

The irregularity was pointed out to the department in November 2013. In reply, the department informed that the case was under legal process.

DAC's Recommendations

The DAC in its meeting held in September 2014 directed the LTU Islamabad to get the position verified from Audit by 15th October 2014. The compliance of DAC directives was sought by Audit from the LTU Islamabad in December 2014. In response the LTU reported that updated compliance would be intimated in 2nd quarter of January 2015. However, no progress was intimated till finalization of the report.

Audit emphasizes upon completion of legal process as directed by the DAC.

(A.O.No.78)

5.1.8 Non/short realization of federal excise duty on taxable services - Rs 10,288.77 million

According to section 14 A of the Federal Excise Act 2005 and section 11A read with section 48 of the Sales Tax Act 1990, where a registered person pays the amount of tax less than the tax due as indicated in his return, the short paid amount of tax along with default surcharge shall be recovered from such person by stopping removal of goods from his business premises and through attachment of his business bank accounts, without giving him a show cause notice.

Seven telecom companies falling under the jurisdiction of LTU Islamabad either did not pay or paid short amount of federal excise duty during financial year 2012-13. The tax authorities did not take any action under the law including levy of penalty and default surcharge. The lapse caused non/short realization of federal excise duty aggregating to Rs 10,288.77 million**.**

Management Reply

The irregularity was pointed out during September 2013. The department reported that after creation of provincial revenue authorities, sales tax on telecom services was being deposited to the respective provinces. It was also informed that federal government had removed the anomaly of double taxation of FED and provincial sales tax in Finance Act 2014. The LTU further informed that show cause notices were issued for the period prior to the enactment of that Act, against which the telecom companies had obtained stay orders from Islamabad High Court.

DAC's Recommendations

The DAC in its meeting held in 19th September 2014 directed the LTU to pursue the subjudice case for early decision.

Audit Emphasizes upon

- pursuance of the subjudice matter at appropriate level as directed by the DAC,
- justification for the delay of incorporating the relevant amendment in the law.

(A.O No.2)

5.1.9 Non-realization of federal excise duty on technical service fee / royalty - Rs 532.85 million

Section 3 of the Federal Excise Act 2005 read with rule 43-A of the Federal Excise Rules 2005 provides that a franchisee shall pay duty @ 10 % of technical fee or royalty charged by the franchiser for using the right to deal with the goods or services of the franchiser.

M/s Pak Telecom Ltd (NTN. 1161581-8) under the jurisdiction of LTU Islamabad did not pay federal excise duty of Rs 532.85 million pertaining to the financial year 2011-2012 as explained below:

i) It was observed from Note-32 of the Audited Accounts that the company had paid technical service fee of Rs 3,796.27 million, Rs 1,820.61 million in Tax Year 2011 and Rs 1,975.66 million in Tax Year 2012, to its holding company but did not pay federal excise duty. This resulted in non-realization of federal excise duty amounting to Rs 379.63 million.

ii) As per Note-30 of the said Accounts, the taxpayer company had paid royalty of Rs 1,532.24 million, Rs 796.52 million in Tax Year 2012 and Rs 735.71 million in Tax Year 2011, to its holding company but did not pay federal excise duty. This resulted in non-realization of federal excise duty amounting to Rs 153.22 million.

Management Reply

The irregularities were pointed out in November 2013. In reply, it was stated that an amount of Rs 350.79 million had been recovered through attachment of bank accounts of PTA and the balance amount of Rs 182.06 million was under adjudication.

DAC's Recommendations

The DAC in its meeting held in September 2014 recommended the para for settlement to the extent of amount recovered. The DAC also directed the LTU to expedite adjudication proceedings.

Audit Emphasizes upon

- expeditious adjudication proceedings for early recovery of the balance amount,
- fixing of responsibility against the personnel at fault.

(A.O No 74 & 75)

5.1.10 Inadmissible adjustment of input tax - Rs 8.05 million

Section 8 (1) (a & b) of the Sales Tax Act 1990 read with SRO 450(I)/2013 dated 27th May 2013, provides that a registered person shall not be entitled to reclaim or deduct input tax paid on the goods or services used or to be used for any purpose other than for taxable supplies made or to be made by him.

Scrutiny of sales tax returns filed by six registered persons falling under the jurisdiction of LTU Islamabad revealed that taxpayers claimed adjustment of input tax paid on the goods or services which were not used for taxable supplies. The tax authorities also did not take any action under the law. This resulted in short realization of government revenue amounting to Rs 8.05 million.

Management Reply

The irregularity was pointed out to the department in September 2013. The LTU informed that the matter was under adjudication and the progress would be intimated.

DAC's Recommendations

The DAC directed the LTU to take action for recovery of government dues and intimate progress by 15th October 2014. Compliance of DAC directives

was sought by Audit from the LTU Islamabad in December 2014. LTU reported that updated compliance would be intimated in second quarter of January 2015. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- expeditious adjudication proceedings as directed by the DAC,
- fixing of responsibility against the personnel at fault.

(A.O No.13)

5.1.11 Non-realization of sales tax on disposal of fixed assets - Rs 110.05 million

According to section 3 read with 2(35) of the Sales Tax Act 1990, disposal of fixed assets is taxable if not otherwise exempted under Sr. No 6 of Table II of Sixth Schedule of the Act.

Scrutiny of income tax assessment record of six telecom companies falling under the jurisdiction of LTU Islamabad revealed that the said companies disposed of fixed assets during the tax year 2011 and 2012 but did not pay sales tax. This resulted in non-realization of sales tax amounting to Rs 110.05 million which also attracted penalty and default surcharge u/s 33 and 34 of the law.

Management Reply

The irregularity was pointed out in November 2013. In reply, the LTU informed that the matter was under legal process.

DAC's Recommendations

The DAC directed to expedite the legal process by 15th October 2014. Compliance of DAC directives was sought by Audit from the LTU Islamabad in December 2014. In response LTU reported that updated compliance will be reported in second quarter of January 2015. However, no progress was reported till finalization of the report.

Audit emphasizes upon completion of legal action as directed by the DAC.

(A.O.No.77)

5.1.12 Non-realization of further tax on taxable supplies made to non-registered persons - Rs 8.55 million

According to section 3(b) (1A) of the Sales Tax Act 1990 as inserted vide Finance Act 2013, where taxable supplies are made to a person who has not obtained registration number, there shall be charged, levied and paid a further tax at the rate of 2 % of the value in addition to the rate specified.

During audit of sales tax returns of the registered persons falling under the jurisdiction of the LTU Islamabad for the period 2012-13, it was revealed that seven registered persons made supplies to the non-registered persons, but no further tax was charged and recovered. This resulted in non-realization of further tax amounting to Rs 8.55 million.

Management Reply

The irregularity was pointed out in September 2013. The LTU informed that the matter was under legal process.

DAC's Recommendations

The DAC in its meeting held in September 2014 directed to expedite the legal process by 15th October 2014. Compliance of DAC directives was sought by Audit from the LTU Islamabad in December 2014. In response the LTU reported that updated compliance would be intimated in second quarter of January 2015. However, no progress was reported till finalization of the report.

Audit emphasizes upon completion of legal action as directed by the DAC.

(A.O No.6)

Conclusion

Telecom companies in general and cellular companies in particular were not contributing to the public exchequer in proportion to the revenues earned by them. The major portion of tax revenue being paid by the telecom sector included FED in VAT mode, activation charges and withholding income tax which were in fact paid by the end consumer. Cellular companies were merely

playing the role of withholding agents. In spite of huge turnovers, most of the cellular companies were showing continuous losses and not paying income tax by taking the benefit of inadequate tax policies of the government.

During audit of this sector, certain financial irregularities and some cases of non-compliance with tax laws were observed owing to ineffective internal controls and weak monitoring mechanisms of tax authorities. Compliance of tax laws needed to be ensured by the tax authorities by strengthening the system of revenue accounting. Tax policy measures needed to be framed in order to plug-in the revenue leakages with special focus on cellular companies.

5.2 APPORTIONMENT OF EXPENSES BETWEEN NORMAL AND FINAL TAX REGIME

a) Introduction

According to the Income Tax Ordinance 2001, the taxpayers declare their income under Final Tax Regime (FTR) and Normal Tax Regime (NTR) or both. In the final tax regime whole of the turnover/sales are presumed as income of the taxpayer and no expense is allowed against such income and tax is charged on whole of the turnover / income. In the normal tax regime expenses are allowed against the sales/turnover to arrive at taxable income and tax is charged on taxable income according to the specified rate.

Section 67 of the Income Tax Ordinance 2001 read with Rule 13 of the Income Tax Rules 2002 provides that where an expense relates to more than one head of income, the expense shall be apportioned on any reasonable basis also taking into account relative nature and size of the activities to which the amount relates. While making assessment of the taxable income, if the expense is not apportioned by the taxpayers between the two tax regimes, the Commissioner may amend the assessment according to the relevant provision of the Ordinance to arrive at correct amount of taxable income.

In recent past while conducting compliance with authority audit, it was observed that while making assessment of taxable income most of the taxpayers did not apportion expenses as per law which caused huge loss of government revenue. Due to this factor the area was selected for detailed audit.

b) Audit Objectives

Audit planned to comprehend:

i) whether the tax payers correctly computed their taxable income and tax liability after apportionment of expenses between final and normal tax regime,

ii) whether the department had designed controls and checks in the e-filing system for such apportionment of expenses,

iii) whether business and tax depreciation losses had been properly computed, apportioned and adjusted in subsequent tax years against carried forward business losses,

iv) whether after the apportionment and assessment of the losses, the taxpayers paid their admitted tax liability with the return.

c) Audit Scope and Methodology

The Audit encompassed the income tax cases for the tax years 2009 to 2013 of the Individuals, Association of Persons (AOPs) and the Companies under the jurisdiction of the Regional Tax Offices Lahore, Faisalabad, Multan, Bahawalpur, Sialkot, Gujranwala, Islamabad and Large Taxpayers Unit Lahore and Islamabad. In order to assess internal controls, the data of the taxpayers was obtained from the Data Base Administrators of Pakistan Automation Private Limited through Chief Commissioner Offices of respective RTOs/LTU.

The methodology included conducting the audit to ensure whether the taxpayers had determined their tax liability after the apportionment and if not, had the department initiated the legal proceedings to amend the assessment accordingly. The internal controls employed by the department were also evaluated to assess the effectiveness of the system at the time of filing of the returns vis-à-vis framing the assessment of the taxable income and tax paid.

d) Audit Findings

During audit the following observations were made:

5.2.1 Incorrect apportionment of expenses between FTR and NTR resulting in short levy of tax - Rs 14,186.38 million

Section 67 of the Income Tax Ordinance 2001 read with Rule 13 of the Income Tax Rules 2002 provides for apportionment of expenses amongst various business activities carried out by a taxpayer under final tax regime and normal tax regime to arrive at taxable income.

Seventy seven taxpayers under the jurisdiction of RTOs Lahore, Faisalabad, Multan, Bahawalpur, Sialkot, Gujranwala, Islamabad and LTU Lahore and Islamabad derived income assessable under final tax regime as well as normal tax regime for the tax years 2009 to 2013. However, the expenses were not apportioned between the normal and final tax regimes. No legal action was taken by the department to assess the correct amount of tax. This resulted in short levy of tax amounting to Rs 14,186.38 million.

Management Reply

The department reported that the proceedings had been initiated in cases involving Rs 14,186.38 million.

DAC's Recommendations

The DAC in its meeting held in August 2013 and January 2015 directed to complete the legal proceedings. In the contested case the DAC directed to get the compliance verified from Audit by 15th September 2013. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- early finalization of legal proceedings,
- expeditious recovery of tax charged,
- strengthening of internal controls to assess the due tax to avoid occurrence of such lapse in future,
- fixing of responsibility against the personnel responsible.

[Annexure-55]

5.2.2 Excess assessment of loss due to non-apportionment of expenses resulting in short levy of tax - Rs 392.70 million

Section 57 of the Income Tax Ordinance 2001 provides that if a taxpayer sustained a loss in business for a tax year, then the loss will be carried forward to the six following tax years and will be adjusted only against profit and gains of such business. Further, section 67 read with Rule 13 of the Income Tax Rules 2002, provides for apportionment of expenses where expenditure relates to the derivation of more than one head of income.

Nine taxpayers, under the jurisdiction of RTOs Faisalabad, Multan and LTU Lahore, made the assessment of their income from export and local sale of manufactured goods which was assessed under FTR and NTR respectively. The income assessed under NTR was adjusted against brought forward losses which occurred due to incorrect apportionment of expenses for tax year 2011 and 2013. No remedial action was initiated by the department, which resulted in tax effect of Rs 392.70 million.

Management Reply

The department reported that an amount of Rs 3.00 million had been charged for recovery. Moreover, legal proceedings were initiated in remaining cases.

DAC's Recommendations

The DAC in its meeting held in August 2013 directed to recover the amount charged, complete the proceedings and report by 15th September 2013. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- early finalization of legal proceedings,
- expeditious recovery of tax charged,
- strengthening of internal controls to assess the due tax to avoid occurrence of such lapse in future,
- fixing of responsibility against the personnel responsible.

(Para No 4.2)

5.2.3 Non-realization of minimum tax due to non-apportionment of turnover between FTR and NTR - Rs 139.51 million

Under section 113 of the Income Tax Ordinance 2001, minimum tax is chargeable at the applicable rates in case of resident company on turnover declared from all sources. Further, association of persons and an individual having turnover of fifty million or above are also chargeable to minimum tax.

Eighty one taxpayers under the jurisdiction of RTOs Faisalabad, Multan and LTU Lahore were deriving income from manufacturing as well as from wholesale trade of textile products. This income was assessable under normal as

well as final tax regime. The taxpayers, however, did not apportion the turnover relating to FTR and NTR for the tax year 2011. No proceedings as per the provisions of the Ordinance were initiated by the department to recover the tax. This resulted in short/non-realization of the tax amounting to Rs 139.51 million.

Management Reply

The matter was brought into the notice of the department during April to June 2013. The department reported that an amount of Rs 0.33 million had been recovered, Rs 2.45 million had been charged and legal proceedings were initiated for the recovery of Rs 136.73 million.

DAC's Recommendations

The DAC in its meeting held in August 2013 directed to recover the amount charged, complete the legal proceedings and get the position verified from Audit by 15th September 2013. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- early finalization of legal proceedings,
- expeditious recovery of tax charged,
- strengthening of internal controls to assess the due tax to avoid occurrence of such lapse in future,
- fixing of responsibility against the personnel responsible.

(Para No 4.3)

5.2.4 Non-levy of tax on cotton seeds - Rs 9.42 million

According to section 153(1)(a) read with part III Division III of 1st schedule to the Income Tax Ordinance 2001, every prescribed person shall deduct tax at prescribed rate while making a payment including a payment by way of advance to a person for the sale of goods. Further, no tax will be deducted from a cotton ginner who deposits the tax in the government treasury.

Twenty two taxpayers, under the jurisdiction of RTO Multan, derived income from supply of cotton lint and cotton ginning. They either did not deposit or the tax was not deducted at time of supply of cotton seed. The department did not take any remedial measures to ensure the deposit of the tax. This resulted in loss of Rs 9.42 million during Tax Year 2011.

Management Reply

The matter was brought into the notice of the department during April to June 2013. The department contested the para on the plea that the taxation was made according to SRO 631(1)91 dated 8th July 1991. The contention of the department was not accepted as the SRO was issued under the repealed Income Tax Ordinance 1979.

DAC's recommendations

The DAC in its meeting held in August 2013 directed to complete the proceedings and report progress by 15th September 2013. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- early finalization of legal proceedings
- strengthening of internal controls to assess the due tax to avoid occurrence of such lapse in future,
- fixing of responsibility against the personnel responsible.

(Para No 4.4)

5.2.5 Short realization of tax on local supplies of textile goods - Rs 16.34 million

According to clause 45A of Part-IV of the Second Schedule to the Income Ordinance 2001, the rate of withholding tax deducted on account of sale of goods and rendering or providing of services shall be one percent on local sales, supplies and services of textile and articles.

A taxpayer bearing NTN 0710140-6, under the jurisdiction of RTO Faisalabad, was deriving income from export of textile goods as well as from local sales during the tax year 2011. The taxpayer filed statement u/s 115(4) of the Income Tax Ordinance 2001 and declared receipts, on account of supplies, amounting to Rs 3,268.36 million and paid tax @ 0.5% instead of 1%. No remedial action was taken by the department. This resulted in short recovery of tax amounting to Rs 16.34 million.

Management Reply

The matter was brought into the notice of the department during April to June 2013. The department reported that the proceedings had been initiated.

DAC's recommendations

The DAC in its meeting held in August 2013 directed to complete the proceedings and report progress by 15th September 2013. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- early finalization of legal proceedings,
- strengthening of internal controls to assess the due tax to avoid occurrence of such lapse in future,
- fixing of responsibility against the personnel responsible.

(Para No 4.5)

5.2.6 Incorrect adjustment of carried forward losses - Rs 2.02 million

Section 57 of the Income Tax Ordinance 2001 provides that if a taxpayer sustained a loss in business for a tax year, then the loss will be carried forward to the six following tax years and will be adjusted only against profit and gains of such business.

A taxpayer bearing NTN 2536557-6, under the jurisdiction of RTO Multan, declared net income of Rs 5.55 million for the tax year 2011 which was adjusted against the brought forward losses, whereas, no assessed losses were available. Therefore, the action of the taxpayer was not commensurate with the relevant provision of the law. No remedial measures were initiated by the department to recover the due tax. This resulted in short realization of tax of Rs 2.02 million.

Management Reply

The matter was brought into the notice of the department during April to June 2013. The department reported that the assessment proceedings had been initiated.

DAC's recommendations

The DAC in its meeting held in August 2013 directed to complete the assessment proceedings and report progress by 15th September 2013.

Audit Emphasizes upon

- early finalization of legal proceedings,
- strengthening of internal controls to assess the due tax to avoid occurrence of such lapse in future,
- fixing of responsibility against the personnel responsible.

(Para No 4.6)

5.2.7 Acceptance of invalid returns

According to section 114 (3) of Income Tax Ordinance 2001 read with Rule 34 of the Income Tax Rules 2002, a return of income shall be taken to be completed if it is in the prescribed form and shall be accompanied by such annexures, statements or documents as may be prescribed. Further, section 120 of the Ordinance provides that an assessment order shall only be issued by the Commissioner if a taxpayer has furnished a complete return of income.

Forty two taxpayers, under the jurisdiction of RTOs Faisalabad and Multan, filed return of income tax without annual audited accounts and other statutory documents, however, assessment orders were treated as issued in all these cases. It is also pertinent to mention here that there were no checks in the web portal of PRAL which ensure the filing of the annexures with the returns.

Management Reply

The department reported that the time limit for issuance of notices of the deficiencies had expired on 31st December 2012, hence, no remedial action could be taken at that stage.

DAC's recommendations

The DAC in its meeting held in August 2013 took serious view for not taking proper action and directed the RTOs to complete the proceedings as per law and report compliance by 15th September 2013. However, no progress was reported till finalization of the report.

Audit Emphasizes upon

- early finalization of legal proceedings,
- PRAL should devise a mechanism to strengthen its system and cover the lapses which are noticed by the Audit and FBR officers,
- fixing of responsibility against the personnel responsible.

(Para No 4.7)

Conclusion

After the promulgation of Income Tax Ordinance 2001, the tax system is operating on self assessment basis. There is no physical check and control on the taxpayers registered under different tax regimes, except under special circumstances i.e. special or total audit. Therefore, in order to safeguard the government's interests, it is recommended that:

i. Desk audit system may be strengthened to regularly review the cases of such taxpayers who derive income under final and normal tax regime. So, amendment of self assessment made by the taxpayers needs to be reconsidered under relevant provision of law.

ii. There must be an effective system in e-filing of returns which could automatically reject the returns where no audited accounts are attached by the taxpayers as the accounts are the part and parcel of the return.

iii. Data base / ledgers of business and tax depreciation losses may be developed and the internal controls may also be employed over adjustment of such losses against business income to avoid incorrect adjustment of losses in subsequent years.

5.3 LEVY OF SALES TAX AND INCOME TAX ON SUGAR SECTOR

a) Introduction

The Federal Excise Act 2005 provides levy of federal excise duty at the rate of 8 % of the value of sugar since June, 2011. Earlier, sugar was subject to sales tax at the rate of 16 %; however from July 2009, the rate in excess of 8 % was exempted under the SRO (I)/2009 dated 23.08.2009. In February 2013, the rate of FED on the quantity of local supply of sugar equal to exported quantity was reduced to 0.5 % in accordance with the decision of Economic Coordination Committee (ECC). The area got attention of Audit because of its huge turnover and continuous reduction in rate of FED. The study was planned with the following objectives.

b) Audit Objectives

The objectives of this study were to see whether:

- taxpayers computed their annual income tax liability as per provisions of law,
- the department had designed controls and checks over the taxpayers for apportionment of expenses,
- there was effective enforcement of such controls to deter the tax payers to file invalid tax returns and avoid tax,
- automation in the department had helped to improve efficiency in processing of refund cases,
- the input tax adjustment of sales tax was correctly claimed,
- the department was properly monitoring the duty and tax remission for exports, and
- the department was registering the buyers of sugar sector for FED and sales tax.

c) Audit Scope

The study was conducted to ascertain levy of sales tax, income tax and federal excise duty on sugar mills falling under the jurisdiction of RTO Sukkur, RTO-III and LTU Karachi for the year 2012-13. The field formations failed to produce complete information/record as requisitioned by Audit. Therefore, reliance was made on analysis of the soft data available on e-portal of FBR website.

d) Audit Methodology

The following methodology was adopted:

- Understanding the system of levy of sales tax, income tax and federal excise duty on sugar mills
- Soft / hard data collection
- Desk audit
- Performed analytical procedure on computerized data
- Compliance of relevant statutory provisions of tax laws applicable thereon
- Evaluated results and implications

e) Audit Findings

Audit findings reflecting ineffective enforcement function by FBR leading to serious irregularities are enumerated in succeeding paragraphs.

5.3.1 Non-realization of withholding tax - Rs 588.20 million

Section 161 of the Income Tax Ordinance 2001, provides that a person who fails to deduct or having deducted fails to pay the withholding tax collected, is personally liable to pay such tax.

In three field formations of FBR, seven persons prescribed under the Income Tax Ordinance, 2001 did not withhold income tax on the payments made to their suppliers during the year 2012. The department did not take adequate action for recovery of due tax. This resulted in non-realization of withholding tax amounting to Rs 588.20 million.

Management Reply

The department replied that notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery proceedings and report progress by 28th February 2015.

Audit Emphasizes upon

- ascertaining reasons for ineffective monitoring by the department and fixing of responsibility against concerned personnel,
- expeditious recovery of the dues.

5.3.2 Short payment of federal excise duty - Rs 366.20 million

According to SRO 77(I)/2013 dated 7th February 2013, the Federal Government levied the rate of duty @ 0.5 percent instead of 8 percent on local supply of white crystal sugar equivalent to quantity exported by sugar manufacturers as per quota allotted by ECC.

Sixteen sugar mills, falling under the jurisdiction of LTU Karachi, applied for the aforesaid concessionary rate on local supply of sugar but did not present the proof of actual export and reconciliation of exported quantity with the allotted quota by the ECC. The registered persons also did not furnish the calculation in the prescribed annexure. It implied that the application of concessionary rate of FED was not admissible and the sugar was chargeable to FED at the rate of 8 % of the value of supply.

Management Reply

The department replied that show cause notices in nine cases involving Rs 161.487 million were issued. However, seven cases involving Rs 204.71 million had been stayed by the Honourable Sindh High Court and Appellate Tribunal.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery proceedings, pursue the subjudice cases and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the dues,
- pursuance of court cases,
- fixing of responsibility against the personnel responsible.

[Annexure-56]

5.3.3 Short payment of sales tax due to non-apportionment of input tax - Rs 352.80 million

Under sub-section 2 of section 8 of the Sales Tax Act 1990, if a registered person deals in taxable and non-taxable supplies, he can reclaim only such portion of the input tax as is attributable to taxable supplies in such manner as made or to be made by him.

According to section 13 of the Sales Tax 1990 read with SRO (I)/2009 dated 23rd August 2009, the Federal Government reduced the rate of sales tax from 16 % to 8% on supply of sugar.

Six sugar mills, falling under the jurisdiction of the LTU Karachi, paid sales tax at the rate of eight percent on local supplies of sugar and claimed full amount of sales tax paid on purchases but did not make apportionment of input tax for exemption or reduced rate of tax i.e. 8% as the above notification was issued under section 13 of the Act. This resulted in short payment of sales tax due to non-apportionment of input tax adjustment involving Rs 352.80 million during the period from January 2010 to March 2011.

Management Reply

The department replied that the Federal Government had levied 8% sales tax on supply of sugar which was charged by the sugar mills.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to make a reference to FBR for clarification regarding apportionment of input tax.

Audit Emphasizes upon

- pursuance of reference to FBR,
- initiation of recovery action.

5.3.4 Non / short levy of minimum tax u/s 113 - Rs 101.63 million

According to section 113 of Income Tax Ordinance 2001, minimum tax @ 1% on total turnover of fifty million or above is liable to be paid by the taxpayer, in case where no tax is payable or tax worked out under normal law.

In LTU & RTO-III Karachi, minimum tax under section 113 of Income Tax Ordinance 2001 was required to be paid, but it was not/short paid by the ten sugar mills during the year 2011 & 2012. This resulted in non/short levy of tax amounting to Rs 101.63 million.

Management Reply

The department replied that an amount of Rs 51 million had been recovered and in remaining cases of Rs 50.63 million notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit Emphasizes upon

- completion of legal proceedings,
- verification of the recovered amount.

5.3.5 Non/short levy of workers welfare fund - Rs 95.99 million

According to the section 4 of Workers Welfare Fund Ordinance 1971, every industrial establishment whose total annual income is not less than Rs 500,000 was required to pay workers welfare fund @ 2 per cent of its total income.

In forty cases falling under the jurisdiction of two RTOs and LTU Karachi, Workers Welfare Fund was not/short paid by the taxpayers. This resulted in a loss of revenue to the government of Rs 95.99 million.

Management Reply

The department replied that Rs 1.68 million had been recovered and amount of Rs 17.51 million stood charged. The cases of Rs 76.79 million were also reported to be under legal process.

DAC's Recommendations

The DAC in its meeting held in January 2015 settled the para to the extent of amount recovered subject to verification by Audit and directed to expedite recovery of the amount charged, finalize the proceedings in pending cases and report progress by 28th Feb 2015.

Audit Emphasizes upon

- expeditious recovery in all the cases,
- verification of recovered amount.

[Annexure-57]

5.3.6 Loss due to claiming of excess/irregular brought forward losses - Rs 39.91 million

Under section 57 of the Income Tax Ordinance 2001, where a taxpayer sustained a loss in any tax year under the head income from business, this loss could be carried forward to the following six tax years and set-off against profit and gains of such business.

In case of two sugar mills, brought forward losses were claimed in excess by the taxpayers and the Commissioner LTU Karachi also allowed the same by passing orders u/s 122(5) of the Ordinance. This resulted in loss of Rs 39.91 million.

Management Reply

The department replied that notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery proceedings and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the dues,
- fixing of responsibility against personnel responsible.

5.3.7 Adjustment of input tax against sales tax invoices issued by blacklisted registered persons - Rs 21.76 million

According to section 21(2) of the Sales Tax Act 1990, in case where the Commissioner is satisfied that a registered person is found to have issued fake invoices or has otherwise committed tax fraud, he may blacklist such person or suspend his registration. According to clause 36 of STGO No. 4 of 2004 dated 12th June 2004, no input tax adjustment/refund shall be admissible to the registered person during the currency of suspension. Similarly, no input tax adjustment / refund shall be allowed to any other registered persons on the strength of invoices issued by such suspected person whether issued prior to or after such suspension, during the currency of suspension.

Eight sugar mills, under the jurisdiction of LTU Karachi, made purchases of taxable goods and claimed input tax adjustment of Rs 20.74 million during the period from January 2010 to March 2011 against the sales tax invoices issued by blacklisted registered persons. The department neither conducted enquiry against the buyers of blacklisted registered persons as per law nor disallowed input tax adjustment made by the buyers. This resulted in loss of government revenue amounting to Rs 21.76 million.

Management Reply

The department replied that show cause notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication proceedings and report progress by 28th February 2015.

Audit Emphasizes upon

- expeditious recovery of the dues,
- fixing of responsibility against personnel responsible,
- provision of record of last five years for detailed examination.

5.3.8 Loss due to non-realization of default surcharge - Rs 18.72 million

According to section 205 of the Income Tax Ordinance, 2001 where a person fails to pay any tax or penalty on or before the due date of payment shall be liable for default surcharge at the rate of 18% per annum on the tax, and penalty or other amount unpaid.

Nineteen taxpayers under the jurisdiction of RTO-III and LTU Karachi did not pay the due tax within the specified time but the default surcharge as per above provisions of law was not levied which resulted in non-realization of default surcharge amounting to Rs 18.72 million.

Management Reply

The department replied that notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery proceedings and report progress by 28th February 2015.

Audit Emphasizes upon

- fixing of responsibility for non-imposition of default surcharge,
- expeditious recovery of the dues.

[Annexure-58]

5.3.9 Non-payment of sales tax - Rs 12.08 million

According to section 13 of the Sales Tax Act 1990 read with 6th Schedule thereof and rules made there under, certain goods are exempt from payment of sales tax.

A sugar mill, under the jurisdiction of RTO Sukkur, made exempt supply of goods valuing Rs 75.50 million to itself during the tax period of April to June 2012. Since the description of goods and authority under which the exemption of sales tax on local supply availed were not mentioned, therefore, the correctness and authenticity thereof could not be verified. Hence, the sales tax amount of Rs 12.08 million was required to be recovered.

Management Reply

No reply was furnished by the RTO.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit emphasizes upon furnishing of reply and expeditious recovery of revenue.

5.3.10 Loss of revenue due to non-filing of 2nd appeal - Rs 10.41 million

According to section 131 of the Income Tax Ordinance 2001, where the taxpayer or Commissioner objects to an order passed by the Commissioner (Appeal), the taxpayer or Commissioner may appeal to the Appellate Tribunal against such order

During scrutiny of record of a sugar mill falling under the jurisdiction of LTU Karachi, it was noticed that the assessment order was amended by the department u/s 122 on 25th May 2012, wherein minimum tax u/s 113 was levied. However, the sugar mill went in appeal despite the fact that it had itself levied minimum tax for the same situation in the return for tax year 2011. However, the department did not highlight this fact and Commissioner (Appeal) vide order dated 28th January 2013 deleted the levy of minimum tax without considering the facts of the case. The proviso of Section 113 was very clear that loss was to be reckoned before setting off of depreciation and other inadmissible expenses. The said taxpayer in tax year 2011 had declared net loss but there was gross profit before setting off of depreciation, and thus had offered minimum tax.

Audit is of the view that miscellaneous appeal to modify the order of CIR(A) or second appeal on the issue was to be filed by the department which was not done resulting in loss of revenue of Rs 10.41 million.

Management Reply

The department replied that notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery and report progress by 28th February 2015.

Audit emphasizes upon expeditious legal proceedings.

5.3.11 Inadmissible adjustment of input tax - Rs 10.24 million

According to SRO 490(I)/2004 dated 12th June 2004 as amended vide SRO 450(I)/2013 dated 27th May 2013, the input tax adjustment on building materials including cements, bricks, paints, varnishes, distempers etc is not admissible.

Three sugar mills, under the jurisdiction of LTU Karachi, purchased cement of Rs 59.916 million and claimed input tax adjustment for Rs 10.24 million paid thereon during the tax period August 2013 to January 2014. This resulted in inadmissible adjustment of input tax amounting to Rs 10.24 million which also attracted default surcharge and penalty.

Management Reply

The department replied that show cause notices for Rs 10.019 million had been issued, whereas in other cases, input tax adjustment of Rs 0.220 million was correctly availed.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication proceeding in cases of Rs 10.02 million and settled the para to the extent of Rs 0.220 million subject to verification and report progress by 28th February 2015.

Audit emphasizes upon expeditious recovery of the dues.

5.3.12 Unlawful exemption from federal excise duty - Rs 15.87 million

In pursuance of section 7(2) of the Federal Excise Act 2005, the Federal Government vide SRO 543(I)/2008 dated 11th June 2008 has made the provisions of sections 2, 50(A) and 52 (A) of the Sales Tax Act, 1990 applicable to the matters in respect of duty leviable under the Federal Excise Act 2005.

Two registered persons, falling under the jurisdiction of LTU Karachi and RTO Sukkur, claimed inadmissible exemption from federal excise duty during April to December 2013 on supply of sugar. This resulted in non-realization of federal excise duty at the rate of eight percent amounting to Rs 15.87 million.

Management Reply

The department replied that show cause notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite adjudication proceedings and report progress by 28th Feb 2015.

Audit emphasizes upon expeditious recovery of the dues.

5.3.13 Irregular exemption of sales tax and federal excise duty - Rs 8.11 million

SRO 539(I)/2008 dated 11th June 2008, exempts the imported goods for manufacture of "dextrose and saline infusion sets" falling under PCT heading 9018.3920 subject to certain conditions.

A sugar mill, under jurisdiction of RTO Sukkur, made exempt supply valuing Rs 50.660 million of goods to himself under the above SRO during the tax period of May 2013. Since the SRO provides exemption of sales tax on import only therefore the application thereof on local supply of goods was irregular. The irregular exemption resulted in short payment of sales tax and federal excise duty amounting to Rs 8.106 million.

Management Reply

No reply was furnished by the RTO.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit emphasizes upon furnishing of reply and expeditious recovery of the dues.

5.3.14 Irregular claim of refund - Rs 5.21 million

According to section 170 of the Income Tax Ordinance 2001 read with FBR circular No.5 of 2003, a taxpayer is entitled to a refund of tax where the tax paid is in excess of the amount of tax due, after adjustment of the outstanding liabilities of the taxpayer.

During scrutiny of record of a sugar mill falling under the jurisdiction of LTU Karachi, it was noticed that as per annexure C-I of return for tax year 2008, the taxpayer adjusted a sum of Rs 5.21 million from refund of tax year 2007. However, as per record, no such refund was available in tax year 2007. This resulted in allowing of irregular credit amounting to Rs 5.21 million.

Management Reply

No reply was furnished by the RTO.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit emphasizes upon furnishing of reply and expeditious recovery of the dues.

5.3.15 Inadmissible adjustment of input tax - Rs 3.47 million

According to section 8(1)(a) of the Sales Tax Act 1990 read with section 7 of the Federal Excise Act 2005, a registered person shall not be entitled to adjust input tax paid on the goods used or to be used for any purpose other than for taxable supplies made or to be made by him.

A sugar mill, under the jurisdiction of LTU Karachi, purchased fertilizer from M/s Fauji Fertilizer Company Limited valuing Rs 32.43 million and involving input tax of Rs 3.47 million. The registered person adjusted input tax against output tax/duty payable on taxable supply of sugar which was not admissible as the purchase was not used for manufacture of taxable goods. This resulted in inadmissible adjustment of input tax amounting to Rs 3.47 million.

Management Reply

The department failed to furnish reply.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit emphasizes upon furnishing of reply and expeditious recovery of the dues.

5.3.16 Irregular zero rating of federal excise duty - Rs 9.16 million

According to certain SROs issued under section 4 of the Sales Tax Act 1990, the import and supply of specified goods shall be charged to tax at the rate of zero percent subject to certain conditions and restrictions.

A sugar mill, under jurisdiction of RTO Sukkur, claimed zero rate of sales tax on supplies made during 2012-13 in violation of provisions of law, whereas sugar was chargeable to federal excise duty at the rate of 8 % of value. This resulted in irregular zero rating of federal excise duty amounting to Rs 9.16 million.

(Rs in million)

Sr. No.	Office	FED recoverable	Inadmissible claim under law
1	RTO Sukkur	3.27	SRO 549(I)/2008 dated 11.06.2008
		3.00	SRO 811(I)/2009 dated 19.09.2009
		2.89	SRO 326(I)/2008 dated 29.03.2008
Total		**9.16**	

Management Reply

The department failed to furnish reply.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit emphasizes upon furnishing of reply and expeditious recovery of the dues.

5.3.17 Loss of revenue due to non-imposition of penalty - Rs 2.00 million

According to section 114 of the Income Tax Ordinance 2001 every person who has obtained National Tax Number is required to furnish a return of income for a tax year and the person whose taxable income for the year exceeds the maximum amount that is not chargeable to tax under this Ordinance for the year. Further, section 182 provides for levy of penalty at applicable rates, where a taxpayer fails to furnish or late furnish the return of total income.

A sugar mill falling under the jurisdiction of LTU Karachi, filed tax returns after the due date, hence they were liable to be penalized u/s 182(1) of the Income Tax Ordinance 2001, for late filing of return for the years 2011 to 2013. However, the department did not take any action against the taxpayers, which resulted in loss of Rs 2.00 million.

Management Reply

The department replied that notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite recovery proceedings and report progress by 28th February 2015.

Audit emphasizes upon expeditious recovery of the dues.

5.3.18 Claiming of inadmissible depreciation / incorrect losses - Rs 32.85 million

According to section 23 of the Income Tax Ordinance 2001, a person who places an eligible depreciable assets into service in Pakistan for the first time in a tax year shall be allowed a deduction hereinafter referred to as an "initial allowance".

During scrutiny of record of a sugar mill falling under the jurisdiction of LTU Karachi, it revealed that the taxpayer had a history of claiming initial depreciation on plant & machinery transferred from leased assets to own assets which was not admissible as per law. The depreciation claim was disallowed by the department vide order u/s 122(5A) dated 30th November 2009 but the taxpayer continuously claimed initial depreciation on such leased assets during tax years 2009, 2010, 2011 and 2012. This resulted in loss of government dues of Rs 32.847 million.

Management Reply

The department replied that notices had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015, directed to expedite recovery proceedings and report progress by 28th February 2015.

Audit emphasizes upon expeditious recovery of the dues.

Recommendations

i. The compliance of section 8 of the Sales Tax Act 1990, Section 161, 162, 113 of the Income Tax Ordinance 2001, Section 4 of the Worker Welfare Fund Ordinance 2001 and SRO 77(I)/2013 dated 7th February 2013, may be ensured.
ii. Mechanism for monitoring of input tax adjustment may be strengthened by invoking section 73 of the Sales Tax Act 1990.
iii. Exemption of duty and taxes under DTRE concession may be allowed after strict monitoring of export of sugar.
iv. Reduced rate may be allowed on strict observance of approved quota and actual export of sugar.

5.4 INPUT TAX ADJUSTMENT BY BLACKLISTED REGISTERED PERSONS

a) Introduction

The issue relating to blacklisting of registered persons is dealt with in accordance with the procedure prescribed under section 21 of the Sales Tax Act 1990, Rule 12 of the Sales Tax Rules 2006 and Sales Tax General Order 03 dated 12th June 2004. Where a Commissioner, having jurisdiction, is satisfied that a registered person had issued fake invoices, evaded tax or committed tax fraud, registration of such person may be suspended by the Commissioner through the system, without prior notice, pending inquiry. This also includes, non-availability of registered person at given address, refusal to allow access to business premises or refusal to furnish record to an authorized Inland Revenue Officer, non-filing of sales tax returns, making purchases and supply to other blacklisted persons etc. Keeping in view the large scale tax evasion, fraudulent refunds, pending recoveries and departmental inaction, the sector was selected for detailed audit.

b) Audit Objectives

The objectives of this study were to see whether:

- the authorities had followed the procedure of suspension / blacklisting as prescribed under the law;
- the authorities had suspended registration of registered persons who failed to file return for six consecutive months;
- the authorities had disallowed adjustment of input tax during the suspension/blacklisting of registered persons and their buyers/suppliers,
- the authorities had disallowed refund of sales tax during the suspension/blacklisting of registered persons and their buyers and suppliers.

c) Audit Scope

The study was limited to two years i.e. 2011-12 & 2012-13 and record maintained by the six RTOs & LTU, Karachi was examined. The field formations failed to produce complete information/record as requisitioned by Audit. Therefore, reliance was made on analysis of the soft data available on e-portal of FBR website.

d) Audit Methodology

The following methodology was adopted:

- Understanding the system of suspension/blacklisting,
- Soft / hard data collection,
- Desk audit,
- Performing analytical procedure on computerized data,
- Compliance of section 21 of the Sales Tax Act 1990,
- Evaluating results.

Audit examined the soft data and relevant record in the light of codal provisions. Effectiveness of the system was checked with reference to matching sales and purchases from the persons concerned.

e) Audit Findings

Audit findings reflecting insufficient actions in declaring defaulter taxpayers as suspended/blacklisted by FBR leading to non-recovery of government revenue are enumerated in succeeding paragraphs.

5.4.1 Loss due to inadmissible adjustment of input tax and refunds - Rs 128,000 million

Para 20 of General Financial Rules, Vol-1 requires that any loss of public money, departmental revenue receipts, stores etc, held by or on behalf of government, whether caused by defalcation or otherwise, must be reported to

Audit immediately even if such loss has been made good by the party responsible for it.

According to news items published in daily "DAWN" dated 16th March 2014, a large number of irregular and illegal tax refunds were issued by RTO-I, II and III Karachi. According to report, following irregularities were committed by the tax authorities while issuing refunds during the years 2011-12 and 2012-13:

1. The registration of around 4,000 taxpayers was either suspended or they were blacklisted on account of issuance of fake invoices or other fraudulent practices. However, refunds worth billions of rupees were issued against those fake and flying invoices.
2. Most of these refunds were issued by the office of RTO-III (Zone-III). RTO-III also issued refunds worth in billions to a group of Plastic manufacturers during the years 2011-12 and 2012-13.
3. RTO offices were reluctant to take recovery measures in sales tax refunds cases despite establishment of the fact that invoices were issued by the companies that had either been suspended or blacklisted. Few names of such companies were; Zia Traders, Moiz Enterprises, Shayan International, AA Enterprises, Biztice International, Nomi Impex, Fengye International, Happy Trading, Silicon International, Mumtaz & Sons, Ahmed Smelters Company etc.
4. The companies noted above had no physical existence at their given addresses and no operating/manufacturing activities were noticed at their provided addresses.
5. Legal proceedings against such culprits were either stopped or slowed down for unknown reasons. Resultantly, Rs 128,000 million refunds (40,000 million sales tax and Rs 88,000 million income tax) were issued in violation of standing rules.

Management Reply

The department failed to furnish reply.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit Emphasizes upon

- fixing of responsibility against the defaulting officers for sanctioning fake refunds,
- expeditious recovery of the dues.

5.4.2 Inadmissible adjustment of input tax by blacklisted registered persons - Rs 1,842.43 million

According to section 21(2) of the Sales Tax Act 1990, where the Commissioner is satisfied that a registered person is found to have issued fake invoices or has otherwise committed tax fraud, he may blacklist such person or suspend his registration.

According to clause 36 of STGO No. 3 of 2004 dated 12th June 2004, no input tax adjustment/refund shall be admissible to the registered person during the period of suspension. Similarly, no input tax adjustment / refund shall be allowed to any other registered persons on the strength of invoices issued by such suspected person whether issued prior to or after such suspension.

Seventy one registered persons of various Commissionerates were declared blacklisted by FBR. The registered persons made purchases of taxable goods and claimed input tax adjustment of Rs 1,842.73 million during the years 2011-12 and 2012-13. The department was required to conduct inquiry against the suppliers and buyers of blacklisted registered persons as per law and should have disallowed input tax adjustment made by the suppliers and buyers. However, the department did not initiate the required action. This resulted in loss of government revenue amounting to Rs 1,842.43 million**.**

Management Reply

The LTU Karachi replied that show cause notices had been issued whereas no reply was furnished by other RTOs.

DAC's Recommendations

The DAC in its meeting held in January 2015, directed the LTU Karachi to expedite adjudication proceedings and directed the other RTOs to furnish updated position by 28th February 2015.

Audit emphasizes upon necessary action be taken for recovery of dues against the registered persons as well as buyers and suppliers.

[Annexure-59]

5.4.3 Irregular sanction of sales tax refund to blacklisted registered persons - Rs 51.71 million

According to clause 36 of STGO No. 03 of 2004 dated 12th June 2004, no input tax adjustment/refund shall be admissible to the registered person during the period of suspension. Similarly, no input tax adjustment /refund shall be allowed to any other registered persons on the strength of invoices issued by such suspected person during the period of suspension.

Four registered persons under the jurisdiction of RTO-II and III Karachi were declared blacklisted by the department. The registered persons claimed refund of sales tax for Rs 51.71 million during the years 2011-12 and 2012-13, which was allowed by the department. The payment of sales tax refund was not admissible to blacklisted persons as per above mentioned provision. This resulted in loss of government revenue amounting to Rs 51.71 million.

Management Reply

The department failed to furnish reply.

DAC's Recommendations

The DAC in its meeting held in January 2015, directed to furnish updated position by 28th February 2015.

Audit emphasizes upon furnishing of reply and expeditious recovery of the dues.

5.4.4 Irregular zero-rating of sales tax by blacklisted registered person - Rs 264.11 million

According to condition (xii) of the SRO 1125(I)/2011 dated 31st December 2011 regarding zero rating facility, the benefit of this notification shall be available to such registered persons who appear on active taxpayer list (ATL) on the website of Federal board of Revenue. In case of default of

non/short payment due to inadmissible adjustment, penalty and default surcharge under sections 33 and 34 of the Act shall also be levied.

Seven registered persons, under the jurisdiction of RTO-I, II and III Karachi, were declared blacklisted on the active taxpayer list (ATL) of the FBR website. The registered persons made taxable supply and charged sales tax at the rate of zero percent in term of SRO 1125 (I)/2011 dated 31st December 2011 during the period from January 2011 to August 2012. The claim of zero rating of sales tax under SRO 1125 was not admissible to the blacklisted taxpayers as per condition of SRO. The department did not initiate legal action against the registered persons for claiming irregular zero-rating of sales tax. This resulted in loss of government revenue amounting to Rs 264.11 million.

Management Reply

The department failed to furnish reply.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit Emphasizes upon

- initiating of necessary action for recovery of the dues,
- furnishing of updated reply,
- evolving of mechanism to ensure non recurrence of such cases.

5.4.5 Irregular adjustment of input tax by suspended taxpayers - Rs 285.29 million

According to section 21 of the Sales Tax Act 1990 read with Rule 12 of SRO 555(I)2006 dated 5th June 2006, in cases where the Commissioner is satisfied that a registered person is found to have issued fake invoices or has otherwise committed tax fraud, he may blacklist such a person. To establish the tax fraud leading to blacklisting, the Commissioner may initiate inquiry which is to be completed within ninety days and thereafter issue show cause notice for recovery of evaded government revenue.

Nine registered persons, falling under the jurisdiction of four field formations of FBR, were declared as non-active and suspended. The department

was requested to produce the relevant record/documents to confirm the genuineness or otherwise of the input adjustment/refund availed by the registered persons, their suppliers and buyers but the same was not produced to Audit. As per rule referred above, the department was also required to complete the enquiry within stipulated period. The inaction on the part of the department resulted in inadmissible adjustment of input tax of Rs 285.29 million as per tax profile for the year 2011-12.

Management Reply

LTU Karachi reported that show cause notices had been issued while no reply was furnished by other RTOs.

DAC's Recommendations

The DAC in its meeting held in January 2015, directed the LTU Karachi to expedite adjudication proceedings and directed other RTOs to furnish updated position by 28th February 2015.

Audit Emphasizes upon

- taking of necessary action for recovery of the dues against the registered persons as well as their buyers and suppliers,
- furnishing of updated reply in non-responded cases.

5.4.6 Non-suspension of sales tax registration of 161 registered persons

According to section 21 of the Sales Tax Act 1990 read with Sales Tax General Order No.35 of 2012, a registered person who does not file sales tax returns for consecutive six months, the sales tax registration of that registered person shall be suspended by the system without any notice.

During test check of status of registered persons through desk audit, it was noticed that 161 registered persons falling under jurisdiction of RTO-III Karachi, failed to file sales tax returns for consecutive six months during the year 2011-12 but their registration was not suspended/ blocked.

Management Reply

The department failed to furnish reply.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to furnish updated position by 28th February 2015.

Audit Emphasizes upon

- furnishing of updated reply,
- taking of legal action against the defaulters.

[Annexure-60]

Recommendations

i) Inquiry may be finalized against officials involved in tax evasion.
ii) Subjudice cases may be pursued actively.
iii) Supervisory controls in sanctioning of refund claims should be enforced.
iv) Departmental action against suspended /blocked registered persons may be finalized.
v) Compliance of section 73 of the Sales Tax Act 1990 may be ensured.

5.5 COLLECTION OF SALES TAX AND FEDERAL EXCISE DUTY BY PIA

a) Introduction

The Directorate General Audit, Inland Revenue (South), Karachi conducted audit of "Tax deducted on air tickets by PIA" during July to November 2013 for the financial year 2012-13. The main objectives of the audit were to examine whether the tax collecting authorities had exercised the vested provisions under the Federal Excise Act 2005 and the Sales Tax Act, 1990 with due diligence for collection of sales tax and federal excise duty according to the laid down procedure. Keeping in view the continuous short payment of Federal Excise Duty by the registered persons the area was selected for detailed audit.

b) Audit Objectives

To check whether:

- value of taxable services was correctly declared in the monthly sales tax returns by the respective registered persons,
- the registered persons filed sales tax return in time,
- the registered person paid sales tax at prescribed rate on taxable services rendered,
- the exemption was correctly availed,
- the LTU Karachi had taken necessary steps for recovery under section 48 of the Sales Tax Act 1990, where the registered person failed to pay the tax due.

c) Audit Scope

Audit was conducted to ascertain charging and payment of sales tax and federal excise duty on air tickets issued by Pakistan International Airlines Corporation (PIAC) falling under the jurisdiction of LTU Karachi for the year 2012-13.

d) Audit Methodology

The following methodology was adopted:

- Understanding the system of levy of sales tax and federal excise duty on services rendered by PIAC
- Soft / hard data collection
- Desk audit
- Performing analytical procedure on computerized data
- Compliance of relevant statutory provisions of tax laws
- Evaluating results

e) Audit Findings

Audit findings reflecting ineffective enforcement function by FBR leading to serious irregularities are enumerated in succeeding paragraphs.

5.5.1 Short payment of sales tax and federal excise duty - Rs 4,773.24 million

Sections 11 A, 36 and 48 of the Sales Tax Act 1990 provide that where a registered person pays the amount of tax less than the tax indicated in the return the short paid amount of tax along with default surcharge shall be recovered from such person by stopping removal of any goods from his business premises and through attachment of the business bank accounts, without giving him a show cause notice and without prejudice to any other action prescribed under the Act or the rules made there under. Short payment also attracts penalty and default surcharge under sections 33 and 34 of the Act.

M/s PIA falling under the jurisdiction of LTU Karachi did not fully discharge taxable liability and made payment of only Rs 277.44 million whereas the actual amount payable was Rs 4,251.17 million for the tax period July 2011 to October 2012. Thus short payment of sales tax of Rs 3,973.74 million rendered them liable to default surcharge of Rs 600.82 million and penalty of Rs 198.69 million aggregating Rs 4,773.24 million.

Management Reply

The department replied that case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015, directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit emphasizes upon expeditious recovery of the dues.

5.5.2 Misclassification of federal excise duty - Rs 2,758.22 million

According to section 3(1) (d) of the Federal Excise Act 2005, read with entry No. 3 of Table-II of the first schedule thereof, federal excise duty at the rate of 16 percent was levied on travel by air and inland carriage of goods by air within territorial jurisdiction of Pakistan while at a specified fixed rate on passengers embarking on international journey from Pakistan is leviable.

M/s PIA falling under the jurisdiction of LTU Karachi collected FED from January 2012 to May 2013 and deposit the amount under head B-02366 sales tax on services instead of B-02467 FED on VAT mode & B-02485. This resulted in misclassification of excise duty amounting to Rs 2,758.22 million.

Management Reply

The department replied that case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit emphasizes upon crediting of FED under proper head of account.

5.5.3 Non-payment of federal excise duty - Rs 1,672.54 million

According to section 3(1) (d) of the Federal Excise Duty Act 2005, read with entry No. 3 of Table-II of the first schedule thereof, federal excise duty at the rate of 16 percent on travel by air within territorial jurisdiction of Pakistan, and inland carriage of goods by air while at a specified fixed rate on passengers embarking on international journey from Pakistan is leviable.

M/s PIA falling under the jurisdiction of LTU Karachi, collected federal excise duty for the tax period of November 2012 and December 2012 but did not deposit the amount into government account through filing sales tax returns. The department also did not initiate recovery action which resulted in non-payment of federal excise duty amounting to Rs 1,672.54 million.

Management Reply

The department replied that case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit emphasizes upon expeditious recovery of the dues.

5.5.4 Short payment of federal excise duty owing to short accountal of tickets - Rs 2,193.03 million

According to section 3(1) (d) of the Federal Excise Duty Act 2005, read with entry No. 3 of Table-II of the first schedule thereof, federal excise duty at the rate of 16 percent on travel by air within territorial jurisdiction of Pakistan, and inland carriage of goods by air while at a specified fixed rate on passengers embarking on international journey from Pakistan is leviable.

M/s PIA falling under the jurisdiction of LTU Karachi had short accounted the number of passengers embarking on international journey in Annexure-E of the sales tax returns filed during the tax periods of January 2012 to October 2012. The short accountal of tickets by M/s PIAC resulted in short payment of federal excise duty of Rs 2,193.03 million**.**

Management Reply

The department replied that the case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit emphasizes upon expeditious recovery of the dues.

5.5.5 Non-apportionment of input tax resulted in short payment of excise duty - Rs 220.83 million

According to rule 41A of the Federal Excise Rules 2005, federal excise duty shall not be charged from Hajj passengers. Section 8(2) of the Sales Tax Act 1990, provides that if a registered person deals in taxable and non-taxable supplies, he can reclaim only such proportion of the input tax as is attributable to taxable supplies in such manner as may be specified by the Board.

M/s PIA falling under the jurisdiction of LTU Karachi for the tax period of September 2012, received an amount of Rs 1,467.87 million from Hajj tickets which were exempt from FED, however, PIAC did not apportion the input tax as per law. This resulted in short payment of government dues of Rs 220.83 million.

Management Reply

The department replied that case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit emphasizes upon apportionment of tax as per law and recovery of the dues.

5.5.6 Non-levy of penalty and default surcharge on late payment of sales tax - Rs 34.18 million

According to section 33 (5) of the Sales Tax Act, 1990, any registered person who fails to deposit the amount of tax due or any part thereof in the time or manner laid down under the Sales Tax Act 1990, such person shall pay a penalty of ten thousand rupees or five percent of the tax involved, whichever is higher.

According to section 34 of the Sales Tax Act 1990, if a registered person does not pay the tax due or any part thereof in the time or in the manner specified under Sales Tax Act 1990, such person shall pay default surcharge at the rate of KIBOR plus three percent per annum of the amount of tax due.

M/s PIA falling under the jurisdiction of LTU Karachi made payment of the amount of sales tax and federal excise duty for the tax period of February 2013 after the due date. The department did not demand the penalty and default surcharge on late payment which resulted in loss of government revenue amounting to Rs 34.18 million.

Management Reply

The department replied that case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit emphasizes upon expeditious recovery of the dues.

5.5.7 Non-levy of penalty and default surcharge on late payment of federal excise duty - Rs 26.14 million

According to sub rule 9 & 10 of rule 41A of the Federal Excise Rules, 2005, the duty for each month shall be deposited by the airline by the 15th day of the following second month in respect of the services provided to the last working day of each calendar month. In case excise duty is not deposited by the airline by the due date, it shall, in addition to the payment of duty be, liable to pay default surcharge at the rate of given in section 8 of the Act and shall also be liable to penalty of ten thousand rupees on every such ticket on which excise duty has not been paid under the Act or these rules.

M/s PIA falling under the jurisdiction of LTU Karachi made payment of Federal Excise Duty for the tax period of June 2013 after due date. The department did not demand penalty and default surcharge on late payment which resulted in loss of government revenue amounting to Rs 26.14 million.

Management Reply

The department replied that case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the legal proceedings and report progress by 28th February 2015.

Audit emphasizes upon expeditious recovery of the dues.

Recommendations

- FBR should ensure recovery of federal excise duty and sales tax within due date.
- FBR should ensure analysis of sales tax returns, particularly input tax adjustment on monthly basis.
- FBR should ensure apportionment of input tax on account of exemption of FED on Hajj and Umra tickets.

5.6 EXPEDITIOUS REFUND SYSTEM (ERS)

a) Introduction

The legacy of sales tax refund faced a number of problematic areas involving delay, excessive documentation and undue human involvement. It was a major area of concern for both the FBR and the refund claimants. To overcome the hurdles, the FBR introduced Expeditious Refund System (ERS) vide SRO 211(1)/2010 dated 29th March 2010 which was applicable in RTO Lahore from 1st April 2010 and in other RTOs/LTUs from 1st July 2010 through insertion of rule 26A in Sales Tax Rule 2006. Refund by the Risk Management System of FBR (IT System) is allowed within two working days of electronic submission of refund claim to the active taxpayer who is registered as manufacturer-cum-exporter.

On receipt of the claim, system generates acknowledgement receipt and subsequently sends Expeditious Refund Clearance Intimation or Expeditious Refund Rejection Advice (in case of rejection) through e-mail to claimant as well as to respective tax office. After issuance of cheques from Central Sales Tax Refund Office (CSTRO) for the amount cleared by Risk Management System, the electronic copy of refund claims are forwarded to the concerned tax office for detailed scrutiny through Post Refund Audit.

Apparently, ERS was introduced by FBR with the following expectations:

i. Facilitate the taxpayers to get refund without going through agony.
ii. Introduce paperless environment for saving time and resources.
iii. Ensure transparency in processing of refund cases.
iv. Minimize change or alteration in invoices and information or data which is once fed to the system.
v. Capture the entries in order to watch manipulations.
vi. Maintain security in the system to avert misuse of the facility.

The audit was planned to determine the extent to which the FBR succeeded in achieving the above mentioned targets.

b) Audit Objectives

Main objectives of the audit were to:

a) evaluate the efficiency and effectiveness of the system,
b) identify weak areas in the system of assessment, sanctioning of refund and to suggest remedial measures,
c) test check the accuracy, correctness, law provision for refund claims and recovery procedure,
d) remove the existing shortcomings and deficiencies in the system.

c) Audit Scope and Methodology

Sectoral audit was conducted to examine the refund paid through ERS during 2010 to 2013. The FBR did not provide auditable record and access to the system. Therefore, the field audit team confined its audit program only to the information / record provided by the field formations.

The following methodology was adopted:

a) Collecting the data and understanding the Expeditious Refund System.
b) Analysis of developed functionalities and queries relating to system.
c) Examination of post refund audit files.
d) Evaluating results of post refund audit.
e) Discussion of findings with the management.

d) Audit Findings and Recommendations

The payment of sales tax under ERS was meant to eliminate excess documentation. Condition for submission of documents including invoices, debit/credit notes, goods declarations, bank credit advices etc. was therefore abolished. The documents for refund claim were to be kept by the registered person in his office for production to tax authorities on demand for post refund audit. However, Audit observed that nominal cases i.e. 9.05% of total cases were

subjected to post refund audit. Audit highlighted the flaws in the system, impact of Post Refund Audit, deficiencies in monitoring system and casual attitude of FBR authorities towards production of record. Lack of planning and inefficiency in monitoring the achievement of the objectives caused revenue loss to exchequer.

Audit observed that certain necessary validation checks as functionalities in ERS were not developed, which are given below:

i) Consumed / unconsumed stocks of the taxpayers.
ii) Excess claims of goods declaration of imports/exports.
iii) Claim of input tax and refund against fake invoices.
iv) Authenticity of payment through banking instruments to supplier under section 73 of Sales Tax Act 1990.
v) Verification of declaration by claimant for zero/taxable/exempt/reduced rate supplies.
vi) Non-determination of goods declaration claimed under DTRE Scheme.
vii) Recovery of arrears.
viii) Miscalculation of stock consumption due to export/zero rating on local supplies.
ix) Proportionate deferred input against deferred tax invoices etc.

The absence of aforesaid validation checks resulted in excess/ inadmissible payment of refund in 568 cases involving amount of Rs 237.47 million as detailed in succeeding paragraphs.

5.6.1 Shortfalls in system and impact of not conducting of post refund audit

Section 26A of Sales Tax Act 1990 read with rule 36 (1) of the Sales Tax Rules 2006, provides that after disposal of refund claim, the relevant case is to be forwarded to the concerned RTO/LTU for scrutiny by the Post Refund Audit Division. It includes verification of input tax payment by respective suppliers under section 8A of the Sales Tax Act 1990 and compliance of section 73 regarding payment against purchases through banking channel for admissibility or inadmissibility of refund.

The information collected from Pakistan Revenue Automation (Pvt) Limited (PRAL) revealed that 8966 refund payment orders, relating to twelve field formations, were issued during 2010-11 to 2012-13 through ERS. However, post refund audit of only 811 cases was finalized by the executives as detailed below:

(Rs in million)

Sr. No.	Office	No. of refund claims sanctioned	Refund sanctioned (Rs)	No. of cases in which PRA conducted	PRA conducted in Percentages
1	RTO Faisalabad	2,844	3,592.41	419	14.73%
2	LTU Lahore	374	2,508.31	-	No Information provided
3	RTO-I Lahore	1,443	1,229.87	-	No information / data provided
4	RTO Sialkot	3202	333.26	103	3.22%
5	RTO Sargodha	21	11.32	16	76.19%
6	RTO-II Lahore	463	384.75	-	Information not provided
7	RTO Multan	505	383.86	190	37.62%
8	RTO Peshawar	12	19.73	-	Information no provided
9	RTO Rawalpindi	8	7.17	08	100%
10	RTO Islamabad	9	14.54	-	Information not provided
11	RTO Gujranwala	82	26.56	75	91.46 %
12	LTU Islamabad	03	89.03	-	Information not provided
Total		**8,966**	**8,600.81**	**811**	

The above position clearly indicates that 9.05% refund cases were subjected to audit and action under the law was started for recovery of inadmissible excess refund, whereas remaining 90.95% cases were found un-attended. It is pertinent to point out that in case of the RTO Multan 190 cases involving refund of Rs 87.41 million were subjected to post refund audit against which discrepancies of Rs 59.98 million were pointed out in 156 cases. It indicates that 63% of the refunded amount was doubtful.

In order to regularize the cases all supportive record should be collected and audit be conducted on case to case basis. However, the statutory review should be conducted by the department of Auditor General of Pakistan.

Management Reply

The department reported that post refund audit had been initiated.

DAC's Recommendations

In the DAC meetings held in January and September 2014, the DAC directed the RTOs/LTUs to expedite post refund audit in remaining cases. The DAC also directed to expedite the adjudication proceedings and recover the amount where the discrepancy exists.

Audit emphasizes upon justification of delay in conducting PRA.

5.6.2 Non-detection of inadmissible refund claims by ERS resulting in excess payment - Rs 7.54 million

According to section 8(1)(ca) of the Sales Tax Act 1990, a registered person shall not be entitled to reclaim or deduct input tax paid on the goods or services in respect of which sales tax has not been deposited in the Government treasury by the supplier.

Nine taxpayers of RTO Faisalabad claimed input tax on the invoices on which sales tax was not deposited by the respective suppliers. The ERS failed to detect the discrepancy, causing a loss of Rs 7.54 million to government exchequer.

Management Reply

The lapse was pointed out in October 2013. RTO informed that amount of Rs 0.288 million had been recovered, Rs 1.369 million was under recovery and the balance amount of Rs 5.881 million was under adjudication.

DAC's Recommendations

The DAC in its meeting held in September 2014 directed the RTO to expedite adjudication/recovery by 15th October 2014.

Audit Emphasizes upon

- reconciliation of refund claim with the sales tax deposited by the suppliers,
- taking of remedial action to improve the system to avoid such losses to government exchequer,
- fixing of responsibility against the refund sanctioning authority.

5.6.3 Release of refund by ERS against the invoices of suspended/ blacklisted units - Rs 44.85 million

Section 21(3) of Sales Tax Act 1990 read with Sales Tax General Order No 35/2012 dated 30th June 2012 and Chapter V of Sales Tax Rules 2006, states that during suspension of registration, the invoices issued by the unit shall not be entertained for purposes of sales tax refund or input tax credit. Once such person is blacklisted, no refund or input tax credit shall be issued to him.

Twenty three taxpayers in RTO Faisalabad claimed adjustment / refund of input tax on the invoices issued by the non-functional/suspended/blacklisted taxpayers. The ERS failed to object such invoices, thereby, causing inadmissible refund of Rs 44.85 million.

Management Reply

The lapse was pointed out by Audit in October 2013. RTO informed that amount of Rs 2.62 million had been recovered/verified, Rs 13.33 million was under recovery, Rs 25.35 million was under adjudication and amount of Rs 3.56 million had been vacated.

DAC's Recommendations

In the DAC meeting held in January 2014, the DAC directed the RTO to expedite adjudication/recovery and settled the para to the extent of amount recovered/vacated, subject to verification by Audit.

Audit Emphasizes upon

- expeditious recovery/adjudication of the balance amount,
- placing of validation checks in the system to reject refunds claimed on the basis of invoices issued by suspended/blacklisted units.

5.6.4 Unreliable information of stock provided by taxpayers resulting in excess payment of refund - Rs 11.91 million

According to Rule 26(A) inserted vide SRO 211 (I)/2010 dated 29th March 2010 in the Sales Tax Rules 2006, the refund claim shall be processed and paid to the registered manufacturers-cum-exporters to the extent of stock consumed in exports or zero rated local supplies.

In ERS, there was no procedure to monitor the unconsumed stock and system relies totally upon the data provided by the taxpayers/claimants. Seven taxpayers of RTO Faisalabad claimed excess refund of Rs 4.64 million against unconsumed raw materials/stocks. The claimants had not provided quantitative stock statement which clearly shows the intention of concealing of facts and violation of the provisions of sections 2(14), 8 read with rule 32 of Sale Tax Refund Rules 2006.

Management Reply

RTO informed that amount of Rs 1.24 million had been recovered, Rs 0.55 million was under recovery, Rs 6.49 million was under adjudication, Rs 3.4 million was not due and balance amount of Rs 0.23 million had been vacated.

DAC's Recommendations

In the DAC meetings held in January and September 2014, the DAC directed the RTO to expedite adjudication/recovery and settled the para to the extent of amount recovered/not due.

Audit Emphasizes upon

- expeditious recovery/adjudication of the balance amount,
- reviewing of the ERS policy and monitoring system regarding reconciliation/verification of consumed stock.

5.6.5 Inadmissible payment of sales tax refund against exempt supplies due to non-apportionment of input tax - Rs 1.01 million

Section 8 (2) of the Sales Tax Act 1990 read with rule 24 and 25 of the Sales Tax Rules 2006 provides that if a registered person deals in taxable and

non-taxable supplies, he can reclaim only such proportion of the input tax as is attributable to taxable supplies. As per SRO 549(I)/2008 dated 11th June 2008, goods exempted under section 13 will be zero rated, if exported by the manufacturer who makes local supplies of both taxable and exempt goods.

A taxpayer under the jurisdiction of RTO-II Lahore claimed refund (Claim No.T300613100025) against supplies of pharmaceuticals (I.V. Solutions). Domestic supplies of which were exempted from sales tax and exports zero rated. The refund claimant did not apportion input tax between exempted and zero rated supplies. ERS failed to ascertain the amount involved in local exempted supplies and allowed refund to the claimant without objection. This resulted in inadmissible payment of refund of sales tax of Rs 1.01 million as tabulated below:

(Rs in million)

Total sales	Local exempt sales	Export sales	Total input tax	Inadmissible refund
61.74	43.39	18.36	1.44	1.01

Management Reply

No reply was furnished by the department.

DAC's Recommendations

The DAC meeting held in September 2014 directed the RTO to furnish a comprehensive reply by 30th September 2014. However, no reply was furnished till finalization of the report.

Audit Emphasizes upon

- improvement in system regarding apportionment of exempt supplies and export sales,
- fixing of responsibility against the personnel responsible for not furnishing reply.

5.6.6 Irregular payment of refund due to weak internal control of ERS - Rs 5.31 million

According to section 23(1) of Sales Tax Act 1990, a registered person making a taxable supply shall issue a serial numbered tax invoice at the time of

supply of goods. It should contain name, address and registration number of the supplier and recipient alongwith date of issue of invoice, description and quantity of goods, value exclusive of tax, amount of sales tax and value inclusive of tax.

Two registered persons of RTO Lahore and Faisalabad were sanctioned refund of sales tax against electricity, telephone and sui gas utility bills which were not in the name of registered claimant in FBR record. Moreover, addresses mentioned in the bills were also not declared business addresses / STRN of the claimants. ERS failed to detect the irregularity and sanctioned refund of Rs 5.31 million to the claimant against those bills.

(Rs in million)

Sr. No.	Name of taxpayer	Claim No. / Tax Period	Amount involved
1	M/s Frontier Dextrose Limited NTN 2527354 and STRN 0302300003891	T300613100025	5.00
2	M/s Masood Textile Mills (Pvt) Ltd bearing Sales Tax Registration No. 04-04-5202-005-64	01/2012 & 02/2012	0.31
Total			**5.31**

Management Reply

No reply was furnished by the department.

DAC's Recommendations

The lapse was pointed out in August 2014. The DAC meeting held in September 2014 directed the RTO to furnish comprehensive reply by 30th September 2014. However, no reply was furnished till finalization of the report.

Audit Emphasizes upon

- strengthening of internal control system to detect inadmissible payments of refund claimed against invoices/bills not pertaining to claimants,
- furnishing of comprehensive reply,
- fixing of responsibility against the personnel responsible.

5.6.7 Inadmissible sanction of refund through ERS - Rs 1.52 million

Section 8(1)(a) of the Sales Tax Act 1990, provides that a registered person shall not be entitled to reclaim or deduct input tax paid on the goods or services used or to be used for any purpose other than for taxable supplies made or to be made by him.

Five registered persons under the jurisdiction of RTO Faisalabad claimed input tax refund against the invoices of supplies which were not directly consumed in manufacturing of the taxable goods. The ERS could not detect the discrepancy and sanctioned inadmissible refund amounting to Rs 1.52 million. This indicates the failure of ERS to indentify the supplies on which the input taxes were admissible or otherwise.

Management Reply

RTO informed that an amount of Rs 0.16 million had been recovered/verified, Rs 0.28 million was under recovery and balance amount of Rs 1.08 million was under adjudication.

DAC's Recommendations

In the DAC meetings held in January and September 2014, the DAC directed the RTO to expedite adjudication/recovery and settled the para to the extent of amount recovered.

Audit Emphasizes upon

- strengthening of internal control system regarding the admissibility of input tax directly consumed in manufacturing process,
- timely completion of post refund audit to ascertain admissibility of sales tax refund,
- expeditious recovery/finalization of legal proceedings of remaining amount.

5.6.8 Clearance of refund cases by ERS without observance of objection raised by "STARR" in export cases - Rs 57.78 million

According to rule 33 of the Sales Tax Rules 2006, refund to the claimant shall be paid to the extent of input tax paid on purchases or imports he actually

consumed in the manufacture of goods which have been exported or supplied at the rate of zero percent.

Scrutiny of soft data relating to RTO Faisalabad revealed that excess / inadmissible amount of refund was sanctioned through ERS without observance of objections raised by "STARR" system. The refund amount of Rs 57.78 million proportionate to objected export was not deferred by the ERS. This position depicts that either there are flaws in system or the refund sanctioning authorities showed lack of interest in observance of law.

Management Reply

RTO informed that show cause notices had been issued to registered persons and the matter had also been taken up with the FBR.

DAC's Recommendations

The DAC meeting held in September 2014 directed the RTO to expedite adjudication and get the position verified from Audit by 31st January 2014. However, no reply was furnished till finalization of the report.

Audit Emphasizes upon

- taking measures for improvement in the system regarding reconciliation of objection raised by STARR,
- early finalization of adjudication proceedings.

5.6.9 Excess payment of sales tax refund in the cases processed through ERS - Rs 105.67 million

According to section 10(1) of the Sales Tax Act 1990, if the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of zero rated local supplies or export made during that tax period, the excess amount of input tax shall be refunded to the registered person.

Under the jurisdiction of RTO Faisalabad, excess amount of input tax was deferred than the actual admissible amount in the sales tax refund cases processed through ERS. The excess amount was then claimed and issued to the

taxpayers. This resulted in excess payment of sales tax refund of Rs 105.67 million during the year 2013-14

Management Reply

The department replied that an amount of Rs 7.52 million had been recovered and verified by Audit, an amount of Rs 0.575 million was under recovery and Rs 96.719 million was under reconciliation.

DAC's Recommendations

The lapse was pointed out in November 2014. The DAC settled the para to the extent of amount recovered and directed the RTO to expedite recovery and reconciliation by 28th February 2015.

Audit Emphasizes upon

- taking measures for improvement in the system regarding reconciliation of amount claims, sanctioned and deferred before release of refund payment order,
- expeditious recovery/finalization of adjudication proceedings.

5.6.10 Irregular payment of refund of sales tax due to weak internal controls of ERS - Rs 1.88 million

According to rule 26A (5&6) of Sales Tax Rule 2006, the registered person claiming refund shall maintain and keep all the documents relating to the refund claim instead of submitting to the concerned RTO or LTU. Refund claims shall be processed by RMS of FBR. Further, FBR's letter C. No. 6(STD)/96 dated 10th October 1998 defines manufacturer as a person who has a manufacturing arrangement and carries out some manufacturing process whether the raw materials are owned by him or not. If an exporter buys raw material and gets the goods manufactured from some other person, then he cannot be treated as a manufacturer-cum-exporter as he does not carry out any manufacturing process.

Three registered persons who were not falling under the definition of manufacturer, under the jurisdiction of RTO-II Lahore and RTO Faisalabad claimed sales tax refund but ERS failed to detect status of claimants and

sanctioned the refund of Rs 1.88 million. This resulted in irregular payment of sales tax refund of Rs 1.88 million.

Management Reply

No reply was furnished by the department.

DAC's Recommendations

The lapse was pointed out in August 2014. The DAC meeting held in January 2015 directed the RTO to furnish comprehensive reply to Audit by 31st January 2015. However, no reply was furnished till finalization of this report.

Audit Emphasizes upon

- taking measures for improvement in the system regarding verification of manufacturing process requirement,
- furnishing of comprehensive reply,
- fixing of responsibility against the personnel responsible.

5.6.11 Non-production of record regarding sales tax refund cases sanctioned through ERS

According to Article 169 of the Constitution of Islamic Republic of Pakistan read with section 14 of the Auditor-General's Ordinance 2001, Auditor General of Pakistan has the authority to require any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection. Any person or authority hindering the auditorial function of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules.

The following field formations however did not produce the record for scrutiny.

Sr. No.	Office	No. of cases not produced for audit
1	RTO-I Lahore	1,443
2	LTU Lahore	374
3	RTO Faisalabad	75
4	RTO Sargodha	06

Four field formations under the jurisdiction of FBR were deliberately reluctant to produce the record to Audit which was against the spirit of constitutional power(s) delegated to the Auditor General of Pakistan. This state of affairs for non-production of record resulted in concealment of facts and deficiencies involved in introduction and implementation of refund system.

Management Reply

RTOs Faisalabad and Sargodha informed that the record was now available with RTOs. No reply was furnished by the RTO-I and LTU Lahore.

DAC's Recommendations

The DAC in its meeting held in September 2014 expressed concerns to RTO-I & LTU Lahore over non-production of record. The DAC directed the RTOs to provide the record to the next visiting Audit team.

Audit Emphasizes upon

- ascertaining the reasons for non-production of record,
- fixing of responsibility against the personnel responsible for non-production of record.

Conclusion

Expeditious Refund System was introduced in 2010 to facilitate the taxpayers in timely receipt of refunds against their genuine claims. However, scrutiny of only 9.05% of Post Refund Audit Reports revealed that flaws and deficiencies appeared not only on the part of the department but also the taxpayers were not providing the true picture of record/information. The deficiencies in ERS system, monitoring & controls and their financial impact on the government exchequer were observed. Audit not only focused on the recoveries but also invited attention on other legal complications faced by the department. Moreover, it was revealed that improper control mechanisms and lack of vigilance by the field formations resulted in loss to exchequer.

Hence, it is concluded that there were a lot of deficiencies and short falls in the internal controls of the system. It would not be result oriented until and unless improvement is made in the system as well as proper vigilance is given to the monitoring system.

CHAPTER-6 INTERNAL CONTROL WEAKNESSES

6.1 Introduction

INTOSAI defines the internal control structure as the plans and actions of an organization including management's attitude, methods, procedures, and other measures that provide reasonable assurance that the following general objectives are achieved:

1. Assets are safeguarded against loss due to waste, abuse, mismanagement, errors, and fraud and other irregularities;
2. Laws, regulations, and management directives are complied with; and
3. Reliable financial and management data are developed, maintained and fairly disclosed in timely reports.

An understanding of internal controls and weakness there in is critical for the auditor to make recommendations for improvement.

6.2 General Standards for an Internal Control Structure

INTOSAI describes five general standards that entity management and employees should follow:

a) **Reasonable assurance**. Internal control structures are to provide reasonable assurance that the general objectives of the entity will be accomplished.

b) **Supportive attitude**. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

c) **Integrity and competence**. Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to understand the importance of

developing, implementing and maintaining good internal controls, and to accomplish the general objectives.

d) **Control objectives**. Specific control objectives are to be identified or developed for each activity of the organisation and are to be appropriate, comprehensive, reasonable, and integrated into the overall organisational objectives.

e) **Monitoring controls**. Managers are to continually monitor their operations and take prompt, responsive action on all findings of irregular, uneconomical, inefficient, and ineffective operations.

6.3 Components of Internal Control

Internal control consists of five integrated components**.**

Control Environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The control environment comprises the integrity and ethical values of the organization.

Risk Assessment

Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives.

Control activities

Control activities are the actions established through policies and procedures that help ensure that management's directives for the achievement of objectives are carried out. It includes proper authorization of transactions, segregation of duties.

Information and communication

Pertinent information must be identified, captured and communicated in a form that enables people to carry out their responsibilities. To have pertinent information for accounting purposes, the entity needs to have adequate documents and records.

Monitoring

Monitoring by management involves the ongoing and periodic assessment of internal control performance to determine if control are operating as intended, and are modified when needed.

6.4 Responsibility for Maintaining Internal Controls

Entity management is responsible for ensuring that a proper internal control structure is instituted, reviewed, and updated to keep it effective. It is then the responsibility of everyone in the entity to ensure that the internal control structure functions as it should.

6.5 Internal Control Weaknesses

Internal control environment of FBR and its field formations was evaluated while conducting regularity audit for the year 2013-14. Weaknesses of internal controls observed are given in succeeding paragraphs.

Sales Tax

6.5.1 Non-finalization of admissibility/legitimacy of refund of sales tax - Rs 616.71 million

Rule 36 (1) of the Sales Tax Rules 2006, provides that after disposing of the refund claim, the officer-in-charge shall forward the relevant file to the Post Refund Audit Division for post sanction audit and scrutiny, which inter-alia include verification of input tax payments by respective suppliers being several and joint

liability under section 8A of the Sales Tax Act, 1990 and compliance of section 73 of the Act, regarding payment against certain purchases through banking channel.

The refund sanctioning authorities in nine field offices of FBR processed the claims and sanctioned refund in 612 cases without verification of payment of tax by suppliers, payment to suppliers through banking channel and checking the stock consumption which made the sanction orders provisional. The Refund Divisions either did not send cases to Post Refund Audit Division to ascertain admissibility of amounts already paid or post refund audit was not conducted. The lack of action on the part of tax authorities rendered payment of Rs 616.71 million as doubtful during 2013-2014.

Management Reply

The department replied that cases of Rs 4.69 million were under adjudication, Rs 3.89 was under recovery, Rs 320.35 were under process of post refund audit, cases involving Rs 30.84 million were referred to FBR for clarification whereas no reply was furnished in cases of Rs 255.81 million and recovery was made for Rs 1.13 million.

DAC's Recommendations

The DAC in its meeting held in January 2015, expressed serious concern over non-compliance of its earlier directives and directed the department to expedite recovery/adjudication/PRA proceedings, furnish compliance report and get the matter clarified from FBR and report progress by 28th February 2015.

[Annexure-61]

6.5.2 Non-realization of penalty from non-filers of sales tax returns - Rs 36.21 million

According to section 26 read with section 33 of the Sales Tax Act 1990, where any person fails to furnish a return within the due date, such person shall pay a penalty of five thousand rupees for non filing of each return.

Two thousand four hundred and twenty six registered persons of two field offices of FBR did not file their sales tax returns on due dates during the years 2012-13 & 2013-14. But the RTOs had not initiated any action for imposition of penalty against the non-filers. This resulted in non-realization of penalty amounting to Rs 36.21 million.

Management Reply

The RTO Multan replied that the cases of Rs 10.89 million were under adjudication whereas no reply was furnished by the RTO-I Lahore in cases of Rs 25.32 million.

DAC's Recommendations

The DAC in its meeting held in January 2015, directed the department to expedite adjudication proceedings and furnish updated position by 28th February 2015.

[DP Nos.15165-ST & 15044-ST]

6.5.3 Inadmissible adjustment of input tax against invoices issued by the blacklisted/non-active units - Rs 105.31 million

According to section 21(3) of the Sales Tax Act 1990, during the period of suspension of registration, the invoices issued by such person shall not be entertained for the purposes of sales tax refund or input tax credit, and once such person is blacklisted, the refund or input tax credit claimed against the invoices issued by him, whether prior or after such blacklisting, shall be rejected through a self-speaking appealable order and after affording an opportunity of being heard to such person.

Fifty seven registered persons of RTO Multan and RTO-III Karachi claimed input tax adjustment against the invoices issued by the blacklisted/suspended or non-active taxpayers which was not admissible as per law. It is worth mentioning that there were no validation checks in the e-filing system of returns that could block adjustment of input tax in case of incomplete return at the time of filing the return. Audit is of the view that in the absence of internal control, taxpayer could exploit

the loopholes and claim inadmissible input tax which ultimately resulted in short payment of tax due. The weakness of internal control resulted in inadmissible adjustment of input tax of Rs 105.31 million.

Management Reply

The department replied that cases of Rs 49.93 million had been referred to FBR for clarification and notices under Section 25(3) in cases of Rs 55.38 million had been issued.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the department to expedite legal proceedings in cases where notices were issued. The DAC deferred the cases where clarification was sought from FBR till FBR response and department was directed to report by 28th February 2015.

[DP Nos.15045-ST, 5920, 5923 & 5924-ST/K]

6.5.4 Irregular payment of refund of sales tax - Rs 20.42 million

According to clause 7 of Export Policy Order 2013, in case of export in convertible currency**,** zero-rating and refund of sales tax shall be allowed, subject to the conditions that (i) the proof that goods exported from Pakistan have reached Afghanistan shall be verified on the basis of copy of import clearance documents by Afghan Customs Authorities across the border: (ii) packages or retail packing shall be prominently and indelibly marked with the expression "For Export Only".

Refund of sales tax was sanctioned and paid to five registered persons of RTO-I & II, Lahore through Expeditious Refund System against exports made to Afghanistan without verification of proof of advance payment received or irrevocable letters of credit, proof of goods exported to Afghanistan through import clearance documents of Afghan Customs Authorities and without verifying the goods marked with the expression "For Export Only" and "not for sale in Pakistan on packages. The non-observance of laid down internal controls resulted in irregular payment of sales tax refund amounting to Rs 20.42 million.

Management Reply

No reply was furnished by the RTOs-I and II Lahore.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the department to furnish updated reply by 28th February 2015.

[Annexure-62]

6.5.5 Deferred liabilities of sales tax refund causing over statement of receipts Rs 2.86 million

According to section 10 (1) of the Sales Tax Act 1990, if the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax, the excess amount of input tax shall be refunded to the registered person not later than forty-five days of filing of refund claim. Further, according to Sales Tax Rules 2006 relating to refund "where the claim or any part thereof is found inadmissible or unverified, the officer-in-charge shall, at the time of issuing RPO, issue a notice requiring the claimant to show cause as to why the claim or as the case may be, part thereof should not be rejected and as to why the claimant should not be proceeded against under the relevant provisions of the Act.

One field office of FBR kept the refund claims pending due to STARR objections and did not issue proper show cause notices in 26 refund claims involving Rs 2.86 million. The reasons for pending refund were not given in the provided data. The implications of such accumulated pending refund claims are as follow:

- Refund is minus receipt which creates a liability on public exchequer against the consolidated fund;
- The figures of net receipts are overstated thus distorting the factual position of receipts;

- The refunds might have been regulated and processed at discretion with a motive to keep the net receipts on higher side;

Audit is of the opinion that such pendency of refund claims without any valid reason is not logical according to law, the refund cases are either required to be processed for sanction or rejection after adjudication. Further, there has been no monitoring system for timely disposal of pending refund claims.

Management Reply

The department reported that an amount of Rs 1.867 million had been held as admissible in 17 cases, Rs 0.819 million rejected in eight cases and balance amount of Rs 0.171 million relating to remaining case was under adjudication.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed to expedite the adjudication proceedings and settled the para to the extent of rejected amount subject to verification of system rejection orders and get the progress verified from Audit by 28th February 2015.

[DP No 14644 &14645-ST]

Income Tax

6.5.6 Invalid assessments due to filing of incomplete returns

According to section 114 (3) of Income Tax Ordinance 2001 read with Rule 34 of the Income Tax Rules 2002, a return of income shall be taken to be completed if it is in the prescribed form and shall be accompanied by such annexure, statements or documents as may be prescribed. Further, section 120 of the Ordinance ibid provides that where a taxpayer has furnished a complete return of income, the Commissioner shall be taken to have made an assessment of taxable income for that tax year.

In two field formations of FBR, five taxpayers filed income tax returns for the tax year 2013 without attachment/completion of mandatory annexures.

Therefore, the returns were not to be treated as assessments order. It is worth mentioning here that there were no validation checks in the e-filing system of returns that could have been functional/operational in case of incomplete returns. Audit is of the view that in the absence of internal control, factual position and authenticity of taxable income and payment of tax due cannot be relied upon.

Management Reply

The department replied that legal proceedings had been initiated under the relevant provision of the law.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the department to complete the proceedings by 28 February 2015.

[Annexure-63]

6.5.7 Non-levy of penalty for late/non filing of income tax returns - Rs 4,947.15 million

According to section 114 of the Income Tax Ordinance 2001, every person who has obtained National Tax Number and a person who derives taxable income is required to furnish a return of income for the relevant tax year. Further, section 182 ibid provides for levy of penalty at applicable rates, where a taxpayer, fails to furnish or late furnish the return of total income.

In eleven field formation of the FBR, 1,156 taxpayers either did not file or late file the income tax returns, despite the fact that they were deriving taxable income and were also allotted National Tax Numbers. The said taxpayers were compulsorily required to file income tax returns. No remedial action was initiated by the department to enforce the filing of the returns besides imposition of penalty amounting to Rs 4,947.15 million.

Departmental Reply

The department replied that an amount of Rs 0.25 million had been charged but not yet recovered, legal proceedings initiated in the cases involving Rs 4,946.90 million.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the department to expedite recovery of the charged amount of Rs 0.25 million and finalize the assessment proceedings in remaining cases up to 28th February 2015.

[Annexure-64]

6.5.8 Non-pursuance of regular filing of income tax returns

Section 114 of the Income Tax Ordinance, 2001 provides that every person, non-profit organizations and approved welfare institutions whose taxable income for the year exceeds the maximum amount that is not chargeable to tax, are required to furnish a return of income. All the persons who had been allotted National Tax Number are also required to submit the returns irrespective of their income.

In four field offices of FBR, 1853 Bricks Kiln owners were not filing their income tax returns since Tax Year 2010 despite the fact that they were earning taxable income and were also allotted National Tax Numbers. The department did not take appropriate measure under the relevant provision of law to enforce filing of tax returns and recovery of the due tax. So the absence of internal control system would have caused tax evasion of millions of rupees and ultimately loss to exchequer.

Management Reply

The department reported that legal proceedings in all the cases had been initiated to ensure the filing of returns.

DAC's Recommendations

The DAC in its meeting held in January 2015 directed the department to complete the proceedings by 28th February 2015.

[DP No 14750, 15052, 15094 & 15132-IT]

6.6 Comments on Internal Audit

Internal audit is an integral part of internal control. It means the function by which the managers of an entity receive assurance from internal sources that the processes for which they are accountable are operating in a manner which will minimize the probability of the occurrence of fraud, errors, compliance with authority violation, internal control deviations or inefficient and uneconomic practices.

The Federal Board of Revenue has a Directorate General of Internal Audit (Inland Revenue) which is responsible to exercise over all supervision of execution and application of Income Tax, Sales Tax and Federal Excise Duty Laws. The Directorate is headed by a BS-21 Officer assisted by three Directors, sixteen additional Directors, twenty three Deputy / Assistant Directors supported with ample supporting staff.

Audit requisitioned annual audit report of the Directorate of Internal Audit for the year 2013-14 which was not provided despite written as well as verbal requests. In the absence of this report, Audit was unable to offer any comments on it. However, Audit has been pointing out irregularities of identical nature on frequent basis each year as elaborated in chapter 4 of this report, which lead to conclude that there is a lack of vigilance/monitoring in the field formations of FBR.

6.7 Conclusion

A summary of internal control weaknesses identified during audit is given below:

- Non-finalization of admissibility / legitimacy of refund of sales tax.
- Non-enforcing of filing of returns as well as non-imposition of penalty.
- Non-monitoring of blacklisted/blocked registered persons resulting in non-recovery of sales tax.
- Inadmissible refund of sales tax without obtaining supporting documents.
- Deferred liabilities of sales tax refunds causing overstatement of receipts.
- Invalid assessment due to filing of incomplete income tax returns.

Audit emphasizes upon:

- ensuring post refund audit according to the provisions of law,
- vigorous pursuance of non-filers,
- validation checks in the e-filing system of sales tax returns to prevent inadmissible adjustment of input tax against invoices issued by blacklisted/non-active units,
- no entertainment of refund claims without supporting documents as required under the law,
- sanctioning of refund after fulfilment of legal formalities,
- validation checks in e-filing system of income tax returns to ensure attachments / completion of return,
- imposition of penalty on non-filers to ensure regular filing of the returns.

Implementation of recommendations offered by Audit can help improve internal control mechanism to avoid losses of revenue.

ANNEXURES

Annexure-1

Detail of MFDAC for the year 2014-15

DGAIR (North) Lahore *(Rs in million)*

Sr. No.	Name of office	No. of Para/ PDP	Title of para	Amount of Audit Observation				Nature of Audit Observation
				Direct Tax	Indirect Tax	Expenditure	Total	
1	FBR (HQ) Islamabad	14595	Payment of salaries through DDO	0.00	0.00	3.58	3.58	Violation of Law / Rules
2	FBR(HQ) Islamabad	14596	Excess/irregular payment of TA/DA	0.00	0.00	0.18	0.18	Violation of Law / Rules
3	FBR(HQ) Islamabad	14601	Excess payment of occupancy cost on hiring of residential houses	0.00	0.00	0.74	0.74	Violation of Law / Rules
4	FBR(HQ) Islamabad	14602	Non surrendering of balances/savings	0.00	0.00	72.55	72.55	Violation of Law / Rules
5	RTO Faisalabad	14604	Non/short realization of income tax from cash reward and arrears of pay	0.00	0.00	0.43	0.43	Violation of Law / Rules
6	FBR(HQ) Islamabad	14605	Non-deduction of income tax on rent of residential building	0.00	0.00	0.45	0.45	Violation of Law / Rules
7	FBR(HQ) Islamabad	14606	Excess/irregular payment of TA/DA	0.00	0.00	0.22	0.22	Violation of Law / Rules
8	FBR(HQ) Islamabad	14607	Inadmissible payment of transport monetization	0.00	0.00	0.68	0.68	Violation of Law / Rules
9	FBR(HQ) Islamabad	14608	Inadmissible payment on account of medical charges	0.00	0.00	0.61	0.61	Violation of Law / Rules
10	FBR(HQ) Islamabad	14610	Non deduction of driver facility charges	0.00	0.00	0.10	0.10	Violation of Law / Rules

11	RTO Sargodha	14623	Inadmissible payment of integrated allowance	0.00	0.00	0.11	0.11	Violation of Law / Rules
12	I) DG I&I Computer Wing, Islamabad II) Internal Audit Northern Region (IR) Islamabad	14625	Non disposal of obsolete vehicles/stores	0.00	0.00	1.28	1.28	Violation of Law / Rules
13	Chief Coordinator Computer Wing (IR) Islamabad	14628	Inadmissible payment of deputation allowance	0.00	0.00	0.24	0.24	Violation of Law / Rules
14	Combined DP of six field formations	14631	Excess payment of rent of residential building	0.00	0.00	0.33	0.33	Violation of Law / Rules
15	FBR (HQ) Islamabad	14632	Abandoned civil works of development project	0.00	0.00	1,983.10	1,983.10	Violation of Law / Rules
16	FBR (HQ) Islamabad	14633	Irregular expenditure on account of repair and maintenance of building	0.00	0.00	1.51	1.51	Violation of Law / Rules
17	RTO Bahawalpur	14637	Irregular payment of I.J.P & Conveyance Allowance	0.00	0.00	0.07	0.07	Violation of Law / Rules
18	RTO (Zone-I) Bahawalpur	14654	Loss of revenue due to non invoking the provisions of section 162	13.58	0.00	0.00	13.58	Violation of Law / Rules
19	RTO Sargodha	14682	Short realization of sales tax	0.00	1.82	0.00	1.82	Violation of Law / Rules
20	RTO Sargodha	14687	Non imposition of penalty on submitting false statement	0.00	0.60	0.00	0.60	Violation of Law / Rules
21	RTO Sargodha	14688	Inadmissible sanction of sales tax refund.	0.00	5.51	0.00	5.51	Violation of Law / Rules
22	RTO Sialkot	14718	Inadmissible payment of fixed conveyance, Medical & TA/DA	0.00	0.00	0.29	0.29	Violation of Law / Rules

23	RTO Sialkot	14720	Inadmissible payment of pay and allowances	0.00	0.00	0.19	0.19	Violation of Law / Rules
24	RTO Sialkot	14721	Non deduction of Income Tax from payment made to suppliers	0.00	0.00	0.08	0.08	Violation of Law / Rules
25	RTO Sialkot	14723	Inadmissible payment of house rent allowance	0.00	0.00	0.19	0.19	Violation of Law / Rules
26	RTO Sialkot	14724	Non recovery of pay and allowances during leave period	0.00	0.00	0.17	0.17	Violation of Law / Rules
27	RTO Sargodha	14729	Unlawful expenditure on hired transit accommodation	0.00	0.00	0.55	0.55	Violation of Law / Rules
28	FBR (HQ) Islamabad	14752	Use of vehicles in excess of authorized strength	0.00	0.00	0.00	0.00	Violation of Law / Rules
29	RTO-I Lahore	14754	Inadmissible payment of house rent allowance	0.00	0.00	1.01	1.01	Violation of Law / Rules
30	RTO-I Lahore	14755	Unlawful payment of conveyance allowance	0.00	0.00	0.61	0.61	Violation of Law / Rules
31	RTO-I Lahore	14757	Non-deduction of income tax on rent of residential building	0.00	0.00	0.11	0.11	Violation of Law / Rules
32	RTO-I Lahore	14758	Non-deduction of income tax on rent of residential building	0.00	0.00	0.06	0.06	Violation of Law / Rules
33	RTO Multan	14762	Excess payment of medical allowance	0.00	0.00	0.18	0.18	Violation of Law / Rules
34	RTO Multan	14763	Irregular payment of I .J. P, CA & HR Charges	0.00	0.00	0.12	0.12	Violation of Law / Rules
35	RTO Multan	14764	Irregular payment of rent for office building	0.00	0.00	0.14	0.14	Violation of Law / Rules
36	RTO Peshawar	14767	Excess/inadmissible payment of house rent allowance	0.00	0.00	0.22	0.22	Violation of Law / Rules

37	RTO Peshawar	14769	Excess/inadmissible payment of house rent allowance	0.00	0.00	0.38	0.38	Violation of Law / Rules
38	FBR (HQ) Islamabad	14770	Inadmissible payment on account of hiring of residential accommodation	0.00	0.00	0.20	0.20	Violation of Law / Rules
39	FBR (HQ) Islamabad	14771	Excess payment in respect of House Rental Ceiling	0.00	0.00	0.29	0.29	Violation of Law / Rules
40	Revenue Division FBR Islamabad	14774	Inadmissible payment of pay and allowance	0.00	0.00	0.11	0.11	Violation of Law / Rules
41	Revenue Division FBR Islamabad	14775	Inadmissible payment of pay & allowances	0.00	0.00	0.78	0.78	Violation of Law / Rules
42	I- Computer Wing (IR) Islamabad II- Training & Research(IR) Islamabad	14776	Non/short deduction 5% HR Charges	0.00	0.00	0.67	0.67	Violation of Law / Rules
43	Directorate of I & I (IR) Faisalabad	14779	Irregular payment due to miscellaneous irregularities	0.00	0.00	0.16	0.16	Violation of Law / Rules
44	RTO Faisalabad	14780	Irregular payment due to miscellaneous irregularities	0.00	0.00	0.83	0.83	Violation of Law / Rules
45	RTO Faisalabad	14782	Excess/irregular payment of TA/DA	0.00	0.00	0.57	0.57	Violation of Law / Rules
46	RTO Faisalabad	14786	Transfer of salaries to officials even after superannuation	0.00	0.00	0.20	0.20	Violation of Law / Rules
47	RTO Faisalabad	14788	Non/short realization of income tax from cash reward and arrear of pay	0.00	0.00	0.20	0.20	Violation of Law / Rules
48	RTO Faisalabad	14789	Double payment of ad-hoc relief and medical allowance	0.00	0.00	0.26	0.26	Violation of Law / Rules
49	RTO Faisalabad	14791	Irregular payment due to miscellaneous irregularities.	0.00	0.00	0.35	0.35	Violation of Law / Rules

50	RTO Gujranwala	14792	Non recovery of loan and advances	0.00	0.00	0.17	0.17	Violation of Law / Rules
51	RTO Gujranwala	14794	Non/short deduction of I.J.P allowance	0.00	0.00	0.20	0.20	Violation of Law / Rules
52	RTO Gujranwala	14795	Loss of public exchequer due to theft of car	0.00	0.00	0.40	0.40	Violation of Law / Rules
53	RTO Gujranwala	14798	Excess/inadmissible payment of house rent allowance	0.00	0.00	0.09	0.09	Violation of Law / Rules
54	FBR (HQ) Islamabad	14801	Inadmissible payment in cash and irregular sanction without voucher and expenditure on account of meal charges	0.00	0.00	13.44	13.44	Violation of Law / Rules
55	FBR (HQ) Islamabad	14811	Excess/irregular payment of TA/DA	0.00	0.00	0.17	0.17	Violation of Law / Rules
56	FBR (HQ) Islamabad	14814	Inadmissible payments	0.00	0.00	0.34	0.34	Violation of Law / Rules
57	LTU Islamabad	14839	Non disposal of obsolete vehicles/stores	0.00	0.00	2.31	2.31	Violation of Law / Rules
58	LTU Islamabad	14843	Non deduction of conveyance allowance	0.00	0.00	0.07	0.07	Violation of Law / Rules
59	LTU Islamabad	14849	Short levy of income tax	152.32	0.00	0.00	152.32	Violation of Law / Rules
60	LTU Islamabad	14862	Double adjustment of refund	1.76	0.00	0.00	1.76	Violation of Law / Rules
61	LTU Islamabad	14865	Excess credit of advance tax payments	4.05	0.00	0.00	4.05	Violation of Law / Rules
62	LTU Zone-III Islamabad	14886	Undue benefit to power generation companies	5157.50	0.00	0.00	5157.50	Violation of Law / Rules
63	RTO-I (Zone-I) Lahore	14908	In admissible sanction of refund	1.16	0.00	0.00	1.16	Violation of Law / Rules

64	Directorate of Internal Audit (IR) Lahore	14946	Miscellaneous irregularities	0.00	0.00	0.17	0.17	Violation of Law / Rules
65	RTO-II Lahore	14948	Non-deduction of income tax on rent of residential building	0.00	0.00	0.66	0.66	Violation of Law / Rules
66	RTO-II Lahore	14950	Excess/inadmissible payment of house rent allowance	0.00	0.00	2.26	2.26	Violation of Law / Rules
67	RTO-II Lahore	14955	Miscellaneous irregularities	0.00	0.00	0.17	0.17	Violation of Law / Rules
68	RTO-II Lahore	14962	Loss of revenue due to non taxation of income under PTR	503.21	0.00	0.00	503.21	Violation of Law / Rules
69	RTO-II (Zone-II) Lahore	14966	Un authorized payment of refund	1.42	0.00	0.00	1.42	Violation of Law / Rules
70	LTU Islamabad	14971	Short levy of income tax	807.44	0.00	0.00	807.44	Violation of Law / Rules
71	RTO Faisalabad	14986	Unlawful payment of income tax	1.46	0.00	0.00	1.46	Violation of Law / Rules
72	RTO-I (Zone-I & II) Lahore	15008	Non recovery of assessed govt. revenue	2473.91	0.00	0.00	2473.91	Violation of Law / Rules
73	RTO Multan	15048	short payment of sales tax	0.00	461.29	0.00	461.29	Violation of Law / Rules
74	RTO Multan	15109	Excess reporting of income tax due to misclassification of WWF	18.42	0.00	0.00	18.42	Violation of Law / Rules
75	RTO (Zone-II) Multan	15049	Short payment of sales tax	0.00	816.53	0.00	816.53	Violation of Law / Rules
76	RTO (Zone-II) Gujranwala	15090	Short realization of withholding tax	192.15	0.00	0.00	192.15	Violation of Law / Rules
77	RTO Zone-I&II Sargodha	15096	Non recovery of arrears of IT	311.56	0.00	0.00	311.56	Violation of Law / Rules
78	RTO Zone-I Multan	15102	inadmissible adjustment of input tax	0.00	1.66	0.00	1.66	Violation of Law / Rules

79	RTO Zone-III Multan	15110	Non finalization of proceeding u/s 122c	0.77	0.00	0.00	0.77	Violation of Law / Rules
80	LTU Lahore	15139	Unjustified payments	0.00	0.00	0.56	0.56	Violation of Law / Rules
81	RTO Zone-I Sargodha	15144	Non filing of IT return	7.76	0.00	0.00	7.76	Violation of Law / Rules
82	LTU Lahore	15154	Non taxation of services income	109.81	0.00	0.00	109.81	Violation of Law / Rules
83	RTO Islamabad	15157	Irregular payment of integrated allowance	0.00	0.00	0.06	0.06	Violation of Law / Rules
84	RTO-II Zone-VIII Lahore	15182	Irregular refund of sales tax	0.00	3.85	0.00	3.85	Violation of Law / Rules
85	RTO-II Zone-VII & VIII Lahore	15197	inadmissible refund/adjustment	0.00	8.33	0.00	8.33	Violation of Law / Rules
86	Director Internal Audit Central Region Lahore	15211	Mis-procurement of office stationery	0.00	0.00	0.35	0.35	Violation of Law / Rules
87	FBR (HQ) Islamabad	15212	Non finalization of disciplinary proceedings in cases	0.00	0.00	0.00	0.00	Violation of Law / Rules
88	RTO-II (Zone-X) Lahore	15213	Non recovery of adjudged govt. dues	105.17	0.00	0.00	105.17	Violation of Law / Rules
89	DOT (IR) Lahore	15223	Irregular expenditure on repair of transport	0.00	0.00	1.05	1.05	Violation of Law / Rules
90	LTU Islamabad	15247	Non observance of principles of financial propriety	0.00	0.00	0.57	0.57	Violation of Law / Rules
91	FBR (HQ) Islamabad	14803	Non /short deduction of 5% house rent charges	0	0	1.99	1.99	Violation of Law / Rules
92	FBR (HQ) Islamabad	14598	Non /short deduction of 5% house rent charges	0	0	0.33	0.33	Violation of Law / Rules
93	FBR (HQ) Islamabad	14776	Non /short deduction of 5% house rent charges	0	0	0.68	0.68	Violation of Law / Rules

94	RTO Faisalabad	14787	Non /short deduction of 5% house rent charges	0	0	0.12	0.12	Violation of Law / Rules
95	RTO-II Lahore	14947	Non /short deduction of 5% house rent charges	0	0	0.12	0.12	Violation of Law / Rules
96	LTU Islamabad	14841	Non /short deduction of 5% house rent charges	0	0	0.25	0.25	Violation of Law / Rules
97	RTO Peshawar	14766	Non recovery of loans, advances and interest	0	0	0.34	0.34	Violation of Law / Rules
98	RTO Faisalabad	14781	Non recovery of loans, advances and interest	0	0	0.66	0.66	Violation of Law / Rules
99	RTO Sargodha	14621	Non recovery of loans, advances and interest	0	0	0.32	0.32	Violation of Law / Rules
100	RTO Multan	15071	Non recovery of loans, advances and interest	0	0	2.05	2.05	Violation of Law / Rules
101	FBR (HQ) Islamabad	14772	Non recovery of loans, advances and interest	0	0	0.78	0.78	Violation of Law / Rules
102	RTO Multan	14761	Non recovery of loans, advances and interest	0	0	0.40	0.40	Violation of Law / Rules
103	Computer wing, Internal Audit & I & I (IR) Islamabad	14777	Non recovery of loans, advances and interest	0	0	0.13	0.13	Violation of Law / Rules
104	RTO Sargodha	14620	Non/short recovery of B. Fund and Group Insurance	0	0	0.44	0.44	Violation of Law / Rules
105	Chief Coordinator Computer Wing, Islamabad	14627	Non/short recovery of B. Fund and Group Insurance	0	0	0.41	0.41	Violation of Law / Rules

106	RTO Bahawalpur	14639	Non/short recovery of B. Fund and Group Insurance	0	0	0.56	0.56	Violation of Law / Rules
107	RTO Sialkot	14719	Non/short recovery of B. Fund and Group Insurance	0	0	0.44	0.44	Violation of Law / Rules
108	RTO Gujranwala	14796	Non/short recovery of B. Fund and Group Insurance	0	0	0.19	0.19	Violation of Law / Rules
109	RTO Gujranwala	14797	Non/short recovery of B. Fund and Group Insurance	0	0	0.54	0.54	Violation of Law / Rules
110	RTO Islamabad	15158	Non/short recovery of B. Fund and Group Insurance	0	0	0.07	0.07	Violation of Law / Rules
111	RTO-II Lahore	14945	Non/short recovery of B. Fund and Group Insurance	0	0	0.95	0.95	Violation of Law / Rules
112	Directorate of I & I, Lahore	15222	Non/short recovery of B. Fund and Group Insurance	0	0	0.14	0.14	Violation of Law / Rules
113	RTO-I Lahore	15248	Non/short recovery of B. Fund and Group Insurance	0	0	0.63	0.63	Violation of Law / Rules
114	LTU Islamabad	14866	Short levy of tax / undue creation of refund on account of payments of contracts to non residents	733.26	0	0	733.26	Violation of Law / Rules
115	LTU Islamabad	14888	Short levy of tax / undue creation of refund on account of payments of contracts to non residents	417.78	0	0	417.78	Violation of Law / Rules
116	Secretary Revenue Division Islamabad (2013-14) F 4037	7	Irregularities of lesser significance	0.00	0.00	22.26	22.26	Violation of Law / Rules

117	Additional Director Training & Research (IR) Islamabad (2013-14) F-4039	6	Irregularities of lesser significance	0.00	0.00	0.31	0.31	Violation of Law / Rules
118	DG Internal Audit (IR) Islamabad (2013-14) F-4040	9	Irregularities of lesser significance	0.00	0.00	4.27	4.27	Violation of Law / Rules
119	Chief Computer Coordinator Computer Wing, (IR) Islamabad (2013-14) F-4041	5	Irregularities of lesser significance	0.00	0.00	0.76	0.76	Violation of Law / Rules
120	FBR (HQ) Islamabad (2013-14) F-4054	7	Irregularities of lesser significance	0.00	0.00	10.21	10.21	Violation of Law / Rules
121	DG I&I (IR) Islamabad (2013-14) F-4092	7	Irregularities of lesser significance	0.00	0.00	0.13	0.13	Violation of Law / Rules
122	Project (PPF) RMP FBR (HQ) Islamabad (2013-14) F-4105	4	Irregularities of lesser significance	0.00	0.00	58.78	58.78	Violation of Law / Rules
123	RTO-I Lahore Commissioner Zone-IV (2013-14) F-4083	9	Irregularities of lesser significance	2617.14	634.42	0.00	3251.56	Violation of Law / Rules
124	RTO-I Lahore Commissioner Zone-V (2013-14) F-4084	3	Irregularities of lesser significance	1062.71	0.00	0.00	1062.71	Violation of Law / Rules
125	RTO-I Lahore Commissioner Zone-VI (2013-14) F-4106	1	Irregularities of lesser significance	0.00	0.00	0.00	0.00	Violation of Law / Rules
126	RTO-II Lahore Commissioner Zone-VIII (2012-13) F-4027	8	Irregularities of lesser significance	204.55	1.40	0.00	205.96	Violation of Law / Rules

127	RTO-II Lahore Commissioner Zone-IX (2012-13) F-4033	4	Irregularities of lesser significance	0.69	3.54	0.00	4.22	Violation of Law / Rules
128	RTO-II Lahore Commissioner Zone-X (2012-13) F-4034	7	Irregularities of lesser significance	4.60	18.38	0.00	22.98	Violation of Law / Rules
129	RTO-II Lahore Commissioner Zone-XI (2012-13) F-4035	18	Irregularities of lesser significance	160.56	47.38	0.00	207.94	Violation of Law / Rules
130	RTO Peshawar (2013-14) F-4055	9	Irregularities of lesser significance	0.00	0.00	1.64	1.64	Violation of Law / Rules
131	RTO Peshawar Commissioner Zone-I, (2013-14) F-4056	1	Irregularities of lesser significance	5.52	0.00	0.00	5.52	Violation of Law / Rules
132	RTO Peshawar Commissioner Zone-II, (2013-14) F-4059	3	Irregularities of lesser significance	0.80	0.01	0.00	0.81	Violation of Law / Rules
133	RTO-II Lahore Commissioner Zone-VII (2012-13) F-4014	5	Irregularities of lesser significance	36.36	0.03	0.00	36.39	Violation of Law / Rules
134	RTO, II, Lahore (2012-13) F-4015	10	Irregularities of lesser significance	0.00	0.00	6.70	6.70	Violation of Law / Rules
135	RTO Sargodha (2012-13) F-4012	7	Irregularities of lesser significance	0.00	0.00	9.99	9.99	Violation of Law / Rules
136	RTO Sargodha Commissioner Zone-I (2012-13) F-4013	6	Irregularities of lesser significance	40.62	3.14	0.00	43.76	Violation of Law / Rules
137	RTO Sargodha Commissioner Zone-II (2012-13) F-4018	2	Irregularities of lesser significance	0.38	0.00	0.00	0.38	Violation of Law / Rules

138	LTU Lahore (2012-13 NPR)F-4032	2	Irregularities of lesser significance	8.62	0.00	0.00	8.62	Violation of Law / Rules
139	RTO Gujranwala (2013-14) F-4052	8	Irregularities of lesser significance	0.00	0.00	0.17	0.17	Violation of Law / Rules
140	RTO Gujranwala Commissioner Zone-I (2013-14) F-4068	4	Irregularities of lesser significance	729.32	0.00	0.00	729.32	Violation of Law / Rules
141	DG DOT (IR) Lahore (2013-14) F-4050	15	Irregularities of lesser significance	1.76	0.00	0.00	1.76	Violation of Law / Rules
142	Director I &I (IR) Lahore (2013-14) F-4051	4	Irregularities of lesser significance	0.00	0.00	0.71	0.71	Violation of Law / Rules
143	RTO Bahawalpur (2012-13) F-4024	10	Irregularities of lesser significance	0.00	0.00	2.45	2.45	Violation of Law / Rules
144	RTO Bahawalpur Commissioner Zone-I (2012-13) F-4025	10	Irregularities of lesser significance	599.07	0.00	0.00	599.07	Violation of Law / Rules
145	RTO Bahawalpur Commissioner Zone-II (2012-13) F-4026	2	Irregularities of lesser significance	0.28	0.00	0.00	0.28	Violation of Law / Rules
146	Project Preparation Facility FBR (HQ) Islamabad (2012-13) F-4005	8	Irregularities of lesser significance	0.00	0.00	0.20	0.20	Violation of Law / Rules
147	Director Research & Statistic (IR) Islamabad (2013-14) F-4080	9	Irregularities of lesser significance	0.00	0.00	0.20	0.20	Violation of Law / Rules
148	RTO-II Lahore Commissioner Zone-VIII (2013-14) F-4096	1	Irregularities of lesser significance	0.00	0.05	0.00	0.05	Violation of Law / Rules

149	RTO-II Lahore Commissioner Zone-IX (2013-14) F-4104	2	Irregularities of lesser significance	0.00	0.16	0.00	0.16	Violation of Law / Rules
150	LTU Islamabad (2013-14) F-4076	7	Irregularities of lesser significance	0.00	0.00	0.28	0.28	Violation of Law / Rules
151	LTU Islamabad Commissioner Zone-I 2013-14 F-4077	9	Irregularities of lesser significance	2263.77	24432.73	0.00	26696.49	Violation of Law / Rules
152	LTU Islamabad Commissioner Zone-II (2013-14) F-4078	1	Irregularities of lesser significance	0.00	0.00	0.00	0.00	Violation of Law / Rules
153	RTO Faisalabad (2013-14) F-4070	9	Irregularities of lesser significance	0.00	0.00	2.01	2.01	Violation of Law / Rules
154	RTO Faisalabad Commissioner Zone-II (2013-14) F-4073	3	Irregularities of lesser significance	0.41	32.02	0.00	32.43	Violation of Law / Rules
155	DG I &I (IR) Faisalabad (2013-14) F-4074)	7	Irregularities of lesser significance	0.00	0.00	0.20	0.20	Violation of Law / Rules
156	RTO Faisalabad Commissioner Zone-III (2013-14) F-4075	4	Irregularities of lesser significance	0.13	15.24	0.00	15.37	Violation of Law / Rules
157	RTO Faisalabad Commissioner Zone-I (2013-14) F-4085	11	Irregularities of lesser significance	299.24	442.96	0.00	742.20	Violation of Law / Rules
158	DG DOT (IR) Lahore (2012-13) F-4003	14	Irregularities of lesser significance	0.00	0.00	4.22	4.22	Violation of Law / Rules
159	Director I &I (IR) Lahore (2012-13) F-4004	5	Irregularities of lesser significance	0.00	0.00	0.05	0.05	Violation of Law / Rules

160	Director I &I (IR) Faisalabad (2012-13) F-4020	11	Irregularities of lesser significance	0.00	0.00	21.65	21.65	Violation of Law / Rules
161	Director Internal Audit (IR) Lahore (2012-13) F-4021	11	Irregularities of lesser significance	0.00	0.00	0.61	0.61	Violation of Law / Rules
162	Additional Director Internal Audit (IR) Faisalabad (2012-13) F-4022	10	Irregularities of lesser significance	0.00	0.00	0.49	0.49	Violation of Law / Rules
163	RTO-II Lahore Commissioner Zone-XII (2012-13) F-4031	1	Irregularities of lesser significance	393.07	0.00	0.00	393.07	Violation of Law / Rules
164	LTU Lahore (2013-14) F-4043	8	Irregularities of lesser significance	0.00	0.00	0.08	0.080	Violation of Law / Rules
165	LTU Lahore Commissioner Zone-I (2013-14) F-4093	1	Irregularities of lesser significance	0.00	16.86	0.00	16.86	Violation of Law / Rules
166	LTU Lahore Commissioner Zone-II (2013-14) F-4094	2	Irregularities of lesser significance	0.00	518.47	0.00	518.47	Violation of Law / Rules
167	LTU Lahore Commissioner Zone-III (2013-14) F-4095	1	Irregularities of lesser significance	0.00	103.55	0.00	103.55	Violation of Law / Rules
168	RTO Sialkot Commissioner Zone-I (2012-13) F-4029	8	Irregularities of lesser significance	53.75	0.02	0.00	53.77	Violation of Law / Rules
169	RTO Sialkot Commissioner Zone-II (2012-13) F-4030	2	Irregularities of lesser significance	17.81	0.00	0.00	17.81	Violation of Law / Rules
170	RTO Sialkot (2012-13) F-4032	5	Irregularities of lesser significance	0.00	0.00	0.80	0.80	Violation of Law / Rules
171	RTO Multan (2013-14) F-4044	10	Irregularities of lesser significance	0.00	0.00	2.47	2.47	Violation of Law / Rules

172	RTO Multan Commissioner Zone-I (2013-14) F-4097	4	Irregularities of lesser significance	15.98	0.00	0.00	15.98	Violation of Law / Rules
173	RTO Multan Commissioner Special Zone (2013-14) F-4098	7	Irregularities of lesser significance	11.44	392.66	0.00	404.09	Violation of Law / Rules
174	RTO Multan (Sahiwal Zone) 2013-14 F-4099	1	Irregularities of lesser significance	3.25	0.00	0.00	3.25	Violation of Law / Rules
175	RTO-II Lahore Commissioner Zone-X (2013-14) F-4100	2	Irregularities of lesser significance	2.76	0.00	0.00	2.76	Violation of Law / Rules
176	RTO-II Lahore Commissioner Zone-XI (2013-14) F-4101	5	Irregularities of lesser significance	10.74	0.00	0.00	10.74	Violation of Law / Rules
177	RTO-II Lahore Commissioner Zone-XII (2013-14) F-4102	3	Irregularities of lesser significance	37.75	0.00	0.00	37.75	Violation of Law / Rules
178	RTO Islamabad (2013-14) F-4061	7	Irregularities of lesser significance	0.00	0.00	0.11	0.11	Violation of Law / Rules
179	Secretary Revenue Division Islamabad (2012-13) F-4011	9	Irregularities of lesser significance	0.00	0.00	14.95	14.95	Violation of Law / Rules
180	Additional Director (DPC) Rawalpindi (2012-13) F-4016	7	Irregularities of lesser significance	0.00	0.00	0.18	0.18	Violation of Law / Rules
181	Additional Director Internal Audit (IR) Rawalpindi (2012-13) F-4017	8	Irregularities of lesser significance	0.00	0.00	3.53	3.53	Violation of Law / Rules
182	Project (DPMIE) FBR (HQ) Islamabad (2012-13) F-4019	12	Irregularities of lesser significance	0.00	0.00	1.04	1.04	Violation of Law / Rules

183	FBR (HQ) Islamabad (2012-13) F-4028	14	Irregularities of lesser significance	0.00	0.00	6.61	6.61	Violation of Law / Rules
184	DG I &I (IR) Islamabad (2012-13) F-4006	11	Irregularities of lesser significance	0.00	0.00	1.58	1.58	Violation of Law / Rules
185	DG Internal Audit (IR) Islamabad (2012-13) F-4007	14	Irregularities of lesser significance	0.00	0.00	9.61	9.61	Violation of Law / Rules
186	Director Internal Audit Northern Region (IR) Islamabad (2012-13) F-4008	14	Irregularities of lesser significance	0.00	0.00	3.24	3.24	Violation of Law / Rules
187	Additional Director Training & Research (IR) Islamabad (2012-13) F-4009	8	Irregularities of lesser significance	0.00	0.00	1.55	1.55	Violation of Law / Rules
188	Chief Computer Coordinator Computer Wing IR Islamabad (2012-13) F-4010	13	Irregularities of lesser significance	0.00	0.00	1.04	1.04	Violation of Law / Rules
189	RTO-I Lahore 2013-14 F-4047	4	Irregularities of lesser significance	0.00	0.00	0.01	0.01	Violation of Law / Rules
190	RTO-I Lahore Commissioner Zone-I (2013-14) F-4089	3	Irregularities of lesser significance	2.51	0.00	0.00	2.51	Violation of Law / Rules
191	RTO-II Lahore Commissioner (Zone-I 2013-14) F-4090	1	Irregularities of lesser significance	3.97	0.00	0.00	3.97	Violation of Law / Rules
192	LTU Islamabad (Telecom Sector) 2013-14	3	Irregularities of lesser significance	966.82	0.00	0.00	966.82	Violation of Law / Rules
193	RTO Faisalabad Refund of Sales Tax sanctioned through ERS (2012-13)	10	Irregularities of lesser significance	0.00	6.20	0.00	6.20	Violation of Law / Rules
			Total	**20,570.87**	**27,968.81**	**2,305.77**	**50,845.43**	

DGAIR (South) Karachi

Sr. No.	Name of office	No. of Para/ PDP	Title of para	Amount of Audit Observation				Nature of Audit Observation
				Direct Tax	Indirect Tax	Expenditure	Total	
1	RTO-II Karachi	5847-ST/K	Non imposition of penalty	0	2.46	0	2.46	Section 26(1) of Sales Tax Act, 1990
2	RTO-II Karachi	5856-ST/K	Non imposition of penalty	0	0.19	0	0.19	Section 26(1) of Sales Tax Act, 1990
3	RTO-III Karachi	5837-ST/K	Non imposition of penalty	0	4.50	0	4.50	Section 26(1) of Sales Tax Act, 1990
4	RTO Quetta	5895-ST/K	Non imposition of penalty	0	0.19	0	0.19	Section 26(1) of Sales Tax Act, 1990
5	RTO Quetta	5879-ST/K	Non imposition of penalty	0	19.76	0	19.76	Section 26(1) of Sales Tax Act, 1990
6	RTO Sukkur	5889-ST/K	Non imposition of penalty	0	1.56	0	1.56	Section 26(1) of Sales Tax Act, 1990
7	RTO Hyderabad	5934-ST/K	Non imposition of penalty	0	4.17	0	4.17	Section 26(1) of Sales Tax Act, 1990
8	RTO Hyderabad	5942-ST/K	Non imposition of penalty	0	1.02	0	1.02	Section 26(1) of Sales Tax Act, 1990
9	RTO Sukkur	11	Short payment of Sales Tax and non-payment of further Tax	0	2.39	0	2.39	Violation of Law / Rules
10	RTO Sukkur	13	non imposition of penalty on non filling of ST return	0	1.56	0	1.56	Violation of Law / Rules
11	RTO Sukkur	19	Non assessment of Sales Tax	0	0	0	0	Violation of Law / Rules
12	RTO Quetta	22	non imposition of penalty on non filing of ST return	0	0.18	0	0.18	Violation of Law / Rules
13	RTO –II Karachi	3	non imposition of penalty on non filing of ST return	0	0.19	0	0.19	Violation of Law / Rules

14	LTU Karachi	4	Non imposition of penalty on non filling of ST return	0	5.30	0	5.30	Violation of Law / Rules
15	RTO Sukkur	12	Non payment of WHT	0	4.35	0	4.35	Violation of Law / Rules
16	RTO Sukkur	13	Non payment of Further Tax	0	1.32	0	1.32	Violation of Law / Rules
17	RTO Sukkur	16	non payment of Sales tax	0	27.53	0	27.53	Violation of Law / Rules
18	RTO Sukkur	21	Irregular adjustment of input Tax	0	1.82	0	1.82	Violation of Law / Rules
19	RTO Sukkur	22	Short payment of Sales Tax due to excess adjustment of Input Tax	0	461.30	0	461.30	Violation of Law / Rules
20	RTO -I Karachi	15	Non Realization of penalty and default surcharge	0	0.11	0	0.11	Violation of Law / Rules
21	RTO Quetta	9	Non imposition of penalty on non filing of ST return	0	19.58	0	19.58	Violation of Law / Rules
22	RTO Hyderabad	1	Non Filers of Sales Tax Return	0	1.02	0	1.02	Violation of Law / Rules
23	RTO Hyderabad	2	Late filer of Sales Tax Return	0	1.49	0	1.49	Violation of Law / Rules
24	RTO Hyderabad	15	Non-compliance of Rule 36/2006 involving Refund	0	1.34	0	1.34	Violation of Law / Rules
25	RTO Hyderabad	1	Non imposition of penalty on non-filing of ST return	0	5.63	0	5.63	Violation of Law / Rules
26	RTO Hyderabad	19	In admissible issuance of Sales Tax Return	0	0.99	0	0.99	Violation of Law / Rules
27	LTU Karachi	27	In admissible claim of Input Tax	0	6.58	0	6.58	Violation of Law / Rules
28	LTU Karachi	29	Non payment of FED	0	1.56	0	1.56	Violation of Law / Rules
29	LTU Karachi	33	Non Registration of persons making taxable supplies	0	0	0	0	Violation of Law / Rules

30	RTO-II Karachi	1	Non imposition of penalty on non filing of ST return	0	300.48	0	300.48	Violation of Law / Rules
31	RTO-II Karachi	7	non imposition of penalty on non filing of ST return	0	2.46	0	2.46	Violation of Law / Rules
32	RTO-III Karachi	4	Non Realization of Sales Tax	0	5.10	0	5.10	Violation of Law / Rules
33	RTO-III Karachi	13	non imposition of penalty on non-filing of ST return	0	4.50	0	4.50	Violation of Law / Rules
34	RTO-I Karachi	746-IT/K	Non-recovery of arrear demand	9.98	0	0	9.98	Section 138 of income tax ordinance, 2001
35	RTO Hyderabad	791-IT/K	Non-recovery of arrear demand	584.66	0	0	584.66	Section 138 of income tax ordinance, 2001
36	RTO-II Karachi	8	Irregularities of lesser significance	38.86	0	0	38.86	Violation of Law / Rules
37	RTO-II Karachi	8	Short Realization of tax u/s.113	0.02	0	0	0.02	Violation of Law / Rules
38	RTO-II Karachi	27	Incorrect Tax Credit Allowed	3.49	0	0	3.49	Violation of Law / Rules
39	RTO-III Karachi	3	Non Realization of default surcharge	0.02	0	0	0.02	Violation of Law / Rules
40	RTO Sukkur	6	Non imposition of penalty	18.45	0	0	18.45	Violation of Law / Rules
41	RTO Sukkur	17	Un law full adjustment of Income Tax	1.28	0	0	1.28	Violation of Law / Rules
42	RTO-I Karachi	9	Excess Refund Issued	0.01	0	0	0.01	Violation of Law / Rules
43	RTO Hyderabad	16	Inadmissible issuance of income tax refund	0.31	0	0	0.31	Violation of Law / Rules
44	RTO Quetta	11	Irregularities of lesser significance	4.20	0	0	4.20	Violation of Law / Rules

45	RTO Quetta	12	Irregularities of lesser significance	4.31	0	0	4.31	Violation of Law / Rules
46	RTO Karachi	188-Exp/K	Irregular/excess payment to petrol station on account of service charges	0	0	0.18	0.18	Violation of Law / Rules
47	RTO-I Karachi	189-Exp/K	Non- recovery of performance allowance	0	0	0.22	0.22	Violation of Law / Rules
48	RTO-I Karachi	193-Exp/K	Irregular expenditure on POL	0	0	5.05	5.05	Violation of Law / Rules
49	RTO-II Karachi	197-Exp/K	Irregular expenditure on POL	0	0	3.41	3.41	Violation of Law / Rules
50	RTO-II Karachi	200-Exp/K	Non- recovery of performance allowance	0	0	0.26	0.26	Violation of Law / Rules
51	RTO-II Karachi	201-Exp/K	Irregular/excess payment to petrol station on account of service charges	0	0	0.11	0.105	Violation of Law / Rules
52	RTO-III Karachi	213-Exp/K	Non- recovery of performance allowance	0	0	0.18	0.184	Violation of Law / Rules
53	RTO-III Karachi	215-Exp/K	Unauthorized printing from private firm	0	0	1.40	1.400	Violation of Law / Rules
54	RTO-III Karachi	218-Exp/K	Irregular/excess payment to petrol station on account of service charges	0	0	0.15	0.146	Violation of Law / Rules
55	RTO Sukkur	203-Exp/K	Non- recovery of performance allowance	0	0	1.58	1.584	Violation of Law / Rules
56	RTO Sukkur	204-Exp/K	Short deduction of group insurance	0	0	1.01	1.01	Violation of Law / Rules
57	RTO Sukkur	208-Exp/K	Unauthorized printing from private firm	0	0	0.52	0.52	Violation of Law / Rules
58	RTO Quetta	211-Exp/K	Non- recovery of performance allowance	0	0	0.58	0.58	Violation of Law / Rules
59	LTU Karachi	221-Exp/K	Irregular expenditure on POL	0	0	4.90	4.90	Violation of Law / Rules

60	LTU Karachi	224-Exp/K	Irregular expenditure on purchase of stationery items	0	0	1.15	1.15	Violation of Law / Rules
61	LTU Karachi	228-Exp/K	Irregular/excess payment to petrol station on account of service charges	0	0	0.14	0.14	Violation of Law / Rules
62	RTO Hyderabad	231-Exp/K	Un-authorized payment of integrated allowance	0	0	0.09	0.09	Violation of Law / Rules
63	Assistant Director Hyderabad	237-Exp/K	Non- recovery of performance allowance	0	0	0.91	0.91	Violation of Law / Rules
64	Additional Director (Internal Audit) Hyderabad	4	Irregularities of lesser significance	0	0	1.18	1.18	Violation of Law / Rules
65	RTO-Hyderabad	11	Irregularities of lesser significance	0	0	4.95	4.95	Violation of Law / Rules
66	RTO Quetta	14	Irregularities of lesser significance	0	0	2.18	2.175	Violation of Law / Rule
67	RTO Sukkur	13	Irregularities of lesser significance	0	0	4.92	4.92	Violation of Law / Rule
68	RTO-I Karachi	12	Irregularities of lesser significance	0	0	93.23	93.23	Violation of Law / Rule
69	RTO-II Karachi	16	Irregularities of lesser significance	0	0	7.99	7.99	Violation of Law / Rule
70	RTO-III Karachi	11	Irregularities of lesser significance	0	0	10.21	10.21	Violation of Law / Rule
71	LTU Karachi	19	Irregularities of lesser significance	0	0	15.24	15.24	Violation of Law / Rule
72	Director Internal Audit, Karachi	10	Irregularities of lesser significance	0	0	1.30	1.30	Violation of Law / Rule
73	Director Intelligence & Investigation Karachi	11	Irregularities of lesser significance	0	0	3.59	3.59	Violation of Law / Rule
74	Commissioner Appeal-I ,Karachi	8	Irregularities of lesser significance	0	0	0.22	0.22	Violation of Law / Rule

75	Commissioner Appeal-II Karachi	7	Irregularities of lesser significance	0	0	0.08	0.08	Violation of Law / Rule
76	Commissioner Appeals Hyderabad	6	Irregularities of lesser significance	0	0	0.21	0.21	Violation of Law / Rule
77	Additional Director (Internal Audit) Sukkur	6	Irregularities of lesser significance	0	0	0.03	0.03	Violation of Law / Rules
78	Deputy Director (DPU) Hyderabad	6	Irregularities of lesser significance	0	0	2.16	2.16	Violation of Law / Rule
79	Director Input output coefficient organization (IOCO) Karachi	6	Irregularities of lesser significance	0	0	1.99	1.99	Violation of Law / Rule
80	Data Processing Unit Quetta	11	Irregularities of lesser significance	0	0	0.23	0.23	Violation of Law / Rules
81	Additional Director (Internal Audit) Quetta	9	Irregularities of lesser significance	0	0	0.19	0.19	Violation of Law / Rules
82	FTO Hyderabad	5	Irregularities of lesser significance	0	0	1.79	1.79	Violation of Law / Rules
83	Joint Director DPC Karachi	15	Irregularities of lesser significance	0	0	0.56	0.56	Violation of Law / Rules
84	FTO Karachi	7	Irregularities of lesser significance	0	0	0	0	Violation of Law / Rules
85	Commissioner Appeal-III Karachi	13	Irregularities of lesser significance	0	0	0.27	0.27	Violation of Law / Rules
86	DOT Karachi	9	Irregularities of lesser significance	0	0	0	0	Violation of Law / Rules
87	LTU Karachi	5974-ST/K	Non payment of sales tax	0	26.58	0	26.58	Section 3(1)(a) of STA 1990
88	LTU Karachi	5967-ST/K	Inadmissible adjustment of input tax	0	6,290.72	0	6,290.72	Section 7(2) of STA 1990

89	LTU Karachi	5963-ST/K	Inadmissible adjustment of input tax	0	409.62	0	409.62	SRO 649(I)/2013
90	LTU Karachi	5918-ST/K	Inadmissible adjustment of input tax	0	233.33	0	233.33	Section 7(2) of the STA 1990
91	LTU Karachi	5957-ST/K	Under valuation of taxable supply	0	10.81	0	10.81	Section 2(46)(a) of STA 1990
92	LTU Karachi	5951-ST/K	Non-registration of persons liable for registration	0	0	0	0	Section 14, 2(25)(A & B) of STA 1990
93	LTU Karachi	5950-ST/K	Non- realization of sales tax	0	0	0	0	Section 3of the STA 1990
94	LTU Karachi	5964-FE/K	Non -payment of FED	0	1,111.47	0	1,111.47	Rule 41 A of FED Rules 2005
95	LTU Karachi	5962-FE/K	Non -payment of FED	0	408.03	0	408.03	Rule 41 A of FED Rules 2005
96	LTU Karachi	5943-ST/K	Non- payment of FED	0	1.56	0	1.56	Rule 41 A of FED Rules 2005
97	LTU Karachi	5954-ST/K	Non -payment of FED	0	288.07	0	288.07	Section 3 of the FE Act 2005
98	LTU Karachi	Para 4.7/AO 05 (Joint Audit of PIAC)	Short realization of sales tax on excess claim of UFG by SSGC	0	26.58	0	26.58	Section 3of the STA 1990
99	RTO Quetta	5877-ST/K	Non-realization of further & extra tax	0	52.30	0	52.30	Section 3of the STA 1990
100	LTU Karachi	225-Exp/K	Un-authorized deposit in DDO account	0	0	0.49	0.49	Rule 9 of GFR
101	LTU Karachi	222-Exp/K	Excess expenditure of POL charges	0	0	2.71	2.71	Rule 10 of GFR
102	RTO-I Karachi	191-Exp/K	Un-authorized deposit in DDO account	0	0	1.58	1.58	Rule 9 of GFR

103	RTO Hyderabad	234-Exp/K	Un-authorized deposit in DDO account	0	0	0.48	0.48	Rule 9 of GFR
104	RTO Hyderabad	233-Exp/K	Un-authorized deposit in DDO account	0	0	1.65	1.65	Rule 9 of GFR
105	RTO-II Karachi	196-Exp/K	Irregular payment of cash reward	0	0	4.34	4.34	SRO1213(I)2006
106	RTO Sukkur	206-Exp/K	Purchase of goods from black listed	0	0	0.64	0.64	Rule 10 of GFR
107	RTO-II Karachi	713-IT/K	Adjudged arrear	494.63	0	0	494.63	Section 138 of ITO 2001
108	LTU Karachi	227-Exp/K	Irregular Expenditure on gift & entertainment	0	0	0.35	0.35	Rule 38 & 39 of financial power delegations
109	RTO Sukkur	207-Exp/K	Irregular expenditure on repair of furniture	0	0	0.35	0.35	Rule 10 of GFR
110	LTU Karachi	223-Exp /K	Splitting of expenditure to avoid tender	0	0	1.61	1.61	Rule 146 of GFR
111	RTO-I Karachi	195-Exp/K	Splitting of expenditure to avoid tender	0	0	6.92	6.92	Rule 146 of GFR
112	RTO-I Karachi	190-Exp/K	Splitting of expenditure to avoid tender	0	0	1.26	1.26	Rule 146 of GFR
113	RTO-II Karachi	198-Exp/K	Splitting of expenditure to avoid tender	0	0	1.37	1.37	Rule 146 of GFR
114	RTO-II Karachi	199-Exp/K	Splitting of expenditure to avoid tender	0	0	0.91	0.91	Rule 146 of GFR
115	RTO Sukkur	205-Exp/K	Splitting of expenditure to avoid tender	0	0	2.15	2.15	Rule 146 of GFR
116	RTO-III Karachi	216-Exp/K	Misclassification	0	0	0.58	0.58	Rule-99 GFR Vol-I
117	RTO Hyderabad	232-Exp/K	Non/short realization of income tax from cash reward and arrear of pay	0.00	0.00	0.52	0.52	Violation of rule/law

118	RTO Sukkur	209-Exp/K	Non/short realization of income tax from cash reward and arrear of pay	0.00	0.00	0.37	0.37	Violation of rule/law
119	RTO Hyderabad	230-Exp/K	Non recovery of loans, advances and interest	0.00	0.00	14.39	14.39	Violation of rule/law
120	Additional Director Internal Audit Hyderabad.	236-Exp/K	Non recovery of loans, advances and interest	0.00	0.00	1.64	1.64	Violation of rule/law
	Total Karachi office		**Total**	**1,160.22**	**9,749.70**	**218.67**	**11,128.58**	
	Total Lahore office		**Total**	**20,570.87**	**27,968.81**	**2,305.77**	**50,845.43**	
Grand Total				**21,731.09**	**37,718.51**	**2,524.44**	**61,974.01**	

Annexure-I(A)

Compliance of MFDAC for the year 2013-14

(Rs in million)

Sr. No.	Name of office	No. of Para/ PDP	Title of para	Amount of Audit Observation				Compliance	Non-Compliance
				Direct Tax	Indirect Tax	Expenditure	Total		
1	RTO Multan	14095	Inadmissible grant of approval of NPO	0	0	0	0	0	0
2	RTO Multan	14093	Non e-filing of IT returns, audited accounts and statements	0	0	0	0	0	0
3	Additional Director- III Internal Audit Multan	13813	Excess claim of hotel charges	0	0	0.02	0.02	0.02	0
4	DDO I&I (Inland Revenue) Faisalabad	13945	Irregular Exp on a/c secret service Fund	0	0	0.20	0.20	0	0.20
5	DDO I&I (Inland Revenue) Faisalabad	13946	Loss of Govt. assets due to non return of lap top & computers on transfer	0	0	0.40	0.40	0	0.40
6	Additional Director Internal Audit Faisalabad	13952	Excess/ unauthorized Exp over and above the budget grant	0	0	1.98	1.98	1.98	0
7	RTO Abbottabad	14077	Non recovery of accommodation charges and utility bills	0	0	0.38	0.38	0	0.38
8	RTO Abbottabad	14080	Short deduction of B.F. resulting excess payment on account of salary	0	0	0.12	0.12	0.12	0
9	RTO Abbottabad	14082	Incorrect drawl of Additional	0	0	0.09	0.09	0	0.09

			charge allowance						
10	RTO Abbottabad	14086	Non recovery of accommodation charges/rent from officers residing in transit accommodation	0	0	0.11	0.11	0.11	0
11	RTO Abbottabad	14087	Un authorized approval of transit accommodation as camp office causing mis-use	0	0	0.67	0.67	0	0.67
12	RTO Faisalabad	14124	In-admissible payment of Special Allowance	0	0	0.60	0.60	0.60	0
13	RTO Faisalabad	14126	Irregular sanction of medical claim	0	0	0.15	0.15	0.15	0
14	RTO Rawalpindi	14137	Extravagant Exp of Janitorial Services	0	0	1.5	1.5	0	1.50
15	RTO Rawalpindi	14138	Short deduction of Benevolent Fund	0	0	0.77	0.77	0	0.77
16	RTO Rawalpindi	14140	Loss of revenue against the doubtful payment	0	0	0.17	0.17	0	0.17
17	RTO Rawalpindi	14141	Un-authorized payment	0	0	0.15	0.15	0	0.15
18	RTO Peshawar	14142	Short deduction of Benevolent Fund	0	0	1.07	1.07	0	1.07
19	RTO Peshawar	14143	Excess payment of rent of residential accommodation	0	0	0.32	0.32	0	0.32
20	RTO Peshawar	14145	In-admissible payment of TA/DA and transfer grant	0	0	0.17	0.17	0	0.17

21	RTO Gujranwala	14170	Short deduction of Benevolent Fund	0	0	0.51	0.51	0	0.51
22	RTO Gujranwala	14172	Excess payment of House Rent Allowance	0	0	0.25	0.25	0	0.25
23	RTO-I Lahore	14214	Non deduction of Group Insurance from the monthly bills	0	0	0.27	0.27	0.27	0
24	RTO-I Lahore	14215	Excessive payment of HRA	0	0	0.25	0.25	0.25	0
25	RTO-I Lahore	14218	Non deduction of GPF	0	0	0.07	0.07	0.07	0
26	RTO-I Lahore	14219	Excess payment of Ad hoc allowance 2010	0	0	0.06	0.06	0.06	0
27	RTO Islamabad	14280	Non recovery motor vehicle installments owned by officers availing transport	0	0	0.50	0.50	0	0.50
28	RTO Islamabad	14281	Short deduction of Benevolent Fund	0	0	0.49	0.49	0	0.49
29	RTO Islamabad	14282	Irregular payment on account of medical charges	0	0	0.43	0.43	0	0.43
30	RTO Islamabad	14283	Un-authorized payment of TA on transfer	0	0	0.35	0.35	0	0.35
31	RTO Islamabad	14288	In-admissible payment involving in different paras	0	0	0.22	0.22	0	0.22
32	LTU Islamabad	14397	Non production of record	0	0	0	0	0	0

33	LTU Islamabad	14398	Un-necessary Exp on pay and allowances for the post of Notice Server	0	0	3.54	3.54	3.54	0
34	LTU Islamabad	14399	Un authorized Exp on over and above grant	0	0	39.31	39.31	39.31	0
35	LTU Islamabad	14401	Irregular/un-authorized Exp at the end of Financial year	0	0	8.42	8.42	8.42	0
36	LTU Islamabad	14402	Improper estimation of Funds	0	0	46.02	46.02	46.02	0
37	LTU Islamabad	14405	Irregular advance payment and excess payment of electricity bills	0	0	0.22	0.22	0	0.22
38	LTU Islamabad	14407	Un-authorized Exp	0	0	0.14	0.14	0.14	0
39	LTU Islamabad	14413	Short deduction B.F due to incorrect rate	0	0	0.64	0.64	0.64	0
40	RTO Multan	14432	Excessive payment of HRA	0	0	0.39	0.39	0	0.39
41	RTO Multan	14516	Irregular payment of law charges to advocates	0	0	1.48	1.48	0	1.48
42	RTO Multan	14517	Improper reconciliation of Exp	0	0	0.84	0.84	0.84	0
43	Deputy Director (DPU) Multan	14522	Irregular Exp on electricity used for Tax Bar Association	0	0	0.60	0.60	0	0.60
44	LTU Islamabad	14573	Un-authorized retention of Govt. Assets /Vehicles	0	0	0.21	0.21	0.21	0

45	DRS (IR) Islamabad	14583	Short deduction of benevolent fund from the pay of officers & officials	0	0	0.10	0.10	0.10	0
46	PRAL Islamabad	14589	Un-justified / un-warranted expenditure of diesel, telephone, internet charges	0	0	3.53	3.53	3.53	0
47	PRAL Islamabad	14590	Irregular operation of 62 impress account including 06 at PRAL HQ	0	0	0	0	0	0
48	PRAL Islamabad	14591	Irregular re-hiring of employees due to non-implementation of PRAL promotion	0	0	0	0	0	0
49	PRAL Islamabad	14592	Irregular/un-justified purchase of computer and electrons equipment	0	0	0.27	0.27	0	0.27
50	PRAL Islamabad	14593	Loss of company fund due to theft of two laptops	0	0	0.17	0.17	0.17	0
51	Comm. Zone-XI RTO-II Lahore	13799	Excess payment of ST refund	0	4.69	0	4.69	0	4.69
52	Comm. Zone-V RTO-I Lahore	13838	In-admissible deferment of sales tax refund	0	52.16	0	52.16	0	52.16
53	RTO Peshawar	14221	Misuse of raw material due to mis-declaration of closing stock	0	0	0	0	0	0
54	PAR (Mega Issue) FBR Islamabad	14233	Amnesty scheme causing loss of public exchequer	0	0	0	0	0	0

55	PAR (Mega Issue) FBR Islamabad	14234	Conflicting and inconsistent policies of FBR	0	0	0	0	0	0
56	PAR (Mega Issue) FBR Islamabad	14235	Inconsistent policy of FBR for tractor manufacturing sector	0	0	0	0	0	0
57	LTU Lahore	14316	Un-lawful refund/adjustment of input tax against supplies made to un-registered	0	19.48	0	19.48	19.48	0
58	RTO Multan	14508	Excess payment of refund of FED	0	0.28	0	0.28	0	0.28
59	PAR (Mega issues) LTU Lahore	14530	In-admissible refund	0	0.57	0	0.57	0	0.57
60	RTO Islamabad	14539	Non realization of further tax	0	0.47	0	0.47	0	0.47
61	RTO Islamabad (2012-13)	1	Irregular payment of hiring charges	0	0	0.09	0.09	0	0.09
62	RTO Islamabad (2012-13)	3	Irregularities of lesser significance	458.05	0	0	458.05	0	458.05
63	RTO Islamabad (2012-13)	1	Irregularities of lesser significance	0.07	0	0	0.07	0	0.07
64	RTO Islamabad (2012-13)	2	Irregularities of lesser significance	0.68	0	0	0.68	0	0.68
65	LTU Islamabad (2012-13)	1	Irregularities of lesser significance	0	0	0	0	0	0
66	LTU Islamabad (2012-13)	1	Irregularities of lesser significance	13.23	0	0	13.23	0	13.23

67	LTU Islamab (2011-12)	1	Unjustified claim of tax deducted at source	0.77	0	0	0.77	0	0.77
68	LTU Islamabad (2011-12)	1	Non-realization of Tax on dividend by treating the same as normal tax	355.57	0	0	355.57	355.57	0
69	Directorate of Training & Research IR Islamabad (2011-12)	11	Irregularities of lesser significance	0	0	0.46	0.46	0.46	0
70	Commissio ner Appeals-I (IR) Islamabad (2011-12)	7	Irregularities of lesser significance	0	0	0.15	0.15	0.15	0
71	Commissio ner Appeals-II (IR) Islamabad (2011-12)	9	Irregularities of lesser significance	0	0	0.54	0.54	0	0.54
72	Commissio ner Appeals-III(IR) Islamabad (2011-12)	7	Irregularities of lesser significance	0	0	0.24	0.24	0.24	0
73	Directorate of Internal Audit (NR) IR Islamabad (2011-12)	15	Irregularities of lesser significance	0	0	2.75	2.75	0	2.75
74	Chief Computer Coordinator Computer Wing (IR) Islamabad (2011-12)	16	Irregularities of lesser significance	0	0	1.20	1.20	1.20	0

75	DG I &I (IR) Islamabad (2011-12)	13	Irregularities of lesser significance	0	0	2.78	2.78	0	2.78
76	DRS (IR) Islamabad (2012-13)	8	Irregularities of lesser significance	0	0	4.44	4.44	0	4.44
77	PRAL FBR, Islamabad (2012-13)	6	Irregularities of lesser significance	0	0	2.99	2.99	2.99	0
78	LTU Lahore (2012-13)	8	Irregularities of lesser significance	0	0	1.27	1.27	0	1.27
79	RTO-I Lahore (2012-13)	2	Irregularities of lesser significance	0	0	0.01	0.01	0	0.01
80	RTO-I Lahore (2012-13)	2	Irregularities of lesser significance	0	0	0	0	0	0
81	RTO Lahore (Performance Audit Report 2011-12)	3	Irregularities of lesser significance	0	0	0	0	0	0
82	RTO-II Lahore (2011-12)	4	Irregularities of lesser significance	1.80	89.12	0	90.92	0	90.92
83	RTO-II Lahore (2011-12)	4	Irregularities of lesser significance	967.60	5.43	0	973.03	0	973.034
84	RTO-II Lahore (2011-12)	2	Irregularities of lesser significance	1159.35	6.656	0	1166.01	0	1166.01
85	RTO-II Lahore (2011-12)	3	Irregularities of lesser significance	1159.59	0	0	1159.59	0	1159.59

86	RTO Abbottabad (2012-13)	9	Irregularities of lesser significance	0	0	1.02	1.02	0	1.02
87	RTO Abbottabad (2011-13)	2	Irregularities of lesser significance	3.71	1.37	0	5.08	0	5.08
88	RTO Faisalabad (2012-13)	4	Irregularities of lesser significance	0	0.77	0	0.77	0.77	0
89	RTO Faisalabad (2012-13)	2	Irregularities of lesser significance	3.95	0.03	0	3.98	3.98	0
90	RTO Faisalabad (2012-13)	7	Irregularities of lesser significance	0	0	0.04	0.04	0.04	0
91	RTO Faisalabad (2011-12)	6	Irregularities of lesser significance	18.49	0	0	18.49	0	18.49
92	Additional Director Internal Faisalabad (2011-12)	12	Irregularities of lesser significance	0	0	1.22	1.22	1.22	0
93	Commissio ner Appeals (IR) Faisalabad (2011-12)	6	Irregularities of lesser significance	0	0	0.01	0.01	0.01	0
94	Directorate of I & I (IR) Faisalabad (2011-12)	7	Irregularities of lesser significance	0	0	0.24	0.24	0.24	0
95	DPU Gujranwala (2012-13)	9	Irregularities of lesser significance	0	0	0.33	0.33	0	0.33
96	RTO Gujranwala (2012-13)	10	Irregularities of lesser significance	0	0	2.89	2.89	2.89	0

97	RTO Gujranwala (2012-13)	7	Irregularities of lesser significance	33.83	0.29	0	34.12	0	34.12
98	RTO Gujranwala (2012-13)	1	Irregularities of lesser significance	0	0.03	0	0.03	0.03	0
99	Commissio ner Appeals (IR) , Gujranwala (2011-12)	3	Irregularities of lesser significance	0	0	0.06	0.06	0.06	0
100	DPU (IR) RTO Peshawar (2012-13)	5	Irregularities of lesser significance	0	0	0.12	0.12	0	0.12
101	RTO Peshawar (2012-13)	11	Irregularities of lesser significance	0	0	0.76	0.76	0	0.76
102	RTO Peshawar (2012-13)	2	Irregularities of lesser significance	3.08	0	0	3.08	0	3.08
103	Rawalpindi (2012-13)	1	Irregularities of lesser significance	2.18	0	0	2.18	0	2.18
104	RTO Rawalpindi (2012-13)	6	Irregularities of lesser significance	0	0	0.95	0.95	0	0.95
105	Commissio- ner, Appeals Multan (2011-12)	5	Irregularities of lesser significance	0	0	0.02	0.02	0.02	0
106	Internal Audit (IR) Multan (2011-12)	5	Irregularities of lesser significance	0	0	0.19	0.19	0.19	0
107	RTO Multan Commissi- oner Sahiwal Zone (2011-12)	6	Irregularities of lesser significance	12.51	0	0	12.51	0	12.51

108	RTO, Multan (2012-13)	11	Irregularities of lesser significance	0	0	0.04	0.04	0.04	0
109	DPU (IR) Multan (2012-13)	9	Irregularities of lesser significance	0	0	0.21	0.21	0	0.21
110	RTO, Multan Commissioner Zone-I (2012-13)	6	Irregularities of lesser significance	0	130.25	0	130.25	0	130.25
111	RTO Multan Commissioner Zone-I I (IR) (2012-13)	13	Irregularities of lesser significance	70.11	15.98	0	86.09	0	86.09
112	RTO Multan Commissioner Zone-I II (IR) (2012-13)	9	Irregularities of lesser significance	33.00	1.200	0	34.20	34.20	0
113	RTO Multan & Faisalabad Performance Audit on issuance and adjustment of refund	1	Irregular issuance of refund of income tax	186.67	0	0	186.67	0	186.67
114	Report on Mega issues Tax-GDP Ratio 2013-14	2	Irregular issuance of refund of income tax	0	0	0	0	0	0
115	Performance/ Sectoral Audit Report December, 2013	1	Non invoking the provision of section 3B of the Sales Tax Act,1990	0	962.87	0	962.87	0	962.87
116	Report on Withhold-ing tax	1	Non deduction of withholding sales tax	0	2.29	0	2.29	0	2.29
Total Lahore office				**4484.24**	**1293.936**	**143.167**	**5921.35**	**530.33**	**5390.84**

DG AIR (South) Karachi

Sr. No.	Name of office	No. of Para/ PDP	Title of para	Amount of Audit Observation				Compliance	Non-Compliance
				Direct Tax	Indirect Tax	Expenditure	Total		
1	RTO-I Karachi	147-Exp/K	Inadmissible Expenditure over & above budget grant	0	0	1.32	1.32	0	1.32
2	RTO-I Karachi	23	Irregularities of lesser significant	0	4646.68	0.003	4646.68	0	4646.68
3	RTO-I Karachi	146-Exp/K	Non surrendering of saving	0	0	19.37	19.37	0	19.37
4	DPC Karachi	184-Exp/K	Non surrendering of saving	0	0	0.20	0.20	0	0.20
5	RTO-I Karachi	148-Exp/K	Irregularities of lesser significant	0	0	0.25	0.25	0	0.25
6	RTO-II Karachi	151-Exp/K	Inadmissible Expenditure over & above budget grant	0	0	0.18	0.18	0	0.18
7	RTO-II Karachi	149-Exp/K	Non surrendering of saving	0	0	21.53	21.53	0	21.53
8	RTO-II Karachi	150-Exp/k	Inadmissible Expenditure over & above budget grant	0	0	0.27	0.27	0	0.27
9	RTO-II Karachi	5630-ST/K	Non realization of default surcharge	0	0.09	0	0.09	0	0.09
10	RTO –II Karachi	10	Irregularities of lesser significance	0	0	0.003	0.003	0	0.003
11	LTU Karachi	20	Irregularities of lesser significance	0	2494.57	112.26	2606.83	0	2606.83

12	Additional Director Internal Audit IR Karachi	153-Exp/K	Inadmissible Expenditure over & above budget grant	0	0	2.08	2.08	0	2.08
13	Additional Director Internal Audit IR Karachi	154-Exp/K	Non surrendering of saving	0	0	0.85	0.85	0	0.85
14	Director Input Out put Co-efficient unit Karachi	05	Irregularities of lesser significance	0	0	0.030	0.030	0	0.030
15	Commissioner Appeal RTO-III Karachi	04	Irregularities of lesser significance	0	0	0.01	0.01	0	0.01
16	DPC (DDO) Karachi	04	Irregularities of lesser significance	0	0	0.01	0.01	0	0.01
17	FTO (RTO) Karachi	04	Irregularities of lesser significance	0	0	0.01	0.01	0	0.01
18	Commissioner Appeal RTO-II Karachi	04	Irregularities of lesser significance	0	0	0.01	0.01	0	0.01
19	Commissioner Appeal-I LTU Karachi	05	Irregularities of lesser significance	0	0	0.04	0.04	0	0.04
20	RTO Quetta	09	Irregularities of lesser significance	0	0	0.01	0.01	0	0.01
21	RTO Quetta	155-Exp/K	Irregularities of lesser significance	0	0	0.06	0.06	0	0.06
22	Additional Director Training Karachi	10	Irregularities of lesser significance	0	0	0.01	0.01	0	0.01
23	Director I & I Karachi	09	Irregularities of lesser significance	0	0	0	0	0	0
24	Director I & I Karachi	152-Exp/K	Irregular expenditure over & above	0	0	1.01	1.01	0	1.01

25	Director Internal Audit Karachi	09	Irregularities of lesser significance	0	0	0	0	0	0
26	Additional Director Internal Audit Sukkur	10	Irregularities of lesser significance	0	0	0.11	0.11	0	0.11
27	Additional Director Internal Audit Sukkur	166-Exp/K	Irregular withdrawal of govt. money	0	0	0	0	0	0
28	Additional Director Internal Audit Hyderabad	05	Irregularities of lesser significance	0	0	0	0	0	0
29	Additional Director Internal Audit Hyderabad	163-Exp/K	Irregularities of lesser significance	0	0	0.11	0.11	0	0.11
30	Additional Director Internal Audit Hyderabad	162-Exp/K	Irregularities of lesser significance	0	0	0.46	0.46	0	0.46
31	Additional Director Internal Audit Hyderabad	159-Exp/K	Excess expenditure over and above	0	0	2.21	2.21	0	2.21
32	RTO Sukkur	09	Irregularities of lesser significance	0	0	4.16	4.16	0	4.16
33	RTO Sukkur	179-Exp/K	Irregularities of lesser significance	0	0	0.33	0.33	0	0.33
34	RTO Sukkur	178-Exp/K	Non surrendering of saving	0	0	0.96	0.96	0	0.96
35	Additional Director Internal Audit Sukkur	165-Exp/K	Non surrendering of saving	0	0	0.22	0.22	0	0.22
36	DPU Hyderabad	05	Irregularities of lesser significance	0	0	0.05	0.05	0	0.05
37	DPU Hyderabad	157-Exp/K	Irregularities of lesser significance	0	0	0.18	0.18	0	0.18

38	FTO Hyderabad	06	Irregularities of lesser significance	0	0	0.01	0.01	0	0.01
39	FTO Hyderabad	158-Exp/K	Excess expenditure over and above	0	0	0.15	0.15	0	0.15
40	RTO Hyderabad	19	Irregularities of lesser significance	1032.05	276.17	3.99	1312.21	0	1312.21
41	RTO Hyderabad	167-Exp/K	Non surrendering of saving	0	0	2.62	2.62	0	2.62
42	RTO Hyderabad	174-Exp/K	Irregularities of lesser significance	0	0	0.05	0.05	0	0.05
43	RTO Hyderabad	172-Exp/K	Irregularities of lesser significance	0	0	0.07	0.07	0	0.07
44	RTO Hyderabad	171-Exp/K	Irregularities of lesser significance	0	0	0.20	0.20	0	0.20
45	Additional Director Internal Audit IR Hyderabad	159-Exp/K	Irregular exp over & above	0	0	2.21	2.21	0	2.21
46	RTO Hyderabad	173-Exp/K	Excess claim of TA/DA	0	0	0.07	0.07	0	0.07
47	DPU Quetta	03	Irregularities of lesser significance	0	0	0	0	0	0
48	Additional Director Internal Audit Quetta	03	Irregularities of lesser significance	0	0	0	0	0	0
49	RTO Quetta	5592-ST/K	Non realization of default Schrage	0	0.09	0	0.09	0	0.09
Total Karachi office				**1,032.05**	**7,417.61**	**177.66**	**8,627.32**	0	**8,627.32**
Total Lahore office				**4,484.24**	**1,293.936**	**143.167**	**5,921.39**	**530.33**	**5,391.06**
G. Total				**5,516.29**	**8,711.55**	**320.827**	**14,548.71**	**530.33**	**14,018.28**

Annexure-2

Audit Impact Summary

Sr. No.	Change in Rules/System/Procedure	Audit Impact
1	After 18th amendment in the Constitution of Islamic Republic of Pakistan, sales tax on services became a provincial subject. While conducting audit of Telecom Sector at LTU Islamabad, Audit observed that after promulgation of provincial sales tax laws, two independent levies i.e. FED in VAT mode and provincial sales tax were in field which created the ambiguity and overlapping effect in tax laws.	On pointation of this issue by Audit in September 2013, the Federal Government through Finance Act, 2014 has made an amendment in the Federal Excise Act 2005, to remove this anomaly by excluding the telecom services from the chargeability of FED where respective provinces have already imposed provincial sales tax and has started collecting the same through its own Board or Authority.
2	While conducting audit of income tax refund cases, Audit identified one hundred and forty (140) tax payers who were liable to be registered under The Sales Tax Act 1990, in nine field offices of FBR.	Audit contributed towards broadening of tax base for the economy and pointed out revenue implication of Rs 2,899.72 million during the year 2013-14. On recommendation by Audit, the department initiated registration of taxpayers to bring them in the sales tax regime.
3	An amount of Rs 7,656.39 million was recovered on pointation by Audit during the period January to December 2014.	Amount recovered at the instance of audit had escaped from tax authorities while making assessment of tax. Audit provided deterrence against leakage of government revenue which ultimately helped FBR in achieving revenue targets.

Annexure-3

(Para 1.2)

Variation between figures reconciled with AGPR and figures reported to FBR through MPRs

(Rs in million)

Office	Revenue Head	MPR figures reported to FBR	Departmental figures reconciled with AGPR	Variation
Receipts				
Direct Taxes				
Faisalabad	B-011 Income Tax	15,514.17	14,762.63	751.54
Multan	B-011 Income Tax	25,064.64	16,988.04	8,076.60
-do-	G-06304-WWF	20.62	29.68	(9.06)
Peshawar	B-011 Income Tax	22,377.51	12,227.19	10,150.31
-do-	G-06304-WWF	75.76	17.35	58.41
Gujranwala	B-011 Income Tax	5,947.00	5,508.71	438.29
-do-	G-06304-WWF	0.68	0	0.68
Indirect Taxes				
Gujranwala	B-023-Sales Tax	5,819.72	6,080.23	(260.51)
-do-	B-024-FED	37.36	37.88	(0.52)
Faisalabad	B-023-Sales Tax	10,283.64	11,039.16	(755.52)
-do-	B-024-FED	265.12	181.95	83.17
Peshawar	B-023-Sales Tax (Import)	8,137	0	8,137
Multan	B-023-Sales Tax	34,132.23	36,908.31	(2,776.08)
-do-	B-024-FED	1,251.41	773.69	477.72
RTO-I Lahore	B-023-Sales Tax	31,826.00	31,984.87	(158.87)
RTO-I Lahore	B-023-Sales Tax	26,156.00	23,606.09	2,549.91
	Total	**186,908.85**	**160,145.78**	**26,763.07**
Refunds				
Faisalabad	Income Tax Refund	202.03	109.54	92.48
Peshawar	Income Tax Refund	121.21	145.43	(24.23)
	Total	**323.24**	**254.97**	**116.71**

Annexure-4
(Para 3.1.1)

Non-production of auditable record maintained by and available with tax authorities

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
A-Sales Tax Refund				
1	LTU Lahore	15145-STR	74	Amount could not be ascertained due to non availability of record
2	RTO Multan	15105-NPR/ST	Sales Tax refund details / files not provided	-do-
3	RTO-I Lahore	15253-IT/ST	Total population of refund cases sanctioned not provided	-do-
4	RTO Faisalabad	14820-NPR	168	-do-
5	LTU Karachi	5975-ST/K	Refund case files of ST & FED	-do-
6	RTO-I Karachi		99	-do-
7	RTO-II Karachi		Refund case files of ST	-do-
8	RTO-III Karachi		Refund case files of ST	-do-
B-Sales Tax assessment orders u/s 11 of the Sales Tax Act, 1990				
1	RTO-I Lahore	15253-IT/ST	Assessment orders u/s 11 not provided	Amount could not be ascertained due to non-availability of record

C-Income Tax Refund/Adjustment				
1	RTO-I Lahore	15253-IT/ST	12 files of Income Tax Refund and List/files of income tax adjustments not provided	Amount could not be ascertained due to non availability of record
2	RTO-II Lahore	14967-IT	Complete record of income tax refund not provided	-do-
D- Income Tax Assessment				
1	RTO-I Lahore	15253-IT/ST	Assessment orders passed u/s 121 & 122 of Income Tax Ordinance, 2001 not provided	Amount could not be ascertained due to non availability of record
2	LTU Karachi	5975– ST/K	Assessment record of income tax not provided	-do-
E- Adjudication Cases				
1	RTO-I Lahore	15253-IT/ST	Adjudication orders passed by the authorities not provided	Amount could not be ascertained due to non-availability of record
F- BTB cases				
1	RTO-I Lahore	15253-IT/ST	Cases of Income Tax and Sales Tax finalized by BTB units not provided	Amount could not be ascertained due to non availability of record
G- Record of Recovery Cell				
1	RTO-I Lahore	15253-IT/ST	Recovery record of Income Tax and Sales Tax not provided	Amount could not be ascertained due to non availability of record
2	LTU Karachi	5975-ST/K	Recovery case files of ST & FED not provided	-do-

H- Monitoring and Audit of Withholding Taxes Cell				
1	RTO Sargodha	14678-IT/ST	39 cases	Amount could not be ascertained due to non availability of record
2	RTO-I Lahore	15253-IT/ST	• MPR • list of cases initiated • list of cases finalized u/s 161/205 • Previous Audit Reports • Reports of compliance u/s 165 of the Ordinance not provided	-do-
3	RTO-I Karachi	5975-ST/K	250 case files relating to assessment record u/s 161, MPR & DCR not provided	-do-
4	RTO-III Karachi		Record of assessment u/s 161, DCR & MPR not provided	-do-
I-Exemption cases				
1	RTO-I Lahore	15253-IT/ST	Case files of exemptions issued not provided	Amount could not be ascertained due to non-availability of record
2	RTO-II Lahore	14967-IT	Total record of exemption cases not provided	-do-
J-Expenditure				
1	RTO Faisalabad	15039-Exp	Record of Medical charges, repair of Machinery &	Amount could not be ascertained due to non availability

			Equipment, office building & residential building etc. not provided	of record
2	FBR (HQ)	14599-Exp	FBR's canteen record not provided	-do-
K-Post Refund Audit, I&P etc				
1	RTO Multan	15105-NPR/ST	No detail of Post Refund Audits provided	Amount could not be ascertained due to non-availability of record
2	RTO-I Lahore	15253-IT/ST	Record of audit conducted u/s 25 & 38 of the Sales Tax Act, 1990 not provided	-do-
L-Internal Audit Reports				
1	RTO Multan	15105-NPR/ST	Record of Audit Units-02 & 03 not provided	Amount could not be ascertained due to non-availability of record
2	RTO-I Lahore	15253-IT/ST	Audit Reports of DTRE cases not provided	-do-
3	LTU Karachi	5975-ST/K	Internal Audit Reports	-do-

Annexure-5

(Para 4.1.1)

Non-registration of taxpayers in sales tax regime resulting in potential loss of revenue on accounts of sales tax - Rs 2,899.72 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount not due	Balance amount recoverable
1	RTO Gujranwala	15027-ST	39	35.74	1.48	34.26
2	RTO Sialkot	14710-ST	01	99.11	0	99.11
		14711-ST	25	131.53	0	131.53
		14715-ST	18	60.71	0	60.71
3	RTO Multan	15097-ST	25	243.68	0	243.68
4	RTO Peshawar	15061-ST	04	22.77	0	22.77
5	RTO-II Lahore	15184-ST	01	1.12	0	1.12
6	RTO Sargodha	14684-ST	13	63.05	2.21	60.84
		14686-ST	03	7.80	0	7.80
7	LTU Karachi	5965-ST/K	1	2,189.80	0	2,189.80
		5951-ST/K	1	0	0	0
		5972-ST/K	1	3.72	0	3.72
8	RTO III Karachi	5843-ST/K	2	1.56	0	1.56
9	RTO Quetta	5897-ST/K	2	30.28	0	30.28
		5901-ST/K	4	8.85	0	8.85
		Total	**140**	**2,899.72**	**3.69**	**2,896.03**

Annexure-6
(Para 4.1.2)

Inadmissible zero rating of goods - Rs 8,058.35 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	RTO Gujranwala	15024-ST	01	533.15
2	RTO-II Lahore	15183-ST	01	15.58
3	LTU Karachi	5968-ST/K	02	7,475.63
4	RTO-II Karachi	5851-ST/K	01	6.78
		5854-ST/K	01	0.51
5	RTO-III Karachi	5922-ST/K	01	8.76
6	RTO Hyderabad	5933-ST/K	01	17.94
		Total	**08**	**8,058.35**

Annexure-7
(Para 4.1.3)

Inadmissible adjustment of input tax resulting in short realization of sales tax - Rs 933.85 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	RTO Faisalabad	14822-ST	15	22.15
		14815-ST	01	2.11
2	RTO Multan	15098-ST	10	2.52
		15201-ST	01	0.17
3	RTO-II Lahore	15178-ST	07	5.46
		15188-ST	01	1.34
		15220-ST	04	46.42
4	LTU Lahore	14613-ST	04	12.05
		14147-ST	21	132.75
5	RTO Gujranwala	15036-ST	01	3.76
6	RTO Islamabad	15206-ST	02	0.67
7	RTO Sialkot	14706-ST	01	2.10
8	LTU Karachi	5947, 5960,5953, 5946,5944-ST/K	13	410.54
9	RTO-I Karachi	5892, 5893-ST/K	03	1.41
10	RTO-II Karachi	5852,5849, 5860,5914, 5973 & 5926-ST/K	16	121.27
11	RTO-III Karachi	5842(a), 5839, 5836-ST/K	06	26.97
12	RTO Hyderabad	5910,5930,5935-ST/K	05	56.35
13	RTO Sukkur	5862,5890,5872,5891,5873,5865-ST/K	10	25.73
14	RTO Quetta	5899,5908,5909,5906,5907-ST/K	14	60.08
		Total	**135**	**933.85**

Annexure-8
(Para 4.1.4)

Potential loss of revenue on accounts of sales tax caused by bricks kiln owners - Rs 6,583.90 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	RTO Sialkot	14712-ST	1039	1,915.08
2	RTO Multan	15046-ST	31	60.71
3	RTO Peshawar	15063-ST	407	809.16
4	RTO Gujranwala	15034-ST	673	3,798.95
		Total	**2150**	**6,583.90**

Annexure-9
(Para 4.1.6)

Non-recovery of adjudged dues/arrears - Rs 27,970.27 million

(Rs in million)

Sr. No.	Office	DP No.	No of cases	Amount pointed out	Amount recovered / not due/ vacated	Balance amount recoverable
1	LTU Lahore	14615-ST	01	216.86	0	216.86
2	RTO Sialkot	14704-ST	280	65.10	0	65.10
3	RTO-II Lahore	15218-ST	05	18.51	0	18.51
		15233-ST	03	2.36	0	2.36
4	RTO Gujranwala	15035-ST	14	64.75	10.09	54.66
5	RTO Sargodha	14681-ST	64	149.42	1.01	148.41
6	LTU Karachi	5969-ST/K	01	8,766.25	0	8,766.25
		5971-ST/K	47	12,567.82	0	12,567.82
7	RTO-I Karachi	5875-ST/K	02	1.79	0.86	0.93
8	RTO-II Karachi	5857-ST/K	42	757.14	0	757.14
9	RTO-III Karachi	5919-ST/K	10	203.77	35.92	167.85
10	RTO Sukkur	5886-ST/K	02	15.98	0	15.98
11	RTO Quetta	5905-ST/K	03	19.77	0	19.77
		5878-ST/K	03	5,120.75	126.20	4,994.55
		Total	**477**	**27,970.27**	**174.08**	**27,796.19**

Annexure-10
(Para 4.1.10)

Non realization of sales tax on disposal of fixed assets - Rs 1,612.18 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	RTO-I Lahore	15117-ST	02	1.90
2	LTU Islamabad	15137-ST	08	975.82
		15135-ST	04	60.59
		15138-ST	16	469.70
3	RTO Multan	15041-ST	10	101.23
4	RTO Islamabad	15070-ST	03	2.94
		Total	**43**	**1,612.18**

Annexure-11
(Para 4.1.11)

Non / short realization of sales tax - Rs 1,259.62 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount not due	Balance amount recoverable
1	RTO Sialkot	14705-ST	01	5.44	0	5.44
		14717-ST	02	1.63	0	1.63
2	RTO Gujranwala	15037-ST	01	0.31	0	0.31
3	RTO Multan	15099-ST	10	708.25	0	708.25
4	RTO Peshawar	15066-ST	02	3.89	0.84	3.05
5	RTO-II Lahore	14738-ST	14	156.25	0	156.25
		14736-ST	04	89.66	0	89.66
6	RTO Bahawalpur	14636-ST	18	261.01	0	261.01
7	RTO Sargodha	14685-ST	03	6.39	0	6.39
8	RTO-III Karachi	6.4.10 of SSR on sugar	01	26.79	0	26.79
		Total	**56**	**1,259.62**	**0.84**	**1,258.78**

Annexure-12
(Para 4.1.12)

Non/short realization of sales tax - Rs 642.87 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount recovered	Balance amount recoverable
1	RTO Sargodha	14679-ST	23	15.29	0	15.29
2	RTO Gujranwala	15030-ST	114	23.72	0	23.72
3	RTO Sialkot	14708-ST	01	0.48	0	0.48
		14713-ST	01	2.85	0	2.85
		14714-ST	01	8.37	0	8.37
		14716-ST	01	0.70	0	0.70
		14707-ST	8	0.14	0.05	0.09
4	RTO-I Lahore	15164-ST	01	0.27	0	0.27
		15170-ST	03	528.46	0	528.46
		15017-ST	02	7.12	0	7.12
5	RTO Islamabad	15069-ST	02	3.86	0	3.86
6	RTO Peshawar	15064-ST	03	38.27	0	38.27
7	RTO Islamabad	15068-ST	01	0.29	0	0.29
8	RTO-III Karachi	5921-ST/K	01	2.57	0	2.57
9	RTO Hyderabad	5941-ST/K	02	3.51	0	3.51
		5938-ST/K	06	0.45	0	0.45
10	RTO Sukkur	5927-ST/K	01	6.52	0	6.52
		Total	**171**	**642.87**	**0.05**	**642.82**

Annexure-13
(Para 4.1.13)

Inadmissible adjustment of input tax - Rs 617.65 million

Para 4.1.13(a)

(Rs in million)

Sr. No.	Name of tax payer	NTN	Tax Period	RTO	Amount
1	M/s Black Wood Pvt Ltd	2539083-0	11/2012	RTO-I Karachi	10.25
2	M/s Western International	3220684-4	4/12 to 12/12	RTO-II Karachi	214.85
3	M/s Eastern International	3626122-0	4/2012	RTO-III Karachi	4.48
4	M/s M.Z. Enterprises	3425389-7	5/12 to 3/13		62.89
				Total	**292.47**

4.1.13(b)

Sr. No.	Name of registered persons	Formation	Amount
1	Five Star Enterprises	RTO-III Karachi	31.12
2	Royal Industries		5.69
3	MAK Trading	RTO-I Karachi	5.77
4	Kamran Industries		104.14
5	Kamran Industries		13.53
6	World Fashion International		7.68
7	Prime Enterprises		0.44
8	S.J. Traders	RTO-II Karachi	1.88
9	Zantac Enterprises		6.65
10	Protech		21.97
11	Ahmed Enterprises	RTO-I Lahore	0.16
12	Wali Enterprises	RTO Faisalabad	0.05
13	Tiens International		2.47
14	Welspun International	RTO Bahawalpur	0.17
15	Royal Trading	RTO Hyderabad	38.85
16	Nasir ALI & Brothers		43.92

17	Abdul Majeed	RTO Sukkur	2.88
18	Vijay Traders		0.75
19	Good Luck agencies	RTO Quetta	8.05
20	Nasir Ali		1.45
21	Nasir Ali		4.50
22	Nasir Ali		23.09
		Total	**325.18**
		G. Total	**617.65**

Annexure-14
(Para 4.1.14)

Non-realization of further tax and extra tax - Rs 310.32 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount recovered	Balance amount recoverable
1	RTO Multan	15101-ST	08	0.69	0	0.69
2	RTO Gujranwala	15029-ST	02	1.24	0	1.24
		15032-ST	02	0.19	0.04	0.15
3	RTO-II Lahore	15187-ST	04	3.64	0	3.64
		15185-ST	01	4.63	0	4.63
4	RTO Faisalabad	15038-ST	08	0.99	0	0.99
5	RTO Peshawar	15062-ST	06	4.75	0	4.75
6	RTO-II Karachi	5915-ST/K	04	0.11	0	0.11
		5916-ST/K	04	3.57	0	3.57
7	RTO Hyderabad	5932-ST/K	04	5.13	0	5.13
8	RTO Sukkur	5867-ST/K	01	55.02	0	55.02
		5864-ST/K	02	83.73	0	83.73
9	RTO Quetta	5904-ST/K	22	146.63	17.17	129.46
		Total	**68**	**310.32**	**17.21**	**293.11**

Annexure-15
(Para 4.1.15)

Non / short realization of sales tax - Rs 221.72 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount not due	Balance amount recoverable
1	LTU Lahore	14617-ST	01	8.03	0	8.03
		14732-ST	01	2.29	0	2.29
		14733-ST	01	13.73	0	13.73
2	RTO-II Lahore	14669-ST	01	107.88	0	107.88
3	RT-I Lahore	15166-ST	01	0.33	0	0.33
		15018-ST	07	89.46	17.06	72.40
Total			**12**	**221.72**	**17.06**	**204.66**

Annexure-16
(Para 4.1.17)

Inadmissible adjustment of input tax against exempt supplies
Rs 174.04 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	RTO Multan	15104-ST	06	100.92
2	RTO Faisalabad	14818-ST	01	27.81
		14821-ST	01	0.83
3	RTO-II Lahore	15192-ST	01	39.72
		14737-ST	01	0.62
4	LTU Lahore	14618-ST	01	2.58
5	RTO Gujranwala	15033-ST	02	1.56
		Total	**13**	**174.04**

Annexure-17
(Para 4.1.18)

Inadmissible adjustment of input tax resulting in non / short realization of sales tax - Rs 209.61 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	RTO-II Lahore	15198-ST	01	6.96
		15227-ST	01	0.22
		14670-ST	02	0.72
2	RTO Multan	15040-ST	27	161.67
		15043-ST	02	40.04
		Total	**33**	**209.61**

Annexure-18
(Para 4.1.19)

Non/short realization of sales tax - Rs 132.57 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	LTU Lahore	14616-ST	01	1.42
2	RTO-II Lahore	14665-ST	02	43.78
		14663-ST	02	14.91
3	RTO Multan	15100-ST	05	41.35
4	RT-I Lahore	15174-ST	05	29.27
		15171-ST	01	1.84
		Total	**16**	**132.57**

Annexure-19

(Para 4.1.20)

Non/short realization of sales tax - Rs 63.96 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	RTO-I Lahore	15167-ST	01	0.63
2	RTO-II Lahore	15219-ST	01	0.21
		15232-ST	02	0.09
3	RTO-II Karachi	5859-ST/K	02	24.72
		5846-ST/K	02	13.66
		5845-ST/K	03	10.79
4	RTO-III Karachi	Para 6.4.11 of SSR	01	13.86
		Total	**12**	**63.96**

Annexure-20
(Para 4.2.1)

Excess payment of sales tax refund - Rs 304.02 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out
1	RTO-II Lahore	15194-ST	03	15.40
		15193-ST	01	0.57
		15180-ST	01	25.80
		15191-ST	01	0.81
		15195-ST	02	0.66
		14735-ST	01	0.97
		15196-ST	04	72.36
		14667-ST	01	1.01
2	RTO Gujranwala	15025-ST	01	0.13
3	RTO Sialkot	14709-ST	01	0.71
4	RTO-I Lahore	15172-ST	01	10.51
		15175-ST	01	1.49
		15168-ST	01	0.26
5	LTU Lahore	14612-ST	01	128.77
		14619-ST	01	0.28
		14614-ST	02	43.31
6	RTO Faisalabad	14817-ST	01	0.98
		Total	**24**	**304.02**

Annexure-21
(Para 4.2.2)

Inadmissible refund of sales tax - Rs 30.58 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out
1	RTO-II Lahore	14743-ST	01	10.71
		15177-ST	02	4.91
2	LTU Lahore	14611-ST	01	0.81
3	RTO-I Lahore	15169-ST	02	13.49
4	RTO Sukkur	5887-ST/K	03	0.44
		5883-ST/K	02	0.22
		Total	**11**	**30.58**

Annexure-22
(Para 4.2.3)

Unlawful sanction of sales tax refund - Rs 12.73 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount not due	Balance amount recoverable
1	RTO-I Lahore	14744-STR	04	9.05	0	9.05
		15173-ST	02	1.63	0.60	1.03
2	RTO-II Lahore	14664-ST	08	0.82	0	0.82
		15190-ST	01	1.03	0	1.03
3	RTO Sukkur	5882-ST/K	02	0.20	0	0.20
		Total	**17**	**12.73**	**0.60**	**12.13**

Annexure-23
(Para 4.3.2)

Non-realization of federal excise duty - Rs 4,442.28 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out
1	RTO-I Lahore	15020-FED	02	3.62
2	LTU Lahore	15146-FED	01	19.66
3	LTU Islamabad	15136-FED	03	53.20
		15134-FED	02	184.27
		15133-FED	14	3,903.75
4	RTO-III Karachi	5842-FE/K	11	277.78
		Total	**33**	**4,442.28**

Annexure-24

(Para 4.4.1)

Non-levy of minimum tax - Rs 1,507.45 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Amount recovered	Latest Position
1	RTO-II Lahore	14742	2013	01	30.05	-	Under process
		14968	2012 & 2013	04	22.74	-	Under process
		14958	2010 to 2013	23	31.49	-	Under process
		14672	2012	04	12.18	0.05	Under process Rs12.13
		15214	2013	01	1.41	-	No reply
2	RTO Islamabad	14894	2013	06	3.37	-	Under process
3	RTO Gujranwala	15087	2013	03	1.17	-	Amount charged Rs1.17
4	RTO Faisalabad	14834	2013	06	16.28	11.84	Under process Rs 0.94 charged Rs3.5
		14832	2013	13	6.51	-	Under process
		14829	2012 & 2013	03	2.86	-	Charged Rs1.75 Under process Rs1.11
5	RTO Multan	15059	2013	09	42.64	-	Under process
6	LTU Islamabad	14972	2013	02	252.23	-	Recovery awaited Rs 186.81 Under process Rs65.42
		14876	2013	04	53.63	-	Recovery awaited Rs 47.09 Under process Rs6.54
		14856	2013	03	56.14	-	Under process
		14845	2013	01	25.85	-	Under process
7	RTO-I Lahore	15119	2013	03	0.92	-	Under process
		15016	2013	06	72.99	27.89	Under process Rs 45.10
		15023	2010 to 2012	03	21.18	-	Under process
		15235	2010 to 2012	01	22.56	-	Under process

8	LTU Lahore	15151	2013	01	32.03	-	Under process
		15150	2013	05	160.84	-	Under process Rs 68.81 , No reply Rs 92.03
9	RTO Sialkot	14727	2012	02	0.39	0.33	Recovery awaited Rs 0.06
		14745	2011	29	25.34	-	Under process
10	RTO Bahawalpur	14647	2012	02	2.50	-	Under process
		14652	2012	09	11.39	-	Under process
		14656	2012	07	19.62	-	Under process
11	RTO Sargodha	14699	2011 & 2012	23	36.46	-	Under process
			Total:	**174**	**964.77**	**40.11**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No	Tax Year	No of cases	Amount involved (Rs)	Amount recovered	Latest Position
12	LTU Karachi	811	2010 to 2012	02	2.29	-	Under process
		824	2013	02	0.19	-	Under process
		849	2013	01	1.54	-	Under process
13	RTO-I Karachi	716	2013	03	0.86	-	Under process
		870	2013	12	6.87	-	Under process
14	RTO-II Karachi	689	2010 to 2012	35	60.94	-	Charged and recovery awaited Rs 2.711 Under process Rs 58.232
		700	2012	04	3.48	-	Under process
		705	2012	09	10.36	-	Under process
		714	2013	05	5.40	5.40	-
		758	2010 to 2013	04	27.50	-	Under process
		782	2013	04	0.91	-	Under process
		806	2013	01	3.03	-	Under process
15	RTO-III Karachi	673	2011 to 2013	11	44.53	-	Under process
		685	2011 to 2013	03	1.60	-	Under process
		708	2011 & 2012	02	0.93	-	Under process
		818	2013	07	14.37	-	Under process
		865	2013	06	0.53	-	Under process
16	RTO Hyderabad	831	2013	04	1.61	-	Under process
		859	2013	03	1.25	-	Under process

17	RTO Sukkur	745	2013	01	8.19	-	Under process
		753	2013	02	16.66	-	Under process
18	RTO Quetta	731	2013	02	315.13	-	Under process
		759	2012 & 2013	01	14.51	-	Under process
			Total:	**124**	**542.68**	**5.40**	

G. Total	**298**	**1,507.45**
Recovered-Rs 45.51, Recovery awaited-Rs 243.09, No reply-Rs 93.44, Under process-Rs 1,125.41		

Annexure-25
(Para 4.4.2)

Short levy of tax due to unauthorized issuance of SRO - Rs 1,136.05 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Amount recovered	Latest Position
1	LTU Islamabad	14974	2013	08	853.27	-	Matter referred to PAC
		14874	2013	01	27.29	-	Matter referred to PAC
2	RTO Islamabad	14975	2013	08	70.77	3.71	Under process Rs 9.92 No replyRs57.14
3	RTO-II Lahore	14957	2010 & 2011	05	177.50	-	Under process
		15217	2013	02	3.78	-	Under process
		14671	2012	03	1.23	-	Under process
4	RTO Faisalabad	14826	2013	05	2.21	-	Under process
			Total	**32**	**1,136.05**	**3.71**	

Recovered-Rs 3.71, cases referred to PAC-Rs 880.56, record not produce-Rs 57.14, Under process-Rs 194.64

Annexure-26

(Para 4.4.3)

Short levy of tax due to allowing inadmissible expenses - Rs 1,165.82 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Gujranwala	15091	2013	02	8.61	Under process
2	RTO-I Lahore	15240	2013	01	0.62	Under process
		15013	2013	09	439.71	Under process
		15022	2013	02	1.84	Under process
		15234	2013	01	1.55	Recovery awaited
		15242	2013	02	7.70	Under process
3	LTU Islamabad	14890	2013	02	16.38	Under process
		14844	2013	01	74.16	Recovery awaited
		14858	2013	01	10.23	Under process
		14889	2012 & 2013	02	211.63	Under process
4	LTU Lahore	15148	2013	01	15.85	Under process
			Total:	**24**	**788.28**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No	Tax Year	No of cases	Amount involved (Rs)	Latest Position
5	LTU Karachi	812	2013	02	39.19	Under process
6	RTO-II Karachi	802	2011 & 2012	01	2.77	Under process
7	RTO-III Karachi	825	2013	01	335.58	Under process
			Total:	**04**	**377.54**	

	G. Total	**28**	**1,165.82**
Recovery awaited-Rs 75.71, Under process-Rs 1,090.11			

Annexure-27
(Para 4.4.4)

Incorrect computation of taxable income - Rs 2,049.39 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Islamabad	14905	2012 & 2013	01	0.17	Under process
2	RTO-II Lahore	14961	2012 & 2013	03	61.24	Under process
			Total:	**04**	**61.41**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
3	LTU Karachi	809	2012	01	24.93	Under process
		845	2012	01	234.45	Under process
		863	2013	10	1,474.61	Under process
4	RTO-I Karachi	873	2013	03	7.08	No reply
5	RTO-II Karachi	691	2010	01	1.12	Under process
		693	2010	01	0.47	Under process
		696	2009 & 2010	01	6.80	Under process
		699	2011 & 2012	03	8.52	Under process
		842	2013	01	3.87	Under process
6	RTO-III Karachi	670	2011 to 2013	09	39.57	Under process
		672	2013	03	35.19	Under process
		679	2011	01	19.06	Under process
		684	2012 & 2013	41	1.27	Under process
		819	2013	01	0.42	Under process
7	RTO Hyderabad	835	2013	03	5.17	Under process
		856	2013	01	43.42	Under process
8	RTO Sukkur	742	2013	02	4.19	Under process
		750	2013	01	45.74	Under process
9	RTO Quetta	727	2013	02	32.00	Under process
			Total:	**86**	**1,987.98**	

G. Total	**90**	**2,049.39**
No reply-Rs 7.08, Under process-Rs 2,042.31		

Annexure-28
(Para 4.4.5)

Non levy of tax on concealment of income or assets - Rs 95,566.88 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Multan	15060	2013	02	0.93	Under Process
		15112	2013	01	16.77	Under Process
		15047	2012 & 2013	06	134.07	Under process
		15051	2012 & 2013	01	4.39	Under process
		15106	2012 & 2013	13	222.97	Under process
2	RTO Peshawar	15115	2013	02	1.14	Under Process
		15131	2013	02	29.24	Under process
		15113	2013	02	35.71	Under process
		15129	2013	03	197.60	Under process
		15128	2013	02	303.06	Under process
3	RTO-I Lahore	15238	2013	01	224.67	Under Process
		15126	2010 & 2011	01	6.00	Under Process
		15124	2013	01	121.82	Under process
		15120	2013	01	3.12	Under process
		14911	2013	01	88,966.15	Under process
4	RTO-II Lahore	14913	2010, 2012 & 2013	02	17.17	Under process
		14659	2012	07	939.37	Recovery awaited Rs 0.20 Under process Rs787.97, No reply Rs151.20
		14739	2013	14	1,788.78	Recovery awaited Rs0.44 Under process Rs 1,749.34 No reply Rs39.00
		14741	2013	04	320.45	Under process
		15216	2013	03	25.30	Under process
5	RTO Gujranwala	15088	2013	02	12.732	Under process
6	LTU Lahore	15077	2012	04	1,285.97	Under process
7	RTO Islamabad	14892	2011 to 2013	07	22.50	Under process
8	RTO Sargodha	14696	2012	07	4.45	Under process
		14697	2012	01	41.43	Subjudice
9	RTO Sialkot	14751	2011 & 2012	02	5.97	Under process
		14746	2011 & 2012	01	11.72	Under process
		14748	2012	03	7.53	Under process

10	RTO Bahawalpur	14648	2012	01	8.34	Under process
			Total:	**97**	**94,759.35**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
11	RTO-II Karachi	800	2013	04	1.35	Under process
12	RTO-III Karachi	671	2012 & 2013	01	2.95	Under process
		682	2010 to 2013	02	4.62	Under process
13	RTO Hyderabad	790	2013	01	59.94	Under process
14	RTO Quetta	732	2013	04	149.46	Under process
		760	2012 & 2013	01	4.16	Under process
15	RTO-I, Karachi, RTO Hyderabd, Sukkur & Quetta	Para – 7 (SSR)	2012 & 2013	10	585.05	Under process
			Total:	**23**	**807.53**	

G. Total	**120**	**95,566.88**
Recovery awaited-Rs 0.64, No reply-Rs 190.20, Subjudice-Rs 41.43, Under process-Rs 95,334.61		

Annexure -29
(Para 4.4.6)

Non-taxation of income under the head "Income from Other Sources"
Rs 367.39 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	LTU Lahore	15083	2013	07	96.80	Charged Rs14.07 under process Rs82.73
2	LTU Islamabad	14854	2012 & 2013	04	79.50	Under process
		14880	2013	01	191.09	Subjudice
			Total	**12**	**367.39**	

Recovery awaited-Rs 14.07, Under process-Rs 162.23, Subjudice-Rs 191.09

Annexure-30

(Para 4.4.7)

Incorrect application of tax rates - Rs 1.93 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Faisalabad	14835	2013	01	0.34	Under Process
2	RTO-I Lahore	15118	2013	02	0.23	Under Process
3	RTO Gujranwala	15092	2013	01	1.36	Recovery awaited
			Total	**04**	**1.93**	

Recovery awaited-Rs 1.36, Under process-Rs 0.57

Annexure-31

(Para 4.4.8)

Non-treatment of withholding tax as a final tax - Rs 287.94 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO-I Lahore	15019	2013	03	49.64	Under process
2	RTO-II Lahore	14918	2013	03	58.97	Under process
		14963	2012 & 2013	01	23.14	Under process
3	LTU Lahore	15082	2013	01	13.46	Under process
4	RTO Islamabad	14904	2013	01	0.51	Under process
		14881	2013	01	90.06	Recovery awaited
		14859	2013	01	5.938	Under process
5	RTO Faisalabad	14824	2013	05	1.75	Under process
		14830	2013	01	2.23	Amount charged Rs2.23
6	RTO Bahawalpur	14655	2012	01	0.47	Under process
			Total:	**18**	**246.17**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
7	RTO-II Karachi	794	2013	03	37.80	Under process
8	RTO Hyderabad	836	2013	01	2.89	Under process
		855	2013	02	1.08	Under process
			Total:	**06**	**41.77**	

G. Total	**24**	**287.94**
Recovery awaited-Rs 92.29, Under process-Rs 195.65		

Annexure-32

(Para 4.4.9)

Non-levy of default surcharge - Rs 1,939.16 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Islamabad	14897	2010 to 2013	06	2.95	Recovery awaited Rs1.72, under process Rs1.23
		14901	2009 to 2013	03	3.92	Under process
2	RTO Faisalabad	14825	2012 to 2013	02	0.14	No reply
3	RTO Multan	15000	2013	02	1,400.82	Under process
			Total:	**13**	**1,407.83**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No	Tax Year	No of cases	Amount involved (Rs)	Latest Position
4	LTU Karachi	810	2011 & 2013	03	9.10	Under process
		821	2013	20	458.37	Under process
5	RTO-I Karachi	718	2013	01	0.12	Under process
		747	2013	01	0.18	Under process
		780	2013	04	1.55	Under process
		869	2013	05	0.12	Under process
6	RTO-II Karachi	690	2012	05	0.45	Under process
		704	2012	09	4.92	Under process
		781	2013	02	3.70	Under process
		795	2013	04	6.97	Under process
		805	2013	06	6.24	Under process
7	RTO-III Karachi	668	2013	03	1.65	Under process
		711	2011 & 2012	02	0.25	Under process

		815	2013	01	1.26	Under process
		839	2013	0	9.77	Under process
		866	2013	02	0.43	Under process
8	RTO Hyderabad	787	201	04	0.18	Under process
		833	2013	32	12.51	Under process
		837	2013	03	1.08	Under process
		854	2013	03	2.65	Under process
		858	2013	15	8.35	Under process
9	RTO Quetta	730	2013	01	1.48	Under process
			Total:	**126**	**531.33**	

	G. Total	**139**	**1,939.16**
Recovery awaited-Rs 1.72, No reply-Rs 0.14, Under process-Rs 1,937.30			

Annexure-33
(Para 4.4.10)

Incorrect adjustment of brought forward losses - Rs 1,149.08 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Sargodha	14695	2011 & 2012	01	6.86	Under process
2	LTU Lahore	15072	2013	02	1,070.31	Under process
		15073	2013	03	60.46	Under process
			Total:	**06**	**1,137.63**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
3	RTO-II Karachi	694	2006, 2007, 2009 & 2010	01	9.89	Under process
		695	2011	01	1.56	Under process
			Total:	**02**	**11.45**	

G. Total	**08**	**1,149.08**	
Under process-Rs 1,149.08			

Annexure-34
(Para 4.4.11)

Non-payment of tax along with tax return - Rs 40.44 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO-II Lahore	14919	2013	01	7.96	Under process
			Total:	**01**	**7.96**	

DGAIR(S), Karachi *(Rs in millions)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest position
2	RTO-II Karachi	712	2012	05	1.75	Under process
3	RTO Hyderabad	832	2011 to 2013	28	25.54	Under process
		851	2011 to 2013	11	5.19	Under process
			Total:	**44**	**32.48**	

G. Total	**45**	**40.44**
Under process-Rs 40.44		

Annexure-35

(Para 4.4.12)

Incorrect computation of tax under respective heads of income - Rs 16.07 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Multan	15057	2013	01	1.16	Under process
2	LTU Lahore	14700	2012	03	3.47	No reply
		15078	2013	01	2.32	No reply
3	RTO-I Lahore	15012	2010 to 2013	02	1.79	Under process
4	RTO-II Lahore	14920	2012	01	6.31	Under process
5	RTO Gujranwala	15209	2013	01	0.57	Charged Rs0.57
		15095	2013	01	0.45	Under process
			Total	**10**	**16.07**	

Recovery awaited-Rs 0.57, Under process-Rs 9.71, No reply-Rs 5.79

Annexure-36
(Para 4.4.13)

Short levy of tax due to inadmissible depreciation allowance - Rs 41.89 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Offices	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO-I Lahore	15243	2013	01	3.39	No reply
		15241	2013	02	15.04	Under process
		15236	2013	01	7.11	Under process
		15239	2013	02	4.78	Under process
2	RTO-II Lahore	14956	2013	02	8.81	Under process
3	LTU Islamabad	14860	2013	01	2.76	Under process
			Total	**09**	**41.89**	

Under process-Rs 38.50, No reply-Rs 3.39

Annexure-37
(Para 4.4.16)

Non-treatment of withholding tax as minimum tax - Rs 716.48 million

DG AIR (N) Lahore *(Rs in million)*

Sr. No.	Offices	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO-I Lahore	15014	2013	03	92.31	Under process
		15123	2013	01	0.67	Under process
2	RTO-II Lahore	15221	2013	01	27.70	Under process
3	LTU Islamabad	14941	2013	01	41.87	Under process
		14934	2013	01	35.97	Under process
		14988	2013	0	7.23	Under process
		14985	2013	02	3.96	Under process
4	RTO Multan	14991	2013	03	320.35	Under process
		14995	2013	01	14.99	Under process
		15054	2013	01	2.96	Under process
5	RTO Sialkot	14927	2012	02	6.92	Under process
6	LTU Lahore	15081	2013	01	26.71	Under process
		15074	2013	02	134.84	Under process
			Total	**19**	**716.48**	

Annexure-38
(Para 4.4.18)

Inadmissible claim of tax credit - Rs 129.50 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Offices	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Peshawar	15114	2013	02	19.13	Under process
2	RTO-I Lahore	14909	2013	02	22.14	Under process
3	RTO-II Lahore	14959	2012 & 2013	04	49.07	Under process
4	RTO Faisalabad	14981	2013	01	34.06	Under process
		14979	2013	02	4.89	Under process
5	RTO Islamabad	14903	2013	01	0.21	Under process
			Total	**12**	**129.50**	

Annexure-39

(Para 4.5.1)

Unlawful issuance of refund - Rs 3,780.93 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO-II Lahore	14917	2010 to 2013	01	0.74	Under process
		14661	2012	01	2.52	Under process
		14964	2008	01	0.13	Under process
2	RTO Sialkot	14728	2012	06	4.20	Under process
		14747	2012	03	2.14	Under process
		14749	2010 & 2011	02	2.63	Under process
3	LTU Islamabad	14869	2013	01	25.86	Under process
4	RTO Multan	15056	2012& 2013	02	1.27	Under process
		15055	2013	02	0.24	Under process
		15111	2012	01	2.95	Under process
		15108	2013	02	0.12	Under process
5	RTO-I Lahore	15237	2013	01	47.72	No reply
6	RTO Sargodha	14702	2012	01	1.82	No reply
7	RTO Islamabad	14898	2013	01	8.52	Under process
8	LTU Lahore	14691	2012	04	27.48	Recovery awaited Rs0.92, Under process Rs26.12, subjudice Rs0.45
		14693	2012	02	0.24	Under process Rs0.24
			Total	**31**	**128.58**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Offices	DP No	Tax Year	No of cases	Amount involved (Rs)	Latest Position
9	LTU Karachi	807	2009 & 2010	02	25.64	Under process
		808	1998-99 to 2013	03	3433.81	Under process
		813	2010 to 2013	04	38.17	Under process
		846	2012 & 2013	03	30.36	Under process
		847	2009	01	88.58	Under process
10	RTO-II Karachi	796	2006 to 2012	01	11.01	No reply
		801	2013	04	22.60	No reply
		697	2010 to 2012	03	0.62	No reply
11	RTO Hyderabad	830	2009 to 2013	07	0.63	Under process
		853	2008, 2010, 2012 & 2013	07	0.93	Under process
			Total:	**35**	**3,652.35**	

G. Total	**66**	**3780.93**
Recovery awaited-Rs 0.92, No reply-Rs 83.77, Subjudice-Rs 0.45, Under process-Rs 3,695.79		

Annexure-40

(Para 4.5.2)

Excess determination of refund - Rs 237.99 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	LTU Islamabad	14871	2013	01	1.70	Under process
		14868	2013	01	86.32	Under process
2	RTO-II Lahore	14675	2012	03	1.33	Under process
			Total:	**05**	**89.35**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
3	RTO-II Karachi	756	2011 & 2013	03	54.83	Under process
4	RTO-III Karachi	675	2011 to 2013	01	35.56	Under process
		676	2013	01	14.89	Under process
		677	2013	02	10.10	Under process
		678	2007 to 2013	15	33.26	Under process
			Total:	**22**	**148.64**	

G. Total	**27**	**237.99**	
Under process-Rs 237.98			

Annexure-41

(Para 4.6.1)

Non-realization of workers welfare fund - Rs 2,596.53 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax year	No of cases	Amount involved (Rs)	Amount recovered	Latest position
1	RTO Peshawar	15130	2013	03	37.63	-	Under process
2	RTO Islamabad	14893	2012 & 2013	45	47.42	-	Recovery awaited Rs1.22, under process Rs 46.20
		14906	2013	01	0.03	-	Under process
		14828	2013	16	35.97	-	Charged Rs2.94 Subjudice Rs 33.03
3	RTO Multan	15050	2013	53	61.58	-	Under process
4	LTU Islamabad	14847	2013	20	595.96	8.35	Recovery awaited Rs 0.66 Under process Rs 457.56 No reply Rs 129.39
		14870	2013	01	0.11	-	Recovery awaited
		14875	2013	09	34.44	0.88	Charged Rs17.39 under process Rs16.17
5	RTO-I Lahore	15011	2013	22	174.84	-	Under process
		15125	2013	02	0.48	-	Under process
		15122	2013	07	3.24	-	Under process
		15121	2013	09	2.129	0.68	Under process Rs1.45
6	LTU Lahore	14703	2012 & 2013	03	2.10	-	Under process Rs1.83 subjudice Rs0.27
		14694	2012	25	112.56	-	Subjudice Rs 112.40 No replyRs0.16
		15156	2013	13	50.15	-	Recovery awaited Rs8.52 Under process Rs41.63 4
		15076	2013	01	5.35	-	Under process
7	RTO Sialkot	14726	2012	07	6.29	6.29	Under process

8	RTO Bahawalpur	14653	2012	02	6.24	-	Under process
		14651	2012	11	8.53	2.76	Recovery awaited Rs5.75
9	RTO-II Lahore	14734	2010 to 2013	05	6.96	1.94	Recovery awaited Rs4.37, Under process Rs0.65
		14740	2013	07	5.65	-	Under process
		14660	2013	02	10.54	-	Under process
		14658	2013	01	9.88	-	Under process
		14657	2009 to 2013	06	29.99	0.34	Recovery awaited Rs0.9, Under process Rs28.75
		14960	2012 & 2013	12	20.15	6.44	Under process Rs13.71
		15215	2013	04	0.10	-	Recovery awaited
10	RTO Gujranwala	15093	2012 & 2013	03	3.95	-	Amount Charged Rs3.95
		15085	2013	13	14.31	-	Charged Rs13.99, Under process Rs0.32
11	RTO Sargodha	14731	2011 & 2012	54	14.20	-	Under process
			Total:	**357**	**1300.78**	**27.68**	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No	Tax Year	No of cases	Amount involved (Rs)	Amount recovered	Latest Position
12	LTU Karachi	814	2010, 2011 & 2013	12	106.65	-	Amount charged recovery awaited Rs56.661, Under process Rs49.985
		823	2013	16	93.68	-	Under process
		848	2011 to 2013	24	110.96	-	Amount charged recovery awaited Rs17.710, Under process Rs93.250
		875	2013	21	535.93	-	Under process
13	RTO-I Karachi	717	2013	02	83.92	-	Under process
		748	2013	16	2.61	-	No reply
		778	2013	10	13.45	5.53	Amount charged and recovery awaited Rs2.464,

							subjudice Rs0.395, Under process Rs5.078
		872	2013	55	23.80	-	No reply
14	RTO-II Karachi	688	2009 to 2012	29	37.55	0.19	Charged and recovery awaited Rs7.228, Under process Rs30.129
		692	2012	02	0.20	-	Under process
		703	2011 & 2012	20	8.68	0.40	Charged and recovery awaited Rs2.445, Under process Rs6.235
		706	2012	27	30.83		No reply
		715	2012	08	2.43	1.28	Charged and recovery awaited Rs0.261, Under process Rs0.897
		784	2013	19	18.31	-	No reply
		798	2013	15	4.39	-	No reply
		803	2013	13	6.05	6.05	-
15	RTO-III Karachi	666	2012 & 2013	31	15.81	-	No reply
		674	2011 & 2012	01	61.72	-	No reply
		681	2009, 2012 to 2013	14	14.85	-	No reply
		709	2011 & 2012	34	63.50	-	Under process
		816	2013	29	18.83	-	Under process
		841	2013	15	5.09	-	Under process
		867	2013	20	10.88	-	Under process
		874	2013	14	6.59	-	Under process
16	RTO Hyderabad	852	2013	07	3.84	0.14	Under process Rs3.703
		860	2013	11	2.12	-	Under process
17	RTO Sukkur	741	2013	03	2.94	-	Under process
		751	2013	03	1.65	-	Under process
18	RTO Quetta	729	2013	66	6.27	-	Under process
		761	2013	06	2.22	-	Under process
			Total:	**543**	**1,295.75**	**13.58**	

	G. Total	**900**	**2,596.53**
Recovered-Rs 41.27, Recovery awaited-Rs 146.67, Subjudice-Rs 146.10, Under process-Rs 2,090.18, No reply-Rs 172.31			

Annexure-42
(Para 4.7.1)

Non/short-realization of withholding sales tax - Rs 167.75 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount recovered	Balance amount recoverable
1	RTO-II Lahore	14662-ST	01	152.15	0	152.15
2	RTO Rawalpindi	15203-ST	03	1.60	0	1.60
		15202-ST	03	0.27	0.10	0.17
3	RTO Islamabad	15207-ST	50	2.40	0	2.40
		15205-ST	06	0.52	0	0.52
		15204-ST	09	4.42	0	4.42
		15200-ST	03	5.51	0	5.51
4	RTO Karachi	15208-ST	04	0.88	0	0.88
		Total	**79**	**167.75**	**0.10**	**167.65**

Annexure-43

(Para 4.7.2)

Non realization of withholding sales tax - Rs 4,108.76 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount recovered/ not due	Balance amount recoverable
1	RTO Peshawar	15067-ST	01	1,569.95	1,330.01	239.94
2	RTO-II Lahore	15189-ST	08	236.61	0	236.61
3	RTO-II Karachi	5871-ST/K	25	1,099.72	0	1,099.72
		5925-ST/K	02	0.46	0	0.46
4	RTO-III Karachi	5894-ST/K	02	5.10	0	5.10
		5976-ST/K	01	1,017.59	0	1,017.59
5	RTO Hyderabad	5912-ST/K	04	7.52	2.22	5.30
6	RTO Sukkur	5866-ST/K	02	10.34	4.35	5.99
		5929-ST/K	03	83.85	81.93	1.92
7	RTO-Quetta	5869-ST/K	01	69.15	0	69.15
		5870-ST/K	01	8.47	0	8.47
		Total	**50**	**4,108.76**	**1,418.51**	**2,690.25**

Annexure-44

(Para 4.7.4)

Non-realization of withholding tax - Rs 48,977.81 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Offices	DP No.	Tax Year	No of cases	Amount involved (Rs)	Amount recovered	Latest Position
1	RTO Faisalabad	14987	2013	01	2.25	-	Under process
		14982	2013	01	4.20	-	Under process
		14984	2013	05	230.30	-	Recovery awaited Rs 2.96 Under process Rs 227.34
		14983	2013	02	8.81	-	Under process
		14978	2013	01	99.01	-	Under process
		14986	2014	01	1.46	-	Under process
2	RTO-II Lahore	14914	2011 to 2013	07	48.30	-	Under process
		14915	2012 &2013	02	10.98	-	Under process
3	LTU Islamabad	14939	2013	01	26.47	-	Under process
		14940	2013	01	837.06	-	Under process
		14935	2013	06	3,669.41	-	Under process
4	LTU Lahore	15155	2013	02	74.33	-	Under process
		15075	2013	01	0.44	-	Under process
		15080	2013	01	36.57	-	Under process
5	RTO Sialkot	14929	2013	01	1.09	-	Under process
		14930	2013	01	8.57	-	Charged recovery awaited
		14926	2013	01	10.61	-	Under process
		14928	2013	01	21.40	-	Under process
		14923	2011 & 2012	03	68.10	-	Under process
		14922	2013	02	40.15	-	Under process
		14921	2013	08	168.05	-	Under process
5	RTO Sargodha	14698	2012	10	36.35	-	Under process
6	RTO-I Lahore	15009	2013	07	89.49	-	Proof of recovery awaited Rs 15.72 Under process Rs73.77
7	RTO Bahawalpur	14646	2012	01	1.53	-	Under process

8	RTO Multan	15058	2013	02	0.44	-	Under process
		14998	2013	01	12.40	-	Under process
		14994	2013	01	5.37	-	Under process
		14992	2013	04	2,369.12	-	Under process
		15001	2013	02	31.88	-	Under process
		15107	2013	02	23.02	-	Under process
		14999	2013	01	209.64	-	Under process
9	RTO Islamabad	14907	2012 & 2013	08	31.50	-	Under process
				88	**8,178.3**	-	

DGAIR(S), Karachi *(Rs in million)*

Sr. No.	Office	DP No	Tax Year	No of cases	Amount involved (Rs)	Amount recovered	Latest Position
10	LTU Karachi	734	2013	2	82.54	-	Under process
		735	2013	12	2,455.16	-	Under process
		736	2011 to 2013	1	5,797.34	-	Under process
		737	2014	22	25.51	-	Under process
		738	2010 to 2014	86	6,673.53	-	Under process
		739	2008 to 2013	3	4,514.87	-	Subjudice Rs2,695.502, Under process Rs1,819.36
		740	2012 & 2013	31	6,925.35	-	Under process
		822	2013	15	1,740.23	-	Under process
11	RTO-I Karachi	768	2012 & 2013	10	44.80	18.64	Under process Rs26.167
		769	2013	5	37.60	-	Under process
		770	2011 to 2013	9	55.57	-	Under process
		771	2012 & 2013	18	50.76	2.76	Under process Rs47.999
		772	2012 & 2013	9	23.81	-	Under process
		773	2014	8	99.10	-	Under process
		774	2011 to 2013	85	4716.75	175.61	Under process Rs4541.136
		776	2011 to 2014	140	1489.30	-	Under process
		779	2013	4	13.38	-	No reply

12	RTO-II Karachi	701	2012	8	26.17	-	No reply
		702	2012 & 2013	8	73.44	-	No reply
		722	2012 & 2013	30	272.50	-	Charged & recovery awaited Rs20.597 Under process Rs251.897
		724	2013	1	4,124.73	-	Under process
		755	2012 & 2013	2	67.85	-	Under process
		797	2013	2	1.42	-	No reply
		799	2013	6	7.24	-	No reply
		804	2013	4	37.78	-	Under process
		843	2013	11	30.00	-	No reply
13	RTO-III Karachi	683	2012 & 2013	13	40.49	-	No reply
		707	2012	3	12.99	-	No reply
		720	2014	9	12.42	-	No reply
		765	2014	2	0.42	-	No reply
		766	2013	5	46.83	-	No reply
		767	2013	6	9.93	-	No reply
		840	2013	20	44.99	-	Under process
		877	2013	1	209.50	-	Under process
14	RTO Hyderabad	785	2013	3	7.26	-	Under process
		788	2013	6	21.86	-	Under process
		789	2013	8	1.55	-	Under process
		792	2013 & 2014	12	7.09	-	Under process
		868	2013	1	7.28	-	Under process
15	RTO Sukkur	744	2013	1	3.42	-	Under process
		752	1991 to 2007 & 2010 to 2013	23	135.49	-	Amount charged & recovery awaited
		826	2012	8	104.88	77.51	Amount charged recovery awaited Rs8.830, Under process 18.540
		827	2013	2	1.99	-	Under process
		828	2013	2	12.38	-	Under process
		876	2013	102	149.06	-	No reply

16	RTO Quetta	726	2013	27	543.56	-	Under process
		762	2013	3	5.92	-	Under process
17	LTU Karachi	Para-06 (SSR)	2011 - 2012	1	33.47	-	Under process
			Total:	**790**	**40,799.51**	**274.52**	
			G. Total	**878**	**48,977.81**		
Recovered-Rs 274.52, Recovery awaited-Rs 192.16, Subjudice-Rs 2,695.50 Under process-Rs 45,391.83, No reply-Rs 423.80							

Annexure-45

(Para 4.7.5)

Non-realization of withholding tax on salary - Rs 503.28 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Multan	14993	2013	01	157.52	Under process
		15002	2013	03	124.62	Under process
2	RTO-I Lahore	15021	2013	08	159.21	No reply
3	RTO Islamabad	14900	2012 & 2013	02	10.43	Under process
4	RTO Sialkot	14924	2012 & 2013	04	37.70	Under process
5	LTU Islamabad	15007	2013	02	13.80	Under process
Total:				**20**	**503.28**	

G. Total	**20**	**503.28**
Under process-Rs 344.07, No reply-Rs 159.21		

Annexure-46

(Para 4.7.6)

Non-realization of withholding tax on dividend - Rs 5,023.05 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax year	No of cases	Amount involved (Rs)	Latest position
1	RTO Islamabad	14895	2011	01	1.74	Under process
		14902	2011 to 2013	02	1.71	Under process
2	RTO Sialkot	14925	2013	04	27.42	Under process
3	RTO Multan	14990	2013	03	2,261.07	Under process
4	RTO Faisalabad	14976	2013	04	342.96	Recovery awaited Rs 0.34, under process Rs342.62
5	LTU Islamabad	14879	2013	01	7.92	Recovery awaited
		14932	2013	02	1,547.34	Under process
		14937	2013	01	484.20	Under process
		14867	2013	01	206.87	Under process
		14853	2013	05	55.55	Under process
6	LTU Lahore	15152	2013	04	86.27	Under process
			Total	**28**	**5,023.05**	

Recovery awaited-Rs 8.26, Under process-Rs 5,014.79

Annexure-47

(Para 4.7.7)

Non-realization of withholding tax on profit on debt - Rs 852.21 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO Multan	14996	2013	01	770.20	Under process
		15003	2013	02	20.80	Under process
2	RTO-I Lahore	15015	2013	07	22.59	Under process
3	LTU Islamabad	14938	2013	01	38.62	Under process
			Total	**11**	**852.21**	

Annexure-48
(Para 4.7.9)

Non/short levy of tax on brokerage and commission - Rs 165.07 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	LTU Islamabad	14850	2012 & 2013	02	163.05	Under process
2	RTO-II Lahore	14965	2011	01	2.02	Under process
			Total	**03**	**165.07**	

Annexure-49
(Para 4.8.1)

Excess and inadmissible payment of pay and allowances - Rs 10.63 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount recovered	Balance amount
1	RTO-I Lahore	14753-Exp	05	1.01	0.29	0.72
2	Director Research and Statistics Islamabad	15252-Exp	02	0.13	0	0.13
3	Chief Coordinator Computer Wing (IR) Islamabad	14773-Exp	02	0.17	0.01	0.16
4	RTO Gujranwala	14793-Exp	16	1.57	0	1.57
5	FBR(HQ) Islamabad	14799-Exp	11	3.42	0	3.42
		14810-Exp	03	0.18	0	0.18
		14813-Exp	01	0.12	0	0.12
		14600-Exp	66	2.02	0	2.02
		14805-Exp	17	0.24	0	0.24
		14809-Exp	14	0.21	0	0.21
6	RTO-II Lahore	14952-Exp	01	0.49	0.10	0.39
7	Directorate of Internal Audit Lahore	14629-Exp	01	0.17	0	0.17
8	RTO Islamabad	15143-Exp	02	0.54	0	0.54
9	RTO Hyderabad	229-Exp/K	38	0.36	0	0.36
		Total	**179**	**10.63**	**0.4**	**10.23**

Annexure-50
(Para 4.8.2)

Inadmissible payment/short realization of government dues on account of transport monetization and performance allowance - Rs 2.12 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	FBR (HQ) Islamabad	14807-Exp	03	0.84
		14812-Exp	01	0.16
2	Directorate of Internal Audit Lahore	14943-Exp	01	1.12
		Total	**05**	**2.12**

Annexure-51
(Para 4.8.3)

Inadmissible payment on account of hiring of residential accommodation Rs 1.85 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	FBR (HQ) Islamabad	14806-Exp	01	0.71
2	Directorate of Internal Audit Lahore	14944-Exp	01	0.31
3	RTO Islamabad	15163-Exp	08	0.76
4	LTU Islamabad	14954-Exp	01	0.07
		Total	**11**	**1.85**

Annexure-52
(Para 4.8.4)

Irregular expenditure on POL/CNG, repair and maintenance of vehicles
Rs 10.97 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Balance Amount
1	LTU Islamabad	14840-Exp	37	2.27
2	RTO Islamabad	15162-Exp	37	5.08
3	RTO Faisalabad	14785-Exp	93	0.23
4	Directorate of Training and Research, Lahore	15225-Exp	03	0.52
5	Additional Director (Internal Audit) IR (FBR) Rawalpindi	14609-Exp	0	0.17
6	Directorate of Project Monitoring, Implementation, and Evaluation,(DPMIE) Islamabad	14609-Exp	06	1.79
7	Additional Director Training Islamabad	14626-Exp	0	0.47
8	RTO Sargodha	14622-Exp	01	0.14
9	Project Preparation Facility(PPF) FBR Islamabad	14677-Exp	13	0.30
		Total	**190**	**10.97**

Annexure-53
(Para 4.8.6)

Un-authorized payment of Conveyance allowance and Performance allowance
Rs 5.01 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out	Amount recovered	Balance amount
1	RTO Peshawar	14768-Exp	76	0.26	0	0.26
		14765-Exp	03	0.26	0	0.26
2	RTO Sargodha	14624-Exp	25	0.09	0	0.09
3	FBR(HQ) Islamabad	14634-Exp	07	0.06	0	0.06
		14594-Exp	08	0.21	0	0.21
4	Director General Internal Audit, Islamabad	14630-Exp	09	0.12	0	0.12
5	RTO Islamabad	15160-Exp	04	0.11	0	0.11
6	RTO Lahore	14949-Exp	13	1.00	0.09	0.10
7	RTO-II Lahore	14951-Exp	15	1.43	0	1.43
8	LTU Islamabad	14953-Exp	01	0.03	0	0.03
		14842-Ex	01	0.89	0	0.89
9	RTO-III Karachi	217-Exp/K	03	0.33	0	0.33
		214-Exp/K	60	0.22	0	0.22
		Total	**225**	**5.01**	**0.09**	**4.11**

Annexure-54
(Para 4.8.7)

Irregular payment of cash rewards - Rs 37.63 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount
1	Project Management Unit, FBR Islamabad	14603-Exp	38	1.08
2	RTO Sargodha	14730-Exp	197	3.42
3	Directorate of I & I Faisalabad	14778-Exp	13	0.35
4	Project Preparation Facility (PPF) FBR Islamabad	15254-Exp	38	5.96
5	LTU Karachi	220-Exp/K	276	14.45
6	RTO-I Karachi	194-Exp/K	425	5.92
7	RTO-III Karachi	212-Exp/K	290	1.37
8	RTO Sukkur	202-Exp/K	290	3.75
9	RTO Quetta	210-Exp/K	120	1.33
		Total	**1,687**	**37.63**

Annexure-55

(Para 5.2.1)

Incorrect apportionment of expenses - Rs 14,186.38 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Office	DP/Para No.	Tax Year	No. of cases	Amount involved (Rs)	Latest Position
1	LTU Lahore RTO Faisalabad and Multan	4.1	2013	30	2,632.36	Rs 2,134.72 Under process and Rs497.64 contested
2	LTU Islamabad	14877	2013	06	407.50	Under process
		14864	2013	04	4,279.04	Under process
		14848	2013	02	455.45	Under process
3	LTU Lahore	15149	2013	24	1,586.77	Under process
4	RTO-I Lahore	15010	2013	05	187.62	Under process
		14910	2013	01	2.32	
5	RTO-II Lahore	14673	2012	02	3.90	Under process
		14970	2013	01	47.54	Under process
6	RTO Sialkot	14725	2013	02	6.93	Under process
		14931	2013	03	65.35	Under process
7	RTO Faisalabad	14989	2013	01	5.29	Under process
8	RTO Multan	15004	2013	01	4,490.54	Under process
		15053	2013	03	7.61	
9	RTO Gujranwala	15086	2013	03	5.24	Under process
10	RTO Islamabad	14896	2013	02	2.93	Under process
			Total	**90**	**14,186.38**	

Annexure-56
(Para 5.3.2)

Short-payment of federal excise duty - Rs 366.20 million

(Rs in million)

Sr. No.	NTN	STRN	Name of Tax Payer	Amount (Rs)	ONO& Date
1	0709552	0101230201655	Abdullah Shah Ghazi Sugar	22.52	01/11/2014 dated 27-Jan 2014
2	0709384	0401170300291	Adam Sugar Mill Ltd.,	2.05	02/02/2014 dated 14 Feb-2014
3	0709660	0101230201991	Ansar Sugar Mill Ltd.,	17.02	03/11/2014 dated 27-Jan-2014
4	0709823	0305170300346	Baba Farid Sugar Mill Ltd.,	15.39	05/02/2014 dated 20 Feb-2014
5	0709885	0101230200419	Bawany Sugar Mill Ltd.,	4.69	02/16/2013 dated 26 Dec-2013
6	0710220	0101230201246	Dewan Sugar Mill Ltd.,	27.19	02/06/2014 dated 27-Jan-2014
7	0710233	0101170300146	Digri Sugar Mill Ltd.,	9.83	04/02/2014 dated 20 Feb-2014
8	0710379	0101230200582	Farhan Sugar Mill Ltd.,	49.19	05/01/2014 dated 20 Feb-2014
9	0710591	0102230200164	Habib Sugar Mill Ltd.	7.00	03/16/2013 dated 28 Dec-2013
10	0697679	0408170300146	Hamza Sugar Mills Ltd.	1.79	04/11/2014 dated 10 Feb-2014
11	0711145	0101230200746	Mehran Sugar Mill Ltd	8.04	03/02/2014 dated 14 Feb-2014
12	0711195	0101230200664	Mirpur Khas Sugar Mills Ltd.	81.32	02/11/2014 dated 19 Feb-2014
13	1420897	0101170100164	Rani Pur Sugar Mill Ltd.,	28.53	01/02/2014 dated 10 Feb-2014
14	0711955	0102230200737	Sakrand Sugar Mill Ltd	18.66	01/06/2014 date 27 Jan 2014
15	0711983	0101230201082	Sangar Sugar Mill Ltd.	58.11	04/16/2013 dated 30-Dec 2013
16	0712160	0101230200828	Sindbad Sugar Mills Ltd.	14.87	01/16/2013 dated 19-Dec 2013
			Total	**366.20**	

Annexure-57
(Para 5.3.5)

Non / short levy of workers welfare fund - Rs 95.99 million

(Rs in million)

Sr. No.	Name of Taxpayer	NTN	Year	Formation	Amount
1	Mehran Sugar Mills	0711145-2	2011	LTU Karachi	4.21
2	Matiari Sugar Mills	0711109-6	2011	LTU Karachi	0.36
3	Abdullah Shah Ghazi Sugar Mills	0709552-0	2011	LTU Karachi	0.76
4	Adam Sugar Mills	0709384-5	2009	LTU Karachi	0.20
5	Mirpukhas Sugar Mills	0711195-9	2011	LTU Karachi	1.18
6	Faran Sugar Mills	0710379-4	2012	LTU Karachi	2.74
7	Adam Sugar Mills	0709384-5	2012	LTU Karachi	1.49
8	Matiari Sugar Mills	0711109-6	2012	LTU Karachi	1.00
9	Sindh Abadgar Sugar Mills	0712160	2012	LTU Karachi	1.94
10	Al Abbas Sugar Mills	0709482-5	2011	LTU Karachi	5.52
11	Mirza Sugar Mills	0711196-7	2012	LTU Karachi	0.79
12	Abdullah Shah Ghazi Sugar Mills	0709552	2010	LTU Karachi	1.91
13	Al Asif Sugar Mills	0709552-0	2009	LTU Karachi	2.77
14	Bawany Sugar Mills	0709885	2010	LTU Karachi	2.04
15	Bawany Sugar Mills	0709885-5	2009	LTU Karachi	0.62
16	Faran Sugar Mills	0710379-4	2011	LTU Karachi	0.25
17	Mehran Sugar Mills	0711154-2	2012	LTU Karachi	3.77
18	Al Abbas Sugar Mills	0709482	2010	LTU Karachi	6.74
19	Al Abbas Sugar Mills	0709482-5	2012	LTU Karachi	6.49
20	Al -Abbas Sugar Mill	0709482-5	2009	LTU Karachi	1.93
21	Al Asif Sugar Mill	0709552-0	2009	LTU Karachi	2.77
22	Adam Sugar Mill	0709384-5	2011	LTU Karachi	2.67
23	Fecto Sugar Mill	0710404-9	2009	LTU Karachi	19.58
24	Sindh Abadgar Sugar Mill	0712160-1	2012	LTU Karachi	1.94
25	Faran Sugar Mills	0710379-4	2012	LTU Karachi	2.74
26	Mirpurkhas Sugar Mill	0711195-9	2012	LTU Karachi	3.63
27	Adam Sugar Mill	0709384	2010	LTU Karachi	3.70
28	Madina Sugar Mill	2869931-9	2012	LTU Karachi	2.26
29	Larr Sugar Mills	0710952	2010	LTU Karachi	0.09
30	Hamza Sugar Mills	0697679	2009	LTU Karachi	1.20

31	Alnoor Sugar Mills	0709538-4	2012	LTU Karachi	2.74
32	New Dadu Sugar Mills	3132010-4	2011	RTO-III Karachi	0.87
33	New Dadu Sugar Mills	3132010-4	2010	RTO-III Karachi	0.67
34	Khoski Sugar Mills	3659290-7	2012	RTO-III Karachi	0.12
35	Khaipur Sugar Mills	125,599	2010	RTO Sukkur	0.13
36	Khaipur Sugar Mills	0710885	2010	RTO Sukkur	0.75
37	Khaipur Sugar Mills	0710885	2012	RTO Sukkur	0.93
38	Ranipur Sugar Mills	1420897-7	2010	LTU Karachi	0.57
39	Ranipur Sugar Mills	1420897-7	2011	LTU Karachi I	1.03
40	Ranipur Sugar Mills	1420897-7	2012	LTU Karachi	0.88
				Total	**95.99**

Annexure-58

(Para 5.3.8)

Loss due to non-realization of default surcharge - Rs 18.72 million

(Rs in million)

Sr. No.	Name of Taxpayer	NTN	Year	Formation	Amount
1	Sanghar Sugar Mills	0711983	2010	LTU Karachi	0.94
2	Matiari Sugar Mills	0711109	2012	LTU Karachi	0.16
3	Hamza Sugar Mills	0697679	2010	LTU Karachi	0.18
4	Ansari Sugar Mills	0709660	2010	LTU Karachi	0.10
5	Al Abbas Sugar Mills	0709482	2011	LTU Karachi	0.94
6	Madina Sugar Mills	2869931-9	2012	LTU Karachi	0.23
7	Mehran Sugar Mills	0711145-2	2011	LTU Karachi	2.56
8	Alnoor Sugar Mills	0709538	2011	LTU Karachi	0.24
9	Ranipur Sugar Mills	1426897	2011	LTU Karachi	0.68
10	Matiari Sugar Mills	0711109	2011	LTU Karachi	9.03
11	Ranipur Sugar Mills	1426897	2012	LTU Karachi	0.84
12	Abdullah Shah Ghazi Sugar Mills	0709552	2011	LTU Karachi	0.90
13	Mirza Sugar Mills	0711196	2012	LTU Karachi	0.17
14	Madina Sugar Mills	2869931-9	2011	LTU Karachi	0.45
15	Sanghar Sugar Mills	0711983	2011	LTU Karachi	0.51
16	Adam Sugar Mills	0709384	2012	LTU Karachi	0.14
17	Kiran Sugar Mills	0712626	2012	RTO-III Karachi	0.12
18	Sugar Khoski Mills	132,209	2012	RTO-III Karachi	0.13
19	Naudero Sugar Mills	1313968-1	2012	RTO-III Karachi	0.41
				Total	**18.71**

Annexure-59
(Para 5.4.2)

Statement showing inadmissible adjustment of input tax by blacklisted persons - Rs 1,842.43 million

(Rs in million)

Sr. No.	AO	Name of RTO	Amount
1	68	RTO-II Karachi	0.33
2	67	RTO-I Karachi	5.95
3	66	RTO-I Karachi	88.36
4	65	RTO-I Karachi	31.46
5	64	RTO-II Karachi	13.88
6	01	RTO-III Karachi	21.18
7	02	RTO-III Karachi	2.58
8	03	RTO-II Karachi	8.87
9	04	RTO-III Karachi	2.83
10	05	RTO-I Karachi	1.54
11	06	LTU Karachi	1.97
12	07	RTO-III Karachi	1.03
13	08	RTO-III Karachi	0.64
14	09	RTO-III Karachi	0.86
15	13	RTO-III Karachi	15.33
16	14	RTO-III Karachi	1.55
17	15	RTO-III Karachi	1.25
18	22	RTO-II Karachi	295.44
19	24	RTO-II Karachi	196.34
20	29	RTO-III Karachi	183.26
21	31	RTO-II Karachi	65.95
22	33	RTO-I Karachi	107.41
23	34	RTO-I Karachi	1.23
24	35	RTO-I Karachi	1.06
25	36	RTO-I Karachi	2.74
26	37	RTO-I Karachi	0.08
27	38	RTO-III Karachi	15.88
28	39	RTO-I Karachi	0.82

29	40	RTO-II Karachi	17.72
30	41	RTO-II Karachi	5.21
31	42	RTO-I Karachi	0.66
32	43	RTO-III Karachi	6.23
33	47	RTO-III Karachi	14.78
34	49	RTO-III Karachi	10.42
35	50	RTO-III Karachi	4.50
36	51	RTO-III Karachi	3.00
37	52	RTO-III Karachi	0.64
38	53	RTO-III Karachi	1.56
39	54	RTO-III Karachi	2.86
40	56	RTO-III Karachi	20.33
41	57	RTO-III Karachi	13.57
42	58	RTO-III Karachi	35.55
43	59	RTO-III Karachi	10.73
44	63	RTO-II Karachi	1.49
45	72	RTO-II Karachi	207.78
46	74	RTO-III Karachi	38.38
47	75	RTO-II Karachi	9.02
48	76	RTO-II Karachi	2.56
49	77	RTO-III Karachi	2.23
50	80	RTO-I Karachi	1.25
51	81	LTU Karachi	0.19
52	82	RTO-II Karachi	0.34
53	83	RTO-III Karachi	2.11
54	86	RTO Hyderabad	89.24
55	87	RTO Hyderabad	4.27
56	91	RTO Sukkur	0.20
57	104	LTU Karachi	1.27
58	107	RTO-III Karachi	15.83
59	108	RTO-III Karachi	22.38
60	109	LTU Karachi	0.02
61	110	RTO-II Karachi	89.39
62	111	RTO-II Karachi	4.59
63	112	LTU Karachi	7.48

64	113	LTU Karachi	5.21
65	114	LTU Karachi	3.04
66	115	LTU Karachi	2.41
67	116	LTU Karachi	2.60
68	71	RTO-II Karachi	4.74
69	70	RTO-II Karachi	18.45
70	69	RTO-II Karachi	0.48
71	5834-ST/K	RTO-III Karachi	87.96
		Total	**1,842.43**

Annexure-60
(Para 5.4.6)

Non-suspension of sales tax registration of 161 registered persons

(Rs in million)

Sr. No.	REG_NO	Name	Total No. Returns	No. of Returns Filed	No. of Returns Not Filed
1	1100090204446	Hameed & Company	12	1	11
2	1700027235017	Future Chem	12	1	11
3	1700104355018	Colosseum-organic	12	1	11
4	1700115766314	Abdul Hameed & Broth	12	1	11
5	1700120768310	E Business Solution	12	1	11
6	1700161210117	Al Hamd Trading	12	1	11
7	1700236319219	Universal Technology	12	1	11
8	1700257471019	B.Vision	12	1	11
9	1700268944516	Alpha Beta Capital	12	1	11
10	1700280150416	Chun on Global Logistic	12	1	11
11	1700306942810	Ariser International	12	1	11
12	1700311303214	AOL Logistics Pvt	12	1	11
13	1700317103611	Five Star Enterprise	12	1	11
14	1700323276716	The Strength	12	1	11
15	1700324173517	Tayyab International	12	1	11
16	1700334445718	Foreign Trade Associate	12	1	11
17	1700336019618	Malik Enterprises	12	1	11
18	1700342496319	92 Century	12	1	11
19	1700354577811	Sana Enterprise	12	1	11
20	1700354653119	Nanrha Enterprises	12	1	11
21	1700367213413	Caprice International	12	1	11
22	1700367338417	M.S. Traders	12	1	11
23	1700368419813	Ghanchi Co	12	1	11
24	1700369853016	Cappuccino	12	1	11
25	1700375055219	Areeba New World	12	1	11
26	1700375968510	AHM Enterprises	12	1	11
27	1700395697110	Aziza Pak Pvt. ltd	12	1	11
28	1700396546817	Tracking & Surveilla	12	1	11
29	1700397132718	Finger Source Corporation	12	1	11
30	1700397375410	Faisal Industries	12	1	11

31	1700398658213	Aliza Enterprises	12	1	11
32	1703999806728	Rani Traders	12	1	11
33	1703999937173	Sana Trade Distributor	12	1	11
34	1704999800937	A.R.Traders	12	1	11
35	1712999946646	Computer Need Network	12	1	11
36	1712999948391	Fusion Enterprises	12	1	11
37	1750980519237	Raees Wood Works	12	1	11
38	1750999972564	Sardar CNG Filling	12	1	11
39	1200420201037	Tanocraft Limited	12	2	10
40	1202999964355	Al-Fateh International	12	2	10
41	1205999917555	Cosmos Engineering	12	2	10
42	1222999999719	Powertonics Engineer	12	2	10
43	1700067357915	K.M Khan & co	12	2	10
44	1700098136017	F.J. Corporation	12	2	10
45	1700101916215	Bhoja Airlines (Pvt.) Ltd	12	2	10
46	1700202653916	Rewterz	12	2	10
47	1700270236516	Biolinks Technologies	12	2	10
48	1700300263316	Fatima Enterprises	12	2	10
49	1700339819917	Catcos (Pvt.) Limited	12	2	10
50	1700383310819	A. A. Enterprises	12	2	10
51	1700383408717	Thanks inc.	12	2	10
52	1700395043717	Anatech Enterprises	12	2	10
53	1700903180319	City District Government	12	2	10
54	1700999943619	Jafferjee's International	12	2	10
55	1703980001591	Family Movers International	12	2	10
56	1703999906637	Fine Construction Co	12	2	10
57	1703999927764	Image Traders	12	2	10
58	1703999972391	Fiaz Corporation	12	2	10
59	1703999989228	Madni Enterprises	12	2	10
60	1712980007455	Ferozsons Maritime	12	2	10
61	1750380900155	Climax Agencies	12	2	10
62	1200392100146	Ansari Varnish Works	12	3	9
63	1700103671611	Aamir Asif Enterprises	12	3	9
64	1700161360310	Fast Linkers	12	3	9
65	1700215139111	Fiza Logistics (Pvt)	12	3	9
66	1700220800237	Lovely Traders	12	3	9

67	1700334616413	Friends Cargo Steverd	12	3	9
68	1700338142011	Al-Sehar Enterprises	12	3	9
69	1700340924613	Imran Cement Depot	12	3	9
70	1700360908213	Comtech Solutions	12	3	9
71	1700365142617	Devjani Enterprises	12	3	9
72	1700366332410	Astola Fisheries	12	3	9
73	1700368574113	H.R International	12	3	9
74	1700375671618	A.R. Enterprises	12	3	9
75	1700378020611	Imran Impex	12	3	9
76	1700378060018	Al-Syed Traders	12	3	9
77	1700378801010	Crescent Scientific	12	3	9
78	1700379910911	Care Trading House	12	3	9
79	1700380917013	Albero Pakistan (Pvt)	12	3	9
80	1700391135311	Royal Tech	12	3	9
81	1700392129818	C M Services (Pvt.)	12	3	9
82	1700392634519	Haniya Enterprises	12	3	9
83	1700392697715	Fatima Tech	12	3	9
84	1700395113518	M.H International	12	3	9
85	1700980003191	Eurupeon Marine Service	12	3	9
86	1700999980082	Millennium CNG Station	12	3	9
87	1703980003328	Bisma Traders	12	3	9
88	1712400700282	Universal Trading Co	12	3	9
89	1750999949491	Minhas and Company	12	3	9
90	2600122935416	We-Care	12	3	9
91	1200999943419	Elixir Pakistan	12	4	8
92	1700026997816	Bin Maalik	12	4	8
93	1700132659013	Hashmi Associates	12	4	8
94	1700137482611	Shaikh Enterprises	12	4	8
95	1700251363614	Al-Naseem & Company	12	4	8
96	1700307438618	Atlantic Onshore Service	12	4	8
97	1700339046716	Alladin Magic	12	4	8
98	1700343836611	UKI Packages	12	4	8
99	1700353648819	Glorious	12	4	8
100	1700360436614	Sabro & co.	12	4	8
101	1700367474819	Chase up Shop	12	4	8
102	1700367724717	Evolution Technology	12	4	8
103	1700376090312	Evergreen Corporation	12	4	8

104	1700377526616	Panhwar Enterprise	12	4	8
105	1700377850117	A5 Solutions	12	4	8
106	1700381275612	Excell Corporation.	12	4	8
107	1700381455110	A.H.F Corporation	12	4	8
108	1700381630612	Rapture Enterprises	12	4	8
109	1700382858911	B & F Trading & Solution	12	4	8
110	1700390805815	Bebex International	12	4	8
111	1700391052719	Aliyans Enterprises	12	4	8
112	1700392459116	Al-Masoom Surgical	12	4	8
113	1700392643411	Chem Mart	12	4	8
114	1700393584717	Food International	12	4	8
115	1700999945519	Autogas	12	4	8
116	1700999960855	Best CNG Station	12	4	8
117	1700999979437	Saad Associates	12	4	8
118	1702999900864	Millat CNG Station	12	4	8
119	1703190500282	Sajjad Bakery	12	4	8
120	1703980006628	Abdul Rehman Engenee	12	4	8
121	1703999916537	Blue Mount CNG Station	12	4	8
122	1703999964055	Green Mount CNG Station	12	4	8
123	1704320800191	Madina Paint House	12	4	8
124	1704690400191	Decor Distributors	12	4	8
125	1712220800119	Super Traders	12	4	8
126	1712999927428	Gulshan Service Station	12	4	8
127	1712999958028	Mafhh Trading Company	12	4	8
128	1712999975019	Aisha Service Station	12	4	8
129	1712999983019	Al Shaheryar Service	12	4	8
130	1750680200155	MZ Ceramics	12	4	8
131	1750999917628	NM International	12	4	8
132	1750999928282	Waiz Filling Station	12	4	8
133	1750999930655	Mianoor CNG Filling	12	4	8
134	1750999937846	Broadway CNG Service	12	4	8
135	1204999992964	Zaark Marine and Trading	12	5	7
136	1700178810514	A.A.A International	12	5	7
137	1700227257411	Cactus Traders Pvt. ltd	12	5	7
138	1700247179517	Ayzan Enterprises	12	5	7
139	1700278348516	AD Fine	12	5	7
140	1700285984318	Quality Golf Pakistan	12	5	7

141	1700301702214	Amjad Traders	12	5	7
142	1700312250517	Dura Slide	12	5	7
143	1700333492311	A.R Traders	12	5	7
144	1700340711419	Al Rehman Enterprise	12	5	7
145	1700356204515	C.K International	12	5	7
146	1700367788615	Anas Enterprises	12	5	7
147	1700377943618	Aziz West Merchant	12	5	7
148	1700379901019	A.R. Enterprises	12	5	7
149	1700381177317	AY International	12	5	7
150	1700391001417	Al-Saeed Enterprises	12	5	7
151	1700391004614	Best Cement Corporation	12	5	7
152	1700391096819	Asim Enterprises	12	5	7
153	1700392123815	Araf Impex	12	5	7
154	1700392297714	Centrepoint Management	12	5	7
155	1700392620810	Anchor Enterprises	12	5	7
156	1703980006882	Friends Logistics	12	5	7
157	1703999809537	Babar International	12	5	7
158	1703999942691	Professionals Associate	12	5	7
159	1704980006537	Fiber Link (Pvt) ltd	12	5	7
160	1712999912073	Zaib Impex	12	5	7
161	1750999988828	Shahzad Sanitary	12	5	7

Annexure-61
(Para 6.5.1)

Non-finalization of admissibility/legitimacy of refund of sales tax - Rs 616.71 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out
1	RTO Gujranwala	15031-ST	14	17.94
2	RTO Bahawalpur	14642-ST	11	2.13
		14643-ST	17	6.38
3	RTO-II Lahore	15230-ST	24	7.12
		15231-ST	33	29.30
		15229-ST	10	2.43
		15228-ST	11	0.73
		15245-ST	84	79.04
		15210-ST	49	92.44
		15176-ST	02	1.61
4	RTO Multan	15103-ST	45	25.20
5	RTO-I Karachi	5868-ST/K	08	13.40
		5876-ST/K	07	9.71
6	RTO-II Karachi	5855-ST/K	117	207.32
		5917-ST/K	121	58.67
7	RTO-III Karachi	5835-ST/K	36	30.84
8	RTO Hyderabad	5939-ST/K	02	1.34
		5936-ST/K	02	0.89
9	RTO Quetta	5898-ST/K	19	30.22
		Total	**612**	**616.71**

Annexure-62
(Para 6.5.4)

Irregular payment of refund of sales tax - Rs 20.42 million

(Rs in million)

Sr. No.	Office	DP No.	No. of cases	Amount pointed out
1	RTO-II Lahore	14688-ST	01	1.43
2	RTO-I Lahore	15116-ST	03	8.87
3	RTO-II Lahore	15179-ST	01	10.12
		Total	**05**	**20.42**

Annexure-63
(Para 6.5.6)

Invalid assessments due to filing of incomplete returns

Sr. No.	Office	DP No.	No. of cases
1	LTU Islamabad	14873-IT	01
		14883-IT	01
		14891-IT	02
2	RTO Gujranwala	15089-IT	01
		Total	**05**

Annexure-64
(Para 6.5.7)

Non levy of penalty for non/late filing of returns - Rs 4,947.15 million

DGAIR (N) Lahore *(Rs in million)*

Sr. No.	Offices	DP No.	Tax Year	No of cases	Amount involved (Rs)	Latest Position
1	RTO-II Lahore	15244	2013	09	0.22	Under process
		14969	2010 to 2013	10	17.57	Under process
		14676	2012	01	2.04	Under process
2	LTU Islamabad	14878	2013	04	10.24	Recovery awaited Rs 0.25, under process Rs 9.99
		14855	2013	09	64.92	Under process
3	RTO Islamabad	14899	2013	02	1.27	Under process
4	RTO Faisalabad	14833	2013	98	9.22	Under process
			Total:	**133**	**105.48**	

DGAIR(S), Karachi *(Rs in millions)*

Sr. No.	Offices	DP No	Tax Year	No of cases	Amount involved (Rs)	Latest Position
5	LTU Karachi	733	2010 to 2014	96	2,089.55	Under process
		820	2013	20	849.80	Under process
		844	2013	5	7.94	Under process
6	RTO-I Karachi	721	2013	5	3.73	Under process
		728	2013	17	50.85	Under process
		749	2013	16	0.59	Under process
		775	2011 to2014	141	402.21	Under process
		777	2013	5	0.10	Under process
		871	2013	32	1.51	Under process
7	RTO-II Karachi	686	2009 to 2012	8	1.80	Under process
		723	2013	26	1.80	Under process
		757	2011 to 2013	209	344.59	Under process

		783	2013	34	2.52	Under process
		793	2013	26	47.07	Under process
8	RTO-III Karachi	667	2012	10	1.40	Under process
		669	2011 to 2014	64	120.16	Under process
		680	2009 to 2013	30	365.90	Under process
		710	2011 & 2012	11	7.32	Under process
		719	2013	9	23.78	Under process
		817	2013	12	1.72	Under process
		861	2013	20	4.55	Under process
		862	2013	15	174.02	Under process
		864	2013	13	0.89	Under process
9	RTO Hyderabad	786	2013	16	7.13	Under process
		834	2013	8	2.36	Under process
		838	2013	60	0.30	Under process
		850	2013	60	0.30	Under process
		857	2013	8	4.33	Under process
10	RTO Sukkur	743	2013	2	1.56	Under process
11	RTO Quetta	725	2013	38	307.77	Under process
		763	2013	3	13.12	Under process
		764	2013	4	1.00	Under process
			Total:	**1023**	**4,841.67**	

	G. Total	**1156**	**4,947.15**
Recovery awaited-Rs 0.25, Under process-Rs 4,946.90			