

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

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

Table 1.1.1
Trend of revenue receipts

(₹ in crore)						
Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Revenue raised by the State Government					
	• Tax revenue	30,578.60	38,473.12	46,475.96	53,753.55	62,603.53
	• Non-tax revenue	3,333.80	3,358.29	4,086.86	3,966.11	4,031.90
	Total	33,912.40	41,831.41	50,562.82	57,719.66	66,635.43
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ¹	7,359.98	9,506.32	11,075.04	12,647.14	13,808.28
	• Grants-in-aid	7,883.32	6,868.51	8,168.41	7,809.42	9,098.82
	Total	15,243.30	16,374.83	19,243.45	20,456.56	22,907.10
3.	Total revenue receipts of the State Government (1 and 2)	49,155.70	58,206.23	69,806.27	78,176.22	89,542.53
4.	Percentage of 1 to 3	69	72	72	74	74

The above table indicates that during the year 2013-14, the revenue raised by the State Government (₹ 66,635.43 crore) was 74 *per cent* of the total revenue receipts. The balance 26 *per cent* of the receipts during 2013-14 was from the Government of India.

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

¹ Figures under the major heads of account 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0032-Taxes on Wealth, 0037-Customs, 0038-Union Excise Duties, 0044-Service Tax and Share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2012-13, under 'A-Tax Revenue' have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

Table 1.1.2
Details of Tax Revenue raised

Sl. No.	Head of revenue	(₹ in crore)											
		2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+)/ decrease (-) in 2013-14 over 2012-13	
		BE ²	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	17,727.32	15,832.67	20,160.00	20,234.69	24,170.00	25,020.02	27,735.00	28,414.44	33,590.00	33,719.35	21.11	18.67
2.	State Excise	6,500.00	6,946.32	7,425.00	8,284.74	9,115.00	9,775.43	10,775.00	11,069.73	12,600.00	12,828.36	16.94	15.89
3.	Stamps Duty	3,566.62	2,627.57	3,500.00	3,531.08	4,030.00	4,623.20	5,200.00	5,225.02	6,500.00	6,188.76	25.00	18.44
4.	Taxes on Vehicles	1,937.50	1,961.60	2,050.00	2,550.02	2,630.00	2,956.72	3,350.00	3,829.52	4,120.00	3,911.50	22.98	2.14
5.	Others	6,496.87	3,210.44	3,093.31	3,872.59	3,872.09	4,100.59	4,760.69	5,214.84	5,653.99	5,955.56	18.76	14.20
	Total	36,228.31	30,578.60	36,228.31	38,473.12	43,817.09	46,475.96	51,820.69	53,753.55	62,463.99	62,603.53	20.54	16.46

The respective Departments reported the following reasons for variation:

Taxes on sales, trade, etc: Better compliance due to e-administration.

State Excise: Increase in sale of Beer and Indian Made Liquor and Increase in rates of Additional Excise Duty.

Stamp duty: Increase in revenue over previous year was attributed to increase in guidance value by 30 per cent. However, as stated by the Department, the actual revenue realization for the year 2013-14 was less than the BE due to decrease in number of sale deeds registered.

The other Departments despite being requested (August 2014) did not furnish the reasons for variations in receipts from that of the previous year (October 2014).

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

² BE: Budget Estimates

Table 1.1.3 - Details of Non-tax revenue raised

Sl. No.	Head of revenue	(₹ in crore)											
		2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+)/ decrease (-) in 2013-14 over 2012-13	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Non – ferrous mining and metallurgical Industries	670.64	859.50	1,000.00	1,185.96	1,500.00	1,326.84	1,500.00	1,496.49	1,750.00	1,474.49	16.66	(-) 1.47
2.	Other Non-tax receipts	1,458.87	2,474.30	1,819.90	2,172.33	2,174.79	2,760.02	1692.82	2469.62	2,288.28	2,557.41	35.17	3.55
Total		2,129.51	3,333.80	2,819.90	3,358.29	3,674.79	4,086.86	3,192.82	3,966.11	4,038.28	4,031.90	26.48	1.66

The Departments despite being requested (August 2014), did not furnish the reasons for variations in receipts from that of the previous year (October 2014).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2014 on some principal heads of revenue amounted to ₹ 4,945.97 crore as detailed in the **Table-1.2**.

Table-1.2
Arrears of revenue

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2014	Amount outstanding for more than 5 years as on 31 March 2014	(₹ in crore)
				Replies of Department
1.	0030	84.13	NF	NF
2.	0040	4,861.84	NF	Out of the total arrears, ₹ 649.16 crore was stayed by courts, ₹ 164.72 crore was before BIFR ³ , ₹ 91.46 crore was covered by Revenue Recovery, write off proposals were made for ₹ 200.28 crore and ₹ 266.79 crore payments received were under verification.
Total		4,945.97		

NF : Not Furnished

Age-wise breakup of arrears of revenue had not been furnished by the Departments concerned. In Commercial Taxes Department, arrears of ₹ 32.06 crore were pending with the departmental authorities.

1.3 Evasion of tax detected by the department

The details of cases of evasion of tax detected by the Commercial Taxes Department (CTD), cases finalised and the demands for additional tax raised as reported by the CTD are given in **Table 1.3**.

³ Board for Industrial and Financial Reconstruction.

Table 1.3 - Evasion of Tax

(₹ in crore)

Sl. No.	Head of revenue	Cases pending as on 31 March 2013	Cases detected during 2013-14	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2014
					Number of cases	Amount of demand	
1.	0040 ⁴	421	1,850	2,271	1,764	83.23	409

It would be seen from the above table that the number of cases pending at the end of the year has slightly reduced compared to the number of cases pending at the start of the year.

Details of frauds and evasions detected, if any, by State Excise Department, Revenue Department, Transport Department, Energy Department and Department of Mines and Geology though called for (August 2014) had not been received (October 2014).

1.4 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2013-14, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2013-14 as reported by the Department is given in **Table 1.4**.

Table 1.4
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales tax/ VAT		State Excise	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,180	161.47	0	0
2.	Claims received during the year	2,181	629.40	NF	5.33
3.	Refunds made during the year	2,379	688.87	NF	5.33
4.	Balance outstanding at the end of year	982	102.00	0	0

NF: Not Furnished

The progress in disposal of refund cases of Sales Tax/ VAT has improved over the year.

1.5 Response of the Government/ departments towards audit

Principal Accountant General (Economic & Revenue Sector Audit) (PAG) conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of the important accounts and

⁴ The information received for this head of account is from only one out of 13 Divisions of Commercial Taxes Department in the State. Details from the remaining 12 Divisions were yet to be received (September 2014).

other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspections and those not settled on the spot, are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/ Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

Inspection reports issued up to December 2013 disclosed that 8,753 paragraphs involving ₹ 1,851.83 crore relating to 4,114 IRs remained outstanding at the end of June 2014. The details along with the corresponding figures for the preceding two years are given in the **Table 1.5**.

Table 1.5
Details of pending Inspection Reports

	June 2012	June 2013	June 2014
Number of IRs pending for settlement	3,115	3,363	4,114 ⁵
Number of outstanding audit observations	6,668	7,283	8,753
Amount of revenue involved (₹ in crore)	1,589.45	1,550.33	1,851.83

1.5.1 The Department wise details of the IRs and audit observations outstanding as on 30 June 2014 and the amounts involved are given below in **Table 1.5.1**.

Table 1.5.1
Department-wise details of IRs

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Numbers of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance	Commercial taxes	1,870	4,518	429.43
2.		State excise	612	934	378.71
3.	Revenue	Land Revenue	520	1,236	296.22
4.		Stamps and Registration fees	606	1,089	342.22
5.	Transport	Taxes on motor vehicles	359	584	66.33
6.	Commerce and Industries	Non-ferrous mining and metallurgical industries	142	382	334.51
7.	Energy	Electricity tax	5	10	4.41
Total			4,114	8,753	1,851.83

Audit did not receive even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs, for 328 IRs issued during 2013-14. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the

⁵ Inclusive of Land Revenue Offices which were brought under Revenue Sector Audit with effect from 1 July 2013

Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

The Government may consider having an effective system for prompt and appropriate response to audit observations.

1.5.2 Departmental audit committee meetings

The Government issued (March 1968) instructions to constitute 'Adhoc Committees' in the Secretariat of all the Departments to expedite the clearance of audit observations contained in the Inspection Reports (IRs). These Committees are to be headed by the Secretaries of the concerned Administrative Departments and attended by the designated officers of the State Government and a nominee of the PAG. These Committees are to meet periodically and, in any case, at least once in a quarter.

The Department-wise number of adhoc committee meetings held and paragraphs settled during the year 2013-14 were as given in **Table 1.5.2**.

Table 1.5.2
Details of Departmental audit committee meetings

Department	No. of meetings held	No. of paragraphs settled	Money value (₹ in lakh)
Commercial Taxes	02	77	159.02
Stamps and Registration fee	01	329	1633.58
Land Revenue	02	66	829.98
State excise	08	50	171.11

The number of meetings held and progress of settlement of paragraphs was negligible as compared to the huge pendency of the IRs and paragraphs. Adhoc committee meetings were not convened by three Departments under the Revenue Sector Audit namely, Transport Department, Energy Department and Department of Mines and Geology.

1.5.3 Non-production of records to audit for scrutiny

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

During the year 2013-14 as many as 368 assessment files, returns, refunds, registers and other relevant records were not made available to audit. Break up of these cases are given in **Table 1.5.3**.

Table 1.5.3
Details of non-production of records

Name of the Office/ Department	Number of cases not audited
Taxes/VAT on Sales, trade, etc.	316
State Excise	2
Land Revenue	38
Motor Vehicles Tax	11
Mines and Geology	1
Total	368

1.5.4 Response of the Departments to the draft audit paragraphs

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

40 draft paragraphs (including two Performance Audits) were sent to the Principal Secretaries/Secretaries by name between June and August 2014.

Government replies in respect of 14 draft paragraphs relating to Commercial Taxes Department were received (October 2014) and have been considered in finalisation of this Report. However, replies to the remaining 26 draft paragraphs had not been received (October 2014), either from the Departments concerned or the Government. Both the performance audit reports were discussed in the exit conferences held with the Principal Secretaries of the respective Departments and Government/Department views suitably incorporated.

1.5.5 Follow up on the Audit Reports-summarised position

According to the Rules of Procedure (Internal Working) of the Committee of Public Accounts (PAC), the Departments of Government are to furnish to the Karnataka Legislative Assembly Secretariat, detailed explanations (departmental notes) on the audit paragraphs, within four months of an Audit Report being laid on the Table of the Legislature. The Rules further require that before such submission, the departmental notes are to be vetted by the PAG.

175 paragraphs including performance audit included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Karnataka for the years ended 31 March 2009, 2010, 2011, 2012 and 2013 and one stand alone report relating to Department of Mines and Geology were placed before the State Legislature Assembly between March 2010 and February 2014.

As of September 2014, departmental notes on 93 of these paragraphs were received late from the departments concerned with average delay of 13 months. The departmental notes on the remaining 82 paragraphs from 7 Departments (Commercial Taxes, Land Revenue, Stamps and Registration, State Excise, Transport, Mines and Geology, Chief Electrical Inspectorate) has not been received except for the Audit Report for the year ended 31 March 2011.

This indicates that more effective action is required from the Executive to pursue the important issues highlighted in the Audit Reports, which would also aid in collection of unrealised revenue.

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

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

The succeeding paragraphs 1.6.1 and 1.6.2 discuss the performance of the Commercial Taxes Department⁶ in respect of the cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2003-04 to 2012-13.

1.6.1 Position of Inspection Reports

The summarized position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2014 are tabulated in below **Table -1.6.1**.

Table 1.6.1
Position of inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
		IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
1.	2004-05	2,485	5,301	135.21	493	1,320	49.59	369	1,185	28.43	2,609	5,436	156.37
2.	2005-06	2,609	5,436	156.37	127	664	49.80	1,103	2,082	61.44	1,633	4,018	144.73
3.	2006-07	1,633	4,018	144.73	296	1,396	124.62	252	1,108	39.59	1,677	4,306	229.77
4.	2007-08	1,677	4,306	229.77	213	1,159	122.63	651	1,791	86.18	1,239	3,674	266.22
5.	2008-09	1,239	3,674	266.22	218	921	230.50	78	838	70.58	1,379	3,757	426.13
6.	2009-10	1,379	3,757	426.13	103	579	103.68	36	355	108.34	1,446	3,981	421.48
7.	2010-11	1,446	3,981	421.48	71	459	81.56	63	476	47.22	1,454	3,964	455.82
8.	2011-12	1,454	3,964	455.82	121	528	82.52	8	211	26.03	1,567	4,281	512.31
9.	2012-13	1,567	4,281	512.31	237	764	70.25	72	443	99.87	1,732	4,602	482.69
10.	2013-14	1,732	4,602	482.69	205	632	72.06	21	391	58.32	1,916	4,843	496.43

1.6.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned in **Table 1.6.2**.

⁶ under revenue heads 0028, 0040,

Table 1.6.2

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year 2013-14	Cumulative position of recovery of accepted cases as of 31-03-2014
2003-04	9	13.43	9	8.61	0	5.50
2004-05	11	8.01	7	0.76	0	0.55
2005-06	15	27.83	14	19.88	0	4.23
2006-07	20	75.59	16	11.67	0	2.32
2007-08	20	78.28	15	25.99	0	8.15
2008-09	11	8.01	8	3.73	0	2.81
2009-10	9	15.29	9	10.79	1.58	2.90
2010-11	10	79.26	6	0.90	0.37	0.80
2011-12	9	82.12	6	15.76	0.07	0.34
2012-13	14	155.51	9	2.45	0	2.31

It is evident from the above table that the progress of recovery even in accepted cases was very slow during the last ten years.

The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

1.7 Audit planning

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

During the year 2013-14, there were 551 auditable units, of which 426 units were planned and 439 units had been audited, which is 79.67 per cent of the total auditable units. The details are shown in the **Table 1.7.1** below:

Table 1.7.1
Details of units audited

Department	Number of units		
	Auditable during the year 2013-14	Units planned for audit during 2013-14	Units audited during 2013-14
Commercial Taxes	195	168	181
SD&RF	145	132	132
Motor Vehicles Taxes	54	51	51
Land Revenue	89	42	42
State Excise	40	18	18
Mineral Receipts	17	14	14
Chief Electrical Inspectorate	11	1	1
Total	551	426	439

Besides the compliance audit mentioned above, two performance audits were also taken up during the year. One performance audit was taken up to examine the efficacy of the tax administration on works contract receipts and the other performance audit was taken up to examine efficacy of the Mojini application system used in land records management.

1.8 Results of audit

Position of local audit conducted during the year

Test check of the records of 439 units of sales tax/Value Added Tax, State Excise, Motor Vehicles, Goods and Passengers, and other Departmental offices conducted during the year 2013-14 showed under assessment/ short levy/ loss of revenue aggregating ₹ 380.22 crore in 1,425 cases. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 69.64 crore involved in 210 cases which were pointed out in audit during 2013-14. The Departments collected ₹ 23.47 crore in 586 cases during 2013-14, pertaining to the audit findings of previous years.

1.9 Coverage of this Report

This Report contains 26 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports) including two performance audit on Assessment, levy and collection of VAT and entry tax on works contract receipts and Information System audit of Mojini, involving financial effect of ₹ 184.18 crore.

The Departments/ Government have accepted audit observations involving ₹ 6.95 crore out of which ₹ 1.68 crore had been recovered. The replies in the remaining cases had not been received (October 2014). These are discussed in succeeding Chapters II to V.