

Chapter-I General

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2015-16, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-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	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Revenue raised by the State Government					
	• Tax revenue	46,475.96	53,753.55	62,603.53	70,180.21	75,550.18
	• Non-tax revenue	4,086.86	3,966.11	4,031.90	4,688.24	5,355.04
	Total	50,562.82	57,719.66	66,635.43	74,868.45	80,905.22
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ¹	11,075.04	12,647.14	13,808.28	14,654.25	23,983.34
	• Grants-in-aid	8,168.41	7,809.42	9,098.82	14,619.45	13,928.75
	Total	19,243.45	20,456.56	22,907.10	29,273.70	37,912.09
3.	Total revenue receipts of the State Government (1 and 2)	69,806.27	78,176.22	89,542.53	1,04,142.15	1,18,817.31
4.	Percentage of 1 to 3	72	74	74	72	68

The above table indicates that during the year 2015-16, the revenue raised by the State Government (₹ 80,905.22 crore) was 68 per cent of the total revenue receipts. The balance 32 per cent of the receipts during 2015-16 was from the Government of India.

1.1.2 The details of the tax revenue raised during the period 2011-12 to 2015-16 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, 0028-Other Taxes on Income and Expenditure-Minor head-901 and 0045-Other taxes and Duties on Commodities and Services-Minor head-901 as Share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2015-16, 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)											
		2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+)/ decrease (-) in 2015-16 over 2014-15	
		BE	Actual	BE	Actual								
1.	Taxes on sales, trade etc.	24,170.00	25,020.02	27,735.00	28,414.44	33,590.00	33,719.35	37,250.00	38,286.03	41,329.00	40,448.63	10.95	5.65
2.	State Excise	9,115.00	9,775.43	10,775.00	11,069.73	12,600.00	12,828.36	14,430.00	13,801.08	15,200.00	15,332.88	5.34	11.10
3.	Stamp Duty and Registration Fees	4,030.00	4,623.20	5,200.00	5,225.02	6,500.00	6,188.76	7,450.00	7,025.85	8,200.00	8,214.71	10.07	16.92
4.	Taxes on Vehicles	2,630.00	2,956.72	3,350.00	3,829.52	4,120.00	3,911.50	4,350.00	4,541.57	4,800.00	5,001.69	10.34	10.13
5.	Others	3,872.09	4,100.59	4,760.69	5,214.84	5,653.99	5,955.56	6,389.75	6,525.68	6,916.39	6,552.27	8.24	0.41
Total		43,817.09	46,475.96	51,820.69	53,753.55	62,463.99	62,603.53	69,869.75	70,180.21	76,445.69	75,550.18	9.41	7.65

BE = Budget Estimates

1.1.3 The details of the non-tax revenue raised during the period 2011-12 to 2015-16 are indicated in **Table 1.1.3**.

Table 1.1.3
Details of Non-tax revenue raised

Sl. No.	Head of revenue	(₹ in crore)											
		2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+)/ decrease (-) in 2015-16 over 2014-15	
		BE	Actual	BE	Actual								
1	Non-ferrous mining and metallurgical Industries	1,500.00	1,326.84	1,500.00	1,496.49	1,750.00	1,474.49	1,750.00	1,931.10	2,048.15	2,003.80	17.04	3.76
2.	Other Non-tax receipts	2,174.79	2,760.02	1,692.82	2,469.62	2,288.28	2,557.41	2,723.43	2,757.14	3,158.02	3,351.24	15.96	21.55
Total		3,674.79	4,086.86	3,192.82	3,966.11	4,038.28	4,031.90	4,473.43	4,688.24	5,206.17	5,355.04	16.38	14.22

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2016 on some principal heads of revenue amounted to ₹ 12,458.06 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 2016	Replies of Department
1.	0030 (Stamp Duty)	82.91	NF
2.	0039 (State Excise)	827.81	Out of the total arrears, ₹ 78.18 crore was stayed by courts, ₹ 387.66 crore was covered by Revenue Recovery Certificates and recovery is in progress in the remaining ₹ 361.97 crore.

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Replies of Department
3.	0040 (Taxes on sales, trade etc.)	10,791.81	Out of the total arrears, ₹ 1,151.68 crore was stayed by courts, ₹ 140.20 crore was before BIFR ² , ₹ 199.89 crore was under liquidation process, ₹ 90.42 crore was covered by Revenue Recovery Certificates, ₹ 9,016.18 crore was under Court and Departmental recovery, write off proposals were made for ₹ 58.74 crore and payments of ₹ 134.70 crore received were under verification.
4.	0853(Non-ferrous mining and metallurgical Industries)	755.53	NF
Total		12,458.06	

NF : Not Furnished

Details of arrears of revenue, if any, by Energy, Transport and Revenue Departments, though called for (May 2016) had not been received (December 2016).

1.3 Evasion of tax detected by the department

The details of cases of evasion of tax detected by the Transport, State Excise and Commercial Taxes Departments (CTD) are given in **Table 1.3**.

Table-1.3
Evasion of tax

Sl. No.	Head of revenue	Cases pending as on 31 March 2015	Cases detected during 2015-16	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 2016
					Number of cases	Amount of demand	
1.	0039 (State Excise)	02	0	02	0	0	02
2.	0041 (Taxes on vehicles)	06	0	06	4	0.68	02
3.	0040 (Taxes on sales, trade etc.)	5,283	25,357	30,640	24,827	122.64	5,813

As seen from the above, though majority of cases detected have been settled in CTD, a significant number of cases are still outstanding at the end of the year. Early action may be taken by CTD to conclude these cases in the interest of revenue.

Details of frauds and evasions detected, if any, by Energy and Revenue Departments, though called for (May 2016) had not been received (December 2016). The Department of Mines and Geology and Department of Stamps and Registration have reported that no such cases have been detected.

² Board for Industrial and Financial Reconstruction.

1.4 Pendency of refund cases

The number of refund cases pending at the beginning of the year, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2015-16 as reported by the Commercial Taxes Department is given in **Table 1.4**.

Table-1.4
Details of pendency of refund cases

Sl. No.	Particulars	2015-16 (₹ in crore)	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	264	135.03
2.	Claims received during the year	4,603	1,007.53
3.	Refunds made during the year	3,549	860.13
4.	Balance outstanding at the end of year	1,318	282.43

Details of pendency of refunds cases, if any, by Energy, Transport, Revenue and Mines and Geology Departments, though called for (May 2016), had not been received (December 2016). The State Excise and Stamps and Registration Departments reported that no refund cases were pending.

1.5 Response of the Government/Departments towards Audit

Accountant General (Economic and Revenue Sector Audit) (AG) conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of the important accounts and 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 AG within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

For 4,443 IRs (issued up to December 2015) 9,305 paragraphs involving ₹ 2,162.61 crore remained outstanding at the end of June 2016. The details along with the corresponding figures for the preceding two years have been given in the **Table 1.5**.

Table 1.5
Details of pending Inspection Reports

	June 2014	June 2015	June 2016
Number of IRs pending for settlement	4,114	4,022	4,443
Number of outstanding audit observations	8,753	9,573	9,305
Amount of revenue involved (₹ in crore)	1,851.83	2,061.05	2,162.61

1.5.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amounts involved are given 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	(₹ in crore)
					Money value involved
1.	Finance	Commercial Taxes	2,174	5,120	411.37
2.		State Excise	564	860	382.00
3.	Revenue	Land Revenue	399	889	280.39
4.		Stamp Duty and Registration Fees	748	1,363	356.21
5.	Transport	Taxes on Motor Vehicles	385	608	47.82
6.	Commerce and Industries	Mineral receipts	164	447	679.80
7.	Energy	Electricity tax	9	18	5.02
Total			4,443	9,305	2,162.61

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 346 out of 460 IRs issued during 2015-16. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

The Government may consider having an effective system for prompt and appropriate response to audit observations to ensure timely realisation of revenue due to the Government exchequer.

1.5.2 Departmental Audit Committee (DAC) meetings

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

The Department-wise number of DAC meetings held and paragraphs settled during the year 2015-16 are 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	(₹ in lakh)
			Money value
Commercial Taxes	04	205	784.01
Stamps and Registration	01	210	1,189.82
Land Revenue	04	128	1,536.61
State Excise	01	56	294.29

DAC Meetings were not convened by two Departments viz. Transport and 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 Offices to enable them to keep the relevant records ready for audit scrutiny.

During the year 2015-16 as many as 679 assessment files, returns, refunds, registers and other relevant records were not made available to Audit. Break up of these cases is given in **Table 1.5.3**.

Table 1.5.3
Details of non-production of records

Name of the Office/Department	Number of records not produced to audit
Commercial Taxes Department	504
State Excise Department	01
Department of Land Revenue	151
Transport Department	14
Department of Mines and Geology	06
Department of Stamps and Registration	03
Total	679

1.5.4 Response of the Departments to the draft audit paragraphs

Draft Paragraphs/Performance Audit Reports proposed for inclusion in the Audit Report are forwarded by the Accountant General to Additional Chief Secretaries / Principal Secretaries / Secretaries of the Departments concerned through demi-official letters. According to the instructions issued (April 1952) by the Government, all Departments are required to furnish their replies on the Draft Paragraphs/Performance Audit Reports within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Seventeen draft paragraphs (including two Performance Audits and one Compliance Audit) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2016 were forwarded to the Additional Chief Secretaries / Principal Secretaries / Secretaries to the Government and copies endorsed to the heads of Departments concerned between May and October 2016.

Replies for nine draft paragraphs have been received from the Heads of the Departments of Commercial Taxes, Stamps and Registration, Transport and Mines and Geology. In respect of Performance Audits, Exit Conferences were held with the Government (October 2016) and detailed replies are received from the Departments concerned. Replies to the remaining six draft paragraphs relating to Revenue, Transport and Mines and Geology Departments have not been received (December 2016).

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 detailed explanations (departmental notes) on the audit paragraphs to the Karnataka Legislative Assembly Secretariat 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 Accountant General.

180 paragraphs (including Performance Audits) were 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 2011, 2012, 2013, 2014 and 2015 and one stand-alone report relating to the Department of Mines and Geology was placed before the State Legislature Assembly between March 2012 and March 2016.

As of September 2016, out of 180 paragraphs, departmental notes for 48 paragraphs have been received within the due date. However, departmental notes from the departments concerned on 75 paragraphs were received belatedly, with average delay being nine months. Further, the departmental notes on the remaining 57 paragraphs from seven Departments (Commercial Taxes, Land Revenue, Stamps and Registration, State Excise, Transport, Chief Electrical Inspectorate and Mines and Geology) have not been received (December 2016).

This indicates that more proactive 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 Transport Department³ 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 2005-06 to 2014-15.

³ under revenue head 0041.

1.6.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2016 are tabulated below in **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.	2006-07	294	301	44.66	49	154	4.71	55	77	3.70	288	378	45.66
2.	2007-08	288	378	45.66	46	172	10.58	36	98	4.89	298	452	51.36
3.	2008-09	298	452	51.36	55	219	32.09	45	126	13.27	308	545	70.18
4.	2009-10	308	545	70.18	52	189	14.49	39	102	5.32	321	632	79.35
5.	2010-11	321	632	79.35	57	215	74.29	24	49	30.33	354	798	123.31
6.	2011-12	354	798	123.31	30	128	2.01	22	63	1.50	362	863	123.82
7.	2012-13	362	863	123.82	71	240	8.91	27	143	78.83	406	960	53.90
8.	2013-14	406	960	53.90	48	250	20.54	24	97	7.19	430	1,113	67.26
9.	2014-15	430	1,113	67.26	43	81	4.26	16	98	25.29	457	1,096	46.22
10.	2015-16	457	1,096	46.22	35	88	3.11	9	46	1.48	483	1,138	47.85

During the year 2015-2016, no DAC meetings were held by the Transport Department for settlement of IRs / paragraphs.

During regular inspection of offices, the pending IRs/paragraphs are reviewed on spot after obtaining compliance. Settlements of IRs/paragraphs are also made on receipt of compliance from the Department.

1.6.2 Recovery in accepted cases

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

Table 1.6.2
Recovery in accepted cases

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year 2015-16	Cumulative position of recovery of accepted cases as of 31-03-2016
2005-06	01	0.05	01	0.32	-	0.32
2006-07	03	2.00	03	1.92	-	0
2007-08	04	1.40	04	1.39	-	0.17
2008-09	04	1.35	04	1.35	0.09	0.83
2009-10	02	0.19	02	0.17	-	0.16
2010-11	03	0.64	02	0.30	-	0.23
2011-12	03	1.20	03	0.81	-	0.43
2012-13	03	3.38	03	3.04	-	2.86
2013-14	02	1.63	02	1.63	0.08	0.55
2014-15	04	303.51	04	292.56	-	0

As seen from the table above, the percentage of recovery by the Department in accepted cases for the years 2005-06 to 2013-14 is 50.78 *per cent*. However, during the year 2015-16, the Department has not reported any recovery in respect of the accepted cases except for the years 2008-09 and 2013-14. The Department may take immediate action to pursue recovery of the dues involved in accepted cases.

1.7 Audit planning

The Auditable Units under various Departments are categorised 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 includes 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 2015-16, there were 1,227 auditable units, of which 459 units were planned and 460 units had been audited, which is 37.41 *per cent* of the total auditable units. The details are shown in the **Table 1.7.1**.

Table 1.7.1
Details of units audited

Department	Number of units		
	Auditable Units during the year 2015-16	Units planned for audit during 2015-16	Units audited during 2015-16
Commercial Taxes	416	152	152
Stamp Duty and Registration Fees	283	102	103
Motor Vehicles Taxes	81	45	45
Land Revenue	253	92	92
State Excise	129	40	40
Mineral Receipts	34	18	18
Chief Electrical Inspectorate	31	10	10
Total	1,227	459	460

Besides the audit of units mentioned above, two Performance Audits were also taken up during the year on the 'Administration of Minor Taxes in Commercial Taxes Department' by Commercial Taxes Department and 'Adequacy of controls to prevent loss of Stamp Duty and Registration Fees' by Stamps and Registration Department along with an Audit on the 'Working of Departmental Statutory Action in Motor Vehicles Department'.

1.8 Results of audit

Position of local audit conducted during the year

Test check of the records of 460 units of Sales Tax/Value Added Tax, State Excise, Taxes on Motor Vehicles, Stamps and Registration Fee, Land Revenue and other Departmental offices conducted during the year 2015-16 showed under assessment / short levy / loss of revenue aggregating ₹ 1,220.57 crore in cases pointed out through 1,385 paragraphs. During the course of the year, the

Departments concerned accepted under assessment and other deficiencies of ₹ 48.04 crore raised through 276 paragraphs during 2015-16 and the Departments also recovered ₹ 19.76 crore in cases pointed out through eight paragraphs. The Departments collected ₹ 38.78 crore pointed out in 840 paragraphs during 2015-16, pertaining to the audit findings of previous years.

1.9 Coverage of this Report

This Report contains 17 paragraphs selected from the audit observations made during the local audit referred to above and during earlier years, (which could not be included in earlier reports) including the two Performance Audits and one Compliance Audit involving financial effect of ₹ 1,017.45 crore.

The Departments/Government have accepted audit observations involving ₹ 33.72 crore out of which ₹ 21.07 crore had been recovered. The replies in the remaining cases had not been received (December 2016). These are discussed in succeeding Chapters II to VI.