

Chapter –I General

1.1 Trends of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2014-15, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-aid received from 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	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Revenue raised by the State Government					
	• Tax revenue	38,473.12	46,475.96	53,753.55	62,603.53	70,180.21
	• Non-tax revenue	3,358.29	4,086.86	3,966.11	4,031.90	4,688.24
	Total	41,831.41	50,562.82	57,719.66	66,635.43	74,868.45
2.						
	• Share of net proceeds of divisible Union taxes and duties ¹	9,506.32	11,075.04	12,647.14	13,808.28	14,654.25
	• Grants-in-aid	6,868.51	8,168.41	7,809.42	9,098.82	14,619.45
	Total	16,374.83	19,243.45	20,456.56	22,907.10	29,273.70
3.	Total revenue receipts of the State Government (1 and 2)	58,206.23	69,806.27	78,176.22	89,542.53	1,04,142.15
4.	Percentage of 1 to 3	72	72	74	74	72

The above table indicates that during the year 2014-15, the revenue raised by the State Government (₹ 74,868.45 crore) was 72 per cent of the total revenue receipts. The balance 28 per cent of the receipts during 2014-15 was from the Government of India.

1.1.2 The details of the tax revenue raised during the period 2010-11 to 2014-15 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 2014-15, 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)											
		2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+)/ decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual								
1.	Taxes on sales, trade etc.	20,160.00	20,234.69	24,170.00	25,020.02	27,735.00	28,414.44	33,590.00	33,719.35	37,250.00	38,286.03	10.90	13.54
2.	State Excise	7,425.00	8,284.74	9,115.00	9,775.43	10,775.00	11,069.73	12,600.00	12,828.36	14,430.00	13,801.08	14.52	7.58
3.	Stamps Duty	3,500.00	3,531.08	4,030.00	4,623.20	5,200.00	5,225.02	6,500.00	6,188.76	7,450.00	7,025.85	14.62	13.53
4.	Taxes on Vehicles	2,050.00	2,550.02	2,630.00	2,956.72	3,350.00	3,829.52	4,120.00	3,911.50	4,350.00	4,541.57	5.58	16.11
5.	Others	3,093.31	3,872.59	3,872.09	4,100.59	4,760.69	5,214.84	5,653.99	5,955.56	6,389.75	6,525.68	13.01	9.57
	Total	36,228.31	38,473.12	43,817.09	46,475.96	51,820.69	53,753.55	62,463.99	62,603.53	69,869.75	70,180.21	11.86	12.10

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

Table 1.1.3 - Details of Non-tax revenue raised

Sl. No.	Head of revenue	(₹ in crore)											
		2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+)/ decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Non – ferrous mining and metallurgical Industries	1,000.00	1,185.96	1,500.00	1,326.84	1,500.00	1,496.49	1,750.00	1,474.49	1,750.00	1931.10	0.00	30.97
2.	Other Non-tax receipts	1,819.90	2,172.33	2,174.79	2,760.02	1692.82	2469.62	2,288.28	2,557.41	2,723.43	2757.14	19.02	7.81
	Total	2,819.90	3,358.29	3,674.79	4,086.86	3,192.82	3,966.11	4,038.28	4,031.90	4,473.43	4688.24	10.78	16.28

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 on some principal heads of revenue amounted to ₹ 6,704.90 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 2015	Replies of Department
1.	0030	83.27	NF
2.	0039	808.59	Out of the total arrears, ₹ 75.07 crore was stayed by courts, ₹ 303.87 crore was covered by Revenue Recovery Certificates.
3.	0040	5,813.04	Out of the total arrears, ₹ 1,019.61 crore was stayed by courts, ₹ 156.46 crore was before BIFR ² , ₹ 191.64 crore was under liquidation process, ₹ 137.74 crore was covered by Revenue Recovery Certificates, ₹ 3,671.20 crore was covered by Departmental recovery, write off proposals were made for ₹ 57.33 crore and payments of ₹ 136.76 crore received were under verification.
Total		6,704.90	

NF : Not Furnished

1.3 Evasion of tax detected by the department

The details of cases of evasion of tax detected by the Transport and State Excise Departments are given in **Table 1.3**.

Table 1.3
Evasion of tax

(₹ in crore)

Sl. No.	Head of revenue	Cases pending as on 31 March 2014	Cases detected during 2014-15	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2015
					Number of cases	Amount of demand	
1.	0039	02	0	02	0	0	02
2.	0041	04	02	06	0	0	06

As seen from the above, there has been no improvement in the clearance of cases of evasion of tax. Early action may be taken by the Departments to conclude these cases in the interest of revenue.

Details of frauds and evasions detected, if any, by Commercial Taxes, Energy and Revenue Departments, though called for (July 2015) had not been received (November 2015). The Department of Mines and Geology 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 for the years 2013-14 and 2014-15 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	2014-15	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,423	241.68
2.	Claims received during the year	5,761	1616.39
3.	Refunds made during the year	6,079	1427.95
4.	Balance outstanding at the end of year	1,105	430.12

1.5 Response of the Government/Departments towards Audit

Accountant General (Economic & 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 4,022 Inspection Reports (issued up to December 2014), 9,573 paragraphs involving ₹ 2,061.05 crore remained outstanding at the end of June 2015. 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 2013	June 2014	June 2015
Number of IRs pending for settlement	3,363	4,114	4,022 ³
Number of outstanding audit observations	7,283	8,753	9,573
Amount of revenue involved (₹ in crore)	1,550.33	1,851.83	2,061.05

1.5.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amounts involved are given below in **Table 1.5.1**.

³ Inclusive of Land Revenue Offices which were brought under Revenue Sector Audit with effect from 1 July 2013

Table 1.5.1
Department-wise details of IRs

(₹ in crore)					
Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Finance	Commercial taxes	1,657	4,894	443.34
2.		State excise	589	900	374.36
3.	Revenue	Land Revenue	533	1,403	314.69
4.		Stamps and Registration fees	704	1,351	360.69
5.	Transport	Taxes on motor vehicles	379	607	59.56
6.	Commerce and Industries	Mineral receipts	154	404	503.92
7.	Energy	Electricity tax	6	14	4.49
Total			4,022	9,573	2,061.05

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 358 out of the 459 IRs issued during 2014-15. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG 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 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 Departmental Audit Committee meetings held and paragraphs settled during the year 2014-15 were as given in **Table 1.5.2**.

Table 1.5.2
Details of Departmental audit committee meetings

(₹ in lakh)			
Department	No. of meetings held	No. of paragraphs settled	Money value
Commercial Taxes	05	205	345.05
Land Revenue	02	157	1554.64
State Excise	01	63	499.39
Motor Vehicle Taxes	01	28	91.06

The number of meetings held and progress of settlement of paragraphs was negligible as compared to the huge pendency of the IRs and paragraphs. Audit

committee meetings were not convened by three Departments viz. Stamps and Registration, Energy 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 2014-15 as many as 621 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.	528
State Excise	21
Land Revenue	49
Motor Vehicles Tax	13
Mines and Geology	10
Total	621

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 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.

Thirty two Draft Paragraphs (including two Performance Audits) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2015 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 September 2015.

Replies for 30 Draft paragraphs have been received from the Heads of the Departments of Commercial Taxes, State Excise, Transport, Stamps and Registration, Revenue and Mines and Geology. In respect of Performance Audits, Exit Conferences were held with the Government (October 2015) for discussing audit findings.

Government replies to 30 Draft paragraphs pertaining to Commercial Taxes Department, State Excise Department, Transport Department and Revenue Department have been received. Replies to the remaining two draft paragraphs have not been received from the Government (November 2015).

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 required 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.

175 paragraphs (including Performance Audits) 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 2010, 2011, 2012, 2013 and 2014 and one stand-alone report relating to Department of the Mines and Geology were placed before the State Legislative Assembly between March 2011 and February 2015.

As of November 2015, departmental notes from the Departments concerned on 130 of these paragraphs were received belatedly, with an average delay of nine months. The departmental notes on the remaining 45 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 (November 2015).

This indicates that more proactive action is required from the Executive to pursue the important issues highlighted in the Audit Reports. This would also help them in collection of unrealised revenue and improved governance.

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 Stamps and Registration Department⁴ 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 2004-05 to 2013-14.

1.6.1 Position of Inspection Reports

The summarised position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2015 are tabulated below in **Table -1.6.1**.

⁴ under revenue head 0030.

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.	2005-06	253	602	60.99	107	151	2.30	63	131	4.77	297	622	58.53
2.	2006-07	297	622	58.53	64	69	1.89	33	90	5.10	328	601	55.33
3.	2007-08	328	601	55.33	31	47	1.51	12	27	0.49	347	621	56.35
4.	2008-09	347	621	56.35	59	57	64.38	13	22	0.18	393	656	120.56
5.	2009-10	393	656	120.56	108	135	141.19	04	30	0.14	497	761	261.61
6.	2010-11	497	761	261.61	104	108	95.04	23	68	1.00	578	801	355.66
7.	2011-12	578	801	355.66	143	285	7.34	73	120	1.06	648	966	361.93
8.	2012-13	648	966	361.93	113	328	14.24	30	82	1.27	731	1212	374.90
9.	2013-14	731	1212	374.90	132	350	43.51	156	462	16.63	707	1100	401.77
10.	2014-15	707	1100	401.77	134	375	19.41	37	121	0.62	804	1354	420.57

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 of accepted cases

(₹ 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 2014-15	Cumulative position of recovery of accepted cases as of 31-03-2015
2004-05	-	-	-	-	-	-
2005-06	05	100.75	05	46.38	0	-
2006-07	03	31.26	01	0.35	0	-
2007-08	02	2.44	01	0.03	0	0.03
2008-09	06	325.83	06	283.04	0	14.13
2009-10	07	16.49	07	12.03	0	0.15
2010-11	05	3.22	03	7.25	0	0.56
2011-12	06	2.39	05	1.21	0	0.03
2012-13	08	18.89	02	0.06	0	0.06
2013-14	05	3.84	04	0.96	0.94	0.94

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 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 2014-15, there were 1,218 auditable units, of which 456 units were planned and 459 units had been audited, which is 37.68 *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 Units during the year 2014-15	Units planned for audit during 2014-15	Units audited during 2014-15
Commercial Taxes	416	168	168
Stamp duty and Registration fee	283	132	133
Motor Vehicles Taxes	76	51	52
Land Revenue	253	60	60
State Excise	125	30	30
Mineral Receipts	34	14	15
Chief Electrical Inspectorate	31	1	1
Total	1,218	456	459

Besides the compliance audit mentioned above, two Performance Audits were also taken up during the year on the 'Levy and Collection of Motor Vehicles Taxes' by Transport Department and 'Computerisation of the Department of Mines and Geology'.

1.8 Results of audit

Position of local audit conducted during the year

Test check of the records of 459 units of sales tax/Value Added Tax, State Excise, Motor Vehicles, Goods and Passengers, and other Departmental offices conducted during the year 2014-15 showed under assessment/ short levy/loss of revenue aggregating ₹ 331.99 crore in 1,471 cases. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 51.21 crore involved in 469 cases which were pointed out in audit during 2014-15 and the Departments also recovered ₹ 2.22 crore involved in 57 cases. The Departments collected ₹ 31.89 crore in 510 cases during 2014-15, pertaining to the audit findings of previous years.

1.9 Coverage of this Report

This Report contains 31 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, involving financial effect of ₹ 337.65 crore.

The Departments/Government have accepted audit observations involving ₹ 20 crore out of which ₹ 4.61 crore had been recovered. The replies in the remaining cases had not been received (November 2015). These are discussed in succeeding Chapters II to VII.