

## CHAPTER-I : GENERAL

### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Karnataka during the year 2010-11, the State's share of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(` in crore)

| Sl. No.     | Particulars                                   | 2006-07          | 2007-08          | 2008-09          | 2009-10          | 2010-11               |
|-------------|---|------------------|------------------|------------------|------------------|-----------------------|
| <b>I.</b>   | <b>Revenue raised by the State Government</b> |                  |                  |                  |                  |                       |
|             | • Tax revenue                                 | 23,301.03        | 25,986.76        | 27,645.66        | 30,578.60        | 38,473.12             |
|             | • Non-tax revenue                             | 4,098.41         | 3,357.66         | 3,158.99         | 3,333.80         | 3,358.29              |
|             | <b>Total</b>                                  | <b>27,399.44</b> | <b>29,344.42</b> | <b>30,804.65</b> | <b>33,912.40</b> | <b>41,831.41</b>      |
| <b>II.</b>  | <b>Receipts from the Government of India</b>  |                  |                  |                  |                  |                       |
|             | • State's share of divisible Union taxes      | 5,374.33         | 6,779.23         | 7,153.77         | 7,359.98         | 9,506.32 <sup>1</sup> |
|             | • Grants-in-aid                               | 4,813.17         | 5,027.49         | 5,332.25         | 7,883.32         | 6,868.51              |
|             | <b>Total</b>                                  | <b>10,187.50</b> | <b>11,806.72</b> | <b>12,486.02</b> | <b>15,243.30</b> | <b>16,374.83</b>      |
| <b>III.</b> | <b>Total receipts of the State</b>            | <b>37,586.94</b> | <b>41,151.14</b> | <b>43,290.67</b> | <b>49,155.70</b> | <b>58,206.23</b>      |
| <b>IV.</b>  | <b>Percentage of I to III</b>                 | <b>73</b>        | <b>71</b>        | <b>71</b>        | <b>69</b>        | <b>72</b>             |

The above table indicates that during the year 2010-11, the revenue raised by the State Government (` 41,831.41 crore) was 72 *per cent* of the total revenue receipts against 69 *per cent* in the preceding year. The balance 28 *per cent* of receipts during 2010-11 were from the Government of India.

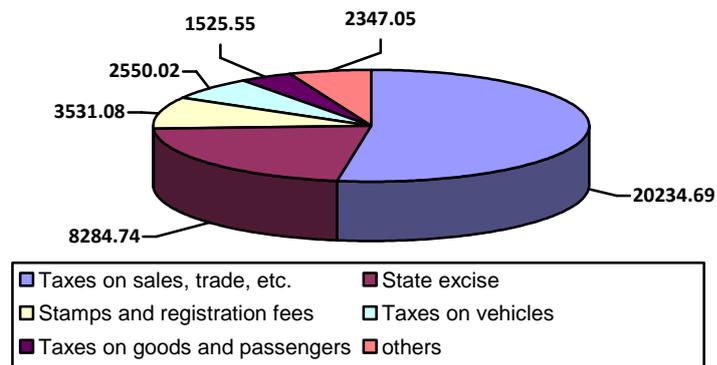
<sup>1</sup> Figures under the major heads of account 0020 Corporation Tax, 0021 Taxes on Income other than Corporation Tax, 0028 Other Taxes on Income and Expenditure, 0032 Taxes on Wealth, 0037 Customs, 0038 Union Excise Duties, 0044 Service Tax and 0045 Other Taxes and Duties on Commodities and Services – Minor head 901 – Share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2010-11, 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.

1.1.2 The following table presents the details of tax revenue realised during the period from 2006-07 to 2010-11:

(` in crore)

| Sl. No.      | Head of revenue                                    | 2006-07          | 2007-08          | 2008-09          | 2009-10          | 2010-11          | Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10 |
|--------------|--|------------------|------------------|------------------|------------------|------------------|--|
| 1.           | Taxes on sales, trade, etc.                        | 11,761.72        | 13,893.99        | 14,622.73        | 15,832.67        | 20,234.69        | (+) 27.80  |
| 2.           | State excise                                       | 4,495.48         | 4,766.57         | 5,749.57         | 6,946.32         | 8,284.74         | (+) 19.27  |
| 3.           | Stamps and registration fees                       | 3,205.80         | 3,408.83         | 2,926.72         | 2,627.57         | 3,531.08         | (+) 34.38  |
| 4.           | Taxes on Vehicles                                  | 1,374.50         | 1,650.13         | 1,681.16         | 1,961.60         | 2,550.02         | (+) 29.99  |
| 5.           | Taxes on Goods and Passengers                      | 1,147.20         | 837.34           | 1,085.02         | 1,291.13         | 1,525.55         | (+) 18.15  |
| 6.           | Taxes and duties on Electricity                    | 388.57           | 449.50           | 370.59           | 678.69           | 663.49           | (-) 2.23   |
| 7.           | Other taxes on income and expenditure              | 392.58           | 451.37           | 538.79           | 527.21           | 549.74           | (+) 4.27   |
| 8.           | Other taxes and duties on commodities and services | 425.05           | 380.68           | 406.15           | 576.83           | 946.95           | (+) 64.16  |
| 9.           | Land Revenue                                       | 108.76           | 145.31           | 255.65           | 127.88           | 177.53           | (+) 38.82  |
| 10.          | Taxes on agricultural income                       | 1.37             | 3.04             | 9.28             | 8.70             | 9.33             | (+) 7.24   |
| <b>Total</b> |  | <b>23,301.03</b> | <b>25,986.76</b> | <b>27,645.66</b> | <b>30,578.60</b> | <b>38,473.12</b> | <b>(+) 25.81</b>   |

Graph 1: Tax Revenue 2010-11  
(Rupees in crore)



The following reasons for variations were reported by the concerned Departments:

**Taxes on Sales, Trade etc:** The increase was attributed to increase in rate of tax and better compliance due to e-administration.

**State Excise:** The increase was attributed to increase in sales.

**Stamps and Registration Fees:** The increase was attributed to increase in registration of documents.

**Taxes and Duties on Electricity:** The tax payable in 2008-09 was paid during 2009-10. Hence the variation in 2010-11 is not due to actual decrease.

The other Departments did not inform (January 2012) the reasons for variation, although called for (June 2011).

**1.1.3** The following table presents the details of major non-tax revenue realised during the period 2006-07 to 2010-11:

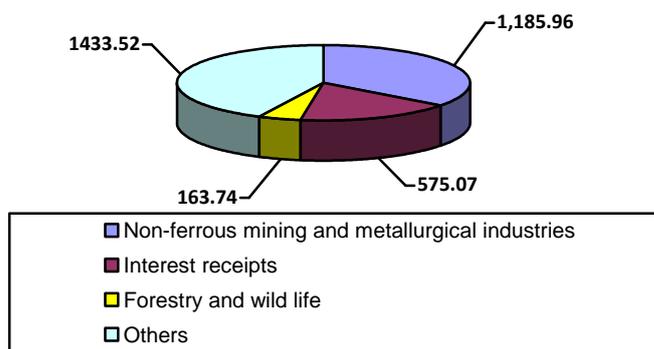
(` in crore)

| Sl. No.      | Head of revenue   | 2006-07         | 2007-08         | 2008-09         | 2009-10         | 2010-11                 | Percentage of increase(+)/ decrease (-) in 2010-11 over 2009-10 |
|--------------|---|-----------------|-----------------|-----------------|-----------------|-------------------------|---|
| 1.           | Non-ferrous mining and metallurgical industries                             | 366.29          | 472.35          | 556.07          | 859.50          | 1,185.96                | (+) 37.98   |
| 2.           | Interest receipts   | 376.19          | 375.24          | 337.17          | 383.86          | 575.07                  | (+) 49.81   |
| 3.           | Forestry and wild life  | 127.97          | 131.84          | 126.92          | 212.48          | 163.74                  | (-) 22.93   |
| 4.           | Contributions and recoveries towards pensions and other retirement benefits | 27.47           | 29.08           | 76.20           | 69.07           | 54.74                   | (-) 20.74   |
| 5.           | Other administrative services   | 101.34          | 79.60           | 94.37           | 99.29           | 104.20                  | (+) 4.94  |
| 6.           | Education, sports, art and culture  | 65.00           | 74.93           | 73.56           | 95.85           | 127.83                  | (+) 33.36   |
| 7.           | Medical and public health   | 39.54           | 52.77           | 40.52           | 54.67           | 121.29                  | (+) 121.85  |
| 8.           | Police receipts   | 52.91           | 58.84           | 69.82           | 82.13           | 105.90                  | (+) 28.94   |
| 9.           | Other general economic services   | 407.92          | 443.25          | 432.47          | 462.65          | 596.05                  | (+) 28.83   |
| 10.          | Co-operation  | 30.13           | 33.14           | 37.30           | 46.62           | 51.47                   | (+) 10.40   |
| 11.          | Village and small industries  | 39.46           | 35.30           | 36.65           | 50.41           | 86.19                   | (+) 70.97   |
| 12.          | Public works  | 31.32           | 21.75           | 18.81           | 25.27           | 20.12                   | (-) 20.37   |
| 13.          | Roads and bridges   | 24.18           | 14.05           | 36.71           | 32.46           | 61.07                   | (+) 88.13   |
| 14.          | Major and medium irrigation   | 21.48           | 19.69           | 22.11           | 16.57           | 20.65                   | (+) 24.62   |
| 15.          | Dividends and profits   | 19.48           | 23.40           | 40.14           | 29.48           | 43.44                   | (+) 47.35   |
| 16.          | Housing   | 11.49           | 15.51           | 20.69           | 20.55           | 23.02                   | (+) 12.01   |
| 17.          | Crop husbandry  | 12.92           | 14.04           | 15.69           | 9.96            | 13.03                   | (+) 30.82   |
| 18.          | Miscellaneous general services  | 1,892.46        | 468.20          | 398.92          | 548.35          | (-) 205.02 <sup>2</sup> | (-) 137.38  |
| 19.          | Others <sup>3</sup>   | 450.86          | 994.68          | 724.87          | 234.63          | 209.54                  | (-) 10.69   |
| <b>Total</b> |   | <b>4,098.41</b> | <b>3,357.66</b> | <b>3,158.99</b> | <b>3,333.80</b> | <b>3,358.29</b>         | <b>(+) 0.73</b>   |

<sup>2</sup> Waiver of debt of ` 35,832.47 lakh granted to Government of Karnataka during 2008-09 has been withdrawn and the amount recovered during the year 2010-11. The recovery has been adjusted by debiting the Major Head "0075 – Miscellaneous General Services" per contra credit to "6004 Loans and Advances from the Central Government". Hence the minus figure.

<sup>3</sup> Public Service Commission, Jails, Stationery & Printing, Family Welfare, Water supply and sanitation, Housing, Urban development, Power, Labour & Employment, Civil Aviation, Food Storage and Warehousing, Social Security and Welfare, Stationary and Printing, Ports and Light Houses, Shipping, Minor Irrigation, Other Social Services, Fisheries, Animal Husbandry, Industries, Other Rural Development Programmes, Tourism, Information & Publicity, Inland Water Transport, Civil Supplies, Land Reforms, Family Welfare, Other Agricultural Programmes etc.

Graph 2: Non tax revenue 2010-11  
(Rupees in crore)



The following reasons for variations were reported by the concerned Departments:

**Co-operation:** The increase was attributed to increase in the number of licences and renewals.

**Police:** The increase was attributed to increase in the NOC fees.

**Mines and Geology:** The increase was attributed to auction of seized iron ore and increase of royalty rates.

## 1.2 Response of the Departments/Government towards audit

The Accountant General (Works, Forests & Receipt Audit), Karnataka (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 inspection and not settled on the spot, which 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 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 the IRs. Serious financial irregularities are reported to the Heads of the Departments and the Government.

### 1.2.1 Outstanding IRs and audit observations

IRs issued upto December 2010 disclosed that 7610 paragraphs involving ` 2,205.10 crore relating to 3,738 IRs remained outstanding at the end of June 2011 as mentioned below along with the corresponding figures for the preceding two years:

|  | June 2009 | June 2010 | June 2011 |
|--|-----------|-----------|-----------|
| Number of outstanding IRs                | 3,705     | 3,554     | 3,738     |
| Number of outstanding audit observations | 7,028     | 7,106     | 7,610     |
| Amount involved ( ` in crore)            | 1,417.56  | 1,701.48  | 2,205.10  |

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amounts involved are mentioned below:

| Sl. No.      | Department                      | Nature of receipts   | Number of outstanding IRs | Number of outstanding audit observations | Money Value ( ` in crore) |
|--------------|---------------------------------|--|---------------------------|--|---------------------------|
| 1.           | Finance                         | (a) Taxes on sales, trade, etc., entry tax, entertainments tax, luxury tax, professions tax, betting tax and agricultural income tax | 1,445                     | 3,871                                    | 440.41                    |
|              |                                 | (b) State excise   | 604                       | 929                                      | 366.63                    |
| 2.           | Energy                          | Electricity duty   | 7                         | 7  | 41.62                     |
| 3.           | Revenue                         | (a) Land revenue   | 463                       | 720                                      | 146.58                    |
|              |                                 | (b) Stamps and registration fees   | 470                       | 765                                      | 385.74                    |
| 4.           | Home and Transport              | Taxes on motor vehicles  | 362                       | 592                                      | 123.70                    |
| 5.           | Forest, Ecology and Environment | Forest receipts  | 208                       | 291                                      | 390.08                    |
| 6.           | Commerce and Industries         | (a) Sericulture industries receipts  | 44                        | 55                                       | 5.01                      |
|              |                                 | (b) Mineral receipts   | 107                       | 318                                      | 302.60                    |
| 7.           | Public Works                    | Public works receipts  | 28                        | 62                                       | 2.73                      |
| <b>Total</b> |                                 |  | <b>3,738</b>              | <b>7,610</b>                             | <b>2,205.10</b>           |

Even the first replies required to be received from the Heads of the offices within one month from the date of issue of the IRs were not received for 25 IRs issued upto December 2010. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the Heads of the offices and Heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

**We recommend the Government to take suitable steps to install an effective procedure for prompt and appropriate response to the audit observations and take action against officials/officers who fail to take action to recover loss/outstanding demand in a timebound manner.**

### 1.2.2 Adhoc committee meetings

The Government set up 'Adhoc Committees' to expedite the clearance of audit observations contained in the IRs. As per Government instructions, these committees are required to meet periodically and in any case, at least once in a quarter. The details of the adhoc committee meetings held during the year 2010-11 and the paragraphs settled are mentioned in the following table:

| Sl. No. | Department       | Number of meetings held | Number of paragraphs settled | Amount |
|---------|------------------|-------------------------|------------------------------|--------|
| 1.      | Commercial Taxes | 03                      | 277                          | 28.06  |

| Sl. No. | Department   | Number of meetings held | Number of paragraphs settled | Amount       |
|---------|--------------|-------------------------|------------------------------|--------------|
| 2.      | Land Revenue | 04                      | 162                          | 4.66         |
| 3.      | Transport    | 02                      | 46                           | 0.55         |
|         | <b>Total</b> | <b>09</b>               | <b>485</b>                   | <b>33.27</b> |

As seen from the above, only three Departments have convened Adhoc committee meetings. Further, only one Department, viz., Land Revenue has convened Adhoc committee meetings periodically. The Departments concerned have not held any Adhoc committee meetings to discuss the IRs on revenue receipts relating to taxes on electricity, mineral receipts, sericulture, forest receipts, stamps and registration, state excise and public works.

**We recommend that the Government ensure convening of periodical adhoc committee meetings for effective and expeditious settlement of outstanding paragraphs.**

### **1.2.3 Non-production of records to audit for scrutiny**

We prepare the programme of local audit of all the offices planned for audit sufficiently in advance and issue intimations to the Department, usually one month before the commencement of audit, to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11, 682 records relating to 39 offices of Commercial Taxes Department (CTD) were not made available to audit. Out of which, 113 re-assessment files pertaining to 12 Audit offices of the Department were not produced, since they were pending in appeals. In 560 cases, revenue involved was ` 423.13 crore and in the remaining 122 cases, the tax effect was not ascertainable. Further, Cash book (revenue), 13 A Receipts, Form FAC 33, records relating to selection of wood, DCB, repayment of deposits and Register of EMD were not produced by four Deputy Conservators of Forests in the Forest Department. Receipt book accounts, 'A' register, details of exemption of stamp duty relating to industrial policy, surcharge allocation details and remittance register were not produced by two Sub-Registrars in the Department of Stamps and Registration.

**We recommend that the Government/Department issue suitable directions to all its offices for making available all these files as well as for production of all the records to audit at the time of audit itself.**

### **1.2.4 Response of the Departments to draft audit paragraphs**

We forward draft paragraphs/Performance Audits proposed for inclusion in the Audit Report to the Principal Secretaries of the concerned Departments through demi-official letters. According to the instructions issued (April 1952) by the Government, all Departments are required to furnish their remarks on the draft paragraphs/Performance Audits within six weeks of their receipt. We have indicated the fact of non-receipt of replies from the Government at the end of each such paragraph included in the Audit Report.

We forwarded 25 draft paragraphs (including three Performance Audits) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2011 to the

concerned Principal Secretaries to Government with copies endorsed to concerned heads of Departments during March-June 2011.

We received the replies of the Department to 22 draft paragraphs of which the Government endorsed 13 draft paragraphs and the same were considered while finalising the Report. We have not received any replies to three draft paragraphs (January 2012). We discussed the draft Performance Audit Reports in the Exit conference with the Principal Secretary/Secretary of the Department concerned.

### 1.2.5 Follow-up on Audit Reports – summarised position

According to the Rules of Procedure (Internal Working) of the Committee on Public Accounts (PAC) (as modified in September 1999), within four months (three months up to March 1994) of an Audit Report being laid on the table of the Legislature, the Departments of Government are to prepare and send to the Karnataka Legislative Assembly Secretariat detailed explanations (Departmental notes) on the audit paragraphs. The Rules further require that before such submission, the Departmental notes are to be got vetted by the Accountant General.

We reviewed the position in this regard, which revealed that as of January 2012, 10 Departments had not furnished the Departmental notes in respect of 93 paragraphs included in Audit Reports for the years 1992-93 to 2009-10 due between July 1994 and July 2011, for vetting. The delay ranged from three months to over 17 years, as detailed below:

| Sl. No. | Department              | Year of Audit Report                             | Dates of presentation to the Legislature | Last date by which Departmental Notes were due | Number of Paragraphs for which Departmental Notes were due | Delay <sup>4</sup> (months) |
|---------|-------------------------|--|--|--|--|-----------------------------|
| 1.      | Finance                 | 1996-97, 2002-03 to 2004-05, 2008-09 and 2009-10 | May 1998 to March 2011                   | September 1998 to July 2011                    | 21   | 6 to 160                    |
| 2.      | Revenue                 | 1992-93 to 1996-97, 2004-05 to 2009-10           | March 1994 to March 2011                 | July 1994 to July 2011                         | 48   | 6 to 210                    |
| 3.      | Forest                  | 2002-03 and 2003-04                              | July 2004 and July 2005                  | November 2004 and November 2005                | 04   | 74 to 86                    |
| 4.      | Urban Development       | 1998-99, 2002-03 to 2004-05 and 2006-07          | March 2000 to July 2008                  | July 2000 to November 2008                     | 05   | 38 to 138                   |
| 5.      | Commerce and Industries | 1996-97, 2002-03, 2007-08                        | May 1998 to March 2011                   | September 1998 to July 2011                    | 08   | 6 to 160                    |

<sup>4</sup> Excluding the month in which these were due.

| Sl. No.      | Department                | Year of Audit Report | Dates of presentation to the Legislature | Last date by which Departmental Notes were due | Number of Paragraphs for which Departmental Notes were due | Delay <sup>4</sup> (months) |
|--------------|---------------------------|----------------------|--|--|--|-----------------------------|
|              |                           | and 2009-10          |  |  |  |                             |
| 6.           | Co-operation              | 2005-06 and 2007-08  | July 2007 and February 2009              | November 2007 and June 2009                    | 02   | 31 to 50                    |
| 7.           | Health and Family Welfare | 1997-98              | March 1999                               | July 1999                                      | 1  | 150                         |
| 8.           | Public Works              | 2004-05 and 2008-09  | March 2006 and March 2010                | July 2006 and July 2010                        | 02   | 18 to 66                    |
| 9.           | Minor Irrigation          | 2006-07 and 2007-08  | July 2008 and February 2009              | November 2008 and June 2009                    | 02   | 31 to 38                    |
| <b>Total</b> |                           |                      |  |  | <b>93</b>  |                             |

This indicated that the executive failed to take prompt action on important issues highlighted in Audit Reports that involved large amount of unrealised revenue.

### 1.2.6 Compliance with earlier Audit Reports

In the Audit Reports 2005-06 to 2009-10, 31,163 cases of underassessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. were included involving ` 2,126.88 crore. Of these, to the end of December 2011, the Departments concerned have accepted 21,701 cases involving ` 697.84 crore and recovered ` 35.78 crore in 1,535 cases. Audit Report wise details of cases accepted and recovered are as under:

(` in crore)

| Audit Report | Included in Audit Report |                 | Accepted by the Department |               | Recovered       |              |
|--------------|--------------------------|-----------------|----------------------------|---------------|-----------------|--------------|
|              | Number of cases          | Amount          | Number of cases            | Amount        | Number of cases | Amount       |
| 2005-06      | 1,314                    | 694.48          | 773                        | 117.22        | 255             | 4.57         |
| 2006-07      | 824                      | 324.48          | 487                        | 24.56         | 140             | 2.64         |
| 2007-08      | 5,080                    | 331.77          | 2,410                      | 166.51        | 386             | 9.24         |
| 2008-09      | 16,905                   | 336.61          | 16,688                     | 286.56        | 642             | 2.76         |
| 2009-10      | 7,040                    | 439.54          | 1,343                      | 102.99        | 112             | 16.57        |
| <b>Total</b> | <b>31,163</b>            | <b>2,126.88</b> | <b>21,701</b>              | <b>697.84</b> | <b>1,535</b>    | <b>35.78</b> |

From the above, it is observed that only 5 per cent of the revenue involved in the cases accepted by the Department was recovered during the last five years.

**We recommend that the Government take measures to ensure expeditious recovery of revenue in respect of the accepted cases.**

### 1.3 Analysis of the mechanism for dealing with the issues raised by Audit

The succeeding paragraphs 1.3.1 and 1.3.2 discuss the performance of the Stamps and Registration Department in dealing with the cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the years 2006-07 to 2009-10.

#### 1.3.1 Position of IRs

The summarised position of IRs issued during the last five years, paragraphs included in these reports and their status as on 31 March 2011 are tabulated below.

(` in crore)

| Year         | Opening balance         |               | Additions during the year |               | Clearance during the year |             | Closing balance         |               |
|--------------|-------------------------|---------------|---------------------------|---------------|---------------------------|-------------|-------------------------|---------------|
|              | IRs/ Paragraphs         | Money value   | IRs/ Paragraphs           | Money value   | IRs/ Paragraphs           | Money value | IRs/ Paragraphs         | Money value   |
| 2006-07      | 297/<br>622             | 58.53         | 64/<br>69                 | 1.89          | 33/<br>90                 | 5.10        | 328/<br>601             | 55.33         |
| 2007-08      | 328/<br>601             | 55.33         | 31/<br>47                 | 1.51          | 12/<br>27                 | 0.49        | 347/<br>621             | 56.35         |
| 2008-09      | 347/<br>621             | 56.35         | 59/<br>57                 | 64.38         | 13/<br>22                 | 0.18        | 393/<br>656             | 120.56        |
| 2009-10      | 393/<br>656             | 120.56        | 108/<br>135               | 141.19        | 04/<br>30                 | 0.14        | 497/<br>761             | 261.61        |
| 2010-11      | 497/<br>761             | 261.61        | 104/<br>108               | 95.04         | 23/<br>68                 | 1.00        | 578/<br>801             | 355.66        |
| <b>Total</b> | <b>1,862/<br/>3,261</b> | <b>552.38</b> | <b>366/<br/>416</b>       | <b>304.01</b> | <b>85/<br/>237</b>        | <b>6.91</b> | <b>2,143/<br/>3,440</b> | <b>849.51</b> |

During the five year period, we issued 366 IRs with 416 paragraphs involving ` 304.01 crore and cleared 237 paragraphs involving ` 6.91 crore included in 85 IRs.

#### 1.3.2 Assurances given by the Department/Government on the issues highlighted in the Audit Reports

##### 1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are mentioned below:

(` in crore)

| Year of AR   | Number of paragraphs included | Money value of the paragraphs | Number of paragraphs accepted | Money value of accepted paragraphs | Position of recovery of accepted cases |
|--------------|-------------------------------|-------------------------------|-------------------------------|------------------------------------|--|
| 2006-07      | 03                            | 31.26                         | 01                            | 0.35                               | --                                     |
| 2007-08      | 02                            | 2.44                          | 01                            | 0.03                               | 0.03                                   |
| 2008-09      | 06                            | 325.83                        | 05                            | 283.04                             | 0.45                                   |
| 2009-10      | 07                            | 16.49                         | 05                            | 12.03                              | 0.08                                   |
| 2010-11      | 06                            | 7.71                          | 02                            | 7.55                               | 0.08                                   |
| <b>Total</b> | <b>24</b>                     | <b>383.73</b>                 | <b>13</b>                     | <b>303.00</b>                      | <b>0.64</b>                            |

From the above, it is observed that only 0.21 *per cent* of the revenue involved in the cases accepted by the Department was recovered during the last five years. The Department had with reference to the audit paras reported that action had been initiated under Section 45(A)(3), 46(A) and 67(B) of the Karnataka Stamp Act, 1957. However, we have not received final report on the outcome of the action initiated.

**We recommend that the Department take measures to ensure expeditious recovery of revenue in respect of the accepted cases.**

### 1.3.2.2 Action taken on the recommendations accepted by the Departments/Government

The Draft Performance Audits conducted by the AG are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. These Performance Audits are also discussed in an Exit conference and the Department's/Government's views are included while finalising the Performance Audits for the Audit Reports.

We conducted a Performance Audit on the Stamps and Registration Department that was featured in the Audit Reports during the last five years. We had suggested four recommendations for improvement in the system for monitoring realisation of proper stamp duty and registration fee, framing rules for inspections to prevent leakage, mechanism for early disposal of appeal and setting up of an IAW to ensure timely detection and correction as given below:

| Year of AR | Name of the review/<br>No. of recommendations included       | Details of the recommendations   |
|------------|--|--|
| 2008-09    | Levy and collection of Stamp Duty and Registration Fee/<br>4 | <ol style="list-style-type: none"> <li>1. installing a system in the Department for co-ordination with various Departments/agencies to monitor realisation of proper stamp duty and registration fee on instruments presented before them.</li> <li>2. framing rules prescribing the procedures for conducting inspections to prevent any leakage of revenue due to evasion of stamp duty on instruments not required to be presented for registration.</li> <li>3. prescribing a mechanism for early disposal of appeal cases.</li> <li>4. setting up of an IAW to ensure timely detection and correction of errors in levy and collection of stamp duty and registration fee.</li> </ol> |

The Government/Department has not reported initiation of any mechanism as recommended for realisation of revenue due to Government. The Department has reported that proposals for setting up of IAW were pending with Government since 2008.

## 1.4 Audit Planning

We categorised the unit offices under various Departments into high, medium and low risk units according to their revenue position, past trends of audit

observations and other parameters. We prepared the annual audit plan on the basis of risk analysis which inter-alia include critical issues in Government revenues and tax administration i.e. 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, features of the tax administration, audit coverage and its impact during past five years, etc.

During the year 2010-11, the audit universe comprised 1,188 auditable units, of which 376 units were planned and audited during the year, which is 31.65 per cent of the total auditable units.

We also conducted three performance reviews besides the compliance audit mentioned above to examine the efficacy of the tax administration of these receipts.

## **1.5 Results of audit**

### **1.5.1 Position of local audit conducted during the year**

We test checked records of 376 units of commercial taxes, state excise, taxes on motor vehicles, land revenue, stamps and registration fees, electricity tax, forest and other Departmental offices during the year 2010-11. Further, we conducted three performance audit reviews during the year 2010-11. These revealed underassessments, non/short levy of taxes, loss of revenue, failure to raise demands and other irregularities aggregating ` 905.66 crore in 1,057 cases. During the course of the year, the Departments concerned accepted underassessments and other deficiencies of ` 122.62 crore in 259 cases, of which one case involving ` 22 lakh was pointed out in audit in earlier years. The Departments recovered ` 18.89 crore in 550 cases at the instance of audit.

### **1.5.2 This Report**

This Report contains 23 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 three performance audits involving financial effect of ` 275.84 crore. The Departments accepted audit observations involving ` 18.35 crore, of which ` 1.06 crore had been recovered upto January 2012. These are discussed in the succeeding Chapters II to VII.