

OVERVIEW

This Report contains 23 paragraphs including three Performance Audits relating to non/short levy of tax, interest etc involving ` 275.84 crore. Some of the major findings are mentioned below:

I General

Total revenue receipts of the State Government for the year 2010-11 were ` 58,206.23 crore against ` 49,155.70 crore for the previous year. 72 per cent of this was raised by State through tax revenue (` 38,473.12 crore) and non-tax revenue (` 3,358.29 crore). The balance 28 per cent was received from the Government of India as State's share of divisible Union taxes (` 9,506.32 crore) and grants-in-aid (` 6,868.51 crore).

(Paragraph 1.1.1)

3,738 inspection reports issued upto December 2010 containing 7,610 observations involving money value of ` 2,205.10 crore were pending settlement at the end of June 2011.

(Paragraph 1.2.1)

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 were test checked during the year 2010-11. These revealed under-assessments, 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 under-assessments 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

(Paragraph 1.5.1)

II Taxes on sales, trade, etc.

A Performance audit on '**Cross verification of Declaration Forms in Inter-State and Commerce**' revealed as under:

We found that the Department had not devised a proper and effective mechanism for printing/reviewing the existing stock of the Declaration Forms and the pace of issue of Declaration Forms before printing of new Forms. There were 3,150 'C' Forms in stock since 2008-09, and though 1,60,000 'H' forms were held in stock since 2005-06, additional 32,000 'H' forms were got printed during 2008-09 when only 8,000 forms were issued up to 2009-10, leaving a closing stock of 1,84,000 forms as at the end of 31 March 2011 and thus clearly printed forms were in excess of requirements.

(Paragraphs 2.9.5.1)

Very high percentage of error records (50 to 100 *per cent*) on the TINXSYS website, coupled with an incomplete database, defeated the purpose of the website for verification of the State's Inter-State transactions.

(Paragraphs 2.9.5.4)

We noticed that 79 *per cent* of the Central Sales Tax (CST) assessments were pending finalisation as on 31 March 2010, with only 21 *per cent* assessments being completed (1,55,682) as against 7,44,338 cases due for assessments, leaving a balance of 5,88,656 cases for the period 2005-06 to 2009-10. Incomplete assessments had a huge risk of tax escapement due to non-verification of claims of concessional tax on declaration forms.

(Paragraphs 2.9.5.6)

We noticed that the Dealer Ledger and Demand, Collection and Balance Register/G2 Register was not maintained either in manual form or in electronic mode. The CTD had not maintained position of arrears under CST separately.

We found that there were 2,462 cases of short/non-filing of declaration/statutory forms. Though tax together with interest aggregated to ` 147.40 crore was levied, these were not booked and taken as arrears of tax.

(Paragraphs 2.9.5.7)

We found that the Department had not put in place any mechanism for cross verification of the Declaration Forms furnished by the dealers of the State effecting Inter-State transactions with the concerned States.

(Paragraphs 2.9.5.8.1)

We noticed that in four LVOs, 36 'C' forms for a turnover of ` 68.19 lakh which had originated from Nagpur, Maharashtra were not issued by those Sales Tax authorities. Five State dealers had shown Inter-State sales turnover of ` 12.26 lakh for the year 2007-08 covered by 'C' forms which were not issued to the purchasers whose details were mentioned therein. The tax recoverable on such fake forms was ` 6.95 lakh besides penalty leviable. We found escapement of turnover of ` 8.17 crore involving a tax of ` 69.96 lakh in 20 'C' forms filed by 17 dealers in five LVOs.

(Paragraph 2.9.6)

We noticed that in four LVOs, Declarations Forms 'C', in support of Inter-State sale involving a turnover of ` 90.05 lakh though incomplete, were accepted in respect of eight dealers wherein the tax of ` 7.25 lakh was leviable by disallowing these forms.

(Paragraphs 2.9.7.1)

We noticed that Intra-State sales valued at ` 75.58 lakh were done by wrongful utilisation of 12 'C' forms resulting in escapement of tax of ` 6.97 lakh while Inter-State sales valued at ` 5.76 crore were not found supported by 'C' forms. Incorrect Grant of concessional rate of tax on the form 'C' covering transactions of more than one quarter resulted in short levy of tax of ` 18.19 lakh. Inter-State sales on Forms 'C' exceeded the turnover mentioned in their Monthly and Annual Returns of 11 dealers, with reference to the forms filed by them, by ` 1.20 crore resulting in escapement of tax of ` 4.46 lakh.

(Paragraphs 2.9.7.2 to 2.9.7.5)

In 10 LVOs we noticed exemption from payment of tax on stock transfer without verification of the Declaration Forms which were pertaining to more than one month. The tax leviable on these irregular forms was ` 61.36 crore. A tampered 'F' Form involving tax effect of ` 1.21 crore was incorrectly accepted. The matter needs investigation

(Paragraphs 2.9.8)

We found though three assessments of two dealers for the years 2005-06 to 2007-08 were concluded, the demand notices were not served on the dealers, resulting in non-demand of tax of ` 2.33 crore.

Further in one cases the assessing authority omitted to demand and levy interest and penalty thereon of ` 69.32 lakh.

(Paragraphs 2.9.9)

The 'Online Issue of Declaration Forms System' was deficient for want of adequate validation controls to prevent issue of more than one Form against an invoice, up-gradation to real time presentation system and cancellation of approved forms, for any reason.

(Paragraphs 2.9.11.1)

COMPLIANCE DEFICIENCIES

The audited accounts filed by a dealer in form VAT 240 revealed that the dealer had short declared output tax liability by ` 79.42 lakh and claimed input tax credit in excess of his actual eligibility by ` 5.52 lakh. The LVO concerned failed to demand these tax dues from the dealer along with interest and penalty aggregating to ` 1.05 crore.

(Paragraph 2.10.2)

In 94 returns filed by 21 dealers for tax periods between April 2005 and March 2009 there were understated output tax liability and overstated ITC aggregating ` 9.06 crore. The AAs concerned failed to levy and collect the penalty of ` 91.35 lakh leviable in these cases.

(Paragraph 2.10.3)

We noticed in five LVOs of Bangalore that exemptions from payment of tax were granted to 16 dealers on a turnover of ` 583.71 crore on exports without production of necessary documents, resulting in non-levy of tax of ` 72.26 crore.

(Paragraph 2.11)

III State Excise

A Performance audit on “**State Excise Receipts**” revealed as under:

Though the Rules and the licence condition provide for, sale of liquor in sealed bottles we observed that in many cases loose sale of liquor was made. We observed that sale of liquor was made in close proximity of religious and educational institutions, hospitals etc. in violation of the Rules.

(Paragraph 3.6.7.4, 3.6.7.5)

The State Government has not issued any fresh retail vending licences since December 1992, even though the population of the State has increased from 4.48 crore in 1991 to 5.27 crore in 2001 census despite demand for grant of licences. During this period though 238 retail shop licences (CL-2) and 225 bar licences (CL-9) were not renewed, no action was taken by the Department to issue an equal number of licences to new applicants, thereby Government revenue of not less than ` 48.43 crore was forgone. Further, considering the demand, there was no attempt to exploit the revenue resources through auction of licences.

(Paragraph 3.6.9)

Though the sales turnover of IML increased from 96.40 lakh carton boxes in 2003-04 to 408.60 lakh carton boxes in 2009-10, i.e., an increase of 323.85 *per cent*, the rate of licence fee for distilleries, breweries were not revised since July 2000.

(Paragraph 3.6.10)

The State Government did not take any action on recommendations of a Technical committee constituted by themselves to revise the norms for yield of rectified spirit from molasses. Even the lowest yield recommended by the Committee would have fetched additional revenue of ` 121.52 crore during 2008-09 and 2009-10.

(Paragraph 3.6.12)

We noticed licence of a Sugar Company Limited, Mandya was renewed for the year 2000-01 to 2008-09 without levying and collecting licence fee and additional licence fee resulting in non-levy/collection of licence fee of ` 2.76 crore.

(Paragraph 3.6.13)

We found that with increase in population and village areas coming under municipal limits, there was no suitable mechanism in place in the Department to keep track of new areas entering municipal limits, based on notification

passed by the Urban Development Department. Absence of the mechanism resulted in short recovery of license fee of ` 29.57 lakh in four cases.

(Paragraph 3.6.14)

Though consumption statement regarding the quantity of liquor lifted by the licensees (CL2 and CL9) was received by the Range offices from Karnataka State Beverages Corporation Limited (KSBCL) regularly, the Department failed to levy penalty leviable for short lifting of Indian Made Liquor (IML). The non-levy of penalty amounted to ` 9.04 crore.

(Paragraph 3.6.15)

IV Taxes on Motor Vehicles

A Performance audit on “**Computerisation in Transport Department**” revealed as under:

Smart cards for Registration of Vehicles (RCs) and Driving Licenses was introduced w.e.f. November 2009, with Computerisation through VAHAN and SARATHI, in all 54 RTOs/ARTOs of the State.

(Paragraph 4.7.6)

The Department has not evolved, documented and circulated policies relating to IT implementation. No clear demarcation of duties/responsibilities between the Department and the NIC, have been documented with reference to ensuring system reliability and integrity.

(Paragraph 4.7.8.1)

Even though the Computerisation has been implemented in all the RTOs as of November 2009, the activities of the Department with respect to transport vehicles were not routed through VAHAN. Smart Card RCs for transport vehicles were being issued only in 5 RTOs in Bangalore from 1 May 2010. Modules of the software such as Surrender, Demand, Collection and Balance, Departmental Statutory Authority Cases were not being utilised by the Department.

(Paragraph 4.7.8.3)

The Software application did not provide for mapping of certain business activities of the Department like jurisdiction of the RTOs, prompt for demand of tax on change of ownership of Government vehicle to individual owner, fee for advance registration mark, refund of tax etc.

(Paragraph 4.7.9)

Digitisation and porting of legacy data was not completed even as of November 2011 and work outside Bangalore was not given any priority; junk/redundant data had been ported into the present system as no clean up exercise was envisaged and done before porting the legacy data, thereby rendering the database incomplete and unreliable.

(Paragraph 4.7.10.1)

Analysis of database of VAHAN has revealed invalid/redundant data. For example, there were duplication of Permit Numbers in 80 cases in three RTOs, in 795 cases same engine numbers were found against different vehicle in the database of six RTOs, Insurance Details were not captured in 11,732 cases in database of eight RTOS, no sale value has been captured in 1,456 cases and in 1,342 case there is invalid sale amount for Non-Transport Vehicles. Invalid

data in fields related to determination of quarterly tax such as floor area, wheelbase was also noticed.

(Paragraph 4.7.11)

There was difference in the lifetime tax (LTT) payable as per Sale Value of vehicles and tax actually paid as per database as noticed in six RTOs and 3,632 vehicles, which was confirmed by us in physical check of records in 20 cases involving short levy of tax of ` 64,417.

(Paragraph 4.7.12.1)

We noticed on comparison of data of NOC/CC module with tax collection module data of three RTOs that in 147 instances, NOC/CC were issued even though there were arrears of tax from those vehicles.

(Paragraph 4.7.12.6)

The Department did not have a clearly documented and approved policy statement comprehensively covering all aspects of logical security. The system permitted the same user to be given permission for various processes in any activity.

(Paragraph 4.7.13.1)

We found from the database of issued licences of six RTOs that in 718 instances one person (identified by name, father's name and date of birth) has been issued with two or more licences (bearing different licence numbers).

(Paragraph 4.7.15)

In 22 RTOs, tax was either not paid or levied short. This resulted in non/short realisation of revenue of ` 64.32 lakh.

(Paragraphs 4.8.1 and 4.8.2)

V Stamps and Registration Fees

We noticed that five GPAs and corresponding Sale Agreement had come together for registration to the registering officer. These were not found to have been linked resulting in short levy of stamp duty of ` 3.31 crore and registration fee of ` 46.56 lakh on the differential market value of ` 46.56 crore. Further, a penalty of ` 16.56 crore could have been levied for suppression of facts.

(Paragraph 5.8.1)

In respect of two sale Agreements along with General Power of Attorney (GPAs) relating to sale of agriculture property, there was nothing on record to prove that subsequent Sale Deeds had been registered. The Stamp Duty and Registration fee of ` 6.63 lakh was leviable.

(Paragraph 5.8.1.4)

We noticed by cross verification with records of the Income Tax Department that two assesseees, who had furnished six lease agreements executed in Karnataka to the Income-tax Department as proof of sources of income, had not registered these documents with the Stamp Authorities resulting in stamp duty of ` 1.44 crore and registration fee of ` 21.94 lakh not being realised.

(Paragraph 5.8.2.2)

Short levy of Stamp duty and Registration fee due to undervaluation of properties in three cases was ` 11.07 lakh.

(Paragraph 5.8.4)

VI Land Revenue

We noticed that in respect of 12,719 applications received between 13 August 2008 and 9 January 2009, fee for pre-mutation sketches was levied at pre-revised rate. This resulted in short levy of fee of ` 25.06 lakh.

(Paragraph 6.5.1)

VII Non-Tax Receipts

Revenue Department failed to raise demand for water rate/penal water charges of ` 5.71 crore in seven taluks, for the period 2006-07 to 2009-10 though demand statements had been received from the Irrigation Department.

(Paragraph 7.2)