

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 2011-12, 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	2007-08	2008-09	2009-10	2010-11	2011-12
I.	Revenue raised by the State Government					
	• Tax revenue	25,986.76	27,645.66	30,578.60	38,473.12	46,475.96
	• Non-tax revenue	3,357.66	3,158.99	3,333.80	3,358.29	4,086.86*
	Total	29,344.42	30,804.65	33,912.40	41,831.41	50,562.82
II.	Receipts from the Government of India					
	• State's share of divisible Union taxes	6,779.23	7,153.77	7,359.98	9,506.32	11,075.04 ¹
	• Grants-in-aid	5,027.49	5,332.25	7,883.32	6,868.51	8,168.41
	Total	11,806.72	12,486.02	15,243.30	16,374.83	19,243.45
III.	Total receipts of the State	41,151.14	43,290.67	49,155.70	58,206.23	69,806.27
IV.	Percentage of I to III	71	71	69	72	72

* Includes ₹ 170.14 crore (treated as non-tax revenue), the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Governments by the Ministries other than Ministry of Finance written off as per the recommendation of the Thirteenth Finance Commission (XIII FC).

Source: Finance Accounts.

The table above indicates that during the year 2011-12, the revenue raised by the State Government (₹ 50,562.82 crore) was 72 per cent of the total revenue receipts. The balance 28 per cent of receipts was from the Government of India.

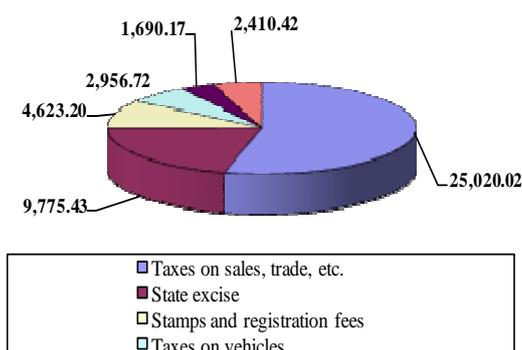
¹ Figures under the major heads of account 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0028-Other Taxes on Income and Expenditure, 0032-Taxes on Wealth, 0037-Customs, 0038-Union Excise Duties, 0044-Service Tax and 0045-Other Taxes and Duties on Commodities and Services – Minor head 901 – Share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2011-12, 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 2007-08 to 2011-12:

(₹ in crore)

Sl. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase (+)/ decrease (-) in 2011-12 over 2010-11
1.	Taxes on sales, trade, etc.	13,893.99	14,622.73	15,832.67	20,234.69	25,020.02	23.65
2.	State excise	4,766.57	5,749.57	6,946.32	8,284.74	9,775.43	17.99
3.	Stamps and registration fees	3,408.83	2,926.72	2,627.57	3,531.08	4,623.20	30.93
4.	Taxes on Vehicles	1,650.13	1,681.16	1,961.60	2,550.02	2,956.72	15.95
5.	Taxes on Goods and Passengers	837.34	1,085.02	1,291.13	1,525.55	1,690.17	10.79
6.	Taxes and duties on Electricity	449.50	370.59	678.69	663.49	654.24	-1.39
7.	Other taxes on income and expenditure	451.37	538.79	527.21	549.74	600.20	9.18
8.	Other taxes and duties on commodities and services	380.68	406.15	576.83	946.95	926.01	-2.21
9.	Land Revenue	145.31	255.65	127.88	177.53	214.93	21.07
10.	Taxes on agricultural income	3.04	9.28	8.70	9.33	15.04	61.20
Total		25,986.76	27,645.66	30,578.60	38,473.12	46,475.96	20.80

Graph 1: Tax Revenue 2011-12
(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 the rate of tax and better compliance due to e-administration.

Stamps and Registration Fees: The increase was attributed to increase in registration of documents and revision of market value of properties.

Taxes on vehicles: The increase was attributed to increase in growth rate of vehicles and continuous action in enforcement of vehicles and monitoring on revenue collection.

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

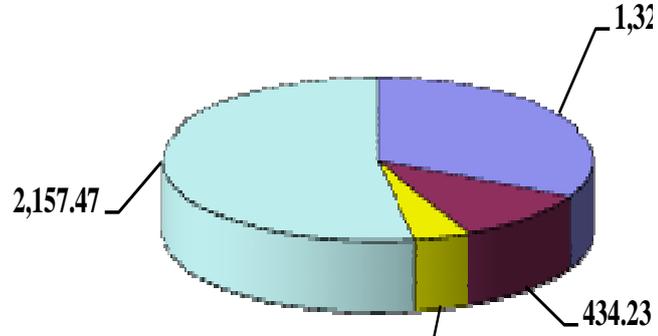
1.1.3 The following table presents the details of major non-tax revenue realised during the period 2007-08 to 2011-12:

(₹ in crore)							
Sl. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase(+)/ decrease (-) in 2011-12 over 2010-11
1.	Non-ferrous mining and metallurgical industries	472.35	556.07	859.50	1,185.96	1,326.84	11.88
2.	Interest receipts	375.24	337.17	383.86	575.07	434.23	-24.49
3.	Forestry and wildlife	131.84	126.92	212.48	163.74	168.32	2.80
4.	Contributions and recoveries towards pensions and other retirement benefits	29.08	76.20	69.07	54.74	70.48	28.75
5.	Other administrative services	79.60	94.37	99.29	104.20	117.79	13.04
6.	Education, sports, art and culture	74.93	73.56	95.85	127.83	130.58	2.15
7.	Medical and public health	52.77	40.52	54.67	121.29	87.82	-27.60
8.	Police receipts	58.84	69.82	82.13	105.90	118.26	11.67
9.	Other general economic services	443.25	432.47	462.65	596.05	709.70	19.07
10.	Co-operation	33.14	37.30	46.62	51.47	100.42	95.10
11.	Village and small industries	35.30	36.65	50.41	86.19	68.66	-20.34
12.	Public works	21.75	18.81	25.27	20.12	20.53	2.04
13.	Roads and bridges	14.05	36.71	32.46	61.07	95.60	56.54
14.	Major and medium irrigation	19.69	22.11	16.57	20.65	30.60	48.18
15.	Dividends and profits	23.40	40.14	29.48	43.44	60.56	39.41
16.	Housing	15.51	20.69	20.55	23.02	24.12	4.78
17.	Crop husbandry	14.04	15.69	9.96	13.03	22.56	73.14
18.	Miscellaneous general services	468.20	398.92	548.35	(-)205.02 ²	268.57	--
19.	Others ³	994.68	724.87	234.63	209.54	231.22	9.38
Total		3,357.66	3,158.99	3,333.80	3,358.29	4,086.86	21.69

² Waiver of debt of ₹ 35,832.47 lakh granted to Government of Karnataka during 2008-09 has been withdrawn and the said amount has been 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.

³ Public Service Commission, Jails, Family Welfare, Water Supply and Sanitation, Housing, Urban Development, Power, Labour & Employment, Civil Aviation, Food Storage and Warehousing, Social Security and Welfare, Stationery 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 2011-12
(Rupees in crore)**



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

Mines and Geology: The increase was attributed to increase in gold price, auction of seized iron ore and increase of royalty rates.

Police: The increase was attributed to increase in passport verification and job verification applications.

Cooperation: The increase was attributed to more number of cases filed under KPMR Act.

1.2 Response of the Departments/Government towards Audit

The Principal Accountant General (Economic and Revenue Sector Audit), Karnataka (PAG) 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 the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of receipt of the IRs. Serious financial irregularities are reported to the Heads of the Departments and the Government.

1.2.1 Outstanding Inspection Reports and Audit Observations

IRs issued upto December 2011 disclosed that 6,668 paragraphs involving ₹ 1,589.45 crore relating to 3,115 IRs remained outstanding at the end of June 2012 as mentioned below along with the corresponding figures for the preceding two years:

	June 2010	June 2011	June 2012
Number of outstanding IRs	3,554	3,738	3,115
Number of outstanding audit observations	7,106	7,610	6,668
Amount involved (₹ in crore)	1,701.48	2,205.10	1,589.45

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2012 and the amounts involved are mentioned below:

(₹ in crore)

Sl. No.	Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money Value
1.	Finance	(a) Taxes on sales, trade etc, entry tax, entertainment tax, luxury tax, professions tax, betting tax and agricultural income tax	1,516	4,007	463.37
		(b) State excise	608	935	376.74
2.	Energy	Electricity tax	6	11	5.62
3	Revenue	Stamps and Registration fees	518	842	296.69
4.	Transport	Taxes on motor vehicles	353	534	123.82
5.	Commerce and Industries	Mineral receipts	114	339	323.21
Total			3,115	6,668	1,589.45

Even the first replies required to be received from the heads of the offices within one month from the date of receipt of the IRs were not received for 73 IRs issued up to December 2011. 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 PAG 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 time bound 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. In respect of Transport Department, one *adhoc* committee meeting was held during the year 2011-12 and nine paragraphs were settled involving money value of ₹ 9.77 lakh.

In respect of other Departments, no *adhoc* committee meeting was held during the year.

We recommend that the Government may ensure convening 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.

527 records relating to 37 offices of Commercial Taxes Department (CTD) were not made available to audit during 2011-12, out of which, 187 re-assessment files pertaining to 15 Audit offices of the Department were not produced, since they were reported to audit as pending in appeals.

Further, nine files for the year 2010-11 were not produced to audit in respect of office of the Senior Geologist, Yadgiri. In respect of office of the Senior Geologist, Haveri, files relating to major minerals and sand auction for the years 2009-10 and 2010-11 were not produced. In the office of the Deputy Director, Mines and Geology, Gulbarga for the year 2010-11, records pertaining to all offence cases were not produced to audit.

In the office of the Deputy Registrar, Mandya, register of stationery, stock and issue and dead stock register were not produced for the period 2008-2011.

We recommend that the Government/Department may issue suitable directions to all the 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 Audit Paragraphs / Performance Audit Reports 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 audit paragraphs/Performance Audit Reports within six weeks of their receipt. We have indicated the fact of non-receipt of replies from the Government at the end of each observation included in the Audit Report, wherever applicable.

We forwarded 27 draft audit paragraphs (including two Performance Audit Reports) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2012 to the concerned Principal Secretaries to Government with copies endorsed to concerned heads of Departments during May - October 2012.

We received the replies of the Department to 23 draft paragraphs of which the Government endorsed 21 draft paragraphs and the same were considered while finalising the Report. However, we have not received any reply (December 2012) to four draft paragraphs from the Departments and six draft paragraphs from the Government. We discussed the draft Performance Audit Reports in two Exit Conferences with the Additional Chief Secretary, Finance Department and Secretary, Revenue Department of the Government.

1.2.5 Follow-up of Audit Reports – summarised position

According to the Rules of Procedure (Internal Working) of the Public Accounts Committee (PAC), 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 PAG.

We reviewed the position in this regard, which revealed that as of October 2012, nine Departments had not furnished the Departmental notes in respect of

105 paragraphs included in Audit Reports for the years 1992-93 to 2010-11 (due between July 1994 and July 2012) for vetting. The delay ranged from three months to over 18 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 ⁴ (months)
1.	Finance	1996-97, 2002-03 to 2004-05, 2008-09 to 2010-11	May 1998 to March 2012	September 1998 to July 2012	32	3 to 169
2.	Revenue	1992-93 to 1996-97, 2004-05 to 2010-11	March 1994 to March 2012	July 1994 to July 2012	57	3 to 219
3.	Forest	2002-03 and 2003-04	July 2004	November 2004	02	95
4.	Urban Development	1998-99, 2002-03 to 2004-05 and 2006-07	March 2000 to July 2008	July 2000 to November 2008	05	47 to 148
5.	Commerce and Industries	1996-97, 2002-03	May 1998 to July 2004	September 1998 to November 2004	02	83 to 169
6.	Co-operation	2005-06 and 2007-08	July 2007 and February 2009	November 2007 and June 2009	02	42 to 59
7.	Health and Family Welfare	1997-98	March 1999	July 1999	01	159
8.	Public Works	2004-05 and 2008-09	March 2006 and March 2010	July 2006 and July 2010	02	27 to 75
9.	Minor Irrigation	2006-07 and 2007-08	July 2008 and February 2009	November 2008 and June 2009	02	42 to 47
Total					105	

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 2006-07 to 2010-11, 43,526 cases of underassessment, non/short levy of taxes, loss of revenue, failure to raise demands, etc. were included involving ₹ 1,708.24 crore. Of these, to the end of September 2012, the Departments concerned have accepted 23,148 cases involving ₹ 599.65 crore and recovered ₹ 32.95 crore in 2,331 cases. Audit Report wise details of cases accepted and recovered are as under:

⁴ Excluding the month in which these were due.

(₹ 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
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	1,355	103.64	124	17.22
2010-11	13,677	275.84	2,208	18.38	1,039	1.09
Total	43,526	1,708.24	23,148	599.65	2,331	32.95

From the above, it is observed that only 5.49 *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 may 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 Transport 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 2007-08 to 2011-12.

1.3.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years, paragraphs included in these reports and their status as on 31 March 2012 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
2007-08	288/ 378	45.66	46/ 172	10.58	36/ 98	4.89	298/ 452	51.36
2008-09	298/ 452	51.36	55/ 219	32.09	45/ 126	13.27	308/ 545	70.19
2009-10	308/ 545	70.19	52/ 189	14.49	39/ 102	5.33	321/ 632	79.36
2010-11	321/ 632	79.35	57/ 215	74.29	24/ 49	30.34	354/ 798	123.27
2011-12	354/ 798	123.27	30/ 128	2.01	22/ 63	1.50	362/ 863	123.78
Total			240/ 923	133.46	166/ 438	55.33		

During the five year period, we issued 240 IRs with 923 paragraphs involving ₹ 133.46 crore and cleared 438 paragraphs involving ₹ 55.33 crore included in 166 IRs.

1.3.2 Assurances given by the Departments/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
2007-08	04	1.40	04	1.39	0.17
2008-09	04	1.35	04	1.35	0.60
2009-10	02	0.19	02	0.13	0.12
2010-11	03	0.64	02	0.27	0.16
2011-12	03	1.20	03	0.81	0.18
Total	16	4.78	15	3.95	1.23

From the above, it is observed that only 31.14 *per cent* of the revenue involved in the cases accepted by the Department was recovered during the last five years.

We recommend that the Department may 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 Report of the Performance Audit conducted by the PAG is forwarded to the concerned Departments/Government for their information with a request to furnish their replies. The Performance Audit is also discussed in an Exit Conference and the Department's/Government's views are included while finalising the Performance Audit for the Audit Reports.

A Performance Audit on 'Computerisation of Transport Department' was featured in the Report of the Comptroller & Auditor General of India for the year 2010-11 (Revenue Receipts). We had suggested nine recommendations for improvement in the system, inter alia, to formulate and adopt a comprehensive Information Technology (IT) Policy encompassing aspects such as technology upgradation, service delivery, staffing and security to serve as a roadmap for future development.

Year of AR	Name of the review	Details of the recommendations
2010-11	Performance Audit on 'Computerisation of Transport Department'	<ol style="list-style-type: none"> 1. Formulate and adopt a comprehensive IT Policy encompassing aspects such as technology upgradation, service delivery, staffing and security to serve as a roadmap for future development; 2. Strengthen application controls so as to ensure better mapping of the provisions of the relevant Acts and Rules; 3. Complete the entry of legacy data and porting of legacy database on priority in a

Year of AR	Name of the review	Details of the recommendations
		<p>planned and time bound manner followed by permanent disablement of the backlog data entry channel;</p> <ol style="list-style-type: none"> 4. Adopt a comprehensive programme of Human Resource Development involving induction of technically qualified functionaries at various levels of Information Systems Management, providing training in the various aspects of database, network and security administration etc; 5. Network all the RTOs in the State to enable real time communication between them, enabling better monitoring and service delivery; 6. Adopt more secure means of interfacing with the smart card printing software and introduce smart card reading devices that adopt such technology as would enable detection of absence of digital attestation, tampering with data etc; 7. Strengthen the security infrastructure by adoption of a well formulated security policy, introduction of logical access controls in tune with best practices, enabling a trail of user actions etc; 8. Bring about such operations as the generation of the Demand, Collection and Balance (DCB), monitoring and settlement of Departmental Statutory Authority (DSA) cases etc in the ambit of information technology; and 9. Migration to a web based system, by which the general public can gain direct access to the services offered by the Department for registration, payment of fees, taxes etc that will substantially improve the effectiveness of the Department in achieving the objectives of e-Governance.

The Department has reported that issue of smart cards in respect of Transport Vehicles has been commenced during December 2011 and stated that necessary action will be taken to implement the DCB module after porting legacy data as well as data from RTOs and check posts and also that full-fledged DSA module is being developed and training has been imparted

on the latest VAHAN software version 1.3.4.5 (prime) to all the officers of the Department to use module “surrender of vehicles”.

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*, includes 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 2011-12, the audit universe comprised 865 auditable units, of which 355 units were planned and audited during the year, which is 41.04 *per cent* of the total auditable units.

We also conducted two Performance Audit Reports 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 355 units of commercial taxes, taxes on motor vehicles, stamps and registration fees, electricity tax, and other Departmental offices during the year 2011-12. Further, we conducted two Performance Audit Reports during the year 2011-12. These revealed underassessment, non/short levy of taxes, loss of revenue, failure to raise demands and other irregularities aggregating ₹ 211.00 crore in 2,360 paragraphs. During the course of the year, the Departments concerned accepted underassessment and other deficiencies of ₹ 7.06 crore in 846 cases. The Department recovered ₹ 7.20 crore in 250 cases at the instance of audit.

1.5.2 This Report

This Report contains 21 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) including two Performance Audit Reports involving financial effect of ₹ 89.20 crore. The Departments accepted audit observations involving ₹ 23.06 crore, of which ₹ 47.47 lakh had been recovered upto December 2012. These are discussed in the succeeding Chapters II to V.

