



Chapter-I

General

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1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2017-18, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the year together with 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	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Revenue raised by the State Government					
	• Tax revenue	62,603.53	70,180.21	75,550.18	82,956.13	87,130.38
	• Non-tax revenue	4,031.90	4,688.24	5,355.04	5,794.53	6,476.53
	Total	66,635.43	74,868.45	80,905.22	88,750.66	93,606.91
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ¹	13,808.28	14,654.25	23,983.34	28,759.94	31,751.96
	• Grants-in-aid	9,098.82	14,619.45	13,928.75	15,703.19	21,640.78
	Total	22,907.10	29,273.70	37,912.09	44,463.13	53,392.74
3.	Total revenue receipts of the State Government (1 and 2)	89,542.53	1,04,142.15	1,18,817.31	1,33,213.79	1,46,999.65
4.	Percentage of total revenue raised by the State Government to total revenue receipts (1 to 3)	74	72	68	67	64

The above table indicates that during the year 2017-18, the revenue raised by the State Government (₹ 93,606.91 crore) was 64 *per cent* of the total revenue receipts. The balance 36 *per cent* of the receipts during 2017-18 came from the Government of India.

¹ Figures under the major heads of account 0005-Central Goods and Service Tax, 0008-Integrated Goods and Services Tax, 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0028-Other Taxes on Income and Expenditure-Minor head-901, 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, as share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2017-18, 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 details of the tax revenue raised during the period 2013-14 to 2017-18 are given in **Table 1.1.2**.

Table 1.1.2
Details of Tax Revenue

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of increase (+)/decrease (-) in 2017-18 over 2016-17	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE/RE*	Actual	BE	Actual
1.	Taxes on sales, trade etc.	33,590.00	33,719.35	37,250.00	38,286.03	41,329.00	40,448.63	46,504.10	46,105.17	24,485.68	25,093.16	4.45	6.88
2.	State Goods and Services Tax (SGST)	---	---	---	---	---	---	---	---	24,087.53	24,182.18 ²		
3.	State Excise	12,600.00	12,828.36	14,430.00	13,801.08	15,200.00	15,332.88	16,510.00	16,483.75	18,050.00	17,948.51	9.33	8.89
4.	Stamp Duty and Registration Fee	6,500.00	6,188.76	7,450.00	7,025.85	8,200.00	8,214.71	9,100.00	7,805.98	9,000.00	9,023.68	(-)1.10	15.60
5.	Taxes on Vehicles	4,120.00	3,911.50	4,350.00	4,541.57	4,800.00	5,001.69	5,160.00	5,594.39	6,006.00	6,208.57	16.40	10.98
6.	Others	5,653.99	5,955.56	6,389.75	6,525.68	6,916.39	6,552.27	6,590.34	6,966.84	4,300.55	4,674.28	(-)34.74	(-)32.91
Total		62,463.99	62,603.53	69,869.75	70,180.21	76,445.39	75,550.18	83,864.44	82,956.13	85,929.76	87,130.38	2.46	5.03

BE = Budget Estimates

RE = Revised Estimates

*Budget Estimates for 2017-18 were prepared considering Karnataka Value Added Tax (KVAT) only. From 1 July 2017, Goods and Services Tax (GST) was introduced replacing KVAT. State Goods and Services Tax (SGST) was accounted in the Revised Estimates and KVAT was adjusted accordingly. Due to this, Revised Estimates have been adopted for Sl. No. 1 and 2.

The dip in estimation and realisation of revenue under “Others” (Sl. No. 6) of the table above was due to reduction under the heads 0042 (Taxes on Goods and Passengers) and 0045 (Other Taxes and Duties on Commodities and Services) which were to be subsumed in Goods and Services Tax.

1.1.3 The details of the non-tax revenue raised during the period 2013-14 to 2017-18 are indicated in **Table 1.1.3**.

Table 1.1.3
Details of Non-Tax Revenue

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of increase (+)/decrease (-) in 2017-18 over 2016-17	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Non-ferrous mining and metallurgical Industries	1,750.00	1,474.49	1,750.00	1,931.10	2,048.15	2,003.80	2,402.83	2,419.43	2,667.65	2,746.80	11.02	13.53
2.	Other Non-tax receipts	2,288.28	2,557.41	2,723.43	2,757.14	3,158.02	3,351.24	3,817.62	3,375.10	4,276.97	3,729.73	12.03	10.51
Total		4,038.28	4,031.90	4,473.43	4,688.24	5,206.17	5,355.04	6,220.45	5,794.53	6,944.62	6,476.53	11.64	11.77

² Includes interest (₹ 6.61 crore), penalty (₹ 2.99 crore), fee (₹ 35.25 crore), input tax credit cross-utilisation of SGST and IGST (₹ 7,062.87 crore), apportionment of IGST-transfer-in of tax component to SGST (₹ 964.64 crore) and advance apportionment from IGST (₹ 1,582.00 crore).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2018 on some principal heads of revenue amounted to ₹17,740.31 crore as detailed in **Table 1.2**.

Table 1.2
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2018	Replies of Department
1.	0039 (State Excise)	816.65	Out of the total arrears, ₹ 83.88 crore was stayed by courts, ₹ 376.28 crore was covered by Revenue Recovery Certificates and recovery is in progress in the remaining ₹ 356.49 crore.
2.	0040 (Taxes on sales, trade, etc.)	15,399.84	Out of the total arrears, ₹ 3,686.45 crore was stayed by courts, ₹ 142.41 crore was before BIFR ³ , ₹ 289.89 crore was under liquidation process, ₹ 216.51 crore was covered by Revenue Recovery Certificates, ₹ 10,873.18 crore was under Court and Departmental recovery, write-off proposals were made for ₹ 67.51 crore and payments of ₹ 123.89 crore received were under verification.
3.	0853 (Non-ferrous mining and metallurgical Industries)	1,402.08	Not Furnished
4.	0030 (Stamp Duty and Registration Fees)	121.74	Not Furnished
Total		17,740.31	

Details of arrears of revenue, if any, of Energy, Transport and Revenue Departments, though called for (June 2018) were not received (December 2018).

1.3 Evasion of tax detected by the Departments

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

³ Board for Industrial and Financial Reconstruction.

Table 1.3
Evasion of tax

(₹ in crore)

Sl. No.	Head of revenue	Cases pending as on 31 March 2017	Cases detected during 2017-18	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 2018
					Number of cases	Amount of demand	
1.	0039 (State Excise)	02	0	02	0	0	02
2.	0040 (Taxes on sales, trade, etc.)	7,070	6,513	13,583	9,660	144.42	3,923
3.	0030 (Stamp Duty and Registration Fees)	04	0	04	01	0.73	03

The above cases are shown as pending by the State Excise Department even before the year 2014-15. Early action may be taken to settle these cases in the interest of revenue. Though a majority of cases detected have been settled in CTD, a significant number of cases are still outstanding at the end of the year. Early action may be taken by CTD to settle these cases in the interest of revenue.

Details of frauds and evasions detected, if any, by the Transport, Energy and Revenue Departments, though called for (June 2018) had not been received (December 2018). The Department of Mines and Geology reported that no such cases were detected.

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 2017-18 as reported by the Commercial Taxes and State Excise Departments are given in **Table 1.4**.

Table 1.4
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales Tax/VAT		State Excise	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,849	835.90	0	0
2.	Claims received during the year	5,991	5,214.10	Not Furnished	10.44
3.	Refunds made during the year	5,922	5,736.19	Not Furnished	10.44
4.	Balance outstanding at the end of the year	1,918	313.81	0	0

Though the details were furnished by the Stamps and Registration Department, these are not brought out in the paragraph due to mismatch of figures.

Details of pendency of refunds cases, if any, in the Energy, Transport and Revenue Departments, though called for (June 2018), were not received (December 2018). The Mines and Geology Department reported that no refund cases were pending.

1.5 Response of the Government/Departments towards Audit

Principal Accountant General (Economic and Revenue Sector Audit) 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 an initial reply to the Principal Accountant General within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

4,099 paragraphs involving ₹ 1,467.14 crore contained in 1,385 IRs (issued upto December 2017), remained outstanding at the end of June 2018. The details along with the corresponding figures for the preceding two years are given in **Table 1.5**.

Table 1.5
Details of pending Inspection Reports

	As of June 2016	As of June 2017	As of June 2018
Number of IRs pending for settlement	4,443	2,282	1,385
Number of outstanding audit observations	9,305	5,527	4,099
Amount of revenue involved (₹ in crore)	2,162.61	2,010.14	1,467.14

1.5.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2018 and the amounts involved are given in **Table 1.5.1**.

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	584	2,272	397.48
2.		State Excise	70	116	25.92
3.	Revenue	Land Revenue	177	395	243.20
4.		Stamp Duty and Registration Fees	355	873	117.28
5.	Transport	Taxes on motor vehicles	131	277	16.33
6.	Commerce and Industries	Non-ferrous mining and metallurgical industries	61	155	665.74
7.	Energy	Electricity Tax	7	11	1.19
Total			1,385	4,099	1,467.14

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 259 IRs issued during 2017-18. This large pendency of the IRs due to non-receipt of the replies indicated that the heads of Offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the Principal Accountant General in the IRs.

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 Principal Accountant General. These Committees are to meet periodically and, in any case, at least once in a quarter. The Department-wise number of adhoc committee meetings held and paragraphs settled during the year 2017-18 were as under **Table 1.5.2**.

Table 1.5.2
Departmental Audit Committee meetings

(₹ in lakh)

Department	No. of meetings held	No. of paragraphs settled	Money value
State Excise	1	108	2,945.84
Transport	1	40	167.32
Stamps and Registration	1	158	278.98
Total	3	306	3,392.14

The number of meetings held and progress of settlement of paragraphs were negligible as compared to the huge pendency of the IRs and paragraphs. Adhoc committee meetings were not convened by four Departments viz. the Department of Mines and Geology, Commercial Taxes Department, Land Revenue and Energy Department.

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 to the Offices, usually one month before the commencement of audit, to enable them to keep the relevant records ready for audit scrutiny.

During the year 2017-18, out of 386 Offices under Finance, Revenue, Transport Commerce and Industries and Energy Departments, ten Offices did not produce 35 records/files for audit in various Offices under Finance, Revenue Departments. Hence, the correctness of the assessments made and taxes levied or revenue collected could not be ensured in those cases mentioned below in **Table 1.5.3**.

Table 1.5.3
Details of non-production of records

Sl.No.	Name of the Office/Department	Number of records not produced to audit
1.	Department of Stamps and Registration	01
2.	Commercial Taxes Department	02
3.	Department of Land Revenue	13
4.	State Excise Department	19
	Total	35

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 Principal Accountant General to the Additional Chief Secretary/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 remarks 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.

Fifteen 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 2018 were forwarded to the Additional Chief Secretary/Principal Secretaries/Secretaries to the Government and copies endorsed to the heads of Departments concerned between March and October 2018.

Replies for 12 Draft Paragraphs relating to Commercial Taxes and Stamp Duty and Registration Fee have been received from the Government. In respect of Two Performance Audits, Exit Conferences were held with the Government during October and November 2018.

Reply to the remaining one Draft Paragraph pertaining to Department of Mines and Geology, has not been received from the Government (December 2018).

1.5.5 Follow-up on the Audit Reports - Summarised position

According to the Rules of Procedure (Internal Working) of the Committee of Public Accounts (PAC), the Departments of Government are to furnish detailed explanations (Departmental Notes) on the audit paragraphs to the Karnataka Legislative Assembly Secretariat within four months of an Audit Report being laid on the Table of the Legislature. The Rules further require that before such submission, Departmental Notes are to be vetted by the Principal Accountant General.

120 paragraphs (including Performance Audits) were included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Karnataka for the years ended 31 March 2013, 2014, 2015, 2016 and 2017 which got placed before the State Legislature Assembly between February 2014 and February 2018.

As of October 2018, out of 120 paragraphs, Departmental Notes have been received for 99 paragraphs. The Departmental Notes for 98 of these paragraphs included in Audit Reports for the years 2012-13 to 2015-16 were received belatedly, with an average delay of ten months. Only one note was received within the due date. However, Departmental Notes on the remaining 21 paragraphs from five Departments (Commercial Taxes, Land Revenue, Stamps and Registration, State Excise and Mines and Geology) have not been received (December 2018).

This indicates that more proactive action is required from the Executive to pursue the important issues highlighted in the Audit Reports, which would also aid in collection of unrealised revenue.

1.6 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of compliance by the Department/Government to the issues highlighted in the Inspection Reports/Audit Reports 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 Commercial Taxes 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 2008-09 to 2016-17.

1.6.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last ten years, paragraphs included in these reports and their status as on 31 March 2018 are tabulated below in **Table 1.6.1**.

Table 1.6.1
Position of Inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the Year			Clearance during the Year			Closing Balance		
		IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
1.	2008-09	1,239	3,674	266.22	218	921	230.50	78	838	70.58	1,379	3,757	426.13
2.	2009-10	1,379	3,757	426.13	103	579	103.68	36	355	108.34	1,446	3,981	421.48
3.	2010-11	1,446	3,981	421.48	71	459	81.56	63	476	47.22	1,454	3,964	455.82
4.	2011-12	1,454	3,964	455.82	121	528	82.52	8	211	26.03	1,567	4,281	512.31
5.	2012-13	1,567	4,281	512.31	237	764	70.25	72	443	99.87	1,732	4,602	482.69
6.	2013-14	1,732	4,602	482.69	205	632	72.06	21	391	58.32	1,916	4,843	496.43
7.	2014-15	1,916	4,843	496.43	185	865	80.69	4	600	124.76	2,097	5,108	452.36
8.	2015-16	2,097	5,108	452.36	176	926	70.77	63	627	71.45	2,210	5,407	451.68
9.	2016-17	2,210	5,407	451.68	165	778	102.22	19	335	37.61	2,356	5,850	516.29
10.	2017-18	2,356	5,850	516.29	134	596	172.22	1891	4133	331.80	599	2,313	356.71

⁴ Under Revenue heads 0028, 0040.

During the year 2017-18, no Adhoc Committee meetings were held by the Commercial Taxes Department for settlement of IRs/paragraphs.

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

1.6.2 Recovery in accepted cases

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

Table 1.6.2
Recovery in accepted cases

(₹ in crore)

Sl. No.	Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year 2017-18	Cumulative position of recovery of accepted cases as of 31-03-2018
1.	2007-08	20	78.28	15	25.99	0	8.15
2.	2008-09	11	8.01	8	3.73	0	2.81
3.	2009-10	9	15.29	9	10.79	0	4.48
4.	2010-11	10	79.26	6	0.90	0	1.17
5.	2011-12	9	82.12	6	15.76	0	4.05
6.	2012-13	14	155.51	9	2.45	0	2.31
7.	2013-14	10	104.72	9	7.56	0	4.08
8.	2014-15	11	16.07	8	6.72	0.18	5.61
9.	2015-16	6	281.59	6	24.12	1.38	16.62
10.	2016-17	6	57.72	6	5.68	0	1.62

As seen from the table above, the percentage of recovery by the Commercial Taxes Department in accepted cases for the years 2007-08 to 2016-17 was only 49.08 *per cent*. Therefore, the Department must take immediate action to pursue recovery of the dues involved in accepted cases.

1.7 Audit Planning

The Auditable Units under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* includes critical issues in Government revenues, the 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 2017-18, there were 1,250 auditable units, of which 366 units were planned and 386 units had been audited, which was 30.88 *per cent* of the total auditable units. The details are shown in **Table 1.7.1**.

Table 1.7.1
Details of units audited

Sl. No.	Department	Number of units		
		Auditable Units during the year 2017-18	Units planned for audit during 2017-18	Units audited during 2017-18
1.	Commercial Taxes	430	118	123
2.	Stamp Duty and Registration	283	56	63
3.	Transport	81	39	41
4.	Land Revenue	259	62	64
5.	State Excise	129	67	67
6.	Mines and Geology	34	12	16
7.	Energy	34	12	12
	Total	1,250	366	386

Besides the audit of units mentioned above, Two Performance Audits on the “Assessment and Implementation of Guidance Market Value in Karnataka” and “Systematic and Scientific Mining and Protection of Environment in respect of Quarry Leases of Minor Minerals” were also taken up during the year.

1.8 Results of Audit

Position of local audit conducted during the year

Test-check of the records of 386 units of Sales Tax/Value Added Tax, State Excise, Taxes on Motor Vehicles, Stamps and Registration Fee, Land Revenue and other Departmental Offices conducted during the year 2017-18 showed under-assessment/short-levy/loss of revenue aggregating ₹ 750.43 crore in respect of cases pointed out through 847 paragraphs. During the course of the year, the Departments concerned accepted under-assessment and other deficiencies of ₹ 20.84 crore raised through 146 paragraphs during 2017-18. The Departments collected ₹ 89.74 crore pointed out in 758 paragraphs pertaining to the audit findings of previous years during 2017-18.

1.9 Coverage of this Report

This Report contains 15 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 two Performance Audits involving financial effect of ₹ 595.66 crore.

The Departments/Government had accepted audit observations in 608 cases relating to 12 paragraphs involving ₹ 20.03 crore, out of which ₹ 4.57 crore had been recovered in 248 cases. The replies in the remaining cases had not been received (December 2018). These are discussed in succeeding Chapters II to IV.