

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2008-09, the State's share of divisible Union taxes 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:

(Rupees in crore)						
Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
I.	Revenue raised by the State Government					
	• Tax revenue	16,072.32 ¹	18,631.55	23,301.03	25,986.76	27,645.66
	• Non-tax revenue	4,472.34 ¹	3,874.71	4,098.41	3,357.66	3,158.99
	Total	20,544.66¹	22,506.26	27,399.44	29,344.42	30,804.65
II.	Receipts from the Government of India					
	• State's share of divisible Union taxes	3,878.44	4,213.42	5,374.33	6,779.23	7,153.77 ²
	• Grants-in-aid	2,146.56	3,632.37	4,813.17	5,027.49	5,332.25
	Total	6,025.00	7,845.79	10,187.50	11,806.72	12,486.02
III.	Total receipts of the State	26,569.66¹	30,352.05	37,586.94	41,151.14	43,290.67
IV.	Percentage of I to III	77	74	73	71	71

The above table indicates that during the year 2008-09, the revenue raised by the State Government was 71 per cent of the total revenue receipts (Rs. 43,290.67 crore). The balance 29 per cent of receipts during 2008-09 was from the Government of India.

¹ These figures differ from those adopted in the Audit Report for the year ended 31 March 2005 on account of corrections effected in the Finance Accounts for that year as reflected in the Finance Accounts for the year 2005-06.

² For details see statement No.11 – Detailed accounts of revenue by Minor Head of the Finance Accounts of the Government of Karnataka for the year 2008-09. Figures of 'Tax share of net proceeds assigned to States' booked in the Finance Accounts under A-Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in the statement.

1.1.1 The following table presents the details of tax revenue realised during the period from 2004-05 to 2008-09:

(Rupees in crore)							
Sl. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase(+)/ decrease (-) in 2008-09 over 2007-08
1.	Taxes on sales, trade, etc.	8,700.07	9,869.54	11,761.72	13,893.99	14,622.73	(+) 5.25
2.	State excise	2,805.53	3,396.79	4,495.48	4,766.57	5,749.57	(+) 20.62
3.	Stamps and registration fees	1,759.84	2,212.20	3,205.80	3,408.83	2,926.72	(-) 14.14
4.	Taxes on vehicles	982.99	1,105.45	1,374.50	1,650.13	1,681.16	(+) 1.88
5.	Taxes on goods and passengers	791.72	1,041.45	1,147.20	837.34	1,085.02	(+) 29.58
6.	Taxes and duties on electricity	339.02 ³	277.09	388.57	449.50	370.59	(-) 17.56
7.	Other taxes on income and expenditure	277.93	330.25	392.58	451.37	538.79	(+) 19.37
8.	Other taxes and duties on commodities and services	295.28	280.66	425.05	380.68	406.15	(+) 6.69
9.	Land revenue	117.76	116.50	108.76	145.31	255.65	(+) 75.93
10.	Taxes on agricultural income	2.18	1.62	1.37	3.04	9.28	(+) 205.26
Total		16,072.32³	18,631.55	23,301.03	25,986.76	27,645.66	6.38

Reasons for variations in receipts during 2008-09 as compared to those of 2007-08 were not intimated (November 2009) by the respective departments despite being requested in June 2009 except from Stamps and Registration Department mentioned below:

Stamps and registration fees: The decrease was attributed by the department to global economic recession. This decrease mainly occurred under 'Duty on impressing of documents'.

1.1.2 The following table presents the details of major non-tax revenue realised during the period 2004-05 to 2008-09:

³ These figures differ from those adopted in the Audit Report for the year ended 31 March 2005 on account of corrections effected in the Finance Accounts for that year as reflected in the Finance Accounts for the year 2005-06.

(Rupees in crore)

Sl. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase(+)/ decrease (-) in 2008-09 over 2007-08
1.	Non-ferrous mining and metallurgical industries	289.94	325.37	366.29	472.35	556.07	(+) 17.72
2.	Interest receipts	144.79 ⁴	283.00	376.19	375.24	337.17	(-) 10.15
3.	Forestry and wild life	169.41	115.80	127.97	131.84	126.92	(-) 3.73
4.	Contributions and recoveries towards pensions and other retirement benefits	18.38	76.64	27.47	29.08	76.20	(+) 162.04
5.	Other administrative services	136.88	74.33	101.34	79.60	94.37	(+) 18.56
6.	Education, sports, art and culture	45.37	44.91	65.00	74.93	73.56	(-) 1.83
7.	Medical and public health	47.07	43.92	39.54	52.77	40.52	(-) 23.21
8.	Police	37.26 ⁴	42.55	52.91	58.84	69.82	(+) 18.66
9.	Other general economic services	527.40	294.51	407.92	443.25	432.47	(-) 2.43
10.	Co-operation	31.80	31.07	30.13	33.14	37.30	(+) 12.55
11.	Village and small industries	18.46	29.05	39.46	35.30	36.65	(+) 3.82
12.	Public works	14.00	27.27	31.32	21.75	18.81	(-) 13.52
13.	Roads and bridges	13.83	25.01	24.18	14.05	36.71	(+) 161.28
14.	Major and medium irrigation	13.35	22.30	21.48	19.69	22.11	(+) 12.29
15.	Dividends and profits	16.66	16.88	19.48	23.40	40.14	(+) 71.54
16.	Housing	10.73	16.47	11.49	15.51	20.69	(+) 33.40
17.	Crop husbandry	11.89	10.69	12.92	14.04	15.69	(+) 11.75
18.	Miscellaneous general services	1,882.46 ⁴	1,792.76	1,892.46	468.20	398.92	(-) 14.80
19.	Others	1,042.66 ⁴	602.18	450.86	994.68	724.87	(-) 27.13
Total		4,472.34⁴	3,874.71	4,098.41	3,357.66	3,158.99	(-) 5.92

Reasons for variations in receipts during 2008-09 as compared to those of 2007-08 were not intimated (November 2009) by respective departments despite being requested (June 2009).

1.2 Variations between the budget estimates and actual receipts

The variations between the budget estimates and actuals of revenue receipts for the year 2008-09 in respect of the principal heads of tax and non-tax revenue are mentioned below:

⁴ These figures differ from those adopted in the Audit Report for the year ended 31 March 2005 on account of corrections effected in the Finance Accounts for that year as reflected in the Finance Accounts for the year 2005-06.

(Rupees in crore)

Sl. No.	Head of revenue	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation
Tax revenue					
1.	Taxes on sales, trade, etc.	17,160.78	14,622.73	(-) 2,538.05	(-) 14.79
2.	State excise	5,626.08	5,749.57	(+) 123.49	(+) 2.19
3.	Stamps and registration fees	4,195.84	2,926.72	(-) 1,269.12	(-) 30.25
4.	Taxes on vehicles	1,769.04	1,681.16	(-) 87.88	(-) 4.97
5.	Taxes on goods and passengers	1,259.98	1,085.02	(-) 174.96	(-) 13.89
6.	Taxes and duties on electricity	385.79	370.59	(-) 15.20	(-) 3.94
7.	Other taxes on income and expenditure	428.47	538.79	(+) 110.32	(+) 25.75
8.	Other taxes and duties on commodities and services	527.77	406.15	(-) 121.62	(-) 23.04
9.	Land revenue	90.48	255.65	(+) 165.17	(+) 182.55
10.	Taxes on agricultural income	1.69	9.28	(+) 7.59	(+) 449.11
Non-tax revenue					
1.	Non-ferrous mining and metallurgical industries	632.70	556.07	(-) 76.63	(-) 12.11
2.	Interest receipts	146.92	337.17	(+) 190.25	(+) 129.49
3.	Forestry and wild life	186.77	126.92	(-) 59.85	(-) 32.04
4.	Contributions and recoveries towards pensions and other retirement benefits	19.88	76.20	(+) 56.32	(+) 283.30
5.	Other administrative services	42.87	94.37	(+) 51.50	(+) 120.13
6.	Education, sports, art and culture	54.02	73.56	(+) 19.54	(+) 36.17
7.	Medical and public health	55.31	40.52	(-) 14.79	(-) 26.74
8.	Police	52.13	69.82	(+) 17.69	(+) 33.93
9.	Other general economic services	413.23	432.47	(+) 19.24	(+) 4.66
10.	Co-operation	38.18	37.30	(-) 0.88	(-) 2.30
11.	Village and small industries	21.37	36.65	(+) 15.28	(+) 71.50
12.	Public works	15.05	18.81	(+) 3.76	(+) 24.98
13.	Roads and bridges	31.50	36.71	(+) 5.21	(+) 16.54
14.	Major and medium irrigation	23.59	22.11	(-) 1.48	(-) 6.27
15.	Dividends and profits	2.87	40.14	(+) 37.27	(+) 1,298.61
16.	Housing	12.69	20.69	(+) 8.00	(+) 63.04
17.	Crop husbandry	17.43	15.69	(-) 1.74	(-) 9.98
18.	Miscellaneous general services	30.26	398.92	(+) 368.66	(+) 1,218.31

Reasons for variations between the budget estimates and actuals as reported by the respective departments were as under:

Taxes and duties on electricity: The decrease was attributed to non-payment of tax by Electricity Supply Companies (ESCOMs).

Stamps and registration fees: The department attributed decrease in revenue to global economic recession.

The other departments did not inform (November 2009) the reasons for variations despite being requested (June 2009).

1.3 Cost of collection

The gross collection in respect of the major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2006-07, 2007-08 and 2008-09 along with the relevant all India average percentage of expenditure on collection to gross collection for 2007-08 were as follows:

Sl. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the year 2007-08
			(Rupees in crore)			
1.	Taxes on sales, trade, etc.	2006-07	11,761.72	60.60	0.51	0.83
		2007-08	13,893.99	74.30	0.53	
		2008-09	14,622.73	81.62	0.56	
2.	Taxes on vehicles	2006-07	1,374.50	24.37	1.77	2.58
		2007-08	1,650.13	29.39	1.78	
		2008-09	1,681.16	34.84	2.07	

1.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs. 3,128.76 crore as mentioned below:

(Rupees in crore)				
Sl. No.	Head of revenue	Amount of arrears as on 31 March 2009	Arrears outstanding for more than five years as on 31 March 2009	Remarks
1.	Taxes on sales, trade, etc., entry tax, entertainments tax, agricultural income tax, professions tax, luxury tax	3,004.80	Not furnished	Out of the total arrears, Rs. 366.67 crore was stayed by courts, Rs. 73.28 crore was covered by revenue recovery certificates, Rs. 43.13 crore was proposed to be written off and balance of Rs. 2,521.72 crore was under various stages of recovery.
2.	Taxes and duties on electricity	61.06	17.66	Out of the total arrears, Rs. 54.86 crore relates to Electricity Supply Companies (ESCOMS) and Rs. 6.20 crore relates to others.
3.	Stamp duty and registration fee	62.90	Not furnished	Details regarding stages of action at which arrears are pending have not been furnished.
Total		3,128.76	17.66	

The position of arrears of revenue pending collection at the end of 2008-09 in respect of other departments was not furnished (November 2009) despite being requested (June 2009).

1.5 Arrears in assessments

The details of assessments relating to sales tax, taxes on goods and passengers, entertainments tax, luxury tax, professions tax and agricultural income tax pending at the beginning of the year, additional cases which became due for assessment during the year, cases disposed of during the year and cases pending at the end of each year during 2004-05 to 2008-09 as furnished by the Commercial Taxes Department (CTD) are mentioned below:

Year	Opening balance	Cases which became due for assessment	Total	Cases disposed of during the year	Cases pending at the end of the year
2004-05	6,42,574	4,85,217	11,27,791	5,44,364	5,83,427
2005-06	5,83,427	4,72,386	10,55,813	2,82,894	7,72,919
2006-07	7,72,919	1,59,719	9,32,638	6,56,233	2,76,405
2007-08	2,76,405	42,503	3,18,908	1,29,130	1,89,778
2008-09	1,83,547 [#]	38,015	2,21,562	78,538	1,43,024

[#] Differs from the closing balance of 1,89,778 reported by the department for 2007-08. No reasons for the same were furnished though called for in August 2009.

The arrears in assessment as on 31 March 2009 include 40,661 cases relating to 2004-05 and earlier years, 22,939 cases relating to 2005-06, 25,013 cases relating to 2006-07, 39,553 cases relating to the year 2007-08 and 14,858 cases relating to the year 2008-09.

1.6 Arrears in appeals

According to the information furnished by the CTD, opening balance of cases under appeals for 2008-09 was 6,145. During the year, appeals were filed in 10,387 cases and 8,030 cases were disposed of. As at the end of 31 March 2009, there were 8,502 cases pending for disposal registering growth of 38.36 *per cent* to the opening balance.

1.7 Outstanding inspection reports and audit observations

Accountant General (Works, Forest & Receipt Audit) (AG), Karnataka conducts periodical inspections of the Government departments to test check the transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). When important irregularities detected during the inspections are not settled on the spot, these IRs are issued to the heads of offices inspected with a copy to the next higher authorities. The hand book of instructions for speedy settlement of audit observations (Finance Department) provides for prompt response by the executive to the IRs issued by audit to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, etc., noticed during the inspections. All IRs received from AG are required to be replied within a period of one month from the date of their receipt. The heads of offices and next higher authorities are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly and report their compliance to the AG. Serious irregularities are also brought to the notice of heads of departments by audit. A half-yearly report of pending IRs is sent to the concerned Principal Secretary to the Government and the controlling officers of the departments to facilitate monitoring of the pending audit observations.

The number of IRs and audit observations issued upto the end of December 2008, along with the corresponding figures for preceding two years are as follows:

	June 2007	June 2008	June 2009
Number of outstanding IRs	3,588	3,778	3,705
Number of outstanding audit observations	6,866	7,039	7,028
Amount involved (Rupees in crore)	1,302.71	1,420.58	1,417.56

Out of 3,705 IRs pending settlement, first replies have not been received (June 2009) for 191 IRs containing 720 audit observations. Pendency of these reports was reported to Government from time to time. However, no remedial action has been taken for speedy settlement of the IRs (November 2009). The department-wise details of IRs and audit observations outstanding as on 30 June 2009 and the amount involved are indicated below:

Sl. No.	Department	Nature of receipts	Number of outstanding inspection reports	Number of outstanding audit observations	Amount of receipts involved (Rupees in crore)
1.	Finance	(a) Taxes on sales, trade, etc., entry tax, entertainments tax, luxury tax, professions tax and betting tax	1,144	3,437	365.31
		(b) Agricultural income tax	27	58	7.33
		(c) State excise	953	1,002	355.13
2.	Energy	Electricity duty	9	12	49.03
3.	Revenue	(a) Land revenue	448	707	91.82
		(b) Stamps and registration fees	448	665	57.89
4.	Home and Transport	Taxes on motor vehicles	305	510	61.73
5.	Forest, Ecology and Environment	Forest receipts	214	290	275.01
6.	Commerce and Industries	(a) Sericulture industries receipts	44	55	5.00
		(b) Mineral receipts	78	215	138.50
7.	Public Works	Public works receipts	35	77	10.81
Total			3,705	7,028	1,417.56

Since the outstanding amount represents unrealised revenue, the Government needs to take speedy and effective action on the issues raised in the IRs.

1.8 Adhoc committee meetings

The Government issued (March 1968) instructions to constitute 'Adhoc Committees' in the Secretariat of 10 departments to expedite the clearance of audit observations contained in the IRs. These committees are to be headed by the Secretaries of the concerned Administrative Departments and attended by the designated officers of the State Government and a nominee of the AG.

These committees are to meet periodically and, in any case, at least once in a quarter.

Out of 10, only 3 departments held adhoc committee meetings during 2008-09.

The Department-wise number of adhoc committee meetings held and paragraphs settled are as under:

Department	No. of meetings held	No. of paragraphs settled	Money value (Rupees in crore)
Forest, Ecology and Environment	2	7	0.17
Land Revenue	2	143	17.76
State Excise	3	143	4.33

The other departments had not convened adhoc committee meetings to discuss the IRs on revenue receipts relating to commercial taxes, stamps and registrations fees, tax on motor vehicles, tax on electricity, mineral receipts, sericulture and public works. Thus, it would be seen from the above that poor response of the departments in holding the meetings resulted in poor settlement of paras and non-realisation of Government revenue.

1.9 Response of the departments to draft audit paragraphs

Draft paragraphs/reviews proposed for inclusion in the Audit Report are forwarded by the AG to 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/reviews 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.

Forty six draft paragraphs clubbed into 26 paragraphs (including three reviews) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2009 were forwarded to the concerned Principal Secretaries to Government and copies endorsed to concerned heads of departments during March-September 2009. Their replies were due latest by the end of July-November 2009.

Replies of Government to 29 draft paragraphs have been received and considered in finalisation of the Report. However, none of the replies were received within the prescribed period of six weeks. Further, the draft reviews were discussed in the exit conference with the Principal Secretary/Secretary of the departments concerned.

1.10 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 AG.

A review of the position in this regard revealed that as of November 2009, 11 departments had not furnished the departmental notes in respect of 175 paragraphs included in Audit Reports for the years 1992-93 to 2007-08 due between July 1994 and June 2009, for vetting. The delay ranged from 5 months to over 15 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 (months)
1.	Finance	1996-97, 1999-2000 to 2007-08	May 1998 to February 2009	September 1998 to June 2009	117	5 to 135
2.	Revenue	1992-93 to 1996-97, 2004-05 to 2007-08	March 1994 to February 2009	July 1994 to June 2009	30	5 to 184
3.	Forest	2002-03 to 2004-05	July 2004 to March 2007	November 2004 to July 2007	6	28 to 60
4.	Urban Development	1998-99, 2002-03 to 2004-05 and 2006-07	March 2000 to July 2007	July 2000 to November 2007	5	24 to 112
5.	Energy	1993-94, 2001-02, 2002-03 and 2007-08	March 1995 to February 2009	July 1995 to June 2009	4	5 to 172
6.	Transport	2007-08	February 2009	June 2009	4	5
7.	Commerce and Industries	1996-97, 2002-03 and 2007-08	May 1998 to February 2009	September 1998 to June 2009	3	5 to 135
8.	Co-operation	2005-06 and 2007-08	July 2007 and February 2009	November 2007 and June 2009	2	5 to 24
9.	Health and Family Welfare	1997-98	March 1999	July 1999	1	125
10.	Public Works	2004-05	March 2006	July 2006	1	40
11.	Minor Irrigation	2006-07 and 2007-08	July 2007 and February 2009	November 2007 and June 2009	2	5 to 24
Total					175	

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

1.11 Compliance with earlier Audit Reports

In the Audit Reports 2003-04 to 2007-08, 8,800 cases of underassessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. were included involving Rs. 2,565.05 crore. Of these, to the end of September 2009, the departments concerned have accepted 4,957 cases involving Rs. 354.58 crore and recovered Rs. 33.83 crore in 1,249 of them. Audit Report wise details of cases accepted and recovered are as under:

(Rupees 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
2003-04	1,038	393.46	950	19.14	376	8.82
2004-05	544	820.86	396	27.59	236	9.17
2005-06	1,314	694.48	745	117.20	224	4.55
2006-07	824	324.48	487	24.56	137	2.64
2007-08	5,080	331.77	2,379	166.09	276	8.65
Total	8,800	2,565.05	4,957	354.58	1,249	33.83

It would be seen from the above that only 9.54 per cent of the amount involved in the cases accepted by the department was recovered during the last five years.

1.12 Results of audit

Test check of the records of sales tax, state excise, taxes on motor vehicles, agricultural income tax, land revenue, stamps and registration fees, entry tax, entertainments tax, professions tax, betting tax, electricity tax, forest and other departmental offices conducted during the year 2008-09 revealed underassessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. involving Rs. 638.87 crore in 1,075 cases. During the course of the year 2008-09, the departments concerned accepted underassessments, short demands, etc. aggregating Rs. 299.21 crore in 1,183 cases including 1,053 cases involving Rs. 265.86 crore which were pointed out in audit in earlier years. Rs. 22.72 crore relating to 855 audit observations were recovered at the instance of audit.

This Report contains 26 paragraphs including three reviews involving financial effect of Rs. 336.61 crore. The departments accepted audit observations involving Rs. 286.52 crore, of which Rs. 2.03 crore had been recovered upto November 2009. These are discussed in the succeeding Chapters II to VII.