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PREFACE

This Report for the year ended 31 March 2010 has been prepared for submission to the Governor under Article 151 (2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising sales tax, state excise, taxes on motor vehicles, land revenue, stamps and registration fees, other tax receipts and non-tax receipts of the State.

The cases mentioned in the Report are among those which came to notice in the course of test audit of records during the year 2009-10 as well as those which came to notice in earlier years but could not be included in previous years' Reports.

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OVERVIEW

This Report contains 26 paragraphs including three reviews pointing out non-levy or short levy of tax, interest, penalty, revenue foregone, etc. The financial impact of the Report is ₹ 439.54 crore of which ₹ 411.50 crore pertains to three reviews. Some of the major findings are mentioned below:

I General

Total revenue receipts of the State Government for the year 2009-10 amounted to ₹ 49,155.70 crore against ₹ 43,290.67 crore for the previous year. 69 *per cent* of this was raised by State through tax revenue (₹ 30,578.60 crore) and non-tax revenue (₹ 3,333.80 crore). The balance 31 *per cent* was received from the Government of India as State's share of divisible Union taxes (₹ 7,359.98 crore) and grants-in-aid (₹ 7,883.32 crore).

(Paragraph 1.1.1)

3,554 inspection reports issued upto December 2009 containing 7,106 observations involving money value of ₹ 1,701.48 crore were pending settlement at the end of June 2010.

(Paragraph 1.2.1)

Records of 365 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 2009-10. Further, records of 42 offices (includes 19 offices audited as per audit plan) of the Revenue Department and 14 departments of the State Government were also test checked for three performance audit reviews conducted during the year 2009-10. These revealed underassessments, non/short levy of taxes, loss of revenue, failure to raise demands and other irregularities aggregating ₹ 770.97 crore in 950 cases. During the course of the year, the Departments concerned accepted underassessments and other deficiencies of ₹ 65.90 crore in 208 cases, of which 53 cases involving ₹ 1.43 crore were pointed out in audit in earlier years. The departments recovered ₹ 11.02 crore relating to 297 cases at the instance of audit.

(Paragraph 1.5.1)

II Taxes on sales, trade, etc.

A review on **IT audit of VATSoft in Commercial Taxes Department** revealed as under:

Software developed for implementation of VAT by the CTD through a private agency for ₹ 7.09 crore was discontinued for various reasons resulting in infructuous expenditure.

(Paragraph 2.12.5.1)

The CTD did not clearly spell out the basic objectives for computerisation. Further, the Department assigned development of the application system to NIC without formalizing the terms of engagement.

(Paragraph 2.12.5.2)

No system audit was conducted by the CTD either during development stage or after the completion of the implementation. Consequently, adherence to system development standards, documentation, and incorporation of detective controls could not be ensured.

(Paragraph 2.12.5.3)

There was no approved policy regarding acquisition and periodic up gradation of hardware resources, disposal of e-waste, period of retention and subsequent disposal of source documents etc. Disposal of hard disks and other media without removing data has the potential risk of recovery and misuse of vital data of the CTD by unauthorised persons.

(Paragraph 2.12.6.2)

Network security was inadequate due to co-existence of LAN and internet connections in the computer nodes without firewall protection, non-disabling of USB ports and absence of clear policy for installation of security patches led to inadequate network security.

(Paragraph 2.12.6.4)

The Department does not have a clearly documented and approved policy statement comprehensively covering all aspects of logical security. 65 login IDs were provided without capturing the names of the employees to whom it is assigned and in 201 cases same employees were using more than one login ID, in some cases with different user privileges.

(Paragraph 2.12.6.5)

A large number of uncorrected error returns were found in the database, including 4,138 returns where the tax credit brought forward from previous return was shown in excess by ₹ 448.75 crore.

(Paragraph 2.12.7.1)

There were weak input controls as a result of which the dealers claimed ITC on purchases from invalid/deregistered dealers resulting in excess claim of ITC of ₹ 2.03 crore.

(Paragraph 2.12.7.1)

Non-mapping of Business Rules relating to 'revised' return led to acceptance of belated returns.

(Paragraph 2.12.7.1)

Inadequate application controls resulted in double accounting of 405 cheques involving ₹ 3.07 crore.

(Paragraph 2.12.7.1)

Even after a lapse of five years of computerisation there was continued dependence on manual processes for all administrative decisions like processing of refund claims, refunds under industrial incentive scheme, etc.

(Paragraph 2.12.9.1)

Excess/incorrect allowance of input tax of ₹ 2.59 crore was noticed in 28 cases for the tax periods between April 2005 and March 2009.

(Paragraph 2.13.1)

Application of incorrect rate of tax, error in computation of the tax liability, claiming of incorrect exemption on taxable turnover, etc., resulted in underassessment of output tax/net tax of ₹ 1.72 crore.

(Paragraph 2.13.2)

An additional demand of ₹ 11.42 crore was raised while finalising the assessments/reassessments of 38 assesseees. However, interest of ₹ 1.38 crore was either not levied or levied short.

(Paragraph 2.13.3)

III Taxes on Motor Vehicles

In seven RTOs, tax was either not deposited or was levied at incorrect rates. This resulted in short realisation of revenue of ₹ 19.54 lakh.

(Paragraphs 3.8)

IV Land Revenue

A review on **Grant of Government lands and regularisation of unauthorised occupation of Government lands** revealed as under:

Consolidated database regarding extent of land available for grant/lease/auction was not compiled and available with the Government.

(Paragraph 4.6.6)

Norms for determination of market value in respect of lands granted to statutory bodies were not prescribed. Arbitrary determination of market value without adopting all the norms as stipulated for valuation by the Central Valuation Committee resulted in lower determination of market value and loss of revenue of ₹ 66.49 crore in three cases.

(Paragraph 4.6.7.2)

Policy stipulating the terms and conditions for grant of land at concessional rate was not in place and criteria for evaluating eligibility of institutions for such concession were not fixed. Grant of land at concessional rate in two cases resulted in loss of revenue of ₹ 4.77 crore.

(Paragraph 4.6.7.3)

Grant of land at concessional/incorrect rate resulted in loss of revenue of ₹ 5.59 crore. The beneficiaries included two institutions for educational purposes.

(Paragraph 4.6.7.4)

The absence of time limit under the Rules for payment of the land value and non-cancellation of the land grant by the Government resulted in non/belated realisation of Government dues in three cases.

(Paragraph 4.6.7.5)

Application of incorrect guideline value in three cases resulted in short realisation of ₹ 2.28 crore.

(Paragraph 4.6.7.6)

Conversion fine of ₹ 2.45 crore was either not levied or levied short in 31 cases in seven offices.

(Paragraph 4.6.7.7)

Rules for conducting auctions were not framed by Government. Guidelines were not prescribed for evaluating the appropriateness of bids received resulting in allotment of Government land at lower value.

(Paragraphs 4.6.8.1 and 4.6.8.2)

Re-auction of land in Bangalore despite of getting bids above 150 per cent of guideline value was imprudent, resulting in loss of revenue of ₹ 2.03 crore.

(Paragraph 4.6.8.5)

Guidelines for fixing the lease rent were not issued by the Government. The format prescribed for lease rent did not provide for periodic revision of lease rent. Loss of revenue by computing lease rent at one per cent of the guideline value in 61 cases worked out to ₹ 9.54 crore.

(Paragraph 4.6.9.1)

There was no system for preparation/update of list of villages falling within the prescribed distances from Corporation/municipal limits. Regularisation of land under unauthorised occupation within these limits resulted in foregoing revenue of ₹ 72.51 crore.

(Paragraph 4.6.10.2)

Regularisation of land under unauthorised occupation in favour of ineligible persons and regularisation of land in excess of what the applicants had applied for, resulted in loss of revenue of ₹ 50.69 crore.

(Paragraphs 4.6.10.3)

Compounding amount of ₹ 1.52 crore was not levied/short levied in eight cases of unauthorised diversion of agricultural land for non-agricultural purposes.

(Paragraph 4.7.1)

V Stamps and Registration Fees

The incorrect determination of market value in one case in SRO, Ramanagara and suppression of facts in three cases in SRO, Magadi resulted in short levy/evasion of stamp duty and registration fee of ₹ 15.40 lakh. Besides, a maximum penalty of ₹ 8.15 lakh could have been levied in the three cases for suppression of facts.

(Paragraph 5.7.1)

Non-registration of six lease agreements resulted in non-realisation of stamp duty and registration fees of ₹ 39.18 lakh.

(Paragraph 5.7.2)

Incorrect computation of consideration resulted in short levy of stamp duty of ₹ 2.19 crore and registration fee of ₹ 31.18 lakh in 21 lease deeds registered between March 2007 and August 2008.

(Paragraph 5.7.3)

Stamp duty and registration fee of ₹ 1.77 crore was short levied due to application of incorrect rates and incorrect computation of consideration in respect of four documents registered in three Sub-Registrar offices between September 2005 and June 2008.

(Paragraph 5.7.4)

Non-execution of documents relating to conveyance of property in respect of 928 acres 5 guntas of Government land granted to statutory bodies and others resulted in loss of stamp duty of ₹ 10.06 crore and registration fee of ₹ 1.34 crore.

(Paragraph 5.7.7)

VI State Excise and Other Tax Receipts

In Belgaum district, fee of ₹ 1.02 crore was not levied on 16.98 lakh bulk litres of rectified spirit issued by a licensee during 2005-06 and 2006-07 for own use.

(Paragraph 6.7)

VII Non-Tax Receipts

A review on **Interest Receipts** revealed as under:

There were system deficiencies in sanctioning monitoring and recovery of loans. The Karnataka Financial Code (KFC) was not amended to incorporate important Government orders relating to loans and their recoveries. The internal financial advisor had not been involved in sanctioning of loans by various Government Departments.

(Paragraph 7.6.10 and 7.6.11)

Non-fixation of terms and conditions of loans aggregating ₹ 1,357.68 crore sanctioned in 116 cases resulted in non-levy of interest of ₹ 283.65 crore for the period 2004-05 to 2008-09.

(Paragraph 7.6.13.1)

Interest and penal interest aggregating ₹ 39.93 crore was not demanded by seven departments in 48 cases of loans amounting to ₹ 207.82 crore.

(Paragraph 7.6.14)

Penal interest of ₹ 5.08 crore was not levied by Commerce and Industries Department on sugar factories for default in repayment of interest free loans.

(Paragraph 7.6.15)

There was short demand of interest of ₹ 29.17 crore by the Co-operation Department due to application of incorrect rate of interest and levy of interest on principal due instead of outstanding principal. Besides, penal interest of ₹ 4.69 crore was also not demanded.

(Paragraph 7.6.18)

Failure to monitor computation of interest on Special Development Debentures by Registrar of Co-operative Societies resulted in short-levy of interest of ₹ 10.60 crore and penal interest of ₹ 2.66 crore.

(Paragraph 7.6.19)

Fixation of concessional rate of interest by Co-operation Department while rescheduling outstanding loan resulted in irregular allowance of rebate of ₹ 4.63 crore.

(Paragraph 7.6.20)

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 2009-10, 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:

(Rupees in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
I.	Revenue raised by the State Government					
	• Tax revenue	18,631.55	23,301.03	25,986.76	27,645.66	30,578.60
	• Non-tax revenue	3,874.71	4,098.41	3,357.66	3,158.99	3,333.80
	Total	22,506.26	27,399.44	29,344.42	30,804.65	33,912.40
II.	Receipts from the Government of India					
	• State's share of divisible Union taxes	4,213.42	5,374.33	6,779.23	7,153.77	7,359.98 ¹
	• Grants-in-aid	3,632.37	4,813.17	5,027.49	5,332.25	7,883.32
	Total	7,845.79	10,187.50	11,806.72	12,486.02	15,243.30
III.	Total receipts of the State	30,352.05	37,586.94	41,151.14	43,290.67	49,155.70
IV.	Percentage of I to III	74	73	71	71	69

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 33,912.40 crore) was 69 *per cent* of the total revenue receipts against 71 *per cent* in the preceding year. The balance 31 *per cent* of receipts during 2009-10 was from the Government of India.

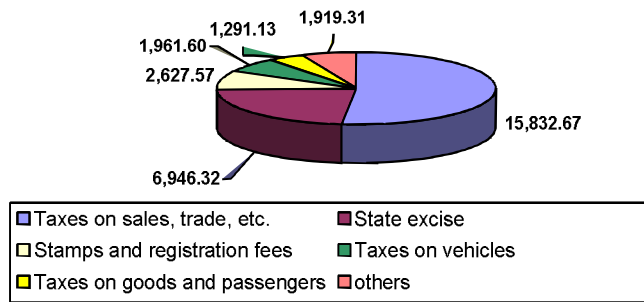
¹ Figures under the major heads of account 0020 Corporation Tax, 0021 Taxes on Income other than Corporation Tax, 0028 Other Taxes on Income and Expenditure, 0032 Taxes on Wealth, 0037 Customs, 0038 Union Excise Duties, 0044 Service Tax and 0045 Other Taxes and Duties on Commodities and Services – Minor head 901 – Share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2009-10, 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 2005-06 to 2009-10:

(Rupees in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/ decrease (-) in 2009-10 over 2008-09
1.	Taxes on sales, trade, etc.	9,869.54	11,761.72	13,893.99	14,622.73	15,832.67	(+) 8.27
2.	State excise	3,396.79	4,495.48	4,766.57	5,749.57	6,946.32	(+) 20.81
3.	Stamps and registration fees	2,212.20	3,205.80	3,408.83	2,926.72	2,627.57	(-) 10.22
4.	Taxes on vehicles	1,105.45	1,374.50	1,650.13	1,681.16	1,961.60	(+) 16.68
5.	Taxes on goods and passengers	1,041.45	1,147.20	837.34	1,085.02	1,291.13	(+) 19.00
6.	Taxes and duties on electricity	277.09	388.57	449.50	370.59	678.69	(+) 83.14
7.	Other taxes on income and expenditure	330.25	392.58	451.37	538.79	527.21	(-) 2.15
8.	Other taxes and duties on commodities and services	280.66	425.05	380.68	406.15	576.83	(+) 42.02
9.	Land revenue	116.50	108.76	145.31	255.65	127.88	(-) 49.98
10.	Taxes on agricultural income	1.62	1.37	3.04	9.28	8.70	(-) 6.25
Total		18,631.55	23,301.03	25,986.76	27,645.66	30,578.60	(+) 10.61

**Graph 1: Tax Revenue 2009-10
(Rupees in crore)**



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

State Excise: The increase was attributed to increase in sale of Toddy/ Beer/IML, increase in collection of arrears of revenue and due to strict implementation of enforcement guidelines.

Stamps and Registration Fees: The decrease was attributed to global economic recession.

Taxes on Vehicles: The increase was attributed to increase in revenue collection on new vehicles' registration and enhancement of tax on different categories of vehicles.

Taxes and Duties on Electricity: The increase was attributed to collection of arrears of tax.

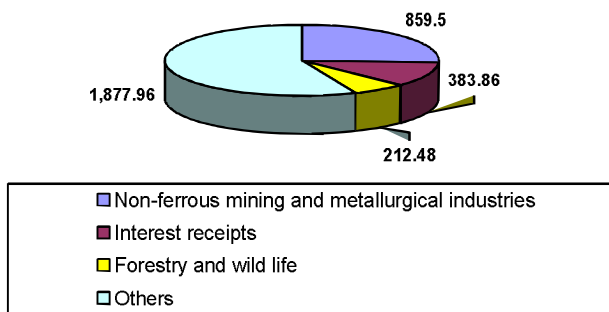
The other Departments did not inform (January 2011) the reasons for variation, although called for (June 2010).

1.1.3 The following table presents the details of major non-tax revenue realised during the period 2005-06 to 2009-10:

(Rupees in crore)							
Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase(+)/ decrease (-) in 2009-10 over 2008-09
1.	Non-ferrous mining and metallurgical industries	325.37	366.29	472.35	556.07	859.50	(+) 54.57
2.	Interest receipts	283.00	376.19	375.24	337.17	383.86	(+) 13.85
3.	Forestry and wild life	115.80	127.97	131.84	126.92	212.48	(+) 67.41
4.	Contributions and recoveries towards pensions and other retirement benefits	76.64	27.47	29.08	76.20	69.07	(-) 9.35
5.	Other administrative services	74.33	101.34	79.60	94.37	99.29	(+) 5.21
6.	Education, sports, art and culture	44.91	65.00	74.93	73.56	95.85	(+) 30.30
7.	Medical and public health	43.92	39.54	52.77	40.52	54.67	(+) 34.92
8.	Police receipts	42.55	52.91	58.84	69.82	82.13	(+) 17.63
9.	Other general economic services	294.51	407.92	443.25	432.47	462.65	(+) 6.98
10.	Co-operation	31.07	30.13	33.14	37.30	46.62	(+) 24.99
11.	Village and small industries	29.05	39.46	35.30	36.65	50.41	(+) 37.54
12.	Public works	27.27	31.32	21.75	18.81	25.27	(+) 34.34
13.	Roads and bridges	25.01	24.18	14.05	36.71	32.46	(-) 11.58
14.	Major and medium irrigation	22.30	21.48	19.69	22.11	16.57	(-) 25.06
15.	Dividends and profits	16.88	19.48	23.40	40.14	29.48	(-) 26.56
16.	Housing	16.47	11.49	15.51	20.69	20.55	(-) 0.68
17.	Crop husbandry	10.69	12.92	14.04	15.69	9.96	(-) 36.52
18.	Miscellaneous general services	1,792.76	1,892.46	468.20	398.92	548.35	(+) 37.46
19.	Others ²	602.18	450.86	994.68	724.87	234.63	(-) 67.63
	Total	3,874.71	4,098.41	3,357.66	3,158.99	3,333.80	(+) 5.53

² Public Service Commission, Jails, Stationery & Printing, Family Welfare, Water supply & sanitation, Housing, Urban development, etc.

**Graph 2: Non tax revenue 2009-10
(Rupees in crore)**



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

Non-ferrous mining and metallurgical industries: The increase was attributed to increase in recovery of royalty and increased utilisation of minor minerals in developmental programmes.

Police receipts: The increase was attributed to increase in recovery of establishment charges for lent personnel and increase in collection of fees from trainees.

The other Departments did not inform (January 2011) the reasons for variation, although called for (June 2010).

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 2009 disclosed that 7,106 paragraphs involving ₹ 1,701.48 crore relating to 3,554 IRs remained outstanding at the end of June 2010 as mentioned below along with the corresponding figures for the preceding two years:

	June 2008	June 2009	June 2010
Number of outstanding IRs	3,778	3,705	3,554
Number of outstanding audit observations	7,039	7,028	7,106
Amount involved (Rupees in crore)	1,420.58	1,417.56	1,701.48

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned below:

Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money Value (Rupees in crore)
1. Finance	(a) Taxes on sales, trade, etc., entry tax, entertainments tax, luxury tax, professions tax, betting tax and agricultural income tax	1,404	3,725	384.11
	(b) State excise	597	928	352.48
2. Energy	Electricity duty	07	07	41.64
3. Revenue	(a) Land revenue	400	574	115.41
	(b) Stamps and registration fees	442	669	208.58
4. Home and Transport	Taxes on motor vehicles	344	529	41.20
5. Forest, Ecology and Environment	Forest receipts	195	273	374.51
6. Commerce and Industries	(a) Sericulture industries receipts	43	55	4.99
	(b) Mineral receipts	93	281	175.80
7. Public Works	Public works receipts	29	65	2.76
Total		3,554	7,106	1,701.48

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 114 IRs issued upto December 2009. 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 send replies to the IRs/paragraphs as per the prescribed time schedule and 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. The details of the adhoc committee meetings held during the year 2009-10 and the paragraphs settled are mentioned below:

(Rupees in crore)			
Department	Number of meetings held	Number of paragraphs settled	Amount
1. Commercial Taxes	02	73	5.80
2. Forest, Ecology and Environment	13	241	11.70
3. Land Revenue	04	547	16.52

(Rupees in crore)

Department	Number of meetings held	Number of paragraphs settled	Amount
4. Stamps and Registration	02	61	0.80
5. State Excise	02	65	4.17
6. Transport	01	15	0.42
Total	24	1,002	39.41

As seen from the above, only six Departments have convened Adhoc committee meetings. Further, only two Departments, viz., Forest, Ecology and Environment and Land Revenue have 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, Public Works receipts and sericulture receipts.

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 2009-10, 475 records relating to 44 offices of Commercial Taxes Department (CTD) were not made available to audit. In 108 cases, revenue involved was ₹ 419.41 crore and in the remaining 367 cases, the tax effect was not ascertainable. Day books, receipts books, village accountant records, remittance registers were not produced by nine Tahsildar Offices and records relating to lease and grant of land were not produced by one Deputy Commissioner Office.

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/reviews 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/reviews 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 33 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 2010 to the concerned Principal Secretaries to Government with copies endorsed to concerned heads of departments during March-June 2010. Their replies were due latest by the end of July 2010.

We received the replies of the Government to eight draft paragraphs and considered the same while finalising the Report. However, none of the replies were received within the prescribed period of six weeks. We have not received any replies to 25 draft paragraphs (January 2011). We discussed the draft reviews 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 December 2010, 10 Departments had not furnished the Departmental notes in respect of 117 paragraphs included in Audit Reports for the years 1992-93 to 2008-09 due between July 1994 and July 2010, for vetting. The delay ranged from three months to over 16 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 ³ (months)
1.	Finance	1996-97, 1999-2000 to 2000-01, 2002-03 to 2005-06, 2007-08 and 2008-09	May 1998 to March 2010	September 1998 to July 2010	57	5 to 147
2.	Revenue	1992-93 to 1996-97, 2004-05 to 2008-09	March 1994 to March 2010	July 1994 to July 2010	38	5 to 197
3.	Forest	2002-03 and 2003-04	July 2004 and July 2005	November 2004 and November 2005	04	61 to 73
4.	Urban Development	1998-99, 2002-03 to 2004-05 and 2006-07	March 2000 to July 2008	July 2000 to November 2008	05	25 to 125
5.	Energy	2001-02	March 2003	July 2003	01	89

³ 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 ³ (months)
6.	Commerce and Industries	1996-97, 2002-03, 2007-08 and 2008-09	May 1998 to March 2010	September 1998 to July 2010	05	5 to 147
7.	Co-operation	2005-06 and 2007-08	July 2007 and February 2009	November 2007 and June 2009	02	18 to 37
8.	Health and Family Welfare	1997-98	March 1999	July 1999	01	137
9.	Public Works	2004-05 and 2008-09	March 2006 and March 2010	July 2006 and July 2010	02	5 to 53
10.	Minor Irrigation	2006-07 and 2007-08	July 2008 and February 2009	November 2008 and June 2009	02	18 to 25
Total					117	

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 2004-05 to 2008-09, 24,667 cases of underassessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. were included involving ₹ 2,508.20 crore. Of these, to the end of September 2010, the Departments concerned have accepted 20,756 cases involving ₹ 622.55 crore and recovered ₹ 27.82 crore in 1,516 cases. Audit Report wise details of cases accepted and recovered are as under:

Audit Report	Included in Audit Report		Accepted by the Department		Recovered	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
2004-05	544	820.86	398	27.70	236	9.16
2005-06	1,314	694.48	773	117.22	252	4.56
2006-07	824	324.48	487	24.56	140	2.64
2007-08	5,080	331.77	2,410	166.51	342	9.16
2008-09	16,905	336.61	16,688	286.56	546	2.30
Total	24,667	2,508.20	20,756	622.55	1,516	27.82

From the above, it is observed that only 4.47 per cent of the amount 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 CTD 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 2004-05 to 2008-09.

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 2010 are tabulated below.

(Rupees 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
2005-06	2,609/ 5,436	156.37	127/ 664	49.80	1,103/ 2,082	61.44	1,633/ 4,018	144.73
2006-07	1,633/ 4,018	144.73	296/ 1,396	124.62	252/ 1,108	39.58	1,677/ 4,306	229.77
2007-08	1,677/ 4,306	229.77	213/ 1,159	122.63	651/ 1,791	86.18	1,239/ 3,674	266.22
2008-09	1,239/ 3,674	266.22	218/ 921	230.50	78/ 838	70.58	1,379/ 3,757	426.13
2009-10	1,379/ 3,757	426.13	103/ 579	103.69	36/ 355	108.34	1,446/ 3,981	421.48

During the five year period, we issued 957 IRs with 4,719 paragraphs involving ₹ 631.24 crore and cleared 6,174 paragraphs involving ₹ 366.12 crore included in 2,120 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:

(Rupees 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
2005-06	15	27.83	14	20.06	4.34
2006-07	20	74.14	18	21.11	2.46
2007-08	21	109.21	16	56.92	8.46
2008-09	11	7.85	08	1.87	1.45
2009-10	09	15.29	09	10.79	1.32
Total	76	234.32	65	110.75	18.03

From the above, it is observed that only 16.28 *per cent* of the amount involved in the cases accepted by the Department was recovered during the last five years.

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

We conducted three reviews in the CTD that were featured in the Audit Reports during the last five years. We had suggested 15 recommendations for improvement in the system of revenue collection and monitoring mechanism of entertainments tax, professions tax and value added tax during 2006-07, 2007-08 and 2008-09 respectively. The CTD accepted four out of six recommendations suggested in the Audit Report of 2006-07 and one out of three recommendations suggested in Audit Report of 2008-09, while the recommendations made in the Audit Report of 2007-08 are stated to be under their consideration. The details of the recommendations accepted by the CTD are as under:

Year of AR	Name of the review/ No. of recommendations included	Details of the recommendations accepted	Status
2006-07	Assessment, levy and collection of entertainments tax/ 6	<ol style="list-style-type: none"> 1. Prescribing a system for obtaining periodical information from authorities permitting shows/events to enable the CTD to bring persons conducting such shows/events under the tax net. 2. Prescribing a system for ascertaining the status on eligibility for exemption of the film from Central Board of Film Certification before authentication of tickets by Commercial Tax Officers (CTO) in respect of Kannada films. 	<ol style="list-style-type: none"> 1. Finance Department had requested Department of Personnel and Administrative Reforms in October 2009 to include a representative of CTD as a member in the single window system permitting shows/events in the State. 2. Notification issued in December 2008 notifying the Director of Information and Publicity as the authority to issue certification of exemption.

Year of AR	Name of the review/ No. of recommendations included	Details of the recommendations accepted	Status
		3. Prescribing a time limit for finalisation of entertainments tax assessments and targets for each CTO for finalising the assessments. 4. Reviving the Internal Audit Wing (IAW) in a more effective form to ensure timely detection and correction of errors in assessments, levy and collection of revenue.	3. The Karnataka Entertainments Tax Act, 1958 was amended from 2009-10 prescribing time limit of one year for completion of assessments. 4. The Department reported (October 2010) that they had taken a decision to form an IAW at the central office and necessary orders in this regard were being issued.
2007-08	Assessment, levy and collection of professions tax/ 6	Nil	The Department stated in October 2010 that the issues are under active consideration.
2008-09	Transition from Sales tax to Value Added Tax/ 3	Reviving the IAW.	The Department reported (October 2010) that they had taken a decision to form an IAW at the central office and necessary orders in this regard were being issued.

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 2009-10, the audit universe comprised 1,184 auditable units, of which 365 units were planned and audited during the year, which is 30.83 *per cent* of the total auditable units. The details are shown in Annexure to the Audit Report.

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 365 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 2009-10. Further, we also test checked records of 42 offices (includes 19 offices audited as per audit plan) of the Revenue Department and 14 departments of the State Government for three performance audit reviews conducted during the year 2009-10. These revealed underassessments, non/short levy of taxes, loss of revenue, failure to raise demands and other irregularities aggregating ₹ 770.97 crore in 950 cases. During the course of the year, the Departments concerned accepted underassessments and other deficiencies of ₹ 65.90 crore in 208 cases, of which 53 cases involving ₹ 1.43 crore were pointed out in audit in earlier years. The Departments recovered ₹ 11.02 crore relating to 297 cases at the instance of audit.

1.5.2 This Report

This Report contains 26 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 reviews involving financial effect of ₹ 439.54 crore. The Departments accepted audit observations involving ₹ 102.99 crore, of which ₹ 16.52 crore had been recovered upto January 2011. These are discussed in the succeeding Chapters II to VII.

CHAPTER-II: TAXES ON SALES, TRADE, ETC

2.1 Tax administration

The levy and collection of Value Added Tax (VAT) is governed by the Karnataka Value Added Tax Act, 2003 (KVAT Act) and the rules made thereunder. The Commercial Taxes Department (CTD) is under the administrative control of the Finance Department and is headed by the Commissioner of Commercial Taxes (CCT) who is assisted by the Additional Commissioners at headquarters. There are 13 Divisional VAT Offices (DVO) in the State headed by Joint Commissioners and 148 Audit Offices headed by Deputy Commissioners and Assistant Commissioners. At the field level, VAT is being administered through 95 Local VAT Offices (LVOs) and VAT Sub Offices (VSOs) headed by Assistant Commissioners and Commercial Tax Officers respectively.

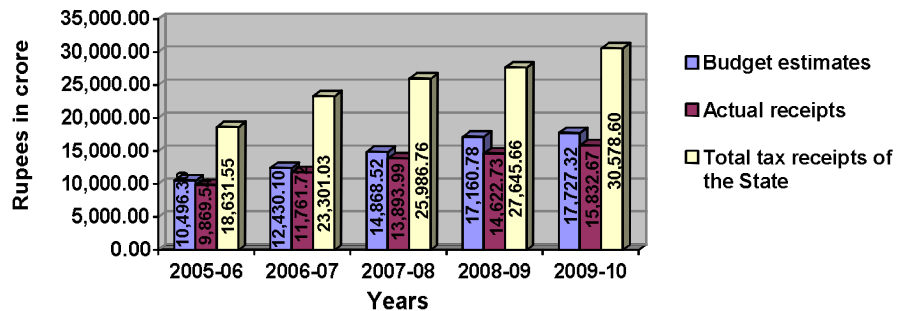
2.2 Trend of receipts

Budget Estimates (BEs) and actual receipts from VAT during the years 2005-06 to 2009-10 along with the total tax receipts during the same period is exhibited in the following table and graphs.

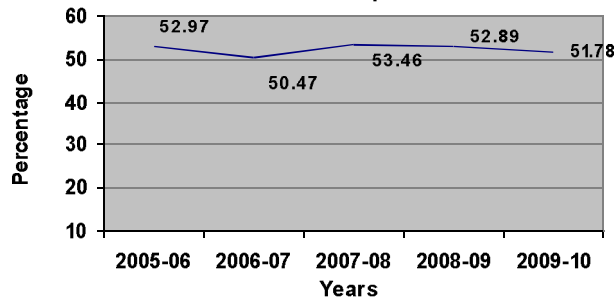
(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation Excess(+)/ Shortfall(-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	10,496.30	9,869.54	(-) 626.76	(-) 5.97	18,631.55	52.97
2006-07	12,430.10	11,761.72	(-) 668.38	(-) 5.38	23,301.03	50.47
2007-08	14,868.52	13,893.99	(-) 974.53	(-) 6.55	25,986.76	53.46
2008-09	17,160.78	14,622.73	(-) 2,538.05	(-) 14.79	27,645.66	52.89
2009-10	17,727.32	15,832.67	(-) 1,894.65	(-) 10.69	30,578.60	51.78

Graph 1 : Budget estimates, Actual receipts and Total tax receipts



Graph 2: Percentage of Actual receipts vis-a-vis Total tax receipts



It is seen from the graphs that the variation between the actual receipts as compared to the BEs was less than seven *per cent* during the periods from 2005-06 to 2007-08. However, the variation increased to (-) 14.79 *per cent* in 2008-09 and (-) 10.69 *per cent* in 2009-10. The percentage of actual receipts of VAT in the total tax receipts ranged between 51.78 and 53.46 *per cent* during the five year period from 2005-06 to 2009-10. The Department has not furnished the reasons for variation of the actual receipts as compared to the BEs, although it was called for (September 2010).

2.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 amounted to ₹ 3,750.79 crore. The Department reported (October 2010) non-availability of information of arrears of revenue pending for more than five years. The following table depicts the position of arrears of revenue during the period 2005-06 to 2009-10, as furnished by the CTD.

(Rupees in crore)			
Year	Opening balance of arrears	Amount collected during the year	Percentage of collection to opening balance of arrears
2005-06	2,916.64	211.28	7.24
2006-07	2,873.89	328.58	11.43
2007-08	4,297.18	358.33	8.34
2008-09	3,985.13	395.02	9.91
2009-10	4,164.96	316.76	7.61

The percentage of collection of arrears to the opening balance of arrears was less than 10 *per cent* for all the years except during the year 2006-07, which was 11.43 *per cent*.

The details of the amount collected or written off during the year was not furnished by the Department, as such we could not ascertain the correctness of the balances.

We recommend that the Department take effective measures for improving the collection of arrears of revenue.

2.4 Assessee profile

The Department reported that 4,16,265 dealers were registered as on 31 March 2010. Of these, 3,05,714 dealers were required to file returns during the year 2009-10. They further reported that only 2,05,887 dealers had filed returns during the year and that notices had been issued to all the non-filers.

Under the KVAT Act, every registered dealer is required to furnish returns in the prescribed form and pay the tax due on such return within 20 days after the end of the preceding month or any other tax period. However, it is seen from the above that the Department reported that only 3,05,714 dealers were required to file returns as against 4,16,265 registered dealers.

2.5 Cost of VAT per assessee

The number of assessees, cost of collection, and the cost of VAT per assessee during 2005-06 to 2009-10 were as follows:

(in Rupees)

Year	Number of assessees	Cost of VAT collection	Cost of VAT collection per assessee
2005-06	3,27,230	62,23,07,000	1,902
2006-07	3,42,458	60,60,46,000	1,770
2007-08	3,80,135	74,30,28,000	1,955
2008-09	4,01,817	81,61,95,000	2,031
2009-10	4,16,265	84,45,67,000	2,029

It is seen from the above that there is no significant variation in the cost of collection of VAT per assessee.

2.6 Arrears in assessment

The details of assessments 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 2005-06 to 2009-10 as furnished by the CTD are mentioned below:

Year	Opening Balance	Cases due for assessment during the year	Total	Cases disposed of during the year	Cases pending at the end of the year	Percentage of 6 to 4
1	2	3	4	5	6	7
2005-06	5,83,427	4,72,386	10,55,813	2,82,894	7,72,919	73.21
2006-07	7,72,919	11,416	7,84,335	5,14,161	2,70,174	34.31
2007-08	2,70,174	42,503	3,12,677	1,29,130	1,83,547	58.70
2008-09	1,83,547	38,015	2,21,562	78,538	1,43,024	64.55
2009-10	1,43,024	83,865	2,26,889	45,490	1,81,399	79.95

It is seen from the above that the finalisation of assessments remained consistently low except in 2006-07 when the finalisation of assessments was high.

We recommend that the Department take appropriate steps to conclude the pending assessments early in the interest of revenue.

2.7 Cost of collection

The gross collection in respect of taxes on sales, trade etc, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for the respective preceding years were as follows:

Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the preceding year
	(Rupees in crore)			
2007-08	15,036.11	74.30	0.49	0.82
2008-09	16,259.37	81.62	0.50	0.83
2009-10	16,546.34	84.46	0.51	0.88

The above table indicates that the percentage of cost of collection to gross collection was less than the all India average percentage for all the three years.

2.8 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on sales, trade, etc. during the year 2009-10 and corresponding figures for the preceding four years as furnished by the CTD is mentioned below:

(Rupees in crore)

Year	Amount collected at pre-assessment stage	Additional demand created after regular assessment, including penalty	Amount refunded	Net collection ¹ furnished by the Department	Percentage of 3 to 2
1	2	3	4	5	6
2005-06	11,490.13	137.82	363.00	11,326.30	1.20
2006-07	14,144.61	103.45	604.36	13,690.72	0.73
2007-08	16,011.73	151.75	508.34	15,669.83	0.95
2008-09	17,290.72	137.11	801.98	16,628.55	0.79
2009-10	18,445.85	248.86	713.16	18,132.54	1.35

It is seen from the above that the percentage of additional demand after regular assessment to the amount collected at pre-assessment stage was less than one *per cent* for all years except during 2005-06 and 2009-10 when it was at 1.20 and 1.35 *per cent* respectively. Further, it is also seen that the net collection figures amounts reported by the Department for all the years has not been worked out correctly.

2.9 Impact of audit reports

During the last five years, through our audit reports, we had pointed out non/short levy, incorrect exemption, non/short levy of interest/penalty, etc with revenue implication of ₹ 149.45 crore in 63 paragraphs. Of these, the Government/Department had accepted audit observations in 55 paragraphs involving ₹ 68.29 crore and had since recovered ₹ 16.87 crore. The details are shown in the following paragraph:

(Rupees in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount ²	Number	Amount
2005-06	12	25.74	11	19.02	09	3.83
2006-07	14	23.47	14	11.12	03	2.30
2007-08	19	77.54	14	25.64	12	8.09
2008-09	09	7.41	07	1.72	06	1.33
2009-10	09	15.29	09	10.79	07	1.32
TOTAL	63	149.45	55	68.29	37	16.87

As seen from the above table, the recovery made by the Department is only 24.70 *per cent* of the amount involved in the total accepted cases.

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

¹ These figures are at variance from the figures included in the Finance Accounts of the respective years.

² Indicates the amount of acceptance and recovery in respect of individual cases included in the respective paragraphs.

2.10 Working of internal audit wing

The objective of an Internal Audit Wing (IAW) is to have a deterrent and reforming effect in the direction of prevention of mistakes and to play a corrective role by pointing out mistakes and ensuring remedies without loss of time. IAW in CTD was functioning up to 2004-05. On introduction of VAT, the IAW was abolished leaving it vulnerable to the risk of control failure.

Mention of the absence of the IAW was made in the paragraph No.2.2.15 of the Comptroller and Auditor Generals' Audit Report (Revenue Receipts) 2008-09. The report has not been discussed by the PAC; however, the Department reported in October 2010 that they had taken a decision to form an IAW at the central office and necessary orders in this regard were being issued.

2.11 Results of audit

We conducted a test check of the records of 96 VAT offices during the year 2009-10, which revealed underassessments of tax and other irregularities involving ₹ 81.38 crore in 531 cases, which fall under the following categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
1.	Information Technology (IT) Audit of VATSoft in Commercial Taxes Department (A review)	01	7.09
2.	Non/short levy of output tax	120	19.54
3.	Incorrect/excess allowance of input tax credit	67	17.75
4.	Incorrect allowance of tax deducted at source	23	16.43
5.	Non/short payment of tax	69	7.14
6.	Incorrect/excess carry forward of refund	60	5.95
7.	Non/short levy of interest	75	3.17
8.	Non/short levy of penalty	70	1.40
9.	Non-forfeiture of tax collected in excess	11	1.10
10.	Other irregularities	35	1.81
	Total	531	81.38

During the course of the year 2009-10, the Department accepted underassessments of tax amounting to ₹ 1.43 crore in 53 cases pointed out in audit in earlier years and of that, recovered ₹ 90.81 lakh in 49 cases. Further, in respect of sales tax, the Department recovered an amount of ₹ 1.37 crore in 56 cases, which were pointed out in earlier years.

A Review on 'IT Audit of VATSoft in Commercial Taxes Department' involving ₹ 7.09 crore and few illustrative cases involving ₹ 8.20 crore are mentioned in the following paragraphs.

2.12 IT Audit of VATSoft in Commercial Taxes Department

Highlights

Software developed for implementation of VAT by the CTD through a private agency for ₹ 7.09 crore was discontinued for various reasons resulting in infructuous expenditure.

(Paragraph 2.12.5.1)

The CTD did not clearly spell out the basic objectives for computerisation. Further, the Department assigned development of the application system to NIC without formalising the terms of engagement.

(Paragraph 2.12.5.2)

No system audit was conducted by the CTD either during development stage or after the completion of the implementation. Consequently, adherence to system development standards, documentation, and incorporation of detective controls could not be ensured.

(Paragraph 2.12.5.3)

There was no approved policy regarding acquisition and periodic up gradation of hardware resources, disposal of e-waste, period of retention and subsequent disposal of source documents etc. Disposal of hard disks and other media without removing data has the potential risk of recovery and misuse of vital data of the CTD by unauthorised persons.

(Paragraph 2.12.6.2)

Network security was inadequate due to co-existence of LAN and internet connections in the computer nodes without firewall protection, non-disabling of USB ports and absence of clear policy for installation of security patches led to inadequate network security.

(Paragraph 2.12.6.4)

The Department does not have a clearly documented and approved policy statement comprehensively covering all aspects of logical security. 65 login IDs were provided without capturing the names of the employees to whom it is assigned and in 201 cases same employees were using more than one login ID, in some cases with different user privileges.

(Paragraph 2.12.6.5)

A large number of uncorrected error returns were found in the database, including 4,138 returns where the tax credit brought forward from previous return was shown in excess by ₹ 448.75 crore.

(Paragraph 2.12.7.1)

There were weak input controls as a result of which the dealers claimed ITC on purchases from invalid/deregistered dealers resulting in excess claim of ITC of ₹ 2.03 crore.

(Paragraph 2.12.7.1)

Non-mapping of Business Rules relating to 'revised' return led to acceptance of belated returns.

(Paragraph 2.12.7.1)

Inadequate application controls resulted in double accounting of 405 cheques involving ₹ 3.07 crore.

(Paragraph 2.12.7.1)

Even after a lapse of five years of computerisation there was continued dependence on manual processes for all administrative decisions like processing of refund claims, refunds under industrial incentive scheme, etc.

(Paragraph 2.12.9.1)

2.12.1 Information System set up

The Computer cell of the CTD is headed by Joint Commissioner of Commercial Taxes (Computer cell). Value Added Tax Software (VATSoft) developed by National Informatics Centre (NIC) is in operation from 2 August 2006. It uses Oracle 8i RDBMS at back end and ASP.Net with C# language for front end application. The data centre located at the Head office, Bangalore is connected to the Local Area Network (LAN) of all divisions, LVOs and VSOs through Very Small Aperture Terminals (VSAT) and leased lines. Online data base has been distributed in 50 locations across the state and the data is being replicated on a weekly basis to the central server located at Head Office/Data centre. Major modules in VATSoft are registration of dealers, returns submission, tax collection, tax deduction at source (TDS), statutory forms and for generating various management information system (MIS) reports.

2.12.2 Audit Objectives

We conducted the review with a view to assess whether:

- the system meets the requirements of the KVAT Act and is synchronised with the business rules/needs of the Department,
- the implementation of the system was preceded by systematic planning and adequate assessment of operational requirements and needs,
- proper input, validation and process control existed in the system to ensure that the data captured was authentic, reliable, complete and accurate,
- the database provides sufficient, complete, reliable and authorised information for management action,
- the physical and logical access controls are sufficient to guard against unauthorised access and modification of data, and
- adequate security controls and disaster recovery plan exists.

2.12.3 Scope and methodology of audit

We conducted a review of VATSoft covering major modules such as registration, returns, collection, statutory forms, dealer ledger, tax deducted at source, etc., between September 2009 and March 2010. We also analysed database backup as at the end of October 2009 using Computer Aided Audit Tools - Interactive Data Extraction and Analysis (IDEA) and Structured Query Language (SQL) besides front end analysis with test data. Further, we also selected cases in the system through statistical sampling using IDEA and cross checked the same with source documents and manual records.

2.12.4 Acknowledgement

We acknowledge the co-operation of the CTD in providing necessary information and records for audit including access to systems. We held an Entry Conference with the CCT in September 2009, wherein the scope of audit, methodology and audit objectives were explained. We held an Exit Conference with the Principal Secretary (Finance) and the CCT in July 2010, wherein the audit findings were discussed. The Principal Secretary stated all necessary action would be taken to set right the deficiencies in application software as pointed out by audit and strengthening the software.

Audit Findings

2.12.5 Planning and System Development

Our review of system development processes revealed the following:

2.12.5.1 Planning for Computerisation

IT planning involving clear spelt-out objectives, specifications, documentation and testing before implementation of IT systems is an important general control.

The Government of Karnataka initially appointed M/s. Crown Agents, London (CA) in August 2001 to provide technical assistance to the CTD for the implementation of KVAT Act. The softwares, VAT Information Processing System (VIPS) and VAT Registration

Number System (VRN) developed by CA at a cost of ₹ 7.09 crore were put to use by the CTD on introduction of VAT with effect from 1 April 2005. However, attributing inadequate support in maintenance of the software, the CTD terminated the agreement with CA and discontinued the usage of VIPS and VRN. Subsequently, the work of Software development and support was entrusted to NIC in January 2006 and VATSoft, developed by NIC was introduced from August 2006.

After we pointed out the failure of the exercise of VIPS and VRN developed by CA at a cost of ₹ 7.09 crore, the Department stated in the exit conference that the whole exercise was a learning experience for the Department and such mistakes are prone to occur in any software development process. The Department after running VIPS and VRN for more than one year had found that the software was incomplete and unsatisfactory. Further, independent evaluation of the same by e-Governance Secretariat also pointed out that the software had many practical problems, some of which could not be corrected.

Thus the fact remains that the software initially developed, failed to achieve its intended purposes resulting in infructuous expenditure of ₹ 7.09 crore.

2.12.5.2 Documentation of Objectives and User Requirements

The CTD did not clearly spell out the basic objectives for computerisation. Further, the Department assigned development of the application system to NIC without formalising the terms of engagement through a contractual agreement clearly identifying the deliverables and laying down a schedule for delivery of each module. As a result there was no prioritisation of tasks and functions were being incorporated as and when requirements were being

noticed. Further, the software developer failed to incorporate the necessary input, processing, detective and authorisation controls and table level relations required for an effective accounting system, as brought out in the succeeding paragraphs.

2.12.5.3 Audit of systems

Information System (IS) audit during the SDD phase is an important preventive and detective control to ensure efficient and effective delivery of services and achievement of objectives of computerisation.

We noticed that no system audit was conducted by the CTD either during development stage or after the completion of the implementation. Consequently, adherence to system development standards, documentation and incorporation of detective controls could not be ensured.

After we pointed out the above, the CCT stated that although no IT audit of the software was conducted, all developments under the project will get verified by the professional third party IT auditors.

➤ **Audit Trail:**

A standard audit trail provides for recording and monitoring of database activity.

An audit trail involving logging of activities, regular review of the same in accordance with an established schedule, provision for automatic exception reporting etc. has not been provided, rendering it impossible to monitor any unauthorised access to the system or modification of data by the end users, particularly in a scenario where system administrator level functions are outsourced with super-user privileges.

➤ **Registration module:**

Registration module of VATSoft deals with capturing the details furnished by the dealers in the application form prescribed in this regard under the KVAT Act and registering them by generating Tax payers Index Number (TIN) after processing the application on the basis of inspection of business premises by the Commercial Tax Inspectors (CTI). The module also processes the application for deregistration of dealers.

➤ **Incomplete/invalid data:** We noticed a few system deficiencies due to which the mandatory data required to be captured was not captured as mentioned below:

- In 785 cases, names of registered dealers and in 198 cases, business addresses of registered dealers were not captured.
- The field for capturing Permanent Account Number (PAN) and trade name contained invalid entries in many cases. Further, for 1,93,761 dealers out of the total of 4,03,311 current registered dealers (as of October 2009), PAN was not captured.

- The database of commodities dealt by individual dealers is incomplete, having commodity details of 2,37,930 dealers only out of a total 5,04,241 dealers available in the dealer registration database.

➤ **Duplicate Registration:** We observed that controls to avoid duplicate registration of dealers were not in place. As a result, in 919 instances, the same dealer was issued duplicate TIN. Of these, 64 had not been de-registered at the time of audit.

After we pointed out the instances the Department issued a circular based on which field offices have undertaken to initiate deregistration processes in the above cases.

System Design Issues

2.12.6 General Controls

2.12.6.1 Third Party Management

The duties, responsibilities, privileges and tenure limitations of system administrator are not defined and assigned. In absence of this, the privileges of system administrator in respect of database, though not defined in the contract are currently being enjoyed by several employees of different third party organisations viz. M/s. InfoTech Explorer India (Pvt) Ltd., (IEIPL) and M/s. Indian Computers Corporation (ICC), who were engaged by the Department for '*running the applications*' and '*hardware maintenance and antivirus definitions*' respectively. In this scenario, where there is considerable reliance on the third party for determining and reviewing the application, there is considerable risk of dilution of authority and accountability besides compromise of the integrity and confidentiality of the CTD data.

The Department stated that a decision was taken to take services of three professionals from NIC and they are going to migrate to centralised network architecture, the capacity of the servers is likely to be enhanced and the server would be moved to the State data centre and all the issues like physical access control, disaster recovery and business continuity, etc. would be addressed at that stage.

2.12.6.2 IT Asset Management

Effective IS Management requires all aspects of asset management to be addressed through clearly defined and documented policies approved at the highest level.

We observed that there was no approved policy regarding acquisition and periodic upgradation of hardware resources, disposal of e-waste, period of retention and subsequent disposal of source documents etc. Disposal of hard disks and other media without removing data has the potential risk of recovery and misuse of vital data of the CTD by unauthorised persons.

The CCT accepted that they have not designated a system administrator and stated that they would seek the services of three technical personnel from NIC

as System Administrator, Data Base Administrator and Network Specialist. With regard to IT asset management and e-waste management the Department agreed to devise a policy, after the appointment of the technical personnel.

2.12.6.3 Physical Access and Environmental Controls

The servers are kept in a room which is occupied by outsourced service engineers and employees of the CTD. There is no control to restrict physical access to the servers. The room is paneled with fire susceptible materials. However, neither are the servers protected in fire proof cabinets nor are fire extinguishing devices provided in the room.

Central servers, in which the entire data of VATSoft is generated from various local servers is backed up on weekly basis and the local servers for LVOs -010, 010 Addl., 030, 030 Addl. are kept side by side in the same room rendering them susceptible to the same IT security/environmental hazards.

2.12.6.4 Inadequate Network Security Controls

Adequate network security controls are required to protect against unauthorised access, malwares, etc.

Several computer nodes in the internal LAN (Intranet) of the Department have parallel access to the internet as well. However, no firewall was installed to isolate and protect the internal network and/or to log internet use. USB ports in the terminals in the Department were not disabled. Data from web based applications of the Department like '*e-filing*' and payment reconciliation, data obtained from banks through electronic data interchange are ported into the internal network of the Department through removable media like pen drives. Also, the Department had not established a program for installation of various security patches issued by the makers of the operating system after testing for compatibility. Hence, no protection was available against external intrusions, malicious programs or spy wares and unregulated internet use. We noticed that there were several instances of virus attacks, one of which was serious enough to cause shut down of servers throughout the state for more than two weeks during the month of July 2009.

After we pointed out the above, the CCT replied that the data centre would be refurbished considering all IT security aspects and all servers shifted to professionally managed state data center, mirroring the NIC data centre in Hyderabad and steps would be taken to disable USB ports and other removable media. It was also stated that the absence of security in IT system is due to lack of expertise and domain knowledge. However, the induction of technical personnel would resolve the issues.

2.12.6.5 Logical Access Control Policy

Logical access controls in application software are essential to identify users and restrict privileges.

The Department does not have a clearly documented and approved policy statement comprehensively covering all aspects of logical security. Usernames, passwords, user groups and designations of all the end users are stored in a system table.

Privileges to view this table are available to outsourced third party engineers. In a scenario where passwords are not stored in encrypted format, access to the passwords of all users to third party users who also have administrator privileges of back-end data modification limits the ability of the Department to ensure data integrity and confidentiality.

Further, we observed that 65 login IDs were provided without capturing the names of the employee to whom it was assigned and in 201 cases same employees were using more than one login ID, in some cases with different user privileges. In 103 cases the same login ID was assigned to different users and in 301 cases employees' usernames and passwords were the same. Automatic shutdown after specific number of failed login attempts was not provided.

➤ Processing of dishonored transactions:

We noticed the following deficiencies in processing of dis-honoured transactions.

In the tax collection module, each transaction, initially shown as 'processed' is altered to 'Treasury/Bank realised' or 'bounced' as the case may be on entry of realisation particulars. The system also provides for closure of dishonored transactions on receipt of payment, by removing the entry from the current database to 'history'.

- As at the end of November 2009, there were 22,703 cases of dishonored cheques involving ₹ 94.78 crore as per the database. However, while exercising the provision for closure of dishonored transactions, the receipt of payment and removal of the corresponding entry from the current database to 'history' are not coupled automatically.

This makes it possible for a user to 'close' a transaction even without receipt of repayment for the bounced amount. Out of 17,515 entries in 'history', corresponding payment details of 6,036 cheques for an amount of ₹ 16.62 crore were not found in the tax collection database.

- Due to system design deficiencies, dishonored cheques were not linked with its subsequent payment. All repayments are entered as original transactions rendering it impossible to incorporate further system level controls to watch repayment of individual transactions, ensure their correct accounting and levy interest thereon as per the provisions of the KVAT Act. There were 14,410 dishonored cheques/payments in the current tax collection database against which no corresponding repayment information is available.

- Inadequacy of system designs with regard to dishonored payments has led the LVOs to depend entirely on manual procedures like maintenance of 'cheque bounce register'. On cross verification of a statistically drawn sample of the above cases with field records, we observed subsequent payments received and realised in lieu of bounced cheques were accounted against different tax periods in the database in 73 per cent cases. In a few instances however, repayment was called for after our pointing out the same.

2.12.7 Application controls

2.12.7.1 Input and processing controls

Proper input, validation, authorisation and processing controls should be in place to ensure that all relevant information is captured and that the data is complete, valid, accurate and properly authorised.

Our review of input and processing controls in the various modules of the application system revealed the following deficiencies.

➤ Currency and Adequacy of Security Deposit:

The KVAT Act, 2003 prescribes the collection of security deposit from the dealers seeking registration under the Act.

We observed that in 10,174 cases the system contains even 'null' values in the field provided for security deposit amount. In 2,14,935 cases, the amount entered is less than the minimum prescribed amount of ₹ 1000 (₹ 0 in

2,12,772 cases).

- The types of security deposit instrument (bank guarantee, postal order, NSC, other and cash) were allotted codes 1 to 5 respectively. However, the type was not recorded in 2,226 cases and recorded as '0', in 2,618 cases causing ambiguity in the available data.
- In 92,598 cases, the security deposit instrument had expired by 31 October 2009, including 82,402 cases where it had expired even prior to 1 April 2005, i.e., the date of introduction of VAT. However there was no system prompting to ensure the renewal of the instrument.
- In 84,058 cases, the effective date of registration recorded was prior to the date of application itself. In 1,238 cases, the effective date of registration was recorded as prior to the date of introduction of VAT (01 April 2005).

From the above data and inconsistencies/abnormalities etc we infer that either the input controls were absent or were ineffective due to lack of proper validation checks.

After we pointed out the above, the CCT replied that the mistakes occurred due to porting of data from VIPS and VRN. However, the Department is planning to introduce on-line registration, e-filing and e-payment to overcome the deficiencies. Further, appropriate input controls would be introduced to

capture the mandatory data and NIC would be requested to provide necessary prompts and report to enable the LVOs to monitor the processing of data.

➤ **Return submission module:**

The Return submission module of VATSoft application deals with input of monthly returns filed by the dealers in Form VAT 100, which has provision for capturing gross/net turnover, exemptions, tax calculations, etc. Also, dealers whose turnover for the preceding year was less than ₹ 2 crore and/or ₹ 16 lakh during the month, shall furnish dealer-wise extract of purchase register along with the returns. The returns submitted by dealers are to be verified by the LVO for arithmetical accuracy and if he is satisfied regarding the correctness of the return, it would be accepted which constitutes deemed assessment under the KVAT Act.

➤ On entry of data, the application system exercises preliminary checks on the return and prompts for errors. Also, based on the checks performed the return is tagged correct/complete or incorrect/incomplete. A return is not finally 'posted' and remains open for corrections until all inconsistencies are resolved.

We noticed that the percentage of the returns tagged as incorrect and kept open without obtaining correct returns for the years 2006-07 to 2009-10 was very high as mentioned in the following table:

Year	Total number of returns filed	Number of error returns	Percentage of error returns
2006-07	12,30,381	6,60,112	53.65
2007-08	14,67,552	5,98,645	40.79
2008-09	15,95,482	4,92,522	30.87
2009-10 (up to February 2010)	14,68,728	3,80,898	25.93

The huge number of outstanding incorrect returns indicates that the Department is not in a position either to take remedial measure for correcting returns or data of returns is not being updated. We also noticed that the error returns include 4,138 returns where the tax credit brought forward from the previous return was shown in excess by ₹ 448.75 crore.

➤ **Weak input controls:** We observed that there were weak input controls as a result of which dealers claim ITC on purchases from invalid/deregistered dealers, the completeness of the purchases were not checked with respect to the ITC claimed etc. as evident by the following:

- The purchase statements filed with 1,392 returns contained 24,392 invalid TINs of the selling dealers.
- In 425 cases the purchase statements submitted by the dealers contained the TIN of dealers who were deregistered at the time of purchase.
- In 90,586 cases, ITC claimed in monthly return was in excess of that declared in the purchase statements by ₹ 2.03 crore.

On verification of a sample of these cases in the field units, it was observed that 89 per cent of such mistakes occurred due to incomplete or incorrect data

entry. However, in the balance cases where there was actual incorrect claims of ITC, the Department had initiated action subsequent to audit.

➤ Invalid tax periods: In 64 instances, returns were recorded as pertaining to incorrect tax periods such as 13th and 16th month of the year (eg. '200713', '200716') indicating absence of validation control of input data.

➤ VATSoft provides for relegating the previous return filed for a tax period to 'history' when revised/corrected returns are filed for that tax period and only the most recent return is maintained in the current database of returns. However, we noticed that the control was not effective in view of the following:

- In 13,763 instances, more than one 'original' return for the same period is available in the current database. We observed on a test check of source documents maintained in the LVOs that either the same return can be re-entered or a subsequent *corrected/revised* return can be entered as an 'original' return at the time of transfer of jurisdiction of the records from one office to another, when transfer of registration data was effected immediately and that of return and payment data was delayed.

As a consequence the application system represents exaggerated liabilities or credits. Further, any system controls established in conformity with statutory provisions in the case of revised returns could be bypassed in such instances and provisions related to belated filing of original returns would become erroneously applicable.

- We further observed 253 'revised' returns in the 'live' database showing a corresponding 'revised' return itself in 'history'. This indicates the possibility that a dealer could file a 'revised' return without filing a corresponding 'original' return.

➤ **Non-mapping with business rules in respect of 'revised' and 'correct' returns:**

Under the KVAT Act, a dealer may file revised return *within* six months from the end of the relevant tax period on any omission or incorrect statement in the return coming to his notice.

Out of 57,201 revised returns filed for the period up to August 2009, 8,016 returns were delayed beyond six months. Since the system was not mapped with the business rules, it accepted the returns that were submitted belatedly, which should have been rejected.

Under the KVAT Rules, LVO shall issue a notice in form VAT 150 requiring a dealer to submit a 'complete' or 'correct' return in the case of any apparent deficiency noticed, within 10 days from the issue of the notice.

Even though the system provides for the generation of VAT 150, no controls are established to relate the filing of 'correct' returns with the issue of the notice. This design deficiency in the system makes it incapable to ensure timely filing of 'correct' returns as also to prevent filing of 'revised' returns as 'correct' returns.

After we pointed out the above, the CCT stated that there was no systematic method of tackling the error returns in the Department; however NIC would be requested to provide necessary input and processing controls. Further, by amending the KVAT Rules the filing of purchase and sales details would be made mandatory for claiming ITC, and e-filing would reduce the data errors.

➤ **Tax collection module:**

The Tax Collection Module provides for acknowledging, recording, reconciling the cheques realised with reference to bank/treasury scroll number and accounting the payments made by dealers in discharge of their liabilities of tax, interest, penalty etc as declared in tax returns or arising from audit, inspection etc. The module also has to monitor dishonoured cheques and the subsequent payment thereagainst. Our analysis of data revealed inadequate/absence of controls to ensure correct accounting, prevent double accounting of transactions, consolidate individual dealer ledger accounts and process dishonoured transactions resulting in continued dependence on manual processes.

➤ **Acknowledgement for receipt of payments:** The module lacks controls that mandate acknowledgement of every instance of payment and to ensure all acknowledged payments are necessarily accounted. Thus, on the one hand, the system fails to provide assurance that all payments received are entered without fail and on the other, fails to ensure that all particulars of the payment are entered correctly.

- We noticed that issue of computer generated acknowledgement slips were not mandatory and were not coupled with the subsequent entry of payment data in the system. We found that against the total number of 17,77,847 payments received, only 1,30,518 acknowledgement slips were generated by the system. We also noticed that 54,440 acknowledgements (of which 1,197 related to discharge of VAT liability of ₹ 4.35 crore), given for respective TIN and tax period were not traceable to the tax collection database.
- We further observed on analysis of the tax collection database that there were 3,622 instances where cheque numbers were entered but the amount of the cheque was entered as “0”. The tax liability as per the returns in these cases was ₹ 40.78 crore. Of these, in 177 cases there was no subsequent presentation of cheque or payment to discharge declared tax liability amounting to ₹ 49 lakh.

➤ **Duplication of Cheques:** The tax collection module of the application system lacks controls to prevent double entry of cheques. We observed that 405 cheques involving ₹ 3.07 crore were accounted twice in tax collection table for the period from April 2008 to September 2009, i.e. each tax payment appears in the credit of more than one dealer, or twice in the credit of the same dealer, or simultaneously in the credit of a dealer as well as in the LVO

suspense³ concerned. Thus, the tax collection figure of the data base is overstated, undependable and unreliable.

➤ The application system does not provide controls that enable the administration to ensure that all liabilities declared are promptly and correctly discharged. We observed that as per the data available in the system, an amount of ₹ 136.28 crore in respect of 10,275 cases was paid short as against the tax liability declared in Form VAT 100, (of which in respect of 5,030 cases the difference between liability and discharge was more than ₹ 1,000 in each case). Manual documents maintained in the field offices revealed that in several instances, the amounts received had been wrongly accounted against subsequent tax periods and in a few cases actual default was undetected by the LVOs concerned.

➤ **Dealer Ledger:** The VATSoft Application System provides for a dealers ledger that represent the values of ‘demand’, ‘collection’ and ‘balance’ (DCB) against each dealer. We observed that no relational integrity is established to ensure representation of all registered dealers and updation of all instances of demand and collections from details entered in registration, returns, payments and other modules for presentation of a consolidated position of the balance for all dealers.

- As against over 5 lakh dealers registered under the KVAT Act, we observed that the module contained ledger only in respect of 67,254 dealers. Further the ‘balance’ field for these dealers showed ‘null’ values while 6,05,312 entries had ‘null’ values for both ‘demand’ and ‘collection’ fields. The field for entry of tax period contains invalid entries like ‘0’, ‘99999’ etc.
- In the absence of DCB, any additional demand raised in reassessment of any dealer could not be traced in the system. Also any short payment of tax than the net tax liability declared in the returns cannot be watched for their recovery.

➤ **Entry of realisation information:** The front end window of the VATSoft application system enables case workers to enter, verify and approve the payments made by various dealers as well as to reconcile the realisation of the same by entering the bank or treasury scroll numbers.

- The privileges of entry of payment information and reconciliation of the same with bank/treasury reports are not segregated. The same case worker who entered the payment information is able to reconcile the same.
- There is no system level referencing available between actual scroll numbers issued by the banks or treasuries. Hence a particular instance of payment can be reconciled by entering any random number and date for scroll number and date of realisation. Though users at the level of Assistant Commissioner of Commercial Taxes (ACCT) are enabled to

³ LVO suspense is a ledger provided in VATSoft for LVOs to temporarily account for unrecognised payments to be transferred in favour of the dealer concerned after identification.

modify payment entries even after reconciliation, supervision over entry of realisation particulars is not made mandatory at the application system level. Even after the ACCT has modified and limited the amount of cheque to the bank realised amount, it is still possible for a case worker to reduce the amount using treasury reconciliation module of the application system.

- Moreover, though the front end of the application system prevents the entry of an amount higher than the cheque amount realised, we observed that back end data contained 1,112 instances where realised amount was higher than cheque amount.

After we made the above observations, the CCT stated that the NIC would be asked to prepare a comprehensive dealer wise and office wise DCB module with appropriate controls; e-payment system with accounting and that reconciliation procedures are being evolved with consent of AG (A&E), which would eliminate most of the mistakes.

➤ **TDS Module:**

Dealers authorised to make TDS are required to submit monthly returns in Form VAT 125 showing amount of tax deducted and particulars of remittance of the same.

➤ We noticed that there is no mechanism in the application system to watch the submission of monthly returns by TDS authorities. Of the 3,761 TDS authorities, entries for monthly returns were not available in the module in respect of 2,960 authorities.

➤ In 35 cases, names/details of entities submitting Form VAT 125 for deduction of tax at source are neither captured in the dealer database nor in the database of TDS authorities. This limits the ability of the system to correlate TDS deduction claims by registered dealers with admissions made by the respective TDS authorities.

➤ We also observed that a sum of ₹ 1,575.91 crore had been claimed as TDS by various VAT dealers in their monthly returns filed which were allowed by the LVOs. Against this, TDS details of ₹ 221.76 crore and remittance details of ₹ 164.48 crore only was available in the module leaving an unaccounted excess TDS credit of ₹ 1,411.43 crore.

After we pointed out the above, the CCT stated that system control for TDS payments was not developed; however, an amendment to introduce Deducting Authority Number (DAN) would be made for all TDS authorities which would enable monitoring of TDS payments.

➤ **Statutory Forms Module:**

The VATSoft application system provides for recording the issue and receipt of statutory forms and their utilisation particulars filed by the dealers.

We observed that system level controls to prevent issue of statutory forms to the non-CST dealers and to dealers who failed to file utilisation particulars of forms issued previously were not enabled in the system. In 1,713 instances we found that statutory forms were issued to dealers who had not opted for CST registration. Further, in many cases forms were shown as issued even

without entry of information regarding utilisation reports of previous forms. For example, as per system data, a dealer (TIN 29110464630) was issued C-forms on two instances, first on 6 February 2007 and then again on 20 February 2007 without any information on utilisation of forms issued earlier. Subsequently the dealer is seen to have got deregistered on 29 August 2007. At the time of deregistration also the dealer has not submitted utilisation reports.

After we pointed out the above, the CCT stated that the issue of all statutory forms would be made online and an officer would be designated to conduct cross verification of the same.

2.12.7.2 Output Controls

➤ Unreliable MIS

VATSoft provides for various MIS Reports such as registration, payments, refunds, returns defaulter, commodity wise dealers, etc.

➤ We found that the MIS report on commodity wise dealers was not accurate. For instance the MIS report on dealers dealing in edible oil in “LVO 010” also yielded names of textile dealers, electrical goods dealers etc. We also found that the names of some dealers are repeated in the same list.

➤ Report on turnovers of the above dealers for the period April 2008, in respect of edible oil which is taxable at 4 *per cent* yielded the total sales turnover of the dealers including their turnover in other commodities which were taxable at 12.5 *per cent*.

After we pointed out the above, the CCT stated that the above inaccuracy was due to the dealer dealing in multiple commodities and in order to overcome the problem e-returns with electronic tax calculator module is being developed.

2.12.8 Backup and recovery issues

2.12.8.1 Absence of Disaster Recovery (DR) and Business Continuity (BC) Plan

Clearly formulated, tested and approved DR and BC Plans are essential to restore business operation within pre-determined time in the event of any disaster.

We noticed that the CTD has no DR and BC Plan. Though weekly uploading of data from distributed servers to the central server was being done, there was no provision for off-site back up of operating systems, application systems, database

management system, system documentation.

2.12.8.2 Media Library Management Controls

We observed that the Department had not defined media librarian functions nor had they assigned the duties of library management to any official. As a result, the Department does not have an up-to-date and fully inventoried media library containing backup copies of data, application programs, operating systems, DBMS etc. Periodic backups of data taken on magnetic

tapes/cartridges are kept in the same room along with the servers. In the absence of off-site storage, the servers and the backup are being subject to the same security risks. Further, the Department has not performed any restoration tests on media tapes till date.

2.12.9 Other Issues

2.12.9.1 Non-effectiveness of system in administration of VAT processes

➤ **Establishment of value chain:** We observed that even after a lapse of five years, the computerisation has not enabled the Department to effect a complete, automatic cross verification of sales and purchase transactions between the dealers or to establish a value chain as an essential prerequisite for prevention of VAT fraud, due to the following reasons.

- Incomplete data capture due to partial coverage of dealers under e-filing.
- Inadequate table level relational integrity between modules capturing purchase and sales details and monthly returns.
- Absence of facility in the application system to establish a complete value chain by correlating purchase and sales turnovers of individual dealers.

➤ **Refunds:**

Issue of refund orders is an important administrative function in the local VAT offices which involves detailed verification of returns, payments, previous claims etc.

The VATSoft does not provide for automatic computation or processing of refund claims. For instance, we observed that the module shows a refund of ₹ 48.42 lakh made to a dealer (TIN 29020209424) for the tax period January 2008. However, the module for monthly returns shows that the dealer had not declared any output tax or input tax credit for the entire period from May 2006 to December 2007 and thus the basis of the refund given needs verification. In 25 out of 5,000 test checked instances, we found that the dealers carried forward amounts to the subsequent monthly returns even after refunds of ₹ 45.31 lakh were issued. Error alerts available in the VAT returns module merely point out differences between amounts shown as carried forward in a return and that shown as brought forward from the previous return and do not make reference or furnish any information on refunds already granted. We also observed during the field study that the refund details could be updated only in respect of cases where the dealer claims refund arising out of excess ITC in the field provided. The system does not provide for processing of refunds but merely permits the entry of refunds already made manually. Further, the system does not permit even the entry of refunds arising out of excess advance tax payments, appeals, refunds under entry tax, etc. This has resulted in huge variance between actual refunds and the data available in the system as indicated below in a few of the test checked offices.

(Rupees in lakh)

LVO	Actual Refunds granted as per Refund Register		Refund Information as per computerised System		Difference	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
10	45	152.82	10	36.41	35	116.41
15	161	5,863.72	03	2.12	158	5,861.60
40	43	3,481.30	-	-	43	3,481.30
25	128	6,121.25	19	1,911.90	109	4,209.35
20	46	2,217.85	-	-	46	2,217.85

➤ **Refunds under industrial incentive scheme:** The module provided for the administration of tax exemption/deferment granted under industrial incentive scheme was not utilised by the CTD. The database contained only two dealers as against over 3,000 dealers who are benefited by the industrial incentive scheme. No table level reference is available between the module containing information on the monetary and time limits of individual claims and monthly returns, as a result of which it is impossible to keep a tag on consolidated claims made in the returns exceeding the permitted monetary limit or period as provided in the eligibility certificate issued by the CTD. Administration of this function is also done manually outside the application system in field offices.

After we pointed out the above, the CCT stated that with deployment of e-filing it would be mandatory for the dealers to furnish purchase and sales data. Further, the CCT admitted that the refund module was not fully automated and the VATsoft would be modified to capture data of refunds and industrial incentives.

2.12.9.2 Non/partial utilisation of the modules

The VATSoft was designed to capture the complete workflow of the Department in all spheres without any ambiguity. We noticed that the system was either not used or used only partially in respect of the following:

- All the Audited Accounts filed in Form VAT 240 were not fed into the system.
- Annual statements filed in Form VAT 115 were not entered into the system.
- Re-assessment orders, intelligence reports, debt and recovery management data are not being updated in the system.
- Photo capturing facility of the registration module not made use.
- Notices for non-filers, belated filers are not generated automatically.
- Additional demands, interest and penalty notices are not generated automatically.
- Manual system of acknowledgements for returns still exists.

Thus, the automated workflow as envisaged through the system was defeated and manual intervention and input errors made the data unreliable.

After we pointed out the above, the CTD stated that poor connectivity of VSAT technology and distributed architecture resulted in poor monitoring and under utilisation of many modules, however, decisions are being taken towards better utilisation of modules.

2.12.10 Conclusion

Computerisation was undertaken with a view to enhance the efficiency of the organisation in implementing the KVAT Act, 2003, and the Rules thereunder. However, the CTD did not clearly spell the objectives for computerisation. The software (VIPS and VRN) initially developed through a private agency failed in its intended purpose resulting in infructuous expenditure of ₹ 7.09 crore. Even in VATSoft application system, the provisions of KVAT Act and Rules were not fully incorporated. Incomplete/invalid data was captured and no control were put in place to avoid duplicate registration of dealers. There was no policy regarding acquisition and periodical upgradation of hardware resources and disposal of e-wastes. There was no control to restrict physical access to the Servers. The passwords were not stored in encrypted format and names of the employees to whom passwords were assigned were not found in 65 cases. The number of error returns was very high. There was no mechanism in the application system to watch the submission of monthly returns by the authorities deducting tax at source. MIS report on commodity-wise dealer was not accurate. Though VATSoft was designed to capture the complete work flow of the Department in all spheres, it was either not used or was used partially in a number of fields. To overcome the deficiencies we recommend that the Government may consider the following recommendations.

2.12.11 Recommendations

We recommend that:

- the Department plan for implementing all the modules of VATSoft in order to reduce the manual maintenance of records;
- physical access controls be strengthened;
- password policy be revised, incorporating best practices in industry and fully implemented;
- necessary input and validation controls be built into the system to ensure that unauthorised, invalid, inaccurate and incomplete data is not fed into the system;
- automatic updation of Dealer Ledger module be established;
- CTD develop in-house expertise to enable effective management of IT. CTD may periodically review the adequacy of general, security and application controls for optimal utilisation of IT resources; and
- refund orders be generated through the VATSoft and the system of manually issuing refund orders may be discouraged.

2.13 Other audit observations

Scrutiny of assessment records of value added tax (VAT) and central sales tax (CST) indicated several cases of non-observance of provisions of Acts/Rules and notifications issued therein, suppression of sales/purchase turnover, non/short levy of tax/penalty/surcharge, incorrect adjustment of input tax credit (ITC), irregular concession/exemption, incorrect application of rate of tax, misuse of declaration forms etc. as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of assessing authorities are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal audit.

- **Non-observance of provisions of the Act/Rules**

The KVAT Act provides as under:

- *Section 4 for levy of output tax at prescribed rates;*
- *Section 10(2), 11, 14 and 17 for deduction of ITC subject to certain restrictions;*
- *Section 10(3) for net tax liability which shall be the amount of output tax less the input tax deductible;*
- *Section 10(5) for adjustment/refund of excess ITC for any other tax period;*
- *Section 9-A for tax deduction at source in respect of works contractors;*
- *Section 15 for composition of tax in lieu of net tax payable;*
- *Sections 35 and 36 for levy of interest for omission to pay tax;*
- *Section 35(4) for furnishing of revised returns within six months after the end of the relevant tax period; and*
- *Section 72(2) for levy of penalty for understatement of output tax/overstatement of ITC.*

Under the KVAT Act, every registered dealer is required to furnish returns in the prescribed form and pay the tax due on such return within 20 days after the end of the preceding month or any other tax period. Every dealer shall be deemed to have been assessed to tax based on such return filed by him. Where any prescribed authority has grounds to believe that any return furnished, which is deemed as assessed, understates the correct tax liability, it may re-assess such cases.

We noticed in test check of the records of 46 VAT offices that the above provisions were not fully followed by the concerned Assessing Authorities (AAs). This resulted in a number of discrepancies with non/short realisation of Government revenue amounting to ₹ 8.20 crore in 168 cases. The Department furnished replies in respect of 90 cases and accepted audit observations in 88 cases involving ₹ 3.70 crore and intimated recovery of ₹ 1.32 crore in 39 cases. The Department did not accept the audit contention in two cases for which suitable rebuttal has been made in the relevant paragraph. In respect of the remaining 78 cases final reply has not been received (January 2011).

2.13.1 Excess/incorrect allowance of input tax

17 VAT offices in five⁴ districts.

Input tax in relation to a registered dealer means the tax paid or payable on the purchase of any goods for use in his business.

We noticed between January 2008 and January 2010 that 28 assesseees had claimed ITC of ₹ 11.00 crore in 168 (166 deemed assessments and two reassessments) returns for tax periods between April 2005 and March 2009. The input tax admissible as per the provisions of the Act in these cases was ₹ 8.41 crore, which resulted in excess/ incorrect allowance of input tax of ₹ 2.59 crore. This was due to arithmetical errors, allowance of ITC on labour charges/ITC restricted goods, allowance of ITC without purchases, etc. A few illustrative cases are mentioned below:

(Rupees in lakh)				
Sl. No.	District/No. of dealers	Nature of objection	Input tax claimed/Input tax allowable	Amount of excess/ incorrect input tax
1.	Bangalore/01	The input tax on purchase turnover of ₹ 73.84 lakh (at 12.5%) works out to ₹ 9.23 lakh. However, the dealer claimed ITC of ₹ 15.72 lakh during August 2007, due to arithmetical error.	15.72/9.23	6.49
2.	Bangalore/01	A dealer claimed ITC of ₹ 27.58 lakh for the month of March 2006 in his monthly return. Our scrutiny however revealed that he had made no purchases during the month of March 2006. As such his claim for the month was incorrect.	27.58/Nil	27.58
3.	Ramanagara/01	A dealer claimed ITC of ₹ 62.86 lakh during 2005-06 and 2006-07 on labour charges which was not admissible as no tax has been paid on such labour charges.	62.86/ Nil	62.86

After we pointed out the cases, the Department accepted audit observations in respect of 17 cases involving ₹ 1.41 crore and recovered ₹ 53.39 lakh in seven cases. We have not received final reply in the remaining cases (January 2011).

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

⁴ Bangalore, Belgaum, Chitradurga, Gulbarga, Ramanagara.

2.13.2 Underassessment of output tax/net tax

14 VAT offices in four⁵ districts.

Every registered dealer shall be liable to pay tax on his taxable turnover (output tax) at the rates specified in the relevant schedules to the Act. In respect of goods not specified in any of the schedules, tax is payable at the rate of 12.5 per cent. The net tax payable by a registered dealer in respect of any tax period shall be the amount of output tax payable by him less the input tax deductible by him.

We noticed between May 2008 and January 2010 that the taxable turnover of 30 assesseees for the tax periods between April 2005 and March 2009 amounted to ₹ 101.45 crore. The output tax/net tax liability worked out by audit amounted to ₹ 6.87 crore. However, the assesseees declared output tax/net tax liability of only ₹ 5.16 crore

in their 198 (197 deemed assessments and one reassessment) monthly returns/annual statements. This was due to application of incorrect rate of tax, error in computation of the tax liability, claiming of incorrect exemption on taxable turnover, etc. This resulted in underassessment of output tax/net tax amounting to ₹ 1.72 crore.

After we pointed out the cases, the Department accepted audit observations in respect of 16 cases involving ₹ 57.75 lakh and recovered ₹ 95,614 in one case. We have not received final reply in the remaining cases (January 2011).

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

2.13.3 Non/short levy of interest

19 VAT offices in five districts.

Every dealer is liable to pay simple interest at the rate of 1.25 per cent per month on any amount of tax omitted to have been declared in a return and also for default in payment of tax wrongly collected. Further, interest shall also be demanded on additional tax liability determined on re-assessment.

We noticed between October 2008 and January 2010 that while finalising 328 assessments (165 deemed assessments and 163 reassessments) of 38 assesseees for the tax periods between April 2005 and March 2009, an additional demand of ₹ 11.42 crore was raised. However, interest of ₹ 1.38 crore was either not levied or

levied short as detailed below:

(Rupees in lakh)			
Sl. No.	District (number of assesseees)	Amount of tax involved	Non/short levy of interest
1.	Bangalore (34)	1,029.45	128.87
2.	Belgaum (01)	8.58	0.89
3.	Chamarajanagar (01)	12.19	0.36
4.	Kodagu (01)	3.32	1.31
5.	Mysore (01)	89.07	6.24
Total (38)		1,142.61	137.67

⁵ Bangalore, Bellary, Dakshina Kannada, Koppal.

After we pointed out the cases, the Department accepted audit observations in respect of 21 cases involving ₹ 69.51 lakh and recovered ₹ 50.69 lakh in 15 cases. We have not received final reply in the remaining cases (January 2011).

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

2.13.4 Excess adjustment of credit/refund amount

14 VAT offices in five⁶ districts.

Any dealer in whose case, on the basis of return filed for any tax period, the input tax deductible exceeds the output tax payable by him, such dealer may adjust the excess amount towards the tax payable by him for any other tax period.

We noticed between October 2008 and January 2010 that 25 assesseees in their returns filed for 33 tax periods (26 deemed assessments and seven reassessments) between June 2005 and September 2008, adjusted credit/refund amount of

₹ 2.48 crore brought forward from earlier tax periods as against ₹ 1.56 crore due to them as credit/refund. This resulted in excess adjustment of credit/refund amount of ₹ 92.33 lakh.

After we pointed out the cases, the Department accepted audit observations in respect of eight cases involving ₹ 32.51 lakh and recovered ₹ 1.80 lakh in one case. We have not received final reply in the remaining cases (January 2011).

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

2.13.5 Non/short levy of penalty

17 VAT offices in five districts.

A dealer who for any prescribed tax period furnishes a return which understates his liability to tax or overstates his entitlement to a tax credit by more than five *per cent* of his actual liability to tax or his actual tax credit, as the case may be, shall after being given the opportunity of showing cause in writing against the imposition of a penalty, be liable to a penalty equal to ten *per cent* (20 *per cent* up to 31 March 2006) of the amount of such tax under or overstated.

We noticed between October 2008 and January 2010 that 32 assesseees had either understated the output tax liability or overstated the ITC amounting to ₹ 6.41 crore for 192 tax periods (101 deemed assessments and 91 reassessments) between April 2005 and March 2009. However, we observed that the AAs had either not levied

or levied short penalty of ₹ 76.59 lakh as detailed below:

⁶ Bangalore, Dakshina Kannada, Gulbarga, Haveri, Mysore.

(Rupees in lakh)			
Sl. No.	District (number of assessees)	Amount of tax involved	Non/short levy of penalty
1.	Bangalore (26)	516.57	62.51
2.	Belgaum (01)	49.99	5.00
3.	Chamarajanagar (02)	15.56	1.56
4.	Mangalore (02)	41.53	4.15
5.	Mysore (01)	16.88	3.37
Total (32)		640.53	76.59

After we pointed out the cases, the Department accepted audit observations in respect of 13 cases involving ₹ 19.51 lakh and recovered ₹ 13.71 lakh in eight cases. In two cases, the Department replied that penalty was not leviable as the net tax liability in the revised returns was not in excess of five *per cent* of that declared in the original return. However, we noticed that in one case, for the tax period December 2007, the assessee claimed ITC of ₹ 181.36 lakh as against eligible ITC of ₹ 58.01 lakh and for the tax period January 2008, he declared output tax of ₹ 331.66 lakh as against ₹ 390.49 lakh. In the other case, the assessee declared output tax of ₹ 80.99 lakh as against ₹ 116.33 lakh for the tax periods November 2007 and February 2008. As the understated output tax liability or overstated ITC in these cases was more than five *per cent*, the assessees were liable to penalty and hence the reply is not correct. We have not received final reply in the remaining cases (January 2011).

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

2.13.6 Loss of revenue due to acceptance of belated returns

Three VAT offices in two⁷ districts.

If any dealer, having furnished a return under the Act, discovers any omission or incorrect statement therein, he shall furnish a revised return within six months from the end of the relevant tax period.

We noticed between June and August 2009 that three assessees filed revised returns between May and December 2008 for 15 tax periods (deemed assessments) between April and November 2007 belatedly, with an average delay of five months, and were accepted by LVOs declaring less tax

liability than that declared in the original returns. Thus, acceptance of belated revised returns resulted in loss of revenue of ₹ 37.17 lakh.

After we pointed out the cases, the Department accepted audit observations in respect of two cases involving ₹ 7.83 lakh. We have not received final reply in the remaining cases (January 2011).

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

⁷ Bangalore, Bellary.

2.13.7 Incorrect adjustment of TDS

Five VAT offices in two⁸ districts.

The authority deducting the tax payable by a dealer in respect of any works contract executed for him in the State shall issue a certificate of TDS in Form VAT 156. A dealer adjusting the TDS against the net tax payable by him, in his return for any tax period, shall enclose the certificates of TDS to the return.

We noticed between April 2009 and November 2009 that six assesseees in their returns filed for 50 tax periods (deemed assessments) between October 2006 and March 2008, adjusted an amount of ₹ 33.57 lakh from output tax payable, as TDS from them. We observed that the required TDS certificates were not enclosed for the amount claimed as TDS and the returns were accepted by the concerned LVOs. Acceptance of

claim of TDS not supported by the prescribed certificate deprived the Government of revenue of ₹ 33.57 lakh.

After we pointed out the cases, the Government/Department accepted audit observations in respect of five cases involving ₹ 30.32 lakh and recovered ₹ 3.21 lakh in two cases. We have not received final reply in the remaining one case (January 2011).

2.13.8 Incorrect grant of exemption

Three VAT offices in two⁹ districts.

No deduction is admissible from the total consideration, in respect of a dealer engaged in works contract who had opted for composition of tax; exception being amounts paid to sub-contractor as consideration for execution of works contract, subject to production of document in proof that such sub-contractor is a registered dealer liable to tax under the Act and that the turnover of such amounts is included in the monthly returns filed by him.

We noticed between June 2008 and December 2009 that six assesseees, who opted for composition, filed 158 returns (deemed assessments) for tax periods between April 2005 and March 2008 and claimed exemptions towards labour charges, earthwork excavation charges, etc. involving a

turnover of ₹ 2.83 crore, which were accepted by the AAs. This resulted in short levy of tax of ₹ 11.32 lakh.

After we pointed out the cases, the Department accepted audit observations in all the cases and recovered ₹ 7.91 lakh in five cases.

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

⁸ Bangalore, Mangalore.

⁹ Bangalore, Mysore.

CHAPTER-III: TAXES ON MOTOR VEHICLES

3.1 Tax administration

The provisions of the Karnataka Motor Vehicle Taxation (KMVT) Act, 1957 and rules made thereunder govern the levy and collection of taxes on motor vehicles. The levy of taxes on motor vehicles is administered by the Transport Department headed by the Commissioner for Transport who is assisted by Joint Commissioners of Transport. There are 55 Regional Transport Offices (RTOs)/Assistant Regional Transport Offices (ARTOs) and 15 checkposts in the State.

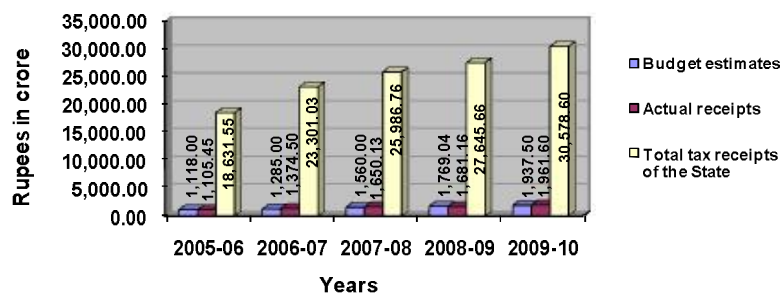
3.2 Trend of receipts

Budget Estimates (BEs) and actual receipts from taxes on motor vehicles during the years 2005-06 to 2009-10 along with the total tax receipts during the same period is exhibited in the following table and graphs.

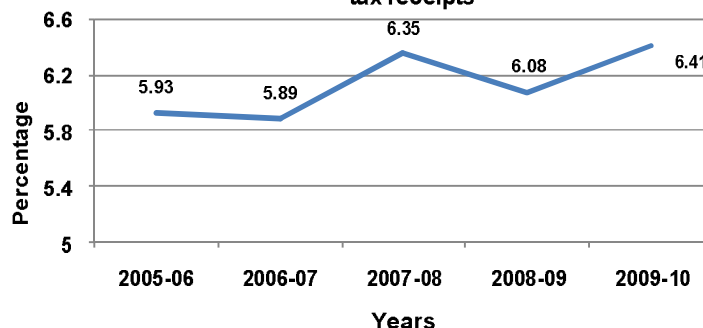
(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	1,118.00	1,105.45	(-) 12.55	(-) 1.12	18,631.55	5.93
2006-07	1,285.00	1,374.50	(+) 89.50	(+) 6.96	23,301.03	5.89
2007-08	1,560.00	1,650.13	(+) 90.13	(+) 5.78	25,986.76	6.35
2008-09	1,769.04	1,681.16	(-) 87.88	(-) 4.97	27,645.66	6.08
2009-10	1,937.50	1,961.60	(+) 24.10	(+) 1.24	30,578.60	6.41

Graph 1 : Budget estimates, Actual receipts and Total tax receipts



Graph 2: Percentage of Actual receipts vis-à-vis Total tax receipts



It is seen from the graphs that there was no significant variation in the actual receipts as compared to the BEs in all the years. The variation between the BEs and actuals ranged between (-) 4.97 per cent and (+) 6.96 per cent. The percentage of actual receipts to total tax receipts remained consistent at around six per cent during the five year period from 2005-06 to 2009-10.

3.3 Analysis of arrears of revenue

The arrears of revenue furnished by the Department as on 31 March 2010 amounted to ₹ 4.27 crore, of which ₹ 1.40 crore were outstanding for more than five years. The Department has not furnished details of opening balance of arrears, amount collected during the year and closing balance of arrears for the period 2005-06 to 2009-10, despite being requested (August 2010).

3.4 Cost of collection

The gross collection of taxes on motor vehicles, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for the respective preceding years were as follows:

Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the preceding year
	(Rupees in crore)			
2007-08	1,651.82	29.39	1.78	2.47
2008-09	1,682.90	34.84	2.04	2.58
2009-10	1,962.62	36.35 ¹	1.85	2.93

As seen from the above, the percentage of cost of collection to the gross collection was lower than the all India average percentage for all the three years.

3.5 Impact of Audit Reports

During the last five years, through our audit reports, we had pointed out non/short levy of tax with revenue implication of ₹ 5 crore in 14 paragraphs. Of these, the Government/Department had accepted audit observations involving ₹ 4.71 crore in 14 paragraphs and had since recovered ₹ 61.23 lakh. The details are shown in the following table:

(Rupees in lakh)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount ²	Number	Amount ¹
2005-06	01	5.27	01	0.32	01	0.32
2006-07	03	199.82	03	191.81	02	0.24
2007-08	04	139.61	04	138.51	02	7.81
2008-09	04	135.39	04	135.39	04	48.56
2009-10	02	19.54	02	4.58	02	4.30
Total	14	499.63	14	470.61	11	61.23

¹ Indicates non-plan expenditure only. Plan expenditure for 2009-10 was ₹ 0.46 crore.

² Indicates the amount of acceptance and recovery in respect of individual cases included in the respective paragraphs.

As seen from the above table, the recovery made by the Department is only 13.01 *per cent* of the amount involved in the total accepted cases.

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

3.6 Working of internal audit wing

The Internal Audit Wing (IAW) is functioning in the Transport Department since 1960. As against the sanctioned post of nine First Division Assistants and one Accounts Superintendent for internal audit, three posts of First Division Assistants were vacant as of March 2010.

As per the information furnished by the Department, out of 63 offices due for audit during 2009-10, only 24 offices (38 *per cent*) were audited. Year-wise details of the number of objections raised and settled with tax effect and recoveries effected, as furnished by the Department, are as under:

(Rupees in lakh)

Year	Objections raised		Objections settled		Objections pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2005-06	215	317.26	140	112.75	75	204.51
2006-07	183	104.56	658	105.69	-	-
2007-08	352	154.85	564	108.51	-	46.34
2008-09	09	7.17	02	576.00	07	7.16
2009-10	15	9.18	-	-	15	9.18
Total	774	593.02	1,364	902.95	97	267.19

The Department reported that the number of paragraphs and amount do not tally since the paragraphs pending and amount involved pertain from 1960 onwards, i.e from the inception of the IAW. This indicates that the department is not according due importance to internal audit and has not taken appropriate action to reconcile the above figures.

We recommend that the Department ensure adequate coverage of units for internal audit. Further, remedial action may also be taken for reconciliation of figures and also for speedy clearance of old outstanding objections.

3.7 Results of audit

We conducted a test check of the records of 57 offices of the Transport Department during the year 2009-10, which revealed underassessment of tax and other irregularities amounting to ₹ 91 crore in 124 cases, which fall under the following categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	Short levy of tax on fleet owners	02	8.27
2.	Delay in realisation of demand drafts	08	2.50
3.	Non-levy of quarterly tax	28	1.15

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
4.	Irregular grant of permits	05	0.48
5.	Non-levy of fee on registration with fancy numbers	15	0.35
6.	Non/short levy of lifetime tax	38	0.29
7.	Short levy of tax on battery operated cars	04	0.05
8.	Other irregularities	24	77.91
Total		124	91.00

During the course of the year 2009-10, the department accepted underassessments of ₹ 1.05 crore in 46 cases pointed out during the year. The department also recovered ₹ 1.05 crore in 83 cases pointed out in earlier years.

After issue of a draft paragraph, the Government reported (May 2010) recovery of ₹ 3.12 lakh in respect of 12 vehicles.

A few illustrative cases involving ₹ 19.54 lakh are mentioned in the succeeding paragraphs.

3.8 Audit observation

Scrutiny of records in the offices of the Transport Department relating to revenue received from taxes on vehicles indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to consider directing the department to improve the internal control system including strengthening internal audit so that such omissions can be avoided, detected and corrected.

• Non-observance of provisions of the Act/Rules

The KMVT Act, 1957 and the KMVT Rules, 1957 provide as under:

- *Section 3 for levy of tax on all vehicles suitable for use on road at the rates specified in the Schedule to the Act.*
- *Section 4 for payment of tax so levied to be paid in advance by the registered owners for a quarter or half year at his choice, within fifteen days from the commencement of such period.*
- *Section 8A for recovery by the taxation authority for the difference in tax payable for a motor vehicle after giving an opportunity of being heard to the owner, if at any time it is found that the amount of tax paid for any period in respect of any motor vehicle falls short of the tax payable under the Act.*
- *Section 12 for composition of offence for non-payment of tax in accordance with the provisions of the Act. The rates of composition are provided in the KMVT Rules.*

We noticed in seven RTOs that the above provisions were not fully followed by the concerned taxation authorities. This resulted in a number of discrepancies with short realisation of Government revenue amounting to ₹ 19.54 lakh. Of these, the Department accepted audit observations in respect of 31 vehicles involving ₹ 4.58 lakh and recovered ₹ 4.30 lakh in respect of 27 vehicles.

3.8.1 Non-demand of tax

Three RTOs

Non-payment/short payment of tax constitutes an offence and the KMVT Rules provide for composition of the offence on payment of a sum at 20 per cent of the arrears of tax due. This shall be recovered along with arrears of tax by the taxation authority concerned.

We noticed from a test check of 'B' registers³, conducted between August 2009 and December 2009, non-payment of tax of ₹ 22.18 lakh in respect of 62 vehicles for different periods between June 2005 and December 2009. The tax was not demanded by the concerned RTOs. After we pointed out these cases, the

³ Registers maintained in the RTOs in which tax payments are recorded.

Department reported that tax had already been paid within due dates in respect of 34 vehicles. This indicated that the Department was not regularly updating its 'B' registers. Non-demand of tax in respect of the balance 28 vehicles resulted in short realisation of revenue of ₹ 15.48 lakh including ₹ 2.58 lakh that could also have been earned by way of composition of the offences committed by the defaulters. The details are mentioned below:

(Rupees in lakh)				
RTO	Number of vehicles	Period during which tax due	Tax not demanded	Composition sum
Bidar	15	Between August 2007 and March 2009	4.62	0.92
Hospet	11	Between June 2005 and September 2009	2.74	0.55
Sirsi	02	Between September 2009 and December 2009	5.54	1.11
Total	28		12.90	2.58

After we forwarded these cases to the Department/Government in April 2010, the Government accepted (June 2010) audit observations in respect of eight vehicles involving ₹ 2.02 lakh and recovered the entire amount. We have not received the report on action taken in respect of the remaining vehicles (January 2011).

We recommend that the Department ensure prompt updation of its 'B' registers relating to payment of tax.

3.8.2 Non/short levy of lifetime tax

Four RTOs⁴

The rates of lifetime tax for non-transport vehicles were based on the engine capacity up to March 2003. Thereafter, the rates were fixed as a percentage of cost of vehicle.

We noticed between April 2009 and February 2010 that 47 vehicles were converted as non-transport vehicles between November 2004 and December 2007. The taxation authorities concerned had levied the tax at pre-revised rates instead of at the rates which existed on the dates of conversion. This resulted in short levy of lifetime tax of ₹ 6.64 lakh.

After we pointed out these cases, the Government and the Department accepted (June/August 2010) the audit observations involving ₹ 2.56 lakh in respect of 23 vehicles and recovered ₹ 2.28 lakh in respect of 19 vehicles. We have not received the report on action taken in respect of the remaining vehicles (January 2011).

⁴ Bangalore (Jnanabharathi), Mysore (West), Nelamangala, Tumkur.

CHAPTER-IV: LAND REVENUE

4.1 Tax administration

The levy of land revenue is administered by the Revenue Department at Government level. The State is divided into four revenue zones viz., Bangalore, Mysore, Belgaum and Gulbarga, each headed by a Regional Commissioner (RC). At the field level, the levy and collection of land revenue is administered by the Deputy Commissioner (DC)/Special Deputy Commissioner at district level, Assistant Commissioner (AC) at sub-division level, Tahsildar including Special Tahsildar at Taluk level, Revenue Inspector/Village Accountant at the village level. The provisions of the Karnataka Land Revenue (KLR) Act, 1964 and Rules framed thereunder govern the levy and collection of land revenue.

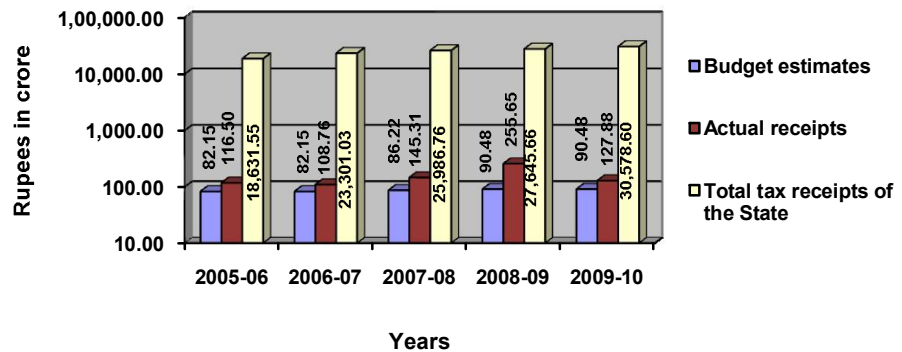
4.2 Trend of receipts

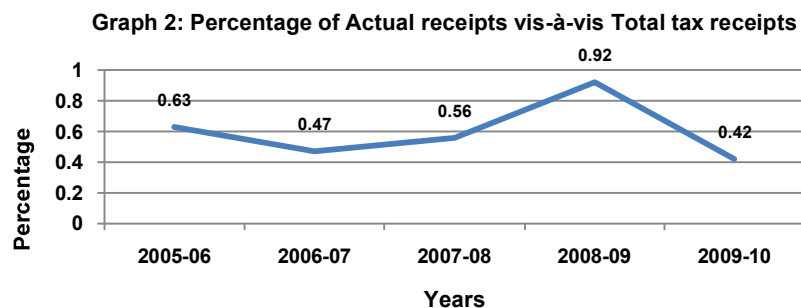
4.2.1 Receipts from Land Revenue

Budget Estimates (BEs) and actual receipts from land revenue during the years 2005-06 to 2009-10 along with the total tax receipts during the same period is exhibited in the following table and graphs:

(Rupees in crore)						
Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	82.15	116.50	(+) 34.35	(+) 41.81	18,631.55	0.63
2006-07	82.15	108.76	(+) 26.61	(+) 32.39	23,301.03	0.47
2007-08	86.22	145.31	(+) 59.09	(+) 68.53	25,986.76	0.56
2008-09	90.48	255.65	(+) 165.17	(+) 182.55	27,645.66	0.92
2009-10	90.48	127.88	(+) 37.40	(+) 41.34	30,578.60	0.42

Graph 1 : Budget estimates, Actual receipts and Total tax receipts





It is seen from the graphs that the variation between the BEs and actuals ranged between (+) 32.39 per cent and (+) 182.55 per cent. Further, revenue increased by 76 per cent in 2008-09 as compared to 2007-08 and decreased by 50 per cent in 2009-10 as compared to 2008-09 under all minor heads under the Major Head of Account '0029-Land Revenue'. The Department did not furnish reasons for these huge variations although it was called for (July 2010). The percentage of actual receipts in total tax receipts ranged between 0.42 per cent and 0.92 per cent during the five year period from 2005-06 to 2009-10.

4.2.2 Receipts from sale of land

The receipts from sale of Government land including auctions were credited to the Head of Account '4000- Capital receipts' from the year 2007-08 onwards. BEs and actual receipts from sale of land for the years 2007-08 and 2008-09 are as given below:

(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation
2007-08	700.00	207.22	(-) 492.78	(-) 70
2008-09	3,000.00	181.14	(-) 2,818.86	(-) 94

From the above, it is observed that there were huge variations between the BEs and actuals during both the years. The Department did not furnish the reasons for these variations, though it was called for (October 2010).

These huge variations between the BEs and actuals, both under land revenue and receipts from sale of land, indicated that the BEs were not being prepared on a realistic basis.

4.3 Analysis of arrears of revenue

We called for the details of arrears of revenue for the period 2004-05 to 2008-09 from the Government and the RCs. However, neither the Government nor the RCs have furnished the same. Three out of the four RCs stated (October 2010) that the information would be collected from the concerned DCs and furnished to audit. This indicates that there was no proper monitoring of arrears of revenue in the Department.

We recommend that the Government institute an effective mechanism for periodical reporting of the arrears of revenue by the field offices so as to enable its monitoring and realisation.

4.4 Impact of Audit Reports

During the last five years, through our audit reports, we had pointed out non/short levy of tax with revenue implication of ₹ 225.97 crore in 10 paragraphs. Of these, the Government/Department had accepted audit observations involving ₹ 113.18 crore in seven paragraphs and had since recovered ₹ 11 lakh. The details are shown in the following table:

(Rupees in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount ¹	Number	Amount ¹
2005-06	02	2.87	02	2.87	-	-
2006-07	01	1.08	-	-	-	-
2007-08	02	209.09	01	106.02	-	-
2008-09	02	1.38	02	0.20	-	-
2009-10	03	11.55	02	4.09	01	0.11
Total	10	225.97	07	113.18	01	0.11

As can be seen from the above, the recovery made by the Department is only 0.10 per cent of the amount involved in the total accepted cases.

We recommend that the Government may issue directions to the Department to atleast intensify its measures for expeditious recovery of the amount involved in the accepted cases.

4.5 Results of audit

We conducted a test check of the records of eight offices of the DCs and 36 offices of the Tahsildars during the year 2009-10. Further, we also test checked records of 12 offices of the DCs and 30 offices of the Tahsildars² for the review. This revealed underassessments of revenue amounting to ₹ 24.21 crore in 76 cases. The observations broadly fall under the following categories.

(Rupees in crore)

Sl. No.	Category	No. of cases	Amount
1.	Grant of Government lands and regularisation of unauthorised occupation of Government lands (A review)	01	9.91
2.	Non/short levy of conversion fine/compounding fine	17	1.96
3.	Short levy of Pre-mutation sketch and phodi fee	28	0.43
4.	Other irregularities	30	11.91
	Total	76	24.21

During the course of the year 2009-10, the Department accepted underassessments of ₹ 94.06 lakh involved in 51 cases pointed out during the year and of that recovered ₹ 10,880 in one case. The Department also recovered ₹ 15.82 lakh in 25 cases pointed out in earlier years.

A review on ‘Grant of Government lands and regularisation of unauthorised occupation of Government lands’ with financial impact of ₹ 9.91 crore and a few illustrative audit observations involving ₹ 1.65 crore are mentioned in the succeeding paragraphs.

¹ Indicates the amount of acceptance and recovery in respect of individual cases included in the respective paragraphs.

² Includes 4 DC offices and 15 Tahsildar offices audited as per audit plan.

4.6 Grant of Government lands and regularisation of unauthorised occupation of Government lands

Highlights

Consolidated database regarding extent of land available for grant/lease/auction was not compiled and available with the Government.

(Paragraph 4.6.6)

Norms for determination of market value in respect of lands granted to statutory bodies were not prescribed. Arbitrary determination of market value without adopting all the norms as stipulated for valuation by the Central Valuation Committee resulted in lower determination of market value and loss of revenue of ₹ 66.49 crore in three cases.

(Paragraph 4.6.7.2)

Policy stipulating the terms and conditions for grant of land at concessional rate was not in place and criteria for evaluating eligibility of institutions for such concession were not fixed. Grant of land at concessional rate in two cases resulted in loss of revenue of ₹ 4.77 crore.

(Paragraph 4.6.7.3)

Grant of land at concessional/ incorrect rate resulted in loss of revenue of ₹ 5.59 crore. The beneficiaries included two institutions for educational purposes.

(Paragraph 4.6.7.4)

The absence of time limit under the Rules for payment of the land value and non-cancellation of the land grant by the Government resulted in non/belated realisation of Government dues in three cases.

(Paragraph 4.6.7.5)

Application of incorrect guideline value in three cases resulted in short realisation of ₹ 2.28 crore.

(Paragraph 4.6.7.6)

Conversion fine of ₹ 2.45 crore was either not levied or levied short in 31 cases in seven offices.

(Paragraph 4.6.7.7)

Rules for conducting auctions were not framed by the Government. Guidelines were not prescribed for evaluating the appropriateness of bids received resulting in allotment of Government land at lower value.

(Paragraphs 4.6.8.1 and 4.6.8.2)

Re-auction of land in Bangalore despite getting bids above 150 per cent of guideline value was imprudent, resulting in loss of revenue of ₹ 2.03 crore.

(Paragraph 4.6.8.5)

Guidelines for fixing the lease rent were not issued by the Government. The format prescribed for lease rent did not provide for periodic revision of lease

rent. Loss of revenue by computing lease rent at one *per cent* of the guideline value in 61 cases worked out to ₹ 9.54 crore.

(Paragraph 4.6.9.1)

There was no system for preparation/update of list of villages falling within the prescribed distances from Corporation/municipal limits. Regularisation of land under unauthorised occupation within these limits resulted in foregoing revenue of ₹ 72.51 crore.

(Paragraph 4.6.10.2)

Regularisation of land under unauthorised occupation in favour of ineligible persons and regularisation of land in excess of what the applicants had applied for, resulted in loss of revenue of ₹ 50.69 crore.

(Paragraphs 4.6.10.3)

4.6.1 Introduction

Government land is the land vested in the State Government. Alienation of Government land occurs in the following instances:

- grant/lease of land, based on application made by the beneficiary for agricultural/non-agricultural purposes;
- auction of land for non-agricultural purposes; and
- regularisation of unauthorised occupation of Government land for agricultural/dwelling purposes.

4.6.2 Audit criteria

We conducted the review based on the following audit criteria:

1. The Karnataka Land Revenue (KLR) Act, 1964.
2. The Karnataka Land Revenue Rules, 1966.
3. The Karnataka Land Grant (KLG) Rules, 1969.
4. Notifications issued by Government for auction of Government land.

4.6.3 Audit objectives

We conducted the review to examine whether:

- systems/rules/procedures were prescribed for disposal of Government land by grant/auction and the market value of the land was properly assessed;
- norms/guidelines existed for fixation/periodical revision of lease rents;
- regularisation of unauthorised occupation of Government lands for agricultural/dwelling purposes was done as per eligibility conditions; and
- internal controls existed and provided for effective monitoring of grant/lease/regularisation cases.

4.6.4 Scope and methodology of audit

We conducted audit during the period from September 2009 to April 2010 and examined cases of grants, leases and auctions of Government lands and regularisation of unauthorised occupation of Government lands made during

the years 2004-05 to 2008-09. We selected the districts for review using stratified random sampling. The districts were sub-divided into two strata viz., those governed by municipal corporations and those not governed by municipal corporations from which we selected specified percentages. Accordingly, we selected 12³ out of 29 districts using random statistical sampling. Further, out of the 74 Taluks in the selected districts, we selected 30⁴ taluks also using random statistical sampling.

4.6.5 Acknowledgement

We acknowledge the co-operation of the Revenue Department in providing necessary information and records for audit. We held an entry conference with the Principal Secretary to Government, Revenue Department, in November 2009 wherein the scope of audit, methodology and audit objectives including sampling were explained. We forwarded the draft review to the Government in June 2010 and discussed the same with the Principal Secretary to Government, Revenue Department in the exit conference held in August 2010. We have incorporated the replies of the Government received during the exit conference and at other points of time in the respective paragraphs.

Audit findings

4.6.6 Absence of database in respect of Government land

Rule 3 of KLG Rules stipulates that the Tahsildar shall prepare, revise and update each year a list of lands which have been/have to be assigned for special purposes for determining the lands available for disposal. Such list shall be notified not later than the 1st day of July of each year.

Availability of a database of Government lands is a very important means of internal control for the effective management of Government lands. We noticed that a consolidated database regarding extent of land available for grant/lease/auction was not compiled and available with the Government.

The list of lands required to be prepared was prepared and notified only in four⁵ out of the 30 test checked Tahsildar offices. In the absence of such a database, the Department could not ensure availability or otherwise of the Government land for auction before initiating auction proceedings of the Government land. After we brought this to notice, Government reported (August 2010) that a circular had been issued in this regard.

Auction of land was being done on the basis of a checklist compiled by the Tahsildar with recommendations of the DC thereon. The checklist comprised details of location of land, encroachment, details of sketch prepared by

³ Bangalore (Rural), Bangalore (Urban), Belgaum, Dharwad, Hassan, Kolar, Mangalore, Mysore, Ramanagara, Shimoga, Tumkur, Udupi.

⁴ Anekal, Bangalore (North), Bangalore (South), Bangarapet, Bantwal, Belgaum, Belthangady, Bhadravathy, Channarayapatna, Chikkodi, Devanahally, Dharwad, Doddaballapura, Hassan, H.D.Kote, Hosakote, Hubli, K.R.Puram, K.R.Nagar, Kolar, Kundapur, Kunigal, Mangalore, Mysore, Nelamangala, Ramanagara, Shimoga, Tumkur, Udupi, Yelahanka.

⁵ Dharwad, Hubli, K.R.Nagar, Shimoga.

surveyor, pending applications for regularisation, zonal regulation as per Comprehensive Development Plan (CDP), details of land acquisition proposals by Bangalore Development Authority (BDA), Karnataka Industrial Area Development Board (KIADB), etc.

➤ We noticed in the office of the DC, Bangalore (Urban) that in four cases, land measuring 13 acres 26 guntas⁶ was auctioned between April 2007 and September 2008. The Government confirmed the auction between June 2007 and December 2008. However, these lands were already either granted earlier to others (two cases) or applications were pending for regularisation for encroachment under sections 94 A/B of KLR Act (two cases). This resulted in litigation and consequently 25 *per cent* of the bid amount deposited by the successful bidders had to be refunded to the respective bidders by cancelling the auction proceedings. We observed that the Department had issued (June 2009) show cause notice to the Tahsildar, Anekal for negligence in reporting facts in two cases which rendered the auction process unproductive.

➤ Government issued (October 2007) orders approving grant of 3,313 acres 28 guntas of Government land to eight statutory bodies/Government Companies⁷, based on the proposal (July 2007) of DC, Bangalore (Urban). We noticed that four agencies did not pay ₹ 299.90 crore towards the value of 1,030 acres 16 guntas of land even as of November 2009, as a result of which the lands were not handed over to them. The details are as below:

(Rupees in crore)

Name of the statutory body/Government company	Extent of land granted (acres-guntas)	Extent of land for which value not paid (acres-guntas)	Reasons for non-payment
	Value of land	Amount due	
Karnataka Housing Board (KHB)	429-19	373-06	KHB paid ₹ 11.48 crore for 56 acres 13 guntas and stated that the remaining land was not useful to it since it was uneven.
	156.82	145.34	
Mysore Sales International Limited (MSIL)	37-20	37-20	MSIL stated that 21 acres 29 guntas of land was under dispute in the courts and requested for grant of alternate land.
	16.90	16.90	
Karnataka Slum Clearance Board (KSCB)	284-39	284-39	KSCB stated that it required only 92 acres and that the balance land was under 'Green Belt' area.
	99.33	99.33	

⁶ Unit of measurement of land – 1 acre = 40 guntas

⁷ Bruhat Bangalore Mahanagara Palike, Bangalore Metropolitan Transport Corporation, Karnataka Housing Board, Karnataka Power Transmission Corporation Limited, Karnataka Slum Clearance Board, Karnataka State Small Industries Development Corporation, Karnataka State Warehousing Corporation and Mysore Sales International Limited.

(Rupees in crore)

Name of the statutory body/Government company	Extent of land granted (acres-guntas)	Extent of land for which value not paid (acres-guntas)	Reasons for non-payment
	Value of land	Amount due	
Karnataka Small Scale Industries Development Corporation (KSSIDC)	428-16	334-31	KSSIDC paid ₹ 18.67 crore for 93 acres 25 guntas and stated that 145 acres 11 guntas was not suitable for it.
	108.51	99.85	
Total	1,180-14	1,030-16	
	330.05	299.90	

The above cases indicated that due diligence to determine the status of land before its disposal either through auctions or grant was not carried out by the Government/Department. This also resulted in huge tracts of urban land remaining undeveloped/blocked since on paper they had been shown as allotted to different agencies.

We recommend that the Government ensure compilation of database by the field offices regarding the status and availability of lands for disposal through auction/grant/lease. They may also institute a mechanism for consolidation and periodic updation of the same.

4.6.7 Grant of Government land

4.6.7.1 Absence of a system for fixation of the market value of land

The KLG Rules, 1969 provide for grant of land at market value to be determined by the DC.

We observed that no norms/guidelines were prescribed by the Government for fixation of the market value by the DC. We also noticed that the guideline market values published by the Government under the Karnataka Stamp (Constitution of Central Valuation Committee for estimation, publication and revision of the market value guidelines of properties) Rules, 2003 were taken as the basis for the market value in the absence of specific guidelines/norms under the KLG Rules.

After we brought this to notice, the Government stated (August 2010) that the guideline market values notified by them were adopted by the DC to fix value of the lands granted. Further, they stated that it was proposed to undertake an exercise by appointing an expert agency to fix appropriate market value of land based on registration based statistics, productivity of the land and nearness of the Government land to the city or town.

4.6.7.2 Determination of market value for grant of land to statutory bodies

Rule 20 (1) (c) of KLG Rules, 1969 provides for grant of land to statutory bodies on collection of fifty *per cent* of the market value to be determined by the DC.

We noticed that 110 *per cent* of the guideline market value as notified by the Government under the Karnataka Stamp (KS) Act, 1957 was adopted as market value in cases of grant of land to statutory bodies. DC, Bangalore (Urban) stated that the 10 *per cent* increase over guideline market value was adopted as a safety clause to avoid increase/decrease of market value and

that no norms/rules/instructions of the Government existed for the same in arriving at the market value.

We noticed from the records of office of the DC, Bangalore (Urban) that 953 acres 8 guntas of land were granted to three statutory bodies during 2004-05 to 2008-09. Out of this, 892 acres 14 guntas of land were granted to Bangalore Metropolitan Transport Corporation (BMTC) and BDA at fifty percent of the market value and 60 acres 34 guntas was granted to Karnataka Power Transmission Corporation Limited (KPTCL) at full market value.

According to the norms specified by the Central Valuation Committee (CVC) in the published guideline market values, when any undeveloped land converted⁸ for non-agricultural purposes is to be used for residential, industrial or commercial purposes, it was to be valued by enhancing the rate of the agricultural land by 50, 25 and 60 *per cent* respectively. By adopting the above norms, we computed the loss of revenue of ₹ 66.49 crore in respect of these cases. Details are given below:

(Rupees in crore)				
Organisation	Extent of land granted (acres-guntas) (Purpose of grant)	Market value realisable (determined in accordance with CVC norms ⁹)	Market value collected	Loss of revenue
BMTC	651-22 (Commercial)	133.93	99.88	34.05
BDA	240-32 (Residential)	77.03	52.66	24.37
Though BDA is a statutory body, the market value determined was equal to only the guideline market value without enhancing it even by the ten <i>per cent</i> as was done for other statutory bodies.				
KPTCL	60-34 (Commercial)	28.17	20.10	8.07
Total	953-08	239.13	172.64	66.49

After we brought this to notice, Government stated (August 2010) that value was fixed as per the market rate fixed by CVC and contended that the lands

⁸ Converted land is agricultural land converted for non-agricultural purposes after obtaining permission from the DC and on payment of a conversion fine at prescribed rates.

⁹ Computed at 150 and 160 *per cent* of the rate prescribed for agricultural land converted for residential and commercial purposes and deducting the conversion charges paid.

were granted to statutory bodies for a specific public purpose and not with an intention to earn revenue. The reply is not tenable as the Department having adopted the market rate fixed by CVC, should also have adopted the other norms as stipulated by CVC. Non-adoption of the other CVC norms, thus, resulted in determination of lower market value and loss of revenue to the Government.

We recommend that the Government prescribe norms for determination of market value of land.

4.6.7.3 Absence of criteria for grant of land at concessional rates

Provisions under Rule 27 of KLR Rules provide for relaxation of any Rules by the Government by recording reasons for such relaxation.

We noticed that there was no policy in place, stipulating the terms and conditions for grant of land at concessional rate. Further, criteria were not fixed for evaluating eligibility of institutions for granting concession in the cost of land allotted. On a reference in November 2008 for grant of land to Loka Shikshana Trust, Finance

Department had opined that 'it does not favour grant of land to private institutions in view of scarcity of land for public purposes'. Further, it is suggested that only in exceptional cases of national/state importance, Government land in Bangalore should be granted'. It further stated that if land was to be granted in the case referred to it, it should be on payment of full market value. We noticed in the office of the DC, Bangalore (Urban) that Government had issued orders under Rule 27 granting land to two institutions at concessional rates much below the guideline values as approved by the Cabinet. We observed that in respect of these cases, the Government (Revenue Department) had recommended for grant of land at market value. The loss of revenue in these cases was ₹ 4.77 crore as detailed below:

(Rupees in crore)					
Grantee	Extent in acres-guntas	Guideline value per acre/value recommended by DC	Cost of land due to be collected	Cost of land collected	Loss of revenue
Loka Shikshana Trust	4-00	0.40	1.60	0.40	1.20
Srinivasaiah Education Trust	4-30	1.50	7.13	3.56	3.57
Total	8-30		8.73	3.96	4.77

After we brought this to notice, the Government replied (August 2010) that they have granted land to these institutions at concessional rates in exercise of powers conferred under Rule 27 of the KLG Rules. The reply is not acceptable as allotment of scarce land in Bangalore city on concessional rate was not prudent exercise of the powers conferred to Government.

We recommend that the Government may stipulate terms and conditions and put in place a system for evaluating eligibility of institutions for granting land at concessional rates.

4.6.7.4 Loss of revenue due to grant of land at concessional/incorrect rate

As per Rule 21 of the KLG Rules, no concession in the price of land shall be given to any institution. However, on an application made by the institutions which run purely for religious and charitable purposes such as temples, leprosy treatment centre, old age homes, orphanage and homes for physically and mentally challenged persons, etc., without collecting any fee or service charges, land could be granted at fifty *per cent* of the market value or guideline value whichever is higher.

➤ We noticed from the records of the DC, Bangalore (Urban) that 30 acres of land were granted to two educational institutions under Rule 21 of the KLG Rules at concessional rates in contravention of the provisions. This resulted in loss of revenue of ₹ 4.45 crore as detailed below:

(Rupees in crore)

Grantee	Extent in acres	Guideline value per acre	Cost of land due to be collected	Cost of land collected	Loss of revenue
Mother Theresa Educational Trust	05	0.20	1.00	0.05	0.95
Though Rule 21 of KLG Rules does not provide for grant of land at concessional rate for educational purposes, the Government granted land at concessional rate of ₹ 1 lakh for educational purposes. Though this was brought to notice, Government has not furnished any reply (January 2011).					
Adijambava Trust	25	0.15	3.75	0.25	3.50
Though Rule 21 of KLG Rules does not provide for grant of land at concessional rate for educational purposes, the Government granted land at concessional rate of ₹ 1 lakh for educational purposes. After we brought this to notice, the Government stated (August 2010) that concession was granted considering that the trust belonged to Scheduled Caste. The reply is not tenable since the concession granted was not permissible under the provisions of Rule 21 of KLG Rules.					
Total	30		4.75	0.30	4.45

➤ We noticed from the records of the DC, Udupi that 65 acres 14.8 guntas of land were granted in October 2006 by the Government to KIADB at full market value for the purpose of establishing Nagarjuna Thermal Power Plant. However, the DC, Udupi demanded and collected only 50 *per cent* of the market value. This resulted in loss of revenue of ₹ 1.14 crore. After we brought this to notice, the Government stated (August 2010) that action is being taken to collect ₹ 1.14 crore.

4.6.7.5 Absence of a time period for payment of value of land and non-cancellation of grant by the Government

The KLG Rules empower the Government to grant land for non-agricultural purposes on payment of the market value that is levied. After the approval of the grant by Government, Revenue Department issues grant orders on payment of the market value of the land along with conversion fine and other prescribed fees. We noticed that the KLG Rules do not prescribe any time limit for payment of value of land after approval of the grant of land.

However, the DC, while communicating approval of grant specified a time limit of 15 days for payment of the value of land.

- Government issued (October 2007) orders approving grant of 16 acres of Government land to Karnataka State Warehousing Corporation (KSWC). The Government instructed KSWC in October 2008 to pay ₹ 4.86 crore for the land in two instalments and directed to pay the first instalment immediately. We noticed that KSWC had not paid the amount even as of November 2009, as a result of which the lands were not handed over to it. However, no action was taken by the Government to cancel the grant approved.

After we brought this to notice, the Government reported (August 2010) that notices have been issued to the Departments which have not remitted the value fixed by the Government with the condition that the land grant would be cancelled if the amount was not remitted immediately. However, the fact remains that due to non-enforcement of the time limit stipulated in the demand notice for payment, not only was Government deprived of its revenue but valuable land remained blocked, which could otherwise have been allotted to other institutions.

- We noticed from the records of DC, Ramanagara that the Government approved (1996) grant of 2 acres 35 guntas of land to Karnataka Janapada Trust. Accordingly, demand notice for payment of land cost (₹ 0.49 lakh at ₹ 0.17 lakh per acre) and conversion charges (₹ 3.76 lakh) was issued (January 1997) to the grantee. The amount was, however, not paid by the grantee as of November 2009. In the meanwhile, the cost of the land increased to ₹ 86.25 lakh (at ₹ 30 lakh per acre as per current guideline market value). However, no action was initiated by the Department to cancel the grant order for non-payment of cost of the land granted. After we brought this to notice, the Government reported (August 2010) that a direction has been issued to DC, Ramanagara to take necessary action as per rules to cancel the grant if the trust has not paid for the land.
- We noticed in the office of the Tahsildar, Bangalore (South) that the Government approved (February 2004) grant of 1 acre 11 guntas of land to Karnataka Vokkaligara Directory Trust, a charitable institution, for ₹ 3.82 lakh at a market value of ₹ 3 lakh per acre. However, the actual guideline market value fixed by the CVC was ₹ 15 lakh per acre and hence the market value leviable was ₹ 19.12 lakh. This resulted in short levy of ₹ 15.30 lakh. Further, the grantee initially paid (July 2004) fifty *per cent* of the cost of land and requested for allowing extra period for payment of the balance amount. Accordingly, DC, Bangalore (Urban) issued (August 2004) grant orders with a condition to pay the balance amount within one year. The grantee, however, paid the balance amount in July 2007 after a lapse of almost two years since the date stipulated for payment. In the meanwhile (April 2007), the guideline value of the granted land had increased to ₹ 1.10 crore per acre.

We recommend that the Government prescribe a time limit for payment of value of land after approval of the grant and enforce cancellation of land grant for non-payment within the prescribed time limit.

4.6.7.6 Application of incorrect guideline market value

Under the KLG Rules 1969, lands may be granted to statutory bodies on collection of 50 per cent of the market value determined by the DC.

We noticed in the office of the DC, Bangalore (Urban) that in three cases of land granted to BMTC in 2007-08, market value was determined by adopting the incorrect guideline value resulting in short levy of market value of ₹ 2.28 crore as detailed below:

(Rupees in crore)

Location of land	Extent of land (acres-guntas)	Rate per acre as per published guideline values	Rate per acre adopted by Department	Market value ¹⁰		
				Leviable	Levied	Short levy
Survey No.1, Pillaganahalli village, Uttarahalli Hobli, Bangalore (South)	7-18	0.60	0.40	2.46	1.64	0.82
Survey No.96, Bommanhally village, Bidarahally Hobli, Bangalore (East)	2-02	0.55	0.20	0.62	0.23	0.39
Survey No. 271, Bagalur village, Jala Hobli, Bangalore (North-Additional)	13-00	0.60	0.45	4.29	3.22	1.07
Total	22-20			7.37	5.09	2.28

After we brought this to notice, the Department issued (October 2009/October 2010) demand notices to BMTC for payment of the differential amount.

4.6.7.7 Non/short-levy of conversion fine

Under the KLR Act 1964 and the Rules framed thereunder, when any land assessed or held for the purpose of agriculture is permitted to be diverted for purposes other than agriculture, conversion fine is leviable. The rate of fine leviable depends on the place where the land is situated and the purpose for which the land is put to use.

We noticed that in 31 cases in seven DC offices¹¹, conversion fine of ₹ 4 lakh was levied on 249 acres 33 guntas of land granted between 2004-05 and 2008-09 for non-agricultural purposes. The conversion fine leviable as per Rules in these cases amounted to ₹ 2.49 crore. This resulted in short levy of conversion fine of ₹ 2.45 crore.

¹⁰ At fifty per cent of the CVC rate

¹¹ Bangalore (Urban), Belgaum, Hassan, Mysore, Ramanagara, Shimoga, Tumkur.

4.6.8 Auction of Government land

4.6.8.1 Absence of Rules for conducting auction of Government land

Section 69 A of KLR Act and provisions under Rule 12(2) of KLG Rules empower the State Government to dispose of valuable land or other property belonging to the State Government by public auction. Section 197(1) of KLR Act empowers the State Government to make rules for regulating the disposal of land and other property vesting in the State Government.

During 2004-05 to 2008-09, 516 acres of land were auctioned in 249 cases in Bangalore (Urban) and Bangalore (Rural) districts. As per the procedure adopted, auction notifications were issued in the above cases, stipulating that the auction of land was on 'as is where is' basis and the successful bidders had to utilise the land according to zonal regulations as specified in the concerned CDP. As per conditions further specified in the auction

notifications, every person interested to participate in the bid shall pay initial deposit for participation in the auction. Every successful bidder shall deposit 25 *per cent* of the final bid amount within 24 hours after completion of auction and balance 75 *per cent* within 15 days from the date of receipt of intimation of confirmation order. Failure to pay the balance 75 *per cent* of the final bid amount within the stipulated period attracted forfeiture of 25 *per cent* of the bid amount deposited and conduct of re-auction of the property at the risk and cost of the defaulting bidder.

We noticed that rules incorporating the above procedure and prescribing guidelines for auction of the Government lands were not framed.

After we brought this to notice, the Government stated (August 2010) that a direction has been issued to the Secretary to Government, Revenue Department and ex-officio Managing Director, Karnataka Public Land Corporation to furnish the details regarding the rules of procedure followed in auctioning the Government lands so far and also to suggest the procedures and guidelines to be followed in future.

We recommend that the Government frame rules incorporating suitable procedure for conduct of auction of Government lands.

4.6.8.2 Allotment of land by the Government at lower market value due to absence of guidelines to determine the appropriateness of bids received in auctions

In October 2007, Government formed a Committee¹², to examine cases where the revenue fetched during auctions was found inadequate. The Committee felt that since the auctions were confirmed only if the rate offered was at least one and half times the guidance values, there was no other ground on which the appropriateness of the same could be judged. It was deliberated that a tender-cum-auction concept could be adopted wherein the higher of 150 *per*

¹² Headed by the Additional Chief Secretary to Government with Principal Secretaries of Urban Development Department, Revenue Department and Secretaries of Finance and Law Departments as members.

cent of the guideline value or the actual highest bid received in sealed tender may be considered as the minimum market price. The Committee also recommended that it may be worthwhile for the Revenue Department to stop the auctions till a final decision is taken by the Cabinet on how to streamline the entire process in keeping with the suggestions made by the Committee. However, no final decision on the recommendations of the Committee was taken by Government even as of April 2010. The Government has not furnished details of any further developments in this regard despite being requested (October 2010).

We test-checked 171 cases of auctions conducted during 2004-05 to 2008-09 in the office of DC, Bangalore (Urban) and noticed the following.

- Out of 117 auction cases conducted during 2008-09, the DC had recommended confirmation of 36 cases fetching more than 150 percent of the guideline value and rejection of 81 cases on the ground that the bid amounts quoted were on the lower side and that no competitive bids were received. We, however, noticed that the Government confirmed 70 cases (69 cases to private parties and one to KHB) and rejected 47 cases. Out of the 70 cases confirmed, the highest bids received ranged between 100 and 145 percent of the guideline value in 30 cases involving 65.11 acres of land for a total bid amount of ₹ 28.80 crore. The value of the land at 150 per cent of the guideline value in these cases was ₹ 39.04 crore. The difference between 150 per cent of the guideline value and the bid amount obtained in these auctions was ₹ 10.24 crore.
- We also noticed that, out of the 70 cases confirmed, 11 cases (in favour of private parties) were initially rejected (November 2008) by the Government as per the recommendations of DC. However, in its subsequent order, Government confirmed (December 2008) these 11 cases involving an extent of 10 acres 13 guntas for a bid amount of ₹ 9.21 crore. Government did not produce files relating to reversal of its earlier decision nor did they give specific reasons for the same during the Exit conference.

We recommend that the Government prescribe guidelines for determining the appropriateness of bid prices obtained in auctions.

4.6.8.3 Non-forfeiture of 25 percent bid amount

As per conditions specified in the auction sale notification, failure to pay the balance 75 per cent of the final bid amount within the stipulated period attracts forfeiture of 25 per cent of the bid amount deposited. Further, auction was conducted on 'as is where is' basis and the successful bidders had to utilise the land according to zonal regulations as specified in concerned CDP.

As per the information furnished by the Department, in 92 auctions, the successful bidders had not paid the 75 per cent of the bid amount due as of November 2009. Of these, it was observed that non-payment was due to pending requests for fencing of the land in 28 cases, requests for change of land use in 17 cases and the bidders not interested in buying the land in two cases. We noticed that in these cases, no action was initiated to forfeit the

25 per cent of bid amount deposited and also to cancel the auction at the risk and cost of the bidders who had defaulted.

After we brought this to notice, Government stated (August 2010) that it had directed in August 2008 to collect 75 per cent bid amount after getting approval for change of land use and getting the fencing done. Thus, the directions of Government in contravention of the conditions of auction resulted in non-forfeiture of ₹ 64.43 crore. The Department further stated that as of April 2010, in 42 cases, 75 per cent of the bid amount was not paid by the successful bidders for want of conversion of land/fencing of land and ₹ 7.13 lakh had since been forfeited in three cases.

4.6.8.4 Non-collection of initial deposit and bid amount

In an auction for land measuring 1 acre 29 guntas in Bangalore (Urban) conducted in August 2008, highest bid offered by the bidder viz KHB was for ₹ 51 lakh. The auction was confirmed (December 2008) by Government in favour of KHB. We noticed that the bidder had not deposited the initial amount of ₹ 17.25 lakh before participating in the auction. Action of the DC/Government in allowing the bidder to participate in the auction proceedings without payment of the initial deposit was contrary to conditions of the auction. The entire bid amount of ₹ 51 lakh was not paid by KHB even as of November 2009. However, no action was taken by the Government for cancellation of auction proceedings.

After we brought this to notice, Government reported (August 2010) that KHB had requested to allot Government land free of cost and it was under the consideration of Government to cancel the auction proceedings. Action of the DC in allowing KHB to participate in the auction without depositing initial deposit was in contravention of the conditions of auction and resulted in non-realisation of revenue and unproductive auction proceedings.

4.6.8.5 Loss of revenue due to re-auction

We noticed in the office of the DC, Bangalore (Urban), that in respect of three cases, the highest bids ranging from 150 per cent to 704 per cent of guideline market value that were offered by private bidders were rejected (November 2007) by the Government with a direction to go for re-auction. During re-auction, the highest bids offered by the private bidders in these cases were lower than those offered during the first auction. The Government, however, confirmed (December 2008/June 2009) the bid amounts offered during re-auction.

Thus, decision of the Government to go for re-auction resulted in loss of revenue of ₹ 2.03 crore as detailed below:

(Rupees in crore)

Taluk/Hobli/ Village/Sy.No.	Extent in acres- guntas	Highest bid offered during 1st auction but rejected		Highest bid confirmed after re-auction		Loss of revenue
		Date of auction	Bid amount	Date of auction	Bid amount	
Bangalore (North-Addnl), Hesaraghatta, Shivakote, 95	19-13	27.9.07	4.40	4.2.09	2.93	1.47

(Rupees in crore)

Taluk/Hobli/ Village/Sy.No.	Extent in acres- guntas	Highest bid offered during 1st auction but rejected		Highest bid confirmed after re-auction		Loss of revenue
		Date of auction	Bid amount	Date of auction	Bid amount	
Bangalore (North-Addnl), Hesaraghatta, Kondashettihalli, 29	10-13	6.10.07	2.01	29.8.08	1.57	0.44
Anekal, Jigani, Harapanahalli, 58	0-08	6.10.07	0.22	12.8.08	0.10	0.12
Total	29-35		6.63		4.60	2.03

After we brought this to notice, Government reported (August 2010) that probably expecting higher revenue in the re-auction, these cases were rejected but due to subsequent developments in the global economic scenario, the land costs during the re-auction period had come down drastically. A decision to re-auction is always fraught with a risk of receiving lesser rates especially in an uncertain real estate market. The Government's decision to re-auction even after it has received bids much higher than the guidelines value (150 to 704 per cent) was imprudent resulting in a loss of ₹ 2.03 crore.

4.6.8.6 Unfruitful auction proceedings

We noticed that 36 acres 35 guntas of land were auctioned in six auctions conducted between November 2006 and June 2007 without ascertaining the usage of land earmarked in the master plans of local planning authorities as given below:

➤ In Bangalore (North), 27 acres 35 guntas of land were auctioned during 2007-08 for a bid amount of ₹ 16.84 crore. In the auction notification, the land use was not mentioned as the Interim Master Plan of BDA was under approval. The bidders, on confirmation of the sale, requested for refund of the initial bid amount on the ground that the land auctioned was reserved for 'public utility' as per the CDP. The Government refunded the same.

➤ The Master Plan of BMICAPA¹³ was approved in February 2004. In Bangalore (South), 9 acres were auctioned in November 2006 and the certificate of sale for purchase money of ₹ 15 crore was issued in April 2007. However, the bidder requested for refund of the purchase money in December 2008 on the ground that the land was reserved for 'Regional Park' as per the Master Plan of BMICAPA. The Government refunded the same.

Thus, failure to ascertain the usage of land as per the master plans of the concerned planning authorities before issue of notice for auction rendered the process of auction unproductive in the above cases.

¹³ Bangalore Mysore Infrastructure Corridor Area Planning Authority.

4.6.8.7 Confirmation of auctions with participation of single bidders

Provisions under Rule 124 (2) of KLR Rules stipulate that where there were either no bidders or the bids offered were not adequate, the DC shall postpone the sale.

We noticed that eight auctions in Bangalore (Urban) involving auction of 4 acres 1 gunta of land, fetched single bids totalling ₹ 1.06 crore and were confirmed by Government. In view of the auctions fetching single bids, Department could not get competitive rates and as such confirmation of such auctions is injudicious.

After we brought this to notice, the Government stated (August 2010) that the DC, Bangalore (Urban) had reported that there was more than one bidder participating in each of these eight auctions. The reply is not tenable as the auction proceedings sheet had recorded participation of single bidders only in all the eight auctions.

4.6.8.8 Refund of bid amount contrary to conditions of auction

Provisions under Sections 179 and 180 of the KLR Act stipulate that the Certificate of Sale¹⁴ issued for purchase of any property is deemed to be a valid transfer of such property and further obstructions/resistance, if any, on acquiring such property shall be referred to the Court by the purchaser. The Court shall investigate the matter as if the property were purchased by the applicant at a sale held in execution of a decree of such Court.

We noticed in DC, Bangalore (Urban) that refunds made were irregular in the following cases:

- Certificate of sale for purchase money of ₹ 12.35 crore was issued in August 2005 and registered in September 2005 in respect of 4 acres 10 guntas of land¹⁵ auctioned in May 2005. Thereafter, the bidder sold the land to another person for ₹ 14 crore vide registered sale deed No.7831 of 2005-06 on 15 September 2005 wherein it was mentioned that he was in peaceful possession and enjoyment of the property without any encumbrances of whatsoever in nature. However, based on the representation of the bidder in July 2007 regarding encroachment of land, eviction proceedings were undertaken by the Department and possession of the land was handed over to the bidder. The bidder again represented (August 2008) that the actual extent of land handed over to him was 3 acres 30 guntas only and requested for refund of cost of 20 guntas of land. Accordingly, based on the report of the Tahsildar and DC, the Government issued (October 2008) orders for refund of ₹ 1.45 crore towards cost of 20 guntas of land. Action of the Department to refund ₹ 1.45 crore by taking cognizance of the representation of the bidder, who ceased to be the absolute owner of the auctioned property

¹⁴ When a sale held is confirmed, a certificate to the effect that the purchaser has purchased the property specified therein is issued and such certificate shall be deemed to be a valid transfer of such property.

¹⁵ Bangalore (East), Varthur hobli: Konena agrahara village: Sy.No.81.

subsequent to its sale, was not warranted and contrary to provisions of KLR Act.

After we brought this to notice, the Government stated (August 2010) that the matter would be enquired in detail and reported to audit. We have not received any further reply (January 2011).

- In another case¹⁶, 26 acres 34 guntas of land was auctioned (March 2007) for ₹ 32.45 crore. The successful bidder did not deposit 25 per cent of the bid amount within the stipulated period but requested for cancellation of the auction and refund of the amount of ₹ 1.88 crore already deposited for participating in the auction on the ground that there was no approach road to the auctioned land. The Government initially rejected the request of the bidder and instructed the DC (September 2007) to forfeit ₹ 1.88 crore as per provisions of KLR Act. Subsequently, the Government (Revenue Department), *suo motu*, directed (October 2008) the DC to refund the entire amount of ₹ 1.88 crore. Accordingly, entire amount was refunded (November 2009) to the bidder. After we brought this to notice, Government reported (August 2010) that the land was not free from encroachment and did not have an approach road and hence it was decided to refund the initial deposit. Thus, the sale of land through auction without ascertaining the status of the land was incorrect and had resulted in refund of ₹ 1.88 crore.

4.6.9 Lease of Government land

4.6.9.1 Absence of system for fixation/revision of lease rent

As per Rule 19 of KLG Rules, the DC may lease land for non-agricultural purposes for a period upto 30 years. He should fix lease rent taking into account the locality, purpose of lease, etc. He may also impose such conditions as deems necessary having regard to the circumstances of each case.

We noticed that guidelines for fixing the lease rent were not issued by the Government. The format prescribed for lease agreement did not provide for periodic revision of lease rent. We noticed the following in respect of the 117 test checked lease cases.

- A uniform system was not followed in fixing lease rent. In three Tahsildar offices¹⁷, in four cases, lease rent was fixed at one per cent of the

guideline market value of the lands leased between 2006 and 2009. In one of these cases, though the order for grant of lease specified payment of lease rent based on guideline values in force, no action was taken to revise the lease rent on revision of guideline values in April 2007.

After we brought this to notice, the Department intimated that lease rent of ₹ 11.30 lakh levied short due to non-revision was demanded and recovered (December 2009).

¹⁶ Jala hobli: Hosalli village: S.No.21:10.07 acres and Yelahanka hobli: Nagadasanahalli village: S.No.10, 11:16.2 acres both bid by Sri.Ramaiah Reddy.

¹⁷ Tahsildars Bangalore (North), Bangalore (South), K.R. Puram.

In five Tahsildar offices¹⁸, in 61 cases, lease rent fixed by the DC ranged from ₹ 100 to ₹ 11,000 per acre per annum. The guideline value of the land in these cases ranged from ₹ 1.5 lakh to ₹ 20 lakh per acre. We computed the loss of lease rent of ₹ 9.54 crore at one *per cent* of guideline value in these 61 cases for the period from 2004-05 to 2008-09.

➤ Clause 3 of Form IV of lease deed prescribes for collection of security deposit from the lessees for fulfillment of conditions of lease. However, in three Tahsildar offices¹⁹, security deposit amounting to ₹ 20.05 lakh, though levied, was not collected in 17 cases.

➤ Periodical demands of lease rent were not raised in 41 leases resulting in accumulation of arrears to the tune of ₹ 58.38 lakh towards lease rent as detailed below:

(Rupees in lakh)		
Office	Number of cases	Arrears of lease rent
Bangalore (North)	17	17.04
Bangalore (South)	19	36.25
Shimoga	02	4.37
Kolar	02	0.62
Anekal	01	0.10
Total	41	58.38

In addition, interest at 12 *per cent* per annum for belated payment of lease rent, though stipulated in the agreement, was also not levied and collected from these lessees. The Government reported (August 2010) that DC, Bangalore (Urban) had since issued notices to the concerned to pay the lease rent.

We recommend that the Government prescribe norms for fixation and ensure periodical revision of lease rent and its collection.

4.6.9.2 Non-compliance with lease conditions

As per the conditions stipulated for grant/lease of land, the grantee/lessee should utilise the land for the specified purpose within two years from the date of lease. Further, contravention of any of the conditions of grant/lease entails cancellation of grant/lease by resuming back the land to Government.

We noticed from the records in three offices²⁰ that in respect of 106 acres 2 guntas of land granted on lease to 12 lessees between 2001 and 2006, the lessees had not commenced any works on the land even as of March 2009, that is, even after a period of three to eight years after lease of land. No action was initiated by the Department to cancel these leases and resume the land which was valued at ₹ 47.07 crore as per guideline value.

After we brought this to notice, Government stated (August 2010) that follow up action would be initiated.

¹⁸ Anekal, Bangalore (North), Bangalore (South), K.R.Puram, Yelahanka.

¹⁹ Bangalore (North), Bangalore (South), Bhadravathi.

²⁰ Bangalore (North), Bangalore (South), Mysore.

4.6.10 Regularisation of unauthorised occupation of Government land

4.6.10.1 Non-finalisation of cases even beyond extended due dates

Sections 94A and 94B of the KLR Act provide for regularisation of unauthorised occupation of land for agricultural purposes while section 94C provides for regularisation of unauthorised occupation of land for dwelling purposes.

Section 94A deals with applications received on or before 19 September 1991 while Section 94B deals with applications received on or before 30 April 1999 and the applications were to be finalised within 18 months. The due date was, however, extended up to 26 April 2011, after revising it five times. Further, in respect of

regularisation of unauthorised occupation for dwelling purposes also, the due date for finalisation of cases was extended several times and the latest extended due date expired on 31 July 2009. The applications for regularisation are considered by a Committee constituted for each Taluk under the KLR Act.

The status of applications pending for regularisation as of February 2010 is as given below:

Section	Number of applications received (In lakh)	Number of applications finalised (In lakh)	Extent of land regularised (acres-guntas)	Number of applications pending (In lakh)	Extent of land involved in pending applications (acres-guntas)
94A	10.90	10.64	6,33,685-31	0.26	1,31,818-01
94B	10.95	6.92	2,51,653-10	4.02	10,42,010-13
94C	3.19	3.12	NF	0.07	NF

NF – Not furnished

It is seen from the above that about 37 *per cent* of the overall applications received are still pending finalisation even after a lapse of about 10 years from the date of their receipt in the Department. Consequently, 11,73,828 acres 14 guntas of land continue to be under unauthorised occupation for the past 18 years. After we brought this to notice, Government stated (August 2010) that Committees for regularisation are not constituted from time to time and hence the applications are pending.

We recommend that Government ensure timely constitution of committees for early disposal of pending applications.

4.6.10.2 Absence of a system for preparation/update of list of villages falling within the prescribed distances from corporation/municipal limits

As per the KLR Act, no land shall be granted in the areas lying within 18 kms from the Corporation limits of Bangalore City, 10 kms from other City Corporations and 5 kms from all other municipalities' limits.

We noticed that there was no system of compiling and periodically updating the list of villages which fall within 18 kms/10 kms from the corporation limits and 5 kms from the municipal limits. The absence of such list resulted in the

Department regularising the cases without ensuring proper checks.

We noticed in four Tahsildar offices²¹ that 264 acres 13 guntas of land held under unauthorised occupation by 139 applicants, though falling within 18 kms from the Bangalore City Corporation limits, were regularised for agricultural purposes between 2004-05 and 2007-08 and saguvali²² chits were also issued in these cases. Regularisation of these lands in contravention of the provisions of the KLR Act resulted in Government foregoing revenue of ₹ 72.51 crore that could have been fetched at the minimum guideline value as notified by the CVC.

After we brought this to notice, Government stated (August 2010) that a direction has been issued to all the DCs for preparation and updating of list of villages which fall within 18 kms/10 kms from the corporation and 5 kms from the municipal limits. It was also stated that in Bangalore district, the villages within the said limit have since been identified and notified. It was further stated that all the cases of regularisation of unauthorised occupation of land within 18 kms in Bangalore (Urban) district would be reviewed.

We recommend that the Government institute a system for preparing and periodically updating the list of villages falling within the prescribed distances from the corporation/municipal limits.

4.6.10.3 Irregularities/omissions in regularisation

We test checked 2,044 cases of regularisation of land under Sections 94A/94B during the period from 2004-05 to 2008-09 and noticed the following omissions.

- As per KLR Rules, the applicant should be in unauthorised occupation of land for at least a continuous period of not less than 3 years prior to 14 April 1990 (1 year in respect of SC/ST). In six Tahsildar offices²³, 193 cases involving 230 acres 19 guntas of land were regularised despite the fact that these lands were not held under unauthorised occupation prior to 1990.
- In three Tahsildar offices²⁴, the periodicity of unauthorised occupation mentioned by the applicants was found not genuine in 11 cases involving 11 acres 12 guntas of land since the commencement of period of unauthorised occupation refers to the period even earlier to the birth of the applicants.
- In seven Tahsildar offices²⁵, the extent of land sought for regularisation as per the applications in 103 cases was 141 acres 29 guntas. However, while regularising, 202 acres 25 guntas of land was granted. This resulted in regularisation of excess land to the extent of 60 acres 36 guntas.

²¹ Anekal, Bangalore (South), K.R.Puram, Yelahanka.

²² Certificate of grant of land for agricultural purposes.

²³ Bangalore (South), Devanahally, Doddaballapura, Hosakote, Nelamangala, Yelahanka.

²⁴ Bangalore (South), Nelamangala, Yelahanka.

²⁵ Anekal, Bangalore (South), Devanahally, Doddaballapura, Hosakote, Nelamangala, Yelahanka.

- As per the KLR Act, the applications for regularisation under section 94B should be submitted by the unauthorised occupants on or before 30 April 1999. In the office of the Tahsildar, Devanahally, 37 applications for regularisation of 29 acres 15 guntas of land received in June 1999, that is, after due date (April 1999) were regularised.

Action of the Department in regularising unauthorised occupation of land contrary to provisions of KLR Act/Rules as mentioned above resulted in loss of revenue of ₹ 50.69 crore (as per current guideline market value) due to irregular grant of 318 acres 2 guntas of land in the above 344 cases. Though we brought this to notice, the Government did not furnish specific replies in respect of these irregularities. However, the Government stated (August 2010) that a direction has been issued to the concerned DCs to cancel such illegal grants as per Rule 108K of the KLR Rules, 1966.

4.6.11 Internal Audit

No internal audit wing was functioning in the Department making it vulnerable to risk of control failure. After we brought this to notice, Government reported (August 2010) that action will be taken as per the guidelines issued by the Finance Department regarding internal audit.

We recommend that the Government set up an internal audit wing for timely detection of errors for initiating suitable remedial measures.

4.6.12 Conclusion

We conducted the review to examine whether the system and procedures for disposal of Government land through grant, auction or lease were in existence and were adequate and that the internal controls for monitoring and management of land were effective. We found several procedural lapses. A list of lands that is required for ascertaining the availability of Government lands was not prepared by the Tahsildars. Consequently, in the absence of such a database, Government was not in a position to know the exact extent and status of land available for grant/auction/lease. Guidelines were not prescribed to determine the market value of land granted to statutory bodies. Criteria were not prescribed for determination of eligibility of institutions for relaxation of norms to grant land at concessional rates and land had been allotted at concessional/incorrect rates to these bodies. Rules prescribing procedures for auction of land were not framed. Guidelines were not issued for fixation/periodical revision of lease rent. There was huge pendency in the disposal of applications received for regularisation of unauthorised occupation of land for agricultural purposes. Several irregularities were observed in the cases that were regularised by the Committees formed for the purpose.

4.6.13 Summary of recommendations

We recommend that the Government to:

- ensure compilation of a database by the field offices regarding the status and availability of lands for disposal through auction/grant/lease. They may also institute a mechanism for consolidation and periodic updation of the same;
- prescribe norms for determination of market value of land;

- stipulate terms and conditions and put in place a system for evaluating eligibility of institutions for granting land at concessional rates;
- prescribe a time limit for payment of value of land after approval of the grant and enforce cancellation of land grant for non-payment within the prescribed time limit;
- frame rules incorporating suitable procedure for conduct of auction of Government lands;
- prescribe guidelines for determining the appropriateness of bid prices obtained in auctions;
- prescribe norms for fixation and ensure periodical revision of lease rent and its collection;
- ensure timely constitution of committees for early disposal of pending applications;
- institute a system for preparing and periodically updating the list of villages falling within the prescribed distances from the corporation/municipal limits; and
- set up an internal audit wing for timely detection of errors for initiating suitable remedial measures.

4.7 Other audit observations

Scrutiny of records in the offices of the Land Revenue Department indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to consider directing the department to improve the internal control system including strengthening internal audit so that such omissions can be avoided, detected and corrected.

• Non-observance of provisions of the Act/Rules

The KLR Act 1964, the KLR Rules, 1966 and the KLG Rules, 1969 provide as under:

- Section 96 of the KLR Act for compounding of the diversion of the agricultural land for non-agricultural purposes without permission of DC by levy of the compounding amount.
- Section 128 of the KLR Act for preparation of a pre-mutation sketch prepared by a licensed surveyor while reporting mutation of land.

We noticed during test check of the records of two offices of the DCs and 10 offices of the Tahsildars that the above provisions were not followed by the concerned offices. This resulted in a number of discrepancies with non/short realisation of the Government revenue amounting to ₹ 1.65 crore. Of these, the Department furnished replies and accepted audit observations in 2 cases involving ₹ 5.69 lakh.

4.7.1 Non/short levy of compounding amount

DCs Bangalore (Urban), Chitradurga and Tahsildar, Koppal

The DC may compound diversion of agricultural land for other non-agricultural purposes without permission on payment of the compounding amount at prescribed rate.

We noticed between June 2009 and November 2009 that in eight orders issued between March 2007 and June 2009 for conversion of 34 acres 36.08 guntas of agricultural land for non-agricultural purposes, ₹ 12.73 lakh was levied as compounding fine as against ₹ 1.65 crore leviable. This resulted in non/short levy of

compounding amount of ₹ 1.52 crore as mentioned in the following table:

(Rupees in lakh)

Office (Number of cases)	Nature of diversion (Extent of land in square feet)	Compounding fine		
		Leviable	Levied	Short levy
DC, Bangalore (Urban) (02)	Non-residential (2,20,738)	126.92	11.80	115.12
The rate of compounding fine prescribed in the Act for non-residential diversion was ₹ 57.50 per square feet. However, the rate levied was ₹ 57.50 per square meter.				
DC, Bangalore (Urban) (01)	Non-residential (5,237)	3.01	0.60	2.41

(Rupees in lakh)

Office (Number of cases)	Nature of diversion (Extent of land in square feet)	Compounding fine		
		Leviable	Levied	Short levy
The compounding amount for 5,237 square feet of church and prayer hall was levied at rates applicable to diversion for residential purpose instead of non-residential purpose.				
DC, Bangalore (Urban) (02)	Non-residential (1,43,657)	10.08	0.23	9.85
DC, Chitradurga (01)	Residential (12,106)			
Tahsildar, Koppal (01)				
The compounding fine was omitted to be levied in three cases and levied at lesser rates in one case while passing orders regularising unauthorised diversion.				
DC, Bangalore (Urban) (01)	Non-residential (45,710)	25.05	0.10	24.95
The compounding amount had been levied only for bus shelter (450 sq.ft), at rates applicable for residential purpose instead of non-residential purpose.				
Total (08)	Residential (12,106) Non-residential (4,15,342)	165.06	12.73	152.33

We reported the cases to the Department/Government in April 2010; we have not received their reply (January 2011).

4.7.2 Short levy of fees for pre-mutation sketch

Nine Tahsildar offices²⁶

The fee for each pre-mutation sketch upto 11 August 2008 was ₹ 403 of which ₹ 300 was payable to the licensed surveyor. Government, vide order dated 12 August 2008 enhanced the fee for pre-mutation sketch to ₹ 600 with no enhancement in payment to the licensed surveyor.

We noticed from the records between June 2009 and February 2010 that in respect of 6,351 applications received between 13 August 2008 and 27 December 2008, fee for pre-mutation sketches²⁷, was levied at pre-revised rates. This resulted in short levy of fee of ₹ 12.51 lakh.

After we pointed out the short levy, four Tahsildars²⁸ stated that the order revising the fee was received in November/December 2008 and hence fee had been levied at pre-revised rates during the above period. Delay on the part of the DCs to communicate the revised rates to Tahsildars resulted in short levy of fee of ₹ 12.51 lakh. DCs, Hassan and Kolar reported (June/July 2010) that demand for ₹ 2.11 lakh in 990 cases had since been raised as arrears of land revenue in Arasikere and Srinivasapura taluks.

We reported the cases to the Government in April 2010; we have not received their reply (January 2011).

²⁶ Anekal, Arasikere, Bangalore (East), Bantwal, Hosakote, Karkala, Puttur, Srinivasapura, Tumkur.

²⁷ Sketch prepared by licensed surveyor for the purpose of sub-division of parcels of land.

²⁸ Bangalore (East), Hoskote, Puttur, Tumkur.

CHAPTER-V: STAMPS AND REGISTRATION FEES

5.1 Tax administration

Receipts from stamp duty and registration fees in the State are governed by ‘The Indian Stamp Act (IS Act) 1899’, ‘The Karnataka Stamp Act (KS Act) 1957’, ‘The Registration Act 1908’ and the Rules made thereunder. The levy and collection of stamp duty and registration fee is administered by the Stamps and Registration Department headed by the Inspector General of Registration and Commissioner of Stamps (IGRCS). There are 33 District Registrar (DR) offices and 235 Sub-Registrar offices (SRO) in the State.

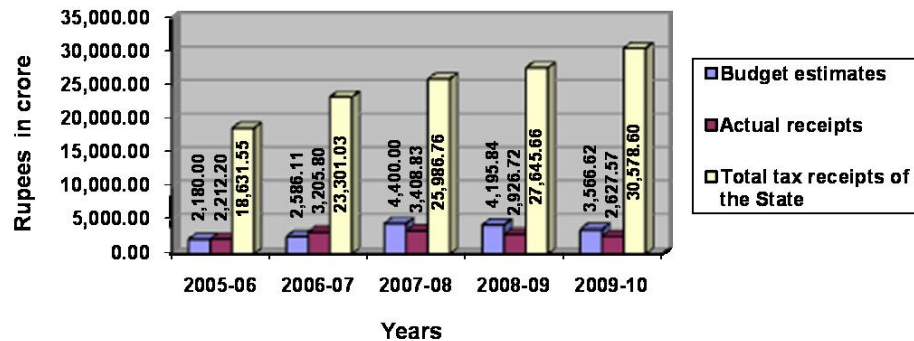
5.2 Trend of receipts

Budget Estimates (BEs) and actual receipts from stamp duty and registration fees during the years 2005-06 to 2009-10 along with the total tax receipts during the same period is exhibited in the following table and graphs.

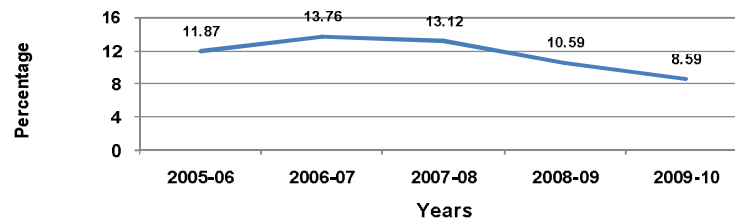
(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	2,180.00	2,212.20	(+) 32.20	(+) 1.47	18,631.55	11.87
2006-07	2,586.11	3,205.80	(+) 619.69	(+) 23.96	23,301.03	13.76
2007-08	4,400.00	3,408.83	(-) 991.17	(-) 22.53	25,986.76	13.12
2008-09	4,195.84	2,926.72	(-)1,269.12	(-) 30.25	27,645.66	10.59
2009-10	3,566.62	2,627.57	(-) 939.05	(-) 26.33	30,578.60	8.59

Graph 1: Budget estimates, Actual receipts and Total tax receipts



Graph 2: Percentage of Actual receipts vis-à-vis Total tax receipts



It is seen from the above that the actual receipts were higher than the BEs during 2005-06 and 2006-07 and lesser than the BEs during the years 2007-08 to 2009-10. The variation between the BEs and actual receipts ranged

between (-) 30.25 per cent and (+) 23.96 per cent. The percentage of actual receipts in total tax receipts ranged between 8.59 per cent and 13.76 per cent during the five year period from 2005-06 to 2009-10. It is also seen that there was consistent decrease in actual receipts from the year 2007-08. The Department attributed the decrease in revenues during 2008-09 and 2009-10 to global economic recession.

The wide variation between the BEs and the actual receipts indicates that the BEs was not framed on realistic basis. Since BEs is an important part of the financial planning of the Government, it is desirable that these should be close to the actuals.

We recommend that the Government may issue suitable instructions to the Department for preparing the BEs on realistic and scientific basis to ensure that these are close to the actuals.

5.3 Analysis of arrears of revenue

As per the information furnished to us by the Department in September 2010, the amount of uncollected revenue on 31 March 2010 amounted to ₹ 60.53 crore, of which ₹ 51.80 crore was outstanding for more than five years. The Department did not furnish the year wise position of arrears of revenue for the period 2008-09 and 2009-10, however, for the period from 2005-06 to 2007-08 the position of arrears as furnished is mentioned in the following table.

(Rupees in crore)

Year	Opening balance of arrears	Amount collected during the year	Closing balance of arrears	Percentage of collection to opening balance of arrears
2005-06	96.67	5.06	91.61	5.23
2006-07	93.62	6.74	86.89	7.20
2007-08	88.97	3.17	85.79	3.56

We observed that the closing balance of arrears of each year did not tally with the opening balance of the next year. Thus, figures furnished were not reliable and needed reconciliation. Further, the percentage of collection of arrears to the opening balance of arrears ranged between 3.56 per cent and 7.20 per cent for the years 2005-06 to 2007-08.

We recommend that the Department take remedial measures for reconciliation of figures as well as for improving the collection of arrears of revenue.

5.4 Impact of Audit Reports

During the last five years, through our audit reports, we had pointed out non/short levy, non/short realisation and loss of revenue, etc., with revenue implication of ₹ 476.77 crore in 23 paragraphs. Of these, the Government/ Department had accepted audit observations in 17 paragraphs involving ₹ 341.83 crore and had since recovered ₹ 34 lakh. The details are given in the following table:

(Rupees in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount ¹	Number	Amount ¹
2005-06	05	100.75	05	46.38	-	-
2006-07	03	31.26	01	0.35	-	-
2007-08	02	2.44	01	0.03	01	0.03
2008-09	06	325.83	05	283.04	03	0.23
2009-10	07	16.49	05	12.03	04	0.08
Total	23	476.77	17	341.83	08	0.34

As seen from the above table, the recovery made by the Department is only 0.10 per cent of the amount involved in the total accepted cases.

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

5.5 Working of internal audit wing

The objective of an Internal Audit Wing (IAW) is to have a deterrent and reforming effect in the direction of prevention of mistakes and to play a corrective role by pointing out mistakes and ensuring remedies without loss of time.

There was no IAW in the Department, thus leaving it vulnerable to risk of control failure. The Department reported (August 2010) that proposals for setting up an IAW were submitted to Government in 2008.

We recommend that the Government expedite the setting up of IAW in the Department, especially as the proposals are lying with them since 2008.

5.6 Results of audit

We conducted a test check of the records of 109 offices of the Stamps and Registration Department during the year 2009-10, which revealed evasion, non-realisation, short levy of stamp duty and registration fee, etc., amounting to ₹ 132.18 crore in 99 cases, which fall under the following categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	Short levy of stamp duty and registration fees	69	42.34
2.	Non-realisation of stamp duty	01	48.57
3.	Loss of stamp duty and registration fee due to suppression of facts	06	29.26
4.	Short levy due to undervaluation of properties	16	11.84
5.	Other irregularities	07	0.17
	Total	99	132.18

During the course of the year 2009-10, the Department accepted underassessments of ₹ 49.71 crore in 30 cases pointed out in audit during the year. The Department also recovered an amount of ₹ 12.49 lakh in 17 cases pointed out in earlier years.

After issue of a draft paragraph, the Department reported (October 2010), recovery of ₹ 6.52 lakh in three cases².

A few illustrative audit observations involving ₹ 16.49 crore are mentioned in the succeeding paragraphs.

¹ Indicates the amount of acceptance and recovery in respect of individual cases included in the respective paragraphs.

² Indicates the number of individual cases included in the draft paragraph.

5.7 Audit observations

Scrutiny of records in the offices of the Registration Department indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to consider directing the department to improve the internal control system including strengthening internal audit so that such omissions can be avoided, detected and corrected.

• Non-observance of provisions of the Act/Rules

The KS Act, 1957 provides as under:

- Section 3 for stamping of all instruments chargeable with duty as per the schedule to the Act and executed by any person in the State of Karnataka before or at the time of execution.
- Section 28 to set forth in the instrument the consideration and all other facts and circumstances affecting the chargeability of any instrument with duty or the amount of the duty with which it is chargeable. Section 61 for punishment with fine which may extend to five times the amount of the deficient duty thereof for any person, who, with an intent to defraud the Government, executes any instrument in which all the facts and circumstances required to be set forth are not fully and truly set forth.
- Section 45A for estimating the market value, if the registering officer, while registering any instrument has reason to believe that the market value of the properties has not been truly set forth and upon payment of duty on such market value, to register the document.
- Section 46 A for issue of notice on any person to show cause notice as to why the proper duty should not be collected from him in respect of any instrument which has not been duly stamped.
- Section 67B for power to enter and search any premises excluding residential premises and if on such inspection, the authorised officer³ is of opinion that any instrument chargeable with duty is not duly stamped, he shall require the person liable, to pay the proper duty or the amount required to make up the same and also penalty not exceeding five times the amount of the deficient duty thereof, if any leviable.

The Registration Act, 1908 prescribes fees in respect of various documents presented for registration.

We noticed in 13 SROs and four offices each of the Deputy Commissioners, Department of Mines and Geology and Department of Forests that the above provisions were not fully followed by the concerned authorities. This resulted in a number of discrepancies which led to non/short realisation of

³ Deputy Commissioner or an Assistant Commissioner or any officer not below the rank of a Sub-Registrar authorised by the Deputy Commissioner or Chief Controlling Revenue Authority.

Government revenue amounting to ₹ 16.49 crore. Of these, the Department furnished replies and accepted audit observations in 145 cases⁴ involving ₹ 12.03 crore and recovered ₹ 8.07 lakh in four cases.

5.7.1 Short levy of stamp duty/registration fee due to incorrect determination of market value

As per Article 5(e) of the KS Act, any agreement relating to the sale of immovable property wherein possession of the property is delivered or agreed to be delivered without executing the deed of conveyance, stamp duty shall be levied as on conveyance on the market value of the property.

5.7.1.1 We noticed from the records of SRO, Ramanagara, that an agreement of sale and a general power of attorney (GPA) delivering the possession and authorising the GPA holder to sell the property were registered on 2 February 2008. The registering authority levied stamp duty of ₹ 3.48 lakh and registration fee of ₹ 46,400 by computing the market value of the property at ₹ 46.30 lakh. We

however, noticed that as per the Sale agreement, the purchaser had actually paid ₹ 2.06 crore to the vendor as consideration for purchase of the property. Accordingly, stamp duty ₹ 15.45 lakh and registration fee of ₹ 2.06 lakh was payable on the actual consideration received by the vendor. Omission to do so resulted in short levy of stamp duty of ₹ 11.97 lakh and registration fee of ₹ 1.60 lakh, after deducting the stamp duty levied by treating the GPA as conveyance deed. Further, since the Agreement for sale mentioning the purchase consideration and the GPA authorising the GPA holder to sell the property and also giving possession to him, were registered on the same date, nothing prevented the RO to link the two documents to arrive at the correct market value of the property for the stamp duty purposes. The Registering authority should have taken this purchase value as the market value for purposes of levy of stamp duty.

After we pointed out the case, the Department reported (July 2010) that the DR had been directed to initiate action under Section 46A of the KS Act for collection of the duty levied short.

5.7.1.2 We noticed from the records of the SRO, Magadi that three sale deeds were registered between December 2008 and June 2009. As per the recitals, a total consideration of ₹ 21.12 lakh was received in cash on the date of execution of the sale deeds, which was equal to the guideline market value of the properties as published by the Department. Stamp duty of ₹ 1.67 lakh and registration fee of ₹ 21,120 were levied. A cross-verification of the sale deeds with sale agreements registered earlier between the same parties in respect of these properties revealed that the total sale

As per Article 20 of the KS Act, stamp duty on conveyance is leviable on the market value of the property or consideration stated in the document, whichever is higher.

⁴ Indicates the number of individual cases included in the respective paragraphs.

consideration agreed to by the purchasers in the sale agreement was ₹ 44.73 lakh, of which an advance of ₹ 20.28 lakh was received by the vendors at the time of execution of those sale agreements. Hence, the total consideration received by the vendors as acknowledged in the sale agreements and corresponding sale deeds was ₹ 41.40 lakh. Suppression in the sale deeds of the actual consideration received resulted in short levy of stamp duty of ₹ 1.63 lakh and registration fee of ₹ 20,275. Besides, penalty up to ₹ 8.15 lakh could have been levied for suppression of facts.

After we pointed out the cases, the Department reported (July 2010) that the DR had initiated action under Section 45A(3) of the KS Act for the redetermination of the market value of the property for levy of stamp duty.

We reported all the above cases to the Government in June 2010; we have not received their reply (January 2011).

5.7.2 Non-realisation of stamp duty and registration fees

We noticed from the records of the office of the Deputy Director (Mines), Chitradurga and four offices⁵ of the Deputy Conservators of Forests that one mining lease and five lease agreements relating to diversion of forest land for non-forestry purposes were executed between January 2007 and July 2009. However, all these six lease agreements were not registered. Consequently, stamp duty of ₹ 34.48 lakh and registration fee of ₹ 4.70 lakh due were not realised.

As per the Registration Act, all lease deeds purporting to be for a period more than a year are to be compulsorily registered.

After we pointed out the cases, the Department reported (July 2010) that the concerned DRs have been directed to initiate action under Section 67B of the KS Act for payment of the stamp duty and imposition of penalty. DR, Chitradurga reported (December 2010) that stamp duty of ₹ 37,920 and penalty of ₹ 500 were recovered in respect of the mining lease.

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

5.7.3 Short levy of stamp duty and registration fee on lease deeds

We noticed during test check of the records of four SROs and three offices of Deputy Directors (Mines) between June 2009 and January 2010 that stamp duty of ₹ 2.19 crore and registration fee of ₹ 31.18 lakh were levied short in respect of 21 lease deeds. Details are given below:

Stamp duty on lease deeds is leviable at prescribed rates on the average annual rent based on the period of lease and consideration for lease.

5.7.3.1 Nine lease deeds were registered between March 2007 and August 2008 in four SROs⁶. Stamp duty of ₹ 3.42 crore and registration fee of ₹ 80.09 lakh were levied. The stamp duty and registration fee leviable in accordance with the provisions

⁵ Bhadravathi, Karwar, Sirsi, Yellapura.

⁶ Begur, BTM Layout, Halasur, Kacharakannahalli.

worked out to ₹ 4 crore and ₹ 89.93 lakh respectively. Incorrect computation of consideration for levy of stamp duty and registration fee resulted in short levy of stamp duty of ₹ 58.04 lakh and registration fee of ₹ 9.84 lakh.

After we pointed out the cases, DR, Gandhinagar, Bangalore reported (March 2010) recovery of stamp duty of ₹ 5.03 lakh and registration fee of ₹ 69,273 in two cases⁷. We have not received any reply in respect of the remaining cases (January 2011).

5.7.3.2 We noticed during test check of the records of offices of the Deputy Director (Mines), Bangalore,

Stamp duty on leases of mines is to be levied on the estimated royalty from the lease which is indicated in the lease deed by the Department of Mines and Geology. As per the circular issued by the Director of Mines and Geology in August 1992, estimated royalty should be calculated based on production plan submitted along with the application for quarrying lease and in the event of the royalty being lesser than the dead rent leviable for the lease, dead rent should be taken for the purpose of levy of stamp duty. In respect of renewal of quarrying lease, the maximum royalty paid by the lessee in any year of the previous term should be considered for purpose of levy of stamp duty.

Chamarajanagar and Ilkal that in 12 quarrying lease deeds executed between February and May 2008, the dead rent⁸ was indicated as consideration for stamp duty instead of estimated royalty/maximum royalty paid as per provisions. Accordingly, the SROs levied stamp duty of ₹ 4.69 lakh and registration fee of ₹ 70,000 only. We found that stamp duty of ₹ 1.65 crore and registration fee of ₹ 22.04 lakh were leviable on the anticipated royalty from the lease as worked out by us based on the production plan or highest royalty paid by

the lessee during previous term of lease. Incorrect adoption of consideration for levy of stamp duty resulted in short levy of stamp duty of ₹ 1.61 crore and registration fee of ₹ 21.34 lakh.

After we pointed out the cases, the Department reported (July 2010) that the concerned DRs have been directed to initiate action under Section 67B of the KS Act.

We reported all the above cases to the Government in June 2010; we have not received their reply (January 2011).

⁷ Indicates the number of individual cases included in the paragraph.

⁸ Dead rent is payable when the lease is idle and no mineral is removed from the leased area or if royalty payable is lesser than the dead rent.

5.7.4 Short levy of stamp duty and registration fees

The stamp duty on the instruments executed is levied in accordance with the recitals and description of the instrument and at the rates prescribed in the schedule to the Act.

We noticed during test check of the records of three SROs⁹ between September 2006 and December 2009 that stamp duty and registration fee of ₹ 1.77 crore were levied short in respect of four documents registered between September 2005 and June 2008. This was due to application of incorrect rates of stamp duty and incorrect computation of consideration as detailed below:

(Rupees in lakh)

SRO/Nature of document	Stamp duty			Registration fees		
	Leviable	Levied	Short levy	Leviable	Levied	Short levy
Nature of Omission: As per Article 28 of the KS Act, in respect of a gift deed, where the donee is not a family member of the donor, stamp duty is leviable at the rate applicable to conveyance for the market value of the property which is the subject matter of the gift. In respect of a gift deed, where the donee is a member of the family, stamp duty of ₹ 1,000 is leviable. As per explanation in the Act, family in relation to the donor means husband, wife, son, daughter, daughter-in-law and grand children. The document was a gift deed from son to father for which stamp duty of ₹ 1,120 was levied. As father is not included in definition of family, stamp duty was leviable at conveyance rate for market value of the property as mentioned below:						
Basavangudi/Gift deed	1.76	0.01	1.75	0.20	0.01	0.19
Nature of Omission: As per the KS Act, when GPA to sell is given to person other than father, mother, wife or husband, sons, daughters, brothers, sisters, stamp duty is leviable at 7.5 per cent of the market value of the property and ₹ 100 in any other case. The document was a GPA executed in June 2008 in favour of the attorney holder by mother-in-law and husband of the attorney holder. Stamp duty of ₹ 100 was levied. Since, one of the executants, that is, the mother-in-law in relation to the holder of the GPA is a person other than those mentioned in the definition of family like father, mother, wife or husband, sons, daughters etc, 50 per cent of the value of the property attracted stamp duty and registration fee at conveyance rate. Omission to do so resulted in short levy of stamp duty and registration fee as mentioned below:						
Halasur/GPA	1.15	0.01	1.14	0.15	0.01	0.15
Nature of Omission: As per the KS Act, in respect of mortgage deed, when possession of the property or any part of the property comprised in such deed is given by mortgagor or agreed to be given, stamp duty leviable is the same as for conveyance on a market value equal to the amount secured by such deed. As per recitals of a mortgage deed, mortgagor had agreed to hand over possession of two vacant floors of property until the entire loan and interest were repaid and 'no due certificate' issued by bank. However, stamp duty and registration fee were incorrectly computed and levied short as mentioned below:						
Halasur/Mortgage deed	150.00	0.50	149.50	20.00	0.10	19.90
Nature of Omission: As per section 25 of the KS Act, when, in any sale of immovable property, in addition to consideration, any liability of the vendor is taken over by the purchaser, the same shall be considered as part of consideration. A releasee company had agreed to take over assets and liabilities of the releasor company. The releasee company had paid a consideration of ₹ 85.24 lakh for the immovable property of the releasor company which when referred to the District Registrar for undervaluation was valued at ₹ 1.12 crore. However, the liability of ₹ 39.75 lakh of outstanding loan taken over by releasee company was not considered for levy of stamp duty as mentioned below:						
Rajajinagar/Release deed	13.66	10.52	3.56	1.53	1.13	0.40

⁹ Bangalore (Basavanagudi), Bangalore (Rajajinagar), Halasur.

After we pointed out the cases, the Department reported (July 2010) that the concerned DRs have been directed to initiate action under Section 46A of the KS Act. We have not received the report on further action taken and final reply in respect of the remaining two documents (January 2011).

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

5.7.5 Short levy due to undervaluation

Under the KS Act, if the registering officer while registering any instrument has reason to believe that the market value of the properties has not been truly set forth, he shall estimate the market value and upon payment of duty on such market value, register the document.

We noticed during test check of the records of five SROs between April 2009 and August 2009 that stamp duty of ₹ 24.37 lakh and registration fee of ₹ 2.94 lakh were short levied. This was due to levy of stamp duty on consideration stated in the document and incorrect determination of market value in respect of eight documents, as detailed below:

(Rupees in lakh)		
SRO/No. of documents	Nature of observation	Short levy of Stamp duty/Registration fee
Malur/ 3/ December 2007	Two documents related to the conveyance of 4 acres 2 guntas of land for a brick factory. The stamp duty and registration fee were levied on the consideration of ₹ 40.50 lakh stated in the documents. As per guidelines, value for industrial land was double the rate prescribed for agricultural land. Accordingly stamp duty had to be levied on market value of ₹ 64.80 lakh (at ₹ 8 lakh per acre for agricultural land). In respect of another conveyance deed relating to converted undeveloped land, measuring 12 acres 22.5 guntas (5,47,222.5 sq.ft.) stamp duty and registration fee were levied on the market value of ₹ 1.32 crore. However, as per guidelines, the market value of the property was to be computed at 60 per cent of the corresponding site value and accordingly the market value of the property was ₹ 1.64 crore. Incorrect computation of the market value resulted in short levy of stamp duty and registration fee in these cases.	4.76/0.56
Belur 1/ December 2007	As against the market value of ₹ 18.90 lakh for the site in accordance with the guideline values notified under the Act, stamp duty and registration fees were levied on the consideration of ₹ 3.50 lakh.	1.30/0.16
Ganganagar / 1/ August 2008	As per guidelines, value of commercial property was to be enhanced by 40 per cent and 10 per cent for corner site. The khata furnished at the time of registration mentioned the property as non-residential. However, market value was not enhanced by 50 per cent.	3.34/0.40
Mysore North/ 2/ April 2008	As against the market value of ₹ 21.05 crore in accordance with the guideline values notified under the Act, stamp duty and registration fees were levied on ₹ 19.46 crore. One document relates to immovable property along with industrial buildings located in industrial estate. The other	12.94/1.58

SRO/No. of documents	Nature of observation	Short levy of Stamp duty/Registration fee
	document relates to three plots of land converted for non-agricultural purposes.	
Halasur/1/June 2008	As against the market value of ₹ 61 lakh for the property in accordance with the guideline values notified under the Act, stamp duty and registration fees were levied on ₹ 36.85 lakh.	2.03/0.24
Total		24.37/2.94

After we pointed out the cases, the Department reported (July 2010) acceptance of audit observation in one case pertaining to SRO, Mysore (North) and recovered the entire amount of ₹ 1.97 lakh. We have not received any reply in respect of the remaining cases (January 2011).

We reported the cases to the Government in June 2010; we have not received their reply (January 2011).

5.7.6 Absence of provision to determine market value in respect of 'certificate of sale' resulting in foregoing of stamp duty

The guideline market values published by the Government for the purpose of estimating the market values for levy of stamp duty prescribe that when any undeveloped land converted for non-agricultural purposes is to be used for residential, industrial or commercial purposes, it was to be valued by enhancing the rate of agricultural land by 50, 25 and 60 *per cent* respectively. The KS Act does not empower the registering authority to determine the market value of property which is the subject matter of the 'certificate of sale' as per above norms and stamp duty is to be levied only on the value mentioned in the 'certificate of sale'.

We noticed from the records of the office of the Deputy Commissioner (DC), Bangalore (Urban) that 'certificates of sale'¹⁰ were issued between 2004-05 and 2008-09 in respect of 33 auctions of Government land for purchase money of ₹ 95.35 crore. On cross-verification with the records of the concerned SROs¹¹, we noticed that these certificates of sale were registered and stamp duty of ₹ 7.68 crore and registration fee of ₹ 95 lakh were realised on the purchase money. We observed that the lands were converted for non-agricultural purposes on payment

of conversion fine even before the certificates of sale were presented for registration. Though the certificates of sale issued by the DC indicated conversion of land for non-agricultural purposes, absence of provision in the KS Act for estimating the market value in respect of properties covered by

¹⁰ When a sale held is confirmed, a certificate to the effect that the purchaser has purchased the property specified therein is issued and such certificate shall be deemed to be a valid transfer of such property.

¹¹ Anekal, Attibele, Banaswadi, Begur, Bidarahalli, Bomanahalli, Byatarayanapura, Dasanapura, Jala, Jigani, Kengeri, Nagarabhavi, Peenya, Sarjapura, Tavarekere, Varthur, Yelahanka.

‘certificate of sale’ in accordance with the above norms, resulted in foregoing of stamp duty of ₹ 3.03 crore.

After we pointed this out, the Department stated (September 2010) that the stamp duty levied was in accordance with existing provisions of the Act and that amendments will have to be made to the Act if the short realisation was to be prevented and that this aspect would be considered while making amendments to the KS Act.

5.7.7 Non-realisation of stamp duty and registration fee due to non-compliance with the conditions of grant

The KS Act, 1957 prescribes that all instruments chargeable with duty as per the schedule to the Act and executed by any person in the State of Karnataka shall be stamped before or at the time of execution.

We noticed from the records of four DC offices¹² that 928 acres 5 guntas of Government land were granted to statutory bodies and others for ₹ 248.77 crore. As per

condition (6) of the grant order issued by DC, the grantee was required to get the document registered with the SRO by paying stamp duty and registration fee as prescribed under the KS Act. We verified the records and saw that the documents relating to conveyance of the property had not been executed and registered. This omission resulted in non-realisation of revenue of ₹ 10.06 crore towards stamp duty and ₹ 1.34 crore towards registration fee.

After we pointed out the cases, Government (Revenue Department) reported (August 2010) that directions had been issued to the DCs to take necessary action as per rules.

¹² Bangalore (Urban), Hassan, Kolar, Ramanagara.

CHAPTER-VI: STATE EXCISE AND OTHER TAX RECEIPTS

6.1 Tax administration

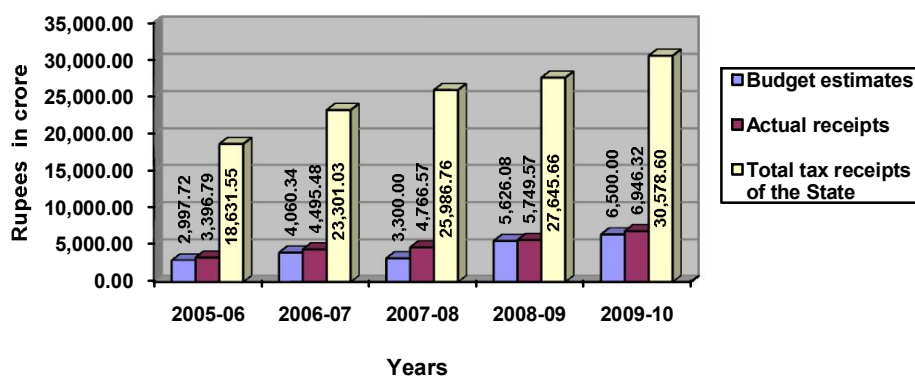
The State Excise duty is generally levied on any liquor, any intoxicating drug, opium or other narcotics and non-narcotic drugs which the State Government may, by notification declare to be an excisable article. The Karnataka Excise (KE) Act, 1965 and Rules made thereunder govern the law relating to the production, manufacture, possession, import, export, transport, purchase and sale of liquor and intoxicating drugs and levy of duties of excise thereon. The State Excise Department (SED) is under the administrative control of the Finance Department and is headed by the Excise Commissioner, who is assisted by Joint Commissioners of Excise. The excise duty is administered by the Deputy Commissioners of Excise at the district level and the Superintendents of Excise, Deputy Superintendents of Excise, Inspectors of Excise and other sub-ordinate officers at the distilleries and range offices.

6.2 Trend of receipts

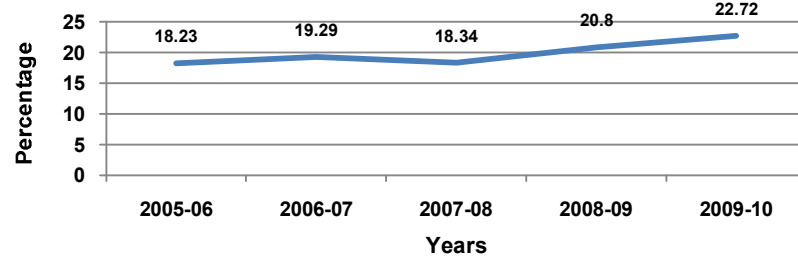
Budget Estimates (BEs) and actual receipts from State Excise along with the total tax receipts during the years 2005-06 to 2009-10 are exhibited in the following table and graphs:

(Rupees in crore)						
Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	2,997.72	3,396.79	(+) 399.07	(+)13.31	18,631.55	18.23
2006-07	4,060.34	4,495.48	(+) 435.14	(+)10.72	23,301.03	19.29
2007-08	3,300.00	4,766.57	(+)1,466.57	(+)44.44	25,986.76	18.34
2008-09	5,626.08	5,749.57	(+) 123.49	(+) 2.19	27,645.66	20.80
2009-10	6,500.00	6,946.32	(+) 446.32	(+) 6.87	30,578.60	22.72

Graph 1: Budget estimates, Actual receipts and Total tax receipts



Graph 2: Percentage of Actual receipts vis-à-vis Total tax receipts



It is seen from the graphs that the percentage of variation between the BEs and actual receipts was very high in 2007-08, while for the preceding years, it was more than 10 *per cent* and was lesser than 10 *per cent* after 2007-08. Further, the percentage of actual receipts in total tax receipts ranged between 18.23 *per cent* and 22.72 *per cent* for the five year period from 2005-06 to 2009-10. The Department has not furnished the reasons for variation of the actual receipts as compared to the BEs, despite being requested (September 2010).

6.3 Analysis of arrears of revenue

We were intimated (August 2010) that the arrears of revenue as on 31 March 2010 amounted to ₹ 737.78 crore which were stated to be outstanding for more than five years. The year wise position of arrears of revenue is mentioned in the following table.

(Rupees in crore)				
Year	Opening balance of arrears	Amount collected during the year	Closing balance of arrears	Percentage of amount collected to opening balance of arrears
2005-06	781.24	1.03	780.21	0.13
2006-07	780.21	36.74	743.47	4.71
2007-08	743.47	2.33	741.14	0.31
2008-09	741.14	1.64	739.50	0.22
2009-10	739.50	1.72	737.78	0.23

The percentage of collection of arrears to the opening balance of arrears was less than one per cent for all years except during 2006-07, which was still marginal at 4.71 *per cent*.

We recommend that the Department take effective measures for improving the collection of arrears of revenue.

6.4 Impact of Audit Reports

During the last five years, through our audit reports, we had pointed out non/short levy, non/short realisation, and loss of revenue, etc., with revenue implication of ₹ 6.23 crore in five paragraphs. Of these, the Government/Department had accepted audit observations in three paragraphs involving ₹ 2.03 crore and had since recovered ₹ 16 lakh. The details are given in the following table:

(Rupees in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount ¹	Number	Amount ¹	Number	Amount ¹
2005-06	03	4.98	01	0.78	01	0.07
2006-07	--	--	--	--	--	--
2007-08	01	0.23	01	0.23	01	0.09
2008-09	--	--	--	--	--	--
2009-10	01	1.02	01	1.02	--	--
TOTAL	05	6.23	03	2.03	02	0.16

As seen from the above table, the recovery made by the Department is only eight *per cent* of the amount involved in the total accepted cases.

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

6.5 Working of internal audit wing

The Internal Audit Wing (IAW) is functioning in the SED with a working strength of one Senior Audit Officer and two Assistant Audit Officers. There are 311 offices in the Department out of which 104 offices were planned for audit during 2009-10 and 108 offices were audited. Year wise details of the number of objections raised and settled with tax effect and recoveries effected during the preceding five years are as under:

(Rupees in lakh)

Year	Objections raised		Objections settled		Objections pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2005-06	419	2,989.40	32	23.48	387	2,965.92
2006-07	56	358.20	01	0.11	55	358.09
2007-08	02	1.40	01	0.12	01	1.28
2008-09	19	19.28	03	0.19	16	19.09
2009-10	10	10.74	02	7.28	08	3.46
Total	506	3,379.02	39	31.18	467	3,347.84

From the above, it is observed that only eight *per cent* of the total objections raised have been settled and a huge number of objections are pending settlement for over five years.

We recommend that the Department take appropriate steps for speedy clearance of outstanding objections, particularly those pending for more than five years.

6.6 Results of audit

We conducted a test check of records of 27 offices of the SED and one office of the Energy Department during the year 2009-10. We found non/short levy of excise duty, non/short levy of licence fee, non levy of fee on rectified spirit, non-registration/non-payment of luxury tax and incorrect adjustment of tax

¹ Indicates the amount of acceptance and recovery in respect of individual cases included in the respective paragraphs.

paid on consumption of electricity amounting to ₹ 3.60 crore in 11 cases. The observations broadly fall under the following categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
State Excise			
1.	Non/short levy of licence fee	04	1.20
2.	Non- levy of fee on rectified spirit	01	1.02
3.	Non/short levy of excise duty	03	0.05
4.	Other irregularities	01	0.01
Total		09	2.28
Luxury Tax			
1.	Non-registration and non-payment of luxury tax	01	0.44
Total		01	0.44
Electricity Tax			
1.	Incorrect adjustment of tax paid on consumption of electricity	01	0.88
Total		01	0.88
Grand total		11	3.60

During the course of the year 2009-10, the Departments accepted underassessments and other deficiencies of ₹ 62.15 lakh in four cases pointed out during the year and recovered ₹ 45.41 lakh in two cases. Further, the SED also recovered ₹ 3.44 crore in 30 cases pointed out in earlier years.

After issue of a draft paragraph, the Government reported (July 2010) recovery of ₹ 5.15 lakh in two cases.

One case on non-levy of fee on rectified spirit involving ₹ 1.02 crore is mentioned in the succeeding paragraph.

6.7 Non-levy of fee on rectified spirit

Superintendent of Excise, M/s. Vishwanath Sugars Limited, Belgaum.

No licensee who produces rectified spirit out of molasses shall issue rectified spirit so produced unless he pays the specified fee on such rectified spirit. The fee specified for rectified spirit issued for own use or for sale to others was ₹ 6 per bulk litre during 2005-06 and 2006-07.

We noticed during November 2009 that the licensee had issued 16.98 lakh bulk litres of rectified spirit during 2005-06 and 2006-07 for own use in ethanol plant. However, fee leviable on the rectified spirit issued for own use was not levied resulting in non-levy of fee of ₹ 1.02 crore.

After we pointed out the case, the Government reported (July 2010) issue of notice for recovery.

CHAPTER-VII: NON-TAX RECEIPTS

MINING RECEIPTS

7.1 Tax administration

The levy of royalty on minerals is administered by the Department of Mines and Geology headed by the Director of Mines and Geology under the administrative control of the Commerce and Industries Department at Government level. There are 13 offices of the Deputy Director (Mines) and 15 offices of the Senior Geologist (Mines) in the State. The levy and collection of royalty on minerals is governed by the provisions of the Mines and Minerals (Development and Regulation) (MMDR) Act, the Mineral Concession (MC) Rules, 1965 and the Karnataka Minor Mineral Concession (KMMC) Rules, 1994.

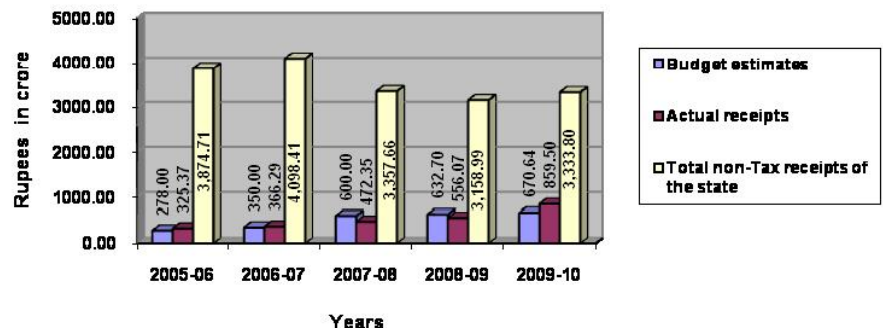
7.2 Trend of receipts

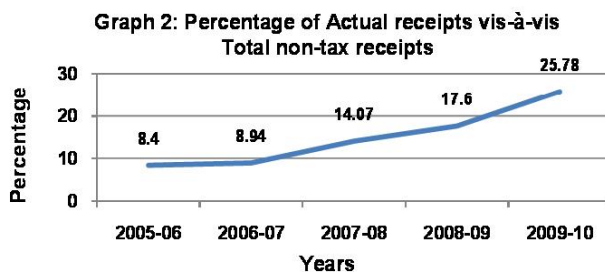
Budget Estimates (BEs) and actual revenue from mineral receipts during the years 2005-06 to 2009-10 along with the total non-tax receipts during the same period is exhibited in the following table and graphs.

(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non-tax receipts
2005-06	278.00	325.37	(+) 47.37	(+) 17.04	3,874.71	8.40
2006-07	350.00	366.29	(+) 16.29	(+) 4.65	4,098.41	8.94
2007-08	600.00	472.35	(-) 127.65	(-) 21.28	3,357.66	14.07
2008-09	632.70	556.07	(-) 76.63	(-) 12.11	3,158.99	17.60
2009-10	670.64	859.50	(+) 188.86	(+) 28.16	3,333.80	25.78

Graph 1: Budget estimates, Actual receipts & Total non-tax receipts





It is seen from the above that the actual receipts were higher than the BEs during 2005-06, 2006-07 and 2009-10 and lesser than the BEs during the years 2007-08 and 2008-09. The variations between the BEs and actual receipts ranged between (-) 21.28 *per cent* and (+) 28.16 *per cent* indicating unrealistic budgeting process. The percentage of actual receipts in total non-tax receipts ranged between 8.40 *per cent* and 25.78 *per cent* during the five year period from 2005-06 to 2009-10.

7.3 Impact of Audit Reports

During the last five years, through our audit reports, in respect of mineral receipts, we had pointed out non/short levy of royalty/penalty/interest with revenue implication of ₹ 566.93 crore in seven paragraphs. Of these, the Government/Department had accepted audit observations involving ₹ 52.99 crore in four paragraphs and had since recovered ₹ 21 lakh. The details are shown in the following table:

(Rupees in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2005-06	01	543.96	01	47.03	01	0.21
2006-07	-	-	-	-	-	-
2007-08	01	4.07	-	-	-	-
2008-09	02	18.62	01	5.74	-	-
2009-10	03	0.28	02	0.22	-	-
Total	07	566.93	04	52.99	01	0.21

As seen from the above table, the recovery made by the Department is only 0.4 *per cent* of the amount involved in the total accepted cases.

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

7.4 Working of internal audit wing

The Internal Audit Wing (IAW) is functioning in the Mines and Geology Department since 1985. The IAW has a working strength of one Accounts Officer, one Accounts Superintendent and one auditor.

As per the information furnished by the Department, out of 24 offices due for audit during 2009-10, only six offices (25 *per cent*) were audited. The Department stated that due to vacancy in the post of Accounts Officer from September 2009 and paucity of staff, IAW was unable to conduct any internal audit work and stated that the post of Accounts Officer has since been filled and IAW was programming to update the internal audit work within the time

frame. Year-wise details of the number of objections raised and settled with money value, as furnished by the Department, are as under:

(Rupees in lakh)

Year	Objections raised		Objections settled		Objections pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2005-06	1,558	300.66	1,368	285.16	190	15.50
2006-07	18	1.84	07	0.28	11	1.56
2007-08	14	0.52	-	-	14	0.52
2008-09	02	0.02	-	-	02	0.02
Total	1,592	303.04	1,375	285.44	217	17.60

From the above, it is observed that objections are pending settlement for over five years.

We recommend that the Department take appropriate steps to ensure adequate coverage for internal audit and for speedy clearance of the outstanding objections pending for more than five years.

7.5 Results of audit

We conducted a test check of records of 16 offices of the Deputy Conservator of Forest and 15 offices of the Deputy Director/Senior Geologist (Mines) during the year 2009-10. Besides, we also checked records of 14 Departments for the review on 'Interest Receipts'. This revealed underassessments and non-realisation of revenue amounting to ₹ 438.61 crore in 79 cases. The observations broadly fall under the following categories.

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	Interest Receipts (A Review)	01	394.51
	Forestry and Wildlife		
1.	Non/short recovery of forest development tax	08	9.94
2.	Non/short levy and non-recovery of lease rent	03	3.38
3.	Other irregularities	22	2.49
	Total	33	15.81
	Mineral Receipts		
1.	Non/short levy of royalty, dead rent, penalty, interest	63	21.08
2.	Non-fixing of minimum bid amount for ordinary sand	01	0.05
3.	Other irregularities	11	7.16
	Total	75	28.29
	Grand Total	79	438.61

During the course of the year 2009-10, the Departments accepted audit observations involving ₹ 12.14 crore in 24 cases pointed out during the year. The Departments also recovered ₹ 3.51 crore in 34 cases pointed out in earlier years.

After the issue of a draft paragraph, the Mines and Geology Department reported (August 2010) recovery of the entire amount of ₹ 6.62 lakh.

A review on '**Interest Receipts**' with financial impact of ₹ 394.51 crore and few illustrative audit observations on '**Mineral Receipts**' involving ₹ 28.34 lakh are mentioned in the following paragraphs.

7.6 Interest Receipts

Highlights

There were system deficiencies in sanctioning, monitoring and recovery of loans. The Karnataka Financial Code (KFC) was not amended to incorporate important Government orders relating to loans and their recoveries. The internal financial advisor had not been involved in sanctioning of loans by various Government Departments.

(Paragraph 7.6.10 and 7.6.11)

Non-fixation of terms and conditions of loans aggregating ₹ 1,357.68 crore sanctioned in 116 cases resulted in non-levy of interest of ₹ 283.65 crore for the period 2004-05 to 2008-09.

(Paragraph 7.6.13.1)

Interest and penal interest aggregating ₹ 39.93 crore was not demanded by seven Departments in 48 cases of loans disbursed of ₹ 207.82 crore.

(Paragraph 7.6.14)

Penal interest of ₹ 5.08 crore was not levied by Commerce and Industries Department on sugar factories for default in repayment of interest free loans.

(Paragraph 7.6.15)

There was short demand of interest of ₹ 29.17 crore by the Co-operation Department due to application of incorrect rate of interest and levy of interest on principal due instead of outstanding principal. Besides, penal interest of ₹ 4.69 crore was also not demanded.

(Paragraph 7.6.18)

Failure to monitor computation of interest on Special Development Debentures by Registrar of Co-operative Societies resulted in short-levy of interest of ₹ 10.60 crore and penal interest of ₹ 2.66 crore.

(Paragraph 7.6.19)

Fixation of concessional rate of interest by Co-operation Department while rescheduling outstanding loan resulted in irregular allowance of rebate of ₹ 4.63 crore.

(Paragraph 7.6.20)

7.6.1 Introduction

The State Government provides loans and advances to public sector undertakings, Departmentally-run commercial undertakings, local bodies, co-operative societies and individuals including Government employees. The loans sanctioned usually carry different rates of interest fixed by the sanctioning authority keeping in view the purpose for which the loan is provided. Loans are required to be repaid within the stipulated period, in periodical instalments along with the interest. The terms and conditions which are specified in the orders sanctioning the loans are to indicate the periodicity of instalments, the rate of interest, the mode and the manner of repayment of the principal and the interest. In case of default in repayment of the instalment/s of the principal, the Karnataka Financial Code (KFC), 1958

prescribes levy of penal interest on the principal remaining unpaid and on the interest due.

We conducted two reviews on ‘Interest Receipts’ which were featured in the Audit reports for 1996-97 and 2003-04. We have neither received Departmental notes from the Government nor have the reviews been discussed by the Public Accounts Committee so far.

7.6.2 Audit criteria

We conducted the review based on the following audit criteria:

1. The KFC, 1958.
2. The Karnataka Government (Transaction of Business) Rules, 1977 (KGTB Rules).
3. Government Order No. FD 01 BLA 2002 of Finance Department (FD) issued on 10 July 2003 (GO of July 2003) prescribing procedures for grant and monitoring of loans.
4. The Government of Karnataka (Consultation with Financial Advisor) Rules, 1982 (KCFA Rules) issued in July 1982 and Circular issued in July 2003 by FD.
5. Government Order No. FD 02 TFC 2004 of FD issued on 9 September 2004 regarding accounting and monitoring of loans.
6. Government Order No. FD 172 SAVULA 2005 of FD issued on 22 May 2006 redesignating Directorate of Small Savings as Directorate of Investment monitoring, Loan tracking and Small Savings (Directorate) and prescribing functions of the Directorate.
7. Circular No.FD 51 RLG 07 dated 29 May 2007.

7.6.3 Organisational setup

The requests for sanction of loans and advances are processed by the heads of the Departments and are recommended to Government in the concerned administrative Departments. The concerned administrative Departments, in prior consultation with the Internal Financial Advisers (IFAs) concerned, forward these requests for concurrence of the Finance Department (FD). On receipt of concurrence from the FD, the administrative Departments issue loan sanction orders specifying the terms and conditions, rate of interest chargeable, repayment period and the authority responsible for maintenance of loan ledgers and watching recovery. The FD in May 2006 entrusted the work of maintenance of the data base of all investments made and loans sanctioned by the Government, monitoring of recoveries, issue of demand notices etc to the Directorate of Investment monitoring, Loan tracking and Small Savings (henceforth called Directorate).

7.6.4 Audit objectives

We conducted the review with a view to examine:

- whether the system and procedures for monitoring levy and recovery of interest receipts was adequate;

- the adequacy of remedial measures against defaulters with a view to safeguard the interests of Government; and
- whether the internal control mechanism provides for effective monitoring.

7.6.5 Scope and methodology of audit

We conducted audit of the interest receipts relating to all the loans sanctioned by 14¹ Departments during the years 2004-05 to 2008-09 between August 2009 and May 2010. We test checked the records of the Government, Controlling Officers and beneficiary organisations (wherever necessary). Besides, we also checked loans sanctioned prior to the 2004-05 where repayments of instalments of loans/interest were due, loans were converted into equity/grants and interest was waived off during the period of review.

7.6.6 Acknowledgement

We acknowledge the co-operation of FD and all the 13 Departments in providing necessary information and records for audit. We held an entry conference with the Secretary, FD and officers of all these Departments in October 2009, wherein the audit objectives, scope of audit and methodology were explained. We forwarded the draft review report to the Government in June 2010 and discussed the same in the exit conference held in July 2010 with the Principal Secretary, FD, Principal Secretary, Animal Husbandry and Fisheries Department and officers from other Departments. We have included the replies of Government received during the exit conference and at other points of time in the respective paragraphs.

7.6.7 Position of loans

The position of loans outstanding at the beginning of the year, loans disbursed during the year, repayment of loans during the year and loans outstanding at the end of the year for the years 2004-05 to 2008-09 as given in Statement No. 5 of the Finance Accounts of the respective years is mentioned below:

(Rupees in crore)

Year	Opening balance of outstanding loans	Loans disbursed during the year	Total	Repayment of loans during the year	Closing balance of loans at the end of the year	Percentage of recovery of loans to opening balance of loans
2004-05	5,106.54	550.51	5,657.05	9.60	5,647.45	0.19
2005-06	5,645.20*	283.65	5,928.85	36.06	5,892.79	0.64
2006-07	5,892.79	353.66	6,246.45	13.59	6,232.86	0.23
2007-08	6,232.86	755.23	6,988.09	42.91	6,945.18	0.69
2008-09	6,945.18	728.75	7,673.93	54.17	7,619.76	0.78

*Opening balance differs from that adopted in Annual Accounts 2004-05 on account of proforma corrections carried out in 2005-06 relating to book adjustments of power subsidy for 2004-05.

¹ Agriculture, Animal Husbandry and Fisheries, Commerce and Industries, Co-operation, Energy, Finance, Forest Ecology and Environment, Health and Family Welfare, Housing, Kannada Culture Information and Tourism, Public Enterprises, Urban Development, Water Resources, Youth Services and Sports.

Increase in loans disbursed during 2007-08 and 2008-09 was mainly due to sanction of loans to M/s. Bangalore Metro Rail Corporation Limited and for purchase of power from private sectors. We noticed that the outstanding loans under different heads had increased by 35 *per cent* from ₹ 5,647.45 crore in 2004-05 to ₹ 7,619.76 crore in 2008-09. The percentage of recovery of loans to the opening balance of loans ranged between 0.19 and 0.78 during 2004-05 to 2008-09.

We recommend that the Government intensify its measures to ensure prompt repayment of outstanding instalments of principal from the loanees.

7.6.8 Trend of revenue

The Karnataka Budget Manual stipulates that in the preparation of budget, the aim is to achieve as close an approximation to the actuals as possible. It is, therefore, essential that not merely should all items of revenue and receipts that can be foreseen be provided but also only so much and no more should be provided as is expected to be realised, including past arrears in the budget year.

The BEs, actual realisation of revenue, variation in receipts over BEs and percentage of variation in respect of interest receipts for the years 2004-05 to 2008-09 are as mentioned below:

(Rupees in crore)				
Year	BEs	Actuals	Variation of actuals over BEs	Percentage of variation
2004-05	86.13	144.79	(+) 58.66	(+) 68.11
2005-06	111.39	283.00	(+) 171.61	(+) 154.06
2006-07	178.61	376.19	(+) 197.58	(+) 110.62
2007-08	187.54	375.24	(+) 187.70	(+) 100.09
2008-09	146.92	337.17	(+) 190.25	(+) 129.49

The percentage of variations between BEs and actuals ranged between 68.11 *per cent* and 154.06 *per cent*.

We reported the matter to the Government in October 2009. The FD stated that huge variations were under the minor head 'Interest realised on investments of cash balances' and was due to investment of surplus cash balance into 14 days Government of India Treasury bills on a day to day basis by the Reserve Bank of India. The FD further stated that the cash balance which can be invested in either 14 days Treasury bills or 90 days Treasury bills could not be foreseen while finalising the BEs as the cash balances were dependent on various factors like collection of State's own tax revenue, devolution of funds from Government of India, grants-in-aid from the Government of India, etc. The FD stated that receipts from Departmental Commercial Undertakings and Public Sector Undertakings were by way of book adjustments made at the end of the financial year with no cash flow. These adjustments mostly depended on the provision available on the expenditure side.

7.6.9 Non-reconciliation of balances of loan/remittances under '0049-interest receipts'

The KFC prescribes reconciliation of Departmental figures of revenue with those of actual credits into the treasuries based on which the accounts of State Government are prepared. The KFC, also prescribes effecting reconciliation of balances of loans with the books of the Accountant General (Accounts & Entitlement) by the Departmental authorities.

We ascertained from the Accountant General (Accounts & Entitlement), that reconciliation of Departmental figures of revenue under the head of Account '0049-Interest Receipts', had not been done by any of the controlling officers for the years 2004-05 to 2008-09 except Registrar of Co-operative Societies and Director of Municipal Administration, who

carried out reconciliation for the years 2007-08 and 2008-09. None of the controlling officers had done reconciliation of loan balances for the years 2004-05 to 2008-09.

System deficiencies

7.6.10 Inadequate codal provisions

The KFC lays down rules for grant of loans, levy of interest and penal interest on overdue instalments of principal and interest, submission/obtaining of utilisation certificates and stipulates maintenance of accounts of loans.

We observed that the KFC does not provide for rules/detailed instructions for fixing of concessional rates of interest, procedure for grant of interest free loans, conversion of loans into equity or grants, waiver and remission. Further it does not prescribe the manner in which the accounts of loans have to be maintained. The procedures for sanction of loans and monitoring of

recovery of interest receipts stipulated in GO of July 2003 have not been incorporated in the KFC though it was notified that specific amendment would be proposed to the KFC. We noticed that no amendments to KFC have been made specifically, for sanction and monitoring of loan, since its inception.

After we brought this to notice, the FD confirmed (June 2010) that no specific procedures had been laid down for grant of interest free loans, conversion of loans into equity or grants, adjustments of repayments of loan, levy of penal interest, etc. The FD further stated that revision of interest rates and other terms and conditions specified in GO of July 2003 had not been incorporated in KFC and suitable amendments to the Act would be considered for incorporation.

We recommend that the Government amend the provisions of KFC by prescribing detailed procedures for grant of interest free loans, conversion of loans into equity/grants and also incorporating the provisions contained in GO of July 2003.

7.6.11 Monitoring of repayments of loan and interest

7.6.11.1 Monitoring of loans by Directorate

Government vide circular dated May 2007 stipulated that the loan sanction orders were to be endorsed to the Directorate. As per GO of May 2006, the Directorate was to monitor timely recoveries including issue of notices and submit quarterly report on Demand, Collection and Balance (DCB) to FD.

We noticed that none of the loan sanction orders were endorsed to the Directorate. We also observed that the Directorate had neither issued any demand notices nor prepared/maintained DCB (May 2010).

After we brought this to notice, the Directorate stated that the reconciliation of loans with the Accountant General (Accounts and Entitlement) had come to a standstill and has now been resumed owing to which it was not in a position to identify the Departments which had sanctioned loans. The Directorate in the Exit Conference stated that only 20 *per cent* of the data had been collected and the tracking of loans was in process. The Directorate also expressed its inability to obtain the essential details for monitoring of loans. The FD, in the exit conference, agreed to strengthen the working of the Directorate.

7.6.11.2 Monitoring by the IFAs

As per KCFA Rules, all proposals for sanction of loans will be referred to the IFAs before the issue of final orders and the IFAs were to keep a close watch on repayments of loans and interest.

We reviewed the loan sanction files in the Government and noticed that the opinion of the IFAs were not obtained by six² Departments before sanction of loans aggregating ₹ 1,020.87 crore for the period 2004-05 to 2008-09. We called for information regarding monitoring of

loans by the IFAs. We have not received any information from the IFAs (January 2011).

After we brought this to notice, the IFA of Commerce and Industries Department, during the exit conference, expressed that IFAs were not being involved in the process of loan sanctions in many cases and hence were unaware of these sanctions which subsequently led to non-monitoring of loans. The FD assured a comprehensive relook/examination in this regard.

² Commerce and Industries, Co-operation, Forest, Ecology and Environment, Urban Development, Water Resources, Youth Services and Sports.

7.6.11.3 DCB registers

As per the GO issued by FD in September 2004, all the loan recovery officers/Heads of the Departments shall maintain the registers and compile the DCB at the end of each financial year. They shall forward details of loans disbursed, recovery of principal and interest and the balance at the end of each quarter to the IFAs.

We noticed that the KFC and the Government Order (September 2004) do not prescribe the manner in which the accounts have to be maintained. We also noticed that 11 heads of Departments/controlling officers had not maintained DCB registers. After we pointed this out, the

Director of Agriculture and Registrar of Co-operative Societies stated (February 2010/August 2010) that these registers would be maintained in future. We have not received replies from other Departments (January 2011).

Regarding the furnishing of quarterly returns of DCB to the IFAs concerned, the Director of Fisheries reported (October 2010) that the quarterly statement showing the balances of loan/interest/penal interest due as on 31 March 2010 had since been furnished. The Directorate of Industries and Commerce stated (October 2010) that necessary information is being obtained from the loanees. We have not received information from other Departments (January 2011).

We recommend that the Government ensure co-ordination between FD, Administrative Departments, IFAs, Controlling Officers and the Directorate for maintenance of complete and accurate database of loans sanctioned as well as DCB registers for timely recovery of loan and interest.

7.6.11.4 Constitution of Departmental Committee

Various Boards/Corporations/Public Sector Undertakings/institutions and agencies under the control of different Government Departments obtain loans/financial assistance from financial institutions for their working requirements. In most of these cases, the Government is required to stand guarantee for the loans. Further, in many cases failure in repayment of these loans has resulted in Government repaying these loans along with interest to NABARD, NCDC, HUDCO and other financial institutions. The FD in its order of November 1998 proposed to constitute a Departmental Committee to monitor the drawal, usage and timely repayment of the loans drawn from various financial institutions.

The Government order of November 1998 stipulated that each administrative Department shall issue separate orders for constitution of Committee in respect of each Board. The Committees were required to meet at least once in three months. We called for information (between December 2009 and April 2010) about the formation of these Departmental committees and details of meetings held. The Directorate of Handloom and Textiles reported conducting of five meetings as against 20 meetings required to be conducted during 2004-05 to 2008-09. However, reasons for shortfall in conducting meetings, copies of the proceedings of these meetings and action taken thereon were not furnished. We have not received any information from the other Departments (January 2011).

7.6.12 Arrears of interest

As per the KGTB Rules, 1977, the FD shall review periodically the DCB of loans and advances and shall advice on these transactions.

We called for information (October 2009) on position of arrears of interest from FD and also from other Departments concerned. In response, the FD stated that information was not available with them and that a circular was issued to all the Departments in March 2010 to furnish the said information to Audit, thereby indicating that the FD had not been periodically reviewing the DCB position as prescribed. The Directorate of Fisheries furnished (December 2009) the position of arrears of interest. We have not received information on arrears of interest from the remaining 12 Departments (January 2011).

7.6.13 Fixation of terms and conditions while sanctioning loans

We noticed that there was no system to monitor fixation of terms and conditions while sanctioning loans. We found a number of cases in which terms and conditions were either not fixed or fixed in an incomplete manner or fixed belatedly resulting in non-levy of interest/penal interest and postponement of revenue realisation as detailed below:

7.6.13.1 Non-repayment of loan and non-levy of interest due to non-fixation of terms and conditions

As per KFC, all loan sanction orders should be issued in Form KFC 37-A. The GO of July 2003 stipulated that all standard terms and conditions shall invariably accompany the loan sanction order. It also prescribes rates of interest depending on the purpose and term of loan (short/medium/long) and the rate of penal interest on overdue instalments of principal/interest.

- We noticed that 89 loan sanctions aggregating ₹ 1,300.79 crore were issued by eight Departments and disbursed to 30 loanees between April 2004 and March 2009 without fixing the terms and conditions for repayment. Consequently, the schedules for repayment of principal and interest had not been drawn up even after a lapse of periods ranging between 12 to 71 months since the date of disbursement of loan till March 2010. We noticed that the loanees had not repaid any instalment of loan or interest during 2004-05 to 2008-09. Adopting the standard terms and conditions prescribed in the GO of July 2003, we computed instalments of principal amounting to ₹ 277.38 crore as due during 2004-05 to 2008-09 and interest³ payable thereon worked out to ₹ 269.08 crore on these loan amounts from the date of drawal upto March 2009 as detailed below:

³ Rate of interest ranged from 6.25 to 13 *per cent* depending on the term of loan and purpose for which the loan was sanctioned as prescribed in the GO of July 2003.

(Rupees in crore)

Sl. No.	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Lapse of time after disbursement of loan till March 2010 (months / days)		Principal due as on 31 March 2009	Interest due as on 31 March 2009
					from	to		
1.	(a) Urban Development	2004-05 to 2008-09	25 (4)	482.66			123.05	128.14
	(b) Director of Municipal Administration	2004-05	9 (1)	24.13	21 months 8 days	71 months 10 days	9.65	13.45
2.	Public Enterprises	2004-05, 2005-06 and 2007-08	14 (5)	50.89	50 months 13 days	70 months 22 days	19.97	20.33
3.	Commerce & Industries							
	(a) Commissioner for Industrial Development and Director of Industries and Commerce	2004-05 to 2007-08	8 (5)	109.83			30.44	21.39
	(b) Commissioner for Textile Development and Director of Handloom and Textiles.	2004-05 and 2007-08	3 (3)	12.03	22 months 10 days	62 months 27 days	1.20	3.34
	(c) Commissioner for Cane Development and Director of Sugar	2004-05 to 2008-09	15 (3)	89.11			33.34	29.60
4.	Energy	2007-08	1 (4)	5.55	27 months 2 days	27 months 29 days	0.15	0.64
5.	Water Resources	2007-08	1 (1)	1.11	24 months 18 days		0.03	0.13
6.	Co-operation							
	Registrar of Co-operative Societies	2004-05 and 2007-08	3 (2)	1.08	21 months 27 days	60 months 1 day	0.03	0.12
7.	Forest, Ecology and Environment							
	Principal Chief Conservator of Forests	2007-08	1 (1)	3.00	27 months 10 days		0.60	0.48

(Rupees in crore)

Sl. No.	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Lapse of time after disbursement of loan till March 2010 (months / days)		Principal due as on 31 March 2009	Interest due as on 31 March 2009
					from	to		
8.	Housing	2005-06 to 2008-09	9 (1)	521.40	12 months 1 day	48 months 3 days	58.92	51.46
	Total		89 (30)	1,300.79			277.38	269.08

In addition, the Department of Kannada and Culture had sanctioned a loan of ₹ 10.60 lakh in two sanctions during 2000-01 and 2001-02 to M/s.Kanteerava Studios. We noticed that the terms and conditions had not been finalised even as of January 2008, when the loanee repaid the entire loan amount. We computed interest leviable in this case at ₹ 13.55 lakh⁴.

After we brought this to notice, the Commerce and Industries Department reported (October 2010) that terms and conditions had since been fixed in May 2010 in respect of loans sanctioned in 2005-06 and 2006-07 to two loanees⁵. It further stated that in respect of loans sanctioned during 2005-06 to 2008-09 to one loanee⁶, the terms and conditions were not fixed due to non-receipt of the same from FD. A loanee⁷ under the Energy Department reported (October 2010) remittance of interest amounting to ₹ 22.64 lakh⁸ and loan principal amounting to ₹ 39.15 lakh⁹ due for the period 2007-08 to August 2010.

- The Government of India (GOI) sanctions additional central assistance in the form of block loans¹⁰ to the State Governments for implementation of various externally aided projects. The GOI had also prescribed rate of interest/penal interest, term of loan, moratorium for repayment of principal, due date for payment of principal and interest, etc., while sanctioning loans to State Governments.

The FD released loan amount of ₹ 56.78 crore to six loanees under the control of three Departments vide 25 Government orders between March 2004 and March 2009 for implementation of externally aided projects. We noticed that the FD had not communicated the terms and conditions stipulated by GOI to the loanees. Consequently, all the six loanees had not repaid the instalments of principal/interest due. We computed the instalments of principal amounting to ₹ 4.21 crore as due and interest payable amounting to ₹ 14.43 crore on

⁴ Computed at the rate of 18 per cent as per Government Order of July 1991 issued by FD.

⁵ Government Tool Room and Training Centre and M/s. Karnataka Vidyuth Karkhane Limited.

⁶ M/s. Mysore Sugar Company Limited.

⁷ M/s. Gulbarga Electricity Supply Company Limited.

⁸ Amount of interest calculated in the review upto 31 March 2009 is ₹ 15.00 lakh.

⁹ Amount of principal calculated in the review upto 31 March 2009 is ₹ 13.05 lakh.

¹⁰ As per the terms and conditions stipulated by GOI, 50 per cent of the loan was repayable in 20 annual equal instalments and remaining 50 per cent of the loan was repayable in 15 annual equal instalments after a moratorium of five years.

these loans at the rate of 9 per cent as fixed by GOI, from the date of sanction upto March 2009 as detailed below:

(Rupees in crore)

Sl. No	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Principal due as on 31 March 2009	Interest due as on 31 March 2009
1.	Urban Development	2003-04 to 2008-09	14 (4)	41.28	3.58	12.16
2.	Health and Family Welfare Director of Health and Family Welfare	2005-06 to 2008-09	6 (1)	15.29	0.62	2.25
3.	Forest, Ecology and Environment Principal Chief Conservator of Forests	2005-06 to 2008-09	5 (1)	0.21	0.01	0.02
Total			25 (6)	56.78	4.21	14.43

After we brought this to notice, Bangalore Development Authority (BDA) remitted (July 2010) the entire loan amount of ₹ 17.88 crore and interest amounting to ₹ 8.22 crore¹¹ due for the period from 2003-04 to 31 July 2010.

We recommend that the Government consider setting up of a mechanism to monitor that the terms and conditions are mandatorily issued at the time of sanction of loan itself.

7.6.13.2 Fixation of incomplete terms and conditions

We noticed that three Departments while sanctioning loans aggregating ₹ 421.13 crore in 27 cases (seven loanees) during the period from 2000-01 to 2008-09 had fixed incomplete terms and conditions as detailed below:

(Rupees in crore)

Sl. No	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Nature of incompleteness
A. Interest bearing loans					
1.	Commerce and Industries Department Commissioner for Cane Development and Director of Sugar.	2007-08	1 (1)	2.86	Term of repayment of loan and penal clause was not included.

¹¹ Amount of interest calculated in the review upto 31 March 2009 is ₹ 6.08 crore.

(Rupees in crore)					
Sl. No	Department / Controlling Officers	Year of sanction	Number of sanction orders (No. of loanees)	Amount of loan	Nature of incompleteness
2.	(a) Co-operation Department	2000-01 to 2008-09	16 (1)	48.42	Penal clause was not included.
	(b) Registrar of Co-operative Societies	2008-09	1 (1)	3.00	Penal clause was not included.
	Total (A)		18 (3)	54.28	
B. Interest free loans					
1.	Urban Development Department	2005-06 to 2007-08	4 (1)	363.42	Term of repayment of loan and penal clause not fixed.
2.	Co-operation Department Registrar of Co-operative Societies	2004-05 and 2007-08	2 (2)	2.13	Penal clause not fixed.
3.	Commerce and Industries Department Commissioner for Textile Development and Director of Handloom and Textiles	2004-05 and 2005-06	3 (1)	1.30	Penal clause not fixed
	Total (B)		9 (4)	366.85	
	Grand Total		27 (7)	421.13	

We noticed that in respect of the above loan sanctions, principal amount of ₹ 3.32 crore and interest of ₹ 3.33 crore was due from three loanees in respect of 12 sanction orders. Absence of penal clause resulted in non-levy of penal interest of ₹ 38.54 lakh in respect of these cases. In respect of the balance loan sanctions, no repayments of loan and interest were due during the period of review since they were in the moratorium period.

7.6.13.3 Delay in fixation of terms and conditions

We noticed from the records of loans disbursed by five Departments that in 11 cases (16 loanees) of loans aggregating ₹ 90.61 crore sanctioned during the period from 2004-05 to 2006-07, there was a delay in fixing of terms and conditions. The delay ranged between five months one day to 37 months 13 days from the date of sanction of loan to the date of fixing of terms and conditions. This resulted in postponement of realisation of interest of ₹ 4.75 crore as detailed below:

(Rupees in crore)							
Sl. No	Department/ Controlling Officers	Year of Sanction (Number of sanctions)	Amount of loan (Number of loanees)	Date of sanction/date of fixation of terms and conditions	Delay ranged from (months days)	Rate of interest per annum (percent- age)	Interest due ¹²
1.	Urban Development Department	2006-07 (1)	2.00 (1)	19.08.2006/ 12.07.2007	10 months 25 days	12.50	0.09
2.	Commerce and Industries Department						
	(a) Commissioner for Textile Development and Director of Handloom and Textiles.	2004-05 and 2006-07 (3)	4.49 (2)	27.10.2006/ 12.07.2007, 08.11.2004/ 20.12.2007	8 months 16 days to 37 months 13 days	8.50 to 9.00	0.30
	(b) Commissioner for Cane Development and Director of Sugar.	2004-05 to 2006-07 (4)	43.45 (4)	10.09.2004/ 29.07.2005, 10.09.2004/ 27.08.2005	10 months 20 days to 11 months 18 days	10.00	2.95
3.	Water Resources Department	2005-06 (1)	14.70 (3)	14.03.2006/ 29.08.2006	5 months 16 days	11.00	0.48
4.	Youth Services & Sports Department						
	Commissioner for Youth Services	2005-06 (1)	9.59 (1)	28.03.2006/ 29.08.2006	5 months 1 day	11.00	0.27
5.	Energy Department	2005-06 (1)	16.38 (5)	18.02.2006/ 29.08.2006	6 months 12 days	11.00	0.66
	Total	(11)	90.61 (16)				4.75

7.6.14. Non-raising of demands for interest by Government Departments

The KFC does not provide for a system of issue of demand notices for recovery of interest. However, as per the GO of July 2003, a notice shall be given to the borrowers (loanees) a month in advance of the due date of payment of instalment of the principal and/or interest thereon in the format prescribed by Heads of the departments/controlling officers.

We noticed from the records of loans disbursed by seven Departments that in 48 sanctions (20 loanees), while sanctioning loans aggregating ₹ 207.82 crore during 2000-01 to 2008-09, although terms and conditions for repayment of these loans had been fixed, advance notices demanding payment of instalment of principal and/or

¹² Calculated as on 1 January/1 July on which interest is payable, but was not paid due to non-fixation of terms and conditions.

interest were not issued by Heads of the Departments/controlling officers. The loanees, also did not make payment of interest dues. This resulted in non-raising of demand for interest amounting to ₹ 38.72 crore and penal interest of ₹ 1.21 crore as detailed below:

(Rupees in crore)							
Sl. No	Department / Controlling Officers	Year of sanction	Number of cases (Number of loanees)	Amount of loan	Rate of interest per annum	Interest due	Penal Interest due
1.	Urban Development	2004-05 to 2008-09	18 (1)	110.25	12.50	22.50	0.48
2.	Commerce & Industries (a) Commissioner for Textile Development and Director of Handloom and Textiles. (b) Commissioner for Cane Development and Director of Sugar	2004-05 to 2008-09	5 (4)	14.19	9.00 to 9.50	3.26	0.15
		2007-08	1 (1)	2.86	13.00	0.47	-
3.	Water Resources	2005-06	1 (3)	14.70	11.00	4.85	0.19
4.	Youth Services and Sports/ Commissioner for Youth Services	2005-06	1 (1)	9.59	11.00	3.16	0.12
5.	Co-operation	2000-01 to 2004-05 and 2006-07 to 2008-09	15 (1)	30.01	6.05 to 12.00	3.69	-
	Registrar of Co-operative Societies	2001-02, 2004-05 and 2007-08 to 2008-09	4 (3)	8.96	3.00 to 11.50	0.70	0.09
6.	Energy	2005-06	1 (5)	16.38	-	-	0.18
7.	Public Enterprises	2007-08	2 (1)	0.88	9.00	0.09	-
	Total		48 (20)	207.82		38.72	1.21

After we brought this to notice, all the three loanees¹³ coming under the control of Water Resources Department reported (May 2010/July 2010) remittance of interest amounting to ₹ 6.47 crore¹⁴, penal interest amounting to ₹ 37.04 lakh¹⁵ and principal amounting to ₹ 5.88 crore due for the period 2006-07 to 2009-10. Further, one loanee¹⁶ under Co-operation Department

¹³ M/s. Cauvery Neeravari Nigam Limited, M/s. Karnataka Neeravari Nigam Limited, M/s. Krishna Bhagya Jala Nigam Limited.

¹⁴ Interest computed in the review is ₹ 4.85 crore upto March 2009.

¹⁵ Penal interest computed in the review is ₹ 19 lakh upto March 2009.

¹⁶ M/s. Karnataka State Warehousing Corporation Limited.

reported (June 2010) that the interest for the period 2004-05 to 2008-09 amounting to ₹ 3.69 crore, payable by them, was adjusted while sanctioning fresh loans during the year 2009-10.

7.6.15 Non-demand of penal interest due on interest free loans

As per KFC, penal interest is leviable on overdue instalments of principal and interest. As per GO of July 2003, the rate of penal interest was 2.5 per cent per annum.

The Government (Commerce and Industries Department) accorded sanction for conversion of purchase tax amounting to ₹ 80.55 crore payable by 23 sugar factories into interest free loans during the years 1989-90, 1993-94, 1996-97 and 1997-98. The loans were recoverable in

five equal instalments after the completion of ten years moratorium period. Thus, the first instalment of loan repayment was due in 2000-01. We noticed that neither the Commissioner for Cane Development and Director of Sugar (CCDDS) issued demand notices for re-payment of loan principal amounting to ₹ 58.00 crore nor the loanees repaid the same. The CCDDS also did not levy penal interest on overdue instalments of loan principal. The non-levy of penal interest amounted to ₹ 5.08 crore.

After we brought this to notice, the CCDDS accepted the audit observation (January 2010) and issued (October 2010) notices to eight loanees demanding penal interest. Report on further action taken has not been received (January 2011).

7.6.16 Non-recovery of outstanding interest/penal interest at the time of conversion of loans into equity/grants

There is no provision in the KFC for conversion of loans into equity/grants. However, Government was converting outstanding loans into equity/grants after approval of the Cabinet.

We noticed from the records of four Departments that loans aggregating ₹ 46.38 crore were sanctioned to four loanees during the years 1991-92 to 1995-96, 2000-01, 2003-04 to 2006-07. Of this, out of ₹ 3.65 crore sanctioned to M/s. Karnataka State Financial Corporation, ₹ 1.20 crore was repaid during the year 1995-96. We noticed that while converting balance loans amounting to ₹ 45.18 crore into equity/grants during the years 2005-06 to 2008-09, outstanding interest and penal interest due on the loans converted were neither converted into equity/grants nor demanded by the Departments. This resulted in non-realisation of interest and penal interest amounting to ₹ 21.17 crore and ₹ 3.35 crore respectively as detailed below:

(Rupees in crore)

Sl. No	Name of the Department/ Name of the loanee institution	Year of sanction of loan	Amount of loan sanctioned	Amount of loan converted into equity /grants	Type of conversion	Year of conversion of loan into equity/ grants	Rate of interest/ Penal interest (percentage)	Interest due till date of conversion	Penal interest due till the date of conversion
1.	Forest, Ecology and Environment / M/s. Karnataka Pulpwood Ltd	2000-01	13.91	13.91	Equity	2005-06	18.00/ 4.00	10.63	1.33
2.	Animal Husbandry and Fisheries/ M/s. Karnataka Milk Federation Ltd	1993-94	1.50	1.50	Grants	2007-08	18.00/ 4.00	3.85	1.89
3.	Public Enterprises/ M/s. Karnataka Silk Industries Corporation Ltd	2003-04 to 2006-07	27.32	22.00 5.32	Equity Grants	2006-07 2008-09	9.00/ 2.50	6.55 0.12	0.10 0.03
4.	Commerce and Industries/ M/s. Karnataka State Financial Corporation	1991-92 to 1995-96	3.65	2.45	Equity and Grants	2007-08 and 2008-09	6.00/ 0	0.02	-
	Total		46.38	45.18				21.17	3.35

After we pointed this out, M/s. Karnataka State Financial Corporation Limited, Bangalore, reported (August 2010) that they have remitted (August 2010) interest amounting to ₹ 1.52 lakh due for the period April 2008 to July 2008.

7.6.17 Internal Audit

The Internal Audit Wing (IAW) is an essential and indispensable part of any organisation, through which the Head of the organisation informs himself of the quality of financial performance of various offices working under it. As per the circular instructions of FD issued in December 1992, the overall responsibility of IAWs rests with the administrative Department of the Government.

We sought (April 2010) information regarding formation of IAWs, functioning of IAWs, sanctioned/working strength, major findings of IAWs, control registers maintained, coverage of internal audit, etc., from all Departments covered under the review. The Water Resources and Health and Family Welfare Departments stated that no IAW was constituted in their Departments. We have not received reply from other Departments (January 2011).

We recommend that the Government set up IAW in those Departments where they are not formed.

Compliance deficiencies

7.6.18 Short demand of interest

The Co-operation Department, during the years 2002-03 to 2006-07 sanctioned loans amounting to ₹ 72.69 crore to five¹⁷ co-operative sugar factories. The said loans were repayable within a period of eight years along with interest at the rate of 8.5 per cent to 13 per cent (if paid on or before due dates) and at 9.5 per cent to 14 per cent (if paid after due dates). Additional interest at 1 per cent was also leviable to cover the Government risk for the loans sanctioned during the year 2004-05. Penal interest on overdue instalments was also leviable at the rate of 2.5 per cent.

The CCDDS issued notices for repayment of loans along with interest to co-operative sugar factories in February 2009. On scrutiny of the notices, we observed that the co-operative sugar factories had not repaid the loan along with interest on or before due dates. However, the CCDDS had demanded interest of ₹ 16.90 crore as against ₹ 46.07 crore due resulting in short demand of interest of ₹ 29.17 crore. The short demand of interest was due to non-application of the rate of interest applicable for payments made after the due dates, non-consideration of the additional interest leviable at one per cent to cover the risk of Government and computation of interest on the instalments of principal due instead of on the outstanding amount of principal for the respective years. Further, the CCDDS also did not demand penal interest amounting to ₹ 4.69 crore on overdue instalments of loan principal and interest.

After we pointed this out, the CCDDS accepted the audit observation and stated (January 2010) that revised demand notices would be issued. Further report on action taken has not been received (January 2011).

7.6.19 Short payment of interest due to incorrect computation

As per the KFC, a loanee is required to pay the principal and interest on loan in periodical instalments on or before the due dates of payment. The interest payable shall be determined on the loan outstanding.

In respect of loans disbursed by the Registrar of Co-operative Societies (RCS) to M/s. Karnataka State Co-operative Agriculture and Rural Development Bank Limited (KSCARD) in the form of Special Development Debentures (SDDs), interest on the SDDs was payable on reducing balance method and annual instalments of repayment of principal were fixed. We observed that the instalments of principal due for the years 2002-03 to 2007-08 amounting to ₹ 34.08 crore were not paid by KSCARD. However, interest was computed and paid by KSCARD on the reduced balance of loans (though the instalments of loan principal were not paid). The RCS failed to monitor the non-payment of scheduled instalments of principal and re-determine the interest liability. This resulted in short levy of interest of

¹⁷ M/s. Dhanalakshmi Co-operative Sugar Factory Limited, M/s. Mahatma Gandhi Co-operative Sugar Factory Limited, M/s. Markandeya Co-operative Sugar Factory Limited, M/s. Naranja Co-operative Sugar Factory Limited, M/s. Someshwara Co-operative Sugar Factory Limited.

₹ 10.60 crore and penal interest of ₹ 2.59 crore on the defaulted principal amount.

Further, we also noticed that interest payable for the year 2004-05 amounting to ₹ 2.98 crore was paid by KSCARD on 29 June 2007, after a delay of 1 year 363 days (due date being 1 July 2005). However, penal interest on overdue instalment of interest at 2.50 *per cent* per annum amounting to ₹ 7.41 lakh was not levied by the RCS.

7.6.20 Irregular allowance of rebate

Under the provisions of the KFC, loans should not be ordinarily sanctioned at concessional rate of interest (rate which is below the prevailing economic rate fixed from time to time). If any concession is considered necessary, it should be in the form of subsidy after the loan is fully repaid.

Loan amounting to ₹ 12.80 crore (bearing the rate of interest at 12 *per cent* per annum) was sanctioned by Co-operation Department to M/s. Karnataka State Warehousing Corporation Limited (KSWC), Bangalore, during the years 2000-01 and 2001-02. We noticed that the loanee had not repaid any

instalments of principal and interest. We further noticed that the same was re-scheduled during 2007-08 for an amount of ₹ 18.41 crore repayable at a reduced rate of interest of 8.5 *per cent* per annum right from the date of drawal of loans. This resulted in irregular allowance of rebate of ₹ 4.63 crore at the differential rate of 3.5 *per cent* till the date of re-scheduling of the loan.

We also observed that in the order re-scheduling the loan, interest was calculated on the reduced balance of principal (though the same was not paid) and also penal interest leviable was not considered. We computed the loss of revenue in the form of interest/penal interest to the tune of ₹ 2.94 crore. Further, neither did the Department demand the instalments of principal amounting to ₹ 2.63 crore and interest of ₹ 1.56 crore due as on 1 April 2009 after rescheduling of the loan nor did the loanee pay the amounts due.

7.6.21 Non-adjustment of outstanding dues while sanctioning fresh loans

The GO of July 2003 stipulated that when fresh loans are sanctioned, outstanding dues, if any shall be adjusted against principal. If for special and exceptional reasons such adjustments are not possible, special orders of FD shall be obtained before release of fresh loans.

We noticed that fresh loans were being sanctioned without making such adjustments even though the loanees had outstanding dues. Special orders of FD were also not obtained in these cases. A few such illustrative cases are detailed below:

(Rupees in crore)

Name of the Department/ Controlling Officer	Name of the Loanee Institution	Amount of principal outstanding as on 31.03.2004	Amount of interest outstanding as on 31.03.2004	Year of sanction of fresh loans	Number of cases	Amount of fresh loan sanctioned
Commerce and Industries (a) Commissioner for Industrial Development and Director of Industries and Commerce	(a) M/s. Mysore Lamp Works Limited	77.38	13.13	2004-05 to 2005-06	3	16.46
	(b) M/s. Karnataka Vidyuth Karkhane	1.83	0.27	2004-05 to 2006-07	5	6.01
(b) Commissioner for Textile Development and Director of Handloom and Textiles	M/s. Karnataka Handloom Development Corporation	2.61	1.72	2004-05 and 2005-06	2	13.78
(c) Commissioner for Cane Development and Director of Sugar	M/s. Dakshina Kannada Co-operative Sugar Factory Limited, Udupi. (outstanding as on 31.03.2007)	13.46	11.40	2007-08	1	2.86

7.6.22 Misclassification of remittances

Under the provisions of KFC, all Government moneys received should be paid in full without undue delay into a Government treasury and credited to the appropriate head of account. As per GO of July 2003, repayments made will be first adjusted against interest dues and thereafter against principal.

We noticed from the records of Commerce and Industries Department (Commissioner for Textile Development and Director of Handloom and Textiles) and Housing Department that an amount of ₹ 1.60 crore being the amount of repayment of loan by three loanees were remitted to the functional/loan head of account, instead of remitting the same to the head of account '0049 – Interest Receipts', though the loanees had outstanding dues of interest, resulting in misclassification of receipts of ₹ 1.60 crore.

7.6.23 Conclusion

KFC was not amended to prescribe rules/procedures for issue of demand notices, conditions/procedures for grant of interest free loans, conversion of loans into equity or grant, manner in which accounts of loans were to be maintained, like loan ledgers, DCB Register and waiver/remission registers. The internal controls were not very effective for monitoring compliance with the codal provisions, repayment of principal of loan and interest/penal interest. Though the FD had instituted an internal control mechanism by making the Directorate of Investment monitoring, Loan tracking and Small Savings

responsible to monitor the recovery of loans and interest, there was no co-ordination between the loan sanctioning Departments and the Directorate. We noticed that the IFAs were mostly not consulted in the process of sanction of loans. These led to non/short levy of interest/penal interest, non/short demand of interest/penal interest, irregular sanction of loans at concessional rates, non-reconciliation/mis-classification of remittances, etc.

7.6.24 Summary of recommendations

We recommend that the Government:

- intensify its measures to ensure prompt repayment of instalments of principal due from the loanees;
- amend the provisions of KFC by prescribing the detailed procedures for grant of interest free loans, fixing of concessional rates of interest, conversion of loans into equity/grants and also incorporating the provisions contained in GO of July 2003;
- ensure co-ordination between FD, Administrative Departments, IFAs, Controlling Officers and the Directorate for maintenance of complete and accurate database of loans sanctioned and for timely recovery of loan and interest;
- implement a mechanism to monitor that the terms and conditions are mandatorily issued at the time of sanction of loan itself; and
- set up IAW in those Departments where they are not formed.

MINING RECEIPTS

7.7 Other audit observations

Scrutiny of records in the offices of the Mines and Geology Department relating to revenue received from royalty indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of royalty/penalty and other cases as mentioned in the succeeding paragraphs in the chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit in each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to consider directing the department to improve the internal control system including strengthening internal audit so that such omissions can be avoided, detected and corrected.

• **Non-observance of provisions of the Act/Rules**

The MMDR Act 1957, MC Rules 1960 and KMMC Rules 1994 provide as under:

- *Section 9 of the MMDR Act for the rates at which royalty is leviable in respect of major minerals removed or consumed by a lessee or his agent.*
- *Rule 36 of the KMMC Rules for the rates at which royalty is leviable in respect of minor minerals and stipulates that no person shall transport any mineral except in accordance with Mineral Despatch Permit (MDP) obtained from the Department on payment of royalty. Condition 4 under Part 5 of the lease deed stipulates levy of penalty at five times the royalty for removal of mineral without MDP.*
- *Rule 24-A of the MC Rules for levy of simple interest at 24 per cent per annum on the belated payment of dead rent or royalty, beyond 60 days from the due date for payment.*

We noticed in three offices of the Deputy Director (Mines) and Bangalore Development Authority that the above provisions were not fully followed by the concerned authorities. This resulted in a number of discrepancies which led to non/short realisation of Government revenue amounting to ₹ 28.34 lakh. Of these, the Department furnished replies and accepted audit observations in two cases involving ₹ 22.38 lakh.

7.7.1 Non-levy of royalty and penalty

Office of the Deputy Director (Mines), Ramanagara

According to the KMMC Rules, lessees shall keep correct accounts showing the quantity and particulars of minerals produced, in stock and despatched from the leased area. Further, the lessee is required to furnish annual returns indicating the quantity of mineral produced, utilised, quantity in stock, royalty paid etc.

We noticed in June 2009 that a company holding a lease¹⁸ for quarrying stone had reported a closing stock of 1,122.937 cum in its annual return for 2003-04. The lease had been declared as idle during 2004-05 and only dead rent was demanded from the lessee; no production/despatch of minerals had occurred. However, the lessee had declared an opening balance

of 527.168 cum for 2005-06 in his annual return, which indicates that the lessee had removed 595.769 cum of mineral during 2004-05 without obtaining MDP. The Department did not detect the discrepancies between the closing balance of 2003-04 and opening balance of 2005-06. Consequently, royalty of ₹ 5.96 lakh (at ₹ 1,000 per cum) on the differential quantity of 595.769 cum and penalty of ₹ 29.79 lakh leviable, for transportation of the mineral in contravention of the Rules, was not levied.

We reported the case to the Department in June 2009 and to the Government in June 2010; we have not received any reply (January 2011).

7.7.2 Non-levy of royalty

Bangalore Development Authority (BDA)

The Department of Mines and Geology vide circular dated 4 December 2007 directed that if a contractor produces document/MDPs in proof of having purchased the minor mineral used by him either from private quarry lease holders or private quarry lease owners, then the work executing agency need not recover/deduct any royalty from the bills of the contractor. Royalty for murrum (soil) was ₹ 10 per tonne as per the Schedule to the KMMC Rules.

The Deputy Director, Mines, Bangalore (North) in July 2009 directed the BDA to recover royalty for minor minerals from the contractor's bills wherever the contractor does not produce MDPs in support of his claim of having procured minor minerals which have been subjected to royalty from quarry lease holders.

We noticed during test check of records of BDA in September 2009 that a contractor entrusted with the work of construction of outer ring road had executed embankment work to the extent of 57,213.17 cubic meters and backfilling work to the extent of 4,119.09 cubic meters as recorded in his 10th Running Account (RA) bill. The royalty leviable in respect of murrum (soil) was

¹⁸ Lease number 614.

₹ 12.36 lakh¹⁹ which was not recovered in the RA bill though documents/MDPs were not produced by the contractor.

After we pointed this out, BDA stated that recovery would be effected in subsequent bills. Further report has not been received (January 2011).

We reported the case to the Department and to the Government in June 2010; we have not received any reply (January 2011).

7.7.3 Short levy of interest due to incorrect adjustment of payments

Deputy Director (Mines), Ilkal

As per Article 32(c) of the Karnataka Financial Code, 1958 as amended by a notification of March 2001, any amount received/recovered shall be first adjusted towards the outstanding interest on the tax/revenue and then towards arrears and finally towards the current demand.

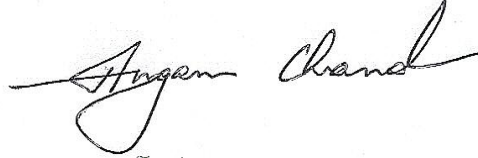
We noticed in August 2009 that a mining lease holder was in arrears of royalty of ₹ 8.37 lakh as of 1 April 2000. During the years 2000-01 to 2006-07, fresh demands for royalty of ₹ 62.88 lakh and interest of ₹ 17.51 lakh were made. The lessee paid ₹ 88.76 lakh during the period from 2000-01 to 2007-08, out of which ₹ 71.25 lakh was first adjusted towards royalty dues and then the

balance amount of ₹ 17.51 lakh was adjusted towards interest. The closing balance of royalty and interest as at the end of March 2008 was computed as nil. This incorrect adjustment resulted in short levy of interest of ₹ 10.02 lakh as at the end of March 2008.

After we pointed this out, the Department reported (June 2010) that revised demand notice was issued to the lessee asking them to clear the dues as early as possible.

¹⁹ 1.26 cum of soil is required per cum of embankment and backfilling works as per Schedule of Rates of Water Resources Department. An average density of 1.6 tonne/cum is assumed for working out royalty charges. (57213.17 cum + 4119.09 cum) x 1.26 x 1.6 = 1,23,645.84 tonnes x ₹ 10 = ₹ 12,36,458.40.

We reported the case to the Government in April 2010; we have not received their reply (January 2011).



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The

Countersigned



(VINOD RAI)
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The