

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)