Report of the

Comptroller and Auditor General of India

on Revenue Sector

for the year ended 31 March 2014

Government of Karnataka

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Report No.7 of the year 2014

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PREFACE

This Report for the year ended March 2014 has been prepared for submission to the Governor of Karnataka under Article 151 of the Constitution of India.

The Report contains significant results of the performance audit and compliance audit of the Departments of Government of Karnataka under Revenue Sector, including Commercial Taxes Department, Department of Stamps and Registration, Revenue Department, State Excise Department, Transport Department and Department of Mines and Geology.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2013-14 as well as those which came to notice in earlier years, but could not be reported in previous Audit Reports; instances relating to the period subsequent to 2013-14 have also been included wherever necessary.

Audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

OVERVIEW

This Report contains 26 paragraphs including two Performance Audits relating to non/short levy of tax, interest, penalty, revenue foregone, etc. involving ₹ 184.18 crore. Some of the major findings are mentioned below:

I General

Total revenue receipts of the State Government for the year 2013-14 amounted to ₹ 89,542.53 crore against ₹ 78,176.22 crore for the previous year. 74 *per cent* of this was raised by the State through tax revenue (₹ 62,603.53 crore) and non-tax revenue (₹ 4,031.90 crore). The balance 26 *per cent* was received from the Government of India as State's share of divisible Union taxes (₹ 13,808.28 crore) and grants-in-aid (₹ 9,098.82 crore).

(Paragraph 1.1)

A total of 4,114 Inspection Reports issued up to December 2013 containing 8,753 observations involving money value of ₹ 1,851.83 crore were pending for settlement at the end of June 2014.

(Paragraph 1.5)

Test check of the records of 439 units of Sales Tax/Value Added Tax, State Excise, Motor Vehicles, Goods and Passengers, and other Departmental offices conducted during the year 2013-14 showed under assessment/ short levy/ loss of revenue aggregating ₹ 380.22 crore in 1,425 cases.

(Paragraph 1.8)

II Taxes/VAT on Sales, Trade, etc

A Performance Audit on "**Assessment, levy and collection of VAT and entry tax on works contract receipts"** revealed the following:

Five Developers in four LVOs did not declare the turnover of ₹ 300.47 crore relating to the land owner's share of the building. This resulted in short levy of tax of ₹ 19.49 crore including interest and penalty.

(Paragraph 2.4.2.2)

Absence of controls in the e-Filing System (EFS) to validate deductions claimed by contractors in their returns as payments made to 'Sub-contractor' resulted in short levy of tax of ₹ 15.66 crore including interest and penalty.

(Paragraph 2.4.2.7)

TDS claimed in returns filed by the works contractors exceeded the revenue realised through remittance of TDS by the concerned authorities by ₹ 941.14 crore.

(Paragraph 2.4.2.9)

Incorrect computation of taxable turnover in the re-assessment orders resulted in loss of revenue of ₹ 3.78 crore.

(Paragraph 2.4.3.1)

Compliance Audit

52 dealers did not pay additional tax liability of ₹ 3.42 crore determined by the Auditors in the audited statement of accounts.

(Paragraph 2.5)

31 dealers brought forward input tax credit of ₹ 2.83 crore against admissible credit of ₹ 90.26 lakh resulting in excess adjustment of credit amounting to ₹ 1.93 crore.

(Paragraph 2.6)

Non/short payment of tax liability declared by 58 dealers in 118 returns amounted to ₹ 1.25 crore.

(Paragraph 2.7)

The non/short levy of interest under Section 36(2) of the KVAT Act for delay in payment of tax by 29 dealers amounted to ₹ 1.13 crore.

(Paragraph 2.8)

III Stamp Duty and Registration Fees

Undervaluation of properties in respect of 28 sale deeds, two power of attorney and four agreements to sell with possession of the property to the buyer resulted in short levy of stamp duty of ₹ 1.23 crore and registration fee of ₹ 21.76 lakh.

(Paragraph 3.4)

IV Land Revenue

Information System Audit of 'Mojini' application in use in the Department of Survey, Settlement and Land Records, Karnataka, revealed the following:

The Mojini was stated to be developed in-house. However, documentation on in-house competency, justification/business case for the same, Government approval, expenditure incurred, requirement specifications, timeliness and testing regime have not been maintained. This resulted in a system with inadequate segregation of duties without foolproof control against unauthorized modifications and inadequate control over back-up and recovery procedures.

(Paragraph 4.3.2)

Inadequacies in system logic resulted in contravention of accepted business policy of assignment of work to Licensed Surveyors.

(Paragraph4.3.3)

Inadequacy of Logical Access Controls resulted in use of identical passwords and with the same user holding several login identities.

(Paragraph 4.3.8)

Absence of integration with the application system in the Department of Stamps and Registration resulted in insufficient control against unauthorized sketches being used.

(Paragraph 4.3.10.1)

Non-integration of Mojini with digitized Akarband was leading to manual intervention and delay in issue of sketches to applicants.

(Paragraphs 4.3.10.2)

Compliance Audit

Incorrect adoption of guidance market value while fixing the lease rent led to short fixation of lease rent. The loss of revenue to Government during the entire lease period would be ₹ 15.25 crore.

(Paragraph 4.4)

In one case Government permitted the lessee to sub-let the property and remit 50 *per cent* of the lease rent realised on sub-lease to Government account. As the lessee did not need the sub-let land, Government should have taken action to resume the land, which would fetch additional lease rental revenue of ₹ 3.14 crore during the current sub-lease period.

(Paragraph 4.5)

V Other Tax/Non-tax Receipts

Penalty of ₹ 2.14 crore was not levied on 29 licensees who had short lifted 2,14,153 bulk litres of Indian Made Liquor during the period from 2008-09 to 2012-13.

(Paragraph 5.3)

Life time tax amounting to ₹ 1.29 crore including penalty in respect of 148 construction equipment vehicles was not demanded.

(Paragraph 5.4)

Penalty of ₹ 99.51 crore was not levied for transportation of 66.22 lakh MT of building stone and 5,748 MT of Lime shell by lessees without obtaining Mineral Dispatch Permits.

(Paragraph 5.6)

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2013-14, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table-1.1.1.**

Table 1.1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	**Revenue raised by the State Government**					
	• **Tax revenue**	30,578.60	38,473.12	46,475.96	53,753.55	62,603.53
	• **Non-tax revenue**	3,333.80	3,358.29	4,086.86	3,966.11	4,031.90
	Total	**33,912.40**	**41,831.41**	**50,562.82**	**57,719.66**	**66,635.43**
2.	**Receipts from the Government of India**					
	• **Share of net proceeds of divisible Union taxes and duties**[1]	7,359.98	9,506.32	11,075.04	12,647.14	13,808.28
	• **Grants-in-aid**	7,883.32	6,868.51	8,168.41	7,809.42	9,098.82
	Total	**15,243.30**	**16,374.83**	**19,243.45**	**20,456.56**	**22,907.10**
3.	**Total revenue receipts of the State Government (1 and 2)**	**49,155.70**	**58,206.23**	**69,806.27**	**78,176.22**	**89,542.53**
4.	**Percentage of 1 to 3**	**69**	**72**	**72**	**74**	**74**

The above table indicates that during the year 2013-14, the revenue raised by the State Government (₹ 66,635.43 crore) was 74 *per cent* of the total revenue receipts. The balance 26 *per cent* of the receipts during 2013-14 was from the Government of India.

1.1.2 The details of the tax revenue raised during the period 2009-10 to 2013-14 are given in **Table 1.1.2.**

[1] Figures under the major heads of account 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0032-Taxes on Wealth, 0037-Customs, 0038-Union Excise Duties, 0044-Service Tax and Share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2012-13, 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.

Table 1.1.2
Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+)/ decrease (-) in 2013-14 over 2012-13	
		BE[2]	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	17,727.32	15,832.67	20,160.00	20,234.69	24,170.00	25,020.02	27,735.00	28,414.44	33,590.00	33,719.35	21.11	18.67
2.	State Excise	6,500.00	6,946.32	7,425.00	8,284.74	9,115.00	9,775.43	10,775.00	11,069.73	12,600.00	12,828.36	16.94	15.89
3.	Stamps Duty	3,566.62	2,627.57	3,500.00	3,531.08	4,030.00	4,623.20	5,200.00	5,225.02	6,500.00	6,188.76	25.00	18.44
4.	Taxes on Vehicles	1,937.50	1,961.60	2,050.00	2,550.02	2,630.00	2,956.72	3,350.00	3,829.52	4,120.00	3,911.50	22.98	2.14
5.	Others	6,496.87	3,210.44	3,093.31	3,872.59	3,872.09	4,100.59	4,760.69	5,214.84	5,653.99	5,955.56	18.76	14.20
	Total	36,228.31	30,578.60	36,228.31	38,473.12	43,817.09	46,475.96	51,820.69	53,753.55	62,463.99	62,603.53	20.54	16.46

The respective Departments reported the following reasons for variation:

Taxes on sales, trade, etc: Better compliance due to e-administration.

State Excise: Increase in sale of Beer and Indian Made Liquor and Increase in rates of Additional Excise Duty.

Stamp duty: Increase in revenue over previous year was attributed to increase in guidance value by 30 per cent. However, as stated by the Department, the actual revenue realization for the year 2013-14 was less than the BE due to decrease in number of sale deeds registered.

The other Departments despite being requested (August 2014) did not furnish the reasons for variations in receipts from that of the previous year (October 2014).

1.1.3 The details of the non-tax revenue raised during the period 2009-10 to 2013-14 are indicated in **Table 1.1.3**:

[2] BE: Budget Estimates

Table 1.1.3 - Details of Non-tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+)/ decrease (-) in 2013-14 over 2012-13	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Non – ferrous mining and metallur-gical Industries	670.64	859.50	1,000.00	1,185.96	1,500.00	1,326.84	1,500.00	1,496.49	1,750.00	1,474.49	16.66	(-) 1.47
2.	Other Non-tax receipts	1,458.87	2,474.30	1,819.90	2,172.33	2,174.79	2,760.02	1692.82	2469.62	2,288.28	2,557.41	35.17	3.55
Total		**2,129.51**	**3,333.80**	**2,819.90**	**3,358.29**	**3,674.79**	**4,086.86**	**3,192.82**	**3,966.11**	**4,038.28**	**4,031.90**	**26.48**	**1.66**

The Departments despite being requested (August 2014), did not furnish the reasons for variations in receipts from that of the previous year (October 2014).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2014 on some principal heads of revenue amounted to ₹ 4,945.97 crore as detailed in the **Table-1.2**.

Table-1.2
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2014	Amount outstanding for more than 5 years as on 31 March 2014	Replies of Department
1.	0030	84.13	NF	NF
2.	0040	4,861.84	NF	Out of the total arrears, ₹ 649.16 crore was stayed by courts, ₹ 164.72 crore was before BIFR[3], ₹ 91.46 crore was covered by Revenue Recovery, write off proposals were made for ₹ 200.28 crore and ₹ 266.79 crore payments received were under verification.
Total		**4,945.97**		

NF : Not Furnished

Age-wise breakup of arrears of revenue had not been furnished by the Departments concerned. In Commercial Taxes Department, arrears of ₹ 32.06 crore were pending with the departmental authorities.

1.3 Evasion of tax detected by the department

The details of cases of evasion of tax detected by the Commercial Taxes Department (CTD), cases finalised and the demands for additional tax raised as reported by the CTD are given in **Table 1.3**.

[3] Board for Industrial and Financial Reconstruction.

Table 1.3 - Evasion of Tax

(₹ in crore)

Sl. No.	Head of revenue	Cases pending as on 31 March 2013	Cases detected during 2013-14	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2014
					Number of cases	Amount of demand	
1.	0040[4]	421	1,850	2,271	1,764	83.23	409

It would be seen from the above table that the number of cases pending at the end of the year has slightly reduced compared to the number of cases pending at the start of the year.

Details of frauds and evasions detected, if any, by State Excise Department, Revenue Department, Transport Department, Energy Department and Department of Mines and Geology though called for (August 2014) had not been received (October 2014).

1.4 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2013-14, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2013-14 as reported by the Department is given in **Table 1.4.**

Table 1.4
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales tax/ VAT		State Excise	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,180	161.47	0	0
2.	Claims received during the year	2,181	629.40	NF	5.33
3.	Refunds made during the year	2,379	688.87	NF	5.33
4.	Balance outstanding at the end of year	982	102.00	0	0

NF: Not Furnished

The progress in disposal of refund cases of Sales Tax/ VAT has improved over the year.

1.5 Response of the Government/ departments towards audit

Principal Accountant General (Economic & Revenue Sector Audit) (PAG) conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of the important accounts and

[4] The information received for this head of account is from only one out of 13 Divisions of Commercial Taxes Department in the State. Details from the remaining 12 Divisions were yet to be received (September 2014).

other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspections and those not settled on the spot, are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/ Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the departments and the Government. Inspection reports issued up to December 2013 disclosed that 8,753 paragraphs involving ₹ 1,851.83 crore relating to 4,114 IRs remained outstanding at the end of June 2014. The details along with the corresponding figures for the preceding two years are given in the **Table 1.5**.

Table 1.5
Details of pending Inspection Reports

	June 2012	June 2013	June 2014
Number of IRs pending for settlement	3,115	3,363	4,114[5]
Number of outstanding audit observations	6,668	7,283	8,753
Amount of revenue involved (₹ in crore)	1,589.45	1,550.33	1,851.83

1.5.1 The Department wise details of the IRs and audit observations outstanding as on 30 June 2014 and the amounts involved are given below in **Table 1.5.1**.

Table 1.5.1
Department-wise details of IRs

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Numbers of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance	Commercial taxes	1,870	4,518	429.43
2.		State excise	612	934	378.71
3.	Revenue	Land Revenue	520	1,236	296.22
4.		Stamps and Registration fees	606	1,089	342.22
5.	Transport	Taxes on motor vehicles	359	584	66.33
6.	Commerce and Industries	Non-ferrous mining and metallurgical industries	142	382	334.51
7.	Energy	Electricity tax	5	10	4.41
Total			**4,114**	**8,753**	**1,851.83**

Audit did not receive even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs, for 328 IRs issued during 2013-14. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the

[5] Inclusive of Land Revenue Offices which were brought under Revenue Sector Audit with effect from 1 July 2013

Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

The Government may consider having an effective system for prompt and appropriate response to audit observations.

1.5.2 Departmental audit committee meetings

The Government issued (March 1968) instructions to constitute 'Adhoc Committees' in the Secretariat of all the Departments to expedite the clearance of audit observations contained in the Inspection Reports (IRs). These Committees are to be headed by the Secretaries of the concerned Administrative Departments and attended by the designated officers of the State Government and a nominee of the PAG. These Committees are to meet periodically and, in any case, at least once in a quarter.

The Department-wise number of adhoc committee meetings held and paragraphs settled during the year 2013-14 were as given in **Table 1.5.2**.

Table 1.5.2
Details of Departmental audit committee meetings

Department	No. of meetings held	No. of paragraphs settled	Money value (₹ in lakh)
Commercial Taxes	02	77	159.02
Stamps and Registration fee	01	329	1633.58
Land Revenue	02	66	829.98
State excise	08	50	171.11

The number of meetings held and progress of settlement of paragraphs was negligible as compared to the huge pendency of the IRs and paragraphs. Adhoc committee meetings were not convened by three Departments under the Revenue Sector Audit namely, Transport Department, Energy Department and Department of Mines and Geology.

1.5.3 Non-production of records to audit for scrutiny

The programme of local audit of Tax Revenue/Non-tax Revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

During the year 2013-14 as many as 368 assessment files, returns, refunds, registers and other relevant records were not made available to audit. Break up of these cases are given in **Table 1.5.3.**

Table 1.5.3
Details of non-production of records

Name of the Office/ Department	Number of cases not audited
Taxes/VAT on Sales, trade, etc.	316
State Excise	2
Land Revenue	38
Motor Vehicles Tax	11
Mines and Geology	1
Total	**368**

1.5.4 Response of the Departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the PAG to the Principal Secretaries/ Secretaries of the Departments concerned inviting their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

40 draft paragraphs (including two Performance Audits) were sent to the Principal Secretaries/Secretaries by name between June and August 2014.

Government replies in respect of 14 draft paragraphs relating to Commercial Taxes Department were received (October 2014) and have been considered in finalisation of this Report. However, replies to the remaining 26 draft paragraphs had not been received (October 2014), either from the Departments concerned or the Government. Both the performance audit reports were discussed in the exit conferences held with the Principal Secretaries of the respective Departments and Government/Department views suitably incorporated.

1.5.5 Follow up on the Audit Reports-summarised position

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

175 paragraphs including performance audit included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Karnataka for the years ended 31 March 2009, 2010, 2011, 2012 and 2013 and one stand alone report relating to Department of Mines and Geology were placed before the State Legislature Assembly between March 2010 and February 2014.

As of September 2014, departmental notes on 93 of these paragraphs were received late from the departments concerned with average delay of 13 months. The departmental notes on the remaining 82 paragraphs from 7 Departments (Commercial Taxes, Land Revenue, Stamps and Registration, State Excise, Transport, Mines and Geology, Chief Electrical Inspectorate) has not been received except for the Audit Report for the year ended 31 March 2011.

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

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

To analyse the system of compliance to the issues highlighted in the Inspection Reports/ Audit Reports by the Departments/ Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 1.6.1 and 1.6.2 discuss the performance of the Commercial Taxes Department[6] in respect of the cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2003-04 to 2012-13.

1.6.1 Position of Inspection Reports

The summarized position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2014 are tabulated in below **Table -1.6.1.**

Table 1.6.1
Position of inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
		IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
1.	2004-05	2,485	5,301	135.21	493	1,320	49.59	369	1,185	28.43	2,609	5,436	156.37
2.	2005-06	2,609	5,436	156.37	127	664	49.80	1,103	2,082	61.44	1,633	4,018	144.73
3.	2006-07	1,633	4,018	144.73	296	1,396	124.62	252	1,108	39.59	1,677	4,306	229.77
4.	2007-08	1,677	4,306	229.77	213	1,159	122.63	651	1,791	86.18	1,239	3,674	266.22
5.	2008-09	1,239	3,674	266.22	218	921	230.50	78	838	70.58	1,379	3,757	426.13
6.	2009-10	1,379	3,757	426.13	103	579	103.68	36	355	108.34	1,446	3,981	421.48
7.	2010-11	1,446	3,981	421.48	71	459	81.56	63	476	47.22	1,454	3,964	455.82
8.	2011-12	1,454	3,964	455.82	121	528	82.52	8	211	26.03	1,567	4,281	512.31
9.	2012-13	1,567	4,281	512.31	237	764	70.25	72	443	99.87	1,732	4,602	482.69
10.	2013-14	1,732	4,602	482.69	205	632	72.06	21	391	58.32	1,916	4,843	496.43

1.6.2 Recovery of accepted cases

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

[6] under revenue heads 0028, 0040,

Table 1.6.2

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year 2013-14	Cumulative position of recovery of accepted cases as of 31-03-2014
2003-04	9	13.43	9	8.61	0	5.50
2004-05	11	8.01	7	0.76	0	0.55
2005-06	15	27.83	14	19.88	0	4.23
2006-07	20	75.59	16	11.67	0	2.32
2007-08	20	78.28	15	25.99	0	8.15
2008-09	11	8.01	8	3.73	0	2.81
2009-10	9	15.29	9	10.79	1.58	2.90
2010-11	10	79.26	6	0.90	0.37	0.80
2011-12	9	82.12	6	15.76	0.07	0.34
2012-13	14	155.51	9	2.45	0	2.31

It is evident from the above table that the progress of recovery even in accepted cases was very slow during the last ten years.

The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

1.7 Audit planning

The unit offices under various Departments are categorized into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which inter-alia include critical issues in Government revenues and budget speech, white paper on state finances, Reports of the finance commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during past five years etc.

During the year 2013-14, there were 551 auditable units, of which 426 units were planned and 439 units had been audited, which is 79.67 *per cent* of the total auditable units. The details are shown in the **Table 1.7.1** below:

Table 1.7.1
Details of units audited

Department	Number of units		
	Auditable during the year 2013-14	Units planned for audit during 2013-14	Units audited during 2013-14
Commercial Taxes	195	168	181
SD&RF	145	132	132
Motor Vehicles Taxes	54	51	51
Land Revenue	89	42	42
State Excise	40	18	18
Mineral Receipts	17	14	14
Chief Electrical Inspectorate	11	1	1
Total	**551**	**426**	**439**

Besides the compliance audit mentioned above, two performance audits were also taken up during the year. One performance audit was taken up to examine the efficacy of the tax administration on works contract receipts and the other performance audit was taken up to examine efficacy of the Mojini application system used in land records management.

1.8 Results of audit

Position of local audit conducted during the year

Test check of the records of 439 units of sales tax/Value Added Tax, State Excise, Motor Vehicles, Goods and Passengers, and other Departmental offices conducted during the year 2013-14 showed under assessment/ short levy/ loss of revenue aggregating ₹ 380.22 crore in 1,425 cases. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 69.64 crore involved in 210 cases which were pointed out in audit during 2013-14. The Departments collected ₹ 23.47 crore in 586 cases during 2013-14, pertaining to the audit findings of previous years.

1.9 Coverage of 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 two performance audit on Assessment, levy and collection of VAT and entry tax on works contract receipts and Information System audit of Mojini, involving financial effect of ₹ 184.18 crore.

The Departments/ Government have accepted audit observations involving ₹ 6.95 crore out of which ₹ 1.68 crore had been recovered. The replies in the remaining cases had not been received (October 2014). These are discussed in succeeding Chapters II to V.

Chapter–II
Taxes/VAT on Sales, Trade etc.

2.1 Tax Administration

Sales Tax/Value Added Tax (VAT) laws and rules framed thereunder are administered at the Government level by the Additional Chief Secretary, Finance Department. The Commissioner of Commercial Taxes (CCT) is the head of the Commercial Taxes Department (CTD) who is assisted by 14 Additional Commissioners. There are 13 Divisional VAT Offices (DVO), 13 Appeal offices, 13 Enforcement/Vigilance offices and one Minor Acts Division in the State managed by 40 Joint Commissioners (JCCTs). There are 123 Deputy Commissioners (DCCT), 317 Assistant Commissioners (ACCT) and 522 Commercial Tax Officers (CTO) in the State. At the field level, VAT is being administered through 118 Local VAT Offices (LVOs) and VAT Sub Offices (VSOs) headed by ACCTs and CTOs respectively. The DCCTs, ACCTs and CTOs head 266 Audit Offices where assessments/re-assessments are finalised by the Department.

2.2 Internal Audit

The Department has an Internal Audit Cell under the charge of the JCCT (Internal Audit & Inspection). This cell was to conduct test check of cases of assessment as per the approved action plan and in accordance with the criteria decided by the Steering Committee so as to ensure adherence to the provisions of the Act and Rules as well as Departmental instructions issued from time to time.

As per the information furnished by the Department, the Internal Audit wing is functioning from the year 2011-12. During the year 2013-14, internal audit of only two offices were conducted as against 30 offices covered during the previous year. 83 objections involving ` 9.87 crore were raised during 2013-14. As at the end of 31 March 2014 there were 1,107 objections involving ` 166.13 crore pending.

2.3 Results of audit

In 2013-14, test check of the records of 181 offices of the CTD relating to VAT, Sales Tax, Entry Tax, Profession Tax and Entertainment Tax showed underassessment of tax and other irregularities involving ` 134.83 crore in 847 paragraphs, which fall under the following categories as given in **Table - 2.1.**

Table 2.1

(` in crore)

Sl. No.	Category	No. of cases	Amount
1.	**Performance Audit on "Assessment, levy and collection of VAT and entry tax on works contract"**	**1**	**47.90**
	Value Added Tax		
2.	Non/short Payment of Tax	182	26.19
3.	Unacknowledged returns	21	13.88
4.	Incorrect/Excess carry forward of credit/refund	113	6.29
5.	Incorrect allowance of TDS	14	4.65

(` in crore)

Sl. No.	Category	No. of cases	Amount
6.	Non/short levy of penalty	170	4.37
7.	Non/short levy of output tax	66	4.14
8.	Non/short levy of interest	114	3.39
9.	Incorrect/excess allowance of input tax credit	42	0.98
10.	Other irregularities	48	14.83
	Total	**770**	**78.72**
	Sales Tax		
11.	Incorrect exemption of road cess	10	5.09
12.	Short levy of purchase tax	2	0.21
	Total	**12**	**5.30**
	Entry Tax		
13.	Non/short levy of tax under KTEG	13	1.36
14.	Other irregularities	33	0.45
	Total	**46**	**1.81**
	Professions Tax		
15.	Non/short levy of interest	3	0.07
16.	Other irregularities	6	0.06
	Total	**9**	**0.13**
	Entertainments Tax		
17.	Non/short levy of interest	3	0.02
18.	Other irregularities	5	0.59
	Total	**8**	**0.61**
	Expenditure Audit of CCT office		
19.	Avoidable expenditure of ` 36.27 lakh towards payment of Service Tax on procurement of IT software licenses	**1**	**0.36**
	Grand Total	**847**	**134.83**

During the course of the year, the Department accepted the underassessment and other deficiencies of ` 13.12 crore in 81 cases which were pointed out in audit during the earlier years. An amount of ` 5.93 crore was realised in 324 cases pointed out during earlier years. A few illustrative cases involving ` 56.82 crore are discussed in the following paragraphs.

2.4 Assessment, levy and collection of VAT and entry tax on works contract receipts

Highlights

Five Developers in four LVOs did not declare the turnover of ` 300.47 crore relating to the land owner's share of the building. This resulted in short levy of tax of ` 19.49 crore including interest and penalty.

(Paragraph 2.4.2.2)

Absence of controls in the e-Filing System (EFS) to validate deductions claimed by contractors in their returns as payments made to 'Sub-contractor' resulted in short levy of tax of ` 15.56 crore including interest and penalty.

(Paragraph 2.4.2.7)

TDS claimed in returns filed by the works contractors exceeded the revenue realised through remittance of TDS by the concerned authorities by ` 941.14 crore.

(Paragraph 2.4.2.9)

Incorrect computation of taxable turnover in the re-assessment order resulted in loss of revenue of ` 3.78 crore.

(Paragraph 2.4.3.1)

2.4.1 Introduction

Under the Karnataka Value Added Tax Act (KVAT Act), 2003, tax shall be levied on every sale of goods in the State by a registered dealer or a dealer liable to be registered, in accordance with the provisions of the Act. 'Sale' as defined under the Act includes "a transfer of property in goods (whether as goods or in some other form) involved in the execution of a works contract". The term 'works contract' is also defined under the KVAT Act, to include "any agreement for carrying out for cash, deferred payment or other valuable consideration, the building, construction, manufacture, processing, fabrication, erection, installation, fitting out, improvement, modification, repair or commissioning of any movable or immovable property". The manner of assessment, levy and collection of tax on consideration received by a dealer for execution of works contract shall be as provided under the Karnataka Value Added Tax Rules (KVAT Rules) 2005.

The KVAT Act provides that a dealer who executes works contract may elect to pay in lieu of the net amount of tax payable, by way of composition, an amount at such rate not exceeding five[1] *per cent* on the total consideration for the works contract executed. This provision is called Composition of Tax (COT) under the KVAT Act. Under KVAT Act, every dealer shall be deemed to have been assessed to tax based on the returns filed by him. The LVO/VSO monitors the payments of taxes due based on the returns (deemed assessments) filed. Re-assessment of selected returns under Section 39 of the KVAT Act can be entrusted by the CCT to any Audit Office. Under the Karnataka Tax on Entry of Goods Act (KTEG Act), 1979, tax shall be levied and collected on entry of any goods specified in the First Schedule to KTEG Act into a local area for consumption, use or sale therein, at such rates not exceeding five *per cent* of the value of the goods as may be specified by the State Government by Notification. In respect of their liability to pay entry tax, dealers are required to file their 'Monthly Statement of Tax' in Form 3 as prescribed under Karnataka Tax on Entry of Goods Rules (KTEG Rules) with the jurisdictional LVOs.

2.4.1.1 Organisational Set up

Levy and collection of VAT is administered by the CTD, which is headed by the CCT and is under the administrative control of the Finance Department. In the State, there are 13 DVOs, each headed by a JCCT. At the field level, the dealers are under the jurisdiction of a specified LVO/VSO.

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[1] In respect of dealers opting for payment of tax under Composition of tax scheme u/s 15 of the KVAT Act, the rate of tax shall be at the rate of four *per cent* on the total consideration for the works contracts executed.

2.4.1.2 Audit Objectives

The audit objectives were to assess whether

(i) the system is adequate to ensure that all the dealers executing works contract in the State are registered with the CTD and are filing returns periodically;

(ii) the correctness of declared turnover, input tax credits availed and Tax Deducted at Source (TDS) claimed by the works contractors are ensured; and

(iii) the systems and procedure in place for processing of refunds and VAT re-assessment are adequate.

2.4.1.3 Audit Criteria

The audit criteria for the Performance Audit were derived from the provisions of various Acts/rules as mentioned in the following:

i) The KVAT Act, 2003

ii) The KVAT Rules, 2005

iii) The Central Sales Tax Act, 1956

iv) The KTEG Act, 1979

v) The KTEG Rules, 1979

vi) Notifications issued under the KVAT Act, 2003

vii) Circulars issued by the CCT from time to time

2.4.1.4 Scope and Methodology of Audit

The performance audit covering a period from 2008-09 to 2012-13 was conducted from November 2013 to September 2014. The data available in the e-filing system (EFS) of the CTD with respect to registered works contractors and the re-assessment orders passed by Audit Offices of the CTD in respect of works contractors were scrutinised. With a view to ensure that the dealers executing works contract in the State are registered under the KVAT Act, data from external sources like Service Tax Department, Income-Tax Department, Department of Stamps and Registration (for Developers under the Joint Development Agreements registered), Chief Electrical Inspectorate (for licensed electrical works contractors) were obtained and cross verified with the registration database of the CTD.

In addition to the above, details[2] from 743[3] works contractors (292 VAT works contractors, 362 COT works contractors and 89 sub-contractors[4]) were

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[2] Soft copy of detailed sales list/works contract receipt list, purchase list and stock account in excel format for the years 2008-09 to 2012-13.

[3] Selected based on Monetary Unit Sampling technique using Interactive Data Extraction and Analysis (IDEA) software.

[4] Works contractors registered under either VAT or COT scheme but termed as sub-contractors in relation to works contractors who have sub-contracted their work to such contractors and had claimed this turnover under deduction.

called for by Audit under section 52(1-A)[5] of KVAT Act. Out of this, only 250 works contractors (117 VAT works contractors, 111 COT works contractors and 22 sub-contractors) furnished the details. We also scrutinized the returns filed, taxes paid and re-assessment orders passed by the CTD in respect of all the selected 743 works contractors.

An entry conference was held with the Principal Secretary, Finance Department and CCT in April 2014, in which the objectives, scope and methodology were discussed in detail. The draft PA Report was forwarded to the Government in August 2014 and was discussed in the Exit Conference held with the Principal Secretary, Finance Department and CCT in September 2014.

2.4.1.5 Acknowledgement

We acknowledge the co-operation of the Finance Department, Government of Karnataka and CTD in providing the necessary information and records for audit. We also acknowledge the co-operation extended by the Service Tax Department, Income Tax Department, Stamps and Registration Department and Chief Electrical Inspectorate for providing the necessary information.

Audit findings

2.4.2.1 Registration of works contractors

Section 22 (9-A) of the KVAT Act, 2003 stipulates that "every dealer engaged in the execution of works contract shall be liable to register and shall report such liability after the end of the month in which execution of any works contract is undertaken".

We gathered information relating to dealers executing works contract in the State as per the records maintained in the Service Tax Department, Income Tax Department, Sub-Registrar Offices and Office of the Chief Electrical Inspectorate. Cross verification of the information so obtained with the details of registered works contractors available in the EFS of the CTD revealed that 407[6] works contractors who were executing works contract in the State were not registered with the CTD.

A 'White paper on VAT' brought out by the Government in January 2005 provided for "a cross-checking computerized system to be worked out on the basis of co-ordination between the tax authorities of the State Governments and the authorities of Central Excise and Income Tax to compare constantly the tax returns and set-off documents of VAT system of the State and those of Central Excise and Income Tax".

This mechanism could have helped the CTD to detect and register the unregistered dealers who are liable to get themselves registered under the KVAT Act. The CCT while accepting the audit view point, stated in the exit

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[5] Section 52(1-A) of KVAT Act – "The audit party authorised by the Comptroller and Auditor General of India shall have powers to direct any registered dealer to produce at such time and such place as it may specify , accounts, registers, electronic tax register and documents relating to his business activity for examination".

[6] 165 registered with Service Tax Department, 196 registered with Income Tax Department and 46 registered with Chief Electrical Inspectorate.

conference that the issue was taken up by the Department in the Regional Economic Intelligence Council[7] (REIC) but the Income Tax and Service Tax Departments were yet to (September 2014) provide the information.

2.4.2.2 Non-disclosure of taxable turnover by the Developers

As per the CCT Circular No.12/2009-10 dated 7.12.2009, in case of Joint Development Agreements, the consideration or total turnover in respect of land owners share of the building should be taken as part of the turnover relating to the works contract executed by the developer and assessed to tax after adding it to the total turnover declared by the developer if it is not already included.

We noticed that five Developers in four LVOs did not include the turnover relating to the land owner's share of the building in the turnover[8] declared by them. Of these, M/s Siri Homes was the one found to have executed projects prior to the date of registration with CTD. The total non-payment of tax including penalty under Section 72(2) and interest under Section 36 of the KVAT Act works out to ` 19.49 crore as detailed in **Table 2.2** below:

Table 2.2 Details of non-payment of tax and penalty due to exclusion of land owners' share from the total turnover of the developer

(₹ in crore)

Sl. No.	Tax Payer's Identification Number(TIN)/ LVO	Tax period	Taxable turnover of owner's share not included in the total turnover	Non-payment of tax including penalty u/s 72(2) and interest[9] u/s 36
1.	29020738850 (LVO-130)	2009-13	105.99	7.45
2.	29380586556 (LVO-35A)	2008-13	47.12	2.64
3.	29081144180 (LVO–60)	2008-13	21.80	1.42
4.	29660470099 (LVO-35A)	2008-13	122.26	7.74
5.	29310490419 (LVO-45A)	2008-13	3.30	0.24
	Total		**300.47**	**19.49**

During the exit conference the CCT stated that the matter would be examined.

2.4.2.3 Filing of returns by works contractors

As per the statement of objects and reasons for introduction of VAT system, "it promotes voluntary compliance by providing for acceptance of returns filed by dealers on self-assessment basis and for scrutiny of books of account only in selected cases".

Section 35 of the KVAT Act, 2003 stipulates that every registered dealer shall furnish a return in such form and manner including electronic methods, and shall pay the tax due on such return within twenty days (for VAT works

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7 REIC is the apex forum consisting of the members from the Central and State Departments, which oversees Government agencies responsible for economic intelligence and combating economic offenses in the respective states of India.

8 Turnover calculated based on the guidance value as per the rate prevailing on the date of first registration of the flat relating to the project. In the absence of the same, the rate prevailing on the date of sharing agreement between the developer and land owner was adopted.

9 Interest calculated upto the date of audit i.e, 20 June 2014.

contractors) or fifteen days (for COT works contractors) after the end of preceding month or any other tax period as may be prescribed. Failure to furnish returns for any tax period also attracts penalty under section 72(1) of the KVAT Act.

We noticed from the EFS that 2,894 works contractors across 108 LVOs had stopped filing the returns for periods ranging from 2 to 35 months and continued to be non-filers as of March 2013. After the matter was pointed out by Audit, only three[10] LVOs reported issue of notices to the concerned works contractors.

During the Exit Conference, CCT has confirmed that an automated system of sending message regarding non filing of returns has already been taken up based on the observation in the previous report on "Online Systems in Commercial Taxes Department" with effect from October 2013. However, action taken in respect of the cases pointed out in audit was not furnished to audit (October 2014).

2.4.2.4 Delayed submission of returns and payment of tax

Under Section 72(1) of the KVAT Act, "A dealer who fails to furnish a return or who fails to pay the tax due on any return furnished as required under the Act shall be liable to pay penalty at the stipulated rate along with the tax or interest due".

We noticed that three works contractors under LVOs 45A, 240 and 260 had filed and paid taxes amounting to ` 83.10 lakh due on 7 monthly returns belatedly. The LVOs concerned did not levy penalty of ` 5.82 lakh under section 72(1) of the KVAT Act which needs to be recovered.

2.4.2.5 Filing of audited statement of accounts

Section 31(4) of the KVAT Act stipulates that every dealer whose total turnover in a year exceeds one hundred lakh rupees shall have his accounts audited by a Chartered Accountant or a Cost Accountant or a Tax Practitioner and shall submit to the prescribed authority, a copy of the Audited Statement of Accounts along with the certificate in Form VAT 240.

Scrutiny of EFS database revealed that 24.11 *per cent* to 28.07 *per cent* of the works contractors did not comply with the provision of Section 31(4) of the KVAT Act during the years 2010-11 to 2012-13. Details are given in **Table 2.3**.

Table 2.3 Year-wise details of works contractors who defaulted in submitting Audited Statement of Accounts

Year	No. of works contractors who had to file VAT 240	No. of works contractors who had not filed VAT 240	Percentage of defaulters
2010-11	3,689	921	24.96
2011-12	4,392	1,059	24.11
2012-13	5,079	1,426	28.07
Total	**13,160**	**3,406**	**25.88**

[10] LVOs 120, 290, 330.

The above table reveals that the filing of VAT 240 was not being monitored adequately by the CTD to ensure that the accounts of the works contractors having turnover of more than hundred lakh rupees are audited and correct amount of tax is paid by such works contractors.

2.4.2.6 Delayed submission of Audited Statement of Accounts

Under Section 74(4) of the KVAT Act, "any dealer who fails to submit within the time prescribed a copy of the audited statement of accounts, shall be liable to pay a penalty of five thousand rupees and, a further penalty of fifty rupees per day for so long as the failure to submit a copy of the audited statement of accounts continues, after being given an opportunity of showing cause in writing against such imposition of penalty by the prescribed authority".

Of the 250 sampled dealers who furnished details to us under Section 52(1-A) of KVAT Act, we noticed that 25 works contractors in 19 LVOs[11] had not filed the Audited Statements of Accounts for the years 2010-11 to 2012-13. However, penalty of ` 14.64 lakh leviable (upto the date of Audit) under section 74(4) of the KVAT Act was not levied.

After we reported these cases to CTD, recovery of ` 0.67 lakh was effected by the CTD in only four out of 25 cases.

2.4.2.7 Deduction of payments made to sub-contractor from turnover

As per Rule 3(2) of KVAT Rules, the taxable turnover shall be determined by allowing the deductions from the total turnover as prescribed in sub-clauses (a) to (m) of Rule 3(2). Rule 3(2)(i-1) of the KVAT Rules provides for deduction of all amounts paid or payable to sub-contractors as the consideration for execution of works contract whether wholly or partly. It is provided that no such deduction shall be allowed unless the dealer claiming deduction produces document to prove that the sub-contractor is a registered dealer liable to pay tax under the Act and that the turnover of such amounts is included in the return filed by such sub-contractor.

It was observed that neither the CTD has specified the document to be produced as proof to substantiate the claim for such deductions, nor the prescribed form VAT 100[12] filed by works contractors under VAT scheme requires the works contractors to provide the details of the sub-contractors. This leads to non-availability of information in the EFS for further scrutiny by CTD and carries an inherent risk of incorrect deductions or non-realisation of the tax from the sub-contractors.

Though form VAT 120[13] prescribed for COT dealers provides for submission of information to capture the details of sub-contractors and their turnover in respect of whom deductions are claimed, the EFS does not have any control mechanism to verify if the said sub-contractors are still registered and had filed returns for the relevant tax period declaring turnover which is equal to or

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11 LVOs, 25, 35,35A, 45, 45A, 50A, 65A, 70A, 130, 150, 150A, 153, 155, 175, 200, 240,390, 480, 500

12 Form VAT 100 is the monthly return filed by works contractors under regular scheme(VAT).

13 Form VAT 120 is the monthly returns filed by the works contractors under COT.

more than the amount of sub-contractor turnover for which deduction was claimed by the principal contractor. This was also pointed out in the Report No.1 of the year 2014, Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended 31 March 2013 tabled in 2014. However, the irregularities still persist.

Our analysis of EFS data relating to claim of 'sub-contractor turnover' deductions by principal contractors under COT scheme compared with turnover declared by the sub-contractors concerned for the period 2010-11 to 2012-13 revealed the following:

(i) 351 sub-contractors (COT-252 and VAT-99), had declared turnover of ` 323.90 crore as against ` 619.95 crore claimed as deduction towards works entrusted to them by their principal works contractors. The differential turnover amounting to ` 296.05 crore had escaped assessment on which tax at four *per cent* amounting to ` 11.84 crore was due. Interest leviable (upto August 2014) under section 36 of the KVAT Act amounted to ` 3.44 crore.

(ii) 18 principal works contractors under 13 LVOs[14] had claimed 'sub-contractor deduction' of ` 6.58 crore in respect of 22 sub-contractors , who were already de-registered and had not filed the return/paid tax for the tax periods in which the main contractors had claimed these deductions. However, the loss of revenue due to the deduction claimed by the main contractor towards 'sub-contractor payment' was not detected and disallowed by the CTD. The non levy of tax amounted to ` 26.31 lakh[15]. Besides, interest of ` 8.85 lakh[16] under section 36 and penalty amounting to ` 2.32 lakh under Section 72(2) of the KVAT Act were also leviable.

2.4.2.8 Excess refund of tax

As per circular instructions issued (June 2011) the CCT had directed that while processing refunds, details of input tax credit (ITC) claim, sub-contractor payments and TDS certificates should be verified from the EFS before issue of refund payment orders.

In case of one works contractor (TIN 29290276254), ` 2.07 crore was allowed as sub-contractor's turnover for the year 2009-10 without disclosure of any details of the sub-contractors by the works contractor. Further, during 2010-11, ` 3.41 crore was allowed as sub-contractor's turnover against the actual turnover of ` 3.13 crore declared by sub-contractors.

In these cases, refunds of ` 13.71 lakh and ` 15.12 lakh was allowed without ensuring the accuracy of the claims regarding sub-contractor's turnover. This resulted in excess refund of ` 9.40[17] lakh.

2.4.2.9 Tax Deduction credits

Rule 44(2)(a) of the KVAT Act Rules stipulates that every authority deducting tax under Section 9-A shall submit a monthly statement in Form VAT 125 to

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14 LVOs 15, 20, 35, 40, 50, 55, 65A, 70A, 100, 130, 150, 150A, 320

15 Calculated at the composition rate of four *per cent*.

16 Calculated upto the date of issue of Audit Enquiry.

17 Calculated at four *per cent* of ₹ 2.35 crore i.e (` 2.07 crore + ₹ 3.41 crore less ₹ 3.13 crore)

the jurisdictional Local VAT Officer together with proof of full payment of tax deducted, within 20 days after the end of the relevant month.

We observed that the Form VAT 125 does not contain the details of dealers in respect of whom the tax deduction is made and the tax deducted certificates. Hence, on production of tax deducted certificate, the CTD cannot ensure the actual remittance of such tax deducted. The amount of tax deducted and remitted by the deducting authorities during 2011-13 vis à-vis tax deducted credits claimed in the returns by the works contractors is given in **Table 2.4** below:

Table 2.4 Details of revenue realized from remittance of tax deductions and tax deduction credits claimed

(` in crore)

Tax period	Revenue realized from remittance of tax deducted by deduction authorities[18]	Total amount of tax deduction claimed		Difference between tax deduction remittances and tax deduction adjustments claims
		No. of dealers	Amount	
2011-12	119.21	11,049	576.63	457.42
2012-13	219.93	11,339	703.65	483.72
Total	339.14	22,388	1,280.28	941.14

It may be seen from the above that the claims of TDS credits in returns exceeded the revenue realised in the form of remittance of TDS by ` 941.14 crore. The details of e-payment remittances and book adjustments if any, made by the tax deducting authorities could not be ascertained as the information were not available in the EFS.

We checked the filing of tax deduction certificates in support of tax deduction claims of ` 77.57 crore by 32 sampled works contractors under the jurisdiction of 8 LVOs[19]. We noticed that 19 works contractors under the jurisdiction of 4 LVOs[20] had claimed deduction of tax amounting to ` 32.02 crore in 237 returns for which TDS Certificates were not available on record.

In absence of a mechanism for cross-verification of TDS claims and its actual remittances, there is a risk of non-remittance/incorrect claims which would result in loss of revenue to Government.

CCT while accepting the recommendation stated in the exit conference that CTD will undertake the development of such a system.

2.4.2.10 Assessments of Tyre retreaders

Works contract receipts from 'Tyre retreading' were taxed at 4, 5 and 5.5 *per cent* at different intervals during 2008-09 to 2012-13 under Entry 21 of the Sixth Schedule to the KVAT Act, 2003. It was noticed that the tyre retreaders had purchased input locally and claimed input tax at standard rate of tax ranging between 12.5 to 14.5 *per cent* during the tax periods 2008-09 to 2012-13. Thus, the rates of tax on inputs are higher than the output tax leading to refunds to the dealers. We noticed that though value addition was involved in

[18] Revenue figures generated from EFS
[19] LVOs 45, 45A, 175, 285, 380, 440, 450, 465
[20] LVOs 45, 45A, 175, 380

the process of 'tyre retreading', there was no realization of additional revenue to the Government.

In a similar circumstance, where 'cement', which is taxed at higher rate, was used as input in the business relating to cement pipes and fittings which are taxed at lower rate under Third Schedule to KVAT Act, input tax deduction was disallowed as per Notification No.FD 116 CSL 2006(10), Bangalore dated 31.3.2006.

Test check of records revealed that, four tyre retreading works contractors in their returns for the years 2008-09 to 2012-13 had declared output tax of ` 83.59 lakh and claimed input tax deduction of ` 1.27 crore with a net refund of ` 43.08 lakh. Analysis of the claims for input tax credit revealed that ` 70.75 lakh out of ` 1.27 crore was due to inputs being taxed at higher rate of tax than the output tax rate.

2.4.3 Re-assessments concluded by CTD

Section 39 of the KVAT Act stipulates that where the prescribed authority has grounds to believe that any return furnished which is deemed as assessed or any assessment issued under Section 38 understates the correct tax liability of the dealer, the authority based on any information available can re-assess the case determining the additional tax payable along with penalty u/s 72(2) and interest u/s 36 of the KVAT Act. The prescribed authority shall issue a notice of re-assessment to the dealer demanding payment of tax within ten day of the date of service of notice after giving the dealer the opportunity of showing cause against such re-assessment in writing.

Test check of re-assessments concluded in respect of works contractor revealed the following deficiencies.

2.4.3.1 Short levy of tax due to incorrect computation of taxable turnover

Clause (h) of Rule 3(2) of KVAT Rules provides that the taxable turnover shall be determined after allowing for deduction of all amounts collected by way of tax under the KVAT Act. Clause (m) of Rule 3(2) prescribes deduction towards labour and like charges 'as a percentage of the value of the contract' in the execution of a works contract when such charges are not ascertainable from the books of accounts maintained by a dealer. This deduction towards labour and like charges was to be allowed on the turnover after deducting the VAT collected.

Test check of records revealed that in three cases of reassessment for the tax periods from 2008-09 to 2012-13, the assesses were allowed 30 *per cent* of the total turnover which includes the taxes collected, as deduction towards labour and like charges. This resulted in short levy of tax[21] including penalty u/s

[21] Calculated at the applicable rate of 12.5 *per cent* for 2008-09 and 2009-10, 13.5 *per cent* for 2010-11, 14 *per cent* for 2011-12 and 2012-13 (upto 31.7. 2012) and 14.5 *per cent* from 1.8. 2012.

72(2) and interest u/s 36[22] of the KVAT Act amounting to ` 3.78 crore as detailed in **Annexure 1.**

CCT stated in the exit conference that the cases will be examined and appropriate action will be taken.

2.4.3.2 Excess tax collected not forfeited

Section 47 of the KVAT Act states that where any amount is collected by way of tax from any person by any dealer, whether knowingly or not, such dealer shall pay the entire amount so collected, to the prescribed authority within twenty days after the close of the month in which such amount is collected, notwithstanding that the dealer is not liable to pay such amount as tax or that only a part of it is due from him as tax under this Act. Any amount paid or payable by any dealer as above shall, to the extent it is not due as tax, be forfeited to the Government and be recovered from him.

We noticed from two re-assessement orders, concluded in February 2012 and June 2012 for the tax period April 2010 and 2008-09 respectively, that two works contractors had collected tax in excess of their liability by ` 32.52 lakh. However, the excess tax collected was not forfeited to Government in the re-assessment orders issued. Interest of ` 16.72 lakh under section 36 of the KVAT Act was also leviable.

2.4.3.3 Excess carry forward of credit/refund

In case of re-assessment order in respect of one works contractor (TIN: 29820868972) for 2011-12, additional demand of ` 474.04 lakh was raised by ACCT(Audit & Recovery)-5.10, Bangalore. We noticed that the assessee as per his return filed for March 2012 had carried forward the credit of ` 95.71 lakh which was adjusted against output tax for April 2012 onwards. However, this was not considered while concluding the re-assessment for the tax period 2011-12, which resulted in loss of revenue of ` 95.71 lakh.

2.4.3.4 Non/short levy of penalty u/s 72(2) and interest u/s 36 of the KVAT Act

We noticed that in the reassessment orders concluded in respect of eight works contractors under 8 LVOs[23], penalty u/s 72(2) and interest u/s 36 for the tax periods ranging from 1 month to 41 months were not levied which amounted to ` 2.64 crore.

After we pointed out these cases, Department recovered an amount of ` 2.04 lakh in two cases.

2.4.4 Discrepancies noticed based on the details furnished by dealers to Audit

Examination of details furnished by 250 works contractors under section 52(1-A), revealed the following instances of loss of revenue.

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[22] Calculated at the applicable rate of 1.25 *per cent* p.m upto 31.3.2011 and @ 1.5 *per cent* p.m from 1.4.2011 upto the date of re-assessment order.

[23] LVOs 20, 45, 45A, 70, 70A,130, 285, 540

2.4.4.1 Non/short payment of Entry Tax and interest

Under the KTEG Act, on entry of specified goods into a local area, tax is leviable at the rates notified from time to time.

Scrutiny of the purchase statements furnished by the sampled works contractors revealed that four works contractors under four LVOs[24] had made purchases of commodities like bitumen, furnace oil etc., amounting to ` 12.44 crore which were liable for Entry Tax. It was however noticed that Entry Tax was not declared and paid by the contractors as per the provisions of the KTEG Act. Short levy of tax including interest worked out to ` 94.90 lakh (Tax ` 51.32 lakh and interest ` 43.58 lakh[25]).

2.4.4.2 Discrepancies noticed in input tax claimed by works contractors

The local purchase statements submitted to us by the sampled works contractors were cross verified with the purchase invoice details of the selling dealers available with the returns filed through EFS. Instances of loss of revenue of ` 85.28 lakh (including penalty and interest of ` 21.03 lakh) on account of claims of ITC are given in **Table 2.5** below:

Table 2.5 Details of excess claim of ITC

(` in lakh)

Sl. No.	Number of Works Contractors/ LVOs	No. of selling dealers/LVOs	Ineligible amount of ITC claimed	Penalty and interest[26]	Observation in brief
1.	1/ LVO 45 Addl.	--	58.70	18.20	The works contractor claimed ITC of ` 373.80 lakh against the eligible amount of ` 315.10 lakh as per the purchase statement submitted.
2.	7/ LVO 320, 35A, 390, 130	8/ LVOs 340, 35A, 15, 100, 500, 310, 221, 65	2.58	1.44	Purchasing works contractor claimed ITC of ` 2.58 lakh whereas selling dealers declared Nil output tax. .
3.	1/ LVO 45A	3/ LVOs 15, 520	1.41	0.76	Purchasing works contractor claimed ITC of ` 1.41 lakh against de-registered selling dealers.
4.	2/ LVOs 15A, 390	2/ LVOs 210, 390	1.56	0.63	ITC was claimed incorrectly on purchases made from COT Dealers.
		Total	64.25	21.03	

2.4.4.3 Penalty leviable on under-statement of output tax or over-statement of input tax credit

Section 72(2) of the KVAT Act stipulates that any dealer who understates his liability to tax or overstates his entitlement to tax credit by more than five *per cent* of his actual liability to tax or his actual tax credit, shall be liable for a

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24 LVOs 15A, 240, 285,325

25 Calculated upto the date of audit i.e, April 2014 or date of de-registration whichever is earlier.

26 Interest calculated till the date of audit i.e, June 2014 or date of de-registration whichever is earlier.

penalty equal to ten *per cent* of the amount of such tax which was under or overstated.

We noticed that four works contractors under four LVOs[27] in their 10 returns filed for the tax periods between November 2010 and March 2012 reported net tax liability of ` 59.43 lakh. The net tax liability was subsequently revised by the dealers concerned to ` 1.47 crore. The short disclosure of net tax liability in the original return amounted to ` 87.49 lakh on which penalty under Section 72(2) of the KVAT Act amounting to ` 8.75 lakh was leviable.

2.4.4.4 Tax on purchases from Un-registered dealers (URDs) in respect of works contractors opting for composition of tax

Section 15(5)(e) of the KVAT Act stipulates that any dealer executing works contract and opting for composition of tax shall be liable to pay tax under Section 3(2) of KVAT Act in respect of purchases from URDs in addition to the tax by way of composition on the total consideration of the works contract executed.

We obtained the details of purchases from URDs in respect of sampled works contractors who were served with notice under Section 52(1-A) of the KVAT Act and who had opted for composition of tax. In respect of 16 works contractors under 15 LVOs[28], it was noticed that, tax on URD purchases were not declared and paid. The loss of such tax amounted to ` 60.36 lakh[29]. Besides, penalty[30] leviable under Section 72(2) and interest[31] u/s 36 of the KVAT Act works out to ` 33.43 lakh**.**

After these cases were pointed out, Department recovered an amount of ` 10.92 lakh in three out of 16 cases.

2.4.4.5 Non payment of tax, penalty and interest based on Form VAT 240

Form VAT-240 prescribed for filing the audited statement of accounts provides for the Auditor to file a comparative statement of dealer's liability to tax and his entitlements for input tax/refund as declared in the tax returns and the corresponding correct amount determined after audit. In case of difference between them, the Auditor may advise the dealer either to pay the differential tax together with the penalty and interest, if any, or to claim refund due to him as the case may be.

Of the sampled dealers who furnished details to us, we noticed that 6 works contractors under 6 LVOs[32] were liable for payment of tax, penalty and interest as per the details furnished in Form VAT 240. However, these works contractors were not advised by the Auditors to pay the tax, penalty and interest amounting to ` 79.99 lakh and the same was also not paid. No action

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27 LVOs 15,45, 130, 240

28 LVOs 25, 35A, 45A, 50A, 65A, 70A, 90, 120, 130, 175, 240, 350, 390, 520, 540

29 Calculated at the composition rate of four *per cent*.

30 Calculated at the rate of 10 *per cent*

31 Calculated up to April 2014, at the rate of 1.25 *per cent* till 31.3.2011 and at the rate of 1.5 *per cent* from 1.4.2011 (calculated upto the date of audit i.e., April 2014).

32 LVOs 45, 60, 120, 260, 330, 510

had been initiated by the LVOs concerned. After we pointed out these cases to CTD, recovery of ` 54,000 was effected in one case. Remaining amount was yet to be recovered.

2.4.4.6 Tax on interstate purchases by COT works contractors

As section 15(5)(a) of the KVAT Act, COT works contractors who obtain goods from outside the State or from outside the territory of India and if the property of such goods is transferred in any works contract executed, the works contractor shall be liable to pay tax on the value of such goods at the rate specified in Section 4 and such value shall be deducted from the total consideration of the works contracts executed.

Of the sampled dealers who furnished details to us, we noticed that 2 works contractors under the jurisdiction of two LVOs[33] had not declared the inter-state purchases and paid tax due thereon. The tax not realised including penalty leviable under section 72(2) and interest leviable under section 36 of the KVAT Act worked out to ` 95.86 lakh as given **Table 2.6** below:

Table 2.6 Tax on interstate purchases by COT works contractors

(` in lakh)

Sl. No.	TIN/LVO	Tax Period	Amount of inter-State purchases effected	Tax payable on inter-State purchases	Penalty and interest
1	29470390906/ LVO-240	2010-11	464.66	44.14	27.19
		2011-12	76.83	7.68	3.95
		2012-13	89.29	9.14	3.62
2.	29100366811/ LVO 50 Addl.	2010-11	0.90	0.09	0.05
Total			631.68	61.05	34.81

2.4.5 Conclusion

The Performance Audit revealed that CTD needs to put in place necessary systems to detect unregistered works contractors who are liable for registration. System of tax deductions, remittance and claims to adjust tax deductions against tax payable is not equipped to ensure correct and timely realisation of revenue. The huge difference between revenue realised on account of TDS and TDS claims adjusted in the returns needs urgent investigation. The EFS does not validate sub-contractor's turnover deductions claimed in the returns and auto generate liability for payment of taxes on inter-State purchases in respect of COT works contractors. CTD has not put in place proper strategies for cross verification with other Departments to ensure correct reporting of tax liability under KVAT. We also noticed cases of suppression of turnover, incorrect/excess claim of deductions etc from the details furnished to us by the sampled works contractors.

[33] LVOs 50A, 240

2.4.6 Recommendations

We recommend that:

CTD should collect the details of works contractors registered with Service Tax and Income Tax Departments and cross check with the information available in EFS to ensure that all the works contractors liable for registration are registered with the CTD.

(Para No. 2.4.2.1)

CTD may integrate a mechanism within the tax return module of EFS to validate 'sub-contractor turnovers' to plug loss of revenue.

(Para No. 2.4.2.7)

The submission of the details of the dealers in respect of whom the tax deduction is made and the tax deducted certificates may be made mandatory in form VAT 125. Further, CTD may develop a system for verification of the claims for TDS credits by cross linking it to the information provided in form VAT 125 before allowing such credits.

(Para No. 2.4.2.9)

The input tax credits in respect of inputs taxed at higher rates being used in the business of tyre retreading may be disallowed/restricted to generate additional revenue to the Government as is being done in case of cement.

(Para No. 2.4.2.10)

CTD may issue clarification to all dealers/VAT authorities to ensure that the deduction towards labour charges is applied after deducting the taxes collected.

(Para No. 2.4.3.1)

The details of movement of specified goods attracting entry tax as available in e-Sugam[34] database should be cross linked with EFS database to ensure payment of entry tax by the dealers causing entry of such goods.

(Para No. 2.4.4.1)

2.5 Non/short payment of additional tax declared in VAT 240

As per Section 10(3) of the Karnataka Value Added Tax (KVAT) Act, 2003, the net tax payable by a dealer in respect of each tax period shall be the amount of tax payable by him on the sale of taxable goods (output tax) less the tax paid under this Act on purchase of goods by him for use in the course of his business (input tax).

Further, according to Section 31(4) of the KVAT Act 2003, every dealer whose total turnover in a year exceeds a prescribed amount[35], shall have the accounts audited by a Chartered Accountant or a Cost Accountant or a Tax Practitioner (Auditor) and shall submit to the prescribed authority a copy of

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34 E Sugam: Online request and download of delivery notes for goods movement.

35 ₹ 40 lakh till 31-03-2010, ₹ 60 lakh from 1-04-2010 to 31-03-2011 and ₹ 100 lakh thereafter

the audited statement of accounts in Form VAT-240 and prescribed documents in the prescribed manner.

Form VAT-240 provides for the Auditor to file a comparative statement of dealer's liability to tax and his entitlements for input tax/refund as declared in the tax returns and the corresponding correct amount determined on audit. In case of difference between them, the Auditor may advise the dealer either to pay the differential tax together with the penalty and interest, if any, or to claim refund due to him as the case may be.

During test check of records in 25 LVOs in eight[36] districts between April 2013 and March 2014, we noticed that 52 dealers in their audited accounts in Form VAT 240 had declared additional tax liability of ₹ 3.07 crore, compared to the tax liability declared in the monthly returns for the years 2011-12 and 2012-13. As per the Act, this additional liability declared was to be paid by the dealers along with penalty at 10 *per cent* and interest at 1.5 *per cent* per month. However, the dealers concerned neither paid the dues on their own on filing the audited accounts, nor were the dues demanded by the LVOs concerned. This resulted in non/short payment of tax of ₹ 3.42 crore including penalty of ₹ 34.93 lakh. Further, interest at 1.5 per cent per month was also realisable on the date of payment of tax due.

After these cases were brought to the notice of the Department between June 2013 and April 2014 and referred to Government in July 2014, ` 47.74 lakh was collected in 13 cases. Reply was awaited in the remaining cases (October 2014).

2.6 Excess adjustment of credit amount

Under Section 10 of the KVAT Act, 2003, the tax payable by a dealer under the Act on sale is called 'Output tax' while the tax paid by the dealer on purchases is called 'Input tax'. The process of setting off input tax credit (ITC) from the output tax is called input rebating. A dealer is liable to pay the net tax[37] after such adjustment.

The said provision of the KVAT Act also stipulate that "where the input tax deductible by a dealer exceeds the output tax payable by him, the excess amount shall be adjusted or refunded together with interest, as may be prescribed". Rule 127 of the KVAT Rules, 2005 provides that the dealer may adjust the excess amount towards the tax payable by him for any other month or quarter.

The audited statement of accounts in Form VAT-240 filed under Section 31(4) of the KVAT Act enables dealers either to pay the tax paid short in the returns or to claim refund, as may be determined by the Auditor.

Under Section 38 of the KVAT Act, "every dealer shall be deemed to have been assessed to tax based on the return filed by him". Section 39 of the KVAT Act provides for re-assessment of tax by the prescribed authority.

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[36] Bangalore, Belgaum, Bellary, Chikamagalur, Dharwad, Gulbarga, Kodagu and Mysore

[37] (Output tax –Input tax)

Test check of records in two[38] Audit Offices and 15[39] LVOs/ VSOs were conducted between March 2013 and January 2014. During audit, we cross verified the credit amounts brought forward and adjusted against the output tax liability by the dealers in their returns with respect to returns/revised returns filed by them for previous tax periods, advices given by auditors in Form VAT 240 and re-assessments concluded by the prescribed authorities. The cross verification showed that in the case of 34 returns relating to 31 dealers, against the admissible credit of ₹ 90.26 lakh from the earlier tax periods, credit of ₹ 2.83 crore had been adjusted by the dealers concerned. This had resulted in excess adjustment of credit amount of ₹ 1.93 crore. The details are given in **Table 2.7**:

Table 2.7 Excess adjustment of credit amount

(₹ in lakh)

Sl. No.	Description	No. of dealers	No. of returns	Credit amount adjusted	Admissible credit	Excess amount adjusted
1.	Amounts adjusted from previous returns in excess of the amounts shown as carried forward in the previous returns.	19	22	138.17	68.26	69.91
2.	The dealers adjusted credits in the returns as per the excess amounts available to them in their previous returns. Subsequently, the Auditors of the dealers reduced the excess amounts claimed in those previous returns. However, the dealers concerned did not revise the returns in which the excess amount was adjusted. No action was taken by the LVOs to reverse the credit adjustment made by the dealers or to demand and recover the same.	9	9	140.03	21.21	118.82
3.	The dealers adjusted credits in the returns as per the excess amounts available to them in their previous returns. Subsequently, the prescribed authorities of the Department, in the re-assessment orders, reduced the excess amounts carried forward by the dealers. However, no action was taken to reverse the adjustment already availed of by the dealers in their subsequent returns.	3	3	5.32	0.79	4.53
	Total	**31**	**34**	**283.52**	**90.26**	**193.26**

After these cases were brought to the notice of the Department between March 2013 and January 2014 and referred to Government in July 2014, ` 4.84 lakh was collected in three cases. Reply was awaited in the remaining cases (October 2014).

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[38] Bangalore: ACCT(Audit)5.1and Bidar; ACCT(Audit & Recovery)-Bidar,

[39] LVO-25, 30, 45 Addl., 80, 100-Bangalore, LVO-495-Bellary,LVO-310-Dharwad, LVO-520 & 525-Gulbarga,LVO 320 & 330-Hubli, LVO-300-Madikeri, LVO-370-Srisi, VSO-241-Arasikere and VSO-222-Tarikere.

2.7 Non payment of tax liability declared in the returns

Under Section 35(1) of the KVAT Act, every registered dealer shall furnish a return in such form and manner and shall pay the tax due on such return within twenty days (or fifteen days[40]) after the end of the preceding month.
The CTD introduced (April 2010) online e-Filing System (EFS) for filing of returns, payment of taxes, issue of Forms and Transit Pass, etc.

Returns filed under EFS are assigned one of the following status given in **Table 2.8**.

Table 2.8 – Status of Returns filed in EFS

Sl. No.	Status	Meaning
1.	Deemed acknowledged	Dealer files his return after making e-payment of tax liability declared in the return or when the dealer has credit to be carried forward with no net tax liability for payment. This status is automatic.
2.	Acknowledged	Dealer files return online with details of cheque for payment of net tax liability. The return is acknowledged by the LVO on receipt of the cheque.
3.	Not acknowledged	Dealer files return online with details of cheque for payment of net tax liability. The status of the return is 'not acknowledged'. This means that payment was yet to be made or only partial payment was made

When the return is acknowledged by the LVO, the cheque is posted to the bank statement in EFS and then sent for realization. In cases of receipt of cheques in advance before return is filed, the LVO posts the cheque to bank statement in EFS in the 'manual receipt' module and sends the cheque for realization. Returns with 'Not acknowledged' status implies that the dealer has not handed over the cheque to the LVO or that there is an omission on the part of the LVO to post the acknowledgement in EFS even after receipt of the cheque. All payments of the dealer realised are reflected in the EFS against the TIN of the dealer.

During test check of VAT returns filed in seven LVOs in Bangalore district between September 2013 and February 2014, we noticed that 118 monthly VAT returns filed for the tax periods April 2011 to March 2013 by 58 assessees were under 'not acknowledged' status in the EFS. Our scrutiny of the payment details of these assesses in EFS also showed no realisaton of the amounts due on these returns or only partial payments. Thus, either the dealers had not made the payments to the LVOs or the LVOs had omitted to acknowledge the retuns and post the cheques for bank realization. The total tax amount payable by such dealers amounted to ` 1.25 crore. No action had been taken by the officers concerned to follow up these cases and ensure recovery. This resulted in non-demand of tax for` 1.25 crore.

After these cases were brought to the notice of the Department between October 2013 and March 2014 and referred to Government in July 2014, an amount of ` 7.80 lakh had since been collected in six cases. Balance amount was yet to be recovered (October 2014).

[40] Twenty days for regular VAT dealers and fifteen days for composition dealers.

2.8 Non/short levy of interest

Under Section 36(2) the KVAT Act, every dealer is liable to pay simple interest at the rate of 1.25 *per cent* per month up to 31 March 2011 and 1.5 *per cent* per month with effect from 01 April 2011 on any amount of tax omitted to have been declared in a return and also for delay in payment of tax within the due date. Further, interest shall also be demanded on additional tax liability determined on re-assessment.

We conducted test check of the records in 24 offices (13 Audit Offices and 11 LVOs/VSOs) in eight[41] districts between April 2013 and January 2014. In respect of 29 dealers, we noticed that there was delay in payment of tax either against original returns or against additional amount of tax liabilities due to reassessments or revised returns. All such cases attracted interest under Section 36(2) of the KVAT Act. However, interest in these cases was either not levied or levied short. The total non/short levy of interest for the tax periods between April 2005 and March 2012 worked out to ` 1.13 crore.

After these cases were brought to the notice of the Department between March 2013 and April 2014 and referred to Government in July 2014, an amount of ₹ 27.68 lakh was collected in 11 cases. In three cases, notices were issued to the dealers concerned. Action taken in respect of the remaining cases was awaited (October 2014).

2.9 Non levy of penalty under Section 72(1) of the KVAT Act

According to section 35 (1) of the KVAT Act, every registered dealer shall furnish a return in such form and manner, including electronic methods, and shall pay tax due on such return within twenty days after the end of the preceding month or any other tax period as may be prescribed.

Further, as per section 72(1) of KVAT Act, a dealer who fails to furnish a return or who fails to pay the tax due on any return furnished as required under the Act shall be liable to pay together with any tax or interest due, a penalty equal to

a) five *per cent* of the amount of tax due or fifty rupees whichever is higher, if the default is not for more than ten days, and
b) ten *per cent* of the tax due, if the default is for more than ten days.

During test check of records of 13 Offices (12 LVOs and 1 Audit Office) in five[42] districts between May 2013 and March 2014, we noticed that 23 assessees had filed returns and paid tax of ₹ 6.50 crore belatedly, i.e, beyond twenty days after the expiry of the applicable tax period. Though, all these cases attracted penalty u/s 72(1) of the Act, it was neither paid by the assessees nor levied by the Officers concerned. This has resulted in non levy of penalty of ₹ 56.33 lakh.

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41 Bangalore, Bijapur, Belgaum , Bellary, Chickaballapur, Davangere, Dakshina Kannada, Mandya

42 Bangalore, Belgaum, Bellary, Dharwad and Mysore

After these cases were brought to the notice of the Department between June 2013 and May 2014 and referred to Government in July 2014, an amount of ` 19.27 lakh was collected in seven cases. In four cases notice was issued to the dealers concerned. Reply in respect of the remaining cases was awaited (October 2014).

2.10 Short levy of purchase tax on sugarcane

According to section 25-B(1) of KST Act, a tax shall be levied and collected on the last purchase point of sugarcane in the State at the rate of –

(i) rupees sixty five per tonne, when purchased by a manufacturer of sugar (including khandasari sugar) whose rate of recovery of sugar exceeds 10.5 percent;

(ii) rupees fifty per tonne, when purchased by a manufacturer of sugar (including khandasari sugar) whose rate of recovery of sugar does not exceed 10.5 percent.

On a test check of records in respect of KST assessments concluded u/s 25-B of KST Act, we noticed that, in two cases, purchase tax on sugarcane was levied at the lower rate even though the rate of recovery of sugar was more than 10.5 per cent. The details are as given in **Table 2.9**.

Table 2.9 Short levy of purchase tax on sugarcane

Sl. No.	Name of the office	Year & Date of assessment	Quantity of purchase in MT	Rate of tax leviable per MT(`)	Rate of tax levied per MT (`)	Short levy of tax (`)
1	DCCT(Audit)-1, Gulbarga	2010-11/ 22-7-2011	3,87,608.508	65/-	60/-	19,38,043
2	DCCT(Audit & Recovery), Bellary	2007-08/ 16-4-2009	14,992.184	65/-	50/-	2,24,883
Grand Total						**21,62,926**

We pointed out these cases in February 2014 and March 2014 and the Assessing Officers concerned agreed to examine and furnish compliance in due course.

This was also taken up with the CCT (June 2014) and was referred to Government in July 2014. Their reply was awaited (October 2014).

2.11 Non/short levy of tax in re-assessments concluded

Under Section 39(1) of the KVAT Act, "where the prescribed authority has grounds to believe that any return furnished which is deemed as assessed or any assessment issued under Section 38 understates the correct tax liability of the dealer, it may, based on any information available, re-assess, to the best of its judgement, the additional tax payable and also impose any penalty under

sub-section (2) or sub-section (5) of Section 72[43] and demand payment of any interest[44]".

In the reassessment concluded by DCCT (Audit & Recovery), Udupi in respect of a dealer engaged in sales of printed packing materials, we noticed that sale of moulds of ` 53.82 lakh was not assessed to tax in the reassessment order. Resultant non levy of tax worked out to ` 6.73 lakh[45]. Penalty of ` 67,256 and interest of ` 2.02 lakh (at 1.25 *per cent* /month for 24 months from April 2009) were also leviable.

We brought this case to the notice of the Department and Government during June 2014. Their reply was awaited (October 2014).

2.12 Excess/incorrect allowance of input tax credit

Under Section 10(3) of the KVAT Act, a dealer is liable to pay the net tax[46] after adjustment of input tax with the output tax. The Act stipulates that ITC can be claimed only on purchases made locally i.e. within the State and both the purchasing and the selling dealers should be registered under the KVAT Act.

Test check of records in three[47] Audit Offices and two[48] LVOs was conducted between March and December 2013. During audit, we cross verified the purchase lists filed by seven dealers with the returns filed by 10 dealers who were stated to have supplied goods to them. The cross verification showed that in respect of ITC claim of ` 18.06 lakh by the purchasing dealers, the corresponding revenue realised by Government was ` 32,800 only declared by two selling dealers. Audit noticed that out of the remaining selling dealers, four dealers were deregistered, one dealer had not filed returns for the corresponding months, two dealers had filed nil returns for the corresponding tax periods and one dealer was registered after the period of sale in which ITC was claimed. This resulted in excess/incorrect claim of ITC of ` 17.73 lakh.

These cases were brought to the notice of the Department between July and December 2013 and were referred to Government in July 2014. Their reply was awaited (October 2014).

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43 Section 72(2) of KVAT Act – " A dealer who for any prescribed tax period furnishes particulars for preparation of a return or 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 percent of the amount of such tax over stated or under stated.

44 Section 36 of KVAT Act – Interest at 1.25 per cent till 31 March 2011 and 1.5 *per cent* from 1 April 2011

45 Calculated at the rate of 12.5 *per cent* on ₹ 53.82 lakh

46 (Output tax –Input tax) – as explained in para 2.7 earlier

47 Bangalore: ACCT(Audit) 5.8, DCCT (Audit&Recovery) 5.7, Bidar: ACCT (Audit & Recovery)

48 ACCT(LVO-55) Additional, Bangalore and ACCT(LVO-330), Hubli

2.13 Non/short levy of penalty under Section 72(2) of the KVAT Act

Under Section 72(2) of the KVAT Act, 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 maybe, shall after being given an opportunity of showing cause in writing against the imposition of a penalty, be liable to a penalty equal to 10 *per cent* (20 *per cent* up to 31 March 2006) of the amount of such tax under or overstated.

We conducted test check of records in 10 Offices (03 LVOs and 07 Audit Offices) in six[49] districts between March 2013 and February 2014, and noticed that in respect of 11 assesses, tax liability got revised upward when Audited Statement of Accounts in Form VAT 240 were filed or when re-assessment orders were passed by the Department. Though, in all these cases, additional tax liability was more than five *per cent* of the actual liability, penalty under Section 72(2) was either not levied or levied short. The details are given below:

2.13.1 Non levy of penalty in respect of re-assessments

In respect of six assessees, additional tax liability of ` 57.26 lakh was determined by five[50] assessing authorities in nine re-assessments for the tax period from 2005-06 to 2010-11. It was, however, noticed that penalty under Section 72(2) was either not levied or levied short by the Assessing Authorities concerned. Non/short levy of penalty worked out to ` 5.73 lakh.

2.13.2 Non levy of penalty on revision of tax liability through VAT 240

On test check of the annual audited accounts filed in Form VAT 240, we noticed that in respect of three dealers under LVO 215, LVO 310 and LVO-440, tax liability got increased by ` 77.92 lakh compared to the tax liability declared in the monthly returns. Though penalty of ` 7.79 lakh was leviable under Section 72(2), the same was not levied by the Department.

After these cases were brought to the notice of the Department in June and July 2014 and referred to the Government in July 2014, an amount of ` 10.26 lakh was collected in four cases. Reply in respect of the remaining cases was awaited (October 2014).

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[49] Bangalore, Chickballapur, Bellary, Davangere, Mandya, Bijapur

[50] DCCT (Audit) 2.7, ACCT (Audit)5.4, ACCT (Audit) 5.1,-Bangalore, DCCT (Audit & Recovery) , Bellary and ACCT (Audit) 3, Davanagere

Chapter–III
Stamp Duty & Registration Fee

3.1 Tax administration

Receipts from stamp duty and registration fee are regulated by the Indian Stamp Act (IS Act), 1899, the Karnataka Stamp Act (KS Act), 1957, the Registration Act, 1908 and the Rules made thereunder. In Karnataka the levy and collection of stamp duty and registration fee is administered at the Government level by the Principal Secretary, Revenue Department. The Inspector General of Registration and Commissioner of Stamps (IGRCS) is the head of the Department of Stamps and Registration who is empowered with the task of superintendence and administration of registration work. There are 34 District Registrar (DR) offices and 242 Sub-Registrar offices (SRO) in the State.

3.2 Internal Audit

The Department stated that though an Internal Audit Cell was constituted in December 2012, it was still not functional (September 2014) due to lack of manpower.

3.3 Results of audit

In 2013-14, test check of the records of 132 units of Stamps and Registration Department showed non/short levy of stamp duty and registration fees etc. and other irregularities amounting to ` 45.15 crore in 261 cases, which fall under the categories given in **Table 3.1**.

Table 3.1

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	Misclassification of documents	36	34.94
2	Short/non levy of stamp duty and registration fees	69	3.83
3	Incorrect application of MV	87	2.40
4	Suppression of facts	27	1.53
5	Delay in remittances	25	1.12
6	Other Irregularities	17	1.33
	Total	**261**	**45.15**

During the course of the year, the department had accepted and recovered under assessments and other deficiencies in 116 cases involving ` 1.02 crore. A few illustrative cases involving ` 3.84 crore are discussed in the following paragraphs. Responsibility may be fixed on the officials concerned for their failure in assessing the correct amount of stamp duty and registration fees.

3.4 Short levy of stamp duty and registration fee due to undervaluation of properties

Under the KS Act, for the year 2012-13, stamp duty at the rate of five *per cent* is leviable on the 'market value'[1] of the property which is the subject matter of

[1] 'market value' means the price which a property would fetch, if sold in the open market on the date of execution of such instrument or the consideration stated in the instrument, whichever is higher.

conveyance instrument. The rate of stamp duty for the year 2011-12 was six *per cent*. Instruments of conveyance of immovable properties attract additional stamp duty at ten *per cent* on stamp duty charged. In addition, surcharge at two per cent of the duty imposed is also chargeable. Further, registration fee of one *per cent* of the 'market value' of the property is leviable under the Registration Act, 1908.

As per Section 45 A (1) of the above Act, "If the registering officer appointed under the Registration Act, 1908, while registering any instrument of – (a) conveyance, has reason to believe having regard to the guidance market value published by the committee constituted under Section 45-B[2], if any, or otherwise, that the market value of the property which is the subject matter of such instrument has not been truly set forth, he shall after arriving at the guidance market value, communicate the same to the parties and unless the parties pay the duty on the basis of such valuation, shall keep the process of registration pending and refer the matter along with a copy of such instrument to the Deputy Commissioner for determination of the market value of the property and the proper duty payable thereon".

Under Article 5(e) of the Schedule to the KS Act, stamp duty, as conveyance on the market value of the property is leviable on agreement to sell immovable property where possession of the property is delivered. The stamp duty as conveyance is also leviable in respect of 'Power of Attorney' registered under Article 41(e) of the KS Act.

On test check of records in thirteen[3] SROs between April 2013 and February 2014, it was seen that 28 sale deeds, four agreement to sell with possession of the property to buyer and two power of attorney, all attracting levy of stamp duty and registration fee at the rate applicable for conveyance had been registered between August 2010 and April 2013. The aggregate market value or consideration in respect of properties which were subject matters of these instruments had been shown at ` 24.03 crore. Stamp duty and registration fee levied on these documents aggregated at ` 1.40 crore and ` 23.96 lakh respectively.

Cross verification of the value of properties adopted in the documents in these cases with reference to guidance market value notified by the Government revealed that value of the properties had been understated by the executants in all documents. The aggregate market value of the properties in these cases as per the guidance market value worked out to ` 45.67 crore. The SROs concerned also failed to assess the value of properties in accordance with the notified guidance market value and levy stamp duty and registration fee accordingly. This resulted in short levy of stamp duty of ` 1.23 crore and registration fee of ` 21.76 lakh.

After these cases were pointed out to the SROs concerned between April 2013 and February 2014, the Sub-Registrar, Bhatkal replied that the deficit amount

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[2] A Central Valuation Committee (CVC) is constituted under the Chairmanship of IGR&CS for estimation, publication and revision of guidance market value of the properties in any area in the State at prescribed intervals. The CVC is the final authority for the formulation of policy, methodology and administration of guidance market value in the State.

[3] SRO, Belgaum, Begur, Bijapur, Bhatkal, Byatarayanapura, Chickmagalur, Chitradurga, Doddaballapura, Hiriyur, Kolar, Peenya, Shivajinagar and Tumkur.

of ` 60,592/- would be recovered in one case. In respect of the remaining cases reply has not been received (October 2014).

These issues were also taken up with the IGRCS by Audit (between April and June 2014) and reported to Government in July 2014. Their replies were awaited (October 2014).

3.5 Short levy of stamp duty and registration fee due to suppression of facts

Section 28(1) of the Karnataka Stamp Act (KS Act), 1957 stipulates that "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, shall be fully and truly setforth therein".

Under Article 5(e)(i) of the Schedule to the KS Act, when an agreement related to sale of immovable property wherein possession of the property is delivered or agreed to be delivered without executing the conveyance, stamp duty is the same as that for a conveyance on the market value of the property.

As per Explanation-I under Article 5 (e) of the schedule of the said Act, 'when a reference, of a power of attorney granted separately by the seller to the purchaser in respect of the property which is the subject matter of such agreement, is made in the agreement, then the possession of the property is deemed to have been delivered for the purpose of this clause'.

The stamp duty at 0.1 *per cent* of the consideration subject to a maximum of ` 20,000 only is leviable under Article 5(e)(ii) on agreements, if possession is not delivered.

Test check of records revealed the following:

3.5.1 In one case under SRO, chickaballapura, a memorandum of understanding (MOU) had been entered into (December 2011) between a vendor and a buyer and was registered on payment of stamp duty of ` 20,000/- and registration fee of ` 200/-, as applicable to a sale agreement without delivery of possession of property to the prospective buyer. Subsequently, this MOU was cancelled (April 2012), wherein it was stated that the possession of the property was given back to the vendor. This implies that the prospective buyer as per the original MOU was in possession of the property till the MOU was cancelled. Therefore stamp duty and registration fee payable for the MOU executed in December 2011 was to be taken as ` 58.10 lakh and ` 9.68 lakh respectively as applicable to agreement of sale with possession. Thus, the suppression of the facts resulted in short levy of stamp duty and registration fee of ` 57.90 lakh and ` 9.68 lakh respectively.

3.5.2 In three cases under three SROs[4], General Powers of Attorney (GPAs) were registered between January 2012 and June 2012 by paying stamp duty of ` 1.54 lakh. In continuation, sale agreements were entered into between the same parties for the same properties on the same day or on subsequent dates by paying stamp duty of ₹ 31,100 and registration fee of ₹ 500.

[4] SROs – Basavanagudi, Chickballapura and Shivajinagar

The total value of the properties in these instruments as per the consideration stated in the agreement or guidance market value was ₹ 5.09 crore.

In these sale agreements, stamp duty of ₹ 28.80 lakh, and registration fee of ₹ 5.08 lakh was also leviable as per Explanation-I below Article 5(e).

The short levy of stamp duty and registration fee amounted to ₹ 32.02 lakh, after adjusting the stamp duty paid in the respective GPAs.

3.5.3 In five cases under three SROs[5], ₹ 50.49 lakh had been paid by the buyers to the vendors concerned, as advance at the time of executing sale agreements (February 2009 and November 2012), but the same was not mentioned as part of the consideration in the sale deeds which were executed later (April 2009 and February 2013). Hence, stamp duty of ₹ 2.91 lakh and registration fee of ₹ 0.48 lakh were levied short in these cases.

These cases were pointed out to the Department between April and August 2013 and referred to Government in July 2014. Their reply was awaited (October 2014).

3.6 Non-levy of stamp duty and penalty

Under Section 34 of the KS Act, "No instrument chargeable with duty shall be admitted in evidence for any purpose by any person having by law or consent of parties authority to receive evidence, or shall be acted upon, registered or authenticated by any such person or by any public officer, unless such instrument is duly stamped".

Further, it also provides that "subject to all just exceptions, be admitted in evidence on payment of the duty with which the same is chargeable, or, in the case of an instrument insufficiently stamped, of the amount required to make up such duty, together with a penalty of ten times the amount of the proper stamp duty or deficient portion, when ten times the deficit exceeds five rupees, of a sum equal to ten times such duty or portion".

In respect of GPAs authorising the holder thereof to sell the property, stamp duty at the rate applicable to conveyance of such property was leviable.

Audit noticed in three[6] Sub-Registrar Offices (SROs), that, eleven 'Sale deeds' and one 'Agreement to Deposit of Title deeds' were executed during 2011-12 and 2012-13 by the General Power of Attorney holders on behalf of the owners of the properties. In these cases, the GPAs empowering the holders thereof to sell the property were executed before the notary public between February 2009 and January 2013, on which stamp duty of only ₹ 14,400 was paid. As these GPAs were admitted as evidence during execution of sale deeds/agreement, the SROs should have demanded and collected the differential amount of stamp duty between the amount leviable under the KS Act and amount already paid, alongwith the penalty. Based on the guidance market value, the stamp duty payable on these GPAs was ₹ 3.98 lakh resulting in short-levy of stamp duty of ₹ 3.84 lakh and penalty of ₹ 38.39 lakh at 10 times of the deficit stamp duty.

[5] SROs – Bijapur, Sadalga and Yelahanka
[6] SROs – Basavanagudi, Bhatkal, Hessarghatta

After these cases were pointed out between May 2013 and October 2013, SRO, Bhatkal replied that action would be taken to recover the deficit stamp duty. In respect of the remaining cases, replies had not been received (October 2014).

The issue was also taken up with the IGRCS in April 2014 and referred to Government in July 2014. Their reply was awaited (October 2014).

3.7 Short remittance of stamp duty

Under Rule 4 of the Karnataka Stamp (Payment of duty by means of e-stamping) Rules, 2009, Stock Holding Corporation of India Ltd. (SHCIL) was appointed (January 2010) to function as the Central Record Keeping Agency. Accordingly, an agreement was entered (25 January 2010) into between Government of Karnataka and SHCIL.

As per the said agreement, the duties of SHCIL include, *inter alia*, "collection of stamp duty and generation of e-stamp certificates through computer systems" and "effecting remittances of the collected amount of stamp duty to the State Government Account and reconciliation of accounts". For the services provided, SHCIL was entitled to a commission of 0.65 *per cent* of the stamp duty collected through e-stamping mechanism. The agreement provided for SHCIL to deduct the commission from the stamp duty collected prior to remitting the same into the State Government Account. The agreement also made clear that this commission was inclusive of the compulsory duties and taxes payable to Central/State Governments.

Test check of related records in the Office of the IGRCS in January 2014 showed that from July 2012, SHCIL had been deducting, in addition to the commission due to it, service tax payable by them, on that commission, to Central Government, calculated at the rate of 12.36 *per cent* of the commission amount. This was in contravention of the agreement signed by them with the State Government. The excess amount of deduction up to December 2013 resulted in short remittance of ` 51.61 lakh to the Government Account. No action was taken by the IGRCS to recover the excess amount deducted by SHCIL.

After this was pointed out to IGRCS in January 2014, it was replied that the matter would be taken up with the SHCIL. The issue was referred to Government in July 2014; their reply was awaited (October 2014).

3.8 Non remittance of revenue collected in cash towards stamp duty and registration fees

Article 4 of the Karnataka Financial Code (KFC) 1958 stipulates that transactions to which any Government servant in his official capacity is a party must, without any reservation, be brought to account, and all moneys received should be paid in full without undue delay, in any case within two days, into a Government treasury, to be credited to the appropriate account and made part of the general treasury balance.

Article 329(v) of the KFC requires that "when Government money in the custody of a Government officer are paid into the Treasury or the bank, the Head of the office making such payments should as soon as possible after the

end of the month, obtain from the Treasury a consolidated receipt for all the remittances made during the month which should be compared with the postings in the Cash Book".

The IGRCS vide a circular issued in March 2008 instructed the SROs not to collect amount exceeding ₹ 1000 in cash.

In a review of 'A' Register[7] along with connected remittances registers, in the office of the SRO, Attibele, by Audit revealed that the amounts collected in cash were being shown as credited to the Nodal Bank. However, cross verification of remittances made with Treasury Schedules showed that in 18 instances an amount of ₹ 42.46 lakh collected in cash between April 2011 and September 2012 and entered in the Cash Book was shown as having been remitted to the Nodal Bank had not been credited to the Government Account. Further, since inception of the office i.e., 1 April 2007, the cash remittances made to the Nodal Bank had not been reconciled with Treasury Schedules to ensure the correctness of the remittances to Government Account.

After this was pointed out to the SRO, Attibelle on 4 March 2014, the entire amount of ₹ 42.46 lakh was remitted to the Government Account vide challans dated 07-03-2014, 10-03-2014, 11-03-2014 and 12-03-2014 by the SRO. Since it is evident that the said amount was misappropriated for two to three years, the matter calls for a detailed investigation to fix responsibility on the concerned.

The matter was taken up with IGRCS in May 2014 and referred to Government in July 2014; their reply was awaited (October 2014).

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[7] Register at SRO recording the day-wise transactions indicating the stamp duty and registration fee collected in respect of every document registered.

Chapter–IV
Land Revenue

4.1 Tax administration

The receipts from Land Revenue Department are regulated under Karnataka Land Revenue Act (KLR Act), 1964 and the rules made thereunder and administered at the Government level by the Principal Secretary, Revenue Department. The Principal Secretary is assisted by four Regional Commissioners, 30 Deputy Commissioners, 24 Assistant Commissioners and 179 Tahsildars.

4.2 Results of audit

In 2013-14, test check of the records of 42 units of Land Revenue Department showed non/short realisation of cost of land, conversion fine, compounding fine and other irregularities involving ` 33.92 crore in 88 cases, which fall under the following categories given in **Table 4.1**.

Table 4.1
Results of audit

(` in core)

Sl. No.	Category	No. of cases	Amount
1.	Information System Audit of 'Mojini' application in use in the Department of Survey, Settlement and Land Records, Karnataka	1	0
2.	Short/non levy of cost of land	12	7.28
3.	Short/non levy of conversion/ compounding fine.	29	9.24
4.	Short levy/ non recovery/non realization of lease rent	8	0.72
5.	Short levy of cost of Kharab land	4	1.15
6.	Other irregularities	34	15.53
	Total	**88**	**33.92**

During the course of the year, the Department had accepted under assessments and other deficiencies of ` 42.74 lakh in five cases which were pointed out during earlier years. An amount of ` 51.83 lakh was realised in 19 cases during the year 2013-14. A few illustrative cases involving ` 19.99 crore are discussed in the following paragraphs.

4.3 Information System Audit of 'Mojini' application in use in the Department of Survey, Settlement and Land Records, Karnataka

Highlights

The Mojini was stated to be developed in-house. However, documentation on in-house competency, justification/business case for the same, Government approval, expenditure incurred, requirement specifications, timeliness and testing regime have not been maintained. This resulted in a system with inadequate segregation of duties without foolproof control against unauthorized modifications and inadequate control over back-up and recovery procedures.

(Paragraph 4.3.2)

Inadequacies in system logic resulted in contravention of accepted business policy of assignment of work to Licensed Surveyors.

(Paragraph4.3.3)

Inadequacy of Logical Access Controls resulted in use of identical passwords and with the same user holding several login identities.

(Paragraph 4.3.8)

Absence of integration with the application system in the Department of Stamps and Registration resulted in insufficient control against unauthorized sketches being used.

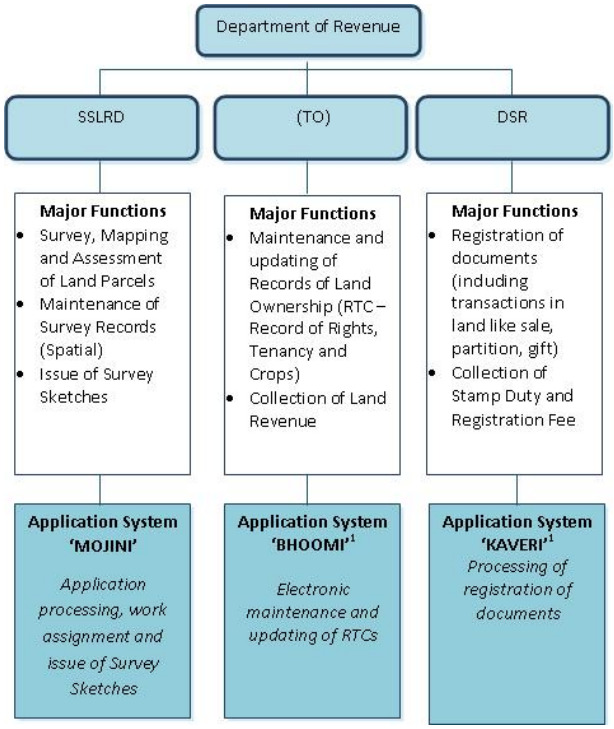
(Paragraph 4.3.10.1)

Non-integration of Mojini with digitized Akarband was leading to manual intervention and delay in issue of sketches to applicants.

(Paragraphs 4.3.10.2)

4.3.1 Introduction

Administration of Land is dealt by three entities viz. Survey, Settlement and Land Records Department (SSLRD), Department of Stamps and Registration (DSR) and Tahsildar Offices (TO). All the three are under the administrative control of the Department of Revenue, Government of Karnataka.



Transactions in land require the co-ordinated efforts of the three entities and involve sharing of data between the respective application systems manually or through interfaces between the same. The basic unit of reference for all transactions is the survey number[2] (Sy.No.).

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1 IS Audit Reports on the Application Systems of Bhoomi and Kaveri were included in the Audit Report (Civil) for the year ended 31 March 2007 and No.3 of 2013 respectively

2 A survey number indicates a specific piece of land.

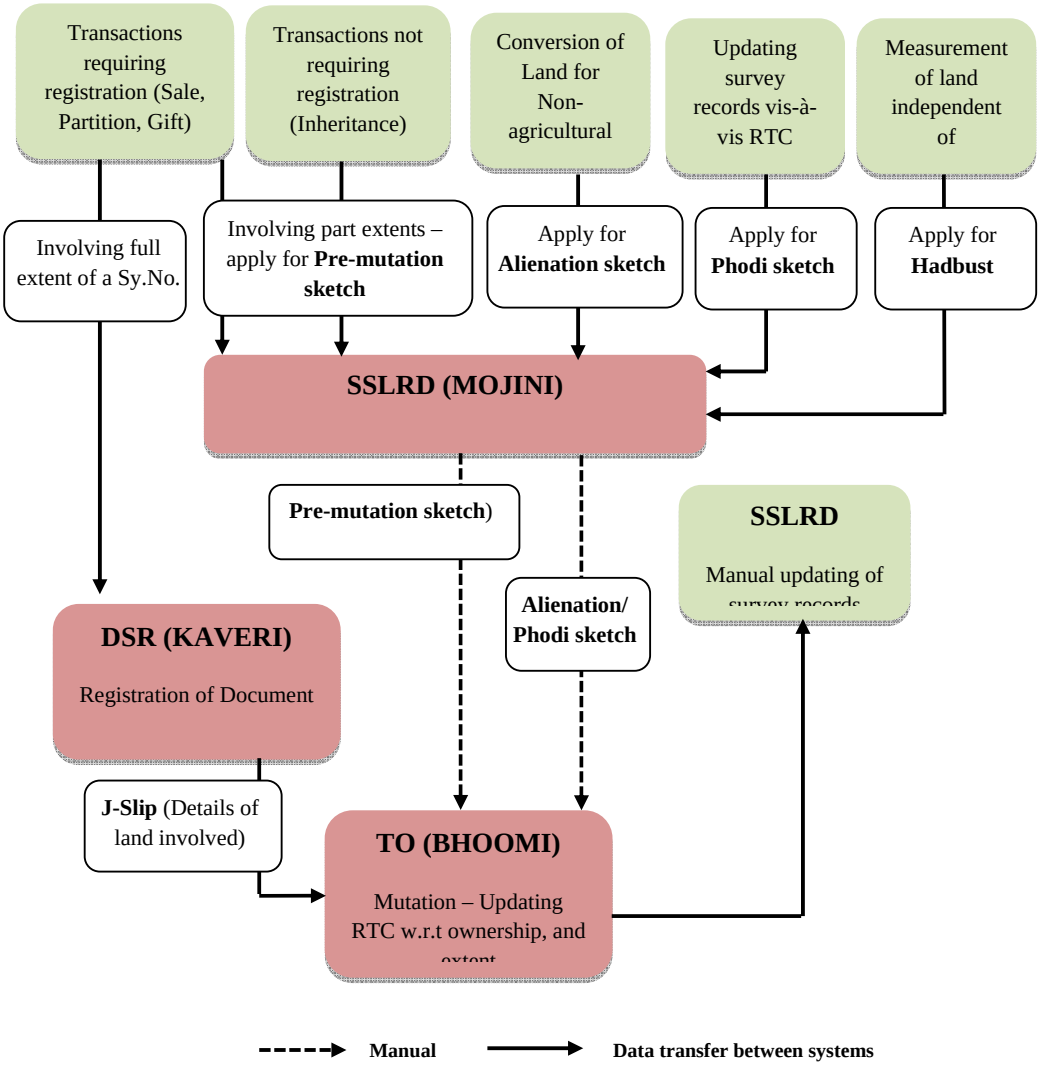
The SSLRD, on application from owners of individual parcels of land, undertakes fresh measurements by employing the services of Government Surveyors or Licensed Surveyors[3] (LS) and issues sketches. Four kinds of sketches issued by the SSLRD are as in **Table** 4.2.

Table 4.2
Types of sketches

Sl. No.	Sketch	When required	Description
1.	Pre-mutation (11e) Sketch	To effect mutation involving part extents of a Sy.No. The sketch assures availability of land for mutation and enables updating the land records on confirmation of the transaction. Usually assigned to LS.	Sketch showing boundaries of an existing Sy.No within which the part to be conveyed etc. is marked out
2.	Alienation Sketch	When the owner of a parcel of agricultural land wants to convert part or whole of the same for non-agricultural purposes, it has been made mandatory that an alienation sketch of the land has to accompany the application for conversion. Usually assigned to LS	Sketch showing the area of land proposed to be converted.
3.	Phodi Sketch	When, as per RTC, specific extents within a survey number are held by different parties, but individual boundaries are not demarcated, it is a multiple owner RTC. In such cases, the sub-divisions within the survey number is not reflected in the original survey record, viz the Akarband. The owners of such lands may apply to the SSLRD for a phodi sketch, which will map the boundaries of the individual holdings (hissas). Based on this, separate RTCs for each hissa will be created at RD and Akarband will be updated at SSLRD. Usually assigned to LS	Sketch showing proposed boundaries of individual holdings within an existing Sy.No.
4.	Hadbust	An owner might apply to the SSLRD for mapping of his holding at his own instance. Assigned to Government Surveyors	Sketch showing boundaries of individual holdings.

Transactions in land are concluded through manual presentation of any of the above types of sketches and the various manual and digital documents within the departments get updated through manual or systemic processes. An outline of the manual and systemic linkages between the departments and the respective application systems is shown below:

[3] The SSLRD employs the services of Licensed Surveyors (LS), to whom a part of the user fee collected from applicants is paid as remuneration, for conducting survey and preparation of pre-mutation, phodi and alienation sketches.



The Government of Karnataka introduced the pre-mutation (11e) sketch scheme in 2006 and made mandatory the submission of the same to effect any mutation[4] (of specified types – sale, partition, gift) involving part extents of a survey number.

Important survey records maintained by SSLRD and used in the preparation of sketches are shown in **Table 4.3** below:

Table 4.3 Records of SSLRD

Sl. No.	Name of the record maintained	Description
1.	Akarband	A Register showing the area and assessment of survey number. It contains the details of total extent of land, extent of cultivable land and non-cultivable land (Kharab), extent of dry, wet, garden and plantation areas within the land, sources of water and assessed amount of land revenue for each survey number.
2.	Tippans	It is the basic survey sketch. It is a hand drawn rough sketch, which is not to scale. It contains the measurement details of a survey number which is essential for calculating the area.

[4] Transfer of rights

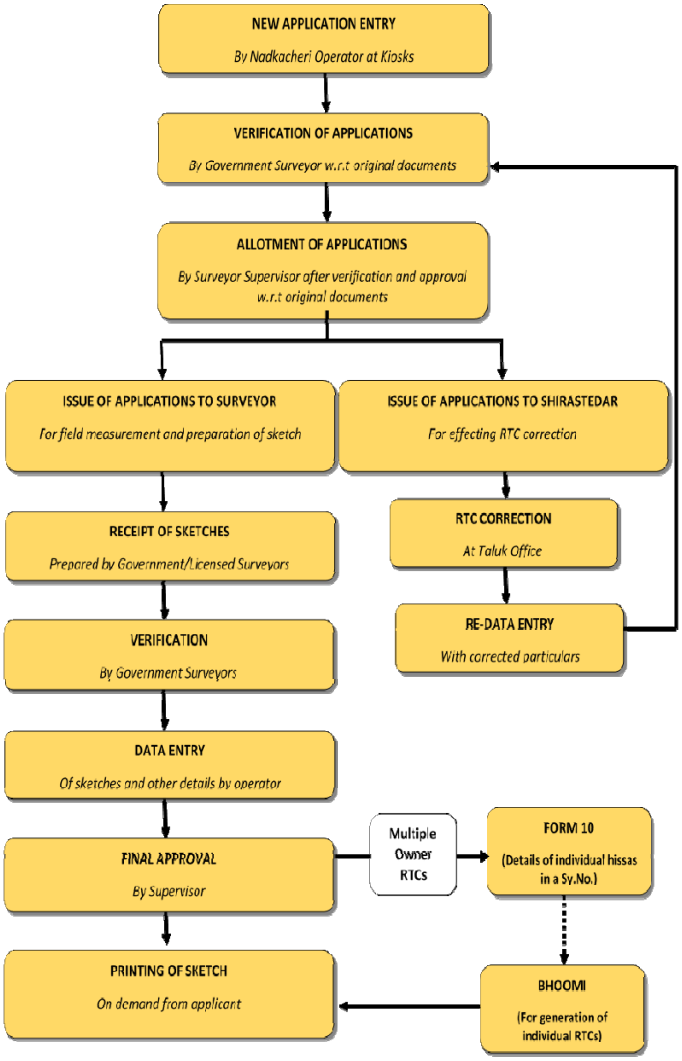
4.3.1.1 Organisational set up

SSLRD is under the administrative control of the Revenue Department, Government of Karnataka. The Department is headed by the Commissioner, Survey, Settlement and Land Records and is assisted by Joint Directors of Land Records (JDLRs) at Headquarters, Deputy Directors of Land Records (DDLRs) at the District level and Assistant Directors of Land Records (ADLRs) at the taluk Level. The Survey Supervisors, Government Surveyors, and allied staff at the taluk level are under the administrative control of the Tahsildar. Applications for various services are received at Nadakacheris[5] at the Hobli level.

4.3.1.2 Mojini

In 2007, the SSLRD developed a web based application software called 'Mojini' (Mojini I) for regulating the receipt of application, allocation of the work to licensed/Government surveyors, accounting of fee receipts and providing Management Information System (MIS) reports to management. Initially, processing of pre-mutation sketches and alienation sketches only were included under Mojini. Mojini was deployed in all the 830 Nadakacheries in 786 hoblis of the 203 talukas in Karnataka. A newer version of the application (Mojini II) was introduced from 1 November 2013 and has incorporated the process of issuing 'hadbust' and 'phodi' sketches also.

[5] Nadakacheries - are centres meant for the electronic delivery of citizen services at the Hobli level.



The application was introduced with the intention of making the entire process of issuing sketches transparent and automated, and was essentially on the principle of First-in-First-out (FIFO). Other cited advantages of the system were streamlining the procedures involved in the preparation and issue of sketches and eliminating bias at all stages to ensure faster service delivery to citizens, reduction of corruption, facility for automatic tracking of status of applications through internet or SMS, security of processes through biometric login, progressive cleaning of Bhoomi data, and progressive re-creation of non-existing/defective survey records.

4.3.1.3 Information System Architecture

The application system is a web-based e-Governance solution hosted on Windows 2003 Enterprise edition with SQL Server 2008 as backend RDBMS and ASP.net 2.0 as front end tool. The nodes at headquarters and field offices are networked via the Karnataka State Wide Area Network (KSWAN), accessible also via internet. The database is hosted at the State Data Centre (SDC), managed by the Department of e-Governance, Government of Karnataka.

4.3.1.4 Audit Objectives

The objectives of the PA are given below:

1. To assess the adequacy of administrative and application level controls for ensuring the integrity of the system.
2. To verify the extent to which the system has been effective in achieving the declared intentions of computerisation.
3. To assess whether the system integrates well with applications/procedures in departments with which it is functionally related.

4.3.1.5 Sources of Audit Criteria

The audit criteria for the performance audit are derived from the provisions/rules given below:

1. National Land Records Management Policy, 2008
2. The Karnataka Land Revenue Act, 1964
3. The Karnataka Land Revenue Rules, 1966
4. Notifications, Circulars and Government Orders issued
5. Information Technology Audit Manual of SAI, India

4.3.1.6 Scope and Period of Audit

The audit period covered was from August 2008 to April 2014. We examined system development, IT Governance, application controls and nature of integration of the software with other related applications. Entry and exit conferences were conducted in May 2014 and September 2014 respectively.

4.3.1.7 Methodology

1. Data analysis using IDEA software
2. Field verification of samples selected on random basis.
3. Examination of process flow.

Audit Observations

4.3.2 General Controls

General controls include controls over application system development, maintenance of data centre operations, access, security, backup and disaster recovery plan.

We evaluated[6] the quality of the General Controls in the Development of Mojini I & II and found deficiencies in the process of IT Governance, encompassing System Development, Change Management and Business Continuity Plans of the Department as given below:

[6] Diagnostic Tool developed by SAI India based on international best practices.

4.3.2.1 System Development

Request for Proposal (RFP), System Requirement Specifications (SRS), User Requirement Specifications (URS) and other functional documentation attest to good IT Governance, which in turn ensure ownership, responsibility and adherence to best practices. It also helps the organisation to get the system developed in a desired manner, train its staff or other end users, and procure required hardware and other infrastructure. Most importantly, the new system is introduced only after it is thoroughly tested and accepted by the management.

The application development of both Mojini I & II were stated to have been done in-house by the SSLRD. However, no documentation of in-house competency, justification/business case for the same, Government approval, expenditure incurred, requirement specifications, timelines and testing regimen relating to the same were available. SSLRD entered into a maintenance agreement with an agency in March 2012 for maintenance of the software. The contract ended in September 2012 and was not renewed thereafter.

4.3.2.2 Version Management

The SSLRD implemented Mojini II as a separate application system. Even after its introduction from November 2013, the SSLRD continued with the parallel operation of Mojini I in all the Taluks. New applications were received in Mojini II while the processing of applications received in Mojini I was not ported to the modified process flow of Mojini II.

4.3.2.3 Change Management

A detailed protocol for initiating and approving modifications to the existing software is known as Change Management. The protocol prescribed in this regard should be effective in prevention of unauthorized changes to the application and ensure that all approved modifications are incorporated without any errors.

We observed that SSLRD has not established a documented procedure for receipt of change requests from users, administrative review, approval and prioritization of the same, communication of the same to the application developer, testing of the resultant changes by constituting a User Acceptance Testing Team, trial run and final roll out of patches or versions. In the agreement entered into with the maintenance agency in March 2012, besides two specific change requests to be carried out by the maintenance agency, there was provision for incorporating additional changes in the software on finalisation of the estimate and consent for change requests communicated by SSLRD. There was no documentation of the change requests communicated to the maintenance agency. In the absence of formal change management procedure there was no assurance that all modifications made were authorised by the Department.

Besides, there were no audit trails for changes on the source code. Hence, the SSLRD does not have a foolproof control against ad hoc or unauthorized modifications to the same.

4.3.2.4 Business Continuity and Disaster Recovery Plans

The database of the application is hosted by the State Data Centre (SDC) under the control of the Department of e-Governance. We observed that the SSLRD has delegated its Business Continuity and Disaster Recovery Planning to the SDC. However, it was not ensured through a formal agreement, that the SDC maintain a schedule and plan of data backups as per the specific requirements of the SSLRD with respect to its acceptable downtime[7] and recovery period. The availability and location of any offsite backup was also not ensured.

In the exit conference (September 2014), SSLRD stated that RFP for revamping of Mojini has been finalised and that documentation with regard to SDLC would be ensured.

4.3.3 Work Allotment To Licensed Surveyors

One of the declared aims of introduction of Mojini was to rationalize the work of allotment to Licensed Surveyors (LS) by making the process automatic and following a 'round robin' pattern by which bias of any kind is eliminated. The detailed logic for the same also incorporates features aimed at promoting efficiency to speed up the process of preparing the sketches and ensuring convenience. Our analysis of the work allotment pattern showed the following:

4.3.3.1 Assignments made to Licensed Surveyors: In order to ensure timely action on applications, the work assignment logic of Mojini incorporates a control by which a LS who has any application pending for more than 30 days, will be 'skipped' in the round of assignments. The LS becomes eligible for further assignments only after the pending application is cleared. The process is to be automatic to avoid any bias in assigning the work.

a. We found that in 1,12,313 cases out of 7,82,152 assignments, applications were allotted to LSs who were under 'skipped' status. This points either to a defect in the logic or facility for manual/malafide intervention.
b. Further, we also observed 5,966 cases where the LS did not come under the skipped status on completion of 30 days of holding an application.

4.3.3.2 Assignments made to Licensed Surveyors who are under deactivated status: In addition to being automatically 'skipped' due to pendency, the Licensed Surveyors' accounts may be deactivated at the Project Monitoring Unit at Headquarters for disciplinary reasons, leave of long durations, exit from service etc. Such accounts can also be reactivated by a similar administrative action. De-activation has the effect of removing the LS from the assignment cycle until his account is reactivated. However, we found 597 (out of 7,82,152) cases of assignment of work to LS whose accounts were under deactivation at the time. This points to a programming error that renders ineffective the intended objective of the control and is likely to result in delays. Consequently, the application assigned to LSs on leave or who had

[7] Downtime is the period for which the system fails to provide or perform its function

quit the service would remain pending and may require re-assignment of the same to active LSs through manual intervention.

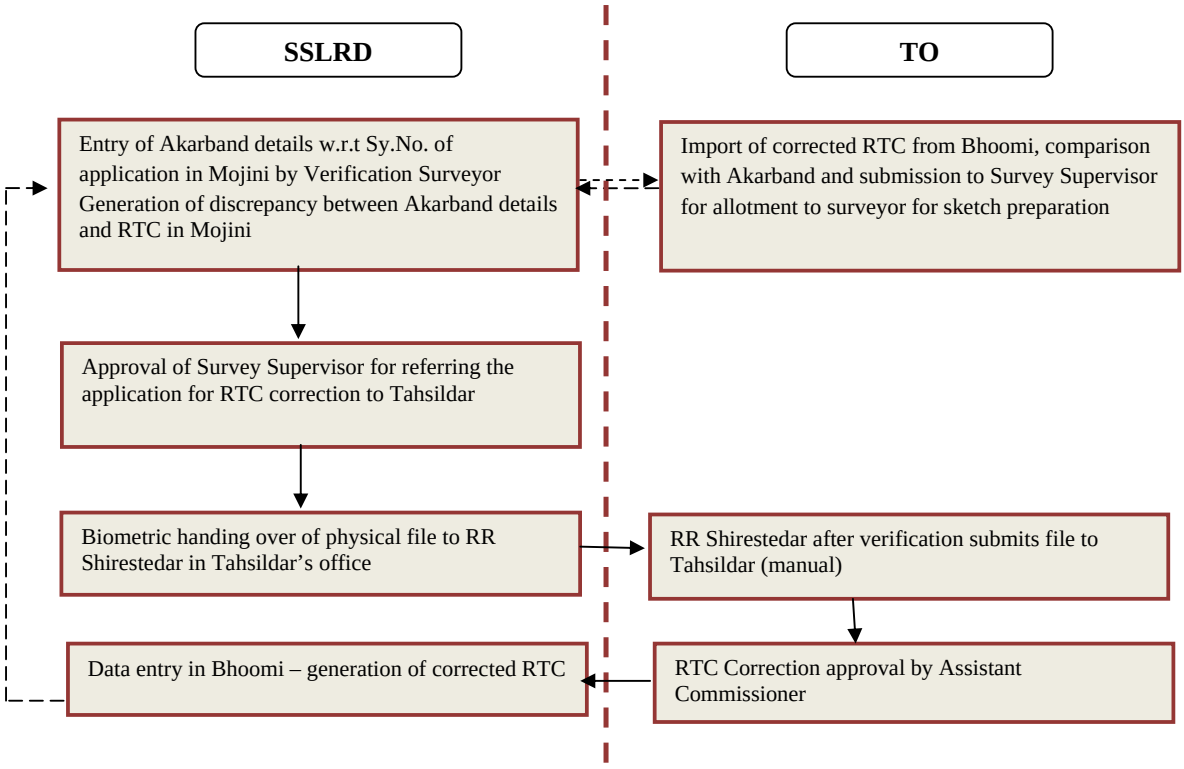
4.3.3.3 Applications pertaining to the same village assigned to different Licensed Surveyors: With a view to increasing efficiency and enabling a LS to complete several jobs in a single visit, the system was programmed to allot applications pertaining to the same village, if applied on the same date, to the same LS. Once the LS acknowledges the receipt of the applications from a village, further applications from that village were to be allotted to other LS in the list. The assignment is also subject to the LS in question being deactivated or skipped after the initial assignment. To compensate for the extra assignments, the LS was skipped in as many cycles as he/she had received additional assignments.

Under the existing logic, we found 182 instances of applications pertaining to the same village on the same date having been assigned to different Licensed Surveyors. This indicated lapses in the functioning of the programming logic or possibility of manual/malafide intervention.

In the exit conference (September 2014), SSLRD stated that the System had a bug problem which persisted for several months but could not be fixed due to lack of technical assistance and that the same has now been set right.

4.3.4 RTC Correction

At the time of processing applications received in Mojini, in cases of difference between RTC data and Akarband data with respect to a Sy.No., RTC correction is initiated. After correction of RTC, the process of allotment of application for preparation of sketch will continue in Mojini. The process of RTC correction is as below:



We observed the following in respect of the cases referred for RTC correction:

4.3.4.1 Failure to correctly identify nature of discrepancy in land records

Mismatch in the total extent of land in a Sy.No. between Akarband and RTC is one kind of discrepancy. The total extent of land in a Sy.No. as per RTC may differ from sum of the individual holdings recorded therein which is another kind of discrepancy. Mojini is designed to identify the category of discrepancy for correction in RTC.

In 24 cases, Mojini generated different discrepancies for different applications relating to the same survey number. Thus, there was an error in the programme logic which resulted in inconsistency in categorisation of the discrepancies.

4.3.4.2 RTC corrections in respect of applications of same survey number

The process of referring an application for RTC correction in Mojini is application specific, that is, each application is considered individually to refer for RTC correction. The system does not point out that RTC correction is under process or has already been processed by a Tahsildar in respect of a survey number, when subsequent applications require to be referred to the very same Tahsildars for the already identified discrepancy. This has the effect of the various processes of RTC correction having to be repeated in each case, resulting in duplication of work and attendant delays. We found that:

(i) Data analysis revealed that in 18 instances, different applications of the same survey number were referred to the Tahsildar for RTC correction for a common discrepancy. In eight cases, RTC correction had been carried out for the survey number and returned to the SSLRD. However, the subsequent application from the same survey number referred to the Tahsildar's office for the same reason continued to be pending in the Tahsildar's office.

(ii) In respect of 313 survey numbers, 683 applications received on different dates were referred to the Tahsildar for RTC corrections. The different applications in respect of a survey number were referred for correction of a common discrepancy. The time gap between the first and the subsequent application in respect of a survey number ranged from one day to 119 days. In respect of six cases, the RTC correction had already been completed by the Tahsildar at the time the subsequent applications for the same correction were handed over to the Tahsildar. The time taken by Tahsildars' offices to dispose of these cases ranged from two to 53 days.

SSLRD in the exit conference stated (September 2014) that Bhoomi does not have facility for simultaneous corrections of RTC of a Sy.No. Mojini may be re-designed to dynamically point out to the Tahsildar through MIS reports that applications relating to same survey number are pending for RTC correction so that all applications can be dealt with together and thus reduce delay.

4.3.5 Implementation of FIFO

One of the declared intentions of computerisation of the process flow was to ensure transparency and eliminate bias at all stages. Accordingly, Mojini is essentially based on First-in-First-Out (FIFO) principle with respect to each stage of processing of applications. We observed that the control has been implemented for all the stages within Survey Department. However, in respect of applications referred to Tahsildar for RTC correction, FIFO was not being implemented for the processes taking place in the Revenue Department. The applications re-enter the queue on FIFO basis after RTC correction.

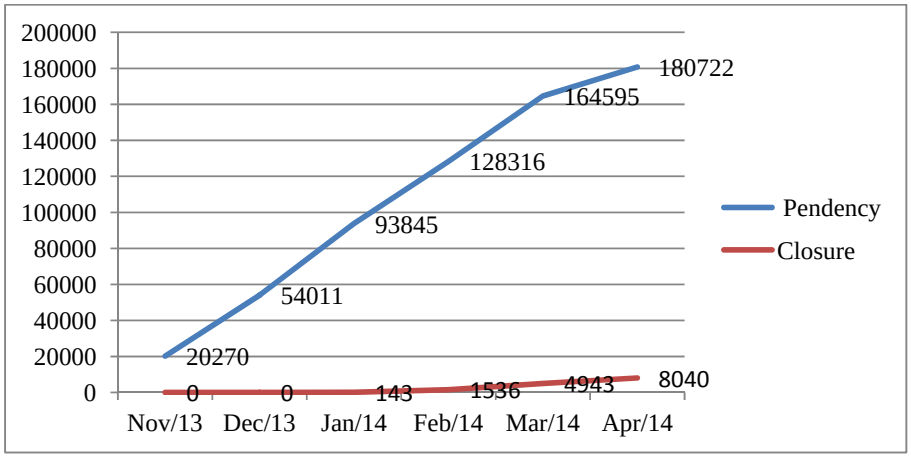
Considering the practical issues at the Tahsildar's office, SSLRD may consider incorporation of FIFO in the Taluk office while providing for exceptions.

4.3.6 Delay in delivery of services

The declared objective of the SSLRD was to deliver the sketches within 30 days of the application.

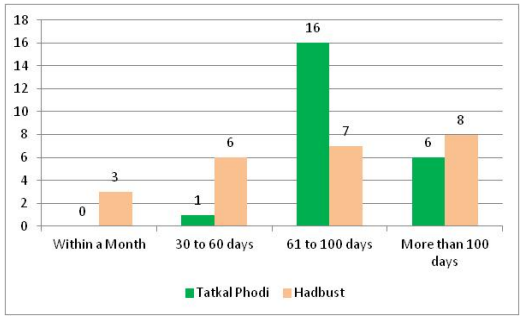
We observed that, out of the 1,88,762 applications accepted in Mojini II from November 2013 up to 24 April 2014[8], only 8,040 were concluded and the sketches issued to the applicants.

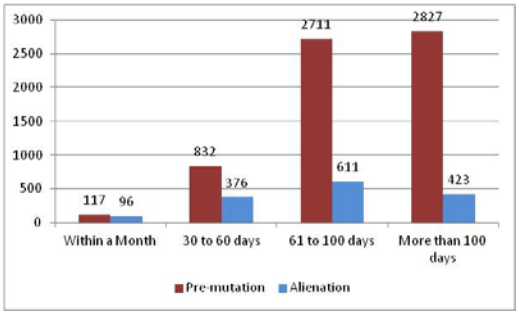
Monthly progress of clearance against pendency of applications (consisting of Pre-mutation, Alienation, phodi, Hadbust sketches) is shown in the following graphs.



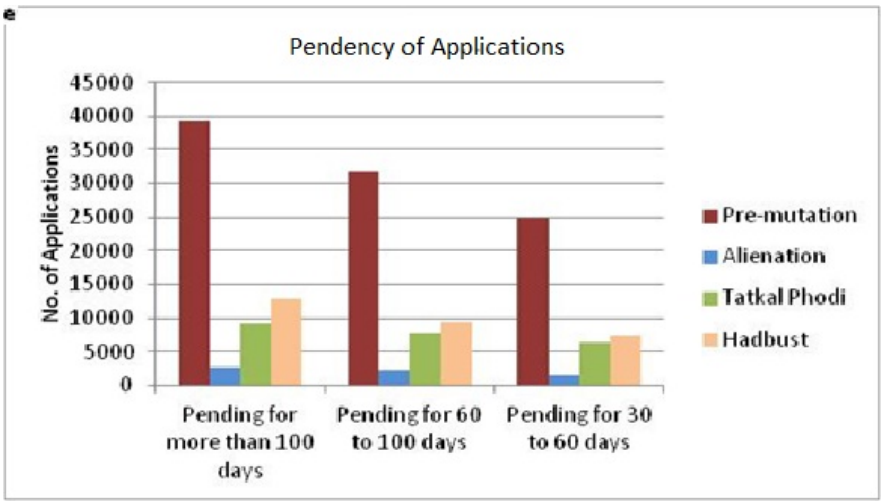
[8] Cut off date on which Mojini data was taken for audit analysis.

For the 8,040 applications that have been finally issued to applicants, a break-up of the time taken for each type of sketch to be issued is shown in the following charts.





The duration of pendency of the remaining applications for each type of sketch is as shown below. Applications received later than 25 March 2014 (after providing for 30 required days) have not been considered:



The above indicates that the SSLRD failed to comply with the requirement of issue of sketches within 30 days as also its own undertaking to issue the same within 15 days. This showed that even after processing and monitoring of applications received for sketches through Mojini, SSLRD had not achieved the intended objective of delivery of sketches within 30 days.

An analysis of the time taken in respect of the 8,040 sketches issued revealed that average time taken to issue a sketch was 92 days resulting in an average delay of 62 days in disposal of applications.

To understand the reasons for the same, we attempted to analyse the time taken at select stages of the process flow in respect of all the applications received. The same is given in the **Table 4.4**.

Table 4.4
Average number of days taken at different stages

Stages	Activity	Average Time Taken (Days)
Stage 1	Time taken for the verification surveyor to search for Akarband, tippan, maps etc.	25
Stage 2	Time taken by Survey Supervisor in examining the applications and assigning the same to a Government/Licensed Surveyor	9
Stage 3	Time taken in acknowledging receipt of an application by the Licensed/Government Surveyor	10
Stage 4	Time taken by Govt./LS to complete the work assigned to him	26
Stage 5	Delay, after assigning an application for RTC correction at the Taluk office, in actually handing over the physical documents.	16
Stage 6	Delay in approving/rejecting sketches submitted by surveyors	5
Stage 7	In the case of multiple owner RTCs, sketch pertaining to the parcel in question is to be issued only after the phodi sketch for the entire survey number is submitted and single owner RTCs are created based on the same.	22
	Total	**113**

It is clear from the above that issue of sketch within 30 days is an ambitious objective and difficult to achieve given the field survey activities and manual office process involved. Time taken at stages 1 and 2 could be minimized by enabling Mojini to access digitized Akarband data.

In respect of actual survey by LS (stage 4), to ensure prompt disposal of work, Mojini skips allotment of application to a LS who has an application pending for more than 30 days with him. However, no time limit or controls are in place for the processing in other stages.

At present, if any application becomes pending for a period more than 100 days, Mojini restricts further allotment of applications in that office till the pending application is cleared. This has the effect of impeding rather than promoting process flow.

In this context, normative time limits for processing application at each stage could be incorporated in Mojini to monitor and generate stage wise pendency reports.

In the exit conference (September 2014), SSLRD stated that the Department was seized of the importance of disposal of pendency and was taking steps to clear the backlog after April 2014. SSLRD also reported that progress has since picked up as far as delivery time was concerned.

4.3.7 Denial of Hudbust sketches to multiple owner RTC holdings

Prior to introduction of Mojini II, all applications for Hudbust sketches were received and processed manually. On introduction of Mojini II, applications for Hadbust sketches were also received and processed in Mojini II. Mojini II was not designed to handle processing of Hudbust applications received in respect of Sy. No. having multiple owners. Hence, in November 2013, the SSLRD directed that all pending Hudbust applications received prior to 1 November 2013 in respect of Sy.No. having multiple owners should be returned by endorsement. Thus, a decision was taken to disallow a service to citizens that the SSLRD was mandated for due to inadequacies in the computerisation.

The SSLRD is yet to formulate an action plan for land holders in multiple owner survey numbers to get their boundaries marked.

4.3.8 Access Management

The Mojini application system incorporates a system of logical access controls involving usernames, passwords and biometric identification. The functionalities made available to each user have been designed on the basis of their designation. Biometric login has been disabled for Licensed Surveyors with the introduction of the latest version of the application, to facilitate access during the performance of their field assignments as well. Administration of access controls is done by the Mojini Project Monitoring Unit (MPMU).

Examination of the logical access control system showed that the SSLRD has not formulated, distributed and enforced a password policy to ensure adequate password discipline involving use of strong passwords, non-sharing of password and frequent change of the same. Further, no protocols for management of user accounts have been documented and enforced.

The following deficiencies in logical access controls have been observed:

1. **Use of different login identities by the same user:** Mojini has 12,177 registered users who access the system on a regular basis. We observed that 428 officers were having more than one active login identity each, totaling 989 logins. In several of the above cases, this is a result of non-deactivation of the original account of an officer who gets transferred or promoted. Instead of establishing and following a protocol for modification of the user profile and permissions, the procedure being followed by the MPMU is to create yet another login account, without deactivating the original. This can result in the officer being able to exercise privileges over a jurisdiction that belongs to another.
2. **Use of identical passwords:** We observed from an analysis of the user account database that 10,627 users (87 per cent of total 12,177 users) have been accessing Mojini with only three passwords. The 7,744 users who share one password, include persons of all authority levels from Assistant Directors of Land Revenue and Tahsildars to Nadkacheri Operators. Such usage of a common password between a wide spectrum of authority represents a dilution of authorisation controls.
3. **Failure to ensure frequent change of passwords:** Only 1,446 users have changed their passwords at least once within 8 months from September 2013 to April 2014.

SSLRD stated (September 2014) in the exit conference that password strength and frequency of change will be ensured.

4.3.9 System Security

A Security Policy is a document that states how an organisation plans to protect its physical and information technology assets. We observed that the SSLRD did not have any documented Security Policy.

An agency was hired for the maintenance of Mojini by the SSLRD in May 2012. The agency has been provided with administrative login privileges and was also carrying out system development/modifications indicating that the privileges of the development team were not well segregated from those of the system administrator. In this scenario, it was ideal to have detection controls in the form of logs of user and administrator action. The logs should specify the time and nature of user actions and specify the identity of the node used to carry out the same. A schedule for periodic review of such logs should be documented and established. We observed that such controls were not established in SSLRD. Hence, it was not possible for audit to assess the extent of overlap, if any, between administrator and application developer actions.

4.3.10 Inadequate integration with other application systems/procedures

4.3.10.1 Integration of Mojini with Kaveri Application System

It is mandatory to produce pre-mutation sketches issued by SSLRD for registration of documents. This ensures registration of existing land as sketch is issued by SSLRD after survey. However, the Kaveri software has not been integrated with Mojini to ensure authenticity of pre-mutation sketch produced for registration. In the absence of integration between Mojini and Kaveri there is no assurance that all transactions proceed with an authorised corresponding pre-mutation sketch. Kaveri mandates the entry of the pre-mutation sketch number for registration. It was noticed that arbitrary numbers were being entered in Kaveri to bypass the Kaveri System mandate.

SSLRD stated (September 2014) in the exit conference that modalities for integration with KAVERI was being worked out with the DSR.

4.3.10.2 Integration with Digitised Akarband

Entries in Akarband Register[9] maintained at SSLRD at any given point of time form the basic record for any subsequent land transaction. In processing any application received for pre-mutation sketch, hudbust and alienation sketches, survey and measurement Akarband serves as a Master Data.

Under the Centrally Sponsored Scheme (January 2007) of computerisation of Land Records, scanning, cleaning and preservation of cadastral[10] records was taken up which envisaged digitization of Akarband.

Even after six years of introduction of Mojini, integration of Mojini with digitized Akarband has not been thought of. Details from Akarband Register are being manually entered into Mojini in respect of any land as and when applications were received in respect of that land. The access to digitised Akarband would not only help in ensuring the accuracy of the data for processing but also reduce time taken for issue of sketches.

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9 It contains the details of total extent of land and assessed amount of land revenue for each survey number.

10 Tippans and Village maps

In the exit conference (September 2014), SSLRD stated that although digitisation of Akarband was not conceptualised in Mojini, it would be considered in the next phase of project expansion.

4.3.10.3 Co-ordination for verification of alienation sketches

Conversion of agricultural land for other (residential, commercial) purposes (alienation) requires the owner of the land to obtain an 'alienation sketch' from the SSLRD (after payment of the requisite fee as prescribed from time to time) and submit the same, along with the application for conversion, at the Taluk office. The sketch is to be prepared after the surveyor makes a fresh measurement and survey of the land in question, with respect to its tillable and non-tillable (Kharab) extents, the exact boundaries of the land etc.

Our cross-verification of 490 conversions in 2013-14 as per conversion register in Taluk offices[11] (Hoskote, Raichur, Manvi, Maddur) with Mojini database showed that in respect of 280 cases, no applications had been received and processed through Mojini.

From the above, it is evident that there was no co-ordination between Tahsildar's office and Survey section to mandate the submission of alienation sketch issued through Mojini. Apart from the loss of revenue to Government (in terms of application fee for alienation sketches), use of unauthorised sketches cannot be ruled out.

SSLRD stated (September 2014) in the exit conference that the process of alienation was a manual process and the issue would be addressed as and when 'Namma Bhoomi[12]' is implemented wherein the process of alienation would be online.

4.3.11 Conclusion

The SSLRD, through the introduction of Mojini, has achieved a measure of transparency and fairness in allocation of work to licensed surveyors. Deviation from the declared work allotment policy have been observed in about 14 *per cent* of cases indicating scope for improvement. Incorporation of FIFO scheme in the work flow process has increased transparency in disposal of applications and assures the citizens of order of priority.

However, weak IT governance was indicated by inadequate documentation relating to System Development, Business Continuity and Disaster Recovery, Change Management and System Security. Non-integration of Mojini with digitized Akarband is leading to avoidable manual intervention and also contributing to delay in service delivery.

Accountability of processes could not be ensured for want of good password discipline and system logs. Authenticity of the sketches produced for registration are not ensured due to absence of integration with Kaveri.

Despite the issues discussed above, it is to the credit of the Government of Karnataka that it is one of the first States to introduce delivery of pre-mutation sketch and other sketches preceding the actual transaction of land with a view

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11 Gulbarga, Hoskote, Jewargi, Raichur, Maddur,Manvi and Yelahanka,

12 Proposed newer version of Bhoomi

to assure the citizens of clear land transactions and ensuring accuracy of land records. However to ensure optimum efficiency, the SSLRD may consider further improvements on the lines discussed above to strengthen land records management and provide improved service delivery to its citizens.

4.3.12 Recommendations

Government/SSLRD may consider:

Data porting of Mojini from one version to higher version instead of parallel running of both the versions.

(Paragraph 4.3.2.2)

Using Mojini to dynamically bring to the notice of the Tahsildar through MIS reports that other applications of the same survey number were pending for RTC correction.

(Paragraph 4.3.4.2)

Periodical review of user accounts along with system level controls that ensure adequate password strength and time limit for resetting the same.

(Paragraph 4.3.8)

Integration between Kaveri and Mojini to ensure that authenticated sketches are used at the time of registration.

((Paragraph 4.3.10.1)

Integration of Mojini with digitized Akarband and drawing up a time-bound strategy for building up e-database of Akarband to avoid manual intervention and for speedy delivery of services.

(Paragraph 4.3.10.2)

4.4 Loss of revenue due to incorrect fixation of lease rent

Under Rule 19 of the Karnataka Land Grant Rules (KLG Rules) 1969, the Deputy Commissioner may lease land to any individual or company or association for non-agricultural purposes. Prior sanction of the State Government is necessary where tenure of the lease is more than 10 years. The Deputy Commissioner shall fix the rent payable in respect of such land taking into account the locality and the purpose for which the land is utilised, etc.

Government of Karnataka approved (22 December 2012) lease of six acres of land in survey number 71 and 72 of Gunjuru village (Varthur Hobli, Bangalore) to M/s Gunjur club for 30 years with effect from 22 May 2013. Considering the then market value at ` 60 lakh per acre, the Government fixed the lease rent at ` 6 lakh per acre (at 10 per cent of the market value) with the stipulation to increase the lease rent by 10 *per cent* after every two years.

During audit, it was noticed that as per the guidance market value published by the Central Valuation Committee, the minimum value of agricultural land, per acre, applicable during that period was ` 1 crore in Gunjuru village. The jurisdictional Tahsildar had also informed (28 November 2012) the Deputy

Commissioner that the guidance market value of the land per acre was ` 1 crore and actual market value prevailed at that point of time was ` 2 crore per acre. Therefore, the market value adopted by the Government while fixing the lease rent at ` 6 lakh per acre was incorrect which led to short fixation of lease rent by ` 4 lakh[13] per acre. This had resulted in loss of revenue of ` 24 lakh per annum to Government (at ` 4 lakh for six acres) for the first year of lease which is already over. Besides, there will be a recurring loss to Government during the tenure of the lease. The total loss of revenue to Government during the entire lease period would be ` 15.25 crore[14], if the lease rent is not amended in accordance with the then prevailing guidance market value.

This was pointed out to the Tahsildar concerned in November 2013 and reported to the Deputy Commissioner concerned in December 2013. The issue was raised with the Principal Secretary to Government of Karnataka, Revenue Department during May 2014 and June 2014. The replies were awaited (October 2014).

4.5 Loss of revenue to Government due to irregular permission granted to a lessee to sub-let the Government land

Under Rule 19(4)(viii) of the KLG Rules, if the land or a portion of the land is required for any public purpose, the authority sanctioning the lease can resume the land after issue of three months notice to the lessee.

The erstwhile Government of Mysore had sanctioned (1 June 1956) lease of land for 99 years measuring 229 ft X 225 ft situated in Bangalore (Urban) to M/s Bowring Institute on an annual rent of Rs.30/- for establishing a club.

Based on the request made by M/s Bowring Institute, Government permitted (11 February 1969) sub-letting of a portion of the land measuring 150 ft X100ft in favour of M/s Indian Oil Corporation (IOC). The order stipulated that the lessee shall remit 50 *per cent* of the lease rent as and when realised from M/s IOC. Accordingly this portion of land was under sub-lease to M/s IOC since February 1969.

It was noticed that as per the registered lease deed (April 2011) between M/s IOC and M/s Bowring Institute, the sub-lease was for a period of 20 years effective from 24 February 2009, and M/s IOC was liable to pay rent of ` 2.5 lakh per month with 10 *per cent* upward revision after every three years.

Accordingly, for the period from February 2009 to March 2013, Government's share of 50 *per cent* of the rent amounting to ` 63.11 lakh was remitted by M/s Bowring Institute between April and June 2013.

From the chain of events, it is evident that the land which was sub-let to M/s IOC was not required by M/s Bowring Institute for its intended bona fide purpose of running a club. The Institute had put up their own building and other facilities in rest of the land and were running club activities.

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[13] (10% of ₹ 1 crore) less ₹ 6 lakh.

[14] Total lease rent based on guidance market value ₹ 38.13 crore less lease rent as fixed by Government ₹ 22.88 crore.

As the portion of the land being sub-let to M/s IOC is not being used by the lessee for the purpose for which it was granted, the Government should take appropriate action to resume the portion of the land under Rule 19(4)(viii) of the KLG Rules. This will lead to additional lease rental revenue of ` 3.14 crore[15] to the Government during the current sub-lease period.

This matter was brought to notice of the Government in July 2014. The reply was awaited (October 2014).

4.6 Incorrect demand raised on market value of land granted

The KLG Rules empowers the Government to grant land to various classes of beneficiaries subject to procedures prescribed and conditions specified therein. The KLG Rules provide for recovery of specified percentage of market value of the land granted from the beneficiaries in certain cases.

(i) Under Rule 9 of KLG Rules, the land granted for agricultural purposes shall not be alienated by the grantee for a period of fifteen years from the date of taking possession. The said Rules which provide for alienation of the land granted after five years with the prior permission of the Deputy Commissioner (DC) also prescribe that the DC shall not grant such permission unless the grantee credits to Government an amount equal to 50 *per cent* of the market value of such land as on the date of sanction of such alienation.

Test check of records in the office of the Tahsildar, Bangalore North (Additional) in September 2013 showed that 3.11 acres of land had been granted to an individual for agricultural purposes ('saguvali chit') in January 1997. The grantee sold the granted land in June 2011 vide a sale deed registered in Sub-Registrars' Office, Jala in Bangalore district.

As per the recitals in the sale deed, based on an application of the grantee, the DC directed (June 2006) the grantee to remit ` 19.65 lakh being 50 *per cent* of the then existing market value of the property for granting permission. The DC issued one more intimation to the grantee in January 2010 to remit the same amount of ` 19.65 lakh, though by that time, the market value of the property as determined by the CVC shot up to ` 131.00 lakh and 50 *per cent* of that amount being ` 65.50 lakh, was to be demanded. The grantee remitted ` 19.65 lakh in February 2010 and the DC granted permission to sell in March 2010. The incorrect demand raised by the DC in January 2010, without considering the prevailing market price, resulted in short levy of value of land by ` 45.85 lakh.

(ii) Under Rule 21 of KLG Rules, the DC, with the prior approval of the Government, may grant land to religious and charitable institutions. The said Rule stipulates that no concession in the price of the land shall be given to any institution. It also provides that "institutions run purely for religious and charitable purpose 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 may be granted land under this

[15] Additional fifty percent of the sub-lease rent for the period from September 2014 to February 2029 based on the lease deed between M/s Bowring Institute and M/s IOC.

proviso at 50 *per cent* of the market value or guidance value whichever is higher".

Test check of records in the office of the Tahsildar, Bangalore East in November 2013 showed that 2 acres of land had been granted (22 December 2012) to Buddha Bhoomi Foundation Trust for Buddha Vihara and Ambedkar park under Rule 21 of KLG Rules. In the said GO, 25 per cent of the guidance value was levied for the land granted. Accordingly, the Tahsildar recovered ` 15 lakh being 25 *per cent* of guidance value (` 60 lakh for two acres) of the land in February 2013 from the grantee. The levy of only 25 *per cent* of the value of the land instead of 50 *per cent* prescribed under Rule 21 of the KLG Rules was irregular. This resulted in short levy of value of land by ` 15 lakh.

These cases were brought to the notice of the Department between September and November 2013 and the issue was also taken up with the Government (April 2014). Their replies were awaited (October 2014).

4.7 Non realisation of stamp duty on land granted

Under Rule 20 (1) (c) of the KLG Rules, the Deputy Commissioner may grant land with the prior approval of the State Government to Co-operative Societies and Statutory Bodies like the Karnataka State Road Transport Corporation, Karnataka Power Transmission Corporation Limited, etc on collection of 50 *per cent* of market value as determined by the Deputy Commissioner. After the land are granted, Tahsildars concerned are to execute conveyance deeds in the jurisdictional Sub-Registrar offices and stamp duty and registration fee are to be paid by the beneficiaries.

Under Section 17 of the Registration Act, 1908 "Non-testamentary instruments which purport or operate to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest, whether vested or contingent, of the value of one hundred rupees and upwards, to or in immovable property" are documents of which registration is compulsory.

Under the KS Act, stamp duty at the prescribed[16] rate is leviable on the 'market value' of the property which is the subject matter of conveyance instrument. In addition, registration fee of one *per cent* of the 'market value' of the property is also leviable. The market value of property in respect of any instrument executed by or on behalf of the State Government shall be the value of consideration for such conveyance as set forth in the instrument.

Test check of records of two[17] offices of the Tahsildars and one[18] office of the Deputy Commissioner showed that, land had been granted to five[19] institutions under Rule 20(1)(c) of the KLG Rules, at 50 *per cent* of the market value, which amounted to ₹ 7.00 crore. In these cases, no action was taken by the Tahsildars to execute conveyance deeds, thereby depriving the Government of the consequent revenue towards stamp duty and registration fee. Non realisation of stamp duty and registration fee in these cases amounted to ₹ 46.19 lakh and ₹ 7.00 lakh respectively.

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[16]@ 7.5% for 2007-08 and 2008-09, @ 6.78% for 2011-12&@ 5.65 % for 2012-13
[17]Tahsildars, Anekal and Devanahalli
[18]DC, Dharwad
[19]M/s.BMTC, M/s.KPTCL, M/s.DevarajaUrs Truck Terminal and Karnataka Education Board

These cases were brought to notice of the Deputy Commissioners concerned and referred to Government in July 2014. Their replies were awaited (October 2014).

4.8 Non demand of lease rent and interest

Under Rule 19 of the KLG Rules, the Deputy Commissioner may, subject to availability, lease land to any company or association for agriculture, industry or public utility. Prior sanction of the Government is required where the extent exceeds four hectares or the term of lease is more than ten years. The lessee shall execute a lease deed in Form IV incorporating all the terms of the lease, for lease granted under this Rule. As per conditions in Form IV, the lessee shall pay all sums due on account of lease in advance, monthly or annually. Interest at 12 *per cent* per annum is payable for delay in payment.

Test check of leases of land in three[20]Tahsildar offices between August 2013 and December 2013 revealed that in four cases lease rent due amounting to ₹ 31.96 lakh between February 2005 and March 2013 have not been paid by the lessees concerned. Further, no action was taken by the Tahsildars concerned to demand and collect the same together with interest. The non-demand of lease rent in these cases amounted to ₹ 32.77 lakh. The interest payable in these cases, as on 31 March 2013, works out to ₹ 12.84 lakh.

On this being brought to notice, the Tahsildar, Hosadurga replied that demand notices would be issued and the amounts recovered.

This was brought to the notice of the Government (April 2014). Their replies were awaited (October 2014).

[20]Tahsildars, Bangalore(North), Bangalore (South) and Hosadurga

CHAPTER-V
Other Tax/Non-tax Receipts

5.1 Tax administration

This chapter consists of receipts from State excise, taxes on motor vehicles and mining activities. The tax/revenue administration is governed by Acts and Rules framed separately for each revenue receipt.

5.2 Results of audit

In 2013-14, test check of records of 18 units relating to excise, 51 units relating to taxes on motor vehicles, one unit relating to electricity tax and 14 units relating to mineral receipts showed non/short realisation of revenue and other irregularities involving ₹ 166.29 crore in 229 cases, which fall under the categories given in **Table 5.1**:

Table 5.1

(₹ in crore)

Sl. No	Category	Number of paragraphs	Amount
	State Excise		
1.	Non/short levy of licence fee on RS-2 licence	03	1.60
2.	Non levy of penalty for short lifting of IML	04	2.28
3.	Non-collection of stamp duty on renewal/grant of licence	39	7.42
4.	Other irregularities	24	1.88
	Total	**70**	**13.18**
	Taxes on motor vehicles		
1.	Non/short levy of Life Time Tax in respect of construction equipment vehicles.	29	2.60
2.	Non/short levy Life Time Tax in respect of non-transport vehicles	36	1.37
3.	Other irregularities	45	17.40
	Total	**110**	**21.37**
	Electricity Tax		
1.	Non-payment/ Non-demand of Electricity tax	02	0.27
2.	Short levy/ payment of Electricity tax	03	0.09
	Total	**05**	**0.36**
	Mineral receipts		
1.	Non/short levy of royalty/dead rent	13	3.79
2.	Non/short collection of Environment Protection Fee	08	10.03
3.	Non/short levy of penalty for transportation of minerals without obtaining Mineral Despatch Permits	08	99.12
4.	Other irregularities	15	18.44
	Total	**44**	**131.38**
	Grand Total	**229**	**166.29**

During the course of the year, the Departments concerned had accepted underassessment and other deficiencies involving ₹ 42.05 crore in 109 cases which were pointed out in earlier years. An amount of ₹ 10.67 crore was recovered in 57 cases during the year 2013-14. A few illustrative cases involving ₹ 103.53 crore are discussed in the following paragraphs.

5.3 Short Lifting of IML

According to rule 14(2) of the Karnataka Excise (Sale of Indian and Foreign Liquors) Rules, 1968, "the licensees holding retail shop licences in Form CL-2 and Bar licences in Form CL-9 shall lift for sale from a distributor licensee, the minimum quantity of liquor fixed per month for the shop. The minimum limit is based on the license fee prescribed for each type of licence, overheads, other expenses incurred, location of the shop, area of operation, sale of liquor in the previous years and similar factors to ensure that illicit liquor is not obtained by the licensees and sold in the shop and to ensure that no attempt is made to undersell the liquor and thereby wholesome liquor obtained only from authorised sources is sold to the customers. In case, the licensee fails to lift the minimum quantity of liquor fixed for the month, he shall be liable to pay ` 100 for every bulk litre on the quantity short lifted".

Test check of the consumption registers maintained by seven[1] Inspectors of Excise (IOE) under Deputy Commissioners of Excise (DCOE)- Bangalore (East) and Bangalore (West) during January 2014 revealed that 29 licensees (CL-9) had short lifted 2,14,153 bulk litres of IML for the period from 2008-09 to 2012-13. Though these licensees had violated the minimum limits prescribed for lifting of IML, no action was taken by the Department to levy penalty for short lifting of IML as prescribed under the Rules. The non levy of penalty worked out to ` 2.14 crore.

After Audit pointed out these cases to the IOEs concerned, IOEs Whitefield and K.R.Puram stated (January 2014) that notices will be issued to six licensees in their jurisdiction. The matter in respect of the remaining 23 licensees under five IOEs was stated to be under examination.

The matter was reported to the Department and Government in March 2014 and June 2014 respectively. Their replies were awaited (October 2014).

[1] IOEs, Banashankari, Gandhinagar, K.R. Puram, Munireddy Palya, Rajmahal Vilas, RPC Layout and Whitefield,

5.4 Non/Short levy of Life Time Tax on construction equipment vehicles

As per the Karnataka Motor Vehicles Taxation (KMVT) Act 1957, quarterly tax was payable up to 31 March 2010 on construction equipment vehicles. With effect from 1 April 2010, these vehicles are liable for Life Time Tax (LTT), which is payable at the rate of 6 *per cent* of the cost of the vehicle, subject to depreciation. Further, cess at the rate of 10 *per cent* with effect from 1 April 2010 and 11 *per cent* with effect from 1 April 2011 of the tax levied is also applicable. The LTT levied was permitted to be paid in two equal instalments, half the amount to be paid at the time of tax due or during registration and the balance amount of tax to be paid within six months after the date of payment of the first instalment. Non-payment of tax constitutes an offence and the KMVT Rules 1957 provide payment of 1 *per cent* of the tax payable for each defaulting month, as penalty.

As per the KMVT Act, the cost of the imported vehicle for the purpose of LTT is 'the value of the vehicle as endorsed in the Bill of Entry under the Customs Act, together with custom duty, freight charges and other taxes levied'.

On a test check of 'B'[2] Register and Registration files in 17[3] Regional Transport Offices (RTOs) between April 2013 and February 2014, we noticed that LTT of ` 1.13 crore was either not levied or levied short in respect of 148 construction equipment vehicles. Penalty of ` 15.75 lakh was also leviable in these cases. The details are given below:

- In respect of 23 vehicles, the vehicle owners had not paid even the first instalment of LTT amounting to ` 28.25 lakh.
- In respect of 122 vehicles, the vehicle owners who had paid first instalment between October 2010 and September 2012 had failed to pay the second instalment (April 2013) despite the lapse of more than six months from the date of payment of first instalment. The total amount of second instalment of tax in these cases amounted to ` 83.63 lakh. As of 31 March 2013, age-wise delay in non-payment of second instalment is given in **Table 5.2.**

Table 5.2

Period of delay after the time limit due for payment	Number of vehicles	Amount of tax (` in lakh)
1 month and up to 6 months	72	50.46
More than 6 months and up to 12 months	25	16.02
More than 12 months and up to 18 months	11	8.13
More than 18 months	14	9.02
Total	**122**	**83.63**

[2] The Register contains day-wise details of tax paid for registered vehicles.

[3] RTOs - Bagalkot, Belgaum, Bidar, Chamarajanagar, Chitradurga, Hospet, Jamkhandi, Jnanabharathi, Karwar, Mandya, Mysore (East), Mysore (West), Nagamangala, Raichur, Tumkur, Yadgir, Yeshwanthpur.

No action was taken by the RTOs concerned to demand and collect the same.

- In respect of three imported construction equipment vehicles, for levy of LTT, cost of the vehicles was taken as ` 141.15 lakh against actual cost of ` 174.88 lakh specified in the Bills of Entry. This resulted in short levy of LTT by ` 1.54 lakh[4].

These cases were pointed out to the RTOs concerned between April 2013 and February 2014, and brought to the notice of the Commissioner for Transport and Road Safety (February and May 2014). The Government/department reported recovery of ` 34.26 lakh including penalty in 40 cases and issued demand notices in 15 cases. Replies in the remaining 93 cases were awaited (October 2014).

5.5 Non levy of Life Time Tax on non-transport vehicles

Tax on cars and jeeps owned by Central Government employees, defence personnel, employees of public sector undertakings owned by Government of India including Nationalised banks, were taxed (up to 28 December 2011) on quarterly basis as per Part A[5] of the Schedules to KMVT Act. With effect from 29 December 2011, LTT[6] was levied on motor cars and jeeps purchased by these persons in the State of Karnataka as per Part A5 of the Schedule to the KMVT Act.

Non-payment of tax constitutes an offence and the KMVT Rules 1957 provide for payment of 1 *per cent* of the tax payable for each defaulting month, as penalty.

Test-check of records of six[7] RTOs between June 2013 and November 2013 revealed that LTT of ` 29.80 lakh due in respect of 50 vehicles bought in the State by these employees was not paid. Instead quarterly tax is being paid on these vehicles. No action had been taken by the Department to raise demand and recover the taxes due. A sum of ` 3.92 lakh was required to be levied as penalty[8] in these cases.

After this was brought to notice, the RTOs, Chamarajanagar, Mysore (West), Bidar and Karwar replied that demand notices were being issued and the cases would be taken to Demand, Collection and Balance (DCB) statement. RTOs, Bangalore (West) and Davanagere replied that demand notices had already been issued. However, no records were produced to Audit to verify issue of demand notices.

This was brought to the notice of the Commissioner for Transport and Road Safety (Commissioner) between June 2013 and December 2013 and again in March 2014. Recovery of taxes and penalty amounting to ` 12.66 lakh in 16 cases and issuance of demand notices in eight cases were reported (May 2014)

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4 LTT leviable ₹ 11.64 lakh less levied ₹ 10.10 lakh

5 Part A of the Schedules to KMVT (Taxation) Act – Levy of quarterly tax on vehicles

6 Cess at the rate of 10 *per cent* with effect from 1.4.2010 and 11 *per cent* with effect from 1.4.2011 of the tax levied is also applicable

7 RTO – Bangalore (West), Bidar, Chamarajanagar, Davanagere, Karwar and Mysore (West)

8 Calculated up to March 2013.

by the office of the Commissioner and the same was endorsed by the Government. Reply in the remaining cases was awaited (October 2014).

Receipts from Mineral

5.6 Non levy of penalty for transportation of minor minerals without Mineral Dispatch Permit (MDP)

Rule 42 of the Karnataka Minor Mineral Concession (KMMC) Rules, 1994, envisages that no person shall transport or cause to be transported any minor mineral except under or in accordance with a Mineral Despatch Permit (MDP) to be issued by Deputy Director(DD) or Senior Geologist (SG), Mines and Geology.

Further, as per Part-V Clause-4 of the quarry lease deed, the quarry lease holder will be liable for penalty at five times of royalty for transporting minor mineral without obtaining MDP.

During the test check of records in the offices of four[9] DDs and two[10] SGs between November 2013 and February 2014, we noticed that 83.37 lakh MT of building stone and 20,698 MT of Lime shell was transported by the lessees during the years 2011-12 and 2012-13. Out of this, only 17.15 lakh MT of building stone and 14,950 MT of Lime shell was transported after obtaining MDPs and the remaining 66.22 lakh MT of building stone and 5,748 MT of Lime shell was transported without obtaining MDPs.

We noticed that the offices concerned had not levied penalty as per the terms of the quarry lease deed for transporting of building stone and Lime shell without obtaining MDPs. The non-levy of penalty worked out to ` 99.51 crore.

When we pointed this out between (November 2013 and February 2014), DD-Belgaum and SG-Bidar, stated that Rule 42 of KMMC Rules, 1994, is not applicable in respect of non-specified minor mineral by virtue of Rule 31 of said Rules, which reads as "The provisions of Rules 6,7,8,19 (19A, 20) and Rules 35 to 41 shall mutatis mutandis apply to quarry leases granted or renewed under the Chapter-IV – Grant of quarry leases for Non-specified Minor Minerals". Reply was not tenable as Rules 31 refers to the Rules relating to grant of quarrying leases and Rule 42 of KMMC Rules, 1994 is applicable to all minor minerals which clearly states that no minor mineral shall be transported except in accordance with MDP issued under this Rule by the competent authority. In the remaining cases, it was stated that the cases would be examined.

This was brought to the notice of the Department during December 2013 and April 2014 and referred to the Government in the month of July 2014. Their replies were awaited (October 2014).

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9 Belgaum, Mangalore, Karwar, Ramanagara

10 Bidar,Udupi.

5.7 Short deduction of royalty due to incorrect adoption of rates of royalty

According to Rule 36 of the Karnataka Minor Mineral Concession (KMMC) Rules, 1994, the holder of a quarrying lease or licence, shall pay royalty on the minor mineral removed or consumed by the lease / licence holder or his agent, manager, employee or contractor at the rates specified in Schedule-II under the Rules. The rates under Schedule II were revised with effect from 23 June 2007 whereby rate of royalty on murram, ordinary sand and building stone were revised from ` 5/-, ` 15/- and ` 25/- per metric tonne (MT) respectively to ` 10/-, ` 30/- and ` 30/- per MT respectively.

As per the circular instruction (December 2007) of Commerce and Industries Department, Government of Karnataka, in respect of works executed by the work executing departments like Public Works Department, the department should deduct royalty from the bills of the contractors, if they fail to produce proof of payment of royalty to the departments concerned.

During the test check of records of quarry leases of building stone in the office of Deputy Director (DD), Mines and Geology, Belgaum in December 2013, we noticed that M/s. Karnataka Road Development Corporation Limited (KRDCL) for whom a contractor, M/s. P.B.I. Construction Company, had executed a work[11] had submitted the running account bills of the contractor along with the details of payment of royalty deducted and remitted to Government account during 2010-11 and 2011-12. Audit scrutiny of the running account bills revealed that M/s KRDCL had deducted only ` 41.33 lakh (at pre-revised rate) against the deductible amount of ` 82.34 lakh (at revised rate) resulting in short levy of royalty of ` 41.01 lakh. The details are given in **Table 5.3** below:

Table 5.3

(` in lakh)

Minor Mineral	Quantity on which royalty deducted (in metric tonnes)	Royalty leviable at revised rates	Royalty deducted	Short levy of royalty
Murram	2,03,507.57	20.35	10.18	10.17
Building Stone	2,05,144.37	61.54	30.77	30.77
Sand	1,508.70	0.45	0.38	0.07
		82.34	41.33	41.01

The Department had not detected the short levy of royalty even though the running account bills were submitted to it and hence no action had been taken to recover the royalty short levied.

On this being pointed out by Audit, DD, Belgaum stated (December 2013) that action would be taken to collect the royalty due.

[11] "Improvements to road from Peeranwadi upto Goa" for M/s. Karnataka Road Development Corporation Limited (KRDCL) during the years 2010-11 and 2011-12.

This was brought to the notice of the Department during November 2013 and January 2014. The issue was also raised with the Director of Mines and Geology in May 2014 and referred to Government in July 2014; their replies were awaited (October 2014).

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Principal Accountant General
(Economic and Revenue Sector Audit)
Karnataka

Bengaluru
The

Countersigned

(Shashi Kant Sharma)
Comptroller and Auditor General of India

New Delhi
The

Annexure 1

(Referred to in paragraph 2.4.3.1)

Details of short levy of tax due to deduction of labour and like charges on total turnover before deduction of tax collected

(` in lakh)

Sl. No.	TIN/Re-assessment authority	Tax Period/ Date of re-assessment	Total contract receipts including VAT and Service Tax collected	Taxes Collected (VAT and Service Tax)	Allowable labour and like charges(30 *per cent* of Col 4 - Col 5)	Actual labour charges allowed in re-assessments	Excess deduction allowed	Short levy of tax	Penalty u/s 72(2) @ 10*per cent* of Col.9	Interest u/s 36	Total
1	2	3	4	5	6	7	8 = 7-6	9	10	11	12
1	29210018181/ Deputy Commissioner of Commercial Taxes (DCCT) (Audit & Recovery) – 5.7 Bangalore	2010-11 / 22.12.2011	28977.80	1708.76	8180.71	8691.37	510.66	68.94	6.89	12.61	**88.44**
		2011-12 / 26.06.2013	40895.12	2497.60	11519.26	12265.05	745.77	104.41	10.44	29.70	**144.55**
		2012-13 / 29.07.2013	44254.71	2704.27	12465.13	13276.41	811.28	116.43	11.64	14.13	**142.20**
2	29270492672 DCCT (Audit-24), Bangalore	2008-09 / 23.03.2011	355.35	31.69	97.10	106.61	9.51	1.19	0.12	0.43	**1.74**
		2009-10 / 23.03.2011	292.11	16.58	82.66	87.63	4.97	0.62	0.06	0.11	**0.79**
3	29590805418 ACCT (Audit-14), Bangalore	2009-10 / 30.06.2011	148.54	11.55	41.10	44.56	3.46	0.43	0.04	0.09	**0.56**
TOTAL			**114923.63**	**6970.45**	**32385.96**	**34471.63**	**2085.65**	**292.02**	**29.19**	**57.07**	**378.28**

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