



Chapter-I
General

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1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2016-17, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the year together with the corresponding figures for the preceding four years are mentioned in **Table 1.1.1**.

Table 1.1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Revenue raised by the State Government					
	• Tax revenue	53,753.55	62,603.53	70,180.21	75,550.18	82,956.13
	• Non-tax revenue	3,966.11	4,031.90	4,688.24	5,355.04	5,794.53
	Total	57,719.66	66,635.43	74,868.45	80,905.22	88,750.66
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ¹	12,647.14	13,808.28	14,654.25	23,983.34	28,759.94
	• Grants-in-aid	7,809.42	9,098.82	14,619.45	13,928.75	15,703.19
	Total	20,456.56	22,907.10	29,273.70	37,912.09	44,463.13
3.	Total revenue receipts of the State Government (1 and 2)	78,176.22	89,542.53	1,04,142.15	1,18,817.31	1,33,213.79
4.	Percentage of total revenue raised by the State Government to total revenue receipts (1 to 3)	74	74	72	68	67

The above table indicates that during the year 2016-17, the revenue raised by the State Government (₹ 88,750.66 crore) was 67 per cent of the total revenue receipts. The balance 33 per cent of the receipts during 2016-17 came from the Government of India.

1.1.2 The details of the tax revenue raised during the period 2012-13 to 2016-17 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, 0028-Other Taxes on Income and Expenditure-Minor head-901, 0032-Taxes on Wealth, 0037-Customs, 0038-Union Excise Duties, 0044-Service Tax, and 0045-Other taxes and Duties on Commodities and Services-Minor head-901, as share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2016-17, 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

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+)/decrease (-) in 2016-17 over 2015-16	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	27,735.00	28,414.44	33,590.00	33,719.35	37,250.00	38,286.03	41,329.00	40,448.63	46,504.10	46,105.17	12.52	13.98
2.	State Excise	10,775.00	11,069.73	12,600.00	12,828.36	14,430.00	13,801.08	15,200.00	15,332.88	16,510.00	16,483.75	8.62	7.51
3.	Stamp Duty and Registration Fee	5,200.00	5,225.02	6,500.00	6,188.76	7,450.00	7,025.85	8,200.00	8,214.71	9,100.00	7,805.98	10.98	(-) 4.98
4.	Taxes on Vehicles	3,350.00	3,829.52	4,120.00	3,911.50	4,350.00	4,541.57	4,800.00	5,001.69	5,160.00	5,594.39	7.50	11.85
5.	Others	4,760.69	5,214.84	5,653.99	5,955.56	6,389.75	6,525.68	6,916.39	6,552.27	6,590.34	6,966.84	(-) 4.71	6.33
Total		51,820.69	53,753.55	62,463.99	62,603.53	69,869.75	70,180.21	76,445.39	75,550.18	83,864.44	82,956.13	9.70	9.80

BE = Budget Estimates

1.1.3 The details of the non-tax revenue raised during the period 2012-13 to 2016-17 are indicated in **Table 1.1.3**.

Table 1.1.3
Details of Non-tax Revenue

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+)/decrease (-) in 2016-17 over 2015-16	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Non-ferrous mining and metallurgical Industries	1,500.00	1,496.49	1,750.00	1,474.49	1,750.00	1,931.10	2,048.15	2,003.80	2,402.83	2,419.43	17.32	20.74
2.	Other Non-tax receipts	1,692.82	2,469.62	2,288.28	2,557.41	2,723.43	2,757.14	3,158.02	3,351.24	3,817.62	3,375.10	20.89	0.71
Total		3,192.82	3,966.11	4,038.28	4,031.90	4,473.43	4,688.24	5,206.17	5,355.04	6,220.45	5,794.53	19.48	8.21

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2017 on some principal heads of revenue amounted to ₹ 16,394.48 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 2017	Replies of Department
1.	0039 (State Excise)	808.71	Out of the total arrears, ₹ 75.22 crore was stayed by courts, ₹ 374.56 crore was covered by Revenue Recovery Certificates and recovery is in progress in the remaining ₹ 358.93 crore.
2.	0040 (Taxes on sales, trade etc.)	14,651.42	Out of the total arrears, ₹ 2,647.55 crore was stayed by courts, ₹ 142.41 crore was before BIFR ² , ₹ 203.28 crore was under liquidation process, ₹ 85.62 crore was covered by Revenue Recovery Certificates, ₹ 11,337.44 crore was under Court and Departmental recovery, write off proposals were made for ₹ 76.33 crore and payments of ₹ 158.79 crore received were under verification.
3.	0853 (Non-ferrous mining and metallurgical Industries)	934.35	Not Furnished
Total		16,394.48	

Details of arrears of revenue, if any, of Stamps and Registration, Energy, Transport and Revenue Departments, though called for (May 2017) were not received (November 2017).

1.3 Evasion of tax detected by the Departments

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

Table 1.3
Evasion of tax

(₹ in crore)

Sl. No.	Head of revenue	Cases pending as on 31 March 2016	Cases detected during 2016-17	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 2017
					Number of cases	Amount of demand	
1.	0039 (State Excise)	02	0	02	0	0	02
2.	0040 (Taxes on sales, trade etc.)	5,182	27,310	32,492	25,806	2,949.74	6,686

As seen from the above, though majority of cases detected have been settled in CTD, a significant number of cases are still outstanding at the end of the year. Early action may be taken by CTD to settle these cases in the interest of revenue.

Details of frauds and evasions detected, if any, by Stamps and Registration, Transport, Energy and Revenue Departments, though called for (May 2017) had not been received (November 2017). The Department of Mines and Geology has reported that no such cases have been detected.

² Board for Industrial and Financial Reconstruction.

1.4 Pendency of refund cases

The number of refund cases pending at the beginning of the year, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2016-17 as reported by the Commercial Taxes Department is given in **Table 1.4**.

Table-1.4
Details of pendency of refund cases

Sl. No.	Particulars	2016-17 (₹ in crore)	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,534	577.79
2.	Claims received during the year	6,277	2,152.05
3.	Refunds made during the year	5,820	1,875.93
4.	Balance outstanding at the end of year	1,991	853.91

Details of pendency of refunds cases, if any, in Stamps and Registration, Energy, Transport, Revenue and Mines and Geology Departments, though called for (May 2017), were not received (November 2017). The State Excise Department reported that no refund cases were pending.

1.5 Response of the Government/Departments towards Audit

Accountant General (Economic and Revenue Sector Audit) conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspections and those not settled on the spot are issued to the Heads of the offices inspected, with copies to the next higher authorities, for taking prompt corrective action. The Heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Accountant General within one month from the date of issue of IRs. Serious financial irregularities are reported to the Heads of the Departments and the Government.

5,527 paragraphs involving ₹ 2,010.14 crore contained in 2,282 IRs, remained outstanding at the end of June 2017. The details along with the corresponding figures for the preceding two years are given in **Table 1.5**.

Table-1.5
Details of pending Inspection Reports

	As of June 2015	As of June 2016	As of June 2017
Number of IRs pending for settlement	4,022	4,443	2,282
Number of outstanding audit observations	9,573	9,305	5,527
Amount of revenue involved (₹ in crore)	2,061.05	2,162.61	2,010.14

1.5.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2017 and the amounts involved are given in **Table 1.5.1**.

Table-1.5.1
Department-wise details of IRs

(₹ in crore)

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Finance	Commercial Taxes	536	2,082	202.57
2.		State Excise	511	766	319.64
3.	Revenue	Land Revenue	200	459	347.52
4.		Stamp duty and Registration fees	425	1,035	107.30
5.	Transport	Taxes on motor vehicles	417	685	49.05
6.	Commerce and Industries	Mineral Receipts	185	485	960.19
7.	Energy	Electricity Tax	8	15	23.87
Total			2,282	5,527	2,010.14

Audit did not receive even the first replies (required to be received from the Heads of offices within one month from the date of issue of the IRs) for 325 IRs issued during 2016-17. This large pendency of the IRs, due to non-receipt of the replies, indicated that the Heads of Offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the Accountant General in the IRs.

1.5.2 Departmental Audit Committee (DAC) meetings

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

No meetings of the Committee were convened by any of the Departments during the year 2016-17. Action may be taken to convene Departmental Audit Committee meetings for clearance of outstanding IRs and audit observations.

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 Offices to enable them to keep the relevant records ready for audit scrutiny.

During the year 2016-17, as many as 712 assessment files, refunds, registers and other relevant records were not made available to Audit. Break-up of these cases is given in **Table 1.5.3**.

Table 1.5.3
Details of non-production of records

Sl.No.	Name of the Office/Department	Number of records not produced to audit
1.	Commercial Taxes Department	24
2.	Department of Land Revenue	651
3.	Transport Department	37
	Total	712

1.5.4 Response of the Departments to the draft audit paragraphs

Draft Paragraphs/Performance Audit Reports proposed for inclusion in the Audit Report are forwarded by the Accountant General to the Additional Chief Secretary/ Principal Secretaries/ Secretaries of the Departments concerned through demi-official letters. According to the instructions issued (April 1952) by the Government, all Departments are required to furnish their remarks on the Draft Paragraphs/Performance Audit Reports within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Fourteen Draft Audit Paragraphs (including one Performance Audit and one Thematic Audit) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2017 were forwarded to the Additional Chief Secretary/Principal Secretaries/ Secretaries to the Government and copies endorsed to the heads of Departments concerned between March and September 2017.

Replies for nine Draft Paragraphs (relating to Commercial Taxes and Stamps and Registration) were received from the Government. In respect of the Performance Audit, Exit Conference was held with the Government (October 2017). Reply from the Government were received (October 2017) in respect of the Performance Audit. Further, Exit Conference was held with the Head of the Department concerned (August 2017) for Thematic Audit.

Replies to the remaining three Draft Paragraphs and one Thematic Audit relating to Department of Mines and Geology were not received from the Government (November 2017).

1.5.5 Follow up on the Audit Reports - summarised position

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

174 paragraphs (including Performance Audits) were included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Karnataka for the years ended 31 March 2012, 2013, 2014, 2015 and 2016 and one Stand-Alone Report relating to the Department of Mines and Geology which were placed before the State Legislative Assembly between March 2013 and March 2017.

As of September 2017, out of 174 paragraphs, Departmental Notes for 48 paragraphs had been received within the due dates. Departmental Notes from the Departments concerned on 81 of these paragraphs included in Audit Reports for the years 2011-12 to 2014-15 were received belatedly, with an average delay of nine months. However, Departmental Notes on the remaining 45 paragraphs from seven Departments (Commercial Taxes, Land Revenue, Stamps and Registration, State Excise, Transport, Energy and Mines and Geology) have not yet been received.

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

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

To analyse the system of compliance to the issues highlighted in the Inspection Reports/Audit Reports by the Departments/Government, the action taken on the paragraphs and Performance Audit 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 State Excise Department³ 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 2006-07 to 2015-16.

1.6.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2017 are tabulated below in **Table 1.6.1**.

Table 1.6.1
Position of Inspection Reports

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.	2007-08	945	1,396	333.90	43	129	69.83	38	118	51.84	950	1,407	351.89
2.	2008-09	950	1,407	351.89	20	36	5.23	10	112	3.77	960	1,331	353.35
3.	2009-10	960	1,331	353.35	15	31	11.66	21	55	8.81	954	1,307	356.20
4.	2010-11	954	1,307	356.20	15	49	21.00	0	10	0.29	969	1,346	376.91
5.	2011-12	969	1,346	376.91	01	01	0.01	0	0	0.00	970	1,347	376.92
6.	2012-13	970	1,347	376.92	25	63	58.67	07	24	2.13	988	1,386	433.46
7.	2013-14	988	1,386	433.46	18	230	13.18	12	90	56.42	994	1,526	390.22
8.	2014-15	994	1,526	390.22	38	103	21.67	23	200	21.83	1,009	1,429	390.06
9.	2015-16	1,009	1,429	390.06	31	66	9.40	38	85	11.72	1,002	1,410	387.74
10.	2016-17	1,002	1,410	387.74	30	29	7.07	15	46	17.01	1017	1393	377.80

During the year 2016-2017, no DAC meetings were held by the State Excise Department for settlement of IRs/paragraphs.

³ Under revenue head 0039.

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

1.6.2 Recovery in accepted cases

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

Table 1.6.2
Recovery in accepted cases

Sl. No.	Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	(₹ in crore)	
						Amount recovered during the year 2016-17	Cumulative position of recovery of accepted cases as of 31-03-2017
1.	2006-07	-	-	-	-	-	-
2.	2007-08	01	0.23	01	0.23	-	0.09
3.	2008-09	-	-	-	-	-	-
4.	2009-10	01	1.02	-	-	-	-
5.	2010-11	01	182.29	01	11.98	-	0.18
6.	2011-12	-	-	-	-	-	-
7.	2012-13	02	3.10	01	0.26	-	0.26
8.	2013-14	01	2.14	01	2.14	-	-
9.	2014-15	04	10.57	03	10.37	-	0.48
10.	2015-16	-	-	-	-	-	-

As seen from the Table above, the percentage of recovery by the State Excise Department in accepted cases for the years 2006-07 to 2015-16 is only 4.04 *per cent*. Therefore, the Department may take immediate action to pursue recovery of the dues involved in accepted cases.

1.7 Audit Planning

The Auditable Units under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* includes critical issues in Government revenues 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 2016-17, there were 1,218 auditable units, of which 364 units were planned and 377 units were audited, which was 31 *per cent* of the total auditable units. The details are shown in the **Table 1.7.1**.

Table 1.7.1
Details of units audited

Sl. No.	Department	Number of units		
		Auditable Units during the year 2016-17	Units planned for audit during 2016-17	Units audited during 2016-17
1.	Commercial Taxes	416	137	146
2.	Stamp Duty and Registration Fee	282	94	94
3.	Motor Vehicles Taxes	72	40	41
4.	Land Revenue	254	42	46
5.	State Excise	129	31	30 ⁴
6.	Mineral Receipts	34	13	13
7.	Energy	31	07	07
	Total	1,218	364	377

Besides the audit of units mentioned above, one Performance Audit on the 'Regulation and Control over Manufacture, Possession, Transportation, Distribution and Sale of Alcoholic Products in the State of Karnataka' by the State Excise Department, along with one Thematic Audit on 'Deduction of royalty on miner minerals by works executing departments/agencies' were also taken up during the year.

1.8 Results of Audit

Position of local audit conducted during the year

Test check of the records of 377 units of Sales Tax/Value Added Tax, State Excise, Taxes on Motor Vehicles, Stamps and Registration Fee, Land Revenue and other Departmental offices conducted during the year 2016-17 revealed under-assessment/short levy/loss of revenue aggregating ₹ 440.95 crore in cases pointed out through 1,245 paragraphs. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 72.11 crore raised through 264 paragraphs during 2016-17. The Departments collected ₹ 20.50 crore pointed out in 423 paragraphs during 2016-17, pertaining to the audit findings of previous years.

1.9 Coverage of this Report

This Report contains 14 paragraphs selected from the audit observations made during the local audit referred to above and during earlier years, (which could not be included in earlier reports) including one Performance Audit and one Thematic Audit involving financial effect of ₹ 311.58 crore.

The Departments/Government had accepted audit observations involving ₹ 25.85 crore out of which ₹ 2.09 crore had been recovered. The replies in the remaining cases were not received (November 2017). These are discussed in succeeding Chapters II to VI.

⁴ One unit under State Excise Department was non-operational.

