



**Chapter I**  
**General**



## Chapter-I General

### 1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2018-19, 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	2014-15	2015-16	2016-17	2017-18	2018-19
1.	<b>Revenue raised by the State Government</b>					
	• Tax revenue	70,180.21	75,550.18	82,956.13	87,130.38	<b>96,829.71</b>
	• Non-tax revenue	4,688.24	5,355.04	5,794.53	6,476.53	<b>6,772.87</b>
	<b>Total</b>	<b>74,868.45</b>	<b>80,905.22</b>	<b>88,750.66</b>	<b>93,606.91</b>	<b>1,03,602.58</b>
2.	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties <sup>66</sup>	14,654.25	23,983.34	28,759.94	31,751.96	35,894.83
	• Grants-in-aid	14,619.45	13,928.75	15,703.19	21,640.78	25,481.25
	<b>Total</b>	<b>29,273.70</b>	<b>37,912.09</b>	<b>44,463.13</b>	<b>53,392.74</b>	<b>61,376.08</b>
3.	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>1,04,142.15</b>	<b>1,18,817.31</b>	<b>1,33,213.79</b>	<b>1,46,999.65</b>	<b>1,64,978.66</b>
4.	<b>Percentage of total revenue raised by the State Government to total revenue receipts (1 to 3)</b>	<b>72</b>	<b>68</b>	<b>67</b>	<b>64</b>	<b>63</b>

The above table indicates that during the year 2018-19, the revenue raised by the State Government (₹ 1,03,602.58 crore) was 63 *per cent* of the total revenue

<sup>66</sup> Figures under the major heads of account 0005-Central Goods and Service Tax, 0008-Integrated Goods and Services Tax, 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 2018-19, 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.

receipts. The balance 37 per cent of the receipts during 2018-19 came from the Government of India.

**1.1.2** The details of the tax revenue raised during the period 2014-15 to 2018-19 are given in **Table 1.1.2**.

**Table 1.1.2**  
**Details of Tax Revenue**

Sl. No.	Head of revenue	2014-15		2015-16		2016-17		2017-18		2018-19		(₹ in crore) Percentage of increase (+)/decrease (-) in 2018-19 over 2017-18	
		BE	Actual	BE	Actual	BE	Actual	BE/RE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	37,250.00	38,286.03	41,329.00	40,448.63	46,504.10	46,105.17	24,485.68*	25,093.16	13,532.05	14003.06	(-) 44.73	(-) 44.20
2.	State Goods and Services Tax (SGST)	---	---	---	---	---	---	24,087.53*	24,182.18	41,649.95	41,956.03 <sup>67</sup>	72.91	73.50
3.	State Excise	14,430.00	13,801.08	15,200.00	15,332.88	16,510.00	16,483.75	18,050.00	17,948.51	19,750.00	19,943.93	9.42	11.12
4.	Stamp Duty and Registration Fee	7,450.00	7,025.85	8,200.00	8,214.71	9,100.00	7,805.98	9,000.00	9,023.68	10,400.00	10,774.69	15.55	19.40
5.	Taxes on Vehicles	4,350.00	4,541.57	4,800.00	5,001.69	5,160.00	5,594.39	6,006.00	6,208.57	6,656.42	6,567.67	10.83	5.78
6.	Others	6,389.75	6,525.68	6,916.39	6,552.27	6,590.34	6,966.84	4,300.55	4,674.28	3,832.37	3,584.33	(-) 10.89	(-) 23.32
<b>Total</b>		<b>69,869.75</b>	<b>70,180.21</b>	<b>76,445.39</b>	<b>75,550.18</b>	<b>83,864.44</b>	<b>82,956.13</b>	<b>85929.76</b>	<b>87,130.38</b>	<b>95,820.79</b>	<b>96,829.71</b>	<b>11.51</b>	<b>11.13</b>

\* In these two cases, revised estimates have been considered since Goods and Services Tax (GST) was introduced replacing KVAT in the middle of the year from 1 July 2017.

The reduction in estimation and realisation under VAT was due to introduction of GST in 2017-18 and collection of VAT was restricted to goods not brought under GST and arrears for the earlier period. The disproportionate increase in estimation and realisation of SGST was due to the fact that GST was in force only for six months in 2017-18 and the whole year in 2018-19. The dip in estimation and realisation of revenue under 'Others' (Sl.No.6) was due to subsuming of Taxes under the heads 0042 (Taxes on Goods and Passengers) and 0045 (Other Taxes and Duties on Commodities and Services) into GST.

**1.1.3** The details of the non-tax revenue raised during the period 2014-15 to 2018-19 are indicated in **Table 1.1.3**.

<sup>67</sup> Includes interest (₹ 53.84 crore), penalty (₹ 21.45 crore), fee (₹ 137.55 crore), input tax credit cross-utilization of SGST and IGST (₹ 12,246.82 crore), apportionment of IGST-transfer-in of tax component to SGST (₹ 1,669.65 crore) and advance apportionment from IGST (₹ 5,559.04 crore).

**Table 1.1.3**  
**Details of Non-Tax Revenue**

Sl. No.	Head of revenue	₹ in crore)											
		2014-15		2015-16		2016-17		2017-18		2018-19		Percentage of increase (+)/decrease (-) in 2018-19 over 2017-18	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Non-ferrous mining and metallurgical Industries	1,750.00	1,931.10	2,048.15	2,003.80	2,402.83	2,419.43	2,667.65	2,746.80	3,000.00	3,026.58	12.46	10.18
2.	Other Non-tax receipts	2,723.43	2,757.14	3,158.02	3,351.24	3,817.62	3,375.10	4,276.97	3,729.73	5,180.94	3,746.29	21.13	0.44
	<b>Total</b>	<b>4,473.43</b>	<b>4,688.24</b>	<b>5,206.17</b>	<b>5,355.04</b>	<b>6,220.45</b>	<b>5,794.53</b>	<b>6,944.62</b>	<b>6,476.53</b>	<b>8,180.94</b>	<b>6,772.87</b>	<b>17.80</b>	<b>4.57</b>

## 1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2019 on some principal heads of revenue amounted to ₹ 23,015.11 crore as detailed in **Table-1.2**.

**Table 1.2**  
**Arrears of revenue**

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2019	Replies of Department
1.	0039 (State Excise)	763.62	Out of the total arrears, ₹ 82.83 crore was stayed by courts and ₹ 350.15 crore was covered by Revenue Recovery Certificates. The remaining amount of ₹ 330.64 was at various other stages.
2.	0040 (Taxes on sales, trade etc.)	19,554.34	Out of the total arrears, ₹ 3,025.80 crore was stayed by courts, ₹ 659.61 crore was before BIFR <sup>68</sup> , ₹ 571.62 crore was under liquidation process, ₹ 164.50 crore was covered by Revenue Recovery Certificates, ₹ 14,849.42 crore was under Court and Departmental recovery, write off proposals were made for ₹ 180.67 crore and payments of ₹ 102.72 crore received were under verification.
3.	0853(Non-ferrous mining and metallurgical Industries)	2,370.81	Not Furnished
4.	0030 (Stamp and Registration)	162.38	Not Furnished
5.	Energy	163.96	Not Furnished
	<b>Total</b>	<b>23,015.11</b>	

Details of arrears of revenue, if any, of Transport and Revenue Departments, though called for (August 2019) were not received (September 2020).

## 1.3 Evasion of tax detected by the Departments

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

<sup>68</sup> Board for Industrial and Financial Reconstruction.

**Table 1.3**  
**Evasion of tax**

Sl. No.	Head of revenue	Cases pending as on 31 March 2018	Cases detected during 2018-19	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 2019
					Number of cases	Amount of demand	
1.	0039 (State Excise)	02	01	03	00	00	03
2.	0040 (Taxes on sales, trade etc.)	3,923	10,885	14,808	9,130	6,252	5,678
3.	0030 (Stamp and Registration)	04	06	10	00	00	10
4.	0041 (Taxes on Vehicles)	06	00	06	00	00	06

Early action may be taken to settle these cases in the interest of revenue. Though a majority of cases detected have been settled in CTD, many cases are still outstanding at the end of the year. In respect of Department of Stamps and Registration, State Excise and the Transport Department, there have been no disposals in the cases during the year 2018-19. The Department of Mines and Geology and the Energy Department stated that there were no cases pending and also that no new cases were detected during 2018-19.

Details of frauds and evasions detected, if any, by the Land Revenue Department, though called for (August 2019) had not been received (September 2020).

#### 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 2018-19 as reported by the Commercial Taxes, State Excise Department and the Department of Stamps and Registration are given in **Table 1.4**.

**Table 1.4**  
**Details of pendency of refund cases**

Sl. No.	Particulars	Sales Tax/VAT		State Excise		Stamps & Registration	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,918	313.81	00	00	1,388	3.50
2.	Claims received during the year	9,690	6,802.41	NF	11.22	1,903	11.65
3.	Refunds made during the year	9,292	6,682.51	NF	11.22	1,367	9.07
4.	Balance outstanding at the end of the year	2,316	433.70	00	00	1,924	6.08

The Department of Mines and Geology and the Energy Department stated that there were no claims outstanding and also that there were no claims during the year 2018-19.

Details of pendency of refunds cases, if any, in the Transport and Revenue Departments, though called for (August 2019), were not received (September 2020).

## 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.

3,802 paragraphs involving ₹ 1,822.98 crore contained in 1,359 IRs (issued upto December 2018), remained outstanding at the end of June 2019. 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**

	As of June 2017	As of June 2018	As of June 2019
Number of IRs pending for settlement	2,282	1,385	1,359
Number of outstanding audit observations	5,527	4,099	3,802
Amount of revenue involved (₹ in crore)	2,010.14	1,467.14	1,822.98

**1.5.1** The Department-wise details of the IRs and audit observations outstanding as on 30 June 2019 and the amounts involved are given 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	630	2179	580.70
2.		State Excise	66	84	13.61
3.	Revenue	Land Revenue	36	68	7.63
4.		Stamps and Registration fees	375	903	226.86
5.	Transport	Taxes on motor vehicles	159	347	20.89
6.	Commerce and Industries	Non-ferrous mining and metallurgical industries	82	206	969.34
7.	Energy	Electricity Tax	11	15	3.95
<b>Total</b>			<b>1,359</b>	<b>3,802</b>	<b>1,822.98</b>

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 192 IRs out of 303 IRs issued during 2018-19. 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 meetings

The Government issued (March 1968) instructions to constitute 'Ad-hoc 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 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 2018-19. 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 for local Audit of Tax Revenue/Non-tax Revenue offices is drawn up and intimations sent sufficiently in advance, to enable them to keep the relevant records ready for Audit.

During 2018-19, 303 offices under Finance, Revenue, Transport, Commerce and Industries and Energy Departments were taken up for Audit.

Out of these, 27 records/files were not produced for Audit in 10 offices under Finance and Revenue Departments. Hence, the correctness of the assessments made and taxes levied or revenue collected could not be ensured in those cases mentioned in **Table 1.5.2** below:

**Table 1.5.2**  
**Details of non-production of records**

Sl. No.	Name of the Office/ Department		Number of records not produced to audit
1.	Finance Department	Commercial Taxes	10
2.	Revenue Department	Stamps and Registration Fee	2
		Land Revenue	15
	<b>Total</b>		27

### 1.5.4 Response of the Departments to the Draft Audit Paragraphs

Draft Paragraphs/Compliance Audit Report proposed for inclusion in the Audit Report are forwarded by the Accountant General to 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/Compliance Audit Report 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.



Eighteen Draft Paragraphs (including one Compliance Audit) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2019 were forwarded to the Additional Chief Secretary/Principal Secretaries/Secretaries to the Government and copies endorsed to the heads of Departments concerned between May 2019 and May 2020.

Replies for 12 Draft Paragraphs including one Compliance Audit relating to Commercial Taxes and Mines and Geology have been received from the Government. In respect of the Compliance Audit, Exit Conference was held with the Government during February 2019.

Replies to the remaining six Draft Paragraphs pertaining to Department of Stamps and Registration and Commercial Tax Department have not been received from the Government (September 2020).

### **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.

103 paragraphs (including Performance Audits) were included in six<sup>69</sup> Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Karnataka which got placed before the State Legislature between February 2015 and October 2019.

As of April 2020, out of 103 paragraphs, Departmental Notes have been received for 82 paragraphs. These Departmental Notes were received belatedly, with an average delay of eight to 16 months. However, Departmental Notes for the remaining 21 paragraphs from five Departments (Commercial Taxes, Land Revenue, Stamps and Registration, State Excise and Mines and Geology) have not been received yet.

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.

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<sup>69</sup> 1. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended 31 March 2014.  
 2. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2015.  
 3. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2016.  
 4. Report of the Comptroller and Auditor General of India-Grant, Lease, Eviction of Encroachment and Regularisation of Unauthorised Occupation of Government Lands.  
 5. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2017.  
 6. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2018.

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

To analyse the system of compliance by the Department/Government to the issues highlighted in the Inspection Reports/Audit Reports action taken on the paragraphs and Performance Audits included in the Audit Reports of the last ten 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 Department of Stamps and Registration<sup>70</sup> 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 2008-09 to 2017-18.

### 1.6.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last ten years, paragraphs included in these reports and their status as on 31 March 2019 are tabulated below in **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.	2009-10	393	656	120.56	108	135	141.19	4	30	0.14	497	761	261.61
2.	2010-11	497	761	261.61	104	108	95.04	23	68	1.00	578	801	355.65
3.	2011-12	578	801	355.65	143	285	7.34	73	120	1.06	648	966	361.93
4.	2012-13	648	966	361.93	113	328	14.24	30	82	1.27	731	1,212	374.90
5.	2013-14	731	1,212	374.90	132	350	43.51	156	462	16.63	707	1,100	401.78
6.	2014-15	707	1,100	401.78	134	375	19.41	37	121	0.62	804	1,354	420.57
7.	2015-16	804	1,354	420.57	93	241	20.77	55	292	13.30	842	1,303	428.04
8.	2016-17	842	1,303	428.04	92	274	33.61	25	101	0.69	909	1,476	460.96
9.	2017-18	909	1,476	460.96	58	189	21.52	433	819	283.43	534	846	199.05
10.	2018-19	534	846	199.05	51	159	64.93	2	42	22.70	583	963	241.28

During the year 2018-19, no Departmental Audit Committee meetings were held by the Department of Stamps and Registration for settlement of IRs/paragraphs.

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**.

<sup>70</sup> Under the Revenue head-0030.

**Table 1.6.2**  
**Recovery in accepted cases**

(₹ in crore)

Sl. No.	Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year 2018-19	Cumulative position of recovery of accepted cases as of 31-03-2019
1.	2008-09	6	325.83	6	283.04	0	0.23
2.	2009-10	7	16.49	6	13.19	0	0.063
3.	2010-11	5	7.39	5	7.39	0	0.07
4.	2011-12	7	2.39	7	2.39	0	0.07
5.	2012-13	8	44.42	7	32.39	0	0.60
6.	2013-14	5	3.84	5	3.84	0	1.42
7.	2014-15	5	3.72	5	3.72	0	0.38
8.	2015-16	3	424.71	2	5.96	0	0.47
9.	2016-17	3	20.36	3	20.17	0	0.47
10.	2017-18	4	167.10	3	8.74	0	0.18

As seen from the table above, the percentage of recovery by the Department of Stamps and Registration in accepted cases for the years 2008-09 to 2017-18 was only 1.04 *per cent*. Therefore, the Department must 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, the 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 2018-19, there were 1,253 auditable units, of which 300 units were planned and 303 units had been audited, which was 24 *per cent* of the total auditable units. The details are shown in **Table 1.7.1**.

**Table 1.7.1**  
**Details of units audited**

Sl. No	Department	Number of units		
		Auditable Units during the year 2018-19	Units planned for audit during 2018-19	Units audited during 2018-19
1.	Commercial Taxes	430	102	102
2.	Stamp Duty and Registration	282	49	51
3.	Motor Vehicles Taxes	82	30	31
4.	Land Revenue	258	38	38
5.	State Excise	129	56	56
6.	Mineral Receipts	34	19	19
7.	Energy	38	6	6
	<b>Total</b>	<b>1253</b>	<b>300</b>	<b>303</b>

Besides the audit of units mentioned above, One Compliance Audit on the “Implementation of Transitional provisions under the GST Acts in Karnataka” was 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 303 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 2018-19 showed under assessment/short-levy/loss of revenue aggregating ₹ 1,502.73 crore in respect of cases pointed out through 763 paragraphs. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 985.83 crore raised through 43 paragraphs during 2018-19. The Departments collected ₹ 30.62 crore pointed out in 535 paragraphs pertaining to the audit findings of previous years during 2018-19.

## **1.9 Coverage of Part-II of this Report**

Part-II of this Report contains 17 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 Compliance Audit involving financial effect of ₹ 1,092.70 crore.

The Departments/Government had accepted audit observations in 2,701 cases relating to 15 paragraphs involving ₹ 1,015.81 crore, out of which ₹ 5.34 crore had been recovered in 88 cases. The replies in the remaining cases had not been received (September 2020). These are discussed in succeeding Chapters II to IV.