

Chapter-I

General

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2020-21, 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	2016-17	2017-18	2018-19	2019-20	2020-21
1.	Revenue raised by the State Government					
	• Tax revenue	82,956.13	87,130.38	96,829.71	1,02,362.79	97,052.54
	• Non-tax revenue	5,794.53	6,476.53	6,772.87	7,681.47	7,893.84
	Total	88,750.66	93,606.91	1,03,602.58	1,10,044.26	1,04,946.38
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ¹	28,759.94	31,751.96	35,894.83	30,919.00	21,694.11
	• Grants-in-aid	15,703.19	21,640.78	25,481.25	34,479.53	30,075.92
	Total	44,463.13	53,392.74	61,376.08	65,398.53	51,770.03
3.	Total revenue receipts of the State Government (1 and 2)	1,33,213.79	1,46,999.65	1,64,978.66	1,75,442.79	1,56,716.41
4.	Percentage of total revenue raised by the State Government to total revenue receipts (1 to 3)	67	64	63	63	67

Source: State Finance Accounts 2020-21

The above table indicates that during the year 2020-21, the revenue raised by the State Government (₹ 1,04,946.38 crore) was 67 per cent of the total revenue receipts. The balance 33 per cent of the receipts during 2020-21 came from the Government of India.

¹ Figures under the major heads of account 0005-Central Goods and Service Tax, 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 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 2020-21, under 'A-Tax Revenue' have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

1.1.2 The details of the tax revenue raised during the period 2016-17 to 2020-21 are given in **Table 1.1.2**.

Table 1.1.2
Details of Tax Revenue

(₹ in crore)

Sl. No.	Head of revenue	2016-17		2017-18		2018-19		2019-20		2020-21		Percentage of increase (+)/decrease (-) in 2020-21 over 2019-20	
		BE	Actual	BE	Actual	BE/RE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	46,504.10	46,105.17	24,485.68	25,093.16	13,532.05	14,003.06	15,149.00	16,424.32	17,783.00	16,027.59	17.38	(-) 2.41
2.	State Goods and Services Tax (SGST)	---	---	24,087.53	24,182.18	41,649.95	41,956.03	42,748.00	42,147.23	47,319.00	37,711.18 ²	10.69	(-) 10.52
3.	State Excise	16,510.00	16,483.75	18,050.00	17,948.51	19,750.00	19,943.93	20,950.00	21,583.95	22,700.00	23,332.10	8.35	8.09
4.	Stamp Duty and Registration Fee	9,100.00	7,805.98	9,000.00	9,023.68	10,400.00	10,774.69	11,828.00	11,308.34	12,655.00	10,576.43	6.99	(-) 6.47
5.	Taxes on Vehicles	5,160.00	5,594.39	6,006.00	6,208.57	6,656.42	6,567.67	7,100.00	6,762.58	7,114.84	5,606.99	0.20	(-) 17.08
6.	Others	6,590.34	6,966.84	4,300.55	4,674.28	3,832.37	3,584.33	3,038.98	4,136.37	3,162.99	3,798.25	4.08	(-) 8.17
Total		83,864.44	82,956.13	85,929.76	87,130.38	95,820.79	96,829.71	1,00,813.98	1,02,362.79	1,10,734.83	97,052.54	9.84	(-) 5.18

Source: State Finance Accounts 2020-21

1.1.3 The details of the non-tax revenue raised during the period 2016-17 to 2020-21 are indicated in **Table 1.1.3**.

Table 1.1.3
Details of Non-Tax Revenue

(₹ in crore)

Sl. No.	Head of revenue	2016-17		2017-18		2018-19		2019-20		2020-21		Percentage of increase (+)/decrease (-) in 2020-21 over 2019-20	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Non-ferrous mining and metallurgical Industries	2,402.83	2,419.43	2,667.65	2,746.80	3,000.00	3,026.58	3,550.00	3,629.03	3,750.00	3,893.45	5.63	7.28
2.	Other Non-tax receipts	3,817.62	3,375.10	4,276.97	3,729.73	5,180.94	3,746.29	4,505.41	4,052.44	4,017.24	4,000.39	(-) 10.83	(-) 1.28
Total		6,220.45	5,794.53	6,944.62	6,476.53	8,180.94	6,772.87	8,055.41	7,681.47	7,767.24	7,893.84	(-) 3.57	2.76

Source: State Finance Accounts 2020-21

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2021 on some principal heads of revenue amounted to ₹ 19,579.72 crore as detailed in **Table 1.2**.

² Includes interest (₹ 111.18 crore), penalty (₹ 38.24 crore), fee (₹ 123.42 crore), input tax credit cross-utilization of SGST and IGST (₹ 12,960.24 crore), apportionment of IGST-transfer-in of tax component to SGST (₹ 2,035.20 crore) and advance apportionment from IGST (₹ 3,429.51 crore).

Table 1.2
Arrears of revenue

(₹ in crore)			
Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2021	Replies of Department
1.	0039 State Excise Department	723.42	Out of the total arrears, ₹ 71.86 crore was stayed by courts and ₹ 330.20 crore was covered by Revenue Recovery Certificates. The remaining amount of ₹ 321.36 was at various other stages.
2.	0022, 0028, 0040, 0042, 0045 Commercial Taxes Department	18,689.12	Out of the total arrears, ₹ 4,147.86 crore was stayed by courts, ₹ 723.03 crore was before NCLAT ³ , ₹ 1,571.56 crore was under liquidation process, ₹ 143.24 crore was covered by Revenue Recovery Certificates, ₹ 12,035.25 crore was under Court and Departmental recovery, write off proposals were made for ₹ 52.04 crore and payments of ₹ 16.14 crore received were under verification.
3.	0030 Department of Stamps and Registration	167.18	Not Furnished
Total		19,579.72	

Source: Information received from the Departments concerned.

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) and Department of Stamps and Registration 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 2020	Cases detected during 2020-21	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 2021
					Number of cases	Amount of demand	
1.	State Excise Department	03	00	03	00	00	03
2.	Commercial Taxes Department	6707	9200	15907	9384	719.40	6523
3.	Department of Stamps and Registration	09	00	09	00	00	09

Source: Information received from the Departments concerned.

Early action may be taken to settle these cases in the interest of revenue. Though a number of cases have been settled in CTD, a considerable number cases are still outstanding at the end of the year. In respect of Department of Stamps and Registration and State Excise Department, there have been no disposals in the cases during the year 2020-21.

³ National Company Law Appellate Tribunal.

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 2020-21 as reported by the Commercial Taxes Department, 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	Commercial Taxes		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	1,885	388.93	00	00	2,722	15.94
2.	Claims received during the year	10,045	4,828.97	NF	5.71	3,680	21.80
3.	Refunds made during the year	10,851	4,413.17	NF	5.71	2,570	15.30
4.	Balance outstanding at the end of the year	1,079	804.73	00	00	3,832	22.44

NF-Not furnished.

Source: Information received from the Departments concerned.

1.5 Response of the Government/Departments towards Audit

The Principal Accountant General (Audit-I) 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.

4,035 paragraphs involving ₹ 1,807.64 crore contained in 1,260 IRs (issued upto December 2020), remained outstanding at the end of June 2021. 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 2019	As of June 2020	As of June 2021
Number of IRs pending for settlement	1,071	1,169	1,260
Number of outstanding audit observations	3,166	3,738	4,035
Amount of revenue involved (₹ in crore)	821.17	1,509.09	1,807.64

1.5.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2021 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	Number of outstanding audit observations	(₹ in crore)
					Money value involved
1.	Finance	Commercial Taxes	743	2,744	1,205.00
2.		State Excise	71	97	15.55
3.	Revenue	Stamp Duty and Registration Fee	446	1,194	587.09
Total			1,260	4,035	1,807.64

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 85 IRs issued during 2020-21. Non-receipt of replies indicate that the Heads of Offices and the Departments did not initiate action to rectify the omissions and irregularities pointed out by the Principal Accountant General in the IRs, in these cases.

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 Administrative Departments concerned and attended by the designated Officers of the State Government and a nominee of the Principal Accountant General. These Committees are to meet periodically and, in any case, at least once in a quarter.

However, no meetings of the Committee were convened by any of the Departments during the year 2020-21. 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 Offices is drawn up and intimations sent sufficiently in advance, to enable them to keep the relevant records ready for audit.

During 2020-21, 130 Offices under Finance and Revenue Departments were taken up for audit. Out of these, in two Offices, the following records were not produced for audit.

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.	Revenue Department Department of Stamps and Registration	SRO, Bommanahalli	Service Registers of the Staff of Sub-Registrar Office
2.		SRO, BTM Layout	1. Service Registers of the Staff of Sub-Register Office. 2. Details of outsourced staff. 3. Building Rent File

1.5.4 Response of the Departments to the Draft Audit Paragraphs

Draft Paragraphs proposed for inclusion in the Audit Report are forwarded by the Principal Accountant General to the Additional Chief Secretary/Principal 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 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.

Twelve Draft Paragraphs (including two Subject Specific Compliance Audits) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended March 2021 were forwarded to the Additional Chief Secretary/Principal Secretaries to the Government and copies endorsed to the heads of Departments concerned between October 2021 and April 2022.

In respect of the two Subject Specific Compliance Audits, Exit Conferences was held with the Department during April 2022 and May 2022.

Out of the 12 draft paragraphs, replies for 10 draft paragraphs (all five paragraphs from Department of Stamps and Registration and five paragraphs out of seven paragraphs from Commercial Taxes Department) have been received from the Government. In case of two SSCAs, the audit findings were discussed during the Exit conferences and the response of the Department were considered during finalisation of the paragraphs concerned. However, the replies received from the Department did not cover all the cases brought out in the paragraphs. (September 2022).

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 Principal Accountant General.

62 paragraphs (including Performance Audits) pertaining to the Commercial Taxes Department, State Excise Department and the Department of Stamps and Registration were included in five⁴ 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 April 2017 and March 2021.

As of September 2022, the Departmental Notes have been received for all the 62 paragraphs. However, they were received belatedly, with an average delay of four to 25 months.

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 Commercial Taxes Department 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 2011-12 to 2020-21.

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 September 2022 are tabulated below in **Table 1.6.1**.

⁴ 1. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2016.
 2. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2017.
 3. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2018.
 4. Report of the Comptroller and Auditor General of India on Economic and Revenue Sector for the year ended March 2019.
 5. Report of the Comptroller and Auditor General of India-Compliance Audit-for the year ended March 2020.

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.	2011-12	1454	3964	455.82	121	528	82.52	8	211	26.03	1567	4281	512.31
2.	2012-13	1567	4281	512.31	237	764	70.25	72	443	99.87	1732	4602	482.69
3.	2013-14	1732	4602	482.69	205	632	72.06	21	391	58.32	1916	4843	496.43
4.	2014-15	1916	4843	496.43	185	865	80.69	4	600	124.76	2097	5108	452.36
5.	2015-16	2097	5108	452.36	176	926	70.77	63	627	71.45	2210	5407	451.68
6.	2016-17	2210	5407	451.68	165	778	102.22	19	335	37.61	2356	5850	516.29
7.	2017-18	2356	5850	516.29	134	596	172.22	1891	4133	331.79	599	2313	356.72
8.	2018-19	599	2313	356.72	129	497	307.77	1	327	29.98	727	2483	634.51
9.	2019-20	727	2483	634.51	132	756	290.18	8	406	67.67	851	2833	857.01
10.	2020-21	851	2833	857.01	60	368	106.33	4	94	20.09	907	3107	943.25

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

(₹ 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 of Audit Report	Cumulative position of recovery of accepted cases
1.	2010-11	10	79.26	9	18.48	0.43	1.94
2.	2011-12	9	82.12	8	5.31	0.27	4.05
3.	2012-13	14	155.51	12	4.36	1.19	3.21
4.	2013-14	10	104.72	9	13.63	1.18	3.69
5.	2014-15	11	16.07	11	14.96	2.84	5.61
6.	2015-16	6	281.59	6	29.88	3.02	16.62
7.	2016-17	6	57.72	6	51.84	1.58	13.84
8.	2017-18	9	74.30	9	59.46	4.39	14.89
9.	2018-19	10	1046.00	9	1036.51	1.92	14.68
10.	2019-20	9	61.19	9	58.16	0.89	4.20
	Total	94	1958.48	88	1292.59	17.71	82.73

As seen from the table above, the percentage of recovery by the Commercial Taxes Department from accepted cases in paragraphs, was only 6.4 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 2020-21, there were 881 auditable units, of which 160 units were planned and 130 units⁵ had been audited, which was 14.75 per cent of the total auditable units. The details are shown in **Table 1.7**.

Table 1.7
Details of units audited

Sl. No	Department	Number of units		
		Auditable Units during the year 2020-21	Units planned for audit during 2020-21	Units audited during 2020-21
1.	Commercial Taxes	459	92	62
2.	Stamps and Registration	288	49	49
3.	State Excise	134	19	19
	Total	881	160	130

1.8 Results of Audit

Position of local audit conducted during the year

Test-check of the records of 130 units of Value Added Tax/Goods and Services Tax, Stamps and Registration Fee and State Excise conducted during the year 2020-21 showed under assessment/short-levy/loss of revenue aggregating ₹ 293.04 crore in respect of cases pointed out through 560 paragraphs. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 62.22 crore raised through 96 paragraphs during 2020-21. The Departments collected ₹ 19.58 crore pointed out in 186 paragraphs pertaining to the audit findings of previous years during 2020-21.

1.9 Coverage of Part II of this Report

This Report contains 12 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) involving financial effect of ₹ 77.54 crore.

The Departments/Government had accepted audit observations in 181 cases relating to 12 paragraphs involving ₹ 58.92 crore, out of which ₹ 3.13 crore had been recovered in 30 cases. The final replies in the remaining cases had not been received (September 2022). These are discussed in succeeding Chapters II to III.

⁵ Shortage owing to COVID-19-pandemic.