



SUPREME AUDIT INSTITUTION OF INDIA  
लोकहितार्थ सत्यनिष्ठा  
Dedicated to Truth in Public Interest

# Report of the Comptroller and Auditor General of India for the period ended March 2022



Government of Karnataka  
Report No. 7 of 2024  
(Compliance Audit - Civil)



**Report of the  
Comptroller and Auditor General of India  
for the period ended March 2022**

**Government of Karnataka  
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## Preface

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2022 has been prepared for submission to the Governor of Karnataka under Article 151 (2) of the Constitution to be tabled in the State Legislature.

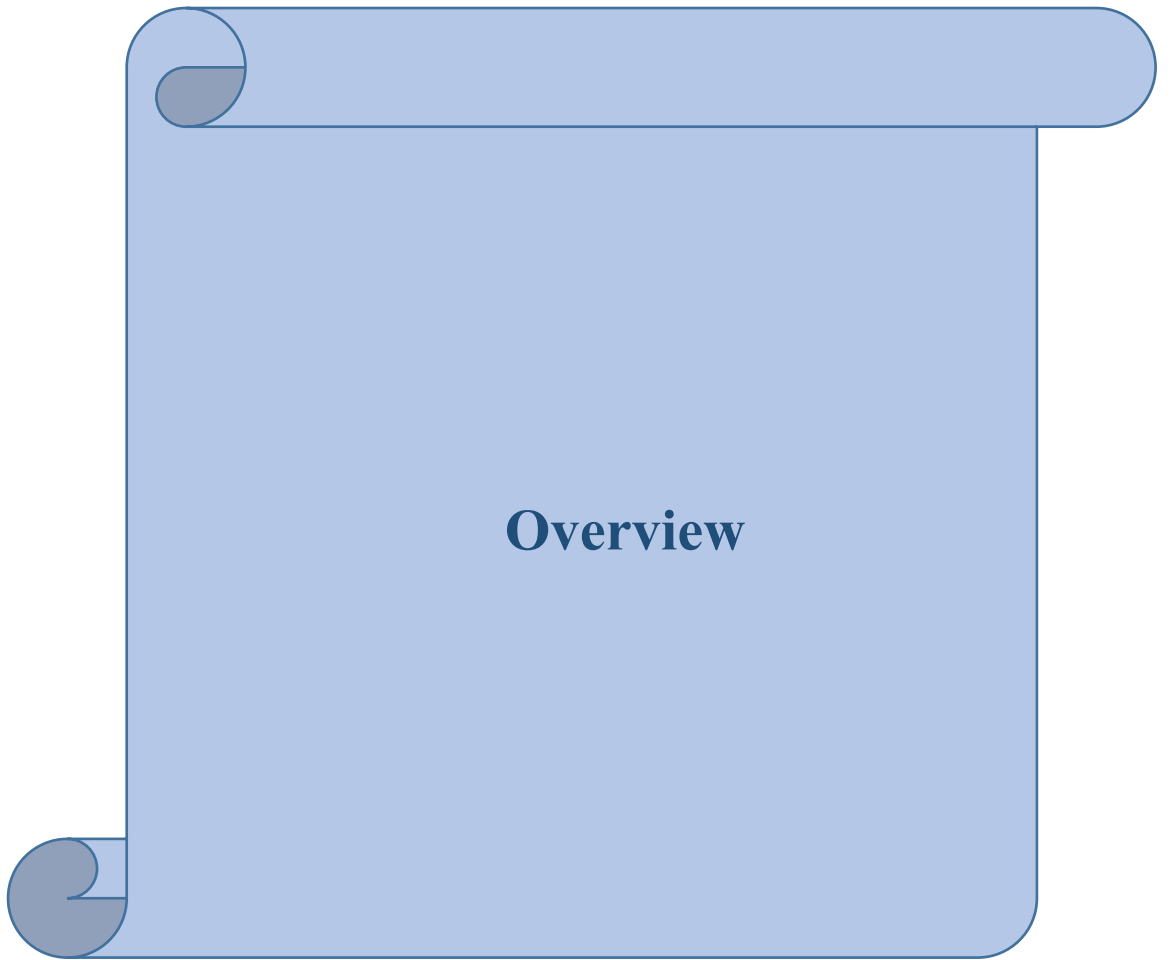
Part-I of this Report contains significant results of the Compliance Audit of the Departments of the Government of Karnataka under Water Resources, Department of Revenue, Youth Empowerment and Sports, Higher Education, Social Welfare and Minority Welfare clusters.

Part-II of this Report contains significant results of the Compliance Audit of the Departments of the Government of Karnataka under Revenue Sector including Commercial Taxes Department, Department of Stamps and Registration and Transport Department.

The instances mentioned in this report are those which came to notice in the course of test-audit for the period 2021-22 as well as those, which came to notice in earlier years, but could not be reported in the previous Audit Reports. Instances relating to period subsequent to 2021-22 are also included, wherever found necessary.

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





## Overview



## Overview

This Report of the Comptroller and Auditor General of India (C&AG) contains two parts. Part I relating to Expenditure Audit contains six paragraphs and Part II relating to Revenue Audit contains 11 paragraphs. Some of the major findings are mentioned below:

### Part-I: Expenditure Audit

#### Introduction

##### *Budget profile and application of resources of the State Government*

During the year 2021-22, as against the total outlay of ₹ 6,96,660 crore, the application of resources was ₹ 6,45,281 crore. While the total expenditure (*i.e.*, total of revenue expenditure, capital outlay and loans and advances) increased by 43 *per cent* during the period 2017-18 to 2021-22, the revenue expenditure increased by 42 *per cent* during the above period. The revenue expenditure (₹ 2,02,718 crore) constituted 79 *per cent* of the total expenditure (₹ 2,54,801 crore) during 2021-22.

(Paragraph 1.2 and 1.3)

##### *Responsiveness of Government to audit*

A total of 7,680 Inspection Reports containing 41,193 paragraphs were outstanding against 48 departments as at the end of March 2022.

(Paragraph 1.10.1)

##### *Status of placement of Separate Audit Reports of autonomous bodies in the State Legislature*

The Karnataka State Commission for Protection of Child Rights (established in July 2009) was yet to submit the annual accounts since inception. Delay in finalisation of accounts carries the risk of financial irregularities going undetected, and therefore, the accounts need to be finalised and submitted to Audit at the earliest.

(Paragraph 1.11)

## Compliance Audit

### Water Resources Department

##### *Subject Specific Compliance Audit on 'Utilization of Irrigation Potential and Participatory Irrigation Management'*

The objective of the State Water Policy (SWP), 2002 to bridge the gap between the area proposed to be irrigated and the actual area irrigated was not achieved as the Field Irrigation Channels as envisaged could not be created.

Non-preparation of comprehensive plans by the State and shortfall in conducting the required Joint Inspection Programme resulted in delay in construction of Field Irrigation Channels.

Not inviting tenders, non-completion of distributary network and delay in acquisition of land resulted in under utilisation of available funds.

(Paragraph 2.1.5)

More than 50 per cent of the targeted Water Users Cooperative Societies (WUCS) and other levels of societies were either not formed or remained non-functional indicating lack of community participation.

Failure to raise timely demand from the beneficiaries not only resulted in loss of revenue but also non recovery of Operation and Maintenance (O&M) costs to the Nigams. Further, due to non-installation of measuring instruments, demand could not be raised on volumetric basis. The water rates were not revised since July 2000, which resulted in Nigams being over-burdened with increased O&M costs year on year.

**(Paragraph 2.1.6)**

#### **Department of Revenue**

##### ***Undue benefit to the transporter of fodder***

The Tahsildar, Pavagada failed to restrict the payment to the actual distance travelled resulting in excess payment of ₹ 95.74 lakh towards transportation of fodder.

**(Paragraph 2.2)**

#### **Department of Higher Education**

##### ***Unfruitful expenditure and undue benefit to implementing agencies***

Release of funds to the implementing agencies without ascertaining the availability of land resulted in delayed/non-commencement of works and withdrawal of sanction for four works resulted in undue benefit of ₹ 2.56 crore to the agencies by way of accrued interest income on the advance deposits. Further, the Government First Grade College, did not utilize the newly constructed building costing ₹ 2.00 crore as it lacked proper access.

**(Paragraph 2.3)**

#### **Department of Social Welfare**

##### ***Unfruitful expenditure of ₹ 3.36 crore***

Failure to provide internet service to Pre-Matric and Post-Matric hostels resulted in unfruitful expenditure of ₹ 3.36 crore on internet infrastructure.

**(Paragraph 2.4)**

#### **Department of Minority Welfare**

##### ***Construction, Operation and Maintenance of Haj Ghar***

Non-existence of formal agreement with Karnataka Rural Infrastructure Development Limited (KRIDL) for entrustment of work resulted in non-invocation of contractual obligations on both parties for timely completion of works. Inadequate monitoring mechanism resulted in inordinate delay in completion of works. At present, the building, though not completed, is being used only during the Haj season and lacked periodical maintenance.

**(Paragraph 2.5)**

## Department of Youth Empowerment and Sports

### *Violation of scheme guidelines in maintenance of Synthetic Athletic Track*

Construction of synthetic Athletic track without a provision for maintenance led to track surface getting damaged within three years of laying impacting the asset life.

**(Paragraph 2.6)**

## Part-II: Revenue Audit

Part-II of this Report pertaining to Revenue Audit contains 11 paragraphs including a Subject Specific Compliance Audit. These paragraphs contain observations relating to non/short levy of tax, revenue foregone, etc., amounting to ₹ 475.57 crore.

### General

Total revenue receipts of the State Government for the year 2021-22 amounted to ₹ 1,95,761.84 crore against ₹ 1,56,716.41 crore for the previous year. Of this, 68 *per cent* was raised by the State through tax revenue (₹ 1,20,738.79 crore) and non-tax revenue (₹ 11,777.04 crore). The balance 32 *per cent* was received from the Government of India as State's share of divisible Union taxes (₹ 33,283.58 crore) and grants-in-aid (₹ 29,962.43 crore).

**(Paragraph 1.1)**

A total of 1,242 Inspection Reports, containing 3,963 observations, involving money value of ₹ 1,864.17 crore, were pending with the Departments for settlement at the end of June 2022.

**(Paragraph 1.5)**

Test-check of 479 cases and records of 10 LGSTOs relating to Goods and Services Tax and 42 unit offices under Department of Stamps and Registration conducted during the year 2021-22 showed under-assessment/short levy/loss of revenue aggregating to ₹ 948.57 crore.

**(Paragraph 1.8)**

### Goods and Services Tax

#### *Subject Specific Compliance Audit on GST*

There was a delay ranging from one to 1,199 days in filing of GSTR-3B Returns by 398 taxpayers. However, interest payable for belated payment of tax under IGST/CGST/KGST Acts were either paid short or not paid which worked out to ₹ 22.57 crore.

**(Paragraphs 2.4.6.3 (iii))**

In respect of 236 taxpayers, non-demand of output tax liability of ₹ 21.32 crore declared in GSTR-1 returns was noticed.

**(Paragraph 2.4.6.4 (a))**

Irregular availment of ITC amounting to ₹ 1.37 crore was noticed in seven out of 57 cases where records were produced fully/partially.

**(Paragraph 2.4.8.2 (b))**

In 21 out of 57 cases where the records were produced fully/partially, taxpayers had filed their returns belatedly but the interest payments amounting to ₹ 1.74 crore was not discharged.

**(Paragraph 2.4.8.2 (c))**

### **Stamp Duty and Registration Fee**

Valuation of shares at face value instead of market value on document relating to amalgamation of companies resulted in short levy of stamp duty and registration fee of ₹ 1.54 crore.

**(Paragraph 3.4)**

Misclassification of Sale-agreement and Power of Attorney with respect to their sub-clauses and classification of conveyance as Partition deed in three cases led to short levy of stamp duty and registration fee of ₹ 5.38 crore.

**(Paragraph 3.6)**

Acquisition of fully constructed units of commercial complex by paying stamp duty only on the value of land resulted in short levy of stamp duty and registration fee of ₹ 2.52 crore.

**(Paragraph 3.7)**

Non-reckoning of the entire period of lease and treating the periods of initial lease and the supplementary lease periods separately in nine mining leases resulted in short levy of stamp duty and registration fee of ₹ 13.33 crore.

**(Paragraph 3.9)**

Registration of documents without checking the status of payment of stamp duty and registration fee through Khajane, by the Sub-Registrar, Chitradurga resulted in non-remittance of amounts collected towards stamp duty and registration fee of ₹ 1.51 crore.

**(Paragraph 3.10)**

Adoption of incorrect rates and valuation based on inadequate inputs in 56 Joint Development Agreements in 12 SROs led to short levy of SD&RF amounting to ₹ 10.26 crore.

**(Paragraph 3.11)**

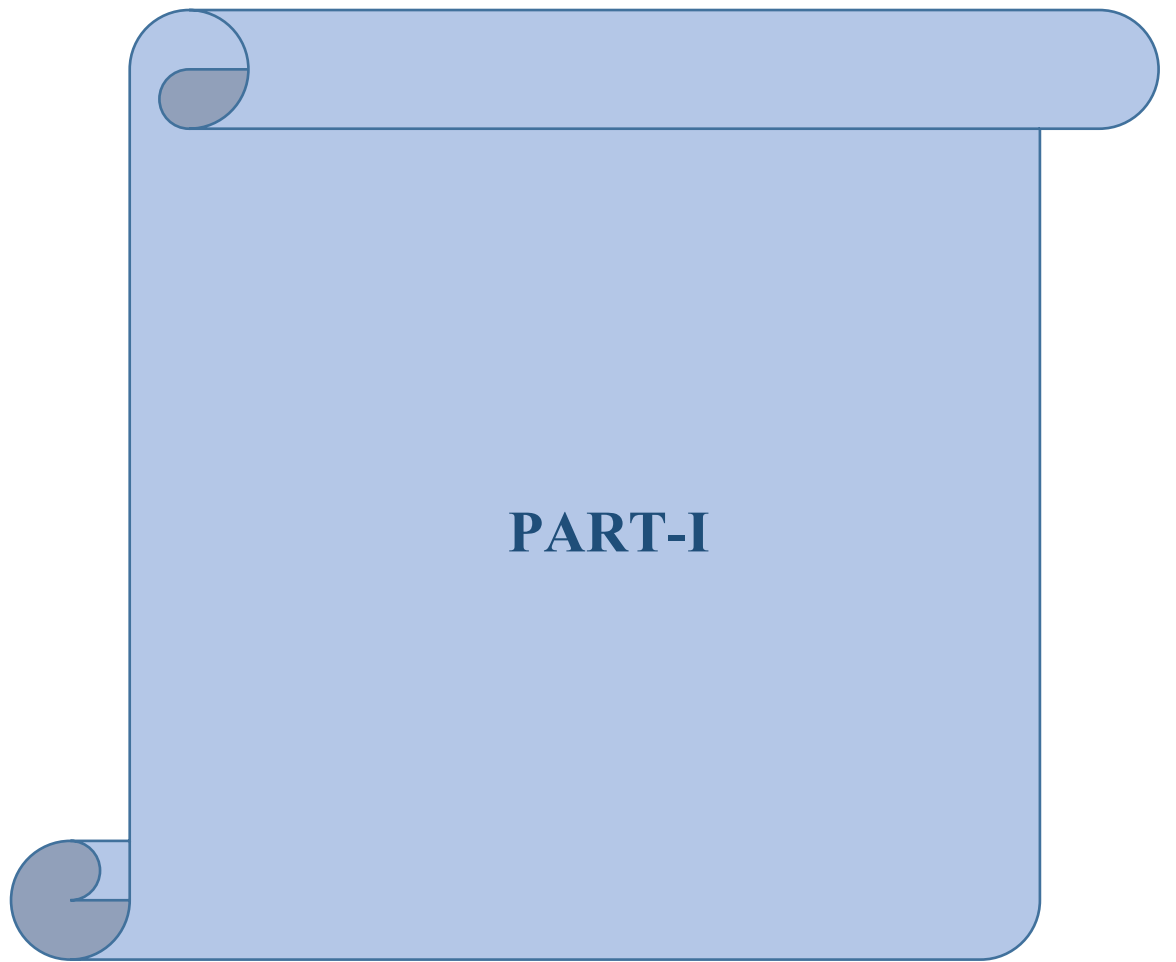
Non-enhancement of rates, adoption of incorrect rates and other discrepancies in the market value guidelines led to undervaluation of 51 documents and subsequent short levy of stamp duty and registration fee amounting to ₹ 20.49 crore.

**(Paragraph 3.12)**

### **Taxes on Motor Vehicles**

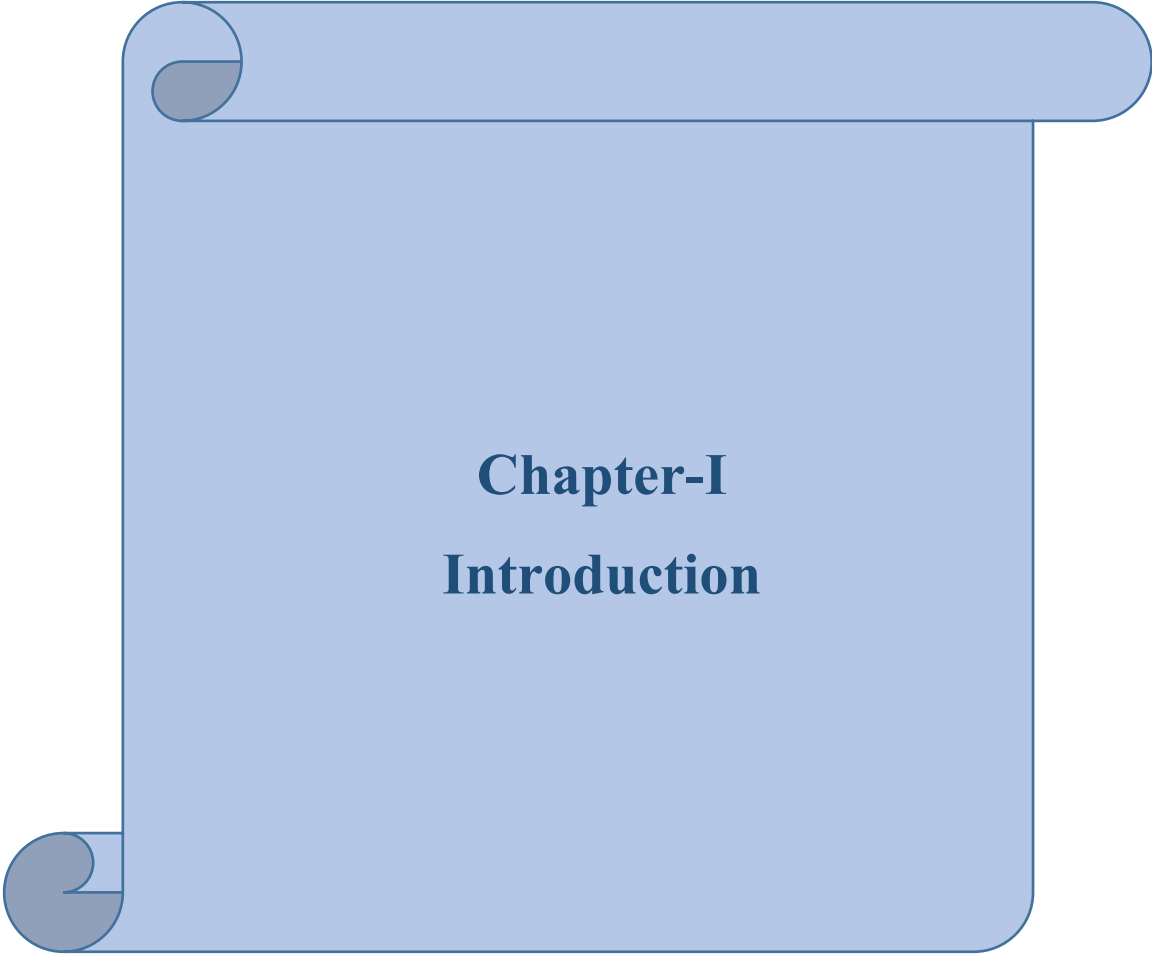
Adoption of lower rates of tax on 60 Private Service Vehicles and 12 Seat-cum-sleeper buses resulted in short levy of quarterly tax amounting to ₹ 1.39 crore.

**(Paragraph 4.4)**



**PART-I**





**Chapter-I**  
**Introduction**



## Chapter-I

### Introduction

#### 1.1 About this Report

Part I of the report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from compliance audit of Government Departments and Autonomous Bodies.

Compliance audit refers to examination of the transactions of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with.

The primary purpose of the Report is to bring important results of audit to the notice of the State Legislature. The audit findings are expected to enable the Executive to take corrective actions as also to frame policies and issue directives that will lead to improved management, thus contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the follow-up on previous Audit Reports. Chapter-II contains observations arising out of compliance audit in Government Departments and Autonomous Bodies respectively.

#### 1.2 Budget Profile

The position of budget estimates and actual expenditure there against by the State Government during the period 2017-18 to 2021-22 is given in Table 1.1 below.

**Table 1.1: Budget and actual expenditure of the State during 2017-18 to 2021-22**

(₹ in crore)

Expenditure	2017-18		2018-19		2019-20		2020-21		2021-22	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
General services	38,009	34,484	45,744	42,655	50,492	48,824	59,602	55,018	66,802	62,669
Social services	55,887	58,652	70,226	67,935	71,350	66,373	65,046	61,726	67,730	79,804
Economic services	43,671	42,856	44,152	48,285	52,907	52,636	48,536	53,629	46,905	53,629
Grant-in-aid & contributions	7,187	6,490	6,167	5,425	6,856	6,425	6,590	5,681	5,966	6,616
<b>Total (1)</b>	<b>1,44,754</b>	<b>1,42,482</b>	<b>1,66,289</b>	<b>1,64,300</b>	<b>1,81,605</b>	<b>1,74,258</b>	<b>1,79,774</b>	<b>1,76,054</b>	<b>1,87,404</b>	<b>2,02,718</b>

Expenditure	2017-18		2018-19		2019-20		2020-21		2021-22	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
Capital outlay	32,033	30,667	35,246	34,659	40,080	35,530	43,059	45,406	41,358	47,874
Loans & advance disbursed	1,597	5,093	5,817	4,487	2,503	4,069	3,452	2,669	2,879	4,209
Repayment of public debt	8,176	8,269	11,136	11,083	9,964	10,180	11,605	11,016	14,564	13,972
Contingency fund	5	0	5	0	5	0	5	0	5	0
Public accounts disbursement	5,09,624	1,94,537	5,10,667	2,34,330	5,19,964	2,45,292	4,57,018	2,66,193	4,50,450	3,13,096
Closing balance	0	26,184	0	22,004	0	34,463	0	47,143	0	63,412
<b>Total (2)</b>	<b>5,51,435</b>	<b>2,64,750</b>	<b>5,62,871</b>	<b>3,06,563</b>	<b>5,72,516</b>	<b>3,29,534</b>	<b>5,15,139</b>	<b>3,72,427</b>	<b>5,09,256</b>	<b>4,42,563</b>
<b>Grand Total (1 + 2)</b>	<b>6,96,189</b>	<b>4,07,232</b>	<b>7,29,160</b>	<b>4,70,863</b>	<b>7,54,121</b>	<b>5,03,792</b>	<b>6,94,913</b>	<b>5,48,481</b>	<b>6,96,660</b>	<b>6,45,281</b>

BE – Budget Estimates

Source: Annual Financial Statement and State Finance Audit Reports of respective years

### 1.3 Application of resources of the State Government

As against the total budget outlay of ₹ 6,96,660 crore, the application of resources was ₹ 6,45,281 crore during 2021-22. The total expenditure (Total of Revenue Expenditure, Capital Outlay and Loans and Advances) of the State increased by 43 *per cent* from ₹ 1,78,242 crore to ₹ 2,54,801 crore during the period 2017-18 to 2021-22 while the revenue expenditure increased by 42 *per cent* from ₹ 1,42,482 crore to ₹ 2,02,718 crore during the same period. The revenue expenditure constituted 79 *per cent* of the total expenditure while capital expenditure increased from 18 to 21 *per cent* during the period from 2017-18 to 2021-22.

During the period from 2017-18 to 2021-22, the total expenditure increased at an annual average rate of 12 *per cent* for the period 2017-18 to 2018-19 and reduced to 5 *per cent* during 2019-20 to 2020-21. During 2021-22 it increased to 17 *per cent*. Whereas revenue receipts grew at an annual average growth rate of 11 *per cent* during the period from 2017-18 to 2018-19 and reduced to six *per cent* during 2019-20 and to -11 *per cent* during 2020-21. It increased to 25 *per cent* during 2021-22.

### 1.4 Persistent savings

During the last five years, 10 out of 29 grants showed persistent savings of more than ₹ 10 crore and which were also five *per cent* or more of the total grants as detailed in **Table 1.2** below.

**Table 1.2: Grants indicating persistent savings**(**₹ in crore**)

Sl. No.	Number and name of Grant/Appropriation	Amount of Savings and Percentage				
		Year	2017-18	2018-19	2019-20	2020-21
1	1- Agriculture and Horticulture					
	Revenue Voted	455.50 (7)	1,340.72 (17)	1178.55 (14)	869.74 (10)	443.26 (5)
2	3- Finance					
	Capital Voted	38.54 (30)	34.52 (30)	19.32 (15)	24.98 (19)	24.98 (7)
3	4- Department of Personnel and Administrative Reforms					
	Revenue Voted	107.10 (14)	165.94 (13)	104.29 (10)	114.66 (14)	129.73 (14)
	Revenue Charged	24.34 (9)	22.67 (15)	56.52 (34)	32.67 (20)	19.14 (11)
4	7- Rural Development and Panchayat Raj					
	Capital Voted	705.94 (52)	278.19 (8)	1223.39 (21)	498.24 (10)	1208.91 (24)
5	12- Information, Tourism and Youth Services					
	Revenue Voted	94.01 (11)	98.11 (16)	42.50 (9)	132.59 (23)	26.95 (5)
	Capital Voted	169.34 (35)	242.22 (42)	126.37 (27)	98.67 (52)	57.66 (23)
6	21- Water Resources					
	Revenue Voted	169.89 (16)	125.31 (12)	290.53 (27)	195.63 (19)	91.55 (10)
7	22- Health and Family Welfare					
	Revenue Voted	403.91 (6)	427.44 (5)	755.99 (9)	519.62 (5)	871.50 (7)
8	23- Labour and Skill Development					
	Revenue Voted	606.35 (36)	204.81 (16)	222.91 (16)	366.76 (22)	150.79 (7)
9	27- Law					
	Revenue Voted	79.63 (10)	59.28 (6)	61.67 (6)	159.06 (14)	106.58 (9)
10	28- Parliamentary Affairs and Legislation					
	Revenue Voted	59.21 (25)	34.33 (18)	14.46 (8)	34.11 (13)	23.30 (8)

Note: Figures in brackets indicate percentage of savings to total provision

Source: Appropriation Accounts of relevant years

### 1.5 Grant-in-aid from Government of India

Grants-in-aid from Government of India showed an increasing trend during the years 2017-18 to 2019-20 whereas the grants decreased during 2020-21 to 2021-22, as shown in **Table 1.3**.

**Table 1.3: Grant-in-aid received from Government of India<sup>1</sup>**

(₹ in crore)

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
Non-Plan grants*	-	-	-	-	-
Grants for State Plan schemes*	-	-	-	-	-
Grants for Central plan schemes*	-	-	-	-	-
Grants for Centrally sponsored Schemes	11,617	10,393	12,214	9,852	12,659
Other transfers/Grants to States	7,316	11,714	17,593	14,667	11,064
Finance Commission Grants	2,708	3,374	4,673	5,557	6,239
<b>Total</b>	<b>21,641</b>	<b>25,481</b>	<b>34,480</b>	<b>30,076</b>	<b>29,962</b>

\* There are no figures since the nomenclature of plan and non-plan grants was removed with effect from the year 2017-18 and replaced by Grants for CSS, Finance Commission Grants and Other Grants to States.

### 1.6 Authority for conducting Audit

Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's Duties, Powers and Conditions of Service (DPC) Act, 1971, give the C&AG of India the authority for conducting Audit. C&AG conducts audit of expenditure of the Departments of Government of Karnataka under Section 13<sup>2</sup> of the C&AG's DPC Act. C&AG is the sole auditor in respect of three Autonomous Bodies, which are audited under Sections 19(2)<sup>3</sup> and 19(3)<sup>4</sup> of the C&AG's DPC Act. In addition, C&AG also conducts audit of other Autonomous Bodies under Section 14<sup>5</sup> of C&AG's DPC Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007<sup>6</sup>, issued by the C&AG.

### 1.7 Organisational structure of the Office of the Principal Accountant General (Audit-I), Karnataka, Bengaluru

The State Offices of the C&AG of India were restructured (March 2020) on the basis of allocation of clusters, each cluster containing departments with inter-connected outcomes and linkages. The Principal Accountant General (Audit-I), Karnataka, Bengaluru is responsible for audit of expenditure

<sup>1</sup> This does not include devolution.

<sup>2</sup> Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts.

<sup>3</sup> Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

<sup>4</sup> Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor.

<sup>5</sup> Audit of (i) all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated fund of the State in a financial year is not less than rupees one crore.

<sup>6</sup> Amended during 2020.

incurred by 55 Departments under the Government of Karnataka, 24 State Autonomous Bodies, 41 Public Sector Undertakings and 40 Grant-in-Aid Institutions under the Finance, Health and Family Welfare, Education, Skill Development and Employment, Agriculture, Food and Allied Industries, Water Resources, General Administration and Rural Development clusters. The Principal Accountant General (Audit-I) is assisted by three Group Officers and various subordinate officers. This report includes observations relating to departments under the jurisdiction of the Principal Accountant General (Audit-I).

### **1.8 Planning and conduct of Audit**

Audit process starts with the assessment of risks faced by various Departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. The frequency and extent of audit are decided based on risk assessment.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the Heads of the Departments. The Departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India to be tabled in the State Legislature.

During 2021-22, the number of party days used to carry out audit of 425 units to conduct performance audit and compliance audit were 6,382 days. Similarly, 1,276 party days were used to carry out financial (certification) audit of 207 units.

### **1.9 Significant audit observations and response to audit**

Audit has reported significant deficiencies

- in implementation of various programmes/activities.
- lapses in internal controls in selected departments, as well as
- observations noticed during compliance audit of the Government departments/organisations.

The compliance audit and seven paragraphs included in this report were forwarded demi-officially to the Principal Secretaries/Secretaries of the Departments concerned between December 2022 and January 2023 with a request to send their responses within six weeks. Government replies were received for all paragraphs and the replies are suitably incorporated in the Report.

## 1.10 Responsiveness of Government to Audit

### 1.10.1 Outstanding Inspection Reports

The Handbook of Instructions for Speedy Settlement of Audit Observations issued by the Finance Department in 2001 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the AG, who forwards a half yearly report of pending IRs to the Secretary of the Department to facilitate monitoring of the audit observations.

As on 31 March 2022, 7,680 IRs (41,193 paragraphs) were outstanding against 48 Departments<sup>7</sup>. Age-wise details of pendency are given in **Table 1.4** below.

**Table 1.4: Age-wise details of pendency of IRs and paragraphs**

Sl. No.	Age	Number of IRs	Number of paragraphs
1	< 1 year	135	1,484
2	1-2 years	420	4,950
3	2-5 years	1,462	11,968
4	5-10 years	2,521	13,229
5	>10 years	3,142	9,562
<b>Total</b>		<b>7,680</b>	<b>41,193</b>

Source: Information derived from IR Registers maintained in PAG (Audit I) Office.

A review of the pending IRs issued up to March 2022 showed that while two *per cent* of the total IRs was pending *i.e.*, 135 IRs (1,484 paragraphs) for less than one year, 4,403 IRs (30,147 paragraphs) were pending for more than one year but for less than 10 years. However, around 41 *per cent* of IRs *i.e.*, 3,142 IRs (9,562 paragraphs) were pending for more than 10 years. Further, review of IRs pending for more than 10 years revealed that Rural Development and Panchayat Raj, General Administration (Revenue) Department and Primary and Secondary Education had highest number of IRs pending at 1,577, 1,086 and 628 respectively. Year-wise and department-wise details of IRs and paragraphs outstanding are detailed in **Appendix 1.1**.

### 1.10.2 Follow-up action on Audit Reports

The Handbook and the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee provides for all the departments of Government to furnish detailed explanations in the form of Action Taken Notes (ATNs) to the audit observations which featured in Audit Reports, within four months of their being laid on the Table of Legislature.

<sup>7</sup> Information pertains to the departments under the jurisdiction of the Office of the Principal Accountant General (Audit-I), Karnataka, Bengaluru post-restructuring.

The administrative departments did not comply with these instructions and four departments as detailed in **Table 1.5** did not submit ATNs for six paragraphs for the period 2005-06 to 2020-21 even as on 31 December 2022.

**Table 1.5: Details of Departmental Notes pending as of 31 December 2022 (Excluding General and Statistical Paragraphs)**

Sl. No.	Department	2005-06	2006-07	2017-18	2019-20	2020-21	Total
1	Co-operation	1	---	---	---	---	1
2	Minor Irrigation	---	1	1	---	---	2
3	Rural Development and Panchayat Raj	---	---	---	1	---	1
4	Revenue	---	---	---	---	2	2
	<b>Total</b>	1	1	1	1	2	6

Source: Information derived from PAC watch Registers maintained in PAG (Audit-I) Office.

### 1.10.3 Paragraphs to be discussed by the Public Accounts Committee

A review of the position of paragraphs pending discussion by the Public Accounts Committee as of 31 December 2022 showed that 104 paragraphs (including performance audits and reviews) were yet to be discussed. Department-wise details of paragraphs (excluding General and Statistical) pending discussion by the Public Accounts Committee as of 31 December 2022 are detailed in **Appendix 1.2**.

### 1.11 Status of placement of Separate Audit Reports of autonomous bodies in the State Legislature

Several autonomous bodies have been set up by the Government in the fields of Education, Labour Welfare and Child Welfare. The audit of accounts of three autonomous bodies in the State, under the jurisdiction of Pr. Accountant General (Audit I), has been entrusted to the CAG. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SARs) and its placement in the Legislature is given in **Table 1.6**.

**Table 1.6: Status of entrustment of audit, rendering of accounts and issue of Separate Audit Reports**

Sl. No.	Name of the Autonomous Body	Period of entrustment of audit of accounts to CAG	Year up to which accounts rendered	Year up to which audit report issued	Placement of audit reports before the Legislature	Year upto which accounts due	Period of delay in submission of accounts (up to 30 <sup>th</sup> June 2021)
1	Karnataka Building and Other Construction Workers Welfare Board, Bengaluru	As per Section 19(2) of DPC Act	2021-22	2016-17	--	2021-22	No delay
2	Karnataka Text Book Society, Bengaluru	--	2008-09	2007-08	--	2021-22	12 Year
3	Karnataka State Commission for Protection of Child Rights, Bengaluru	From 2019	Established in July 2009. Accounts yet to be submitted since inception.				

The Karnataka Text Book Society was yet to submit the accounts from 2008-09 onwards and the Karnataka State Commission for Protection of Child Rights (established in July 2009) was yet to submit the annual accounts since inception. Delay in finalisation of accounts carries the risk of financial irregularities going undetected, and therefore, the accounts need to be finalised and submitted to Audit at the earliest.

**1.12 Year-wise details of performance audits and paragraphs appeared in Audit Report**

The year-wise details of performance audits and paragraphs that appeared in the Audit Report for the last three years along with their money value are given in **Table 1.7** below.

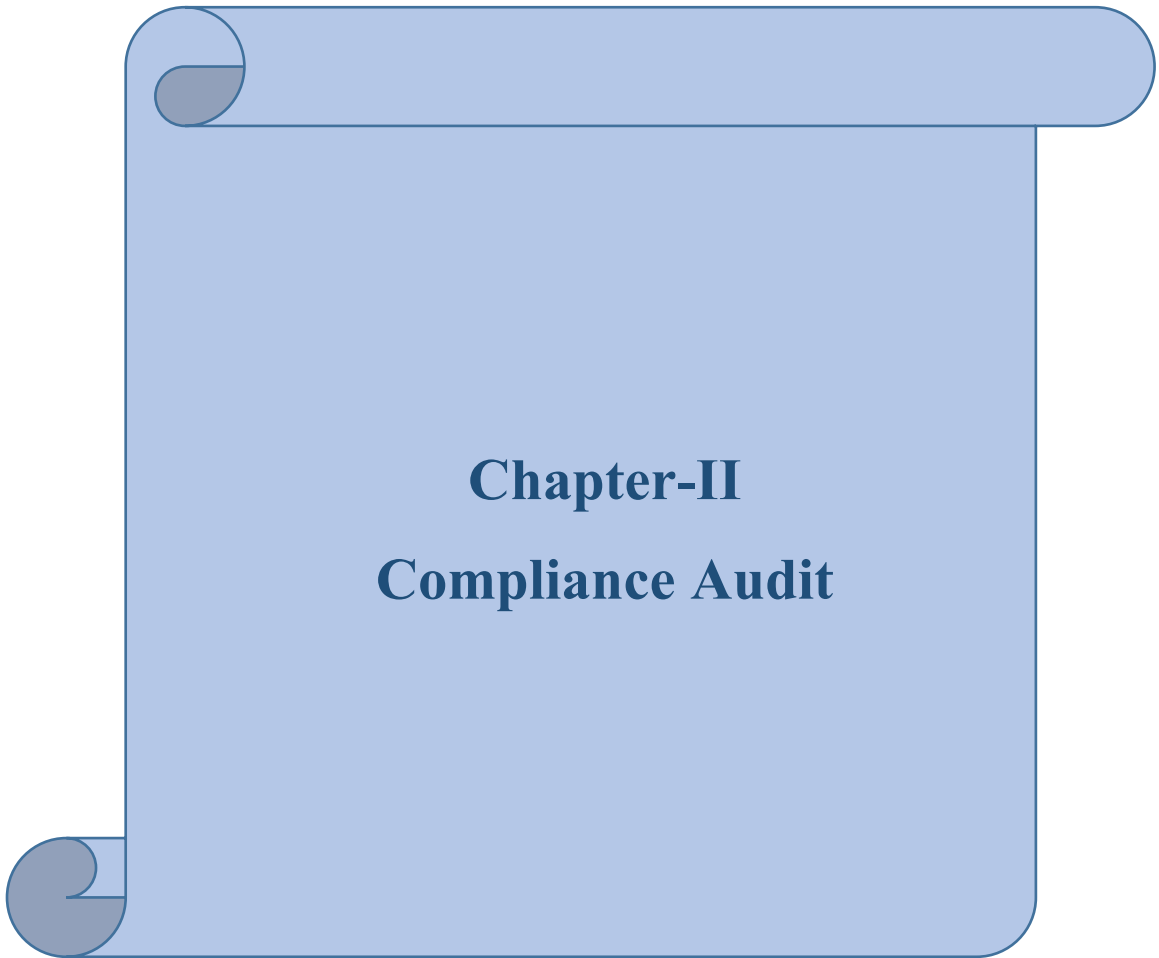
**Table 1.7: Details regarding the performance audits and paragraphs that appeared in the Audit Report during 2018-19 to 2021-22**

Year	Performance Audit		Paragraphs		Replies received	
	Number	Money Value (₹ in crore)	Number	Money Value (₹ in crore)	Performance Audit	Draft Paragraphs
2018-19	01	7.01	17	2,802.96	01	17
2019-20	---	---	09	68.90	---	---
2020-21	02	156.18	08*	88.70	02	08

\* Six Draft Paragraphs and two Compliance Audits

Source: Audit Reports (General and Social Sector Audit, now Audit-I) of 2018-19, 2019-20 and 2020-21.

During 2021-22, one subject specific compliance audit and five paragraphs involving ₹ 9.17 crore have been included in the succeeding chapter.



**Chapter-II**  
**Compliance Audit**



## Chapter-II

### Water Resources Department

#### 2.1 Subject Specific Compliance Audit on ‘Utilization of Irrigation Potential and Participatory Irrigation Management’

*The State Water Policy 2002, aimed to create an irrigation potential of 45 lakh hectare (ha.) through major, medium and minor irrigation projects. It identified the existence of gap in the area proposed to be irrigated and the actual area irrigated for which it prioritized completion of the ongoing projects.*

*The gap in the area proposed to be irrigated and the actual area irrigated, however, increased from 2,06,176 ha to 2,17,254 ha during 2019-20 to 2021-22. This was because FICs were not created as envisaged.*

*The State did not prepare the comprehensive plans and Joint Inspection Programme was yet to be conducted for 39,837 ha for test-checked projects to finalise FIC creation. The funds available remained unutilized due to non-invitation of tenders, non-acquisition of required land and non-completion of distributary network.*

*The intention of the Government to promote the Water Users Cooperative Societies could not be achieved as more than 50 per cent of the targeted WUCS and other levels of federations were either not formed or remained non-functional indicating lack of community participation.*

##### 2.1.1 Introduction

The State Water Policy (SWP), 2002 aimed to create an irrigation potential of 45 lakh hectare (ha.) through major, medium and minor irrigation projects and to improve productivity of irrigated agriculture by involving users in irrigation management. The policy also identified the existence of gap in the Irrigation Potential Created (IPC) *i.e.*, the area proposed to be irrigated and the Irrigation Potential Utilised (IPU) *i.e.*, the actual area irrigated. Hence, to address this gap<sup>8</sup>, it prioritised creation of Field Irrigation Channels (FICs)<sup>9</sup> by 2006. Accordingly, the priorities determined were completion of ongoing Major and Medium irrigation projects, Participatory Irrigation Management<sup>10</sup> (PIM) and Operation and Maintenance (O&M). The SWP 2002 stated that lack of farmers participation in PIM impacted conservation and optimum utilisation of resources.

As at the end of March 2022, the gap between the IPC and IPU was 2,17,254<sup>11</sup> hectares (ha) in the State, which was 11 *per cent* of IP created.

<sup>8</sup> Difference of the area proposed to be irrigated and the actual area irrigated.

<sup>9</sup> Field Channels are the last link from the distributaries/laterals to the field of the farmers and bridge the gap between the IPC and IPU accounted in terms of hectares.

<sup>10</sup> Participatory Irrigation Management is the efficient and scientific management of water in partnership between the beneficiaries and the Government.

<sup>11</sup> 19,85,569(IPC) – 17,68,315(IPU) = 2,17,254 (hectare).

### 2.1.2 Organisation set-up

The Water Resource Department (WRD) headed by the Additional Chief Secretary (ACS) at the Government level is responsible for completion of all the ongoing projects and achieve 100 *per cent* creation of available total potential in all the command areas<sup>12</sup> of the Irrigation Projects in the entire State besides other stated objectives.

The WRD has established four special purpose vehicles, namely, Krishna Bhagya Jala Nigama Limited (KBJNL), Karnataka Neeravari Nigama Limited (KNNL), Visvesvaraya Jala Nigama Limited (VJNL) and Cauvery Neeravari Nigam Limited (CNNL), under the Companies Act of 1956, to mobilize financial resources for speedy completion of major and medium irrigation projects with-in the targeted period. The Nigams headed by the Managing Directors are responsible for creation of infrastructure *viz.*, construction of main canals, distributaries, and laterals.

The Command Area Development Authorities (CADA) Directorate<sup>13</sup> along with six<sup>14</sup> CADAs are responsible for command area activities, including creation of FICs and coordination with Water User Co-operative Societies (WUCS) for upkeep of FICs so created.

### 2.1.3 Audit framework

The Compliance Audit (CA) was conducted for the period 2019-20 to 2021-22 to ascertain whether FICs were created as envisaged and also the effectiveness of Participatory Irrigation Management (PIM). The SWP, relevant Acts, manuals and Guidelines, Circulars, Orders issued by Government of Karnataka from time to time formed the criteria for the CA. Audit selected five<sup>15</sup> out of 17 ongoing projects in two Nigams (CNNL and KNNL) and four<sup>16</sup> CADAs covering 98,947 ha (for creation of FICs) and two projects each in three<sup>17</sup> out of the six CADAs (for PIM). The Entry meeting was held on 29 June 2022 and the Exit Meeting was conducted on 10 February 2023. The views/replies of the Government are suitably incorporated.

### 2.1.4 Acknowledgement

Audit acknowledges the co-operation extended by the Officials of WRD, Nigams and CADA in conducting the Audit.

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<sup>12</sup> Command area means such area as may be notified by the State Government, comprising among other lands, lands benefitted by such irrigation project or projects.

<sup>13</sup> Established in November 2012.

<sup>14</sup> (a) Bhadra Project (b) Cauvery Basin Project (c) Irrigation Project Zone (d) Malaprabha and Ghataprabha Projects (e) Tungabhadra Project (f) Upper Krishna Project.

<sup>15</sup> CNNL: Hemavathy and Yagachi project. KNNL: Lower Mullamari, Tubachi Babaleshwara LIS and Upper Tunga Project.

<sup>16</sup> (a) Bhadra Project (b) Cauvery Basin Project (c) Irrigation Project Zone (d) Malaprabha and Ghataprabha Projects.

<sup>17</sup> Bhadra Project, Cauvery Basin Project and Malaprabha and Ghataprabha Projects.

## Audit Findings

### 2.1.5 Creation of Field Irrigation Channels

The State Government ordered (February 2017) the transfer of responsibility of creation of FICs from the CADAs to Nigams. It further directed Nigams to meet the expenditure for the FIC works from out of the grants allocated to them for better management of canal network. The gap between the IPC and IPU in the State during the period 2018-19 to 2021-22 is shown in **Table 2.1**.

**Table 2.1: Gap between IPC and IPU in the State during 2018-22 (in ha)**

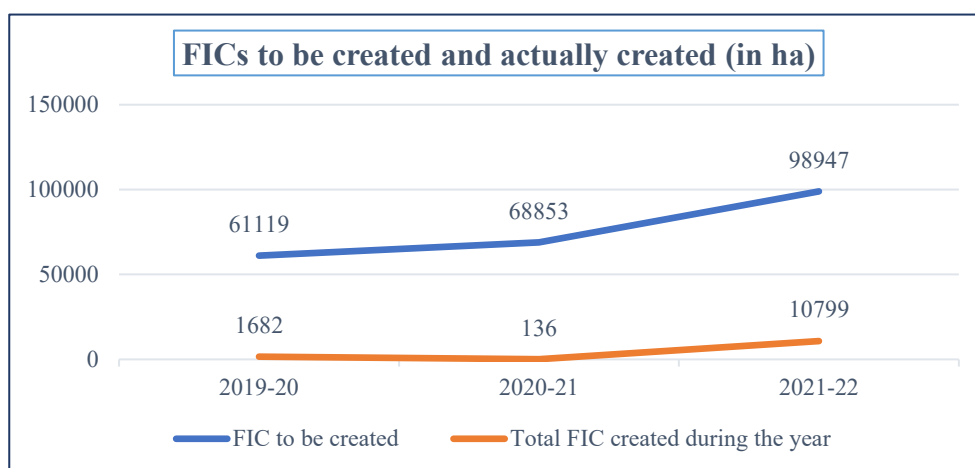
Year	IPC	IPU	Gap	Per cent
Up to 2018-19	19,23,319	17,17,143	2,06,176	10.72
Up to 2019-20	19,33,515	17,21,929	2,11,586	10.94
Up to 2020-21	19,71,368	17,23,154	2,48,214	12.59
Up to 2021-22	19,85,569	17,68,315	2,17,254	10.94

Source: WRD information

The gap of 2,06,176 ha at the beginning of the audit period increased to 2,17,254 ha by the end of March 2022 indicating slow pace in creation of FICs. During the period 2019-22, the FICs were created for 51,172 ha as against 62,250 ha of IPC created, the gap remained constant and left unbridged.

In the test-checked five projects, the FICs to be created increased from 61,119 ha in 2019-20 to 98,947 ha in 2021-22. The cumulative progress achieved was 12,617 ha (13 *per cent*) only to the end of 2021-22 as depicted in the **Chart 2.1**.

**Chart 2.1: Progress of FICs created (as per WRD)**



Thus, the FICs created by the Nigams during 2019-22 was inadequate and deprived water to 88,148 ha of area proposed to be irrigated.

The Government/Nigams/CADA did not furnish their views.

The reasons for slow progress and non-creation adequate FICs are discussed in the subsequent paragraphs.

### 2.1.5.1 Lack of Comprehensive Plans

To achieve the objectives enunciated in the SWP, the WRD was to draw comprehensive plans, which were to be further drawn down to implementable Annual Work Plans (AWPs) with sufficient financial resources for creation of FICs in time bound manner. Audit observed that no such comprehensive plans were drawn either by WRD or Nigams.

A proposal (September 2020) was sent to Government by the CADA Directorate for ₹ 1,329.77 crore towards creation of FICs<sup>18</sup> over a period of eight years. In turn the Government sought (November 2020) project-wise/zone-wise details, identification of outlets for FICs, Joint Inspection Reports, and status of activities undertaken for identification of land for construction of achkut<sup>19</sup> roads, etc., which was yet to be submitted. CADA Directorate during exit meeting (February 2023) stated that the process is underway for submission of details to Government and the Secretary WRD, directed CADA authorities to ensure the details are submitted to Government at the earliest.

The Government forwarded the reply of CADA (March 2023), which stated that a comprehensive report was submitted. The reply could not be verified as the revised proposal submitted to Government was not furnished to audit.

### 2.1.5.2 Lack of coordination between CADAs and Nigams

Subsequent to the transfer of the responsibility of creation of FICs which rested with CADAs to Nigams for better management of canal network, a Joint Inspection Programme (JIP) was to be carried out by Nigam and CADA officials to finalise the FICs created/to be created for necessary budgetary allocations in the AWP of Nigams. However, Audit observed that there were shortfalls in conducting such JIPs as indicated below in **Table 2.2**.

**Table-2.2: Statement showing Joint Inspection Programme (JIP) conducted and FICs created by Nigam/CADAs as on March 2022**

Sl. No.	Name of the project	IPC	JIP conducted	Balance JIP to be conducted	FICs created against JIP conducted (out of B)	Balance FIC to be created	Balance FICs to be constructed against JIP conducted
		A	B	C=(A-B)	D	E = (A-D)	F = (B-D)
1	Yagachi	15,574.94	6,816.77	8,578.17	5,692.40	^9,194.29	1,124.37
2	Hemavathy	1,17,050.00	93,713.64	23,336.36	88,060.41	28,989.59	5,653.23
3.	Upper Tunga	73,799.02	69,497.42	4,301.60	69,572.85	4,226.17	-75.43
4.	Tubachi Babbleswara	45,585.54	45,585.54	0	0	45,585.54	45,585.54
5.	Lower Mullamari	9,713.00	620.00	9,093.00	9,560.45	152.55	-8,940.45 <sup>20</sup>
	<b>Total</b>	<b>2,61,722.50</b>	<b>2,16,233.37</b>	<b>45,489.13</b>	<b>1,72,886.11</b>	<b>^88,148.14</b>	<b>43,347.26</b>

<sup>^</sup> excludes 688.25 ha due to urbanization.

Source: Information furnished by the Department

<sup>18</sup> The proposal included ₹ 93.58 crore for Annual Maintenance Grant for WUCS, ₹ 3,060.31 crore for Ayacut Roads, ₹ 1,329.77 crore for Field Irrigation Channel; ₹ 968.34 crore for Land Development; and ₹ 545.50 crore for other CADA activities.

<sup>19</sup> Roads on either side of distributary canals and FICs.

<sup>20</sup> FICs were created without conducting JIP, which was a pre-requisite.

It could be observed from the above table that as against the 2.62 lakh ha of IPC, JIP was conducted for 2.16 lakh ha (82 per cent) and pending JIP was to be conducted for 0.45 lakh ha.

The Government forwarded the reply of CADA/Nigams, which stated (March 2023).

- (i) CADA: The status relating to the creation of FICs under Upper Tunga<sup>21</sup> has been furnished to WRD.
- (ii) KNNL: FIC works related to the Tubachi-Babaleshwar Lift Irrigation Scheme are yet to be taken up. In case of Lower Mullamari Project, the FIC is under progress, the balance irrigation potential of 152.55 ha will be completed by the end of March 2023.
- (iii) CNNL: Joint inspection programme has been completed to an extent of 5,652.59 ha in respect of Hemavathy and JIP is under progress for the remaining area. Lack of availability of funds is the main constraint to take up the FICs. It was further stated that completion of balance FICs will be taken up either by Nigam or CADA as per the directions of Government. In case of Yagachi project, FICs to an extent of 688.25 hectares out of 9,882.54 hectares cannot be taken up due to urbanization. It was also stated that action will be taken to prepare the AWP from 2023-24 onwards and that the Government has been requested for providing funds for resolving the gap of FICs.

Non-commencement of JIPs for 39,836.54<sup>22</sup> ha resulted in delay in construction of FICs.

### 2.1.5.3 Under utilisation of funds

The Nigams seeks budget allocation from the Government based on the consolidated AWP<sup>23</sup> for capital and maintenance works. Upon receipt of budget allocation, Nigams will prioritize and execute the works as per fund availability. In respect of Central Sponsored Schemes, the Nigams release funds to CADA as per their AWP and executes the works. The details of funds required, allotted and their utilization during 2019-22 is as detailed in **Table 2.3**.

<sup>21</sup> Since Upper Tunga Project was approved under PMKSY-CADWM activities, action plans were prepared by CADA Shivamogga. Due to insufficient funds Government directed KNNL to provide grants, and hence included under CADA and KNNL.

<sup>22</sup> Balance JIP to be conducted (45,489.13) less JIP conducted as per Government reply (5,652.59) = 39,836.54.

<sup>23</sup> CNNL: Hemavathy and Yagachi did not programme for creation of FICs in AWP, and no funds were allotted to these projects during 2019-22.

**Table 2.3: Status of utilisation of funds**

(₹ in crore)

Name of the Project	Period	Funds required	Funds allotted (Per cent)	Funds utilized (Per cent)	Balance unutilized funds	Surrendered to Government
Upper Tunga - KNNL	2019-20	14.36	12.92(90)	5.75(45)	7.34	--
	2020-21	65.02	38.28(59)	1.12 (3)	38.13	--
	2021-22	37.43	29.00(77)	4.77 (16)	24.64	--
Tubachi Babbleshwara - KNNL	2019-20	--	--	--	--	--
	2020-21	6.00	6.00 (100)	--	6.00	--
	2021-22	20.00	20.00(100)	--	20.00	--
Lower Mullamari - KNNL	2019-20	0.27	0.27(100)	--	0.27	0.27
	2020-21	0.27	0.27(100)	--	0.27	0.27
	2021-22	0.27	0.27(100)	--	0.27	*0.27
<b>Total</b>		<b>143.62</b>	<b>107.01</b>	<b>11.64</b>	<b>#96.92</b>	<b>0.81</b>

Source: Information furnished by Department. # Balances available with Nigams

\* The construction of Distributary no. 61 and 62 (by KNNL), which was damaged due to rains in 2008-10 is taken up (March 2018) under modernization and is under progress. The FIC would be constructed after completion of Distributary network.

Nigams utilised ₹ 11.64 crore only against the available funds of ₹ 107.01 crore indicating under-utilization of funds. The reasons for underutilization of funds are attributed to:

- Required land of 2,619.15 ha in Upper Tunga by KNNL is under different stages of acquisition.
- Non-inviting of tenders in respect of Tubachi-Bableswara Project, KNNL as the Estimate Review Committee clearance is awaited (March 2023).
- Non-completion of distributary network in respect of Lower Mullamari Project.

Due to non-execution of works, the funds provided by the Government rendered unutilized and Nigams invested the same in fixed deposits to the tune of ₹ 459 crore<sup>24</sup>, which was inclusive of funds provided for construction of FICs.

The Government forwarded the reply of KNNL, which stated (March 2023) that no FIC works were executed under Tubachi-Babaleshwar Lift Irrigation Scheme and Lower Mullamari Project.

Further, the reply received from CADA and KNNL (May 2024) states that :

CADA: The project on whole comprises of Main Canal, Distributaries, Minors, Sub-minors, Laterals and these components require land acquisition, while FICs does not require acquisition of land. The constructions of these components are being executed by the Nigams.

KNNL: The notifications are pending issue for land acquisition of 171.04 hectares from 2017. It was also stated that Land acquisition cases were

<sup>24</sup> As per the Audited Annual Accounts of KNNL had ₹ 369.38 crore and CANNL had ₹ 89.62 crore of fixed deposits in the banks.

in large numbers and many cases were held with court stay orders, which led to delay in construction of FICs/Ultimate irrigation potential.

The reply is not justified, as creation of FICs should have been prioritized and funds utilized to the full extent, as the current pace of creation of FICs will result in increased capital costs year after year.

#### 2.1.5.4 Status of Field Irrigation Channel works

The status of works executed by the Nigams were reviewed in audit. It was observed that the works are yet to be commenced and the status of the works are:

- In respect of CNNL, Government of India though approved inclusion of Yagachi and Hemavathy Projects (June 2021) under Incentivisation Scheme for Bridging Irrigation Gap (ISBIG)<sup>25</sup>, the Detailed Project Report is yet to be approved (March 2022) by Chief Engineer, (Interstate Water Disputes) and hence the works could not be taken up.
- In respect of Upper Tunga, Tubachi Babaleswar and lower Mullamari projects, though AWP's were prepared by KNNL, the FIC works could not be initiated due to non-finalisation /delayed award of tenders and non-completion of distributary network.

The Government forwarded the reply of CADA/Nigams, which states (March 2023) that:

CADA: The DPR for creation of FIC under Hemavathy Project is now with CNNL. CNNL replied that land acquisition of 108.91 hectares is under progress and action will be taken for creation of FIC after funds are made available.

KNNL: In respect of the Tubachi-Babaleshwar Lift Irrigation Scheme, it was stated that preliminary action was already taken to execute FIC works therefore, there will be no delay in the construction of FICs. In respect of Lower Mullamari Project, it was stated that balance irrigation potential of 152.55 ha will be completed by the end of March 2023.

Further, the reply received from CADA and CNNL (May 2024) states that:

CADA: In case of Upper Tunga project, FIC is created by CADA for the IP created by KNNL. Due to non-payment of land compensation for construction of canals, distributaries, *etc.*, farmers are non-co-operating/objecting the construction of FICs to the extent of 939.14 ha.

CNNL: The extent of area for which FIC creation is pending on account of land acquisition for Hemavathy project is 16,562 ha and for Yagachi project it is 9,194.29 ha. The land acquisition pending for Hemavathy project is 244.19 ha and that of Yagachi project it is 51.09 ha

The fact remains that there were delays in construction of FICs attributable to inaction by CADA and Nigams.

<sup>25</sup> Aims for (i) completion of CADWM works along with correction of system deficiencies in canal network for bridging the gap between IPC and IPU; (ii) Improving the water use efficiency in irrigation and providing assured supply of water to every farm field; and (iii) Transfer of control and management of irrigation system to the Water Users' Associations (WUAs).

***Recommendation 1: The State Government should prepare and implement long term comprehensive plans with year-wise targets for speedy construction of FICs in time bound manner to fully utilise the irrigation infrastructure capacities as envisaged.***

***Recommendation 2: The State Government should ensure early completion of JIP and land acquisitions for creation of FICs in the State and allocate budget accordingly. The Nigams/CADAs should expedite the FIC works and utilise the funds without surrendering.***

### **2.1.6 Working of Water User Cooperative Societies – Participatory Irrigation Management**

Participatory Irrigation Management creates a sense of ownership of water resources and irrigation systems among the users for promoting economy in water use and equity in distribution. Sections 2 and 62 A of the Karnataka Irrigation Act, 1965, envisages formation of the four-tier structure in irrigation project *i.e.*, Water Users Cooperative Societies (WUCS) at Sluice point<sup>26</sup>, Water User Distributary Level Federation (WUDLF) at Distributary level, Water Users Project Level Federation (WUPLF) at Project level and Water Users Apex Level Federation (WUALF) at State level.

The functions of different tiers were as follows:

- WUCS: To procure water in bulk on volumetric basis from the Irrigation Department or Nigams and distribute it to the landholders amongst its area of operation.
- WUDLF: To monitor and regulate the use of water among various societies in its area of operation.
- WUPLF: To prepare water budget and crop plans and promote economy in the use of water.
- WUALF: To make recommendation to the State Government on the policies to be adopted and the Guidelines to be formulated regarding construction, maintenance and regulation of irrigation work and supply of water therefrom and give directions to WUPLF, WUDLF and WUCS.

Audit reviewed working of PIM in six projects<sup>27</sup> in three CADAs. Further, in the six projects, audit test-checked 105 of the 905 WUCS registered, through random sampling, to review their registration status and activities.

#### **2.1.6.1 Formation and functioning of four tier structure in Participatory Irrigation Management**

The details of WUCS in the six CADAs for the period ended March 2022 are as detailed in **Table 2.4** below.

<sup>26</sup> An outlet point for letting water from the canals to the fields for irrigation.

<sup>27</sup> Ghataprabha and Shri Rameshwara LIS (CADA-Malaprabha & Ghataprabha, Belagavi); Hemavathy and Kabini Projects (CADA-Cauvery Basin Projects, Mysuru); Upper Tunga and Anjanapura projects (CADA Bhadra, Shivamogga).

**Table 2.4: Details of formation of WUCS****(WUCS in numbers; Area in ha)**

Year	Targeted area for PIM implementation	No. of Water Users Co-operative Societies				
		Total to be formed	Actually formed (command area)	MOUs signed (command area)	Functional	Non-functional
		A	B	C	D	E=(B-D)
2019-2020	21,23,159	4,326	3,304(16,49,915)	2,297(9,97,779)	1,579	1,725
2020-2021	21,24,863	4,329	3,391(16,96,155)	2,397(10,37,133)	1,650	1,741
2021-2022	23,44,502	4,533	3,511(17,51,501)	2,540(10,94,835)	1,754	1,757

Source: Information provided by CADA

Audit observed that:

- As against the targeted area of 23,44,502 ha for implementation of PIM in six CADAs, only 10,94,835 ha of land was handed over to WUCS as at the end of March 2022. Further, out of 3,511 WUCS formed, 1,757 (about 50 per cent) were non-functional due to non-execution of MoUs, non-renewal of MoUs, non-conducting of annual audit, expiry of the term of office.
- Memorandum of Understanding (MoUs<sup>28</sup>) were yet to be concluded with 971 WUCS.
- In respect of selected six projects, audit observed that out of 1,124 target WUCS, 905 were registered and MoU was signed with 623 WUCS and 290 WUCS only were functional as at the end of March 2022.

Non-execution of MoUs is attendant with the risk of such WUCS becoming ineligible for One Time Financial Grant and Annual Maintenance Grant permissible under the Act, which are ultimately treated as non-functional.

The Government forwarded the reply of CADA/Nigams, which stated (March 2023) that shortage of staff was the reason behind the slow progress in creating WUCs and that efforts were being made to improve the PIM and to revive the non-functional WUCs. In addition, steps will be taken to resolve the deficiencies.

#### **2.1.6.2 Deficiencies in implementation of PIM**

The formation and functioning of WUCS are guided by the various provisions of Karnataka Irrigation Act, 1965 and Guidelines (August 2019) issued by Government of Karnataka. The deficiencies noticed in the functioning of 105 test-checked WUCS in six projects are as below:

- Copy of notification of area of operation of WUCS was not available in 98 out of 105 test-checked WUCS, without which area and extent of operation of WUCS could not be ascertained.

<sup>28</sup> MoU is executed by the representatives of Nigam and Secretary of WUCS, which contains conditions governing the functions of societies viz., billing on volumetric basis, maintenance of canals, drawings and later as, coordination with authorities concerned and to collect/remit water rates during kharif and rabi from the members of WUCS.

- List of Land Holders in 68 WUCS out of 105 test-checked was not available, which was a prerequisite for formation of WUCS.
- Extent of land-holding and cultivation were not maintained in all selected 105 WUCS.
- Though Joint inspection of canal system by WUCS and CADA authorities were conducted in 27 out of 105 test-checked WUCS, the same were not made available to Audit.
- Out of 105 test-checked WUCS, in 74 WUCS MoUs were executed and signed, copies of 42 were available and 32 WUCS were not on record and five MoUs expired.
- Out of 105 test-checked WUCS, in 45 societies were paid One Time Financial Grant (OTFG) of ₹ 39.90 lakh. Of which 29 WUCS were functional, while the other 16 WUCS were non-functional. Though three WUCS were functional, they were denied OTFG<sup>29</sup>. Fixed Deposit Receipts for ₹ 17.01 lakh was not produced to audit by respective CADAs.
- Out of 105 test-checked WUCS, 83 WUCS were not provided with Annual Maintenance Grant.
- Though elections were held in 46 WUCS the term of office expired in nine WUCS. In remaining 59 WUCS, elections were not conducted
- Audit of accounts of 76 WUCS was not conducted and in rest of 29 WUCS, 19 WUCS are overdue for Audit.

Further, the other level of federations required to be formed under the Karnataka Irrigation Act, 1965 was not formed as detailed below:

- WUDLF which were required to be formed under the Section 2(q) of the Karnataka Irrigation Act 1965 was not formed due to non-submission of proposals by the Nigams in any of the six test-checked projects
- WUPLF which were required to be formed as required under Section 2 (r) of the Karnataka Irrigation Act 1965, was formed only in Hemavathy and Kabini Projects. In other four projects, WUPLF were not formed
- WUALF which was required to be formed as per Section 2(p) of the Karnataka Irrigation Act 1965, was not formed.

The Government intended to promote cooperative mechanisms to reduce the burden on the CADAs and to create a sense of ownership among the farming fraternity for smooth functioning of irrigation activities as per the local demands. It is evident from the above that the functioning of WUCS, WUDLF, WUPLF and WUALF are not satisfactory as the required number of WUCS were not formed for better community participation in integrated water resource management as contemplated in CADA Act 1960. In the absence of

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<sup>29</sup> The Guidelines (December 2013) on Command Area Development and Water Management Programme of Ministry of Water Resources, Government of India stipulates a provision for One-time Functional Grant at ₹1,200 per ha. (₹ 540 per ha by Centre, ₹ 540 per ha share by the State and ₹ 120 per ha by the farmers). The Functional Grant is granted to WUCS which were formed, registered/elected and actually engaged in distribution of water. The amount would be deposited in the fixed deposit account of WUCS in the bank and interest accrued thereon would be used for the activities of the WUCS.

formation of above required Federations, review of policies, guidelines for suitable recommendations for effective community level participation could not be achieved.

The Government forwarded the reply of CADA/Nigams (March 2023) and attributed the slow progress to shortage of staff. The CADA replied that desired information for creation of three tiers of federation (WUDLF, WUPLF and WUALF) was awaited from Nigams. CNNL replied that proposal will be sent to CADA for formation of WUDLF for Hemavathy and Kabini projects and formation of WUALF will be considered after formation of other level federations. The reply is not justified as it was the responsibility of CADA to take action in PIM related activities by obtaining data from the Nigams.

### 2.1.6.3 Deficiencies in demand and Collection of Water rates by Water Users Cooperative Societies

The Karnataka Irrigation (Levy of Betterment Contribution and Water Rate) Act, 1957 authorized KNNL and CNNL (Nigams) to levy and collect water rates for the water supplied from an irrigation network to WUCS. WUCS act as intermediary between the individual farmers and Nigams in maintenance of water supply and collection of prescribed water rates. The WUCS were allowed to retain a percentage<sup>30</sup> of water rates so collected for meeting their maintenance expenditure on water management and administrative expenditure.

Audit observed that though Superintending Engineer, Upper Tunga Project authorized levy of betterment contribution from the beneficiaries in 49,362.24 ha (July 2017), KNNL is yet to raise demand (September 2022) for water rates even after creating wet potential. The Government replied that the project is nearing completion and the demand will be raised in due course.

In respect of other projects, viz., Hemavathy, Kabini, Anjanapura and Ghataprabha though demand for ₹ 13.82 crore was raised, the collection was mere ₹ 0.48 crore (3 per cent) leaving a balance ₹ 13.34 crore to be collected as at the end of March 2022.

Failure to raise timely demand from the beneficiaries not only resulted in loss of revenue but also non-recovery of O&M costs to the Nigams. Further, due to non-installation of measuring instrument, demand could not be raised on volumetric basis.

The Government forwarded the reply of CADA/Nigams (March 2023), wherein CNNL stated that despite all efforts, collection against the demand raised was not satisfactory due to poor response from the cultivators. No comments were received from KNNL and CADA. The reply is not acceptable as Nigams need to raise the demand for water rates, collect the same on regular basis, for proper maintenance of FICs by WUCS.

<sup>30</sup> As per the Government order dated 6 January 1999, ₹ 40 per ha for canal/water maintenance and 20 per cent of the total bill amount for administrative and maintenance expenses of the society.

#### **2.1.6.4 Capacity Building**

As per Government Guidelines (August 2019), the training<sup>31</sup> was to be imparted to the office bearers, secretary of WUCS and to the farmers. Government issued directions (August 2019) to impart training and an annual target of 30,000 participants was fixed for the year 2019-20 to be complied by CADA, and Water and Land Management Institute (WALMI), Dharwad equally. Audit observed that:

- While CADA, Malaprabha and Ghataprabha Projects met its targets, CADA-Bhadra Reservoir Project did not achieve the targets in all the three years (2019-20 to 2021-22). CADA-Cauvery Basin Projects, Mysuru trained the targeted farmers only during 2020-22.
- The number of Participants in Training conducted by WALMI from its own resources in the year ending March 2020 was only 5,342 (3,640 farmers) against an annual target of 15,000 participants. Government did not fix targets for the ensuing years.

The Government forwarded the reply of CADA/Nigams (March 2023). CADA in its reply stated that the targets for training could not be achieved during 2020-2022 due to COVID-19 and due to non-availability of infrastructure for online training to impart training to farmers. CNL added that the percentage of shortfall against the target during 2019-20 was only around six and there was no shortfall during subsequent years. KNL in its reply stated that there were no programme from 2019-20 to 2021-22. The reply was not justified as CADA needs to upgrade its infrastructure and provide online training as was being done by WALMI.

#### **2.1.6.5 Monitoring**

The Additional Chief Secretary, WRD undertakes monthly meetings with the Nigams and CADA. Similarly, Director, CADA holds meetings with the Administrators of CADA periodically. The following are observed.

- The WRD directed (July 2019) that Nigams and CADA Authorities to prepare blocks in each command area and take action to establish balance WUCS for increased community participation. The Department failed to identify successful WUCS and replicate the same in the weak or non-functional WUCS areas
- WRD issued (September 2020) directions to strengthen WUCS stage-by-stage. Audit observed as at the end of June 2022, only 10 Officers/Officials were available in Co-operation Wing of CADA out of the sanctioned 60 posts who are primarily responsible for implementation and monitoring of PIM activities. Due to shortage of staff, the monitoring of PIM activities and maintenance of records were not adequate
- As per Irrigation Act, 1965, the function of WUCS was to procure water from Nigams and equitably distribute it to land holders. Though Section 27 of the Irrigation Act 1965, empowered the Irrigation Officer

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<sup>31</sup> Training conducted for Operation and Maintenance activities of FICs and maintenance of records, maps, bank accounts, demand register for the water drawn from the distributaries.

of the State Government to consult such WUCS for purposes of time of letting out water for irrigation, period of supply, quantity, and area to be supplied. Information regarding the consultation is awaited from Government.

The Government forwarded the reply of CADA/Nigams (March 2023), CADA stated that the desired progress could not be achieved due to shortage of Co-operative department (technical) staff. CNNL in its reply stated that all efforts would be made to resolve the bottlenecks in reducing the gap in utilisation of irrigation potential created and to effective working of PIM in coordination with CADA.

***Recommendation 3: The State Government needs to encourage community participation at all levels of federations with the support of CADAs for better management of PIM activities and ensure timely collection of water dues.***

## Department of Revenue

### 2.2 Undue benefit to the transporter of fodder

***Failure of the Tahsildar in restricting the payment to the actual distance traversed by the transporter resulted in excess payment of ₹ 95.74 lakh towards transportation of fodder.***

The Revenue Department (Disaster Management), Government of Karnataka after evaluating the drought indicating parameters<sup>32</sup> prescribed in the Manual for Drought Management<sup>33</sup>, notifies the drought affected areas. The relief works are to be carried out from the funds made available under State Disaster Response Fund (SDRF) and National Disaster Response Fund (NDRF).

During Audit of Deputy Commissioner, Tumakuru, (February 2022) records relating to disaster relief fund (supply of fodder) for the period 2016-21 in respect of Tahsildar, Pavagada, were reviewed. The taluk was declared as drought prone area during 2016-17.

The department while inviting tenders for supply of fodder to the designated fodder depots in the drought affected taluk included following two conditions, among others:

- (i) The maximum price allowed was ₹ 6,000 per tonne for dry fodder, ₹ 1,500 per tonne for wet fodder and ₹ 1.50 per 100 kg of fodder per kilometre towards transportation cost, restricted to a maximum of 500 kilometres.
- (ii) The weight of the fodder supplied was to be weighed in the designated weigh bridges and GPS be installed in such transport vehicles, if found necessary.

Review of records showed that the bidders had quoted their price for supply of fodder which was inclusive of transportation costs from the place of procurement to the designated place of supply, duly mentioning the place from

<sup>32</sup> Rainfall Related Indices, Remote sensing based vegetation indices, Crop situation related indices, Hydrological indices, etc.

<sup>33</sup> Issued by the Department of Agriculture, Co-operation and Farmers Welfare, Ministry of Agriculture & Farmers Welfare, Government of India.

where the fodder is being lifted along with distance to the designated fodder depot to which the supplies were to be made. The lowest bid was then arrived considering the rates quoted for the dry and wet fodder. The work orders (December 2016) were issued by Tahsildar, Pavagada and payments were made (December 2017) as per the claims made by the supplier.

It was noticed from the bills submitted by the supplier that fodder was lifted from Gooty, Andhra Pradesh and supplied to four designated fodder points in Pavagada taluk. Audit verified the distance between the lifting and delivery places and found them to be inconsistent with the claims of the transporter, wherein, the distance claimed was in excess of actual distance as detailed below in the **Table 2.5**.

**Table:2.5 Statement showing distance claimed by supplier and actual distance**

Place of lifting fodder	Designated place of supply	Distance claimed by the supplier (kms)	Actual distance (to and fro) in kms	Difference (in kms)
Gooty	Venkatapura	500	181x2=362	138
Gooty	Nagalamadike hobli	500	171x2=342	158
Gooty	Y N Hosakote hobli	500	164x2=328	172
Gooty	Nidagal	500	176x2=352	148

From the above table, it can be observed that the actual to and fro distances traversed by the transporter ranged between 328 km to 362 km only. Audit observed that Tahsildar, Pavagada while admitting the claims, neither ensured that the transport vehicles were fitted with GPS instrument nor verified the actual distance between the lifting and designated supply points by requiring the production of the certificate issued either by the Public Works Department or from the Transport Department as required under contractual obligations. Consequently, the Tahsildar failed to regulate the claims based on actual distance between the place of lifting and designated fodder point and admitted excess claim of ₹ 95.74 lakh to the transporter (**Appendix 2.1**).

The State Government replied (March 2023) that due to clerical error, Gooty was written instead of Gudiwada and though the distance was 622 kms, Department restricted the claim for 500 kms only.

The reply of the Government is not acceptable as the vouchers produced to Audit indicated that fodder was lifted from Gooty, which were certified by respective Tahsildar, Veterinary doctor and the Revenue Inspector of Pavagada.

**Recommendation 4: The State Government should fix responsibility on the concerned officers/officials who have admitted the bills without due verification.**

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**DEPARTMENT OF HIGHER EDUCATION**
**2.3 Unfruitful Expenditure and undue benefit to implementing agencies**

*Release of funds to the implementing agencies without ascertaining the availability of land resulted in delayed/non-commencement of works and withdrawal of sanction for four works resulted in undue benefit of ₹ 2.56 crore to the agencies by way of accrued interest income on the advance deposits. Further, the Government First Grade College, did not utilize the newly constructed building costing ₹ 2.00 crore as it lacked proper access.*

Based on the recommendations of Dr. D.M. Nanjundappa Committee (June 2002), the Government of Karnataka initiated (2007) Special Development Plan (SDP) for the development of backward regions which included building infrastructure to redress the imbalances in the concerned sectors. Records revealed that the Government of Karnataka had released ₹ 50.00 crore for 96 works (December 2016) and ₹ 100.00 crore for 108 works to the Collegiate Education Department (August 2017) towards construction of new buildings for Government First Grade Colleges and additional classrooms across the State under SDP.

Audit scrutiny (October 2020 to March 2021) of records for the period 2018-20 showed that funds to the extent of ₹ 16.65 crore (**Appendix 2.2**) were released in advance (2016-17 and 2017-18) to two implementing agencies<sup>34</sup> for construction of 13 works (college buildings/additional classrooms) in 12 villages/taluks.

As at the end of July 2022, out of 13 works in 12 colleges, the construction of two works were completed and four works were commenced belatedly after a delay of 28 to 53 months due to handing over of land after clearing the litigations<sup>35</sup>. Audit observed that the Department did not ensure the availability of land while submitting the proposals to the Government. This was in violation of Para 135 of Karnataka Public Works Department (KPWD) Code which stipulates that no work should be commenced on any land which has not been duly made available by concerned offices. While two building works were yet to commence, administrative approval was not accorded for one work and the sanction for remaining four works were withdrawn.

The advance release of funds to the agencies and non-commencement of construction works in 12 colleges resulted in the implementing agencies being benefitted by way of interest income of ₹ 2.56 crore against the deposited amount of ₹ 16.65 crore. (**Appendix 2.2**).

Further, out of the above 12 colleges, fund of ₹ 96.00 lakh was released to RITES (2016-17) and ₹ 85.00 lakh to KRIDL (2017-18) towards construction of additional classrooms for Government First Grade College (GFGC) Aland, while the construction of the original building was under progress. The sanction for the construction of additional classrooms was subsequently

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<sup>34</sup> Karnataka Rural Infrastructure Development Limited (KRIDL) - ₹ 4.43 crore and Rail India Technical and Economic Service Limited - ₹ 12.21 crore.

<sup>35</sup> Litigations are on account of boundary disputes, religious issues and political interferences.

withdrawn (April 2023), but the funds continued to remain with the implementing agencies. Audit during JPV (September 2022) observed that the GFGC which was constructed (at a cost of ₹ 2.00 crore) and handed over during October 2018 was not occupied and was abandoned. The classes are presently being conducted in Department of Pre-University Education building, which is in dilapidated condition with seepage and dampness.



*Students accommodated in dilapidated roof of building belonging to PU Education*



*Government First Grade College at Aland constructed under Special Development Plan was found abandoned giving room for anti-social activities*

The college replied that due to lack of road access/transport facility to the newly built college, it was not occupied/used. As a result, the initial expenditure incurred to the tune of ₹ 2.00 crore was unfruitful besides additional funds of ₹ 1.81 crore remained blocked up with the implementing agencies.

Thus, the action of the Department to entrust work without ensuring the availability of land and subsequent withdrawal of sanction resulted in not achieving the objective of providing college buildings to the needy college students of backward region/taluku as contemplated under Special Development Plan. Besides funds of ₹ 5.68 crore continued to remain with the implementing agencies apart from extension of undue benefit of potential interest of ₹ 2.56 crore (**Appendix 2.2**).

Government replied (April 2023) that henceforth works will be taken up only after confirming the availability of land and the remaining funds will be obtained from implementing agencies. Further, unutilized funds will be utilised for other needy Government college buildings.

***Recommendations 5: The State Government should ensure availability of land before granting sanctions and milestone-driven funding to ensure optimal resource utilization and timely completion.***

## DEPARTMENT OF SOCIAL WELFARE

### 2.4 Unfruitful expenditure of ₹ 3.36 crore

***Failure to provide internet service to Pre-Matric and Post-Matric hostels resulted in unfruitful expenditure of ₹ 3.36 crore on internet infrastructure.***

The Government decided (June 2017) to provide High Speed Internet to Pre-matric, Post-matric and Residential Schools functioning under Social Welfare Department for the implementation of bio metrics, e-learning facility and security (CC cameras) to the hostel inmates. The Commissioner, Social Welfare Department in December 2017 sought proposals for selection of system integrator and internet service provider from Karnataka State Electronics Development Corporation Limited (KEONICS), which selected Bharti Airtel as the internet service provider. While the charges for system integrator was ₹ 1,03,450 plus GST per hostel (KEONICS), the annual charges for providing internet (Airtel) were fixed at ₹ 65,300 per hostel. The total value of the equipment installed was ₹ 3.36 crore (**Appendix 2.3**).

Audit observed (June 2022) that Social Welfare Department released ₹ 10.71 crore towards providing internet connection for the hostels to the joint accounts held by Deputy Directors of Social Welfare and the Deputy Commissioners of 27 districts. Work orders were issued (February and March 2018) to KEONICS and equipment were installed in the hostels accordingly.

Audit test-checked the availability of high-speed internet in the hostels of six Districts through JPV (September 2022) and calling for information from the Department. Out of 360 hostels, 283 hostels were provided with internet (**Appendix 2.4 and 2.5**), wherein, internet connection was not working in 267 hostels.

Audit observed that the Department's direction (May 2020) to hostel wardens and the Taluk Social Welfare Officers to conduct periodical inspections and monitor the functioning of the devices was not complied in any of the hostels except a few hostels in Raichur district.

It was further observed that though hostels authorities had informed the taluk officers regarding the non-availability of the internet, no action was taken to provide/restore the same. Thus, it is evident that even though funds were released for the implementation of the scheme, department failed to provide internet in the hostels despite incurring and expenditure of ₹ 3.36 crore on internet infrastructure.

Government replied (April 2023) that directions were issued to District/Taluk level officers to resolve the technical issues and provide internet facility to the hostels.

*Recommendation 6: The State Government should ensure monitoring, provide technical support to resolve internet connectivity issues in hostels to effectively utilize the infrastructure created and fix the responsibility on the erring Officials/Officers.*

## DEPARTMENT OF MINORITY WELFARE

### 2.5 Construction, Operation and Maintenance of Haj Ghar

*Non-existence of formal agreement with Karnataka Rural Infrastructure Development Limited (KRIDL) for entrustment of work resulted in non-invocation of contractual obligations on both parties for timely completion of works. Inordinate delays, avoidable/excess payments indicated ineffective internal controls during the execution of the project. At present, the building though not completed is being used only during the Haj season and lacked periodical maintenance.*

#### 2.5.1 Introduction

The Government of Karnataka sanctioned (April 2011) ₹ 40 crore for construction of Haj Ghar in Bengaluru to cater to the needs of Haj pilgrims traveling from the State. The building though not completed in full is in use for the Haj pilgrims since its inauguration on 27 August 2016 after the completion of Phase I of the construction. The work was extended to Phase II and approved by the Cabinet during March 2016 for an additional estimated cost of ₹ 37.34 crore.

The Karnataka Rural Infrastructure Development Limited (KRIDL) was entrusted with executing the works. The details of fund allocation, status of execution is brought out in **Appendix 2.6**. As against the estimated cost of ₹ 43.60 crore, the Karnataka State Haj Committee (KSHC) released ₹ 37.34 crore for the execution of 32 works. As of March 2023, KRIDL had completed 22 of these works (**Appendix 2.7**) leaving 10 works (**Appendix 2.8**) pending completion.

Audit conducted a Compliance Audit of Minority Welfare Department for the years 2018-19 to 2020-21 during the period from August 2021 to December 2021 which included the test-check of records of (KSHC) the nodal agency for the above work. Audit also conducted a Joint Physical Inspection (October 2022) of the constructed building to ascertain its present status and found that the works undertaken under Phase-II is yet to be completed even after seven years. The observations in respect of works under Phase-II of the construction are brought out in the subsequent paragraphs.

#### 2.5.2 Construction of Haj Ghar Phase II

While conveying its approval for the execution of Phase II of the construction of Haj Ghar at an estimated cost of ₹ 37.34 crore (**Appendix 2.9**), the Cabinet had directed to execute the work either through Public Works Department or

Karnataka Housing Board or Karnataka Rural Infrastructure Development Limited (KRIDL). The Government directed (April 2016) KSHC to entrust the work to KRIDL at the approved estimated cost of ₹ 31.77 crore as per KTCP Act, 2000. M/s K2K Infrastructure (India) Private Limited, Bengaluru, the Project Management Consultant (PMC) of Phase I was appointed as the technical consultant for overall supervision of the execution of Phase II of the project also. The payments were adjusted/released based on the certification of the PMC. As of March 2023, the project is yet to be completed.

### 2.5.2.1 Extension of undue favour to KRIDL

A review of records relating to the entrustment of work to KRIDL revealed that:

- i. As per Clause 4(g) of Karnataka Transparency in Procurement Act, 2000, (Act) any work can be directly entrusted to KRIDL provided that the estimated cost of the work should not exceed two crore rupees. Out of the 32 works entrusted to KRIDL (**Appendix 2.6**), three works<sup>36</sup> were awarded to KRIDL for an estimated cost above Rupees two crore, which is not permissible as per the provisions of the exemption available to KRIDL.
- ii. Any civil work or project initiated by the Government Department/Government Organization, requires approval of sanction of the competent authority. As per the provisions contained under Section 123(2) of the Karnataka Public Works Departmental Code, the Technical Sanction is the order of a competent authority in the Engineering Department sanctioning a Detailed Estimate/Detailed Project Report proposed to be carried out in the Department. For the works other than PWD entrusted by Government Departments, Local bodies, or other agencies, KRIDL will accord Technical Sanction (Para 17, Section 5). Contrary to the provision, estimates were technically sanctioned by the PMC instead of KRIDL which is violation of the above codal provisions.
- iii. It was noticed that many of the items certified as executed were found not executed during JPV of Haj Ghar by audit during October 2022. The bills were thus passed based on false certification as explained in para 2.5.2.4.
- iv. KSHC neither initiated action nor imposed penal provisions for delay in execution/defective work as there was no formal agreement with KRIDL for entrustment of work.

All these findings indicate that, KSHC had extended undue favour to KRIDL.

In reply, Government (March 2023) stated that KRIDL is a government agency. As per the approval of the Cabinet, KRIDL was entrusted with 32 works. KSHC has followed the directives of the Cabinet.

<sup>36</sup> Fire fighting works - External/ Internal/ Public Address (PA) system, Interior works, II stage Electrical work and Heating, Ventilation and Air Conditioning (HVAC).

The reply cannot be accepted because, as per the exemption granted under Section 4(g) of KTPP Act, works valuing above two crore rupees cannot be entrusted to KRIDL.

### 2.5.2.2 Undue delay in completion of works

The works were entrusted to KRIDL at an estimated cost of ₹ 43.60 crore of which, KSHC released ₹ 37.33 crore towards execution of 32 works. As per the information made available, KRIDL had completed 22 works as of March 2023, and the balance 10 works were yet to be completed.

Records indicated that KSHC had released ₹ 12.28 crore to KRIDL for the execution of these 10 works. While the entire estimated amount was released for execution of six works, of which, two works *viz.*, building illumination and External Security System estimated for ₹ 1.24 crore, are yet to be taken up for execution by the KRIDL. The amount released for the other four works ranged between 38.33 *per cent* to 81.38 *per cent* of the estimated cost (**Appendix 2.8**). The expenditure incurred on all the works ranged between zero to 91.74 *per cent*, which indicates underutilization of funds.

Additionally, audit observed that all the works were to be completed by August 2017, however, failure of the KSHC to monitor the entrusted works at regular intervals and ensure the physical progress resulted in delayed execution, as 10 works were yet to be completed (March 2023).

The State Government replied (March 2023) that KSHC has adequate monitoring mechanism for the overall execution of the project throughout the progressive work of Haj Ghar and that these works are likely to be completed by three months.

However, the reply cannot be accepted as the delay shows inadequate monitoring mechanism.

### 2.5.2.3 Irregular retention of savings from completed works - ₹ 2.29 crore

Audit verified the status of completion of 22 works carried out by KRIDL and found that as against the estimated cost and release of ₹ 25.05 crore, KRIDL completed works by incurring an expenditure of ₹ 22.76 crore released by KSHC. Records of the KRIDL indicated that the final account of these works were treated as completed and settled. Since KSHC did not seek refund of the unutilized funds after completion of works entrusted, KRIDL retained the funds without settling the same with the Department to the tune of ₹ 2.29 crore (**Appendix 2.7**). Thus, KRIDL irregularly retained the unutilised Government funds to the extent of ₹ 2.29 crore leading to Department incurring loss on account of interest income to the tune of ₹ 36.64 lakh, considering three<sup>37</sup> *per cent* rate of interest per annum for 64 months. (September 2017 to December 2022).

In this connection reference is invited to Para 2.3 of the Report of the Comptroller and Auditor General of India on Performance Audit of Karnataka Rural Infrastructure Development Limited for the year ended March 2021,

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<sup>37</sup> The minimum rate of interest on Fixed Deposit Bank account offered by the Banks.

wherein it was reported that KRIDL invested the unutilized portion of Government funds released by the Executing Agencies in Flexi Deposits. It was also reported that the Company had retained the interest earned out of such deposits without crediting the same to the Government account as required under the Government Orders (Circular dated 01 March 2018). The Government did not offer its comments in this regard.

#### 2.5.2.4 Fraudulent claim towards work not executed

Scrutiny of records relating to completion of the 22 works out of the 32 works entrusted to KRIDL, revealed that KSHC released full estimated amount of ₹ 13.68 crore towards works code 72966. KRIDL records indicated that works were completed by incurring an expenditure of ₹ 12.55 crore.

To ascertain the actual status of the works executed under the work code, audit conducted joint inspection along with Department officials during October 2022 and observed that following items of work amounting to ₹ 2.46 crore as indicated in **Table 2.6** were not executed.

**Table 2.6: Details of work not executed but claimed as executed**

Sl. No.	Name of the work	Rate	Quantity to be implemented	Amount (in ₹)	Works not executed	Value of works not implemented (in ₹)
1	Coffee shop and restaurant with allied works			30,81,767	Not executed	30,81,767
2	In position seating chairs for Auditorium	7,442.50	965	71,82,012	Not executed	71,82,012
3	Civil works – Granite cladding and cornice on columns / masonry structure	4,236.50 1,374.00	462 sqm 195 Rmt	19,57,262 2,67,930	462 # <sup>38</sup> sqm 195# Rmt	19,57,262 2,67,930
	<b>Total (A)</b>					<b>1,24,88,971</b>
4	Modular wardrobe size 2600 x 2100 mm	65,265.00	100	65,26,500	Size 2100 x 1200 (proportionate)	35,14,344
5	Modular Luggage rack with shelf unit 1800 x 600 mm with shelves laminate finish	21,182.50	100	21,18,250	Metal frame 2 layer <sup>39</sup> 1300 x 400 (proportionate)	14,98,774
6	Providing false ceiling 12.5 mm thick gypsum plaster board including trap doors		100 rooms	66,36,752	76 <sup>40</sup> rooms – implemented only in 24 AC rooms	50,46,211
	<b>Total (B)</b>					<b>1,00,59,329</b>
	<b>KRIDL charges 9 per cent (C)</b>					<b>20,29,347</b>
	<b>Total (A)+(B)+(C)</b>					<b>2,45,77,647</b>

The Department failed to insist KRIDL to submit the progress of work periodically and also to inspect the work site at frequent intervals to ensure its completeness, which resulted in works going unnoticed, thereby resulting in full payments for the incomplete works.

<sup>38</sup> PVC cladding provided instead of Granite cladding and cornice.

<sup>39</sup> Iron metal frames fixed instead of modular wooden luggage rack with shelf.

<sup>40</sup> Against total area of 4,602 smt = 49,510 sft, only 8,445 sft of false ceiling has been executed.

The payments were adjusted/released based on the certification of the PMC. Records like measurement books, test reports, stock registers and log books were not maintained or available. Thus, payments made for the works on false certification of PMC indicates fraudulent claim.

The Government replied (March 2023) that the pending item of works will be executed in due course and the details of execution along with the stock books, bill vouchers will be made available after the Haj Bhavan is handed over to Karnataka State Haj Committee by the Government. The reply confirms the fact of non-execution of work by Agency but is silent on false certification of works.

### **2.5.3 Deficiencies noticed in construction of Haj Ghar**

To ascertain the status of works executed by KRIDL, a JPV was conducted (October 2022) by the Audit team along with the officers of the KSHC in Haj Ghar premises. Audit observed the following deficiencies.

- KRIDL had not supplied projectors and multimedia system even though full amount of ₹ 1.32 crore for this component of work was certified and paid for this item of work.
- Out of ₹ 58 lakh released to KRIDL towards supply of 70 flood lights (35 nos. of 70W and 35 nos. of 150W), only 12 floodlights were installed.
- The works of toilets of auditorium were unfinished.
- An amount of ₹ 67 lakh was released to KRIDL towards providing External Security, which included supply of hand metal detectors, fixed type metal detectors, baggage scanner with moving trolley with inbuilt UPS unit, control panel, under car scanner, *etc.*, were not available during the joint inspection.
- An amount of ₹ 1.54 crore was released to KRIDL for providing IT networking. During inspection it was found that wi-fi routers, projectors, *etc.*, were not available.
- Inspection also revealed that instead of providing granite cladding to the walls, PVC cladding was provided which was certified by PMC as granite cladding confirming false claim.

The photographs taken during JPV are given in **Appendix 2.10**.

The State Government replied (March 2023) that these works are ongoing and will be completed in three months. Additionally, it was also stated that false certification by PMC will be examined and the outcome will be intimated to the audit in due course. In respect of the non-supply and non-installation of IT networking systems, it was stated that the work is in progress and the status will be intimated in the next audit, and regarding the non-supply of multimedia, it was stated that the multimedia work is in progress.

#### ***Recommendation 7:***

- a. The State Government should direct KRIDL to refund the savings on completed works along with interest.***
- b. The State Government should initiate action against PMC for the lapses and false certification.***

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**DEPARTMENT OF YOUTH EMPOWERMENT AND SPORTS**
**2.6 Violation of Scheme guidelines in maintenance of synthetic athletic track**

*Construction of synthetic athletic track without provision for maintenance led to track surface getting damaged within three years of laying impacting the asset life.*

Government of India (GoI) through Ministry of Youth Affairs and Sports (MYAS), implemented 'Urban Sports Infrastructure' scheme (USIS) which provided Central assistance to create infrastructure in popular sports (2010-11 to 2015-16). In response, the Government of Karnataka submitted a proposal (12 December 2013)<sup>41</sup> for construction of 400 mts synthetic athletic track (track) and allied civil works in the district stadium at Chamarajanagar. The project was taken up to provide potential athletes international standard sporting facility with exposure to synthetic track in tune with the latest developments in the sports field.

As per the USIS guidelines, the entire responsibility of the maintenance of the said infrastructure rests with the State Government. GoI released the funds in four installments<sup>42</sup> totaling ₹ 5.50 crore. The works was executed through the Central Public Sector Undertaking M/s Hindustan Steel Works Construction Limited (HSWCL). The total expenditure incurred on the laying of 'track' with allied works was ₹ 5.02 crore which included ₹ 3.05 crore towards laying of synthetic track.

The work commenced during January 2016 and was completed in October 2018. The track was handed over to the Department (May 2019) with relevant class II<sup>43</sup> certification by the International Association of Athletics Federations (IAAF) along with satisfactory third-party inspection report<sup>44</sup>. A Compliance Audit of the Department of Youth Empowerment and Sports covering the period 2018-19 to 2019-20 was taken up during April 2021. On review of records, Audit noticed that the approved estimates did not include a provision for maintenance of the synthetic track and the Department did not initiate any action for its maintenance since it was taken over.

Joint physical verification of the track was conducted (26 July 2022) with department officials to assess the status of the synthetic track. It was seen that:

- (a) No periodic inspections were conducted by the Department to ascertain the condition of the asset created.
- (b) The delay in installation of sprinkler facility led to deterioration of the surface and peeling off in multiple parts of the track.

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<sup>41</sup> Supply and installation of International standard size IAAF approved synthetic athletic field, ₹ 3.05 crore (2) Civil works for foundations water hydrants, sanitary lines, RCC drainage, etc., ₹ 1.94 crore (3). change rooms for boys and girls with toilet block ₹ 15.00 lakh. (4) Lighting 6.00 lakh (5) Meeting hall ₹ 30.00 lakh.

<sup>42</sup> ₹ 74.66 lakh dated 26.02.2015, ₹ 150.00 lakh dated 20.09.2016, ₹ 150.00 lakh dated 01.03.2017 and ₹ 175.34 lakh dated 27.09.2017.

<sup>43</sup> All competitions upto Commonwealth Games requires Class II certified surfaces.

<sup>44</sup> Chamarajendra college of Engineering, Mysuru.

- (c) There were no written instructions/guidelines from manufacturers regarding maintenance of synthetic surface.
- (d) Failure of the stadium authorities to restrict access of vehicles on the track also contributed to the damage of the synthetic track.

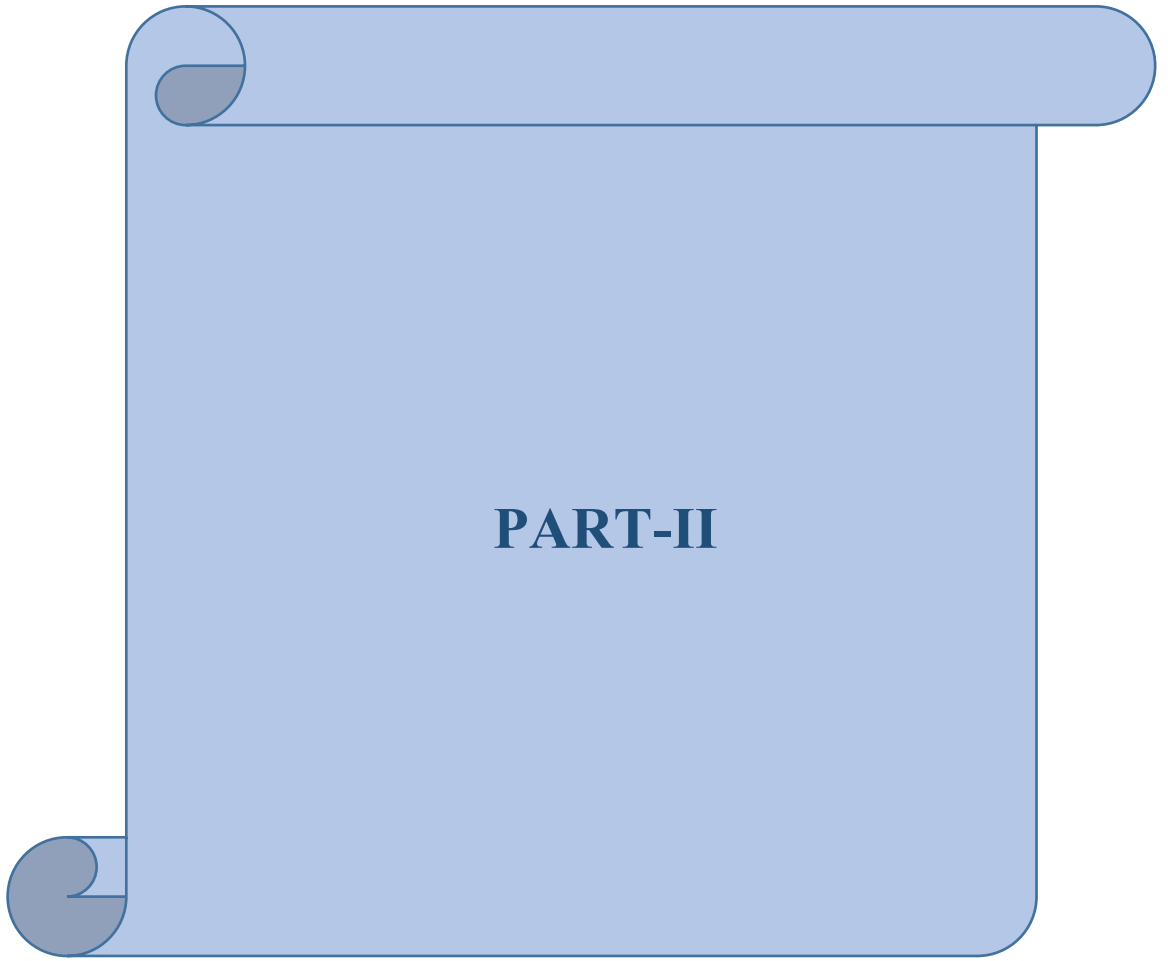
**Exhibit 2.1: Photographs depicting entry of vehicle, waterlogging and damages to the track**



Thus, the construction of synthetic athletic track at a cost of ₹ 3.05 crore without proper maintenance plan by stadium authorities defeated the objective of providing quality infrastructure to prospective athletes.

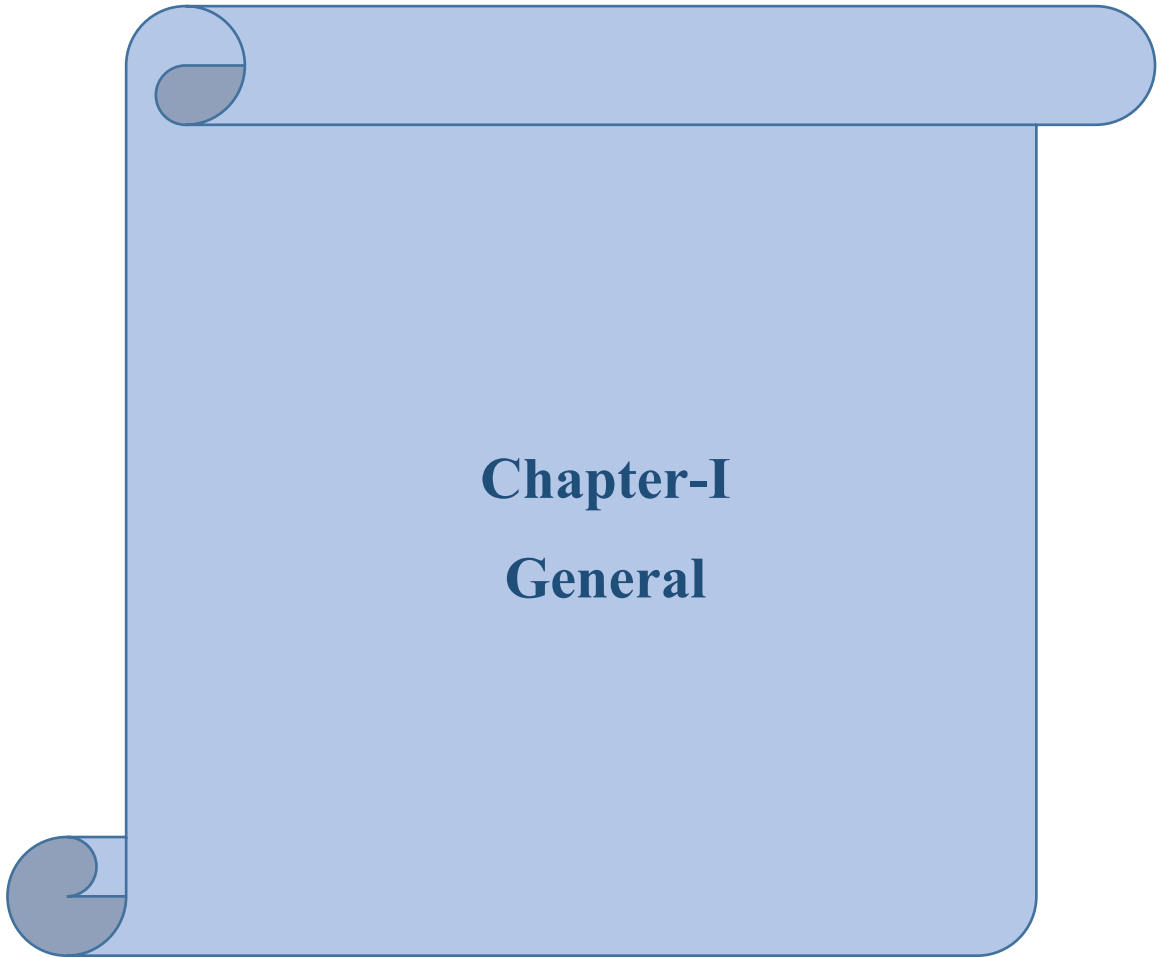
The State Government replied (January 2023) that action will be taken to hire the staff on outsource basis for maintenance of the track after obtaining approval in the District Sports Stadium committee meeting. It further stated that action will be taken to install chain link fence. While the reply of the Government confirms the facts, it was silent on the measures to be taken to assess the damage and its restoration.

***Recommendation 8: The State Government should take measures to restore the damaged track and fix the responsibility on the concerned officers for improper maintenance of the track.***



**PART-II**





**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 2021-22, 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	2017-18	2018-19	2019-20	2020-21	2021-22
1.	<b>Revenue raised by the State Government</b>					
	• Tax revenue	87,130.38	96,829.71	1,02,362.79	97,052.54	<b>1,20,738.79</b>
	• Non-tax revenue	6,476.53	6,772.87	7,681.47	7,893.84	<b>11,777.04</b>
	<b>Total</b>	<b>93,606.91</b>	<b>1,03,602.58</b>	<b>1,10,044.26</b>	<b>1,04,946.38</b>	<b>1,32,515.83</b>
2.	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties <sup>45</sup>	31,751.96	35,894.83	30,919.00	21,694.11	<b>33,283.58</b>
	• Grants-in-aid	21,640.78	25,481.25	34,479.53	30,075.92	<b>29,962.43</b>
	<b>Total</b>	<b>53,392.74</b>	<b>61,376.08</b>	<b>65,398.53</b>	<b>51,770.03</b>	<b>63,246.01</b>
3.	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>1,46,999.65</b>	<b>1,64,978.66</b>	<b>1,75,442.79</b>	<b>1,56,716.41</b>	<b>1,95,761.84</b>
4.	<b>Percentage of total revenue raised by the State Government to total revenue receipts (1 to 3)</b>	<b>64</b>	<b>63</b>	<b>63</b>	<b>67</b>	<b>68</b>

Source: State Finance Accounts 2021-22

The above table indicates that during the year 2021-22, the revenue raised by the State Government (₹ 1,32,515.83 crore) was 68 *per cent* of the total revenue receipts. The balance 32 *per cent* of the receipts during 2021-22 came from the Government of India.

<sup>45</sup> Figures under the major heads of account 0005-Central Goods and Service Tax, 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0028-Other taxes on Income and Expenditure, 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 2021-22, 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 2017-18 to 2021- 22 are given in **Table 1.1.2**.

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

Sl. No.	Head of revenue	2017-18		2018-19		2019-20		2020-21		2021-22		Percentage of increase (+)/decrease (-) in 2021-22 over 2020-21	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	24,485.68	25,093.16	13,532.05	14,003.06	15,149.00	16,424.32	17,783.00	16,027.59	16,791.00	19,273.70	(-) 5.57	20.25
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	45,947.00	49,929.02 <sup>46</sup>	(-) 2.89	32.40
3.	State Excise	18,050.00	17,948.51	19,750.00	19,943.93	20,950.00	21,583.95	22,700.00	23,332.10	24,580.00	26,377.68	8.28	13.05
4.	Stamp Duty and Registration Fee	9,000.00	9,023.68	10,400.00	10,774.69	11,828.00	11,308.34	12,655.00	10,576.43	12,655.00	14,019.66	0.00	32.55
5.	Taxes on Vehicles	6,006.00	6,208.57	6,656.42	6,567.67	7,100.00	6,762.58	7,114.84	5,606.99	7,514.80	6,915.26	5.62	23.33
6.	Others	4,300.55	4,674.28	3,832.37	3,584.33	3,038.98	4,136.37	3,162.99	3,798.25	2,979.18	4,223.47	(-) 5.81	11.19
<b>Total</b>		<b>85,929.76</b>	<b>87,130.38</b>	<b>95,820.79</b>	<b>96,829.71</b>	<b>1,00,813.98</b>	<b>1,02,362.79</b>	<b>1,10,734.83</b>	<b>97,052.54</b>	<b>1,10,466.98</b>	<b>1,20,738.79</b>	<b>(-0.24)</b>	<b>24.40</b>

Source: State Finance Accounts 2021-22

**1.1.3** The details of the non-tax revenue raised during the period 2017-18 to 2021-22 are indicated in **Table 1.1.3**.

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

Sl. No.	Head of revenue	2017-18		2018-19		2019-20		2020-21		2021-22		Percentage of increase (+)/decrease (-) in 2021-22 over 2020-21	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Non-ferrous mining and metallurgical Industries	2,667.65	2,746.80	3,000.00	3,026.58	3,550.00	3,629.03	3,750.00	3,893.45	4,000.00	6,308.31	6.66	62.02
2.	Other Non-tax receipts	4,276.97	3,729.73	5,180.94	3,746.29	4,505.41	4,052.44	4,017.24	4,000.39	4,258.37	5,468.73	6.00	36.70
<b>Total</b>		<b>6,944.62</b>	<b>6,476.53</b>	<b>8,180.94</b>	<b>6,772.87</b>	<b>8,055.41</b>	<b>7,681.47</b>	<b>7,767.24</b>	<b>7,893.84</b>	<b>8,258.37</b>	<b>11,777.04</b>	<b>6.32</b>	<b>49.19</b>

Source: State Finance Accounts 2021-22

## 1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2022 on some principal heads of revenue amounted to ₹ 16,556.30 crore as detailed in **Table 1.2**.

<sup>46</sup> Includes interest (₹ 129.03 crore), penalty (₹ 55.98 crore), fee (₹ 71.06 crore), input tax credit cross-utilization of SGST and IGST (₹ 18,075.63 crore), apportionment of IGST-transfer-in of tax component to SGST (₹ 4,359.19 crore) and advance apportionment from IGST (₹ 3,099.36 crore).

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

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2022	Replies of Department
1.	0039 State Excise Department	613.83	Out of the total arrears, ₹ 73.72 crore was stayed by courts and ₹ 229.92 crore was covered by Revenue Recovery Certificates. The remaining amount of ₹ 310.19 crore was at various other stages.
2.	0022, 0028, 0040, 0042, 0045 Commercial Taxes Department	15,771.97	Out of the total arrears, ₹ 4,081.36 crore was stayed by courts, ₹ 932.21 crore was before NCLAT <sup>47</sup> , ₹ 1,472.35 crore was under liquidation process, ₹ 134.86 crore was covered by Revenue Recovery Certificates, ₹ 9,080.42 crore was under Court and Departmental recovery, write off proposals were made for ₹ 55.41 crore and payments of ₹ 15.36 crore received were under verification.
3.	0030 Department of Stamps and Registration	170.50	Not Furnished
<b>Total</b>		<b>16,556.30</b>	

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 2021	Cases detected during 2021-22	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 2022
					Number of cases	Amount of demand	
1.	State Excise Department	03	00	03	00	00	03
2.	Commercial Taxes Department	6,523	8,942	15,465	6,083	1,120.34	9,382
3.	Department of Stamps and Registration	09	02	11	01	0.05	10

Source: Information received from the Departments concerned.

As seen above, though a number of cases have been settled in Commercial Taxes Department, a considerable number of cases are still outstanding at the end of the year. In respect of State Excise Department, there have been no disposals and only one case has been disposed in the Department of Stamps and Registration during the year 2021-22. Early action may be taken to settle these cases in the interest of revenue.

<sup>47</sup> 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 2021-22 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	(₹ in crore)					
		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	1,079	804.73	00	00	3,832	22.44
2.	Claims received during the year	9,254	5,835.06	NF	12.61	6,863	96.23
3.	Refunds made during the year	8,094	5,496.91	NF	12.61	4,844	79.99
4.	Balance outstanding at the end of the year	2,239	1,142.88	00	00	5,851	38.68

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 Principal 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.

A total of 3,963 paragraphs involving ₹ 1,864.17 crore contained in 1,242 IRs (issued upto December 2021), remained outstanding at the end of June 2022. 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 2020	As of June 2021	As of June 2022
Number of IRs pending for settlement	1,169	1,260	1,242
Number of outstanding audit observations	3,738	4,035	3,963
Amount of revenue involved (₹ in crore)	1,509.09	1,807.64	1,864.17

**1.5.1** The Department-wise details of the IRs and audit observations outstanding as on 30 June 2022 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	Number of outstanding audit observations	Money value involved
1.	Finance	Commercial Taxes	744	2,780	1,224.30
2.		State Excise	57	76	12.47
3.	Revenue	Stamp Duty and Registration Fee	441	1,107	627.40
<b>Total</b>			<b>1,242</b>	<b>3,963</b>	<b>1,864.17</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 129 IRs issued during 2021-22. 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.

The details of adhoc committee meetings held and paragraphs settled during the year 2021-22 were as under **Table 1.5.2**.

**Table 1.5.2**  
**Departmental Audit Committee meetings**

(₹ in crore)			
Department	No. of meetings held	No. of paragraphs settled	Money value
Department of Stamps and Registration	1	227	19.32

Adhoc committee meetings were not convened by the Department of Commercial Taxes and the State Excise Department. Action may be taken by the State Government 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 2021-22, 59 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.	Department of Stamps and Registration	SRO, Chitradurga Remittance Challans for the month of December 2019
2.		SRO, Vijayapura Remittance Challans for the months of December 2019 and January 2021

### 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.

11 draft paragraphs (which included one Subject Specific Compliance Audit relating to GST in the Commercial Taxes Department, nine observations relating to Department of Stamps and Registration and one observation pertaining to Transport Department) were proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended March 2022 and forwarded to the Additional Chief Secretary/Principal Secretaries to the Government with copies endorsed to the heads of Departments concerned between November 2022 and May 2023.

Out of the 11 draft paragraphs, replies have been received from the Government/Department of Stamps and Registration for nine draft paragraphs and from the Transport Department for one paragraph. In case of the SSCA, the audit findings were discussed during the Exit conference and the response of the Department of Commercial Taxes were considered during finalisation of the paragraph.

### 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.

65 paragraphs (including Performance Audits) pertaining to the Commercial Taxes Department, State Excise Department and the Department of Stamps and Registration were included in five<sup>48</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 2018 and February 2023.

As of May 2023, the Departmental Notes have been received for 53 paragraphs. However, they were received belatedly, with an average delay of four to 25 months. The Departmental Notes for 12 paragraphs included in the Audit Report for the year ending March 2021 are yet to be received (August 2023).

### 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 in respect of the cases detected in the course of local audit during the last 10 years and also the cases included in the Audit Reports for the years 2012-13 to 2021-22.

#### 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 May 2023 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.	2012-13	648	966	361.93	113	328	14.24	30	21	1.27	731	1212	374.90
2.	2013-14	731	1212	374.90	132	350	43.51	156	82	16.63	707	1100	401.78
3.	2014-15	707	1100	401.78	134	375	19.41	37	462	0.62	804	1354	420.57
4.	2015-16	804	1354	420.57	93	241	20.77	55	121	13.30	842	1303	428.04

<sup>48</sup> 1. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2017.  
2. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2018.  
3. Report of the Comptroller and Auditor General of India on Economic and Revenue Sector for the year ended March 2019.  
4. Report of the Comptroller and Auditor General of India-Compliance Audit-for the year ended March 2020  
5. Report of the Comptroller and Auditor General of India-Compliance Audit-for the year ended March 2021.

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
5.	2016-17	842	1303	428.04	92	274	33.61	25	292	0.69	909	1476	460.96
6.	2017-18	909	1476	460.96	58	189	21.52	433	101	283.43	534	846	199.05
7.	2018-19	534	846	199.05	51	159	64.93	02	819	22.70	583	963	241.28
8.	2019-20	583	963	241.28	59	233	217.50	02	42	7.77	640	1145	451.01
9.	2020-21	640	1145	451.01	47	225	153.33	03	51	14.23	684	1311	590.11
10.	2021-22	684	1311	590.11	42	146	187.33	55	59	24.15	671	1210	753.29

During regular inspection of Offices, the pending IRs/paragraphs are reviewed on the spot after obtaining satisfactory replies. 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 of Audit Report	Cumulative position of recovery of accepted cases
1.	2011-12	07	2.39	07	2.39	0.00	0.07
2.	2012-13	08	44.42	07	32.39	0.00	0.60
3.	2013-14	05	3.84	05	3.84	0.00	1.42
4.	2014-15	05	3.72	05	3.72	0.00	0.30
5.	2015-16	03	424.71	02	5.96	0.00	0.47
6.	2016-17	03	20.36	03	20.17	0.00	2.52
7.	2017-18	04	167.10	03	8.74	0.18	0.31
8.	2018-19	05	39.41	05	39.41	3.10	3.33
9.	2019-20	05	45.50	05	45.50	0.00	0.54
10.	2020-21	05	41.46	05	41.46	0.78	0.78
	<b>Total</b>	<b>50</b>	<b>792.91</b>	<b>47</b>	<b>203.58</b>	<b>4.06</b>	<b>10.34</b>

As seen from the table above, the percentage of recovery by the Department of Stamps and Registration from accepted cases in paragraphs, was only 5.08 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 2021-22, there were 727 auditable units, of which 59 units were audited, which was 8.11 *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 2021-22	Units planned for audit during 2021-22	Units audited during 2021-22
1.	Commercial Taxes	440	17	17
2.	Stamps and Registration	287	42	42
	<b>Total</b>	<b>727</b>	<b>59</b>	<b>59</b>

## **1.8 Results of Audit**

### *Position of local audit conducted during the year*

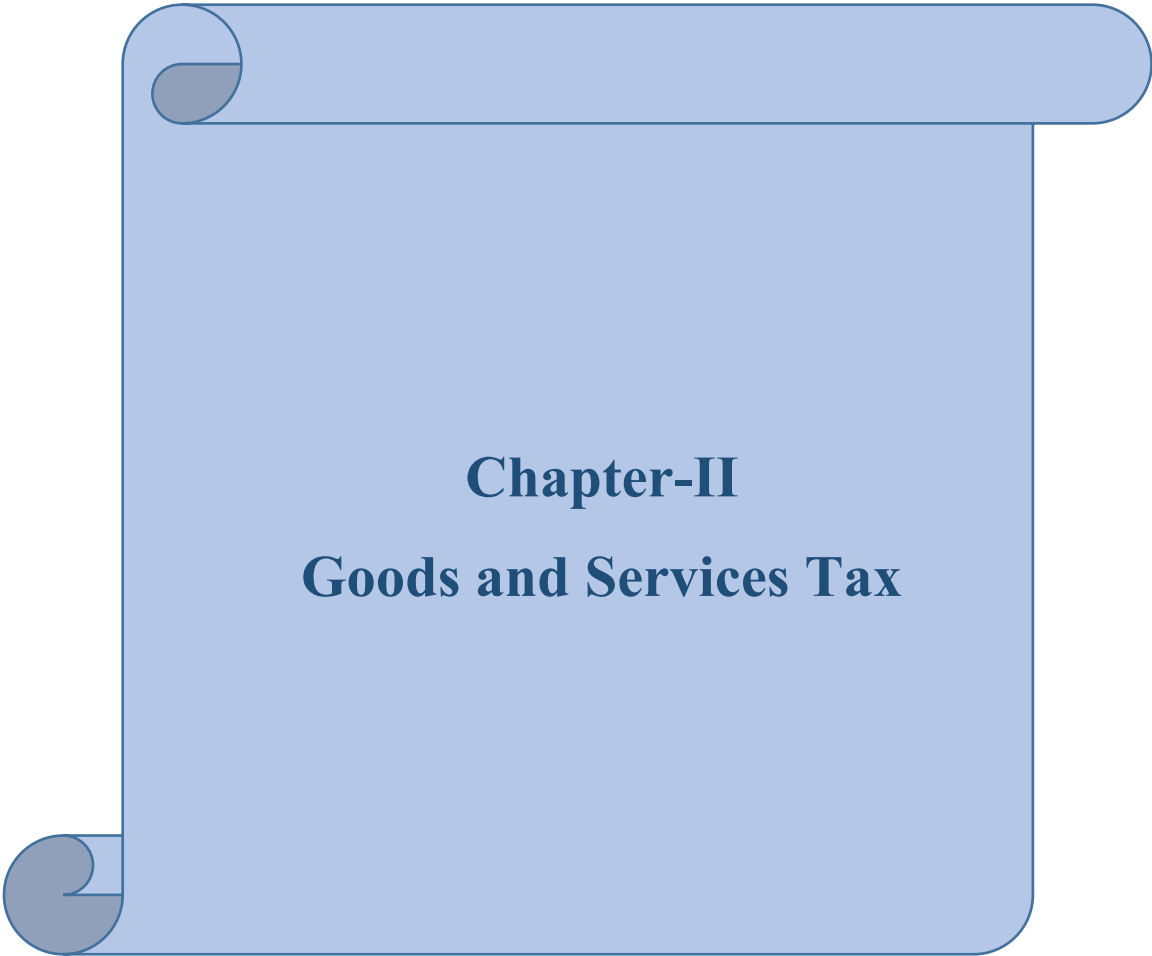
During the year 2021-22, test-check of the records of 418 cases under centralised audit, 61 cases under detailed audit and 10 LGSTOs under Range audit relating to Goods and Services Tax of the Commercial Taxes Department showed under assessment/short levy/loss of revenue aggregating ₹ 755.49 crore. The Department accepted under assessment and other deficiencies in 46 cases and recovered an amount of ₹ 2.64 crore. In respect of Department of Stamps and Registration Fee, Audit conducted test-check of records of 42 unit offices and noticed under assessment/short levy/loss of revenue aggregating ₹ 193.08 crore which were pointed out through 143 paragraphs. During the course of the year, the Department accepted and recovered an amount of ₹ 4.84 crore relating to 31 paragraphs pointed out during earlier years.

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

The Part-II of this Report contains 11 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 ₹ 475.57 crore.

The Departments/Government had accepted audit observations in 243 cases relating to 11 paragraphs involving ₹ 69.45 crore, out of which ₹ 4.64 crore had been recovered in 57 cases. The final replies in the remaining cases had not been received (June 2023). These are discussed in succeeding Chapters II to IV.





**Chapter-II**  
**Goods and Services Tax**



## Chapter-II

### Goods and Services Tax

#### 2.1 Tax Administration

On introduction of Goods and Services Tax (GST), the organisational set-up of the Commercial Taxes Department (CTD) continued as in the Value Added Tax (VAT) regime. The erstwhile Local VAT Offices (LVOs) were re-designated as Local GST Offices (LGSTOs), erstwhile VAT Sub-Offices (VSOs) were re-designated as Sub GST Offices (SGSTOs) and the Audit Offices continued as such. The applicable laws and Rules are administered at the Government level by the Additional Chief Secretary, Finance Department. The Commissioner of Commercial Taxes (CCT) who is the head of the Commercial Taxes Department is assisted by 14 Additional Commissioners. There are 13 Divisional Offices, 13 Appeal Offices, 13 Enforcement/Vigilance Offices and one Minor Acts Division in the State managed by 42 Joint Commissioners (JCCTs). There are 123 Deputy Commissioners (DCCTs), 321 Assistant Commissioners (ACCTs) and 526 Commercial Tax Officers (CTOs) in the State. At the field level, the tax is being administered through 118 Local GST Offices and Sub GST Offices 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

As per the information furnished by the Department, the Internal Audit Wing is functioning from the year 2011-12. During the year 2021-22, 337 Offices were due for audit, of which, 50 Offices were audited. Year-wise details of the number of objections raised, settled and pending along with tax effect, as furnished by the Department, are given in **Table 2.1**.

**Table 2.1**  
Year-wise details of observations raised by IAW

(₹ in crore)

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
2017-18	20,208	452.62	1,312	70.19	18,896	382.43
2018-19	1,463	74.27	129	1.67	1,334	72.60
2019-20	5,152	43.13	74	4.75	5,078	38.38
2020-21	9,244	303.46	1,016	112.03	8,228	191.43
2021-22	7,826	139.44	2,695	40.37	5,131	99.07
<b>Total</b>	<b>43,893</b>	<b>1,012.92</b>	<b>5,226</b>	<b>229.01</b>	<b>38,667</b>	<b>783.91</b>

Source: Information furnished by the Department

As seen from the table, 38,667 cases involving ₹ 783.91 crore were pending for settlement as on 31 March 2022. Early action may be taken to settle pending observations.

### 2.3 Results of Audit

Check of records of 418 cases under Centralised Audit, 61 cases under Detailed Audit and 10 LGSTOs under Range Audit pertaining to different LGSTOs of the Commercial Taxes Department revealed Irregular/excess availing of ITC and other irregularities involving ₹ 755.49 crore in 2,314 cases under the different categories as detailed below in **Table 2.2**.

**Table 2.2**  
**Results of Audit**

Sl. No.	Category	No. of cases	Amount (₹ in crore)
<b>I</b>	<b>SSCA on DoRF –Centralised Audit</b>		
1	Composition registration but transactions through ecommerce operator	9	0.12
2	Mismatch in ITC between GSTR 3B and GSTR 2A	30	154.53
3	Excess Liability	12	127.82
4	Excess RCM ITC availed	26	44.56
5	Interest	12	5.09
6	ISD credit	14	14.03
7	ISD reversal	3	0.03
8	ITC_RCM_Ratio_RCM availed without payment	7	3.57
9	Unreconciled ITC 9C_12F	18	186.40
10	Unreconciled ITC 9C_14T*	17	0.00
11	Unreconciled r3B-r1-r2A	22	3.94
12	Unreconciled tax payment 9C_9R	19	33.66
13	Unreconciled Taxable Turnover 9C_7G**	19	516.51
14	Unreconciled Turnover 9C_5R**	39	3,696.62
<b>TOTAL</b>		<b>247</b>	<b>573.75</b>
* Total amount of mismatch in table 9C_14T in selected cases is ₹ 1,237.37 crore. However, shown as nil in view of notification No.56/2019-Central Tax dated 14 November 2019.			
** Objected amount is the total turnover and not tax. Hence, not included in the summation.			
<b>II</b>	<b>SSCA on DoRF – Detailed Audit</b>		
15	Non-payment of interest by taxpayers where returns were delayed	20	1.59
16	Mis-match between GSTR 2A and GSTR 3B	13	4.12
17	Excess/incorrect availing of ITC	8	6.83
18	Exclusion of taxable supplies	3	20.81
19	Non-adhering to time of supply provisions	1	4.60
20	Incorrect discharge of tax liability on reverse charge basis	13	1.36
21	Short payment of GST due to miscellaneous issues	4	1.01
22	Mis-match between GSTR 1 and GSTR 3B	4	2.27
23	Non production of records (Full/ Partial )	26	0
<b>TOTAL</b>		<b>92</b>	<b>42.59</b>

III	SSCA on DoRF – Range Audit		
24	Mismatch of ITC between GSTR-2A and ITC claimed as per GSTR-3B/ GSTR-9 Returns	220	82.60
25	Non-filers of GSTR-3B	31	3.09
26	Late filers (Non-levy of interest)	400	22.88
27	Irregular availment of ITC in GSTR-3B Returns which were filed after limitation period	109	5.91
28	Non-filing of GSTR-10 (Final Return ) after Cancellation of Registrations	899	0
29	Cancelled Registrations (Non filing of GSTR-3B Returns but GSTR-1 filed)	236	22.34
30	Sanction of new GSTINs without filing GST Returns due	18	1.57
31	Non-debit of ECL in respect of cancelled cases	62	0.76
<b>TOTAL</b>		<b>1,975</b>	<b>139.15</b>
<b>Grand Total</b>		<b>2,314</b>	<b>755.49</b>

During the year 2021-22, the Department had recovered an amount of ₹ 6.56 crore in 57 observations which were pointed out during earlier years.

Important audit observations from the above Subject Specific Compliance Audit are brought out below.

#### **2.4 Subject Specific Compliance Audit on 'Department's oversight on GST Payments and Return filing'**

##### **2.4.1 Introduction**

Goods and Service Tax (GST) replaced multiple taxes levied and collected by the Centre and States with effect from 01 July 2017. It is a destination-based consumption tax on the supply of goods or services or both levied on every value addition. The Centre and States simultaneously levy GST on a common tax base. Central GST (CGST) and State GST (SGST)/Union Territory GST (UTGST) are levied on intra state supplies, and Integrated GST (IGST) is levied on inter-state supplies.

Section 59 of the CGST/ SGST Act, 2017, stipulates GST as a self-assessment-based tax, whereby the responsibility for calculating tax liability, discharging the computed tax liability and filing returns is vested on the taxpayer. The GST returns must be filed online regularly on the common GST portal, failing which will attract late fee and penalty. Even if the business had no tax liability during a particular tax period, it must file a nil return mandatorily. Further, Section 61 of the Act read with Rule 99 of SGST/ CGST Rules, 2017, stipulate that the proper officer may scrutinize the return and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

This Subject Specific Compliance Audit (SSCA) was taken up considering the significance of the control mechanism envisaged for tax compliance and the oversight mechanism of the Commercial Taxes Department (Department), Government of Karnataka (GoK) in this new tax regime.

#### **2.4.2 Audit Objectives**

Audit of 'Department's oversight on GST Payments and Return filing' was taken up with the following audit objectives to seek an assurance on:

- i. Whether the rules and procedures were designed to secure an effective check on tax compliance and were being duly observed by taxpayers; and
- ii. Whether the scrutiny procedures, internal audit and other compliance functions of the Local GST Offices (LGSTOs)/Sub GST Offices (SGSTOs) were adequate and effective.

#### **2.4.3 Audit scope**

The scope of audit comprises examination of taxpayers' compliance, scrutiny process and subsequent follow up by the Department on returns filed by the registered taxpayers. In addition, the SSCA includes review of records of a sample of taxpayers for the year 2017-18. The scope of this SSCA also includes evaluation of functions of selected LGSTOs/ SGSTOs.

The period of review of the scrutiny of returns and verification of taxpayers' records was from July 2017 to March 2018 and that for audit of functions of selected LGSTOs/SGSTOs was from 2017-18 to 2020-21.

#### **2.4.4 Audit methodology and sample selection**

A data driven approach was adopted for planning, as also to determine the nature and extent of substantive audit. The sample for this SSCA comprised of a set of deviations identified through data analysis for centralised audit that did not involve field visits; a sample of taxpayers for detailed audit that involved field visits and scrutiny of taxpayer's records at departmental premises; and a sample of LGSTOs for evaluating the compliance functions of the LGSTOs.

This SSCA has three distinct parts as under:

##### **(i) Part I- Audit of Ranges (LGSTOs)**

For the purpose of evaluation of oversight functions, 10<sup>49</sup> Local GST Offices (LGSTOs) with jurisdiction over highest number of selected samples for Detailed Audit were considered as the sample for audit of LGSTOs.

##### **(ii) Part II – Centralised audit**

Audit analysed GST returns data pertaining to 2017-18 at GSTN premises and identified a set of deviations and logical inconsistencies between GST returns filed by taxpayers. A set of 14 parameters<sup>50</sup> were identified such as mismatch of ITC availed between Annual Returns and Books of accounts, short payment of interest, ITC mis-matches, *etc.* Audit selected a sample of 418 high risk cases for evaluation of the adequacy and effectiveness of the scrutiny procedure of the Department. The audit review was limited to queries issued

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<sup>49</sup> LGSTOs-15, 20, 36, 45, 60, 65, 90, 121, 152 and 270.

<sup>50</sup> 14 parameters are indicated in Table 2.3 as D1 to D14.

to the respective LGSTOs between April 2022 and August 2022. There was no further scrutiny of taxpayer records.

### **(iii) Part III - Detailed audit**

Audit selected 61 cases for detailed audit which involved field visits for verification of records available with the LGSTOs. Taxpayers' records like returns and related attachments and information were accessed in Audit Offices in respect of cases already audited by the Department and through LGSTOs by requisitioning corresponding granular records of taxpayers for evaluation of the extent of tax compliance by taxpayers. Audit utilised the login credentials of 'GST Prime' provided to the maximum extent feasible to examine data/documents relating to taxpayers (*viz.*, registration, tax payment, returns and other departmental functions). Efforts were made to access the relevant granular records from the taxpayers on a risk based approach such as invoices, *etc.*, through respective LGSTOs.

Entry conference of this SSCA was held on 7 January 2022 with the Commissioner of Commercial Taxes and other officers of the Department in which the audit objectives, sample selection, audit scope and methodology were discussed. The exit conference was held on 08 June 2023 with the Commissioner of Commercial Taxes, Karnataka in which the audit findings were discussed. The views expressed by the department during the exit conference and the written replies to the draft report have been suitably incorporated in the relevant paragraphs.

### **2.4.5 Audit Criteria**

The source of audit criteria comprises the provisions contained in the Karnataka Goods and Services Tax (KGST) Act, 2017, IGST Act, 2017 and Rules made thereunder. In addition, the notifications and circulars issued by Commercial Taxes Department relating to filing of returns, notifying the effective dates of filing of various returns, extending due dates for filing returns, rates of tax on goods and services, payment of tax, availing and utilizing ITC, scrutiny of returns and oversight of tax compliance and advisories issued on various subjects also formed part of the audit criteria.

### **2.4.6 Compliance verification by the department**

Four systemic areas were identified for examination in audit *viz.*, (i) effectiveness of scrutiny of returns; (ii) utilisation of high-risk cases as per MIS Analytic reports in GST Prime for compliance purpose; (iii) action on non-filers/ late filers and (iv) action taken by field formations for non-filing of GSTR-10 after cancellation of Registrations.

Accordingly, relevant information was called for from the selected ten LGSTOs. The role of LGSTOs is to ensure compliance by taxpayers in respect of accuracy of the taxable value declared, calculation and payment of tax liabilities, filing of returns, *etc.* The LGSTOs have a broad set of functions to be exercised in this regard, which were evaluated as part of this SSCA.

#### 2.4.6.1 Effectiveness of scrutiny of returns

As per Section 61 of KGST Act, 2017, various returns filed by taxpayers have to be scrutinised by the Officer to verify the correctness of the returns and suitable action has to be taken on any discrepancies or inconsistencies reflected in the returns. Further, Rule 99 of the KGST Rules, 2017, mandates that the discrepancies, if any noticed shall be communicated to the taxpayer seeking his explanation. If the explanation offered is found acceptable by the proper officer, the proceeding shall be dropped, the taxpayer shall be informed accordingly, and no further action in the matter shall be taken. If, however, the taxpayer does not furnish a satisfactory explanation within 30 days of being informed (extendable by the proper officer) or does not take any corrective action, the proper officer may initiate appropriate action, including the issue of demand notices under Section 73 or Section 74 of the Act.

The details of scrutiny cases done by 10 LGSTOs were called for (between July 2022 and November 2022). Five<sup>51</sup> LGSTOs replied (between December 2022 and February 2023) that scrutiny of returns under Section 61 was not conducted during 2017-18 to 2020-21, while LGSTO-36 stated (February 2023) that the details would be furnished later and LGSTO-121 stated (November 2022) that the office was newly formed from December 2020 and the manual records were not transferred from the erstwhile office. Five<sup>52</sup> out of the 10 test-checked LGSTOs, therefore, confirmed that they had not carried out any scrutiny functions during the period 2017-18 to 2020-21. Audit further noticed that the Department started scrutiny of returns only from January 2022.

Audit noticed that Standard Operating Procedures/guidelines/instructions were not issued including approach to selection of cases for scrutiny of returns, reporting and monitoring based on which the assessment/scrutiny procedures are to be uniformly followed by the proper officers throughout the State.

The department during exit conference (June 2023) stated that scrutiny of cases was not done during the period 2017-18 to 2020-21 since the entire focus of the department during this period was on transition to GST-registering dealers, resolving IT issues, etc.

***Recommendation 1: The Department may put in place an effective system of returns' scrutiny prescribing the procedure for selection of cases on risk based analysis and time bound schedule so that targets can be fixed ensuring scrutiny of the returns by the LGSTOs/ SGSTOs.***

#### 2.4.6.2 Non-utilisation of MIS Analytic Reports

GST Prime is designed to generate 44 MIS Analytic Reports on various parameters based on the returns filed under the category of Filings, Non-Filings, Matching (between different returns and e-way bill), ITC Analysis, Risk Analysis and Forecasting Analysis.

<sup>51</sup> LGSTOs-15, 20, 45, 152 and 270.

<sup>52</sup> LGSTOs-15, 20, 45, 152 and 270.

Audit observed that no specific directions were given to the field offices on verification of the cases flagged in these MIS Analytic Reports till March 2021. Hence, Audit could not verify whether timely action was initiated based on risk parameters in the Analytic Reports. However, Audit test-checked cases in 'Analytical Reports-A 3.2 ITC claimed in R3B but no R2A Statement'. It was noticed in respect of 216 taxpayers, in the 10 LGSTOs selected for audit, that there was mismatch of ITC (claim of ITC in FORM GSTR-3B/GSTR-9 Returns more than ITC eligible as per FORM GSTR-2A) for the years 2017-18 to 2020-21 and the total mismatch of ITC was ₹ 82.54 crore. There was nothing on record to support that these cases were examined and followed up by LGSTOs.

On this being pointed out (between July 2022 and January 2023), the department replied that ASMT-10 was issued to 123 dealers, DRC-01A was issued to 19 dealers, 46 dealers were assigned to departmental audit and ₹ 21.09 lakh was collected in two cases. Final Reply is awaited in the remaining 26 dealers (June 2023).

The department during exit conference (June 2023) stated that analytical reports are only indicative in nature and may not result in actual loss of revenue.

The department further replied (June 2023) that ITC reflected in GSTR-2A of the recipient is dynamic since it is auto populated as and when the suppliers upload the outward supply invoice in GSTR-1. It also stated that owing to periodical changes in notifications and circulars related to ITC availment by the taxpayers *vis-a-vis* ITC available in GSTR-2A, the mismatch could not be ascertained in GST Prime. However, the department stated that necessary action would be taken in cases of mismatch in ITC between GSTR-3B and GSTR-9. Audit reiterates that follow up of these cases is necessary to rule out any possible loss of revenue.

#### **2.4.6.3 Lack of action on non-filers of GST returns**

Section 46 of the KGST Act, 2017, read with Rule 68 of the KGST Rules, 2017, stipulates issue of a notice in FORM GSTR-3A requiring filing of return within fifteen days if the taxpayer had failed to file the return within the due date. In case the taxpayer fails to file the returns even after such notice, the proper officers may proceed to assess the tax liability of the said person to the best of their judgment, taking into account all the relevant material which is available or gathered and issue an assessment order in FORM ASMT-13. This assessment order should be issued within a period of five years from the due date for furnishing the annual return for the financial year, which the tax default relates to. A summary of such order should be uploaded in the system in FORM DRC-07.

i. The details of action taken on late filers and non-filers for the year 2017-18 to 2020-21 in respect of selected 10 LGSTOs was sought for by Audit (July 2022), but was not provided by the proper officers. Non-furnishing of information/relevant documents restricted the scope of audit.

The department during exit conference (June 2023) stated that GSTR-3A notices issued to non-filers can be provided by the respective LGSTOs.

ii. In the absence of information, Audit selected on random basis 100 non-filers in each of the seven<sup>53</sup> LGSTOs from the MIS Analytic Report on Non-Filers<sup>54</sup> and sought information on the issue of GSTR-3A notice, ASMT-13, etc. However, the information was not provided for the sampled cases. Audit, therefore, could not assure whether departmental field formations were taking timely action with respect to non-filers.

Of the sampled 700 non-filer cases, Audit noticed that in 31 cases, cancelled *suo-moto* for non-filing of returns, there was a declared liability of ₹ 3.09 crore as per the GSTR-1 filed by the dealers. In these 31 cases, it was noticed that GSTR-10 was not filed by the taxpayers. In the absence of the required information, Audit could not verify whether demands were raised in these cases.

On this being pointed out (between July 2022 and January 2023), the department replied (June 2023) that notice was issued in 20 cases, ASMT-10 was issued in two cases. ASMT-13 was issued in five cases and endorsement was issued in the remaining four cases.

iii. Under Section 50(1) of KGST Act 2017, every person who is liable to pay tax in accordance with the provisions of this Act or the rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay interest at 18 *per cent* per annum.

Further, under Section 20(xxv) of IGST Act 2017, the provisions of CGST Act relating to the imposition of penalty and interest shall apply in relation to IGST also.

On verification of 100 cases (25 cases per year) in each LGSTO for the years 2017- 18 to 2020-21 in 10 LGSTOs ('Analytical Reports-Late Filers' in GST Prime), it was noticed that 398 taxpayers had filed GSTR-3B Returns with a delay ranging from one to 1,199 days and interest payable for belated payment of tax under IGST/CGST/KGST Acts was either short paid or not paid. Total interest leviable worked out to ₹ 22.57 crore.

On this being pointed out (between July 2022 and February 2023), the department replied (June 2023) that ASMT-10 was issued in 127 cases, DRC-13 was issued in 21 cases, endorsement was issued in 62 cases, DRC-01A was issued in one case, 27 cases were referred to departmental audit and an amount of ₹ 2.67 crore was collected in 97 cases. Final reply is awaited in the remaining cases (June 2023).

#### **2.4.6.4 Cancellation of taxpayers' registration**

Section 29 of the KGST Act 2017 read with Rule 20 of the KGST Rules, 2017 allows for cancellation of registration by the taxpayer in certain situations like closure of business, below threshold limit for registration, transfer of business /merger/amalgamation, change of PAN, non-commencement of business within the stipulated time period, no liability post registration and death of proprietor. The taxpayer applying for cancellation of registration should apply

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<sup>53</sup> LGSTOs-15, 20, 36, 45, 121, 152 and 270.

<sup>54</sup> Details taken from GST Prime-back end system for administration of GST in Karnataka.

in GST REG-16 on the common portal within a period of 30 days of the “occurrence of the event warranting the cancellation”.

Section 29(2) of the KGST Act allows for *suo-moto* cancellation of registration of taxpayer by tax officer on the grounds of contravention of the Acts or Rules by taxpayer, composition taxpayers not filing return for three consecutive tax periods, normal taxpayers not filing return for continuous period of six months, registered persons not commencing business within six months from date of registration and registration obtained by means of fraud, wilful misstatement or suppression of facts.

Audit obtained the list of cancellations during 2017-18 to 2020-21 from the 10 LGSTOs and made a test-check of 100 cases in each LGSTO. Audit verification revealed the following:

#### **2.4.6.4 (a) Lack of action for non-filing of GSTR-10 after cancellation of Registration**

Section 45 of KGST Act, 2017, read with Rule 81 of KGST Rules, 2017, specifies that any person whose registration is cancelled shall file Final Return in form GSTR-10 within three months of the date of cancellation or date of order of cancellation, whichever is later. In case the GSTR-10 is not filed with the stipulated date, the Proper Officer should issue notice in Form GSTR-3A and if the taxpayer still fails to file the final return within 15 days of the receipt of notice, an assessment order in Form ASMT-13 under Section 62 of KGST Act, 2017 read with Rule 100 of KGST Rule shall have to be issued to determine the liability of taxpayer. Proper Officer is responsible for *suo-moto* cancellation of registration of non-filers.

Audit verification of 1,000 cancelled cases<sup>55</sup> (100 cases in each of 10 LGSTOs) revealed that in 883 cases, GSTR-10 (Final Return) was not filed by taxpayers even after completion of three months from the date of cancellation. There was nothing on record to suggest that LGSTOs followed up with the best judgement assessment under Section 62 in these cases. Audit observed that non finalisation of assessment under Section 62 resulted in risk of:

- i. Non-debiting of ITC in respect of inputs/semi-finished goods/finished goods held in stock on the date of cancellation as required under Section 29(5) of the KGST Act in respect of 62 taxpayers in three<sup>56</sup> LGSTOs. These taxpayers had a credit of ₹ 0.76 crore in their credit ledger.
- ii. Non-demand of output tax liability of ₹ 21.32 crore declared in GSTR-1 Returns filed by 236 taxpayers for the years 2017-18 to 2020-21.

On this being pointed out (between July 2022 and January 2023), the department replied (June 2023) that ASMT-13 was issued in 49 cases, ASMT-10 was issued in 48 cases, 43 cases were assigned to departmental audit, DRC-01A was issued in 38 cases and endorsement was issued in 36 cases. Final reply is awaited in the remaining 22 cases pertaining to output tax

<sup>55</sup> Cases selected from the list of cancellations furnished by the 10 LGSTOs.

<sup>56</sup> LGSTOs-15, 36 and 121.

liability (June 2023). In respect of non-debiting of ITC, the department replied (June 2023) that ASMT-10 was issued in 30 cases, 17 cases were referred to departmental audit and notice was issued in the remaining 15 cases.

The Department further stated (June 2023) that in cases related to *suo-moto* cancellation of registration, filing of return in GSTR-10 may not be practically possible. Audit reiterates that the department may follow-up on these cases as well to ensure that there is no loss of revenue in these cases.

As regards to the issue of non-debiting of ITC, the department during exit conference (June 2023) stated that in cases of cancellation of registration, ITC cannot be utilised by the taxpayers. Audit reiterates that in all these cases, ITC may be debited in compliance to the Rules.

#### **2.4.6.4 (b) Sanction of new registrations to cancelled taxpayers without filing the returns due**

As per Circular instructions of CCT vide Circular No. GST-35/2018-19 dated 27 November 2019, while considering the application for registration, the proper officer shall ascertain if the earlier registration was cancelled on account of violation of the provisions of clauses (b) and (c) of sub-section (2) of Section 29 of the Act and whether the applicant has applied for revocation of cancellation of registration. If proper officer finds that application for revocation of cancellation of registration has not been filed and the conditions specified in clauses (b) and (c) of sub-section (2) of Section 29 of the Act are still continuing, then, the same may be considered as a ground for rejection of application for registration in terms of sub-rule (2) read with sub-rule (4) of rule 9 of KGST Rules.

Audit noticed that out of the 1,000 test-checked cases, 17 taxpayers in five<sup>57</sup> LGSTOs were given new registrations though their earlier registrations were cancelled due to non-filing of returns. Further, these taxpayers had not filed GSTR-10 in respect of the previous registrations. The tax liability in the GSTR-1 returns filed by the taxpayers under the cancelled registrations was ₹ 1.42 crore.

On this being pointed out (between August 2022 and January 2023), the department replied (June 2023) that ASMT-10 was issued in six cases, ASMT-13 was issued in five cases, one case was assigned to audit, ADT-02 was issued in one case, DRC-01A was issued in three cases and an amount of ₹ 1.20 lakh was collected in one case.

#### **2.4.6.4 (c) Irregular availment of ITC in GSTR-3B Returns which were filed after the limitation period**

As per Section 16(4) of Karnataka GST Act 2017, a registered person shall not be entitled to take input tax credit (ITC) in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return under Section 39 for the month of September following the end of financial year to which such invoice or debit note pertains or furnishing of the relevant annual return, whichever is earlier.

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<sup>57</sup> LGSTOs-15, 20, 36, 45 and 121.

“Provided that the registered person shall be entitled to take input tax credit after the due date of furnishing of the return under Section 39 for the month of September, 2018 till the due date of furnishing of the return under the said Section for the month of March, 2019 in respect of any invoice or invoice relating to such debit note for supply of goods or services or both made during the financial year 2017-18, the details of which have been uploaded by the supplier under sub-section (1) of Section 37 till the due date for furnishing the details under sub-section (1) of said Section for the month of March, 2019.”

Out of the 1,000 test-checked cases, it was noticed that 108 taxpayers in six<sup>58</sup> LGSTOs, whose cancellations were subsequently revoked on filing of returns, had availed ITC of ₹ 5.91 crore in their GSTR-3B Returns filed during the years 2017-18 to 2020-21, though the returns were filed after the due dates<sup>59</sup> prescribed for availing ITC. The total irregular claim of ITC was ₹ 5.91 crore.

On this being pointed out (between August 2022 and February 2023), the department replied (June 2023) that ASMT-10 was issued in 27 cases, ASMT-13 was issued in nine cases, DRC-07 was issued in eight cases, DRC-01A was issued in 25 cases, 18 cases were referred to departmental audit and an amount of ₹ 20.50 lakh was recovered in four cases. Final reply in the remaining 17 cases are awaited (August 2023).

#### 2.4.7 Centralised Audit (Part-II)

Audit analysed GST returns data pertaining to 2017-18 as made available by GSTN. Rule-based deviations and logical inconsistencies between GST returns filed by taxpayers were identified on a set of 14 parameters, which can be broadly categorized into two domains - ITC and Tax payments.

Out of the 14 prescribed GST returns<sup>60</sup>, the following basic returns that apply to normal taxpayers were considered for the purpose of identifying deviations, inconsistencies and mismatches between GST returns/ data:

- GSTR-1: monthly return furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.
- GSTR-3B: monthly summary return of outward supplies and input tax credit claimed, along with payment of tax by the taxpayer to be filed by all taxpayers except those specified under Section 39(1) of the Act. This is the return that populates the credit and debits in the Electronic Credit Ledger and debits in Electronic Cash Ledger.

<sup>58</sup> LGSTOs-15, 36, 60, 65, 90 and 121.

<sup>59</sup> The due dates for submission of GSTR-3B returns for 2017-18 was 23 April 2019, for 2018-19, it was 20 October 2019, for 2019-20, it was 20 October 2020 and for 2020-21 it was 20 October 2021.

<sup>60</sup> GSTR-1, GSTR-3B, GSTR-4 (taxpayers under the Composition scheme), GSTR-5 (non-resident taxable persons), GSTR-5A (Non-resident OIDAR service providers), GSTR-6 (Input service distributor), GSTR-7 (taxpayers deducting TDS), GSTR-8 (E-commerce operator), GSTR-9 (Annual Return), GSTR-9C (Reconciliation Statement), GSTR-10 (Final return), GSTR-11 (person having UIN and claiming a refund), CMP-08, and ITC-04 (Statement to be filed by a principal/ Job worker about details of goods sent to/received from a job-worker).

- GSTR-6: monthly return for Input Service Distributors providing the details of their distributed input tax credit and inward supplies.
- GSTR-8: monthly return to be filed by the e-commerce operators who are required to deduct TCS (Tax collected at source) under GST, introduced in October 2018.
- GSTR-9: annual return to be filed by all registered persons other than an Input Service Distributor (ISD), Tax Deductor at Source/Tax Collector at Source, Casual Taxable Person, and Non-Resident taxpayer. This document contains the details of all supplies made and received under various tax heads (CGST, KGST and IGST) during the entire year along with turnover and audit details for the same.
- GSTR-9C: annual audit form for all taxpayers having a turnover above ₹ 5 crore in a particular financial year. It is basically a reconciliation statement between the annual returns filed in GSTR-9 and the taxpayer's audited annual financial statements.
- GSTR-2A: a system-generated statement of inward supplies for a recipient. It contains the details of all B2B transactions of suppliers declared in their Form GSTR-1/5, ISD details from GSTR-6, details from GSTR-7 and GSTR-8 respectively by the counterparty and import of goods from overseas on bill of entry, as received from ICEGATE Portal of Indian Customs.

#### 2.4.7.1 Audit findings based on data analysis

The details of data analysis on the 14 risk parameters and extent of deviations/mismatches observed in the top 418 cases selected for audit are summarised below in **Table 2.3**.

**Table 2.3: Summary of data analysis**

Sl. No.	Risk parameter	Algorithm used	Number of deviations/mismatches	Amount of deviations/mismatches (₹ in crore)
<b>Domain: ITC</b>				
1.	ITC mismatch between GSTR-2A and GSTR-3B [Dimension 1]	ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B in Table 4A(5) (accrued on domestic supplies) excluding the reversals Table 4B(2) but including the ITC availed in the subsequent year 2018-19 from Table 8C of GSTR-9.	50	427.63
2.	ITC availed under Reverse Charge Mechanism (RCM) vs payment of tax in GSTR-3B/GSTR-9 [Dimension 2]	RCM payments in GSTR-3B Table 3.1(d) was compared with ITC availed in GSTR-9 Table 6C, 6D and 6F. In cases where GSTR-9 was not available, the check was restricted within GSTR-3B - tax discharged in Table 3.1(d) <i>vis-a-vis</i> ITC availed Table 4A(2) and 4A(3).	50	102.32

Sl. No.	Risk parameter	Algorithm used	Number of deviations/mismatches	Amount of deviations/mismatches (₹ in crore)
3.	Short payment of tax under RCM vs ITC availed in GSTR-3B/GSTR-9 [Dimension 3]	RCM payments in GSTR-9 Table 4G (tax payable) was compared with ITC availed in GSTR-9 Table 6C, 6D and 6F (ITC availed), In cases where GSTR-9 was not available, RCM payment in GSTR-3B Table 3.1(d) was compared with GSTR-3B 4(A)(2) and 4A(3). Greater of difference in GSTR-9 and GSTR-3B considered where both were available.	19	10.41
4.	Incorrect availing of Input Service Distributor credit [Dimension 4]	ISD transferred in GSTR-9 Table 6G or GSTR-3B Table 4(A)(4) was compared with the sum of Table 5A, Table 8A, and Table 9A of GSTR-6 of recipient GSTINs.	25	31.91
5	ISD Reversal [Dimension 5]	GSTR-9 Table 7B/7H of the recipients was compared with sum of Table 8A (negative figures only) and Table 9A (negative figures only) of their GSTR-6s.	3	0.03
6.	Mismatch of ITC availed between Annual returns and Books of accounts [Dimension 6]	Positive figure in GSTR-9C Table 12F and examination of reasons provided in Table 13 for mismatch.	25	327.93
7.	Reconciliation between ITC availed in Annual returns with expenses in financial statements [Dimension 7]	Positive figure in GSTR-9C Table 14T and examination of reasons provided in Table 15 for mismatch.	25	1,839.40
<b>Domain: Tax payments</b>				
8.	Mismatch in turnover declared in GSTR-9C Table 5R [Dimension 8]	Negative figure in GSTR-9C Table 5R and examination of reasons provided in Table 6 for mismatch.	49	4,596.68
9.	Mismatch in taxable turnover declared in GSTR-9C Table 7G [Dimension 9]	Negative figure in GSTR-9C Table 7G and examination of reasons provided in Table 8 for mismatch.	34	878.85
10	Mismatch in tax paid between books of accounts and returns [Dimension 10]	Negative figure in GSTR-9C Table 9R and examination of reasons provided in Table 10 for mismatch.	50	116.12
11.	Unsettled liabilities [Dimension 11]	The greater of tax liability between GSTR-1 (Tables 4 to 11) and GSTR-9 (Tables 4N, 10 and 11) was compared with tax paid details in GSTR-3B Tables 3.1(a) and 3.1(b). In cases where GSTR-9 was not available GSTR-3B tax paid was compared with GSTR-1 liability. The amendments and advance adjustments declared in GSTR-1 and 9 were duly considered.	25	420.60

Sl. No.	Risk parameter	Algorithm used	Number of deviations/mismatches	Amount of deviations/mismatches (₹ in crore)
12.	Composition taxpayer also availing e-commerce facility [Dimension 12]	E-commerce GSTR-8 became effective from 01 October 2018 when TCS provisions became effective. GSTINs declared in GSTR-8 who are also filing GSTR-4 under composition scheme.	13	0.00
13.	GSTR-3B was not filed but GSTR-1 is available [Dimension 13]	Taxpayers who have not filed GSTR-3B but have filed GSTR-1 or where GSTR-2A available, indicating taxpayers carrying on the business without discharging tax.	25	5.41
14.	Short payment of interest [Dimension 14]	Interest calculated at the rate of 18 per cent on cash portion of tax payment on delayed filing of GSTR-3B vis-a-vis interest declared in GSTR-3B.	25	16.82

#### 2.4.7.2 Response to Audit

Audit selected a sample of 418 from amongst the top deviations/inconsistencies in each of the 14 parameters for the year 2017-18. The audit queries were issued to the respective LGSTOs/SGSTOs between April 2022 and August 2022 without further scrutiny of taxpayers' records by Audit. The audit check in these cases was limited to verifying the Department's action on the identified deviations/mismatches communicated to them. Response from the department to audit queries were received in respect of all the 418 cases and the deficiencies noticed in these cases are summarised in the succeeding paragraph.

#### 2.4.7.3 Summary of deficiencies noticed during Centralised Audit

Based on responses received from the Department to the audit queries, the extent to which the audit parameters translated into compliance deviations are summarized in **Table 2.4** below.

**Table 2.4: Summary of deficiencies**

(₹ in crore)

Audit Dimension	Cases where response received		Department reply is acceptable to Audit <sup>61</sup>		Compliance Deviations observed							
					Recovery made/ASMT-13/ADT-02 issued		ASMT-10 issued		Referred to Departmental audit <sup>62</sup>		Total	
					No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
ITC Mismatch (D1)	50	427.63	30	274.62	3	4.16	5	52.12	12	63.15	20	119.43
RCM ITC availed (D2)	50	102.32	34	65.28	1	0.03	13	30.52	2	2.11	16	32.66
RCM payment (D3)	19	10.42	13	7.36	--	--	3	1.50	3	1.55	6	3.05

<sup>61</sup> This includes acceptable cases such as data-entry errors, action taken before query and other valid explanations.

<sup>62</sup> Internal Audit Under Section 65 of the KGST Act, 2017.

Audit Dimension	Cases where response received		Department reply is acceptable to Audit <sup>61</sup>		Compliance Deviations observed							
					Recovery made/ASMT-13/ADT-02 issued		ASMT-10 issued		Referred to Departmental audit <sup>62</sup>		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
ISD ITC Mismatch (D4)	25	31.91	18	26.05	--	--	4	2.65	3	3.21	7	5.86
ISD Reversal (D5)	3	0.03	--	--	1	--	--	--	2	0.03	3	0.03
12F- Excess ITC (D6)	25	327.93	15	213.86	--	--	5	49.65	5	48.03	10	97.68
14T Unreconciled ITC (D7)	25	1,839.40	25	1,839.40	--	--	--	--	--	--	--	--
5R Total Unreconciled Turnover (D8)	49	4,596.68	23	1,578.10	3	0.44	16	1,418.73	7	1,346.94	26	2,766.11
7G Unreconciled Taxable Turnover (D9)	34	878.85	24	652.40	1	0.04	7	150.40	2	52.49	10	202.93
9R - Tax paid (D10)	50	116.12	35	73.62	2	1.53	6	8.27	7	21.94	15	31.74
Unsettled Liability (D11)	25	420.60	15	302.41	1	0.08	4	49.24	5	62.38	10	111.70
E-commerce (D12)	13	0.00	5	--	2	0.12	6	--	--	--	8	0.12
No GSTR 3B but GSTR-1 available (D13)	25	5.41	3	1.88	10	1.70	10	1.57	2	0.27	22	3.54
Interest short paid (D14)	25	16.82	14	11.44	5	1.70	3	1.79	3	1.22	11	4.71
<b>Total<sup>63</sup></b>	<b>418</b>	<b>3,298.59</b>	<b>254</b>	<b>2,815.92</b>	<b>29</b>	<b>9.32<sup>64</sup></b>	<b>82</b>	<b>197.31</b>	<b>53<sup>65</sup></b>	<b>203.89</b>	<b>164</b>	<b>410.52</b>

Audit noticed deviations from the provisions of the Act in 164 cases, amounting to ₹ 410.52 crore constituting 39 per cent of the 418 inconsistencies/mismatches in data, for which the Department provided responses.

Out of the 164 cases, the Department recovered ₹ 2.43 crore in nine cases. Department issued Form ASMT-13 in seven cases amounting to ₹ 1.24 crore after carrying out best judgment assessment under Section 62. Further, the Department raised additional demand in 22 cases amounting to ₹ 8.08 crore. Form ASMT-10 was issued in 82 cases involving an amount of ₹ 197.31 crore. The remaining 53 cases amounting to ₹ 203.89 crore were referred to the departmental audit. Relatively higher rates of deviations were

<sup>63</sup> 5R & 7G unreconciled turnover has not been taken into account in total summation.

<sup>64</sup> Additional demand was created in 22 cases with money value ₹ 8.08 crore by departmental Audit Offices in ADT-02 of which 13 cases with money value of ₹ 6.58 crore at the instance of CAG Audit. In seven cases with money value of ₹ 1.24 crore, ASMT-13 were issued by LGSTO offices at the instance of CAG Audit. These 29 cases with money value of ₹ 9.32 crore included recovery of ₹ 2.43 crore in nine cases.

<sup>65</sup> Out of the 53 cases, 39 cases were referred to the departmental audit function after issue of Audit query by AG Office.

noticed in risk parameters such as ITC mismatch and undischarged liability. In 254 cases constituting 61 *per cent*, department's reply was acceptable to Audit. Out of which, data entry errors by taxpayers comprised 65 cases, department had proactively taken action in 81 cases, and 108 cases had other valid explanations.

#### 2.4.7.4 Centralised Audit-Reasons for deviations/mismatches noticed during data analysis

Considering the Department's response to 418 cases, the factors that caused the data deviations/inconsistencies are as follows:

**a) Deviations from GST law and rules:** Out of the 418 deviations summarized in Table 2.4 above, the Department has accepted the audit observations or initiated action in 164 cases with tax effect of ₹ 410.52 crore. The top five cases accepted or where action was initiated by the Department amounted to ₹ 105.28 crore.

Top case under each dimension is illustrated below:

**(i) Excess ITC availed (Dimension 1):** GSTR-2A is a purchase related dynamic form that is automatically generated for each business by GST portal, whereas GSTR-3B is a monthly return in which summary of outward supplies along with ITC and payment of tax are self-declared by the taxpayer.

To analyse the veracity or ITC utilization, relevant data were extracted from GSTR-3B and GSTR-2A for the year 2017-18, and the ITC paid as per suppliers' details was matched with the ITC credit availed by the taxpayer.

Audit observed that in the case of the taxpayer GSTIN 29AAACI6297A1ZJ, under LGSTO- 38, ITC available as per GSTR-2A was ₹ 61.07 crore and the ITC availed in table 4A (5) of GSTR-3B was ₹ 77.78 crore (including the ITC ₹ 4.44 crore availed in the subsequent year 2018-19 from Table 8C of GSTR-9) resulting in mismatch of ₹ 16.71 crore. On this being pointed out (March 2022), the department replied (June 2023) that ASMT-10 conveying the above discrepancy had been issued to the taxpayer.

**(ii) Excess availment of ITC on RCM (Dimension 2):** Under Reverse Charge Mechanism (RCM), the liability to pay tax is fixed on the recipient of supply of goods or services instead of the supplier or provider in respect of certain categories of goods or services or both under Section 9(3) or Section 9(4) of the KGST Act, 2017 and under sub-section (3) or sub-section (4) of Section 5 of the IGST Act, 2017.

To analyse the veracity of ITC availed on tax paid under RCM for the year 2017-18, the datasets pertaining to GSTR-3B and annual return GSTR-9 were compared to check whether the ITC availed on RCM was restricted to the extent of tax paid. In cases where GSTR-9 was not available, the check was restricted within GSTR-3B where the tax

discharged part in GSTR-3B Table 3. 1 (d) was compared with the ITC availing part of GSTR-3B 4A (2)<sup>66</sup> and 4A (3)<sup>67</sup>.

Audit observed that in the case of the taxpayer GSTIN 29AAACW1685J1ZW, under LGSTO- 38, ITC available as per the tax payable under RCM in table 3.1(d) of GSTR-3B was ₹ 10.65 crore and the ITC availed in Table 6C+6D+6F of GSTR-9 was ₹ 27.73 crore resulting in mismatch of excess availing of ITC under RCM amounting to ₹ 17.08 crore. On this being pointed out (March 2022), the department replied (June 2023) that ASMT-10 conveying the above discrepancy had been issued to the taxpayer.

**(iii) Excess availment of ITC on RCM without payment of Tax (Dimension 3):** The extent of availing of ITC under RCM for the year 2017-18 without discharging equivalent tax liability or, in other words, short payment of tax under RCM was analysed by comparing the datasets pertaining to GSTR-3B and annual return GSTR-9 to check whether the tax has been discharged fully on the activities/transactions under RCM. In cases where GSTR-9 was filed, the RCM payments in Table 4G<sup>68</sup> was compared with ITC availed in Table 6C, 6D and 6F. In cases where GSTR-9 was not available, RCM payments in GSTR-3B Table 3.1(d)<sup>69</sup> was compared with GSTR-3B 4(A) (2)<sup>70</sup> and 4A (3)<sup>71</sup>.

Audit observed that in the case of the taxpayer GSTIN 29ABZPT8835C1ZQ, under LGSTO-510, there was no RCM payments in table 4G of GSTR-9 (GSTR-3B also shows nil RCM payment) and the ITC availed in table 4(A)(2) & 4(A) (3) of GSTR-3B was ₹ 0.57 crore. This resulted in excess availment of ITC on RCM without payment of tax amounting to ₹ 0.57 crore. On this being pointed out (April 2022), the department replied (June 2023) that ASMT-10 had been issued to the taxpayer.

**(iv) Irregular availing of ITC by recipient on ISD credit (Dimension 4):** To analyse whether the ITC availed by the taxpayer is in excess of that transferred by the Input Service Distributor (ISD), ITC availed as declared in the returns of the taxpayer was compared with the ITC transferred by the ISD in their GSTR-6.

Audit observed that in the case of a taxpayer, GSTIN 29AABCI6663H1ZA, under LGSTO - 21, the ITC availed in table 6G of GSTR-9 was ₹ 1.96 crore and the ITC transferred by the ISD in table (5A+8A+9A) of GSTR-6 was Nil, resulting in a mismatch of ₹ 1.96 crore. On this being pointed out (June 2022), the department replied (June 2023) that the case has been assigned to departmental audit.

**(v) Unreconciled ITC in Table 12F of GSTR-9C (Dimension 6):** Table 12 of GSTR-9C reconciles ITC declared in annual return (GSTR-9) with

<sup>66</sup> Import of services.

<sup>67</sup> Inward supply (liable to reverse charge).

<sup>68</sup> Inward supplies on which tax is to be paid on reverse charge basis.

<sup>69</sup> Inward supply (liable to reverse charge).

<sup>70</sup> Import of services.

<sup>71</sup> Inward supply liable to reverse charge other than import of goods and services.

ITC availed as per audited Annual financial statement or books of accounts. Column 12F of this table deals with unreconciled ITC. The certified reconciliation statement submitted by the taxpayer as required under the Rule 80(3) of KGST Rules, 2017, in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the Financial Statements.

Audit observed that in the case of the taxpayer GSTIN 29AABCS1624G2ZI, under LGSTO-26, unreconciled ITC declared in Table 12F of GSTR-9C amounted to ₹ 33.95 crore, being mismatch of ITC availed in GST returns and ITC on items booked in financial statement. On this being pointed out (June 2022), the department replied (June 2023) that ASMT-10 had been issued to the taxpayer.

**(vi) Unreconciled turnover in Table 5R of GSTR-9C (Dimension 8):** Table 5 of GSTR-9C is the reconciliation of turnover declared in audited annual financial statement with turnover declared in the annual return (GSTR-9). Column 5R of this table captures the unreconciled turnover between the annual return GSTR-9 and that declared in the Financial Statement for the year after the requisite adjustments.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80(3) of KGST Rules, 2017, in form GSTR-9C for the year 2017-18 was analysed at data level to review the extent of identified mismatch in turnover reported in the Annual Return *vis-à-vis* the Financial Statements. The unreconciled amount in cases where the turnover declared in GSTR-9 is less than the financial statement indicates non-reporting, under-reporting, short-reporting, omission, error in reporting of supplies leading to evasion or short payment of tax. It could also be a case of non-reporting of both taxable and exempted supplies.

Audit observed that in the case of the taxpayer GSTIN 29AABCC0258Q1ZA, under LGSTO-20, there was a difference in total turnover as declared in Table 5R of GSTR-9C amounting to ₹ 765.22 crore. On this being pointed out (June 2022), the department replied (June 2023) that the case has been assigned to departmental audit.

**(vii) Unreconciled taxable turnover in Table 7G of GSTR-9C (Dimension 9):** Table 7 of GSTR-9C is the reconciliation of taxable turnover. Column 7G of this table captures the unreconciled taxable turnover between the annual return GSTR-9 and that declared in the financial statement for the year after the requisite adjustments.

Audit observed that in the case of the taxpayer GSTIN 29AABCV0425C1ZR, under LGSTO-15, there was a difference of taxable turnover as declared in Table 7G of GSTR-9C amounting to ₹ 30.99 crore. On this being pointed out (June 2022), the department replied (June 2023) that ASMT-10 had been issued to the taxpayer.

**(viii) Unreconciled tax liability in Table 9R of GSTR-9C (Dimension 10):** The certified reconciliation statement submitted by the taxpayer as required under rule 80(3) of KGST Rules, 2017, in form GSTR-9C for the year 2017-18 was analysed at data level to review the

extent of identified mismatch in tax paid between the Annual Return and the books of account. Table 9 of the GSTR-9C attempts to reconcile the tax paid by segregating the turnover rate-wise and comparing it with the tax discharged as per annual return GSTR-9. The unreconciled amounts could potentially indicate tax levied at incorrect rates, incorrect depiction of taxable turnover as exempt or vice versa or incorrect levy of CGST/KGST/IGST. There can also be situations wherein supplies/tax declared are reduced through amendments (net of debit notes/credit notes) in respect of the 2017-18 transactions carried out in the subsequent year from April to September 2018. Consequential interest payments - both short payments and payments under incorrect heads - also need to be examined in this regard.

Audit observed that in the case of the taxpayer GSTIN 29AAACT7495D1Z0, under LGSTO-500, unreconciled payment of tax declared in Table 9R of GSTR-9C amounted to ₹ 2.72 crore. On this being pointed out (March 2022), the department replied (June 2023) that the issue was referred (April 2022) to the Authority who was assigned the departmental internal audit under Section 65. ASMT-10 had also been issued to the taxpayer.

**(ix) Short declaration of tax liability (Dimension 11):** GSTR-1 depicts the monthly details of outward supplies of goods or services. The details of tax liability are also assessed by the taxpayer and mentioned in the annual return, GSTR-9. Further, taxable value and tax paid thereof is also shown in GSTR-3B.

To analyse the undischarged tax liability, relevant data were extracted from GSTR-1 and GSTR-9 for the year 2017-18 and the tax payable in these returns was compared with the declared tax paid amount in GSTR-9. Where GSTR-9 was not available, a comparison of tax payable between GSTR-1 and GSTR-3B was resorted to. The amendments and advance adjustments declared in GSTR-1 and 9 were also considered for this purpose. In the case of GSTR-3B, tables 3.1(a)<sup>72</sup> and 3.1(b)<sup>73</sup> were taken into account.

Audit observed that in the case of the taxpayer GSTIN 29AABCT0159K1Z5, under LGSTO-20, there was a tax liability mismatch between GSTR-1 and GSTR-3B amounting to ₹ 19.53 crore. The tax liability declared by the taxpayer in GSTR-1 including the amendments carried out in the subsequent years pertaining to invoices issued in 2017-18 worked out to ₹ 338.89 crore. However, the tax paid amount in GSTR-9 was only ₹ 319.36 crore. On this being pointed out (March 2022), the department replied (June 2023) that the case has been assigned to departmental audit.

**(x) Non-filing of GSTR-3B - Non-Payment of tax but passing ITC (Dimension 13):** GSTR-3B return under Rule 61(5) of KGST Rules, 2017 is the only instrument through which the tax liability is offset and ITC is availed.

<sup>72</sup> Outward taxable supplies (other than zero rated, nil rated and exempted).

<sup>73</sup> Outward taxable supplies (Zero rated).

Effort was made through data analysis to identify those taxpayers who had not filed GSTR-3B but filed GSTR-1 or whose GSTR-2A was available. The very availability of GSTR-1 and 2A and non-filing of GSTR-3B indicated the taxpayers had undertaken/carried on the business during the period but had not discharged their tax liability. It may also include cases of irregular passing on of ITC.

In the case of a taxpayer, GSTIN 29ALDPK1571G1Z5, under SGSTO-181, the datasets pertaining to relevant fields in GSTR-1, 2A and 3B were analysed. Audit noticed (May 2022) that the taxpayer had not filed GSTR-3B in 2017-18 but the potential tax liability flowing from the taxpayers GSTR-1 was ₹ 0.31 crore. On this being pointed out (May 2022), the department replied (June 2023) that ASMT-13 had been issued.

**(xi) Short payment of interest (Dimension 14):** Section 50 of the Act stipulates that every person liable to pay tax in accordance with the provisions of this Act or the rules made there under but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay interest at the rate notified.

The extent of short payment of interest on account of delayed remittance of tax during 2017-18 was identified using the tax paid details in GSTR-3B and the date of filing of the GSTR-3B. Only the net tax liability (cash component) has been considered to work out the interest payable.

Audit observed that in the case of the taxpayer, GSTIN 29AAKFM5883F1ZR, under LGSTO-130A, non-payment of interest amounting to ₹ 0.51 crore, on account of belated filing GSTR-3B, was noticed. On this being pointed out (June 2022), the department replied (June 2023) that the dealer had discharged the entire interest amount between September 2022 and February 2023.

**b) Data entry errors by taxpayers:** The data entry errors constituted 15.56 per cent (65 cases) of the sampled cases where responses were received from the department. These data entry errors did not have any revenue implication. Most of the data entry errors relate to ITC availed under reverse charge mechanism, incorrect availing of Input Service Distributor credit and taxable turnover (provided in GSTR-9C). An illustrative case is illustrated below:

Audit observed that in the case of the taxpayer GSTIN 29AASPH0090F1ZM, under LGSTO-370, the net tax liability in GSTR-1 was ₹ 0.29 crore and the net tax liability as per GSTR-9 was ₹ 14.72 crore. Hence, considering the net tax liability of the taxpayer as ₹ 14.72 crore and after adjusting the tax paid of ₹ 1.85 lakh (by cash) and ₹ 27.26 lakh (by ITC adjustment), the undischarged tax liability was ₹ 14.43 crore.

On this being pointed out (March 2022), the department replied (June 2023) that the undischarged liability of ₹ 14.43 crore was due to data entry error in GSTR-9. The net tax liability under CGST was wrongly entered as ₹ 14.57 crore instead of ₹ 0.15 lakh.

The CAG's Report No. 5 of 2022 on Union Government Department of Revenue (Indirect Taxes-Goods and Services Tax) had also highlighted data

quality issues and significant inconsistencies in the GST data due to which Audit could not establish reliability of data for finding audit insights and trends. The Report had recommended that the Union Ministry should consider introducing appropriate validation controls (controls to prevent unreasonable data entries and/or alert the taxpayer to unreasonable data) supplemented by post-facto data analytics in respect of important data elements.

**Recommendation 2: The Department may take up the matter with the GST Council to insert adequate validation controls in the GST portal to curb data entry errors, enhance taxpayer compliance and facilitate better scrutiny.**

**c) Action taken before issue of Audit Queries:** As summarised in Table 2.4 above, the Department had already taken action in 81 cases, constituting 19.38 *per cent* of the total responses received. The top five LGSTOs which had proactively addressed the deviations/inconsistencies are indicated in **Table 2.5**.

**Table 2.5: Action taken before audit query - LGSTO wise**

LGSTO	Action taken before audit query	Type of action	Total sampled cases
LGSTO-15	3	Excess ITC on RCM reversed, unreconciled tax paid	18
LGSTO-20	3	ADT-02 issued	30
LGSTO-21	3	ADT-02 issued, interest paid	10
LGSTO-56	3	ADT-02 issued	7
LGSTO-66	4	Unreconciled tax paid, unreconciled ITC reversed, excess ISD credit reversed	7

#### **2.4.8 Detailed Audit (Part-III)**

In a self-assessment regime, the onus of compliance with law is on the taxpayer. The role of the Department is to establish and maintain an efficient tax administration mechanism to provide oversight. With finite level of resources, for an effective tax administration, to ensure compliance with law and collection of revenue, an efficient governance mechanism is essential. An IT driven compliance model enables maintaining a non-discretionary regime of governance on scale and facilitates a targeted approach to enforce compliance.

From an external audit perspective, Audit also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies/deviations in GST returns through analysis of data, a detailed audit of GST returns was also conducted as a part of this review. A risk-based sample of 61 taxpayers was selected for this part of the review. The methodology adopted was to initially conduct a desk review of GST returns and financial statements filed by the taxpayers as part of the GSTR-9C and other records available in the back-end system to identify potential risk areas, inconsistencies/deviations and red flags. Desk review was carried out in the office of Principal Accountant General,

Karnataka. Based on desk review results, detailed audit was conducted in LGSTOs/departmental audit offices<sup>74</sup> by requisitioning corresponding granular records of taxpayers such as financial ledgers, invoices, etc., to identify reasons for mismatches and to evaluate compliance by taxpayers.

#### 2.4.8.1 Scope limitation

In spite of requisitions and follow up, the LGSTOs/departmental audit offices did not produce any taxpayers' granular records in four (six *per cent*) out of the sampled 61 cases. Consequently, in these cases, audit was restricted to the information available in the returns filed by the taxpayers. Further, in another 22 cases (36 *per cent*), granular records such as invoices, debit and credit notes, ledgers were partially produced. Thus, Audit could not assess eligibility of ITC claimed and extent of unsettled tax liability, which constituted a significant scope limitation.

The jurisdiction wise non-production of records is summarised in **Appendix-I**. Non-production of records constituted six *per cent* of the sample size and potential risk of ₹ 2.31 crore could not be addressed in audit.

The jurisdiction-wise partial production of records is summarised in **Appendix-II**. The identified risk relating to mismatch of ITC and undischarged liability of ₹ 77.33 crore could not be examined in detail by Audit due to partial production of records. The top ten cases of partial production of records in terms of mismatches in ITC are detailed in **Appendix-III**.

In response to above, three LGSTOs<sup>75</sup> stated (between September 2022 and January 2023) that mail/endorsements were issued to the taxpayers to produce records. In two cases, the taxpayers were assigned to departmental audit along with audit requisitions.

Further, it was replied during exit conference (June 2023) that LGSTOs do not have access to the granular records and records are furnished in respect of audited cases. Audit clarifies that the granular records form evidence of the compliance to GST laws and are required to verify the inherent risk of non-compliance by taxpayers.

#### 2.4.8.2 Results of Detailed Audit

The audit findings noticed during detailed audit have been categorized under a) Discharge of tax liability, b) Availing/utilisation of ITC and c) Returns.

Of the 61 sampled cases for detailed audit, it was noticed that 46 cases were assigned to the departmental audit under Section 65 of the KGST Act. Out of this, 24 cases had already been assigned to departmental audit before commencement of this SSCA. Subsequently, 22 more cases were assigned to departmental audit during the course of this audit. In 17 cases, ADT-02 were issued during the course of audit. Audit also verified the ADT-02 (Audit Report under Section 65(6) read with Rule 101(5) intimating the tax liability after conclusion of Departmental audit) issued in cases wherever made available.

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<sup>74</sup> Offices designated as Audit Offices in each Division of Commercial Taxes Department which conduct departmental audit under Section 65 of the KGST Act, 2017.

<sup>75</sup> LGSTOs-15, 45 and 152.

**2.4.8.2 (a) Audit findings relating to discharge of tax liability**

Audit observed compliance deficiencies in 22 out of 57 cases where records were fully or partially produced to Audit wherein taxpayers did not discharge their tax liability amounting to ₹ 2.46 crore. The deficiencies were mainly due to incorrect discharge of tax liability on reverse charge basis and non/short payment of GST.

**I. Incorrect discharge of tax liability on reverse charge basis**

The Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

Audit noticed in 17 out of 57 cases, where records were fully/partially produced to Audit, that the tax liability on reverse charge basis was discharged incorrectly amounting to ₹ 1.34 crore.

On this being pointed out (between August 2022 to March 2023), the department replied (June 2023) that an amount of ₹ 9.17 lakh was collected in three cases, DRC-07 was issued in two cases, ASMT-10 was issued in four cases and two cases were referred to departmental audit. In the remaining six cases, reply is awaited (June 2023). Two illustrative cases are given below:

- As per Section 9(4) of the KGST Act, 2017, tax in respect of supply of taxable goods or services or both by a supplier, who is not registered, to a registered person shall be paid by such person on reverse charge basis as the recipient. Notification No.8/2017 dated 29 June 2017 exempts payment of tax on reverse tax basis except in cases where the aggregate value of the supply exceeds ₹ 5,000 in a day. The limit of ₹ 5,000 was omitted vide Notification No.38/2017 dated 13 October 2017.

The taxpayer GSTIN 29AAAAN4601K1ZL, under SGSTO-192, for the period from July 2017 to March 2018, had declared labour charges at ₹ 12.26 crore. The taxpayer had to discharge GST on labour charges for the period from 1 July 2017 to 12 October 2017. Audit noticed that an amount of ₹ 3.10 crore related to period from 1 July 2017 to 12 October 2017 on which labour charges (for which tax under RCM was to be paid) were not paid by the taxpayer which resulted in non-payment of tax of ₹ 0.56 crore.

On this being pointed out (November 2022), the department stated (June 2023) that ASMT-10 had been issued.

- Government vide Notification No.43/2017 dated 14 November 2017 prescribed payment of tax on reverse tax basis in respect of raw cotton supplied by an agriculturist to any registered person with effect from 15 November 2017.

A taxpayer, GSTIN 29AAOPL5282D1ZE, under SGSTO-193, had purchased cotton from farmers who are unregistered persons on which the taxpayer was liable to pay GST as per Section 9(4) for the period 1 July

2017 to 12 October 2017 and from 15 November 2017 vide Notification dated 14 November 2017 issued under Section 9(3) of the KGST Act, 2017. However, GST under reverse charge mechanism was not paid. The amount of purchase of cotton from unregistered persons for the period from 01 July 2017 to 12 October 2017 amounted to ₹ 5.71 crore on which tax of ₹ 0.29 crore at five *per cent* was payable on reverse charge basis. Further, the taxpayer had purchased cotton from agriculturists amounting to ₹ 0.57 crore during the period 15 November 2017 to 31 March 2018 on which tax of ₹ 0.03 crore was payable on reverse charge basis. This resulted in total undischarged tax liability of ₹ 0.32 crore.

This was brought to the notice of the department in November 2022. Final reply is awaited (August 2023).

## II. Non/short payment of GST

Audit observed non-payment of GST declared in GSTR-9, short demand of GST levied in ADT-02 and short declaration of commission received amounting to ₹ 1.12 crore in five out of 57 cases where records were fully/partially produced to audit which resulted in non/short discharging the tax liability. An illustrative case is given below:

A taxpayer, GSTIN 29AAXCS9012Q1Z6, under LGSTO-152, had declared IGST payable of ₹ 1.81 crore in GSTR-9 for the year 2017-18. After adjusting ITC of ₹ 0.82 crore and cash payment of ₹ 0.03 crore as per GSTR-3B filed during the year, balance amount payable was ₹ 0.96 crore which was not paid. Further, in Table-14 of GSTR-9, differential tax paid in 2018-19 for the year 2017-18 was also shown as Nil. This indicated non-payment of IGST of ₹ 0.96 crore.

On this being pointed out (September 2022), LGSTO-152 stated (January 2023) that ASMT-10 had been issued.

### 2.4.8.2 (b) Audit findings relating to utilisation of Input Tax Credit

Input Tax Credit (ITC) means the Goods and Services Tax (GST) paid by a taxable person on purchase of goods and/or services that are used in the course or furtherance of business. To avoid cascading effect of taxes, credit of taxes paid on inward supplies can be used to set-off for payment of taxes on outward supplies.

Section 17(5) of the Act provides a list of goods and supplies on which the ITC cannot be availed except when the outward taxable supply is of the same category of services. Rule 36 to 45 of the KGST Rules, 2017 prescribe the procedures for availing and reversal of ITC.

Audit observed compliance deficiencies in seven out of 57 cases, where records were produced fully/partially to Audit, where the taxpayers had availed irregular ITC of ₹ 1.37 crore. Two illustrative cases are given below:

i) As per the 2<sup>nd</sup> proviso to Section 16 (2) of the KGST Act, 2017 when the taxpayer fails to discharge the value of inward supplies within 180 days, then the amount of input tax credit was to be included in the output tax liability and paid along with interest. The value of the goods or services along

with the tax should have been paid to the supplier within 180 days from the date of issue of invoice.

A taxpayer, GSTIN 29AAFCD5002K1ZP, under LGSTO-190, had trade payables (sundry creditors) with outstanding payment of ₹ 18.98 crore which includes ITC of ₹ 2.03 crore pertaining to his supplier M/s Dilip Buildcon. The payment was not made to the supplier within a period of 180 days as per the statute. Even after considering the date of issue of invoice as the last date of financial year (31 March 2018), the latest due date of payment is 27 September 2018. Audit noticed that the payments to the suppliers were made during January 2020 and December 2020 with a delay of 476 and 813 days respectively. Due to delayed payment to the supplier beyond 180 days of issue of invoices the taxpayer was liable to pay interest of ₹ 0.78 crore on ITC irregularly availed by the taxpayer as it was not included in the output tax liability of ₹ 2.03 crore.

On this being pointed out (January 2023), the department stated (July 2023) that DRC-01A had been issued.

ii) As per proviso to Section 16(4) of the KGST Act, 2017, a registered person shall be entitled to take ITC after the due date of furnishing of the return under Section 39 for the month of September 2018 till the due date of furnishing of the return under the said section for the month of March 2019 in respect of supply of goods or services or both made during the financial year 2017-18. The due date for filing March 2019 return was 23 April 2019.

A taxpayer, GSTIN- 29ABNFS7569N1ZW, under LGSTO-60, had availed ITC of ₹ 0.25 crore on reverse charge basis relating to the year 2017-18 in the GSTR-3B of March 2019 which was filed in September 2019. As the return for March 2019 was filed after the due date of filing, the taxpayer was ineligible to claim the ITC of ₹ 0.25 crore.

On this being pointed out (November 2022), the department stated (June 2023) that ASMT-10 had been issued.

#### **I. Mismatch in claim of ITC as noticed from Returns**

When Audit analysed the GSTR-2A data of selected taxpayers along with GSTR-3B, GSTR-9 and GSTR-9C filed by the taxpayers, there were 10 instances of mismatch of ITC among the returns. ITC available as per GSTR-2A was ₹ 10.82 crore. But the ITC availed by the taxpayers as per GSTR-3B was ₹ 13.75 crore resulting in mismatch of ITC of ₹ 2.93 crore. These mismatches could not be examined in detail by Audit since relevant records were not produced by the Department. However, the department has stated (June 2023) that ASMT-10 had been issued in five cases, Notice issued in two cases, one case was assigned to departmental audit and ₹ 14.20 lakh was collected in one case. Reply is awaited in the remaining case (August 2023).

#### 2.4.8.2 (c) Audit findings relating to GST Returns filing

Section 39(1) of KGST Act, 2017 stipulates that every registered person, other than an Input Service Distributor or a non-resident taxable person or a person paying tax under the provisions of Section 10 or Section 51 or Section 52 shall, for every calendar month or part thereof, furnish, a return, electronically, of inward and outward supplies of goods or services or both, input tax credit availed, tax payable, tax paid and such other particulars, in such form and manner, and within such time, as may be prescribed.

All prescribed returns should be filed electronically in the common portal. A return is not valid unless all the tax dues as shown in the returns (including the dues for the previous period, interest and penalty) are paid in full. Even if there are no transactions during a tax period, a nil return must be filed compulsorily.

##### I. Non-payment of interest by taxpayers

As per Section 50(1) of KGST Act, 2017, every person who is liable to pay tax in accordance with the provisions of this Act or the rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding 18 per cent.

It is also provided that the interest on tax payable in respect of supplies made during a tax period and declared in the return for the said period furnished after the due date in accordance with the provisions of Section 39, except where such return is furnished after commencement of any proceedings under Section 73 or Section 74 in respect of the said period, shall be payable on that portion of the tax which is paid by debiting the electronic cash ledger.

Audit observed in 21 out of 57 cases where the records were produced fully/partially for audit, taxpayers had filed their returns belatedly but the interest payments were not discharged amounting to ₹ 1.74 crore. Non-payment of interest in the top five cases amounted to ₹ 1.15 crore.

Two illustrative cases are given below:

- Audit observed that the taxpayer GSTIN 29AAFCD5002K1ZP, under LGSTO-206, had not declared any details in Form GSTR-1 and Form GSTR-3B relating to outward supplies made during the year 2017-18. It was noticed that the taxpayer had issued invoices in the months of August 2017 (₹ 1.41 crore) and September 2017 (₹ 2.66 crore) with tax liability of ₹ 4.07 crore. which was declared in the GSTR-3B for the month of September 2018 and tax discharged through credit. After adjusting the ITC available (₹ 1.87 crore for August 2017 and ₹ 46.06 lakh for September 2017), the taxpayer was liable to pay net tax of ₹ 2.20 crore for the month of September 2017. Though the tax liability was discharged through GSTR-3B of September 2018, interest of ₹ 0.39 crore (for the period 20 October 2017 to 20 October 2018) on the delayed discharge of liability was not paid.

On this being pointed out (September 2022), the LGSTO-206 stated (September 2022) that ASMT-10 had been issued.

- The taxpayer GSTIN 29ABEFS1976L1ZI, under LGSTO-121, had declared output supplies for the month of October 2017 in Form GSTR-1 and declared turnover and tax of ₹ 5.93 crore and ₹ 1.07 crore, respectively. It was further noticed that the taxpayer had filed Form GSTR-3B for the month of October 2017 with delay on 14 March 2018 in which the taxpayer had declared taxable turnover and tax as NIL. The tax liability was discharged by credit available in GSTR-3B of March 2019 which was filed in May 2019. The taxpayer was, therefore, liable to pay interest amounting to ₹ 27.84 lakh for delayed discharge of tax liability from 20 November 2017 to 3 May 2019.

On this being pointed out (August 2022), the department stated (July 2023) that ADT-2 had been issued.

***Recommendation 3: The Department may fix responsibility on the officers concerned in cases of serious lapses.***

#### **2.4.9 Conclusion**

The Subject Specific Compliance Audit (SSCA) on Department's Oversight on GST Payments and Return Filing was undertaken with the objectives of assessing the adequacy of the system in monitoring return filing and tax payments, extent of compliance by taxpayers and other departmental oversight functions.

This SSCA was predominantly based on data analysis, which highlighted risk areas, red flags and in some cases rule-based deviations and logical inconsistencies in GST returns filed for 2017-18. The SSCA entailed assessing the oversight functions of LGSTOs at two levels - at the data level through global data queries and at the functional level with a deeper detailed audit both of the LGSTOs and of the GST returns, which involved accessing taxpayer records. The audit sample, therefore, comprised 10 LGSTOs, 418 inconsistencies across 14 risk parameters selected through data analysis, and 61 taxpayers selected on risk assessment for detailed audit of GST returns for the year 2017-18.

A review of 10 LGSTOs in respect of their compliance verification functions disclosed deficiencies in discharge of functions such as scrutiny of returns and action against non/stop filers of returns, and cancellation of registrations.

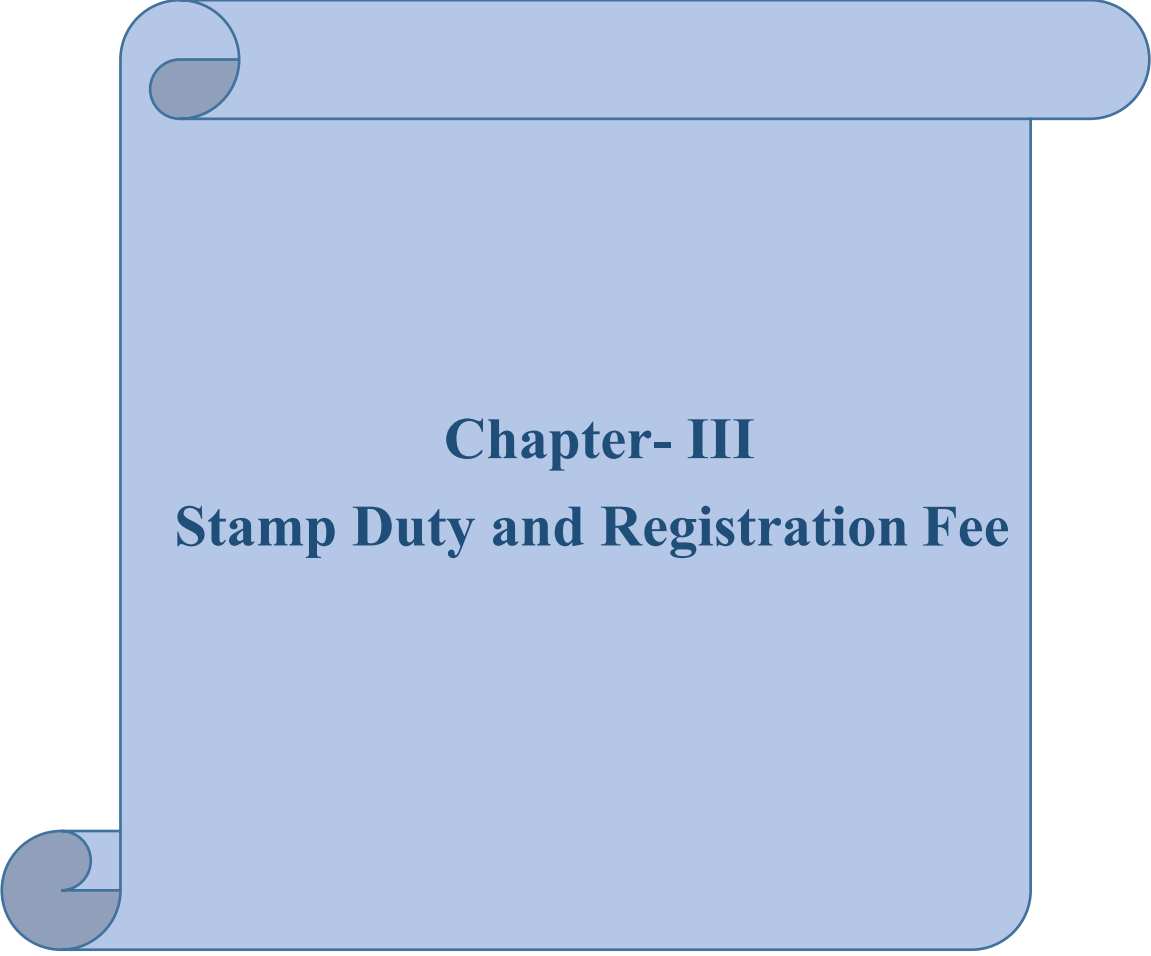
As regards centralised audit, deviations were observed in 164 cases, involving an amount of ₹ 410.52 crore constituting 39 per cent of the 418 inconsistencies/mismatches in data, for which the Department provided responses. The Department has initiated action in these 164 cases. Form ASMT-13 was issued in seven cases amounting to ₹ 1.24 crore. Demand was raised in 22 cases amounting to ₹ 8.08 crore which includes the recovery ₹ 2.43 crore in nine cases. Form ASMT-10 was issued in 82 cases involving an amount of ₹ 197.31 crore. The remaining 53 cases amounting to

₹ 203.89 crore were referred to the departmental audit. Relatively higher rates of deviations were noticed in risk parameters such as ITC mismatch and undischarged tax liability.

In 254 cases constituting 61 *per cent*, department's reply was acceptable to audit. Out of which, data entry errors by taxpayers comprised 65 cases, department had proactively taken action in 81 cases, and 108 cases had valid explanations.

Detailed audit of GST returns also suggested significant non-compliance. At the outset, the granular taxpayer records were not provided by the department, which constituted a significant scope limitation. These cases represented a potential risk exposure of ₹ 79.64 crore towards identified mismatches in ITC availing and tax payments. Despite partial production of records, Audit observed compliance deficiencies with a revenue implication of ₹ 5.57 crore. The irregularities pertained mostly due to non-discharging of tax liability, availing of ineligible and irregular ITC.

Considering the significant rate of compliance deficiencies, the Department must initiate remedial measures before they get time barred. From a systemic perspective, the Department needs to strengthen the institutional mechanism in the LGSTOs/SGSTOs to establish and maintain effective oversight on return filing, taxpayer compliance through scrutiny of returns, cancellation of registrations and recovery of dues from defaulters.



**Chapter- III**  
**Stamp Duty and Registration Fee**



## Chapter-III

### Stamp Duty and 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 Additional Chief Secretary, Revenue Department. The Department of Stamps and Registration (DSR) under the administrative control of the Revenue Department regulates the levy and collection of Stamp Duty and Registration Fee.

#### 3.2 Internal Audit

The Department stated that though an Internal Audit Cell was constituted in December 2012, it was still not functional due to lack of manpower. But, the Department has a mechanism in place where the District Registrars are in charge of circle-wise periodic audits. The results of such audit are reported to the Inspector General of Registration and Commissioner of Stamps (IGR&CS). The position of observations is as shown in **Table 3.1**.

**Table 3.1**  
Year-wise details of observations

(₹ in crore)

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
2017-18	843	7.66	221	2.50	622	5.16
2018-19	714	10.54	90	0.37	624	10.17
2019-20	304	1.26	78	0.16	226	1.10
2020-21	270	10.27	51	0.39	219	9.88
2021-22	316	1.85	77	0.34	239	1.51
<b>Total</b>	<b>2,447</b>	<b>31.58</b>	<b>517</b>	<b>3.76</b>	<b>1,930</b>	<b>27.82</b>

Source: Information furnished by the Department.

As seen from the above, 1,930 observations involving ₹ 27.82 crore were pending settlement as on 31 March 2022. Early action may be taken to settle the pending observations.

#### 3.3 Results of Audit

There are 287 auditable units in the Department of Stamps and Registration. Out of these, audit selected 42 units for test-check wherein 3.82 lakh documents were registered. Out of these, Audit test-checked 0.47 lakh documents (12.30 per cent) during the year 2021-22 and noticed 143 cases of short levy of Stamp Duty and Registration Fee due to undervaluation, non-disclosure of consideration, misclassification of documents, incorrect

assessment of value of development agreements and other non-observance of provisions of Acts/Rules, etc., involving an amount of ₹ 193.08 crore. These cases are illustrative only as these are based on test-check of records. The observations broadly fell under the following categories.

**Table 3.2**  
**Results of Audit**

(₹ in crore)

Sl. No.	Category	No. of Paragraphs	Amount
1.	Short levy of SD&RF due to undervaluation	38	28.62
2.	Short Levy SD&RF due to non-disclosure of consideration	15	7.49
3.	Short levy of SD&RF on Development agreements	17	13.02
4.	Short levy of SD&RF due to misclassification of documents	18	112.91
5.	Other irregularities	55	31.04
	<b>Total</b>	<b>143</b>	<b>193.08</b>

During the year an amount of ₹ 4.84 crore was recovered in 31 paragraphs pointed out in earlier years.

A few illustrative cases of non/short realisation of Stamp Duty and Registration Fee involving ₹ 58.09 crore are discussed in the following paragraphs.

### **3.4 Short levy of Stamp Duty on amalgamation of Companies**

Amalgamation of Companies under Sections 230 to 232 of the Companies Act, 2013 are approved by the National Company Law Tribunal (NCLT). During the process of approval, the NCLT refers the scheme of amalgamation to the Department of Stamps and Registration for determination of Stamp Duty payable on such amalgamation.

Under the Karnataka Stamp Act, 1957, the stamp duty payable on amalgamation of Companies is prescribed as per Article 20(4)(1) at three *per cent* of the market value of immovable property of the transferor Company, situated within the State *or* at one *per cent* of the aggregate value of shares issued in exchange (or merged/cancelled in case of a subsidiary Company merging with parent Company), including amount paid for such amalgamation, whichever is higher. As per the Explanation under the Article, the aggregate value of shares means the face-value of the shares or its market value, whichever is higher.

During audit of District Registrar's Office, Shivajinagar (October 2020), audit noticed short levy of Stamp Duty in one case (out of 32 cases referred by the NCLT). The details are as below.

The case referred by the Bengaluru bench of the National Company Law Tribunal related to five Companies (Transferors) being amalgamated/acquired by another Company (Transferee). As per the scheme of amalgamation, there were no immovable properties of the transferor companies and the amalgamation was based on share-exchange. The scheme of amalgamation

was also accompanied by a valuation report on the shares of the respective companies, filed by the chartered accountant of the Transferee Company. As per the valuation report, a total of 1,30,378 shares were being issued by the transferee company to the transferor companies and 9,19,301 shares of the transferor companies were being cancelled (since these were subsidiary companies of the transferee company). The market value per share of the transferee company was ₹ 9,232 and that of the transferor companies whose shares were cancelled were ₹ 19,262 and ₹ 6 respectively, as per the valuation report of the Chartered Accountant. Based on market value of the shares, the total value of shares being issued/cancelled was ₹ 154.80 crore and the Stamp Duty leviable at one *per cent* worked out to ₹ 1.55 crore.

However, the District Registrar valued the share exchange by considering the number of shares being issued/cancelled as 10,77,951 at face value of the shares at ₹10 per share and estimated the total value of the share exchange at ₹ 1.07 crore and worked out the stamp duty payable as ₹ 1.07 lakh. Thus, non-adherence to the explanation under the Article, which prescribed valuation of the shares at market value, led to short levy of stamp duty of ₹ 1.54 crore.

This case was brought to the notice of the Department/Government between June 2022 and January 2023. The Department/Government replied that the District Registrar concerned has initiated action under Section 46(A) of the KS Act, 1957 and Section 80(A) of the Registration Act, 1908 (August 2023).

***Recommendation 1: Registering authority may adhere to the instructions under Article 20(4)(1) and ascertain the market value of the shares during valuation of documents relating to amalgamation of companies.***

### **3.5 Non-payment of Stamp Duty and Penalty**

According to Section 3 of the Karnataka Stamp Act 1957, Stamp Duty is levied on instruments chargeable with duty as prescribed under various Articles in the schedule of the Act, *ibid*.

As per Section 34 of the Karnataka Stamp 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’. Thus, Section 34 of the Karnataka Stamp Act, forbids the use of instruments on which proper stamp duty has not been paid.

However, as per proviso (a) under Section 34, it is provided that such instruments shall be admitted in evidence on payment of the duty with which the same is chargeable, together with a penalty of ten times the amount of the proper stamp duty or deficient portion. Hence, an instrument on which proper stamp duty has not been paid, can be admitted in evidence only when the deficient stamp duty alongwith penalty at ten times the amount of stamp duty is paid.

During test-check of records in SRO, Begur (September 2020), Audit noticed that two sale-agreements were registered on the same day pertaining to two portions of two acres each in the same survey number. Though the owners of

both the extents of land were different, they had appointed an attorney holder through the execution of two General Power of Attorney (GPA) documents, and the attorney holder was common for both the extents of land. The above mentioned sale-agreements were executed by the attorney holder based on the powers to sell the properties derived from the GPA document. Since, these GPA documents granted the powers to sell the property mentioned therein, stamp duty was to be charged on the two GPA documents as per Article 41(eb) at five *per cent* of the market value of the property over which the power of attorney was granted. The market value of four acres of land at the prescribed rate of ₹ 85 lakh per acre was ₹ 3.40 crore and the stamp duty payable worked out to ₹ 17 lakh. However, these GPAs were not registered and stamp duty of only ₹ 100 was paid on each of the GPA documents.

During registration of the above mentioned sale-agreements, the Sub-Registrar accepted the two GPAs as evidence of power to sell the properties and allowed the registration of the sale-agreements without insisting on payment of proper duty or the penalty on the GPAs as envisaged under Section 34 of the Karnataka Stamp Act. The penalty collectible on the documents, at ten times the proper stamp duty, before admitting them as evidence, worked out to ₹ 1.70 crore.

This case was brought to the notice of the Department/Government between October 2022 and January 2023. The Department/Government replied that the District Registrar concerned has initiated under Section 46(A) of the KS Act, 1957 and Section 80(A) of the Registration Act, 1908 (August 2023).

***Recommendation 2: Registering authority may invoke penalty provisions in cases where proper stamp duty has not been paid.***

### **3.6 Short levy of Stamp Duty and Registration Fee due to misclassification of documents**

As per Section 3 of the Karnataka Stamp Act 1957, Stamp Duty is charged on instruments as prescribed under various Articles in the Schedule of the Act, *ibid*. The Stamp Duty and Registration Fee payable on a document is determined based on the value of the properties and the classification of the documents under relevant Articles of the Karnataka Stamp Act, 1957 and the Registration Act, 1908. On presentation of a document for registration, the Sub-Registrar classifies the document under the relevant Article, estimates the value of the document and communicates the stamp duty payable, to the parties concerned. Thereafter, on payment of stamp duty and registration fee, the documents are registered.

During audit of three<sup>76</sup> Sub-Registrar Offices (SROs) between October 2020 and July 2021, audit test-checked 1,471 documents (out of 4,576 documents) and noticed three cases of short levy of SD&RF due to misclassification of documents relating to Power of Attorney, Sale-agreement and Partition deed. The details are as below.

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<sup>76</sup> SROs-Begur, Bhadravathi and Byatarayanapura.

### **Power of Attorney:**

As per Article 41(eb), a Power of Attorney when given to a person other than father, mother, wife or husband, sons, daughters, brothers or sisters in relation to the executant, with powers to sell immovable property, then the document is to be treated at par with conveyance and stamp duty is to be charged at five *per cent*.

Audit noticed one document in SRO, Begur, wherein a grandmother who was owner of immovable properties had given the Power of Attorney to her grandson. The Power of Attorney included powers to sell the properties. Hence this document had to be treated at par with conveyance and SD&RF were to be levied at five *per cent* and one *per cent* respectively, on the value of the properties. However, the SRO concerned had levied stamp duty at nominal rates instead of levying at five *per cent*. This led to short levy of SD&RF of ₹ 5.07 crore.

### **Sale-agreements:**

Under the Karnataka Stamp Act, sale-agreements of immovable properties through which possession of the property is delivered or is agreed to be delivered before executing a conveyance-document is to be treated at par with conveyance. Such a document is to be classified under sub-clause (e)(i) under Article 5 and stamp duty is to be levied at five *per cent* on the market value of the property. If the sale-agreement is without possession, then stamp duty is to be levied at 0.1 *per cent* limited to ₹ 20,000.

During audit of SRO, Byatarayanapura, audit noticed one sale-agreement where the parties had agreed to deliver physical possession of the property during registration of the sale-agreement itself. However, the Sub-Registrar concerned classified the document under sub-clause (e)(ii) under Article 5 and levied SD at nominal rate limited to ₹ 20,000, instead of five *per cent* on the market value of the property. This led to short levy of SD&RF of ₹ 24.00 lakh.

### **Partition Deed:**

During audit of SRO, Bhadravathi, audit noticed a document titled as 'Document of Partition' wherein six persons who were owners of residentially converted land, pooled together their lands which were adjacent to each other, into one large area and got the land developed into sites. After development the six persons redistributed the sites among themselves, through this document. On perusal of the document, it was noticed that four persons got more sital area than their proportionate share of land. This implied that property was transferred from the two persons to these four persons. The sital area of the excess property transferred was 1,677.26 sq. mtr. Since property was transferred from one person to another, it had to be treated as conveyance and Stamp Duty and Registration Fee were levied at five *per cent* and one *per cent* respectively on the market value of the property being conveyed. However, it was noticed that SD& RF of only ₹ 11,600 were collected instead of ₹ 7.13 lakh before registering the document.

These cases were brought to the notice of the Department/Government between August 2020 and January 2023. The Department/Government replied that the District Registrars concerned have initiated action in all three cases under Section 46(A) of the KS Act, 1957 and Section 80(A) of the

Registration Act, 1908 and also an amount of ₹ 6.94 lakh has been recovered in one case (August 2023).

***Recommendation 3: IGR&CS may institute a mechanism for periodic review of documents along with enclosures to mitigate the risk of misclassification and avoid evasion of Government revenue.***

### **3.7 Short levy of Stamp Duty and Registration Fee on conveyance of developed property**

As per Section 3 of the Karnataka Stamp Act 1957, Stamp Duty is charged on instruments as prescribed under various Articles in the Schedule of the Act, *ibid.* On presentation of a document for registration, the Sub-Registrar verifies the document and based on its contents, classifies the document under the relevant Article of the schedule to the Act. Hence, it is the content of the transaction depicted in the document and its proper interpretation which determines the nature of the document and its consequent classification. Thereafter the rate prescribed in the Article is applied on the market value of the properties and stamp duty payable is determined.

In case of a joint development of land, a developer develops the land belonging to the owner and in return gets the right to sell a portion of the developed property (developer's share). In this arrangement, usually a Joint development agreement is executed alongwith a Power of Attorney at the beginning of the project, assigning the share of the developed property between the owner and developer and also empowering the developer to develop the property and subsequently sell the developer's share. After completion of the project, the respective shares in the developed property are sold either as a whole or individually to prospective customers by execution of sale-deeds. In such an arrangement, stamp duty is levied at two instances. The first time, on either the Joint development agreement or the Power of Attorney at lesser rates (at one *per cent* upto April 2014 and presently at two *per cent*) at the beginning of the project and then the second time on the actual deed of conveyance through which the title of the properties are transferred to prospective buyers, at five *per cent* of the market value of the property being conveyed.

During audit of the Office of the Sub-Registrar, Yelahanka, Audit noticed four documents titled as transfer deeds and checked all four documents and noticed one document wherein stamp duty and registration fee were levied short due to mis-interpretation of the transaction depicted in the document. The details of the case are below.

Audit noticed a document titled as Transfer Deed (executed in January 2018) through which a portion of a commercial complex was being conveyed. The transaction was between an owner and the developer. This deed was preceded by a joint development agreement and a general power of attorney executed during the year 2009 and stamp duty of ₹ 2.95 lakh and ₹ 800 respectively had been paid. As per the joint development agreement, the owners's share was 45 *per cent* of the built-up area and the share of the developer was 55 *per cent* of the built-up area in the commercial complex which consisted of two

basements and five upper floors having a total area of 11,482 sq.mtr constructed on 35 guntas of land.

Now, through this document titled as Transfer deed, the portion of the property identified as the developer's share was being conveyed to the developer itself. However, in the recitals and the schedule of the document, it was stated as conveyance of only the un-divided share of the land measuring 1,892 square metre and there was no mention of the built-up area. The stamp duty and registration fee were also paid on the market value of the land alone. This had the effect of transfer of immovable property (built-up area measuring 6,315 square metre) without levy of proper stamp duty.

In this case, firstly, the joint development agreement along with the general power of attorney does not have the effect of transfer of the ownership of either the undivided share of the land or the built-up area to the developer. Title to a property is transferred only through a proper conveyance. Hence the assumption of the parties that the developer already owned the built-up area and only undivided share was being transferred is incorrect. Secondly, the cost of construction borne by the developer was effectively, the value of the built-up area, which was to be borne by any prospective customer to acquire title of the property, irrespective of whether it was the developer or any other buyer. Hence whenever a sale takes place after construction of any apartment complex, stamp duty invariably would have to be levied on the built-up area, irrespective of the buyer.

In the above case, the Sub-Registrar mis-interpreted the transaction and omitted to estimate the value of the built-up area, thereby allowing the parties to pay stamp duty only on the market value of land and acquire ownership of the fully constructed units of the commercial complex. The value of the fully constructed commercial complex earmarked as developer's share, based on the guidance value was ₹ 47.30 crore on which stamp duty and registration fee of ₹ 3.12 crore was payable, whereas stamp duty and registration fee of only ₹ 59.94 lakh was paid on the value of the land alone. The resultant short levy of stamp duty and registration fee amounted to ₹ 2.52 crore.

This case was brought to the notice of the Department/Government between December 2022 and January 2023. The Department/Government replied that the District Registrar concerned initiated action under Section 46(A) of the KS Act, 1957 and Section 80(A) of the Registration Act, 1908 and passed final orders and issued notice for recovery of the deficit stamp duty and registration fee (August 2023).

***Recommendation 4: Registering authority may invariably levy stamp duty on documents transferring property following a joint development agreement.***

### **3.8 Short levy of Stamp Duty and Registration Fee due to non-disclosure of facts**

Stamp Duty is levied on instruments chargeable with duty as prescribed under various Articles in the Schedule of the Karnataka Stamp Act, 1957 and Registration Fee is levied as per the rates prescribed in the table of Registration Fee under the Registration Act, 1908. The parties executing a document shall provide the details of the properties being conveyed and its

market value. As per Section 28 of the Karnataka Stamp Act, 1957, the facts and circumstances affecting the chargeability of an instrument shall be fully and truly set forth by the parties. When documents are presented for registration, the Sub-Registrar shall make such enquiries, examine all relevant records and estimate the market value of the properties in the document.

During audit of Office of the Sub-Registrar, Anekal in December 2020, audit test-checked 1,446 sale-deeds (out of 10,991 sale-deeds registered) and noticed one case of short levy of SD&RF due to non-disclosure of facts affecting the chargeability of the instrument, by the parties concerned as detailed below.

Audit noticed a Sale-deed (March 2020) wherein land measuring 2 acres and 3 guntas, converted for commercial purpose situated within Bangalore Urban district was conveyed. On receipt of the document for registration, the Sub-Registrar valued the land considering it as converted but un-developed land, based on the recitals and the schedule of the document and levied stamp duty of ₹ 62.46 lakh and registration fee of ₹ 11.05 lakh. The same was paid by the executants and the document was registered. However, on examination of related documents, it was found that the present sale-deed was preceded by another sale-deed (September 2018) through which the present vendor purchased the property. As per the schedule of that sale-deed, there existed a building of 929 sq.mtr with concrete roofing and another building of 4,645 sq.mtr, both with basic amenities. However, the fact of development of the land and the existence of the building was not disclosed in the present sale-deed.

The value of the land at sital rates along with the buildings worked out to ₹ 31.73 crore and stamp duty and registration fee of ₹ 2.09 crore was payable. However, stamp duty and registration fee of ₹ 73.52 lakh was only paid. The resultant short levy worked out to ₹ 1.36 crore.

This case was brought to the notice of the Department/Government between December 2022 and January 2023. The Department/Government replied that the District Registrar concerned has initiated action under Section 46(A) of the KS Act, 1957 and Section 80(A) of the Registration Act, 1908 (August 2023).

***Recommendation 5: A system may be incorporated in KAVERI to flag the different instruments between the same parties in respect of the same property and to disclose the correct value of the property, so as to assist the Sub-Registrar during Registration.***

### **3.9 Short levy of Stamp Duty and Registration Fee on mining leases**

Stamp Duty on a mining lease is levied as per Article 30(3) of the Karnataka Stamp Act, 1957 at different rates depending on the period of the lease. For periods upto 10, 20 and 30 years, stamp duty is levied at one, two and three *per cent* of the average annual royalty respectively. Whereas, for periods beyond 30 years, stamp duty is levied at five *per cent* on four times the average annual royalty. Registration fee is levied at one *per cent* on the same amount on which stamp duty is levied, as per Note (3) under Article I of the table of Fees in the Registration Act, 1908.

During 2015, the Government of India amended the Mines and Minerals (Development and Regulation) (MMDR) Act, 1957 by insertion of a new Section 8A. As per the new Section, all mining leases henceforth shall be granted for a period of fifty years and all those leases which were already granted, shall be deemed to have been granted for a period of fifty years.

After this amendment, the leases which were initially granted for periods lesser than 50 years, were extended upto 50 years by executing supplementary lease deeds.

During audit of Office of the Sub-Registrar, Sandur in July 2019, audit noticed nine such leases which were extended by executing supplementary lease deeds. In these cases, the existing periods of their leases were either twenty or thirty years which were to end between the years 2020 to 2037. However due to execution of supplementary deeds based on the amendment, during the year 2016-17, these leases were extended upto the years 2029 to 2057, treating each lease to have been granted for a period of 50 years.

On being presented with the above supplementary lease deeds for registration, the Sub-Registrar, Sandur treated these deeds as renewal-deeds of mining leases and reckoned the period of lease as between 20 to 30 years, for calculation of stamp duty payable. This period was arrived at, by the Sub-Registrar by counting the period beginning *from* the date of completion of the lease period as mentioned in the initial lease document *upto* the extended completion period mentioned in the supplementary deed. Thus, these documents were classified under sub-clauses (ii) and (iii) of Article 30(3) i.e. for periods ranging upto twenty and thirty years and worked out the stamp duty payable at two and three *per cent* respectively on the average annual royalty, instead of classifying the deeds under sub-clause (iv) and the stamp duty payable at five *per cent* on four times the average annual royalty. The IGR&CS also clarified in a similar case (June 2019) that the period has to be reckoned as 50 years from the date of grant and stamp duty has to be levied as per sub-clause (iv).

However, reckoning the lease period separately instead of reckoning it from the date of initial *grant* as envisaged in the amendment led to short levy of stamp duty and registration fee of ₹ 13.33 crore.

On being brought to notice, the Department/Government replied that the District Registrar concerned has initiated action under Section 46 A of the KS Act, 1957 and Section 80(A) of the Registration Act, 1908 and an amount of ₹ 0.91 crore has been recovered in two cases (August 2023).

***Recommendation 6: All extension of leases based on the amendment to the MMDR Act, resulting in extension beyond the period of 30 years may be reviewed in other SROs and SD&RF to be levied accordingly.***

### **3.10 Non-remittance of Government revenue**

As per Section 3 of the Karnataka Stamp Act, 1957, Stamp Duty is to be paid on all instruments executed within the State, and also on those instruments executed outside the State, where it relates to any matter to be done within the State. Stamp duty on instruments which are not compulsorily registrable are

paid by means of e-stamping<sup>77</sup>. In case of instruments requiring registration, stamp duty and registration fee were paid by means of demand drafts to the Registering authority. During 2018, the Government also introduced receipt module in Khajane<sup>78</sup> which enabled payment of stamp duty and registration fee through designated banks via Khajane. From June 2021, the Inspector General of Registration and Commissioner of Stamps made payment of stamp duty and registration fee compulsorily through Khajane. Thereafter, the party paying the stamp duty and registration fee through Khajane would generate a challan having a unique reference number (18 digit alpha numeral) and pay the required stamp duty and carry the copy of the paid-challan to the Registering Officer as proof of payment along with the document to be registered. The Registering Officer, through his/her access to Khajane, would then check for the 'success report' of that particular challan to ensure actual payment and then continue with the process of registration.

Note 3 under Article 329(v) of the Karnataka Financial Code prohibits a Government Officer from acting upon any challans in acknowledgement of payment, unless it is ensured that the money has been actually paid into the Government account. Further, the correctness of their subsequent remittances into the Government account were to be verified by reconciliation with the treasury schedule every month as per the above Article 329(v).

During audit of Sub-Registrar Office, Chitradurga (August 2021) for the period 2018 to 2021, audit test-checked remittances of stamp duty and registration fee into Government account and noticed differences between the amounts of stamp duty and registration fee claimed to have been remitted as per the copies of paid-challans attached to the document and the actual amounts remitted to the Government. Audit verified those challans based on the unique challan reference number, in the Khajane portal and found that actual amounts depicted in the challans available in the Khajane portal were less than those in the attached challans.

Audit consolidated all the cases where stamp duty and registration fee were actually paid less (as reflected in the treasury schedule) but shown to have been correctly paid in the challans attached to the documents. This revealed that all such documents where amounts were paid short were drafted by a single deed writer. On further enquiry, it was found that this deed writer would collect the *correct* stamp duty and registration fee payable from the parties concerned and generate a challan and make payment through the Khajane portal for a *partial* amount only. Then the amount depicted in the copy of this challan downloaded from the Khajane portal would be altered using a text editor (to depict the *correct* amount of stamp duty and registration fee payable) and handed over to the parties concerned along with the document. This challan would then be produced to the Sub-Registrar for the purpose of registration of the document.

In these cases, the Sub-Registrar concerned registered the documents without ensuring the correctness of the actual amount remitted through Khajane. The

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<sup>77</sup> E-Stamping is a facility where authorised vendors generate e-Stamp Certificate after collection of duty.

<sup>78</sup> Khajane is a web based portal providing the facility of making remittances to the Government Account.

registration of documents with such altered challans happened for the period between October 2020 to August 2021 (ie. until audit of the Sub-Registrar's Office). Since the Khajane portal was not linked to the Kaveri software, the Kaveri software could not validate the actual amounts paid and the correctness of the receipt had to be checked manually by the Sub-Registrar concerned. Further, the process of reconciliation with the treasury schedule at the end of each month as envisaged, was also not being done in the Sub-Registrar's Office. This resulted in non-detection of the short remittance of the amounts through the altered challans. Audit noticed 181 cases of non-remittance of stamp duty and registration fee amounting to ₹ 1.51 crore.

This case was brought to the notice of the Department and the Government between April 2022 and March 2023. The Department/Government replied (August 2023) that the Sub-Registrar concerned has been placed under suspension and enquiry initiated and that the District Registrar concerned has cancelled the licence of the Deed-writer and filed a police complaint. It was also brought to notice that an amount of ₹ 34.08 lakh has been recovered so far and further recovery is under progress (August 2023).

***Recommendation 7: Khajane may be integrated with Kaveri<sup>79</sup>, wherein the amount actually paid through Khajane would be validated by Kaveri and then proceed with the process of registration.***

### **3.11 Short levy of Stamp Duty and Registration Fee on Joint Development Agreements**

Joint Development Agreement (JDA) is an arrangement between a Developer and a Land Owner, where the Developer forms a layout or builds apartments on the land belonging to the Owner. As per the arrangement, the developed layout or the apartments are shared between the Owner and the Developer in agreed ratios and the Developer is entitled to sell his share in the developed property.

As per Article 5(f) and 41(ea) of the Karnataka Stamp Act, 1957, documents pertaining to Joint Development of property are to be levied Stamp Duty at two *per cent* on the market value of the developer's share in the land *or* the market value of the owner's share in the developed property, whichever is higher, including money advanced, if any. Registration Fee<sup>80</sup> is also leviable at one *per cent ad-valorem* on the market value of the property which is the subject matter of development as per Article III(a) of the Registration Act, 1908.

During audit of twelve<sup>81</sup> Sub-Registrar Offices (SRO) between October 2020 and September 2021, Audit test-checked 671 JDAs out of 1,102 JDAs pertaining to the period between 2016-17 and 2020-21 and noticed 56 JDAs wherein Stamp Duty and Registration Fee were short levied. The details are as below.

<sup>79</sup> The software application used for the purpose of registration in the Department of Stamps and Registration.

<sup>80</sup> Registration Fee limited to ₹ 1.50 lakh upto 14.02.2018.

<sup>81</sup> SROs-Anekal, Attibele, Banashankari, Begur, Halasur, Indiranagar, Jayanagar, Kacharakanahalli, Kengeri, Mahadevapura, Sarjapura and Yelahanka.

***Development of layouts/sites:***

In the case of formation of layouts, the land belonging to the owner would either be agricultural or land converted for non-agricultural purposes. The Developer obtains all the necessary approvals from competent authorities<sup>82</sup>, including conversion in the former case and develops a layout by forming individual sites. As per the Zoning Regulations Act, an area comprising 45 *per cent* of the initial land will have to be utilised/reserved for roads, parks and other civic amenities and sites would be formed in the remaining 55 *per cent* of the land. The market value guidelines prescribe higher values for sites approved by competent authorities compared to general sites under the jurisdiction of village panchayats.

Out of the 56 cases stated above, five cases pertained to development of layouts. In all these cases, incorrect rates were adopted while computing the value of sites. This resulted in short levy of SD&RF of ₹ 1.27 crore.

***Development of apartments:***

In the case of construction of apartments, the developer obtains all the necessary approvals and constructs apartments to the extent approved by the competent authorities.

Out of the 56 cases, the remaining 51 cases pertained to development of apartments. The ratio of sharing between the owner and the developer were mentioned in all the documents. However, it was noticed that the floor area ratio<sup>83</sup> (FAR) to determine the total built-up area was mentioned only in 33 cases and in 18 cases, neither the floor area ratio nor the approximate built-up area were mentioned. The Sub-Registrars concerned adopted nominal values to determine the SD&RF payable. This was despite circular instructions by the IGR&CS, instructing all the Sub-Registrars to refer such documents to the jurisdictional District Registrars for further proceedings, where the FAR was not mentioned. The Sub-Registrars had also not enhanced the value for converted lands, commercial complexes, sites abutting main roads, *etc.*, as envisaged in the market value guidelines.

It was also noticed, in two cases that the levy of Registration Fees was limited to ₹ 1.50 lakh even though the limitation had been removed with effect from 18 February 2018, as per notification<sup>84</sup> dated 15.2.2018.

Audit estimated the value by applying rates as envisaged in the market value guidelines. The consequent short levy of SD&RF worked out to ₹ 8.99 crore.

Thus, the above omissions by the Sub-Registrars concerned while registering the documents pertaining to development agreements led to short levy of SD&RF amounting to ₹ 10.26 crore.

These cases were brought to the notice of the Department and the Government between January 2023 and March 2023. The Department/Government replied

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<sup>82</sup> Bangalore Development Authority (BDA), Bangalore Metropolitan Region Development Authority (BMRDA), Bangalore International Airport Area Planning Authority (BIAAPA) etc.

<sup>83</sup> Floor Area Ratio – is the allowable built-up area for a specific parcel of land, prescribed per sq.mtr.

<sup>84</sup> Notification no. RD 81 MUNOMU 2017 dated 15.2.2018.

that the District Registrars concerned have initiated action in all the cases under Section 46(A) of the KS Act, 1957 and Section 80(A) of the Registration Act, 1908 (August 2023).

**Recommendation 8: Sub-Registrars may strictly follow the guidelines issued by the IGR&CS and judiciously apply the guidance market value during valuation of JDAs.**

### 3.12 Short levy of Stamp Duty and Registration Fee due to Undervaluation

According to Section 3 of the Karnataka Stamp Act 1957, Stamp Duty is levied on instruments chargeable with duty as prescribed under various Articles in the Schedule of the Act, *ibid*. Under Article 20, for instruments of conveyance, Stamp Duty is charged as a percentage of the consideration or of the market value of the property, whichever is higher. Market Value Guidelines are prescribed for properties situated in the State by the Central Valuation Committee under Section 45-B of the Act. This forms the basis for estimation of market value by the Registering Officer while registering documents chargeable with Stamp Duty. A set of Special Instructions is also appended as Annexure-I to the statement of estimated values to deal with specific enhancements in the nature of the property. These instructions are to be correctly applied during valuation to arrive at the proper market value of the property.

During audit of nine Sub-Registrar Offices (SROs) between May 2019 and December 2020, Audit noticed short levy of Stamp Duty and Registration Fee amounting to ₹ 20.49 crore due to adoption of incorrect guidance values, non-adherence to Special Instructions, incorrect method of valuation, *etc.*, in 51 documents. The details are as follows.

#### a. Non-application of enhanced rates

The market value guidelines contain general rates for each area under the jurisdiction of the SRO concerned. In addition, there are a set of special instructions regarding valuation, to be applied under special circumstances. As per these instructions enhanced rates are to be applied depending on the type of property being conveyed, as below.

Nature of property	Percentage enhancement of general rates
Land converted for residential/industrial/commercial purposes	65, 70, 80 per cent enhancement
Property abutting National Highway	50 per cent enhancement
Property with roads on two sides	10 per cent enhancement
For Commercial sites/ buildings	30, 40 per cent enhancement

Audit noticed eleven documents<sup>85</sup> wherein properties (i) abutting NH, (ii) with roads on two sides and (iii) commercial properties were conveyed. All these cases warranted enhancement of general rates by percentages prescribed. However, these properties were valued at general rates instead.

<sup>85</sup> SROs – Anekal, Banashankari, Begur, BTM layout, Kengeri and Mysuru North.

This resulted in short levy of Stamp Duty and Registration Fee of ₹ 2.10 crore.

#### **b. Adoption of incorrect rates**

Apart from general rates for the areas within the jurisdiction of individual SROs, the market value guidelines also contain specific rates for some specific areas/properties wherever applicable. These rates are to be correctly applied while estimating the value of such properties situated in specific areas when conveyed.

Audit noticed seven<sup>86</sup> cases where correct rates as prescribed in the market value guidelines for the properties being conveyed through these documents were not applied. In two cases, specific rates prescribed for the area/property being conveyed were ignored and general rates were applied. In the remaining five cases, the documents were registered based on the consideration mentioned in the document, without valuing the documents by applying the rates prescribed in the market value guidelines. In these cases Audit applied the correct rates<sup>87</sup> as prescribed in the market value guidelines and noticed short levy of stamp duty and registration fee of ₹ 1.33 crore.

#### **c. Non-application of sital rates**

The Market value guidelines contain separate rates for agricultural land and for properties which are developed and being used as sites. But, whenever agricultural land with an area less than 5 guntas are conveyed, the special instructions prescribe application of sital rates. Sital rates are also applied whenever converted land which are partly developed are conveyed.

Audit noticed 17 cases<sup>88</sup> where sital rates as envisaged in the market value guidelines were not applied. In eleven cases, land less than 5 guntas were conveyed by levying agricultural rates which were lesser than the sital rates, despite the existence of special instruction. In the remaining six cases, the lands were valued by applying rates applicable to converted un-developed land instead of sital rates, even though there were buildings existing on these lands which indicated that they were developed. The short levy of stamp duty and registration fee in these cases amounted to ₹ 14.78 crore.

#### **d. Discrepancies in the market value guidelines**

The market value guidelines are published as a booklet under each District Registrar containing separate sections for properties under the jurisdiction of individual SROs. The parties to the documents can register a document at any of the SROs under the jurisdiction of a particular District Registrar. During audit of two SROs<sup>89</sup>, Audit noticed discrepancies in the market value guidelines where rates for the same properties were prescribed under Sections pertaining to two different SROs and in another case, rates for a

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<sup>86</sup> SROs – Attibele, BTM Layout.

<sup>87</sup> Specific rates prescribed for the particular properties were (1) SROs-Attibele-9,500/sq.mtr, 27,300/sq.mtr and 1.04 crore/acre and (2) BTM layout-3,700/sq.mtr, 37,000/sq.mtr, 53,295/sq.mtr and 38,100/sq.mtr.

<sup>88</sup> SROs-Anekal, Attibele, Begur and BTM layout.

<sup>89</sup> SROs-Byatarayanapura and Kengeri.

particular village was prescribed under two different hoblis<sup>90</sup> under the same SRO.

In the former case, rates pertaining to two apartment complexes<sup>91</sup> were prescribed under the jurisdiction of both SROs, Ganganagar and Hebbal under the supervisory jurisdiction of the District Registrar, Jayanagar. However, the rates prescribed under Hebbal was less than the rates prescribed under Ganganagar. Audit found 11 documents pertaining to the two apartment complexes where lesser rates mentioned under SRO, Hebbal were levied.

In the latter case, a village by name 'Ganakallu' featured under both Tavarekere hobli and Kengeri hobli under the same SRO<sup>92</sup>. The rate prescribed for Ganakallu under Tavarekere hobli was less than the rate prescribed under Kengeri hobli. Audit noticed three cases where documents were registered by levying lesser rates prescribed under Tavarekere hobli, eventhough the schedule to the documents mentioned that the properties were situated in Kengeri hobli.

The difference in stamp duty and registration fee in the above 14 cases amounted to ₹ 50.76 lakh.

#### e. Incorrect valuation

- (i) As per Article 30, for leases more than 30 years, stamp duty is levied at five *per cent* on the average annual rent and security deposit if any, or on the market value of the property, whichever is higher. Audit noticed one lease deed<sup>93</sup> wherein the average annual rent and security deposit was ₹ 1.83 crore and the market value of the property was ₹ 42.29 crore. However, the document was registered on payment of stamp duty and registration fee of ₹ 1.25 crore, instead of paying SD&RF of ₹ 2.53 crore based on the market value of the property. The resultant short levy of stamp duty and registration fee amounted to ₹ 1.28 crore.
- (ii) As per Article 41(e), stamp duty is levied at five *per cent* on a document of power of attorney with powers to sell the property. Audit noticed a power of attorney<sup>94</sup> which was supplementary to an earlier power of attorney held by the same person. In the first power of attorney the person was given powers to sell a parcel of agricultural land. However, the land was acquired by BDA and allotted six alternative sites as compensation. The owners again executed a

<sup>90</sup> Hobli is a group of villages.

<sup>91</sup> SMC Beverly Villas and Dollars Comforts-

Property	SRO Ganganagara	SRO Hebbal
Dollars Comforts, (PID No/100-767-562/1)	₹ 59,600/smt (Pg 84/SI No 561)	₹ 49,600/smt (Pg 136/SI No 850)
SMC Beverly Villas, (PID No/100-767-562/2)	₹ 79,900 (Pg 86/SI No 596)	₹ 49,600 (Pg 138/SI No 890)

<sup>92</sup> SRO, Kengeri.

<sup>93</sup> SRO, Anekal.

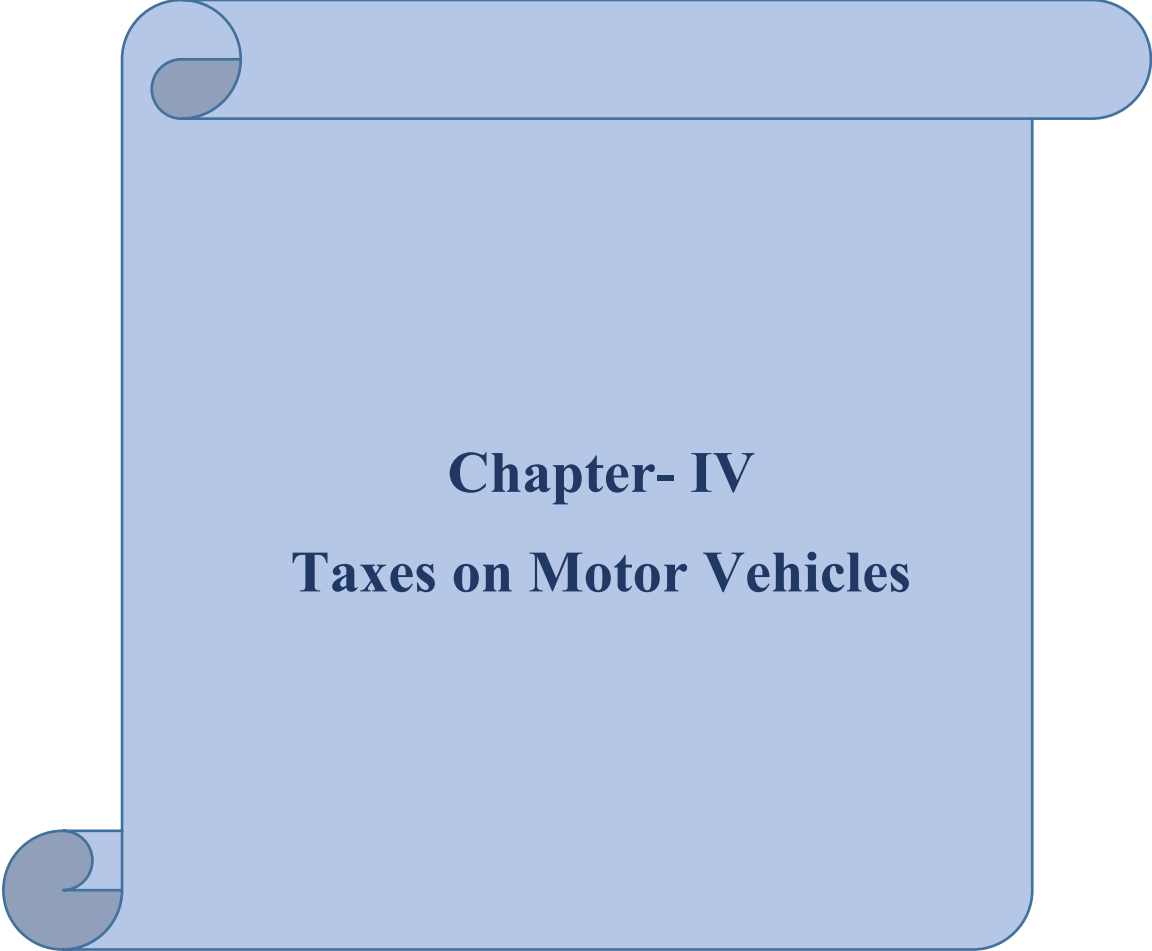
<sup>94</sup> SRO, Bommanahalli.

supplementary power of attorney for the six sites with powers to sell. This power of attorney was registered by levying stamp duty and registration fee of ₹ 2.40 lakh, whereas the actual market value of the six sites amounted to ₹ 8.60 crore and the SD&RF payable was ₹ 51.65 lakh. This resulted in short levy of stamp duty and registration fee of ₹ 49.25 lakh.

Thus, undervaluation of documents in the above 51 cases in nine SROs led to short levy of Stamp Duty and Registration Fee amounting to ₹ 20.49 crore.

These cases were brought to the notice of the Department and the Government during January 2023 and March 2023. The Department/Government replied that the District Registrars concerned have initiated action in all the cases under Section 46(A) of the KS Act, 1957 and Section 80(A) of the Registration Act, 1908 and also recovery has been effected in six cases amounting to ₹ 11.87 lakh so far (August 2023).

***Recommendation 9: All cases of overlapping jurisdictions may be identified and prescribe appropriate market value for such areas/properties after deletion of duplicates.***



**Chapter- IV**  
**Taxes on Motor Vehicles**



## Chapter-IV

### Taxes on Motor Vehicles

#### 4.1 Tax Administration

The provisions of the Karnataka Motor Vehicles Taxation (KMVT) Act, 1957 and rules made thereunder govern the levy and collection of taxes on motor vehicles. The levy of taxes on motor vehicles is administered by the Transport Department headed by the Commissioner for Transport and Road Safety who is assisted by Joint Commissioners of Transport. There are 59 Regional Transport Offices (RTOs)/Assistant Regional Transport Offices (ARTOs) and 15 check posts in the State.

#### 4.2 Internal Audit

The Internal Audit Wing (IAW) is functioning in the Transport Department since 1960. There were 89 Offices due for audit during 2021-22, out of which 11 Offices were audited by IAW. The shortfall in coverage of Offices was due to the shortage of staff in the Wing. Year-wise details of the number of objections raised, settled and pending along with tax effect, are as follows.

Table 4.1  
Year-wise details of observations

(₹ in crore)

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
2017-18	100	0.44	0	0	100	0.44
2018-19	25	0.78	0	0	25	0.78
2019-20	51	5.46	1	0.08	50	5.38
2020-21	175	10.53	0	0	175	10.53
2021-22	190	19.63	0	0	190	19.63
<b>Total</b>	<b>541</b>	<b>36.84</b>	<b>1</b>	<b>0.08</b>	<b>540</b>	<b>36.76</b>

Source: Information furnished by the Department

As seen from the above, 540 observations involving ₹ 36.76 crore were pending settlement as on 31 March 2022. Early action may be taken to settle the pending observations.

### 4.3 Results of Audit

In 2021-22, test-check of records in 24 Offices of Transport Department, disclosed under assessment of Tax and other irregularities amounting to ₹ 3.99 crore in 93 cases. The observations broadly fell under the following categories given in **Table-4.2**.

**Table 4.2**  
**Results of Audit**

(₹ in crore)			
Sl. No.	Category	No. of Paragraphs	Amount
1.	Non/short levy of Life Time Tax	23	1.42
2.	Non demand of quarterly tax	06	1.04
3.	Other irregularities	64	1.53
	<b>Total</b>	<b>93</b>	<b>3.99</b>

During the course of the year, the department accepted under assessments and other deficiencies involving ₹ 7.93 lakh in seven cases and an amount of ₹ 0.72 crore was also recovered in 32 cases pointed out in earlier years.

### 4.4 Short levy of tax

The Provisions of the Karnataka Motor Vehicles Taxation (KMVT) Act 1957 and Rules made thereunder govern the levy and collection of taxes on motor vehicles in Karnataka. The taxes on motor vehicles are collected at the rates stipulated from time to time, under the Motor Vehicles Taxation Schedule (MVTS) of the KMVT Act.

The VAHAN application software hosted by Ministry of Road Transport and Highways (MoRTH) facilitates online processing of all transactions related to motor vehicles including payment of taxes.

It was noticed (between June and October 2022) that there were instances of short payment of taxes on Private Service Vehicles (PSVs) and Sleeper Coaches (buses with both berths and Seats) as detailed below.

**a. Short collection of Quarterly Tax in respect of Private Service Vehicles**

Under the KMVT Act, ‘Omnibus’ means ‘a motor vehicle constructed or adapted to carry more than six persons excluding driver’. Also, under the Act, ‘Private Service Vehicle (PSV)’ is defined as ‘a motor vehicle constructed or adapted to carry more than six persons excluding driver and ordinarily used by or on behalf of the owner in connection with his trade or business but does not include a motor vehicle used for public purposes’. Rates of quarterly tax per square meter of floor area were prescribed for ‘Omnibuses and PSVs’ under Item No.8 of PART-A of the MVTS.

With effect from 01 April 2000, Government of Karnataka introduced Item No. 8-A under PART-A of the MVTS. Under the said item, higher rates of quarterly tax per square meter of floor area were prescribed for “Omnibuses and PSVs held under lease agreement with industrial undertakings or companies for providing conveyance to their employees from residence to factories/companies and vice versa, where such industrial undertakings or companies were holders of permit of such vehicles”.

However, Government of Karnataka did not prescribe any Form or Return in which the lease agreement/s entered by the owner/s of the vehicle with industrial undertakings or companies were to be reported to the Transport Department. Instead, the Department was obtaining Form-34 prescribed under Rule 60 of the Central Motor Vehicles Rules (CMVR), 1989. This practice followed by the Department was erroneous as the Form-34 of CMVR was intended to make an entry of an agreement of hire purchase, lease or hypothecation, *i.e.*, financial lease, in the Certificate of Registration. As the Form-34 collected by the Department did not reflect the details regarding the lease of these vehicles with industrial undertakings/companies, this did not serve the intended purpose.

Test-check of records in five<sup>95</sup> Regional Transport Offices (RTOs) revealed that 60 PSVs with lease agreement, paid quarterly tax at a rate<sup>96</sup> lower than that stipulated in the MVTS. The short payment of quarterly tax (April 2019 to

<sup>95</sup> ARTO-Devanahalli (15 cases), RTO-Electronic City (25 cases), RTO-Jayanagar (5 cases), RTO-Koramangala (8 cases) and RTO-Yeshwantpura (7 cases).

<sup>96</sup>

Description of the PSV	Rate of tax paid (as per Item No. 8)	Rate of tax to be paid (as per item 8 A)
floor area exceeding five sq.mtr, upto six sq.mtr	800	1,650
floor area exceeding six sq.mtr, upto nine sq.mtr	850	1,800
floor area exceeding nine sq.mtr, upto 12 mtr	950	1,950
floor area exceeding 12 sq.mtr	1,100	2,250

November 2022) was due to non-availability of details regarding lease of vehicles in VAHAN-4. In these cases, no action was taken by the ARTOs/RTOs concerned to demand the differential amount of tax. This resulted in short collection of quarterly tax including cess amounting to ₹ 1.07 crore.

Thus, failure to prescribe a suitable Form to capture the details regarding lease agreements entered by the industrial undertakings with owner/s of the vehicle or companies and absence of periodic monitoring of quarterly tax payments by the RTOs concerned led to short collection of motor vehicles tax.

On this being pointed out, Government replied in February 2023 that Department recovered ₹ 25.57 lakh in respect of 18 vehicles and action is being taken to recover the balance due in the remaining cases (August 2023).

**b. Short collection of Quarterly Tax from buses having both berths and Seats**

Under the KMVT Act, 1957 Motor Vehicles plying for hire or reward, constructed to carry more than 12 passengers (excluding driver and conductor/attendant) was liable for quarterly tax of ₹ 3,500 per passenger and ₹ 4,000 per berth. In addition, cess at 11 *per cent* was also applicable on the tax.

Scrutiny of records between July and October 2022 in two Regional Transport Offices<sup>97</sup>, in respect of buses which had both berths and Seats, revealed short recovery of tax and cess amounting to ₹ 31.87 lakh from 12 buses.

On verification, it was noticed that the short payment of tax was due to absence of provision in VAHAN portal to enter details of both-number of seats as well as number of berths provided in a single vehicle, though these details were captured at the time of Registration of the vehicle. In these cases, the RTOs concerned also did not verify the details of number of seats and berths to collect the tax at the appropriate rates.

On the issue being brought to notice, Government replied in February 2023 that Department recovered ₹ 34.32 lakh in respect of 10 vehicles and action as being taken to recover the balance due in the remaining cases (August 2023).

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<sup>97</sup> RTOs - Electronic city and Jnanabharathi.

**Recommendation:** *The State Government may obtain all relevant details like lease agreements, seats and berths of vehicles and incorporate the same in VAHAN-4, for collection of tax at appropriate rates.*



**Bengaluru**  
**The 28 Oct 2024**

**(Shanthi Priya S)**  
**Principal Accountant General (Audit-I)**  
**Karnataka**

**Countersigned**



**New Delhi**  
**The 29 Oct 2024**

**(Girish Chandra Murmu)**  
**Comptroller and Auditor General of India**



A blue scroll graphic with a dark blue outline. The scroll is unrolled, showing a light blue surface. The word "Appendices" is centered on the scroll in a dark blue, serif font. The top and bottom edges of the scroll are rolled up, with the top roll on the right and the bottom roll on the left.

**Appendices**



**Appendix 1.1**  
**(Reference: Paragraph 1.10.1/Page 6)**

**Year-wise breakup of outstanding Inspection Reports and Paragraphs issued up to 31st March 2022**

Sl. No	Department	Less than one year		1 to 2 years		2 to 5 years		5 to 10 years		More than 10 years		Total	
		No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras
1	Administrative Training Institute	0	0	1	26	2	19	2	28	1	3	6	76
2	Agriculture	0	0	4	18	61	535	77	421	145	353	287	1,327
3	Animal Husbandry and Veterinary Sciences	0	0	19	191	6	39	48	195	92	197	165	622
4	Autonomous Bodies	0	0	3	23	14	149	28	161	19	41	64	374
5	Backward Classes and Minority Welfare	12	123	2	291	4	28	28	133	33	70	79	645
6	Centralised Pension Payment Centre	0	0	3	90	21	48	9	23	3	4	36	165
7	Co-operation	0	0	0	0	11	79	25	110	1	4	37	193
8	Corporations	3	15	0	0	3	40	18	219	7	17	31	291
9	Department of Statistics	0	0	0	0	3	12	1	3	0	0	4	15
10	Department of Youth Empowerment and Sports	0	0	12	120	15	172	21	110	28	60	76	462
11	Department of Collegiate Education	4	72	109	1,248	131	875	69	280	82	158	395	2,633
12	Department of Higher Education(Universities)	0	0	7	221	2	40	19	310	31	236	59	807
13	Department of Public libraries	0	0	8	59	12	51	30	115	4	14	54	239
14	Department of Technical Education (Higher Education)	0	0	40	343	62	394	97	401	44	100	243	1,238
15	Department of Translation	0	0	1	3	0	0	1	4	0	0	2	7

Sl. No	Department	Less than one year		1 to 2 years		2 to 5 years		5 to 10 years		More than 10 years		Total	
		No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras
16	Disabled Welfare	0	0	14	74	12	76	23	138	13	23	62	311
17	Disaster Management	0	0	0	0	0	0	0	0	0	0	0	0
18	Drugs	0	0	0	0	15	32	8	12	1	1	24	45
19	Election Commission/State Election Commission	0	0	1	5	1	4	2	9	1	2	5	20
20	Employees State Insurance Services	0	0	0	0	32	123	18	39	4	4	54	166
21	Employment & Training	5	55	0	0	5	25	16	87	8	10	34	177
22	Fisheries	0	0	5	71	40	407	8	30	46	93	99	601
23	Food and Civil Supplies and Consumer Affairs	21	238	1	10	7	50	30	140	5	11	64	449
24	Gazette	0	0	0	0	1	7	1	5	0	0	2	12
25	General Administration (Revenue/ land Revenue)	16	208	9	93	175	961	537	3,371	349	1,889	1,086	6,522
26	Governor	0	0	0	0	1	9	1	6	1	1	3	16
27	Health and Family Welfare	0	0	0	0	167	1,544	183	714	115	328	465	2,586
28	Horticulture	0	0	29	209	71	356	68	192	83	183	251	940
29	Hospitality	1	10	1	11	0	0	2	5	6	13	10	39
30	Indian Medicine (Ayush)	0	0	3	32	16	62	33	80	14	80	66	254
31	Information & Public Relations	0	0	0	0	5	39	6	40	8	14	19	93
32	Karnataka State Financial Corporation	0	0	7	60	9	43	10	43	1	1	27	147
33	Karnataka Group Insurance Department	0	0	0	0	0	0	4	11	0	0	4	11
34	Labour	0	0	12	68	2	29	2	2	1	1	17	100
35	Medical Education	0	0	7	61	32	441	55	435	73	124	167	1,061

Sl. No	Department	Less than one year		1 to 2 years		2 to 5 years		5 to 10 years		More than 10 years		Total	
		No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras	No. of IRs	No. of Paras
36	Minor irrigation	0	0	2	20	50	399	70	373	0	0	122	792
37	Primary & Secondary Education	0	0	0	0	53	446	212	767	363	840	628	2,053
38	Printing & Stationery	0	0	4	68	9	61	4	12	17	26	34	167
39	PU Education	0	0	0	0	44	465	103	411	49	81	196	957
40	Rural Development and Panchayat Raj	62	622	106	1,387	239	3,078	230	1,541	940	3,103	1,577	9,731
41	Sainik Welfare	0	0	0	0	10	33	3	8	1	1	14	42
42	Sericulture	0	0	0	0	10	32	66	225	23	41	99	298
43	Social Welfare	0	0	3	81	35	366	155	798	203	671	396	1,916
44	State/Personnel/Department of Personnel and Administrative Reforms	2	18	1	18	5	36	2	19	9	30	19	121
45	Tribal Welfare	0	0	0	0	2	21	4	49	14	41	20	111
46	Vidhan Sabha	0	0	0	0	3	23	5	49	21	70	29	142
47	Water Resource (Major and Medium Irrigation)	9	123	6	49	55	266	149	870	24	104	243	1,412
48	Women and Child Development	0	0	0	0	9	53	38	235	219	519	266	807
	<b>Total</b>	<b>135</b>	<b>1,484</b>	<b>420</b>	<b>4,950</b>	<b>1,462</b>	<b>11,968</b>	<b>2,521</b>	<b>13,229</b>	<b>3,102</b>	<b>9,562</b>	<b>7,680</b>	<b>41,193</b>

**Appendix 1.2**  
**(Reference: Paragraph 1.10.3/Page 7)**

**Paragraphs (Excluding General and Statistical) yet to be discussed by PAC as of 31 December 2022**

Sl. No.	Department	95-96	96-97	97-98	98-99	00-01	01-02	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	Total
1	Agriculture											1					1									2
2	Animal Husbandry and Veterinary Services, Fisheries													1		1										2
3	Co-operation									2		1										1				4
4	Education										1			2				1	1		1	4	1	1		12
5	Empowerment of Differently Abled and Senior Citizens																			1						1
6	Finance					1				1		1														3
7	Food and Civil supplies, Consumer Affairs																				1					1
8	Health and Family Welfare	1											1										1	1		4
9	Horticulture									1																1
10	Labour																1						1	1		3
11	Land Revenue								4	1	1		2	4	4			6	2	5		1				30
12	Medical Education Department																2	1	1				2			6

Sl. No.	Department	95-96	96-97	97-98	98-99	00-01	01-02	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	Total
13	Minor Irrigation							1	2	1	2	1	3	1					1	1		1				14
14	Minority Welfare																					2				2
15	Personnel and Administrative Reforms (DPAR)																1		1							2
16	Printing, Stationery and Publications										1															1
17	Revenue																2			1			1		2	6
18	Rural Development and Panchayat Raj																							1		1
19	Sericulture																1									1
20	Social Welfare				1																	1				2
21	Water Resources		1	1	1												1	1								5
22	Women & Child Development																		1							1
	<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>6</b>	<b>8</b>	<b>4</b>	<b>1</b>	<b>9</b>	<b>9</b>	<b>7</b>	<b>8</b>	<b>2</b>	<b>10</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>104</b>

Source: Information derived from IR registers maintained in Pr.AG (Audit-I) office

**Appendix-2.1**  
(Reference: Para 2.2/Page 22)

**Details of transportation charges paid to the suppliers of fodders in Pavagada taluk**

(Amount in ₹)

Place of loading as mentioned by the supplier	Place of fodder points	Tender and work order issue date	Quantity of fodder supplied in MT	Distance claimed by the supplier in (Kms)	Transportation charges per MT per Km	Amount paid towards transportation charges	Actual distance worked out by audit in kms(To and fro)	Amount to be paid	Excess amount paid
Gooty	1.Venkatapura Grama	26 November 2016, and 03 December 2016	729.155	500	15	54,68,662.50	362	39,59,312	15,09,350
	2.Nagalamadike Hobli, Nagalamadike Grama		783.50	500	15	58,76,287.00	342	40,19,355	18,56,929
	3.Y.N Hoskote Hobli, Y.N.Hoskote Grama		1,960.16	500	15	1,47,01,215.0	328	96,43,987	50,57,228
	4.Nidagal		518.44	500	15	38,88,300.00	352	27,37,363	11,50,937
<b>Sub-Total</b>									<b>95,74,444</b>

**Appendix-2.2**  
**(Reference: Para 2.3/Page 23)**

**Details of funds released to implementing agencies and potential loss of interest**

**(Amount in ₹)**

Sl No	Name of the College	Year	Name of the Agency	Amount released to Agency	Potential interest up to which months	Date from which Potential interest calculated	No of Months for which amount is Blocked with agency	Potential interest <sup>98</sup> on funds released	Status of the works
1	GFGC Sathanur	2016-17	RITES	36,00,000	Aug-22	Apr-17	65	7,80,000	Sanction withdrawn
2	GWC Chintamani	2016-17	RITES	73,00,000	Aug-22	Apr-17	65	15,81,667	No Administrative approval given so far.
3	GFGC Gokak	2016-17	RITES	90,00,000	Aug-22	Apr-17	65	19,50,000	Sanction withdrawn
4	GFGC Aland	2016-17	RITES	96,00,000	Aug-22	Apr-17	65	20,80,000	Sanction withdrawn
5	GFGC Mudgal	2016-17	RITES	93,00,000	Aug-22	Apr-17	65	20,15,000	Work not started so far
6	GFGC Aland	2017-18	KRIDL	85,00,000	Aug-22	Apr-18	53	15,01,667	Sanction withdrawn
7	GFGC Hunasagi	2017-18	KRIDL	95,00,000	Aug-22	Apr-18	53	16,78,333	Work not started so far
	<b>Sub total</b>			<b>5,68,00,000</b>					
8	GFGC Bhatkal	2016-17	RITES	91,00,000	Aug-21	Apr-17	53	16,07,667	Works commenced from 18.08.2021 and is nearing completion.
9	GFGC Koppal	2016-17	RITES	4,75,00,000	March 2020	Apr-17	36	57,00,000	Works commenced from 06.03.2020 and is nearing completion
10	GFGC Ilkal	2017-18	KRIDL	1,63,50,000	Jan-22	Apr-18	46	25,07,000	Administrative approval on 19.08.2021 and work commenced from January 2022
11	GFGC Kerur, Badami	2017-18	KRIDL	1,00,00,000	Jul-21	Apr-18	40	13,33,333	Administrative approval on 03.06.2021 and work commenced from July 2021
12	GFGC Chitrahalli	2016-17	RITES	83,00,000	Jul-19	Apr-17	28	7,74,667	Works commenced from 15.07.2019. Work completed and handed over on 15.03.2021.
13	GFGC Sriramnagar	2016-17	RITES	1,84,50,000	Jan-20	Apr-17	34	20,91,000	Work completed and handed over on 15.03.2021
	<b>Sub total</b>			<b>10,97,00,000</b>					
	<b>TOTAL</b>			<b>16,65,00,000</b>				<b>2,56,00,333</b>	

<sup>98</sup> calculated at four per cent Simple Interest.

**Appendix-2.3**  
(Reference: Para 2.4/Page 25)

**Details of number of hostels without internet connectivity**

(Amount in ₹)

Sl. No	District	Number of taluks	Number of hostels functioning in own buildings	Work order issued date	Number of hostels in which internet connectivity was provided.	Amount released to joint A/C of DD, SWD and DC for payment to KEONICS	Amount released to KEONICS	Total amount paid to Airtel
1.	Vijayapura	5	55	23.03.2018	46	81,80,711	56,15,266	31,76,547
2.	Chitradurga	6	73	08.02.2018	59	89,11,183	72,02,189	48,37,103
3.	Raichur	5	47	NA	40	51,26,982	48,82,840	22,00,000
4.	Kalburagi	7	80	16.02.2018	68	97,65,680	83,00,828	30,91,000
5.	Belagavi	10	94	NA	62	84,22,899	75,68,402	36,15,534
6.	Maddur Taluk, Mandya district	1	11	NA	8	NA	NA	NA
	<b>Total</b>	<b>34</b>	<b>360</b>		<b>283</b>	<b>4,04,07,455</b>	<b>3,35,69,525</b>	<b>1,69,20,184</b>

NA: Not Available

**Appendix -2.4**  
(Reference: Para 2.4/Page 25)


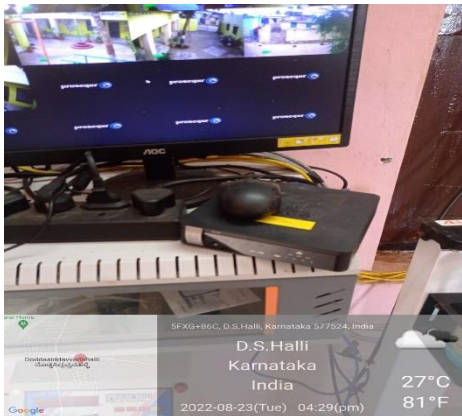


**Details of equipment installed**

<b>Taluk</b>	<b>Number of hostels where High-Speed internet was installed</b>	<b>Installation date</b>	<b>Current Status</b>
<b>Vijayapura</b>			
Basavanabage wadi	05	-	Not working
Indi	14	Oct 2018 -January 2019	One hostel not working since January 2020
Muddebihala	04	July 2018	Not working since April 2019 in all four hostels
Sindagi	13	-	<ul style="list-style-type: none"> <li>• Eight hostels, not working since March 2020.</li> <li>• One hostel not working since December 2019.</li> <li>• Four hostels not working since installation.</li> </ul>
Vijayapura	12	June 2018 to January 2019	12 Not working since March 2020.
<b>Raichur</b>			
Raichur	06	-	Not working since July 2019.
Manvi	05	December 2018 to March 2019	Currently not working. Worked only for 1-2 months from installation.
Lingasugur	14	-	Not working since June 2019. One hostel not working since November 2019.
Sindhanur	05	December 2018 to March 2019	Currently not working. Worked only for 1-2 months from installation.
Devadurg	-	-	-
<b>Kalaburagi</b>			
Chittapur	13	July 2018	Worked only for 6 months after installation
Afzalpur	06	April 2019	Worked only for 2-3 months after installation
Alanda	05	-	Not working since May 2019
Jewargi	08	-	Not working since January 2020
Sedam	06	April 2019	Not working since installation
Chincholi	09	April 2019	Worked only for 6 months from installation
Kalaburagi	10	December 2018 to March 2019	Worked only for 2-3 months from installation
<b>Chitradurga</b>			
Hiriyur	22	September – October 2019	Currently not working. Worked for 3 – 6 months since installation.
Challakere	08	-	Not working
Hosadurga	07	July 2019	Currently not working.
Holakere	05	September 2018	Not working since September 2019.
Molakalmuru	05	-	Worked only for 3- 6 months after installation.

Taluk	Number of hostels where High-Speed internet was installed	Installation date	Current Status
Chitradurga	17	July 2019	Not working since September 2019.
<b>Belagavi</b>			
Athani	09	-	All not working since September 2019
Bailhongal	09	May 2018 to July 2019	Not working from 31.03.2020.
Belagavi	09	April 2018 to June 2018	Not working since March 2019.
Chikkodi	12	July 2018 to August 2018	Not working since September 2019.
Gokak	06	August 2018	<ul style="list-style-type: none"> <li>• 03 hostels not working since installation.</li> <li>• 03 hostels internet service worked only till the academic year 2019-20.</li> </ul>
Hukkeri	07	July 2018 to August 2018	Not working since July 2019.
Khanapura	03	October 2018	<ul style="list-style-type: none"> <li>• 02 hostels not working since September 2019.</li> <li>• 01 hostel not working since May 2019.</li> </ul>
Raybag	02	November 2018	Not working since March 2020.
Ramadurga	06	In the year 2018	<ul style="list-style-type: none"> <li>• One hostel, the equipment was supplied but was not installed.</li> <li>• Internet service not working since 2018.</li> </ul>
Saundatti	05	June 2018 to October 2018	<ul style="list-style-type: none"> <li>• Two hostels not working since June 2019</li> <li>• Three hostels not working since December 2019.</li> </ul>
Maddur	08	July 2018 – August 2018	<ul style="list-style-type: none"> <li>• Six hostels not working since February 2020.</li> <li>• One hostel not working since October 2019</li> <li>• One hostel not working since February 2019.</li> </ul>

**Appendix-2.5**  
(Reference: Para 2.4/Page 25)

**Details of photographs taken during joint physical verification**

Pre-Matric Boys Hostel for ST, Kalaburagi City	Government Pre-Matric Boys Hostel, DS Halli, Chitradurga
	
<p>Equipment related to High Speed internet kept idle as it was not working.</p>	<p>Equipment such as router, cable, and adapter, <i>etc.</i>, kept idle.</p>
Government Post-Matric Boys ‘A’ Hostel, Chitradurga	Government Pre-Matric Girls Hostel, Lingsugur Taluk, Raichur District
	
<p>The router, cable, adapter kept idle in Government Boys Hostel,</p>	<p>Router kept inside carton box Government Pre-Matric Girls Hostel.</p>

**Appendix 2.6**  
**(Reference: Para 2.5.1/Page 26)**  
**(Reference: Para 2.5.2.1/Page 27)**

**The details of the works entrusted to KRIDL, funds released and status of execution**

**(Amount in ₹)**

Sl. No.	Work Code	Name of work	Estimated Cost	Amount released to KRIDL	Expenditure	Balance available with KRIDL	Status of work as stated by KRIDL
1	58010	Fire fighting works - External/ Internal/PA	2,20,36,396	2,20,36,396	1,98,42,197	21,94,199	Completed
2	58012	Construction STP/WTP	95,31,928	95,31,928	84,25,307	11,06,621	Completed
3	62244	Providing 600KVA HT	45,56,000	45,56,000	26,04,001	19,51,999	Ongoing
4	62248	Ornamental GRC Architectural features	85,03,000	85,03,000	76,59,653	8,43,347	Completed
5	62630	Gypsum Plaster work	23,75,000	19,32,724	17,35,586	1,97,138	Ongoing
6	62631	Construction of toilet block	66,50,000	25,50,000	22,95,440	2,54,560	Ongoing
7	62632	Digging of borewells	16,50,000	16,50,000	14,81,656	1,68,344	Completed
8	62643	Landscaping	1,13,05,000	1,13,05,000	1,01,64,387	11,40,613	Completed
9	63351	Granite and other works	29,10,000	29,10,000	26,15,812	2,94,188	Completed
10	63352	DG Exhaust and power supply to lifts	21,10,000	21,10,000	19,00,032	2,09,968	Completed
11	67144	Signages	2,89,000	2,89,000	2,60,545	28,455	Completed
12	67146	CCTV	11,63,000	11,63,000	10,47,675	1,15,325	Completed
13	67288	Fabrication and granite flooring	82,50,000	82,50,000	74,25,335	8,24,665	Completed
14	67486	drive way	1,19,20,000	1,19,20,000	1,04,67,834	14,52,166	Completed
15	69730	Fountain system and Irrigation system	43,00,000	42,44,456	38,23,837	4,20,619	Completed
16	69731	Door stoppers and door handles	2,05,000	2,02,095	1,82,066	20,029	Completed
17	69753	column rubber guard	5,30,000	5,26,144	4,74,004	52,140	Completed
18	69780	shifting of overhead lines	15,10,000	15,07,789	13,58,549	1,49,240	Completed
19	68781	Polycarbonate, Brass Kalash and other items	60,00,000	59,84,284	53,91,250	5,93,034	Completed
20	69782	Interior furnishes and fabrication	20,10,000	20,08,619	18,09,567	1,99,052	Completed
21	69783	Tensile Structure	25,90,000	25,79,640	23,24,000	2,55,640	Completed
22	69959	Installation and Commissioning of STP/WTP	25,47,877	25,47,877	22,95,386	2,52,491	Completed
23	70089	construction of toilets	34,33,000	34,33,000	30,92,799	3,40,201	Completed
24	72966	Interior works	13,67,70,000	13,67,70,000	12,54,76,952	1,12,93,048	Completed
25	76310	Fire safety and P A system	1,10,00,000	1,10,00,000	1,00,84,322	9,15,678	Completed
26	77112	IT system	1,53,57,000	1,53,57,000	1,28,90,743	24,66,257	Ongoing
27	79733	II stage Electrical work	2,73,87,000	2,73,87,000	2,29,39,047	44,47,953	Ongoing
28	93387	HVAC	8,58,85,000	3,29,16,110	3,01,98,195	27,17,915	Ongoing
29	93389	Internal Security system	1,24,83,000	1,24,83,000	33,02,526	91,80,474	Ongoing
30	93390	Multimedia	1,82,91,000	1,32,50,000	1,21,55,964	10,94,036	Ongoing
31	93391	Building illumination	57,45,000	57,45,000	0	57,45,000	Ongoing
32	93392	External security system	66,64,000	66,64,000	0	66,64,000	Ongoing
		<b>Total</b>	<b>43,59,57,201</b>	<b>37,33,13,062</b>	<b>31,57,24,667</b>	<b>5,75,88,395</b>	

## Appendix 2.7

(Reference: Para 2.5.1/Page 26)  
(Reference: Para 2.5.2.3/Page 28)

## List of Completed works

(Amount in ₹)

Sl. No.	Work Code	Name of work	Estimated Cost	Amount released to KRIDL	Expenditure	Balance available with KRIDL	Status of work as stated by KRIDL
1	58010	Fire fighting works - External/ Internal/PA	2,20,36,396	2,20,36,396	1,98,42,197	21,94,199	Completed
2	58012	Construction STP/WTP	95,31,928	95,31,928	84,25,307	11,06,621	Completed
3	62248	Ornamental GRC Architectural features	85,03,000	85,03,000	76,59,653	8,43,347	Completed
4	62632	Digging of borewells	16,50,000	16,50,000	14,81,656	1,68,344	Completed
5	62643	Landscaping	1,13,05,000	1,13,05,000	1,01,64,387	11,40,613	Completed
6	63351	Granite and other works	29,10,000	29,10,000	26,15,812	2,94,188	Completed
7	63352	DG Exhaust and power supply to lifts	21,10,000	21,10,000	19,00,032	2,09,968	Completed
8	67144	Signages	2,89,000	2,89,000	2,60,545	28,455	Completed
9	67146	CCTV	11,63,000	11,63,000	10,47,675	1,15,325	Completed
10	67288	Fabrication and granite flooring	82,50,000	82,50,000	74,25,335	8,24,665	Completed
11	67486	Drive-way	1,19,20,000	1,19,20,000	1,04,67,834	14,52,166	Completed
12	69730	Fountain system and Irrigation system	43,00,000	42,44,456	38,23,837	4,20,619	Completed
13	69731	Door stoppers and door handles	2,05,000	2,02,095	1,82,066	20,029	Completed
14	69753	Column rubber guard	5,30,000	5,26,144	4,74,004	52,140	Completed
15	69780	shifting of overhead lines	15,10,000	15,07,789	13,58,549	1,49,240	Completed
16	68781	Polycarbonate, Brass Kalash and other items	60,00,000	59,84,284	53,91,250	5,93,034	Completed
17	69782	Interior furnishers and fabrication	20,10,000	20,08,619	18,09,567	1,99,052	Completed
18	69783	Tensile Structure	25,90,000	25,79,640	23,24,000	2,55,640	Completed
19	69959	Installation and Commissioning of STP/WTP	25,47,877	25,47,877	22,95,386	2,52,491	Completed
20	70089	Construction of toilets	34,33,000	34,33,000	30,92,799	3,40,201	Completed
21	72966	Interior works	13,67,70,000	13,67,70,000	12,54,76,952	1,12,93,048	Completed
22	76310	Fire safety and P A system	1,10,00,000	1,10,00,000	1,00,84,322	9,15,678	Completed
		<b>Total</b>	<b>25,05,64,201</b>	<b>25,04,72,228</b>	<b>22,76,03,165</b>	<b>2,28,69,063</b>	

**Appendix 2.8**  
**(Reference: Para 2.5.1/Page 26)**  
**(Reference: Para 2.5.2.2/Page 28)**

**Works yet to be completed**

(Amount in ₹)

Sl. No.	Work Code	Name of work	Estimated Cost	Amount released to KRIDL	Percentage of release	Expenditure	Percentage of expenditure	Balance available with KRIDL	Status of work as stated by KRIDL	Balance to be paid to KRIDL
1	62244	Providing 600KVA HT	45,56,000	45,56,000	100.00	26,04,001	57.16	19,51,999	Ongoing	0
2	62630	Gypsum Plaster work	23,75,000	19,32,724	81.38	17,35,586	89.80	1,97,138	Ongoing	4,42,276
3	62631	Construction of toilet block	66,50,000	25,50,000	38.35	22,95,440	90.02	2,54,560	Ongoing	41,00,000
4	77112	IT system	1,53,57,000	1,53,57,000	100.00	1,28,90,743	83.94	24,66,257	Ongoing	0
5	79733	II stage Electronic work	2,73,87,000	2,73,87,000	100.00	2,29,39,047	83.76	44,47,953	Ongoing	0
6	93387	HVAC	8,58,85,000	3,29,16,110	38.33	3,01,98,195	91.74	27,17,915	Ongoing	5,29,68,890
7	93389	Internal Security system	1,24,83,000	1,24,83,000	100.00	33,02,526	26.46	91,80,474	Ongoing	0
8	93390	Multimedia	1,82,91,000	1,32,50,000	72.44	1,21,55,964	91.74	10,94,036	Ongoing	50,41,000
9	93391	Building illumination	57,45,000	57,45,000	100.00	0	0.00	57,45,000	Ongoing	0
10	93392	External security system	66,64,000	66,64,000	100.00	0	0.00	66,64,000	Ongoing	0
		<b>Total</b>	<b>18,53,93,000</b>	<b>12,28,40,834</b>	<b>66.26</b>	<b>8,81,21,502</b>	<b>71.74</b>	<b>3,47,19,332</b>		<b>6,25,52,166</b>

## Appendix 2.9

(Reference: Para 2.5.2/ Page 26)

## List of works approved by Cabinet for Phase II of Haj Ghar

Sl.No	Particulars	Amount (₹ in lakh)
<b>ITEM – A</b>		
1.	S.T.P	70
2.	Elevators	212
3.	Generators	110
4.	Domes	25
5.	Islamic Architecture In Grc	85
6.	Landscaping	75
7.	Calligraphy Works	30
8.	Fabrication	16
	<b>Total</b>	<b>623</b>
<b>ITEM – B</b>		
1.	Interiors Including Wood Work, False Ceiling, Partition's Wall Panelling, Carpet Flooring, Auditorium Finishes, Soft A. Furnishing's <i>etc.</i>	1,190
2.	Electrical	270
3.	Phe	30
4.	Hvac	400
5.	Fire Safety	154
6.	It Networking	148
7.	Security System	72
8.	LPG Gas Bank	3
9.	Multi Media	168
10.	Garbage Management	8.50
11.	Parking Management	10.75
12.	Building Illumination	46
13.	Ibms	85
14.	Signages	5
	<b>TOTAL</b>	<b>2,615</b>
<b>ITEM – C</b>		
1.	Security System – External	53.50
2.	Kitchen Equipments	22.50
3.	Luggage Trolleys	5
4.	Aged/ Disable Wheel Chairs	6.50
5.	It Sets – 2 Sets	230
	<b>TOTAL</b>	<b>317.50</b>
	<b>TOTAL A+B+C</b>	<b>3,555.50</b>
	<b>PMC Charges</b>	<b>178.50</b>
	<b>Grand Total</b>	<b>3,734.00</b>

**Appendix 2.10**  
**(Reference: Para 2.5.3/Page 30)**

**The photographs taken during the joint physical verification of Haj Bhavan**

 <p><b>Bellahalli, Karnataka, India</b> 104, SH 104, Kannuru, Bellahalli, Karnataka 560064, India Lat 13.089916° Long 77.636319° 13/10/22 12:22 PM GMT +05:30</p>	 <p><b>Bengaluru, Karnataka, India</b> No.20, Thirumanehalli, Hegdenagar main Road, Yelahanka Hobli, Jakkur Post, Kannuru, Bengaluru, Karnataka 560064, India Lat 13.089918° Long 77.636964° 13/10/22 12:32 PM GMT +05:30</p>
<p>Oxygen concentrator supplied by BBMP stored without being put to use.</p>	<p>Non maintenance of toilet block.</p>

<b>Appendix-I</b>							
<b>(Para No. 2.4.8.1 – Scope limitation/Page 64)</b>							
<b>Non-production of records (Full)</b>							
<b>(Amount in ₹)</b>							
<b>Sl. No.</b>	<b>LGSTO/ SGSTO/ Audit Office</b>	<b>GSTIN</b>	<b>Tax period</b>	<b>Documents not produced</b>	<b>Remarks</b>	<b>ITC mismatch</b>	<b>Excess Liability</b>
1	LGSTO-15	29BTEPP9577P2ZC	2017-18	Sales ledger, Input tax credit ledger, sundry creditors ledger, Debit/credit notes, outward and inward supplies for 2 months each and Fixed Asset schedule - capitalisation statement	Full	11,30,561	8,41,421
2	LGSTO-16	29AAOCA6342G1ZF	2017-18	Sales ledger, Input tax credit ledger, sundry creditors ledger, Debit/credit notes, outward and inward supplies for 2 months each, ledgers for professional and legal charges, rent and transportation expenses, details of remuneration to Directors	Full	59,84,403	19,15,245
3	LGSTO-45	29AABCS7892N1ZE	2017-18	Supplies ledger, Inward Tax Credit ledger, Sundry Creditors details, Fixed Assets - Capitalisation statement, outward supply and inward supply invoices for 2 months each, Debit/Credit notes, rent and insurance expense details, IT report and related party transactions.	Full	85,21,366	14,33,990
4	LGSTO-55	29AAJCS7120D1ZE	2017-18	Supplies ledger, Input tax credit ledger, schedules to Financial statements, Trial Balance - Karnataka, Sundry creditor details, Fixed Asset schedule - capitalisation statement, Debit/Credit notes, outward and inward supply invoices for 2 months each, details of rent and insurance expenses, details for exempted turnover.	Full	19,68,199	12,66,781

<b>Appendix-II</b> <b>(Para No. 2.4.8.1 – Scope limitation/Page 64)</b> <b>Non-production of records (Partial)-Jurisdiction wise</b> <b>(Amount in ₹)</b>							
Sl No	LGSTO/ SGSTO/ Audit Office	GSTIN	Tax period	Documents not produced	Remarks	ITC mismatch	Excess Liability
1	LGSTO-015	29AAACL2937J1ZA	2017-18	Sundry creditor details, outward supply invoices and inward supply invoices for 2 months, sub-contract agreements and ledger, ledgers for legal fees, security services, rent expenses, sale of scrap	Partial	18,65,07,434	1,96,90,816
2	LGSTO-020	29AAACE9039J1ZA	2017-18	3CD, 3CEB IT reports and details of trade payables amounting to ₹ 19.14 lakh (as per Note 13 appended to the financial statements)	Partial	36,60,249	3,53,42,936
3	LGSTO-021	29AABCC3401B1ZE	2017-18	Details of payments made towards director's fee (₹ 5.15 lakh) and trade payables (₹ 28.49 lakh) 3CD, 3CEB IT reports	Partial	83,84,598	46,10,286
4	LGSTO-036	29AAACT3628C1ZJ	2017-18	Outward supply and inward supply invoices for 2 months each, Sundry Creditors ledger, Debit/credit notes, Fixed Asset Capitalisation statement, invoices relating to ISD credit, invoices and ledgers relating to expenses towards rent, legal charges, transportation charges, etc. IT return and reports	Partial	27,00,021	65,01,482
5	LGSTO-036	29AANFD0916F1ZH	2017-18	Input tax credit ledger, outward supply and inward supply invoices for 2 months each, sundry creditors ledger, ledgers and invoices relating to rent, transportation expenses, fixed asset capitalisation statement.	Partial	22,18,974	59,72,662
6	LGSTO-100	29AABAT4416F1ZK	2017-18	Service Inward and Outward Register, Income tax returns with schedules, 3CD, 3CEB IT reports and details of trade payables amounting to ₹5.37crore (as per schedule 8 appended to the financial statements and other payables amounting to ₹1.01crore	Partial	22,75,832	12,31,989

<b>Appendix-II</b> <b>(Para No. 2.4.8.1 – Scope limitation/Page 64)</b> <b>Non-production of records (Partial)-Jurisdiction wise</b> <b>(Amount in ₹)</b>							
<b>Sl No</b>	<b>LGSTO/ SGSTO/ Audit Office</b>	<b>GSTIN</b>	<b>Tax period</b>	<b>Documents not produced</b>	<b>Remarks</b>	<b>ITC mismatch</b>	<b>Excess Liability</b>
7	LGSTO-100	29BCLPK8908B1ZE	2017-18	3CD, 3CEB IT reports and details of trade payables amounting to ₹99.42 lakh (as per the financial statements)	Partial	39,42,512	19,11,367
8	LGSTO-121	29ABEFS1976L1ZI	2017-18	Outward supply invoices and inward supply invoices for 2 months, ledger for transportation expenses, fixed asset schedule - capitalisation statement, schedule of current liabilities, Invoices relating to Inter Branch Transfer of goods/services to and from Kerala Branch	Partial	1,21,20,270	1,26,12,708
9	LGSTO-121	29AABAC0767C2Z0	2017-18	Outward and inward supply invoices for 2 months each, Debit/credit notes, sundry creditors ledger, 3CD Income-tax report, capitalisation statement of capital goods, receipt vouchers for advances, invoices from sub-contractors, sundry debtors and discount ledger.	Partial	19,10,709	22,94,724
10	LGSTO-152	29ATQPR5636L1ZO	2017-18	Trial Balance - Karnataka, supply ledger and inward ledger, Outward and input tax ledger, invoices for 2 months each, Debit/credit notes of 17-18, invoices relating to amendments declared in GSTR 9, details of sundry creditors (₹ 3.39 crore), rent and insurance expenses with invoices, Income-tax 3CA/3CD reports.	Partial	18,08,969	21,69,284
11	LGSTO-152	29AAXCS9012Q1Z6	2017-18	Trial Balance - Karnataka, supply ledger and inward ledger, Outward and input tax ledger, invoices for 2 months each, Debit/credit notes of 17-18, invoices relating to amendments declared in GSTR 9, details of sundry creditors (₹ 3.39 crore), rent and insurance expenses with invoices, Income-tax 3CA/3CD reports.	Partial	39,23,532	95,98,270

<b>Appendix-II</b> <b>(Para No. 2.4.8.1 – Scope limitation/Page 64)</b> <b>Non-production of records (Partial)-Jurisdiction wise</b> <b>(Amount in ₹)</b>							
<b>Sl No</b>	<b>LGSTO/ SGSTO/ Audit Office</b>	<b>GSTIN</b>	<b>Tax period</b>	<b>Documents not produced</b>	<b>Remarks</b>	<b>ITC mismatch</b>	<b>Excess Liability</b>
12	LGSTO-170	29AAICA2216P1ZD	2017-18	Sundry creditor details, outward supply invoices and inward supply invoices for 2 months, purchase orders, contract agreements, ledgers for legal fees, security services, rent expenses, transportations charges, other operating revenue.	Partial	91,94,137	43,76,045
13	LGSTO-175	29AABCM3602J1ZK	2017-18	Outward supply invoices and inward supply invoices for 2 months, ledger for staff uniform, Professional and consultancy, Labour charges and other income, fixed asset schedule - capitalisation statement, schedule of current liabilities, Invoices relating to Inter Branch Transfer of goods / services to and from Himachal Pradesh Branch	Partial	49,52,043	15,02,309
14	LGSTO-190	29AAFCD5002K1ZP	2017-18	Debit/credit notes, sundry creditor ledger, details of remuneration paid to Directors, Advances received ledger, details of mobilisation advance received, details of inputs used exclusively for non-GST supplies, Fixed Asset Register - Capitalisation statement	Partial	27,94,14,049	6,74,32,578
15	LGSTO-200	29ALHPK1777C1Z1	2017-18	Debit/Credit notes, Fixed Asset capitalisation statement, Form GSTR 2A	Partial	20,27,903	19,00,942
16	SGSTO-192 Chamaraja- nagara	29AAAAAN4601K1ZL	2017-18	Outward and inward supply invoices for 2 months each, debit/credit notes, 3CD IT report, sub-contractor agreements and invoices from sub-contractors, details relating to mobilisation advance, receipts for advances received, schedule of current liabilities	Partial	59,34,337	-3122

<b>Appendix-II</b> <b>(Para No. 2.4.8.1 – Scope limitation/Page 64)</b> <b>Non-production of records (Partial)-Jurisdiction wise</b> <b>(Amount in ₹)</b>							
<b>Sl No</b>	<b>LGSTO/ SGSTO/ Audit Office</b>	<b>GSTIN</b>	<b>Tax period</b>	<b>Documents not produced</b>	<b>Remarks</b>	<b>ITC mismatch</b>	<b>Excess Liability</b>
17	SGSTO-192 Chamaraj- nagara	29ABHPL4642D1ZP	2017-18	Outward and inward supply invoices for 2 months each, Debit/credit notes, sundry creditors ledger, capitalisation statement of capital goods, ledger relating to retail commission and general expenses, sample invoices for receipt of commission	Partial	10,74,211	7,16,350
18	SGSTO-193 Hunsur	29ASZPG8411E1ZC	2017-18	Inward supply invoices for 2 months, sundry creditors ledger, 3CD IT report, fixed asset capitalisation statement, details for carriage inwards	Partial	0	0
19	SGSTO-193 Hunsur	29AAOPL5282D1ZE	2017-18	Debit/credit notes, sundry creditor ledger, details for expenses towards freight charges, rent and audit and professional charges	Partial	1,13,03,096	59,67,658
20	ACCT (Audit-5.3), Bengaluru	29AADCK1166D1ZQ	2017-18	Details of trade payables of ₹ 38.33 lakh - party -wise ledgers	Partial	18,96,108	21,84,398
21	ACCT (Audit-5.7), Bengaluru	29AAMFB8307R1ZM	2017-18	Party wise Ledgers in respect of Sundry Creditors of ₹ 43.32 lakh.	Partial	20,92,872	10,85,329
22	ACCT (Audit- 5.11), Bengaluru	29AAPFK0809A1ZI	2017-18	Party wise Ledgers in respect of Sundry Creditors of ₹ 6.84 crore.	Partial	29,68,644	3,59,49,420

**Appendix-III**  
**(Para 2.4.8.1 -Scope limitation/Page 64)**

**Top partial production cases**

**(Amount in ₹)**

SI No	LGSTO/SGSTO/Audit Office	GSTIN	Tax period	Documents not produced	Remarks	ITC mismatch	Excess Liability	Total possible Deviation
1	LGSTO-190	29AAFCD5002K1ZP	2017-18	Debit/credit notes, sundry creditor ledger, details of remuneration paid to Directors, Advances received ledger, details of mobilisation advance received, details of inputs used exclusively for non-GST supplies, Fixed Asset Register - Capitalisation statement	Partial	27,94,14,049	6,74,32,578	34,68,46,627
2	LGSTO-15	29AAACL2937J1ZA	2017-18	Sundry creditor details, outward supply invoices and inward supply invoices for 2 months, sub-contract agreements and ledger, ledgers for legal fees, security services, rent expenses, sale of scrap	Partial	18,65,07,434	1,96,90,816	20,61,98,250
3	LGSTO-20	29AAACE9039J1ZA	2017-18	3CD, 3CEB IT reports and details of trade payables amounting to ₹ 19.14 lakh (as per Note 13 appended to the financial statements)	Partial	36,60,249	3,53,42,936	3,90,03,185
4	ACCT (Audit-5.11), Bengaluru	29AAPFK0809A1ZI	2017-18	Party wise Ledgers in respect of Sundry Creditors of ₹ 6.84 crore.	Partial	29,68,644	3,59,49,420	3,89,18,064
5	LGSTO-121	29ABEFS1976L1ZI	2017-18	Outward supply invoices and inward supply invoices for 2 months, ledger for transportation expenses, fixed asset schedule - capitalisation statement, schedule of current liabilities, Invoices relating to Inter Branch Transfer of goods/services to and from Kerala Branch	Partial	1,21,20,270	1,26,12,708	2,47,32,978
6	SGSTO-193 Hunsur	29AAOPL5282D1ZE	2017-18	Debit/credit notes, sundry creditor ledger, details for expenses towards freight charges, rent and audit and professional charges,	Partial	1,13,03,096	59,67,658	1,72,70,754

Appendix-III (Para 2.4.8.1 -Scope limitation/Page 64) Top Partial production cases (Amount in ₹)								
SI No	LGSTO/ SGSTO/ Audit Office	GSTIN	Tax period	Documents not produced	Remarks	ITC mismatch	Excess Liability	Total possible Deviation
7	LGSTO-170	29AAICA2216P1ZD	2017-18	Sundry creditor details, outward supply invoices and inward supply invoices for 2 months, purchase orders, contract agreements, ledgers for legal fees, security services, rent expenses, transportations charges, other operating revenue.	Partial	91,94,137	43,76,045	1,35,70,182
8	LGSTO-152	29AAXCS9012Q1Z6	2017-18	Trial Balance - Karnataka, supply ledger and inward ledger, Outward and input tax ledger, invoices for 2 months each, Debit/credit notes of 17-18, invoices relating to amendments declared in GSTR 9, details of sundry creditors (₹ 3.39 crore), rent and insurance expenses with invoices, Income-tax 3CA/3CD reports.	Partial	39,23,532	95,98,270	1,35,21,802
9	LGSTO-21	29AABCC3401B1ZE	2017-18	Details of payments made towards director's fee (₹ 5.15 lakh) and trade payables (₹ 28.49 lakh) 3CD, 3CEB IT reports	Partial	83,84,598	46,10,286	1,29,94,884
10	LGSTO-36	29AAACT3628C1ZJ	2017-18	Outward supply and inward supply invoices for 2 months each, Sundry Creditors ledger, Debit/credit notes, Fixed Asset Capitalisation statement, invoices relating to ISD credit, invoices and ledgers relating to expenses towards rent, legal charges, transportation charges, etc. IT return and reports	Partial	27,00,021	65,01,482	92,01,503





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