

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

The tax and non tax revenue raised by Government of Karnataka during the year 2005-06, the State's share of divisible Union taxes and grants in aid received from Government of India during the year and the corresponding figures for the preceding four years are given below:

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
I. Revenue raised by State Government					
• Tax revenue	9,853.27	10,439.71	12,570.21	16,072.32 ¹	18,631.55
• Non tax revenue	1,093.42	1,277.67	2,958.37	4,472.34 ¹	3,874.71
Total	10,946.69	11,717.38	15,528.58	20,544.66¹	22,506.26
II. Receipts from Government of India					
• State's share of divisible Union taxes	2,623.38	2,786.20	3,244.73	3,878.44	4,213.42 ²
• Grants in aid	1,751.18	1,665.18	1,986.57	2,146.56	3,632.37
Total	4,374.56	4,451.38	5,231.30	6,025.00	7,845.79
III. Total receipts of the State	15,321.25	16,168.76	20,759.88	26,569.66¹	30,352.05
IV. Percentage of I to III	71	72	75	77	74

Total receipts of the State during 2005-06 increased by Rs.3,782.39 crore over the previous year (14.24 per cent). This was brought about by an increase of Rs.2,559.23 crore in tax revenue, Rs.334.98 crore in State's share of divisible Union taxes and Rs.1,485.81 crore in grants in aid from Government of India and decrease of Rs.597.63 crore in non tax revenue.

¹ These figures differ from those adopted in the Audit Report for the year ended 31 March 2005 on account of corrections effected in the Finance Accounts for that year as reflected in the Finance Accounts for the year 2005-06.

² For details see statement No.11 – Detailed accounts of revenue by Minor Head of the Finance Accounts of the Government of Karnataka for the year 2005-06. Figures of 'tax share of net proceeds assigned to States' booked in the Finance Accounts under A-Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible union taxes in the statement.

1.1.1 The details of tax revenue raised during the year 2005-06, along with the figures for the preceding four years, are given below:

(Rupees in crore)

Sl. No.	Head of Revenue	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+) / decrease (-) in 2005-06 over 2004-05
1	Taxes on sales, trade, etc.	5,269.43	5,473.54	6,648.95	8,700.07	9,869.54	(+) 13.44
2	State excise	1,976.94	2,094.19	2,333.96	2,805.53	3,396.79	(+) 21.07
3	Stamps and registration fees	855.04	1,115.35	1,355.69	1,759.84	2,212.20	(+) 25.70
4	Taxes on vehicles	712.37	675.70	800.07	982.99	1,105.45	(+) 12.46
5	Taxes on goods and passengers	498.11	516.53	673.46	791.72	1,041.45	(+) 31.54
6	Taxes and duties on electricity	171.30	172.14	272.92	339.02 ³	277.09	(-) 18.27
7	Other taxes on income and expenditure	167.24	180.20	245.37	277.93	330.25	(+) 18.82
8	Other taxes and duties on commodities and services	150.67	151.13	170.65	295.28	280.66	(-) 4.95
9	Land revenue	49.54	59.61	67.84	117.76	116.50	(-) 1.07
10	Taxes on agricultural income	2.63	1.32	1.30	2.18	1.62	(-) 25.69
	Total	9,853.27	10,439.71	12,570.21	16,072.32³	18,631.55	(+) 15.92

Reasons for major variations are mentioned below:

Taxes on sales, trade, etc: Increase was attributed to growth in turnover of petrol and diesel.

States excise: Increase was attributed to increase in duty on Indian made liquor and arrack rentals.

Stamps and registration fees: Increase was due to increase in number/ volume of documents registered.

Taxes on goods and passengers: Increase was attributed to collection of old arrears and increase in consumption of petroleum products.

Reasons for variations in receipts in respect of other heads of revenue though called for in June 2006 have not been received (November 2006).

³ These figures differ from those adopted in the Audit Report for the year ended 31 March 2005 on account of corrections effected in the Finance Accounts for that year as reflected in the Finance Accounts for the year 2005-06.

1.1.2 The details of major non tax revenue realised during the year 2005-06, along with the figures for the preceding four years, are given below:

(Rupees in crore)

Sl. No.	Head of Revenue	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+)/ decrease (-) in 2005-06 over 2004-05
1	Non ferrous mining and metallurgical industries	147.13	157.55	222.15	289.94	325.37	(+) 12.22
2	Interest receipts	141.92	34.36	111.34	144.79 ⁴	283.00	(+) 95.46
3	Forestry and wild life	100.90	101.52	180.65	169.41	115.80	(-) 31.65
4	Contributions and recoveries towards pensions and other retirement benefits	28.38	34.68	51.39	18.38	76.64	(+) 316.97
5	Other administrative services	28.14	45.27	91.81	136.88	74.33	(-) 45.70
6	Education, sports, art and culture	31.77	43.32	30.07	45.37	44.91	(-) 1.01
7	Medical and public health	59.18	56.38	31.78	47.07	43.92	(-) 6.69
8	Police	14.41	21.11	31.55	37.26 ⁴	42.55	(+) 14.20
9	Other general economic services	223.91	259.03	293.85	527.40	294.51	(-) 44.16
10	Co-operation	16.35	27.47	25.92	31.80	31.07	(-) 2.30
11	Village and small industries	21.90	17.25	17.66	18.46	29.05	(+) 57.37
12	Public works	14.53	11.10	12.12	14.00	27.27	(+) 94.79
13	Roads and bridges	19.29	17.92	33.80	13.83	25.01	(+) 80.84
14	Major and medium irrigation	20.56	20.93	11.81	13.35	22.30	(+) 67.04
15	Dividends and profits	5.14	14.93	16.90	16.66	16.88	(+) 1.32
16	Housing	10.50	67.08	38.14	10.73	16.47	(+) 53.49
17	Crop husbandry	19.88	18.98	13.59	11.89	10.69	(-) 10.09
18	Miscellaneous general services	74.38	231.42	1,589.75	1,882.46 ⁴	1,792.76	(-) 4.77
19	Others	115.15	97.37	154.09	1,042.66 ⁴	602.18	(-) 42.25
	Total	1,093.42	1,277.67	2,958.37	4,472.34⁴	3,874.71	(-) 13.36

Reasons for major variations are mentioned below:

Other general economic services: Decrease mainly occurred under 'other receipts'. The receipts accounted under this minor head mainly represent the amount of infrastructure cess collected on various taxes transferred from the tax receipts. Consequent on the introduction of Value Added Tax, infrastructure cess on sales tax has not been collected. Hence, no amount was transferred from the head 'Taxes on sales, trade, etc.' during the year.

Non ferrous mining and metallurgical industries: Increase was attributed to increase in production of minor minerals and recovery of arrears.

⁴ These figures differ from those adopted in the Audit Report for the year ended 31 March 2005 on account of corrections effected in the Finance Accounts for that year as reflected in the Finance Accounts for the year 2005-06.

Interest receipts: Increase mainly occurred under 'interest realised on investment of cash balances'.

Forestry and wildlife: Decrease mainly occurred due to less receipt under 'other receipts'.

Contributions and recoveries towards pension and other retirement benefits: Increase mainly occurred in respect of 'subscriptions and contributions'.

Other administrative services: Decrease mainly occurred in respect of 'contributions towards issue of voter identity cards'.

Police: Increase was attributed to increase in collection of fines for traffic offences.

Village and small industries: Increases mainly occurred in respect of 'industrial estates' and 'sericulture industries'.

Crop husbandry: Decrease mainly occurred in respect of 'receipts from horticulture and vegetable crops'.

Reasons for variations in receipts in respect of other heads of revenue though called for in June 2006 have not been received (November 2006).

1.2 Variations between budget estimates and actual receipts

The variations between budget estimates and actuals of revenue receipts for the year 2005-06 in respect of principal heads of tax and non tax revenue are given below:

(Rupees in crore)

Sl. No.	Head of Revenue	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation
Tax revenue					
1	Taxes on sales, trade, etc.	10,496.30	9,869.54	(-) 626.76	(-) 5.97
2	State excise	2,997.72	3,396.79	(+) 399.07	(+) 13.31
3	Stamps and registration fees	2,180.00	2,212.20	(+) 32.20	(+) 1.48
4	Taxes on vehicles	1,118.00	1,105.45	(-) 12.55	(-) 1.12
5	Taxes on goods and passengers	948.02	1,041.45	(+) 93.43	(+) 9.86
6	Taxes and duties on electricity	274.34	277.09	(+) 2.75	(+) 1.00

(Rupees in crore)

Sl. No.	Head of Revenue	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation
7	Other taxes on income and expenditure	304.19	330.25	(+) 26.06	(+) 8.57
8	Other taxes and duties on commodities and services	276.58	280.66	(+) 4.08	(+) 1.48
9	Land revenue	82.15	116.50	(+) 34.35	(+) 41.81
10	Taxes on agricultural income	2.17	1.62	(-) 0.55	(-) 25.35
Non tax revenue					
1	Non ferrous mining and metallurgical industries	278.00	325.37	(+) 47.37	(+) 17.04
2	Interest receipts	111.39	283.00	(+) 171.61	(+) 154.06
3	Forestry and wild life	149.75	115.80	(-) 33.95	(-) 22.67
4	Contributions and recoveries towards pensions and other retirement benefits	23.19	76.64	(+) 53.45	(+) 230.49
5	Other administrative services	43.97	74.33	(+) 30.36	(+) 69.05
6	Education, sports, art and culture	49.97	44.91	(-) 5.06	(-) 10.13
7	Medical and public health	54.62	43.92	(-) 10.70	(-) 19.59
8	Police	41.82	42.55	(+) 0.73	(+) 1.75
9	Other general economic services	194.01	294.51	(+) 100.50	(+) 51.80
10	Co-operation	31.48	31.07	(-) 0.41	(-) 1.30
11	Village and small industries	18.52	29.05	(+) 10.53	(+) 56.86
12	Public works	9.11	27.27	(+) 18.16	(+) 199.34
13	Roads and bridges	174.24	25.01	(-) 149.23	(-) 85.65
14	Major and medium irrigation	38.52	22.30	(-) 16.22	(-) 42.11
15	Dividends and profits	16.90	16.88	(-) 0.02	(-) 0.12
16	Housing	59.17	16.47	(-) 42.70	(-) 72.16
17	Crop husbandry	22.57	10.69	(-) 11.88	(-) 52.64
18	Miscellaneous general services	2,690.80	1,792.76	(-) 898.04	(-) 33.37

Reasons for major variations are mentioned below:

State excise: Increase was attributed to increase in sale of arrack, liquor and beer.

Land revenue: Increases occurred in respect of land revenue/tax, rates and cesses on land and receipts from survey and settlement operations partly offset by reduction under 'other receipts'.

Non ferrous mining and metallurgical industries: Increase was attributed to rise in demand for minor minerals and consequent increase in production and realisation of royalty on the same.

Interest receipts: Increase mainly occurred in respect of 'interest realised on investment of cash balances'.

Forestry and wild life: Decrease occurred mainly under 'sale of timber and other forest produce'.

Contributions and recoveries towards pension and other retirement benefits: Increase occurred mainly under 'subscriptions and contributions'.

Reasons for variations in receipts in respect of other heads of revenue though called for in June 2006 have not been received (November 2006).

1.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2003-04, 2004-05 and 2005-06 along with the relevant all India average percentage of expenditure on collection to gross collection for 2004-05 were as follows:

(Rupees in crore)						
Sl. No.	Head of Revenue	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the year 2004-05
1	Taxes on sales, trade, etc.	2003-04	6,861.15	59.09	0.86	0.95
		2004-05	9,036.01	62.84	0.69	
		2005-06	10,222.53	62.23	0.61	
2	Taxes on vehicles	2003-04	831.26	19.40	2.33	2.74
		2004-05	1,048.51	20.52	1.96	
		2005-06	1,105.89	22.51	2.04	

1.4 Collection of sales tax per assessee

Comparison of number of assessees furnished by the department during 2001-02 to 2005-06 with the sales tax revenue realised as per Finance Accounts of the respective years revealed that sales tax revenue per assessee increased from Rs.1.75 lakh in 2001-02 to Rs.3.02 lakh in 2005-06. Year wise details are as under:

Year	Number of assessees as furnished by department	Sales tax revenue as per Finance Accounts	Revenue per assessee
		(Rupees in lakh)	
2001-02	3,01,954	5,26,943	1.75
2002-03	3,16,462	5,47,354	1.73
2003-04	3,21,398	6,64,895	2.07
2004-05	3,04,309	8,70,007	2.86
2005-06	3,27,230	9,86,954	3.02

1.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2006 in respect of some principal heads of revenue amounted to Rs.3,680.21 crore, of which Rs.506.96 crore relating to State excise were outstanding for more than five years as detailed below:

(Rupees in crore)				
Sl. No.	Head of revenue	Amount of arrears as on 31 March 2006	Arrears outstanding for more than five years as on 31 March 2006	Remarks
1	Taxes on sales, trade, etc., entry tax, entertainments tax, agricultural income tax, professions tax, luxury tax	2,873.89	Not furnished	Out of the total arrears, Rs.687.36 crore was stayed by Courts, Rs.83.68 crore was covered by revenue recovery certificates and Rs.61.74 crore was proposed to be written off. Balance of Rs.2,041.11 crore was under various stages of recovery.
2	State excise	700.05	506.96	Out of the total arrears, Rs.697.94 crore was from arrack contractors. Of these, principal amount was Rs.287.20 crore and interest was Rs.410.74 crore. Balance amount of Rs.2.11 crore was under various stages of recovery.

(Rupees in crore)

Sl. No.	Head of revenue	Amount of arrears as on 31 March 2006	Arrears outstanding for more than five years as on 31 March 2006	Remarks
3	Taxes and duties on electricity	46.22	Not furnished	Rs.43.08 crore was from a Government undertaking and Rs.3.14 crore relates to others.
4	Taxes on vehicles	60.05	Not furnished	Out of the total arrears, Rs.0.51 crore was stayed by courts, Rs.0.31 crore was covered by revenue recovery certificates and Rs.56.21 crore was under various stages of recovery. In respect of the balance amount of Rs.3.02 crore whereabouts of the parties were stated to be not known.
	Total	3,680.21	506.96	

In respect of other major heads of revenue, details of arrears of revenue though called for in June 2006 have not been received (November 2006).

1.6 Arrears in assessments

As per the information furnished by the Commercial Taxes Department, 10,55,813 cases were due for assessment during 2005-06 including 5,83,427 cases pending at the beginning of the year. Of these, only 2,82,894 cases (27 per cent) were disposed of during the year. The arrears in assessments as on 31 March 2006 were 7,72,919.

1.7 Write off of revenue

During the year 2005-06, arrears of revenue of Rs.1.59 crore in seven cases relating to the periods between 1971-72 and 1983-84 were written off by the Commercial Taxes Department as irrecoverable. Reasons for write off of these demands as reported by the department were as follows:

(Rupees in lakh)

Sl. No.	Reasons	Number of cases	Amount
1	Defaulters no longer alive	3	76.06
2	Defaulters not having any property	4	83.08

1.8 Results of audit

Test check of records of sales tax, State excise, taxes on motor vehicles, agricultural income tax, land revenue, stamps and registration fees, entry tax, entertainments tax, professions tax, betting tax, electricity tax, forest, mineral receipts, energy, sericulture and other departmental offices conducted during the year 2005-06 revealed underassessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. involving Rs.1,016.84 crore in 1,464 cases. During the course of the year 2005-06, the departments concerned accepted underassessments, short demands, etc. aggregating Rs.79.35 crore in 893 cases including 849 cases involving Rs.29.55 crore which were pointed out in audit in earlier years. A sum of Rs.20.53 crore relating to 702 audit observations was recovered at the instance of audit.

This Report contains 33 paragraphs including one review involving financial effect of Rs.694.48 crore. The departments accepted audit observations involving Rs.75.30 crore, of which Rs.2.40 crore had been recovered upto November 2006. Audit observations with a total revenue effect of Rs.216.52 crore have not been accepted by the departments, but their contentions have been found to be at variance with the facts or legal position and these have been appropriately commented upon in the relevant paragraphs. No reply has been received in remaining cases (November 2006).

1.9 Outstanding inspection reports and audit observations

Accountant General (Audit) (AG) conducts periodical inspections of Government departments to test check transactions and verify maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). When important irregularities detected during inspections are not settled on the spot, these IRs are issued to the heads of offices inspected with a copy to the next higher authorities. The hand book of instructions for speedy settlement of audit observations (Finance Department) provides for prompt response by the executive to the IRs issued by 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 IRs and rectify defects and omissions promptly and report their compliance to AG. Serious irregularities are also brought to the notice of heads of departments by AG. A half yearly report of pending IRs is sent to the concerned Principal Secretary to Government and the controlling officers of the department to facilitate monitoring of pending audit observations.

However, time schedule prescribed by Government had seldom been adhered to, with the result that 3,599 IRs issued up to the end of December 2005, containing 6,300 audit observations involving Rs.985.49 crore were to be settled at the end of June 2006, as indicated below, along with the corresponding figures for the preceding two years:

	At the end of		
	June 2004	June 2005	June 2006
Number of outstanding IRs	3,567	3,655	3,599
Number of outstanding audit observations	6,914	6,994	6,300
Amount involved (Rs. in crore)	904.56	900.55	985.49

Out of 3,599 IRs pending settlement, first replies have not been received (June 2006) for 192 IRs containing 749 audit observations. Pendency of these reports was reported to Government (August/September 2006). The department wise details of IRs and audit observations outstanding as on 30 June 2006 and the money value involved are indicated below:

(Rupees in crore)

Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1. Finance	Taxes on sales, trade, etc., entry tax, entertainments tax, luxury tax, professions tax and betting tax	1,087	2,479	68.05
	Agricultural income tax	27	47	1.28
	State excise	939	1,243	349.06
2. Energy	Electricity duty	11	20	124.20
3. Revenue	Land revenue	453	814	86.67
	Stamps and registration fees	415	610	53.08
4. Home and Transport	Taxes on motor vehicles	322	508	35.24
5. Forest, Ecology and Environment	Forest receipts	186	249	221.72
6. Commerce and Industries	Sericulture industries receipts	62	81	7.16
	Mineral receipts	63	176	28.18
7. Public Works	Public works receipts	34	73	10.85
Total		3,599	6,300	985.49

1.10 Adhoc committee meetings

Government issued (March 1968) instructions to constitute 'ad hoc committees' in the Secretariat of 10 Departments to expedite the clearance of audit observations contained in the IRs. These committees are to be headed by the secretaries of the concerned administrative departments and attended by the designated officers of the State Government and a nominee of the AG. These committees are to meet periodically and, in any case, at least once in a quarter.

Department wise number of adhoc committee meetings held and paragraphs settled during the year 2005-06 is as under:

Department	No. of meetings held	No. of paragraphs settled	Money value (Rs. in crore)
Finance	1	23	0.35
Forest, Ecology and Environment	1	37	14.34
Transport	2	15	0.10

The departments concerned had not convened adhoc committee meetings to discuss IRs on revenue receipts relating to State excise, land revenue, stamps and registration fees, mineral receipts, sericulture and public works.

1.11 Response of the departments to draft audit paragraphs

Draft paragraphs/reviews proposed for inclusion in the Audit Report are forwarded by the AG to secretaries of the concerned departments through demi official letters. According to the instructions issued (April 1952) by Government, all departments are required to furnish their remarks on the draft paragraphs/reviews within six weeks of their receipt. The fact of non receipt of replies from Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Fifty three draft paragraphs clubbed into 33 paragraphs (including one review) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2006 were forwarded to the concerned secretaries to Government and copies endorsed to concerned heads of departments during March-June 2006. Replies were due latest by the end of May-August 2006.

Reply to only one draft paragraph was received within the prescribed period of six weeks. However, audit review committee at the level of Secretary to Government of Karnataka was constituted and the draft review proposed was discussed. Replies to 36 draft paragraphs have been received and considered in finalisation of the Report (November 2006).

1.12 Followup on Audit Reports

According to the Rules of Procedure (Internal Working) of the Committee on Public Accounts (PAC) (as modified in September 1999), within four months (three months up to March 1994) of an Audit Report being laid on the Table of the legislature, departments of Government are to prepare and send to the Karnataka Legislative Assembly Secretariat detailed explanations (departmental notes) on the audit paragraphs. The Rules further require that before such submission, the departmental notes are to be got vetted by the AG.

A review of the position in this regard revealed that as of August 2006, nine departments had not furnished the departmental notes in respect of 183 paragraphs included in Audit Reports for the years 1990-91 and 1992-93 to 2004-05 due between March 1993 and July 2006, for vetting. The delay ranged from 1 month to over 13 years, as detailed below:

Sl. No.	Department	Year of Audit Report	Dates of presentation to the Legislature	Last date by which departmental notes were due	Number of paragraphs for which departmental notes were due	Delay (months)
1.	Revenue	1990-91, 1992-93 to 1999-2000, 2003-04 and 2004-05	December 1992 to March 2006	March 1993 to July 2006	55	1 to 161
2.	Finance	1996-97, 1998-99 to 2004-05	May 1998 to March 2006	September 1998 to July 2006	104	1 to 95
3.	Commerce and Industries	1996-97, 2000-01, 2002-03 and 2004-05	May 1998 to March 2006	September 1998 to July 2006	4	1 to 95
4.	Urban Development	1998-99, 2002-03 to 2004-05	March 2000 to March 2006	July 2000 to July 2006	4	1 to 73
5.	Energy	1993-94, 2001-02 and 2002-03	March 1995 to July 2004	July 1995 to November 2004	3	21 to 133
6.	Health and Family Welfare	1997-98	March 1999	July 1999	1	85
7.	Transport	2003-04 and 2004-05	July 2005 and March 2006	November 2005 and July 2006	5	1 to 9
8.	Forest	2002-03 to 2004-05	July 2004 to March 2006	November 2004 to July 2006	6	1 to 21
9.	Public Works	2004-05	March 2006	July 2006	1	1
	Total	1990-91 and 1992-93 to 2004-05	December 1992 to March 2006	March 1993 to July 2006	183	1 to 161

This indicated that there was laxity in ensuring accountability of the executive.

1.13 Compliance to earlier Audit Reports

In the Audit Reports 2000-01 to 2004-05, 4,129 cases of underassessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc were included involving Rs.3,127.10 crore. Of these, as of November 2006, departments concerned have accepted 2,281 cases involving Rs.137.34 crore and recovered Rs.55.50 crore in 1,576 cases. Audit Report wise details of cases accepted and recovered are as under:

(Rupees in crore)

Audit Report	Included in Audit Report		Accepted by department		Recovered	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
2000-01	895	580.03	537	21.07	434	9.04
2001-02	548	190.79	406	20.27	319	8.89
2002-03	1,104	1,141.96	448	60.98	336	20.52
2003-04	1,038	393.46	506	14.53	287	8.48
2004-05	544	820.86	384	20.49	200	8.57
Total	4,129	3,127.10	2,281	137.34	1,576	55.50

