

CHAPTER I: GENERAL

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2007-08, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(Rupees in crore)						
Sl. No.		2003-04	2004-05	2005-06	2006-07	2007-08
I. Revenue raised by the State Government						
	• Tax revenue	12,570.21	16,072.32 ¹	18,631.55	23,301.03	25,986.76
	• Non tax revenue	2,958.37	4,472.34 ¹	3,874.71	4,098.41	3,357.66
	Total	15,528.58	20,544.66¹	22,506.26	27,399.44	29,344.42
II. Receipts from the Government of India						
	• State's share of divisible Union taxes	3,244.73	3,878.44	4,213.42	5,374.33	6,779.23 ²
	• Grants-in-aid	1,986.57	2,146.56	3,632.37	4,813.17	5,027.49
	Total	5,231.30	6,025.00	7,845.79	10,187.50	11,806.72
III.	Total receipts of the State	20,759.88	26,569.66¹	30,352.05	37,586.94	41,151.14
IV.	Percentage of I to III	75	77	74	73	71

The above table indicates that during the year 2007-08, the revenue raised by the State Government was 71 per cent of the total revenue receipts (Rs. 41,151.14 crore) against 73 per cent in the preceding year. The balance 29 per cent of receipts during 2007-08 was from the Government of India.

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 2007-08. 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 following table presents the details of tax revenue realised during the period from 2003-04 to 2007-08:

(Rupees in crore)

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+) / decrease (-) in 2007-08 over 2006-07
1.	Taxes on sales, trade, etc.	6,648.95	8,700.07	9,869.54	11,761.72	13,893.99	(+) 18.13
2.	State excise	2,333.96	2,805.53	3,396.79	4,495.48	4,766.57	(+) 6.03
3.	Stamps and registration fees	1,355.69	1,759.84	2,212.20	3,205.80	3,408.83	(+) 6.33
4.	Taxes on vehicles	800.07	982.99	1,105.45	1,374.50	1,650.13	(+) 20.05
5.	Taxes on goods and passengers	673.46	791.72	1,041.45	1,147.20	837.34	(-) 27.01
6.	Taxes and duties on electricity	272.92	339.02 ³	277.09	388.57	449.50	(+) 15.68
7.	Other taxes on income and expenditure	245.37	277.93	330.25	392.58	451.37	(+) 14.98
8.	Other taxes and duties on commodities and services	170.65	295.28	280.66	425.05	380.68	(-) 10.44
9.	Land revenue	67.84	117.76	116.50	108.76	145.31	(+) 33.61
10.	Taxes on agricultural income	1.30	2.18	1.62	1.37	3.04	(+) 121.90
	Total	12,570.21	16,072.32³	18,631.55	23,301.03	25,986.76	(+) 11.53

The following reasons for variations were reported by the concerned departments:

Taxes on sales, trade, etc.: The increase was mainly due to increase in collection of value added tax.

Taxes on vehicles: The increase was mainly due to increase in rates of 'life time tax' on non-transport vehicles.

Taxes on goods and passengers: The decrease was attributed to reduction in rate of entry tax on crude oil.

Taxes and duties on electricity: The increase was attributed to collection of arrears of tax raised on captive consumption during 2003-04.

The other departments did not inform (November 2008) the reasons for variation despite being requested (June 2008).

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 following table presents the details of major non-tax revenue realised during the period 2003-04 to 2007-08:

(Rupees in crore)

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+)/ decrease (-) in 2007-08 over 2006-07
1.	Non-ferrous mining and metallurgical industries	222.15	289.94	325.37	366.29	472.35	(+) 28.96
2.	Interest receipts	111.34	144.79 ⁴	283.00	376.19	375.24	(-)0.25
3.	Forestry and wild life	180.65	169.41	115.80	127.97	131.84	(+) 3.02
4.	Contributions and recoveries towards pensions and other retirement benefits	51.39	18.38	76.64	27.47	29.08	(+) 5.86
5.	Other administrative services	91.81	136.88	74.33	101.34	79.60	(-) 21.45
6.	Education, sports, art and culture	30.07	45.37	44.91	65.00	74.93	(+) 15.28
7.	Medical and public health	31.78	47.07	43.92	39.54	52.77	(+) 33.46
8.	Police	31.55	37.26 ⁴	42.55	52.91	58.84	(+) 11.21
9.	Other general economic services	293.85	527.40	294.51	407.92	443.25	(+) 8.66
10.	Co-operation	25.92	31.80	31.07	30.13	33.14	(+) 9.99
11.	Village and small industries	17.66	18.46	29.05	39.46	35.30	(-) 10.54
12.	Public works	12.12	14.00	27.27	31.32	21.75	(-) 30.56
13.	Roads and bridges	33.80	13.83	25.01	24.18	14.05	(-) 41.89
14.	Major and medium irrigation	11.81	13.35	22.30	21.48	19.69	(-) 8.33
15.	Dividends and profits	16.90	16.66	16.88	19.48	23.40	(+) 20.12
16.	Housing	38.14	10.73	16.47	11.49	15.51	(+) 34.99
17.	Crop husbandry	13.59	11.89	10.69	12.92	14.04	(+) 8.67
18.	Miscellaneous general services	1,589.75	1,882.46 ⁴	1,792.76	1,892.46	468.20	(-) 75.26
19.	Others	154.09	1,042.66 ⁴	602.18	450.86	994.68	(+) 120.62
Total		2,958.37	4,472.34⁴	3,874.71	4,098.41	3,357.66	(-) 18.07

The following reasons were reported by the concerned departments:

Medical and public health: The increase was attributed to compulsory collection of laboratory charges, x-ray, scan charges, fees for medical certificate, etc.

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.

Miscellaneous general services: The decrease was due to abolition of State lotteries with effect from 1 April 2007.

The other departments did not inform (November 2008) the reasons for variation despite being requested (June 2008).

1.2 Variations between the budget estimates and actual receipts

The variations between the budget estimates and actuals of revenue receipts for the year 2007-08 in respect of the principal heads of tax and non-tax revenue are mentioned 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.	14,868.52	13,893.99	(-) 974.53	(-) 6.55
2.	State excise	3,300.00	4,766.57	(+) 1,466.57	(+) 44.44
3.	Stamps and registration fees	4,400.00	3,408.83	(-) 991.17	(-) 22.53
4.	Taxes on vehicles	1,560.00	1,650.13	(+) 90.13	(+) 5.78
5.	Taxes on goods and passengers	1,269.60	837.34	(-) 432.26	(-) 34.05
6.	Taxes and duties on electricity	340.20	449.50	(+) 109.30	(+) 32.13
7.	Other taxes on income and expenditure	395.89	451.37	(+) 55.48	(+) 14.01
8.	Other taxes and duties on commodities and services	469.13	380.68	(-) 88.45	(-) 18.85
9.	Land revenue	86.22	145.31	(+) 59.09	(+) 68.53
10.	Taxes on agricultural income	1.61	3.04	(+) 1.43	(+) 88.82
Non-tax revenue					
1.	Non-ferrous mining and metallurgical industries	600.00	472.35	(-) 127.65	(-) 21.28
2.	Interest receipts	187.54	375.24	(+) 187.70	(+) 100.09
3.	Forestry and wild life	177.88	131.84	(-) 46.04	(-) 25.88
4.	Contributions and recoveries towards pensions and other retirement benefits	18.93	29.08	(+) 10.15	(+) 53.62
5.	Other administrative services	40.83	79.60	(+) 38.77	(+) 94.95
6.	Education, sports, art and culture	51.45	74.93	(+) 23.48	(+) 45.64
7.	Medical and public health	52.68	52.77	(+) 0.09	(+) 0.17

(Rupees in crore)					
Sl. No.	Head of revenue	Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation
8.	Police	49.64	58.84	(+) 9.20	(+) 18.53
9.	Other general economic services	353.56	443.25	(+) 89.69	(+) 25.37
10.	Co-operation	36.36	33.14	(-) 3.22	(-) 8.86
11.	Village and small industries	20.35	35.30	(+) 14.95	(+) 73.46
12.	Public works	14.33	21.75	(+) 7.42	(+) 51.78
13.	Roads and bridges	30.00	14.05	(-) 15.95	(-) 53.17
14.	Major and medium irrigation	42.47	19.69	(-) 22.78	(-) 53.64
15.	Dividends and profits	2.73	23.40	(+) 20.67	(+) 757.14
16.	Housing	12.08	15.51	(+) 3.43	(+) 28.39
17.	Crop husbandry	16.60	14.04	(-) 2.56	(-) 15.42
18.	Miscellaneous general services	21.20	468.20	(+) 447.00	(+) 2,108.49

The following reasons were reported by the concerned departments:

Taxes on vehicles: The increase was mainly due to increase in 'life time tax' on non-transport vehicles.

Interest receipts: The increase mainly occurred under 'Interest from departmental commercial undertakings'.

Dividends and profits: The increase occurred under 'dividends from public undertakings/other investments'.

Miscellaneous general services: The increase mainly occurred under 'unclaimed deposits', 'guarantee fees' and 'other receipts'.

The other departments did not inform (November 2008) the reasons for variations despite being requested (June 2008).

1.3 Cost of collection

The gross collection in respect of the major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2005-06, 2006-07 and 2007-08 along with the relevant all India average percentage of expenditure on collection to gross collection for 2006-07 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 2006-07
1.	Taxes on sales, trade, etc.	2005-06	10,222.53	62.23	0.61	0.82
		2006-07	12,390.75	60.60	0.49	
		2007-08	14,465.05	74.30	0.51	
2.	Taxes on vehicles	2005-06	1,105.89	22.51	2.04	2.47
		2006-07	1,375.15	24.37	1.77	
		2007-08	1,650.98	29.39	1.78	

1.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2008 in respect of some principal heads of revenue amounted to Rs. 4,729.07 crore as mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Amount of arrears as on 31 March 2008	Arrears outstanding for more than five years as on 31 March 2008	Remarks
1.	Taxes on sales, trade, etc., entry tax, entertainments tax, agricultural income tax, professions tax, luxury tax	3,985.13	Not furnished	Out of the total arrears, Rs. 469.33 crore was stayed by courts and Rs. 156.69 crore was pending recovery for departmental action. Balance of Rs. 3,359.11 crore was under various stages of recovery.
2.	Taxes and duties on electricity	59.30	6.75	Out of the total arrears, Rs. 53.99 crore relates to Electricity Supply Companies (ESCOMS) and Rs. 5.31 crore relates to others.
3.	State excise	684.64	675.17	Out of the total arrears, Rs. 2.58 crore was stayed by courts and Rs. 207.27 crore covered by revenue recovery certificates. Balance of Rs. 474.79 crore was the arrears with the department.
Total		4,729.07	681.92	

The position of arrears of revenue pending collection at the end of 2007-08 in respect of other departments was not furnished (November 2008) despite being requested (June 2008).

1.5 Arrears in assessment

The details of assessments relating to sales tax, taxes on goods and passengers, entertainments tax, luxury tax, professions tax and agricultural income tax pending at the beginning of the year, additional cases which became due for assessment during the year, cases disposed of during the year and cases

pending at the end of each year during 2003-04 to 2007-08 as furnished by the Commercial Taxes Department (CTD) are mentioned below:

Year	Opening balance	Cases which became due for assessment	Total	Cases disposed of during the year	Cases pending at the end of the year
2003-04	5,94,772*	4,81,571	10,76,343	4,33,769	6,42,574
2004-05	6,42,574	4,85,217	11,27,791	5,44,364	5,83,427
2005-06	5,83,427	4,72,386	10,55,813	2,82,894	7,72,919
2006-07	7,72,919	1,59,719	9,32,638	6,56,233	2,76,405
2007-08	2,76,405	42,503	3,18,908	1,29,130	1,89,778

* Differs from the closing balance of 5,96,906 reported by the department for 2002-03

1.6 Arrears in appeals

According to the information furnished by the CTD, opening balance of cases under appeals for 2007-08 was 3,312. During the year, appeals were filed in 7,428 cases and 4,595 cases were disposed of. As at the end of 31 March 2008, there were 6,145 cases pending for disposal.

1.7 Results of audit

Test check of the records of sales tax, state excise, taxes on motor vehicles, agricultural income tax, land revenue, stamps and registration fees, entry tax, entertainment tax, profession tax, betting tax, electricity tax, forest and other departmental offices conducted during the year 2007-08 revealed under assessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. involving Rs. 510.96 crore in 3,739 cases. During the course of the year 2007-08, the departments concerned accepted under assessments, short demands, etc. aggregating Rs. 71.44 crore in 1,061 cases including 980 cases involving Rs. 30.93 crore which were pointed out in audit in earlier years. A sum of Rs. 19.92 crore relating to 801 audit observations was recovered at the instance of audit.

This Report contains 35 paragraphs including one review involving financial effect of Rs. 331.77 crore. The departments accepted audit observations involving Rs. 166.09 crore, of which Rs. 6.23 crore had been recovered upto November 2008. Audit observations with a total revenue effect of Rs. 42.83 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 the remaining cases (November 2008).

1.8 Outstanding inspection reports and audit observations

Accountant General (Audit) (AG) conducts periodical inspections of the Government departments to test check the transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). When important irregularities detected during the 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 the 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 and rectify the defects and omissions promptly and report their compliance to the AG. Serious irregularities are also brought to the notice of heads of departments by the AG. A half-yearly report of pending IRs is sent to the concerned Principal Secretary to the Government and the controlling officers of the departments to facilitate monitoring of the pending audit observations.

The time schedule prescribed by the Government had seldom been adhered to, with the result that 3,778 IRs issued upto the end of December 2007, containing 7,039 audit observations involving Rs. 1,420.58 crore were to be settled at the end of June 2008, as indicated below, along with the corresponding figures for preceding two years:

	June 2006	June 2007	June 2008
Number of outstanding IRs	3,599	3,588	3,778
Number of outstanding audit observations	6,300	6,866	7,039
Amount involved (Rupees in crore)	985.49	1,302.71	1,420.58

Out of 3,778 IRs pending settlement, first replies have not been received (June 2008) for 295 IRs containing 975 audit observations. Pendency of these reports was reported to the Government (August 2008). The department wise details of IRs and audit observations outstanding as on 30 June 2008 and the amount involved are mentioned below:

(Rupees in crore)

Department	Nature of receipts	Number of outstanding inspection reports	Number of outstanding audit observations	Amount of receipts involved
Finance	Taxes on sales, trade, etc., entry tax, entertainments tax, luxury tax, professions tax and betting tax	1,164	3,451	246.23
	Agricultural income tax	28	57	7.33
	State excise	1,015	1,078	359.69
Energy	Electricity duty	8	9	42.66
Revenue	Land revenue	447	752	94.51
	Stamps and registration fees	421	625	56.22
Home and Transport	Taxes on motor vehicles	312	387	46.02
Forest, Ecology and Environment	Forest receipts	208	283	372.23

(Rupees in crore)

Department	Nature of receipts	Number of outstanding inspection reports	Number of outstanding audit observations	Amount of receipts involved
Commerce and Industries	Sericulture industries receipts	62	81	6.95
	Mineral receipts	78	239	177.93
Public Works	Public works receipts	35	77	10.81
Total		3,778	7,039	1,420.58

Since the outstanding amount represents unrealised revenue, the Government needs to take speedy and effective action on the issues raised in the IRs.

1.9 Adhoc committee meetings

The Government issued (March 1968) instructions to constitute 'Adhoc 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.

The Department-wise number of adhoc committee meetings held and paragraphs settled during the year 2007-08 are as under:

Department	No. of meetings held	No. of paragraphs settled	Money value (Rupees in crore)
Forest, Ecology and Environment	3	7	0.14
Land Revenue	1	187	13.15
State Excise	7	154	50.94
Transport	1	3	0.02
Commercial Taxes	1	-	-

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

1.10 Response of the departments to draft audit paragraphs

Draft paragraphs/reviews proposed for inclusion in the Audit Report are forwarded by the Accountant General (Works, Forest and Receipt Audit) to Secretaries of the concerned departments 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/reviews within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Forty eight draft paragraphs clubbed into 35 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 2008 were forwarded to the concerned Principal Secretaries to the Government and copies endorsed to the concerned heads of departments during February-May 2008. Their replies were due latest by the end of April-July 2008.

Replies to 27 draft paragraphs have been received and considered in finalisation of the Report but reply to none of the draft paragraphs was received within the prescribed period of six weeks. Further, the draft review was discussed with the Commissioner of Commercial Taxes.

1.11 Follow-up on Audit Reports – summarised position

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, the 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 November 2008, nine departments had not furnished the departmental notes in respect of 189 paragraphs included in Audit Reports for the years 1990-91 and 1992-93 to 2005-06 due between March 1993 and November 2007, for vetting. The delay ranged from 9 months to over 15 years, as mentioned 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.	Finance	1996-97, 1998-99 to 2005-06	May 1998 to July 2007	September 1998 to November 2007	107	9 to 120
2.	Revenue	1990-91, 1992-93 to 1999-2000, 2003-04 to 2005-06	December 1992 to July 2007	March 1993 to November 2007	59	9 to 185
3.	Forest	2002-03 to 2005-06	July 2004 to July 2007	November 2004 to November 2007	10	9 to 45
4.	Urban Development	1998-99, 2002-03 to 2004-05	March 2000 to March 2006	July 2000 to July 2006	4	25 to 97

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)
5.	Commerce and Industries	1996-97, 2002-03 and 2005-06	May 1998 to July 2007	September 1998 to November 2007	3	9 to 120
6.	Energy	1993-94, 2001-02 and 2002-03	March 1995 to July 2004	July 1995 to November 2004	3	45 to 158
7.	Health and Family Welfare	1997-98	March 1999	July 1999	1	110
8.	Public Works	2004-05	March 2006	July 2006	1	25
9.	Co-operation	2005-06	July 2007	November 2007	1	9
Total					189	

This indicated that the executive failed to take prompt action on the important issues highlighted in the Audit Reports that involved large sums of unrealised revenue.

1.12 Compliance with the earlier Audit Reports

In the Audit Reports 2002-03 to 2006-07, 4,824 cases of under assessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. were included involving Rs. 3,375.24 crore. Of these, as of September 2008, the departments concerned have accepted 3,023 cases involving Rs. 254.55 crore and recovered Rs. 44.27 crore in 1,274 of them. Audit Report wise details of cases accepted and recovered are as under:

(Rupees in crore)

Audit Report	Included in Audit Report		Accepted by the department		Recovered	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
2002-03	1,104	1,141.96	488	66.93	371	21.00
2003-04	1,038	393.46	950	19.14	374	8.81
2004-05	544	820.86	390	27.18	225	9.03
2005-06	1,314	694.48	735	117.15	197	3.95
2006-07	824	324.48	460	24.15	107	1.48
Total	4,824	3,375.24	3,023	254.55	1,274	44.27