

Report of the Comptroller and Auditor General of India

**Compliance Audit
for the year ended March 2021**



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



**Government of Karnataka
Report No.1 of the year 2023**

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Comptroller and Auditor General of India**

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Preface

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2021 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 Women and Child Welfare, Agriculture, Higher Education, Animal Husbandry and Veterinary Services, Health and Family Welfare and Rural Development and Panchayat Raj 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 and the Department of Stamps and Registration.

The instances mentioned in this report are those, which came to notice in the course of test audit for the period 2020-21 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 2020-21 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 eight paragraphs and Part II relating to Revenue Audit contains 12 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 2020-21, as against the total outlay of ₹6,94,913 crore, the application of resources was ₹ 5,48,481 crore. While the total expenditure (*i.e.*, total of revenue expenditure, capital outlay and loans and advances) increased by 38 *per cent* during the period 2016-17 to 2020-21, the revenue expenditure increased by 33 *per cent* during the above period. The revenue expenditure (₹1,76,054 crore) constituted 79 to 81 *per cent* of the total expenditure (₹2,24,129 crore) during 2020-21.

(Paragraph 1.2 and 1.3)

Responsiveness of Government to audit

A total of 7,526 Inspection Reports containing 38,999 paragraphs were outstanding against 48 departments as at the end of March 2021.

(Paragraph 1.10.1)

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

The Karnataka Building and Other Construction Workers' Welfare Board has not placed before the State Legislature, the SARs for the years 2006-07 to 2016-17. 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

Department of Women and Child Welfare

Thematic Audit on Adequacy (sufficiency and assessment of quality) of Working Women's Hostels

GoI approved the construction of WWH with children day care facility for 104 working women estimated to cost ₹ 39.12 lakh and released (March 1993) ₹ 6.60 lakh to Janatha Trust, Raichur. The State Government released ₹ 1.22 lakh in September 1995. Audit observed that only foundation and pillars were

laid, and the construction of hostel building was not completed even after 28 years.

(Paragraph 2.1.3.1)

Audit observed that the Department had neither undertaken a need based assessment for establishing hostels in each district nor had prepared any action plan.

Non-provision of adequate funds to sanctioned hostel buildings resulted in the building remaining incomplete for long and rendered the expenditure unfruitful.

(Paragraph 2.1.4.1)

Audit observed that DWCD, the authority to implement and oversee the scheme, had not brought it to the notice of the State Government to earmark public land in all new institutional areas and economic zones being set up in the States, keeping in view the huge employment potential for women in the area.

(Paragraph 2.1.4.2)

Audit noticed that the 26 hostels established with Government assistance of ₹ 11.22 crore (released during the period from 1975 to 2017) failed to provide all the prescribed facilities to the inmates. The joint inspection noted that nine hostels lacked signing points for Beat Police, 18 hostels did not have a day care centre, 19 hostels did not have washing machine, 21 hostels did not have ramps with railing facilities, 23 hostels did not have disabled friendly toilets and 10 hostels did not have fire extinguishers.

(Paragraph 2.1.4.3)

Audit noticed that two hostels constructed with government assistance were not used for providing hostel facility for working women.

(Paragraph 2.1.4.5)

The Department permitted hostels to function despite the accessibility issues and absence of basic requirements. This indicates the lack of regular inspections by the Department.

(Paragraph 2.1.5.1.3)

Department of Agriculture

Thematic Audit on the Implementation of Per Drop More Crop (micro irrigation) component under Pradhan Mantri Krishi Sinchayee Yojana.

The overall area coverage under micro irrigation during 2017-21 was 11.81 lakh hectares representing 75 per cent achievement of the area envisaged in the State Irrigation Plan. The shortfall in area coverage was 3.89 lakh hectares (25 per cent). While the achievement looked good, it is to be read with the fact that the implementation was not based on covering

priority/focus/ areas viz., based on ground water status, high value crops, covering beneficiaries of Ganga Kalyan scheme etc., specified in the Operational Guidelines of GoI and Micro Irrigation Policy of the State

(Paragraph 2.2.6 and 2.2.7)

The District Level Implementation Committee set up as per the Operational Guidelines, did not cover its mandated role in implementing the programme. Karnataka Antharganga Micro Irrigation Company, the Company formed in 2018 for accelerating and improving the implementation of the programme is proposed to be closed.

(Paragraph 2.2.7 and 2.2.11.1)

The coverage under Quality Control inspections, Third Party Inspections, and departmental inspections were all weak as the mandated quantum of checks were not being exercised. Manufacturers of micro irrigation systems did not comply with some of obligations such as providing manuals in vernacular language, providing a toll-free number for assistance, and conducting of mandatory campaigns.

(Paragraph 2.2.10 and 2.2.11.2 to 2.2.11.4)

Department of Higher Education

Unproductive expenditure under Scheduled Castes Sub-Plan and Tribal Sub-Plan allocation

Failure of Director of Technical Education to assess the demand for construction of hostels coupled with non-provision of boarding facility rendered the hostels remained vacant which were constructed at a cost of ₹ 43.82 crore under SCSP/TSP funds. Injudicious decision to construct additional rooms for these vacant hostels rendered the additional release of ₹ 27.90 crore unproductive.

(Paragraph 2.3)

Short remittance of receipts by Grant-in-Aid polytechnics

Non enforcing of Grant-in-Aid Codal provisions by the Commissioner of Technical Education resulted in non-remittance of 50 *per cent* of the receipts by Grantee institutions amounting to ₹ 2.79 crore to the Government.

(Paragraph 2.4)

Non-regulation of house rent allowance as per entitlement

Commissioner for Collegiate and Technical Education failed to regulate payment of house rent allowance as prescribed by Government which resulted in excess payment of ₹ 2.18 crore in respect of 68 officials, besides denial of the benefit to other 337 officials

(Paragraph 2.5)

Department of Animal Husbandry and Veterinary Services

Excess expenditure due to incorrect consideration of rate for Vaccine Vial Monitors in Foot and Mouth Disease Control Programme

The Department of Animal Husbandry Veterinary Services considered the rates of Vaccine Vial Monitors on the number of doses instead of considering of number of vials which resulted in excess expenditure of ₹ 7.66 crore.

(Paragraph 2.6)

Department of a Health and Family Welfare Services

Avoidable extra expenditure

Inclusion of 'Plastering to Ceiling' as a separate item by the Health and Family Welfare Department Engineering Divisions, in contravention of codal provisions, resulted in avoidable extra expenditure of ₹ 3.73 crore.

(Paragraph 2.7)

Department of Rural Development and Panchayat Raj

Wasteful expenditure on execution of road works on Forest Land

Execution of road works on Forest Land by violating the Codal provisions and in contravention to IRC provisions resulted in wasteful expenditure of ₹ 62.09 lakh due to non-achievement of all-weather road connectivity to two Rural Habitations.

(Paragraph 2.8)

Part-II: Revenue Audit

Part-II of this Report pertaining to Revenue Audit contains 12 paragraphs including two Subject Specific Compliance Audits. These paragraphs contain observations relating to non/short-levy of tax, revenue foregone etc. amounting to ₹ 77.54 crore.

General

Total revenue receipts of the State Government for the year 2020-21 amounted to ₹ 1,56,716.41 crore against ₹ 1,75,442.79 crore for the previous year. Of this, 67 *per cent* was raised by the State through tax revenue (₹ 97,052.54 crore) and non-tax revenue (₹ 7,893.84 crore). The balance 33 *per cent* was received from the Government of India as State's share of divisible Union taxes (₹ 21,694.11 crore) and grants-in-aid (₹ 30,075.92 crore).

(Paragraph 1.1)

A total of 1,260 Inspection Reports, containing 4,035 observations, involving money value of ₹ 1,807.64 crore, were pending with the Departments for settlement at the end of June 2021.

(Paragraph 1.5)

Test-check of the records of 130 units of Value Added Tax/Goods and Services Tax, State Excise, Stamp Duty and Registration Fee conducted during the year 2020-21 showed under-assessment/short-levy/loss of revenue aggregating ₹ 293.04 crore in cases pointed out through 560 paragraphs.

(Paragraph 1.8)

Taxes/VAT on Sales, Trade, etc. and Goods and Services Tax

Subject Specific Compliance Audit on Transitional Credits

Correctness of the transitional credit claims of 23 dealers amounting to ₹ 2.83 crore could not be verified as the dealers claimed transitional credit without filing all the returns for the tax periods between January 2017 to June 2017, though mandated under the transitional provisions.

(Paragraph 2.5.9.1 (a))

The VAT return for June 2017 showed zero credit in 30 cases, however the dealers had claimed transitional credit amounting to ₹ 0.93 crore.

(Paragraph 2.5.9.2 (a))

Excess transitional credit amounting to ₹ 2.08 crore was claimed in 49 cases, as the dealers claimed transitional credit of ₹ 4.33 crore even though credit available in their June 2017 VAT return was only ₹ 2.25 crore.

(Paragraph 2.5.9.2 (b))

In 58 cases, consequent on filing of the audited statement in Form VAT 240, the credit available was only ₹7.76 crore, whereas the dealers had claimed transitional credit of ₹ 8.72 crore which led to excess claim of ₹0.96 crore.

(Paragraph 2.5.9.3 (a))

In 32 cases, the dealers had claimed transitional credit of ₹ 5.82 crore. But their credits for June 2017 were subsequently reduced to ₹ 33.11 lakh in the re-assessment orders passed by the Departmental Officers based on detailed scrutiny of their books of accounts resulting in excess claim of ₹ 5.49 crore.

(Paragraph 2.5.9.3 (b))

Subject Specific Compliance Audit on GST Refunds

The provisions envisaged issue of provisional refund within seven days from the date of acknowledgement and issue of final refund within sixty days from the date of receipt of application. Audit noticed;

- Delay upto two months in 39 cases and more than two months in two cases in issue of provisional refund orders.
- Delay ranging from two to 229 days in issue of final refund orders in 61 cases.

(Paragraphs 2.6.8.1 and 2.6.8.2)

In 11 cases, input tax of ₹ 1.89 crore pertaining to capital goods was treated as net input tax credit for the purpose of calculation of refund amount, resulting in incorrect refund.

(Paragraph 2.6.8.4)

The provisions under the GST Acts, stipulated that input tax credits were not available for supplies like food and beverages, outdoor catering etc. It also prescribed a formula for refund in case of zero-rated supply of goods or services. Audit noticed;

- Excess refund in 20 cases due to allowing ineligible credits amounting to ₹ 0.65 crore.
- Excess refund amounting to ₹ 1.11 crore in 23 cases due to adoption of incorrect turnover

(Paragraphs 2.6.8.5 and 2.6.8.6)

Other paragraphs

In two cases, tax collected in excess amounting to ₹ 4.65 crore by two assesseees was not forfeited to the Government though stipulated under the KVAT Act. Total liability including interest amounted to ₹ 6.65 crore.

(Paragraph 2.7)

Non levy of tax on sale of liquor by four Bars and Restaurants situated in urban areas for the period from April 2014 to March 2017 amounted to ₹ 0.37 crore inclusive of interest and penalty.

(Paragraph 2.8)

Short levy of tax due to incorrect allowance of sub-contractor payments, by four dealers, amounted to ₹ 3.37 crore inclusive of interest and penalty.

(Paragraph 2.9)

Incorrect/excess adjustment of credit amounts by three dealers amounted to ₹ 0.54 crore inclusive of interest and penalty.

(Paragraph 2.10)

In five cases, allowance of excess deduction under labour and like charges resulted in short-levy of tax amounting to ₹ 3.77 crore inclusive of interest and penalty.

(Paragraph 2.11)

Stamp Duty and Registration Fee

Misclassification of Release deed, Sale-agreement and Power of Attorney with respect to their sub-clauses in eight cases led to short-levy of stamp duty and registration fee of ₹ 14.71 crore.

(Paragraph 3.4)

Non-disclosure of existence of building, the status of development of the property and non-reckoning of existence of power of attorney led to short-levy of SD and RF amounting to ₹ 1.70 crore in 10 cases.

(Paragraph 3.5)

Undervaluation of properties by the District Registrars in the documents referred to them in eight cases led to short-levy of SD and RF amounting to ₹ 15.09 crore.

(Paragraph 3.6)

In eight cases, additional stamp duty amounting to ₹ 1.87 crore was not levied on documents relating to amalgamation of companies.

(Paragraph 3.7)

Adoption of incorrect rates and valuation based on inadequate inputs in 70 Joint Development Agreements in nine SROs led to short-levy of SD and RF amounting to ₹ 8.09 crore.

(Paragraph 3.8)

PART - I

Chapter - I

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 2016-17 to 2020-21 is given in **Table 1.1** below:

Table 1.1: Budget and actual expenditure of the State during 2016-17 to 2020-21

(₹ in crore)

Expenditure	2016-17		2017-18		2018-19		2019-20		2020-21	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
General services	35,018	31,265	38,009	34,484	45,744	42,655	50,492	48,824	59,602	55,018
Social services	50,960	54,549	55,887	58,652	70,226	67,935	71,350	66,373	65,046	61,726
Economic services	38,277	40,421	43,671	42,856	44,152	48,285	52,907	52,636	48,536	53,629
Grant-in-aid & contributions	5,980	5,686	7,187	6,490	6,167	5,425	6,856	6,425	6,590	5,681
Total (1)	1,30,235	1,31,921	1,44,754	1,42,482	1,66,289	1,64,300	1,81,605	1,74,258	1,79,774	1,76,054

Expenditure	2016-17		2017-18		2018-19		2019-20		2020-21	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
Capital outlay	25,716	28,150	32,033	30,667	35,246	34,659	40,080	35,530	43,059	45,406
Loans & advance disbursed	625	1,934	1,597	5,093	5,817	4,487	2,503	4,069	3,452	2,669
Repayment of public debt	6,841	7,420	8,176	8,269	11,136	11,083	9,964	10,180	11,605	11,016
Contingency fund	5	0	5	0	5	0	5	0	5	0
Public accounts disbursement	3,42,036	1,67,154	5,09,624	1,94,537	5,10,667	2,34,330	5,19,964	2,45,292	4,57,018	2,66,193
Closing balance	0	34,354	0	26,184	0	22,004	0	34,463	0	47,143
Total (2)	3,75,223	2,39,012	5,51,435	2,64,750	5,62,871	3,06,563	5,72,516	3,29,534	5,15,139	3,72,427
Grand Total (1 + 2)	5,05,458	3,70,933	6,96,189	4,07,232	7,29,160	4,70,863	7,54,121	5,03,792	6,94,913	5,48,481

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 ₹ 6,94,913 crore, the application of resources was ₹ 5,48,481 crore during 2020-21. The total expenditure (Total of Revenue Expenditure, Capital Outlay and Loans and Advances) of the State increased by 38 *per cent* from ₹ 1,62,005 crore to ₹ 2,24,129 crore during the period 2016-17 to 2020-21 while the revenue expenditure increased by 33 *per cent* from ₹ 1,31,921 crore to ₹ 1,76,054 crore during the same period. The revenue expenditure constituted 79 to 81 *per cent* of the total expenditure while capital expenditure was 21 to 19 *per cent* during the period from 2016-17 to 2020-21.

During the period from 2016-17 to 2020-21, the total expenditure increased at an annual average rate of 13.72 *per cent* for the period 2016-17 to 2018-19 and decreased to 4.96 *per cent* during 2019-20 to 2020-21, whereas revenue receipts grew at an annual average growth rate of 11.57 *per cent* during the period from 2016-17 to 2018-19 and reduced to 6.34 *per cent* during 2019-20 and to -10.67 *per cent* during 2020-21.

1.4 Persistent savings

During the last five years, 12 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				
		2016-17	2017-18	2018-19	2019-20	2020-21
	Year					
1	1- Agriculture and Horticulture					
	Revenue Voted	653.97 (10)	455.50 (7)	1,340.72 (17)	1178.55 (14)	869.74 (10)
2	3- Finance					
	Revenue Voted	3,028.48 (16)	3,303.03 (17)	4,834.71 (16)	6323.25 (22)	1,849.68 (7)
	Capital Voted	37.97 (33)	38.54 (30)	34.52 (30)	19.32 (15)	24.98 (19)
3	4- Department of Personnel and Administrative Reforms					
	Revenue Voted	143.15 (22)	107.10 (14)	165.94 (13)	104.29 (10)	114.66 (14)
	Revenue Charged	23.05 (10)	24.34 (9)	22.67 (15)	56.52 (34)	32.67 (20)
4	7- Rural Development and Panchayat Raj					
	Capital Voted	842.92 (40)	705.94 (52)	278.19 (8)	1223.39 (21)	498.24 (10)
5	11- Women and Child Development					
	Capital Voted	49.91 (26)	21.56 (11)	71.55 (44)	14.58 (15)	15.25 (7)
6	12- Information, Tourism and Youth services					
	Revenue Voted	34.15 (8)	94.01 (11)	98.11 (16)	42.50 (9)	132.59 (23)
	Capital Voted	93.28 (24)	169.34 (35)	242.22 (42)	126.37 (27)	98.67 (52)
7	21- Water Resources					
	Revenue Voted	119.16 (12)	169.89 (16)	125.31 (12)	290.53 (27)	195.63 (19)
	Capital Voted	1,252.97 (13)	2,638.20 (21)	547.46 (5)	1110.85 (8)	1,119.93 (7)
8	22- Health and Family Welfare					
	Revenue Voted	605.01 (9)	403.91 (6)	427.44 (5)	755.99 (9)	519.62 (5)
9	23- Labour and Skill Development					
	Revenue Voted	111.37 (12)	606.35 (36)	204.81 (16)	222.91 (16)	366.76 (22)
10	26- Planning, Statistics, Science and Technology					
	Capital Voted	125.66 (12)	142.85 (12)	138.05 (10)	647.98 (34)	419.28 (20)
11	27- Law					
	Revenue Voted	72.89 (11)	79.63 (10)	59.28 (6)	61.67 (6)	159.06 (14)
12	28- Parliamentary Affairs and Legislation					
	Revenue Voted	24.82 (14)	59.21 (25)	34.33 (18)	14.46 (8)	34.11 (13)

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 2016-17 to 2019-20 whereas the grants decreased during 2020-21, as compared to the previous years, as shown in **Table 1.3**.

Table 1.3: Grant-in-aid received from Government of India¹

(₹ in crore)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Non-Plan grants*	7,045	-	-	-	-
Grants for State Plan schemes*	8,102	-	-	-	-
Grants for Central plan schemes*	116	-	-	-	-
Grants for Centrally sponsored Schemes	440	11,617	10,393	12,214	9,852
Other transfers/Grants to States	-	7,316	11,714	17,593	14667
Finance Commission Grants	-	2,708	3,374	4,673	5557
Total	15,703	21,641	25,481	34,480	30,076

* 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 13² 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)³ and 19(3)⁴ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of other Autonomous Bodies, under Section 14⁵ 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, 2007⁶, issued by the C&AG.

¹ This does not include devolution.

² 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.

³ 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.

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

⁵ 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 ₹ one crore.

⁶ Amended during 2020.

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 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 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 2020-21, the number of party days used to carry out audit of 525 units to conduct performance audit and compliance audit were 7,127 days. Similarly, 1,394 party days were used to carry out financial (certification) audit of 158 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.

Eight paragraphs included in Part I of this report were forwarded demi-officially to the Principal Secretaries / Secretaries of the Departments concerned between November 2021 and April 2022 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 2021, 7,526 IRs (38,999 paragraphs) were outstanding against 48 Departments⁷. 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	140	1,817
2	1-2 years	601	5,921
3	2-5 years	1,728	13,128
4	5-10 years	2,221	10,578
5	>10 years	2,836	7,555
Total		7,526	38,999

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

A review of the pending IRs issued up to March 2021 showed that while 1.86 *per cent* of the total IRs was pending *i.e.*, 140 IRs (1,817 paragraphs) for less than one year, 4,550 IRs (29,627 paragraphs) were pending for more than one year but for less than 10 years. However, around 37 *per cent* of IRs *i.e.*, 2,836 IRs (7,555 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, Primary and Secondary Education and General Administration (Revenue) Departments had highest pendency of IRs at 887, 338 and 286 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

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

audit observations which featured in Audit Reports, within four months of their being laid on the Table of Legislature.

The administrative departments did not comply with these instructions and eleven departments as detailed in **Table 1.5** did not submit ATNs for 26 paragraphs for the period 2003-04 to 2019-20 even as on 31 December 2021.

**Table 1.5: Details of Departmental Notes pending as of 31 December 2021
(Excluding General and Statistical Paragraphs)**

Sl. No.	Department	2003-04	2005-06	2006-07	2011-12	2012-13	2016-17	2017-18	2018-19	2019-20	Total
1	Animal Husbandry and Veterinary Services, Fisheries	---	---	---	---	---	---	---	---	1	1
2	Co-operation	---	1	---	---	---	---	---	---	---	1
3	Horticulture	---	---	---	---	---	---	1	---	---	1
4	Food and Civil supplies, Consumer Affairs	---	---	---	---	---	1	---	---	1	2
5	Minor Irrigation	1	---	1	---	---	---	1	---	---	3
6	Rural Development and Panchayat Raj	---	---	---	---	---	---	2	---	1	3
7	Education	---	---	---	---	---	---	1	1	2	4
8	Health and Family Welfare (Medical Education)	---	---	---	---	---	---	---	2	---	2
9	Health and Family Welfare	---	---	---	---	---	---	1	1	3	5
10	Labour	---	---	---	---	---	---	---	1	1	2
11	Revenue	---	---	---	1	1	---	---	---	---	2
	Total	1	1	1	1	1	1	6	5	9	26

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 2021 showed that 89 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 2021 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 th June 2021)
1	Karnataka Building and Other Construction Workers Welfare Board, Bengaluru	As per Section 19(2) Of DPC Act	2019-20	2016-17	--	2020-21	9 Months
2	Karnataka Text Book Society, Bengaluru	2006-07 to 2020-21	2018-19	2007-08	--	2019-20 & 2020-21	1 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 Building and Other Construction Workers' Welfare Board has not placed before the State Legislature, the SARs for the years 2006-07 to 2016-17. 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 2017-18 to 2020-21

Year	Performance Audit		Paragraphs		Replies received	
	Number	Money Value (₹ in crore)	Number	Money Value (₹ in crore)	Performance Audit	Draft Paragraphs
2017-18	01	265.82	14	287.91	01	14
2018-19	01	7.01	17	2,802.96	01	17
2019-20	--	---	09	68.90	---	---

Source: Audit Reports (General and Social Sector Audit, now Audit-1) of 2017-18, 2018-19 and 2019-20.

During 2020-21, six paragraphs involving ₹ 88.70 crore and two thematic audits have been included in this Report.

Chapter - II

Chapter-II

Department of Women and Child Welfare

2.1 Thematic Audit on Adequacy (sufficiency and assessment of quality) of Working Women's Hostels

2.1.1 Introduction

Under Government of India (GoI) assistance, the Working Women's Hostels (WWH) under the Women and Child Department were functioning (both Government and aided) in the State in cities/towns where employment opportunities for women exist and were governed by the guidelines issued by GoI.

The State Government accorded permission (July 2006) to establish hostels for differently abled girl students and women subject to fulfilment of minimum norms of infrastructural facilities. The Non-Government Organisations (NGOs) would run the hostels for which they would receive grant-in-aid every year from the State Government. Further, the State Government introduced (September 2010) its own scheme wherein financial assistance of a maximum of ₹ 25 lakhs would be given to registered private and self-help organisations to establish hostel facilities for regular working women in district headquarters besides allocating 10,000 square feet land at the rate of 50 *per cent* of guidance value subject to fulfilment of the various conditions laid down under the financial assistance scheme.

The Principal Secretary to Government, Department of Women and Child Development and the Empowerment of Differently Abled and Senior Citizens is assisted by the Director, Women and Child Development (DWCD) at the State level. The Project Director, Stree Shakti is responsible for the implementation and monitoring of Working Women's Hostel (WWH) Scheme and is assisted by the Deputy Directors (DDs) at the district level.

2.1.2 Audit framework

Audit test-checked (November 2020 to April 2021) the records of the Secretariat, Commissionerate and 11 district level offices, out of 30 districts in the State, for the period 2015-16 to 2020-21 to assess the adequacy and sufficiency of Working Women Hostels (WWHs) in the State. Audit conducted a joint inspection of 20 (66 *per cent*) out of 30 WWHs and all the 12 WWHs for differently abled in the sample districts to ascertain the availability of facilities and quality of accommodation provided. Further, information was sought through proforma from six regular WWHs which could not be visited due to Covid pandemic. An entry conference was held on 11 December 2020 with the Commissioner, Women and Child Development to discuss the audit objectives, criteria, scope and methodology. The audit findings were discussed with the Principal Secretary in the exit conference held on 10 December 2021. This report takes into consideration the replies furnished by the State Government.

Audit findings

2.1.3 Budget and expenditure

A) For regular hostels

For the period 2016-17 to 2020-21, the State Government had provided for ₹ 26 lakh during 2017-18, of which only ₹ 12.5 lakh was released to two hostels (at Vijayapura and Udupi) towards first instalment of ₹ 6.25 lakh each and ₹ 0.45 lakh was utilised for transit hostels in Bengaluru. Both the hostels had utilised the funds. There was, however, no budget provision during the other years of the audit period. The State Government had also not received funds from GoI during the above period as it had not forwarded any proposals for establishment of regular WWHs.

Though the GoI guidelines provide for grants for replacement of items like washing machines and geysers/solar water heaters once in five years, none of the WWHs in the State had submitted their proposals for availing this replacement grant.

The State Government stated (January 2022) that proposals for replacement grants would be sent to GoI.

Thus, the laxity of the authorities not only resulted in loss of assured financial assistance from GOI to State Government but also non-provision of improved facilities to inmates of WWHs.

B) For differently abled hostels

The State Government releases funds annually to the WWHs for differently abled towards expenditure on rent of the buildings, administrative charges, salary of the staff, food *etc.* The status of budget allotment, expenditure and savings thereon during the period 2016-17 to 2020-21 is given in **Table 2.1**.

Table 2.1: Details of budget and expenditure for differently abled WWHs

Year	Budget	Expenditure	(₹ in lakh)
			Savings (<i>Per cent</i>)
2016-17	458.00	321.54	136.46 (30)
2017-18	350.00	309.28	40.72 (12)
2018-19	350.00	313.32	36.68 (11)
2019-20	350.00	319.85	30.15 (9)
2020-21	275.00	271.54	3.46 (1)
Total	1,783.00	1,535.53	247.17 (14)

Source: Information furnished by the Department

It could be seen from the table above that as against the total releases of ₹ 17.83 crore by the Government during the period 2016-21 towards hostels for differently abled working women, an amount of ₹ 15.35 crore was only utilised. While the overall savings during the period was 14 *per cent*, it ranged between 30 *per cent* in 2016-17 and one *per cent* in 2020-21.

2.1.3.1 Unfruitful expenditure on construction of a Hostel building

GoI approved the construction of WWH with children day care facility for 104 working women estimated to cost ₹ 39.12 lakh and released (March 1993) ₹ 6.60 lakh to Janatha Trust, Raichur. The State Government released ₹ 1.22 lakh in September 1995. Audit observed that only foundation and pillars were laid, and the construction of hostel building was not completed even after 28 years. The District Committee communicated the issue to the Directorate only during September 2021 that there were two hostels already functioning in Raichur and construction of this hostel was not necessary. Hence, sanctioning another hostel which remained incomplete rendered the expenditure of ₹ 7.82 lakh unfruitful.

The State Government in the exit conference (December 2021) stated the issue would be discussed with Deputy Commissioner, Raichur to initiate appropriate action against the Trust and further stated (January 2022) that notice was issued (December 2021) to the Janatha Trust regarding the lapses pointed out in audit.

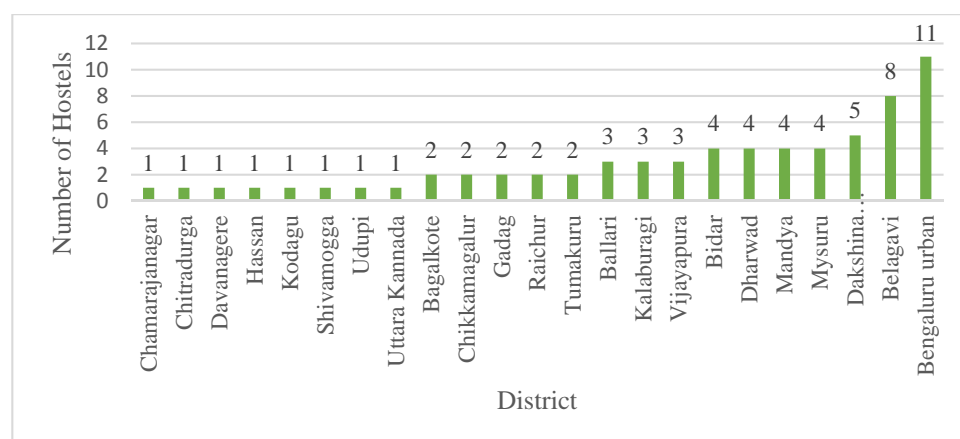
2.1.4 Working Women's Hostels (Regular)

2.1.4.1 Hostels not established in all districts

WWHs provide one of the best accommodation options for working women due to the safety and convenience involved in it. The GoI guidelines stipulate that the State Government shall undertake need based assessment for ascertaining demand of hostels. On the basis of these assessments, land for hostels under this scheme shall be earmarked in smaller towns/ non-metropolitan areas as part of town and country planning by the State/UT Government through the district administration. Recommendation for this purpose may be made by the District Women Welfare Committee to the State Government/ District administration.

In Karnataka, 67 WWHs (55 run by private agencies and 12 managed by universities) catering to the working women were spread across 23 districts. Out of these 67 WWHs, 65 were established under GoI scheme and two hostels under the State Government scheme. The district-wise number of hostels is depicted in **Chart 2.1**.

Chart 2.1: District wise number of the hostels



The details of the sanctioned strength and year wise details of inmates enrolled are as follows:

Table 2.2: Year wise details of WWH inmates enrolled

Period	Number of hostels for Working Women	Sanctioned strength	Actual stay of inmates
2015-16	65	5,735	4,395
2016-17	65	5,735	4,549
2017-18	65	5,735	4,603
2018-19	65	5,735	4,445
2019-20	65	5,735	4,184
2020-21	65	5,735	3,642
Total			25,818

Source: Information furnished by the Department

Bengaluru Urban district had maximum hostels (11) followed by Belagavi (8) and Dakshina Kannada (5). While eight districts had only one hostel, five districts had two hostels. Out of the two hostels in Gadag district, one hostel was not functioning during the audit period due to repairs to the building.

Apart from the above, three hostels⁸ sanctioned by the State Government were still under construction as the Department was yet to release the balance funds as shown in **Table 2.3**.

Table 2.3: Details of funds released for construction of hostels

(₹ in lakh)

Name of the institution	Estimated cost	Amount to be released	Amount actually released	Released during	Percentage of short release
The Johra Women and Children Welfare Charitable Trust, Kalaburagi	37.80	25.00	10.00	March 2016	60
Mahila Mandala (R), Katapadi under Udupi district	61.00	25.00	6.25	June 2017	75
Al-Falha Social Welfare Society, Muddebihal under Vijayapura district	81.65	25.00	6.25	January 2018	75

Source: Information furnished by the Department

The non-release of funds was due to non-earmarking of budget for this purpose as discussed in Paragraph 2.1.3(A).

Audit observed that the Department had neither undertaken a need-based assessment for establishing hostels in each district nor had prepared any action plan in this regard. This assumes importance as Women/working women will

⁸ Kalaburagi (March 2016), Udupi (June 2017) and Vijayapura (January 2018).

be migrating (interstate/intra state) in search of better job opportunities. Further, the Department did not have a database of migrating working women and had not assessed the extent of working women in a particular region/town/city to ensure that sufficient or adequate number of institutional accommodations were available to meet the demand of migrating women population in such areas. As per the Economic Survey reports, the number of women seeking jobs increased substantially (ranging from 43 *per cent* to 90 *per cent*) between 2017 and 2020 in the seven districts which did not have WWHs. Further as per the report of the Directorate of Economics and Statistics for the year 2016-17 the total of women in employment and girls enrolled graduation in these seven districts ranged between 21,931 and 57,076.

Non-provision of adequate funds to sanctioned hostel buildings resulted in the building remaining incomplete for long and rendered the expenditure unfruitful.

The State Government stated (January 2022) that need based assessment in the remaining districts would be taken up shortly through an appropriate agency.

2.1.4.2 Earmarking of public land for WWHs in all new institutional areas and economic zones

The GoI stipulated (Paragraph 12 of guidelines) that the State Government should ensure that public land for WWHs is earmarked in all new institutional areas and economic zones being set up in the States, keeping in view the employment potential for women in the area and for this purpose State Government may direct all Development Authorities to undertake this exercise of earmarking public land for such hostels in new/existing colonies, as the case may be. The State Government should consider enactment of legislation or amendment to existing laws, if deemed necessary, to ensure earmarking and availability of public land for the hostels.

The Board of approval for Special Economic Zones (SEZ) constituted under SEZ Act 2005 had granted formal approvals for 75 SEZs in the State of which 36 SEZs were operational with an investment of ₹ 99,055.56 crores and generating employment for 3,72,927 persons. Currently there are a total of 495 units within these SEZs. The value of exports from these SEZs during the year 2020-21 (April to September) amounted to ₹ 62,547.44 crores⁹. A Study conducted by Karnataka Fiscal Policy Institute in 2018-19 on the 'Status of Special Economic Zones in Karnataka' reported that 71,118 female employees were working (both skilled and unskilled) in 26 SEZ operational units.

Audit observed that DWCD, the authority to implement and oversee the scheme, had not brought it to the notice of the State Government to earmark public land in all new institutional areas and economic zones being set up in the States, keeping in view the huge employment potential for women in the area.

The State Government stated (January 2022) that all Deputy Commissioners were requested (December 2021) to reserve public land for construction of WWHs. It further stated that the DWCD addressed (June 2021) letters to the Labour and Urban Development Departments to identify regions / locality / towns/cities where there was huge influx of migrating population owing to the

⁹ Source-Economic Survey of Karnataka-2020-21.

existence or growth of various industries/service sector and undertake the exercise of earmarking public land for WWHs in the new/existing colonies. However, the letters were addressed only at the instance of audit.

2.1.4.3 Availability of infrastructure facilities

Each hostel was to provide basic facilities such as day care centres, geyser/solar water heating system, furniture *etc.*, in accordance with the GoI and the State Government guidelines for which a one-time financial assistance was provided by GoI. The GoI guidelines also stipulated additional facilities such as CCTV, medical first aid *etc.*

Audit observed (November 2020-April 2021) that the test-checked 26 hostels established with Government assistance of ₹ 11.22 crore (released during the period from 1975 to 2017) failed to provide all the prescribed facilities to the inmates. It was noticed during joint inspection and analysis of the information furnished that 20 hostels were functioning in buildings constructed with GoI and GoK assistance and six were functioning in buildings leased/rented for this purpose. The joint inspection noted that nine hostels lacked signing points for Beat Police, 18 hostels did not have a day care centre, 19 hostels did not have washing machine, 21 hostels did not have ramps with railing facilities, 23 hostels did not have disabled friendly toilets and 10 hostels did not have fire extinguishers. The omissions in providing different facilities to the inmates are detailed in **Appendix-2.1**.

Further, audit also noticed that private institutions such as Mysuru City Women Credit Cooperative Society, Family Help Centre (Central Social Welfare Centre-Grant-in-aid), Indian Red Cross Society and All India Women Conference (AIWC) Office were functioning in the premises of AIWC WWH, Mysuru. The infrastructure in the hostel was poor and records such as cashbook, register containing the details of inmates *etc.*, were not maintained. The hostel did not have any security arrangements to guard the hostel.

Lack of periodical inspections and proper supervision over the functioning of the WWHs by district authorities resulted in denial of prescribed facilities to the inmates of these hostels.

The State Government stated (January 2022) that a district level committee under the chairmanship of the Deputy Commissioner was reviewing the functioning of hostels regularly. However, the fact remains that the inmates of WWHs were not provided with all facilities as prescribed.

2.1.4.4 Non-compliance to guidelines

Every WWH established with assistance from GoI or GoK was required to comply with the certain guidelines issued by GoI and GoK. The status of compliance in the 26 test-checked WWHs is detailed as shown in **Table 2.4**.

Table 2.4: The status of compliance in the 26 test-checked WWHs

Sl. No.	As per Scheme guidelines	Number of hostels	
		Complied	Not complied
1	Hostel authorities should prominently display on the building, the name of the hostel and the endorsement "Assisted by the Ministry of Women and Child Development, Government of India"/ Women and Child Welfare Department	17	09
2	Hostel Management Committees (HMCs) to be constituted comprising DD, WCD and hostel representatives and meet once in three months.	Though HMCs were formed in 11 hostels, regular meetings were not conducted as prescribed	15
3	The hostel authorities should maintain a database/records containing the details of all inmates such as the place of working, the total stay in the hostel <i>etc.</i>	The database was complete in only three hostels and it was partial in 12 hostels	07*

Source: Information furnished by hostels.

* Status in other four hostels could not be ensured as Joint Physical Verification was not conducted due to prevailing Covid pandemic situation.

It can be seen that hostels did not comply with the stipulations prescribed in the scheme guidelines issued by the GoI and State Governments from time to time.

2.1.4.5 Hostels not used for intended purposes

Audit observed during joint inspection that two hostels that were constructed with government assistance were not used for providing hostel facility for working women as detailed below:

(a) The Director, Regional Institute of English, South India, Bengaluru had received (2004-06) grants of ₹ 74.25 lakh out of ₹ 82.50 lakh sanctioned by GoI and ₹ 6.88 lakh out of ₹ 13.75 lakh from the State Government towards construction of WWH with day care centre for 100 working women. The hostel building consisting of 96 rooms was used for the stay of inmates attending the trainings conducted by the Institute and there were no working women in the hostel. This resulted in diverting the grants for other than the intended purpose. No records were made available to show that approval of the GOI/State Government was obtained for utilising the hostel for trainings conducted by the Institute.

(b) The GoI grant of ₹ 79.76 lakh released for the purpose of construction of WWH at Gulbarga University Post Graduate Centre, Raichur was spent for construction of seven blocks which were being utilized as accommodation for boys (three blocks), staff quarters (one block), students studying in PG centre (one block), guest house (one block) and library (one block). This resulted in diversion of grants from the purpose for which it was granted.

Utilisation of hostel buildings constructed under Government grants towards WWH for other purposes was, thus, irregular.

The State Government stated (January 2022) that notices were issued (December 2021) to the hostel authorities regarding the lapses mentioned in the report.

2.1.5 Working Women's Hostels for differently abled

2.1.5.1 Status of functioning of hostels

Apart from the regular WWHs managed by Women and Child Department, the State, has 28 hostels managed by Department of Empowerment of Differently Abled and Senior Citizens, for the differently abled women in 24 districts. Out of these, two hostels – one each at Chikkamagalur and Ramanagara were not functioning¹⁰. Six districts – Dakshina Kannada, Davanagere, Kodagu, Raichur, Udupi and Uttara Kannada did not have hostels for the differently abled. The details of the sanctioned strength and year wise details of inmates enrolled are as follows:

Table 2.5: Year wise details of differently abled hostel inmates enrolled

Period	Number of hostels for PWDs	Sanctioned strength	Actual stay of inmates
2015-16	27	1,350	1,139
2016-17	27	1,350	843
2017-18	27	1,350	738
2018-19	27	1,350	800
2019-20	25	1,250	999
2020-21	25	1,250	651
Total			5,170

Audit observed that the State Government approved (May 2007) establishment of hostel for differently abled at Raichur by Sankalpa Samsthe, Raichur. The hostel could not commence its functioning as there were no takers despite having given wide publicity through newspapers. Sankalpa Samsthe expressed (March 2013) its willingness to commence the hostel as there was a demand for commencement of the hostel and applications for admissions were received from 25 beneficiaries. Subsequently, a joint inspection of infrastructural facilities was conducted (November 2013) by DD, DWCD, Raichur and District Disabled Welfare Officer (DDWO), Raichur to ascertain the feasibility of commencing the hostel and a report was submitted. Though DDWO sought (July 2017 and February 2020) approval of the Department to commence the hostel, the Department did not take any action (December 2021).

The State Government stated (February 2022) that hostels sanctioned to Dakshina Kannada, Kodagu and Udupi districts were transferred to Bengaluru Urban district.

2.1.5.1.1 Hostels without proper accessibility

Barrier-free accessible environment is the first step towards fulfilling the right of people with disabilities to participate in all areas of community life and was

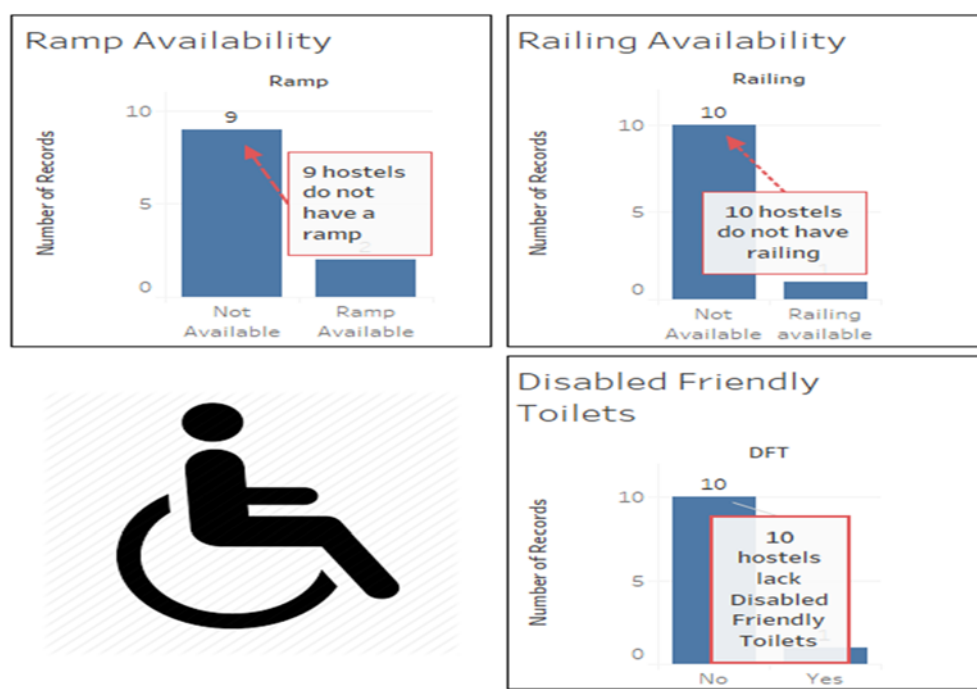
¹⁰ Chikkamagaluru - due to less number of inmates and Ramanagara – due to other issues as discussed in Paragraph 2.1.5.1.5.

recognized as a right in India with the notification of the PWD Acts of 1995 and 2016. The State Government prescribed (March 2004) the minimum infrastructural facilities that were to be available in these hostels such as barrier free environment (ramps, railings), specially designed toilets *etc.*

Out of the 12 hostels selected for joint inspection, one hostel was not functioning since 2019-20 (discussed in paragraph 2.1.5.1.5). Of the 11 hostels, 10 were owned by private agencies while one was run by Government.

All the 11 test-checked hostels, including government hostel were functioning in rented buildings. Of these six were functioning as separate hostel units and five were located in residential buildings. Audit observed that the basic facility of accessibility was not provided in test checked WWHs except one hostel¹¹. As such, they were not provided with disabled friendly infrastructure such as ramps, railings and specially disabled toilets (**Chart 2.2**), which was a prerequisite for establishing such hostels; this included the hostel managed by the Empowerment of Differently Aabled and Senior Citizens Department. Out of these 11 hostels, seven hostels were functioning on floors other than on the ground floor. An amount of ₹ 6.89 crore was released to these 10 private hostels during the audit period.

Chart 2.2: Status of accessibility in test-checked hostels



The State Government stated (February 2022) that action would be initiated to provide barrier free environment such as railing and disabled friendly toilets in accordance with the Acts and necessary directions would be issued to NGOs running such hostels.

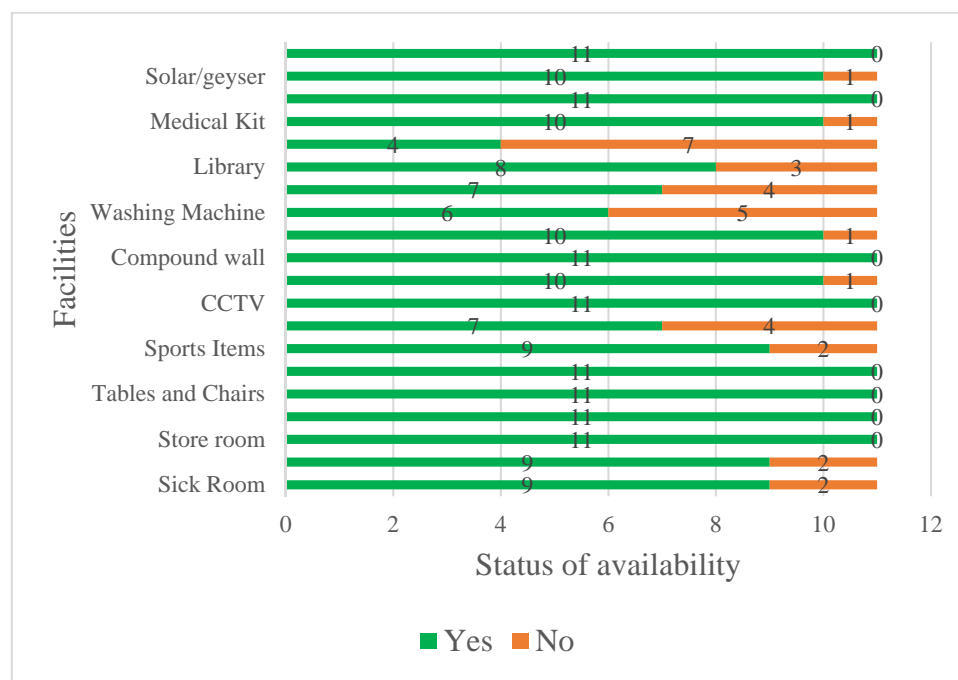
¹¹ Spandana WWH for disabled, Bengaluru.

2.1.5.1.2 Availability of infrastructure facilities

Apart from the accessibility requirements, the other infrastructural facilities that were to be available included one library (Braille and Hearing Impaired), one therapy room, lockers, visiting doctor facility, washing machine *etc.*

The status of facilities in the 11 test-checked hostels is shown in **Chart 2.3**.

Chart 2.3: Status of availability of facilities in test-checked WWHs for differently abled



Source: Findings of joint inspection

It can be seen from the chart above that majority of the hostels provided the prescribed facilities to its inmates, however, five hostels did not have washing machines, seven did not have separate library for hearing impaired (HI) and visually impaired (VI). Further, four hostels did not have the visiting doctor facility. The inmates of these hostels were, therefore, deprived of the essential facilities.

The State Government stated (February 2022) that necessary instructions would be issued to all those NGOs running the hostels to ensure that inmates faced no inconvenience whatsoever and all the facilities would be provided.

2.1.5.1.3 Availability and accessibility of beds

Persons with disabilities, especially the physically challenged and visually impaired, require accessible infrastructure such as single beds and spacious rooms. The inmates in the test checked hostels comprised mainly of physically challenged (57 per cent), visually impaired (25 per cent), hearing impaired (16 per cent) and persons with other disabilities (2 per cent). As per the State Government guidelines, an average space of 100 sq. ft. for every inmate was to

be provided. Audit noted that out of the 11 test-checked hostels, three¹² hostels did not have specified average space per inmate and two¹³ hostels did not have one bed for each inmate. However, a total of 118 bunk beds (two beds one above the other) were provided to the disabled inmates in five hostels (four of these hostels had only bunk beds and one hostel had partially single beds and partially bunk beds as indicated in **Table 2.6**.

Table 2.6: Details of type of differently abled and type of cots provided

Sl. No.	Hostel	Number of Inmates – Disability type					Cot type		
		VI	HI	OH	Others	Total	Single	Double	Total
1	Sajeevi Disabled WWH, Bagalkote	04	03	31	00	38	48	00	48
2	Sakamma Samarthanam Trust Disabled WWH, Bengaluru	29	00	24	01	54	00	27	54
3	Spandana Disabled WWH, Bengaluru	05	14	31	00	50	00	25	50
4	Sri Sai Disabled WWH, Bengaluru	10	14	25	00	49	00	25	50
5	Vinayaka Trust Disabled WWH, Bengaluru	02	23	25	00	50	00	25	50
6	Government Disabled WWH, Kengeri, Bengaluru	10	00	02	00	12	28	00	28
7	Aastha Disabled WWH, Bidar	01	01	45	00	47	12	16	44
8	Hemavathi Disabled WW and Students hostel, Chitradurga	00	00	35	00	35	35	00	35
9	Swetha Disabled WWH, Hassan	14	12	21	00	47	47	00	47
10	Kalmeshwara Disabled WWH, Haveri	00	09	33	08	50	47	00	47
11	JSS Disabled WWH, Mysuru	44	01	02	00	47	47	00	47

VI – Visually Impaired; HI – Hearing Impaired; OH – Orthopaedically Handicapped

Source: Information furnished by hostels and joint inspection

Generally, the injuries caused due to accidents while climbing bunk beds or fall while sleeping are more serious than ordinary cots even for an abled person. Thus, use of bunk beds was not advisable and carried a risk of safety while accessing the top bed through the ladder for physically challenged and visually impaired persons.

It is clear from the above that the Department permitted these hostels to function despite the accessibility issues and absence of basic requirements. This indicates the lack of regular inspections by the Department.

¹² Aastha Disabled WWH, Bidar; Sri Sai Disabled WWH, Bengaluru; and JSS Disabled WWH, Mysuru.

¹³ Aastha Disabled WWH, Bidar; and Kalmeshwara Disabled WWH, Haveri.

The only functional government hostel was in the interior area and the inmates use auto for transport. Due to this inconvenience, the number of the inmates reduced drastically from 30 in 2012-13 to 11 in 2019-20.

The State Government stated (January 2022) that immediate action would be taken to address the issue, DDWOs to be suitably instructed to supervise the maintenance of these hostels from time to time and ensure that all basic and fundamental infrastructure facilities were provided to the beneficiaries.

2.1.5.1.4 Non-recovery of charges from inmates

The State Government stipulated that ₹ 800 per inmate was to be collected from working women staying in the hostels and accounts are to be maintained regarding grants received from State Government. Audit noticed that only three¹⁴ out of the 11 test-checked hostels were collecting the charges from the inmates. However, there was no mention of such fees collected in the receipt and payment accounts of these hostels. Audit also noticed that the receipt books were not maintained in other eight hostels. The reasons for not collecting the charges were not furnished.

The State Government stated (February 2022) that report would be obtained from the NGOs concerned and suitable instructions would be given to DDWOs and concerned NGOs. However, girl students and trainees are provided free boarding and lodging in these hostels.

2.1.5.1.5 Non-functioning hostel

The State Government accorded (June 2012) approval to M/s Vinayaka Education Society to operate and run a hostel for disabled working women and students. The hostel commenced its operations from 2012-13. The Department released a total grant of ₹ 82.99 lakh during the period 2012-13 to 2019-20. As per the records made available to audit, the hostel authorities claimed to accommodate 32 inmates during 2012-13 which was increased to 43 in 2014-15 and decreased to 27 during 2018-19.

Review of the records (November 2020) disclosed that the hostel remained non-functional from December 2019. It was seen that the inmates had complained on non-appointment of security guards besides harassment by hostel authorities which included non-supply of quality food, lack of infrastructural facilities besides facing threats of expulsion from hostels. Consequently, the hostel authorities proposed (November 2019) to the Department for closure of the hostel as the inmates were non cooperative with the staff. The Department initially proposed to shift the inmates to other hostels which did not materialise.

A joint inspection of the three floored building which housed the hostel was conducted on 25 November 2020. As observed during joint inspection, the hostel was located on the ground floor consisting of three rooms, two bathrooms and three toilets. The first and second floor were used for private residential accommodation. Considering the norm of four persons per room¹⁵, the

¹⁴ Aastha Disabled Working Women Hostel, Bidar, Government Disabled Working Women Hostel, Kengeri, Bengaluru and JSS Disabled Working Women Hostel, Mysuru.

¹⁵ As per guidelines issued by State Government in March 2004, maximum of four persons only are to be accommodated in one room.

maximum inmates that can be accommodated was 12 only in the hostel. The DDWO also stated (January 2019) in his letter addressed to Director, that there were only six to seven inmates as observed during his several visits. Interaction with neighbours also revealed that around 10-12 inmates stayed in the hostel at any point of time when it was functioning. This indicates that the hostel authorities claimed grants in excess of actual eligibility and the Department irregularly reimbursed ₹ 82.99 lakh for the period 2012-2020 as claimed by the hostel authorities. The DDWO also failed to restrict the claim as per the actual number of inmates despite his own inspection and statement that there were only six to seven inmates in the hostel.

Audit further observed (September 2021) that the Government cancelled (January 2021) the approval to the hostel and as per orders of Deputy Commissioner, Ramanagara, fresh notification from interested NGOs for running the hostel in Ramanagara was issued (March 2021). Seven bids were received from interested NGOs for running the hostel and successful bidder was finalized by Deputy Commissioner only during February 2022 and was yet to be approved by the State Government (March 2022).

The State Government stated (February 2022) that the hostel was provided with grants based on the report of the Deputy Director and DDWOs of the DWCD. Government also stated that additional grants released, if any, would be verified and necessary action taken.

The reply is indicative of the serious lacunae in internal control mechanism in the Department for ensuring functioning of hostels and release of funds and this facilitated embezzlement of Government money. Responsibility may be fixed on DDWO for recommending release of grants as claimed by the hostel, though aware of lesser number of inmates in the hostel. Government also needs to investigate similar instances, if any, in respect of other hostels.

2.1.6 Monitoring and Evaluation

2.1.6.1 State Level Empowered Committee

The GoI guidelines stipulated that the State Level Empowered Committee (SLEC) shall be constituted under the Chairmanship of Secretary, DWCD or the Department dealing with the subject matter of welfare of women and children for undertaking need assessment for WWHs in their State, recommending proposals *suo-moto*, and dissemination of information on availability of hostels under the scheme.

The SLEC though constituted (June 2009) had not conducted meetings regularly. As a result, there was no plan of action for assessing the requirement of the hostels and monitoring of the functioning of the existing hostels was absent. The Department stated (July 2021) that in future, discussions would be held on need assessment by getting the information from district authorities, Urban development and labour Departments.

The State Government stated (January 2022) that SLEC would be revised to include Departments like Labour, Public Works and Urban development and NGO representatives.

The reply is not acceptable as only the revamping of SLEC including representatives from other Departments would not yield any result unless the Committee hold meetings regularly and discharges its responsibilities with regard to assessment of hostels and dissemination of available information.

Further, the action taken for revising SLEC was not communicated to audit (April 2022).

2.1.6.2 Evaluation of Working Women Hostels

The State Government with the objective of evaluating the process of sanctioning and functioning of the hostels and its economic/social/psychological impact on the working women to understand what has worked well and what has not while implementing the scheme in the State had got the implementation of the scheme evaluated (2015) through the Karnataka Evaluation Authority. The important findings of the evaluation apart from those noticed by audit were:

- Majority (74 per cent) of the inmates heard about the hostels through word of mouth.
- The enrolment process varied significantly from hostel to hostel as no standard process was prescribed.
- Grievance redressal committees were not formed in 88 per cent of the hostels.
- 12 per cent of the inmates reported facing some safety issues such as unsafe location, dangerous to commute, no security guard, thefts *etc.*
- There was no formal mechanism to initiate action against non-compliant hostels by the Department.

The above findings were very significant in nature and required immediate action on part of the Department to address these issues. Audit observed that the Department had not acted on the findings and recommendations of the evaluation report so far.

The State Government stated (January 2022) that the recommendations mentioned in the evaluation report were communicated to all WWHs and Deputy Directors and a circular was issued (August 2017) to act on the evaluation report and conduct regular review of the scheme at district level. The fact remains that the issues pointed out in the evaluation report continued to exist as observed by audit.

2.1.7 Conclusion and recommendations

2.1.7.1 Conclusion

The State Government did not conduct any need assessment exercise/survey nor evaluated the adequacy and sufficiency of the existing hostels for working women in the State. The State failed to provide budget provision during the period 2018-19 to 2020-21 because of which assured financial assistance could not be given to three hostels which were under construction.

The Department permitted establishment and functioning of WWHs for differently abled and released grants every year despite the hostels failing to meet the minimum accessibility requirements.

All the test-checked hostels both regular and for differently abled did provide the inmates with the basic infrastructure facilities to a large extent. However, there were deficiencies such as absence of biometric and day care centres in the regular WWHs and absence of visiting doctor facility, separate library for visually and hearing impaired and washing machine facilities in the hostels for the differently abled. This was due to absence of adequate monitoring by the Department.

2.1.7.2 Recommendations

- 1. *The State Government should take up the project only after undertaking the need-based assessment of the project and also ascertain the adequacy of the existing Working Women's Hostels.***
- 2. *The State Government should earmark public land for construction of Working Women's Hostels and should provide adequate budget for timely completion and establishment of hostels.***
- 3. *The State Government should periodically assess the infrastructure requirement of each of the hostels functioning and provide adequate funds for the maintenance of the same.***
- 4. *The State Government should set definite targets for inspection of all the hostels, especially hostels for the differently abled, to ensure that accessibility related deficiencies are addressed and other infrastructure is provided within a prescribed time limit.***
- 5. *The State Government should put in place a monitoring mechanism to ensure that the hostels function as prescribed and accountability should be fixed for any lapses.***
- 6. *The State Government may issue instructions for uploading the availability of vacancy and facilities in the WWHs on dashboard of the Department.***

Department of Agriculture

2.2 Thematic Audit on the Implementation of Per Drop More Crop (Micro Irrigation) component under Pradhan Mantri Krishi Sinchayee Yojana.

2.2.1 Introduction

2.2.1.1 The Government of Karnataka (GoK) has been implementing¹⁶ Centrally Sponsored Schemes (CSS) for the promotion of micro irrigation (Drip¹⁷ and Sprinkler¹⁸ systems) under National Mission on Sustainable Agriculture (NMSA) with the objective to enhance water use efficiency in agriculture.

In July 2015, the Government of India (GoI) launched the Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) to maximize water use efficiency at farm level. The PMKSY has four components¹⁹ aimed at providing end-to-end solutions in irrigation supply chain, viz., water sources, distribution network and farm level applications. The micro irrigation component under PMKSY was termed as 'Per Drop More Crop' (PDMC) and consisted of providing (a) Drip irrigation system, or (b) Sprinkler irrigation systems to the beneficiary farmers. The component of micro irrigation implemented under NMSA by the State till then, was subsumed under PMKSY.

The GoI issued Operational Guidelines of the PDMC component in October 2015, which were re-issued in April 2017. The objectives envisaged under the Operational Guidelines were to promote micro irrigation (MI) based on ground water status; increase area coverage, productivity of crops and income of farmers; promote micro irrigation in water intensive crops, make potential use of micro irrigation systems for promoting fertigation²⁰; and create employment opportunities.

¹⁶ The CSS launched in 2006 was upscaled to National Mission on Micro Irrigation in the year 2010 and National Mission on Sustainable Agriculture (NMSA) in 2014.

¹⁷ In Drip irrigation, water is provided to the root zone of plants through a network of pipes, drippers and emitters that are designed to discharge water at prescribed rates. The irrigation efficiency of drip irrigation ranged from 90-95 *per cent*.

¹⁸ In sprinkler irrigation, water is sprinkled under pressure in the form of rainfall over the foliage through nozzles fitted with the network of pipes. The irrigation efficiency of sprinkler irrigation ranged from 70-80 *per cent*.

¹⁹ (a) Accelerated Irrigation Benefit Programme (AIBP) focusses on faster completion of ongoing Major and Medium Irrigation Projects, (b) *Har Khet Ko Pani* focusses on source augmentation, ground water development, lift irrigation, diversion of water from water plenty to water scarce areas, (c) Watershed Development focusses on ridge area treatment, drainage line treatment, soil and moisture conservation, water harvesting structures and other watershed works, and (d) Per Drop More Crop focusses on micro irrigation using drip and sprinklers.

²⁰ Fertigation refers to supplying soluble fertilizers with irrigation water with the main objective of improving water and nutrient use efficiency.

2.2.1.2 Funding

As per Operational Guidelines, the financial assistance available to the beneficiary from both GoI and State Government was 55 *per cent* for Small and Marginal Farmers (SMF)²¹ and 45 *per cent* for other farmers to be met by GoI and State Government (GoK) in the ratio of 60:40.

The State Level Sanctioning Committee (refer paragraph 2.2.2), however, decided (March 2016/ May 2017) to provide overall subsidy of 90 *per cent* for all farmers up to two hectares and 45 *per cent* subsidy from two hectares to five hectares. The additional subsidy was to be borne by the GoK.

2.2.1.3 Irrigation Plan

The Operational Guidelines of the scheme mandated the preparation of State Irrigation Plan (SIP) and District Irrigation Plans (DIPs) for planning and implementation of PMKSY. The SIP and DIPs were approved by the SLSC in November 2016. The State Irrigation Plan targeted coverage of 15.70 lakh hectares under micro irrigation during five years (2017-21).

2.2.1.4 Implementing Departments

In the State, three Departments *viz.*, Agriculture, Horticulture and Sericulture implemented the PDMC programme²², of which Horticulture Department was the Nodal Department for facilitating all communications between Ministry of Agriculture (MoA) and GoK for the PDMC programme.

2.2.1.5 Process of application of beneficiaries

The beneficiaries targeted under the scheme were farmers who had landholdings and water source for irrigation. The beneficiaries intending to avail the benefits under the programme were to submit the application form to the implementing Departments enclosing the required documents duly indicating their choice of drip or sprinklers and the registered manufacturers whose system components they intended to avail (refer paragraph 2.2.9.1). The farmers were provided with the system components required for installing Drip irrigation system such as screen filter, ventury (a fertigation device), Polyvinyl chloride (PVC) pipes, laterals, emitting pipes, emitters, and valves. Similarly, in respect of sprinkler irrigation system, the farmers were High-density polyethylene (HDPE) pipes, sprinkler assembly, couplers, and plugs. The farmers were provided these system components based on their choice of drip irrigation or sprinkler irrigation systems and area coverage for a maximum of five hectares.

The process of registration of manufacturers for supply for drip/sprinkler components is given in paragraph 2.2.10.

²¹ As per GoI norms, a Marginal Farmer was one who held land up to 1 hectare; Small Farmer was one who held 1 hectare to 2 hectares; Other Farmers (Medium/Big) were ones who held more than 2 hectares (1 hectare: 2.47 acres).

²² The Government of Karnataka (GoK) termed the micro irrigation programme as Chief Minister's Sookshma Neeravari Yojane also.

2.2.1.6 Micro Irrigation Policy

The State Government, in order to expedite the process of implementation of micro irrigation, approved (July 2018) the Micro Irrigation Policy-2017. The objectives of the MI Policy were to identify geographic distribution and type of crops to be supported by micro irrigation, prioritise coverage among different groups, provide Information Technology support, and enhance incentivization processes with institutional framework. The MI Policy also envisaged formation of Karnataka Antaraganga Micro Irrigation Corporation (KAMIC), a Nodal agency for accelerated implementation of all the micro irrigation schemes in various Departments.

2.2.2 Organisational set-up

The Agriculture Department is headed by Principal Secretary and assisted by the Commissioner of Agriculture. The Horticulture & Sericulture Department is headed by Principal Secretary and assisted by the Director of Horticulture and the Director of Sericulture, respectively.

As per the Operational Guidelines of PDMC, the GoK formed (October 2015) three committees *i.e.*, State Level Sanctioning Committee (SLSC), Inter Departmental Working Committee (IDWG) and District Level Implementation Committee (DLIC) for overseeing the implementation of the programme (Refer Paragraph 2.2.11.1).

2.2.3 Audit framework

The Audit Objectives were to ascertain whether:

1. the planning and funding of the programme were effective.
2. the manufacturers of micro irrigation and the Departments fulfilled their roles in implementing the programme.
3. the objectives of the programme such as increase in area coverage, productivity, income of farmers, and employment generation were achieved.

The Audit Criteria to evaluate the objectives were adopted from sources such as the Operational Guidelines/Circulars/Orders issued by GoI and GoK and Committees of the Governments, Micro Irrigation Policy-2017, State and District Irrigation Plans, Manuals, Karnataka Financial Code, Tender documents and Agreements, and Board Minutes of the Karnataka Antharganga Micro Irrigation Corporation (KAMIC).

The Scope of Audit involved covering the implementation of the PDMC programme from the funds received from GoI and GoK during 2016-17 to 2020-21 in all three Departments *viz.*, Horticulture, Agriculture, and Sericulture Departments.

The Audit Methodology involved test-check of records at the State, district, and taluk level offices. Of the total 30 districts in the State, six districts²³ were

²³ Belagavi, Chikkaballapura, Kalaburagi, Mysuru, Shivamogga and Vijayapura.

selected. Further, from these six districts, 12 taluks were selected based on Stratified Random Sample (based on the area coverage). A total of 600 beneficiary records were reviewed, and 125 Joint Physical Inspections were conducted.

Audit held Entry Meetings with the Departments in July and August 2021 where the Audit Scope, Objectives, and Criteria of audit were informed. The observations and Draft Audit Report were issued to the Departments concerned and the Government. The Exit Meeting to discuss the Draft Audit Report was held with the Government on 8 June 2022 and replies wherever received, were suitably included in the Report.

2.2.4 Acknowledgement

Audit acknowledges the cooperation and assistance extended by the Officials and Officers of Agriculture, Horticulture and Sericulture Departments, Karnataka Antharganga Micro Irrigation Company (KAMIC) and Regional Remote Sensing Authority²⁴, Bengaluru in conducting the Audit.

2.2.5 Physical and Financial progress of the programme

The details of physical and financial progress²⁵ are given in the paragraphs below:

2.2.5.1 Financial performance

The financial performance of the PDMC programme of all the three implementing Departments is given in **Table 2.7** below:

Table 2.7: Financial performance of the programme

(₹ in crore)			
Year	Budget Released (GoI and GoK)	Expenditure	Unspent Amount (per cent unspent)
2016-17	524.91	513.78	11.13
2017-18	714.50	710.90	3.60
2018-19	869.03	838.92	30.11
2019-20	792.11	774.39	17.72
2020-21	1,078.84	1,057.46	21.38
Total	3,979.39	3,895.45	83.94 (2.11)

Source: Compiled by Audit based on progress reports provided by Department (excludes administrative expenditure).

2.2.5.2 Physical performance

The physical performance of the PDMC programme of all the three implementing Departments as compared to the targets envisaged in SIP and fixed by SLSC is given in **Table 2.8** below:

²⁴ Audit sought the assistance of RRSC, Bengaluru for studying the outcomes of the programme.

²⁵ The Department-wise/district-wise details are given in **Appendix – 2.2**.

Table 2.8: Physical performance of the programme

Year	Area				Number of beneficiaries			
	Target as per SIP ²⁶ (lakh ha.)	Achievement (lakh ha.)	Shortfall (-) / Excess (+) (lakh ha.)	Achievement (per cent)	Target as per SLSC	Achievement	Shortfall (-) / Excess (+)	Achievement (per cent)
2016-17	3.14	1.64	(-) 1.50	52	1,42,679	1,65,795	-23,116	116
2017-18	3.14	2.10	(-) 1.04	67	2,63,537	2,12,183	51,354	81
2018-19	3.14	2.34	(-) 0.80	75	2,94,194	2,27,381	66,813	77
2019-20	3.14	2.51	(-) 0.63	80	2,78,026	2,48,937	29,089	90
2020-21	3.14	3.22	(+) 0.08	103	3,21,062	3,26,815	-5,753	102
Total	15.70	11.81	(-) 3.89	75	12,99,498	11,81,111	1,18,387	91

Source: Compiled by Audit based on progress reports provided by Department.

Audit Findings

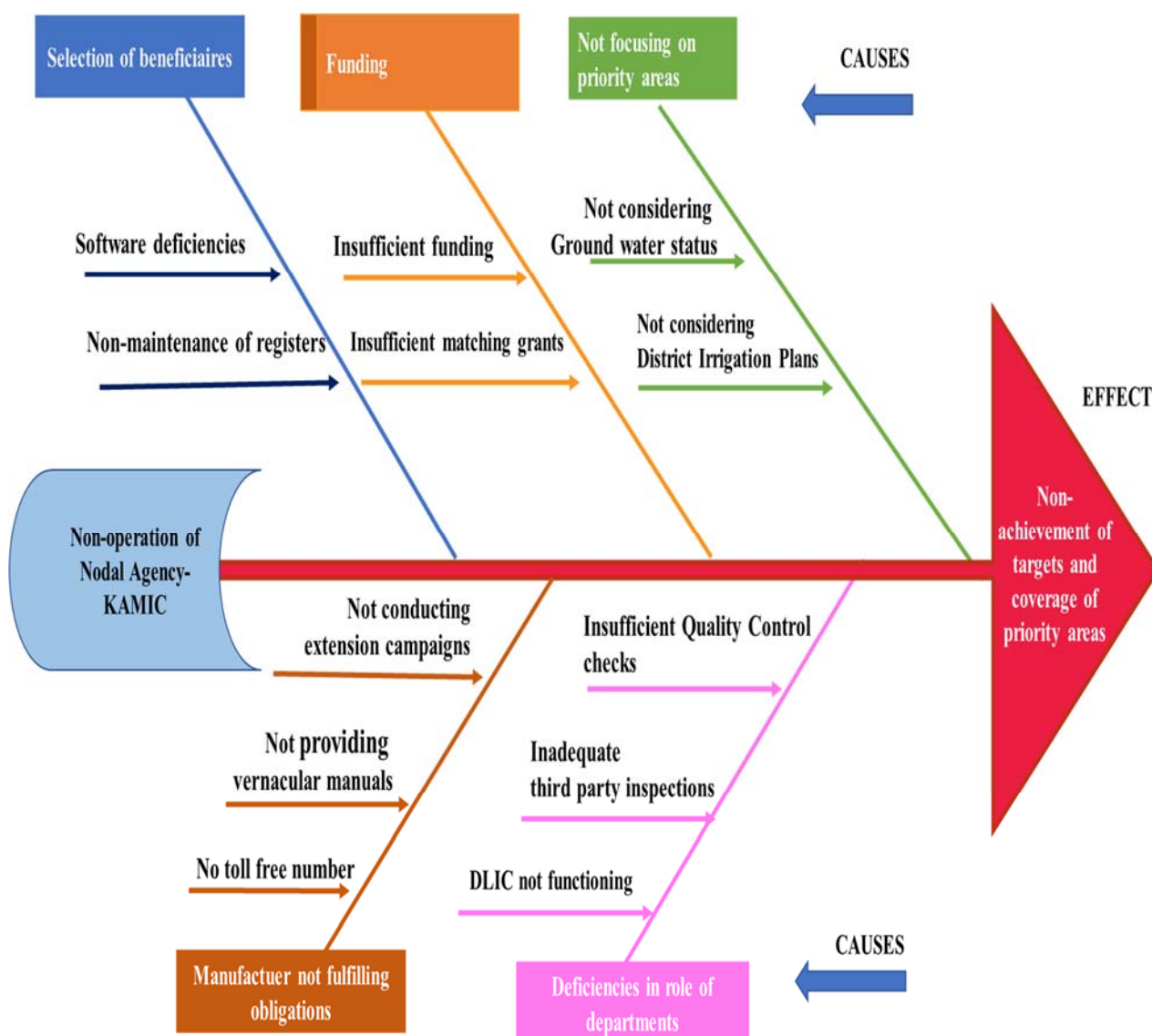
2.2.6 Implementation

It could be seen that the overall area coverage during 2017-21 was 11.81 lakh hectares representing 75 per cent achievement, with a shortfall of 3.89 lakh hectares (25 per cent).

Audit however observed deficiencies in the implementation of the programme. These are summarised in the chart below and discussed in subsequent paragraphs:

²⁶ As year-wise physical targets were not provided in the State Irrigation Plan the total target is distributed equally for five years (considering year-wise fund requirement, which was equal for each of the five years).

Chart 2.4: Cause and effect diagram of the programme



2.2.7 Planning

It was important that the planning of the programme was in line with the MI Policy, Operational Guidelines, and instructions issued by the Governments and SLSC from time to time.

Audit observed that though the achievement in terms of area coverage was 75 per cent of the targeted area during the last five years, the planning had the following deficiencies.

2.2.7.1 The Operational Guidelines specified many areas that were to be focused/prioritised/ promoted but did not specify any specific order of priority in which the beneficiaries were to be selected from among these areas.

The State, however, had a MI Policy, which mentioned the priority areas. Audit however, observed that multiple priority areas were classified as 'First priority' (Sl.No.1 to 3 of **Appendix-2.3**).

The Nodal Department had not issued any instructions on the *inter-se* priority among these focused/prioritised/ promoted areas.

The status of coverage of focused/ prioritised/ promoted areas as per Operational Guidelines and MI Policy are given in **Table 2.9** alongside and detailed in **Appendix-2.3**.

2.2.7.2 As per

Operational Guidelines, the State Irrigation Plan, and District Irrigation Plans (DIP) were prepared, and DIP was to be the cornerstone for planning and implementation. Audit observed that the fund allocation to taluks were not as envisaged in the SIP/DIPs (refer Sl.No.9 of **Appendix 2.3**). Audit observed that only one district (Belagavi) of the Agriculture Department of the six selected districts had adopted a risk matrix²⁷ while allocating funds to taluks. Audit also observed that SIP and DIPs were applicable for the period 2016-2021, but the same is yet to be updated (June 2022).

2.2.7.3 The selection of beneficiaries was based on the chronological order of the receipt of their applications, irrespective of the fact that they fell under any of the focused, prioritised or promoted areas. The Agriculture Department and Horticulture Department maintained their own separate software's for implementation of the programme, while Sericulture Department implemented the programme through manual registration of beneficiaries (refer paragraph 2.2.9.1). The Nodal Department did not have an integrated database of implementation of all three Departments on the areas where micro irrigation

Table 2.9: Status of implementation of focus areas

Areas, which required to be focused/prioritised/ promoted.	Status
To be based on Ground water status.	Documentation on extent covered and balance pending coverage was not maintained.
High value horticulture crops and other field crops.	
Beneficiaries of Ganga Kalyana Scheme.	Beneficiary data collected, but no action taken thereafter by the districts.
Convergence with other schemes.	Minimal convergence with Krishi Bhagya Yojane.
Make MI mandatory for giving new electricity connections to borewells.	Views obtained from Electricity Regulator, but Policy decision yet to be taken.
Industry participation.	Not initiated.
Slab wise subsidy structure as per MI Policy.	Orders were issued but withdrawn by Government.
Allocate funds as per DIP.	Allocations were not as per DIP.
Formation of KAMIC, a PSU as Nodal agency for implementing MI.	KAMIC was formed but was non-operational. It is now proposed to be closed.

²⁷ Assigning weights based on Net cultivated area, Irrigated area, Area under sugarcane, Area under oilseeds, Area under pulses, Area under summer crops, Number of Small and Marginal Farmer (SMF), Annual rainfall, and last four years' expenditure.

was required *vis-à-vis* areas covered with micro irrigation along with details of MI coverage in focused/prioritised/ promoted areas so that there was a harmonious approach in implementation.

The Government replied (June 2022) that most of the area in Karnataka was rainfed and drought prone and as such wherever micro irrigation is adopted, it comes under focus area. Further, as almost all the agricultural crops in the State fell into the mentioned categories, and allocation was made but takeoff depended on demand of farmers.

The reply is general in nature without any quantitative data for verification on the extent of coverage of focused/prioritised/ promoted areas. Also, as per MI Policy and Operational Guidelines, the classification was based on ground water status (over-exploited, critical, and semi critical taluks) and not rainfed and drought prone areas as stated in the reply. It is also evident from the reply that the Department implemented the programme based on demand, rather than beneficiary coverage in the focused/prioritised/ promoted areas as envisaged in the MI Policy and Operational Guidelines.

Recommendation 1: The Departments need to prepare a risk matrix of priority/focus areas by obtaining data at taluk level/lower levels and allot funds based on such analysis. The Departments should request e-Governance Department to capture the type of irrigation (drip/sprinkler/flood) and source of cultivation (Borewell/Open-well/Lift Irrigation Scheme/Krishi Honda etc.) during crop survey and use the information as an input in the planning process and fund allocation to districts/taluks. The Department also needs to issue instructions for selection of beneficiaries as envisaged in the MI Policy and Operational Guidelines.

Recommendation 2: Government may take action to update or prepare new State and District Irrigation Plans and prepare a revised Action Plan for its implementation.

2.2.8 Financial Management

Providing adequate and timely funds was essential for proper implementation of any programme/scheme. As per Operational Guidelines, the total financial assistance available to the beneficiary from both GoI and State Government was 55 per cent for Small and Marginal Farmers (SMF)²⁸ and 45 per cent for other farmers to be met by GoI and State Government (GoK) in the ratio of 60:40. The GoK however provided (March 2016/ May 2017) overall subsidy of 90 per cent for all categories of farmers up to two hectares and 45 per cent subsidy from two hectares to five hectares. The additional subsidy was borne by the GoK.

The State, provided for its share of subsidy (including additional subsidy) along with the GoI subsidy in its budget. The amounts were then released to Horticulture, Agriculture, and Sericulture Departments. The Departments, in turn, released the amounts to the districts for further implementation, based on

²⁸ As per GoI norms, a Marginal Farmer was one who held land up to 1 hectare; Small Farmer was one who held 1 hectare to 2 hectares; Other Farmers (Medium/Big) were ones who held more than 2 hectares (1 hectare: 2.47 acres).

approved Action Plans. Audit observations on financial management are given below:

1. The SIP envisaged to bring 15.70 lakh hectares under micro irrigation during 2016-17 to 2020-21 for which the fund requirement was ₹ 10,909 crore. The GoI and GoK had together provided only ₹ 3,979 crore during 2016-17 to 2020-21. Thus, adequate funds were not provided for implementation of the programme as envisaged in SIP/DIP or the MI Policy, resulting in not achieving the targets. The Government replied (June 2022) that SIP/DIP was uploaded to GoI-PMKSY portal and hence, GoI was aware of the SIP. The reply is not tenable as it was the responsibility of the GoK to make adequate funds available as required under the SIP.

2. In the total subsidy of 90 per cent, the share of GoI was 33 per cent, while the remaining 57 per cent was to be contributed by the State (22 per cent mandatory and 35 per cent additional subsidy). The details of GoI and GoK share of subsidy to be provided, and actually provided for last three years is given **Table 2.10** below:

Table 2.10: Shortfall in release of subsidy

(₹ in crore)

Year	GoI share released including revalidation amounts (33 per cent)	Share to be provided by GoK (at 57 per cent)	Total to be released	Total released	Shortfall in release by GoK
2018-19	331.81	573.13	904.94	872.99	31.95
2019-20	380.22	656.74	1,036.96	780.51	256.45
2020-21	451.94	780.62	1,232.56	1,080.54	152.02
Total	1,163.97	2,010.49	3,174.46	2,734.04	440.42

Source: Progress reports, CA reports and SLSC minutes provided by Departments.

Audit observed that GoK had not released its share of 57 per cent in full to match the GoI releases (at 33 per cent) resulting in shortfall in achievement of targets. In the Exit meeting (June 2022), the Government stated that State was providing 22 per cent as per GoI norms, but as State had to provide additional subsidy over that as per its policy (total 57 per cent), and there was shortfall on this account.

The Government, having committed to provide 90 per cent subsidy, should have made adequate provision for its share in the budget and released the funds.

3. The demand for micro irrigation was from April to June as the main cropping season in the State *i.e.*, Kharif season was from July to October. However, audit observed that the SLSC approved the Annual Action Plans only by June/August²⁹ of the year. Further, analysis of data for 2020-21 of Agriculture Department showed that implementation of the programme (Work order issue date) took off from August/September onwards indicating slow take-off of the programme. Also, there was rush of expenditure in March and funds

²⁹ 2020-21: August 2020; 2019-20: June 2019; 2018-19: June 2018, and 2017-18: May 2017.

were seen released even on last day of the year (31 March). It was observed that funds of ₹ 31.59 crore in 2018-19, ₹ 5.95 crore in 2019-20 and ₹ 21.26 crore in 2020-21 remained unutilized. The Government replied that (June 2022) it has never been the case that funds was delayed despite having ways and means of the Government. The fact remained that funds were not provided during the main crop season and there was rush of expenditure towards end of the year.

4. In Horticulture Department, in 2020-21, audit observed that ₹ 7.35 crore was incurred as expenditure under Scheduled Caste Programme (SCP) component without Sanction Orders. Audit also observed that the Department surrendered ₹ 9.00 crore despite having 7,882 applications pending. The Government replied (June 2022) that without Sanction Orders, Treasury would not release payments, and the pending applications would be considered in next financial year. The reply is not acceptable as the Department had provided statement in which Sanctioned Orders were not forthcoming in respect of payments made to the tune of ₹ 7.35 crore. Also, surrender of funds when applications were pending was not justified.

Recommendation 3: *The Governments may ensure that funds envisaged as per SIP are released to achieve the targets set. Also, as the State Government had extended higher subsidy (90 per cent), there was need to provide additional contribution.*

2.2.9 Selection of beneficiaries

2.2.9.1 As per paragraph 13.5 of Operational Guidelines, the implementing Departments were to follow a uniform procedure and transparency in selection of beneficiaries. The release of assistance to the beneficiaries was to be done in an efficient manner by adopting a web-based IT model for implementation of the programme.

The farmers in the State, who had registered under FRUITS³⁰ and who owned land and water source (borewell/tube-well/canal *etc.*) were to submit applications along with requisite documents (land details, water source, No Objection Certificate) to the nearest centre of the implementing Departments. The choice of the type of micro irrigation (drip/sprinkler) and manufacturer (registered) were to be mentioned by the farmer in the Application.

All the three Departments had a manual system of registration and selection up to 2017-18. The Horticulture Department developed HASIRU software application and used it from 2018-19 onwards, while the Agriculture Department developed another application *viz.*, K-KISAN from 2019-20 onwards. The sericulture Department continued to register/implement the programme through manual registers/process.

Based on the receipt of funds, the selection of farmers was done in the chronological order of registration for sprinkler and drip, under General,

³⁰ Farmer Registration and Unified beneficiary Information System (FRUITS) is a system developed by the e-governance Department of the State, in which farmers can register for availing benefits under various schemes of the Government.

Scheduled Caste and Schedule Tribe categories respectively, as funds are received separately for these categories.

Upon selection, the farmers were to pay their share of 10 *per cent* to the manufacturer. The Department then issued Work Orders for supply for sprinkler sets or for installation of drip in the fields of the farmers. Upon successful supply of sprinklers or completion of installation of drip irrigation in the fields of farmers, the manufacturers submit the records (e-Way bills, Invoices, Farmers Satisfaction Certificate, Farmers Training Certificates) to the Department concerned, who scrutinise the records and make the payment for the remaining amount (90 *per cent*)³¹ to the manufacturer.

The audit observations on selection of beneficiaries and maintenance of records are given below:

2.2.9.1.1 Agriculture Department – software deficiencies

As per directions issued in Agriculture Department, the applications under the programme were to be received at the Raita Samparka Kendras (RSKs) at each Hobli (subunit of taluk) and entered seniority-wise (chronological order of date or registration) in a Register. The applications need to be entered on the K-KISAN portal. Audit observed that:

1. K-KISAN brought in the much-needed transparency in the registration and implementation of the programme by linking it to Farmers Identification Numbers (FIDs)³², which are linked to Aadhar. Audit, however, observed that the selection of beneficiaries was not based on chronological date of registration, due to deficiency in the K-KISAN portal. The deficiency was that in the Assistant Director's (AD) login, applications were not available (to him) for selection in the chronological order of registration of the beneficiaries. As the AD had to select in the same order as it appeared in the K-KISAN portal, audit could not draw assurance that seniority based on date of registration of beneficiary were maintained.

Audit also observed that in eight³³ out of 12 taluks test-checked, Application Receipt Registers were not maintained, and dates were also not recorded in them. Applications also did not have dates of receipt

³¹ The GoK had adopted (November 2014) rates fixed by the Gujarat Green Revolution Company (GGRC) for different components of micro-irrigation systems, and the periodical revisions made for implementation of PDMC programme in the State. The total indicative cost for different areas (0.4 ha. to 5 ha.) and spacing of crops was given in the Operational Guidelines and the subsidy under the programme was limited to the total indicative cost.

³² The farmers in the State were required to register under the Farmer Registration and Unified beneficiary Information System (FRUITS) a system developed by the e-governance Department of the State, for availing benefits under various schemes of the Government.

³³ (1) Yeragatti RSK, Savadatti taluk, Belagavi district (2) Kathi RSK, Belagavi Taluk, Belagavi district (3) Bagepalli RSK, Bagepalli Taluk, Chikkaballapura district; (4) Gowribidnur RSK, Gowribidnur taluk, Chikkaballapura district (5) Aland RSK, Aland Taluk, Kalaburagi district (6) Jewargi taluk, Kalaburagi district (7) Bableshtar RSK, Vijayapura taluk, Vijayapura district (8) Sindhgi RSK, Sindhgi taluk, Vijayapura district.

recorded on it. Audit also observed that the Registers were not updated as the details of Unique Transaction Reference numbers are not entered.

The Government replied (June 2022) that action will be taken to meet out the deficiencies in the selection process.

2. Audit also noticed other deficiencies in the test-checked districts in K-KISAN. These included applications³⁴ under 'keep pending'³⁵ stage in K-KISAN without assigning reasons, and also cases of reversing applications from 'post inspection completed' stage to 'application acceptance' stage (initial stage). The Government stated (June 2022) that instructions will be issued to district heads to maintain the reasons in the K-KISAN portal.
3. Analysis of K-KISAN database for 2020-21³⁶ showed that out of 2,21,513 records where final bills were generated, 11,678 entries had NULL/blank/incorrect dates in 'challan date' in the database. In 21 cases, the Application date were before Work Order date, while in 3,361 cases the Inspection date was before Work Order date. These were logically inconsistent, showing that application controls were absent. The Government attributed (June 2022) the same to human errors while entering data into the system. The fact remained that there were gaps in the application controls on K-KISAN portal, which resulted in such entries.
4. On review of 305 applications in test-checked districts of Agriculture Department, it was observed that there were no Caste certificates in 14 cases (10 SC, 4 ST), No Objection Certificates³⁷ in 26 drip cases, Water Source Certificate in 37 cases and Farmer's Satisfaction Certificate in 22 cases. Extending programme benefits with incomplete documents was irregular. The remaining applications had the required documents. The Government stated (June 2022) that the same would be verified and compliance provided.

2.2.9.1.2 Horticulture Department

From 2018-19 onwards, HASIRU system was adopted in the Department. Out of 1,99,812 applications registered during 2018-21, 16,681 applications (eight *per cent*) were pending (March 2022) which included 14,062 applications (84 *per cent*) due to non-conducting of pre-inspection and post-inspection by Department and 944 applications of 2018-19. It is to mention here that pendency position derived (by audit) considering number of applications registered, work order issued, rejected cases, showed pendency of 30,900 applications. Thus,

³⁴ 5,280 in Belagavi and 13,818 in Kalaburagi for 2019-21.

³⁵ It is an stage in the K-KISAN portal where applications of beneficiaries, who do not come forward for paying their share of contribution or such cases where Caste certificate details had not been linked during application process are moved.

³⁶ Data in respect of 2019-20 from K-KISAN was not available/provided.

³⁷ From other Departments that they have not availed similar benefits under the scheme.

there was a variation of 14,219 pending applications in HASIRU system, which was yet to be reconciled. These beneficiaries would be deprived of the benefits under the scheme.

The Government replied (June 2022) that software updation will be done and pending applications at all levels will be monitored and cleared.

Recommendation 4: Agriculture Department may make suitable changes to K-KISAN software to ensure that selection of beneficiaries was as per seniority. All applications received and status of applications need to be updated in a timely manner in both the Departments in the Registers and Software system.

2.2.10 Role of manufacturers in implementation

The role of the manufacturers of Micro Irrigation was critical to the implementation of the programme. The beneficiaries under the programme were to be supplied with sprinklers/drip irrigation systems. The Nodal Department (Horticulture) invited applications for registration of MI system manufacturers to install drip/sprinkler system and render after sales service in the farmers' field, as per GoI guidelines. The manufacturers could submit applications for registrations throughout the year, by paying the requisite fees. Applications submitted every two months were scrutinized by the State Level Technical Committee and recommended to the Government for approval. After approval, the agreements are entered with the registered manufacturers.

Audit observed that the manufacturer had not met his obligations in:

- (a) preparing Technical Plan with details of system efficiency for each farmer before implementation,
- (b) providing manuals in vernacular language,
- (c) setting up of a toll-free number,
- (d) supply of materials with BIS/approved markings and
- (e) conducting extension campaigns for awareness of the programme.

The details of observations in test-checked districts are given in **Appendix-2.4**.

As a result of not preparing Technical Plan, system efficiency of the micro irrigation installed cannot be verified. Also, not providing manuals in vernacular language and toll-free number affects ease of use of micro irrigation and service support to beneficiaries. Further, not ensuring supply of BIS components would reduce the life of the micro irrigation components.

It was further observed that the Department had also not brought these before the monitoring committees and taken action to levy penalty for non-compliance to obligations. The Government replied (June 2022) that the action on obligations by the manufacturer are addressed in the current year.

Recommendation 5: Manufacturers should be directed to comply with their obligations under the programme with respect to preparing Technical Plans, emboss required BIS markings on components, provide manuals in vernacular language, conduct extension campaigns, and provide toll-free number for service calls.

2.2.11 Role of Departments in implementation

The role of the implementing Departments was critical to the implementation of the programme. Audit observed that monitoring by the District Level Implementation Committee (DLIC) set up was not adequate. Also, there were shortcomings in Quality Control mechanism, Third-Party Inspections, and Departmental Inspections. The Departments were also short of manpower. These are brought out in the following paragraphs:

2.2.11.1 Functioning of Committees

As per the Operational Guidelines, the Government had formed (October 2015) the State Level Sanctioning Committee (SLSC), Inter Departmental Working Committee (IDWG) Chaired by Development Commissioner, and District Level Implementation Committee (DLIC) Chaired by the Deputy Commissioner of the district and consisting of district heads of Departments.

The SLSC met only once during the year, instead of three times as mandated as per Operational Guidelines. The annual Action Plan was approved in May-August³⁸ against March of the year (as per Guidelines). The Government informed (June 2022) that Action Plans are approved after March so that accurate data of earlier year is available for decision making.

Audit also observed that the DLIC meetings (at district level) were not held in five of the six test-checked districts in all the years (2016-17 to 2020-21). It was seen that in Kalaburagi district, the minutes of meetings were not recorded. In Mysuru district, only the status of implementation of Horticulture Department was discussed and representative from the Agriculture Department was not part of the meetings. In the other four test-checked districts, DLIC discussed the physical and financial progress made by Agriculture and Horticulture Departments but had not discussed focus areas and other aspects of implementation of the programme. It was also seen that the DLIC did not have representative from Sericulture Department, though it was one of the implementing Departments. The Nodal Department (Horticulture) failed to ensure regular conduct of meetings of DLIC and appraise the same to SLSC. The Government replied (June 2022) that instructions will be issued to hold DLIC meetings on regular basis. It was also replied that Deputy Director, Sericulture will be included as a member of DLIC.

2.2.11.2 Quality Control tests were insufficient

As per paragraph 17.2 of the Operational Guidelines 2017, the SLSC was to form Joint Inspection Teams for field inspection and frequent surveillance by inspection teams was to be a regular feature under the programme. It was only after two years *i.e.*, in June 2019 that the SLSC approved the formation of State Level Quality Control Committee (SQCC) and a District Level Joint Inspection³⁹ (DLJIT). The Government issued orders for formation of SQCC

³⁸ May (2017-18), June (2016-17, 2018-19, 2019-20) and August (2020-21).

³⁹ Under the Chairmanship of the Joint Director of Agriculture of the district.

and DLJIT in August 2019. The SQCC was to randomly select and send few of the samples of Micro Irrigation units submitted by DLJIT for quality analysis to accredited laboratories of Central Institute of Petrochemicals (CIPET) / Indian Council for Agricultural Research (ICAR). The DLJIT was to inspect the micro irrigation units installed from the year 2016-17 onwards, by drawing at least 10 samples per month per district, which was reduced (December 2020) to five samples per month per district.

Audit observed that as against 4,950 samples to be drawn (March 2019 to December 2021), only 897 samples were drawn. Of the samples drawn, only 535 samples were sent to laboratories for testing, and results in respect of 261 samples were received (December 2021). The results of the remaining samples were awaited (March 2022).

The Government (June 2022) stated samples are being drawn and tested and in the context of high cost for testing it is decided to have a testing laboratory at Bengaluru. The fact remains that required samples were not drawn as per norms.

2.2.11.3 Third Party Inspections were not adequate

As per paragraph 20.4 of the Operational Guidelines, 25 per cent of the projects sanctioned by the State were to be compulsorily taken up for third-party monitoring and evaluation by the implementing States.

Audit observed that Agriculture Department entered into agreement (February 2018) with three Third Party Inspection (TPI)⁴⁰ agencies for different districts for evaluation of implementation of the programme for 2016-17. While the TPI reported that it had inspected 47,755 installations for 2016-17, three test-checked districts (Belagavi, Chikkaballapura and Shivamogga) did not provide any details to audit, while three districts (Mysuru, Kalaburagi and Vijayapura) provided summary details of verification without detailed reports and action taken on the reports. Audit also observed that for 2017-18 to 2020-21, the Agriculture Department neither invited tenders nor appointed third-party agencies (March 2022).

In Horticulture Department, audit observed that it had not appointed third-party agencies for the period up to 2018-19. For 2019-20, it appointed (June 2021) M/s. Shobha Technology Solutions, Mysuru as TPI for inspection of 5 per cent of installations. However, their final report is awaited (March 2022). In the case of Sericulture Department, third-party inspections had not been conducted for the period 2017-2021.

The Government replied (June 2022) that an evaluation of the impact of the scheme is proposed to be done by third-party, as per GoK policy. The reply is not acceptable as the Operational Guidelines envisage both concurrent evaluation (Third-Party Inspection) and also mid-term/end-term evaluation by engaging suitable agencies (Third-Party Evaluation).

⁴⁰ M/s.Shree Mahalakshmi Children & Women Welfare Society, M/s.Siri Grameen Abhivridhi Samsthey, M/s.Hyderabad Karnataka Centre for Advance Learning and Welfare Society.

2.2.11.4 Insufficient Departmental inspections

The instructions issued at the beginning of each year by the Agriculture Department for implementation of programme stipulated that the Assistant Director, Deputy Director and Joint Director were to inspect 25 *per cent*, five *per cent* and two *per cent* of the installations, respectively, done during the year. While 16 taluks in the selected six districts did not furnish information on inspections conducted, 17 taluks furnished information for few years (**Appendix-2.5**). It was observed that the number of inspections conducted were less than one *per cent* as compared to the norms as per the instructions issued.

Further, it was observed that the Agriculture Department had a Monitoring and Evaluation (M&E) Wing whose duties included random inspections and evaluation of programmes in the Department. Audit observed that M&E wing had conducted inspections only in one of the six test-checked district Shivamogga (14 inspections during 2020-21), while it was not done in the other five test-checked districts *viz.*, Belagavi, Chikkaballapura, Kalaburagi, Mysuru, and Vijayapura during 2016-21. The Government stated (June 2022) that field level officers and M&E wings were to inspect certain percentage of installations, but it has been breached more often and suitable instructions were issued to the officers.

2.2.11.5 Delays in processing of applications

For successful implementation of programme, it was necessary to process the application in a timely manner. On test-check of 300 applications of Horticulture Department, audit observed that as against overall permissible limit of 75 days for issue of Sanction Order from the date of registration, the time taken by Department and manufactures ranged up to 617 days resulting in delay in providing benefits to beneficiaries. Audit, however observed instance of registration, issue of work order and completion on the same day, indicating that process can be expedited. During the review of applications, audit also noticed that the details of name, address *etc.*, mentioned in the Work Orders were incomplete. The Government attributed (June 2022) the incompleteness of details to inadequacy on the part of few implementing officers. Also, audit observed that the Department had not fixed time limit for making payments from the date of Sanction Order. It was seen that the time taken by the Department for making payment ranged from 1 day to 285 days from date of Sanction Order. The Government agreed (June 2022) to fix timeline for making payment from Sanction Order date.

2.2.11.6 Human Resource Development

As per paragraph 18 of Operational Guidelines, Human Resource Development was an important component of the programme. Audit observed that Agriculture Technology Management Agency (ATMA) and District Agriculture Training Centers (DATC), which were to provide trainings to officials and farmers on various aspects of cultivation and extension activities, provided 33 trainings in the test-checked districts on micro irrigation/fertigation. Audit, however observed that no specific funds were provided for training in micro irrigation under PMKSY during last five years (2016-21) except in one of the six test

checked districts (Shivamogga) in 2016-17 where ₹ 8.20 lakh was spent for providing training to 3,973 farmers.

Audit also observed that Operational Guidelines providing for training of stake holders⁴¹, exposure visits⁴² and study tour of technical staff⁴³, workshop/conference⁴⁴ were not conducted in any of the six test checked districts, nor funds provided for the same. The Government agreed (June 2022) to provide separate allocations in future to conduct trainings and awareness among farmers.

Audit also observed huge vacancies in Agriculture and Horticulture Departments as at end of March 2022. The vacancies were 39 per cent in the post of Agriculture Officer, 63 per cent in the post of Assistant Agriculture Officer, and 38 per cent in the post of Assistant Horticulture Officer. The Government replied (June 2022) that observations of audit were extremely timely and valid and stated that process of recruitment would commence shortly.

Recommendation 6: The Departments need to take action to conduct random inspections, Quality Control (QC) and Third-party inspections as mandated, through a process of randomisation. Instructions may be issued so that during such inspections/QC, the polygon data of the fields are also captured, so that the same can be used for analysis in future.

Recommendation 7: Pending recruitment to the cadre of Agricultural Officers and Assistant Agriculture Officers, services of contractual staff with adequate knowledge of agricultural activities and computers may be considered.

2.2.12 Results of Joint Physical Inspection on outcomes of the programme

Audit conducted Joint Physical Inspection (JPI) with Department officers of 125 beneficiaries, who had implemented the programme as detailed in **Table 2.11** shown below.

Table 2.11: Results of Joint Physical Inspection

Description	Yield	Area	Fertigation
Increase	106	78	Almost all the drip irrigation beneficiaries used fertigation
No change	8	33*	
Beneficiary not present	11	14	

Source: Results of JPI.

*Already entire area was under cultivation.

⁴¹ ₹ 1,000 per day per farmer within the State and actuals for outside the State for training.

⁴² Actuals for outside the State, and ₹ 4 lakh/participant for outside India.

⁴³ ₹ 300 per day per participant within the State and ₹ 4 lakh per participant outside India.

⁴⁴ With cost limited to ₹ 7.50 lakh per event at international level, ₹ 5 lakh per event at National level, ₹ 3 lakh per event for State level, and ₹ 2 lakh per event for District level.

It was seen that the programme was beneficial to the beneficiaries who reported increase in productivity (yield) ranging from 10-70⁴⁵ per cent. Further, attempts by audit to analyze the outcomes in terms of increase in yield and area using satellite imagery data were not fruitful due to non-availability of quality data and polygon data of the fields. Also, the increase in income of farmers could not be adequately assessed as price of sale of produce was dependent on market rates/factors. The Nodal Department did not have details of the employment generation for skilled and unskilled persons by the manufactures, which was one of the objectives of the programme, but informed (June 2022) that one skilled person day and two unskilled person days are generated in employment.

Conclusion and Recommendations

The implementing Departments were able to achieve 75 per cent of the targets of area coverage envisaged in the State Irrigation Plan. The Joint Physical Inspections also showed that benefits were accruing to the farmers in terms of increase in yield and area. While the achievement looked good, it is to be read with the fact that the implementation was not based on covering priority/focus areas specified in the Operational Guidelines and MI Policy due to deficiencies in Planning the implementation. Not providing adequate and timely funds had also resulted in shortfall in achievement.

On the monitoring front, the District Level Implementation Committee did not cover its mandated role in implementing the programme. KAMIC, the Company formed in 2018 for accelerating and improving the implementation of the programme is proposed to be closed.

The coverage under Quality Control inspections, Third Party Inspections, and Departmental inspections were all weak as the mandated quantum of checks were not being exercised. Manufacturers of micro irrigation systems did not comply with some of obligations such as providing manuals in vernacular language, providing a toll-free number for assistance, and conducting of mandatory campaigns. Though regular trainings on extension activities were being conducted, trainings specifically on micro irrigation and fertigation was far in between, as funds were not provided. Huge vacancies exist in the technical cadres implementing the programme in the Departments.

Recommendations:

Seven recommendations have been made to the Government on the above deficiencies, which are included in the report. The Government accepted (June 2022) six recommendations. On the recommendation (No.3) of providing additional subsidy, the Government stated that while it was providing mandatory subsidy as per GoI norms, but as it had to provide higher subsidy over the GoI norms, due to its policy, there was shortfall on this account.

⁴⁵ Yield increase up to 10 per cent (12 beneficiaries), 11-30 per cent (40 beneficiaries), 31-50 per cent (48 beneficiaries), 51-70 per cent (6 beneficiaries) and No change/ No information (19 beneficiaries).

DEPARTMENT OF HIGHER EDUCATION

2.3 Unproductive expenditure under Scheduled Castes Sub-Plan and Tribal Sub-Plan allocation

Failure of Director of Technical Education to assess the demand for construction of hostels coupled with non-provision of boarding facility rendered the hostels remained vacant which were constructed at a cost of ₹ 43.82 crore under SCSP/TSP funds. Injudicious decision to construct additional rooms for these vacant hostels rendered the additional release of ₹ 27.90 crore unproductive

The Government of Karnataka enacted the Karnataka Scheduled Castes Sub-Allocation and Tribal-Sub Allocation (Planning, Allocation and Utilisation of Financial Resources) Act, 2013 and Rules 2017 to ensure allocation of a budget annually (to be called as the Scheduled Castes Sub-Plan and Tribal Sub Plan fund) in proportion to the population of Scheduled Castes (SC) and Scheduled Tribes (ST) in the State. The State Development Council⁴⁶(SDC) was the apex body to formulate the plans and allocate funds for the development of SC/ST population of the State.

Scheduled Castes Sub-Plan (SCSP) and Tribal Sub-Plan (TSP) stipulated provisions to augment the SC's and ST's living conditions by guaranteeing funds from all related development sectors of the State. It was further stipulated that, in case of unspent amount out of allocation in a particular financial year, the same may be added to the next year allocation but shall not be carried further beyond that year. The Sub-Plans of the Departments were to include only such schemes that secure direct and quantifiable benefit to the SC and ST.

During the compliance audit of the Department of Higher Education (both Collegiate and Technical Education) for the period ending March 2021, audit observed the following.

The Director of Technical Education (DTE) proposed for construction of new hostel buildings in 44 existing Government polytechnics at an estimated cost of ₹ 43.82 crore, as part of the action plan for the year 2013-14 out of SCSP/TSP funds. The SDC approved (January 2014) the action plan of the DTE and the State Government accorded (February 2014) administrative approval for construction the hostels. While the proposal forwarded (February 2014) by the DTE to Government mentioned only about the inclusion of construction works of hostel buildings in the revised action plan and the availability of funds under SCP/TSP, the documentary evidence for demand by beneficiaries/assessment of requirement for construction of these hostel building were not forthcoming from the records.

The DTE entrusted (March 2014) the work to Karnataka Rural Infrastructure Development Limited (KRIDL), without calling for tenders and the works were to be completed between April 2015 to September 2015. There was inordinate

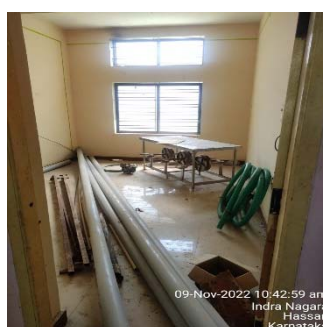
⁴⁶ Council constituted as per provisions of Karnataka Scheduled Castes Sub-Allocation and Tribal-Sub Allocation (Planning, Allocation and Utilisation of Financial Resources) Act, 2013 and chaired by the Chief Minister.

delay in completion of these buildings and even as of March 2021, only 31 out of the 44 hostels were completed, and the works of balance 13 buildings were still in progress. The Department failed to insist KRIDL for timely completion of works despite release of funds in advance.

As an obligatory responsibility, all the hostels maintained by Government provide both boarding and lodging facilities to the rural poor inmates. However, the hostels constructed by the DTE for SC/ST students did not intent to provide the basic requirement of free food. Consequently, the students of the polytechnics did not respond for admission in these hostels and thus, the DTE could utilise only two of the 31 hostel buildings completed. While 15 of buildings were handed over to other Departments/ purposes, 14 buildings remain vacant till date (March 2022). **The Photographs of some of the vacant hostels are reproduced below:**



Government Polytechnic Hostel
KGF



Government Polytechnic Hostel
Hassan



Government Polytechnic Hostel,
Belur

Thus, the expenditure of ₹ 43.82 crore incurred out of SCSP/TSP funds intended to provide exclusive benefits to students belonging to SC/ST communities was rendered largely unfruitful.

Furthermore, despite the fact that the already constructed hostel buildings could not be put to use for the intended purpose, the DTE in its action plan for 2019- 20 under SCSP/TSP proposed for construction of additional rooms in 43 of these 44 hostels at an estimated cost of ₹ 27.90 crore. The justification for construction of these additional rooms was neither on record nor stated to audit. Without ensuring the proper utilisation of already constructed infrastructure, the SDC approved (June 2019) the action plan. The State Government accorded (November 2019) approval to construct six additional rooms at ₹ 90 lakh per hostel in 31 completed hostels for an amount of ₹ 27.90 crore and instructed to entrust the work to Karnataka Housing Board (KHB). The DTE released (November 2019) an amount of ₹ 20.77 crore to KHB and the construction of additional rooms was in progress only in respect of 14 hostel buildings.

In the absence of demand/requirement, the construction of the hostels initially and additional rooms later on was neither justified nor utilisation of SCSP/TSP funds financially prudent. Thus, the decision of DTE to release funds of ₹ 64.59 crore for construction and extension of hostel buildings which did not intent to serve basic free food was injudicious and failed to benefit the targeted community due to non-responsiveness of students. Obviously, the works were taken up to expend allocated funds under SCSP/TSP to avoid lapsing of grants,

and without proper assessment of demand. Further diversion of SP/TSP funds is in violation of Section 24 of Karnataka Schedule Castes Sub-Plan and Tribal Sub-plan (Planning, Allocation and Utilisation of Financial Resources), Act 2013. Action may be initiated against the concerned as per Section 24 of the Act which stipulates any functionary or official being a public servant will fully neglects his duties required to be performed by him under this Act shall be subjected to disciplinary action under the relevant service/disciplinary rules applicable to the Government officials and functionaries or as decided by the Nodal agency for the Scheduled Castes sub-Plan/Tribal Sub-Plan depending upon the intensity of such negligence shall be punishable with an imprisonment for a term which may extend up to six months.

The State Government stated (April 2022) that hostels remained vacant as students preferred hostels run by Social Welfare Department and Backward Classes Welfare Departments which provided boarding/lodging facilities to the inmates and Polytechnics conducted online classes during Covid-19 period. It further stated that the new syllabus was introduced in the polytechnics, which may attract more students in future. The reply confirms that the students did not enrol in these hostels for want of boarding facility and hence the construction of these hostels were not need based.

The State Government and State Development Council should ensure utilisation of funds under SCSP/TSP component productively towards works that directly benefit the targeted population, besides fixing the responsibility on officials for diversion of SCP/TSP funds and also rendering the expenditure unfruitful.

2.4 Short remittance of receipts by Grant-in-Aid polytechnics

Non enforcing of Grant-in-Aid Codal provisions by the Commissioner of Technical Education resulted in non-remittance of 50 per cent of the receipts by Grantee institutions amounting to ₹ 2.79 crore to the Government

Government of Karnataka (GoK) introduced (October 1966) Grant-in-Aid Code (GIA Code) for Technical Education Department to encourage private enterprise in Technical Education. Chapter III of GIA Code laid down the general conditions of grant-in-aid, which is supplemented with orders/instructions issued from time to time governing the release of grants.

State Government stipulated (December 2008) that the aided educational institutions should remit 50 per cent of their receipts to the Government and the other half be retained by them to meet recurring expenditure. The amount so retained shall not be treated as receipts to the institutions for the purpose of calculation of admissible grants. This order was effective from the academic year 2008-09. The GIA Code also specified that grantee institutions were required to submit yearly statement of accounts duly audited to the Government.

Further the Karnataka Education Act, 1983 prescribed that the accounts of every education institution receiving grants out of State fund shall be audited at the end of every academic year. The Commissioner of Technical Education (CTE)

was responsible for conducting the annual audit of all the aided technical institutions in the State.

The CTE was releasing the salary grants to the staff of aided polytechnics through the Principals' account up to February 2010. Any short remittances noticed during the audit of these institutions by the Department would be adjusted against subsequent releases. However, from March 2010 the salary of the staff was directly remitted to their individual account through Electronic Clearance System and from October 2019 onwards the salary bills are generated through HRMS and payments made through Khajane-2. Consequently, CTE could not adjust short remittance from the polytechnic institutions.

The Compliance Audit of Technical Education Department for the year 2019-20 was carried out during August 2020 to March 2021, which included two⁴⁷ out of 44 aided polytechnics in the State. Audit observed non-remittance of tuition fees of ₹ 35.67 lakh to the State Government in both these test-checked institutions. Subsequently, details of fees collected and remitted thereon from 2010-11 onwards in respect of all aided polytechnics in the State was sought (June 2021) from the CTE. Audit verification of the information obtained from CTE showed that while 19 institutions were regularly remitting the amounts to Government, the other 25 institutions did not remit amount aggregating to ₹ 3.38 crore as of December 2021. The interest on the year-wise pending balance amount from these 25 institutions, as worked out by audit at a nominal rate of three *per cent* per annum, amounted to ₹ 61.46 lakh. Details of total balance amount and the interest thereon are detailed in **Appendix- 2.6**.

The reasons for non- remittance of tuition fee were not forthcoming from the records. Audit observed that Department had not put in a place a mechanism to monitor the timely remittance of fees consequent to salary bills generated through to HRMS.

Further, the mandatory annual audit of all the institutions was also not conducted. Audit analysis disclosed that there was shortfall in conduct of audit by CTE. It was observed that number of colleges audited during 2017-18⁴⁸ to 2020-21 ranged between one and 14 and year-wise details of number of aided polytechnics audited by the CTE are given in **Appendix- 2.7**.

The State Government replied (March 2022) that:

- ❖ A circular was issued to all the aided polytechnics to remit the pending tuition fees immediately to avoid any disciplinary action and recovered an amount of ₹ 59.31 lakh from 10⁴⁹ institutions.
- ❖ Instructions have been issued to the aided polytechnics to submit the certified annual accounts to the Department.
- ❖ It plans to enforce a system for maintenance of accounts and monitoring of remittance of tuition and development fee; and

⁴⁷ Impact polytechnic, Bengaluru and MEI polytechnic, Bengaluru.

⁴⁸ Data pertaining to polytechnics audited prior to 2017-18 was not furnished.

⁴⁹ Seven institutions have remitted full amount and three remitted partial amount.

❖ Internal Audit could not be conducted due to shortage of staff and that the staff were entrusted with various other responsibilities.

The reply of Government cannot be accepted as the Department should have regulated the Grant-in-Aid to the extent of short remittance of ₹ 2.79 crore. Department is also responsible and accountable for ensuring adherence to the Government directions and to monitor annual audited accounts.

Thus, the absence of internal control mechanism in the Department resulted in 18 GIA institutions retaining amount aggregating to ₹ 2.79 crore (₹ 3.38 crore-0.59 crore) with them without remitting it to Government during the period 2010-11 to 2020-21.

Government should ensure regular audit of aided institutions and timely remittance of dues and fix responsibility for any default.

2.5 Non-regulation of house rent allowance as per entitlement

Commissioner for Collegiate and Technical Education failed to regulate payment of house rent allowance as prescribed by Government which resulted in excess payment of ₹ 2.18 crore in respect of 68 officials, besides denial of the benefit to other 337 officials

The employees of Government of Karnataka including those drawing pay scales of University Grants Commission are governed by the orders/rules and regulations as prescribed by the State Government for the purpose of allowances. House Rent Allowance (HRA) is one such allowance paid to the employees based on the classification of cities, towns and other places and as stipulated (October 2012 and September 2013) by the State Government, the place of duty is the criteria for payment of HRA irrespective of the place of residence of the employees.

Scrutiny of records of the Commissioner, Department of Collegiate and Technical Education (DCTE) revealed that though officials were deployed on deputation to places other than their place of posting/duty, the HRA was, however, paid at the rates applicable to original place of posting instead of place of actual working

On deployment of officials to other places, the DDOs (Principal of colleges) concerned failed to modify the corresponding fields in the Human Resource Management System (HRMS)⁵⁰ for calculating HRA, and thus, salary of the officials placed on deputation was drawn from the parent office at the rate applicable to original place of posting.

Details of officials deployed on deputation as of March 2021 was as shown in **Table 2.12** below

Table 2.12: Details of officials deployed on deputation

No of officials on deputation	Collegiate Education	Technical Education	Total
From cities with higher rate of HRA to lower	61	25	86
From cities with lower rate of HRA to higher	254	83	337

⁵⁰ All the particulars of Government employees like service records, pay and allowances, promotions, transfers, tax and other deductions, etc., are maintained in HRMS.

Not updating the place of actual working in HRMS resulted in excess payment of ₹ 2.18 crore (from May 2010 to March 2021) towards HRA in respect of 86 employees who were deployed from a place of higher rate of HRA to a place entitled for lower rate of HRA. This was not only in contravention of the stipulations of the GO issued during October 2012 but also led to extra burden on the State exchequer.

The Commissioner, DCTE stated (January 2022) that these officials were not to be considered as deployed on deputation but as 'On Other Duty (OOD)' and the pay and allowances were drawn from the parent office considering that as the place of duty. Reply was not acceptable as Rule 8(15)(g) of Karnataka Civil Services Rules, 1958 (KCSR) permits Head of the Department to deploy an official temporarily on special duty only for a period not exceeding one month. Audit also observed instances of officials continuously placed on deputation for more than 10 years.

Further, the Commissioner, DCTE issued (January 2022) a circular instructing to recover the amount of HRA paid in excess of actual entitlement from such officials who were deputed to a place of lower rate of HRA. However, the circular was silent on 337 officials who were deployed from a place with lower HRA to a place entitled for higher HRA and was, thus, inappropriate. As worked out by Audit, the liability on the Government towards payment of entitled HRA amounts to ₹ 7.02 crore (from September 2008 to March 2021) in respect of 254 such officials⁵¹.

Government replied (July 2022) that ₹ 7.64 lakh out of ₹ 2.18 crore recovered from the officials deputed from cities with higher rate of HRA to lower rate of HRA. Further, Department stated that action will be taken considering the cases of deployment on individual requests and stalled the deployment of officials henceforth.

Disregard to the provisions of KCSR and stipulation of the Government for regulation of HRA by the Commissioner, DCTE resulted in extending benefits in excess of entitlement on one part and denying the eligible benefits to another set of officials, which was unjust.

It is recommended that the Government needs to ensure scrupulous compliance by all the Departments to the provisions of KCSR and stipulations for regulation of allowances besides recovering the excess payments made from the concerned officers/officials.

⁵¹ Details of pay and allowances in respect of 83 officials working on deputation under Technical Education was not furnished to audit.

Department of Animal Husbandry and Veterinary Services

2.6 Excess expenditure due to incorrect consideration of rate for Vaccine Vial Monitors in Foot and Mouth Disease Control Programme

The Department of Animal Husbandry Veterinary Services considered the rates of Vaccine Vial Monitors on the number of doses instead of considering of number of vials which resulted in excess expenditure of ₹ 7.66 crore

The Animal Husbandry and Veterinary Services Department (AH&VS) implemented the centrally sponsored 15th and 16th round vaccination of the 'Foot and Mouth Disease Control Programme (FMD-CP)' during 2018-19 and 2019-20 respectively. Two tenders were invited separately for 15th round vaccine during November 2018 and for 16th round during May 2019 respectively for supply of FMD oil adjuvant vaccine with prescribed vaccine strains. M/s. Biovet Private Limited, Malur, Karnataka being the L1 vendor in both tenders, was awarded the contracts for the supply of vaccines.

The Department while placing the supply order for 15th round (January 2019) vaccination indicated that the 83 lakh doses (2ml per dose) be supplied with Temperature Monitoring Card and 110 lakh doses (2ml per dose) for 16th round (September 2019) vaccine vials be supplied with Vaccine Vial Monitor (VVM) for cold chain maintenance respectively.

Audit scrutiny of records of the Office of the Commissioner, AH&VS, Bengaluru for the period from 2017-18 to 2019-20 revealed that the Government of India (GoI) while including the FMD vaccine procurement in GeM portal, notified (May 2019) the composition of vaccine with prescribed strains. The notification further stated that the 16th round of FMD vaccination should give 75 per cent protection against each sero type of the FMD virus with period of immunity of not less than nine months and shall be supplied with Temperature Monitoring Card to assess the cold chain maintenance.

In the pre-bid meeting (04 June 2019) for supply of vaccines (16th round) the bidders expressed that the cost of the vaccine vial with VVM will be higher when compared to Temperature Monitoring Card in each box. However, the Tender Inviting Committee decided to retain the tender conditions for labelling each vial with VVM for effective monitoring of cold chain in line with World Health Organisation – Performance, Quality and Safety (WHO-PQS) certified standards though not specified by GoI.

The contract agreement entered with the vendor stipulated that (clause (I) of 2.20) the unit pack was to be supplied at agreed rate of ₹ 15.72 per unit pack of 2 ml dose labelling each vaccine vial with VVM-14 with packing specification as suitable packing without indicating number of doses. However, while issuing supply order the Commissioner (09 September 2019) indicated that the packing specification as suitable packing of 50 ml (25 doses) and 100 ml (50 doses). A total of 109.70 lakh doses were supplied by incurring an expenditure of ₹ 17.24 crore.

The FMD vaccine for the 15th round (January 2019) vaccination was supplied by the same vendor at an agreed rate of ₹ 8.55 per unit pack of 2 ml dose (03 January 2019) with Temperature Monitoring Card in each box of vaccine. Audit scrutiny of the Certificate of Analysis reports of 15th and 16th round vaccination revealed that the values of the test results are similar.

In view of the above, the vaccine supplied during 15th round and 16th round administration are similar in nature except for affixing VVM on each vial in 16th round. The price difference in FMD vaccine per dose between 15th (₹ 8.55) and 16th (₹ 15.72) round vaccine is ₹ 7.17. The additional cost towards affixing VVM for 2.86 lakh vials is ₹ 20,51,566/- (₹ 7.17 * 2,86,132).

The decision of the Department to affix VVM for each vial instead of Temperature Monitoring Card was unwarranted as per the GoI specifications under GeM portal and bidders expression that cost of vial with VVM will be higher. The Department failed to recast the cost of each vial with VVM (multiple doses) against the cost of per dose with VVM as per agreement resulting in extra expenditure of ₹ 7.66⁵² crore.

The State Government replied (August 2022), that in the pre-bid meeting held on 04 June 2019 under the chairmanship of the Director, Department of AH&VS it was decided to retain the tender conditions for labelling each vial with VVM for effective monitoring of cold chain. It was further stated that the bidder was asked to quote for each dose of FMD vaccine including the cost of VVM and hence the cost of VVM is not shown separately in the financial bid.

The reply is not tenable because though the company had agreed to the price of ₹ 15.72 per dose of vaccine including VVM, the supply was made in vials consisting of multiple doses. The Department paid VVM price for each dose rather than paying for number of vials resulting in excess expenditure.

Recommendation: The Department should exercise prudence before accepting the financial bid, so that the price agreed upon is to the best advantage of Government.

DEPARTMENT OF HEALTH & FAMILY WELFARE SERVICES

2.7 Avoidable extra expenditure

Inclusion of 'Plastering to Ceiling' as a separate item by the Health and Family Welfare Department Engineering Divisions, in contravention of codal provisions, resulted in avoidable extra expenditure of ₹ 3.73 crore.

The Health and Family Welfare Department Engineering Divisions (HFWDED)⁵³ undertake works for construction of super-specialty hospitals, primary health centres, Taluk level hospitals, etc. The estimates prepared by the Executive Engineers of the Divisions, by adopting Schedule of Rates (SR) of

⁵² (109.70 lakh doses* ₹ 15.72= ₹ 17.24 crore) -(109.70 lakh* ₹ 8.55=₹ 9.37 crore) + (2,86,132 vials* ₹ 7.17= ₹ 0.21 crore) = ₹ 7.66 crore.

⁵³ Previously known as Karnataka Health System and Reforms Project.

Karnataka Public Work Department (KPWD), were technically scrutinised by the Superintending Engineer (SE) and sanctioned by the Chief Engineer (CE), Health and Family Welfare Department Engineering Wing (HFWDE Wing).

The State Government issued (September 2002) instructions that the Karnataka Building Specifications (KBS) and the Karnataka Standard Rate Analysis for Buildings (KSRB) should be followed in respect of construction of buildings. Paragraph 8 of the KPWD Code also mandates that all building works shall be in accordance with the KBS, and SR for all building items shall be in accordance with KSRB. The specifications for construction of buildings *inter-alia*, included;

- The SR for the item providing and laying reinforced cement concrete clearly specifies execution of all works in foundation plinth, roof slabs, staircase, lintels, retaining walls, return walls, walls (any thickness) including attached pilasters, columns, parapets, *etc.*, including cost of all materials, labour, curing, complete as per specification 4.6 of KBS;
- Section 4.6 of KBS deals with specifications for reinforced cement concrete (RCC) work and sub-section 4.6.4.7 of KBS defines finishing to RCC works;
- As per sub-section 4.6.4.7(c) of KBS, the exposed surface of RCC work shall be plastered with cement mortar in the ratio of 1:3 (one part of cement and three parts of fine sand) to a thickness not exceeding 6 mm to give a smooth and even surface.

Thus, providing and laying of RCC for exposed surface of roof slab is inclusive of the item of plastering.

Audit observed (August 2019) that tenders were invited during the period July 2014 to April 2017 by the CE, HFWDE Wing for the works of various hospitals at the District and Taluk level. The works were entrusted to contractors through tendering during April 2015 to January 2018. Test-check (August 2019) of the estimates and the paid bills of 13 works in two⁵⁴ HFWDEDs executed between (April 2015 and January 2018) showed that 'plastering to ceiling' with thickness of 12 mm was included as a separate item. Audit also noted that an aggregated payment of ₹ 3.73 crore had been made to the contractors by these two Divisions on these 13 works towards plastering to ceiling, which is in contravention of provisions of KSRB and KBS.

Failure of EEs/SE/CE to adhere to Section 4.6 of KBS during preparation/approval of estimates and releasing payments thereon resulted in avoidable extra expenditure of ₹ 3.73 crore on these 13 works under these two Divisions as detailed in **Appendix-2.8**.

Government replied (March 2022) that the exposed surface of RCC roof works had certain defects, which were to be plastered with cement mortar for smooth finishing. As such, the plastering of concrete roof slab in cement mortar for 12 mm thickness has been executed.

⁵⁴ Bengaluru Division - five works and Mysuru Division - eight works.

The reply is not acceptable as KBS and KSRB were to be followed in respect of construction of buildings wherein plastering to ceiling was an inclusive item in laying of RCC roof and inclusion of the item separately resulted in additional burden on the exchequer.

It is pertinent to mention here that the issue on plastering to ceiling was also mentioned in Paragraph 3.2.4 of the Report of the Comptroller and Auditor General of India (Civil) – Report No.2 for the year ended 31 March 2010. The Public Accounts Committee (PAC) which discussed this paragraph had recommended⁵⁵ to recover the amount and to avoid such omissions in future and also directed the Public Works Department that immediate action be taken to issue necessary orders to avoid such excess payments arising out of plastering to ceiling as a separate item.

In the light of the recommendation of PAC, the State Government should fix responsibility on the officials responsible for preparation/sanction of the incorrect estimates and payments made thereon.

Department of Rural Development and Panchayat Raj

2.8 Wasteful expenditure on execution of road works on Forest Land

Execution of road works on Forest Land by violating the Codal provisions and in contravention to IRC provisions resulted in wasteful expenditure of ₹ 62.09 lakh due to non-achievement of all-weather road connectivity to two Rural Habitations.

The Pradhan Mantri Gram Sadak Yojana (PMGSY)–II envisages consolidation of the existing rural road network to improve its overall efficiency as a provider of transportation services for people, goods and services.

Para 135(3) of Karnataka Public Works Departmental Code stipulated that no work should be commenced on land which has not been duly handed over by the Department concerned. Further, Clarification 4.4 of the Handbook on Forest (Conservation) Act, 1980 and Forest (Conservation) Rules, 2003, compiled by the Ministry of Environment and Forest, Government of India states that work should not be started on non-forest land till the approval of the Central Government for release of the forest land under the Act has been given in respect of projects that involve both forest and non-forest lands.

As per the provisions of Para 7.3.1 of Indian Road Congress (IRC) SP-72, bituminous surfacing of the road ensures improved riding quality, seals surface to prevent entry of water which would otherwise weaken the pavement structure and protects the granular base from the damaging effects of traffic.

The Ministry of Rural Development, Government of India (GoI), under PMGSY-II (December 2013), cleared the Project proposal comprising 315 road works and 12 long-span bridges for upgradation for a length of 2,246.23 kms in

⁵⁵ Public Accounts Committee First Report Sl.no. 3, 14th Assembly (2013-14) for Public Works Ports and Inland Water Transport Department.

30 districts of Karnataka to be completed within nine months from the date of work order.

Audit scrutiny (January 2021) of records in the Office of the Executive Engineer, Karnataka Rural Road Development Agency (KRRDA), Raichur, for the period 2009-10 to 2019-20 showed that out of 12 test-checked road works of different packages shown vide **Appendix 2.9**, the work of 'Improvement and asphaltting from Mundargi to Kurlerdoddi Road' under package KN-23-93 in Deodurga Taluk, Raichur District for a road length of 11.09 kms could not be completed. Details are as given below.

The Government of Karnataka (GoK) accorded administrative approval (January 2014) for the different road works including the above package. Accordingly, the estimate was technically sanctioned (January 2014) by the Chief Operating Officer, KRRDA, work order was issued (March 2014) to the eligible contractor for the tendered cost of ₹ 768.21 lakh and an agreement was entered into with the Contractor to complete the work in nine months, *i.e.*, by December 2014, including monsoon period.

The Project Division, Raichur completed the road work with all layers from subgrade to Grade III from chainage 0.00 km to 5.30 km and from chainage 7.28 km to 11.09 km. However, for forest chainage length of 1.98 kms (5.30 kms to 7.28 kms), the bituminous surfacing over Grade II metal layer was not provided. The work was executed only partially in that chainage as that particular stretch was a part of forest land and the Forest Department did not accord permission for the road work as per Forest Act and Rules.

The work was stopped and treated as completed (June 2018) as per GoK Order dated 30 June 2018 in an as is where is basis. As the permission from the Forest Department was not given, the road work was not completed as per the IRC norms and State PWD guidelines.

The road work was thus started without the clearances and permission from the Forest Department as envisaged in Para 135 of the KPWD Code and IRC specifications were not followed while laying the road. Thus, the expenditure of ₹ 62.09 lakh⁵⁶ incurred on the forest chainage (5.30 km to 7.28 km) remained wasteful due to non-achievement of all-weather road connectivity to two rural habitations⁵⁷ besides loss of both social and economic opportunity as envisaged under PMGSY scheme.

The State Government in their reply (February 2022) accepted that the work in the forest reach was executed and completed up to WBM (Gr-III) layer and foreclosed due to objection raised by the Forest Department. However, it also stated that as per SP-72, Granular Sub-base (GSB) layer was provided below the Water Bound Macadam layer (G-II) which will act as a drainage layer. Hence, the GSB is protecting the granular base from damaging the road and the entire road length of 11.09 kms is being used.

The reply with respect to the protection of the road and the use of entire stretch of the road cannot be accepted as the work in the forest reach was left

⁵⁶ RA Bill wise expenditure details furnished by the KRRDA on 30.12.2021.

⁵⁷ Sakrinayakana Halli Thanda and Bandi Laxmana Thanda.

incomplete⁵⁸ (August 2016) without providing bituminous layer on WBM layers till date (February 2022). As per SP 72 of IRC, non-providing of bituminous layer to the road for more than five and half years would weaken the pavement and damage the road. As the road without bituminous surface on the forest chainage is prone to heavy rain fall, the unprotected granular base gets exposed and results in faster deterioration and damage, besides the unevenness of the road length being hazardous for road safety.

Thus, the amount of ₹ 62.09 lakh spent on the forest chainage could not achieve the outcome of an all-weather road connectivity between the two rural habitations as envisaged.

Recommendation: Department should strictly adhere to the provisions of the Act /Rules in obtaining clearances from the Forest Department before execution of works on Forest land.

⁵⁸ As recorded in the seventh and part RA Bill.

PART - II

Chapter - I

Chapter-I

General

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2020-21, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the year together with the corresponding figures for the preceding four years are mentioned in **Table 1.1.1**.

Table 1.1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
1.	Revenue raised by the State Government					
	• Tax revenue	82,956.13	87,130.38	96,829.71	1,02,362.79	97,052.54
	• Non-tax revenue	5,794.53	6,476.53	6,772.87	7,681.47	7,893.84
	Total	88,750.66	93,606.91	1,03,602.58	1,10,044.26	1,04,946.38
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ¹	28,759.94	31,751.96	35,894.83	30,919.00	21,694.11
	• Grants-in-aid	15,703.19	21,640.78	25,481.25	34,479.53	30,075.92
	Total	44,463.13	53,392.74	61,376.08	65,398.53	51,770.03
3.	Total revenue receipts of the State Government (1 and 2)	1,33,213.79	1,46,999.65	1,64,978.66	1,75,442.79	1,56,716.41
4.	Percentage of total revenue raised by the State Government to total revenue receipts (1 to 3)	67	64	63	63	67

Source: State Finance Accounts 2020-21

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

¹ Figures under the major heads of account 0005-Central Goods and Service Tax, 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0037-Customs, 0038-Union Excise Duties, 0044-Service Tax and 0045-Other taxes and Duties on Commodities and Services - Minor head-901, as share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2020-21, under 'A-Tax Revenue' have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

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

Table 1.1.2
Details of Tax Revenue

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

Source: State Finance Accounts 2020-21

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

Table 1.1.3
Details of Non-Tax Revenue

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

Source: State Finance Accounts 2020-21

1.2 Analysis of arrears of revenue

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

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

Table 1.2
Arrears of revenue

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

Source: Information received from the Departments concerned.

1.3 Evasion of tax detected by the Departments

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

Table 1.3
Evasion of tax

(₹ in crore)							
Sl. No.	Head of revenue	Cases pending as on 31 March 2020	Cases detected during 2020-21	Total	Number of cases in which assessment/investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2021
					Number of cases	Amount of demand	
1.	State Excise Department	03	00	03	00	00	03
2.	Commercial Taxes Department	6707	9200	15907	9384	719.40	6523
3.	Department of Stamps and Registration	09	00	09	00	00	09

Source: Information received from the Departments concerned.

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

³ National Company Law Appellate Tribunal.

1.4 Pendency of refund cases

The number of refund cases pending at the beginning of the year, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2020-21 as reported by the Commercial Taxes Department, State Excise Department and the Department of Stamps and Registration are given in **Table 1.4**.

Table 1.4
Details of pendency of refund cases

Sl. No.	Particulars	Commercial Taxes		State Excise		Stamps & Registration	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,885	388.93	00	00	2,722	15.94
2.	Claims received during the year	10,045	4,828.97	NF	5.71	3,680	21.80
3.	Refunds made during the year	10,851	4,413.17	NF	5.71	2,570	15.30
4.	Balance outstanding at the end of the year	1,079	804.73	00	00	3,832	22.44

NF-Not furnished.

Source: Information received from the Departments concerned.

1.5 Response of the Government/Departments towards Audit

The Principal Accountant General (Audit-I) conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspections and those not settled on the spot are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action.

The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Accountant General within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

4,035 paragraphs involving ₹ 1,807.64 crore contained in 1,260 IRs (issued upto December 2020), remained outstanding at the end of June 2021. The details along with the corresponding figures for the preceding two years are given in the **Table 1.5**.

Table 1.5
Details of pending Inspection Reports

	As of June 2019	As of June 2020	As of June 2021
Number of IRs pending for settlement	1,071	1,169	1,260
Number of outstanding audit observations	3,166	3,738	4,035
Amount of revenue involved (₹ in crore)	821.17	1,509.09	1,807.64

1.5.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2021 and the amounts involved are given in **Table 1.5.1**.

Table 1.5.1
Department-wise details of IRs

Sl. No	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	(₹ in crore)
					Money value involved
1.	Finance	Commercial Taxes	743	2,744	1,205.00
2.		State Excise	71	97	15.55
3.	Revenue	Stamp Duty and Registration Fee	446	1,194	587.09
Total			1,260	4,035	1,807.64

Audit did not receive even the first replies (required to be received from the heads of Offices within one month from the date of issue of the IRs) for 85 IRs issued during 2020-21. Non-receipt of replies indicate that the Heads of Offices and the Departments did not initiate action to rectify the omissions and irregularities pointed out by the Principal Accountant General in the IRs, in these cases.

1.5.2 Departmental Audit Committee meetings

The Government issued (March 1968) instructions to constitute 'Adhoc Committees' in the Secretariat of all the Departments to expedite the clearance of audit observations contained in the Inspection Reports (IRs). These Committees are to be headed by the Secretaries of the Administrative Departments concerned and attended by the designated Officers of the State Government and a nominee of the Principal Accountant General. These Committees are to meet periodically and, in any case, at least once in a quarter.

However, no meetings of the Committee were convened by any of the Departments during the year 2020-21. Action may be taken to convene Departmental Audit Committee meetings for clearance of outstanding IRs and audit observations.

1.5.3 Non-production of records to Audit for scrutiny

The programme for local audit of Tax Revenue Offices is drawn up and intimations sent sufficiently in advance, to enable them to keep the relevant records ready for audit.

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

Table 1.5.3
Details of non-production of records

Sl. No.	Name of the Office/ Department		Number of records not produced to audit
1.	Revenue Department Department of Stamps and Registration	SRO, Bommanahalli	Service Registers of the Staff of Sub-Registrar Office
2.		SRO, BTM Layout	1. Service Registers of the Staff of Sub-Register Office. 2. Details of outsourced staff. 3. Building Rent File

1.5.4 Response of the Departments to the Draft Audit Paragraphs

Draft Paragraphs proposed for inclusion in the Audit Report are forwarded by the Principal Accountant General to the Additional Chief Secretary/Principal Secretaries of the Departments concerned through demi-official letters. According to the instructions issued (April 1952) by the Government, all Departments are required to furnish their remarks on the Draft Paragraphs within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

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

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

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

1.5.5 Follow-up on the Audit Reports-Summarised position

According to the Rules of Procedure (Internal Working) of the Committee of Public Accounts (PAC), the Departments of Government are to furnish detailed explanations (Departmental Notes) on the audit paragraphs to the Karnataka Legislative Assembly Secretariat within four months of an Audit Report being laid on the Table of the Legislature. The Rules further require that before such submission, Departmental Notes are to be vetted by the Principal Accountant General.

62 paragraphs (including Performance Audits) pertaining to the Commercial Taxes Department, State Excise Department and the Department of Stamps and Registration were included in five⁴ Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Karnataka which got placed before the State Legislature between April 2017 and March 2021.

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

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

To analyse the system of compliance by the Department/Government to the issues highlighted in the Inspection Reports/Audit Reports, action taken on the paragraphs and Performance Audits included in the Audit Reports of the last ten years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 1.6.1 and 1.6.2 discuss the performance of the Commercial Taxes Department in respect of the cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2011-12 to 2020-21.

1.6.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last ten years, paragraphs included in these Reports and their status as on September 2022 are tabulated below in **Table 1.6.1**.

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

Table 1.6.1
Position of Inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the Year			Clearance during the Year			Closing Balance		
		IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
1.	2011-12	1454	3964	455.82	121	528	82.52	8	211	26.03	1567	4281	512.31
2.	2012-13	1567	4281	512.31	237	764	70.25	72	443	99.87	1732	4602	482.69
3.	2013-14	1732	4602	482.69	205	632	72.06	21	391	58.32	1916	4843	496.43
4.	2014-15	1916	4843	496.43	185	865	80.69	4	600	124.76	2097	5108	452.36
5.	2015-16	2097	5108	452.36	176	926	70.77	63	627	71.45	2210	5407	451.68
6.	2016-17	2210	5407	451.68	165	778	102.22	19	335	37.61	2356	5850	516.29
7.	2017-18	2356	5850	516.29	134	596	172.22	1891	4133	331.79	599	2313	356.72
8.	2018-19	599	2313	356.72	129	497	307.77	1	327	29.98	727	2483	634.51
9.	2019-20	727	2483	634.51	132	756	290.18	8	406	67.67	851	2833	857.01
10.	2020-21	851	2833	857.01	60	368	106.33	4	94	20.09	907	3107	943.25

During regular inspection of Offices, the pending IRs/paragraphs are reviewed on the spot after obtaining compliance. Settlements of IRs/paragraphs are also made on receipt of compliance from the Department.

1.6.2 Recovery in accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned in **Table 1.6.2.**

Table 1.6.2
Recovery in accepted cases

(₹ in crore)

Sl. No.	Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year of Audit Report	Cumulative position of recovery of accepted cases
1.	2010-11	10	79.26	9	18.48	0.43	1.94
2.	2011-12	9	82.12	8	5.31	0.27	4.05
3.	2012-13	14	155.51	12	4.36	1.19	3.21
4.	2013-14	10	104.72	9	13.63	1.18	3.69
5.	2014-15	11	16.07	11	14.96	2.84	5.61
6.	2015-16	6	281.59	6	29.88	3.02	16.62
7.	2016-17	6	57.72	6	51.84	1.58	13.84
8.	2017-18	9	74.30	9	59.46	4.39	14.89
9.	2018-19	10	1046.00	9	1036.51	1.92	14.68
10.	2019-20	9	61.19	9	58.16	0.89	4.20
	Total	94	1958.48	88	1292.59	17.71	82.73

As seen from the table above, the percentage of recovery by the Commercial Taxes Department from accepted cases in paragraphs, was only 6.4 per cent. Therefore, the Department must take immediate action to pursue recovery of the dues involved in accepted cases.

1.7 Audit Planning

The Auditable Units under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* includes critical issues in Government revenues, the budget speech, white paper on state finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during past five years, etc.

During the year 2020-21, there were 881 auditable units, of which 160 units were planned and 130 units⁵ had been audited, which was 14.75 per cent of the total auditable units. The details are shown in **Table 1.7**.

Table 1.7
Details of units audited

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

1.8 Results of Audit

Position of local audit conducted during the year

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

1.9 Coverage of Part II of this Report

This Report contains 12 paragraphs selected from the audit observations made during the local audit referred to above and during earlier years, (which could not be included in earlier reports) involving financial effect of ₹ 77.54 crore.

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

⁵ Shortage owing to COVID-19-pandemic.

Chapter - II

Chapter-II

VAT on Sales, Trade, etc. and 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 2020-21, 359 Offices were due for audit, of which, 53 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
2016-17	8,388	294.11	1,146	82.97	7,242	211.14
2017-18	7,529	139.92	301	3.73	7,228	136.19
2018-19	2,748	21.15	1,353	9.41	1,395	11.74
2019-20	5,482	71.86	373	30.50	5,109	41.36
2020-21	11,321	234.76	2,248	34.53	9,073	200.23
Total	35,468	761.80	5,421	161.14	30,047	600.66

Source: Information furnished by the Department

As seen from the table, 30,047 cases involving ₹ 600.66 crore were pending for settlement as on 31 March 2021. Early action may be taken to settle pending observations.

2.3 Goods and Services Tax

Goods and Services Tax (GST), a multistage and destination-based tax, came into effect from 1 July 2017 after enactment of the Karnataka Goods and Services Tax Act, 2017 on 27 June 2017. A few relevant aspects relating to GST registrations and the filing pattern of monthly GSTR 1 and GSTR 3B returns have been given below:

2.3.1 GST Registrations

The category-wise registrations under GST have been given in **Table 2.2** below.

Table 2.2
GST Registrations

Category of Registrant	Number of Registrants	Percentage of total
Normal taxpayers	9,02,022	86.80
Composition taxpayers	1,18,378	11.39
Tax Deductors at Source	16,760	1.61
Tax Collectors at Source	1,135	0.11
Input Service Distributors	536	0.05
Others (Casual, NRTP, OIDAR)	398	0.04
Total Registrants	10,39,229	

Source: Figures furnished by the Department

The total registrations under GST as on 31 March 2021 were ₹ 10.39 lakh, of which normal taxpayers accounted for 86.80 *per cent* and composition taxpayers were around 11.39 *per cent*.

2.3.2 GST Return filing pattern

2.3.2.1 Filing pattern of GSTR 1 and GSTR 3B

The trends of filing of GSTR-1⁶ and GSTR-3B⁷ for the period from April 2020 to March 2021, as per the figures furnished by the Department, have been depicted in **Table 2.3** and chart below.

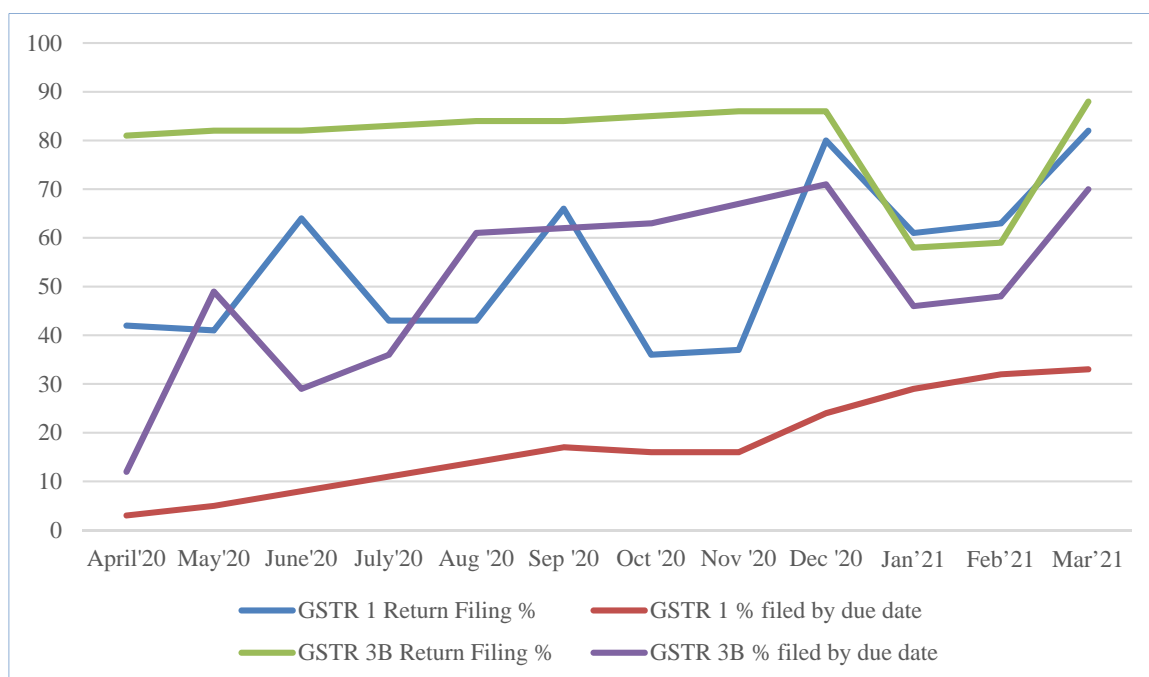
⁶ GSTR-1 return is a monthly statement of outward supplies to be furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.

⁷ GSTR-3B return is a monthly self-declaration, to be filed by a registered GST taxpayer, consisting details regarding outward supplies, input tax credit, payment of tax etc.

Table 2.3
Filing pattern

Return Type	GSTR-1					GSTR-3B				
Months	Due for filing	Returns filed	Return filing per cent	Returns filed by due date	Per cent filed by due date	Due for filing	Returns filed	Return filing per cent	Returns filed by due date	Per cent filed by due date
April'20	8,29,419	3,44,734	42	22,439	3	8,29,419	6,74,889	81	1,01,051	12
May'20	8,27,140	3,37,566	41	42,503	5	8,27,140	6,76,465	82	4,09,242	49
June'20	8,28,613	5,28,766	64	68,561	8	8,28,613	6,82,415	82	2,37,398	29
July'20	8,29,114	3,53,653	43	89,693	11	8,29,114	6,87,560	83	2,97,113	36
Aug'20	8,29,488	3,57,472	43	1,16,123	14	8,29,488	6,93,658	84	5,08,812	61
Sep'20	8,30,476	5,44,148	66	1,38,068	17	8,30,476	6,99,514	84	5,11,725	62
Oct'20	8,31,665	3,02,248	36	1,31,363	16	8,31,665	7,05,506	85	5,21,505	63
Nov '20	8,29,899	3,06,815	37	1,32,943	16	8,29,899	7,12,928	86	5,54,968	67
Dec'20	8,31,478	6,65,146	80	2,01,783	24	8,31,478	7,17,962	86	5,90,800	71
Jan'21	8,29,403	5,03,600	61	2,41,310	29	8,29,403	4,85,195	58	3,81,786	46
Feb'21	8,28,603	5,18,120	63	2,62,097	32	8,28,603	4,92,518	59	3,99,886	48
Mar'21	8,32,695	6,80,859	82	2,73,569	33	8,32,695	7,33,166	88	5,79,104	70

Chart No.1: Filing of GSTR 1 and GSTR 3B returns for April 2020 to March 2021



Source: Figures furnished by the Department.

From the above table/chart it is evident that the filing of GSTR-1, on an average for the year 2020-21, was 54.83 per cent. It was noticed that for the months of April 2020, May 2020, July 2020, August 2020, October 2020 and November 2020 the returns filing percentage of GSTR-1 was very low

(ranging from 36 per cent to 43 per cent). Further, it was observed that the GSTR-1 returns were filed within due date on an average for only 17 per cent of the assesseees for the year 2020-21.

The filing of GSTR-3B on an average for the year 2020-21 was 79.83 per cent. It was observed that for the months of January 2021 and February 2021, the returns filing percentage of GSTR-3B was only 58 per cent and 59 per cent, respectively. Further, it was noticed that for the month of April 2020, the GSTR-3B returns filed by the assesseees within due date was only 12 per cent. The Department attributed the low percentage of filing to the outbreak of COVID-19 during the last week of March 2020 and its after effects thereon.

2.4 Results of Audit

There are 458 auditable units in the Commercial Taxes Department. Out of these, audit selected 62 units for test-check wherein 1.50 lakh assessments were finalised. Out of these, Audit test-checked 0.75 lakh dealers (50 per cent) during the year 2020-21 and noticed 4,439 cases of underassessment of taxes and non-observance of provisions of Acts/Rules, etc., involving an amount of ₹ 136.83 crore. These cases are illustrative only as these are based on test-check of records. The observations broadly fell under the following categories as given in **Table 2.4**.

Table 2.4
Results of Audit

(₹ in crore)				
Sl. No.	Category	No. of Paragraphs	No. of cases	Amount
I	Value Added Tax			
1	Non/short declaration of output tax (e-UPaSS)	15	285	7.43
2	Non/ short payment of tax as per VAT-240	10	26	1.33
3	Non/ short levy of tax	54	71	10.41
4	Non levy of tax on sale of liquor	6	19	1.56
5	Non/short levy of penalties/interest (Under Sections 36, 72(1), 72(2) & 74(4) of KVAT Act)	70	2776	20.25
6	Not-Acknowledged Returns	08	79	0.86
7	Incorrect/ excess allowance of Input Tax Credit (ITC)	38	83	8.99
8	Excess carry forward of credit	29	34	6.47
9	Non/short-levy of tax on works contract receipts, incorrect allowance of sub-contractor payments etc.	27	34	16.82
10	Incorrect/excess refund	10	12	0.93
11	Non-levy/payment of tax on URD purchases	05	10	0.25
12	Incorrect credit taken as Transitional Credit to GST	03	13	0.39
13	Other irregularities	12	30	4.92
	Total	287	3,472	80.61
II	Entry Tax (KTEG)			
1	Non/short levy of Entry Tax/interest	3	3	0.02
	Total	3	3	0.02
III	Goods and Services Tax (GST)			
1	Non/short levy of interest	19	121	6.24
2	Incorrect/excess refund	19	32	3.20

3	Non levy of late fee for delay in filing Annual Return	14	425	2.38
4	Non levy of tax for difference between GSTR1 and GSTR 3B	07	12	14.13
5	Non levy of penalty for not furnishing final Return on cancellation of GST registration	06	30	1.32
6	Non/short payment of tax	12	19	7.17
7	Non payment of tax as per GSTR 9C	04	06	0.38
8	SSCA on Transitional credit	14	263	15.75
9	SSCA on GST Refunds	09	56	5.63
	Total	104	964	56.20
	Grand total	394	4,439	136.83

During the course of the year, the Department reported recovery of ₹ 3.36 crore in 89 paragraphs that were pointed out in the earlier years.

A few illustrative cases of non/short-realisation of VAT, penalty and interest involving ₹ 14.70 crore and two Subject Specific Compliance Audits on 'Transitional credits' and 'GST-Refunds' involving ₹ 21.38 crore are discussed in the following paragraphs.

2.5 Subject Specific Compliance Audit on Transitional Credits

2.5.1 Introduction

Introduction of the Goods and Services Tax (GST) is a significant reform in the field of indirect taxes in our country, which replaced multiple taxes levied and collected by the Centre and States. GST is a destination based tax on supply of goods or services or both, which is levied at multi-stages wherein the taxes will move along with supply. The tax will accrue to the taxing authority which has the jurisdiction over the place of supply. Tax is levied simultaneously by the Centre and States on a common tax base. Central GST (CGST) and State GST (SGST) / Union Territory GST (UTGST) is levied on intra state supplies and Integrated GST (IGST) is levied on inter-state supplies. Availability of input tax credit i.e. taxes paid on inputs, input services and capital goods for set off against the output tax liability is one of the key features of GST. This avoids cascading effect of taxes and ensures uninterrupted flow of credit from the seller to buyer. To ensure the seamless flow of input tax from the existing laws to GST regime, 'Transitional arrangements for input tax' was included in the GST Acts to provide for the entitlement and manner of claiming input tax in respect of appropriate taxes or duties paid under existing laws.

2.5.2 Transitional arrangements for input tax

Section 140 of the Karnataka GST Act, 2017 (KGST Act) enables the taxpayers to carry forward the input tax credit (ITC) earned under the existing laws to the GST regime. The Section read with Rule 117 of Karnataka GST Rules, 2017 (KGST Rules) prescribes elaborate procedures in this regard. Under transitional arrangements for ITC, the ITC of various taxes paid under the existing laws such as Central Value Added Tax (CENVAT), State Value Added Tax (VAT) etc. are eligible to be carried forward to GST regime as under:

(a) Closing balance of credit in legacy return: The closing balance of VAT credit /CENVAT credit available in the returns filed under the existing law for the month immediately preceding the appointed day can be taken as credit in the electronic credit ledger (ECL).

(b) Un-availed credit on capital goods: The balance instalment of un-availed credit on capital goods can be taken by filing the requisite declaration in Form GST Tran-1.

(c) Credit on duty paid stock: A registered taxable person, who was not liable to be registered under the existing law or who was engaged in the sale of exempted goods, may take the credit of the duty/ tax paid on goods held in stock based on the invoices.

(d) Credit on duty paid stock when registered person does not possess the document evidencing payment of excise duty/VAT: A registered taxable person, other than the manufacturer or service provider, who does not have excise or VAT invoice, is eligible to take credit on the duty paid stock.

(e) Inputs in transit: The inputs received on or after the appointed day but where the duty or tax on the same was paid by the supplier under the existing law are also eligible for transitional credit.

(f) Tax paid under the existing law under composition scheme: The taxpayers who had paid tax at fixed rate or fixed amount in lieu of the tax payable under existing law, now working under normal scheme under GST can claim credit of duty on their input stock, semi-finished and finished stock on the appointed date.

All registered taxpayers, except those who were opting for payment of tax under the composition scheme (under Section 10 of the Act), were eligible to claim transitional credit by filing Tran-1 declaration within 90 days from the appointed day. The time limit for filing Tran-1 declaration was extended initially till 27 December 2017. However, many taxpayers could not file the declaration within the due date due to technical difficulties. The due date for filing Tran-1 declaration was further extended to 31 March 2020 for those taxpayers who could not file Tran-1 declaration due to technical difficulties and those cases recommended by the GST Council.

The taxpayer can file form GST Tran-2 in case of inputs held in stock on appointed day in respect of which he is not in possession of any invoice evidencing payment of tax.

2.5.3 Audit Objectives

Transitional credit claims directly impact GST revenues as the credit is eligible for set off against the output tax liability of taxpayers. Thus, the audit of transitional credit was taken up with the following objectives seeking assurance on:

- i. Whether the mechanism envisaged by the Department for selection and verification of transitional credit claims was adequate and effective; and
- ii. Whether the transitional credits carried over by the assessee into GST regime were valid and admissible.

2.5.4 Audit Scope and sample

The audit scope comprised review of Tran-1 and Tran-2 returns filed by the taxpayers under Section 140 of the KGST Act, 2017 from the appointed date⁸ to the end of March 2020. This involved examination of adequacy of Rules specified for transitional credit under the Act, effectiveness of departmental verification process, follow up action taken on the deviations detected, process adopted for implementation of cross-jurisdictional functions regarding transitional credit and independent examination of selected transitional credit claims for compliance assurance. Audit findings on Transitional Provisions under the GST Act were included in the Report of the Comptroller and Auditor General of India on Economic and Revenue Sectors for the year ended March 2019 covering six Divisions.

In this audit, a sample of 5,298 cases with transitional credit claims amounting to ₹ 363.90 crore, across 56 Local GST Offices (LGSTO)/ Sub GST Offices (SGSTO) in seven⁹ Divisions (not covered in previous audit) selected on risk analysis were verified during the period from April 2021 to July 2021.

2.5.5 Audit Criteria

The audit objectives were benchmarked against the criteria drawn from the following sources:

- Karnataka GST Act, 2017
- Karnataka GST Rules, 2017
- Erstwhile Acts like the Karnataka Value Added Tax Act, 2003 and Rules thereunder and Central Sales Tax Act, 1956
- Notifications/Circulars and relevant instructions issued by CBIC

2.5.6 Audit Methodology

The amount of credit available in the Value Added Tax (VAT-100) return at the end of June 2017 as per VAT Electronic Filing System (e-FS) was compared with the claims of transitional credit with reference to the Tran-1 filed by the taxpayers and also the amount credited in the Input Tax Credit Ledger in GST Prime (equivalent of the Electronic Credit Ledger in the common portal). The information available in the audited statement of accounts (Form VAT-240), purchase details uploaded in Electronic Uploading of Purchase and Sales Statement (e-UPaSS), re-assessment orders issued under VAT, filing of statutory Forms under Central Sales Tax (CST) and TDS Forms were also verified as available in the e-FS which have a bearing on the closing credit available under VAT regime and consequently on the claims of transitional credit.

An Exit conference was held with the Commissioner of Commercial Taxes (CCT) in April 2022 wherein the audit observations were discussed.

⁸ The date on which the provisions of the KGST Act came in to force i.e. 1 July 2017.

⁹ DGSTO 2,3,6 Bengaluru, Kalaburagi, Mangaluru, Mysuru and Shivamogga Divisions

2.5.7 Audit Findings

The audit findings are categorized into two broad areas as systemic and compliance issues based on the objectives of audit. While systemic issues focus on the adequacy and effectiveness of the envisaged verification mechanism, the compliance issues focus on the deviations from the provisions of the Act/Rules in individual cases.

2.5.8 Systemic issues

2.5.8.1 Verification mechanism envisaged by the Department

Audit had pointed out the absence of action plan for verification of transitional credit and ineffective risk assessment to verify the transitional credit availed, in the Audit Report for the year ended March 2019 vide para no. 2.4.10.1 and the deficiencies on account of this, were brought out in paragraph nos. 2.4.10.2 to 2.4.13.2. The current position with respect to the transitional credit and the claims verified, as furnished by the Department (December 2022) is given in **Table 2.5** below.

Table 2.5

Transitional credit claimed by the Dealers

(₹ in Crore)

Carry forward credit available as per June 2017 Return		SGST transitional credit carried forward by the dealers		SGST transitional credit admitted/ accepted by the department after verification	
Number of Dealers	Amount	Number of Dealers	Amount	Number of Dealers	Amount
42612	1499.06	19721	1277.00	17213	314.61

As seen from the table above, the Department has verified the claims in 87 per cent of the cases. The correctness of the transitional credit claimed by the dealers in the remaining 13 *per cent* of the cases may be ensured by the Department at the earliest.

Audit noticed 263 cases of ineligible or excess or incorrect transitional credit claims out of the sample of 5,298 cases. Out of this, VAT reassessment for the period 2017-18 (April 2017 to June 2017) was completed in 32 cases. In all these cases, Audit scrutiny revealed excess/incorrect transitional credit of ₹ 5.33 crore and it was also observed that there was no mention of cross verification of the credit carried forward to the GST regime (Tran-1) in the re-assessment orders.

This was brought to the notice of the department in March 2022. Replies of the department in the above 32 cases are awaited (September 2022).

Audit recommends that the department may mandatorily verify the credit available in legacy regime with the credit carried forward to the GST regime in all cases of re-assessment orders.

2.5.8.2 Absence of Tran-1 forms or blank Tran-1 forms

Rule 117(1) of KGST Rules prescribes submission of a declaration electronically in Form GST Tran-1 in the common portal by a registered person claiming the transitional credit.

Karnataka being a 'Model 1 State' has its own backend system (GST Prime) which draws data from the common portal for tax administration. Audit noticed that out of the sample of 5,298 cases, the form Tran-1 was either not available in GST Prime or was blank in respect of 32 dealers. These 32 dealers had transitional credit of ₹ 2.65 crore as verified from the Input Tax Credit Ledger. Audit verification revealed that these 32 dealers had availed credit of only ₹ 2.04 crore in their KVAT return for the month of June 2017. In the absence of the Tran-1 Form and the break-up of the transitional credit claim the Department could not ensure under which provision, the transitional credit was availed by them. This points to a lacuna in the process of retrieval of data in GST Prime.

On this being pointed out (March 2022), the department stated (June 2022) that one case has been referred to Principal Commissioner of Central Taxes since it comes under Central jurisdiction. Reply of the department is awaited in the remaining 31 cases (September 2022).

2.5.8.3 Excess credit of transitional credit

Based on the Form Tran-1 filed by a taxpayer, the transitional credit is credited to the dealer's Electronic Credit Ledger (ECL) in GST portal. As per data available in the ITC Ledger in GST Prime, Audit noticed that in four cases, as against transitional credit claim of ₹ 16.32 lakh, the ITC Ledgers of the dealers showed transitional credit of ₹ 51.20 lakh. This was either due to transitional credit being credited twice or excess credit than in Tran-1.

On this being pointed out (March 2022), the department stated (June 2022) that one case has been referred to the concerned office under the Central jurisdiction and another case has been assigned for audit. Reply of the department is awaited in the remaining two cases (September 2022).

Illustration:

In respect of a dealer, M/s. Navyug Energy Solutions Private Limited (GSTIN:29AADCN6371P1ZP/ TIN: 29620618628) under jurisdiction of LGSTO-090, Bengaluru, the ECL was credited with ₹ 39,86,187 that is, three times the amount of the credit of ₹ 13,28,729 claimed in Tran-1. The dealer had reversed one credit of ₹ 13,28,729 leaving an excess credit of ₹ 13,28,729 in his ITC ledger as compared to the Tran-1 form. The dealer in his annual return GSTR 9 had showed transitional credit of ₹ 13,28,729 only. Hence, the excess credit remained undetected.

2.5.9 Compliance issues

The table below brings out the extent of deficiencies noticed during the audit of transitional credit cases, selected for detailed audit:

Table 2.6
Summary of nature of observations and deviation rates

(₹ in crore)

Nature of observations	Sample Audited		Deficiencies noticed		Deficiencies as percentage of Audited sample	
	Number	Amount	Number	Amount	Number	Amount
Claim of transitional credit without filing returns under the erstwhile KVAT Act	5,298	363.90	23	2.83	0.43	0.78
Incorrect claim of transitional credit	5,103	335.54	30	0.93	0.59	0.28
Excess Claim of transitional credit	5,103	335.54	49	2.08	0.96	0.62
Excess claim of transitional credit due to non-consideration of figures in Form VAT-240	5,103	335.54	58	0.96	1.14	0.29
Reduction of credit due to Re-assessment orders issued under KVAT Act	5,103	335.54	32	5.49	0.63	1.64
Others	5,298	363.90	71	3.46	1.34	0.95
Total			263	15.75		

As evident from the above table, significant deviations from rules and Act were noticed with respect to reduction of credit due to Re-assessment orders issued under KVAT Act, claim of transitional credit without filing returns under the erstwhile KVAT Act, excess claim of transitional credit etc.

Audit findings noticed, and the lapses identified in the above cases are included in the subsequent paragraphs.

2.5.9.1 Ineligible claim of transitional credit

(a) Claim of transitional credit without filing returns under the erstwhile KVAT Act

As per Section 140(1), a registered person is entitled to take the amount of credit available under VAT in the Return for the period ending June 2017 as transitional credit. Proviso to the Section 140(1) of the KGST Act, states that the registered person shall not be allowed to take credit in his electronic credit ledger, the amount of the VAT credit carried forward, if the person has not furnished all the returns required under the existing law for the period of six months immediately preceding the Appointed date, that is, 1 July 2017. Hence, if the registered person claiming the credit of VAT as on 30 June 2017 has not furnished all the returns for the period from January 2017 to June 2017, he is ineligible to claim transitional credit.

Audit noticed that in 23 cases (out of 5,298 cases) involving transitional credit claim of ₹ 2.83 crore, the dealers had not filed all the returns for tax periods

between January 2017 to June 2017 and hence correctness of the transitional credit claimed could not be verified.

A few cases are illustrated below:

Table 2.7
Non-filing of VAT return

Sl. No.	GSTIN / TIN / LGSTO	Trade Name (M/s.)	Ineligible transitional credit claimed (in ₹)	Remarks
1	29ABIP17472B1ZL / 29250611120 / LGSTO-065A, Bengaluru	A.R.S.Enterprises	2,27,55,453	The dealer was deregistered under VAT w.e.f. 21/03/2017 and had not filed return for the period March 2017.
2	29AAICM5191R1ZH/ 29771302541 / LGSTO-215, Mandya	M K Infra Holdings Private Limited	11,14,413	The assessee had not filed VAT returns for the period from April 2017 to June 2017.
3	29BVQPA5829M1ZV/ 29201341800 / LGSTO-110A, Bengaluru	Ajay Automobiles	1,63,833	The dealer has not filed VAT return for the period June 2017.

On this being pointed out (March 2022), department stated (June 2022) that in respect of two cases, notices have been issued. Reply of the department is awaited in the remaining 21 cases (September 2022).

(b) Ineligible Claim of transitional credit by dealers under Composition Levy Scheme (CLS)

A registered person under GST who had opted for payment of tax under Composition Scheme as per the provisions of Section 10 of Karnataka Goods and Services Tax Act, 2017, was not eligible for claim of transitional credit.

Audit noticed that out of 5,298 cases, in 6 cases, the dealers were under CLS in GST regime. However, they had claimed transitional credit of ₹ 13.60 lakh, which resulted in ineligible claim of transitional credit. This ineligible transitional credit was available in their Electronic Credit Ledger and the dealers could use it in the future if they migrate to regular tax scheme. The risk of availing the transitional credit in future in these cases cannot be ruled out and hence the Department needs to verify and disallow the ineligible transitional credit.

On this being pointed out (March 2022), the department stated (June 2022) that one case has been referred to audit. In one case, the ITC of ₹ 2.40 lakh was recovered and in another case, reassessment order has been passed where tax of ₹ 1.61 lakh has been levied. Reply of the department is awaited in the remaining three cases (September 2022).

2.5.9.2 Excess/incorrect transitional credit claimed through Table 5C of Form Tran-1

As per Section 140(1) of the KGST Act, a registered person is entitled to take, the amount of VAT credit carried forward in VAT return for the period ending June 2017 as transitional credit. Out of the sample of 5,298 cases checked, 5,103 dealers had carried forward credit available in June 2017 VAT return. Audit verification of the credit carried forward from June 2017 VAT return revealed excess/incorrect transitional credit claims in 234 cases amounting to ₹ 12.78 crore.

(a) Incorrect claim of transitional credit

Audit noticed 30 cases involving transitional credit claim of ₹ 0.93 crore, where the dealers had availed transitional credit under Table 5(C), which was meant to fill transitional credit carried forward from June 2017 return. However, the credit available in the VAT returns filed for June 2017 in these cases were zero. This resulted in incorrect claim of transitional credit of ₹ 0.93 crore.

A few illustrative cases are given below:

Table 2.8
Incorrect claim

Sl. No.	GSTIN / TIN / LGSTO	Trade Name	Transitional credit claimed (in ₹)
1.	29AABFY7390N1Z9/29981347676/ LGSTO-260, Mangaluru	M/s. Yamuna Kamaldeep Developers	8,19,254
2.	29AAECB6805H1ZM/29640641800/ LGSTO-155, Ramanagaram	M/s. Minda Kyoraku Ltd.	7,87,609
3.	29AASFR2808K1ZK/29291367504/ LGSTO-120, Bengaluru	M/s. Right Properties INC	7,84,881
4.	29APGPS7738Q1ZO/ 29980814564/ LGSTO-110A, Bengaluru	M/s. Madhukar INC	5,75,845

Audit further noticed that out of the 30 cases, re-assessment orders under section 39 of KVAT Act were passed in eight cases involving an amount of ₹ 19.87 lakh for the period 2017-18. Of these however, the transitional credit availed was not discussed in four cases. Out of four cases where the transitional credit was discussed in re-assessment order, in one case, the incorrect transitional credit of ₹ 2.50 lakh was paid back by the dealer as per re-assessment order passed under the GST Act and in the remaining three cases, demand for incorrect transitional credit of ₹ 7.28 lakh was raised in the re-assessment orders based on audit observations.

On this being pointed out (March 2022), the department stated (June 2022) that four cases had been assigned to audit. In one case, tax (₹ 3.21 lakh) has been recovered. One case has been referred to Central jurisdiction. Reply in the remaining 24 cases are awaited (September 2022).

(b) Excess Claim of transitional credit

Audit noticed that in 49 cases, the dealers had claimed transitional credit of ₹ 4.33 crore against the credit of ₹ 2.25 crore available for carry forward as per VAT Return filed for June 2017 and VAT 240 wherever filed. This resulted in excess claim of transitional credit of ₹ 2.08 crore.

A few cases are illustrated below:

Table 2.9
Excess claim

Sl. No.	GSTIN / TIN / LGSTO	Trade Name (M/s.)	Transitional credit claimed (in ₹)	Credit available in June 2017 VAT return/VAT 240 (in ₹)	Excess claim of transitional credit (in ₹)
1.	29ACHPK6284H1Z6/ 29740260729 LGSTO-250, Chickmagaluru	Vijayaraj Dilip Kumar	58,41,329	8,46,993	49,94,336
2.	29ABSPA7708E1ZI/ 29350070872/ LGSTO-75, Bengaluru	Ananda Metal corporation	43,27,850	4,32,785	38,95,065
3	29AABCD2432K1ZP/ 29750136030/ LGSTO-120, Bengaluru	Deepti Electronic and Electro Opticals Limited	19,52,610	4,46,042	15,06,568
4.	29AAUFS1292G1ZM/ 29430055308/ LGSTO-540, Bidar	Swamy Electricals	45,47,327	30,86,357	14,60,970

Audit further noticed that out of the 49 cases, re-assessment orders/proceedings were passed for the period 2017-18 in 7 cases. Of these 7 cases, transitional credit availed in 6 cases amounting to ₹ 28.84 lakh was not discussed in re-assessment order. In one case, the excess transitional credit of ₹ 0.93 lakh was recovered based on audit observation.

On this being pointed out (March 2022), the department stated (June 2022) that rectification orders were passed in two cases and an amount of ₹ 6.21 lakh was collected, four cases have been referred to Central jurisdiction and 2 cases have been assigned to audit. Reply in the remaining 41 cases are awaited (September 2022).

(c) Claim of same amount under different provisions of transitional credit in Tran-1 resulting in enhanced credit in Electronic Credit Ledger (ECL)

As per Section 140(1) of the KGST Act, a registered person is entitled to take, the amount of credit available for carry forward in VAT return for the period ending June 2017 as transitional credit. As per Section 140(5) of the KGST Act, a dealer can avail transitional credit on inputs/input services for which invoice has been raised in the erstwhile VAT regime and goods are received after 1 July 2017 provided the same are accounted in the books of accounts on or before 31 July 2017. Further, as per Section 140(6) of the KGST Act, a dealer can avail transitional credit on the stock held by him on which he had not availed input tax credit in the earlier regime based on availability of tax invoices, that is transitional credit on inputs/semi-finished goods in stock. The form Tran-1 provided for specific entries for claim of transitional credit under various provisions such as Table 5C for carry forward from June 2017 return, Table 7B for inputs in transit, Table 7C for inputs/semi-finished goods in stock and Table 7D for goods for which no tax invoice was available as proof of having paid tax. In respect of credit under Section 140(7) in Table 7D of Tran-1, the dealers were required to file Tran-2 on disposal of the goods whereby the transitional credit would be credited to the ITC Ledger.

Audit verification revealed that in 17 cases the dealers had entered the same amount of transitional credit under various tables in the Tran-1 form, that is under Table 5C, Table 7B, Table 7C and Table 7D and had consequently got the consolidated credit of ₹ 1.59 crore in their ECL. Audit scrutiny revealed that these dealers had a credit of ₹ 0.76 crore in their June 2017 KVAT Return. This resulted in excess credit of transitional credit of ₹ 0.83 crore.

A few cases are illustrated below:

Table 2.10

Enhanced credit in Electronic Credit Ledger

(in ₹)

Sl. No.	GSTIN / TIN / LGSTO	Trade Name	Transitional credit claimed	Credit available in June 2017 VAT return	Excess claim of transitional credit	Remarks
1	29ASAPK9010E1Z0/ 29710676827/ LGSTO-90, Bengaluru	M/s. I Monetary Advisory	1,07,26,080	53,63,040	53,63,040	Same amount claimed under Table 5C and Table 7C
2.	29ACBPR9470L1ZU/ 29530386314/ SGSTO-265, Puttur	K.V.G Electricals & Contractors	3,72,390	0	3,72,390	The dealer had claimed ₹ 1,24,130 in tables 5C, 7B, 7C and 7D. Of these, credit claimed under tables 5C, 7B and 7C amounting to ₹ 3,72,390 was credited to the ledger.
3.	29ABMPR1417M1Z4/ 29230741402/ LGSTO-200, Mysuru	M/s. RTC Agri Services	5,44,370	1,81,457	3,62,913	Same amount of ₹ 1,81,457 claimed under 5C, 7B, 7C and 7D. Credit of amount under 7D not in ECL as Tran- 2 was not filed.
4.	29AAUFM4446Q1Z5/ 29620652578/ LGSTO-80, Bengaluru	M/s Maruthi Plywoods	6,97,468	3,48,734	3,48,734	Same amount claimed under both 5C and 7C.

Audit further noticed that, of these 17 cases, 11 dealers had filed GSTR 9, of which nine dealers had claimed the same amount of transitional credit as in Tran-1 and two had shown reduced transitional credit of ₹ 2.47 lakh in GSTR 9. However, these two dealers had not reversed the excess transitional credit or paid back through DRC 3.

On this being pointed out (March 2022), department stated two cases were assigned to audit, one case has been referred to Central jurisdiction. Reply in the remaining 14 cases are awaited (September 2022).

(d) Non-restriction of transitional credit to the extent of tax liability on non-filing of statutory Forms

As per proviso to Section 140(1), so much of the said credit as is attributable to any claim related to Section 3, sub-section (3) of Section 5, Section 6, Section 6A or sub-section (8) of Section 8 of the Central Sales Tax Act, 1956 (Central Act 74 of 1956) which is not substantiated in the manner, and within the period, prescribed in Rule 12 of the Central Sales Tax (Registration and Turnover) Rules, 1957 shall not be eligible to be credited to the electronic credit ledger, Form Tran-1 provided for the dealers to enter the details of turnover and tax liability for which statutory forms such as C, H, I and F were not filed for the concessional rate of tax and to reverse the same from the

credit carried forward from June 2017 return to arrive at the transitional credit to be availed.

Audit noticed that seven out of 5,298 dealers with transitional credit of ₹ 1.32 crore had shown additional tax liability of ₹ 5.28 crore towards non furnishing of statutory Forms (Form-C, F, H & I) in the Tran-1 Forms. However, the dealers had not restricted the transitional credit of ₹ 1.32 crore availed wherein the statutory Forms not filed by them. Further, after considering the statutory Forms filed post filing of Tran-1, an amount of ₹ 0.20 crore was still due (after re-assessment order issued by the department under CST Act) for non-filing of statutory Forms. Non-restriction of the tax due, while filing Tran-1 resulted in raising of demands under the legacy regime.

Illustration:

M/s. Weir Minerals (India) Pvt. Ltd. (GSTIN:29AAACI0519D1Z0/ TIN: 29060203873) under jurisdiction of LGSTO-075, Bengaluru, out of transitional credit of ₹ 98,68,672, dealer had reversed ₹ 1,51,706 towards H Form tax payable and availed transitional credit of ₹ 97,16,966. However, the dealer had not reversed the Form C tax due of ₹ 12,28,969 (as per re-assessment order) shown in Tran-1 Form.

On this being pointed out (March 2022), the department stated (June 2022) that four cases that pertained to Central jurisdiction have been referred to Central authority. Reply in the remaining three cases are awaited (September 2022).

2.5.9.3 Other observations

A registered person was entitled to carry forward the credit available in the return for the quarter or month ending June 2017, furnished by him. However, there were various factors such as reduction of credit due to filing of audited statement of accounts along with Certificate of Chartered Accountant in Form VAT 240, re-assessment orders, ineligible credit due to mismatches in e-UPaSS, non-filing of TDS certificates etc., which had an impact on the credit available at the end of June 2017. Audit noticed that the dealers had not made corresponding reductions in the credit available in June 2017 before filing Tran-1 for transitional credit and hence this had resulted in incorrect claims of transitional credit by the dealers. As the department had not initiated a mechanism for verification of transitional credit claims, these remained undetected. Such instances and the effect of the same on the transitional credit claimed are discussed below.

(a) Excess claim of transitional credit due to non-consideration of figures in Form VAT-240

According to Section 31(4) of KVAT Act, dealers with turnover above ₹ one crore had to file Form VAT-240 after getting their books of accounts audited by a Chartered Accountant. In respect of the financial year, 2017-18 (April 2017 to June 2017), dealers with turnover of ₹ 25 lakh and above were required to file the Form VAT-240.

Audit noticed in 58 cases (out of 5,103 cases) that a total of ₹ 8.72 crore had been availed towards transitional credit and in these cases, as per Form VAT-240 filed, either for 2017-18 or an earlier financial year, the credit available at the end of June 2017 was only ₹ 7.76 crore. This resulted in excess claim of ₹ 0.96 crore due to non-restriction of transitional credit as per VAT 240.

A few illustrative cases are given below:

Table 2.11

Excess claim

Sl. No.	GSTIN/TIN	Name	Transitional credit (in ₹)	Credit as per June 2017 VAT return (in ₹)	Credit available as on 30-06-2017 after filing VAT 240 (in ₹)	Excess transitional credit availed (in ₹)
1	29AAGFS7756M1ZA/ 29520043958 LGSTO-520, Kalaburagi	Sanjeevini Distributors	26,12,141	26,12,141	4,83,886	21,28,255
2	29AADCA2447F1ZU/ 29460129545 LGSTO-100, Bengaluru	Akshaya Agro Sales Private Limited	91,96,103	91,96,103	81,85,913	10,10,190
3	29AAACK6967D1ZA/ 29970110495 LGSTO-70A, Bengaluru	KLN Engineering Products Private Limited	39,87,968	39,87,968	34,22,389	5,65,579

Audit further noticed that out of above 58 cases, in 11 cases in efs, re-assessment orders under section 39 of KVAT Act was passed for the period 2017-18 levying tax of ₹ 25.70 lakh, out of which ₹ 0.67 lakh was collected in one case.

On this being pointed out (March 2022), the department stated (June 2022) that eight cases were assigned to audit and two cases were referred to Central jurisdiction. In two cases, the amount of ₹ 0.75 lakh was recovered. Reply in the remaining 46 cases are awaited (September 2022).

(b) Reduction of credit due to Re-assessment orders issued under KVAT Act

Re-assessment orders under Section 39 of the KVAT Act are passed after detailed scrutiny of the books of accounts by the Departmental Officers where the output tax and input tax may be subjected to variations due to detection of short/excess declaration of sales/purchase turnovers, non-compliance with the rules and regulations etc.

Audit noticed 32 cases of re-assessment orders out of 5,103 cases examined where transitional credit of ₹ 5.82 crore was availed. The carry forward credit available for the tax period June 2017 was ₹ 3.32 crore. However, consequent on re-assessments, the credit available as of June 2017 was reduced to ₹ 33.11 lakh. This resulted in excess claim of transitional credit of ₹ 5.49 crore due to non-consideration of the reduced credits available consequent on re-assessments. Though these re-assessments were concluded after the

implementation of GST, the department failed to assess the impact on transitional credit availed and did not take any action to reverse the additional transitional credit availed by the assesseees. A few illustrative cases are given below:

Table 2.12

Reduction in credit after re-assessment

Sl. No.	GSTIN / TIN / LGSTO	Trade Name	Transitional credit claimed in Table 5C (in ₹)	Credit available in June 2017 after re-assessment (in ₹)	Excess transitional credit availed (in ₹)
1	29ARCPP3005F1Z2/ 29080777811/ LGSTO-90, Bengaluru	M/s. Suman Fin Stock	2,75,32,468	0	2,75,32,468
	As per re-assessment order dated: 23.3.2021 for 2017-18, there was no credit available for carry forward under GST.				
2	29AAGCA8774N1ZS/ 29800804090/ LGSTO-535, Sindhanur	M/s. Amruth Constructions Private Limited	62,51,803	0	62,51,803
	As per the rectification order dated 23.7.2021 for 2017-18, there was no credit available for carry forward under GST.				
3	29AKGPR7728A1ZY/ 29030796802/ LGSTO-195, Mysuru	M/s. Y.V.R. Constructions	58,06,001	0	58,06,001
	As per re-assessment order dated 30.10.2021 for 2017-18, there was no credit available for carry forward under GST.				
4	29AAJFS4902N1ZN/ 29531117985/ LGSTO-200, Mysuru	M/s Sripathy Associates	19,02,489	0	19,02,489
	As per re-assessment order dated 27.8.2021 for 2017-18, there was no credit to be carried forward under GST.				
5	29CBMPK9932L1ZR/ 29951352397/ LGSTO-280, Udupi	M/s. K.C.S. Timbers	17,58,398	0	17,58,398
	As per the re-assessment orders dated 11.12.2020, for the years 2016-2017 and 2017-2018, there was no credit available for carry forward under GST.				

On this being pointed out (March 2022), department stated (June 2022) that one case was assigned for audit. Reply in the remaining 31 cases are awaited (September 2022).

(c) **Reduction in credit due to ineligible ITC on verification from e-UPaSS**

e-UPaSS was software developed by CTD for uploading the purchase and sale invoices which served as a tool to match the purchase invoices of a purchasing dealer with the corresponding sale invoices of the selling dealer.

On cross verification of purchase details for ITC availed under KVAT in e-UPaSS with the invoice details in Tran-1 Form, it was noticed in 17 cases with transitional credit of ₹ 1.74 crore that the assesseees had claimed excess

transitional credit of ₹ 0.59 crore due to reasons such as (i) credit already availed under VAT, (ii) claim of transitional credit on inter-State purchases, etc.

Audit further noticed that out of the 17 observed cases, in 3 cases as noticed in efs, re-assessment orders/proceedings were passed for the period 2017-18. However, the excess transitional credit availed was neither detected nor any action initiated for recovery of loss of revenue.

On this being pointed out (March 2022), the department stated (June 2022) that one case was referred to the Central jurisdiction, one case was assigned to audit and in one case, an amount of ₹ 3.06 lakh was recovered. Reply in the remaining 14 cases are awaited (September 2022).

(d) Reduction in credit due to non-filing of TDS certificates

Section 9-A of KVAT Act provides for Tax Deduction at Source (TDS) and the person effecting TDS is required to remit the amount of tax to Government and issue a TDS Certificate in Form 156 to the person from whose payment TDS has been deducted. The TDS certificate enables the person to claim TDS credit against the tax payable while filing his return under KVAT. If a dealer claims TDS credit in his KVAT return against tax payable, but does not produce the TDS certificate, the realisation of revenue to the Government cannot be assured. Further, it also affects the carry forward credit in cases where TDS claim is more than his tax liability.

Audit noticed that in six cases, the dealers had claimed transitional credit of ₹ 0.84 crore based on credit available in VAT returns. Audit verification revealed that the carry forward credit available in June 2017 return was as a result of claim of TDS amounts of ₹ 1.46 crore. Audit noticed that TDS certificates to the extent of ₹ 0.74 crore were not filed. Out of these, it was noticed that in some cases, the disallowance of TDS claimed due to non-filing of TDS certificates was more than the transitional credit claimed. In other cases, the disallowance due to non-filing of TDS was less than the transitional credit claim. Limiting the disallowance in the former cases to the extent of transitional credit claimed and disallowing the transitional credit to the extent of non-filing of TDS certificates in the later cases, the incorrect transitional credit worked out to ₹ 0.60 crore.

These cases were brought to the notice of the Department (March 2022). Reply of the department is awaited (September 2022).

(e) Reduction in credit due to miscellaneous reasons

In 18 cases, out of 5,298 cases examined, with transitional credit of ₹ 2.06 crore, there were various factors impacting the credibility of transitional credit such as claims of ITC with exempted turnover, interstate purchases, incorrect and excess carry forward of ITC which had resulted in incorrect/excess transitional credit of ₹ 1.10 crore as detailed below:

Table 2.13
Reduction in credit due to other reasons

No. of cases	Incorrect Transitional credit (₹)	Reason
09	17,40,725	Exempted turnover due to labour works
04	16,43,732	Due to interstate purchases
05	76,22,175	Other reasons like availing twice, purchases in GST period etc.

On this being pointed out (March 2022), the department stated (June 2022) that one case was referred to the Central jurisdiction, one case was assigned to audit and in one case, an amount of ₹ 0.66 lakh was recovered. Reply in the remaining 15 cases is awaited (September 2022).

2.5.9.4 Conclusion and recommendations

The transitional credit was a one-time flow of input tax credit from the legacy regime into the GST regime. Out of 5,298 cases that were examined in detail, Audit observed compliance deviations in 263 cases amounting to ₹ 15.75 crore, constituting an error rate of five *per cent*. Higher rates of irregularities were noticed in three categories namely, (i) reduction of credit due to re-assessment orders issued under KVAT Act, (ii) claim of transitional credit without filing returns under the erstwhile KVAT Act, and (iii) excess claim of transitional credit.

Though the absence of Action Plan for verification of Transitional Credits and ineffective risk assessment were pointed out in the earlier Report, the above findings reveal lack of remedial action by the department.

In view of the above compliance findings, we recommend the following:

The Department may:

- i) Prioritise verification of transitional credits based on risk parameters and analyse the impact of re-assessments vis-à-vis availment of transitional credit; and*
- ii) Initiate remedial measures for the compliance deviations pointed out during this audit before the claims become time barred.*

2.6 Subject Specific Compliance Audit on GST Refunds

2.6.1 Introduction

The concept of refunds under Goods and Services Tax (GST) relates to any amount that is returned to the taxpayer by the Government, that was paid by the taxpayer either in excess or which was not liable to be paid by him under the statute. The amounts that can be claimed as refund includes not merely tax but interest, penalty, fee, or any other amount paid. Refund is also permissible on the unutilised Input Tax Credit (ITC) in respect of the supplies made under zero rated or inverted duty structure categories. The provisions of refund contained in the GST law aim to streamline and standardise the refund procedures under GST regime. Further, timely refund is essential in tax administration as it facilitates trade through release of blocked funds for working capital, expansion and modernisation of existing business.

GST law envisaged an automated environment for filing and processing of refund claims through a refund module in Goods and Services Tax Network (GSTN) common portal. However, initially due to non-availability of this electronic refund module in the common portal, a temporary mechanism was devised wherein the taxpayers were required to file the claim through a manual process. Further, the input matching process was not operationalised through the envisaged forms, thus the refunds were processed based on the provisionally accepted ITC under the said manual process. Rule 97A of the Central Goods and Services Tax (CGST), Rules 2017/ Karnataka Goods and Services Tax (KGST), Rules 2017 had enabled this manual filing and processing of refund claims. However, with effect from 26 September 2019, the refund module is deployed in the common portal and the necessary capabilities of refund process are fully automated.

Accordingly, a fresh set of guidelines had been issued for electronic submission and processing of refund claims vide Circular No.125/44/2019-GST dated 18 November 2019.

2.6.2 Audit objectives

Audit of Refund cases under GST regime was conducted to assess:

- i. The adequacy of Act, Rules, notifications, circulars etc. issued in relation to grant of refund;
- ii. The compliance of extant provisions by the tax authorities and the efficacy of the systems in place to ensure compliance by taxpayers; and
- iii. Whether effective internal control mechanism exists to check the performance of the departmental officials in disposing the refund applications.

2.6.3 Scope of Audit

Pan-India GST refund data was obtained from GSTN and through risk-based data analysis, a sample of refund cases was extracted for detailed examination. Refund cases processed in the selected circles of State Tax Offices from July 2017 to July 2020 were scrutinised and the replies received up to June 2022 were included.

An Exit conference was held with the Commissioner of Commercial Taxes (CCT) in May 2022. The response by the CCT have been included in the relevant paragraphs.

2.6.4 Sample and Coverage

GSTN provided pan-India Refund Data for the period from July 2017 to July 2020. For the period prior to 26 September 2019, i.e. pre-automation period, the refund applications under each category were sorted out in descending order of refund amount claimed by taxpayers. The sorted refund applications were divided into four quartiles for drawing the sample.

For selecting refund applications, filed after 26 September 2019, a composite risk score was devised using risk parameters such as refund amount claimed (60 *per cent* weightage), delay in sanctioning refund (15 *per cent*), Refund sanctioned/refund claimed ratio (10 *per cent*) and issue of deficiency memo.

Based on the risk score, arrived as per this process, refund applications were selected.

Based on the above procedure, a sample of 1,031 refund cases pertaining to Karnataka State covering all 13 divisions was selected for audit. Out of these, 495 claims pertain to pre-automation period and 536 claims pertain to post-automation period. The actual coverage of refund cases for audit is 1,024¹⁰ claims, with 488 cases pertaining to pre-automation claims and 536 claims under post-automation, since records were not produced in seven cases out of 495 cases pertaining to pre-automation period.

2.6.5 Audit criteria

The audit objectives were benchmarked against the criteria drawn from the following sources:

- Karnataka Goods and Services Tax Act, 2017
- Karnataka Goods and Services Tax Rules, 2017
- Circulars and Notifications issued by the State Government
- Central Goods and Services Tax Act, 2017
- Integrated Goods and Services Tax Act, 2017

2.6.6 Audit findings

Audit findings are categorized into two broad perspectives viz., systemic issues and compliance issues. While the systemic issues aim to bring out the shortcomings relating to deficiency in the control mechanism in processing refund claims leading to double payments or excess payments, compliance issues highlight deviations from the provisions of Act and Rules and the resultant impact on revenue. Further, 17 instances of double/multiple payments of refunds were noticed from the test check of payments through Khajane-2¹¹ under pre-automation period. The audit findings are given in the succeeding paragraphs.

2.6.7 Systemic issues

Audit noticed systemic issues in processing refund claims leading to double/excess payments, non-follow-up of Central Board of Indirect Taxes and Customs (CBIC)/ Commissioner of Commercial Taxes (CCT) Circular instructions resulting in accumulation of IGST and non-adherence to the provisions of Clause (D) of Rule 89(4) of CGST Rules, 2017/ KGST Rules, 2017 for zero-rated supply of services (Exports without payment of IGST), which are detailed below.

2.6.7.1 Instances of Double payment of SGST refunds in the pre-automation period

Section 6(1) of the KGST Act, 2017 specifies that the officers appointed under the Central Goods and Services Tax (CGST) Act are authorised to be the proper officers for the purpose of this Act.

¹⁰ In seven cases of pre-automation period, refund files were seized by the Commissioner of Commercial Taxes and were not provided to Audit and checked by Audit.

¹¹ Khajane-2 is the Accounting & Financial Report software of the Government of Karnataka.

Based on the above provisions, the officers appointed under State Goods and Services Tax (SGST)/ Union Territory Goods and Services Tax (UTGST) Act are empowered to sanction refund of CGST or Integrated Goods and Services Tax (IGST) components of claims in respect of taxpayers coming under their respective jurisdiction. Similarly, the proper officer under CGST Act (Section 6(1) of CGST Act) is empowered to sanction refund of SGST/UTGST components of the claims pertaining to the taxpayers under their jurisdiction. During the manual processing of refund claims, the actual payment of the cross-tax components was made by the respective SGST/UTGST or CGST authorities, based on the refund orders received from the administrative authorities sanctioning refund. As against this manual payment process¹², in the post-automation period, refund payments are being made through automated mode by e-PAO Chennai (PFMS).

Refund payment data of SGST component (Head of Account-0006-SGST) from the records of Khajane-2 statements in the respective Local GST Offices (LGSTOs) was examined to assess timely disbursement of the refunds sanctioned by the cross jurisdictional authorities.

During the test check of refund payments in respect of claims made during the period from July 2017 to September 2019 (pre-automation period), Audit noticed instances of double payments of refund of SGST component in five¹³ LGSTOs. In these cases, it was observed that the payments were initiated twice at the LGSTOs on the same base documents and reasons for double payments were not forthcoming from the refund files. This reflected a control deficiency in the manual payment process pertaining to SGST component, resulting in double/ excess payment of SGST component in 17 cases amounting to ₹ 1.96 crore.

On this being pointed out (between August and September 2021), the department intimated (between May and June 2022) that an amount of ₹ 45.26 lakh was recovered in three cases and endorsement was issued in two cases. The reply in the remaining 12 cases are awaited (September 2022).

Two illustrative cases are given below:

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| <p>i) The assessee, M/s. CSR India Private Limited/29AAACU4714E1ZH, had claimed refund on account of zero rated supply of goods and services for the relevant period July 2017 to March 2018 vide ARN: AA290318063699H dated 29-03-2019. The provisional refund amount of ₹ 66.83 lakh was sanctioned twice, once on 26-04-2019 for ₹ 66.83 lakh and another provisional refund order was issued on 30-07-2019 for ₹ 66.83 lakh, to two different bank accounts. On verification of KFC 62-B Treasury Schedule in the office of LGSTO-15, it was confirmed that the refund was made twice resulting in double payment of refund of ₹ 66.83 lakh.</p> <p>On this being pointed out (August 2021), the department stated (May 2022) that the endorsement had been issued to repay the excess payment.</p> |
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¹² In Karnataka, refund of SGST component was issued by State Tax Authorities.

¹³ LGSTO-15, LGSTO-16, LGSTO-90, LGSTO-120 and LGSTO-152.

ii) The assessee, M/s. Aruba Networks India Private Limited/ 29AAFCA4556M1Z7, had claimed refund on account of zero rated supply of goods and services for the relevant period July 2017 to September 2017 vide ARN: AB290917101992Q dated 07-09-2018. In the provisional refund order dated 12-10-2018, refund of ₹ 43.55 lakh was sanctioned. On verification of KFC 62-B Treasury Schedule, it was noticed that refund was made twice i.e. refund of ₹ 43.55 lakh made vide Token No.1800297906 dated 26-10-2018 and ₹ 43.55 lakh vide Token No.1901173391 dated 06-05-2019, which resulted in double payment of refund of ₹ 43.55 lakh.

On this being pointed out (August 2021), the department intimated (May 2022) that the amount of ₹ 64.96 lakh along with interest was recovered.

Reconciliation of refund payments needs to be done by the Department to address the systemic issue of double payments of SGST component of refunds in the pre-automation cases.

2.6.7.2 Non follow up of CBIC/CCT Circular instructions resulted in accumulation of IGST and consequent refund of CGST and SGST

In the Circular No. 59/33/2018-GST dated 4 September 2018 issued by Central Board of Indirect Taxes and Customs and corresponding Circular of Commissioner of Commercial Taxes, Karnataka vide Circular No. GST-28/2018-19 dated 25 March 2019, provides for debit of the refund amount of accumulated ITC by the claimant from its electronic ledger in the following order:

- a) Integrated tax, to the extent of balance available;
- b) Central tax and State tax/Union Territory tax, equally to the extent of balance available and in the event of a shortfall in the balance available in a particular electronic credit ledger (say, Central tax), the differential amount is to be debited from the other electronic credit ledger.

During test check it was noticed in 16 refund cases (five cases under Pre-Automation and 11 cases under Post-Automation) that neither the refund claimants (assesseees) nor the Assessing Officers (LGSTOs/SGSTOs) had followed the order of debiting the refundable amount under IGST, CGST and SGST in the Electronic Credit Ledger (ECL) as clarified by the CCT Circular No. GST-28/2018-19 dated 25 March 2019. This has resulted in accumulation of IGST and consequent issue of CGST and SGST to the same extent.

On this being pointed out (between August and September 2021), the department during exit conference stated (May 2022) that it was only a technical issue and there is no loss of revenue.

Audit once again reiterates that the said circular instructions may be adhered to.

2.6.7.3 Grant of provisional refunds to ineligible cases

As per Section 54(6) of the CGST Act, 2017/ KGST Act, 2017, the proper officer may in the case of any claim for refund on account of zero-rated supply of goods or services or both made by the registered persons, other than such category of registered persons as may be notified by the Government on the recommendations of the Council, refund on a provisional basis 90 *per cent* of the total amount so claimed.

During test check it was noticed that in three cases out of 110 cases provisional refund was sanctioned under the category of inverted duty structure even though the rules did not permit provisional refund under the inverted duty structure. An Illustrative case is given below.

➤ M/s. Mangalore Chemicals & Fertilizers Limited/ 29AABCM3599G1Z3 had claimed refund of accumulated ITC on account of supplies made under inverted Duty Structure for the periods September 2018 to October 2018, December 2018 and July 2019. The refund claimed for these refund periods was ₹ 92.27 crore. On verification of the refund claim, it was noticed that the provisional refund of ₹ 83.05 crore, being 90 *per cent* of total amount claimed, was sanctioned for the said refund periods even though the claim was under inverted duty structure category.

On this being pointed out (September 2021), the Department during exit conference stated (May 2022) that the issue was only a procedural lapse and not a wrong refund.

Audit reiterates that such lapses may be avoided in future.

2.6.8 Compliance issues

Table below brings out the extent of deficiencies noticed during the detailed audit of refund cases.

Table 2.14
Summary of nature of observations and deviation rates

Nature of Audit Findings	Audit Sample in number	Number of deficiencies noticed in number	Deficiencies as percentage of Sample
Delay in issuance of provisional refund on account of zero-rated supply	1,024	41	4.00
Delay in issue of final Refund	1,024	61	5.96
Incorrect refund due to allowing capital goods credit under net ITC	1,024	11	1.07
Excess refund due to allowing ineligible credit under net ITC and ITC on input services under Inverted duty structure	1,024	20	1.95
Excess refund due to incorrect adoption of turnover	1,024	23	2.25

As evident from the table above, Audit noticed delays in issuance of provisional refund on account of zero rated supply in four *per cent* and delay in final refund in 5.96 *per cent* cases. Audit also noticed that excess refund due to incorrect adoption of turnover in 2.25 *per cent* cases, excess refund due to

allowing ineligible credit under net ITC and ITC on input services under inverted duty structure in 1.95 *per cent* cases and incorrect refund due to allowing capital goods credit under net ITC in 1.07 *per cent* cases.

2.6.8.1 Delay in issuance of provisional refund on account of zero rated supply

Rule 91(2) of KGST Rules, 2017, envisages that the proper officer, after scrutiny of the claim and on the evidence submitted in support thereof and on being *prima-facie* satisfied that the amount claimed as refund is due to the applicant in accordance with the provisions of sub-section (6) of 54, shall make an order in Form GST-RFD-04, sanctioning the amount of refund on a provisional basis within a period not exceeding seven days from the date of acknowledgement.

Audit noticed that out of 1,024 sample cases (488 pre-automation and 536 post-automation), there was delay in issue of provisional refund orders in 41¹⁴ cases (4.00 *per cent*) in fifteen¹⁵ LGSTOs. The delay ranged from two to 89 days. Out of these, 39 cases were delayed up to two months and two cases were delayed by more than two months.

On this being pointed out (between February 2021 and December 2021), two¹⁶ LGSTOs intimated (between August and September 2021) that no interest was paid under Section 56 of the KGST Act and the delay was due to technical glitches in transmitting the data from GSTN to the State Portal.

The reply is not tenable since the statutory provisions regarding sanction of refund on provisional basis within the statutorily specified time lines is part of Government's policy of 'ease of doing business' and to release the blocked revenue as soon as possible to the businesses concerned.

2.6.8.2 Delay in issue of final Refund

Section 54(7) of the KGST Act, 2017 stipulates that the proper officer shall issue the order under sub-section (5) within sixty days from the date of receipt of application complete in all respects.

Audit noticed that out of 1,024 sample cases (488 pre-automation and 536 post-automation), final refund orders were issued after a delay in 61¹⁷ cases (5.96 *per cent*) in 13¹⁸ LGSTOs. The delay ranged from two to 229 days. Out of these, 45 cases were delayed up to three months, 13 cases were delayed between three to six months and three cases were delayed by more than six months.

On this being pointed out (between July and March 2022), three LGSTOs¹⁹ intimated (between July and September 2021) that no interest was paid under

¹⁴ 10 in pre-automation and 31 in post-automation.

¹⁵ LGSTO 15,20,26, 30,36,40,46,50,66,150 Bengaluru, LGSTO 190 Mysuru, LGSTO 310 Dharwad, LGSTO 320 Hubballi, SGSTO 261 Bantwal and SGSTO 191 Nanjangud.

¹⁶ LGSTO 20 and 36, Bengaluru.

¹⁷ 34 in pre-automation and 27 in post-automation.

¹⁸ LGSTO 15, 20,26,35,36,46,75, 90 Bengaluru, LGSTO 190 Mysuru, LGSTO 320 Hubballi, LGSTO 360 Ranebennur, SGSTO 191 Nanjangud and SGSTO 261 Bantwal.

¹⁹ LGSTO 20,36 and 75 Bengaluru.

Section 56 of the KGST Act and that the delay was due to technical glitches in transmitting the data from GSTN to the State Portal.

The reply is not tenable since the law has specified the timelines for each stage of refund.

2.6.8.3 Incorrect refund in respect of export invoices pertaining to pre-GST period

As per section 142(4) of KGST Act, 2017 every claim of refund filed after the appointed day for refund of any duty or tax paid under existing law in respect of the goods or services exported before or after the appointed day shall be disposed in accordance with the provisions of existing law.

During test check, two cases²⁰ were noticed where exports were made under the pre-GST law. However, while processing the refund, these cases were treated as a part of zero rated supply made under the GST law. This resulted in incorrect grant of refund of ₹ 1.98 crore as detailed below.

i) The assessee, M/s VM Ware Software India Private Limited/ 29AACCV4573E1Z5, had claimed refund for the period July 2017 in respect of export invoices issued during the month of June 2017 (i.e. pre-GST period) and payments in convertible foreign exchange realised (FIRCs) during the month of July 2017. Thus, the said export of services were made under the provisions of pre-GST law and hence cannot be considered as a part of zero rated supply made under GST law. This resulted in incorrect grant of refund of ₹ 42.24 lakh.

On this being pointed out (December 2020), the LGSTO stated (August 2021) that the case would be forwarded to the Divisional Office for necessary action.

ii) The assessee, M/s Sabre Travel Technologies Pvt Ltd/ 29AAICS5777P1Z7, had claimed refund for the period July 2017 to September 2017 in respect of export invoices issued during the months of March 2017, April 2017 and May 2017 (i.e. pre-GST period) and payments in convertible foreign exchange realised (FIRCs) during the months of July 2017 and September 2017. Thus, sanctioning of refund of GST in respect of Export of Services which were made under the provisions of pre-GST law, considering as a part of zero rated supply made under the GST law was not in order. This omission resulted in irregular grant of refund of ₹ 1.56 crore.

On this being pointed out (April 2021), the LGSTO stated (August 2021) that the observation would be examined.

2.6.8.4 Incorrect refund due to allowing capital goods credit under net ITC

As per Section 54 of Karnataka Goods and Services Act, 2017, refund of unutilized input tax credit (ITC) can be claimed by a registered person at the end of any tax period. Rule 89(4) of KGST Rules, 2017, prescribes the

²⁰ Out of 1,024 sample cases.

formula²¹ as per which the refund in the case of zero-rated supply of goods or services shall be granted. 'Net ITC' means input tax credit availed on inputs and input services during the relevant period. Thus, ITC availed on capital goods shall not be considered.

During test check it was noticed that in 11 refund claims out of 1,024 claims (five cases in the pre-automation period and six cases in the post-automation period), the ITC on capital goods was allowed as net ITC for the purpose of calculation of refund amount, resulting in incorrect refund of ₹ 1.89 crore.

Further, it was noticed that in two out of 11 cases pointed out, the refund claimants had not followed the instructions contained in the Circular No. 125/44/2019-GST dated 18-11-2019 while submitting the Annexure-B distinguishing the ITC on capital goods and/or input/ input services. Thus, while sanctioning the refunds, the LGSTOs/ SGSTOs had to insist the assessee to furnish the ITC claim statements distinguishing the ITC on capital goods and/or input/ input services.

On this being pointed out (between December 2020 and September 2021) the LGSTO intimated (September 2021) that an amount of ₹ 30.33 lakh including interest was recovered in one case. In the remaining ten cases, replies are awaited (September 2022).

Two illustrative cases are given below.

i) Refund of unutilised ITC in respect of M/s SAP Labs India Pvt Ltd/29AAFCS3649P1ZJ on account of zero-rated supply of goods and services without payment of tax for the period October 2017 to December 2017 was sanctioned for an amount of ₹ 35.85 crore. On verification of input tax claimed by the taxpayer along with the supporting documents, it was noticed that net ITC claimed by the taxpayer included ITC on capital goods amounting to ₹ 24.05 lakh. However, the same was allowed resulting in incorrect sanctioning of refund of ₹ 23.11 lakh.

On this being pointed out (August 2021), the LGSTO intimated (September 2021) that an amount of ₹ 30.33 lakh including interest was recovered.

ii) Refund of unutilised ITC in respect of M/s Cambium Networks Private Limited/ 29AAECC7182N1Z0 on account of zero-rated supply of goods and services without payment of tax for the period October 2018 to March 2019 was sanctioned for an amount of ₹ 39.73 lakh. In the Annual Return GSTR-9 for the year 2018-19, the assessee had declared ITC of ₹ 89.86 lakh on capital goods. However, the assessee while claiming refund, ITC on capital goods was not excluded which resulted in excess refund of ₹ 39.73 lakh for the refund period October 2018 to March 2019.

On this being pointed out (July 2021), the LGSTO stated (May 2022) that the order was passed for the year 2018-19 in which ITC on capital goods was restricted.

²¹ Refund amount=(Turnover of zero-rated supply of goods + Turnover of zero-rated supply of services) × Net ITC ÷ Adjusted Total Turnover

2.6.8.5 Excess refund due to allowing ineligible credit under net ITC and ITC on input services under Inverted duty structure

Section 17(5) of CGST Act, 2017/ KGST Act, 2017 stipulates that ITC is not available on supplies like food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, services of general insurances, works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service.

As per Rule 89(4)(B) of KGST Rules, 2017, Net ITC means input tax credit availed on inputs and input services during the relevant periods.

Further, the explanation under Rule 89(5) of CGST Rules/ SGST Rules, states that the 'Net ITC' shall mean input tax credit availed on inputs during the relevant period other than the input tax credit availed for which refund is claimed under sub-rules (4A) or (4B) or both. Further, Inputs as per section 2(59) of the Act means any goods other than capital goods used or intended to be used by a supplier in the course of furtherance of business. Hence, the refund under inverted duty structure is available only for ITC claimed on inputs.

In 20 refund claims out of 1,024 sample cases (eight cases in the pre-automation period and 12 cases in the post-automation period), we noticed that the taxpayers had claimed ITC on supplies which are not eligible for credit/refund as per the above rules. Allowing input tax credit on ineligible credits had resulted in excess refund of ₹ 64.59 lakh.

On this being pointed out (between April and December 2021), the LGSTOs intimated (June 2022) that in three cases ITC of ₹ 9.31 lakh (including interest in one case) was recovered and one case was assigned for audit. Reply in the remaining 16 cases was awaited (September 2022).

An illustrative case is given below:

➤ The assessee M/s Fowler Westrup India Pvt Limited/ 29AAACF5164H1ZK while claiming the refund for the period April 2019 to June 2019, declared the turnover of inverted rated supply of goods of ₹ 11.94 crore with inverted rate of tax ₹ 59.69 lakh and Adjusted Total turnover of ₹ 14.94 crore with Net ITC of ₹ 1.59 crore and refund of ₹ 67.10 lakh was claimed and same was allowed. On cross verification of Refunds claimed under category of EXPWOP (Export of Goods and Services without payment of IGST) for the Refund periods April 2019, May 2019 and June 2019, the assessee had declared Net ITC of ₹ 1.59 crore of which ITC of ₹ 22.82 lakh was on services. However, the assessee while claiming refund under the category of inverted duty structure, ITC on services was not excluded. This resulted in excess allowance of refund of ₹ 18.24 lakh.

On this being pointed out (October 2021), the LGSTO stated (October 2021) that the case would be examined.

2.6.8.6 Excess refund due to incorrect adoption of turnover

As per Rule 89(4) of KGST Rules 2017, the refund in case of zero-rated supply of goods and services without payment of tax under bond or letter of undertaking, is based on the Formula; Refund Amount = (Turnover of zero-rated supply of goods + Turnover of zero-rated supply of services) \times Net ITC \div Adjusted Total Turnover.

As per Rule 89(5) of KGST Rules 2017, the refund of accumulated ITC on account of inverted duty structure is based on the Formula; Maximum Refund Amount = {(Turnover of inverted rated supply of goods and services) \times Net ITC \div Adjusted Total Turnover} – tax payable on such inverted rated supply of goods and services.

Where 'Adjusted Total Turnover' means sum total of the value of turnover in a State or a Union territory, as defined under clause 112 of section 2, excluding exempted supplies other than zero rated supplies.

During test check it was noticed in 23 cases out of 1,024 sample cases (eight cases in the pre-automation period and 15 cases in the post-automation period), that the adjusted turnover adopted was not in accordance with the rule provision. This had resulted in excess refund amounting to ₹ 1.11 crore.

On this being pointed out (between July 2021 and March 2022), the LGSTOs intimated (between September 2021 and June 2022) that in four cases the amount of ₹ 47.91 lakh was recovered and in two cases endorsements were issued. In one case the department stated (June 2022) that the turnover of services is not to be considered for 'Adjusted turnover' as per Notification No.39/2018 dated 4.9.2018 and hence refund allowed is in order.

The reply of the LGSTO is not acceptable as the definition of 'Adjusted turnover' includes the 'turnover of zero-rated supply of services determined in terms of clause (D) of Rule 89(4) of CGST/SGST Rules and non-zero rated supply of services.

The replies in the remaining 16 cases are awaited (September 2022).

One illustrative case is given below:

➤ The assessee, M/s Rashi Granite Exports India Limited/29AABCR9305B1ZK while claiming the Refund for the period January 2018, had declared the turnover of zero rated supply and Adjusted Total turnover of the same amount of ₹ 87.65 lakh with Net ITC of ₹ 2.03 crore and claimed refund of ₹ 33.87 lakh and same was allowed. However, the assessee did not consider the outward taxable supply (other than zero rated, Nil rated and exempted) of ₹ 9.94 crore for arriving at the Adjusted Total turnover, which resulted in excess refund of ₹ 17.38 lakh.

On this being pointed out (August 2021), the LGSTO stated (September 2021) that an amount of ₹ 25.04 lakh (including interest) was recovered.

2.6.9 Conclusion and recommendations

We conducted the Subject Specific Compliance Audit on GST Refunds with the objectives of assessing adequacy of rules and orders/notifications relating to refunds, compliance of provisions by tax authorities and internal control mechanism to check the performance of tax authorities in disposing the refund claims.

Our sample of 1,024 cases was divided into two broad categories of pre-automation (488 cases) and post-automation (536 cases). Our audit disclosed both systemic issues and compliance deviations.

As regards systemic issues, we noticed double payments of refunds in pre-automation cases due to deficiency in the control mechanism in the processing of refund claims. As for compliance issues, we noticed delays in issuance of provisional refund on account of zero-rated supply in four *per cent* and delay in final refund in 5.96 *per cent* cases. We also noticed excess refund due to incorrect adoption of turnover in 2.25 *per cent* cases and excess refund due to allowing ineligible credit of ITC in 1.95 *per cent* cases.

Recommendations:

- i) The department may take up reconciliation of refund payments in pre-automation period;*
- ii) The department may identify risk areas on the basis of observations pointed out and institute a mechanism to strengthen verification process while sanctioning refunds.*

2.7 Non-forfeiture of tax collected in excess

According to section 47 of the KVAT Act, 2003, where any amount is wrongly collected by way of tax or purporting to be way of tax from any person by any dealer, whether knowingly or not, such dealer shall pay the entire amount so collected, to the prescribed authority within 20 days after the close of the month in which such amount was collected. Any such amount which is not due as tax shall be forfeited to the Government and recovered from the dealer which will discharge him of the liability to refund the amount to the person from whom it was collected.

During test-check of records of 206 assesseees out of 7135 assesseees (2.89 *per cent*) in LGSTO-25 (Additional), Bengaluru and 1981 re-assessment orders (100 *per cent*) in DCCT(Audit)-5.5, in Bengaluru District during December 2019 to September 2020, it was noticed that in respect of one assessee in LGSTO and one assessee in Audit office, the excess tax collected amounting to ₹ 4.65 crore was not forfeited to the Government under section 47 of KVAT Act, 2003. In the former case, the assessee concerned had collected tax at a higher rate (14.5 *per cent*), but while levying/payment of the tax, the tax-payable was quantified at a lower rate (4 *per cent*). In the latter case, while passing the rectification order, the tax payable by the assessee was determined lesser than the actual tax collected by the assessee, resulting in excess tax collection. In both the cases, the excess tax collected had to be forfeited to the Government. Besides, the assesseees were also liable to pay interest at the rate of one and a quarter *per cent* of the amount excess collected for each month of

default amounting to ₹ 2.00 crore. Total liability including interest worked out to ₹ 6.65 crore.

Audit brought these cases to the notice of the Department/ Government during September 2021 and October 2021. The Government stated that reassessment orders were passed and demand notices were issued in both the cases and tax amount of ₹ 75.28 lakh was forfeited in one case (September 2022).

It is stated that the progress of recovery in the remaining case may be expedited and recovery may be intimated to audit.

It is recommended that the Department may review all such cases of non-forfeiture of taxes collected in excess, before the cases get time-barred for assessment.

2.8 Non-payment of tax on sale of liquor

According to Section 4 (1) (a) (ii) of the Karnataka Value Added Tax (KVAT) Act, 2003, every registered dealer shall be liable to pay tax on his taxable turnover at the rate of five and one half *per cent* on sale of goods mentioned in the Third Schedule of the KVAT Act. Under Section 5(1) of the KVAT Act, 2003, tax shall be exempt for the sale of goods specified in First Schedule of the said Act. As per the First Schedule of the KVAT Act, 2003, tax payable on sale of liquor including beer, fenny, liqueur and wine was exempted.

The Government, vide Notification No. FD 21 CSL 2014 (II) dated 28 February 2014, removed exemption of tax payable on sale of liquor and introduced Value Added Tax (VAT) at the rate of five and one half *per cent* on sale of liquor by CL-9 licensees²² in areas coming under Bruhat Bangalore Mahanagara Palike, City Municipal Corporation, City Municipal Council and Town Municipal Council or Town Panchayat, and CL-7 licencees²³ located in the entire state with effect from 1 March 2014. The aforesaid Notification was amended vide Notification No. FD 41 CSL 2014 on 21 April 2014, where tax on sale of liquor by CL-9 licencees situated in rural areas was exempted and sale of liquor by these assesseees only in urban areas were subjected to tax. However, sale of liquor by CL-7 licencees in the entire State were liable to tax.

During test-check of records of 36 CL-9 and CL-7 licensees (Audited sample-100 *per cent*) in LGSTO-430-Jamakhandi, JCCT (Admin.)-DVO-03-Bengaluru offices (one Local Goods and Service Taxes Office (LGSTO) and one Admin Office) in Bagalkote and Bengaluru Districts between February 2021 to March 2021, Audit noticed that in respect of four licensees (11.11 *per cent*) (Bar and Restaurants situated in urban areas, Hotel and Boarding houses), the turnover of sale of liquor for the period from April 2014 to March 2017 was ₹ 3.71 crore. Tax payable at the rate of five and one half *per cent* amounted to ₹ 20.42 lakh, of which, no tax was paid. Further, penalty and interest under Sections 72(2) and 36 of KVAT Act, 2003, amounted to ₹ 2.04 lakh and ₹ 15.02 lakh respectively, which too remained unpaid.

²² CL-9 licence is given by the Excise Department for sale of liquor in Bar and Restaurants.

²³ CL-7 licence is given by the Excise Department for sale of liquor in Hotel and Boarding Houses.

Hence, total non-payment of tax, including penalty and interest, works out to ₹ 37.48 lakh. Though the tax on sale of liquor by Bars and Restaurants situated in urban areas and by Hotel and Boarding houses in the entire State was to be levied with effect from 1 March 2014, the Department did not take action to verify whether the taxes were getting paid from all the dealers concerned.

These cases were brought to the notice of the Department/Government in December 2021. In reply, the Government stated that reassessment orders were passed in all the cases and tax amount of ₹ 4.25 lakh was recovered in one case (September 2022).

It is stated that recovery proceedings may be expedited in the remaining cases and recovery intimated to audit.

It is recommended that the Department may review all such cases in the other Districts as well and demand taxes wherever they are not paid.

2.9 Short-levy of tax due to incorrect allowance of sub-contractor payments

According to Section 4 (1) (c) of the Karnataka Value Added Tax (KVAT) Act, 2003, tax shall be levied in respect of transfer of property in goods (whether as goods or in some other form) involved in the execution of works contracts at the rates specified in the Sixth Schedule of the Act. Section 15(1) of the KVAT Act, 2003 provides that a dealer who executes works contract may elect to pay, in lieu of the net amount of tax payable by him under this Act, by way of composition at the specified rate on the total consideration for the works contracts executed.

As per Rule 3(2) of KVAT Rules, 2005 the taxable turnover shall be determined by allowing the deductions from the total turnover as prescribed in clauses (a) to (m). Rule 3(2) (i-1) of the KVAT Rules provides for deduction of all amounts paid or payable to sub-contractors as the consideration for execution of works contract whether wholly or partly, provided that no such deduction shall be allowed unless the dealer claiming deduction produces document in proof that the sub-contractor is a registered dealer liable to pay tax under the Act and that the turnover of such amounts is included in the return filed by such sub-contractor.

During test check of 7410 out of 7474 (99.14 per cent) re-assessment orders in four Audit offices (DCCT (Audit)-1.2, Bengaluru, DCCT (Audit)-5.1, Bengaluru, DCCT (Audit)-5.7, Bengaluru and DCCT (Audit)-4, Hubballi) in Bengaluru and Dharwad districts between October 2020 and April 2021, Audit noticed 04 cases in which the civil works contractors claimed deduction of ₹ 58.09 crore in turnover towards sub-contractor payments in respect of 11 sub-contractors for the tax periods 2014-15 to 2016-17.

On cross-verification of returns filed by these works contractors with those filed by related sub-contractors, it was noticed that a turnover aggregating ₹ 26.41 crore only was declared in the returns filed by the sub-contractors as against ₹ 58.09 crore claimed as exemption by the works contractors in their returns, contrary to Rule 3(2)(i-1) of KVAT Rules. After deduction of ₹ 3.59 crore towards labour and like charges, the excess allowance of sub-contractor turnover worked out to ₹ 28.09 crore which resulted in short levy of tax of

₹ 2.07 crore. Besides, penalty of ₹ 0.20 crore and interest of ₹ 1.10 crore were also leviable. Total liability worked out to ₹ 3.37 crore.

These cases were brought to the notice of the Department/Government during December 2021 and January 2022. In reply, the Government stated that reassessment orders were passed and demand notices were issued in all the cases and a tax amount of ₹ 43.74 lakh was recovered in one case (September 2022).

The recovery proceedings may be expedited in the remaining cases and recovery intimated to audit.

It is recommended that the Department may fix responsibility for these lapses and also ensure the application of due vigour to verify the claims of the works contractors vis-à-vis the sub-contractors, to avoid such incorrect allowances in future.

2.10 Incorrect/Excess adjustment of credit amount

According to Section 10 of the KVAT Act, 2003, the tax payable by a dealer under the Act on sale is called 'Output Tax' while the tax paid by the dealer on purchases is called 'Input Tax'. A dealer is liable to pay the net tax after setting off input tax paid against output tax payable.

The said provision of the KVAT Act, 2003, also stipulates that "where the input tax deductible by a dealer exceeds the output tax payable by him, the excess amount shall be adjusted or refunded together with interest, as may be prescribed". As per Rule 127 of the Karnataka Value Added Tax Rules, 2005, any dealer, whose input tax deductible exceeds the output tax payable by him, as specified under sub-section (5) of Section 10 or sub-section (4) of Section 27, may, adjust such amount towards the tax payable by him under this Act or the Central Sales Tax Act, 1956.

Test check of records of 5028 out of 7924 (63.45 per cent) in three²⁴ Offices (two Audit Offices and one LGSTO) in two²⁵ districts were conducted between October 2020 to March 2021. Audit cross-verified the credit amounts brought forward and adjusted against the output tax liability by the dealers in their returns with respect to returns filed by them for previous tax periods and re-assessments/rectification orders concluded by the prescribed authorities.

The cross-verification revealed that three dealers for the tax periods from 2013-14 to 2016-17 were eligible for input tax credit amounting to ₹ 6.76 crore. However, these dealers had adjusted input tax credit of ₹ 7.08 crore, resulting in excess adjustment of credit amount of ₹ 0.31 crore. Further, penalty (at 10 per cent) and interest (at 1.5 per cent) wherever applicable amounted to ₹ 0.03 crore and ₹ 0.20 crore respectively. Total liability amounted to ₹ 0.54 crore.

These cases were brought to the notice of the Department/Government during January 2022 and February 2022. In reply, the Government stated that notices

²⁴ DCCT(A)-2.5, Bengaluru, DCCT(A)-4.2, Bengaluru and LGSTO-180, Kolar.

²⁵ Bengaluru and Kolar.

were issued to all the dealers concerned and tax of ₹ 11.20 lakh was recovered in two cases (September 2022).

The recovery proceedings may be expedited in the remaining cases and recovery intimated to audit.

It is recommended that the correctness of carry forward credit available in monthly returns, revised returns, audited statement and re-assessment orders with respect to credit brought forward in subsequent monthly returns may be ensured by the Department through timely reconciliation.

2.11 Short-levy of tax due to excess deduction of labour and like charges

Rule 3(2)(h) of KVAT Rules, 2005 provides that the taxable turnover shall be determined after allowing for deduction of all amounts collected by way of tax under the KVAT Act. Rule 3(2)(m) of KVAT Rules provides for deduction towards labour and like charges 'as a percentage of the value of the contract' in the execution of a works contract, when such charges are not ascertainable from the books of accounts maintained by the dealer. The table included under the Rule *ibid* prescribes different percentages ranging from 10 to 40 *per cent*, for labour and other like charges for different types of contracts.

Audit test-checked 7486 re-assessment orders out of 7521 re-assessments orders (99.53 *per cent*) in three²⁶ Audit Offices in Bengaluru district between October 2020 and February 2021. In five cases, it was noticed that for the period from 2014-15 to 2016-17, Assessing Officer had allowed deduction of labour and like charges of ₹ 139.19 crore as against the eligible deduction of ₹ 124.05 crore. The excess deduction of ₹ 15.14 crore was due to the fact that the Assessing Officers had not deducted amounts relating to Value Added Tax, Service Tax and sub-contractor payments from the turnover before calculating the allowable labour and like charges at 30 *per cent*. The short-levy of tax worked out to ₹ 2.20 crore. Besides, penalty of ₹ 0.22 crore and interest of ₹ 1.35 crore was leviable. Total liability worked out to ₹ 3.77 crore.

These cases were brought to the notice of the Department and the Government during January 2022 and February 2022. In reply, the Government stated that demand notices have been issued in all the cases and in one case an amount of ₹ 1.76 lakh was collected, whereas interest and penalty of ₹ 2.99 lakh was waived under Karasamadhana Scheme (September 2022).

It is stated that recovery proceedings may be expedited in the remaining cases and recovery intimated to audit.

It is recommended that the correctness of the deduction allowed towards labour and like charges may be ensured by the Department.

²⁶ DCCT (Audit)-4.6, Bengaluru, DCCT (Audit)-4.8, Bengaluru and DCCT (Audit)-5.1, Bengaluru.

Chapter - III

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

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
2016-17	823	6.30	154	24.22	669	3.88
2017-18	653	6.96	125	1.54	529	5.02
2018-19	700	10.18	78	0.26	632	9.92
2019-20	270	1.24	31	0.06	239	1.18
2020-21	286	10.25	28	0.29	263	10.13
Total	2,732	34.93	416	26.37	2,332	30.13

Source: Information furnished by the Department.

As seen from the above, 2,332 observations involving ₹ 30.13 crore were pending settlement as on 31 March 2021. Early action may be taken to settle the pending observations.

3.3 Results of Audit

There are 288 auditable units in the Department of Stamps and Registration. Out of these, audit selected 48 units for test check wherein 14.77 lakh documents were registered. Out of these, Audit test checked 1.47 lakh documents (9.95 per cent) during the year 2020-21 and noticed 565 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 ₹ 154.25 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 and RF due to undervaluation	51	67.17
2.	Short-Levy SD and RF due to non-disclosure of consideration	09	6.93
3.	Short-levy of SD and RF on Development agreements	17	14.51
4.	Short-levy of SD and RF due to misclassification of documents	27	53.23
5.	Other irregularities	32	12.41
	Total	136	154.25

During the year an amount of ₹ 13.58 crore was recovered in 72 paragraphs pointed out in earlier years.

A few illustrative cases of non/short realisation of Stamp Duty and Registration Fee involving ₹ 41.46 crore are discussed in the following paragraphs.

3.4 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 four Sub-Registrar Offices (SROs) at BTM Layout, J.P.nagar, Hebbal and Rajarajeshwarinagar between June 2019 and September 2020, Audit test checked 428 documents (19.94 *per cent* out of 2,146 documents) and noticed eight cases of short-levy of Stamp duty and Registration Fee due to misclassification of documents pertaining to Power of Attorney, Sale-agreement, and Release-deed. The details are as below.

Power of Attorney:

Under clauses (a) to (d) of Article 41, Stamp duty is charged at a nominal rate for documents authorising powers to Attorney to do specific acts on behalf of the Owner, without the powers to sell the property. However, for documents purporting to provide the Attorney with powers to sell the property, the document is to be treated at par with conveyance and Stamp Duty is to be charged at five *per cent*, as per clause (eb) of the Article. Further, for documents relating to development of a property, Stamp Duty is levied at two

per cent as per clause (ea). Some illustrative cases where the above have been violated are given below:

Case-1: SRO, Hebbal: Audit noticed (June 2019) a document titled *joint development agreement* (pertaining to the period 2018-19) wherein the parties concerned had agreed to develop the property belonging to the owner. However, details of the developed area or the sharing ratio of the developed property were not mentioned in the document. As per the recitals, the consideration was partly paid (₹ 4.14 crore) as advance (June 2018) and the remaining was to be paid from the proceeds of the sale of developed property. This document was accompanied by a Power of Attorney through which the owner had authorised the parties concerned to sell the immovable property as a whole. The Sub-Registrar classified the document as a joint development agreement under Article 5 (f) being accompanied by a Power of Attorney under Article 41 (ea), and levied Stamp Duty as applicable to development agreements at two *per cent* on the consideration stated in the document, instead of classifying under Article 41 (eb). Thus, the Sub-Registrar overlooked the recitals in the Power of Attorney authorising the Attorney to sell the property as a whole and misclassified the document, leading to short-levy of Stamp Duty and Registration Fee of ₹ 12.42 lakh.

Case-2: SROs- BTM Layout and J.P.nagar: In another five documents, the Owners of immovable properties had authorised their respective Attorneys to sell the immovable properties depicted in the documents. Hence, these were to be classified under Article 41 (eb). However, the SROs concerned classified these documents under other sub-clauses and levied stamp duty at nominal rates (₹ 200 to ₹ 1000) instead of levying at five *per cent* which resulted in short-levy of Stamp Duty and Registration Fee of ₹ 13.06 crore.

Thus, in the above six cases, misclassification between the sub-clauses in Article 41 led to short-levy of Stamp Duty and Registration Fee amounting to ₹ 13.18 crore.

Sale-Agreement:

Under Article 5 (e) of 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 and Stamp Duty is to be levied at five *per cent* on the market value of the property. If the Sale Agreement is without delivery of possession, then Stamp Duty is to be levied at 0.1 *per cent* limited to ₹ 20,000. However, as per Explanation-I under the Article, when a reference of a Power of Attorney granted separately by the seller to the purchaser with respect to the same property is made in the Sale Agreement, then the possession of property is deemed to have been delivered and Stamp Duty has to be charged at five *per cent*.

During audit of SRO, BTM layout, Audit noticed one Sale Agreement wherein the parties had mentioned that they had executed a Power of Attorney in favour of the purchaser with respect to the property mentioned in the Sale Agreement. Since, a reference of the Power of Attorney was brought out in the Sale Agreement, the document had to be charged Stamp Duty at five *per cent*

considering the possession of property as deemed to have been delivered. However, the Sub-Registrar concerned charged Stamp Duty at nominal rates limited to ₹ 20,000. This led to short-levy of Stamp Duty of ₹ 81.02 lakh.

Release-deed:

Article 45 of the Schedule to the Karnataka Stamp Act, 1957 relates to Release Deeds, whereby a person renounces a claim upon another person or against a specified property. It has two sub-clauses (a) and (b) differentiating between family and non-family members. Family for the purpose of this Article is defined below the Article. For a Release-Deed between family members, Stamp Duty is charged at fixed rates ranging from ₹ 1000 to ₹ 5000 depending on the place where the property is situated. For a Release-Deed between non-family members, Stamp Duty is charged at five *per cent* and Registration Fee at one *per cent* on the market value of the property or portion of the property released.

During audit of SRO, Rajarajeshwarinagar, Audit noticed a Release Deed wherein parties within, as well as outside the definition of family, had released their portions in an immovable property worth ₹ 12.03 crore. The Releasers constituted four branches of a family/extended family, out of which two branches were represented by cousins to the Releasee. Hence, as per the definition provided in the Article, these two portions were outside the definition of family. However, the Sub-Registrar classified the document as between family members and levied Stamp Duty at fixed rates instead of levying the same at five *per cent* on the portions pertaining to the non-family members. This led to short-levy of Stamp Duty and Registration Fee of ₹ 71.23 lakh.

Thus misclassification in the above eight cases in four SROs led to short-levy of Stamp Duty and Registration Fee amounting to ₹ 14.71 crore.

These cases were brought to the notice of the Department/Government during October 2021 and January 2022. In reply, the Government stated 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 (September 2022).

It is stated that the cases may be finalised within time and final action taken may be intimated to Audit.

It is recommended that the IGR&CS may institute a mechanism for periodic review of documents alongwith enclosures to mitigate the risk of misclassification and avoid evasion of Government revenue.

3.5 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 (between April 2019 and September 2020) of six Sub-Registrar Offices (SROs), at BTM Layout, Devanahalli, Doddaballapura, Hebbal, Kacharakannahalli and Laggere, Audit test checked 8,146 documents (18.23 *per cent* out of 44,671 documents) and noticed 10 cases (0.12 *per cent* of the audited sample) of short-levy of Stamp Duty and Registration Fee due to non-disclosure of actual value by the parties concerned, not disclosing the existence of buildings and disregarding the existence of Power of Attorney etc. as detailed below.

a. Actual value determined through related documents:

As per Rule 3 under the Karnataka Stamp (Prevention of Undervaluation of Instruments) Rules, 1977, the parties to the document shall furnish information about the various items of properties involved in the document and the Sub-Registrar may elicit any information bearing on the subject and examine any records, for the purpose of ascertaining the correctness of the market value.

Audit noticed one document each in three SROs, ie., BTM Layout, Devanahalli and Laggere, which were registered by levying Stamp Duty and Registration Fee on the consideration stated in the document and based on the information provided in the documents. Further examination of related documents available in the files concerned revealed that the actual value was more than the consideration stated in the document.

In one case, the existence of building was not disclosed in the Sale Deed, but documented in a subsequent Mortgage Deed executed on the same day. In the second case, a Power of Attorney with powers to sell was executed by depicting the property as agricultural land, whereas a subsequent Sale-Deed revealed that the property was developed into sites much before the Power of Attorney was executed. In the third case, the fact of conversion for commercial purpose and approval from the competent authority were noticed in the marginal notes of the tax-paid receipt.

In all these cases, the value of the documents were enhanced due to the disclosures as above, but since they were levied Stamp Duty and Registration Fee based on the value stated in the document, the resultant short-levy of Stamp Duty and Registration Fee amounted to ₹ 1.00 crore.

b. Non-reckoning of Power of Attorney:

For a Sale Agreement without delivery of possession of the property under clause (e)(ii) of Article 5, Stamp Duty is levied at 0.1 *per cent*, limited to ₹ 20,000, on the consideration. But as per Explanation under this clause, when a reference of a Power of Attorney granted by the seller to the purchaser in respect of the property, which is the subject matter of the agreement, is made in the agreement, then the possession of the property is deemed to have been delivered. In such cases, Stamp Duty is levied at five

per cent on the market value of the property, as envisaged under the preceding clause (e)(i) of Article 5.

Audit noticed (between April 2019 and September 2020) seven cases in four SROs, ie. Devanahalli, Doddaballapura, Hebbal and Kacharakannahalli, where Sale Agreements were accompanied by documents of Power of Attorney. In six cases, the Sale Agreements and the Power of Attorney were executed on the same day and registered on the same day at the same SRO. However, neither had the parties mentioned about the execution of the Power of Attorney, in the respective Sale Agreements, nor did the Sub-Registrar reckon the existence of Power of Attorney together with Sale Agreements. This resulted in overlooking the Explanation under clause (e)(ii) of Article 5, as per which the possession of the properties were deemed to have been delivered and were to be levied Stamp Duty at five *per cent* of the market value.

In one case, a Power of Attorney with powers to sell the property was executed eight months after the execution of a Sale Agreement. However, the Power of Attorney was valued based on the guideline value, whereas the value of the property as depicted in the Sale Agreement was higher. Since the Power of Attorney related to the same property, the document should have been valued based on the value depicted by the parties concerned. The resultant short-levy of Stamp Duty and Registration Fee amounted to ₹ 70.00 lakh.

Thus, non-disclosure of actual value/existence of building and Power of Attorney in the above ten cases at (a) and (b), in six SROs led to short levy of Stamp Duty and Registration Fee amounting to ₹ 1.70 crore.

These cases were brought to the notice of the Department/Government during September 2021 and January 2022. The replies and action taken in the cases, as given by the Government are brought out below.

Table:3.3
Action taken by the Department

Sl. No.	No. of cases	Action taken
1	(2 documents) 1 Sale Deed and 1 Power of Attorney	The amount (₹ 34.12 lakh) as brought out in the paragraph was recovered (June 2020 and March 2021).
2	(1 document) Power of Attorney	Subsequent to the Sale Agreement, a Sale Deed was registered (December 2020) wherein proper Stamp Duty was paid.
3	(4 documents) 2 Sale Deeds and 2 Sale Agreements	The District Registrars concerned have initiated action under Section 46(A) of the KS Act, 1957 and Section 80(A) of the Registration Act, 1908 (March 2022).
4	(3 documents) Sale Agreements	The District Registrar did not accept the audit observation and closed the cases without recovery, stating that, for possession deemed to have been delivered; (i) the explanation under clause (e)(ii) required the mention of Power of Attorney to be made in the Sale Agreement; and (ii) the Power of attorney itself should be with powers to sell the property.

The reply in respect of Sl.No.4 in the above Table is not accepted since the observation is regarding non-disclosure of facts, wherein the parties concerned had not disclosed the Power of attorney in the Sale Agreement even though it

existed, as evident by its registration. Secondly, the Explanation under clause (e)(ii) does not make any distinction between Powers of Attorney, whether they are with or without powers to sell the property. Hence, it envisages levy of Stamp Duty at five *per cent* for existence of a Power of Attorney along with a Sale Agreement.

It is recommended to incorporate a system 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.

3.6 Short-levy of Stamp Duty and Registration Fee due to undervaluation

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 estimates the value of the document based on the market value guidelines published by the Central Valuation Committee (CVC) and communicates the Stamp Duty payable, to the parties concerned. The documents are registered on payment of Stamp Duty and Registration Fee. On communication of the value, if the parties to the document disagree with the value so estimated, the Sub-Registrar shall keep the process of registration pending as per Section 45 (A) and refer the matter along with a copy of the document to the jurisdictional District Registrar, for determination of market value and proper duty payable. Further, as per special instructions appended to the market value guidelines, if specific values are not prescribed in case of new projects relating to layouts, apartment, etc., it has to be referred to the CVC for fixation of specific guidance values.

During audit of three²⁷ District Registrar Offices (DROs) between August 2020 and July 2021, Audit test checked 663 documents (75 *per cent* out of 883 documents) which were referred to the District Registrars by the Sub-Registrars under their jurisdiction and noticed eight documents (1.2 *per cent* of the audited sample) which were undervalued, overlooking the nature of the property and non-reckoning of existence of buildings as detailed below.

a) Acquisition of share by the developer in the developed property:

In 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 along with a Power of Attorney at the beginning of the project, assigning the share of the developed property between the owner and developer. It also empowers 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

²⁷ DROs-Basavanagudi, Gandhinagar and Jayanagar.

the Joint Development Agreement or the Power of Attorney at lesser rates (at a ceiling of 1.50 lakh during 2010-11 to two *per cent* currently) at the beginning of the project, and then the second time on the sale-deed at five *per cent*, during subsequent sale when the title of the property is transferred.

During audit of DRO, Gandhinagar, it was noticed that a Sale-Deed executed in 2018 was referred by the SRO, Gandhinagar (September 2018) to the District Registrar under Section 45(A), stating that the property (commercial complex) being transferred in the Sale-Deed was a new project and the CVC had not yet prescribed specific guidance values to estimate the value. The District Registrar did not refer the case to the CVC for fixation of specific guidance values even though it was a new project, but passed orders under Section 45(A).

Audit verified the Sale-Deed and found that the Sale-Deed was between an Owner and a Developer. This Sale-Deed was preceded by a Joint Development Agreement and a general Power of Attorney executed during 2010 and Stamp Duty of ₹ 1.50 lakh and ₹ 200 respectively had been paid. As per the Joint Development Agreement (hereafter referred to as “the Agreement”), the Owner and the Developer had agreed to construct a 23 storeyed commercial complex and identified their respective shares. After completion of the project, the ownership of the entire built-up area stood in the name of the Owner as evident from the Khata extract. Now, through this Sale-Deed the portion of the property identified as the Developer’s share was being conveyed to the Developer itself. However, in the recitals of the document, it was stated as conveyance of only the un-divided share of the land measuring 36,283 square feet, since the cost of the built-up area was borne by the developer. In addition, the built-up area existing on the land was shown as already owned by the Developer by depicting it as an annexure to the schedule of the document. The Stamp Duty and Registration Fee were also paid on the market value of the land alone. The District Registrar, while estimating the value of the property conveyed in the document, accepted the position stated by the parties concerned and passed orders, stating that the Stamp Duty paid was correct. This had the effect of transfer of immovable property (built-up area measuring 1,67,977 square feet) without executing a Conveyance-Deed and levy of proper stamp duty.

In this case, firstly, the Agreement along with the general Power of Attorney authorised the developer only to sell his share and collect the proceeds of such sale. The Agreement does not transfer 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 contention of the parties that the developer already owned the built-up area and only undivided share was being transferred is incorrect and should not have been accepted. Secondly, the cost of construction stated to have been 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 District Registrar accepted the statements of the parties concerned 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 stated by the parties for the land, based on the guidance value was ₹ 94.00 crore and Stamp Duty and Registration Fee of ₹ 6.20 crore were paid. However, the value of the fully constructed commercial complex earmarked as developer's share, based on general rates amounted to ₹ 285.39 crore on which Stamp Duty and Registration Fee of ₹ 18.83 crore had to be levied. The resultant short-levy of Stamp Duty and Registration Fee amounted to ₹ 12.63 crore.

b) Sale of developed property to individual buyers:

In continuation of the above case, Audit noticed four more Sale-Deeds related to the same commercial complex which were referred to the District Registrar under Section 45(A) since specific guidance values were not prescribed. Through these Sale-Deeds, ownership of portions of the commercial complex were conveyed to individual buyers. However, the parties to the document had estimated the value of only the undivided share of land and paid stamp duty accordingly. In the recitals, the parties had stated that they had entered into a Sale Agreement for sale of undivided share of land with the land Owner and a Construction Agreement with the Developer and that through this Sale-Deed, they were obtaining the constructed area by virtue of getting ownership of undivided share of land.

Audit reiterates that ownership of either the land or the built-up area cannot be transferred merely by an Agreement and title to a property can be transferred only through a proper conveyance. In these cases, after completion of the project, the entire property with floor-wise demarcation stood in the name of the land Owner and not the Developer, as evidenced by the Khata-extract issued by the Bruhat Bengaluru Mahanagara Palike (BBMP).

In the above cases, the District Registrar did not accept the statements made by the parties to the document and estimated value of the entire built-up area which was being conveyed through the document. However, the District Registrar while estimating the market value of the portions of the commercial complex being conveyed, stated in his orders that the general rates available in the market value guidelines cannot be adopted for this project. He stated that traffic was allowed only one-way on Palace Road and hence, the complex was not easily accessible and also that the area was polluted due to vehicular movement. Due to these reasons, the District Registrar adopted the rate at ₹ 10,000 per sq.ft which was lesser than the general rates prescribed in the market value guidelines.

The reasons stated above by the District Registrar for reduction in value were not justified since this property was situated right in the midst of the city and surrounded by renowned landmarks²⁸. The commercial complex had ease of

²⁸ Vidhana Soudha, Raj Bhavan, Golf Course, Taj West End-a five star hotel, etc, which were within 1 km radius.

connectivity and had all amenities including two basements for car-parking, a food court and a helipad.

Audit compared the rates prescribed in the market value guidelines for the area and found that the general rates (₹ 12,505/sq.ft) prescribed for that area were rates as applicable to residential units. The specific rates (₹ 14,000/sq.ft) prescribed for other residential apartments in the area were more than the general rates. On a conservative estimate adopting the general rates, the resultant short-levy of Stamp Duty and Registration Fee in the above four cases amounted to ₹ 2.13 crore. It was also noticed that specific rates for the commercial complex were not prescribed even after the subsequent revision of market value guidelines in the jurisdiction of Gandhinagar, Bengaluru.

It is recommended that prominent projects in the jurisdiction of Gandhinagar may be identified and specific rates may be prescribed on priority.

c. Non-reckoning of existence of Building:

On receipt of a document under Section 45(A) for determination of proper market value, the District Registrar shall make such enquiries, call for and examine all relevant records and then estimate the market value of the property being conveyed in the document.

During audit of two²⁹ DROs, Audit noticed three documents which were referred to the District Registrar by the jurisdictional Sub-Registrars wherein the properties were undervalued. In one case referred by SRO, Banashankari, the District Registrar estimated the value of the property considering the property as residential site, whereas the tax-paid receipt of the property revealed that it was a non-residential property with a building of 3800 sq.ft existing in the site.

The remaining two cases pertained to two different Sale-Deeds relating to a single property presented for registration at two different junctures. The first Sale-Deed (November 2017) related to purchase of a property by a party from a Housing Society. The party concerned stated that the property had odd measurements and did not have symmetrical dimensions. On receipt of the document (2018-19) for estimation of value, the District Registrar fixed the base rate for the land at ₹ 5,000 which was lower than the guidance values, considering the statements made by the party. This rate was enhanced by 10 *per cent* for being a corner site and finalised the value of the property at ₹ 2.66 crore. However, the tax-paid receipt issued by the BBMP as well as the subsequent Sale-Deed revealed that the property had an existing building and that the land was commercial in nature. This required an enhancement by 40 *per cent* for commercial use and addition of value of the building. However, this was not reckoned by the District Registrar. Based on the rate fixed by the District Registrar, the total value of the property, after enhancement for commercial use and value of the building, amounted to ₹ 4.09 crore.

After two years from the first Sale-Deed the property was again transacted through a Sale-Deed (January 2019) wherein 95 *per cent* of share in the property was being conveyed to different purchasers. The document was again

²⁹ Basavanagudi and Jayanagar.

referred to the District Registrar by the SRO concerned. While referring the case to the District Registrar, the Sub-Registrar had initially valued the property considering both the land as well as the building at ₹ 4.08 crore. The parties concerned again stated that the property did not have symmetrical dimensions. The District Registrar considering the statement of the parties reduced the total value of the property by ₹ 5.00 lakh. However, it was noticed that the base rates considered by the SRO during initial valuation were residential rates. The value of the property after enhancement by 40 per cent for commercial use amounted to ₹ 5.47 crore.

These omissions by the District Registrar in the above three cases resulted in undervaluation of the properties being conveyed and resultant short-levy of Stamp Duty and Registration Fee amounting to ₹ 32.83 lakh.

Thus, undervaluation in the above eight cases in four DROs led to short-levy of Stamp Duty and Registration Fee amounting to ₹ 15.09 crore.

These cases were brought to the notice of the Department and the Government during December 2021 and March 2022. In reply, the Government stated that the District Registrars concerned have been instructed to forward the copies of the orders issued by them alongwith related documents for verification by the IGR&CS (March 2022).

It is recommended that the District Registrars may follow the procedures as laid out in Rule 4(3) and 5(3) of the Karnataka Stamp (Prevention of undervaluation etc.) Rules, 1977, to

- *collect all relevant information with regard to the property being conveyed;*
- *conduct inspection of the property; and*
- *determine the market value of the property based on its location, special features and advantages if any.*

3.7 Non-levy of additional Stamp Duty

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.* For instruments relating to amalgamation/reconstruction or demerger of companies wherein two or more companies are merged together or a subsidiary is merged with the parent company, stamp duty is levied as per Article 20(4) of the schedule, either on the aggregate value of shares issued/cancelled or the market value of the property of the transferor company³⁰, whichever is higher³¹. On instruments of conveyance³², the Act further prescribes that as per Section 3(B), an additional duty chargeable at ten

³⁰ Transferor company-The company which is dissolved and merges with another company.

Transferee company-The company into which other entities merge or the resultant company in case of reconstruction.

³¹ Stamp duty calculated at one per cent of the aggregate value of shares issued/cancelled or three per cent (two per cent upto March 2016) on the market value of the property of the transferor company, whichever is higher.

³² Conveyance includes, *inter alia*, instruments of amalgamation wherein immovable property gets transferred from the transferor company to the transferee company.

per cent of the original duty, for the purpose of various infrastructure projects across the State is to be levied.

During audit of the Office of the Inspector General of Registration and Commissioner of Stamps (IGR&CS) and the District Registrar, Bengaluru Rural during August 2020 and August 2021, Audit test checked 132 documents (100 *per cent* out of 132 documents) and noticed eight documents (6.06 *per cent* of the audited sample) wherein additional duty as per Section 3B of the Act was not levied.

The above eight documents related to amalgamation of companies under Section 394 of the Companies Act, 1956 and were referred by the Honourable High Court of Karnataka/ National Law Tribunal to the IGR&CS for valuation and determination of proper Stamp Duty payable. The IGR&CS in turn referred the cases to the jurisdictional District Registrars³³ concerned, under whose jurisdictions the immovable properties of the respective companies were situated. The District Registrars concerned assessed the value of the immovable property of the transferor company being transferred to the transferee company in all the cases and levied Stamp Duty at rates applicable under Article 20(4).

Audit verified these cases and noticed that in all the cases, the District Registrars while comparing the value of the shares with the value of the immovable property, had valued the shares at face value as stated in the documents of amalgamation. There was no mention of valuation of shares by any valuers, since these companies were not listed in the Stock exchanges. Hence, the District Registrars valued the document based on value of the immovable properties at ₹ 449.29 crore and levied stamp duty of ₹ 10.99 crore as per rates prescribed. However, the District Registrars concerned omitted to levy additional stamp duty in all the eight cases.

Out of the eight cases, Audit further noticed in one case that the District Registrar had also omitted to reckon the existence of buildings on the sites being transferred to the transferee company. In this case, the immovable properties of the transferor company comprised of ten individual sites with buildings existing in nine of them as ascertained through the e-swathu³⁴ portal. The District Registrar concerned valued the sites excluding the buildings in nine cases and in the remaining case, valued the land at agricultural rate even though the parties had mentioned it as a site in the schedule appended to the deed of amalgamation.

Hence non-levy of additional Stamp Duty and undervaluation of immovable property in the above cases led to short-collection of revenue amounting to ₹ 1.87 crore.

These cases were brought to the notice of the Department and the Government during December 2021 and March 2022. In reply, the Government stated that the District Registrars concerned had issued notices in all the cases and as a

³³ Districts Registrars – Basavanagudi, Bengaluru (Rural), Koppal and Jayanagar.

³⁴ Application used in the panchayath offices for registration of properties.

result recovered additional Stamp Duty amounting to ₹ 44.20 lakh in three cases (September 2022).

It is recommended that the IGR&CS may instruct all the DRs to strictly apply Section 3B and collect additional Stamp Duty in all types of conveyance envisaged in the Act.

3.8 Short-levy of Stamp Duty and Registration Fee on Joint Development Agreements

Joint Development 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 Fee³⁵ 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 nine³⁶ Sub-Registrar Offices (SRO) between June 2019 and September 2020, Audit test-checked 196 Joint Development Agreements (JDAs) (46.33 *per cent* out of 423 JDAs) pertaining to the period between 2016-17 and 2019-20 and noticed the Stamp Duty and Registration Fee were short-levied in 70 JDAs (36 *per cent* of the audited sample). The details are as below.

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 authorities³⁷, 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.

³⁵ Registration Fee limited to ₹ 1.50 lakh upto 14.2.2018.

³⁶ BTM layout, Devanahalli, Kolar, Jala, Rajajinagar, Rajarajeshwarinagar, Shanthinagar, Tavarekere, Yeshwanthpur.

³⁷ Bangalore Development Authority (BDA), Bangalore Metropolitan Region Development Authority (BMRDA), Bangalore International Airport Area Planning Authority (BIAAPA) etc.

Out of the 70 cases stated above, 32 cases pertained to development of layouts. In 13 out of these 32 cases, even though the lands were converted to non-agricultural status, the Sub-Registrar adopted general rates without enhancing the rates as envisaged in the market value guidelines. In the remaining cases, incorrect rates were adopted while computing the value of sites. This resulted in short-levy of Stamp Duty and Registration Fee of ₹ 1.47 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.

In the 38 cases pertaining to the 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 ratio³⁸ (FAR) to determine the total built-up area was mentioned only in 21 cases and in 16 cases, neither the floor area ratio nor the approximate built-up area were mentioned. The Sub-Registrars concerned had not insisted for the floor area ratio and adopted nominal values to determine the Stamp Duty and Registration Fee 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. In one case, subsequent to a JDA, a Supplementary Deed was registered after completion of project, whereby the Owner's share was enhanced compared to the share as per the original JDA. However, Stamp Duty was not levied on the value of the increased share, but levied at nominal rates instead.

It was also noticed, in 11 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 notification³⁹ dated 15.2.2018.

Audit estimated the value by applying rates as envisaged in the market value guidelines. The consequent short-levy of Stamp Duty and Registration Fee worked out to ₹ 6.62 crore.

Thus, the above omissions by the Sub-Registrars concerned while registering the documents pertaining to development agreements led to short-levy of Stamp Duty and Registration Fee amounting to ₹ 8.09 crore.

These cases were brought to the notice of the Department and the Government during October 2021 and March 2022. The Government stated that in all the cases, the District Registrars concerned had initiated action under Section 46A of the KS Act and 80 A of the Registration Act and in one case, amounting to ₹ 24.84 lakh, the District Registrar concerned had passed final orders and

³⁸ Floor Area Ratio – is the allowable built-up area for a specific parcel of land, prescribed per sq.mtr.

³⁹ Notification no.RD 81 MUNOMU 2017 dated 15.2.2018.

referred to the Deputy Commissioner for recovery as arrears of land revenue (September 2022).

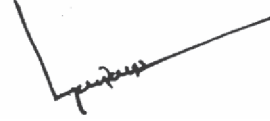
It is recommended that the Sub-Registrars may strictly follow the guidelines issued by the IGR&CS and judiciously apply the guidance market value during valuation of JDAs.



Bengaluru
The

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

Countersigned



New Delhi
The

(Girish Chandra Murmu)
Comptroller and Auditor General of India

Appendices

Appendix 1.1

(Reference: Paragraph 1.10.1/Page 6)

Year-wise breakup of outstanding Inspection Reports and Paragraphs issued upto 31st March 2021

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	1	29	0	0	2	19	2	28	1	3	6	79
2	Agriculture	4	18	6	68	76	641	64	382	138	333	288	1442
3	Animal Husbandry and Veterinary Sciences	15	164	0	0	26	151	33	125	89	186	163	626
4	Autonomous Bodies	0	0	5	41	4	73	4	57	0	0	13	171
5	Backward Classes and Minority Welfare	0	0	22	291	4	28	28	157	33	70	87	546
6	Centralised Pension Payment Centre	0	0	11	31	19	41	1	7	3	4	34	83
7	Co-operation	0	0	2	18	22	115	13	61	0	0	37	194
8	Corporations	0	0	4	48	13	180	7	40	4	8	28	276
9	Department of Statistics	0	0	0	0	4	15	0	0	0	0	4	15
10	Department of Youth Empowerment and Sports	0	0	13	172	2	9	49	172	0	0	64	353
11	Department of Collegiate Education	35	472	84	818	108	610	57	183	75	153	359	2236
12	Department of Higher Education(Universities)	1	58	6	165	6	124	15	243	31	282	59	872
13	Department of Public libraries	0	0	8	59	29	131	15	45	2	4	54	239
14	Department of Technical Education (Higher Education)	0	0	45	305	66	434	85	332	33	71	229	1,142

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
15	Department of Translation	0	0	1	3	1	4	0	0	0	0	2	7
16	Disabled Welfare	0	0	14	74	28	193	7	21	13	23	62	311
17	Disaster Management	0	0	0	0	0	0	0	0	0	0	0	0
18	Drugs	0	0	15	130	15	32	7	11	2	2	39	175
19	Election Commission/State Election Commission	1	5	0	0	1	4	2	9	1	2	5	20
20	Employees State Insurance Services	0	0	0	0	13	84	28	61	6	5	47	150
21	Employment & Training	0	0	0	0	19	128	12	26	7	4	38	158
22	Fisheries	0	0	40	464	6	23	9	36	44	86	99	609
23	Food and Civil Supplies and Consumer Affairs	1	10	2	9	16	103	22	86	2	3	43	211
24	Gazette	0	0	0	0	2	12	0	0	0	0	2	12
25	General Administration (Revenue/ land Revenue)	0	0	71	431	307	1975	446	2,267	286	471	1,110	5,144
26	Governor	0	0	0	0	5	38	2	5	5	12	12	55
27	Health and Family Welfare	0	0	34	459	167	1,506	183	755	91	327	475	3,047
28	Horticulture	9	74	62	420	46	143	57	215	77	161	251	1,013
29	Hospitality	0	0	0	0	2	9	0	0	0	0	2	9
30	Indian Medicine (Ayush)	0	0	3	29	16	68	31	150	14	14	64	261
31	Information & Public Relations	0	0	0	0	6	51	6	35	7	13	19	99

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
32	Karnataka State Financial Corporation	0	0	8	54	8	40	5	16	0	0	21	110
33	Karnataka Group Insurance Department	0	0	1	6	5	23	9	25	0	0	15	54
34	Labour	0	0	14	91	20	118	4	6	1	1	39	216
35	Medical Education	0	0	23	336	34	307	40	277	92	186	189	1,106
36	Minor irrigation	0	0	2	12	50	399	70	373	0	0	122	784
37	Primary & Secondary Education	0	0	4	40	117	688	161	544	338	759	620	2,031
38	Printing & Stationery	4	68	0	0	9	61	4	12	17	34	34	175
39	PU Education	0	0	0	0	70	624	89	272	37	61	196	957
40	Rural Development and Panchayat Raj	65	867	91	1219	237	2,992	235	1,355	887	2,862	1,515	9,295
41	Sanik Welfare	0	0	0	0	10	33	3	8	1	1	14	42
42	Sericulture	0	0	0	0	24	95	57	176	18	35	99	306
43	Social Welfare	0	0	3	81	39	389	159	800	195	646	396	1916
44	State/Personnel/Department of Personnel and Administrative Reforms	1	18	0	0	6	47	1	10	9	30	17	105
45	Tribal Welfare	0	0	0	0	3	29	5	54	12	28	20	111
46	VidhanSabha	0	0	4	32	0	0	8	48	22	80	34	160
47	Water Resource (Major and Medium Irrigation)	3	34	3	15	55	285	149	873	24	81	234	1,288
48	Women and Child Development	0	0	0	0	10	54	37	220	219	514	266	788
	Total	140	1,817	601	5,921	1,728	13,128	2,221	10,578	2,836	7,555	7,526	38,999

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

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 2021

Sl. No.	Department	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	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	Total	
1	Agriculture													1					1									2
2	Animal Husbandry and Veterinary Services, Fisheries															1		1								1		3
3	Co-operation											2		1										1				4
4	Education										1	1								1	1		1	4	1	2	14	
5	Empowerment of Differently Abled and Senior Citizens																					1						1
6	Finance										1			1														3
7	Food and Civil supplies, Consumer Affairs																						1			1		2
8	General Administraton(Fire and Emergency Services in Karnataka)																1											1
9	Health and Family Welfare	1													1										1	3		6
10	Horticulture										1													1				2
11	Labour																		1						1	1		3
12	Land Revenue																											1
13	Major Irrigation	1	1	1									1							1								5
14	Medical Education Department																		2	1	1				2			6
15	Minor Irrigation								1	2	1	1	1	1	3	1			1		1	1	1	1	2	1		17
16	Minority Welfare																								2			2
17	Personnel and Administrative Reforms (DPAR)																				1							1

Appendix-2.1

(Paragraph 2.1.4.3; Page 14)

Lacunae in providing prescribed facilities in Working Women's Hostels

Prescribed facility	(Number of hostels)	
	Available	Not available
Beat Police	17	9
Biometric	8	18
CCTV	21	5
Compound Wall	24	2
Fire Extinguisher	16	10
Locker Facility	23	3
Medical Kit	24	2
Visiting Doctor Facility	20	6
Sick Room	18	8
Therapy Room	8	18
Day Care Centre	8	18
Library	17	9
RO Water Purifier	25	1
Solar/Geysers	24	2
Disabled Friendly Toilets	3	23
Normal Toilets	25	1
Ramps with Railing	5	21
Store Room	25	1
Dining Room	23	3
Sports Room	17	9
TV	25	1
Refrigerator	15	11
Washing Machine	7	19

Appendix-2.2

(Reference: Paragraph-2.2.5, Page 27)

Details of physical, financial, and number of micro irrigation beneficiaries covered- district wise-during 2016-21

Sl. No.	Districts	Agriculture- Sprinkler				Agriculture- Drip				Horticulture Drip				Sericulture- Drip			
		Area (Ha)	Financial (₹ in lakh)	No of beneficiaries	Area (Ha)	Financial (₹ in lakh)	No of beneficiaries	Area (Ha)	Financial (₹ in lakh)	No of beneficiaries	Area (Ha)	Financial (₹ in lakh)	No of beneficiaries	Area (Ha)	Financial (₹ in lakh)	No of beneficiaries	Area (Ha)
1	Bagalkot	39,006.00	7,400.54	39,006	8,834.70	8,086.16	6,822	6,961.66	4,581.69	6,884	456.50	356.38	694				
2	Bengaluru (Rural)	2,762.00	505.01	2,647	240.70	247.11	327	4,994.31	3,751.66	6,490	936.02	910.82	1,535				
3	Bengaluru (Urban)	1,810.00	283.25	1,779	10.10	10.23	12	1,955.11	1,661.52	2,384	244.64	194.16	362				
4	Belagavi	45,424.00	8,963.51	44,960	18,742.20	17,612.22	16,516	9,774.79	6,364.83	9,977	406.90	365.89	704				
5	Bellary	24,576.00	5,284.90	24,395	521.81	567.14	427	10,830.99	7,439.80	8,614	482.16	400.35	616				
6	Bidar	35,378.00	6,168.22	34,156	3,951.10	3,252.59	3,712	3,988.44	3,305.43	3,718	168.86	149.46	219				
7	Vijayapura	59,854.00	11,270.30	59,854	3,191.69	2,955.29	2,462	17,166.43	8,491.02	22,281	383.80	306.69	577				
8	C.R.Nagar	15,622.00	2,401.25	15,622	62.60	62.09	60	6,874.77	5,307.89	7,916	208.07	189.00	339				
9	Chikkaballapura	4,740.40	837.98	4,771	6,317.70	6,257.00	6,111	8,834.31	7,421.87	10,377	2,993.67	2,547.61	4,338				
10	Chickamagalur	26,157.00	4,657.14	26,229	0.00	0.00	0	7,685.59	4,374.07	10,425	53.58	39.43	88				
11	Chitradurga	34,341.00	6,135.24	34,341	0.00	0.00	0	15,271.21	9,135.76	14,935	1142.41	1,052.30	1,662				
12	D.Kannada	6,205.50	990.44	6,207	0.00	0.00	0	1,034.82	446.65	1,539	0.00	0.00	0				
13	Davanagere	44,261.44	7,549.14	44,259	97.71	115.70	88	20,240.02	11,057.30	23,192	261.23	244.57	352				
14	Dharwad	26,635.00	4,834.70	26,621	733.55	717.02	496	1,518.35	1,267.23	1,509	123.06	71.66	111				
15	Gadag	17,516.00	3,512.45	17,516	200.00	233.40	185	3,169.39	2,653.22	2,319	190.13	156.92	215				
16	Kalaburagi	63,099.00	9,804.98	45,470	2,265.00	2,059.34	1,545	10,334.31	7,986.35	8,272	437.57	394.78	546				
17	Hassan	45,929.00	8,032.55	45,920	64.00	47.43	67	12,819.62	8,437.15	16,024	496.17	377.86	789				
18	Haveri	51,794.00	10,873.65	51,785	281.76	283.92	224	13,593.93	7,988.28	12,706	619.95	473.55	602				

19	Kodagu	7,895.00	1,538.30	7,895	0.00	0	251.67	92.89	228	0.00	0.00	0
20	Kolar	1,938.00	364.66	1,938	4,306.36	4262	12,169.09	10,657.43	12,074	3,764.43	3,240.51	4962
21	Koppal	20,927.00	3,867.13	20,600	246.94	237	14,818.19	12,862.64	14,322	179.30	164.37	219
22	Mandya	35,293.20	6,749.55	35,413	2,414.39	2693	7736.55	6,149.85	11,409	636.65	489.86	1,014
23	Mysuru	68,168.00	12,638.70	68,168	696.62	652	10,402.15	6,651.48	13,025	707.42	430.34	594
24	Raichur	25,976.00	4,678.67	25,014	91.00	85	5,167.93	3,580.20	4,592	319.62	285.87	372
25	Ramanagar	14,782.00	2,657.23	14,778	47.28	46	7,817.96	6,401.08	9,167	3,373.06	2,723.41	5,060
26	Shivamogga	58,861.00	103,67.11	58,861	15.50	15	8,207.03	3,285.57	9,159	54.98	30.69	60
27	Tumkur	30,237.00	5,342.69	30,237	93.00	93	18,155.53	8,944.63	1,6217	2,132.45	1,835.71	3,340
28	Udupi	3,362.20	589.62	3,369	0.00	0	1,089.51	618.75	1,527	0.00	0.00	0
29	U.Kannada	15,253.00	2,680.07	14,948	99.00	89	2,830.17	1,166.58	3,794	74.90	67.23	172
30	Yadgir	29,647.00	5,843.89	29,367	43.00	39	3,279.56	2,556.18	2,805	246.35	221.82	297
		8,57,449.74	1,56,822.89	8,36,126	53,567.71	47,265	2,48,973.39	1,64,639.04	2,67,881	21,093.87	17,721.26	29,839

Area in hectares; Financial amount in lakhs and Beneficiary in numbers.

Source: Progress report as furnished by the departments. There are differences of expenditure in the progress reports and expenditure reports of the department.

Appendix-2.3

(Reference: Paragraph-2.2.7.1, 7.2, Page 30)

Details on areas not focused as per MI Policy and Operational Guidelines

Sl. No.	Focus / Priority Area	Observation	Reply
1	First priority should be given to cover all rainfed areas in over exploited, critical, and semi critical ground water status areas under micro irrigation. The MI Policy also envisaged integration of solar energy pump-sets and Pradhan Mantri Kisan Urja Suraksha <i>evam</i> Utthan Mahabhiyan Yojana and bringing tail end areas in irrigation command areas under micro irrigation by 2019 (paragraphs 3.7, 4.2 of MI Policy 2017 and Circular instructions of November 2020).	These focus areas were not considered during planning. The departments did not have requisite data/ information on the focus areas.	The Government replied (June 2022) that most of the area in Karnataka was rainfed and drought prone and as such wherever micro irrigation is adopted, it comes under priority/focus area. The reply stated that all farmers under tail end are adopting micro irrigation and efforts are made to integrate other departments to adopt micro irrigation in solar pump sets. The reply is general in nature without any quantitative data for verification.
2	First Priority was to be given to high value horticulture crops and other field crops for using drip irrigation and crops such as cereals/ oilseeds/pulses for using sprinkler irrigation (paragraph 3.8 of MI Policy). Promoting microirrigation in water intensive crops/ water consuming crops was also a focus area as per paragraph 6.3 of Operational Guidelines)	The department had not maintained documents to show that it had considered the type of crops grown while allocating funds to districts in the Annual Action Plans or while selecting the beneficiaries under the programme.	The Government replied (June 2022) that almost all the agricultural crops in the State fell into the mentioned categories, and allocation was made but takeoff depended on demand of farmers. It is evident that the department implemented the programme based on demand, rather than focusing on priority areas as per the MI Policy / Operational Guidelines.
3	First priority was to be given to beneficiaries of Ganga Kalyana Scheme (another scheme of GoK, in which assistance was provided for borewells) and they should be covered compulsorily (paragraph 4.4 of MI Policy 2017). Due to lapse of funds in 2018-19, the SLSC also directed (June 2019) to extend benefits to SC/ST beneficiaries under Ganga Kalyana scheme.	In the six test-checked districts, two districts (Mysuru and Shivamogga) had the list of beneficiaries under Ganga Kalyana Scheme, while the other four districts did not have the details. Further, none of the six districts produced any records for having made attempts to extend benefits to the SC/ST beneficiaries under Ganga Kalyana. The SCP/TSP funds remained unutilized in test checked districts.	The Government replied (June 2022) that over the years, priority was given as evidenced from the growth in coverage of SCP/TSP beneficiaries.
4	Krishi Bhagya Yojane (KBY) ¹ was to be converged with micro irrigation (paragraph 3.7 of MI Policy 2017).	Audit observed that convergence with KBY was achieved in three out of six test checked districts <i>viz.</i> , 941 beneficiaries (out of 8,701) in Belagavi, 259 beneficiaries (out of 3,818) in Chikkaballapura, and 67 beneficiaries (out of 303) in Shivamogga. The KBY scheme was discontinued in 2017-18 and pending works were done up to 2019-20.	The Government replied (June 2022) that instructions had been issued (September 2017) for convergence of micro irrigation with KBY in Agriculture department and there was coverage in three of six districts. There was convergence in Horticulture department. The fact remained that convergence was done only for small number of beneficiaries.

¹ The State was implementing another scheme *viz.*, Krishi Bhagya Yojane (KBY), in which subsidy was provided for farm ponds, shade net, polythene lining and micro-irrigation.

5	Micro irrigation should be made mandatory for giving electricity connection to new borewells and for existing borewells in two years (paragraph 3.7, 3.8, 4.2 of MI Policy 2017).	The Government was yet to decide on policy changes regarding imposing such measures (February 2022), though the Karnataka Electricity Regulatory Commission (KERC) had opined (November 2019) that Government may take appropriate Policy decision keeping in view the subsidy aspect and the provisions of the Electricity Acts.	The Government replied (June 2022) that KERC had stated that as per Conditions of Supply, power had to be provided within one month of receipt of application. The reply is a partial reproduction of the KERC's view, while in fact, the KERC had stated that the Government may take appropriate Policy decision keeping in view the subsidy and other related enactments.
6	Focus on water guzzling crops including sugarcane (paragraph 6.3, 7.2 of Operational Guidelines). The SIP proposed to cover the entire sugarcane area in the State of about 6 lakh hectares under micro irrigation by 2020.	The total coverage of micro irrigation (drip and sprinkler) for sugarcane in the last 20 years was only about 87,000 hectares (14.5 <i>per cent</i>) with about 16,344 hectares coverage in 2019-20 and 14,566 hectares in 2020-21. Hence, covering 6 lakh ha. of sugarcane with micro irrigation is unlikely in near term.	The Government's reply (June 2022) provided the coverage of sugarcane area in seven sugarcane growing districts under drip during the last three years. It was seen that the coverage using drip was less than 2 <i>per cent</i> of total area grown in the last three years, which confirms the audit observation that providing drip to sugarcane crop was not given focus.
7	Industry related to specific crops like sugar factories should be actively involved in promotion of micro irrigation to their farmers through incentivization and technical supervision (paragraph 7.2 of Operational Guidelines).	Role of sugar industries was not specified by the department. Also, there was no communication with the Sugar industry for involvement in the implementation of the programme.	The Government replied (June 2022) that the issue would be discussed with the Commissionerate of Sugar.
8	Subsidy structure, envisaged in the MI policy which had different slabs ² ranging from 45 - 90 <i>per cent</i> (paragraph 4.3 of MI Policy 2017).	Instructions were issued in July 2019 for adopting subsidy structure as per MI Policy which had different slabs ranging from 45 <i>per cent</i> to 90 <i>per cent</i> . But, due to opposition from farmers and representations from elected representatives, revised instructions were issued in October 2019, reverting to the subsidy structure of providing 90 <i>per cent</i> subsidy to all farmers for up to 2 hectares and 45 <i>per cent</i> for 2 ha to 5 ha, which existed prior to issue of July 2019 orders.	The Government replied (June 2022) that MI Policy is the creation of the State and decision to defer certain sections is within its competence. The fact remained that subsidy structure with different slabs as envisaged under the MI Policy 2017 is yet to be implemented.
9	The District Irrigation Plans (DIPs) were to be the cornerstone for planning and implementation and the Annual Action Plans were to be drawn from DIPs (paragraph 5 of the Operational Guidelines).	Audit analysis of the funding showed that percentage of funding to 10 districts was less than that envisaged in SIP/DIPs, while 20 districts received higher percentage of fund allocation than that envisaged in SIP/DIPs. The SIP/DIP valid for 2016-17 to 2020-21 had not been revised (March 2022).	The Government replied (June 2022) that allocations of funds are made as per regular progress and demand for micro irrigation based on applications submitted along with local conditions. The Government agreed to revise/update the Irrigation Plans.

² Rainfed overexploited, critical and semi critical taluks (up to 2 ha.: 90 *per cent* and 2 ha. to 5 ha. : 50 *per cent* for General and 75 *per cent* for SC/ST); Rainfed safe taluks (up to 2 ha. : 75 *per cent* for General and 90 *per cent* for SC/ST and 2 ha. to 5 ha.: 50 *per cent* for General and 75 *per cent* for SC/ST); Command areas as per Government notification (up to 5 ha.: 45 *per cent* for General and 55 *per cent* for SC/ST).

		<p>Focus on drip and sprinkler, and allocation of funds among taluks (from districts) were also not as per DIP in the test checked districts of Belagavi³, Chikkaballapura⁴, Mysuru⁵, and Vijayapura⁶.</p> <p>In Agriculture department, audit observed that one district (Belagavi) had adopted a risk matrix⁷ while allocating funds to taluks, while another district (Chikkaballapura) allocated funds based on Net Irrigation Area as per Census 2010-11 and percentage of SC/ST population/ farmers. Other districts did not have documentary evidence of the basis of allocation of funds to taluks.</p>	<p>The Government replied (June 2022) that the need to shift from drip to sprinkler in Chikkaballapura district due to local conditions was realized late, while in respect of other districts it stated that the shift between drip and sprinkler was based on farmers' need rather than DIPs. It further replied that while Belagavi had formalized the risk matrix for fund allocation, other districts allocated funds in a non-formalized manner.</p> <p>The reply confirms that DIPs were not the cornerstone of planning process. Further, the justification for such deviations were not documented and approved.</p>
10	<p>The MI Policy 2017, approved in July 2018, envisaged formation of Karnataka Antaraganga Micro Irrigation Corporation (KAMIC), a Nodal agency for accelerated implementation of the micro irrigation schemes, harmonize various procedures in the implementing departments, explore annuity models for payment to manufacturers to fast track the implementation, and take up activities to promote fertigation/chemigation technologies⁸.</p>	<p>KAMIC was incorporated as a Company in December 2018 under the Companies Act 2013.</p> <p>Audit observed that though the GoK and SLSC issued instructions in November 2019 and August 2020 to handover the micro irrigation activities to KAMIC, which was to be done initially by Agriculture department and later followed by other departments, the departments had not handed over the implementation to KAMIC. The KAMIC was thus not able to perform its envisaged role (March 2022).</p>	<p>The Government replied (June 2022) that role of KAMIC was being done by the implementing departments. In the Exit meeting (June 2022), the Government informed that KAMIC was proposed to be closed.</p>

³ Intervention by Agriculture department was about 32 *per cent* of that envisaged in DIP.

⁴ As per DIP, the allocation for drip was 88 *per cent* and 12 *per cent* was for sprinkler. However, the expenditure incurred during first four years 2016-17 to 2019-20, showed that 96 *per cent* was on drip and 4 *per cent* was on sprinkler, whereas during 2020-21, the expenditure incurred was 54 *per cent* on sprinkler and 46 *per cent* on drip, indicating a shift in focus from drip to sprinkler, which was not as per DIP.

⁵ Total funding envisaged for sprinkler was about three times that of drip, but allocation to sprinkler was only twice that of drip, which was not as per DIP.

⁶ As per DIP, the focus on drip was three times that of sprinkler, in terms of allocation. But, the expenditure incurred (2016-21) was on equal basis.

⁷ Assigning weights based on Net cultivated area, Irrigated area, Area under sugarcane, Area under oilseeds, Area under pulses, Area under summer crops, Number of Small and Marginal Farmer (SMF), Annual rainfall, and last four years' expenditure.

⁸ Fertigation refers to supplying soluble fertilizers and chemigation to supplying plant protection chemicals, along with irrigation water with the main objective of improving water/nutrient use efficiency.

Appendix- 2.4

(Reference: Paragraph 2.2.10, Page 36)

Details where manufacturer did not meet his obligations

Sl. No.	Obligation	Audit Observation	Reply of the Government
1	The manufacturer was to assess crop water requirement, design the system as per crop water requirement, prepare an estimate and submit to implementing agency before implementation i.e., to prepare a Technical Plan (paragraph 13.7 of Operational Guidelines).	Not done in the test-checked 600 applications. In few applications, a sketch of the plot was available.	The Government replied (June 2022) that suitable directions will be issued to field officers to obtain the Plans having technical details.
2	The manufacturer was to have facilities to supply Bureau of Indian Standards (BIS) marked MI systems/components under the programme (paragraph 14.1 of Operational Guidelines). The department had issued instructions (October 2017) for unique markings for each supplier on the pipes.	During Joint Physical Inspection (JPI) of 60 installations in Horticulture department, audit observed that 19 numbers of Ventuary and 7 numbers of Filter and laterals did not have BIS markings. Also, the Ventuary ⁹ was to be used getting maximum benefits of fertigation. In seventeen out of 60 installations, the Ventuary and Filter were not available. Similarly in Agriculture department, 8 out of 65 installations were JPI was conducted did not have the/BIS/ stipulated markings.	The Government attributed (June 2022) the non-visibility of BIS markings to pipes lying in the open fields for more than two years. The Government also replied (June 2022) that the requirement as per Operational Guidelines was that manufacturer should have facilities to supply BIS components, but it does not warrant that component supplied have to be BIS. The reply is not acceptable as the essence of such a condition in the Operational Guidelines is that BIS marked components are to be supplied by manufacturers.
3	The manufacturers were to provide operational and maintenance manual in the local vernacular language at the time of installation as	During JPI, Audit noticed that only ten out of 125 farmers (all departments) were provided with manuals in local vernacular language and five farmers were	The Government replied (June 2022) that directions have been issued to manufacturers to provide manuals in vernacular language, maintain customer

⁹ A fertigation device.

Sl. No.	Obligation	Audit Observation	Reply of the Government
	required (paragraph 15.1 of Operational Guidelines).	provided manuals in English. The remaining farmers were not provided with manuals.	complaint registration centre, and provide toll-free number.
4	Manufacturer were to operate a toll-free number and publish list of service centres/offices/ offices of authorized distributors with full address/telephone numbers/ e-mail (paragraph 15.2 of the Operational Guidelines).	Not done	
5	Manufacturer had to conduct extension campaigns (paragraphs 15.7 and 15.8 of the Operational Guidelines)	Not conducted in any of the six test-checked ¹⁰ districts, though the department had issued directions (February 2018) to districts to ensure that the same was conducted by the manufacturers.	

¹⁰ Belagavi, Chikkaballapura, Mysuru, Shivamogga and Vijayapura. In Kalaburagi district a photograph of a manufacturer conducting a campaign was produced, but no documentary evidence for having conducted the campaigns were available.

Appendix-2.5

(Reference: Paragraph 2.2.11.4, Page 39)

Number of inspections carried out in Agriculture department

District	Total number of installations implemented during 2016-21 (Area)	Inspections ¹¹ done by Deputy Director (DD) and Assistant Director (AD)
Belagavi	61476 (64166 ha.)	DDs had conducted a total of 183 installations (2016-21). ADs had conducted total of 1005 installations (2016-21).
Chikkaballapura	10882 (11058 ha.)	DD1, Chikkaballapura (80 installations in 2018-19). DD2, Chintamani (11 installations 2018-19). AD, Sidlaghata (19 installations 2018-19). AD, Gudibande (55 installations in 2018-19). AD, Chintamani (80 installations). AD, Chikkaballapura (64 installations 2018-19). AD, Gowribidnur (103 installations in 2018-19). For the other years (2016-17, 2017-18 and 2019-20 and 2020-21) inspections had not been conducted/documentated. Taluku not furnished information: Bagepalli
Kalaburagi	47015 (65364 ha.)	Taluku not furnished information: All seven taluku
Mysuru	68820 (68864 ha.)	AD, KR Nagar - 63 installations. AD Hunsur -148 installations. AD, HD Kote- No of installations inspected were 20 in 2016-17, 20 in 2017-18, 20 in 2018-19, 20 in 2019-20, 20 in 2020-21. AD, T.Narasipura- No of installations inspected were 60 in 2016-17, 55 in 2017-18, 79 in 2018-19, 123 in 2019-20, 97 in 2020-21. AD, Periyapatna - No of installations inspected were 10 in 2018-19, 27 in 2019-20, 100 in 2020-21. AD-Mysuru (141 installations during 2016-21). Taluku not furnished information: Nanjangudu
Shivamogga	58876 (58876 ha.)	AD, Shivamogga - 81 installations during 2020-21, AD, Sagar - 19 installations, AD, Soraba - 26 installations AD, Shikaripura - 39 installations during 2018-21. Taluku not furnished information: Bhadravathi, Thirthahalli, Hosanagar.
Vijayapura	62316 (63046 ha.)	DD, Indi - 23 installations (3 in 2016-17; 5 each in 2017-18 to 2020-21). AD, Sindhgi - No of installations inspected were 8 each in 2016-17 and 2017-18. AD, Muddebihal - 10 installations in 2020-21. Taluku not furnished information: B.Bagewadi, Muddebihal, Indi, Vijayapura.

Source: Information provided by the districts.

¹¹ Details of inspection by Joint Director of the districts were not furnished in any of the six test checked districts.

APPENDIX-2.6

(Reference: Paragraph 2.4, Page 45)

Details of non-remittance of fee by aided polytechnic colleges

(Amount in ₹)

SI No	Name of the College	Amount to be paid	Amount recovered	Interest on pending amount
1	HMS Polytechnic, Tumakuru	1,55,46,111		23,16,994
2	APS Polytechnic, Bengaluru	1,83,450		68,089
3	Gomatesh Polytechnic, Belagavi	5,82,469		2,67,557
4	Impact Polytechnic, Bengaluru	16,13,330		1,82,011
5	KVT Polytechnic, Chikkaballapur	3,29,319		14,800
6	KVGP Polytechnic, Sullia, Dakshina Kannada	4,95,741	4,95,741	1,001
7	Shree Venkateshwara Polytechnic, Bengaluru	6,65,757	2,00,000	4,88,464
8	PVP Polytechnic, Bengaluru	33,63,410	33,63,410	6,20,408
9	K H Kabbur Institute of Engineering (Polytechnic), Dharwad	10,64,646		5,19,653
10	MEI Polytechnic (Day), Bengaluru	19,54,358		2,63,893
11	JSS Polytechnic for Women, Mysuru	1,15,750	1,15,750	3,420
12	JSS Polytechnic for Differently Abled, Mysuru	1,74,000	1,74,000	2,595
13	Al Khateeb Polytechnic, Bengaluru	11,80,604	5401	1,17,532
14	Rural Polytechnic, Hulikote	1,06,445		29,804
15	Sanjay Memorial Polytechnic, Sagar	3,309		8
16	Jawaharlal Polytechnic, Thana Kushanoor	15,36,372		3,96,288
17	Bharatesh Polytechnic, Belagavi	7,59,497		1,15,870
18	Anjuman-E-Islam Polytechnic, Gadag	71,000	71,000	2,130
19	Bapuji Polytechnic, Shabanur	14,60,291		1,66,410
20	DGSMR Polytechnic Kukanoor	10,18,348	2,68,348	1,16,795
21	Sahyadri Polytechnic, Thirthahalli	11,85,779	11,85,779	3,70,917
22	NVS Polytechnic, Kalaburgi	1,72,896		45,844
23	B.Banumaiah Polytechnic, Mysuru	2,13,500		33,246
24	SNS Polytechnic, Sunkadakatte	6,650	6,650	569
25	MEI Polytechnic (Evening), Bengaluru	36,672		2,237
TOTAL		3,38,39,704	59,31,079	61,46,535

Source: Information furnished by the Department.

APPENDIX – 2.7
(Reference: Paragraph 2.4, Page 45)
Details of audit conducted (2017-18 to 2020-21) and
pendency of audit in respect of aided polytechnic colleges

Sl No	Name of the College	Period upto which audit was conducted by DTE	No of year for which Audit is pending	Year of audit*
1	HMS Polytechnic, Tumakuru	2012-13 to 2015-16	5	2017-18
2	Sanjay Memorial Polytechnic Sagar Shivamogga	2014-15 to 2016-17	4	2017-18
3	Nitte Rukmini Adyanthaya Memorial Polytechnic, Nitte, Udupi	2015-16 to 2017-18	3	2019-20
4	Jawahararal Nehru Polytechnic, Thana Kushnoor, Bidar	2012-13 to 2014-15	6	2017-18
5	Gomatesh Polytechnic, Belagavi	2014-15 to 2015-16	5	2017-18
6	Bharatesh Polytechnic, Belagavi	2015-16 to 2016-17	4	2017-18
7	STJ Polytechnic	2013-14 to 2015-16	5	2017-18
8	TMEAS Polytechnic, Hospet, Ballari	2014-15 to 2016-17	4	2017-18
9	S R Vastrad Rural Polytechnic, Guledgudda, Bagalkot	2014-15 to 2017-18	3	2018-19
10	JSS Polytechnic, Nanjangud, Mysuru	2016-17	4	2017-18
11	R.N Shetty Polytechnic, Sirsi, Uttara Kannada	2014-15 to 2017-18	3	2019-20
12	Impact Polytechnic, Bengaluru	2013-14 to 2017-18	3	2019-20
13	Anjuman-E-Islam Polytechnic, Gadag	2013-14 to 2017-18	3	2018-19
14	S.N Mudbidri Polytechnic, Moodbidri, Dakshina Kannada	2016-17 to 2017-18	3	2018-19
15	KVGP Polytechnic, Sullia, Dakshina Kannada	2015-16 to 2017-18	3	2019-20
16	SES Polytechnic Siruguppa, Ballari	2014-15 to 2016-17	4	2017-18
17	Shree Vidyadiraj Polytechnic, Kumta, Uttara Kannada	2014-15 to 2016-17	4	2018-19
18	Sahyadri Polytechnic, Thirthahalli, Shivamogga	2015-16 to 2017-18	3	2019-20
19	PVP Polytechnic, Bengaluru	2013-14 to 2018-19	2	2020-21
20	K H Kabbur Institute of Engineering (Polytechnic), Dharwad	2014-15 to 2015-16	5	2017-18
21	MEI Polytechnic, Bengaluru	2011-12 to 2015-16	5	2017-18
22	JSS Polytechnic for Women, Mysuru	2015-16 to 2018-19	2	2017-18

					2018-19 2019-20
23	JSS Polytechnic for Differently Abled, Mysuru		2015-16 to 17-18 2018-19	2	2017-18 2019-20
24	BVVS Polytechnic, Bagalkot		2014-15 to 2017-18	3	2018-19
25	AI Khateeb Polytechnic, Bengaluru		2014-15 to 2017-18	3	2019-20
26	MEI Evening Polytechnic, Bengaluru		2008-09 to 2015-16	5	2017-18

*Data pertaining to colleges audited prior to 2017-18 was not furnished

Year of audit	Number of colleges audited
2017-18	14
2018-19	7
2019-20	8
2020-21	1

Appendix 2.8

(Reference: Paragraph 2.7, Page 50)

Details of quantity executed for plastering of concrete roof slab for 12 mm

Bengaluru Division					
Sl. No.	Name of the work	Name of the Contractor	Quantity (sqm)	Rate (₹)	Amount (₹)
1.	Bowring and Lady Curzon Medical College at Shivajinagar, Bengaluru	M/s. KMV Projects Limited, Bengaluru	65,784.99	405	2,66,50,771.00
2	Dialysis Unit at K.C. General Hospital, Malleshwaram, Bengaluru	M/s Balajikrupa Projects, Private Limited, Bengaluru	420.07	260	1,09,218.00
3	PHC at H.D. Pura, Chitradurga	Sri.N.Narasegowda, Bengaluru	754.28	240	1,81,027.00
4	PHC at Buradugunte, Chikkaballapur	M/s. Signature Infrastructures Chittoor	404.89	200	80,978.00
5.	PHC at Sugutur, Kolar	Sri.N.Narasegowda, Bengaluru	647.39	240	1,55,373.00
Sub-Total			68011.62		2,72,17,898
Mysuru Division					
Sl.No.	Name of the work	Name of the Contractor	Quantity (sqm)	Rate (₹)	Amount (₹)
1.	District Hospital in the premises of ED Hospital, Mysuru	M/s. Star Builders and Developers. Bengaluru	23,042.3	220	44,11,451.00
2.	100 bedded General Medicine Super Specialty Blocks in Wenlock District Hospital Premises, Mangalore	M/s. MCKB Constructions, Bengaluru	3,719.41	277	10,32,464.00
3.	Doctor, Nurse and 'D' group quarters, Dialysis centre and mortuary at CHC Building, Ullala, Mangalore	M/s. MCKB Constructions, Bengaluru	2,032.87	257	5,24,106.00
4.	OPD Block at Government Hospital, T Narsipura, Mysuru district	M/s. Chanasya Karle Infratech Private Limited, Mysuru	2,946.07	240	7,07,057.00
5.	Doctors quarter at General Hospital Somwarpet in Kodagu district	M/s. MCKB Constructions, Bengaluru	824.61	360	2,96,860.00
6.	176 bedded new hospital at Wenlock District Hospital, Mangalore	M/s. MCKB Constructions, Bengaluru	4,599.00	360	16,55,640.00
7.	60 bedded MCH wing at General Hospital, Gundlupet in Chamrajnagara	Sri.G.Bhupathi Hassan	4,323.36	163	7,03,258.00
8.	MCH at General Hospital, Bannur, T Narsipura, Mysuru	M/s. Chanasya Karle Infratech Private Limited, Mysuru	3,067.26	230	7,05,470.00
Sub-Total			44,554.88		1,00,36,305
Grand Total (Bengaluru + Mysuru)					3,72,54,203
The total expenditure incurred on plastering of ceilings: ₹ 3,72,54,203.			1,12,566.50		

Appendix-2.9

(Reference: Paragraph 2.8, Page 52)

Details of road works

Sl. No	Name of the work
1	Improvement to road - Mundargi to Kurlerdoddi (MDR) in Deodurga taluk (work being processed as DN)
2	Improvement to road from Maseedpur to TQ Boarer road in devdurga Taluk
3	Improvement of approach road to Madarkal P- SDP- KSSDP-23-02
4	Improvements to road from Kurdi to T-04 via Gorkul road in Manvi taluk
5	Improvements to road from Dondambli to Hoonur/KS-23-23/Deodurga
6	Improvements to road from Bandisunkapur to Khairwadagi/Lingasugur/KS-23-25/
7	Improvements to approach road to Tuppaidoddi Road /Manvi/KS-23-27
8	Improvements to approach road to Saidapur Road / Manvi /KS-23-27
9	Improvements to road from Madlapur to T-05 via Madlapur camp Road / Manvi
10	Improvements to Road from Ramji Naik Tanda to Hadagali Road/ Lingasugur
11	Improvements to Road from Kudlur to Shakwadi Road/Raichur
12	Improvement to road from Mincheri Tanda to MDR (KN23-94 Sub-Division, Lingasugur)



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