

GOVERNMENT OF KARNATAKA

REPORT
OF THE
COMPTROLLER AND
AUDITOR GENERAL OF INDIA
FOR THE YEAR ENDED
31 MARCH 1997

No.2
(REVENUE RECEIPTS)

GOVERNMENT OF INDIA

REPORT
OF THE
COMPTROLLER AND
ATTORNEY GENERAL OF INDIA
FOR THE YEAR 1902
PART I

1902
PRINTED BY THE GOVERNMENT

CONTENTS

	Paragraph	Page
Prefatory remarks		vii
Overview		ix

CHAPTER 1

GENERAL

Trend of revenue receipts	1.1	5
Variations between budget estimates and actuals	1.2	11
Cost of collection	1.3	13
Arrears of revenue	1.4	14
Arrears in assessments	1.5	15
Arrears in appeals	1.6	16
Remissions and write-off of revenue	1.7	16
Refunds	1.8	17
Frauds and evasions	1.9	17
Results of audit	1.10	18
Internal audit	1.11	18
Outstanding inspection reports and audit observations	1.12	19

CHAPTER 2

SALES TAX

Results of audit	2.1	23
Incorrect grant of exemption/concession	2.2	23

Non-levy/short levy of turnover tax	2.3	29
Incorrect rate of tax	2.4	31
Incorrect allowance of set-off	2.5	32
Non-levy of surcharge	2.6	33
Non-levy of tax at purchase point	2.7	33
Incorrect determination of taxable turnover	2.8	34
Non-levy of penalty	2.9	36

CHAPTER 3

STATE EXCISE

Results of audit	3.1	41
Issue of licences under the Karnataka Excise Act	3.2	41
Non-realisation of revenue on retail vend of arrack	3.3	47
Excess wastage of spirit in maturation	3.4	49
Non-recovery of differential duty on export of beer/Indian liquor	3.5	49
Procurement of permits on fraudulent challans	3.6	51
Non-recovery/short recovery on release of confiscated goods	3.7	51
Non-recovery/short recovery of penalty on unmatured arrack	3.8	52
Loss of revenue due to short accounting of spirit	3.9	53
Non-recovery of dues on rectified spirit	3.10	54

Loss of revenue due to short production of Indian liquor	3.11	54
Short recovery of fee for examination of samples	3.12	55
Non-recovery or short recovery of cost of establishment	3.13	55

CHAPTER 4

TAXES ON MOTOR VEHICLES

Results of audit	4.1	59
Loss of revenue due to registration of motor vehicles with incorrect seating capacity	4.2	59
Loss due to short assessment of tax	4.3	60

CHAPTER 5

TAXES ON AGRICULTURAL INCOME

Results of audit	5.1	63
Non-levy of tax due to exclusion of income	5.2	63
Non-levy of tax due to excess allowance of rebate	5.3	64
Short levy due to incorrect allowance of set off	5.4	64
Short levy of tax due to incorrect computation of depreciation	5.5	65

CHAPTER 6

LAND REVENUE

Results of audit	6.1	69
Non-raising/short raising of demand for water rate	6.2	69
Non-levy of penal water rate	6.3	71
Non-levy/short levy of maintenance cess	6.4	72
Short recovery of conversion fine	6.5	72

CHAPTER 7

OTHER TAX RECEIPTS

A. ENTRY TAX

Results of audit	7.1	77
Non-levy/short levy of entry tax	7.2	77
Non-levy of penalty	7.3	79

B. STAMP DUTY AND REGISTRATION FEES

Results of audit	7.4	79
Short levy due to incorrect classification	7.5	80
Short levy of stamp duty	7.6	81
Incorrect concession in stamp duty	7.7	81
Short levy of surcharge	7.8	82

CHAPTER 8

NON-TAX RECEIPTS

A. FOREST RECEIPTS

Results of audit	8.1	85
Non-recovery of lease rent	8.2	85
Loss due to non-enforcement of agreement clause	8.3	86
Non-levy of sales tax/surcharge	8.4	87
Loss of revenue due to non-disposal of minor forest produce	8.5	88
Short levy of royalty	8.6	88
Non-recovery of revenue from original bidders	8.7	89

B. OTHER NON-TAX RECEIPTS

Results of audit	8.8	90
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PUBLIC WORKS RECEIPTS

Non-levy of penal rent	8.9	90
Interest receipts	8.10	92
Sericulture industries receipts	8.11	103
Police receipts	8.12	109



THE UNIVERSITY OF CHICAGO

1891



PREFATORY REMARKS

This Report for the year ended 31 March 1997 has been prepared for submission to the Governor under Article 151 (2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising *taxes on sales, trade, etc.*, state excise, taxes on motor vehicles, taxes on agricultural income, land revenue, stamp duty and registration fees, entry tax, forest receipts, public works receipts, interest receipts, sericulture industries receipts and police receipts.

The cases mentioned in this Report are among those which came to notice in the course of test audit of records during the year 1996-97 as well as those noticed in earlier years but could not be included in previous Reports.



PHILADELPHIA, PA. 1876

The report of the Secretary of the Board of Education
for the year ending June 30, 1876, is hereby
presented to the Board.

The Board of Education has the honor to
acknowledge the receipt of the report of the
Secretary of the Board of Education for the
year ending June 30, 1876, and to express
its appreciation of the services rendered
by the Secretary during the year.

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OVERVIEW

This Report contains 46 paragraphs including four reviews relating to non-levy, short levy of tax, duties, interest, penalty, etc. involving Rs.181.22 crores. Some of the major findings are mentioned below.

1. General

(i) The revenue collected by the State Government during 1996-97 amounted Rs.7110.15 crores comprising tax revenue of Rs.5767.84 crores and non-tax revenue of Rs.1342.31 crores. State's share of divisible Union taxes and grants-in-aid from Government of India were Rs.1729.80 crores and Rs.782.23 crores respectively. *Taxes on sales, trade, etc.*(Rs.3510.19 crores) formed a major portion (61 **per cent**) of the tax revenue. Interest receipts (Rs.674.61 crores) accounted for 50 **per cent** of the non-tax revenue.

(Paragraph 1.1)

(ii) Test check of records of Sales tax, State excise, Taxes on motor vehicles, Agricultural income-tax, Land revenue, Stamp duty and registration fees, Forest, Sericulture, Police, and other departmental offices, conducted during the year 1996-97 revealed under-assessments, short levy/non-levy of tax, loss of revenue, etc. amounting to Rs.223.05 crores in 2,817 cases. During the year 1996-97, the concerned departments accepted under-assessments, short levy, etc. of Rs.23.99 crores in 1,107 cases, all of which had been pointed out in the earlier years. The departments recovered Rs.3.43 crores at the instance of audit.

(Paragraph 1.10)

(iii) 4,022 inspection reports issued up to December 1996 containing 10,561 observations involving revenue of Rs.603.37 crores were pending settlement at the end of June 1997.

(Paragraph 1.12)

2. Sales tax

(i) Incorrect grant of exemption/concession resulted in short levy/non-levy of tax amounting to Rs.102.10 lakhs in 48 cases for the period 1988-89 to 1994-95.

(Paragraph 2.2)

(ii) Turnover tax of Rs.22.19 lakhs was either not levied or levied short in 32 cases for the period 1986-87 to 1994-95.

(Paragraph 2.3)

(iii) Application of incorrect rates of tax had resulted in short levy of tax of Rs.17.09 lakhs in 29 assessment cases for the periods 1980-81 to 1982-83 and 1989-90 to 1994-95.

(Paragraph 2.4)

(iv) There was short levy of sales tax of Rs.22.07 lakhs due to incorrect determination of taxable turnover in 12 cases relating to 1991-92 to 1993-94.

(Paragraph 2.8)

(v) Penalty amounting to Rs.45.03 lakhs for delayed payments of tax/demanded and non-remittance of tax not due but collected had not been levied in 48 cases relating to 1984 to 1994-95.

(Paragraph 2.9)

3. State excise

(i) A review of the *Issue of Licences under the Karnataka Excise Act 1965* disclosed that differential licence fee of Rs.28.63 lakhs due from 28 distilleries for 1990-91 and 1991-92 on account of retrospective revision of rates had not been collected even 15 months after receipt of court orders in December 1995 upholding the enhancement.

[Paragraph 3.2.6(a)]

(ii) Differential revenue of Rs.25.88 crores on account of cancellation of licences of six original bidders for retail vend of arrack for 1993-94 and 1995-96 due to their default in remittance of monthly rents or non-furnishing of security and making alternate arrangements for disposal had not been recovered.

(Paragraph 3.3)

(iii) Allowance of wastage of spirit in manufacture of Indian liquors by a distillery in Bangalore in excess of the prescribed limit had deprived Government of an additional excise duty of Rs.82.25 lakhs from liquor that could be manufactured out of the excess wastage of spirit allowed during the year 1994-95.

(Paragraph 3.4)

(iv) Even though reports of verifications of the consignments or warehousing of the intoxicants in the importing States were not received within the time limit of 30/90 days of their export from the State, differential excise duty of Rs.60.54 lakhs had not been recovered from 10 breweries/distilleries in three districts on exports made during 1993-94 to 1995-96.

(Paragraph 3.5)

(v) Owing to non-observance of the financial rules to act upon remittances made into Government account, there were fraudulent procurement of permits by a distillery in Bangalore on 29 occasions during March 1993 to May 1994 resulting in short credit of Rs.3.97 lakhs of which the Excise Commissioner had since (June 1997) realised Rs.3.75 lakhs after being pointed out by Audit in October 1996.

(Paragraph 3.6)

(vi) There was a total short collection of Rs.10.31 lakhs towards cost of establishment for supervision and securing compliance with the Excise Act placed in the premises of 13 units in five districts during 1993-94 to 1995-96.

(Paragraph 3.13)

4. Land revenue

(i) Water rates amounting to Rs.115.43 lakhs were not booked or short booked by Revenue Department even after receipt of demand statements from the Irrigation Officers in 18 taluks of nine districts for the period from 1993-94 to 1995-96.

(Paragraph 6.2)

(ii) Penal water rates for unauthorised use of water and violation of approved cropping pattern aggregating Rs.136.26 lakhs were not levied by the Revenue Department even after receipt of demand statements from Irrigation officers in five taluks of four districts during the period 1992-93 to 1995-96.

(Paragraph 6.3)

(iii) Maintenance cess of Rs.28.01 lakhs was either not levied or short levied by the Revenue Department in nine taluks of seven districts for the years 1993-94 to 1995-96.

(Paragraph 6.4)

5. Entry tax

Entry tax amounting to Rs.35.48 lakhs was not levied or levied short in three districts for 1989-90, and 1991-92 to 1994-95.

(Paragraph 7.2)

6. Non-tax receipts

(A) Forest receipts

(a) Lease rent of Rs.183.75 lakhs for the year 1995-96 due from Karnataka Forest Development Corporation on lease of forest land with rubber plantations had not been collected even though rubber valued Rs.1400 lakhs was sold by it.

(Paragraph 8.2)

(b) Owing to non-enforcement of agreemental provision, Rs.10.29 lakhs due from Mysore Paper Mills Limited on account of non-surrender of pulpwood and firewood harvested by it from plantations on leased forest land during 1995-96 had not been realised.

(Paragraph 8.3)

(c) There was short recovery of surcharge of Rs.16.54 lakhs on sales tax of Rs.110.21 lakhs collected on disposal of forest produce in five divisions during April 1994 to August 1996.

(Paragraph 8.4)

(B) Public works receipts

Penal rent for the period December 1992 to September 1996 amounting to Rs.25.16 lakhs had not been demanded from 87 Government officials who had overstayed in quarters allotted to them at Bangalore and other places.

(Paragraph 8.9)

(C) Reviews on 'Interest receipts', 'Sericulture industries receipts' and 'Police receipts' disclosed the following points.

(i) Interest receipts

(a) There was no mechanism at Government level for periodical review of the Demand, Collection and Balance position of different classes of loans, even though interest receipts constituted the principal source of non-tax revenue. However, 92 *per cent* of the interest receipts

during the year 1991-92 to 1995-96 were by way of mere book adjustments and cash realisation were meagre.

(b) Interest amounting to Rs.78.89 crores was outstanding recovery in 312 cases of loans sanctioned during 1975-76 to 1995-96.

(c) Non-finalisation/delay in finalisation of terms and conditions had postponed the raising of demands for interest amounting to Rs.6.12 crores in respect of loans totalling Rs.12.44 crores sanctioned during 1991-92 to 1995-96 to three loanees.

(d) Retention of loans sanctioned up to 1994-95 by two controlling officers outside Government accounts pending compliance with terms and conditions by the loanees had deprived Government of interest of Rs.11.95 crores.

(e) On account of wrong adjustment of towards principal, there was loss of interest amounting to Rs.2.29 crores in respect of three loanees for the period 1991-92 to 1995-96.

(f) Interest due in respect of overdue loans amounting to Rs.7.82 crores paid to 675 small industrial units in 14 districts had not been computed for raising the demands. Also, in respect of 309 medium and large industrial units which received loans of Rs.8.99 crores during November 1982 to March 1988 and had defaulted in repayments, interest due had not been computed. In respect of 75 units test-checked, interest due worked out to Rs.3.32 crores up to March 1996.

(Paragraph 8.10)

(ii) Sericulture industries receipts

(a) Though the legislation governing the transactions of silk industry required compulsory trading of all silk yarn through the silk exchange established by Government, 52 *per cent* of the total production of yarn in the State was not passed through them causing a revenue loss of Rs.19.04 crores to Government during 1991-92 to 1995-96 by way of market fees.

(b) The low yield of cross-breed disease-free layings in eight grainages resulted in loss of Rs.3.35 crores during 1991-92 to 1995-96.

(Paragraph 8.11)

(iii) Police receipts

(a) The Department raised additional demand of 'bundobust' charges of Rs.2.37 crores towards police personnel/vehicles deployed

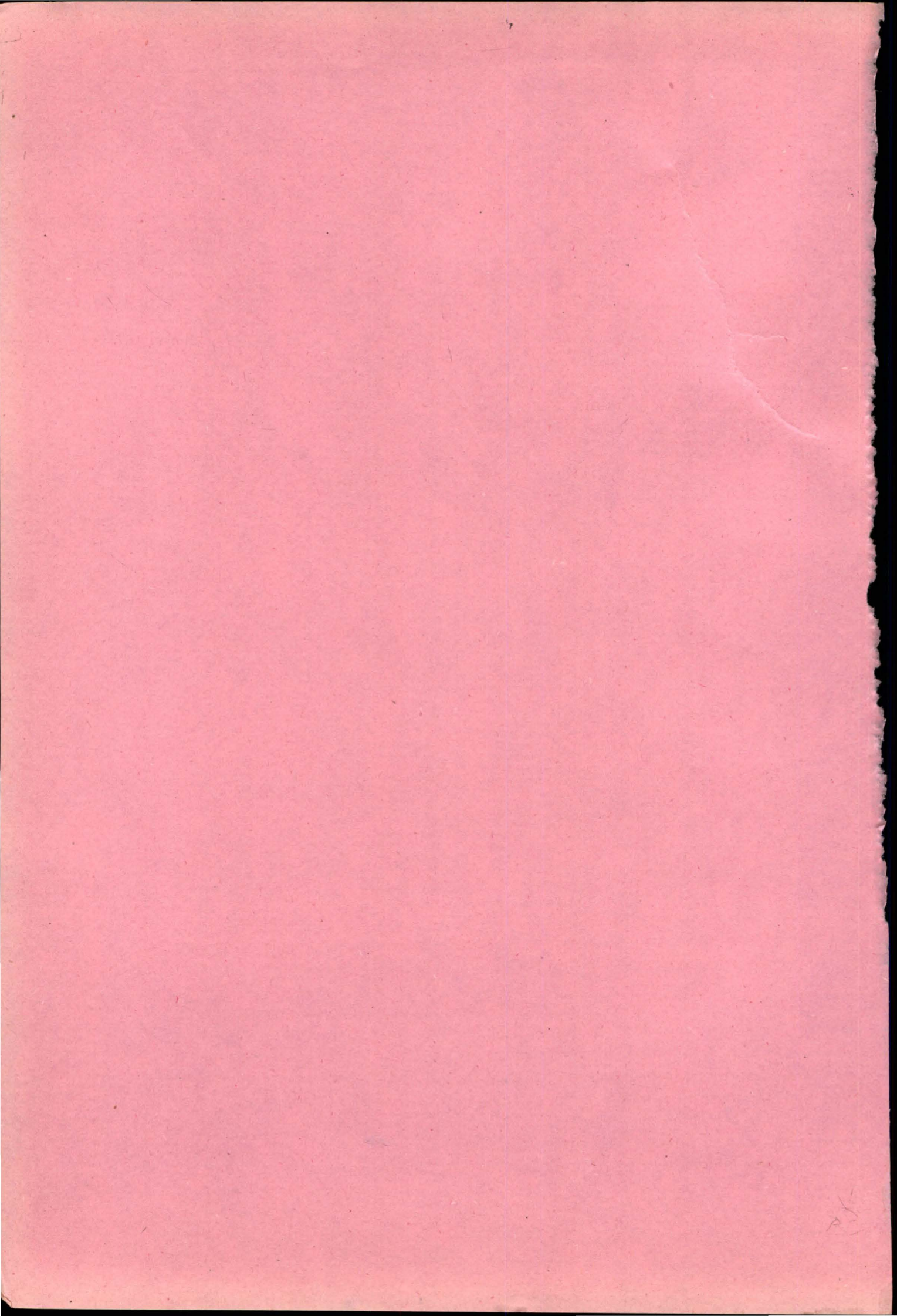
for the 'Miss World' pageant organised by a private company in Bangalore city in November 1996 on being pointed out by Audit.

(b) There was a short demand of Rs.17.12 lakhs from seven organisations towards charges of police personnel deployed at the place of horse races, amusements, sports, etc. during 1989-90 to 1996-97. Even out of Rs.73.37 lakhs collected, Rs.36.64 lakhs were unauthorisedly disbursed to the police personnel.

(c) In respect of KSRP platoons deployed in five other States during 1994-95 to 1996-97, demand for Rs.1.54 crores had not been raised as of November 1997.

(Paragraph 8.12)

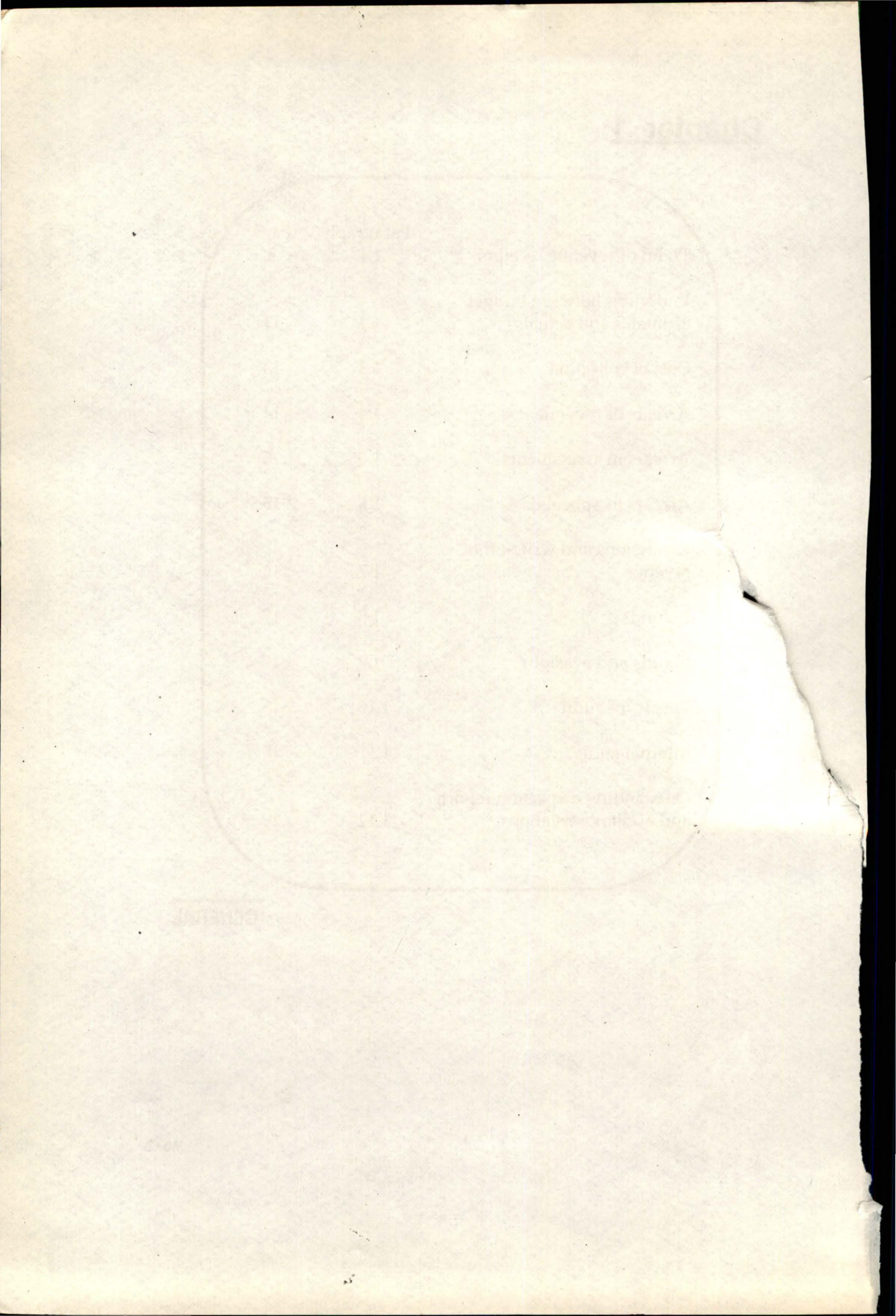




Chapter 1

	Paragraph	Page
Trend of revenue receipts	1.1	5
Variations between budget estimates and actuals	1.2	11
Cost of collection	1.3	13
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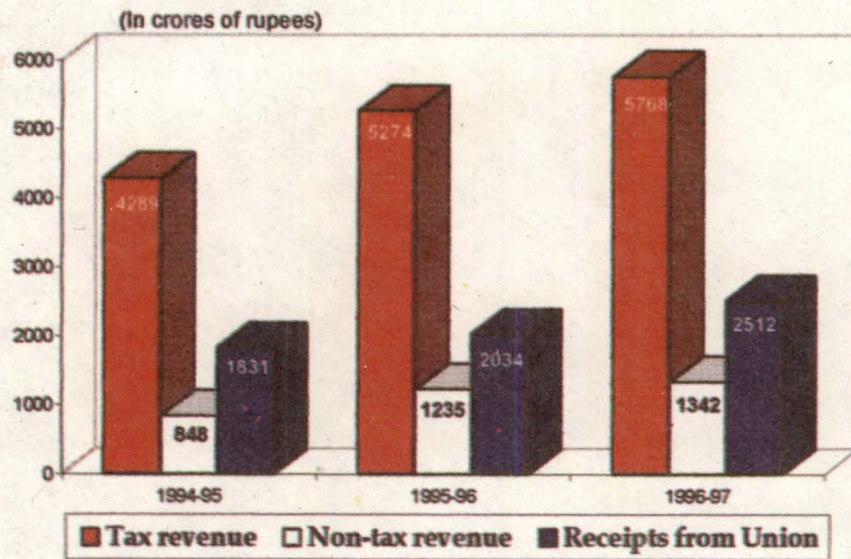
GENERAL



STATE OF TEXAS
COMMISSIONERS OF THE STATE LAND OFFICE
REPORT TO THE LEGISLATURE
FOR THE YEAR 1909

Chart - I
TOTAL RECEIPTS OF THE STATE

(Refer Paragraph 1.1)



CHAPTER 1

GENERAL

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by Government of Karnataka during the year 1996-97, the State's share of divisible Union taxes and grants-in-aid received from Government of India during the year and corresponding figures for the preceding two years are given below and also exhibited in Chart-I.

	1994-95	1995-96	1996-97
	(In crores of rupees)		
I. Revenue raised by the State Government			
(a) Tax revenue	4289.31	5273.93	5767.84
(b) Non-tax revenue	847.67	1235.42	1342.31
Total	5136.98	6509.35	7110.15
II. Receipts from Government of India			
(a) State's share of divisible Union taxes [®]	1135.93	1444.67	1729.80
(b) Grants-in-aid	695.48	589.43	782.23
Total	1831.41	2034.10	2512.03
III. Total receipts of State Government (I + II)	6968.39	8543.45	9622.18
IV. Percentage of I to III	74	76	74

[®] For details, 'Statement No.11 - Detailed Account of Revenue Receipts and Capital Receipts by Minor Heads' in the Finance Accounts of the Government of Karnataka for the year 1996-97 may please be referred to. Figures under the head '0021 - Taxes on Income other than Corporation Tax - Share of net proceeds assigned to States' booked in the Finance Accounts under 'A - Tax Revenue' have been excluded from 'Revenue raised by the State Government' and included in the 'State's share of divisible Union taxes' in this statement.

(i) The details of tax revenue raised during the year 1996-97 and for the preceding two years are given below and also exhibited in Chart - II.

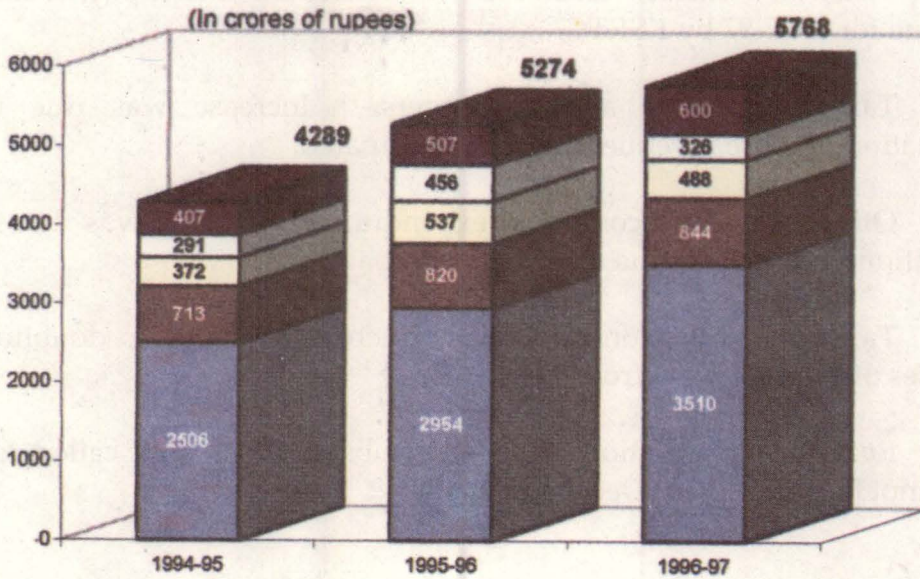
Revenue heads	1994-95	1995-96	1996-97	Percentage of increase (+) / decrease (-) in 1996-97 over 1995-96
	(In crores of rupees)			
1. Taxes on sales, trade, etc.	2,505.76	2,954.45	3510.19	(+) 19
2. State excise	713.47	820.20	843.87	(+) 3
3. Stamp duty and registration fees	372.49	536.53	487.63	(-) 9
4. Taxes on vehicles	290.99	456.03	325.75	(-) 29
5. Taxes on goods and passengers	117.00	168.34	199.44	(+) 18
6. Other taxes on income and expenditure	92.40	105.76	119.42	(+) 13
7. Taxes and duties on electricity	69.69	62.52	106.50	(+) 70
8. Other taxes and duties on commodities and services	90.91	91.81	89.48	(-) 3
9. Land revenue	19.78	28.56	46.03	(+) 61
10. Taxes on agricultural income	16.82	49.73	39.53	(-) 21
Total	4289.31	5273.93	5767.84	(+) 9

Taxes on sales, trade, etc. accounted for 61 per cent of the total tax revenue collected during 1996-97, followed by State excise (15 per cent). All other receipts individually constituted less than 10 per cent of the total tax revenue for the year. The details are also exhibited in Chart-III.

Chart - II

GROWTH OF TAX REVENUE

(Refer Paragraph 1.1(i))

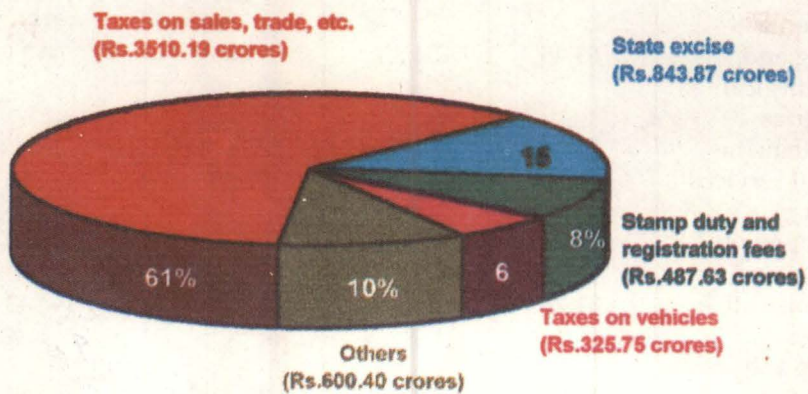


- Others
- Taxes on vehicles
- Stamp duty and registration fees
- State excise
- Taxes on sales, trade, etc

Chart - III

TAX REVENUE

(Refer Paragraph 1.1(i))



Reasons for variations in receipts during 1996-97 as compared to 1995-96 as reported by the concerned departments were as under.

- (a) Taxes on sales, trade etc:- Increase was due to additional resources mobilisation measures and realisation of anticipated revenue.
- (b) Taxes on vehicles:- Decrease was on account of non-payment of tax due for 1996-97 by KSRTC.
- (c) Taxes on goods and passengers:- Increase was due to realisation of more revenue than that anticipated.
- (d) Other taxes on income and expenditure:- Increase was due to collection of more revenue than that anticipated.
- (e) Taxes and duties on electricity:- Increase was due to doubling of rates of electricity tax from July 1996.

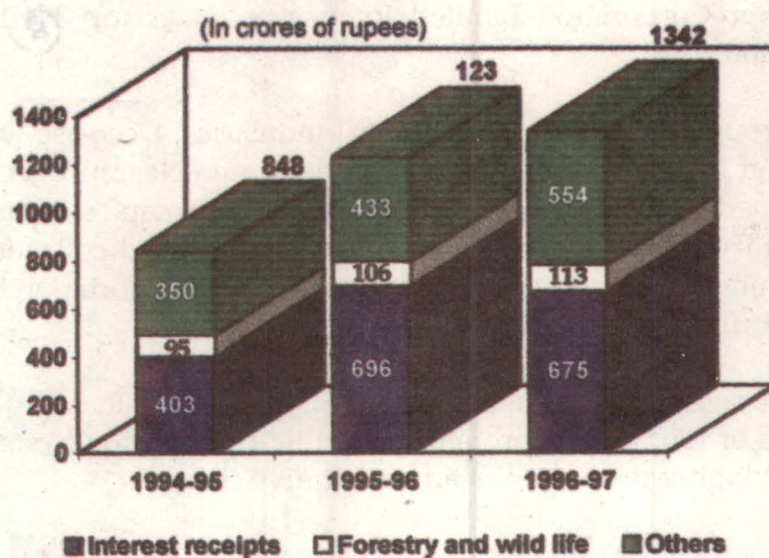
Reasons for variations wherever substantial though called for have not been received (December 1997).

(ii) The details of non-tax revenue realised during the year 1996-97 along with figures for the two preceding years are given below and also exhibited in Chart-IV.

Revenue heads	1994-95	1995-96	1996-97	Percentage of increase (+) / decrease (-) in 1996-97 over 1995-96
	(In crores of rupees)			
1 Interest receipts	402.64	695.75	674.61	(-) 3
2 Forestry and wild life	95.08	106.09	113.35	(+) 7
3 Power	2.05	1.36	94.76	(+) 6868
4 Non-ferrous mining and metallurgical industries	61.45	104.83	93.40	(-) 11
5 Miscellaneous general services	42.58	45.73	51.89	(+) 13
6 Urban development	0.04	49.00	47.36	(-) 3
7 Other Administrative services	31.76	26.23	37.53	(+) 43
8 Village and small industries	32.65	22.36	25.41	(+) 14
9 Other general Economic Services	25.56	22.40	24.18	(+) 8

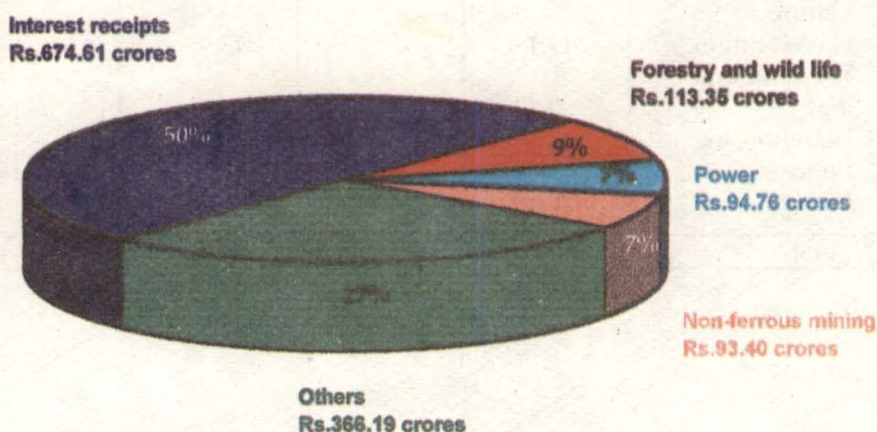
Revenue heads	1994-95	1995-96	1996-97	Percentage of increase (+) / decrease (-) in 1996-97 over 1995-96
	(In crores of rupees)			
10 Medical and public health	22.81	21.36	21.04	(-) 1
11 Major and medium irrigation	13.19	16.93	17.10	(+) 1
12 Education, sports, art and culture	15.79	15.02	14.68	(-) 2
13 Co-operation	11.13	17.75	13.90	(-) 22
14 Food, Storage and Warehousing	8.62	8.73	13.21	(+) 51
15 Police	5.86	6.97	12.43	(+) 78
16 Others	76.46	74.91	87.46	(+) 17
Total	847.67	1235.42	1342.31	(+) 9

Chart - IV
GROWTH OF NON-TAX REVENUE
 (Refer Paragraph 1.1(ii))



50 per cent of the non-tax revenue collected during the the year came from interest receipts. All other receipts individually constituted less than 10 per cent of the total non-tax revenue for the year. The details are also exhibited in Chart-V.

Chart - V
NON-TAX REVENUE
(Refer Paragraph 1.1(ii))



Reasons for variations in receipts during 1996-97 as compared to 1995-96 are as detailed below:

- (1) Power: Increase was mainly due to receipt of royalty from the Karnataka Power Corporation Limited for use of water for 'Hydro Power Generation'.
- (2) Non-ferrous mining and metallurgical industries: Decrease was due to reduction in grant of mining leases due to non-clearance from Forest Department, environmental objections, etc., arrears collected during 1995-96 from limestone quarries offset by increased collection of royalty on minor minerals and checking of illegal transportation by Sub-divisional offices started during 1996-97.
- (3) Food, storage and warehousing: Increase was due to sales of more quantities of foodgrains through the Public Distribution System and consequent higher realisation of administrative charges.
- (4) Police: Increase was mainly under charges of Police supplied to other Governments.

Reasons for variations in respect of other heads of revenue have not been received (December 1997).

1.2 Variations between budget estimates and actual receipts

The major variations between budget (revised) estimates of revenue and actual receipts under the principal heads of revenue for the year 1996-97 are given below.

Revenue heads	Revised Estimates	Actual	Variation Excess(+)/ Shortfall (-)	Percentage of variation
	(In crores of rupees)			
(A) Tax revenue				
1. Taxes on sales, trade, etc.	3703.42	3510.19	(-) 193.23	(-) 5
2. State excise	860.00	843.87	(-) 16.13	(-) 2
3. Stamp duty and registration fees	550.00	487.63	(-) 62.37	(-) 11
4. Taxes on vehicles	350.00	325.75	(-) 24.25	(-) 7
5. Taxes on goods and passengers	185.00	199.44	(+) 14.44	(+) 8
6. Other taxes on income and expenditure	123.00	119.42	(-) 3.58	(-) 3
7. Taxes and duties on electricity	120.00	106.50	(-) 13.50	(-) 11
8. Other taxes and duties on commodities and services	85.00	89.48	(+) 4.48	(+) 5
9. Land revenue	30.00	46.03	(+) 16.03	(+) 53
10. Taxes on agricultural income	38.00	39.53	(+) 1.53	(+) 4

Revenue heads	Revised Estimates	Actual	Variation Excess(+)/ Shortfall (-)	Percentage of variation
	(In crores of rupees)			
(B) Non-tax revenue				
1. Interest receipts	573.45	674.61	(+) 101.16	(+) 18
2. Forestry and wild life	122.00	113.35	(-) 8.65	(-) 7
3. Power	117.43	94.76	(-) 22.67	(-) 19
4. Non-ferrous mining and metallurgical industries	87.09	93.40	(+) 6.31	(+) 7
5. Miscellaneous general services	58.15	51.89	(-) 6.26	(-) 11
6. Urban development	0.34	47.36	(+) 47.02	(+) 13829
7. Other administrative services	40.09	37.53	(-) 2.56	(-) 6
8. Village and small industries	28.52	25.41	(-) 3.11	(-) 11
9. Other general economic services	23.33	24.18	(+) 0.85	(+) 4
10. Medical and public health	24.07	21.04	(-) 3.03	(-) 13
11. Major and medium irrigation	20.00	17.10	(-) 2.90	(-) 15
12. Education, sports, art and culture	29.12	14.68	(-) 14.44	(-) 50
13. Co-operation	14.03	13.90	(-) 0.13	(-) 1
14. Food, storage and warehousing	11.00	13.21	(+) 2.21	(+) 20
15. Police	11.44	12.43	(+) 0.99	(+) 9

The reasons for variations between the budget (revised) estimates and the actuals as reported by the concerned departments were as under.

(a) Stamp duty and registration fees:- Decrease was due to restriction on registration of certain categories of documents and slump in real estate market.

(b) Taxes and duties on electricity: Decrease was due to shortage of power for sale to industries than anticipated.

(c) Urban development: Variation was due to non-inclusion in the budget estimates of receipts by way of Bangalore Mass Rapid Transit System cess for Development of State Capital - Bangalore city introduced in April 1995. Reasons for non-inclusion in Budget estimates was however, not intimated.

(d) Food storage and warehousing: Increase was due to higher administrative charges realised from more quantities of food grains sold through the Public Distribution System.

1.3 Cost of collection

The gross collection under Taxes on sales, trade, etc. and Taxes on vehicles, expenditure incurred for their collection and the percentage of such expenditure to gross collections during the years 1994-95, 1995-96 and 1996-97 along with the relevant all-India average percentage of expenditure on collection to gross collection for 1995-96 are given below:

Revenue heads	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All-India average percentage for the year 1995-96
		(In crores of rupees)			
1. Taxes on sales, trade, etc.	1994-95	2505.76	25.79	1.03	1.29
	1995-96	2954.45	28.92	0.98	
	1996-97	3510.19	31.01	0.88	
2. Taxes on vehicles	1994-95	290.99	8.11	2.79	2.57
	1995-96	456.03	9.61	2.11	
	1996-97	325.75	10.25	3.15 #	

#: Reasons for increase though called for have not been received (December 1997)

1.4 Arrears of revenue

As on 31 March 1997, arrears in collection under principal heads of revenue as reported by the departments concerned are given below.

Head of revenue	Amount of arrears as on 31 March 1997	Arrears more than five years old	Remarks
	(In crores of rupees)		
(1) Taxes on sales, trade, etc.	672.91		Out of arrears of Rs.734.60 crores, Rs.30.32 crores had been certified for recovery as arrears of land revenue, Rs.223.05 crores had been stayed by High Court and other judicial authorities, Rs.2.91 crores had been stayed by Government, Rs.3.52 crores had been held up due to rectification / review of applications. Rs.1.96 crores had been held up due to dealers becoming insolvent, Rs.8.68 crores were likely to be written off and the balance of Rs.464.16 crores was under various stages of action. The department has not furnished (December 1997) the amount of arrears of pendency for over five years though called for in April 1997.
(2) Entry tax	40.44		
(3) Entertainment tax	3.33		
(4) Agricultural income tax	6.56		
(5) Professions tax	11.16		
(6) Luxury tax	0.20		
	734.60		
State excise	291.03	200.72	Out of the total arrears of Rs.291.03 crores, Rs.40.30 crores had been stayed by the courts and the balance of Rs.250.73 crores was under various stages of action.
Stamp duty and registration fees	45.61		Out of the total arrears of Rs.45.61 crores, Rs.5.89 crores had been covered by revenue recovery certificates, Rs.5.59 crores had been stayed by courts, Rs.0.42 crores were likely to be written off and the balance of Rs.33.71 crores was under various stages of action. The department has not furnished (December 1997) the amount of arrears of pendency for over five years though called for in April 1997.

Head of revenue	Amount of arrears as on 31 March 1997	Arrears more than five years old	Remarks
	(In crores of rupees)		
Sericulture industries receipts	1.06 (As on 31 March 1996)		Amount of interest due from Karnataka Handloom Development Corporation for the years 1993-94 to 1995-96 on credit sales of raw silk by departmental commercial undertakings.
Lottery receipts	15.07		Amount of interest due from Mysore Sales International Limited on belated remittances of purchase money for the years 1991-92 to 1995-96, non- remittances of sale proceeds and shortfall in lifting the lottery tickets.

Information regarding the extent of arrears of revenue in other departments called for in April 1997 have not been received (December 1997)

1.5 Arrears in assessments

The details of assessments relating to sales tax, agricultural income-tax, entertainments tax, taxes on goods and passengers, etc., relating to Commercial Taxes Department pending at the beginning of the year, cases disposed of during the year and cases pending finalisation at the end of each year during 1994-95, 1995-96 and 1996-97 are given below.

Year	Opening balance	Fresh cases which became due for assess- ment during the year	Total	Cases disposed of during the year	Cases pending at the end of the year	Percentage of column (5) to (4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1994-95	11,22,951	7,00,297	18,23,248	6,11,766	12,11,482	34
1995-96	12,11,473*	9,87,814	18,52,612*	6,40,893	12,11,719	35
1996-97	12,11,719	2,00,303	16,12,022	7,21,357	8,90,665	45

* Reasons for the variation between the closing balance for 1994-95 and the opening balance for 1995-96 have not been intimated.

* Excluding 3,46,675 assessments transferred/reduced.

1.6 Arrears in appeals

According to the information furnished (November 1997) by the Commercial Taxes Department, the number of appeals filed under sales tax, entry tax, entertainments tax, taxes on agricultural income, etc., number of appeals disposed of and number of cases pending with the appellate authorities at the end of 1996-97 were as under.

Head of revenue	Opening balance	Number of appeals filed during the year	Total	Number of appeals disposed of during the year	Balance at the close of the year	Percentage of cases disposed of to total number of cases
Taxes on sales, trade etc.	6367	6471	12838	7233	5605	56
Entry tax	1041	1291	2332	1391	941	60
Agricultural income tax	467	666	1133	748	385	66
Luxury tax	-	14	14	11	3	79
Professions tax	20	35	55	42	13	72
	7895	8477	16372	9425	6947	58

1.7 Remissions and write-off of revenue

Details of write-off of arrears of revenue as intimated by departments are given below.

Department	No. of cases	Year to which arrears relate	Amount (In lakhs of rupees)	Reasons for write-off
Commercial taxes	120	1958-59 to 1996-97	47.46	Whereabouts of defaulters not known (105 cases), defaulters not alive (4 cases), defaulters not possessing properties (10 cases) and defaulters having become insolvent (1 case).

Also remissions of revenue of Rs.0.82 lakh in one case was made during the year 1996-97 for the reason that the defaulter did not have property.

1.8 Refunds

Position of cases of refunds during the year 1996-97, as reported by commercial taxes departments is indicated below.

(Amount in lakhs of rupees)

Name of department	Claims for refund outstanding at April 1996		Claims received during the year		Refunds made during the year		Balance outstanding as on 31 March 1997	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Commercial taxes	98	52.39	1941	1173.86	1946	1182.22	93	44.03
State excise	385	31.17	192	53.74	167	60.20	410	24.71
Taxes on vehicles	741	30.01	984	73.11	795	67.68	930	35.44
Stamp duty and registration fees	190	16.50	390	134.84	117	21.68	463	129.66
Forest	55	41.75	57	29.77	89	32.41	23	39.11

1.9 Frauds and evasions

Details of frauds and evasions as reported by departments are given below.

	Department (Amount in lakhs of rupees)			
	Commercial taxes		Taxes on vehicles	
	No. of cases	Additional demand raised	No. of cases	Additional demand raised
A. (i) Cases pending as on 1 April 1996	1294		52753#	
(ii) Cases detected during the year 1996-97	19689		29311#	
B. Cases in which investigations/ assessments were completed during the year 1996-97			40705	86.22
(i) Out of cases at A(i) above	826	1573.42		
(ii) Out of cases at A(ii) above	17941	5292.61		
C. Cases pending as on 31 March 1997			41359	
(i) Out of cases at A(i) above	468			
(ii) Out of cases at A(ii) above	1748			

The figures as on 31 March 1996 furnished for Audit Report 1995-96 were 43105 and 65006 respectively; reasons for the discrepancies have not been furnished by the department (November 1997).

1.10 Results of audit

Test check of records of Sales tax, Agricultural income-tax, Land revenue, Stamp duty and registration fees, State excise, Taxes on motor vehicles, Forest, Public works, Sericulture and other departmental offices conducted during the year 1996-97 revealed under-assessments/short levy/ loss of revenue, failure to raise demands, etc., involving Rs.223.05 crores in 2817 cases. During the course of the year 1996-97, the concerned departments accepted under-assessments, short demands, etc., aggregating Rs.23.99 crores in 1,107 cases which were pointed out in audit in earlier years. A sum of Rs.3.43 crores relating to 704 audit observations was recovered at the instance of audit.

This report contains 46 paragraphs including four reviews involving financial effect of Rs.181.22 crores. The departments/ Government have accepted audit observations involving Rs.620.49 lakhs, of which Rs.100.88 lakhs had been recovered up to December 1997. Audit observations with a total revenue effect of Rs.348.10 lakhs in eight cases have not been accepted by the departments/Government; but their contentions have been found at variance with the facts or legal position and these have been appropriately commented upon in the relevant paragraphs. No reply has been received in the remaining cases (December 1997).

1.11 Internal audit

State excise department

Internal audit wing has been functioning in the State excise department since April 1990. It is headed by a Deputy Commissioner of Excise (Audit and Inspection) who is assisted by an Internal Audit Officer, 2 Assistant Audit Officers and 2 Senior Auditors. Out of 238 offices to be covered by internal audit, only 170 offices were audited during 1996-97.

Commercial taxes department

Internal audit wing has been functioning in the Commercial taxes department since October 1970. Out of 294 offices to be covered by internal audit, only 134 offices were audited during 1996-97. The shortfall was attributed to vacancies in the wing.

Motor vehicles department

Internal audit wing has been functioning since 1960. During the year 1996-97, all offices were audited.

The details of observations made by internal audit and their clearance up to the end of 1996-97 in respect of Commercial taxes, State excise and Motor vehicles taxes are given below:

(Amount in lakhs of rupees)

Department	Year	Observations made		Observations settled upto the end of 1996-97		Observations pending as at the end of 1996-97	
		Number	Amount	Number	Amount	Number	Amount
Commercial taxes	Up to 1994-95	6403	1057.13	3660	599.37	2743	457.76
	1995-96	1,933	729.93	590	339.52	1343	390.41
	1996-97	675	123.76	139	38.96	536	84.80
	Total	9011	1910.82	4389	977.85	4622	932.97
State excise	Up to 1994-95	1345	17725.95	934	8342.76	411	9383.19
	1995-96	490	3954.11	254	2892.97	236	1061.14
	1996-97	308	2904.54	52	99.94	256	2804.60
	Total	2143	24584.60	1240	11335.67	903	13248.93
Motor vehicles	Up to 1994-95	3310	318.30	1009	72.30	2301	246.00
	1995-96	268	34.42	173	18.96	95	15.46
	1996-97	189	22.39	132	6.05	57	16.34
	Total	3767	375.11	1314	97.31	2453	277.80

1.12 Outstanding inspection reports and audit observations

Audit observations on incorrect assessments, short levy of taxes, duties, fees, etc., as also defects in initial records noticed in audit and not settled on the spot are communicated to the heads of offices and to the departmental authorities through inspection reports. Important and serious irregularities are reported to the heads of departments and Government. In addition, statements indicating the number of observations outstanding for over six months are also sent to Government for expediting their settlement. Government have prescribed a time limit of one month for furnishing replies to audit observations.

4022 inspection reports issued up to end of December 1996, containing 10,561 audit observations involving a total amount of Rs.603.37 crores were still to be settled at the end of June 1997, as indicated below along with the corresponding figures for the two preceding years.

	At the end of		
	June 1995	June 1996	June 1997
Number of outstanding inspection reports	2,703	3,271	4,022
Number of outstanding audit observations	8,019	8,557	10,561
Amount involved (in crores of rupees)	315.19	369.46	603.37

Yearwise details of the inspection reports, audit observations and amount involved at the end of June 1997 are given below.

Year	Number of outstanding inspection reports	Number of audit observations	Amount of receipts involved (In crores of rupees)
Up to 1992-93	1,388	3,429	145.32
1993-94	583	1,209	76.97
1994-95	529	1,338	83.73
1995-96	672	1,669	65.34
1996-97	850	2,916	232.01
Total	4,022	10,561	603.37

Out of 4,022 inspection reports which were pending settlement, even first replies have not been received (June 1997) for 114 inspection reports containing 345 audit observations involving a total amount of Rs.6.64 crores. The pendency of these reports was reported to Government between July and December 1997.

The receiptwise details of inspection reports, audit observations and amount involved outstanding as on 30 June 1997 are indicated below.

Department	Receipts	Number of outstanding inspection reports	Number of outstanding audit observations	Amount of receipts involved (In crores of rupees)
1. Finance	(a) Taxes on sales, trade, etc., Entry tax, Entertainments tax, Luxury tax and Professions tax	2,286	6,509	83.27
	(b) Agricultural income tax	63	189	3.16
	(c) State excise duty	547	754	127.74
2. Revenue	(a) Land revenue	421	1707	112.09
	(b) Stamp duty and registration fees	348	509	4.72
3. Forest, Environment and Ecology	Forest receipts	190	393	72.55
4. Home and Transport	Motor vehicles taxes	167	500	199.84
Total		4,022	10,561	603.37

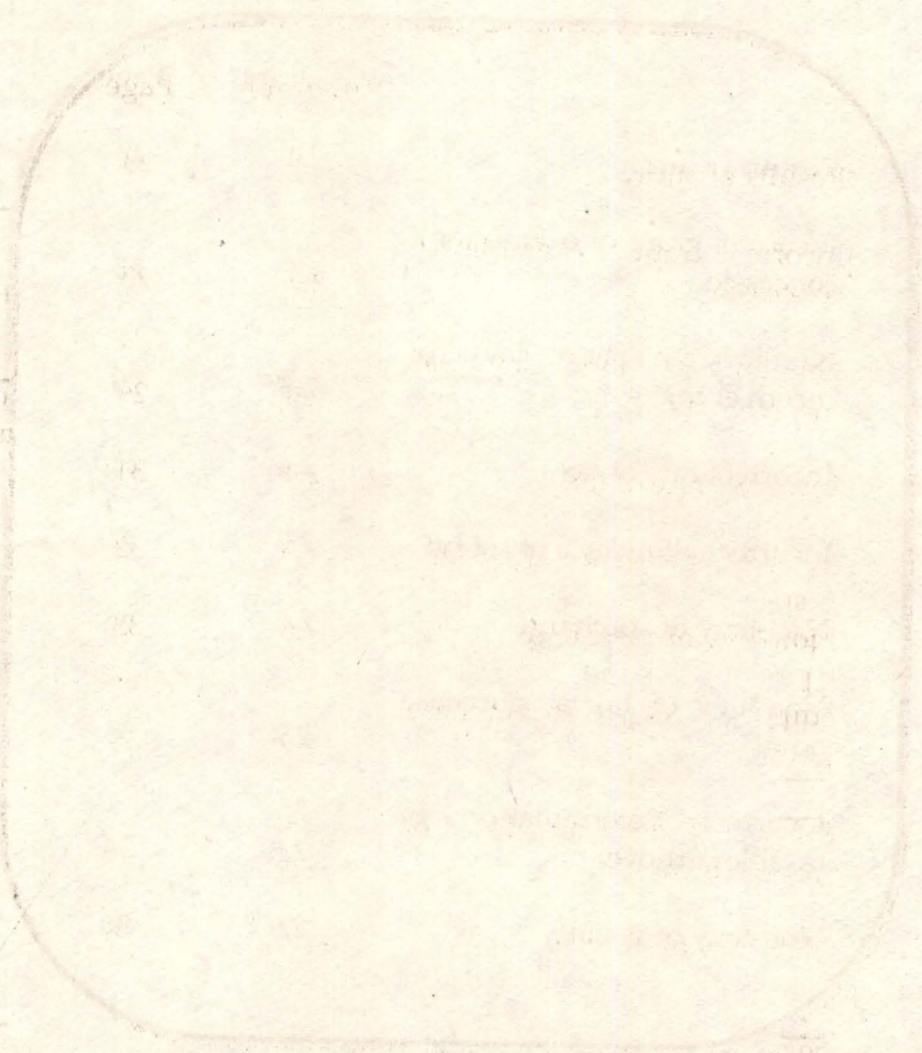
CHAPTER 2

	Paragraph	Page
Results of audit	2.1	23
Incorrect grant of exemption/ concession	2.2	23
Non-levy / short levy of turnover tax	2.3	29
Incorrect rate of tax	2.4	31
Incorrect allowance of set-off	2.5	32
Non-levy of surcharge	2.6	33
Non-levy of tax at purchase point	2.7	33
Incorrect determination of taxable turnover	2.8	34
Non-levy of penalty	2.9	36

SALES TAX

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UNRECORDED

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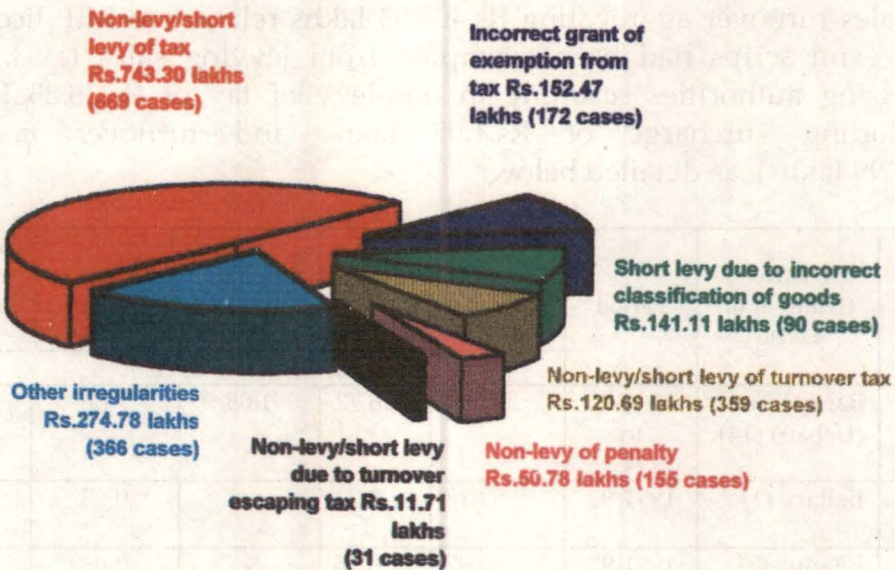
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CHAPTER 2

SALES TAX

2.1 Results of audit

Test check of records in Sales tax offices, conducted in audit during the year 1996-97, disclosed under-assessments of tax, non-levy of penalty, etc., amounting to Rs.1494.84 lakhs in 1842 cases which broadly fall under the following categories:



During the course of the year 1996-97, the department accepted under-assessments of Rs.287.30 lakhs involved in 717 cases which had been pointed out in the earlier years and recovered Rs.174.41 lakhs involved in 533 cases. A few illustrative cases involving Rs.217.08 lakhs are given in the following paragraphs.

2.2 Incorrect grant of exemption/concession

(i) Under the Karnataka Sales Tax Act 1957, on goods mentioned in the Second Schedule thereof, tax is leviable at the rates specified therein at the point of first or earliest of successive sales within the State; on goods not included in any of the Schedules thereof, tax is leviable at the rate of 7 *per cent* at all points of sale from April 1986 to

Non-levy/short levy of tax of Rs.102.10 lakhs due to irregular exemption/concession

March 1993 and at 8 *per cent* thereafter at the point of first sale within the State. It had been judicially held[#] in 1992 that import replenishment (REP) licences or exim scrips are 'goods' within the meaning of the Act. The Commissioner of Commercial Taxes had also clarified (January 1991 and July 1992) that transfers of REP licences and exim scrips were taxable under the Act.

(a) In 17 cases of three districts (Bangalore (Urban), Bellary and Bijapur), while finalising the assessments for the years 1989-90 to 1994-95 sales turnover aggregating Rs.405.93 lakhs relating to REP licences and exim scrips had been exempted from levying sales tax by 10 assessing authorities resulting in non-levy of tax of Rs.38.83 lakhs (including surcharge of Rs.1.05 lakhs and turnover tax of Rs.7.99 lakhs), as detailed below.

Sl. No.	District (Number of cases)	Period	Turnover involved	Tax not levied	Surcharge not levied	Turnover tax not levied	Total non-levy of tax
1.	Bangalore (Urban) (14)	1989-90 to 1994-95	347.78	25.72	1.05	7.00	33.77
2.	Bellary (1)	1991-92	53.18	3.72	-	0.93	4.65
3.	Bijapur (2)	1991-92 and 1992-93	4.97	0.35	-	0.06	0.41
Total (17)			405.93	29.79	1.05	7.99	38.83

On these being pointed out (between June 1995 and January 1997), the department reported revision of assessment in three cases and recovery of an additional demand of Rs.0.88 lakh in March 1997; the assessing authority stated that notice had been issued in respect of one case for revision of assessment; in respect of others, no reply has been received (December 1997).

The cases were referred to Government between March and June 1997; their replies have not been received (December 1997).

(b) In nine cases of three districts, while finalising the assessments for the years 1992-93 to 1994-95 sales turnover aggregating Rs.150.49 lakhs was incorrectly exempted resulting in non-levy of tax

[#] Messrs Bharat Fritz Werner Limited Vs CCT (1992) 86 STC 170 (Karnataka)

of Rs.13.84 lakhs as detailed below.

(In lakhs of rupees)

Sl. no.	District (Number of assessments)	Goods	Period	Rate of sales tax/turnover tax (percentage)	Turnover	Total non-levy of tax
1.	Bangalore (Rural) (4)	Fibre glass cloth	1992-93	10/1.25	28.04	3.15
			1993-94	10/1.25	12.37	1.39
			1993-94	10	45.30	4.53
					(CST Sales)	
2.	Bangalore (Urban) (2)	Meat in packed condition	1994-95	10	22.68	2.27
					(CST Sales)	
3.	Bangalore (Urban) (1)	Household articles made out of plastic granules	1993-94	6	22.78	1.37
4.	Mysore (1)	Gutka	1993-94	4/1.25	15.53	0.81
5.	Bangalore (Urban) (1)	Outline maps and globes	1993-94	8/1.25	3.79	0.32
Total (9)					150.49	13.84

The cases mentioned above were pointed out to the assessing authorities between October 1995 and August 1996. In respect of sl.no.(4), the assessing authority had revised the assessment and recovered an amount of Rs.0.87 lakh in June 1996. In respect of sl. no. (5) the assessing authority had issued notice for revising the assessment. In respect of the other seven cases replies have not been received. (December 1997).

The cases were referred to Government between March and June 1997; their replies have not been received (December 1997).

(ii) By separate notifications issued between March 1983 and June 1991 under the Karnataka Sales Tax Act 1957 and the Central Sales Tax Act 1956, sales tax payable in respect of goods manufactured and sold by tiny/small scale industrial (SSI) units were exempted to the extent of 50 *per cent* of the value of their fixed assets of land and *plant and machinery* as on the date of commencement of their commercial production for a specified period depending on the area of location of the industrial unit.

The sales tax exemption was not available to the industrial units where no manufacturing activity was involved. The High Court of Karnataka had held in 1982 that conversion of boulders into jelly did not amount to manufacture. The Commissioner of Commercial Taxes (CCT) had clarified in October 1991 that SSI units engaged in 'tyre

retreading' were not eligible for sales tax exemption as 'tyre retreading' was not a manufacturing activity.

The benefit of sales tax exemption was not available to the turnover on which any tax was collected by the SSI unit under the Karnataka Sales Tax Act/the Central Sales Tax Act.

The Commissioner of Commercial Taxes (CCT) had clarified in December 1987 that sales tax exemption was not available to the industrial units on the purchase of raw materials effected by them.

(a) In 14 cases mentioned below, SSI units/tiny sector industrial units were allowed exemption/concession of sales tax aggregating Rs.35.65 lakhs which were not admissible for the reasons indicated against each.

Sl. no.	District (Number of assessments)	Activity of the industrial unit	Period	Turnover on which incorrect exemption was allowed	Short levy of tax thereon	Remarks
				(In lakhs of rupees)		
1.	Mandya (3)	Conversion of boulders into jelly	1990-91 to 1992-93	35.31	2.91	No manufacturing activity was involved
2.	Dakshina Kannada (3)	Collection of lime shells from hawkers and sales	1991-92 to 1993-94	40.24	2.60	
3.	Dakshina Kannada (1)	Tyre retreading	1992-93	7.80	0.86	
4.	Bangalore (Urban) (1)	Manufacture of HDPE woven sacks	1993-94	119.52	2.39	Exemption was not available on the turnover on which tax was collected.
5.	Mandya (3)	Manufacture of perfumes	1988-89, 1990-91 and 1991-92	5.01	0.37	Exemption was not available on the purchase of raw materials
6.	Belgaum (2)	Manufacture of mill boards and file boards	1992-93 and 1993-94	4.10	0.31	
7.	Bellary (1)	Manufacture of cotton lint	1993-94	655.27	26.21	
Total (14)				867.25	35.65	

The above cases were pointed out to the assessing authorities between October 1994 and December 1996. In respect of sl.no.(3), *suo motu* order had been passed and additional demand of Rs.0.86 lakh created. Regarding sl.nos.(4) and (6), the assessing authorities stated

that notices had been issued for revising the assessments. In respect of sl.no.(1), the assessing authority stated that exemption was allowed on the basis of the Fixed Assets Valuation Certificate issued by the District Industries Centre, Mandya; nevertheless, in view of the judgement cited above as there was no manufacturing activity, the exemption was inadmissible. In respect of the other cases, replies have not been received (December 1997).

The cases were referred to Government in May-June 1997; their replies have not been received (December 1997).

(b) By notification issued in June 1989 under the Karnataka Sales Tax Act 1957 and the Central Sales Tax Act 1956, sales tax payable in respect of goods manufactured and sold by SSI units were exempted to the extent of 50 *per cent* of the value of their fixed assets of land and *plant and machinery* as on the date of their commercial production. However, buildings and other assets do not qualify for sales tax concession.

In three districts (Bangalore (Urban), Chitradurga and Bijapur), in respect of three SSI units whose aggregate investments on the eligible fixed assets was Rs.89.08 lakhs, tax exemption had been allowed for the period between 1990-91 to 1993-94 by also considering investments amounting to Rs.52.02 lakhs on building and other assets which were not to be reckoned. This had resulted in allowing exemption totalling Rs.50.57 lakhs instead of admissible exemption of Rs.44.54 lakhs and consequential short levy of tax of Rs.6.03 lakhs as detailed below.

(In lakhs of rupees)

District (Number of dealers)	Period	Investments on eligible fixed assets	Exemption admissible	Exemption granted	Excess exemption
1. Bangalore (Urban)(1)	1990-91 to 1992-93	31.71	15.86	20.00	4.14
2. Chitradurga (1)	1990-91 to 1993-94	8.00	4.00	5.34	1.34
3. Bijapur (1)	Up to 1992-93	49.37	24.68	25.23	0.55
Total (3)		89.08	44.54	50.57	6.03

The cases were pointed out (between January and October 1996) to the assessing authorities and referred to Government between April and June 1997; their replies have not been received (December 1997).

(iii) Under the Karnataka Sales Tax Act 1957, on the receipts from works contract relating to 'Supplying and fixing of furniture and fixtures, partitions including contracts for interior decorations' tax was leviable at the rate of 8 *per cent* for the period from April 1989 to March 1992.

In Bangalore city, while finalising (February 1996) the assessment for the year 1989-90 of an assessee engaged in the manufacture of leather products, exemption had been allowed on the turnover of Rs.43.73 lakhs relating to the receipts from the said works contracts by the Deputy Commissioner of Commercial Taxes (Assessments)-III, Bangalore, even though the fact of escapement of receipts from works contracts executed by the assessee had been brought to notice by the Commercial Tax Officer (Enforcement) in July 1992. The incorrect exemption had resulted in non-levy of tax amounting to Rs.4.15 lakhs (including turnover tax).

On this being pointed out (July 1996), the assessing authority had issued notice for revising the assessment. Report of further action has not been received (December 1997).

The case was referred to Government in June 1997; their reply has not been received (December 1997).

(iv) Under the Fifth Schedule to the Karnataka Sales Tax Act, 1957, mechanical teaching aids sold to educational institutions, recognised by the State Government or affiliated to an university established by law in the State (other than medical, dental, pharmacology, veterinary, engineering and agricultural educational institutions and motor driving schools) are exempt from levy of sales tax. The Commissioner of Commercial Taxes (CCT) had clarified in January 1987 that mechanical teaching aids sold to engineering institutions were not eligible for the exemption, but were taxable at the rate of 13 *per cent* for the period from April 1988 to March 1994 under the Second Schedule to the Act. Further, under the Central Sales Tax Act 1956 also, on inter-State sales of such goods not covered by valid declarations, tax is leviable at this rate except where such goods are sold to Government departments of other States when tax is leviable only at 4 *per cent*. The CCT had further clarified in October 1990 that the concessional rate of 4 *per cent* was not applicable to inter-State sales made to autonomous bodies such as universities and private engineering colleges.

In Bangalore (Rural) district, while finalising (November 1994 and March 1996) the assessments for the years 1992-93 and 1993-94 of an assessee engaged in the manufacture of mechanical teaching aids, an aggregate turnover of Rs.15.53 lakhs relating to first sales of the said goods to various engineering colleges within the State was exempted

from levy of sales tax and an aggregate turnover of Rs.11.13 lakhs relating to sales to various autonomous bodies like universities, engineering colleges outside the State, was subjected to tax at the concessional rate of 4 **per cent** by the Assistant Commissioner of Commercial Taxes, District Circle III, Bangalore. This had resulted in aggregate short levy of tax of Rs.3.21 lakhs (including turnover tax).

On these cases being pointed out (August 1996), the assessing authority stated that notices would be served on the assessee for revising the assessments. Report of further action taken has not been received (December 1997).

The cases were referred to Government in May 1997; their reply has not been received (December 1997).

(v) According to a notification issued under the Karnataka Sales Tax Act 1957 in March 1986, on goods produced in manufacturing units located in Karnataka and sold for the use of Departments of Government of India or Government of Karnataka or Government of any other State located in Karnataka, the tax payable was 4 **per cent** or the rate prescribed in any of the Schedules to the Act, whichever is less. This concession was not available to local bodies/corporations.

In Bangalore (Rural) district, while finalising (July 1995) the assessments for the years 1992-93 and 1993-94 of a dealer, in respect of turnover of Rs.4.31 lakhs relating to sale of hand pumps and accessories to city municipal council, city municipal corporation and Karnataka Slum Clearance Board, tax was levied by the Deputy Commissioner of Commercial Taxes (Assessments-I), Bangalore Division, Bangalore at the concessional rate of 4 **per cent** instead of 13 **per cent** as the bodies were not eligible for concession. This resulted in short levy of tax of Rs.38,805.

The case was pointed out to the assessing authority in May 1996 and referred to Government in March 1997; their replies have not been received (December 1997).

2.3 Non-levy/short levy of turnover tax

Under the provisions of the Karnataka Sales Tax Act 1957, every dealer (other than the Government of Karnataka, the Central Government or the Government of any other State), whose total turnover in a year conforms to the prescribed monetary limits, whether or not the whole or any portion of such turnover is liable to tax under any other provisions of the Act, shall be liable to pay turnover tax at the prescribed rate on his total turnover less such deductions as are admissible under the Act.

In nine districts, turnover tax aggregating Rs.22.19 lakhs in 32 cases was either not levied or levied short due to incorrect exemption of turnover, application of incorrect rate of turnover tax, etc., for the period between 1985-86 and 1994-95, as detailed below.

Turnover tax of Rs.22.19 lakhs not levied/short levied

Sl. no.	City/district	No. of cases	Period	Turnover liable to turnover tax	Turnover tax not levied or levied short
(In lakhs of rupees)					
1.	Bangalore (Urban)	12	1989-90, 1992-95	1260.62	8.58
2.	Bangalore (Rural)	5	1988-89, 1991-93	462.26	4.39
3.	Dharwad	4	1992-94	574.54	4.18
4.	Chitradurga	3	1993-95	160.78	1.92
5.	Mysore	1	1992-93	71.04	0.89
6.	Belgaum	1	1989-90	53.84	0.67
7.	Bijapur	3	1987-88, 1989-91	50.26	0.63
8.	Shimoga	2	19 March 1986 to 31 October 1986, 1 November 1986 to 31 March 1987	53.25	0.53
9.	Tumkur	1	1991-92	32.34	0.40
Total		32		2718.93	22.19

On these being pointed out between December 1994 and November 1996, the assessing authorities revised the assessments in six cases (sl.no.1, 3 and 7) and recovered Rs.5.80 lakhs in five cases; in 11 cases (sl.nos.1, 2,3,4,6,8 and 9), the assessing authorities stated that notices had been issued for revision of assessments.

In one case (sl.no.1) relating to non-levy of turnover tax on the commission sales of gingelly oil, the assessing authority stated that both the principal and the agent were liable to be assessed under the Act; that their liability was co-extensive; and that since the liability of the principal did not exist, the agent was also not liable. However, the reply of the assessing authority is not tenable as after the amendment of the Karnataka Sales Tax Act in November 1983, the principal and the agent are independently liable for tax. Report of further action taken in this case and replies in respect of the other cases have not been received (December 1997).

The cases were referred to Government between March and June 1997; their reply has not been received (December 1997).

2.4 Incorrect rate of tax

Under the Karnataka Sales Tax Act 1957, tax is leviable on the purchases/sales at the rates mentioned in the relevant Schedules of the Act. On goods not included in any of the Schedules, tax was leviable at 7 *per cent* for the period from April 1986 to March 1993 at all points of sale and at 8 *per cent* from April 1993 onwards at the first sale point. Further, a dealer liable to tax in respect of works contracts specified in the Sixth Schedule has the option to pay tax for each year in lieu of tax so computed at the specified compounded rate on his total turnover involved in the execution of such works contracts. In addition to sales tax/purchase tax payable, surcharge at the rate of 15 *per cent* of such tax is leviable from April 1994.

Application of incorrect rate leads to short levy of tax of Rs.17.09 lakhs

Under the Central Sales Tax Act 1956, on inter-State sales of goods other than declared goods (not covered by valid declarations) tax is leviable at the rate of 10 *per cent* or at the rate applicable to sale or purchase of such goods inside the State under the State Act whichever is higher.

In four districts (Bangalore (Urban), Bangalore (Rural), Dharwad and Kolar), it was noticed in 19 cases (29 assessments) that due to application of incorrect rates, tax was short realised by Rs.17.09 lakhs for the periods 1980-81 to 1982-83 and 1989-90 to 1994-95.

On these cases being pointed out (between December 1994 and January 1997) in respect of six cases, the department passed revised orders and reported recovery of Rs.0.51 lakh in one case in March 1997. In five cases notices for revising the assessments have been issued. In one case relating to sale of 'empty tins', the department stated that the goods were to be classified as ferrous scrap and taxed at 4 *per cent* only. The reply of the department is not acceptable in view of the clarification issued by the Commissioner of Commercial Taxes in August 1987 to classify empty tins as containers. Further action taken in these cases and replies in respect of other cases have not been received (December 1997).

The cases were referred to Government between March and June 1997; their reply has not been received (December 1997).

2.5 Incorrect allowance of set-off

(a) According to Explanation below the Second Schedule of the Karnataka Sales Tax Act 1957, read with a notification issued by Government in October 1991, the tax payable by a dealer for the year 1991-92 on the sale of 'sunflower oil' manufactured in Karnataka, out of 'sunflower seeds' which had suffered tax under the Act, is to be reduced by the amount of tax paid on such sunflower seeds subject to the condition that the burden of proving that the tax on 'sunflower seeds' had already been paid vests on the dealer selling the sunflower oil. Under the Act, tax leviable on sunflower seeds is at the rate of 4 *per cent* from April 1991.

In Bellary district, while finalising (September 1993) the assessment for the year 1991-92 of an assessee engaged in the manufacture and sale of sunflower oil, set off of tax was allowed even on the purchase value of Rs.50.84 lakhs relating to sunflower seeds utilised on 133.929 tonnes of sunflower oil held in the closing stock. Since set off was admissible only on actual sales of sunflower oil, there was an excess allowance of set off of tax of Rs.1.96 lakhs corresponding to the purchase value of Rs.50.84 lakhs relating to sunflower seeds.

On this being pointed out in August 1994, the assessing authority had rectified the assessment by creating an additional demand of Rs.1.96 lakhs in July 1996. Report on the recovery of the amount has not been received (December 1997).

The case was referred to Government in June 1997; their reply has not been received (December 1997).

(b) Under the Karnataka Sales Tax Act 1957, where tax has been levied in respect of any item of goods of iron and steel, and out of the said goods any other item of goods of iron and steel is manufactured in Karnataka and sold, the tax on the sale of such manufactured goods is required to be reduced by the amount of tax already paid under the Act on the relative items of goods of iron and steel used in their manufacture. The burden of furnishing proof of having already paid the tax under the Act and of establishing the exact quantum of tax so paid on such items devolves on the dealer claiming the reduction. Under the Act, tax leviable on 'iron scrap' when used by a manufacturer is at the rate of 4 *per cent* at the point of last purchase with effect from April 1987.

In Bangalore city, while finalising (December 1995) the assessment for the year 1993-94 of an assessee engaged in the manufacture of cast iron castings, set off of tax had been allowed by the Deputy Commissioner of Commercial Taxes (Assessments-VI) on the purchase turnover of Rs.27.35 lakhs relating to tax suffered iron

scrap used in the manufacture of cast iron castings. Subsequently, on a representation by the dealer that the set off was to be allowed on the turnover of Rs.39.29 lakhs as against on the turnover of Rs.27.35 lakhs claimed by him in his return, rectificatory orders were passed allowing set off of tax on the entire turnover of Rs.39.29 lakhs instead of on the differential turnover of Rs.11.94 lakhs. The mistake had resulted in excess set off in respect of the turnover of Rs.27.35 lakhs involving consequential short levy of tax of Rs.1.09 lakhs.

On the case being pointed out (May 1996), the assessing authority stated that notice would be issued for revising the assessment. Report of action taken has not been received (December 1997).

The case was referred to Government in June 1997; their reply has not been received (December 1997).

2.6 Non-levy of surcharge

Under the Karnataka Sales Tax Act 1957, a surcharge calculated at the rate of 15 *per cent* of tax payable on goods (other than declared goods) for the period from April 1994 to March 1996 was leviable.

In two districts (Bangalore (Urban) and Dakshina Kannada), while finalising the assessments for the year 1994-95, surcharge had not been levied on the aggregate tax of Rs.25.14 lakhs in five cases. The omission had resulted in non-levy of surcharge of Rs.3.77 lakhs.

On this being pointed out (between May and November 1996), one assessing authority accepted the mistake in two cases and raised an additional demand of Rs.2.10 lakhs in one case. Report of recoveries in these cases and replies in respect of the other cases have not been received (December 1997).

The cases were referred to Government in May/June 1997; their reply has not been received (December 1997).

2.7 Non-levy of tax at purchase point

Under the Karnataka Sales Tax Act 1957, on purchase of hides and skins (whether in a raw or dressed state), by the last dealer in the State, tax is leviable at 4 *per cent* from 15 March 1980.

In Bangalore city, while finalising (October 1995 and February 1996) the assessments for the years 1988-89 and 1991-92 of a dealer, tax was not levied on the aggregate turnover of Rs.44.40 lakhs relating to

purchase of hides and skins effected from local registered dealers and used in the manufacture of leather goods. The tax not levied amounted to Rs.1.78 lakhs.

On this being pointed out (July 1996), the assessing authority revised the assessments in July 1996 and recovered Rs.1.78 lakhs in May 1997.

The case was referred to Government in May 1997; their reply has not been received (December 1997).

2.8 Incorrect determination of taxable turnover

(i) Under the Karnataka Sales Tax Act 1957, every dealer is required to pay for each year, tax on his taxable turnover of sales

Short levy of tax of Rs.22.07 lakhs due to incorrect determination of turnover
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(other than the last sale in the State) relating to all kinds of alcoholic liquors for human consumption (other than toddy, arrack, fenny and wine) at the rate of 45 **per cent** from April 1990 to March 1994, provided that at any point of sale other than the first and the last point of sale, the taxable turnover is required to be arrived at by deducting the turnover of such goods on which tax has been levied at the immediately preceding point of sale.

(a) In three districts (Bangalore (Urban), Bellary and Bijapur), the assessing authorities concerned had incorrectly determined the turnover of liquors at Rs.108.28 lakhs instead of Rs.136.60 lakhs by allowing deduction for turnover on which tax had been levied at the immediately preceding point of sale and by excluding the sales tax and profit margin at that stage. The mistake had resulted in escapement of taxable turnover of Rs.28.32 lakhs and consequent short levy of tax of Rs.12.76 lakhs for the years 1991-92 and 1992-93 in eight cases.

These cases were pointed out (between March 1995 and July 1996) to the assessing authorities and referred to Government between April and June 1997; their replies have not been received (December 1997).

(b) In Bangalore city, while finalising (March and May 1995), the assessments for the year 1992-93 in respect of two dealers in liquors, the aggregate turnover which had suffered tax had been incorrectly determined as Rs.149.79 lakhs instead of as Rs.144.80 lakhs by the concerned assessing authorities resulting in excess exemption of Rs.4.99 lakhs. This had resulted in short levy of tax aggregating Rs.2.25 lakhs.

These cases were pointed out in May/July 1996. In respect of one case, the assessing authority stated that notice would be issued for revision of assessment. In the other case, the assessing authority stated that the assessment records had been submitted to the higher authorities for *suo motu* proceedings. Reports of further action taken have not been received (December 1997).

The cases were referred to Government in May 1997; their reply has not been received (December 1997).

(ii) Under the Karnataka Sales Tax Act 1957, on first sales of 'rectified spirit' tax leviable was at the rate of 15 **per cent** for the period from April 1992 to March 1994. The Honourable High Court of Kerala had held⁶ in 1978 that 'price variation' amount formed part of the 'sale price' since that amount was actually receivable by the dealer towards consideration for the sale.

In Bangalore city, while finalising the assessments of a manufacturer of 'rectified spirit' for the year 1993-94, an amount of Rs.14.60 lakhs received towards price variation relating to October 1993 was omitted to be included in the taxable turnover by the assessing authority resulting in short levy of tax of Rs.2.56 lakhs (including turnover tax of Rs.0.37 lakh).

On this being pointed out (July 1996), the assessing authority revised the assessment and recovered Rs.2.56 lakhs in July 1996.

The case was referred to Government in April 1997; their reply has not been received (December 1997).

(iii) Under the Karnataka Sales Tax Act 1957, on purchase of all kinds of cotton within the State, tax is leviable at the rate of 4 **per cent** at the point of last purchase from April 1983 to March 1994.

In Belgaum district, while finalising (February 1996) the assessment of an assessee dealing in cotton kappas, cotton and cotton seeds for the year 1992-93, the assessing authority levied sales tax on goods valued at Rs.184.58 lakhs instead of Rs.197.57 lakhs resulting in escapement of taxable turnover of Rs.12.99 lakhs and consequent short levy of tax amounting to Rs.51,950.

On this being pointed out (November 1996), the assessing authority had issued a notice to the dealer for revising the assessment. Report of further action taken has not been received (December 1997).

⁶ **The Aluminium Industries Ltd. Vs State of Kerala (1978) 42 STC 72.**

The case was referred to Government in June 1997; their reply has not been received (December 1997).

(iv) Under the Karnataka Sales Tax Act 1957, if a dealer who is liable to tax in respect of works contracts opts for payment of tax by way of composition in any year, the tax so payable is leviable on the total turnover involved in the execution of civil works contracts like construction of buildings, bridges, roads, etc., and no deductions are allowable. The rate of composition tax for civil works contracts is 2 *per cent* from April 1990.

In Bangalore city, while finalising (April 1994) the assessment for the year 1992-93 of an assessee engaged in the execution of civil works contracts and who had opted for payment of tax by way of composition, the taxable turnover had been arrived at by the assessing authority as Rs.160.73 lakhs instead of as Rs.359.70 lakhs being the actual receipts as shown in the profit and loss account resulting in escapement of taxable turnover of Rs.198.96 lakhs and consequent short levy of tax amounting to Rs.3.98 lakhs.

On this being pointed out (July 1995), the assessing authority stated that notice was being issued for revision of the assessment. Report of further action taken has not been received (December 1997).

The case was referred to Government in June 1997; their reply has not been received (December 1997).

2.9 Non-levy of penalty

(a) Under the Karnataka Sales Tax Act 1957, the tax or any other amount due under the Act is required to be paid within

Non-levy of penalty of Rs.45.03 lakhs
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the prescribed time, which in the case of final assessments is 21 days from the date of service of demand notice. In cases of default in making payments, the assessee would be liable to pay a penalty at 1.5 *per cent* of the amount of tax or any other amount due but remaining unpaid for each month for the first three months after the expiry of the time prescribed and at 2.5 *per cent* of such amount for each month thereafter.

In seven districts, 28 dealers did not pay the sums specified in the demand notices within 21 days of their service. The penalty of Rs.42.78 lakhs though leviable was not levied as detailed below.

Sl. no.	District	Year	Number of assesseees and assessments	Penalty due (In lakhs of rupees)
1.	Bangalore (Urban)	1987-88 to 1994-95	15/22	17.41
2.	Belgaum	1986-87 to 1989-90, 1991-92 and 1993-94	2/7	10.03
3.	Mysore	1990-91 to 1992-93	4/5	8.18
4.	Bijapur	1989-90 to 1992-93	3/8	2.86
5.	Tumkur	1984 and 1992-93	2/2	2.64
6.	Dakshina Kannada	1992-93	1/1	0.88
7.	Hassan	1991-92	1/1	0.78
Total			28/46	42.78

On these cases being pointed out (between June 1995 and January 1997), in respect of five cases (sl.no.1), the assessing authority had since recovered penalty of Rs.2.80 lakhs; in respect of three cases (sl.no.1), the assessing authorities stated that demands aggregating Rs.0.85 lakh had been raised; in respect of nine cases (sl.nos. 1, 3, and 5), the assessing authorities had issued notices to the assesseees and in one case (sl.no.1) it was stated that notice would be issued; in respect of one case (sl.no.1), the assessing authority stated that whereabouts of the assessee were not known, its registration had been cancelled and it would be very difficult to collect penalty.

Reports of further action taken in these cases and replies in respect of the other cases have not been received (December 1997).

The cases were referred to Government between April and June 1997; their reply has not been received (December 1997).

(b) Under the Karnataka Sales Tax Act 1957, a registered dealer is required not to collect any amount by way of tax or purporting to be by way of tax at the rate or rates exceeding the rate or rates specified in the Act or in respect of sales of any goods on which no tax is leviable under the Act. Where any collection is made in contravention thereof, whether knowingly or not, the dealer is required to pay the entire amount so collected to the assessing authority within 20 days after the close of the month in which such amount was collected. The assessing authority is required to forfeit the excess collection of taxes.

In Bangalore (Rural) district, a small scale industrial unit had collected sales tax of Rs.2.25 lakhs on the turnover of Rs.56.25 lakhs relating to sales of EHV insulators to Karnataka Electricity Board during the years 1993-94 and 1994-95. Since the unit was granted sales tax exemption by virtue of Government notification issued in June 1991, the assessing authority should have forfeited the amount of Rs.2.25 lakhs collected. This was not done.

On this being pointed out in June 1997, the assessing officer had issued a notice to the dealer. Report of further action taken has not been received (December 1997).

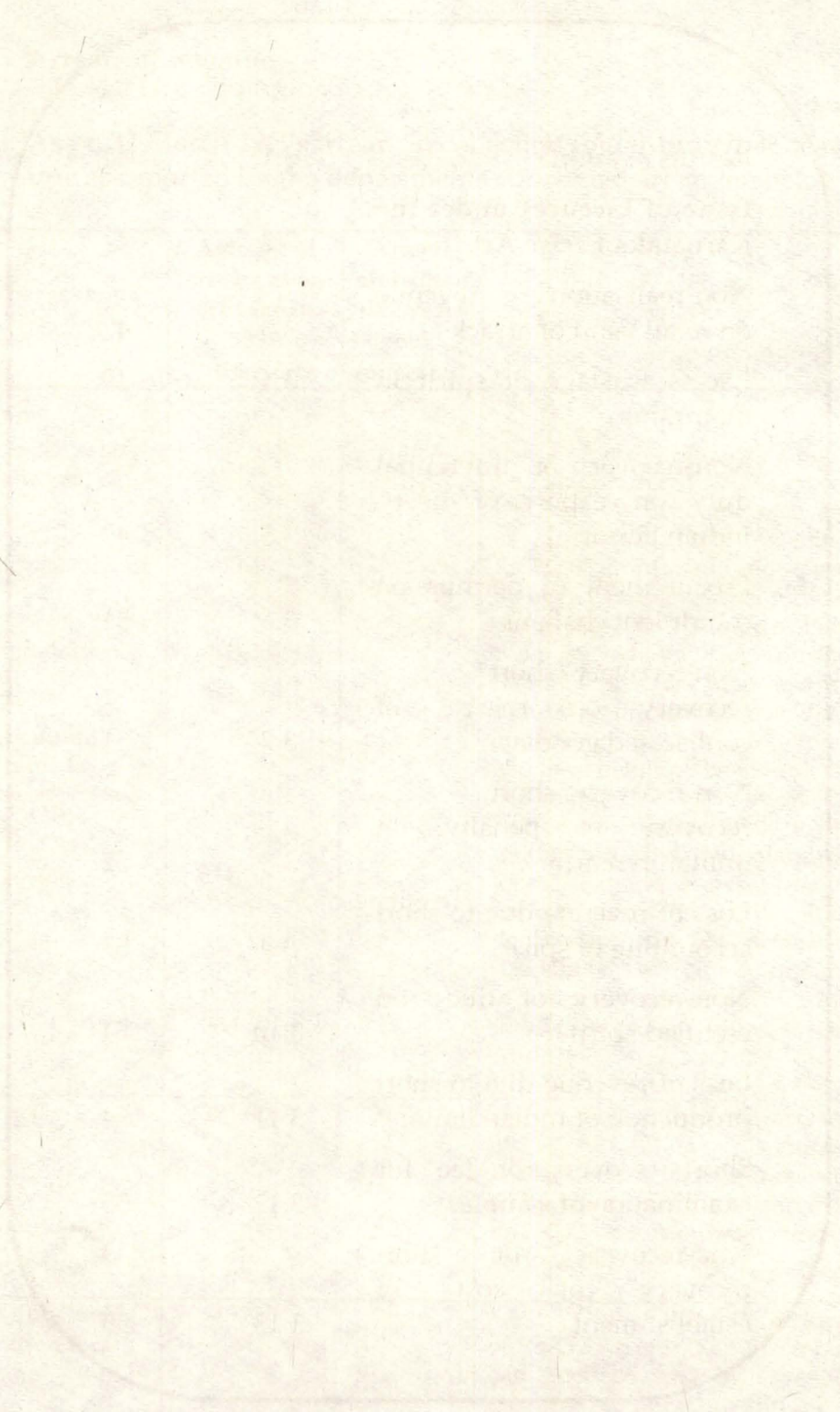
The matter was referred to Government in July 1997; their reply has not been received (December 1997).



CHAPTER 3

	Paragraph	Page
Results of audit	3.1	41
Issue of Licences under the Karnataka Excise Act	3.2	41
Non-realisation of revenue on retail vend of arrack	3.3	47
Excess wastage of spirit in maturation	3.4	49
Non-recovery of differential duty on export of beer/ Indian liquor	3.5	49
Procurement of permits on fraudulent challans	3.6	51
Non-recovery/short recovery on release of confiscated goods	3.7	51
Non-recovery/short recovery of penalty on unmaturred arrack	3.8	52
Loss of revenue due to short accounting of spirit	3.9	53
Non-recovery of dues on rectified spirit	3.10	54
Loss of revenue due to short production of Indian liquor	3.11	54
Short recovery of fee for examination of samples	3.12	55
Non-recovery or short recovery of cost of establishment	3.13	55

STATE EXCISE

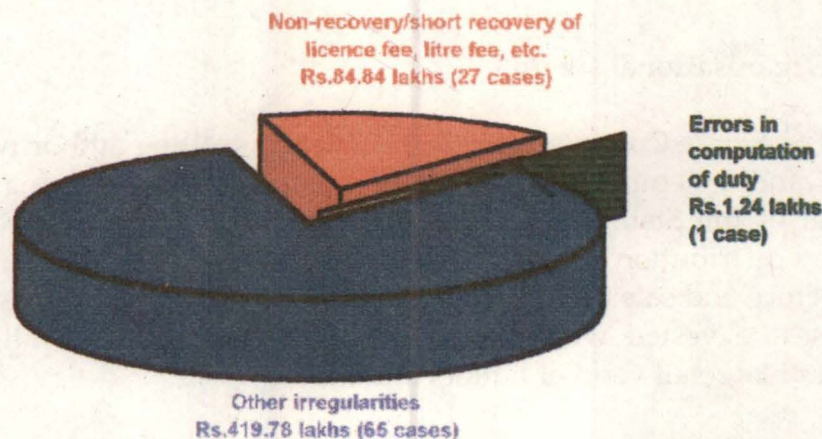


CHAPTER 3

STATE EXCISE

3.1 Results of audit

Test check of records of the Excise department, conducted in audit during the year 1996-97, disclosed short levy of duty and licence fee amounting to Rs.505.86 lakhs in 93 cases which broadly fall under the following categories:



During the course of the year 1996-97, the department accepted under-assessments and other irregularities involving Rs.1713.60 lakhs in 203 cases which had been pointed out in audit in the earlier years and recovered Rs.108.27 lakhs in 53 cases. A few illustrative cases involving Rs.2762.46 lakhs and also the results of a review on 'Issue of licences under the Karnataka Excise Act' having a financial effect of Rs.52.27 lakhs are given in the following paragraphs.

3.2 Issue of Licences under the Karnataka Excise Act

3.2.1 Introduction

Under the Karnataka Excise Act 1965 (hereinafter referred as Act) manufacture, possession and sale of any excisable article requires the obtaining of a licence or a permit issued under the provisions of the Act, and the Rules (hereinafter referred as Rules) made thereunder. Separate rules have been framed for regulating issue of licences for establishment of distilleries and warehouses, breweries, bottling units, retail vend of beer and liquor, wholesale and retail vend of liquor, vending of foreign liquor and bulk beer, and several other activities. The grant of a licence or a permit and its renewal is subject to payment

of prescribed fee, and *restrictions and conditions* and is valid for the period specified therein.

Besides the licence fee specified in the Act/Rules, an additional licence fee at the rate of 15 *per cent* was chargeable in Bangalore City Planning Area as notified under the provisions of the Karnataka Town and Country Planning Act 1961 towards Bangalore Mass Rapid Transit System from April 1995.

3.2.2 Organisational set up

The Excise Commissioner is the chief controlling authority in all matters and is empowered to issue licences after obtaining prior approval of the State Government to distilleries, breweries, bottling units and distribution units. He is also empowered to issue licence for manufacture and sale of denatured spirit. The Deputy Commissioners of Excise are vested with the power to issue licences for all other purposes like retail vend of liquors and beer.

3.2.3 Scope of audit

A review of the sanctions accorded by various authorities for grant or renewal of licences during the excise years (July to June of next calendar year) 1991-92 to 1995-96 was conducted by Audit during January to April 1997 by undertaking a test-check of records of 15² out of the total of 20 district offices besides conducting a general review of records of the Excise Commissioner.

3.2.4 Highlights

Differential licence fee of Rs.28.63 lakhs due from 28 distilleries for 1990-91 and 1991-92 on account of retrospective revision of rates had not been collected even 15 months after receipt of court orders upholding the enhancement.

(Paragraph 3.2.6(a))

Differential licence fee of Rs.8.54 lakhs due from 59 licensees in eight districts for 1991-92 and 1992-93 on account of enhancement of rates had not been collected

², Bangalore (Urban), Belgaum, Bellary, Chickmagalur, Chitradurga, , Dakshina Kannada, Dharwad, Hassan, Kodagu, Kolar, Mandya, Mysore, Shimoga, Tumkur, Uttara Kannada.

even 20 months after receipt of court orders upholding the Government notification.

(Paragraph 3.2.7(a))

There was short recovery of lease amounts aggregating Rs.5.20 lakhs from 44 licensees of retail vend of beer in Bangalore district for 1992-93 to 1995-96.

(Paragraph 3.2.8)

3.2.5 Revenue from licences

The estimated and actual excise revenue as also the corresponding figures in respect of receipts from issue of various licences under the Act during the years 1991-92 to 1995-96 were as under:

(In lakhs of rupees)

Year	Budget (Revised) Estimates		Actual collections		Variation of column (5) to (3) (Excess +) (Shortfall -)	
	Total excise revenue	From licences	Total excise revenue	From licences	Total excise revenue	From licences
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1991-92	555.00	24.03	510.32	25.29	(-) 44.68	(+) 1.26
1992-93	573.00	20.02	515.26	31.02	(-) 57.74	(+) 11.00
1993-94	701.67	27.40	639.07	33.53	(-) 62.60	(+) 6.13
1994-95	806.92	41.95	719.47	40.48	(-) 87.45	(-) 1.47
1995-96	852.00	46.29	820.31	65.72	(-) 31.69	(+) 19.43

According to the Excise Commissioner, excess collection over the estimates was due to realisation of arrears and shortfall was due to stay orders of court.

3.2.6 Non-levy/short levy of licence fee on distillery and fenny units

(a) Under the Karnataka Excise (Distillery and Warehouse) Rules 1967, as in force up to June 1990, the rates of fee for grant or renewal of licence for distilleries manufacturing spirit out of toddy or fruits was Rs.50,000 and for distilleries manufacturing spirit out of other material it was Rs.2 lakhs. By a notification issued in February 1992, Government refixed, effective from July 1990, the rates of licence fee for distilleries which used or manufactured any spirit out of molasses as Rs.5 lakhs and for distilleries which used or manufactured any spirit out of other materials as Rs.1 lakh. In June 1992, the rates were further revised from 1992-93 by reclassification of distilleries into five categories with licence fee ranging from Rs.75,000 to Rs.5 lakhs depending on the nature of spirit manufactured or used by them. On

the validity of the notification of February 1992 being brought into question by 10 primary distilleries and distilleries which converted spirit into potable alcohol, the Hon'ble High Court had granted stay against the levy of enhanced rates of licence fee. As a result, for the years 1990-91 and 1991-92 the pre-revised rates of licence fee only had been levied. In the final judgement delivered in December 1995, the Hon'ble High Court quashed only the enhancement of licence fee from Rs.2 lakhs to Rs.5 lakhs (which was applicable for distilleries using or manufacturing any spirit out of molasses). Since the operation of the notification in respect of other distilleries was not affected by the judgement, the difference in licence fee in their cases was recoverable. It was noticed (April 1997) that no action had been taken to collect the differential licence fee for 1990-91 and 1991-92 aggregating Rs.28.63 lakhs from 28 distilleries (including 17 fenny units) as detailed below.

Sl. No.	District	Number of licensees	Licence fee (Rs.)		
			Due	Collected	Difference
1.	Mandya	1	2,00,000	1,00,000	1,00,000
2.	Bangalore	11	21,00,000	8,50,000	12,50,000
3.	Dharwad	1	2,00,000	1,00,000	1,00,000
4.	Mysore	1	2,00,000	Nil	2,00,000
5.	Belgaum	1	2,00,000	1,00,000	1,00,000
6.	Hassan	2	3,25,000	1,62,500	1,62,500
7.	Uttara Kannada	4	8,00,000	4,00,000	4,00,000
8.	Dakshina Kannada	7	11,00,000	5,50,000	5,50,000
Total		28	51,25,000	22,62,500	28,62,500

(b) The licence fee due under the Rules is required to be paid in advance and the proof of such payment should accompany the application for grant or renewal.

(i) In the cases of two distilleries (one each in Bangalore and Gulbarga districts), licences had been renewed for 1991-92 and 1995-96 respectively by collecting licence fee of Rs.1 lakh and Rs.3 lakhs as against Rs.2 lakhs and Rs.5 lakhs due. This resulted in short levy of Rs.3 lakhs.

(ii) In the cases of two distilleries (one each in Bangalore and Chitradurga districts), licences had been renewed for the year 1995-96 with the fee of Rs.10 lakhs not having been paid in advance. Each of the licensees had since paid the fee in five instalments of Rs.1 lakh spread over four and eight months respectively, the delay in completion of payment from the due date of June ranging up to six and fifteen months respectively. In the absence of provision in the Act/Rules for the relaxation of the requirement to pay the licence fee with the application, the renewal of licences without receipt of full licence fee was incorrect.

3.2.7 Non-levy of licence fee for sale of liquor

The Karnataka Excise (Sale of Indian and Foreign Liquor) Rules 1968 prescribe different rates of annual fee for different licences such as wholesale, retailshop, refreshment room (bar), clubs, hotel and boarding house, distributor, etc. The rates for wholesale licence are dependent upon the number of districts proposed to be covered by sale. For retailshop and bar licences, the rates are dependent upon the municipal jurisdiction of the premises. For other licences, fee is leviable at fixed rates.

The rules also provide for levy of an additional licence fee, on being permitted to sell foreign liquors, at the rate of 10 *per cent* of the fee prescribed for grant of a regular licence.

(a) By a notification issued in February 1992, Government enhanced the fee chargeable for grant/renewal of various licences including wholesale, retail shop, hotel and boarding house and refreshment room (bar) with effect from July 1991. Though the licensees, questioning the validity of the notification in High Court, had obtained stay of the enhanced rates of fees, the notification was upheld by the Hon'ble High Court in its final judgement in July 1995 allowing time up to December 1995 for payment of the differential amounts due for 1991-92 and 1992-93. Further, as per provisions of the Act, the arrears of excise revenue are recoverable as arrears of land revenue.

A test check of records of 15 districts revealed that in 8^B districts, an amount of Rs.8.54 lakhs has not been recovered from 59 licensees as of March 1997. The Department has not taken any action to recover the amount as arrears of land revenue.

(b) (i) According to the Rules, additional licence fee to sell foreign liquor at 10 *per cent* of the fees prescribed for grant of licences is to be levied. Further, a distributor licence could be issued only to a company owned or controlled by the State Government. Pursuant thereto, the Mysore Sales International Limited, Bangalore (a wholly owned Government company) was issued the sole distributorship licence for the whole State with effect from 1989, collecting licence fee of Rs.5 lakhs and Rs.10,000 per year per depot respectively. For the years 1994-95 and 1995-96, the company was issued 4 and 12 permits for import of liquor (from other States) for four of its depots.

It was noticed that the purchase of liquors against these permits were made from two distilleries which actually imported liquor

^B Belgaum, Chickmagalur, Chitradurga, Dakshina Kannada, Dharwad, Kolar, Shimoga, Uttara Kannada.

manufactured in Scotland in bulk quantity and bottled them in India. Since the liquor purchased by the licensee had not undergone any manufacturing process in India, the transaction amounted to sale of foreign liquor. The licensee was therefore liable to pay additional licence fee of Rs.1.08 lakhs at the rate of Rs.54,000 per year. This had neither been paid nor levied by the Deputy Commissioners of Excise, Bangalore (Urban).

(ii) In Mysore district, two licensees - one for wholesale and the other for hotel and boarding house - had sold foreign liquor during the years 1995-96 and 1996-97. The additional licence fee leviable therefor had not been levied by the Deputy Commissioner of Excise, Mysore. The non-levy of additional licence fee in the two cases amounted to Rs.55,000.

3.2.8 Short levy of lease amounts on retail vend of beer

Under the Karnataka Excise (Lease of Right of Retail Vend of Beer) Rules 1976, the annual lease amounts payable were Rs.10,000 from 1990-91 to 1994-95 and Rs.20,000 for 1995-96. In respect of bar licensees, the lease amount was Rs.5,000 per annum from 1991.

It was noticed that in the cases of 44 retail vendors/bar licensees in Bangalore district, there was short recovery of lease amounts aggregating Rs.5.20 lakhs (including additional licence fee towards Bangalore Mass Rapid Transit System) for the years 1992-93 to 1995-96.

3.2.9 Non-recovery of additional licence fee

The additional licence fee towards Bangalore Mass Rapid Transit System payable at 15 *per cent* of the regular licence fee had not been collected for the year 1995-96 from 13 licence holders of Bangalore district. The amount not recovered was Rs.2.72 lakhs as detailed below.

Sl. No.	Nature of licence	Number of licences	Licence fee levied	Additional licence fee due but not levied
1.	Refreshment room (bar)	10	1,90,000	28,500
2.	Brewery	1	5,75,000	86,250
3.	Distillery	2	10,50,000	1,57,500
	Total	13	18,15,000	2,72,250

3.2.10 Short collection of label approval fee

Under the Karnataka Excise (Bottling of Liquor) Rules 1967, the bottles filled with liquor are required to be corked, sealed and labelled as approved by the Excise Commissioner. The rules prescribe a fee for approval or renewal of labels of each brand of liquor which is Rs.2,000 in the case of labels pertaining to the licensees of Karnataka and Rs.5,000 for others. The approval/renewal is valid for the excise year ending June.

In respect of 11 licensees from outside Karnataka, 51 brands of labels approved covered the period from April 1995 to March 1996. Since the period of approval fell in two excise years, the fee for approval of label was to have been collected for two years at the rate of Rs.5,000 per brand. It was, however, noticed that fee had been collected in these cases for one year only. The short collection of fee amounted to Rs.2.55 lakhs.

The points mentioned above were reported to the Excise Commissioner and referred to Government in July 1997; their replies have not been received (December 1997).

3.3 Non-realisation of revenue on retail vend of arrack

Under the Karnataka Excise (Lease of Right of Retail Vend of Liquors) Rules 1969, the person who is granted the right of retail vend of liquors, is required to furnish, within 15 days from the date of communication of the order, security (in the form of cash deposit, Government securities or other securities recognised by Government or an irrevocable guarantee given by a scheduled bank) for an amount equal to *three and one-tenth* of the monthly rent. Further, the rent payable to Government for a month is required to be paid before the 10th day of that month. The rules provide for levy of interest at 18 **per cent** per annum on the unpaid amounts till the date of payment. In case of failure, to comply with these provisions, the lease is liable to be terminated, licence cancelled and the right to vend liquor decided afresh. The loss, if any, sustained by Government on account of termination would also be recoverable from the defaulting bidder as arrears of land revenue.

In two districts (Bangalore (Urban) and Dharwad), six successful bidders who had been granted the right of retail vend of arrack for the years 1993-94 and 1995-96 had failed to furnish the required security and/or defaulted in making payment of monthly rents. The licences of the two vendors in Dharwad district were cancelled and the leases terminated by making arrangements for vending arrack departmentally or through negotiations, etc. In three

other cases of Dharwad and one case of Bangalore, lease was not terminated despite that the contractor failed to make payment of full monthly rent. The aggregate revenue realised in these cases for the years 1993-94 and 1995-96 in the vend of arrack was Rs.4166.74 lakhs as against the revenue of Rs.6601.85 lakhs realisable in terms of the lease rents. The differential revenue of Rs.2435.11 lakhs towards lease rent and Rs.153.04 lakhs towards interest on belated payment of rent in Bangalore (Urban) district as detailed below had not been recovered from the defaulting bidders:

Sl. no.	District and year	Revenue realisable in terms of the leases	Revenue realised	Short realisation	Remarks
		(In lakhs of rupees)			
1.	Dharwad 1993-94	96.96 (2 cases)	74.34	22.62	Loss sustained due to termination of lease on account of default in payment of rent by the original bidders.
2.	Bangalore (Urban) 1995-96	6160.00 (1 case)	3776.00	2,384.00	Cash deposit/bank guarantee for <i>three and one-tenth</i> of monthly rentals was not obtained or lease determined.
3.	Dharwad 1993-94	344.89 (3 cases)	316.40	28.49	Rent was collected short from the contractors whose leases had not been terminated
	Total	6601.85	4166.74	2,435.11	
	Interest for the period August 1995 to February 1996 in respect of Bangalore (Urban) district			153.04	
				2588.15	

On these being pointed out between December 1994 and August 1996, the Deputy Commissioner of Excise, Dharwad had recovered an amount of Rs.23.95 lakhs out of Rs.28.49 lakhs pointed out and the Deputy Commissioner of Excise, Bangalore (Urban) district stated (August 1996) that action would be taken to issue notice to the contractor and that the fact of recovery would be intimated. Further reports of recovery in these cases have not been received (December 1997).

The matter was referred to Government in June 1997; their reply has not been received (December 1997).

3.4 Excess wastage of spirit in maturation

According to the standards laid down by Government in May 1980, the maximum wastage allowable in the case of maturation of blended spirit when stored in wooden casks for manufacture of Indian liquors ranges from 2.5 to 22 *per cent* depending upon the period of maturation from 6 to 36 months. After maturation, further manufacturing loss allowable is 5 *per cent*.

In a distillery in Bangalore district, during the year 1994-95, the wastage of spirit stored for maturation in wooden casks for periods ranging from 12 to 36 months for manufacture of Indian liquors claimed and allowed had exceeded the maximum limits resulting in excess allowance of wastage of 1,44,298.786 proof litres of spirit. Utilisation of this quantity of spirit in the manufacturing process even after allowing for manufacturing loss of a maximum of 5 *per cent* permissible according to the standards fixed by Government in May 1980, would have resulted in production of an additional 182778 bulk litres of liquor on which Government could have earned revenue amounting to Rs.82.25 lakhs at Rs.45 per bulk litre.

This was pointed out to the Superintendent of Excise in charge of the distillery in April 1996 and referred to Government in June 1997; their replies have not been received (December 1997).

3.5 Non-recovery of differential duty on export of beer/ Indian liquor

(i) Under the Karnataka Excise (Excise Duties and Fees) Rules 1968, excise duty on beer is leviable at Rs.3.50 per bulk litre from April 1993 to March 1995 and at Rs.4 per bulk litre thereafter. In the case of exports of beer to civil units in places outside the State within India, duty at the concessional rate of Re.0.40 per bulk litre and to places out of India at Re.0.15 per bulk litre are leviable. In cases where reports of verification of export are not received within thirty days from the date of expiry of permits for export to civil units (90 days for Defence units), the differential duty (between normal and concessional rate) is required to be collected from the exporter or the sureties.

In Bangalore district, in the cases of four breweries it was noticed (between March and December 1996), that differential duty of Rs.43.70 lakhs leviable on account of non-receipt of verification reports in respect of 12,64,561.310 bulk litres of beer exported over 208 export permits issued during the year 1994-95 and 1995-96 had not been levied.

On these cases being pointed out, one distillery officer (88 permits), stated that export verification certificates would be

produced. Another distillery officer (106 permits) stated that demand notice had been served by the Joint Commissioner of Excise. Further reports in these cases and replies in respect of other cases have not been received (December 1997).

The matter was referred to Government in June 1997; their reply has not been received (December 1997).

(ii) Under the Karnataka Excise (Excise Duties and Fees) Rules 1968, excise duty on Indian made liquor (IML) of strength of 25 degrees under proof is leviable at the rate of Rs.35 per bulk litre from April 1992 to March 1993, at Rs.42 per bulk litre from April 1993 to 5 January 1994, and at Rs.45 per bulk litre thereafter. In the case of exports of IML to places outside the State to civil units, duty at concessional rate of Rs.2.50 per bulk litre is leviable up to 5 January 1994, at Rs.5 per bulk litre from 6 January 1994 to 31 March 1995 and at Rs.3.50 per bulk litre thereafter. In the case of rum exported to Defence units, duty at Re.1 per bulk litre is leviable.

According to the Karnataka Excise (Possession, Transport, Import and Export of Intoxicants) Rules 1967 and instructions issued (December 1989 and March 1990) by the Excise Commissioner, in cases where the reports of verification of the consignments or warehousing of the intoxicants in the importing States are not received within thirty days from the date of expiry of the export permits in the case of exports to civil units and within ninety days in the case of exports to Defence units, the differential duty (between normal and concessional rate) is required to be collected from the exporter or the sureties. There is no provision for allowing any shortages or breakages in transit and as such duty is leviable on full quantities of the liquor consigned for export. Further, according to instruction issued in April 1985 by the Excise Commissioner, the duty is required to be levied on the articles lost in transit due to accident and other reasons.

In two districts (Bangalore (Urban) and Mysore), it was noticed in case of 6 distilleries that differential duty of Rs.16.84 lakhs, leviable on account of non-receipt of verification reports and on shortages/breakages/losses in transit of 40,965.431 bulk litres of IML exported during the years 1993-94 to 1995-96 to civil and Defence units outside the State but within India, was not levied. Of these two districts, Bangalore (Urban) alone accounted for Rs.15.19 lakhs.

On these cases being pointed out in audit between November 1995 and December 1996, one distillery officer (Nanjangud) recovered Rs.1.46 lakhs and another distillery officer (Bangalore) stated that notice would be issued to the licensee in this regard. Report of recovery in this case and replies in respect of other cases have not been received (December 1997).

The matter was referred to Government in June 1997; their reply has not been received (December 1997).

3.6 Procurement of permits on fraudulent challans

According to the financial rules of Government, no challan purporting to contain the acknowledgement of a treasury or a bank for receipt of money is to be acted upon by any Government officer unless the credit for the money is first traced in the treasury accounts.

A distillery in Bangalore was remitting the excise duty directly into the treasury and producing the challans with treasury encasements to the distillery officer (Inspector of Excise) for issue of permits for release of liquors for sale. It was observed in audit (October 1996) that as against the aggregate amounts of remittances of Rs.3,98,092 as per challans produced to the distillery officer on 29 occasions over the period from March 1993 to May 1994, the actual receipts according to the treasury records were only Rs.1,515 resulting in short remittances of Rs.3,96,577. The fraudulent method adopted by the distillery for obtaining release of liquors was rendered possible on account of the distillery officer not getting the remittances confirmed from the treasury before issue of permits.

On this being pointed out (October 1996), the Excise Commissioner confirmed (June 1997) the short remittances aggregating Rs.3,74,840 and got the same remitted to Government account in June 1997. In respect of the balance of Rs.21,737 it was stated that entries for the amounts already remitted on earlier dates had been certified by the treasury officer. The Department's reply was, however, silent as regards fixing of responsibility for this serious lapse.

The matter was referred to Government in June 1997; their reply has not been received (December 1997).

3.7 Non-recovery/short recovery on release of confiscated goods

Under the Karnataka Excise (Confiscated Articles Disposal) Rules 1967, confiscated potable liquor, if in sealed bottles, is to be disposed of by public auction among the licensees under the Karnataka Excise Act 1965, at a price not less than 75 *per cent* of the ordinary local price of such liquor excluding duty and taxes. Excise duty and sales tax are leviable at the rates prevailing on the date of disposal. Confiscated rectified spirit is to be sent to the Excise Commissioner for re-distillation or such other disposal as he may deem fit.

Under the Karnataka Excise (Excise Duties and Fees) Rules 1968, on Indian liquor duty is leviable at the rate of Rs.42 per bulk litre up to 5 January 1994 and at Rs.45 thereafter. The rate of duty leviable on arrack was Rs.7 per bulk litre up to 5 January 1994 and a fee is leviable at the rate of Re.1 per bulk litre from April 1995 on rectified spirit when such spirit is issued from any distillery, warehouse or any other place of storage for manufacture of items other than denatured spirit.

Under the Karnataka Sales Tax Act 1957, on Indian made foreign liquors and beer, sales tax at the rate of 45 *per cent* of turnover from April 1990 to March 1994 and at the rate of 50 *per cent* and surcharge at 15 *per cent* on tax thereafter, are leviable at all points of sale (other than the last sale in the State); on sales of 'Rectified Spirit' tax was leviable at the rate of 20 *per cent* for the period from April 1994 to March 1996; on arrack, sales tax was leviable at the rate of 20 *per cent* from April 1990 to March 1994 and at the rate of 25 *per cent* thereafter and on sales of 'Motor lorries including motor omnibuses' tax was leviable at the rate of 10 *per cent* for the period from April 1988 to March 1995.

- In 10 cases of six districts^a, on the disposal of confiscated Indian liquor, rectified spirit, arrack, beer and tanker, amounts towards price, duty, fee and sales tax aggregating Rs.6.33 lakhs had not been recovered or recovered short.

These cases were pointed out to the departmental officers between March 1995 and July 1996. The Excise Commissioner stated in July 1997 that Rs.0.31 lakh in respect of one district^b had since been recovered. Reports of action taken in respect of the other cases have not been received (December 1997).

The matter was referred to Government in June 1997; their reply has not been received (December 1997)

3.8 Non-recovery/short recovery of penalty on unmaturred arrack

Under the Karnataka Excise (Manufacture and Bottling of Arrack) Rules 1987 read with Government notification of May 1992 and instructions issued by the Excise Commissioner in July 1992, the prescribed period of maturation of arrack is 15 days. If the arrack is matured for 15 days or more, the bottler is entitled for full blending charges at the rate of 66 paise per bulk litre. In case the arrack is

^a Bangalore (Rural), Bangalore (Urban), Belgaum, Kolar, Raichur, Tumkur

^b Kolar

matured for less than 15 days, but more than seven days, penalty amounting to two **per cent** of the blending charges and if the arrack is matured for seven days or less, penalty amounting to 5 **per cent** of the blending charges is required to be paid by the bottler to Government.

In two cases of two^δ districts where arrack had been matured for 7 days or less during 1994-95 and 1995-96, penalty payable aggregating Rs.4.27 lakhs had either not been levied or levied short.

The cases were pointed out (between November 1995 and October 1996) to the Department and referred to Government in June 1997; their replies have not been received (December 1997).

3.9 Loss of revenue due to short accounting of spirit

Under the Karnataka Excise (Distillery and Warehouse) Rules 1967, the distiller is required to pay duty on all spirits which are not forthcoming and which could not be accounted for to the satisfaction of the Deputy Commissioner.

In two distilleries (one each in Bangalore (Urban) and Mysore districts), the closing balance of blended liquor and malt spirit amounting to 39,964.63 bulk litres and 23,947.37 proof litres respectively as at the end of June 1994 were accounted as 34,147.28 bulk litres and 22,665.317 proof litres as opening balances for July 1994, resulting in short accounting 5,817.35 bulk litres and 1,282.053 proof litres of blended liquor and malt spirit, respectively. This would have produced 7,150.412 bulk litres of Indian made liquor after allowing a wastage of 5 **per cent** towards manufacture. The loss of duty to Government from the short accounting amounted to Rs.3.22 lakhs at the rate of Rs.45 per bulk litre of Indian made liquor.

On these cases being pointed out (between November 1995 and May 1996), the Superintendent of Excise in charge of the distillery in Mysore district recovered Rs.1.15 lakhs in June 1996. Reply regarding action taken in respect of the other case has not been received (December 1997).

The matter was referred to Government in June 1997; their reply has not been received (December 1997).

^δ Bangalore (Urban), Hassan

3.10 Non-recovery of dues on rectified spirit

By a notification issued by Government under the Karnataka Excise (Excise Duties and Fees) Rules 1968 in May 1995, the fee leviable on rectified spirit was enhanced from Re.0.50 to Re.1 per bulk litre from April 1995, when such spirit was issued from any distillery, warehouse or any other place of storage for purposes other than manufacture of denatured spirit.

Under the Karnataka Sales Tax Act 1957, tax on sales of rectified spirit at the rate of 20 *per cent* of turnover and surcharge at 15 *per cent* on tax are leviable from April 1994.

It was noticed during the audit of accounts of a distillery in Bangalore district that in respect of 1.32 lakh bulk litres of rectified spirit purchased by it from another distillery in Bijapur district after March 1995, fee, sales tax and surcharge leviable had not been levied/collected by the latter. The omission had resulted in non-levy of fee, sales tax and surcharge aggregating Rs.1.62 lakhs.

This was pointed out to the Superintendent of Excise in charge of the distillery in March 1996 and referred to Government in June 1997; their replies have not been received (December 1997).

3.11 Loss of revenue due to short production of Indian liquor

Under the Karnataka Excise (Excise Duties and Fees) Rules 1968, excise duty at the rate of Rs.45 per bulk litre is leviable on Indian liquor issued from 6 January 1994. According to the Karnataka Excise (Bottling of Liquor) Rules 1967, no spirit of strength lower than 25 degree under proof in the case of potable spirits or lower than such strength as may be fixed by the Excise Commissioner from time to time for such spirit is permitted to be bottled. However, a tolerance limit of 0.5 degree variation in strength is permissible as prescribed by Government in May 1980. Any reduction in strength should result in corresponding increase in production of Indian liquor.

In a distillery in Bangalore (Urban) district, the strength of Indian made foreign liquor manufactured in 45 batches during 1994-95 was more than 25 degree under proof or below the prescribed strength of 75 degree proof. However, even after allowing the tolerance of 0.5 degree variation, there was no corresponding increase in the production of Indian liquor to the extent of 3,274 bulk litres, resulting in loss of revenue of Rs.1.47 lakhs by way of duty thereon.

This was pointed out to the Superintendent of Excise in charge of the distillery in October 1995 and referred to Government in June 1997; their replies have not been received (December 1997).

3.12 Short recovery of fee for examination of samples

Under the Karnataka Excise (Bottling of Liquor) Rules 1967 read with the circular instructions issued by the Commissioner of Excise in June 1995, the officers in charge of distilleries/breweries were required to draw samples of each batch of the products of all brands of liquor/beer manufactured for sending them to the Chief Chemist for analysis and no final product could be released for sale unless the report of the Chemical Examiner was received. The Commissioner of Excise had fixed the fee for examination of samples at Rs.100 per sample for the year 1995-96.

In the case of a brewery in Bangalore, out of 361 batches of different brands of beer manufactured during the year 1995-96, samples were drawn from 28 batches only and sent for chemical analysis realising fee of Rs.3,200. This had resulted in non-drawal of samples from 333 batches for chemical analysis thereby short realising the fee for examination of samples by Rs.32,900 besides not ensuring the quality of the product.

On this being pointed out in August 1996, the Superintendent of Excise in charge of the brewery stated that the licensee himself was testing each sample. Omission to observe the statutory requirements regarding the quality control, besides entailing loss of revenue to Government, involves the risk of consumers being exposed to hazards.

The matter was referred to Government in June 1997; their reply has not been received (December 1997).

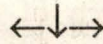
3.13 Non-recovery or short recovery of cost of establishment

Under the Karnataka Excise (Distillery and Warehouse) Rules 1967, the cost of establishment in respect of the excise officers and staff employed in the premises of licensees for supervision and securing compliance with the provisions of the Excise Act and Rules is to be paid by the licensees in advance in annual, half yearly or quarterly instalments.

In five districts (Bangalore, Tumkur, Chitradurga, Dharwad and Bidar), the cost of establishment for the years 1993-94 to 1995-96 due from 8 distilleries, 4 chemical units and one liquor depot had not been recovered or recovered short by Rs.10.31 lakhs.

These cases were pointed out in audit to the excise officers in charge of the distilleries/warehouses between July 1995 and November 1996. The Excise Commissioner stated in July 1997 that Rs.6.32 lakhs had since been realised from five distilleries. Reports of action taken in respect of the other units have not been received (December 1997).

The matter was referred to Government in June 1997; their reply has not been received (December 1997).

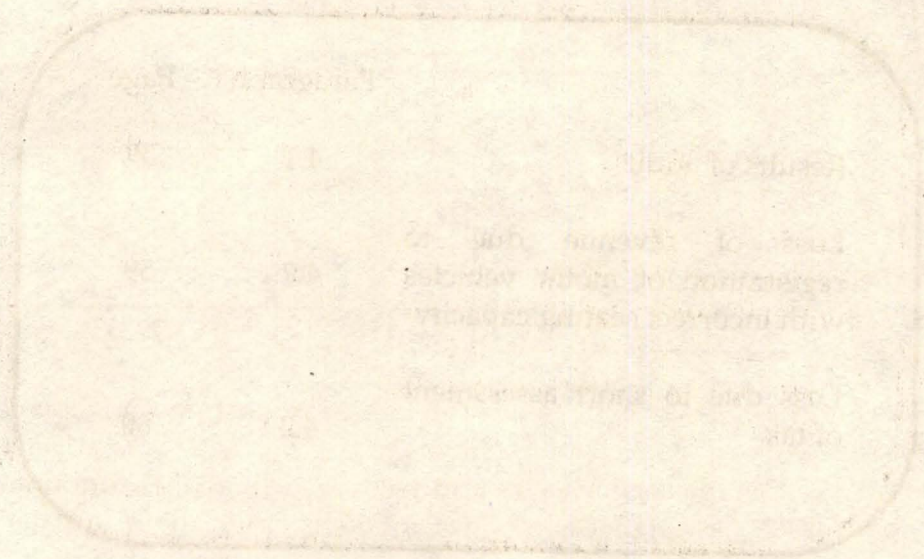


CHAPTER 4

	Paragraph	Page
Results of audit	4.1	59
Loss of revenue due to registration of motor vehicles with incorrect seating capacity	4.2	59
Loss due to short assessment of tax	4.3	60

TAXES ON MOTOR VEHICLES

CHAPTER 1



TAXES ON MOTOR VEHICLES

5
U
3
1
6

406
1 11
186
18
68
01

11

CHAPTER 4

TAXES ON MOTOR VEHICLES

4.1 Results of audit

Test check of records in the Motor Vehicles department, conducted in audit during the year 1996-97, disclosed under-assessments of tax amounting to Rs.173.64 crores in 118 cases which broadly fall under the following categories:

		Number of cases	Amount (In crores of rupees)
1.	Non-levy/short levy of tax	61	173.30
2.	Non-levy/non-collection of penalty/fees	15	0.04
3.	Other irregularities	42	0.30
Total		118	173.64

During the course of the year 1996-97, the department accepted under-assessments of Rs.6.63 lakhs involved in 24 cases which had been pointed out in the earlier years and recovered the entire amount. a few illustrative cases involving Rs.2.10 lakhs are given in the following paragraphs.

4.2 Loss of revenue due to registration of motor vehicles with incorrect seating capacity

According to the Central Motor Vehicles Act 1988, *motor car* means any motor vehicle other than a transport vehicle, omnibus, road roller, tractor, motor cycle, or invalid carriage; *omnibus* means any motor vehicle constructed or adapted to carry more than six persons excluding the driver. Under the Karnataka Motor Vehicles Taxation Act 1957, the rates of tax leviable on motor cars are determined with reference to their unladen weight, whereas the rates of tax leviable on omnibuses were determined, up to March 1989 with reference to the number of persons which the vehicles were permitted to carry, and thereafter with reference to the floor area of the vehicles.

The Commissioner for Transport permitted in July 1992 to register the light motor vehicle *Bajaj Tempo Trax* as motor car with a seating capacity of 5+1. In February 1993, the State Government accorded sanction for the registration of *Tempo Trax* motor vehicle (motor car) with a seating capacity of 5+1 as a taxi/motor cab subject to the provisions of the Central Motor Vehicles Act 1988. In five regions (Davangere, Bijapur, Yeshwantpur-Bangalore (North), Gadag,

and Bagalkot), 44 *Bajaj Tempo Trax* light motor vehicles manufactured with a seating capacity of 10+1/9+1/8+1 as in the certificate of temporary registration issued at the time of release of the vehicles from the factory, were registered between September 1992 and March 1996 as motor cars based on the seating capacity of 5+1 as per dealer's certificate. Since the body of the vehicle was manufactured by manufacturer itself, the vehicle should have been registered as per the capacity declared by the manufacturer. This omission has resulted in loss of revenue amounting to Rs.1.76 lakhs.

These were pointed out to the Department (between June 1995 and July 1996) and referred to Government in June 1997; their replies have not been received (December 1997).

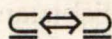
4.3 Loss due to short assessment of tax

Under the Karnataka Motor Vehicles Taxation Act 1957, tax on motor cars with unladen weight exceeding 1500 kilograms and owned by companies is leviable at Rs.590 per quarter from April 1990 and at Rs.1180 from April 1995. In addition, a cess at the rate of 5 *per cent* on the tax is leviable from April 1995 under the Karnataka Town and Country Planning Act 1961 for the Bangalore Mass Rapid Transit System.

In Bangalore East (Indiranagar) region, on 31 such motor cars tax aggregating Rs.2.37 lakhs had been levied and collected for the period from November 1991 to December 1997 as against the tax aggregating Rs.2.71 lakhs (including cess) leviable. This had resulted in tax being levied short by Rs.34,268.

On this being pointed out (January 1997), the Transport Commissioner stated (August 1997) that Rs.5,267 had since been recovered and action had been taken to collect the balance tax. Further reply has not been received (December 1997).

The matter was referred to Government in June 1997; their reply has not been received (December 1997).



CHAPTER 5

	Paragraph	Page
Results of audit	5.1	63
Non-levy of tax due to exclusion of income	5.2	63
Non-levy of tax due to excess allowance of rebate	5.3	64
Short levy due to incorrect allowance of set off	5.4	64
Short levy due to incorrect computation of depreciation	5.5	65

TAXES ON AGRICULTURAL INCOME

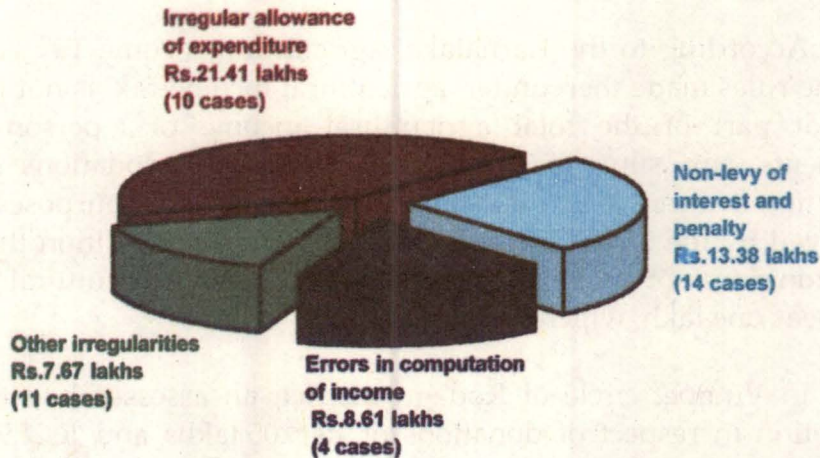
1	Introduction
2	History of the Tax System
3	Classification of Taxes
4	Direct Taxes
5	Indirect Taxes
6	Excise Duties
7	Income Tax
8	Corporate Tax
9	Personal Income Tax
10	Capital Gains Tax
11	Gift Tax
12	Estate Tax
13	Stamp Duty
14	Registration and Transfer Tax
15	Professional Tax
16	Other Taxes
17	Conclusion

CHAPTER 5

TAXES ON AGRICULTURAL INCOME

5.1 Results of audit

Test check of records in Agricultural income-tax offices, conducted in audit during the year 1996-97, disclosed under-assessments of tax amounting to Rs.51.07 lakhs in 39 cases which broadly fall under the following categories:



During the course of the year 1996-97, the department accepted under-assessments of Rs.67.48 lakhs in 15 cases which had been pointed out in earlier years and recovered Rs.4.44 lakhs in three cases. a few illustrative cases involving Rs.17.87 lakhs are given in the following paragraphs.

5.2 Non-levy of tax due to exclusion of income

Under the Karnataka Agricultural Income-Tax Act 1957, tax at specified rates is leviable on income derived by a person from land used for growing plantation crops which include cardamom and coffee.

In Chickmagalur district, while concluding the assessments (October 1995 and January 1996) of an unregistered firm for the assessment years 1991-92 and 1992-93, income of Rs.11.52 lakhs and Rs.8.21 lakhs from sale of cardamom and coffee seedlings were not considered as taxable income by the Assistant Commissioner of Agricultural Income-Tax, II Circle, Chickmagalur. The mistake had resulted in short computation of income of Rs.7.13 lakhs and

Rs.12.60 lakhs respectively for the two years and non-levy of tax of Rs.9.87 lakhs.

The case was pointed out (June 1996) to the assessing officer and referred to Government in March 1997; their replies have not been received (December 1997).

5.3 Non-levy of tax due to excess allowance of rebate

According to the Karnataka Agricultural Income-Tax Act 1957 and the rules made thereunder, agricultural income-tax is not payable on that part of the total agricultural income of a person which represents any sums paid by such person as donations to any institution or fund which is established for charitable purposes and is approved by the State Government, subject to the condition that such donation does not exceed 10 *per cent* of the taxable agricultural income or rupees one lakh, whichever is less.

In Virajpet circle of Kodagu district, an assessee had claimed exemption in respect of donations of Rs.3.05 lakhs and Rs.4.90 lakhs respectively for the previous years relevant to the assessment years 1990-91 and 1992-93. Since 10 *per cent* of the taxable agricultural income were Rs.319.50 lakhs and Rs.569.03 lakhs respectively for the two years (more than Rs.1 lakh), the amounts of donation qualifying for rebate of tax should have been restricted to Rs.1 lakh for each year. However, in the assessments for the two years concluded (July and August 1994) by the Assistant Commissioner of Agricultural Income-Tax, the entire amounts of donation were considered for computing the tax relief. The mistake had resulted in non-levy of tax of Rs.3.85 lakhs.

On these being pointed out (February 1996), the assessing officer recovered Rs.3.85 lakhs between October 1996 and January 1997.

The matter was referred to Government in March 1997; their reply has not been received (December 1997).

5.4 Short levy due to incorrect allowance of set off

Under the Karnataka Agricultural Income-Tax Act 1957, a loss in agricultural income in any year can be carried forward and set off against agricultural income of subsequent years, but such carry forward is permissible for not more than six years.

In Chickmagalur district, while computing (December 1994 and March 1996) the taxable agricultural income of an individual for the assessment years 1994-95 and 1995-96, the Assistant Commissioner of Agricultural Income-Tax had set off the unabsorbed losses brought forward from prior to 1986-87, 1986-87 and 1988-89. As against the loss of Rs.3.44 lakhs and income of Rs.5.14 lakhs correctly assessable for the two years, the losses assessed were Rs.3.68 lakhs and Rs.2.72 lakhs. The mistake had resulted in excess computation of loss of Rs.0.24 lakh for the year 1994-95 and short computation of income for the year 1995-96. The short computation of income and carry forward of loss of Rs.2.72 lakhs for 1995-96 involved short levy of tax of Rs.2.46 lakhs besides a potential short levy of Rs.1.13 lakhs in subsequent years.

The case was pointed out (June 1996) to the assessing officer and referred to Government in March 1997; their replies have not been received (December 1997).

5.5 Short levy of tax due to incorrect computation of depreciation

Under the Karnataka Agricultural Income-Tax (KAIT) Act 1957, depreciation is allowable on the written down value of building, machinery, plant, fencing material, hose pipes and furniture, which are the property of the assessee and are used for the purpose of deriving agricultural income, at the rates prescribed in the KAIT Rules 1957. By a notification issued in May 1994, the State Government revised the rates of depreciation with effect from April 1994.

In Virajpet circle of Kodagu district, while finalising (February and March 1995) the assessments for the year 1994-95 of three assesseees, depreciation was allowed by the Assistant Commissioner of Agricultural Income-Tax at the rates applicable for the year 1993-94 instead of allowing depreciation at the rates revised effective from 1994-95. This has resulted in short levy of tax of Rs.0.56 lakh.

On these being pointed out (March 1996), the assessing officer recovered Rs.0.23 lakh in one case in May 1996; reports of action taken in the remaining cases have not been received (December 1997).

The matter was referred to Government in April 1997; their reply have not been received (December 1997).



CHAPTER 6

	Paragraph	Page
Results of audit	6.1	69
Non-raising/short raising of demand for water rate	6.2	69
Non-levy of penal water rate	6.3	71
Non-levy/short levy of maintenance cess	6.4	72
Short recovery of conversion fine	6.5	72

LAND REVENUE

CHAPTER 6

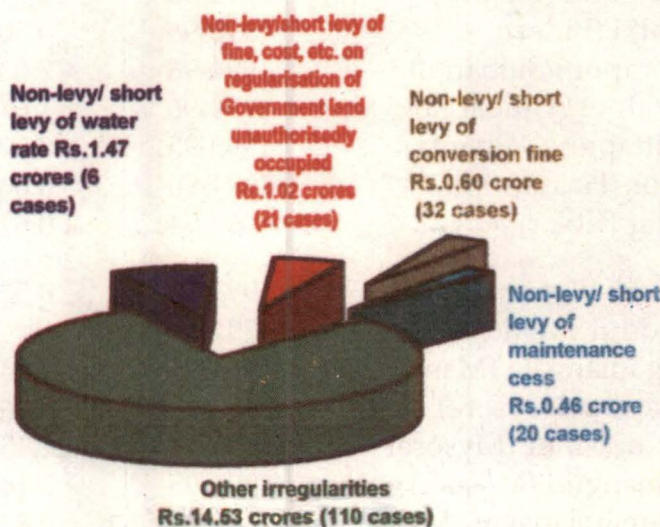
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100	Short history of discussion

CHAPTER 6

LAND REVENUE

6.1 Results of audit

Test check of records in taluk and district offices relating to land revenue, conducted in audit during the year 1996-97, disclosed short levy of land revenue, water rate, maintenance cess, etc., amounting to Rs.18.08 crores in 189 cases which broadly fall under the following categories:



During the course of the year 1996-97, the concerned department accepted under-assessments of Rs.195 lakhs involved in 35 cases which had been pointed out in earlier years and recovered Rs.9.55 lakhs in 16 cases. A few illustrative cases involving Rs.284.24 lakhs are given in the following paragraphs.

6.2 Non-raising/short raising of demands for water rate

Under the Karnataka Irrigation (Levy of Water Rate) Rules 1965, in respect of each crop or revenue year, as the case may be, two officers-one each from the Revenue and the Irrigation departments-should jointly inspect and prepare a statement of survey numbers of lands to which water was supplied, made available or used for irrigation and the crops raised therein. On the basis of this statement, the Irrigation officer prepares a demand statement of water rate payable by each landholder and sends it to the Tahsildar concerned for collection.

Non-raising and short booking of demand for water rate of Rs.115.43 lakhs

In 18 taluks of nine districts, omission to book and raise demand for water rate aggregating Rs.115.43 lakhs by the Revenue department even after receipt of demand statements from the Irrigation officers was noticed as indicated below:

Sl. no.	Taluk (District)	Period	Demand for water rate	
			Not levied	Short levied
			(In lakhs of rupees)	
1.	Badami (Bijapur)	1995-96	9.49	
2.	Hungund (Bijapur)	1994-96	1.24	
3.	Bhalki (Bidar)	1995-96	0.30	
4.	Shorapur (Gulbarga)	1994-96	7.03	0.71
5.	Afzalpur (Gulbarga)	1994-96	1.67	
6.	Chittapur (Gulbarga)	1993-95	0.59	
7.	Belur (Hassan)	1994-96	0.66	
8.	Kolar (Kolar)	1993-94	0.62	
		(Summer crop)		
9.	Chickballapur (Kolar)	1993-95	0.52	
10.	Maddur (Mandya)	1994-95		18.62
11.	Nagamangala (Mandya)	1994-96	1.24	
12.	Yelandur (Mysore)	1993-94	30.16	
13.	T. Narasipur (Mysore)	1995-96	21.15	
14.	Nanjangud (Mysore)	1994-95	2.14	
15.	Chamarajanagar (Mysore)	1994-95	0.84	
16.	Kollegal (Mysore)	1994-95	0.65	
17.	Shikaripura (Shimoga)	1993-94	17.05	
18.	Honnar (Uttara Kannada)	1994-95	0.75	
Total			96.10	19.33

These cases were pointed out to the Tahsildars (between June 1995 and December 1996); the Divisional Commissioner, Bangalore reported in August/October 1997 that aggregate sum of Rs.82.69 lakhs had since been taken to demand in 14* taluks and out of that Rs.20.38 lakhs had also been recovered in three^o taluks. The Tahsildar, Yelandur stated (December 1995) that the demand would be booked after making water rate *jamabandi*. Reports of further action taken in this case and replies in respect of other cases have not been received (December 1997).

These cases were referred to Government during May-June 1997; their replies have not been received (December 1997).

* Afzalpur, Badami, Belur, Bhalki, Chamarajanagar, Chickballapur, Kolar, Kollegal, Maddur, Nagamangala, Nanjangud, Shikaripura, Shorapur, T. Narasipur

^o Chikkaballapura, Maddur, Nagamangala

6.3 Non-levy of penal water rate

Under the Karnataka Irrigation Act 1965, if any person uses water from an irrigation work without obtaining the required permission, he would, in addition to any penalty which he incurs for such unauthorised use of water, be liable to pay water rate at the rate to be determined by the Irrigation officer, but not being less than ten times and not exceeding thirty times the rate he would otherwise have been required to pay, had he obtained the permission. Also, if any crop other than that notified is grown, the grower is required to pay water rate at the rate specified by the Irrigation officer but not being less than five times and not exceeding ten times the water rate applicable to the crop grown. Government had fixed (July 1985) the penal water rates for unauthorised use of water at 15 times and for violation of approved cropping pattern at 10 times the normal rate.

Non-levy of penal water rate of Rs.136.26 lakhs

In five taluks of four districts, demands for penal water rate aggregating Rs.136.26 lakhs by Revenue department were not raised even after receipt of demand statements from the Irrigation officers as indicated below:

Sl. no.	Taluk (District)	Year/s	Amount not booked (In lakhs of rupees)
1.	Maddur (Mandya)	1992-94	105.63
2.	Nanjangud (Mysore)	1994-95	14.56
3.	Chamarajanagar (Mysore)	1995-96	1.21
4.	Naragund (Dharwad)	1994-95	13.91
5.	Holenarasipura (Hassan)	1993-95	0.95
Total			136.26

On these cases being pointed out (between June 1995 and October 1996), the Tahsildar, Naragund stated that the matter would be examined and penal water rate taken to demand; the Tahsildar, Chamarajanagar stated that action would be taken to book the demand on receipt of joint inspection report; and the Tahsildar, Nanjangud stated that the entire amount would be taken to demand on completion of *jamabandi* for 1995-96. Reports of further action taken in these cases and reply in respect of other cases have not been received (December 1997).

The matter was referred to Government in April 1997; their reply has not been received (December 1997).

6.4. Non-levy/short levy of maintenance cess

Under the Karnataka Irrigation Act 1965, an annual maintenance cess of Rs.4 per acre of land in the area benefited by an irrigation work maintained by Government is to be levied. However, where water is not made available for the use of any land for a period of not less than two consecutive years, maintenance cess is not leviable in respect of such land during the said period. Further, according to the Karnataka Irrigation Rules 1965, Tahsildar concerned is the authority responsible for determining and levying maintenance cess.

<p>Non-raising / short raising of demand for maintenance cess of Rs.28.01 lakhs</p>
--

In nine[¶] taluks of seven districts, maintenance cess amounting to Rs.28.01 lakhs had not been levied for the years 1993-94 to 1995-96 though the water was made available in the preceding and current years.

These cases were pointed out to the Tahsildars (between July 1995 and October 1996); the Divisional Commissioner, Bangalore stated (August 1997) that demands in respect of four[§] taluks aggregating Rs.13.22 lakhs had since been booked and out of that Rs.1.34 lakhs had also been recovered in respect of two[#] taluks. Reports of action taken in respect of other cases have not been received (December 1997).

The matter was referred to Government in April 1997; their replies have not been received (December 1997).

6.5 Short recovery of conversion fine

Under the Karnataka Land Revenue Act 1964 and the Rules framed thereunder, when any land held for the purpose of agriculture (and is assessed as such) is permitted to be used for any purpose unconnected with agriculture, a conversion fine is leviable at the rate prescribed with reference to the area of the land, the place in which the land is situated and the purpose for which the land is put to use. The rates of conversion fine were revised in July 1994 and February 1996.

In three taluks of three districts, in respect of 19 cases of conversion of agricultural land into non-agricultural residential/non-

[¶] Badami, Basavana Bagewadi, Tukkeri, Krishnarajapet, Manvi, Shahapur, Shikaripura, Shorapur, Yelandur

[§] Krishnarajapet, Manvi, Shikaripura, Yelandur

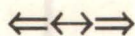
[#] Krishnarajapet, Yelandur

residential purposes permitted during 1994-95 to 1996-97 fine was levied short by Rs.4.54 lakhs as indicated below.

Sl. no.	Taluk (District)	Number of cases	Extent of land converted	Date of conversion, purpose and rate of conversion fine	Conversion fine (In lakhs of rupees)		
					Leviable	Levied	Levied short
1.	Gadag Betageri (Dharwad)	1	23 Acres and 7 Guntas	August 1994 Non-residential Re.0.65/sq. feet	6.57	3.54	3.03
2.	Sindhanur (Raichur)	2	9409.0427 sq.m.	April 1996 Residential Rs.5.38/sq.m.	0.50	0.15	0.35
		15	44768.831 sq.m.	April-June 1996 Residential Rs.2.18/sq.m.	0.98	0.25	0.73
3.	Shikaripura (Shimoga)	1	11432.4925 sq.m.	March 1996 Residential Rs.5.38/sq.m.	0.62	0.19	0.43
Total					8.67	4.13	4.54

On these being pointed out (between November 1995 and October 1996), the Divisional Commissioner, Bangalore stated (September/October 1997) that demands of Rs.3.46 lakhs in respect of Shikaripura and Gadag taluks had been raised in April/September 1997 and that action had been initiated for their recovery. Report on recovery/further action taken in these cases and replies in respect of other cases have not been received (December 1997).

The matter was referred to Government in April 1997; their reply has not been received (December 1997).



Year	Area	Population	Area	Population
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020

The data in this table shows the population growth in the area from 1950 to 2020. The population has increased significantly over the period, with a steady rise in the number of people living in the area. The growth rate has been relatively consistent, with a slight increase in the rate of growth in the later years of the period. The population in 2020 is approximately 1.5 times the population in 1950. The area has experienced a significant increase in the number of people living in the area, with a steady rise in the number of people living in the area. The growth rate has been relatively consistent, with a slight increase in the rate of growth in the later years of the period. The population in 2020 is approximately 1.5 times the population in 1950.

CHAPTER 7

	Paragraph	Page
A. ENTRY TAX		
Results of audit	7.1	77
Non-levy/short levy of entry tax	7.2	77
Non-levy of penalty	7.3	79
B. STAMP DUTY AND REGISTRATION FEES		
Results of audit	7.4	79
Short levy due to incorrect classification	7.5	80
Short levy of stamp duty	7.6	81
Incorrect concession in stamp duty	7.7	81
Short levy of surcharge	7.8	82

OTHER TAX RECEIPTS

CHAPTER I

1	Introduction
2	General Principles
3	Scope of the Law
4	Definitions
5	Registration and Stamp Duty
6	Penalties
7	Final Provisions

OTHER TAX RECEIPTS

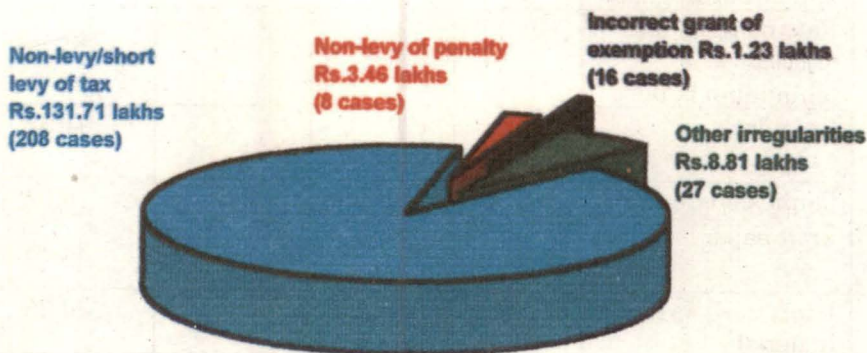
CHAPTER 7

OTHER TAX RECEIPTS

A. ENTRY TAX

7.1 Results of audit

Test check of records in Entry tax offices, conducted in audit during the year 1996-97, disclosed under-assessments of tax amounting to Rs.145.21 lakhs in 259 cases which broadly fall under the following categories:



During the course of the year 1996-97, the department accepted under-assessments of Rs.17.99 lakhs involved in 68 cases which had been pointed out in audit in earlier years and recovered Rs.10.07 lakhs involved in 56 cases. A few illustrative cases involving Rs.38.22 lakhs are mentioned in the following paragraphs.

7.2 Non-levy/short levy of entry tax

Under the Karnataka Tax on Entry of Goods Act 1979, on entry of goods into local area, tax is leviable at the rates notified from time to time.

Entry tax of Rs.35.48 lakhs not levied/short levied
--

In 15 cases of three districts (Bangalore (Urban), Bangalore (Rural) and Chitradurga), tax on entry of goods into local area had either not been levied or short levied by 11 assessing authorities

resulting in non-levy/short levy of tax aggregating Rs.35.48 lakhs as detailed below.

Sl. no.	Goods	Number of cases	Period	Rate of tax leviable	Taxable turnover	Tax levied short/not levied
				(Percentage)	(In lakhs of rupees)	
1.	Bangalore (Urban) Plant and machinery	6	1992-93 1993-94 1994-95	2	410.50	8.21
2.	Plant and machinery and electrical goods	1	1993-94	2 [#]	222.38	4.45
3.	Raw material for manufacture of aluminium bottles	1	1992-93	1	218.46	2.18
4.	Chemicals	1	1992-93 1993-94	2	41.02	0.82
5.	Duplex board or kraft paper	1	1992-93 1992-93 1993-94	2 1	5.02 34.38	0.10 0.34
6.	Latex used as raw material	1	1993-94	1	30.26	0.30
7.	Pumps, motors, spares, plant and machinery and chemicals	1	1993-94	2	34.85	0.70
8.	Petroleum products	1	1992-93	2	645.38	12.91
9.	Bangalore (Rural) Parts and accessories of tractors and tillers	1	1989-90	2	212.21	4.24
10.	Chitradurga Silk fabrics	1	1992-93 1993-94	2	61.70	1.23
Total		15			1916.16	35.48

On these being pointed out (between May 1995 and January 1997), the Department reported revision of assessments in two cases (sl.nos. 3 and 7) and an amount of Rs.2.36 lakhs had been recovered (July 1997). Replies in the remaining cases have not been received (December 1997).

The cases were referred to Government between March and June 1997; their replies have not been received (December 1997).

[#] Short levy due to incorrect computation of turnover

7.3 Non-levy of penalty

Under the Karnataka Tax on Entry of Goods Act 1979, the tax due under the Act is required to be paid within the prescribed time which, in the case of final assessments is 21 days from the date of service of demand notice. In cases of default in making payments, the assessee would be liable to pay penalty at one *per cent* of the amount of tax due remaining unpaid for each month for the first three months after the expiry of the prescribed period and at 2.5 *per cent* of such amount for each month thereafter.

In Bangalore (Urban) district, in respect of four assessments of two assesseees relating to the years 1988-89 to 1991-92, though the dealers had not paid the entry tax of Rs.18.48 lakhs as shown in the demand notices within the prescribed time, penalty of Rs.2.74 lakhs leviable had not been levied.

On being pointed out (August 1996), the Department reported (August-September 1997) that an amount of Rs.2.14 lakhs had been recovered in respect of two assessments. Replies in respect of the remaining cases have not been received (December 1997).

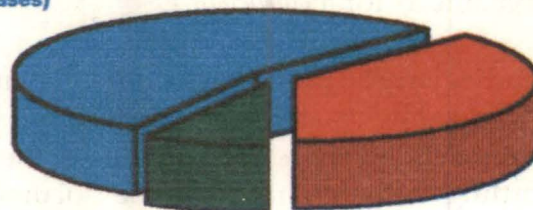
The cases were referred to Government in June 1997; their reply has not been received (December 1997).

B. STAMP DUTY AND REGISTRATION FEES

7.4 Results of audit

Test check of documents registered in the offices of the Registrars and Sub-Registrars, conducted in audit during the year 1996-97, disclosed under-assessments of stamp duty and registration fees amounting to Rs.95.38 lakhs in 106 cases which broadly fall under the following categories:

Non-levy/short levy of stamp duty
and registration fees Rs.51.64
lakhs
(64 cases)



Incorrect grant of
exemption/
concession
Rs.35.66 lakhs (29
cases)

Other irregularities
Rs.8.08 lakhs
(13 cases)

During the course of the year 1996-97, the department accepted under-assessments of Rs.0.48 lakh involved in five cases which were pointed out in audit in earlier years and recovered the entire amount. A few illustrative cases pointed out during the year 1996-97 and earlier years involving Rs.8.94 lakhs are given in the following paragraphs.

7.5 Short levy due to incorrect classification

(i) Under the Karnataka Stamp Act 1957, as amended from April 1995, *Power of Attorney* when given to a promoter or developer (by whatever name called) for construction, development on, or sale, or transfer (in any manner whatsoever) of, any immovable property, stamp duty is leviable as for a *conveyance*.

In two Sub-Registries (Srirampuram and Yelahanka, both in Bangalore city), two documents titled as *Power of Attorney* had been registered as such during 1995-96 and stamp duty and registration fees levied accordingly. The recitals of the documents had empowered the attorney holders to construct and dispose of building on the lands handed over to them. The documents were, therefore, properly chargeable with stamp duty and registration fees as for a *conveyance*. The incorrect classification had resulted in short levy of stamp duty and registration fees amounting to Rs.6.33 lakhs on the estimated market value of Rs.40.96 lakhs.

On these being pointed out (between November 1996 and January 1997), the Sub-Registrar, Srirampuram stated (January 1997) that as per the last paragraph of document, *Power of Attorney* had not been given to a promoter or developer. This reply is not acceptable as the recitals of the document clearly indicated that the land had been given for development purposes. Further reply in this case and reply in respect of the other case have not been received (December 1997).

The matter was referred to Government in June 1997; their reply has not been received (December 1997).

(ii) Under the Karnataka Stamp Act 1957, in respect of an agreement relating to sale of immovable property where, in part performance of the contract, possession of the property is delivered, stamp duty is chargeable as for a *conveyance*.

In two Sub-Registries (Rajajinagar and Jayanagar, both in Bangalore city), two documents styled as "Agreement for Sale"/ "Full Settlement Sale Agreement" were registered during the year 1995-96 as agreements. According to the recitals of these documents, possession of the properties had been handed over to the buyers and the

aggregate full consideration of Rs.5.83 lakhs had been received by the sellers. The documents were therefore required to be charged with stamp duty as for a *Conveyance*. The incorrect classification had resulted in short levy of stamp duty of Rs.0.72 lakh.

On these cases being pointed out in audit between November 1996 and January 1997, the Sub-Registrar, Rajajinagar stated that notice would be issued to the party. Report of further action taken in this case and report of action taken in the latter case have not been received (December 1997).

These cases were referred to Government in April 1997; their reply has not been received (December 1997).

7.6 Short levy of stamp duty

According to orders issued by the State Government in May 1993, stamp duty payable in respect of instruments executed by farmers in favour of specified lending institutions for securing loans advanced by them under the agricultural sector, special component plan and the Karnataka Agricultural Credit Operations and Miscellaneous Provisions Act 1974 up to a limit of Rs.50,000 is fully exempt. By an order issued in July 1995, stamp duty payable on such loans exceeding Rs.50,000 was reduced to 50 *per cent* of the rate prescribed in the Schedule to the Karnataka Stamp Act.

In the Sub-Registry at Kumta in Uttara Kannada district, stamp duty in respect of four documents executed by farmers for obtaining loans ranging from Rs.1,00,000 to Rs.12,45,400 totalling Rs.25,52,900 was levied short by Rs.0.92 lakh during the years 1994-95 and 1995-96.

These cases were pointed out the Sub-Registrar in June 1996 and referred to Government in April 1997; their replies have not been received (December 1997).

7.7 Incorrect concession in stamp duty

Under the Karnataka Stamp Act 1957, on instruments executed by co-operative societies (other than land mortgage societies or banks, urban co-operative societies or banks and housing societies, etc., registered or deemed to have been registered under the Karnataka Co-operative Societies Act 1959) relating to their business, stamp duty is leviable at 50 *per cent* of the duty chargeable.

In the Sub-Registry, Sira (Tumkur district), a sale deed executed in September 1994 by a person conveying land for a consideration of Rs.10 lakhs in favour of the Managing Director, Regional Oilseeds Growers Co-operative Society Limited, Hospet, was registered after allowing 50 *per cent* concession in stamp duty. Since the instrument was executed by an individual and not by an eligible society, no concession in stamp duty was allowable. The incorrect concession allowed had resulted in short levy of stamp duty amounting to Rs.0.50 lakh.

The case was pointed out to the Department (October 1996) and referred to Government in May 1997; their replies have not been received (December 1997)

7.8 Short levy of surcharge

According to the Karnataka Panchayat Raj Act 1993, a surcharge in the form of additional stamp duty at the rate to be notified by Government from time to time is leviable on instruments of sale, gift, mortgage, exchange and lease in perpetuity of all immovable properties situated within the limits of a Taluk Panchayat. Government prescribed in February 1995, the rate of surcharge at three *per cent* on the amount of consideration set forth in the instruments.

In the Sub-Registry, Sedum (Gulbarga district) in respect of 140 sale deeds registered during 1995-96 involving aggregate consideration of Rs.46.66 lakhs, surcharge amounting to Rs.0.93 lakh at two *per cent* only had been levied as against Rs.1.40 lakhs leviable at three *per cent*. This had resulted in short levy of surcharge of Rs.0.47 lakh.

On this being pointed out (July 1996), the Sub-Registrar stated that the short levy was due to non-receipt of the Government Order prescribing the rate of surcharge, in time. He, however, stated that action would be taken to recover the surcharge levied short. Report of recovery has not been received (December 1997).

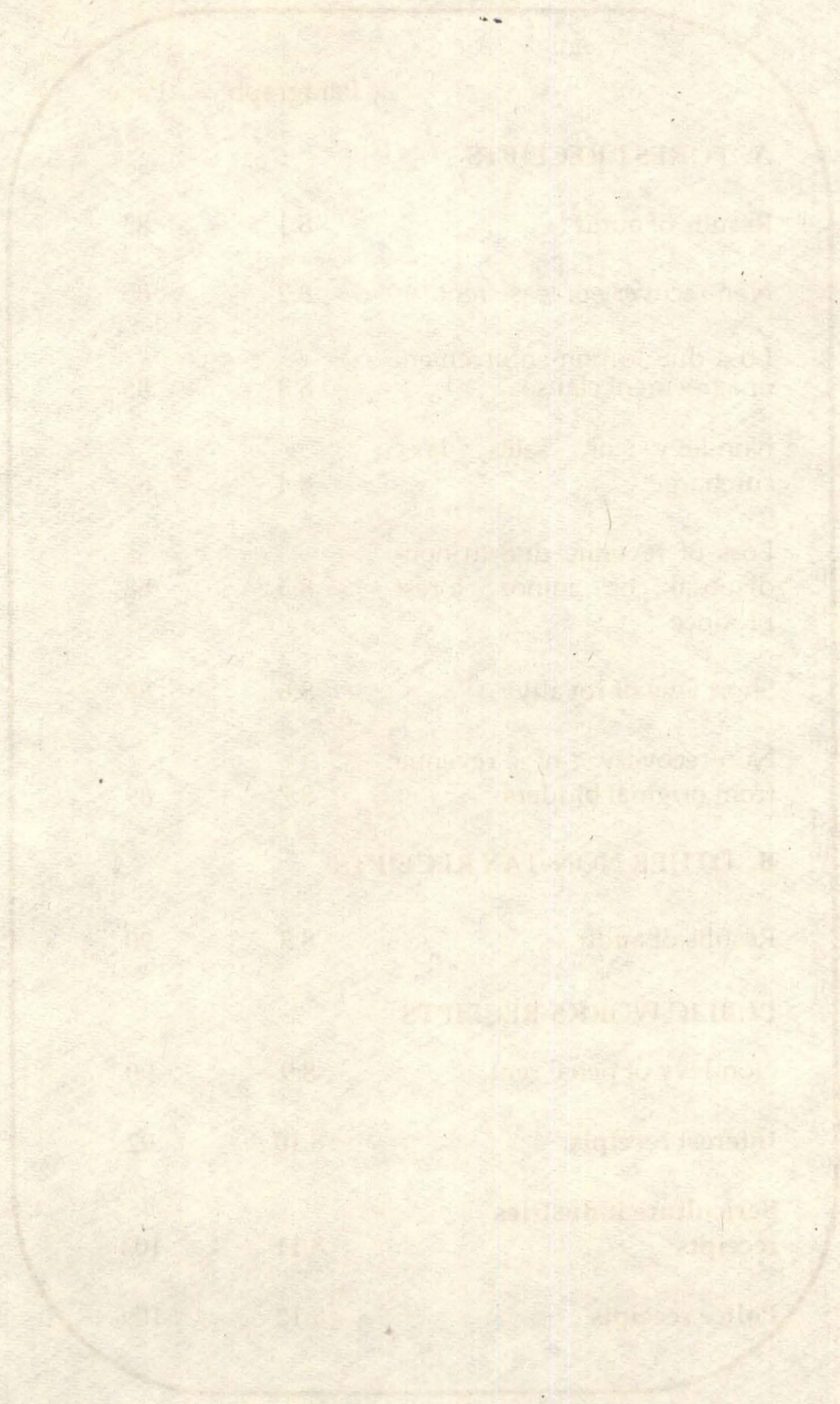
The matter was referred to Government in May 1997; their reply has not been received (December 1997).



CHAPTER 8

	Paragraph	Page
A. FOREST RECEIPTS		
Results of audit	8.1	85
Non-recovery of lease rent	8.2	85
Loss due to non-enforcement of agreement clause	8.3	86
Non-levy of sales tax/surcharge	8.4	87
Loss of revenue due to non-disposal of minor forest produce	8.5	88
Short levy of royalty	8.6	88
Non-recovery of revenue from original bidders	8.7	89
B. OTHER NON-TAX RECEIPTS		
Results of audit	8.8	90
PUBLIC WORKS RECEIPTS		
Non-levy of penal rent	8.9	90
Interest receipts	8.10	92
Sericulture industries receipts	8.11	103
Police receipts	8.12	109

NON-TAX RECEIPTS



8.4 Non-levy of sales tax/surcharge

(i) By an amendment to the Karnataka Sales Tax Act 1957, a surcharge calculated at the rate of 15 *per cent* of sales tax payable on the sale of forest produce was introduced with effect from April 1994.

<p>Surcharge of Rs.16.54 lakhs not levied on sales tax collected</p>

In five^β Divisions on sales tax aggregating Rs.110.21 lakhs collected on the sales of forest produce during the period from April 1994 to August 1996, surcharge amounting to Rs.16.54 lakhs had not been levied.

On these cases being pointed out (between December 1995 and December 1996), the Deputy Conservator of Forests, Karwar had reported recovery of Rs.1.55 lakhs. Reports of recovery of the balance amount have not been received (December 1997).

The matter was referred to Government between May and June 1997; their reply has not been received (December 1997).

(ii) Under the Karnataka Sales Tax Act 1957, rates of sales tax on first sale of timber were revised from 13 *per cent* to 15 *per cent* with effect from April 1995 while on first sale of eucalyptus, rates of tax were revised from 8 *per cent* to 15 *per cent* with effect from April 1992 to March 1996 and to 12 *per cent* from April 1996 onwards. By an amendment to the said Act with effect from April 1994, a surcharge calculated at the rate of 15 *per cent* on sales tax payable on the sale of forest produce was introduced.

In two Divisions (Kolar and Sagar), on eucalyptus poles and timber valued at Rs.37.48 lakhs sold during Forest years[▲] 1994-95 and 1995-96, tax was levied at the pre-revised rates. This had resulted in short realisation of revenue amounting to Rs.0.89 lakh (including surcharge).

On this being pointed out in February and August 1996, the Deputy Conservators of Forests in charge of the Divisions stated that action would be taken to recover the amounts short levied. Reports on recoveries effected have not been received (December 1997).

The matter was referred to Government in May 1997; their reply has not been received (December 1997).

^β Honnavar, Karwar, Koppa, Kundapur, Mangalore

[▲] Forest year: 1st July to 30th June following

8.5 Loss of revenue due to non-disposal of minor forest produce

Under the Karnataka Forest Rules 1969, forest produce could be sold by (i) auction or tender or tender-cum-auction, (ii) sale at the sanctioned schedule of rates in depots, (iii) sale by issue of licences at the sanctioned seigniorage rates or (iv) any other method with the previous sanction of the Government. Under the rules *ibid*, the Divisional Forest Officer is required to consider and decide each year, before commencement of the collection season, about the articles of minor forest produce to be exploited and the localities, having regard to local conditions and past results and also about the arrangements to be made for their exploitation. The period of minor forest produce leases, ordinarily, should not exceed three years commencing from 1st July.

In Belgaum Division, proposal for leasing the Dalchinni leaves, a minor forest produce, for the years 1994-95 and 1995-96 in respect of the area covered under four Range Forest Offices to two societies at an upset price of Rs.4.67 lakhs (for two years) was sent to Government for sanction. Sanction to the proposal was accorded by Government only in July 1995. Pending receipt of sanction of Government, the Dalchinni leaves were not disposed of by other modes during 1994-95. The non-disposal of leaves had resulted in loss of revenue amounting to Rs.2.74 lakhs during 1994-95.

On this being pointed out (April 1996), the Deputy Conservator of Forests stated that since proposal for leasing the produce for two years had been submitted in time, departmental extraction could not be attempted and the loss was not caused intentionally.

The matter was referred to Government in May 1997; their reply has not been received (December 1997).

8.6 Short levy of royalty

By a notification issued in May 1994 under the Karnataka Minor Mineral Concession Rules 1969, Government enhanced the rate of royalty on ornamental granite (black) from Rs.600 to Rs.2000 per cubic metre.

In Chamarajanagar Division, on 56.835 cubic metre of ornamental granite (black) extracted in June 1994, as against the royalty of Rs.1.14 lakhs leviable, royalty of Rs.0.34 lakh only had been levied and collected at the pre-revised rate by the Deputy Conservator of Forests (DCF), Wildlife Division, Chamarajanagar. This had resulted in short recovery of revenue amounting to Rs.0.86 lakh (including Forest Development Tax).

On this being pointed out (March 1996), the DCF stated that action would be taken to recover the amount from the lessee. Report on recovery has not been received (December 1997).

The matter was referred to Government in May 1997; their reply has not been received (December 1997).

8.7 Non-recovery of revenue from original bidders

Under the Karnataka Forest Rules 1969, forest produce could be sold by auction or tender-cum-auction. The conditions of auction sale of timber stipulate, *inter alia*, payment of one-fourth value of the purchase money inclusive of earnest money deposit in addition to other statutory taxes on the full purchase money by the purchaser immediately on conclusion of the sale and payment of the balance within 3 calendar months after the closure of the sale or before removal of the material, whichever is earlier. In case of failure to pay the dues and to remove the lots the original contract is required to be cancelled and the material resold at the risk and cost of original bidder. The loss, if any, sustained is required to be recovered from the defaulter together with interest due at the rate fixed by Government for the first 90 days and penal interest fixed by Government for subsequent period on the balance purchase money. According to orders of Government issued from time to time, interest at 9 *per cent* for the first 90 days and penal interest at 18 *per cent* beyond 90 days are required to be levied and collected on all revenue dues to Government remaining unpaid.

In the Government Timber Depot, Dandeli, in 6 cases of resale of timber during the year 1994-95 due to default of the original bidders, the amount fetched in the re-auctions fell short of the original bid amounts by Rs.0.53 lakhs including interest and penal interest up to March 1997. But the amount had not been demanded from the original bidders by the Deputy Conservator of Forests (DCF) in charge of the Depot.

On being pointed out in March 1996, the DCF stated that notice would be issued to the concerned defaulters to recover the amount as arrears of land revenue. Further report has not been received (December 1997).

The matter was referred to Government in May 1997; their reply has not been received (December 1997).

B. OTHER NON-TAX RECEIPTS

8.8 Results of audit

Test check of records in the offices dealing with Public Works and Sericulture receipts, conducted in audit during 1996-97, disclosed under assessment of revenue amounting to Rs.333.82 lakhs in 80 cases as indicated below.

Sl. no.	Discipline	Number of cases	Amount (In lakhs of rupees)
1.	Public works receipts	48	107.03
2.	Sericulture receipts	32	226.79
Total		80	333.82

A few illustrative cases pointed out during the year 1996-97 and earlier years involving Rs.25.16 lakhs and also the results of reviews on 'Interest receipts' (Rs.117.09 crores), 'Sericulture industries receipts' (Rs.23.44 crores), and 'Police receipts' (Rs.4.44 crores) are given in the following paragraphs.

PUBLIC WORKS RECEIPTS

8.9 Non-levy of penal rent

(a) By an order issued in December 1986, Government prescribed that allotment of residential quarters outside Bangalore city to Government servants would terminate on completion of four years in the cases of Group A and B officers, five years in the cases of Group C officials and 10 years in the cases of Group D officials. It also prescribed that if the Government servants did not vacate the quarters after expiry of allotment period, penal rent at three times the normal rent for overstaying of second and third months, and at five times the normal rent beyond three months was to be levied.

Penal rent of Rs.25.16 lakhs not levied
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In five Divisions (Bidar, Bijapur, Gulbarga, Raichur and Yadgir), 69 officials had continued to occupy the quarters beyond the

period allowed. Penal rent amounting to Rs.16.79 lakhs leviable in those cases as detailed below had not been levied.

Sl. no.	Division	Number of cases	Period	Amount (In lakhs of rupees)
1.	Bidar	18	January 1987 to August 1996	6.08
2.	Bijapur	23	January 1987 to September 1996	5.12
3.	Gulbarga	17	January 1987 to August 1996	3.44
4.	Raichur	10	October 1985 to August 1996	1.51
5.	Yadgir	1	July 1994 to July 1996	0.64
Total		69		16.79

These cases were pointed out to the respective Executive Engineers in charge of the Divisions in September/October 1996 and referred to Government in April/May 1997; their replies have not been received (December 1997).

(b) According to the rules framed by Government in December 1987, the allotment of residential quarters to Government servants in Bangalore city is deemed to have been terminated when the allottee retires from Government service. In cases where the allottee continues to stay in the allotted residential quarters beyond the date of retirement, penal licence fee is leviable at two times the normal licence fee for the first month after retirement, at three times the normal licence fee for the second and third months and at five times the normal licence fee beyond three months.

In respect of 18 cases, though the officials had retired from Government service, they had continued to occupy the quarters allotted to them prior to retirement. In respect of those cases, penal rent required to be collected had not been demanded. The penal rent due from December 1992 to August 1996 amounted to Rs.8.37 lakhs.

The cases were pointed out to the Executive Engineer, No.2 Buildings Division, Bangalore in September 1996 and referred to Government in May 1997; their replies have not been received (December 1997).

INTEREST RECEIPTS

8.10 Interest receipts

8.10.1 Introduction

In pursuance of its policies for achievement of various objectives, the State Government provides loans and advances to public sector undertakings, departmentally-run commercial undertakings, local bodies, co-operative societies and individuals including Government employees. The loans sanctioned usually carry different rates of interest fixed by the sanctioning authority keeping in view the purpose for which the loan is provided. Loans are required to be repaid within the stipulated period, in periodical instalments along with the interest. The terms and conditions which are specified in the orders sanctioning the loans are to indicate the periodicity of instalments, the rates of interest, the mode and the manner of repayment of the principal and the interest. In case of default in repayment of the instalment/s of the principal, levy of penal interest on the principal remaining unpaid is also contemplated.

The rates of interest chargeable in respect of loans for non-commercial purposes, for infrastructure development, for commercial and industrial purposes as also to Government companies/undertakings were last revised by Government in September 1991 and varied from 12 to 18 *per cent*. The rate of interest for loans sanctioned from out of the loans provided by the Central Government were the same as those levied by the Government of India on the State Government.

8.10.2 Organisational set up

The requests for sanction of loans and advances are processed by the heads of departments of Government and are recommended to Government in the concerned administrative department with the concurrence of the Finance Department. Recoveries of loans and advances along with interest are to be watched by the concerned heads of departments according to the instructions of Government in the sanction orders.

8.10.3 Scope of audit

A review of the interest receipts of Government from 1991-92 to 1995-96 was conducted during December 1996 to March 1997 by a test-check of records in the Departments of Agriculture, Co-operation,

Energy, Housing and Urban Development, Industries and Commerce, Municipal Administration, Collegiate Education and also obtaining information from certain public sector and other undertakings. Important points noticed are brought out in the succeeding paragraphs.

8.10.4 Highlights

There was no mechanism at Government level for periodical review of the Demand, Collection and Balance position of different classes of loans, even though interest receipts constituted the principal source of non-tax revenue. However, 92 per cent of the interest receipts during 1991-92 to 1995-96 were by way of mere book adjustments and cash recoveries were meagre.

(Paragraphs 8.10.5 and 8.10.6)

Interest aggregating Rs.7888.83 lakhs was outstanding recovery in 312 cases of loans sanctioned during 1975-76 to 1995-96.

(Paragraph 8.10.7)

Non-finalisation/delay in finalisation of terms and conditions had prevented the raising of demands for interest aggregating Rs.612.49 lakhs in respect of loans totalling Rs.1243.61 lakhs sanctioned during 1991-92 to 1995-96 to three loanees.

(Paragraph 8.10.8)

Retention of loans sanctioned up to 1994-95 by two controlling officers outside Government account pending

compliance with terms and conditions by the loanees had deprived Government of interest of Rs.1195.36 lakhs.

(Paragraph 8.10.9)

On account of adjustment of repayments to principal, there was loss of interest of Rs.228.73 lakhs in respect of three loanees during the period 1991-92 to 1995-96.

(Paragraph 8.10.10)

Interest due in respect of overdue loans aggregating Rs.781.61 lakhs paid to 675 small industrial units in 14 districts had not been computed for raising the demands.

In respect of 309 medium and large industrial units which received aggregate loans of Rs.899.40 lakhs during November 1982 to March 1988 and had defaulted in repayments, interest due had not been computed. In respect of 75 units test-checked, interest due worked out to Rs.331.83 lakhs up to March 1996.

(Paragraph 8.10.11)

Interest of Rs.1395.67 lakhs had not been demanded from 35 loanees who received loans of Rs.3568.95 lakhs during 1977-78 to 1995-96.

(Paragraph 8.10.12(v))

8.10.5 Trend of interest receipts

(i) Interest receipts formed the principal source of non-tax revenue of the Government during the years 1991-92 to 1995-96. Details of estimated interest receipts, actual realisation and its percentage to total non-tax revenue for the five years are given below.

Year	Interest receipts			Total non-tax revenue	Percentage of interest receipts to the non-tax revenue
	Budget estimates	Actual realisation	Shortfall (Percentage)		
(In lakhs of rupees)					
1991-92	29906	23130	6776 (27)	62128	37
1992-93	35793	35694	279 (0.77)	80254	44
1993-94	42705	33777	8928 (21)	73357	46
1994-95	53451	40269	13182 (25)	84766	47
1995-96	53206	69575	- -	-	-

During the years, out of the total interest receipts of Rs.202445 lakhs, Rs.185892 lakhs (92 *per cent*) were by way of conversion of outstanding interest into fresh loans (Rs.34084 lakhs from Karnataka Electricity Board-KEB, Rs.44606 lakhs from Karnataka Power Corporation-KPC) and mere book adjustment (Rs.107202 lakhs from Irrigation works-Commercial) with no cash flow being involved. The interest receipts include (i) interest on investment of cash balances, (ii) interest from departmental commercial undertakings, (iii) interest on debentures.

(ii) The total loans disbursed and outstanding at the end of each year and the interest accrued thereon *vis-a-vis* interest actually realised and percentage thereof for the last five years is as under.

Year	Loans disbursed		Loans outstanding at the end of the year	Interest due as per budget estimates	Interest actually realised	Percentage (5) to (4)
	by adjustment to interest dues	others				
(In lakhs of rupees)						
(1)	(2a)	(2b)	(3)	(4)	(5)	(6)
1991-92	3180	30882	203534	13411	4219	31
1992-93	13666	37252	246469	17778	14809	83
1993-94	10433	36675	264724	20941	11932	57
1994-95	13483	13770	272714	27569	14763	54
1995-96	37928	6634	300578	20310	38729	-

The reasons for shortfall in interest realisation for the years 1991-92 to 1994-95 have not been received (November 1997).

8.10.6 Monitoring

According to the Karnataka Government (Transaction of Business) Rules 1977, it is the duty of Government in the Finance Department to periodically review the Demand, Collection and Balance statements of different classes of loans and to advise on all transactions relating to loans and advances. However, it was observed that there was no mechanism in vogue in the Finance Department to carry out this responsibility. The Finance Department while conceding the absence of a mechanism, stated (June 1997) that there was an urgent need to set up an exclusive cell for overall monitoring of loan accounts and that efforts were being made to improve loan monitoring not only in the Finance Department but also in other departments. A review in audit disclosed the following points.

8.10.7 Non-realisation of interest dues

A review of the records of 13 loanees of six^φ departments revealed that in 312 cases of sanction of loans aggregating Rs.25622.03 lakhs during the years 1975-76 to 1995-96, principal amounting to Rs.25135.94 lakhs due for repayment had not been repaid as of March 1996. The interest (ranging from 6 to 18 *per cent* and penal interest at 2.5 to 4 *per cent*) due in respect of these cases amounted to Rs.7888.83 lakhs as on that date. The reasons for non-realisation of the overdue amounts of principal and interest are as under.

(a) Loans amounting to Rs.2927.81 lakhs were outstanding against Karnataka Agro-Industries Corporation(KAIC), Karnataka State Seeds Corporation (KSSC) and Karnataka State Co-operative Oil-seeds Growers Federation (KOF). Out of these short term loans amounting to Rs.2840.45 lakhs were recoverable within six months whereas long term loans amounting to Rs.87.36 lakhs were recoverable from 4 to 14 years. Besides the principal, interest amounting to Rs.1931.83 lakhs up to March 1996 were also recoverable. KAIC and KSSC, attributing non-repayment of principal and accumulated interest to continuous losses incurred by them, had submitted proposals (March/August 1996) to Government for conversion of term loans into equity share capital and also to waive the interest dues. Decision of Government on these proposals had not been received as of March 1997. KOF had also requested (December 1995) Government to treat the outstanding loan and interest towards funding of the accumulated losses to improve the net worth of the Federation on the ground that it had to borrow money from nationalised banks for purchase of fertilisers, seeds, pesticides

^φ Agriculture, Collegiate Education, Co-operation, Fisheries, Housing and Urban Development and *Industries and Commerce*

and other agricultural inputs by paying high rate of interest and the agriculturists not settling their dues to it.

(b) (i) Mysore Lamp Works Limited (MLW) received a short term loan of Rs.158 lakhs in September 1995 for depositing the amount in a court case which was repayable in one lumpsum within 120 days by sale of land. The company had neither disposed of the land nor repaid the loan to Government. The interest thereon up to March 1996 amounted to Rs.9.48 lakhs.

(ii) An amount of Rs.535 lakhs has been sanctioned as long term loan to Karnataka Industrial Areas Development Board (KIADB) during 1989-90 to 1995-96. Neither principal nor interest thereon amounting to Rs.315.03 lakhs was recovered. On being pointed out, KIADB stated (February 1997) that it had requested Government in December 1991 and July 1996 for conversion of all loans into grants-in-aid with retrospective effect as the financial position of the Board was very poor. Decision of Government in this regard had not been received as of March 1997.

(c) Housing and Urban Development Department paid loans amounting to Rs.7220.38 lakhs to Karnataka Urban Water Supply and Drainage Board (KUWSDB) from 1975-76 to 1995-96. Out of this, principal amounting to Rs.7108.18 lakhs and interest thereon amounting to Rs.2784.02 lakhs remained unrealised till March 1995. Poor financial position was cited as the reason for non-payment of principal and interest.

(d) The National Loan Scholarships were being sanctioned by the Director of Collegiate Education to students to prosecute higher studies. According to the terms and conditions, repayment of loan in monthly instalments was due after three years of termination of study or after one year of the loanee scholar getting employment, whichever was earlier. The loan was interest free provided the payments of instalments of principal were regular. In cases of defaults in repayments penal rates of interest at prescribed rates (6 *per cent* per annum up to 1975-76 and 10 *per cent* per annum thereafter) were payable by the scholar on the amount of instalments in arrears from the date of default till the date of payment.

A test-check of loan ledgers revealed that interest was being calculated and demanded only after the entire amount of loan had been repaid by the loanees. The Demand, Collection and Balance statement as of March 1995 indicated an outstanding balance of Rs.280.96 lakhs as principal and Rs.17.93 lakhs towards interest in respect of 24 batches of scholars from 1963-64 to 1988-89. In respect of 9,214 cases involving a total amount of Rs.230.41 lakhs there was no repayment at all. On this being pointed out the department stated

(March 1997) that the interest could not be worked out in advance because there were many scholars who had taken up teaching profession or had joined as combatants in defence services after completion of their studies for which exemption from repayment of loan was given and that there were instances of discontinuance of studies entailing the withdrawal of scholarships awarded. However, the department failed to levy the interest at penal rates on the amount of defaulted instalments.

(e) Under the Karnataka Sales Tax Act 1957, on sugarcane used by sugar factories, tax is leviable at the point of purchase. With a view to helping the sugar factories in their financial position, Government has accorded sanction in March 1990 for conversion of purchase tax amounting to Rs.3003.81 lakhs due as of that date from 13 sugar factories (8 in co-operative sector and 5 in public/private sector) into interest free loans repayable in one lump sum by the end of September 1991. Default in repayment was to make the loanees liable for penal rate of interest. In the event of default by sugar factories, the amounts due to Government shall be recovered as arrears of land revenue. However, only part repayment of Rs.271.33 lakhs was made within the due date by 6 sugar factories. The factories were liable to pay penal interest of Rs.343.29 lakhs up to March 1996.

(f) In respect of six loanees of three departments, out of 104 cases of sanction of loans aggregating Rs.10948.58 lakhs during the years 1975-76 to 1995-96, principal amounting to Rs.2450.51 lakhs due for repayment had not been repaid as of March 1996. Interest (including penal interest) due in respect of these cases amounted to Rs.2487.25 lakhs as on that date. Reasons for non-realisation of overdue amounts of principal and interest have not been received (December 1997).

8.10.8 Delay in finalisation of terms and conditions

The sanctions for payment of loans issued by Government should specify the terms and conditions of their payment such as the number of instalments in which the principal is to be repaid, the date of commencement of repayment, the rate of interest (including penal rate, if any), etc.

A test-check of records of two departments (Co-operation and Industries and Commerce) showed that in three cases of loans aggregating Rs.1243.61 lakhs disbursed during 1991-92 to 1995-96 as detailed below, the terms and conditions had either not been specified or were communicated after four years or more. The delay in finalisation and issue of terms and conditions resulted in

postponement of raising of demands for the principal and interest amounting to Rs.612.49 lakhs.

Department/ Name of the controlling officer	Name of the loanee	Period of sanction of loan	Date of issue of terms and conditions	Amount of loan (In lakhs of rupees)	Rate of interest including penal (Percentage)	Interest due (In lakhs of rupees)
1.Department of Industries and Commerce/ Director of Industries and Commerce	Karnataka State Electronics Development Corporation Limited (KEONICS) Mysore Paper Mills Ltd. (MPM)	1991-92 to 1994-95 1991-92 to 1995-96	October and December 1996 Not fixed	190.00 690.00	16/16.5 16	61.72 316.27
2.Co-operation Department/ Commissioner for Cane Development and Director of Sugar	Dakshina Kannada Sahakara Sakkare Karkhane Ltd. Brahmavar	1991-92 to 1992-93	January 1997	363.61	18	234.50
Total				1243.61		612.49

On being brought to the notice of the Government, the Finance Department stated (June 1997) that the terms and conditions in several cases have not been issued for quite a long time and that departments are supposed to make terms and conditions based on the existing Government order. This reply of the Government is not tenable as it does not indicate (even remotely) any intention or action to expedite finalisation of terms and conditions in respect of these loans.

8.10.9 Loss of interest due to non-disbursement of loans

According to the general conditions governing sanction of loans, the term of a loan is to be calculated from the date on which the loan is completely taken up or declared by the competent authority to be closed. These loans would earn interest on their actual disbursement to the loanees.

(a) Loans amounting to Rs.887.35 lakhs sanctioned by Government during the period from 1984-85 to 1994-95 to various co-operative societies were kept in District Central Co-operative (DCC) banks by the departmental officers of the Co-operation Department pending compliance with terms by the loanees for their release. These remained with the DCC banks as of March 1996. Since these amounts were kept in the Government aid account in the said banks carrying no interest, non-release of loan amounts to the beneficiaries immediately

on their sanction besides defeating the objective, resulted in loss of interest of Rs.882.57 lakhs at the rate of 17/18 *per cent* per annum.

On this being pointed out, the department stated (January 1997) that instructions had been issued for recrediting of loan amounts remaining unpaid for more than six months and that efforts were being made to bring down the unreleased balances drastically.

(b) Under the Scheme of Integrated Development of Small and Medium Towns (IDSMT), the funds sanctioned by Government for release to various Town Municipal Councils (TMC)/City Municipal Councils (CMC) were drawn by the Director of Municipal Administration (DMA) and pending approval of plans and estimates of projects kept in his personal deposit (PD) account. Out of the deposits into the accounts, Rs.555 lakhs and Rs.425 lakhs were withdrawn between June 1991 and January 1993 and kept in fixed deposits in two urban co-operative banks in Bangalore. Government ratified this action of the department in August 1992. The deposits were kept renewed till the two banks went into liquidation at which time Rs.830 lakhs still remained in deposits. Only a sum of Rs.55.75 lakhs had been received from the liquidator till December 1996. For the recovery of the balance amount of Rs.774.25 lakhs proceedings were pending before the Hon'ble High Court of Karnataka.

The department stated (December 1996) that most of the plans and estimates were sanctioned by the Directorate under the Central Government at New Delhi after lapse of two years and action was being taken to release the funds as and when TMC/CMC submit proposals.

The deposits of amounts outside Government accounts, besides resulting in non-availability of funds for intended purpose caused loss of interest of Rs.312.79 lakhs up to March 1996 to Government.

8.10.10 Loss of interest due to wrong adjustment of repayments to principal

Under the provisions of Karnataka Financial Code, instalment paid before the due date would be taken entirely towards principal unless any interest for a preceding period is overdue. In three cases relating to the Agriculture Department, the repayments during the years 1991-92 to 1995-96 had been fully adjusted towards the principal even though the interest payable on non-repayment of principal of earlier instalments was also outstanding. The non-observance of the

prescribed priority of adjustment of repayments had resulted in loss of interest of Rs.228.73 lakhs as detailed below.

Sl. No.	Name of the loanee	Period	Interest outstanding (In lakhs of rupees)	Rate of interest (Percentage)	Interest short levied (In lakhs of rupees)
1.	Karnataka State Co-operative Marketing Federation	1991-92 to 1995-96	234.61	8.75	102.64
2.	Karnataka Co-operative Oil Seeds Growers Federation	1991-92 to 1995-96	13.85	8.75 and 10.25	6.02
3.	Karnataka State Seeds Corporation	1991-92	167.62	8.75	58.67
		1992-93	157.34	8.75	48.38
		1993-94	40.31	10.25	8.26
		1994-95	46.40	10.25	4.76
Total					228.73

The department stated (September 1997) that the position of non-repayment of loans with interest had been brought to the notice of Government.

8.10.11 Interest on development loans to industrial units

With a view to encouraging industrial development in the State, Government had been providing a number of incentives and concessions to private enterprises. The sanction of development loans was one of them. While the Director of Industries and Commerce was empowered to sanction such loans to small industries, the sanctions to medium and large units were being accorded by a State level committee. The repayment of loans of small units was to be watched by the District Industries Centres (DIC) and of medium and large industries by the Director.

A test-check disclosed that in 14 districts in respect of 675 small units, demand notices had been issued only for the principal amount of loans aggregating Rs.781.61 lakhs not paid by them by due dates. The interest due thereon had not been computed by the DICs. In six other districts, demand for interest of Rs.56.32 lakhs issued in respect of 443 small units remained uncollected as of June 1996.

309 medium and large industries for which loans of Rs.899.40 lakhs were sanctioned during November 1982 to March 1988

had defaulted in making repayments of principal of Rs.289.82 lakhs as of September 1995. Besides, the interest payable on these loans was neither worked out by the department nor was any demand raised. The interest due up to March 1996 in respect of 75 units of 11 districts test-checked worked out to Rs.331.83 lakhs. On this being pointed out, the department stated (April 1997) that the interest would be worked out in due course while issuing Demand, Collection and Balance statements.

8.10.12 Non-maintenance of records

(i) As per Government order sanctioning loans, issued from time to time, the Water Resources Development Organisation (WRDO) was nominated to maintain the loan ledgers and watch the recovery of principal and interest in respect of KPC and KEB. Principal and interest against these bodies amounted to Rs.167868 lakhs and Rs.19495 lakhs respectively as of March 1996 for which no records have been maintained. On this being pointed out, the WRDO stated that the loan records are to be maintained by the respective departments for which they have already approached Government. However, no action has been taken as of March 1997.

(ii) During the year 1986-87, a total sum of Rs.568.08 lakhs was drawn by the officers of the Social Welfare Department as loans for Welfare of Scheduled Castes under the Special Component Plan, and the amount continued to be outstanding as of March 1996. The Director of Social Welfare had no information about the beneficiaries, the terms and conditions for disbursement and repayment, authorities for maintenance of loan accounts etc. (March 1997).

(iii) In respect of urban water supply and underground drainage schemes to be executed by KUWSDB on behalf of municipalities, loans amounting to Rs.8943 lakhs was outstanding as of March 1996. The repayment of principal and payment of interest thereon by the municipalities were required to be watched by the KUWSDB. It was however observed that KUWSDB had not maintained ledgers for the purpose. In reply to an audit enquiry it stated in February 1997 that it was not in a position to watch the repayment of Government dues and that the municipality itself should maintain the loan account and watch repayment. However, KUWSDB had requested Government in November 1987/ July 1994 to treat the loans as subsidy or to waive them. Decision of Government thereon had not been received as of January 1997.

(iv) It was observed that the DMA who was the controlling officer for implementation of the IDSMT Scheme had not maintained loan ledgers as a consequence, repayments made only in a few cases had

also not been noted against the loans disbursed. The DMA had no information about the amount of principal and interest due from each TMC/CMC on a given date. He had also not prepared periodical statements of principal and interest due from each TMC/CMC for issue to them. In reply to an audit enquiry, the DMA stated (December 1996) that loan ledgers would be maintained in future.

(v) The Commissioner for Cane Development and Director of Sugar was the controlling officer for disbursement of loans to sugar factories in the State in the co-operative, public/private sectors. Though he had opened loan ledgers, only the loans amounting to Rs.3568.95 lakhs released during 1977-78 to 1995-96 had been entered therein. Repayments made had not been posted thereagainst. Periodical demand notices indicating the overdue amount of principal and also interest which worked out to Rs.1395.67 lakhs up to March 1996 had not been issued to the loanees. Consolidated information regarding the Demand, Collection and Balance of loans disbursed under the scheme was also not available. On this being pointed out, the department stated (March 1997) that action was being taken to get the details for incorporation in Demand, Collection and Balance statements and for making the recoveries.

The points mentioned above were referred to Government in July 1997; their reply has not been received (December 1997).

SERICULTURE INDUSTRIES RECEIPTS

8.11 Sericulture industries receipts

8.11.1 Introduction

Sericulture is an agro-based, labour-intensive cottage industry providing gainful employment mainly to the rural and weaker sections of the society. In view of its economic importance and employment generation potential, special emphasis has been given to the development of the sericulture industry in the State. The sericulture industry which had been concentrated in five districts of southern Karnataka till 1975, has since extended to the whole of the State.

The activities of the sericulture industry in the State from the stage of rearing of cocoons up to the stage of production of yarn is governed by the Karnataka Silkworm Seed Cocoon and Silk Yarn (Regulation of Production, Supply, Distribution and Sale) Act 1959 and the Rules (hereinafter referred to as Act and Rules respectively) made thereunder in 1960.

The Rules envisage levy of fees for grant/renewal of licences for rearing, reeling, and trading, and also prescribe different rates varying from one rupee to fifteen rupees for different activities. The Rules also provide for levy of market fees on both buyers and sellers in a cocoon market at the rate of one *per cent* of the value of cocoons transacted, and on licensed buyers who purchase silk yarn in a silk exchange at the rate of two *per cent* of the price of silk yarn. The other receipts from the sericulture industrial activities include income from farms, grainages, sale proceeds of raw and twisted silk yarn and fabrics made by departmental undertakings.

8.11.2 Organisational set up

The administration of the Act is vested in the Department of Sericulture headed by the Commissioner for Sericultural Development and Director of Sericulture. He is assisted by an Additional Director, two Joint Directors and three Deputy Directors at the Headquarters at Bangalore. At the divisional, district and field level, eight Joint Directors, 25 Deputy Directors, 107 Assistant Directors and other officers function.

8.11.3 Scope of audit

A review on assessment and collection of fees from statutory bodies and others associated with the sericulture industry in the State was conducted by Audit from November 1996 to February 1997 by undertaking a test-check of records for the years 1991-92 to 1995-96 in the Directorate of Sericulture, four out of 86 Government Silk Farms, five out of 58 cocoon markets, 13 out of 58 Government grainages, three out of 12 silk exchanges, one out of four Government Silk Filatures, and the Government Silk Weaving and Twisting Factory. The important points noticed are narrated in the succeeding paragraphs.

8.11.4 Highlights

Though the legislation governing the transactions of silk industry required compulsory trading of all silk yarn through the silk exchanges established by Government, 52 per cent of the total production of yarn in the State was not passed through them. It had caused a revenue loss of

Rs.19.04 crores to Government during 1991-92 to 1995-96 by way of market fees.

(Paragraph 8.11.6)

The low yield of cross-breed disease-free layings in eight grainages resulted in loss of Rs.3.35 crores during 1991-92 to 1995-96.

(Paragraph 8.11.8)

Out of the sales of layings worth of Rs.217.80 lakhs supplied by departmental officials to farmers on credit basis up to May 1991, Rs.104.95 lakhs were due from 2,543 officials as of January 1997.

(Paragraph 8.11.9)

8.11.5 Trend of sericulture receipts

The anticipated and actual sericulture receipts during 1991-92 to 1995-96 were as under:

Year	Departmental receipts (Licence fees, Market fees etc.) (In lakhs of rupees)	
	Revised estimates	Actuals (Percentage over estimates)
1991-92	2298.50	2747.97 (120)
1992-93	2657.00	2083.96 (78)
1993-94	1368.50	1813.08 (132)
1994-95	2602.70	2825.50 (109)
1995-96	2673.97	1991.60 (74)

Reasons for variations have not been received (December 1997).

8.11.6 Loss of revenue due to irregular sale of raw silk

Under the Act, trading in silkworm cocoons by any person outside the cocoon markets established for the purpose is prohibited. Similarly, trading of silk yarn reeled by a reeler[#] (including a reeler who is also a twister) outside a silk exchange established for the purpose in 1979 is also prohibited.

Under the Act and Rules, every licensed trader who purchases silk yarn in silk exchange shall pay a market fee at the rate of two *per cent* of the price of silk yarn sold or purchased.

Based on a regular survey of the performance of reelers, the Department had arrived at the *renditta*[∞] to be 9 to 11 kg during 1995-96 showing improvement over the earlier periods when it ranged from 10 to 12 kg of cocoons for production of one kg of raw silk. Therefore, from the details of the quantity of silkworm cocoons transacted in the cocoon markets in the State and the *renditta*, the quantity of raw silk required to be passed through the silk exchanges is ascertainable.

The total quantity of cocoons sold in cocoon markets in the State, the quantity of raw silk required to be produced on the basis of the maximum *renditta* achieved, the quantity of raw silk transacted through the silk exchanges, the shortfall in transaction of raw silk through the silk exchanges and its value on the average prevailing price during the years 1991-92 to 1995-96 were as under.

Year	Quantity of cocoons sold in markets (In tonnes)	Renditta (Kgs)	Raw silk required to be produced		Raw silk not passed through silk exchanges (percentage to column (4))	Average prevailing price per kg Rs.	Value of silk in column (6) (In lakhs of rupees)
			Actual sale of raw silk in silk ex-changes				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1991-92	39010	12	3251	1773	1478 (45)	1031	15238.18
1992-93	48873	12	4073	2122	1951 (48)	827	16134.77
1993-94	48600	12	4050	1924	2126 (52)	730	15519.80
1994-95	52256	12	4355	1955	2400 (55)	909	21816.00
1995-96	48163	11	4378	1788	2590 (59)	1022	26469.80
Total	236902		20107	9562	10545 (52)		95178.55

Source: Data in column (2), (3), (5) and (7) are as furnished by the Department to Audit

Thus, the quantity of raw silk escaping passage through the silk exchanges was 52 *per cent* of the total production. This has resulted in

[#] Reeler means a person in charge of reeling establishment carrying on the business of reeling cocoons.

[∞] Renditta: Quantity of cocoons required to produce 1 Kg of raw silk.

loss of revenue of Rs.19.04 crores by way of market fees at the rate of 2 *per cent* of the average value of raw silk of Rs.951.79 crores. The department had failed to check escapement of raw silk passage through the silk exchanges.

On being pointed out, the Director stated (May 1997) that there were many hurdles; the legislation was amended in 1979 (for creation of silk exchanges) much against the will of the traders and some reelers; reeling was a losing concern and the traders could not be forced to transact through the silk exchanges as they would prefer to buy their requirements only from particular reelers in whom they had confidence about the quality. He added in December 1997 that the existing infrastructure of silk industry in the State could consume only 40 *per cent* of the total production in the State, and due to the external demand, the silk had to go outside the State. The Department's reply did not explain as to whether they had considered ways of instituting a suitable machinery to check irregular sale of raw silk.

8.11.7 Delays in collection of market fees

According to the Rules, a licensed trader who purchases silk yarn in a silk exchange is required to pay a market fee at the rate of 2 *per cent* of the price of silk yarn. The market fee is required to be levied and collected by the Silk Market Officer who is also required to issue a cash receipt.

It was noticed in two silk exchanges (Kanakapura and Kolar) that there were delays ranging up to 62 days in realisation of market fees aggregating Rs.11.08 lakhs from the Karnataka Silk Marketing Board in respect of 51.09 tonnes of raw silk bought by them on 11 occasions during February 1992 to March 1996.

On being pointed out, the Director stated (December 1997) that in some instances there was delay in realisation of cheques issued by the Karnataka Silk Marketing Board.

8.11.8 Low yield of cross-breed disease free layings

The main function of Government grainages is to prepare Cross-breed Disease Free Layings (CBDFLs) from pure Mysore Silk seed cocoons and bivoltine seed cocoons supplied by Government Silk Farms and to sell them to farmers at the rates fixed by the Director of Sericulture from time to time. The Director of Sericulture had fixed in March 1983 the standard yield of layings as 30 *per cent* of the total number of Mysore seed cocoons used in preparation of CBDFLs in Government grainages.

It was however noticed that in 10 out of the 13 grainages test-checked the standard yield level had not been achieved during the years 1991-92 to 1995-96. The shortfall in yield ranged from 24 to 31 *per cent*. as detailed below:-

Year	Number of Mysore seed cocoons used	Expected yield	Actual yield	Shortfall in yield (percentage)	Value (In lakhs of rupees)
1991-92	422.63	126.79	87.12	39.67 (31)	65.68
1992-93	542.67	162.80	112.27	50.53 (31)	108.74
1993-94	453.94	136.18	96.89	39.29 (29)	66.11
1994-95	332.63	99.79	76.09	23.70 (24)	42.45
1995-96	331.30	99.39	73.85	25.54 (26)	52.16
Total	2083.17	624.95	446.22	178.73	335.14

The short production of CBDFLs entailed a loss of revenue of Rs.335.14 lakhs to Government.

On being pointed out, the Director, confirming the yield to be less than 30 *per cent*, attributed the low yield to certain diseases. Since, according to the Department, the standard yield level had been prescribed making allowance of 50 *per cent* for male moths, 15 *per cent* towards melted pupae and uzifly infestation as also rejection of 5 *per cent* due to dead moths, this reply is untenable.

8.11.9 Non-recovery of sale proceeds of layings

According to the procedure in vogue prior to May 1991 sale of disease free layings to farmers on credit basis was carried out through the grainage officers and other field staff, the responsibility for collecting the sale proceeds and remitting it to Government being on the concerned officials.

A review of records in the Directorate revealed that as of January 1997, out of the sales of layings amounting to Rs.217.80 lakhs up to May 1991, Rs.104.95 lakhs were still pending recovery from 2,543 officials. Of these 16 officials against whom Rs.3.20 lakhs were

due had already retired from Government service. The rate of recovery of the dues was very low as indicated in the following table.

(In lakhs of rupees)

Year	Amount outstanding	Recovery	Balance
1991-92	217.80	3.81	213.99
1992-93	213.99	9.60	204.39
1993-94	204.39	14.26	109.13
1994-95	190.13	54.96	135.17
1995-96	135.17	13.50	121.67

On this being pointed out, the Director stated (December 1997) that out of Rs.104.95 lakhs, an amount of Rs.14.86 lakhs had since been recovered up to September 1997 and that recovery of the balance amount was in progress.

The points mentioned above were referred to Government in July 1997; their reply has not been received (December 1997).

POLICE RECEIPTS

8.12 Police receipts

8.12.1 Introduction

The State Government is responsible for maintenance of law and order in the State. This responsibility is discharged through the Police Department whose duties and functions are governed by the Karnataka Police Act 1963. The services of the police personnel are also lent to other departments of the State, the Central and other States' Governments, autonomous bodies, private organisations and individuals. While the services rendered by the police personnel for maintenance of general law and order in the State is regarded as the normal duty of the Government, their services extended for special occasions at the request of the organisers of events, functions, etc. are provided on payment of the charges at rates prescribed by the State Government from time to time. The Act envisages recovery of cost of deployment of additional police on application by a person, at large works when there is apprehension regarding behaviour of employees, and in cases of special danger to public peace.

Receipts of the Police Department mainly comprise recovery of cost of police personnel provided to the Central and other States' Governments, public and private bodies, fees, fines and forfeitures realised in respect of services controlled by the Department, receipts

under the Arms Act, and sale proceeds of confiscated goods and condemned vehicles.

8.12.2 Organisational set up

The Police Department in the State is headed by the Director General and Inspector General of Police who is assisted by five Directors General of Police (one each for Corps of Detectives, Intelligence, Home Guards, Karnataka State Reserve Police, and Civil Rights Enforcement Cell) at the headquarters at Bangalore. Under the charge of the DG & IGP are the Inspectors General, Deputy Inspectors General (Commissioners of Police in Bangalore, Mysore and Hubli-Dharwad cities), Superintendents in districts (Deputy Commissioners of Police in cities) and other staff.

8.12.3 Scope of audit

With a view to evaluating the efficiency and effectiveness of the system and procedures relating to assessment and collection of charges for services of police personnel, test check of records of the DG & IGP, the Commissioner of Police, Bangalore, and Deputy Commissioners of Police (Central and South), Bangalore and the Director General (Central Reserve Police Force), Bangalore for the period 1990-91 to 1996-97 was conducted by Audit during April -May 1997. Important points noticed are detailed in the following paragraphs.

8.12.4 Highlights

There was a short demand of "bundobust" charges of Rs.236.62 lakhs towards police personnel/vehicles deployed for the 'Miss World' pageant organised by a private company in Bangalore city in November 1996. On being pointed out, the Department raised the additional demand in November 1997.

(Paragraph 8.12.5(a))

In respect of maintenance of law and order and traffic control in connection with horse races, amusements, sports, etc. there was a short demand of Rs.17.12 lakhs from seven organisations during the period 1989-90 to 1996-97. Even out of the sum of Rs.73.37 lakhs collected, Rs.36.64 lakhs were unauthorisedly disbursed to the police personnel.

(Paragraph 8.12.5(b))

In respect of 69 KSRP platoons deployed in five other States during 1994-95 to 1996-97, demand for Rs.154 lakhs had not been raised as of November 1997.

(Paragraph 8.12.6)

8.12.5 Short levy of bundobust charges

(a) Pursuant to an application made by Amitabh Bachchan Corporation Limited (ABCL, a private company) for deployment of additional police in connection with the 'Miss World' pageant organised by it in Bangalore city from 15 October to 24 November 1996, extensive bundobust arrangements were made by drawing police personnel and vehicles of the State and of other Governments. Besides, vehicles from the Karnataka State Road Transport Corporation (KSRTC) and private operators were hired by Government to meet the requirement. It was noticed that as against the total amount of Rs.441.74 lakhs recoverable from the organisers, the Department had raised as initial demand (November 1996) for Rs.205.12 lakhs only. As against this, the organisers had paid Rs.206 lakhs in November 1996.

On being pointed out, the Commissioner of Police, Bangalore had since raised (November 1997) an additional demand for Rs.237.40 lakhs including Rs.236.62 lakhs pointed out by Audit.

(b) The services of the police personnel were being utilised for maintenance of law and order, and for traffic control on the days of horse races conducted by the Bangalore Turf Club, amusements organised at 'Fun World' and other places. As against the dues of

Rs.90.49 lakhs (Fees: Rs.76.36 lakhs, Remuneration: Rs.14.13 lakhs) recoverable from the organisers on account of deployment of police during the period from February 1990 to February 1997, only fees of Rs.73.37 lakhs had been recovered as of May 1997 resulting in short recovery of Rs.17.12 lakhs. Out of the fees recovered, Rs.36.64 lakhs had been disbursed to the concerned police personnel even though such disbursement was not authorised. Details are given below.

Sl. No.	Period	Organiser and particulars of payments	Amount (In lakhs of rupees)					
			Due	Recovered	Credited to Government	Disbursed to police personnel	Short/ non-recovery	
1.	February 1990 to February 1997	Bangalore Turf Club Fees	62.30	α	62.30	31.19	31.11	-
			10.06	β	10.06	5.03	5.03	-
		Remuneration	12.01	α	Nil	-	-	12.01
			1.71	β	Nil	-	-	1.71
2.	September 1995 to June 1996	Fun World Fees	1.04	β	1.01	0.51	0.50	0.03
		Remuneration	0.11	β	-	-	-	0.11
3.	August 1995 to March 1996	Others * Fees	2.96		-	-	-	2.96
		Remuneration	0.30		-	-	-	0.30
Total			90.49		73.37	36.73	36.64	17.12

α-Law and Order; β-Traffic control

On this being pointed out, the DG&IGP, accepting the audit observation, issued (December 1997) directions to the Commissioner of Police, Bangalore to recover the amounts disbursed so far from the concerned police personnel and henceforth credit the full amount recovered from the Bangalore Turf Club to the treasury.

8.12.6 Non-raising of demands for charges of KSRP deployed in other States

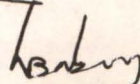
The Karnataka State Reserve Police platoons were being deployed in other States on request. Charges for such deployment of police were recoverable from the concerned States. During the years 1994-95 to 1996-97, 69 KSRP platoons were deployed in five States^φ. The expenditure incurred by the State Government on their salary, travelling and daily allowances for the period amounted to

* (1) Karnataka State Cricket Association, (2) Rotary International, (3) Annu Mallik Musical Nite, (4) Spastic society, and (5) Sunny Jamayat-UI-Ulma All Karnataka Samithi

^φ Andhra Pradesh, Assam, Maharashtra, Tamilnadu and Uttar Pradesh.

Rs.154 lakhs. Demands for recovery of this amount had not been raised as of November 1997.

The points mentioned above were reported to the DG & IGP and referred to Government in July 1997; their replies have not been received (December 1997).



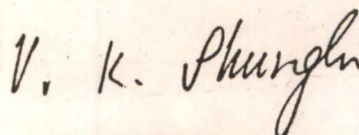
(S. NAGALSAMY)

Accountant General (Audit)-II
Karnataka

BANGALORE

THE 1 APR 1998

COUNTERSIGNED



(V.K.SHUNGLU)

Comptroller and Auditor General of India

NEW DELHI

THE 15 APR 1998

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