

**Report of the
Comptroller and Auditor General of India**

for the year ended 31 March 2004

(Revenue Receipts)

Government of Karnataka

Report of the
Comptroller and Auditor General of India

for the year ended 31 March 1964

(Revenue Account)

Part I of the Report

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P R E F A C E

This Report for the year ended 31 March 2004 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 sales tax, state excise, taxes on motor vehicles, taxes on agricultural income, land revenue, other tax receipts and non-tax receipts of the State.

The cases mentioned in the Report are among those which came to notice in the course of test audit of records during the year 2003-2004 as well as those which came to notice in earlier years but could not be included in previous years' Reports.

PREFACE

The Report of the Commission on the Organization of the Executive Branch of the Government, commonly known as the Hoover Commission, is published in two volumes.

The first volume, "The Executive Branch," contains the report of the Commission on the Executive Branch of the Government.

The second volume, "The Legislative Branch," contains the report of the Commission on the Legislative Branch of the Government.

The Commission was organized by Executive Order on July 1, 1955, and its members are listed in the Appendix.

The Commission's report is the result of a study of the Executive Branch of the Government, and is intended to provide a basis for the improvement of the Executive Branch of the Government.

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OVERVIEW

This Report contains 25 paragraphs including one review pointing out non-levy or short levy of tax, interest, penalty, etc., involving Rs.393.46 crore. Some of the major findings are mentioned below:

I. General

- The total revenue receipts of the State Government for the year 2003-2004 amounted to Rs.20,759.88 crore against Rs.16,168.76 crore for the previous year. 75 per cent of this was raised by the State through tax revenue (Rs.12,570.21 crore) and non-tax revenue (Rs.2,958.37 crore). The balance 25 per cent was received from the Government of India as State's share of divisible Union taxes (Rs.3,244.73 crore) and as grants-in-aid (Rs.1,986.57 crore).

(Paragraph 1.1)

- Test check of records of sales tax, state excise, taxes on motor vehicles, taxes on agricultural income, land revenue, stamps and registration fees, entry tax, professions tax, taxes and duties on electricity, other taxes and duties on commodities and services, forest receipts, mineral receipts and interest receipts conducted during the year 2003-2004, revealed under-assessments, non-levy and short levy of taxes, interest, penalty and other receipts, loss of revenue, etc. amounting to Rs.654.92 crore in 1,679 cases. During the year 2003-2004, the concerned Departments accepted under-assessments, non-levy and short levy, etc. of Rs.65.58 crore in 1,723 cases of which 1,548 cases (Rs.30.47 crore) had been pointed out in audit in earlier years. The Departments recovered Rs.14.17 crore during 2003-2004 at the instance of audit.

(Paragraph 1.9)

- 3,567 inspection reports issued up to December 2003 containing 6,914 observations involving revenue of Rs.904.56 crore were pending settlement at the end of June 2004.

(Paragraph 1.10)

II. Taxes on Sales, Trade, etc.

- Grant of incorrect exemptions and concessions in 44 cases resulted in short levy of tax of Rs.1.18 crore.

(Paragraph 2.2)

- Application of incorrect rate of tax in 117 cases resulted in short levy of Rs. 2.35 crore

(Paragraph 2.3.1)

- Turnover tax of Rs.4.35 crore was not levied or was levied short in 121 cases.

(Paragraph 2.3.2)

- Failure to forfeit the excess tax collected resulted in non-realisation of revenue amounting to Rs.0.86 crore in 22 cases.

(Paragraph 2.5)

- Non-levy of interest for delayed payment of tax amounted to Rs.2.79 crore in 65 cases.

(Paragraph 2.6.2, 2.6.3)

III. State Excise

- Permitting the Bar licence holders to sell beer without valid licence deprived the Government of revenue of Rs10.99 crore during 1998-2003.

(Paragraph 3.3)

- Failure to obtain the required security and delay in termination of leases for non payment of monthly rentals by arrack contractors during 2001-2002 resulted in non realisation of revenue of Rs.4.57 crore

(Paragraph 3.4.1)

IV. Land Revenue

- Demands for water rates amounting to Rs.1.78 crore were either not raised or were short raised by Tahsildars even after receipt of demand statements from the Irrigation officers in seven taluks.

(Paragraph 5.2)

V. Other Tax Receipts

- Deduction of inadmissible expenditure and exclusion of chargeable income in six cases in computing Agricultural income resulted in short levy of tax of Rs.64.12 lakh.

(Paragraph 6.2)

- Incorrect estimation of market value in four Sub-Registries resulted in short levy of stamp duty and registration fees of Rs.23.22 lakh.

(Paragraph 6.3)

- Non-levy/short levy of tax on entry of goods into local areas resulted in non-realisation of Rs.51.30 lakh in 26 cases.

(Paragraph 6.5)

- Education and health cesses of Rs. 47.86 crore collected by the local bodies till the end of March 2003 had not been remitted to Government.

(Paragraph 6.7)

VI. Non-tax Receipts

- A Review on **Interest Receipts** disclosed the following:
 - Non-fixation of terms and conditions of loans amounting to Rs.986.25 crore sanctioned in 191 cases to 66 loanees resulted in non-demanding of interest of Rs.283.18 crore for the period 1998-99 to 2002-2003.
 - In 52 cases of sanction of loans of Rs.89.68 crore pertaining 1998-99 to 2001-2002 though terms had been fixed, demands for interest of Rs.27.42 crore for the period 1998-99 to 2002-2003 had not been raised.

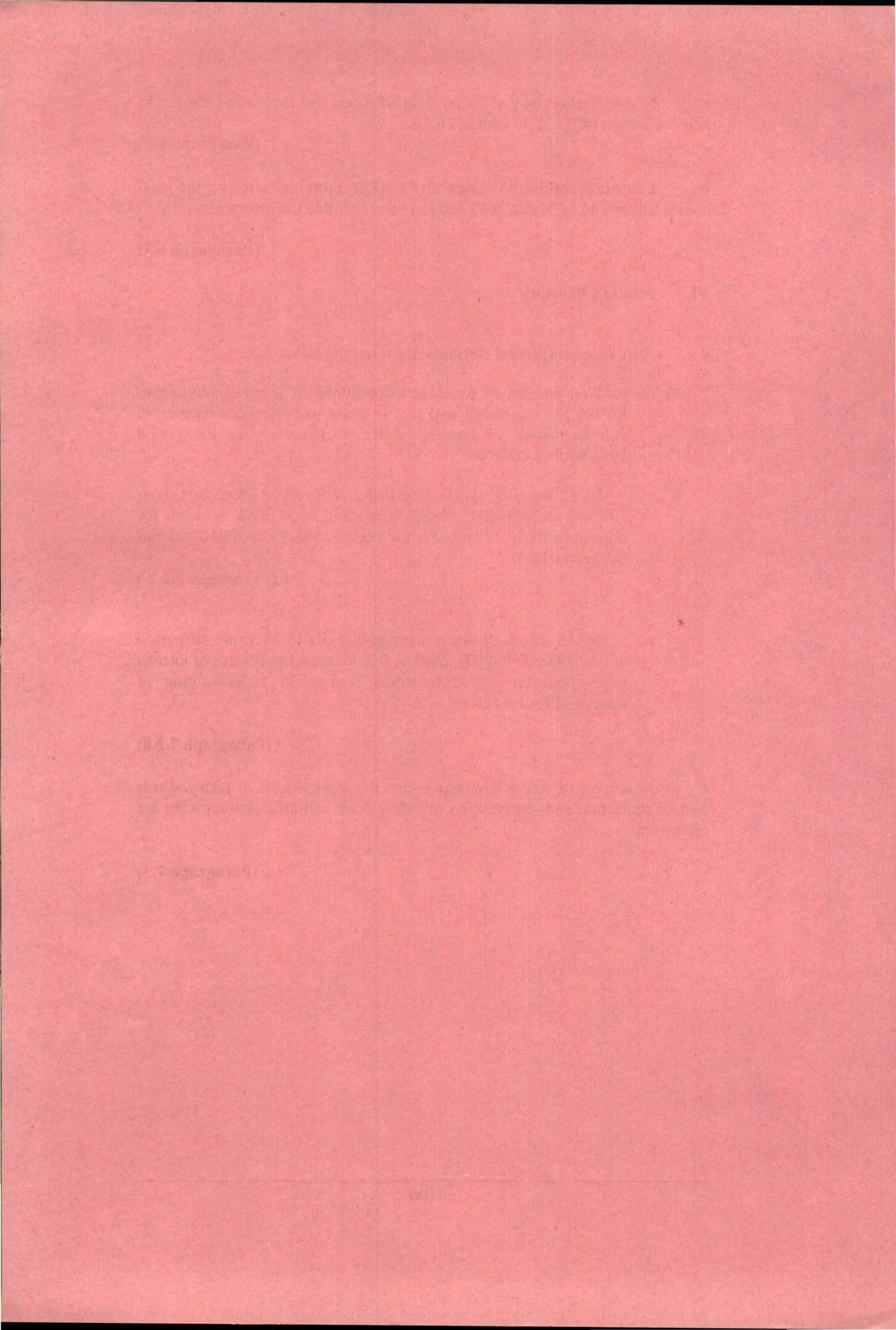
(Paragraph 7.2.7)

- In 15 cases of loans aggregating Rs.18.24 crore disbursed during 1998-99 to 2001-2002 to five loanees, lower rates of interest than applicable were prescribed leading to undercharging of interest of Rs.1.42 crore

(Paragraph 7.2.8)

- In respect of forest land leased to 11 lessees, Rs.58.90 lakh towards cost of protection and regeneration of safety zone and afforestation were not recovered.

(Paragraph 7.3)



CHAPTER-I : GENERAL

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2003-2004, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are given below:

(Rupees in crore)

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
I. Revenue raised by the State Government					
(a) Tax revenue	7744.36	9042.68	9853.27	10439.71	12570.21
(b) Non-tax revenue	1611.29	1659.97	1093.42	1277.67	2958.37
Total	9355.65	10702.65	10946.69	11717.38	15528.58
II. Receipts from the Government of India					
(a) State's share of divisible Union taxes	2132.78	2573.83	2623.38	2786.20	3244.73 ^Y
(b) Grants-in-aid	1418.02	1546.24	1751.18	1665.18	1986.57
Total	3550.80	4120.07	4374.56	4451.38	5231.30
III. Total receipts of the State	12906.45	14822.72	15321.25	16168.76	20759.88
IV. Percentage of I to III	72	72	71	72	75

The total receipts of the State during 2003-2004 increased by Rs.4591.12 crore over the previous year (28 per cent). This was brought about by increases of Rs.2130.50 crore in tax revenue (20 per cent), Rs.1680.70 crore in non-tax revenue (132 per cent), Rs.458.53 crore in State's share of divisible Union taxes (16 per cent) and Rs.321.39 crore in grants-in-aid from Government of India (19 per cent).

^Y For details see statement No.11 – Detailed Accounts of revenue by Minor Head of the Finance Accounts of the Government of Karnataka for the year 2003-2004. Figures of "tax share net proceeds assigned to States" booked in the Finance Accounts under A-Tax Revenue have been excluded from revenue raised by the state and included in the state's share of divisible union taxes in the statement.

The Non-Plan grants received from the Government of India during the year 2003-2004 amounted to Rs.529.85 crore. They comprised grants under Proviso to Article 275(1) of the Constitution (Rs.24.82 crore), grants from Central Road Fund (Rs.57.11 crore), grants towards contribution to Calamity Relief Fund (Rs.381.21 crore) and others (Rs.66.71 crore).

1.1.1 The details of tax revenue raised during the year 2003-2004, along with the figures for the preceding four years, are given below:

Head of Revenue	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Percentage of increase (+) / decrease (-) in 2003-2004 over 2002-2003
	(Rupees in crore)					
1. Taxes on sales, trade, etc. Of which - (a) State sales tax (b) Central sales tax	4683.23 4132.48 550.75	5386.33 4614.20 772.13	5269.43 4590.08 679.35	5473.54 4658.74 814.80	6648.95 5744.15 904.80	(+) 21
2. State excise	1215.20	1523.13	1976.94	2094.19	2333.96	(+) 11
3. Stamps and registration fees	565.79	638.12	855.04	1115.35	1355.69	(+) 22
4. Taxes on vehicles	448.82	501.82	712.37	675.70	800.07	(+) 18
5. Taxes on goods and passengers (Tax on entry of goods into local areas)	337.60	473.02	498.11	516.53	673.46	(+) 30
6. Taxes and duties on electricity	155.58	162.10	171.30	172.14	272.92	(+) 59
7. Other taxes on income and expenditure (Taxes on professions, trades, callings and employment)	132.78	151.57	167.24	180.20	245.37	(+) 36
8. Other taxes and duties on commodities and services (Entertainment tax, Betting tax, Luxury tax, Education cess, Health cess, Forest development tax)	131.83	139.95	150.67	151.13	170.65	(+) 13
9. Land revenue	38.73	43.16	49.54	59.61	67.84	(+) 14
10 Taxes on agricultural income	34.80	23.48	2.63	1.32	1.30	(-) 2
Total	7744.36	9042.68	9853.27	10439.71	12570.21	(+) 20

Details of major variations are mentioned below:

- **Taxes on sales, trade, etc.** : Increase is attributed to additional resources mobilisation, normal growth, collection of old arrears and effective enforcement.
- **Taxes and duties on electricity** : Increase is attributed to levy of ad valorem tax and imposition of electricity tax on captive generation set with effect from 16.10.2003.
- **Other taxes on income and expenditure (Professions tax)** : Increase is attributed to increase in tax base.
- **Taxes on goods and passengers (Entry tax)** : Increase is attributed to additional resource mobilisation and normal growth.

Reasons for variations in respect of other heads though called for in July 2004 have not been received (January 2005).

1.1.2 The details of major non-tax revenue realised during the year 2003-2004, along with the figures for the preceding four years, are given below:

Head of Revenue	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Percentage of increase (+)/ decrease (-) in 2003-2004 over 2002-2003
	(Rupees in crore)					
1. Non-ferrous mining and metallurgical industries	116.30	136.87	147.13	157.55	222.15	(+) 41
2. Forestry and wild life	94.87	108.25	100.90	101.52	180.65	(+) 78
3. Housing	7.85	9.23	10.50	67.08	38.14	(-) 43
4. Medical and public health	30.79	28.65	59.18	56.38	31.78	(-) 44
5. Other administrative services	43.26	51.30	28.14	45.27	91.81	(+) 103
6. Education, sports, art and culture	21.32	39.77	31.77	43.32	30.07	(-) 31
7. Contributions and recoveries towards pensions and other retirement benefits	16.40	29.32	28.38	34.68	51.39	(+) 48
8. Interest receipts	801.67	721.18	141.92	34.36	111.34	(+) 224
9. Co-operation	14.76	13.86	16.35	27.47	25.92	(-) 6
10. Power	46.92	43.33	36.73	27.25	28.39	(+) 4
11. Police	13.91	19.82	14.41	21.11	31.55	(+) 49

Head of Revenue	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Percentage of increase (+)/ decrease (-) in 2003-2004 over 2002-2003
	(Rupees in crore)					
12. Major and medium irrigation	15.76	18.46	20.56	20.93	11.81	(-) 44
13. Crop husbandry	11.02	13.95	19.88	18.98	13.59	(-) 28
14. Roads and bridges	11.24	16.13	19.29	17.92	33.80	(+) 89
15. Village and small industries	22.40	23.95	21.90	17.25	17.66	(+) 2
16. Dividends and profits	6.24	2.75	5.14	14.93	16.90	(+) 13
17. Public works	13.19	11.37	14.53	11.10	12.12	(+) 9
18. Miscellaneous general services	61.27	70.70	74.38	231.42	1589.75	(+) 587
19. Other general economic services	172.26	206.86	223.91	259.03	293.85	(+) 13
20. Others	89.86	94.22	78.42	70.12	125.70	(+) 79
Total	1611.29	1659.97	1093.42	1277.67	2958.37	(+) 132

Details of major variations are mentioned below:

- **Miscellaneous general services** : Increases occurred mainly under 'State lotteries', 'unclaimed deposits'. Department attributed increase under 'State lotteries' to introduction of new schemes under conventional lottery and increase in revenue from 'Online lottery'. Revenue from 'Online lottery' which was started from 14.08.2002 is for the part of the year for 2002-2003, whereas the revenue for 2003-2004 is for whole year.
- **Interest receipts** : Increases occurred mainly under 'Interest from public sector and other undertakings', 'Interest realised on investment of cash balances' and 'other receipts'.
- **Non-ferrous mining and metallurgical industries**: Increase in revenue is attributed to payment of royalty by M/s Hutti Gold Mines Ltd., and increase in quarry leases.

Reasons for variations in respect of other heads though called for in July 2004 have not been received (January 2005).

1.2 Follow-up on White Paper, Medium Term Fiscal Plan, etc.

Critical issues in State finances

In order to focus on the current fiscal situation in Karnataka, to identify the main causes of its deterioration and to outline the corrective measures needed to arrest the trend, the State Government presented a White Paper in March 2000. The factors identified by it as causing slow growth of revenues included –

- Stagnancy in revenue receipts including decline in non-tax revenues.
- Uneconomic pricing of public services and implicit subsidies including low irrigation rates.
- Poor financial performance of public enterprises.
- Losses from power sector.
- Finances of public transport system.
- Financing urban services.

The Medium Term Fiscal Plan (MTFP) 2003 drawn up pursuant to the White Paper aimed at transformation of Revenue Deficit of three *per cent* of Gross State Domestic Product (GSDP) (2001-2002) to Revenue Deficit of 1.63 *per cent*. The assumptions/projections made in the MTFP in regard to 2003-2004 and the actual realisations there against were as under:

Sl. No.	Item	MTFP 2003 Assumptions/ Projections for 2003-2004	Actuals for 2003-2004	Variations Excess (+)/ Shortfall (-)
1	Revenue Receipts (Rs. in crore)			
(a)	State's Own Revenues			
(i)	Tax Revenues (Percentage of GSDP)	12588 (9.63)	12570.21 (9.62)	(-) 17.79
(ii)	Non-tax Revenues (Percentage of GSDP)	1713 (1.31)	2958.37 (2.26)	(+) 1245.37
(b)	Resources from the GOI (Percentage of GSDP)	5544 (4.24)	5231.30 (4.00)	(-) 312.70
2.	Revenue Deficit (Rs. in crore) (Percentage of GSDP)	2135 (1.63)	524.83 (0.40)	(-) 1610.17
3	Buoyancies of State taxes (Ratio)			
(a)	Commercial taxes	1.1	2.10	(+) 1.00
(b)	State excise	1	1.12	(+) 0.12
(c)	Taxes on motor vehicles	1	1.80	(+) 0.80
(d)	Stamps and registration fees	1.005	2.103	(+) 1.098

Sl. No.	Item	MTFP 2003 Assumptions/ Projections for 2003-2004	Actuals for 2003-2004	Variations Excess (+)/ Shortfall (-)
4	Incentive-linked grant from GOI (Rs. in crore)	60.80	Nil*	(-) 60.80
5	Other GOI grants (Rs. in crore)			
(a)	Calamity Relief Fund (EFC projections)	64.74	381.21	(+) 316.47
(b)	Special Problems (EFC projections)	60.93	24.82	(-) 36.11
(c)	Block State Plans (Growth of 12 per cent)	12	38.80	(+) 26.80
(d)	Growth rate of Centrally Sponsored Schemes grants (percentage)	5	(-) 1.59	(-) 6.59
(e)	Growth rate of Central Plan Schemes grants (percentage)	5	(-) 7.27	(-) 12.27

* Incentive grant of Rs.60.80 crore received during 2004-05

Note: GSDP at current prices is taken as Rs.130678 crore.

Reasons for variations though called for from Government/concerned Departments have not been received (January 2005).

Recovery of user charges

The White Paper (March 2000) indicated uneconomic pricing of public services and implicit subsidies as one of the causes for slow growth of revenues of the State.

In the MTFP 2003, Government's objective was stated to be to ensure full recovery of operating costs for non-meritorious economic services. The projections made in the MTFP, the actual realisation and the shortfall in respect of the selected services were as under:

Sl. No.	Item	MTFP 2003 Assumptions/ Projections for 2003-2004	Actuals for 2003-2004	Variations Excess (+)/ Shortfall (-)
1	Cost recovery (as a percentage of revenue expenditure)			
(a)	Secondary education	3.38	2.17	(-) 1.21
(b)	Technical education	12.20	9.38	(-) 2.82
(c)	Health	1.01	4.03	(+) 3.02

Sl. No.	Item	MTFP 2003 Assumptions/ Projections for 2003-2004	Actuals for 2003-2004	Variations Excess (+)/ Shortfall (-)
(d)	Rural water supply	0.53	0.19	(-) 0.34
(e)	Irrigation	55.00	18.69	(-) 36.31
(f)	Minor irrigation	8.00	4.79	(-) 3.21
(g)	Housing	45.92	22.46	(-) 23.46

Reasons for variations though called for from Government/concerned Departments have not been received (January 2005).

1.3 Variations between budget estimates and actual receipts

1.3.1 The variations between budget estimates and actuals of revenue receipts for the year 2003-2004 in respect of the principal heads of tax and non-tax revenue are given below:

(Rupees in crore)

Head of Revenue	Budget Estimates	Actual receipts	Variation Excess (+)/ Shortfall (-)	Percentage of variation
(A) Tax revenue				
1. Taxes on sales, trade, etc.	6700.81	6648.95	(-) 51.86	(-) 1
Of which-				
(a) State sales tax	1622.16	5744.15	(-) 72.42	(-) 1
Trade tax (VAT)	4194.41			
(b) Central sales tax	884.24	904.80	(+) 20.56	(+) 2
2. State excise	2303.84	2333.96	(+) 30.12	(+) 1
3. Stamps and registration fees	1354.00	1355.69	(+) 1.69	-
4. Taxes on vehicles	880.39	800.07	(-) 80.32	(-) 9
5. Taxes on goods and passengers (Tax on entry of goods into local areas)	540.76	673.46	(+) 132.70	(+) 25
6. Other taxes on income and expenditure (Taxes on professions, trades, callings and employment)	217.64	245.37	(+) 27.73	(+) 13
7. Taxes and duties on electricity	306.12	272.92	(-) 33.20	(-) 11

(Rupees in crore)

Head of Revenue	Budget Estimates	Actual receipts	Variation Excess (+)/ Shortfall (-)	Percentage of variation
8. Other taxes and duties on commodities and services (Entertainment tax, Betting tax, Luxury tax, Education cess, Health cess, Forest development tax)	186.63	170.65	(-) 15.98	(-) 9
9. Land revenue	69.89	67.84	(-) 2.05	(-) 3
10. Taxes on agricultural income	28.31	1.30	(-) 27.01	(-) 95
(B) Non-tax revenue				
1. Non-ferrous mining and metallurgical industries	183.65	222.15	(+) 38.50	(+) 21
2. Forestry and wild life	125.93	180.65	(+) 54.72	(+) 43
3. Housing	53.79	38.14	(-) 15.65	(-) 29
4. Medical and public health	49.66	31.78	(-) 17.88	(-) 36
5. Other administrative services	37.17	91.81	(+) 54.64	(+) 147
6. Education, sports, art and culture	47.56	30.07	(-) 17.49	(-) 37
7. Contributions and recoveries towards pensions and other retirement benefits	22.09	51.39	(+) 29.30	(+) 133
8. Interest receipts	37.87	111.34	(+) 73.47	(+) 194
9. Co-operation	25.36	25.92	(+) 0.56	(+) 2
10. Power	0.43	28.39	(+) 27.96	(+) 6502
11. Police	22.13	31.55	(+) 9.42	(+) 43
12. Major and medium irrigation	36.00	11.81	(-) 24.19	(-) 67
13. Crop husbandry	21.49	13.59	(-) 7.90	(-) 37
14. Roads and bridges	32.00	33.80	(+) 1.80	(+) 6
15. Village and small industries	17.31	17.66	(+) 0.35	(+) 2
16. Dividends and profits	3.22	16.90	(+) 13.68	(+) 425
17. Public works	8.68	12.12	(+) 3.44	(+) 40
18. Miscellaneous general services	729.00	1589.75	(+) 860.75	(+) 118
19. Other general economic services	138.35	293.85	(+) 155.50	(+) 112

Details for major variations are mentioned below:

- **Taxes on Agricultural income:** Decrease is attributed to deferment of taxes and loss declared by assessees.
- **Non-ferrous mining and metallurgical industries:** Increase is attributed to payment of arrears by M/s Hutti Gold Mines Ltd., demand for iron ore in China and increase in quarry leases.
- **Interest Receipts:** Increase occurred mainly under 'interest from Public Sector and other Undertakings'.
- **Power:** Increase occurred mainly on account of receipt of royalty from Karnataka Power Corporation Limited.
- **Dividends and Profits:** Increase occurred mainly under dividends from Public Undertakings.
- **Miscellaneous General Services:** Increase occurred mainly under receipts from conventional lottery.

Reasons for variations in respect of other heads though called for from Government/ concerned Departments in July 2004 have not been received (January 2005).

1.3.2 The variations between budget estimates and actuals of grants-in-aid from Government of India are given below:

Sl. No.	Nature of grant	Budget Estimates	Actual receipts	Variation Excess (+)/ Shortfall (-)		Percentage of variation
				(Rupees in crore)		
1	Non-Plan Grants	300.05	529.85	(+)	229.80	(+) 77
2	Grants for State Plan Schemes	1318.93	795.58	(-)	523.35	(-) 40
3	Grants for Central Plan Schemes	89.44	41.95	(-)	47.49	(-) 53

Sl. No.	Nature of grant	Budget Estimates	Actual receipts	Variation Excess (+)/ Shortfall (-)	Percentage of variation
		(Rupees in crore)			
4	Grants for Centrally Sponsored Plan Schemes	790.29	619.19	(-) 171.10	(-) 22
Total		2498.71	1986.57	(-) 512.14	(-) 20

Reasons for variations though called for from Government have not been received (January 2005).

1.4 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2001-2002, 2002-2003 and 2003-2004 along with the relevant all-India average percentage of *expenditure on collection* to gross collection for 2002-2003 were as follows:

(Rupees in crore)

Head of Revenue	Year	Gross Collection	Expenditure on collection	Percentage of cost of collection to gross collection	All-India average percentage for the year 2002-2003
1. Taxes on sales, trade, etc.	2001-2002	5328.28	57.04	1.07	1.18
	2002-2003	5538.18	56.04	1.01	
	2003-2004	6861.15	59.09	0.86	
2. Taxes on vehicles	2001-2002	713.02	17.95	2.52	2.86
	2002-2003	676.26	17.38	2.57	
	2003-2004	831.26	19.40	2.33	

1.5 Collection of sales tax per assessee

Year	Number of assessees	Sales tax revenue	Revenue per assessee
		(Rupees in lakh)	
1999-2000	276210	530547	1.92
2000-2001	291021	627993	2.16
2001-2002	301954	630448	2.09
2002-2003	316462	657712	2.08
2003-2004	321398	696524	2.17

It could be seen from the above that the revenue per assessee during 2003-2004 increased over the previous year.

1.6 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2004 in respect of some principal heads of revenue amounted to Rs.3104.34 crore of which Rs.780.91 crore were outstanding for more than 5 years as detailed in the following table:

(Rupees in crore)			
Head of revenue	Amount of arrears as on 31 March 2004	Arrears outstanding for more than five years as on 31 March 2004	Remarks
1. Taxes on sales, trade, etc., Entry tax, Entertainment tax, Agricultural income-tax, Professions tax, Luxury tax	3086.68 #	780.91	Out of the total arrears of Rs.3086.68 crore, Rs.871.36 crore had been stayed by the Courts, Rs.164.45 crore had been covered by recovery certificates, Rs.44.15 crore were proposed to be written off and the balance of Rs.2006.72 crore was under other stages of recovery.
2. Taxes and duties on electricity	17.66	NF	Out of the total arrears of Rs.17.66 crore, Rs.15.23 crore relates to Government undertakings and Rs.2.43 crore relate to others.
Total	3104.34	780.91	

Provisional

NF - Not furnished

In respect of other major heads, details of arrears of revenue though called for in July 2004, have not been received (January 2005).

1.7 Arrears in assessments

The details of cases pending assessment at the beginning of the year 2003-2004, cases becoming due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of the year 2003-2004 as furnished by the Commercial Taxes Department in respect of sales tax, entry tax, entertainment tax, luxury tax, agricultural income tax and professions tax are as follows:

Head of revenue	Opening balance	New cases due for assessment during 2003-2004	Total assessments due	Cases disposed of during 2003-2004	Balance at the end of the year	Percentage of column 6 to 4
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Sales tax	367462	365805	733267	321519	411748	56
2. Entry tax	48121	44285	92406	40842	51564	56
3. Entertainment tax	62632 ^o	51010	113642	47197	66445	58
4. Luxury tax	1495	1819	3314	1413	1901	57
5. Agricultural income-tax	2448	1609	4057	3026	1031	25
6. Professions tax	112614	17043	129657	19772	109885	85
Total	594772	481571	1076343	433769	642574	60

The pendency in finalisation of assessments ranged between 25 per cent and 85 per cent under various heads of revenue, thus, resulting in delay in realisation of corresponding revenue in these cases. It could be seen from the above table that the disposal rate under professions tax assessments was very poor and was only 15 per cent.

^o Differs from the closing balance of 61766 reported by the Department for 2002-2003

1.8 Write-off and waiver of revenue

During the year 2003-2004 demands for Rs.90.57 lakh in 12 cases were written off by the Commercial Taxes Department as irrecoverable. Reasons for the write-off of these demands were reported by the Department as whereabouts of defaulters not known, defaulters no longer alive and defaulters not having any property.

1.9 Results of audit

Test check of records of sales tax, state excise, taxes on motor vehicles, agricultural income-tax, land revenue, stamps and registration fees, entry tax, entertainment tax, professions tax, betting tax, electricity tax, forest, energy, sericulture and other departmental offices conducted during the year 2003-2004 revealed under-assessments, non-levy/short levy of taxes, loss of revenue, failure to raise demands, etc. involving Rs.654.92 crore in 1679 cases. During the course of the year 2003-2004, the concerned departments accepted under-assessments, short demands, etc. aggregating Rs.65.58 crore in 1723 cases of which 1548 cases (Rs.30.47 crore) were pointed out in audit in earlier years. A sum of Rs.14.17 crore relating to 1219 audit observations was recovered at the instance of audit.

This Report contains 25 Paragraphs including one Review involving financial effect of Rs.393.46 crore. The Departments have accepted audit observations involving Rs.64.03 crore, of which Rs.6.16 crore had been recovered up to January 2005. Audit observations with a total revenue effect of Rs.11.49 crore in 82 cases have not been accepted by the Departments, but their contentions have been found to be at variance with the facts or legal position and these have been appropriately commented upon in the relevant Paragraphs. No reply has been received in the remaining cases (January 2005).

1.10 Outstanding inspection reports and audit observations

Accountant General (Audit) (AG) conducts periodical inspections of Government Departments to test-check the transactions and verify the maintenance of important accounting and other records as per prescribed rules

and procedures. These inspections are followed up with Inspection Reports (IR). When important irregularities detected during the inspections are not settled on the spot, these IRs are issued to the Heads of Offices inspected with a copy to the next higher authorities. The Hand Book of instructions for speedy settlement of audit observations (Finance Department) provides for prompt response by the Executive to the IRs issued by the AG to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies, lapses, etc., noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly and report their compliance to the AG. Serious irregularities are also brought to the notice of Heads of Departments by the Office of AG. A half-yearly report of pending IRs is sent to the Secretary of the Department in respect of pending IRs to facilitate monitoring of the audit observations in the pending IRs.

However, the time schedule prescribed by Government had seldom been adhered to, with the result that 3567 inspection reports issued up to end of December 2003, containing 6914 audit observations involving Rs.904.56 crore were to be settled at the end of June 2004, as indicated below, along with the corresponding figures for the two preceding years:

	At the end of		
	June 2002	June 2003	June 2004
Number of outstanding inspection reports	3693	3625	3567
Number of outstanding audit observations	8079	7722	6914
Amount involved (Rupees in crore)	688.89	692.90	904.56

Out of the 3567 inspection reports pending settlement, first replies have not been received (June 2004) for 403 inspection reports containing 1102 audit observations involving Rs.118.12 crore. The pendency of these reports was reported to Government during July-November 2004. The receipt-wise details of inspection reports and audit observations outstanding as on 30 June 2004 and the amount involved are indicated below:

(Rupees in crore)				
Department	Nature of receipts	Number of outstanding inspection reports	Number of outstanding audit observations	Amount of receipts involved
1. Finance	(a) Taxes on sales, trade, etc., Entry tax, Entertainment tax, Luxury tax, Professions tax and Betting tax	1279	3013	71.54

(Rupees in crore)

Department	Nature of receipts	Number of outstanding inspection reports	Number of outstanding audit observations	Amount of receipts involved
	(b) Agricultural income-tax	37	140	5.68
	(c) State excise	750	1161	336.21
2. Energy	Electricity duty	10	18	49.44
3. Revenue	(a) Land revenue	473	862	58.86
	(b) Stamps and registration fees	336	492	47.19
4. Home and Transport	Taxes on motor vehicles	265	486	61.54
5. Forest, Ecology and Environment	Forest receipts	259	389	195.70
6. Commerce and Industries	(a) Sericulture industries receipts	62	81	7.16
	(b) Mineral receipts	62	199	60.39
7. Public Works	Public works receipts	34	73	10.85
Total		3567	6914	904.56

1.11 Ad-hoc Committee Meetings

Government issued (March 1968) instructions to constitute 'Ad-hoc Committees' in the Secretariat of 10 Departments to expedite the clearance of audit observations contained in the Inspection Reports. These Committees are to be headed by the Secretaries of the concerned Administrative Departments and attended by the designated officers of the State Government and a nominee of the Accountant General. These Committees are to meet periodically and in any case, at least once in a quarter.

Ad-hoc Committees had been constituted for only four Departments viz., Commerce and Industries, Forest, Ecology and Environment, Home and Transport and Revenue. Details of meetings held and paragraphs settled during the year 2003-2004 is as under:

Department	No. of meetings held	No. of paragraphs settled
Forest, Ecology and Environment	5	69
Home and Transport	4	29

Department	No. of meetings held	No. of paragraphs settled
Revenue	1	-
Commerce and Industries	1	-

Thus, due attention was not being given to the procedure prescribed.

1.12 Response of the Departments to Draft Audit Paragraphs

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

52 draft paragraphs/review proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2004 were forwarded to the Secretaries to Government and copies endorsed to Heads of Departments during April-June 2004. Replies were due latest by the end of August 2004.

Replies to none of the 52 draft paragraphs/review were received within the prescribed period of six weeks. However, Departmental Audit Committees at the level of Principal Secretary/Secretary and Apex Committee at the level of Chief Secretary to Government of Karnataka were constituted and the draft paragraphs proposed were discussed. Replies to the draft paragraphs except four have been received and considered in finalisation of the Report (January 2005). After deletion/clubbing of some paragraphs/reviews, the Report contains 25 paragraphs including one review.

1.13 Follow-up on Audit Reports

According to the Rules of Procedure (Internal Working) of the Committee on Public Accounts (PAC) (as modified in September 1999), within four months (three months up to March 1994) of an Audit Report being laid on the Table of the Legislature, the Departments of Government are to prepare and send to the

Karnataka Legislative Assembly Secretariat detailed explanations (Departmental Notes) on the audit paragraphs. The Rules further require that before such submission, the Departmental Notes are to be got vetted by the Accountant General.

A review of the position obtaining in this regard revealed that as of January 2005, seven Departments had not furnished the Departmental Notes in respect of 99 Paragraphs included in Audit Reports for the years 1990-91 to 2001-2002 due between March 1993 and July 2003, for vetting, the delay ranging from over one year to over 11 years, as detailed below:

Sl. No.	Department	Year of Audit Report	Dates of presentation to the Legislature	Last date by which Departmental Notes were due	Number of Paragraphs for which Departmental Notes are still due	Delay (months)
1	Revenue	1990-91, 1992-93 to 1999-2000 and 2001-2002	December 1992 to March 2003	March 1993 to July 2003	51	139 to 15
2	Finance	1996-97 and 1998-99 to 2001-2002	May 1998 to March 2003	September 1998 to July 2003	41	73 to 15
3	Commerce and Industries	1996-97 and 2000-2001	May 1998 and March 2002	September 1998 to July 2002	2	73 to 27
4	Urban Development	1998-99	March 2000	July 2000	1	63
5	Energy	1993-94 and 2001-2002	March 1995 and March 2003	July 1995 and July 2003	2	111 to 15
6	Health and Family Welfare	1997-98	March 1999	July 1999	1	63
7	Home and Transport	1996-97	May 1998	September 1998	1	73
	Total	1990-91 and 1992-93 to 2001-2002	December 1992 to March 2003	March 1993 to July 2003	99	139 to 15

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



Audit Report (Revenue Receipts) for the year ended 31 March 2004

The following table shows the revenue receipts for the year ended 31 March 2004. The figures are in thousands of dollars.

The revenue receipts for the year ended 31 March 2004 are as follows:

Category	2003-04	2002-03	2001-02	2000-01	1999-00
Government Grants	1000	950	900	850	800
Income Tax	2000	1900	1800	1700	1600
Corporate Tax	1500	1400	1300	1200	1100
Personal Income Tax	1000	950	900	850	800
Other Taxes	500	450	400	350	300
Interest Income	300	280	260	240	220
Dividend Income	200	180	160	140	120
Other Income	100	90	80	70	60
Total	5100	4800	4500	4200	3900

The above figures are subject to audit and may be revised.

CHAPTER-II: TAXES ON SALES, TRADE, ETC.

2.1 Results of audit

Test check of records of the Sales Tax Offices, conducted in audit during the year 2003-2004, disclosed under-assessments of tax, non-levy of penalty, etc. amounting to Rs.27.34 crore in 887 cases, under the following broad categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1	Non-levy/short levy of tax	370	9.30
2	Incorrect grant of exemption/ concession	59	2.36
3	Non-levy/short levy of turnover tax	209	10.05
4	Non-levy of penalty	145	3.68
5	Non-forfeiture of excess tax collected	63	1.41
6	Other irregularities	41	0.54
	Total	887	27.34

During the course of the year 2003-2004, the Department accepted under-assessments of tax amounting to Rs.15.82 crore involved in 1,138 cases which had been pointed out in audit in earlier years and recovered Rs.9.27 crore involved in 899 cases.

A few illustrative cases (including certain cases noticed in earlier years which could not be included in previous Reports) involving Rs.12.02 crore are given in the following paragraphs. Of this, Rs.5.21 crore had been recovered.

2.2 Incorrect grant of exemption/concession

2.2.1 In accordance with the notifications issued from time to time under the Karnataka Sales Tax (KST) Act, 1957, and the Central Sales Tax (CST) Act, 1956, exemption from payment of tax by small scale (SSI)/medium and large scale industries is not allowed on turnover where no manufacturing activity is involved, or in respect of sales effected beyond the eligibility period or eligibility limits, or in respect of sales effected prior to the date of expansion,

on or turnovers on which tax has been collected by such units. Further, in cases of units undertaking expansion schemes, the tax exemption is to be limited to the difference between the total tax liability and the average tax liability of three years immediately preceding the year in which investment for expansion took place.

It was, however, noticed between July 2003 and January 2004, that in seven districts while finalising 24 assessments of 14 SSI/medium scale units between September 2000 and March 2003, for the years 1997-98 to 2001-2002, sales tax exemption of Rs.65.45 lakh was incorrectly granted resulting in short levy of tax of Rs.65.45 lakh, as detailed below:

(Rupees in lakh)

Sl. No.	District (Number of cases)	Nature of irregularity	Assessment year (Date of assessment)	Tax incorrectly exempted
1	Bangalore (Urban) (1)	The assessee collected tax during the period covered by exemption.	1998-99 (May 2002)	13.86
2	Kolar (2)	Tax exemption was allowed even though no manufacturing activity was involved.	1999-2000 (between May 2002 and March 2003)	1.22
3	Bangalore (Rural) (1) Dakshina (1) Kannada (1) Tumkur (1)	Tax exemption allowed beyond the eligibility limit/ period.	1998-99, 2000-2001 and 2001-2002 (between January 2002 and March 2003)	19.59
4	Bangalore (Rural) (7) Bangalore (Urban) (2) Dakshina (6) Kannada (2) Dharwad (2) Hassan (1)	In respect of units under expansion schemes, against admissible tax exemption of Rs.1.43 crore, Rs. 1.74 crore was allowed.	1997-98 to 2001-2002 (between September 2000 and March 2003)	30.78
Total (24)				65.45

After these cases were pointed out to the Department between July 2003 and January 2004, Government stated in August 2004 that additional demand of Rs. 33.90 lakh has been created by revision of assessments in seven cases and recovered Rs.2.81 lakh in three of them. In respect of 14 cases involving Rs.23.45 lakh, notices have been issued. In respect of the remaining cases, final replies have not been received (January 2005).

2.2.2 Under the KST Act and CST Act, taxable turnover of every dealer shall be determined in accordance with relevant provisions of the Act and rules made thereunder after allowing prescribed deductions from the total turnover. Tax is leviable on the taxable turnover determined at the rates mentioned in the relevant Schedules to the Act. In addition, cess at the rate of five *per cent* of tax (from 1995-96 in Bangalore City Planning Area only and from 1998-99 throughout the State) and turnover tax (TOT) at prescribed rate are also leviable. Under the CST Act, tax at specified rates is levied on inter-State sale of goods.

In seven districts, it was noticed between June 2003 and March 2004 that while finalising between February 1999 and March 2003, 20 assessments of 16 dealers for the years 1995-96, 1998-99 to 2001-2002, turnover aggregating Rs.11.23 crore was either incorrectly determined or exempted resulting in short levy of tax of Rs.52.52 lakh, as detailed below:

(Rupees in lakh)					
Sl. No.	District (Number of cases)	Period (Date) of assessment	Nature of irregularity	Turnover involved	Tax effect
1	Bangalore (Rural) (5)	1999-2000 to 2000-2001 (between April and October 2002)	(1) HDPE ^Y woven fabric falling under Chapter 39 of the Central Excise Tariff Act was given exemption incorrectly, treating it as Additional Excise duty suffered goods (3 cases). (2) Consideration received for transfer of right to use of machinery was liable to tax. However, it was not reckoned as taxable turnover in the assessment order (one case). (3) Purchases of taxable goods from URDs ^Ø consumed in manufacture was liable to tax under the Act. However, no tax was levied on such purchase turnover (one case).	536.44	24.28

^Y High Density Poly Ethylene

^Ø Un-Registered Dealers

(Rupees in lakh)

Sl. No.	District (Number of cases)	Period (Date) of assessment	Nature of irregularity	Turnover involved	Tax effect
2	Bangalore (Urban) (10)	1995-96, 1998-99 to 2001-2002 (Between February 1999 and March 2003)	(1) Exemption was incorrectly allowed under Section 5(3) of the CST Act on the sale of non-ferrous casting though the goods were not exported as such but in the manufactured form (one case). (2) Tax was omitted to be levied on the taxable turnover declared by the assessee (one case). (3) Taxable goods dealt by the assesseees were treated as exempted goods (four cases). (4) The purchase turnovers of goods liable to tax were not subjected to tax (four cases).	193.48	11.84
3	Belgaum (1)	1999-2000 (March 2002)	Sales turnover declared by the assessee was incorrectly adopted in the assessment order.	216.32	8.65
4	Bellary (1)	1999-2000 (December 2001)	-do-	99.11	3.96
5	Dharwad (1)	1998-99 (July 2002)	-do-	10.69	1.12
6	Hassan (1)	2000-2001 (July 2002)	Turnover of Indian Made Liquor held in the opening stock was liable to tax after allowing deduction towards tax suffered turnover. However, opening stock was incorrectly adopted.	2.13	1.36
7	Tumkur (1)	1998-99 (November 2000)	Purchases of taxable goods from URDs consumed in manufacture was liable to tax under the Act. However, no tax was levied on such purchase turnover.	65.30	1.31
Total (20)				1,123.47	52.52

After these cases were pointed out between June 2003 and March 2004, Government stated in August 2004 that additional demand of Rs.14.91 lakh has been created by revision of assessment in 13 cases and recovered Rs.3.46 lakh in seven of them. In respect of the other seven cases involving Rs.37.61 lakh, notices have been issued.

2.3 Non-levy/short levy of tax/turnover tax

Under the KST Act, tax is leviable on the purchases/sales at the rates mentioned in the relevant Schedules to the Act. Further, every registered dealer, whose total turnover in a year exceeds the prescribed monetary limits, is liable to pay TOT at the prescribed rate(s) on his total turnover, after such deductions as are admissible under the Act.

2.3.1 In 14⁰ districts, while finalising between June 1999 and March 2003, 117 assessments of 98 dealers for the years 1995-96 to 2001-2002, tax amounting to Rs.2.35 crore was levied short on the turnover of Rs. 100.87 crore due to application of incorrect rates.

After these cases were pointed out in audit, Government stated in August 2004 that additional demand of Rs.1.28 crore has been created by revision of assessments in 53 cases and recovered Rs.96.01 lakh in 36 of them. In respect of 55 cases involving Rs.85.66 lakh, notices for revision of assessments were served to the assesseees concerned.

In respect of two assessments of a dealer in Bangalore (Urban) involving tax effect of Rs.3.67 lakh, it was contended that the assessee sold machineries to SSI units against declarations in Form-37 and the tax was levied at two *per cent* under Section 5-A of the Act in accordance with the notification dated 31 March 1999. The reply was not tenable, as provision of Section 5-A of the Act was not applicable to machineries.

In respect of the other cases, final replies have not been received (January 2005).

⁰ Bangalore (Rural), Bangalore (Urban), Bellary, Bijapur, Chitradurga, Dakshina Kannada, Dharwad, Gulbarga, Hassan, Mysore, Shimoga, Tumkur, Udupi, Uttara Kannada

2.3.2. In 13^{**} districts, while finalising 121 assessments of 104 dealers between December 1999 and March 2003, for the years 1992-93, 1994-95 and 1997-98 to 2001-2002, TOT was either not levied or levied short on the turnover of Rs.309.66 crore due to incorrect allowance of exemptions and application of incorrect rate, etc. This resulted in non-levy/ short-levy of TOT of Rs.4.35 crore.

After these cases were pointed out in audit between May 2003 and March 2004, Government stated in August 2004 that additional demand of Rs.4.00 crore has been created by revision of assessments in 94 cases and recovered Rs.3.49 crore in 57 of them. In respect of 26 cases involving Rs.31.99 lakh, notices have been issued. In respect of one case, final reply has not been received (January 2005).

2.4 Short demand of tax

Under the KST /CST^{*} Act, if any amount is due from a dealer after final assessment, the assessing authority is required to serve upon him a notice demanding its payment.

In Bangalore (Urban) and Gulbarga districts, it was noticed between July 2002 and August 2003 that in respect of 10 assessments for the years 1998-99 to 2001-2002 concluded between December 2000 and March 2003, as against the aggregate tax of Rs.3.01 crore due, only Rs.2.85 crore was demanded. This resulted in short demand of Rs.15.40 lakh due to arithmetical errors, incorrect implementation of assessment order and error in computation of tax.

After these cases were pointed out in audit between July 2002 and August 2003, Government stated in August 2004 that additional demand of Rs.15.40 lakh has been raised in 10 cases and Rs.11.11 lakh recovered in eight of them.

^{*} Bangalore (Rural), Bangalore (Urban), Belgaum, Bellary, Chitradurga, Dakshina Kannada, Dharwad, Gulbarga, Hassan, Mandya, Mysore, Raichur, Tumkur

2.5 Non-forfeiture of tax collected in excess

Under the KST Act, a registered dealer is prohibited from collecting any amount by way of tax in excess of that specified in the Act. Where any collection is made in contravention thereof, the assessing authority is required to forfeit the tax collected in excess. The assessing authority may also impose a penalty not exceeding one and a-half times the amount of tax so collected.

In four^Y districts, the Assessing Authorities while finalising the assessments between March 2000 and March 2003 of 22 dealers for the years 1996-97 to 2001-2002, had failed to forfeit the excess collection of tax of Rs.0.86 crore. In addition, the Assessing Authorities failed to levy penalty of Rs.1.29 crore for such excess collection of tax.

After these cases were pointed out in audit between June and December 2003, Government stated in August 2004 that excess collection of tax of Rs.54.46 lakh has been forfeited in 13 cases and recovered Rs.46.95 lakh in nine of them. In one case involving Rs.1.94 lakh, it was replied that the tax collected includes TOT and hence forfeiture does not arise. Reply is not tenable as the TOT collected also needs to be forfeited. In respect of seven cases involving Rs.29.02, lakh notices have been issued. In respect of the remaining cases, final replies have not been received (January 2005).

2.6 Non-levy/short levy of penalty/interest

2.6.1 Under the KST Act, tax payable by a registered dealer in respect of sale of any industrial inputs or raw material or packing material of any other goods to another registered dealer is at concessional rate of three *per cent* (four *per cent* up to 31 March 1998) or the rate specified in the Act whichever is lower, on the turnover relating to such sale, on furnishing prescribed declarations. If any person uses such inputs contrary to such declaration, the assessing authority is required to impose penalty, a sum of not less than twice the amount of tax leviable but not exceeding thrice the amount of tax leviable under the Act.

In three^{*} districts, five dealers had purchased rough granite and paper valued at Rs.69.86 lakh at concessional rate of tax after furnishing the required declarations that it would be used as an industrial input. However, granite

^Y Bangalore (Rural), Bangalore (Urban), Belgaum, Bellary

^{*} Bangalore (Urban), Bangalore (Rural), Belgaum

... sold as such after cutting and polishing and paper was sold after ...
 ...ing them as note books which do not amount to manufacturing activity.
 ...ever, while finalising seven assessments between March 2002 and
 January 2003, pertaining to years 1998-99 to 2001-2002, four Assessing
 Authorities did not levy a penalty of Rs.14.32 lakh resulting in short
 realisation of Government revenue to that extent.

After these cases were pointed out in November/December 2003, Government
 stated in August 2004 that additional demand of Rs.10 lakh has been created
 in six cases and Rs.0.46 lakh recovered in two of them. In respect of one case
 involving Rs.3.04 lakh, notice has been issued.

2.6.2 Under the KST Act, the tax or any other amount due 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 case of default in
 making payments, the assessee would be liable to pay interest at the rates
 prescribed from time to time.

In seven districts, 27 dealers in 41 cases did not pay the sums specified in the
 demand notices within 21 days of their service, but the interest of
 Rs.42.15 lakh as detailed below was not levied/levied short:

(Rupees in lakh)

Sl. No.	District (Number of assessees)	Period of assessment (Date of issue of demand notice)	Amount of tax involved	Delay in payment of tax (Months)	Interest due
1	Bangalore (Rural) (5)	1995-96 to 1998-99 (between September 1999 and March 2002)	131.04	1 to 20	14.63
2	Bangalore (Urban) (13)	1993-94, 1997-98 to 1999-2000 (between June 2000 and August 2002)	105.31	1 to 19	11.42
3	Belgaum (3)	1994-95 to 1998-99 (between February 2001 and February 2003)	19.98	1 to 23	2.40
4	Bellary (1)	1993-94 and 1994-95 (March 2002)	10.85	13	2.78
5	Dakshina Kannada (3)	1997-98 to 1999-2000 (between April and November 2001)	13.02	1 to 14	2.01
6	Dharwad (1)	1998-99 and 1999-2000 (between November 2000 and January 2002)	17.48	12 to 22	5.67
7	Udupi (1)	1995-96 and 1997-98 (February 1999)	5.61	2 to 40	3.24
Total (27)			303.29	1 to 40	42.15

After these cases were pointed out in audit, Government stated in August 2004 that additional demand of Rs.11.41 lakh has been created in 13 cases and Rs.9.50 lakh recovered in 11 of them. In respect of 26 cases involving Rs.29.15 lakh, notices have been issued. Reports of action taken in respect of the remaining two cases have not been received (January 2005).

2.6.3 Under the KST Act, every dealer is required to pay the full amount of tax payable on the basis of the turnover computed by him for the preceding month within 20 days of close of that month. Further, the full amount of tax payable by a dealer in advance for the year as reduced by the amount of tax already paid is to be paid within 30 days after the close of the year to which such tax relates. In case of default beyond 10 days after that period, the assessee is liable to pay interest at the rates prescribed from time to time.

In six districts, though 24 dealers delayed the payment of monthly/annual taxes amounting to Rs.4.81 crore by one to 57 months during the years 1997-98 to 2000-2001, interest of Rs.2.37 crore was not levied or levied short by 11 Assessing Authorities, as detailed below:

(Rupees in lakh)

Sl. No.	District (Number of assessees)	Year/ Date of assessment	Amount of tax involved	Delay in payment of tax (months)	Interest due
1	Bangalore (Rural) (10)	1997-98 to 2000-2001 (between December 2000 and February 2003)	197.10	1 to 53	51.89
2	Bangalore (Urban) (7)	1998-99 to 2000-2001 (between May 2002 and March 2003)	31.34	2 to 48	22.18
3	Bellary (2)	1997-98, 1999-2000 and 2000-2001 (between September 2002 and February 2003)	38.12	19 to 57	25.04
4	Dakshina Kannada (1)	1998-99 (February 2003)	204.11	2 to 55	130.00
5	Dharwad (2)	1999-2000 and 2000-2001 (between May 2002 and March 2003)	4.27	10 to 46	3.17
6	Mysore (2)	1998-99 and 2000-2001 (between June and December 2002)	5.99	20 to 49	5.06
	Total (24)		480.93	1 to 57	237.34

After these cases were pointed out, Government stated in August 2004 that additional demand of Rs.1.37 crore has been created in the cases of six dealers and Rs.1.26 lakh recovered from three of them. In respect of 17 dealers involving Rs.97.23 lakh, notices have been issued. In respect of the remaining case final reply has not been received (January 2005).

2.7 Incorrect claim of concessional rate of tax on declarations

Under the KST Act and Rules made thereunder, sales effected by dealers to Government departments/undertakings are liable to tax at a reduced rate of four *per cent* subject to the condition that the dealer furnishes a declaration in the specified form obtained from the Government department/undertaking. Further, if a dealer deliberately furnishes false declaration/inaccurate particulars, he shall pay, by way of penalty, in addition to differential rate of tax, a sum not less than three times the tax due in respect of such transaction.

In Bangalore (Urban) district, while finalising between February 2002 and February 2003, three assessments of three dealers for the year 1999-2000, two Assessing Authorities allowed reduced rate of tax on a turnover of Rs.2.73 crore as sales effected against declaration. However, cross verification of the declarations by Audit between February and April 2004, with reference to the records of respective Government departments revealed that the declarations of Rs.76.17 lakh furnished by the dealers were incorrect. The short levy of tax involved on this turnover was Rs.4.80 lakh, besides penalty of Rs.14.39 lakh was also leviable.

After these cases were pointed out, Government stated in August 2004 that additional demand of Rs.16.96 lakh has been created by revision of assessments in two cases. In respect of one case involving Rs.2.23 lakh notice has been issued.



CHAPTER-III: STATE EXCISE

3.1 Results of audit

Test check of records of the State Excise Department during the year 2003-2004 disclosed non-recovery or short recovery of duty, licence fee, etc. amounting to Rs.150.49 crore in 153 cases, under the following categories:

(Rupees in crore)

Sl. No.	Nature of objection	No. of cases	Amount
1	Error in computation	45	11.50
2	Non/short recovery of licence fee	04	9.26
3	Granting of excessive production loss/wastage	04	0.09
4	Other irregularities	100	129.64
	Total	153	150.49

During the year 2003-2004, the Department accepted under-assessments of Rs.34.07 crore involved in 126 cases and recovered Rs.1.50 crore involved in 70 cases (including Rs.1.48 crore involved in 67 cases which had been pointed out in audit in earlier years).

A few illustrative cases involving Rs.16.21 crore are given in the following paragraphs.

3.2 Excess adjustment of arrack rentals leading to loss of revenue

Under the Karnataka Excise Licences (General Conditions) Rules 1967, the licensees holding the lease of the right of retail vend of liquors are liable to pay monthly rent on or before 10th of each month.

A Rental Register is maintained in respect of each taluk by the Deputy Commissioner of Excise to record details such as opening balance of rentals due for the month, particulars of payments made by the contractors, mode of adjustment towards interest and rentals and closing balance.

In Gulbarga District, in respect of three taluks, as against the amount of Rs.1.09 crore remitted by three contractors, a sum of Rs.1.14 crore was

adjusted in the Rental Register. This resulted in excess adjustment of Rs.5.25 lakh leading to loss of revenue to that extent.

This was pointed out in audit in December 2003 to the concerned Deputy Commissioner of Excise and to the Excise Commissioner in January 2004; their replies have not been received (January 2005).

The cases were referred to Government in June 2004; their reply has not been received (January 2005).

3.3 Loss due to permitting sale of beer without a valid licence

According to the definition in the Karnataka Excise Act 1965, Indian Liquor does not include beer. Under the Karnataka Excise (Sale of Indian and Foreign Liquor) Rules 1968, licences were being issued for running a Refreshment Room (Bar) for sale of both Indian and Foreign Liquors in Form CL-9. By an amendment effective from February 1990, Foreign Liquors were excluded from the purview of this licence. Thereafter, for selling beer in such places, a licence in Form-II issued under the Karnataka Excise (Lease of the Right of Retail Vend of Beer) Rules 1976 is required. Licences under both these Rules are to be obtained each year by payment of the amount prescribed.

It was noticed in October 2003, that CL-9 licence holders were incorrectly permitted to sell beer though they had not obtained the licence in Form-II as required under the Rules. This deprived Government of revenue of not less than Rs.10.99 crore during 1998-99 to 2002-2003 calculated at the minimum amount prescribed for issue of licence in Form-II as detailed below:

Year	No.of CL-9 licensees	Minimum amount prescribed for issue of Form-II licence (Rs.)	Loss of revenue (Rs. in lakh)
1998-1999	3348	11,500	385.02
1999-2000	3348	5,175	173.26
2000-2001	3567	5,175	184.59
2001-2002	3436	5,175	177.81
2002-2003	3443	5,175	178.18
Total			1,098.86

After this was pointed out in October 2003/ April 2004, Government contended in October 2004 that the licence issued in Form CL-9 privileges the licensee to vend beer also. The reply was not tenable as the amendment dated February 1990 excludes beer from the purview of CL -9.

3.4 Delay in termination of leases leading to accumulation of arrears

3.4.1 Under the Karnataka Excise (Lease of the Right of Retail Vend of Liquors) (KE(LRRVL)) Rules 1969, the successful tenderer or bidder is required to furnish, within 15 days from the date of communication of acceptance of his offer, security for an amount equal to three and one-tenth of the monthly rent. Failure to comply with this provision would entail cancellation of the grant of the right of retail vend and forfeiture of the earnest money deposit. The vending rights could be disposed of afresh and loss sustained by Government recovered from the defaulter, where necessary, as arrears of land revenue.

In 15 taluks of three^o districts, during the year 2001-2002 for grant of lease of the right of retail vend of liquors in 15 cases, as against required security for Rs.24.98 crore, bank guarantees for Rs.20.34 crore only were obtained. Despite shortfall in furnishing bank guarantees for Rs.4.64 crore, the leases were not cancelled. The lessees had accumulated arrears of Rs.12.84 crore (after adjustment of securities and earnest money deposits furnished). If bank guarantees had been insisted for the prescribed extent, the arrears would have been reduced by Rs.4.57 crore. Thus, non-obtaining of prescribed security led to non-realisation of revenue of Rs.4.57 crore.

These cases were pointed out in audit between March/April 2003 to the Department and reported to Government in June 2004; their replies have not been received (January 2005).

3.4.2 Under the Karnataka Excise Licences (General Conditions) (KEL(GC)) Rules 1967, rent is to be credited on or before 10th of that month or before the end of that month together with interest at 15 *per cent* per annum leviable from the 11th day of that month. If the monthly rentals are not paid, the right of retail vend of arrack has to be cancelled. However, the Deputy Commissioner may after obtaining irrevocable bank guarantee of a Scheduled Bank for an amount equal to one month's rent together with interest due, grant further time up to one month, and the Excise Commissioner is authorised to grant further extension of time of 15 days. Further, under the KE(LRRVL) Rules, the contractor is also required to furnish a security equal to three months rent in a phased manner within 60 days from the date of confirmation of lease of retail vend of liquors. If he fails to do so, lease shall be cancelled and the right of retail vend of liquor shall be disposed of afresh at the risk of the defaulter.

In Parasagada taluk of Belgaum district, the lease of the right of retail vending of arrack was confirmed in favour of a bidder in July 2002 on a monthly rental

^o Kodagu, Kolar, Mysore

of Rs.28 lakh. He paid only Rs.10.98 lakh towards rent for the month of July 2002. As against the required security for Rs.84.00 lakh, security for Rs.38.00 lakh only was furnished by him. Though no extension of time was sought by him, he was allowed to transact business and lease was determined only at the end of September 2002. By this time, he had accumulated arrears of Rs.36.90 lakh after adjusting the securities furnished by him towards the arrears of rentals and interest of Rs.1.88 lakh. Thus, delay in termination of lease resulted in avoidable accumulation of arrears of Rs.36.90 lakh.

After this was pointed out in audit in August 2003, Government contended in October 2004 that measures such as cancellation of lease have to be resorted to only after taking into account the entire situation prevailing at that time and hence the time taken to arrive at such decision need not be considered as delay. The reply is not tenable as the Department delayed determination of the lease despite persistent defaults and for condonation of the same, no discretion was vested with the Department.

3.5 Incorrect adjustment of payments leading to avoidable accumulation of interest

Under the KEL (GC) Rules, as amended from January 2002, when part payments are made towards arrears comprising both principal and interest, interest due till the date of such payment is to be first cleared and then the balance, if any, only is to be adjusted against the principal outstanding.

In Kodagu district, in respect of leases granted for retail vend of liquor in Madikeri and Virajpet taluks during the year 2001-2002, interest of Rs.22.69 lakh pertaining to the period from January 2002 was outstanding against two contractors. In terms of the amendment, moneys received after January 2002 should have been first adjusted towards interest and the balance towards rent. This was not done resulting in avoidable accumulation of arrears of interest of Rs.22.69 lakh.

After this was pointed out in March 2003, the Department stated that the calculations and onward adjustments of belated payment towards interest and the remaining amount towards rentals have been restruck.

The cases were referred to Government in June 2004; their reply has not been received (January 2005).

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CHAPTER-IV: TAXES ON MOTOR VEHICLES

4.1 Results of audit

Test check of records in the Motor Vehicles Department, conducted in audit during the year 2003-2004, disclosed under-assessment of tax, non-levy of penalty, fees, etc. amounting to Rs.1.67 crore in 59 cases, under the following broad categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
1	Non-levy/short levy of tax	48	1.51
2	Non-levy/non-collection of fees/penalty	06	0.02
3	Other irregularities	05	0.14
	Total	59	1.67

During the year 2003-2004, the Department accepted under-assessments in 96 cases involving Rs.2.57 crore and recovered Rs.1.53 crore involved in 47 cases which had been pointed out in audit in earlier years.

A few illustrative cases, including certain cases noticed in earlier years which could not be included in previous Reports, involving Rs.79.56 lakh are given in the following paragraphs. Of this, Rs. 4.98 lakh had been recovered.

4.2 Short-levy of tax

Under the Karnataka Motor Vehicles Taxation (KMVT) Act, 1957, the rates of tax leviable on various classes of vehicles are enumerated in the Schedule to the Act. The rates of tax are being revised periodically.

During audit of 11[♦] Regional Transport Offices (RTOs), it was noticed between April and December 2003 that the taxes had been levied and collected at pre-revised rates in respect of 85 vehicles for the period April 1998 to

[♦] RTOs – Bagalkot, Bangalore (Central), Bangalore(East), Bijapur, Chitradurga, Gadag, Gulbarga, Raichur, Sirsi, Udupi, ARTO –Kolar Gold Fields

January 2004. This resulted in short levy of tax of Rs.7.80 lakh (including cess) as detailed below:

(Rupees in lakh)

Sl. No.	Type of vehicle (Number of vehicles)	Tax leviable	Tax levied	Short levy
1	Multi-axled goods vehicle (24)	5.36	4.02	1.34
2	Articulated goods vehicle (6)	0.34	0.22	0.12
3	Private Service vehicle (41)	47.26	41.89	5.37
4	Tourist operated bus (5)	4.34	3.64	0.70
5	Stage Carriage (5)	1.23	1.18	0.05
6	Maxi-cab (3)	0.48	0.43	0.05
7	Trailer (1)	0.34	0.17	0.17
	Total (85)	59.35	51.55	7.80

After these cases were pointed out in audit between April to December 2003 to the concerned RTOs, Government endorsed in October 2004 the reply of the Department accepting audit observations in respect of 27 vehicles of nine* RTOs involving Rs.4.21 lakh, of which Rs.2.25 lakh has been recovered. Reply in respect of the remaining cases has not been received (January 2005).

4.3 Non-levy of tax

Under the KMVT Act, the tax levied is to be paid in advance, for a quarter, half-year or year, within fifteen days from the commencement of such period. Non-payment of tax constitutes an offence which could be compounded on payment of penalty at 20 per cent of the arrears of tax due. The Act provides for seizure, detention and sale of vehicles, in respect of which tax has not been paid, by empowered officers of Motor Vehicles Department/ Police Department. The tax dues are also recoverable as arrears of land revenue. In the case of transport vehicles, the validity of the permits for the vehicles would become ineffective during the period of default.

* Bagalkot, Bangalore (East), Bijapur, Chitradurga, Gadag, Raichur, Sirsi, Udupi, ARTO, Kolar Gold Fields.

During test-check of records of eight³⁸ RTOs, it was noticed that in respect of 36 vehicles, tax of Rs.15.36 lakh had not been paid for different periods between April 1998 and May 2003. No action had been taken by the Department to raise the demand and to recover the taxes. On composition of these cases, an additional sum of Rs.3.07 lakh was also realisable.

After these cases were pointed out in audit between April 2003 and February 2004, Government endorsed in October 2004 the reply of the Department accepting audit observations in respect of seven vehicles of three³⁹ RTOs involving Rs.10.33 lakh. Report of recovery in these cases and reply in respect of remaining cases has not been received (January 2005).

4.4 Non-levy of tax on non-adherence to conditions of surrender

Under the KMVT Act, motor vehicles registered in the State are exempted from payment of tax for the period during which the vehicles are not intended to be used on roads. For obtaining the exemption, the registered owner of the motor vehicle is required to furnish to the registering authority a declaration of non-use specifying the place where it is garaged along with details of payment of taxes up to the date of surrender of the documents. The said exemption is not applicable if the vehicle is removed from the garage without prior permission of the registering authority. The KMVT Rules provide for composition of the offence on payment of 20 *per cent* of the arrears of tax due as penalty.

In eight⁴⁰ RTOs, declarations of non-use of 11 registered motor vehicles were accepted between June 1998 and October 2000 by the Department. However, during inspection between March 1999 and September 2003, the vehicles were not found at the declared place of garage. Consequently, they became ineligible for the exemption from payment of tax of Rs.39.68 lakh, but no action was taken to raise demand or recover the tax due. Failure to do so resulted in non-levy of tax of Rs. 39.68 lakh covering the period between June 1998 and November 2003. Besides, penalty of Rs. 7.94 lakh was also leviable on composition.

After these cases were pointed out in audit between April 2003 and February 2004, Government endorsed in October 2004 the reply of the

³⁸ RTOs Bangalore (Central), Bijapur, Chamarajanagar, Gadag, Karwar, Mangalore, Tumkur; ARTO Chickballapur

³⁹ RTOs – Bijapur, Chamarajanagar, Gadag

⁴⁰ Bangalore (West), Belgaum, Bijapur, Chickballapur, Dharwad, Gulbarga, Raichur, Tumkur

Department accepting audit observations and issue of notices raising demand of Rs.8.58 lakh in respect of four vehicles of three^α RTOs. Report of recovery in these cases and replies in respect of the remaining cases have not been received (January 2005).

4.5 • Short levy of tax due to incorrect classification of vehicles/ application of rates

Under the KMVT Act, tax on motor vehicles is levied at the prescribed rates for different classes of motor vehicles.

During audit of two RTOs between November 2000 and July 2002, it was noticed that the tax levied and collected in respect of 12 vehicles was short by Rs.5.71 lakh due to incorrect classification of the vehicles/ application of incorrect rates of tax as detailed below:

(Rupees in lakh)

Sl. No.	Regional Transport Office (Number of Vehicles)	Period of Tax		Tax leviable	Tax levied	Short levy
		From	To			
1	Hospet (3)	01.02.1999	18.09.1999	4.04	1.85	2.19
The vehicles though registered as Private Service Vehicles (PSV) were being used for transport of employees of a mining company on hire/contract. Hence they were liable to tax as contract carriages instead of as PSV. Department reply is awaited (January 2005).						
	(6)	01.03.2001	31.03.2002	7.44	4.69	2.75
Taxes on the vehicles were levied as PSVs leased to a company. However, the permits were issued in the name of the registered owner and not in favour of the company as required under the Act. Hence the vehicles were to be considered as contract carriages and tax levied accordingly.						
After this was pointed out in audit, the Department re-issued the permits in favour of the company and recovered Rs.2.22 lakh in respect of five vehicles (June 2004) and raised demand of Rs.0.53 lakh in respect of one vehicle.						
2	Mysore (3)	-	-	0.79	0.02	0.77
Lifetime tax leviable on motor cars exceeding 800 cc is Rs.18000 or seven per cent of the cost of vehicle, whichever is higher. However, on cars owned by Central Government employees, tax is payable at the rate of Rs.187.50 per quarter. In respect of three cars registered in the names of employees of a Research Institute, the tax for one year was levied and collected on the quarterly rate of Rs.187.50 on the basis of the employment certificate issued by the Institute. As the certificate clearly mentioned that the Institute is an						

^α Bijapur, Dharwad, Gulbarga

(Rupees in lakh)

Sl. No.	Regional Transport Office (Number of Vehicles)	Period of Tax		Tax leviable	Tax levied	Short levy
		From	To			
<p>autonomous body under the Ministry of Science and Technology, Government of India, lifetime tax should have been levied instead of the quarterly tax applicable to Central Government employees.</p> <p>The Department accepted the audit observations and recovered Rs.0.51 lakh in respect of two vehicles (June 2004) and raised demand of Rs.0.26 lakh in respect of one vehicle.</p>						
Total		(12)		12.27	6.56	5.71

After these cases were referred to Government in June 2004, Government endorsed in October 2004 the reply of the Department.



CHAPTER-V: LAND REVENUE

5.1 Results of audit

Test check of records in the Land Revenue Offices conducted in audit during the year 2003-2004 disclosed under-assessments of revenue amounting to Rs.15.48 crore in 144 cases, under the following broad categories:

(Rupees in crore)

Sl. No.	Category	No. of cases	Amount
1	Non-levy/short levy of conversion fine	13	0.06
2	Non-raising/short raising of demands for water rate/penal water rate	21	5.82
3	Non-levy/short levy of maintenance cess	16	0.47
4	Other irregularities	94	9.13
	Total	144	15.48

During the year 2003-2004, the Department accepted under-assessments of Rs.9.16 crore involved in 75 cases and recovered Rs.0.04 crore involved in nine cases which had been pointed out in audit in earlier years.

A few illustrative cases including certain cases noticed in earlier years which could not be included in previous Reports involving Rs.2.15 crore are given in the following paragraphs. Of this, Rs.38.82 lakh had been recovered.

5.2 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, one officer each from Revenue and Irrigation Departments, are required to 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 raising demand and making collections.

In seven taluks of seven districts, concerned Tahsildars had either not raised demand or short-raised demand for water rate of Rs.1.78 crore even after receipt of demand statements from the Irrigation Officers, as per details given below:

(Rupees in lakh)

Sl. No.	Taluk (District)	Year to which demand relates	Water rate demand booked		Amount of non-booking
			As per Irrigation Department	As per Tahsildar's records	
1	Chamarajanagar (Chamarajanagar)	1996-1997	5.75	-	5.75
		1997-1998	3.04	-	3.04
		1998-1999	2.24	-	2.24
		1999-2000	1.40	-	1.40
		2001-2002	0.93	-	0.93
2	Gowribidanur (Kolar)	2000-2001	2.94	-	2.94
		2001-2002	2.63	-	2.63
3	Hassan (Hassan)	2000-2001	4.15	-	4.15
		2001-2002	2.65	-	2.65
4	Hirekerur (Haveri)	1999-2000	0.23	-	0.23
		2000-2001	0.75	-	0.75
5	Hospet (Bellary)	1999-2000	22.83	20.00	2.83
		2000-2001	53.10	45.17	7.93
		2001-2002	51.27	45.17	6.10
		2002-2003	48.27	45.17	3.10
6	Shimoga (Shimoga)	2001-2002	101.71	-	101.71
7	Srirangapatna (Mandya)	2001-2002	51.00	21.86	29.14
	Total		354.89	177.37	177.52

After these cases were pointed out in audit between March and December 2003, Government reported in September 2004 that the demands had since been accounted for in the Demand, Collection and Balance (DCB) statement and out of it Rs.38.82 lakh recovered.

5.3 Non-raising of demands for penal water charges

Under the Karnataka Irrigation Act, 1965, any person using water from an irrigation work without obtaining the required permission is liable to pay water charges at the rate to be determined by the Irrigation Officer, in addition to any penalty for such unauthorised use of water. 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 (five times from July 2000) the normal water rate. With reference to the demand statement

received from the Irrigation Officer, demands are to be booked in DCB Register and a copy of the demand statement sent to the Village Accountant to serve demand notices on individual parties.

In Hassan taluk, demand for penal water rate of Rs.37.56 lakh for the years 2000-2001 and 2001-2002 had not been booked by Tahsildar even after receipt of demand statements from the Irrigation Officer.

After this was pointed out in audit in December 2003, Government reported in September 2004 that the demands had since been accounted for in the DCB statement. Report of recovery has not been received (January 2005).



CHAPTER-VI: OTHER TAX RECEIPTS

6.1 Results of audit

Test check of records of concerned departmental offices, conducted in audit during the year 2003-2004, disclosed short realisation or losses of revenue amounting to Rs.65.64 crore in 277 cases, under the following broad categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
Taxes on Agricultural Income			
1	Non-levy/short levy of tax	12	1.50
2	Non-levy of penalty	7	0.12
	Total	19	1.62
Stamps and Registration Fees			
1	Non-levy/short-levy of stamp duty and registration fees	64	2.72
2	Incorrect grant of exemption/concession	1	0.04
3	Other irregularities	16	1.80
	Total	81	4.56
Entry Tax			
1	Non-levy/short levy of tax	118	1.56
2	Non-forfeiture of tax collected in excess	2	0.03
3	Non-levy of penalty	34	0.34
4	Other irregularities	4	0.04
	Total	158	1.97
Entertainment Tax, Luxury Tax, Professions Tax and Betting Tax			
1	Non-levy/short levy of tax	12	2.06
2	Non-levy of penalty	3	0.08
	Total	15	2.14
Taxes and Duties on Electricity			
1	Short levy of electricity tax	2	0.47
2	Other irregularities	1	7.02
	Total	3	7.49
Other Taxes and Duties on Commodities and Services			
1	Non-remittances of cesses	1	47.86
	Total	1	47.86
	Grand Total	277	65.64

During the course of the year 2003-2004, the departments accepted under-assessments of tax amounting to Rs.3.64 crore involved in 274 cases

which had been pointed out in audit in earlier years and recovered Rs.1.53 crore involved in 185 of them.

A few illustrative cases (including certain cases noticed in earlier years which could not be included in previous Reports) involving Rs.49.62 crore are given in the following paragraphs. Of this, Rs.30.76 lakh had been recovered.

Taxes on Agricultural Income

6.2 Short levy of tax due to incorrect computation of agricultural income

According to the Karnataka Agricultural Income-tax (KAIT) Act, 1957, as amended from time to time, 'agricultural income' includes any rent or revenue derived from land situated in the State and used for growing plantation crops. Under the Act, the 'total agricultural income' of a person in a 'previous year' is computed after allowing revenue expenditure laid out or expended wholly and exclusively for the purpose of deriving agricultural income.

It was noticed between November and December 2003 in Chickmagalur and Hassan districts that in seven assessments of six assessees for the years 1998-99 to 2001-2002 finalised between October 1999 and May 2002, the assessing officers allowed deduction of inadmissible expenditure of Rs.1.12 crore and excluded chargeable income of Rs.21.79 lakh as detailed below while arriving at the taxable agricultural income. The short computation of income resulted in short levy of tax of Rs.64.12 lakh.

(Rupees in lakh)				
Sl. No.	Name of the assessee/ Period (Date) of assessment	Nature of irregularity	Short computation of income	Short levy of tax
Deputy Commissioner of Agricultural Income-tax, Hassan				
1	M/s Lingapur Estate Limited (Private Company)/ 2000-2001 (30.05.2002) Limited	For the assessment year 2001-2002, against the income of Rs.6.36 lakh, Rs.7.56 lakh was set off as carry forward losses resulting in loss of Rs.1.20 lakh for assessment year 2001-2002. It was noticed in audit from the records of assessment year 2000-2001 that there were no losses to be adjusted in subsequent years. This has resulted in short computation of Rs.6.36 lakh.	6.36	2.58

(Rupees in lakh)				
Sl. No.	Name of the assessee/ Period (Date) of assessment	Nature of irregularity	Short computation of income	Short levy of tax
2	M/s Coffee Lands Limited (Company)/ <u>1999-2000</u> (17.05.2002)	(i) Rs.0.22 lakh claimed on account of Wealth Tax though inadmissible as per proviso (iii) under Sec 5 (1) (k) of KAIT Act was allowed. (ii) In addition to replanting allowance claimed and allowed, Rs.7.40 lakh was allowed as expenditure towards supplying/ infilling and replanting. No expenditure on account of infilling and replanting is admissible when replanting allowance is claimed as per sec 5(2)(b) (iii) of the KAIT Act. (iii) Out of total income of Rs.63 lakh from minor crops, assessee claimed Rs.57 lakh as non-assessable income from non-plantation crops/pepper from non-plantation areas. However, out of total expenditure of Rs.18.35 lakh, as against Rs.16.79 lakh to be disallowed on proportionate basis relating to minor crops, only Rs.5.97 lakh was disallowed. Hence excess expenditure of Rs.10.82 lakh allowed was inadmissible.	18.44	9.22
3	M/s Endeavour Estate (Company)/ <u>1998-99</u> (29.10.1999)	Against the allowable expenditure of Rs.52.47 lakh, expenditure allowed was Rs.55.40 lakh.	2.93	1.46
4	M/s Consolidated Coffee Ltd. (Company)/ <u>1998-99</u> (28.07.2001)	(i) Profit of Rs.13.25 lakh on sale of assets as required under section 5(1)(f) of KAIT Act was not included in while computing income. (ii) Rs.521.93 lakh out of Rs.756.55 lakh claimed to have been expended on consumption of stores was allocated to Estate Division. However, as per Certified Accounts, consumption on stores was Rs.714.84 lakh. Hence, proportionate excess allocation works out to Rs.28.79 lakh.	42.04	21.02
	<u>1999-2000</u> (27.05.2000)	(i) Profit of Rs.8.54 lakh on sale of assets was not considered for computing income. (ii) Rs.490.33 lakh out of Rs.669.37 lakh claimed to have been expended on consumption of stores was allocated to Estate Division. However, as per Certified Accounts, consumption of stores was Rs.632.37 lakh. Hence proportionate excess allocation works out to Rs.27.10 lakh.	43.43	21.71

(Rupees in lakh)				
Sl. No.	Name of the assessee/ Period (Date) of assessment	Nature of irregularity	Short computation of income	Short levy of tax
		(iii) Depreciation for AY 1999-2000 was incorrectly allowed on the Written Down Value of assets which had been computed excluding the additional depreciation claimed during the AY 1998-99. This resulted in excess allowance of depreciation of Rs.7.79 lakh.		
Deputy Commissioner of Agricultural Income-tax, Chickmagalur				
5	M/s St.Marys Kalamane Estate (Firm)/ 2001-2002 (20.01.2002)	Out of the total income of Rs.136.58 lakh, Rs.19.37 lakh related to income from Areca (non-plantation crop). Expenditure of Rs.121.54 lakh claimed by the assessee was allowed without disallowing proportionate expenditure of Rs.17.24 lakh for earning non-plantation crop income. As a net loss of Rs.0.15 lakh had been assessed for the year, the disallowance resulted in short computation of income of Rs.17.09 lakh.	17.09	6.84
6	B.A.Saldana and others (M/s Deepak Estate) (Firm)/ 1998-99 (01.02.2002)	As against expenditure of Rs.40.94 lakh claimed by the assessee as per the Profit and Loss account towards expenditure, the assessing authority had adopted Rs.44.16 lakh in the assessment order.	3.22	1.29
Total			133.51	64.12

After these cases were pointed out, Government reported in August 2004 creation of additional demand and recovery of Rs.1.29 lakh in one case. In respect of four cases involving Rs.61.37 lakh notices have been issued and final reply in respect of one case has not been received (January 2005).

Stamps and Registration Fees

6.3 Short levy due to under-valuation

Under the Karnataka Stamp Act, 1957, if the registering officer while registering any instrument has reason to believe that the market value of the properties has not been truly set forth, he shall compute the estimated market value and upon payment of duty on such market value, register the document.

Further, under the provisions of the Act, Government constituted Committees for estimation of market value in any area for each taluk.

During audit of four Sub-Registries, it was noticed that incorrect estimation of market value had resulted in short levy of stamp duty of Rs.20.01 lakh and registration fee of Rs.3.21 lakh. Details are given below:

Office/ Number of Documents/ Year of Registration of document	Market value adopted/ To be adopted	Stamp duty			Registration fee		
		To be levied	Levied	Short levy	To be levied	Levied	Short levy
		(Rupees in lakh)					
SRO, Kengeri/ (276)/ 2000-2001 and 2001-2002	595.75/ 713.91	89.64	74.91	14.73	14.28	11.93	2.35
The specific rates as per the guideline notified under the Act were not adopted in estimating market value of the House Building Co-operative Society (HBCS) sites. This resulted in short computation of market value by Rs.1.18 crore leading to short levy of stamp duty and registration fee. After this was pointed out in audit in December 2002/ November 2003, Government reported in September 2004 acceptance of audit observation and directed District Registrar to initiate action to issue notices.							
SRO, Bangalore (South), Chintamani and Karkala/ (17)/ 1998-99 to 2002-2003	83.00/ 126.00	15.88	10.60	5.28	2.52	1.66	0.86
As against the estimated market value of Rs.1.26 crore in accordance with the guideline values notified under the Act, the estimated market value on which stamp duty and registration fee levied was taken as Rs.0.83 crore. Thus, incorrect adoption of estimated market value resulted in short levy of stamp duty of Rs.5.28 lakh and registration fee of Rs.0.86 lakh. After this was pointed out in audit between December 2002 and October 2003, Government reported in September 2004, acceptance of audit observations and directed to initiate action for determination of market value of the property and recovery of deficit duty in respect of Chintamani, to issue notices in respect of Bangalore (South) and orders passed for recovery of deficit amount of Rs.2.20 lakh from the concerned Sub-Registrar in respect of Karkala.							
Total				20.01			3.21

6.4 Short levy on Powers of Attorney

Under the Karnataka Stamp Act, 1957, as amended from April 1999, 'Power of Attorney' given to a promoter or developer for construction on or development of or sale or transfer of any immovable property attracts stamp duty at four *per cent* of the market value of the property. Registration fees leviable on 'Powers of Attorney' given to a person other than father, mother, wife or husband, sons, daughters in relation to the executant authorising such persons to sell immovable property, is at two *per cent* on the market value of the property.

Audit Report (Revenue Receipts) for the year ended 31 March 2004

In four Sub-Registries, 35 documents titled as 'Power of Attorney' were registered between 1999 and 2003. These documents were liable to stamp duty of Rs.10.19 lakh and registration fee of Rs.8.29 lakh on the market value of Rs.4.97 crore against which stamp duty of Rs.5.30 lakh and registration fee of Rs.2.44 lakh was levied, resulting in short levy of Rs.10.74 lakh (stamp duty : Rs.4.89 lakh and registration fee : Rs.5.85 lakh) as detailed below:

Office	Number of documents (Year of Registration)	Market value	Stamp duty			Registration Fee		
			Leviable	Levied	Short levy	Leviable	Levied	Short levy
			SRO, Anekal (Bangalore District)	17 (2001-2003)	173.33	6.93	3.67	3.26
SRO, Yelahanka (Bangalore District)	1 (2002-2003)	8.00	0.32	0.16	0.16	-	-	-
SRO, Mulki (Dakshina Kannada District)	12 (1999-2001)	73.62	2.94	1.47	1.47	-	-	-
In respect of Sl. Nos. (1) to (3), Power of Attorney empowered the Attorneys to construct, develop and sell or transfer the scheduled properties and hence were liable to duty at four per cent instead of two per cent levied.								
SRO, Nanjangud (Mysore District)	5 (2002-2003)	241.69	-	-	-	4.83	0.01	4.82
Power of Attorneys were in favour of 'Brothers' and hence were liable for registration fees at two per cent of the market value.								
Total	35	496.64	10.19	5.30	4.89	8.29	2.44	5.85

After this was pointed out in audit between January 2003 and January 2004, Government reported in September 2004 acceptance of audit observation in respect of three⁹¹ Sub-Registries and recovery of Rs.1.47 lakh in SRO, Mulki and Rs.0.01 lakh in one case in SRO, Nanjangud. Action had been initiated to recover the balance of Rs.4.81 lakh from the concerned Sub-Registrar in respect of Nanjangud. Report of recovery in respect of Yelahanka has not been received. Final reply in respect of SRO, Anekal has not been received (January 2005).

⁹¹ Mulki, Nanjangud, Yelahanka

Entry Tax

6.5 Non-levy /short levy of entry tax

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

In five districts, tax on entry of goods into local areas had either not been levied or levied short by 13 Assessing Authorities in 26 assessments concluded between July 2001 and March 2003, resulting in non-levy/ short levy of tax of Rs.51.30 lakh, as detailed below:

(Rupees in lakh)

Sl. No.	District (Number of cases)	Assessment year (Date of assessment)	Turnover involved	Tax leviable/ levied	Tax levied short/ not levied
1	Bangalore (Urban) (20)	1998-99 to 2001- 2002 (between July 2001 and March 2003)	3,059.84	44.86/ 5.41	39.45
2	Bellary (1)	1999-2000 (March 2003)	194.68	3.97/ Nil	3.97
3	Chitradurga (1)	2001-2002 (January 2003)	195.95	1.96/ Nil	1.96
4	Davangere (2)	1998-99 and 2000- 2001 (between May and November 2002)	306.97	5.84/ 2.68	3.16
5	Udupi (2)	1998-99 and 1999- 2000 (between March and May 2002)	235.35	2.76/ Nil	2.76
Total (26)			3,992.79		51.30

After these cases were pointed out between May 2003 and March 2004, Government reported during August 2004 revision of assessments and creation of additional demand of Rs.25.90 lakh in 20 cases and recovery of Rs.15.87 lakh in 15 of them. In respect of the remaining cases, final replies have not been received (January 2005).

6.6 Non-levy of interest

6.6.1 Under the KTEG Act, every dealer is required to pay the full amount of tax payable on the basis of the turnover computed by him for the preceding month within 20 days of close of that month. In case of default beyond 10 days after that period, the assessee is liable to pay a interest at two *per cent* of the tax payable for every month or part thereof during which such default is continued.

In three districts, though seven dealers delayed the payment of monthly taxes amounting to Rs. 42.11 lakh by one to 40 months for the years 1997-98 to 2001-2002, finalised between April 2001 and March 2003, interest of Rs.14.48 lakh was not levied or levied short by five Assessing Authorities, as detailed below:

(Rupees in lakh)

Sl. No.	District (Number of assessees)	Period of assessment/ Date of assessment	Delay in payment of tax (months)	Interest due
1	Bangalore (Urban) (5)	1998-99 to 2001-2002/ between June 2001 and March 2003	10 to 34	7.51
2	Dakshina Kannada (1)	1997-98 and 1998-99/ April 2001	18 to 40	1.79
3	Uttara Kannada (1)	2000-2001/ July 2002	1 to 16	5.18
	Total (7)		1 to 40	14.48

After these cases were pointed out between April 2002 and November 2003, Government reported during August 2004 recovery of Rs.8.89 lakh from four dealers. Final replies in respect of other cases have not been received (January 2005).

6.6.2 Under the KTEG Act, the tax or any other amount due is 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 case of default in making payments, the assessee is liable to pay interest at prescribed rates.

In three districts, though 11 dealers had delayed the payment of the sums specified in the demand notices beyond 21 days of their service, six Assessing

Authorities had not levied the interest of Rs. 11.97 lakh due, as detailed below:

(Rupees in lakh)

Sl. No.	District (No. of cases)	Period (Date of service of demand notice)	Number of assessees	Delay in payment of tax	Interest due
1	Bangalore (Rural) (5)	1994-95 to 1998-99 (July 2000 to April 2002)	3	2 to 9 months	2.72
2	Bangalore (Urban) (9)	1990-91 and 1997-98 to 2000-2001 (November 1999 to January 2002)	7	1 to 39 months	7.64
3	Shimoga (2)	1998-99 and 1999-2000 (December 2001 and June 2002)	1	5 months	1.61
	Total (16)		11	1 to 39 months	11.97

After these cases were pointed out between August 2002 and September 2003, Government reported during August 2004, recovery of Rs.3.23 lakh from three dealers. Final replies in respect of the other cases have not been received (January 2005).

Other Taxes and Duties on Commodities and Services

6.7 Non-remittance of cesses

Under the provisions of the Karnataka Compulsory Primary Education Act, 1961 and the Karnataka Health Cess Act, 1962 (as amended by the Karnataka (Enhancement of Certain Cesses) Act, 1976), education cess and health cess are levied by the local authorities at the rates of 10 per cent and 15 per cent respectively on the property tax collected by them. After deducting 10 per cent of the cesses collected towards collection charges, the balance amount is required to be paid by them into the Government account.

A test check conducted in audit to verify the extent of compliance with the statutory provisions with reference to the information furnished by five[♦] City/Municipal Corporations and 204 City/Town Municipal Councils/Taluk Panchayats/Notified Areas, revealed (March 2004) that out of the total collections of Rs.40.74 crore made by them towards education and health cesses during the years 1998-99 to 2002-2003, the remittances due to Government (after deducting collection charges) worked out to Rs.36.66 crore. Against this, the actual remittances made by them amounted to Rs.10.04 crore only. Besides, Rs.21.24 crore on account of health cess and education cess was due to be remitted by them as on 31 March 1998. Thus, Rs.47.86 crore was kept out of the Consolidated Fund of the State.

This indicates lack of internal control to ensure remittance of Government dues in time. It is recommended that an effective control mechanism be developed for co-ordination among the Education, Health and Family Welfare and Urban Development Departments to ensure timely remittance of Government revenue into Government account.

Government (Education Department) reported in September 2004 that it is considering amending provisions of the Karnataka Compulsory Primary Education Act, 1961 to ensure recovery of pending education cess from the local bodies. Government (Health and Family Welfare Department) reported in September 2004 that correspondence had been initiated with Urban Development Department and Finance Department for instituting effective control mechanism to ensure timely remittance of cesses by the local authorities. Government (Urban Development Department) reported in September 2004 that all the local bodies had been directed to remit the cesses due and to clear the backlog it had been decided to make upfront deduction from the State Finance Commission grants which devolve to the local bodies. Also, a committee is being constituted with representatives of the Health and Family Welfare, Education and Finance Departments to ensure co-ordination and timely payment of cesses being collected.



[♦] Belgaum, Gulbarga, Hubli-Dharwad Municipal Corporation, Mangalore, Mysore.

CHAPTER -VII : NON-TAX RECEIPTS

7.1 Results of audit

Test check of records of the Forest, Mines and Geology Departments, conducted in audit during the year 2003-2004, disclosed under-assessments, non-recovery/short recovery of revenue amounting to Rs.394.30 crore in 159 cases, under the following broad categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
Forest Receipts			
1	Non-recovery/short recovery of lease rent and licence fee	11	6.32
2	Non-recovery/short recovery of taxes and royalty	8	0.04
3	Short recovery of forest development tax	06	1.71
4	Other irregularities	41	30.23
	Total	66	38.30
Mineral Receipts			
1	Non-levy/short levy of dead rent	23	1.44
2	Non-levy/short levy of royalty	14	12.41
3	Other irregularities	55	30.13
	Total	92	43.98
Interest Receipts			
	Review : Interest Receipts	1	312.02
	Total	1	312.02
	Grand Total	159	394.30

During the course of the year 2003-2004, the Departments accepted under-assessments of Rs.0.33 crore in 14 cases which had been pointed out in audit in earlier years and recovered Rs.0.31 crore in nine of them.

A few illustrative cases involving Rs.312.68 crore including the results of a Review on **Interest Receipts** involving Rs.312.02 crore are given in the following paragraphs. Of this, Rs. 19.83 lakh had been recovered.

7.2 Review : Interest receipts

Highlights

Non-fixation of terms and conditions of loans amounting to Rs.986.25 crore sanctioned in 191 cases to 66 loanees resulted in non-demanding of interest of Rs.283.18 crore for the period 1998-99 to 2002-2003.

In 52 cases of sanction of loans of Rs.89.68 crore to pertaining to 1998-99 to 2001-02, though terms had been fixed, demands for interest of Rs.27.42 crore for the period 1998-99 to 2002-2003 had not been raised.

(Paragraph 7.2.7)

In 15 cases of loans aggregating Rs.18.24 crore disbursed during 1998-99 to 2001-02 to five loanees, lower rates of interest than applicable were prescribed leading to undercharging of interest of Rs.1.42 crore.

(Paragraph 7.2.8)

The lending department's failure to ensure consultation with Internal Financial Advisers, fixation of terms at the time of sanction of loans, reconciliation of departmental accounts indicated absence of internal control mechanism

(Paragraph 7.2.9)

7.2.1 Introduction

Interest receipts of the State Government comprise interest earned on - (i) capital investments in Departmental Commercial Undertakings, (ii) short-term investments of cash balances of the Government, (iii) interest charged on loans and advances sanctioned by it to public sector and other undertakings, local bodies, co-operative societies and individuals including Government employees as also interest on certain deferred payments. While interest on investments in Departmental Commercial Undertakings is adjusted at rate(s) fixed by Government, earnings from interest on cash balances mainly depends on the discounting/rediscounting rates of Treasury Bills of the Government of India by the Reserve Bank of India.

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, co-operative processing units and other purposes as prescribed in September 1991 were dependent on the purpose and the source of their funding and ranged from 12 to 18 per cent.

7.2.2 Organisational set up

The requests for sanction of loans and advances are processed by the heads of departments and are recommended to Government in the concerned administrative department. The sanctions specifying the terms and conditions, rate of interest chargeable and repayment plan and the authority responsible for maintenance of loan ledgers and watching recovery are issued by administrative departments with the concurrence of the Finance Department.

7.2.3 Audit objectives

To verify –

- prescription of terms and conditions of sanction, proper maintenance of loan ledgers; raising of demands for instalments of principal and interest (including penal interest) on due dates; and
- existence of internal control mechanism to ensure compliance of terms and conditions of sanction with particular reference to the above-mentioned aspects.

7.2.4 Scope of audit

A review of interest receipts of Government during the period 1998-99 to 2002-2003 was conducted between July 2003 and June 2004 by a test check of records of nine^{*} Departments and also by obtaining information from related beneficiary organisations, where necessary.

^{*} Agriculture, Commerce and Industries, Co-operation, Energy, Food, Civil Supplies and Consumer Affairs, Forest, Ecology and Environment, Housing, Irrigation, Urban Development

7.2.5 Trend of interest receipts

- The details of estimated interest receipts, actual realisation and its percentage to total non-tax revenues during the period 1998-99 to 2002-2003 are given below:

(Rupees in crore)

Year	Interest receipts		Variation [Excess (+)/ Shortfall (-)]		Actual non-tax revenue	Percentage of (3) to (6)
	Budget Estimates (BE)	Actual	Amount	Percentage		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1998-99	682.87	669.74	(-) 13.13	2	1,469.92	46
1999-00	671.71	801.67	(+) 129.96	19	1,611.29	50
2000-01	680.23	721.18	(+) 40.95	6	1,659.97	43
2001-02	211.51	141.92	(-) 69.59	33	1,093.42	13
2002-03	126.00	34.36	(-) 91.64	73	1,277.67	3

The break-up of actual interest receipts into realisation from adjustments in respect of interest on capital employed in Departmental Commercial Undertakings including Irrigation Works (Commercial) and from other means including by way of cash is as under:

(Rupees in crore)

Year	Total actual interest receipts	Receipts from adjustments	Receipts by other means	Percentage of (3) to (2)
(1)	(2)	(3)	(4)	(5)
1998-99	669.74	421.23	248.51	63
1999-00	801.67	497.64	304.03	62
2000-01	721.18	560.96	160.22	78

Thus, during the years 1998-99 to 2000-2001, of the actual interest receipts, 62 to 78 per cent was derived from adjustments. Interest receipts formed the principal source of non-tax revenues of the Government during these years. The adjustment in respect of Irrigation Works (Commercial) was discontinued from 2001-2002 and the total interest receipts fell sharply thereafter. Government reported in March 2003 that this discontinuance was "in view of the difficulties created in monitoring non-tax revenues." The further decline in actual receipts in 2002-2003 over 2001-2002 was due to reduced realisation under 'Interest from public sector and other undertakings' from Rs.111.50 crore to Rs.20.42 crore.

The basis of estimation for Budget Estimates (BE) as also reasons for variation between BE and actual realisation for all the years called for from Government in March 2004 had not been furnished till September 2004.

- The position of total loans disbursed during the years 1998-99 to 2002-2003 and loans outstanding at the end of each of the years, estimated and actual interest realised during the years is given below:

(Rupees in crore)

Year	Loans disbursed	Loans outstanding at the end of the year	Interest due as per budget estimates	Interest actually realised	Percentage of (5) to (4)
(1)	(2)	(3)	(4)	(5)	(6)
1998-99	290.40	3,494.74	246.41	214.07	87
1999-00	316.59	3,666.62	194.26	271.02	140
2000-01	511.30	4,076.69	179.51	130.11	72
2001-02	514.47	4,556.46	190.82	114.00	60
2002-03	627.57	4,256.03	115.43	22.44	19

Though loans disbursed continuously increased and the loans outstanding also increased except in 2002-2003, interest actually realised showed declining trend. In the absence of non-availability of the basis of preparation of budget estimates, reasons for low recoveries could not be ascertained.

7.2.6 Non-revision of interest rate

In order to ascertain the working results of Irrigation Works that are classified as 'Commercial', the Karnataka Public Works Departmental Code prescribes preparation of annual *pro forma* accounts of such works which include 'Interest Account' also. Interest charges on the capital outlay of such projects were being computed at the rate of six *per cent* from April 1970 as prescribed by Government.

This rate had not been revised though the average rate of interest paid on borrowings by the Government during the years 1998-2001 varied between 9.44 and 9.84.

7.2.7 Fixation of terms and conditions of loans

In September 1991, Government in the Finance Department ordered that all sanction orders for loans and advances are to be invariably accompanied by terms and conditions containing period of loan, moratorium towards repayment, if any, date and year from which repayment is to commence, rates

of interest – both normal and penal in the event of defaults in repayment/ interest payments, mode of repayment/recovery all of which are essential for correct computation of the dates and amounts of instalments of principal and interest/penal interest due.

- In 191 cases of loans aggregating Rs.986.25 crore disbursed to 66 loanees during the period 1998-99 to 2001-02, no terms and conditions for repayment of loans or for levy of interest were specified. As a result, interest payable could not be computed and levied. By adoption of economic/ borrowing interest rate, the amount of interest worked out to Rs.283.18 crore for the loans sanctioned between 1998-99 to 2001-02. Thus, non-finalisation of the terms and conditions of the loans resulted in non levy of Government revenue to that extent. The details are given below:

(Rupees in crore)

Department/ Controlling Officer	Year of sanction (Number of loanees)	Amount of loan (Number of sanctions)	Rate of interest	Interest due
Energy/ Principal Secretary to Government	2000-01 (1)	40.75 (1)	12.5	10.19
Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	1998-99 to 2001-02 (7)	78.92 (35)	18	29.80
Commissioner for Textile Development and Director of Handloom and Textiles	1998-99, 2000-01 & 2001-02 (1)	0.66 (3)	18	0.41
Commissioner for Sericultural Development and Director of Sericulture	2000-01 (1)	2.45 (3)	18	0.88
Commissioner for Cane Development and Director of Sugar	1999-00 (1)	2.42 (1)	18	1.31
Co-operation/ Principal Secretary to Government	2000-01 & 2001-02 (1)	0.86 (2)	12	0.17
Commissioner for Cane Development and Director of Sugar	2001-02 (1)	3.88 (1)	12	0.47
Commissioner for Textile Development and Director of Handloom and Textiles	1998-99 to 2000-01 (7)	28.56 (14)	16 & 18	13.65
Forest, Ecology and Environment/ Principal Chief Conservator of Forests	2000-01 (1)	13.91 (1)	18	5.01

(Rupees in crore)

Department/ Controlling Officer	Year of sanction (Number of loanees)	Amount of loan (Number of sanctions)	Rate of interest	Interest due
Urban Development/ Principal Secretary to Government	1998-99 to 2001-02 (4)	743.10 (73)	12.5 & 16	200.87
Director of Municipal Administration	1998-99 to 2001-02 (39)	12.32 (12)	12.5	3.09
Housing/ Principal Secretary to Government	1998-99 to 2001-02 (2)	58.42 (45)	12 & 12.5	17.33
Total	1998-99 to 2001-02 (66)	986.25 (191)		283.18

• **Delay in fixing terms and conditions.**

In seven cases of loans aggregating Rs.24.85 crore disbursed by two Departments to five loanees during 1999-2000 to 2001-2002, the terms and conditions were fixed after delays ranging from four to 29 months. The delays resulted in postponement of realisation of interest of Rs.3.25 crore. Details are given below:

(Rupees in crore)

Department/ Controlling Officer	Year of sanction (Number of loanees)	Delay in months	Amount of loan (Number of sanctions)	Rate of interest	Interest due
Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	1999-00 & 2001-02 (3)	4 to 19	8.55 (4)	12 to 18	0.11
Co-operation/ Principal Secretary to Government	2000-01 & 2001-02 (1)	28 to 29	12.80 (2)	12	3.07
Commissioner for Cane Development and Director of Sugar	2000-01 (1)	11	3.50 (1)	4	0.07
Total	1999-00 to 2001-02 (5)	4 to 29	24.85 (7)	4 to 18	3.25

• **Defective terms and conditions.**

In 21 cases of loans aggregating Rs.191.80 crore disbursed by three Departments to seven loanees during 1998-99 to 2001-2002, though terms and conditions were specified, they were defective and affected the determination of dates and amounts of principal/interest. The deficiency in terms prescribed included: penal interest for default of principal not prescribed, ambiguity of term such as "after two years' period is over", periodicity of repayment of principal and interest not specified, amount of loan itself not specified, repayment to be made after sale of assets, to be repaid from its own resources or from sale of assets as convenient, repayment at Rs.50 per bag of sugar sold by sugar mills, to be repaid immediately after the current year's Minimum Support Price Operations are over, etc. The amount of interest due approximately worked out to Rs.14.67 crore as computed by Audit. Details are given below:

(Rupees in crore)

Department/ Controlling Officer	Year of sanction (Number of loanees)	Amount of loan (Number of sanctions)	Rate of interest	Interest due
Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	1998-99, 1999-00, 2001-02 (4)	178.30 (16)	0 to 18	13.81
Co-operation/ Commissioner for Cane Development and Director of Sugar	2000-01 & 2001-02 (2)	5.00 (2)	12 to 18	0.86
Food, Civil Supplies and Consumer Affairs/ Commissioner for Food and Civil Supplies	2000-01 (1)	8.50 (3)	0	0
Total	1998-99 to 2001-02 (7)	191.80 (21)	0 to 18	14.67

• **Demands not raised.**

In 52 cases, loans amounting to Rs.89.68 crore sanctioned between 1998-99 to 2001-02, though the terms and conditions for repayment of loan and interest were prescribed, demand for levy of interest was neither raised by the Department nor was it paid by the loanees. This resulted in short realisation of

the interest of Rs.27.42 crore on the loans sanctioned between 1998-99 to 2001-02. Details are given below:

(Rupees in crore)				
Department/ Controlling Officer	Year of sanction (Number of loanees)	Amount of loan (Number of sanctions)	Rate of interest per annum	Interest due
Commerce and Industries/ Commissioner for Industries and Director of Industries and Commerce	1998-99, 1999-00 & 2001-02 (4)	24.34 (7)	12 to 18	9.56
Co-operation/ Principal Secretary to Government	2000-01 & 2001-02 (1)	12.80 (2)	12	2.13
Commissioner for Cane Development and Director of Sugar	1998-99 & 2001-02 (3)	10.96 (4)	6.5 to 14.5	1.27
Commissioner for Textile Development and Director of Handloom and Textiles	1998-99 & 1999-00 (2)	6.08 (2)	16	3.42
Forest, Ecology and Environment/ Principal Chief Conservator of Forests	1999-00 (1)	1.51 (3)	12 & 18	0.40
Agriculture and Horticulture/ Commissioner for Agriculture	1999-00 (1)	1.25 (2)	6	0.23
Urban Development/ Principal Secretary to Government	1998-99 to 2001-02 (1)	17.48 (18)	12.5	5.05
Director of Municipal Administration	1998-99 to 2001-02 (62)	13.96 (6)	9.75 & 13	4.89
Housing/ Principal Secretary to Government	1998-99 & 1999-00 (1)	1.30 (8)	10.25	0.47
Total	1998-99 to 2001-02 (76)	89.68 (52)		27.42

7.2.8 Short levy of interest

The Karnataka Financial Code provides that loans should not ordinarily be sanctioned at concessional rates of interest; if any concession is considered necessary it should be in the form of subsidy after the loan is fully paid.

In 15 cases of loans aggregating Rs.18.24 crore disbursed to five loanees during 1998-99 to 2001-2002, the interest rates were fixed at a concessional rate at the time of sanction itself. Application of concessional interest rates before repayment of the loans was incorrect and resulted in short levy of interest of Rs.1.42 crore as detailed below:

(Rupees in crore)

Department/ Controlling Officer	Year of sanction (Number of loanees)	Purpose	Amount of loan (Number of sanctions)	Rate of interest			Amount of short levy
				Economic	Levied	Short levied	
Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	2001-02 (2)	For implementation of Voluntary Retirement Scheme/ Conversion of sales tax dues into loan	3.21 (2)	18	12	6	0.19
Co-operation/ Principal Secretary to Government	2000-01 & 2001-02 (1)	Construction of godowns	12.80 (2)	18	12	6	1.07
Forest, Ecology and Environment/ Principal Chief Conservator of Forests	1999-00 & 2001-02 (1)	Working capital/for implementation of Voluntary Retirement Scheme	0.93 (3)	18	12	6	0.08
Housing/ Principal Secretary to Government	1998-99 & 1999-00 (1)	Rental Housing Scheme	1.30 (8)	12	10.25	1.75	0.08
Total	1998-99 to 2001-02 (5)		18.24 (15)				1.42

7.2.9 Internal control

- The Karnataka Financial Code requires that an application for loan must be considered primarily on the basis of the repaying capacity of the applicant calling for a close scrutiny of financial position of the applicant.

It was, however, noticed that loans were being sanctioned on a continuous regularity even though the loanees had defaulted in repayment of principal and payment of interest. A few such cases are detailed below by way of illustration:

(Rupees in crore)

Sl. No.	Department/ Controlling Officer	Name of the loanee	First loan defaulted	Further sanctions issued		
				Period	Number of sanctions	Amount
1	Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	Karnataka Industrial Areas Development Board	1991-92	1998-99, 2000-01 and 2001-02	6	6.42
		Mysore Minerals Limited	1997-98	1998-99 to 2002-03	9	19.51
		Vijaynagar Steel Limited	1995-96	1998-99 & 1999-00	3	0.13
		New Government Electric Factory Limited	1999-00	1999-00 to 2002-03	19	139.96
2	Urban Development/ Principal Secretary to Government	Karnataka Urban Water Supply and Drainage Board	Prior to 1998-99	1998-99 to 2002-03	23	21.18

- In July 1982, the State Government introduced the system of Internal Financial Advisers (IFA) under the Government of Karnataka (Consultation with Financial Adviser) Rules. Accordingly, a Department of the State Government is to refer to the IFA all proposals requiring consultation with the Finance Department. His comments/views would be obtained before such a case is referred to the Finance Department. Further, all proposals for the sanction of loans would be referred to the IFA before the issue of final orders. In particular, he would be consulted on the financial aspects of all transactions relating to loans.

It was, however, noticed that no cases of sanction of loans were referred to the IFAs.

- The Government Order issued by the Finance Department in September 1991 required that all sanction orders were to be invariably accompanied by the terms and conditions of loans in the prescribed *pro forma* and also required that copies of all sanctions are to be endorsed to it. According to the procedure in vogue, all proposals for sanction of loans were being referred to the Finance Department for concurrence before issue of final orders.

Though prior consultation with the Finance Department and endorsement of all sanction orders to it were being invariably made, compliance with the requirement of prescription of terms and conditions at the time of sanction was not ensured, the impact of which has been brought out in **paragraph 7.2.7**.

- The Karnataka Financial Code provides that the receipts as recorded in the departmental books are to be reconciled by the controlling officers with those recorded in the books of the Accountant General (Accounts & Entitlement) (AG (A&E)).

But it was not being done as the AG (A&E) had reported the following position regarding reconciliation to Government in August 2003:

Particulars	Total number of Controlling Officers	Number of Controlling Officers		
		Fully reconciled	Partly reconciled	Not at all reconciled
Expenditure	337	96	119	122
Receipts	83	28	25	30

- In November 1998, Government ordered constitution of Departmental Committees to conduct periodical review of the loans borrowed by Boards/Corporations/Institutions/Agencies, etc. The Committees to be constituted for each Administrative Department of the Secretariat were to comprise the Principal Secretary to Government in the Finance Department as Chairman, Principal Secretary/Secretary to Government of the concerned Administrative Department, Head of the Department, Chairman/Managing Director of the recipient and a nominee of the lending institution such as NABARD, NCDC, HUDCO as members.

While the Principal Chief Conservator of Forests stated in February 2004 that he had not received any Government Order constituting such a committee, information about the reports of the review, if actually conducted and action taken thereon, was not made available in respect of other Departments.

The points mentioned above were reported to Government in June 2004; their reply is awaited (January 2005).

7.2.10 Recommendations

- Government should prescribe standard terms and conditions of sanction of loans to be universally applicable; in addition, the concerned sanctioning authorities may prescribe additional or modified terms, duly recording reasons for the same and ensure adherence to the financial regulations at the time of sanction of loans.
- Internal Control mechanism needs to be strengthened by consulting IFAs in respect of proposals relating to loans.
- The controlling officer should carry out reconciliation with AG(A &E).

Forest Receipts

7.3 Non-recovery of cost of protection and regeneration of safety zone and afforestation

According to Consolidated Guidelines for Diversion of Forest Land under the Forest (Conservation) Act, 1980, safety zone all along the outer boundary of mining lease area shall be indicated separately in the proposal submitted to Central Government. Project authority shall deposit funds with Forest Department for the protection and regeneration of such safety zone area and will bear the cost of afforestation over one and a half times of the safety zone area in degraded forest elsewhere. Government of India issued in May 1999 clarification about calculation of safety zone in mining areas. Based on this clarification, the Principal Chief Conservator of Forests (PCCF) issued in July 1999 guidelines for calculation of safety zone and afforestation charges and directed the field officers to raise demand and recover the charges.

It was, however, noticed between July and November 2003 in three districts, in respect of 12 mining leases (11 lessees) involving 74.968 ha of safety zone area, the cost of protection and regeneration of the safety zone and the cost of

raising afforestation have remained un-recovered till November 2003 by three Deputy Conservators of Forest (DCF). The total amounts recoverable works out to Rs.58.90 lakh as detailed below:

(Rupees in lakh)

Sl. No.	District (No. of leases, No. of lessees)	Extent of land on which amounts recoverable (in hectares)			Amounts recoverable
		Safety zone	One and half times of safety zone	Total area on which charges recoverable	
1	Bellary (9, 8)	68.674	103.012	171.686	53.64
2	Davangere (2, 2)	5.024	7.537	12.561	4.31
3	Tumkur (1, 1)	1.27	1.905	3.175	0.95
	Total (12, 11)	74.968	112.454	187.422	58.90

After these cases were pointed out in audit, Government reported in September 2004 recovery of Rs.19.83 lakh from five lessees and issue of notices to another five lessees. Final reply in respect of one lessee has not been received (January 2005).

7.4 Short levy of forest development tax

Under the Karnataka Forest Act, 1963, forest development tax (FDT) is leviable on all forest produce disposed of by sale or otherwise at the rate of eight *per cent* on the amount of consideration. Further, on the disposal of timber to industries, FDT is to be levied at 12 *per cent* on the amount of consideration. As per Circular issued by PCCF, in September 1983, FDT was to be levied at eight *per cent* only for auction sale of timber irrespective of who the buyer was.

During audit of the offices of the DCF, Virajpet and Chickmagalur, it was noticed in February/June 2003 that in respect of sale of timber of Rs.1.87 crore between January 2001 and February 2003, FDT was levied at eight *per cent* in 77 cases. Audit scrutiny revealed that these purchasers had produced Income-tax exemption certificate issued by the Income-tax Department which clearly stated that the timber was to be used for manufacturing/processing/producing articles and not for trading purposes. Thus, due to the Circular (clarification) issued in September 1983 which was not in consonance with the provisions of the Act, there was short levy of FDT of Rs.7.48 lakh.

After these cases were pointed out in audit in February/June 2003, Government reported in September 2004 that in order to provide equal competition in auction sale, FDT was being levied at eight *per cent*. The reply is not tenable as the circular was in contravention of the provisions of the Act.

Bangalore

The

07 MAY 2005

Sudha Krishnan

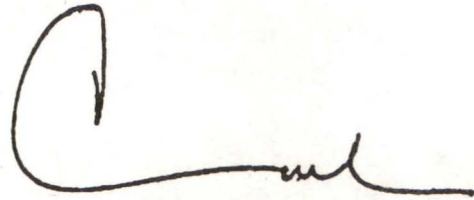
(Sudha Krishnan)

Accountant General

(Works, Forest & Receipt Audit)

Karnataka

COUNTERSIGNED



New Delhi

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10 9 MAY 2005

(Vijayendra N.Kaul)

Comptroller and Auditor General of India

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