



**Report of the
Comptroller and Auditor General of India
on
Economic and Revenue Sectors
for the year ended March 2019**



लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest



Government of Karnataka
Report No. 4 of the year 2020

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PREFACE

This Report for the year ended March 2019 has been prepared for submission to the Governor of Karnataka under Article 151(2) of the Constitution of India for being placed in the State Legislature.

Part-I of this Report contains significant results of the Compliance Audit on Management of Zoos by the Zoo Authority of Karnataka and Compliance Audit of the Departments under the Economic Services, including Departments of Forest, Ecology & Environment, Public Works, Ports & Inland Water Transport and Minor Irrigation & Ground Water Development.

Part-II of this Report contains significant results of the Compliance Audit on Implementation of Transitional provisions under the Goods and Services Tax Acts in Karnataka, and Compliance Audit of the Departments of the Government of Karnataka under Revenue Sector, including Commercial Taxes Department, Department of Stamps and Registration and Department of Mines and Geology.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2018-19 as well as those which came to notice in earlier years, but could not be reported in previous Audit Reports. The instances relating to the period subsequent to 2018-19 have also been included wherever found necessary.

Audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

OVERVIEW

ECONOMIC SECTOR

Part-I of this Report pertaining to Economic Sector contains seven paragraphs including one Compliance Audit on Management of Zoos by the Zoo Authority of Karnataka. Some of the major findings are mentioned below:

Compliance Audit on “Management of Zoos by the Zoo Authority of Karnataka”

Central Zoo Authority (CZA) norms should be complied by all zoos operating in the country and Zoo Authority of Karnataka (ZAK) should ensure the same for the zoos under its jurisdiction. However,

- Recognition of eight zoos were yet to be renewed and two suspended zoos were kept open for public.
- Kamalapur Zoo was operated without a recognition from CZA during the years 2017-18 and 2018-19.
- Only three zoos viz., Mysore Zoo, BBP, Bengaluru and Kamalapur Zoo had approved Master Plans while two zoos did not even have the approved Master (Layout) Plans.
- As adequate population control measures were not in place, there were surplus animals in the zoos and CZA norms on pairing of single animals were not complied with.
- Adequate veterinary infrastructure was not in place in seven of the nine zoos. Only Mysore Zoo had conducted screening of animal keepers for zoonotic diseases for only one year, though the same was to be conducted annually. Health Advisory Committees mandated by CZA were not in place in six zoos.
- Research and Education, which are important for conservation and protection of wildlife, were not given adequate importance.
- The staff deployed was more than the sanctioned posts in the zoos.

(Paragraph 2.1)

Compliance Audit Paragraphs

The Schedule of Rates provides for specific rate for specific item of work. The adoption of incorrect item for de-silting of tanks in forest area resulted in overpayment of ₹ 2.64 crore to contractors.

(Paragraph 2.2)

Compensatory Afforestation charges were short levied (₹ 3.05 crore) and non-forestland (81.29 ha) was not obtained from lessee for raising Compensatory Afforestation.

(Paragraph 2.3)

The feeder canal taken up to supply water to four tanks was abandoned resulting in wasteful expenditure of ₹ 17.50 crore as a new project was sanctioned to meet the objective.

(Paragraph 2.4)

The adoption of incorrect item in removal of bituminous surface and inclusion of separate item for incidental works in road improvement works had resulted in undue benefit of ₹ 3.90 crore to the contractors.

(Paragraph 2.5)

Plastering to ceiling formed part of RCC work as per specification but was included as a separate item in the contract document in construction of buildings which resulted in overpayment of ₹ 1.93 crore to the contractors.

(Paragraph 2.6)

Additional Reflective Pavement Markers were provided in road improvement works in deviation of the revised standards of Indian Road Congress which resulted in unwarranted expenditure of ₹ 6.62 crore.

(Paragraph 2.7)

REVENUE SECTOR

Part-II of this Report pertaining to Revenue Sector contains 17 paragraphs including one Compliance Audit, observations relating to non/short-levy of tax, interest, penalty, revenue foregone, etc. amounting to ₹ 1092.70 crore. Some of the major findings are mentioned below:

I General

Total revenue receipts of the State Government for the year 2018-19 amounted to ₹ 1,64,978.66 crore against ₹ 1,46,999.65 crore for the previous year. Of this, 63 *per cent* was raised by the State through tax revenue (₹ 96,829.71 crore) and non-tax revenue (₹ 6,772.87 crore). The balance 37 *per cent* was received from the Government of India as State's share of divisible Union taxes (₹ 35,894.83 crore) and grants-in-aid (₹ 25,481.25 crore).

(Paragraph 1.1)

A total of 1,359 Inspection Reports, containing 3,802 observations, involving money value of ₹ 1,822.98 crore, were pending with the Departments for settlement at the end of June 2019.

(Paragraph 1.5)

Test-check of the records of 303 units of Value Added Tax, State Excise, Taxes on Motor Vehicles, Stamp Duty and Registration Fee, Land Revenue and other Departmental Offices conducted during the year 2018-19 showed under-assessment/short-levy/loss of revenue aggregating ₹ 1502.73 crore in cases pointed out through 763 paragraphs.

(Paragraph 1.8)

II Taxes/VAT on Sales, Trade, etc.

Compliance Audit on “Implementation of Transitional provisions under the GST Acts in Karnataka”

Registration

Migration of dealers was fairly complete with the following exceptions:

- ✓ 2,820 dealers in the sampled six Divisions with turnover above the threshold of ₹ 20 lakh had not migrated to GST.
- ✓ Department did not ensure migration of 7193 dealers who had turnover above the threshold of ₹ 20 lakh but with invalid PAN.

(Paragraph 2.4.8.4 and 2.4.8.5)

Though works contractors were not eligible for composition of tax under the GST, 273 works contractors under KVAT continued to be under composition scheme under GST.

(Paragraph 2.4.8.6)

Filing of returns

Compliance to the filing of GSTR- 1 (Outward supplies) and GSTR- 3B was done commendably (Summarized monthly return), while GSTR-2 (Inward supplies) could not be introduced due to failure in the implementation of Information Technology infrastructure.

Filing statistics of GSTR- 1 and GSTR- 3B differed significantly in the Central GST portal and the State portal with figures in the State portal unrealistically higher than the Central figures.

(Paragraph 2.4.9.1)

Due to incomplete uploading of outward supplies and inward supplies, invoice matching could not be achieved under GST, which was to a larger extent achieved in Karnataka under e-UPaSS in KVAT.

(Paragraph 2.4.9.2)

Transitional Credit

No action plan was devised to verify transitional credits as the risk assessment adopted by the Department indicated lesser risk in the credits claimed compared to the excess credits available in June 2017 returns.

(Paragraph 2.4.10.1)

Case-wise verification of claim of transitional credit by Audit in 25,687 cases in the sampled six Divisions revealed excess claim of credit of ₹ 40.74 crore by **480** dealers and claim of ineligible credit of ₹ 47.04 crore by 490 dealers.

(Paragraph 2.4.10.2)

Cross verification of transitional claim with other related documents like Form VAT-240, Reassessment orders, TDS certificates etc. by Audit in 611 cases revealed incorrect claims of transitional credit of **₹ 855.61** crore in respect of **141** dealers.

(Paragraph 2.4.10.3)

234 “New” registrations and **800** dealers under “Composition of Tax” under GST claimed transitional credit of **₹ 137.24** crore, though both the categories were not eligible for input tax credit in the erstwhile KVAT Act.

(Paragraph 2.4.10.5)

Incorrect/excess transitional credit of **₹ 59.96** crore under Central GST was availed by 113 dealers.

(Paragraph 2.4.11.1)

Though Education Cess, Secondary and Higher Education Cess and Krishi Kalyan Cess, did not qualify for transitional credit under GST, claim of **₹ 61.84** crore under the Cesses were allowed in respect of 56 dealers.

(Paragraph 2.4.11.2)

Refunds and Assessments under erstwhile KVAT Act

As per the returns filed under KVAT, refund claims amounted to **₹ 2536.66** crore, however, Department had not devised any plan to deal with the refund claims in the returns.

(Paragraph 2.4.13.1)

No Action Plan was found on record to identify cases which merit Reassessment under the KVAT Act and optimise revenue collection under the erstwhile Act before the cases get time barred.

(Paragraph 2.4.13.2)

Compliance Audit Paragraphs

Non-levy of penalty under Section 72(1) of the KVAT Act, for delay in payment of tax by 314 assessee and under Section 74(4) for non-filing of Form-VAT-240 by 5193 assessee amounted to **₹ 29.82** crore.

(Paragraph 2.5 and 2.12)

Short-levy of tax on sale of liquor by 104 Bars and Restaurants situated in urban areas for the period from March 2014 to March 2017 amounted to **₹ 17.16** crore inclusive of interest and penalty.

(Paragraph 2.6)

Tax amounting to **₹ 5.64** crore (inclusive of interest and penalty) was not paid by 161 assessee, though declared in the returns.

(Paragraph 2.7)

Additional tax of ₹ 8.92 crore (inclusive of interest and penalty), determined by the Auditors in the audited statement of accounts, was not paid by 65 dealers.

(Paragraph 2.8)

Interest for belated payment of tax by nine dealers amounting to ₹ 2.05 crore was not levied.

(Paragraph 2.9)

Short-levy of tax of ₹ 13.49 crore (inclusive of interest and penalty) due to incorrect allowance of input tax credit (ITC) on exempted goods and diesel, errors in computation of ITC and allowance of ITC without realizing the corresponding output tax.

(Paragraph 2.10)

Short-levy of tax due to incorrect allowance of sub-contractor payments, by 13 dealers, amounted to ₹ 3.01 crore inclusive of interest and penalty.

(Paragraph 2.11)

Matching of input tax credit under e-UPaSS module revealed non-payment of output tax of ₹ 16.82 crore by 140 dealers inclusive of interest and penalty.

(Paragraph 2.13)

III Stamp Duty and Registration Fee

Compliance Audit Paragraphs

Adoption of incorrect guidance values, incorrect classification of documents, non-adherence to special instructions, etc. in 19 SROs led to undervaluation of documents in 73 cases resulting in short-levy of Stamp Duty and Registration Fee of ₹ 16.18 crore.

(Paragraph 3.4)

Application of incorrect rates on Sale-deeds and Release-deeds in four SROs led to short-levy of Stamp Duty and Registration Fee of in 32 cases amounting to ₹ 10.46 crore.

(Paragraph 3.5 and 3.7)

Adoption of incorrect rates, incorrect levy on share of lesser value, etc. in 50 Joint Development Agreements in five SROs led to short-levy of Stamp Duty and Registration Fee of ₹ 9.44 crore.

(Paragraph 3.6)

Amount of ₹ 3.33 crore collected towards Stamp Duty, Registration Fee, etc. in one SRO, was not remitted to the Government Account.

(Paragraph 3.8)

IV Mineral Receipts

Compliance Audit Paragraphs

Royalty for transportation of minor minerals without obtaining Mineral Dispatch Permits amounting to ₹ 6.47 crore was not demanded from the quarry lease holders.

(Paragraph 4.4)

Joint inspections conducted by Audit with the Department revealed six cases of unauthorised extraction of building stone from areas where lease were either expired or cancelled or from un-authorised sites. Royalty and penalty applicable in these six cases amounted to ₹ 82.47 lakh.

(Paragraph 4.5)



PART-I

ECONOMIC SECTOR

Chapter I

Introduction

Chapter I

Introduction

1.1 Budget profile

The Accountant General (Economic & Revenue Sector Audit), Karnataka, Bengaluru, conducts audit of 12 departments and 25 autonomous bodies under the Economic Sector in the State. The position of budget estimates and actual expenditure there against by the State Government during 2014-19 is given in **Table 1.1**.

Table 1.1: Budget and actual expenditure of the State during 2014-19

Expenditure	2014-15		2015-16		2016-17		2017-18		2018-19	
	Budget Estimates	Actuals								
General Services	29,570	28,265	30,997	30,799	35,018	31,265	38,009	34,484	45,744	42,655
Social Services	42,117	39,366	45,728	46,307	50,960	54,549	55,887	58,652	70,226	67,935
Economic Services	32,399	29,971	32,175	33,846	38,277	40,421	43,671	42,856	44,152	48,285
Grant-in-aid & Contributions	6,671	6,012	6,549	6,076	5,980	5,686	7,187	6,490	6,167	5,425
Total (1)	1,10,757	1,03,614	1,15,449	1,17,028	1,30,235	1,31,921	1,44,754	1,42,482	1,66,289	1,64,300
Capital outlay	20014	19,622	20,564	20,713	25,716	28,150	32,033	30,667	35,246	34,659
Loans & advance disbursed	477	576	733	657	625	1,934	1,597	5,093	5,817	4,487
Repayment of public debt	6,760	4,812	5,788	4,110	6,841	7,420	8,176	8,269	11,136	11,083
Contingency fund	5	0	5	0	5	0	5	0	5	0
Public accounts disbursement	2,57,940	1,29,574	2,83,523	1,55,095	3,42,036	1,67,154	5,09,624	1,94,537	5,10,667	2,34,330
Closing balance	0	23,901	0	27,118	0	34,354	0	26,184	0	22,004
Total (2)	2,85,196	1,78,485	3,10,613	2,07,693	3,75,223	2,39,012	5,51,435	2,64,750	5,62,871	3,06,563
Grand Total (1+2)	3,95,953	2,82,099	4,26,062	3,24,721	5,05,458	3,70,933	6,96,189	4,07,232	7,29,160	4,70,863

*Does not include Investments

Source: Annual Financial Statement and State Finance Audit Reports of respective years.

1.2 Application of resources of the State Government

As against the total budget of ₹ 7,29,160 crore, the application of resources was ₹ 4,70,863 crore during 2018-19. The total expenditure¹ of the state increased by 64 per cent from ₹ 1,23,812 crore to ₹ 2,03,446 crore during the period 2014-15 to 2018-19 while the revenue expenditure increased by 59 per cent from ₹ 1,03,614 crore to ₹ 1,64,300 crore during the same period. The revenue

¹ Total of Revenue Expenditure, Capital Outlay and Loans and Advances.

expenditure constituted 35 to 36 *per cent* of the total expenditure while capital expenditure was 63 to 65 *per cent* during the period from 2014-15 to 2018-19.

During the period from 2014-15 to 2018-19, total expenditure increased at a rate of 10 to 17 *per cent* whereas revenue receipts grew at a rate of 8 to 15 *per cent*.

1.3 Persistent savings

During the last five years, four grants and appropriation showed persistent savings of more than ₹ 10 crore and which were also five *per cent* or more of the total grants (**Table 1.2**).

Table 1.2: Grants indicating persistent savings

Sl. No	Number and name of the grant	Amount of savings					(₹ in crore)
		2014-15	2015-16	2016-17	2017-18	2018-19	
Revenue (Voted)							
1	12-Information, Tourism and Youth Services	59.94(16)	18.04 (5)	34.15 (8)	94.01 (11)	98.11 (16)	
2	21-Water Resources	701.51 (51)	198.62 (20)	119.16 (12)	169.89 (16)	125.31 (12)	
Capital (Voted)							
3	12-Information, Tourism and Youth Services	67.18 (21)	7.80 (21)	93.28 (24)	169.34 (35)	242.22 (42)	
4	21-Water Resources	588.80 (7)	2,231.65 (25)	1,252.97 (13)	2,638.20 (21)	547.46 (5)	

Note: Figures in parenthesis show percentage of savings to total provision
(Source: Appropriation Accounts of concerned years)

1.4 Grants-in-aid from Government of India

Grants-in-aid from GOI increased from ₹ 14,620 crore to ₹ 25,481 crore during 2014-15 to 2018-19 except during 2015-16. The details are shown in **Table 1.3**.

Table 1.3: Grants-in-aid received from GOI

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	(₹ in crore)
Non-Plan Grants	3,635	5,548	7,045	-	-	
Grants for State Plan Schemes	9,097	8,105	8,102	-	-	
Grants for Central Plan Schemes	159	139	116	-	-	
Grants for Centrally Sponsored Schemes	1,729	137	440	11,617	10,393	
Other Transfer / Grants to States	-	-	-	7,316	11,714	
Finance Commission Grants	-	-	-	2,708	3,374	
Total	14,620	13,929	15,703	21,641	25,481	

(Source: Finance Accounts for respective years)

1.5 Planning and conduct of Audit

The audit process commences with risk assessment of various departments, autonomous bodies and schemes/projects which involves assessing the criticality/complexity of activities, the level of delegated financial powers, internal controls and concerns of stakeholders and previous audit findings. Based on the risk assessment, the frequency and extent of Audit are decided and an Annual Audit Plan is formulated.

After completion of Audit, an Inspection Report containing audit findings is issued to the head of the office with the request to furnish replies within four weeks. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations pointed out in these Inspection Reports are processed for inclusion in the Audit Reports of the Comptroller and Auditor General of India which are submitted to the Governor of Karnataka under Article 151 of the Constitution of India.

During 2018-19, Compliance Audit of 138 drawing and disbursing officers of the State and four autonomous bodies under section 19 (2), 19 (3) and 20 (1) of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971, was conducted by the office of the Accountant General (Economic and Revenue Sector Audit), Karnataka.

1.6 Significant Audit observations and response of Government to Audit

In the last few years, Audit had reported on several significant deficiencies in implementation of various programmes/activities as well as on the quality of internal controls in selected departments which have negative impact on the success of programmes and functioning of the Departments. The focus was on offering suitable recommendations to the Executive for taking corrective action and improving service delivery to the citizens. The departments are required to send their responses to draft Performance Audit reports/draft paragraphs proposed for inclusion in the Comptroller and Auditor General of India's Audit Report within six weeks.

Part I of this Audit Report contains one Compliance Audit on 'Management of Zoos by the Zoo Authority of Karnataka' and six Compliance Audit paragraphs which were forwarded to the concerned Administrative Secretaries. Replies from the Administrative Departments have been received for only three Compliance Audit paragraphs which have been suitably incorporated in the Audit Report.

1.7 Recoveries at the instance of Audit

The Audit findings involving recoveries that came to notice in the course of test audit of accounts of Government departments were referred to the various departmental Drawing and Disbursing Officers (DDOs) for confirmation and further necessary action under intimation to Audit. An amount of ₹ 13.50 lakh was recovered in eight cases during 2018-19 by two departments after being pointed out by Audit through Inspection Reports.

1.8 Lack of responsiveness of Government to Audit

After periodical inspection of the Government departments, the Accountant General (Economic & Revenue Sector Audit) issues the Inspection Reports (IRs) to the Head of Offices audited with copies to the next higher authorities. The executive authorities are expected to promptly rectify the defects and omissions pointed out and report compliances to the Accountant General within four weeks. Half yearly reports of IRs pending for more than six months are also sent to the concerned Administrative Secretaries of the departments to facilitate monitoring

and compliance of the Audit observations in the pending IRs. As of March 2019, 6,816 paragraphs pertaining to 1,128 IRs having money value of ₹ 19,473.91 crore were outstanding against various auditable units pertaining to Economic Sector (Non-Public Sector Undertaking). The large pendency of IRs indicated that the Controlling Officers did not initiate action or take remedial measures to settle the irregularities pointed out in Audit. Details of the year wise pendency has been detailed in **Table 1.4**

Table 1.4: Year wise breakup of outstanding IRs and Paragraphs

Year	No of IRs	No of Paragraphs	Amount (₹ in crore)
Upto 2013	357	1455	2,559.87
2013-14	154	805	1,484.68
2014-15	128	795	842.09
2015-16	143	910	4,060.82
2016-17	125	912	3,675.85
2017-18	124	1011	313.97
2018-19	97	928	6,536.63
Total	1128	6816	19,473.91

The details of outstanding paragraphs Department-wise has been detailed in **Appendix 1.1**.

1.9 Follow-up on Audit Reports

The Rules of Procedure (Internal Working), 1999, of the Public Accounts Committee provides that all the Departments of the Government should furnish detailed explanations in the form of Departmental Notes to the observations in Audit Reports, within four months of their being laid on the Table of Legislature to the Karnataka Legislature Secretariat with copies thereof to Audit Office.

The Administrative Departments did not comply with these instructions and eight Departments (as detailed in **Appendix 1.2**) did not submit Departmental Notes for 27 paragraphs for the period from 2003-04 to 2017-18 (as of March 2020).

Details of paragraphs pending discussion by the Public Accounts Committee as of March 2020 are given in **Appendix 1.3**. There are 81 paragraphs relating to the Audit Reports of various years from 1996-97 to 2017-18 pending for discussion in the Public Accounts Committee. Delay in discussion or non-discussion of paragraphs may result in erosion of accountability of the Executive.

1.10 Status of placement of Separate Audit Reports of Autonomous Bodies in the State Assembly

The Audit of accounts of three bodies in the State under Economic Sector has been entrusted to the CAG. In respect of KIADB and KVIB, accounts have been rendered upto 2018-19 and Separate Audit Reports (SARs) for the period 2017-18 has been placed in the State Legislature. In respect of KBB, accounts have been received upto the period 2019-20 and SAR is being sent to Legislature for placement.

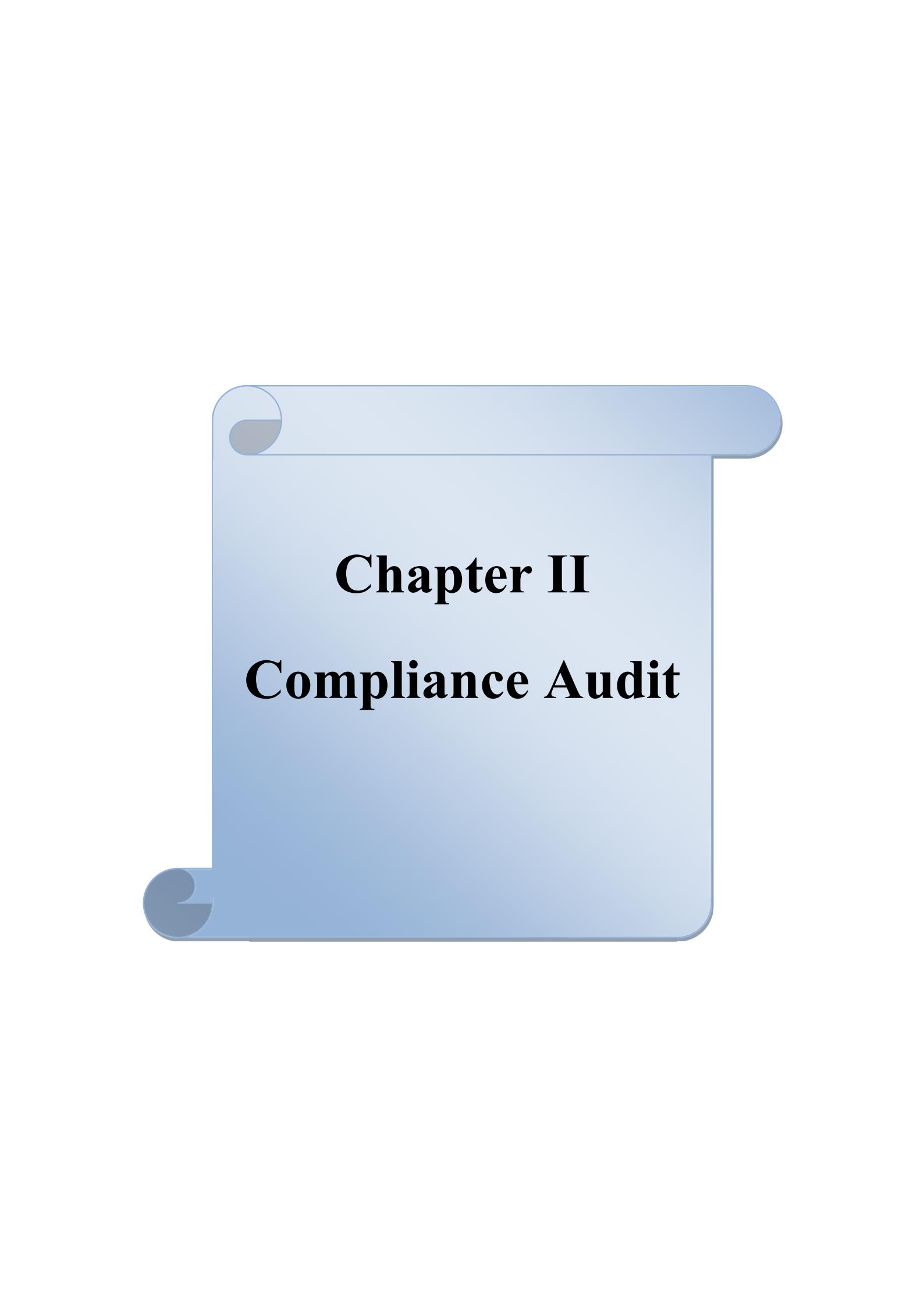
1.11 Year-wise details of Performance Audits and Paragraphs that appeared in Audit Reports

The year-wise details of Performance Audits and Paragraphs that appeared in the Audit Reports for the last two years along with their money value are given in **Table 1.5** below:

Table 1.5: Details regarding of Performance Audits and paragraphs that appeared in the Audit Report during 2016-18

Year	Performance Audit		Paragraphs		Replies received	
	Number	Money value (₹ in crore)	Number	Money value (₹ in crore)	Performance Audit	Paragraphs
2016-17	1	1,164.40	13	187.25	--	4
2017-18	2	3,349.68	7	1,106.50	--	1

During 2018-19, one Compliance Audit and six Paragraphs (₹ 35.64 crore) have been included in this Report.



Chapter II

Compliance Audit

CHAPTER II

COMPLIANCE AUDIT

Compliance Audit of the Economic Sector Departments, their field formations as well as that of the Autonomous Bodies brought out instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These are presented in the succeeding paragraphs:

FOREST, ECOLOGY & ENVIRONMENT DEPARTMENT

2.1 Compliance Audit on “Management of Zoos by the Zoo Authority of Karnataka”

2.1.1 Introduction

Central Zoo Authority (CZA) was constituted during 1992 to perform functions like recognition/de-recognition of zoos, specifying standards and norms, etc., as specified in Section 38C of Wild Life (Protection) Act, 1972. The Recognition of Zoo Rules (RZR) was notified in August 1992 and amended in 2009. Every zoo in the country is required to obtain recognition from CZA under Section 38H of the Act, for its operation. The CZA classifies the zoos as Large, Medium, Small and Mini based on at least four criteria² like area of the zoo, number of visitors in a year, number of species, etc.

In Karnataka, the Zoo Authority of Karnataka (ZAK) was established in 1979 for management of the Mysore Zoo (the oldest zoo, which was established in 1892) and other zoos that may be established in the State. Until 2002, only Mysore Zoo was under the jurisdiction of ZAK. Out of thirteen zoos in the State, nine³ were under the jurisdiction of ZAK (March 2020).

² Category of zoos as per Rule 9 of RZR:

Category	Area of zoo in hectares	No of visitors per year (lakh)	No of species	No of animals	No of endangered species	No of animals of endangered species
Large	75	7.5	75	750	20	100
Medium	35	3.5	35	350	10	50
Small	10	1.0	10	100	3	15
Mini	<10	<1.0	<10	<100	-	-

³ Mysore Zoo, BBP, Kalaburagi Zoo, Belagavi Zoo, Kamalapur Zoo, Gadag Zoo, Davanagere Zoo, Shivamogga Zoo and Chitradurga Zoo.

The Member Secretary of ZAK is also its Chief Executive. The administration and management of affairs of ZAK vest with the Governing Council⁴, which meets periodically to take decisions on the management of zoos. ZAK's role is to ensure operation of the zoos in compliance with the Central Government Rules, Regulations and Guidelines.

The audit objective of this Compliance Audit was to assess whether the nine Zoos under ZAK were functioning as per the provisions of the Act, Rules, guidelines and circulars issued for achieving their objective of ex-situ conservation, animals and their welfare, research, education and visitor management.

The following were the sources of criteria for this Audit

- Wildlife (Protection) Act, 1972;
- National Zoo Policy, 1998;
- Recognition of Zoo Rules, 2009 and its amendments;
- Guidelines, circulars and other directions issued by the Central Zoo Authority;
- Orders, instructions and guidelines issued by the Government of Karnataka, ZAK, Resolutions of Governing council of ZAK etc.

The Audit was carried out by test check of records at the office of the Additional Principal Chief Conservator of Forests (APCCF) and Member Secretary, Zoo Authority of Karnataka besides the offices of the Executive Directors of the nine zoos, which comes under the jurisdiction of ZAK. Audit covered the period from 2014-15 to 2018-19. An Entry Meeting was held with the APCCF and Member Secretary, ZAK on 27th November 2019 to appraise the objectives, criteria, and issues proposed to be examined and an Exit Meeting was held on 27th May 2020 where the audit findings were discussed.

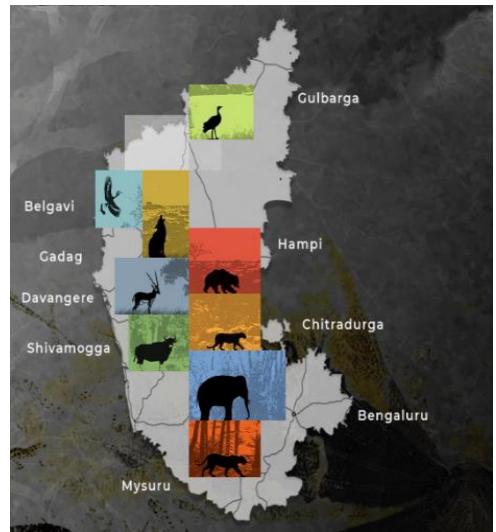


Fig No 1: Locations of zoos under Zoo Authority of Karnataka

Audit Findings

2.1.2 Recognition of Zoos and their renewal

Every zoo in the country is required to obtain recognition from CZA under Section 38H of the Wild Life (Protection) Act, 1972 (Act) for its operation. Recognition is given for a minimum period of one year. Rule 8 (1) of the RZR provides that a zoo recognised under these rules shall make an application to the CZA for renewal of recognition within three months before expiry. This recognition is subject to satisfactory compliance by the zoos of conditions

⁴ Constituted in July 1979 and as of March 2020 had 13 members, with a Chairman, nominated by the Government.

imposed by CZA at the time of grant of recognition. Non-compliance to conditions would lead to suspension or cancellation of recognition.

The renewals of all the recognitions were decided by CZA based on the evaluation of the respective zoos. The details of status of renewal of recognition of zoos are in **Appendix 2.1**. As of March 2020, the recognition had lapsed for eight out of the nine zoos and zoos had submitted their applications for renewal of recognition, which was awaited.

Audit Observed that,

- The recognition of zoos at Chitradurga and Kalaburagi was suspended (January 2019) by CZA for non-compliance of the conditions laid down by CZA. The reasons for suspension included failure to provide full time officer-in-charge, failure to remove domestic animals, housing rescued animals, housing single animals etc. It was observed that despite the suspension of recognition, both these zoos were kept open for the public which was highly irregular. In reply, ED, Chitradurga Zoo stated (May 2020) that issues raised were rectified and the compliance submitted to CZA in September 2018. The reply was not tenable as the CZA suspended the recognition in January 2019 and no compliance report was submitted thereafter.
- Bellary Mini Zoo was recognised as a small zoo by the CZA and was proposed to be shifted to a spacious location at Kamalapur. The relocation of the zoo to Kamalapur was approved (2010) and final administrative approval was accorded (August 2015) by the State Government. The Kamalapur Zoo was opened to public during November 2017 and Audit noticed that the zoo was operating without obtaining recognition from CZA.

ED, Kamalapur stated (May 2020) that CZA had also objected to opening of the new zoo without recognition and the proposal for recognition was under active consideration by CZA. However, the fact remains that Kamalapur Zoo which was operational from November 2017 had not been recognised by CZA till date (May 2020).

The recognition of zoos is accorded by CZA after verifying compliance to Rules and guidelines which are put in place to ensure that some standards are present in the zoos. These standards are related to animal upkeep and visitor facilities. The fact that some zoos were unrecognised implies that these standards have not been met. This would thus have an adverse impact on the animals and the visitors due to absence/scaled down facilities.

2.1.3 Planning and Development

2.1.3.1 Approval to Master Plan with Master (Layout) Plan

As per Rule 10.3(1) of the RZR, the recognised zoo had to prepare a Master Plan of the zoo for its long-term development on scientific lines and it should have been approved by CZA within one year from the date of commencement of these

rules⁵. The Master Plan is prepared for a period of 20 years with a provision for revision after 10 years.

Before submitting the Master Plans to CZA for approval, the zoos have to prepare and get the Master (Layout) Plan approved by CZA. The Master (Layout) Plan is a detailed layout plan showing the location of green belts, lawns, gardens, animal display area, visitor facilities, support infrastructure for animal up-keep and health care, buildings for administrative and maintenance unit etc. Out of nine zoos, approval for Master Plans in respect of three zoos had been received. Four zoos⁶ submitted (January - May 2020) the Master Plans to CZA for approval and these four zoos had taken 11 to 14 months (from the date of approval of Master (Layout) Plan) for preparing the Master Plan. Two zoos had not submitted Master (Layout) Plan as they had proposed expansion (Davanagere Zoo) or relocation (Kalaburagi Zoo) of the zoos. The details of the status of approval of Master Plan and Master (Layout) Plans are shown in *Appendix 2.2*. Further observations are:

Though RZR stipulates that within one year from the date of commencement of these rules, all Master Plans should have been submitted and approved, there was no penal provision for delays. Due to this, though eight of the nine zoos with ZAK (March 2020) were in operation as of 2009, the approved Master Plans were not in place for six zoos as of March 2020. This indicated ineffective monitoring, both by CZA and ZAK, as without an approved Master Plan, the zoos would lack the strategic focus to make their operations more efficient.

In reply, the MS, ZAK stated (May 2020) that in respect of Kalaburagi and Davanagere zoos, action had been taken to submit Master (Layout) Plan to CZA and approval was awaited. In the absence of Master (Layout) Plan, these zoos lacked a vision statement for future development.

2.1.3.2 *Management Plans*

The Guidelines for Establishment and Scientific management of Zoos in India, issued in 2008 by CZA, provide that “Every zoo should prepare a Management Plan⁷ listing out the activities to be taken up by the zoo for implementing the Master Plan⁸ over the next five years indicating realistic costs of executing the identified activities and year-wise physical and financial targets including anticipated source of funding”. The Governing Council approves the budget for all the nine zoos coming under the purview of ZAK based on the proposals received from the zoos.

⁵ Since the RZR came into force in November 2009, the Master Plans of the zoos should have been approved by November 2010.

⁶ Belagavi (May 2020), Chitradurga (February 2020), Gadag (May 2020) and Shivamogga (January 2020).

⁷ The Management Plan includes the listing of activities to be taken up during the next five years for implementing the Master Plan including the year-wise physical and financial targets.

⁸ Master Plan includes future objective, future action plan, animal collection plan, description of layout plan, addressing inadequacies and shortcomings, personnel planning, disaster management, contingency plan, capacity building, broad budget analysis, construction and development, animal healthcare related issues, research and conservation education etc., for the long term (20 years).

Audit scrutiny showed that though three zoos at Mysore, BBP and Kamalapur had approved Master Plans, the Management Plans were not prepared by any of these zoos. Without Management Plans, there would not be any target during the short to medium term due to which development activities would lack focus.

Between 2014-15 and 2018-19, Master Plan of BBP had planned to take up 79 works at an estimated cost of ₹ 62.13 crore, against which 34 works with an estimated cost of ₹ 24.10 crore was taken up and shortfall worked out to 61 *per cent*.

The MS, ZAK stated (May 2020) that the Master Plan was also a Management Plan of the zoo and hence it was not required to prepare a sub-plan for five years. The reply is not acceptable as the preparation of Management Plan which serves as a tool for watching implementation of works envisaged in the approved Master Plans is mandatory as per CZA guidelines.

Further, scrutiny also showed that the planned works as per approved annual plan could not be taken up due to short release of funds from the Government which mainly pertains to veterinary care and development works.

- Development works⁹: Zoos had planned to spend ₹ 92.54 crore against which they spent ₹ 61.22 crore indicating a shortfall of ₹ 31.32 crore (33.84 *per cent*). Consequently, the development works as per approved Master Plans could not be taken up by the zoos.
- Veterinary Care: Animals are the heart of any zoo and hence having proper health care facilities is of great importance. However, due to lack of budgetary support during the period 2014-15 to 2018-19, compared to ₹ 11.40 crore planned, only ₹ 5.16 crore was spent towards Veterinary Care indicating a shortfall to an extent of ₹ 6.24 crore (54.73 *per cent*). This had a negative impact on animal health. The deficiencies noticed in this regard are brought out in the Paragraph 2.1.9.

Increased financial assistance from Government was necessary to take up development works as envisaged in Master Plan; otherwise, the Master Plan would become redundant.

2.1.4 Animal upkeep

2.1.4.1 Animal collection plan

As per sub-rule 3 (6) of Rule 10 of RZR, every zoo should prepare a Collection Plan indicating the names of the species and maximum number of animals of each species to be housed in the zoo with due regard to congeniality of the climatic conditions of the locality, availability of space and infrastructural facilities etc.

It was observed that while three¹⁰ zoos had approved Master Plans which included animal collection plans, other six zoos did not have Master Plans. The

⁹ Development works would include works of capital nature like building enclosures, parks, construction of buildings for zoo activities, creating amenities for visitors etc.

¹⁰ Mysore Zoo, BBP and Kamalapur Zoo.

Master Plans including animal collection plans were submitted (between January and May 2020) by four¹¹ zoos for approval by CZA while the remaining two zoos were yet to prepare their Master Plans. Without these, new species/animals cannot be brought to the zoos. The absence of the species that have the capacity to attract crowds¹² could have negative impact on gate collection, animal adoption, donations etc.

2.1.4.2 Surplus animals

The Guidelines¹³ prescribe the optimum number of animals of various species to be housed in the zoo after considering operational efficiency, better management and optimal utilisation of resources. Audit noticed that all the zoos were holding surplus animals than permitted levels and the common species held in surplus were Spotted deer, Black buck, Sambar and Leopards. The details of species held in surplus by the Zoos are brought out in **Appendix 2.3** and details of surplus animals at Mysore Zoo in **Appendix 2.4**.

The CZA norms¹⁴ provide that the enclosure would hold a pair of animals in most places. Besides, 20 herbivores like spotted deer, black bucks can be kept in enclosures as per norms. It was however observed that the animals were kept in excess as brought out below:

- The total number of herbivores in six zoos¹⁵ was 619 which included 354¹⁶ spotted deer (in six zoos) and 201 black bucks (in five zoos) among other herbivores. As all the zoos have one enclosure for each species and considering the optimum capacity of 20 animals per enclosure, there was surplus of 234 spotted deer (195 *per cent* over optimum capacity) and 101 black bucks (100 *per cent* over optimum capacity).
- Kamalapur Zoo had 43 stone tortoises and BBP had 173 star tortoises against 20 per species as per the approved Collection Plan.
- BBP had 12 jungle cats in one enclosure against the optimum number of 10 approved in the Collection Plan. Since the jungle cats attain sexual maturity in one year, this leads to population explosion by inbreeding amongst them.

¹¹ Belagavi, Chitradurga, Gadag and Shivamogga.

¹² Endangered animals like Lions, Tigers and Leopards.

¹³ Rule 10, Sub rule 13 of Dimensions and size of animal enclosures issued by CZA.

¹⁴ Guidelines on Minimum Dimensions of Enclosures for housing Exotic animals of different species.

¹⁵ Mysore, BBP, Belagavi, Davanagere, Gadag and Kamalapur zoos.

¹⁶ Zoo-wise details of herbivores:

Name of the Zoo	Spotted Deer			Black buck		
	No of enclosures	Total	Surplus	No of enclosures	Total	Surplus
Mysore Zoo	1	71	51	1	42	22
BBP, Bengaluru	1	31	11	1	40	20
Gadag Zoo	1	52	32	1	57	37
Belagavi Zoo	1	39	19	1	26	6
Kamalapur Zoo	1	38	18	1	36	16
Davanagere Zoo	1	123	103	0	0	0
Total	6	354	234	5	201	101



Fig No 2: Crocodiles at Kalaburagi Zoo



Fig No 3: Jungle cats at BB Park

- Kalaburagi zoo had 18 marsh crocodiles which were all kept in a single enclosure¹⁷.

The number of spotted deer and sambars in safaris at BBP and Shivamogga Zoo showed a drastic increase¹⁸ between 2014-15 and 2018-19. Keeping more than the prescribed number of animals in an enclosure not only violates the CZA norms which were brought in to prevent cramping of animals but also unduly increases the food expenses, ultimately increasing the maintenance cost of the zoos.

In reply, the MS, ZAK stated (May 2020) that the excess in case of carnivorous animals was due to entry of rescued animals and that of the herbivores was due to their breeding. In case of Leopards, clinical interventions for birth control (like vasectomy and tubectomy) had been resorted to. In case of herbivores like deer, Gaur and Nilgai, efforts were made to separate males from the herd but it was not that effective as the other sub-adult males were taking over the herd. Other measures like donating animals to other zoos and releasing them into wild as per rules were also being adopted.

The efforts taken for controlling the population of these animals need to be continued and intensified.

As per Sub-Rule 9.4 of Rule 10 of Recognition of Zoo Rules (RZR) 2009, no zoo can keep single animals for more than six months. However, it was noticed that all the nine zoos were holding single/mono-sex¹⁹ animals. No records were submitted to Audit to indicate that actions, as per provisions of RZR, were taken to obtain mates for single animals by exchange, transfer or breeding loan. The details of single/mono-sex animals in zoos have been listed in *Appendix 2.5*.

Audit observed that;

- Mysore Zoo had 38 species of single/mono-sex animals for one to five years, while BBP had 30 species of single or mono-sex animals for three years.

¹⁷ As per norms only a pair of crocodiles in enclosure of 500 sqm.

¹⁸ Increase in number of spotted deer and sambar.

Zoo	Spotted deer		Sambar	
	2014-15	2018-19	2014-15	2018-19
BBP, Bengaluru	200	649	176	301
TLS, Shivamogga	55	123	44	49

¹⁹ Animals of the same sex.

Considering that six species were paired during the last two years in BBP, the number had come down to 24 species as of March 2019.

- The Rules²⁰ bar procuring a single animal except for pairing or breeding purposes. However, one female giraffe was transferred (April 2018) from Mysore Zoo to BBP for display without the approval of CZA. Further, BBP had no male giraffe and had not obtained a male giraffe for two years (March 2020).

BBP stated (May 2020) that some animals could not be exchanged due to biological reasons²¹, but agreed that pairing is desirable to provide companionship and psychological comfort and not only for breeding. Mysore Zoo replied that out of the 38 species found to be either single/mono-sex, 18 were paired. But Audit observed (March 2020) that the inventory returns of the zoo (March 2020) indicated that five species out of these 18 species stated to be paired were still single. Holding of single/mono-sex animals was a clear violation of the provisions of RZR.

2.1.5 Breeding and Rescue Centres

2.1.5.1 *Chamundi Breeding, Rescue and Rehabilitation Centre, Kurugahally*

Chamundi Breeding, Rehabilitation and Rescue Centre, Kurugahally, a part of the Mysore Zoo, was established (2014) with the objective of having a separate place to treat the wild rescued/conflict animals²², to breed the endangered species and maintain a stock of animals to be reintroduced to the wild, if required, in the years to come.

Indian Gaur, is an endangered species and is included in the Schedule-I of the Wildlife (Protection) Act. CZA prioritised 23 critically endangered wild animal species in Indian zoos for a co-ordinated breeding programme. Under this programme, the CZA had identified Mysore Zoo as the coordinating zoo for breeding of Indian Gaur²³, while zoos at Arignar Anna Zoological Park, Vandalur, Chennai (AAZP) and Bondla Zoo, Goa were the participating zoos. The target was to have 100 properly bred and genetically, physically and behaviourally healthy individuals (Gaurs) for display and as insurance for future contingencies.

The CZA advised (2007) Mysore Zoo to identify 25 founders from the existing stock after evaluation of their physical and genetic health and mark them along with their history sheets for breeding purpose. The Gaur Breeding Enclosure and boundary wall of the Breeding Centre, Kurugahally was constructed (October 2014) at a cost of ₹ 2.13 crore and a pair of Gaurs were introduced. The male

²⁰ RZR Rule 10, sub-rule 9.3

²¹ Some animals are monomorphic whose sex cannot be determined even in adult age and depending on age and health conditions some single animals cannot be exchanged.

²² Animals coming in contact with humans and causing damage to property, loss of life especially in villages adjoining forests are known as conflict animals, while rescued animals are those which can be injured and subsequently rescued though they may not have been part of a conflict.

²³ A Schedule I species under Wildlife (Protection) Act, 1972.

gaur was obtained from AAZP, Chennai and the female was transferred from Mysore Zoo to the breeding centre. Due to death of the male Gaur, the breeding programme came to a standstill and the enclosure was left with the single female gaur. The reasons for not identifying 24 founder animals from the existing stock as originally planned or alternatively from the wild for continuation of the breeding programme after the death of male gaur were not available on record. Thus, founder animals being the key factor for taking up the breeding programme were not procured and the ambitious programme for conservation of Indian gaur, a critically endangered species, had practically remained at a nascent stage, even after six years of creation of infrastructure for the purpose, thereby rendering the expenditure of ₹ 2.13 crore largely unfruitful.

The ED, Mysore Zoo stated (May 2020) that the approval from Ministry of Environment, Forests and Climate Change was awaited for capturing the gaur from the wild. Further, the ED also stated (July 2020) that founder animals from the wild would be appropriate because the genetic base of wild animals would be wider and more natural. As the option of capturing the founder animals from the wild was available, the delay in sending the proposals was not justified.

2.1.5.2. Bannerghatta Bear Safari cum Rescue Centre (BBRC)

The bear rescue centre at Bannerghatta located in eight acres of land in BBP was being maintained by Wildlife SOS, a Non-Government Organisation (NGO), in terms of an MOU executed (2013-14) with the Forest Department. The land located in the Bear safari was allowed to be used by Wildlife SOS for rehabilitating and maintaining the rescued dancing bears brought from different States. The current agreement is valid for a period of 20 years.

Between 2014 and 2019, out of 86 sloth bears in the Centre, nine sloth bears died due to Tuberculosis (TB). Since TB is a contagious disease and can be transmitted by the infected animals, it is always a threat to the other animals to be kept with the infected ones. Moreover, to ensure that contagious diseases do not infect animals from the animal keepers, CZA Guidelines²⁴ mandate that animal keepers should be screened for zoonotic diseases annually. Similarly, animals also need to be screened to make sure that they were not infected by any diseases. However, Audit did not observe any screening being conducted in the rescue centre.

Moreover, CZA had instructed (January 2014) to shift BBRC²⁵ to safeguard other animals from contracting TB from those which were already infected by TB. Though ZAK had addressed (October 2017) a letter to PCCF (Wildlife) with an amendment to the MOU in this regard, further progress was not made. Audit also noticed that wild rescued sloth bears were also housed in the Rescue Centre. Since wild animals could be used as founder animals for captive breeding programs and can also be introduced to zoo as new bloodline, housing of such animals with rescued bears may result in infection to wild animals and be counterproductive to the conservation measures.

²⁴ RZR Rule 10, sub-rule 5 (9).

²⁵ Beyond the safari areas so that these animals do not adversely impact the other species/animals.

The MS, ZAK in the Exit Meeting agreed (May 2020) with the audit observation but stated that a decision could not be taken by ZAK as this was a policy matter. The matter, thus, needs to be taken up at the Government level to review the policy so that the Rescue Centre can be shifted.

2.1.6 Animal welfare

2.1.6.1 Existing Animal enclosures – Exhibition area and other issues

Recognition to Zoo Rules, 2009 and “Designing of Enclosures in Indian Zoo 2014” issued by CZA details the designing of enclosures. In the following areas, except for two zoos, the existing design parameters do not conform to the stipulated design parameters and their details are shown in **Table No 2.1**:

Table No.2.1: Enclosures where design is not in conformity with the parameters

Provision and standards to be followed	Screening Between enclosures	Standoff barriers for enclosures	Viewing area (> 25 per cent of area)	Cement/ Granite flooring	Animals/ enclosure placed below visitors' view
Name of the Zoos	Adequate screening shall be provided between adjacent enclosures to safeguard against the animals getting unduly excited or stressed due to visibility of animals housed in these enclosures– Rule 4 (7) of RZR	Appropriately designed & effective standoff barriers at every animal display enclosure to regulate movement of visitors to ensure that they don't reach very near to the animals or physically touch or provoke animals – Rule 4 (9) of RZR	The maximum viewing area for visitor should be restricted to 25 per cent of the circumference of the enclosure	Animals to be displayed in naturalistic environment	Care should be taken to see that the animal in the enclosure is placed higher than the visitor or at least at the same level, so that visitors do not see the animal placed down below – Chapter 2 (1 C) of Designing of enclosures for Indian Zoos by CZA
Mysore Zoo	Present in all cages	Present in all cages	Rules complied	Rules complied	Rules complied
BBP	Absent between bird enclosures	Absent in Nilgai, Old jackal, Common palm civet and all reptile enclosures	Absent in Nilgai& all reptile enclosures	Not complied in Porcupine enclosure	Not complied in Pig tailed macaque, Spectacled monkey and all reptile enclosures
Shivamogga Zoo	Absent in Porcupine, Malabar giant squirrel, Leopard cat and bird cages	Absent in Peafowl, crocodile and python enclosures	Absent in Emu, Ostrich and Python enclosures	Not complied in Jackal cages	Rules complied
Gadag Zoo	Present in all cages	Present in all cages	Most of the enclosures were exposed from all sides	Rules complied	Not complied in Crocodile and Blackbuck enclosures
Belagavi Zoo	Present in all cages	Absent in Four-horned antelope, Blackbuck & Crocodile enclosures	Absent in Four-horned antelope, Blackbuck & Crocodile enclosures	Rules complied	Rules complied
Kamalapur Zoo	Present in all cages	Present in all cages	Rules complied	Rules complied	Rules complied
Kalaburagi Zoo	Present in all cages	Absent in Fox, black buck, Spotted deer, Sambar and Emu enclosures	Most of the enclosures are exposed more than 25 per cent	Not complied in Indian fox and Pheasant enclosures	Rules complied
Davanagere Zoo	Absent in Pheasants and Peach-faced love birds cages	Absent in Spotted deer & Black buck enclosures	Absent in Spotted deer, Black buck, Bear, Peacock enclosures	Rules complied	Rules complied
Chitradurga Zoo	Absent in Parakeets and Pheasant cages	Present in all cages	Absent in Peacock and Pheasant enclosures	Rules complied	Rules complied

(Source: As observed in Audit)



Fig No 4: Enclosures with more than 25 per cent viewing area at Shivamogga Zoo; Fig No.5: Enclosure with Hard flooring at Shivamogga Zoo (Jackal); Fig No.6: Absence of Screening between enclosures at Shivamogga

The design norms were being followed in the century old Mysore Zoo and the newly relocated zoo at Kamalapur while the other zoos were yet to comply fully with the norms (February 2020). Not limiting the viewing area could make the animal enclosures susceptible to vandalism while the granite/cement flooring could be harmful to animal pads, cause inflammation, swelling of foot pad etc., which may, in the long run, end up in conditions like Pododermatitis (Bumble foot).

BBP agreed (May 2020) with the Audit observation on screening between enclosures, placing animals higher than visitors and replied that these would be considered while designing and constructing the enclosures. It was also stated that the present enclosures for some²⁶ animals were temporary and they would be shifted to the new enclosures once they were constructed. The zoo further stated that action had been taken to modify and repair old cages until new enclosures were constructed. ED, Shivamogga Zoo stated (May 2020) that action had been taken to modify the flooring of the Jackal enclosure. It is suggested that the other zoos may also proactively take action to modify the enclosures, so that the well-being of the animals kept in display are adequately addressed.

2.1.7 Feed and fodder

Sub rule 5 (2) below Rule 10 of the RZR provides that “Every zoo shall endeavour to provide all animals in its collection timely supply of quality food of such a composition in such quantities that nutritional and behavioural requirements of each animal are fully met.” As per the system in place, supply of Feed and Fodder items were tendered and the contractors were to supply the daily requirement of these items. The items brought to zoos were checked for quality and quantity and then distributed to different gate keepers for consumption by animals.

2.1.7.1 Excess/short procurement

In zoos, feed and fodder²⁷ constitute a major portion of the total expenditure with different kinds of food items in different quantities for each individual animal being procured as per diet charts. Any deviation from the diet chart needs to be

²⁶ Porcupine, Alexandrine Parakeet, Common Palms Civets.

²⁷ Feed refers to the food for animals. Fodder which is also a type of animal feed, is any agricultural foodstuff used specifically to feed livestock.

recorded and acted upon accordingly by placing necessary purchase orders for procuring them.

Audit examined procurement and supply of different food items in the zoos with reference to diet charts and scrutiny revealed excess/short procurement as shown in **Appendix 2.6**. The following are the observations:

- Gadag Zoo had procured roughly half the requirement of both beef and chicken.
- In Kamalapur, Shivamogga and BBP, the procurement of chicken exceeded the requirement by 250 *per cent* to 274 *per cent*. The extra expenditure involved worked out to ₹ 48.07 lakh.
- In Kamalapur zoo, the procurement of beef was in excess of requirement at an extra cost of ₹ 7.90 lakh.
- While six vegetarian items were procured less than the requirement in Kamalapur, Belagavi and Davanagere zoos, hay was procured in excess of requirement at a cost of ₹ 4.14 lakh in Kamalapur Zoo.

However, these deviations from the diet chart were not supported by veterinary reports/ prescriptions.

In the Exit Meeting (May 2020), it was stated that variations in procurement were due to factors like age of animals, health and other issues. Further, it was stated that a software was being developed to monitor the day to day requirement of animals for helping in procurement.

The fact that procurement of feed and fodder was not in accordance with the diet chart clearly indicated that the nutrients as required were not provided to the animals. While the excess procurement had caused extra expenditure, the lower procurement might have an impact on the well-being of animals which cannot be easily measured.

2.1.7.2 *Non-procurement of items in the diet chart and procurement of items not in the diet chart*

It was observed that some of the items specified in the diet chart like DC oats, honey, sweet potato, soya bean meal, etc., were not procured (**Appendix 2.7**) by three zoos and hence not fed to animals. Besides, three zoos procured certain items not being part of the diet chart (**Appendix 2.8**) like minced meat, fish, wheat, etc. The cost of procurement of these additional items amounted to ₹ 66.40 lakh in these three zoos.

The ED, Shivamogga Zoo stated that DC oats and lucerne were not available in Shivamogga. Alternatively, horse gram, soya bean, cattle feed etc., were supplied as per the prescription of the veterinarian. Since Audit could not trace any such prescription by the veterinarian prescribing supplies other than those stipulated in the diet chart as claimed by the ED, the veracity of this reply could not be, therefore, ascertained. However, if these items were not locally available, the diet chart should have been appropriately revised to include the locally available items. In the absence of a revised diet chart and prescription of the veterinarian, the reply does not hold much merit. The other zoos had not furnished specific replies.

Since the diet charts were designed to provide wholesome nutrient requirement of different species, the deviations would deprive some nutrients to the animals. Exclusion of certain items/ addition of new items needed specific orders/prescriptions of veterinarians. In the absence of specific instructions, these deviations from diet charts were not technically justified and hence may not supply the wholesome nutrient requirement to the animals.

2.1.7.3 *Stock register of Feed and Fodder*

Stock Register is maintained to record the receipt and issue of various food items. Supplier bills were required to be paid after verifying the entries made in the Stock Register. Audit scrutiny revealed the following lapses:

- Shivamogga and Kamalapur zoos did not maintain stock registers.
- Belagavi, Kalaburagi, Chitradurga and Gadag zoos had not captured the details of receipts and issues of food items.
- In Davanagere Zoo, the invoice received from the supplier was pasted in the register and the details of actual receipts and issues were not recorded.
- Though Belagavi Zoo had maintained a stock register indicating the receipts of food items, the same was not used to regulate payment of feed and fodder bills. Consequently, during the period from 2016-17 to 2018-19, payment was made for quantities in excess of that recorded in the register to an extent of ₹ 7.75 lakh.

The MS, ZAK in reply, stated (May 2020) that action had been taken to get the diet chart prepared by the Assistant Director, Mysuru Zoo and all zoos were instructed to follow the same. It was also stated that necessary instructions had been issued to all the EDs to maintain stock and issue registers properly.

2.1.8 *Zoo enrichment*

Zoo enrichment, also known as behavioural enrichment, provides an opportunity to species to exhibit their natural behaviour in their given enclosures through appropriate challenges and stimulation. The practice of enrichment has now been integrated as a basic principle of zoos around the globe which enables to reduce the stress of the animals in captive conditions. Habitat enrichment and Food enrichment are the two common types of enrichment taken up in the zoos.

As per RZR 4(6), every zoo shall take up enrichment activities to keep up the health of the animals and make sure that these animals try and display their natural behaviour. For implementing these enrichment activities, the services of a biologist²⁸ are vital and so are the allocation and expenditure critical to ascertain the execution of these activities.

As could be seen from the *Appendix 2.9* most of the zoos had taken up habitat enrichment by providing animals wooden logs, rocks and boulders for resting/hiding and also for natural movements in the enclosure. However, these facilities were not available at Belagavi and Davangere zoos.

²⁸ Rule 10, sub-rule 9 and 10 of Administration and Staffing Pattern, Guidelines for Establishment and scientific management of zoos, issued by CZA.

Feeding enrichment is to delay the feeding time by hiding the food in tree logs or boxes and spill over the food in the open enclosure. This stimulates their natural instincts such as smelling, digging, searching abilities etc. This in-turn reduces the "Stress" levels of animals, thereby promoting their health and increasing reproduction due to increased well-being. It was observed that except Mysore, BBP and Gadag (two species), none of the other zoos had taken up feeding enrichment.

Further, the details of zoos which had the services of biologists and amount spent, the number of species displayed and covered under enrichment are brought in **Appendix 2.9**. It could be seen that out of three zoos, which spent on enrichment activities, two large zoos had the services of a biologist to assess and put in place these enrichment activities. In the absence of biologists in the remaining zoos and due to lack of expenditure details, the extent and execution of enrichment activities during the last five years was not ascertainable.

The MS, ZAK replied (May 2020) that several enrichment works had been taken up without making expenditure or creating files for such works. He further stated that all animal enclosures were being enriched on need basis. However, the lists of animals covered under enrichment activities furnished to Audit by the biologists did not cover all the animals exhibited in the zoo.

Thus, despite enrichment being one of the key management issues when it comes to the welfare of the captive wild animals, only few zoos had put in place some enrichment activities for few species.

2.1.9 Veterinary infrastructure and animal health

As per Sub rule 6 (1-6) of Rule 10 of RZR, all zoos, except mini zoos, should have a separate Veterinary hospital with all equipment including an operation theatre and an observation room. Mini zoos should at least have a treatment room. Further, it was stipulated that all zoos should also have feed store, basic monitoring equipment (stethoscope, digital thermometer etc.), post mortem set, emergency first aid kit for animals and humans, Medicine/Anaesthesia kit, cold storage for keeping emergency medicines, animal history card, emergency medicines like anaesthesia and anti-venom etc.

The requirement and status of different veterinary infrastructure available in different zoos is shown in **Appendix 2.10**. Many zoos did not even have the basic infrastructure to maintain animal healthcare as could be seen from the details. The deficiencies noticed are given below.

- BBP did not have proper quarantine and isolation rooms.
- In Kamalapur Zoo, CZA stipulated (March 2017) the establishment of a veterinary hospital before shifting of animals from Bellary Zoo. This condition was violated and zoo was made operational (June 2019) without establishing the veterinary hospital (January 2020).
- In Gadag, the hospital was not operational (January 2020) though its construction was completed (March 2019).
- The mini zoos at Kalaburagi, Davanagere and Chitradurga did not have treatment rooms.

➤ Belagavi Zoo, a small zoo, did not have the services of a veterinarian and a compounder despite them being prescribed by the norms. Further, the zoo did not have a treatment room. Since the local veterinarian of the Belagavi Zoo was not readily available most of the times, the animals had to be taken out of the zoo for treatment to a hospital at Kakati which was located at a distance of seven kilometres from the zoo. This journey for treatment caused more hardship to the animals, which were already in distress. The inconvenience was brought to the notice (November 2019) of the Animal Husbandry and Veterinary Science Department with a request to direct a veterinarian to make regular visits to the zoo. Further, development in this regard was not intimated to Audit.

Though ED, Kamalapur Zoo in reply stated (May 2020) that the zoo had full-fledged veterinary hospital with infrastructure, the MS, ZAK in the Exit Meeting, informed that the equipment to the hospital were yet to be supplied. Thus, the zoo was yet to make the hospital functional (May 2020).

Further, the MS, ZAK also stated (May 2020) that the Veterinary hospital at Gadag had been completed and was being used and the hospital building at Belagavi Zoo had been completed.

Further, the Guidelines for Establishment and Scientific Management of Zoos prescribe that every zoo should have a Health Advisory Committee (HAC) to establish network with relevant local institutions to help /guide zoo staff in proper upkeep and healthcare of animals. In addition, CZA in its communication issued in May 2017 had advised that a State Level Health Advisory Committee for zoos be created for the state on priority. However, it was observed that the State Level Health Advisory Committee was not formed and only three zoos i.e., Mysore Zoo (2004), Bannerghatta Zoo (2011) and Shivamogga Zoo (2018-19) had HACs.

Thus, the health care facilities and institutional monitoring mechanism as prescribed were not available in many zoos.

2.1.9.1 Scanning for zoonotic diseases

Sub rule 5 (9) of Rule 10 of RZR 2009 provides that “All staff involved with upkeep and healthcare of zoo animals shall be screened against zoonotic diseases once every year and those found positive to any communicable disease shall be provided appropriate treatment till they get cured and freed of the infection. During the period of such treatment, the infected employees shall be kept away from the responsibility of upkeep and healthcare of the animals.”

It was observed that health screening of zoo keepers for zoonotic diseases was conducted only in 2014-15 in Mysore Zoo whereas it was not conducted in the other zoos. In Mysore Zoo during 2014-15, it was observed that 12 animal keepers were diagnosed positive in Monteux test, a method for screening Tuberculosis (TB). Since the 12 animal keepers tested positive, they were supposed to be referred to P.K. Sanatorium, a designated centre for TB treatment, for further investigation and if tested positive, they were supposed to be kept away from animal handling duties. However, no further investigations were taken up for these animal keepers and they continued to do animal keeping

duties. In the absence of further tests, it could not be confirmed whether these keepers were free from TB or not. Incidentally a sloth bear died of TB in the zoo during the year 2017-18. Since it is a known fact that bears get infected with TB from humans, its death due to a possible spread of TB from one of the keepers cannot be ruled out.

In the Exit Meeting (May 2020) ED, Mysore appreciating the observation, stated that action has been taken to screen all animal keepers every year.

2.1.10 Research and Education

Every zoo shall endeavour²⁹ to carry out collaborative research for evolving innovative strategies for providing the animals housed in the zoo a better quality of life, enhanced longevity, higher genetic and behavioural viability and improved reproduction potential.

2.1.10.1 Research at large zoos (Mysore and BBP)

Mysore Zoo had booked an expenditure of ₹ 26.03 lakh towards research activities from 2014-15 to 2018-19. Audit scrutiny of records showed that only ₹ 8.80 lakh was spent towards research while the major portion of the expenditure (₹ 17.23 lakh) was spent towards non-research activities like road survey, website designing, purchase of mementos to events etc. Thus, funds earmarked for research activities were diverted for non-research activities which was irregular.

Further, BBP spent ₹ 1.50 lakh (October 2014) on a project titled "Physio-biochemical and reproductive endocrinological parameters in captive tigers". However, the details like project report, completion report etc., were not on record. In absence of these details, the positive impact of this project on the management of the zoo could not be ascertained.

In reply, Mysore Zoo submitted a list of the research articles published in Zoo Journals and theses submitted by forestry college students as interns at Mysore Zoo. MS, ZAK and ED, Mysore Zoo, during the Exit Meeting (May 2020), said that the zoo was working in consultation with research institutes. A similar reply was also furnished by BBP. However, Audit had observed that most of these researches were incidental, not planned by zoos and lacked a focused approach and there were no future goals set in the field of research. Audit's view is substantiated further by the relevant sections on research brought out in the Master Plans of Mysore Zoo and BBP which clearly stated that though certain research activities had been taken up, these were unplanned and this area needed a more focused approach. Research activities of the zoos were yet (May 2020) to address this issue.

2.1.10.2 Education

As per Rule 11 of RZR 2009, "every zoo shall endeavour to educate the visitors to the zoo and people at large about the significance of wildlife conservation for

²⁹ RZR Rule 10.

the general well-being of the people and keeping the life support system of nature intact”.

Audit noticed that only three zoos – Mysore, BBP and Shivamogga – were conducting different Education programs³⁰. There were no Education Officers/Resource Persons in other zoos and hence no such activities were conducted. Sensitization about protecting wildlife and importance of biodiversity through conservation measures was thus, a neglected activity.

MS, ZAK replied (May 2020) that the zoos under ZAK were conducting specially designed conservation educational programs for school and college students and other visitors. The reply is not acceptable for zoos other than Mysore Zoo, BBP and Shivamogga Zoo since the details of programmes so conducted by them were not furnished to Audit. In the absence of Education officers and involvement of locally available resource persons, the zoos have lost an opportunity in reaching out to masses on conservation education.

2.1.11 Visitor amenities

2.1.11.1 Visitor Facilities

Visitors' facilities are an important aspect in the management of zoos. Sub Rule 12 of Schedule to Rule 10 of RZR states that “every zoo officer shall provide adequate civic facilities for visitors at appropriate and convenient places in the zoo including for physically disadvantaged persons and such facilities shall be so located that they do not mask or impact the view of enclosures. Besides, the first aid facilities including anti-venom and life-saving drugs should be readily available.”



Fig No 7: Child care area (BBP) and Toilets (Kamalapur) Battery cars (Mysore)

The details of visitor facilities provided in different zoos have been brought out in *Appendix 2.11*. It is appreciated that visitor facilities like Drinking water, working Toilets, Pathways, Display Signs, first aid and parking were provided in all the zoos. Battery operated cars were provided at Mysore, BBP, and Gadag zoos and Child care centres were provided at Mysore, BBP and Shivamogga zoos.

However,

- Kalaburagi Zoo did not have facilities regarding shelter, route map display and path-way directions.

³⁰ These included summer camp, winter camp, youth club, Zoo in-reach and out-reach activities, conservation talks, veterinary training for forest personnel, workshops and seminars etc.

- Davanagere Zoo did not have wheel chairs/ ramps for physically challenged, and
- The new zoo at Kamalapur did not have a canteen (March 2020).

2.1.12 Good practices

2.1.12.1 Adoption of animals

Adoption of zoo animals is an important programme in management of zoos that involves the public. The rates of adoption of different animals was communicated to different zoos by the Member Secretary of ZAK during January 2012. Scrutiny revealed that adoption of animals happened only in four³¹ zoos during the last five years. Maximum receipt from adoptions was in Mysore (₹ 208.84 lakh), followed by BBP (₹ 63.88 lakh) and Shivamogga (₹ 8.15 lakh). Shivamogga Zoo had initiated an innovative programme of one-day-adoption of animals for celebration of birthdays of visitors. This move had an impact and the revenue from adoptions had almost quadrupled during 2018-19 as compared to the previous year's receipts. The other small and mini zoos can emulate this model so that their revenue is increased in addition to involvement of public in conservation of wildlife.

2.1.12.2 Solid Waste and Plastic Management

The Central Zoo Authority had issued (November 2016) an advisory on waste management in zoos besides listing out the activities to be taken up in all zoos. It was observed that while Mysore Zoo established a Vermicompost plant for addressing the solid waste problem and generated a revenue of ₹ 34.65 lakh during the last five years, other zoos excluding Gadag were yet to establish the same (February 2020). Though BBP did not have a Vermicompost plant, it was generating money from sale of leftover bones. The Government of Karnataka in its order (October 2003) had banned plastics from Mysore and other zoos of the State. It was observed that except for Mysore and Bannerghatta zoos, strict ban on plastics was yet (February 2020) to be implemented in the other zoos.

With reference to addressing the problem of disposing plastic water and juice bottles, Mysore, Gadag and Chitradurga zoos had come with an innovative idea of collecting a deposit of ₹ 10 from the visitors and bottles being provided with stickers. At the exit, the deposit would be refunded to visitors who show the bottles with the sticker. This acted as an incentive to visitors for not throwing the plastic bottles in the zoo premises. This innovative procedure which could have been helpful to reduce plastic bottle menace in zoos, had not been implemented in other zoos.

2.1.13 Manpower management

Manpower is one of the critical resources necessary for better management of zoos. Each section is important and shortage of manpower would impact the overall functioning of the zoo. The Government of Karnataka in its orders issued

³¹ Mysore, BBP, Gadag and Shivamogga zoos.

between 2003 and 2018 had sanctioned different posts to different zoos. However, the Cadre and Recruitment Rules (C&R Rules) for the different posts proposed and forwarded to the Government during September 2019 were yet to be approved (January 2020). In the absence of C&R Rules, the manpower requirements of the zoos were mostly met by the deployment of personnel on contract basis.

The posts sanctioned under different cadres in all the nine test checked zoos are tabulated in *Appendix 2.12* and as could be seen, 762 personnel were functioning against the Sanctioned Strength of 388 posts. The excess number of employees engaged as compared to the sanctioned posts indicate that the sanctioned strength of employees did not truly reflect the actual requirement of zoos (either there were more number of people working in the zoo than required or the Sanctioned Strength was not adequate enough to ensure that the entire workload was taken care of). The matter needs to be examined for necessary corrective action in this regard.

In the Exit Meeting, the MS, ZAK stated (May 2020) that C&R Rules submitted in 2009 had been approved by the Government and would be implemented from the next year. On the issue of difference between sanctioned strength and number of persons deployed in zoos, the MS stated that the Finance Department had not provided any sanctioned posts for Drivers, Securities, Helpers, etc. Hence, these services would be obtained through outsourced personnel, which would also save money. However, as per the delegation of financial powers, the MS can hire manpower based on the vacant posts and in the absence of sanctioned posts, hiring to these posts would become difficult.

2.1.14 Conclusion

CZA norms should be complied by all zoos operating in the country and ZAK should ensure the same for the zoos under its jurisdiction. However, recognition of eight zoos were yet to be renewed and two suspended zoos were kept open for public. Kamalapur Zoo was operated without a recognition from CZA during the years 2017-18 and 2018-19. Only three Zoos viz., Mysore Zoo, BBP, Bengaluru and Kamalapur Zoos had approved Master Plan while two zoos did not even have approved Master (Layout) Plans. As adequate population control measures were not in place, there were surplus animals in the zoos and CZA norms on pairing of single animals were not complied with. Adequate veterinary infrastructure was not in place in seven of the zoos. Only Mysuru Zoo had conducted screening of animal keepers for zoonotic diseases for only one year, though the same was to be conducted annually. Health advisory committees mandated by CZA were not in place in six zoos. Research and Education, which are important for conservation and protection of wildlife, were not given adequate priority. Visitor facilities were mostly provided in all the zoos. The staff deployed was more than the sanctioned posts in the zoos.

Though there were some positive steps taken by some zoos to improve the facilities and attract visitors, ZAK can take steps to enhance the quality of all zoos by implementing these good practices. The issues mentioned in the Report may be addressed on priority to ensure better management of zoos and welfare of animals.

2.1.15 *Recommendations*

Audit recommends the following to the Government for ensuring that zoos are maintained and operated effectively:

- **Strengthen veterinary infrastructure and deploy services of regular qualified personnel to ensure better ex-situ conservation of captive animals.**
- **Put in place a monitoring mechanism to ensure that there are no unauthorised deviations in procurement of feed and fodder.**
- **Ensure preparation and implementation of Master Plan and other sub-plans for scientific management of the zoos.**

2.2 Overpayment to contractors

Adoption of incorrect item for desilting of tanks in forest area resulted in overpayment of ₹ 2.64 crore to contractors

The Sanctioned Schedule of Rates (SSR) of the Forest Department stipulates adoption of Schedule of Rates (SR) of the Minor Irrigation Department in the estimates for desilting of tanks or waterholes in the forest areas. The SR of the Minor Irrigation Department for the year 2014-15 (continued upto 2017-18) contains specific rates for de-silting i.e., (i) desilting in tank bed for lead upto 10 meters (₹ 41 *per cum*), for lead upto one Km (₹ 65 *per cum*) and basic rate to be increased by five *percent*³² for execution in watery situation and (ii) de-silting in canal bed for lead upto 50 meters (₹ 117 *per cum* for dry condition and ₹ 147 *per cum* in slushy condition)³³. Desilting in a canal bed with constrained space restricts mobility, consumes time and entails higher cost.

In addition, the SSR provides a rate of ₹ 119 *per cum* for providing embankment to strengthen the existing bund by using soil available in adjacent area with lead upto 50 meters and a rate of ₹ 183 *per cum* for the same work by using soil from borrow area with lead upto one km.

Audit scrutinized (September 2018/ January 2019) records relating to de-silting of tanks/ waterholes in forest areas executed in seven³⁴ Wildlife Offices. These works entrusted to contractors as per sanctioned estimated rates were completed by them. Audit noticed that in three³⁵ offices/divisions, the estimates were prepared by adopting a rate applicable to canals instead of the one applicable to desilting in tanks. Also, the rate applicable for formation of embankment was wrongly adopted in Bannerghatta National Park Division. The adoption of erroneous item had resulted in overpayment of ₹ 2.64 crore to the contractors as discussed in **Table 2.2, 2.3 and 2.4** below.

³² ₹ 43.05 for execution in slushy condition by adding five percent to the basic rate.

³³ Item 54 under the Chapter 'Preliminary and Maintenance works' of SSR of MI Department provides rate for de-silting of tank bed whereas items 50 and 51 provide rates for de-silting of canal bed.

³⁴ Bandipur, Bannerghatta, Chikmagalur, Dandeli, Hunsur, Kollegal and Male Mahadeswara Hills.

³⁵ Dandeli, Bannerghatta and Hunsur.

Table 2.2 – Field Director, Kali Tiger Reserve, Dandeli

Basic rate of canal bed was adopted instead of basic rate relating to tank bed in 355 estimates (2014-15 to 2018-19).

Item of Work as per execution by allowing the lead upto one Km	Item of Work incorrectly adopted in the estimates	Quantity of silt in 355 estimates (in cum)	Rate paid per cum with area weightage of 3 per cent (₹)	Rate payable per cum with area weightage of 3 per cent (₹)	Excess rate paid (₹)	Avoidable extra cost (₹ in lakh)
Desilting of tank bed in dry condition	De-silting of canal bed in dry condition	1,15,708	120.51	66.95 ³⁶	53.56	61.97
Desilting of tank bed in slushy condition	De-silting of canal bed in slushy condition	1,62,973	151.41	70.30 ³⁷	81.11	132.19
Total		2,78,681				194.16

Table 2.3 – Deputy Conservator of Forests (DCF), Bannerghatta National Park, Bengaluru

In respect of de-silting work, rate applicable for lead upto one km was erroneously adopted instead of rate applicable for lead upto 10 m in 135 estimates and rate applicable for formation of embankment with soil obtained from borrow area was adopted though soil was used from adjacent area in 124 estimates.

Item of work as per execution	Rate of incorrect Item of work adopted in the estimates	Quantity of silt/Soil for embankment in estimates (in cum)	Rate adopted per cum (₹)	Rate that should have been adopted per cum with area weightage of 3 per cent (₹)	Excess rate paid (₹)	Avoidable extra cost (₹ in lakh)
Desilting of tank bed in dry condition with lead upto 10 m	Desilting of tank bed in dry condition with lead upto one Km	1,24,973	65	42.23	22.77	28.46
Providing new embankment using soil in adjacent area with lead upto 50 m	Providing new embankment using soil from borrowed area with lead upto one Km	44,742	183	122.57 ³⁸	60.43	27.04
Total						55.5

³⁶ ₹ 65+3 per cent area weightage.

³⁷ As per SSR, 5 per cent enhancement on basic rate for execution of work in watery situation. Hence, rate was ₹ 65+5 per cent = ₹ 68.25. By adding area weightage of 3 per cent, rate becomes ₹ 70.30.

³⁸ Rate as per SSR = ₹ 119 and 3 per cent area weightage there on.

Table 2.4 - Conservator of Forests, Rajiv Gandhi National Park, Hunsur

Estimated rate was worked out by clubbing two distinct items instead of composite item available in the MI SR by three Ranges in 30 estimates out of seven Ranges.

Item of Work as per execution	Rate of incorrect Item of Work adopted in the estimates	Quantity of silt in estimates (in cum)	Rate paid per cum ³⁹ (₹)	Rate payable per cum (₹)	Excess rate paid (₹)	Avoidable extra cost (₹ in lakh)
De-silting of tank bed in dry condition with lead upto one Km	De-silting of tank bed in dry condition with lead upto 10 M and separate rate towards transportation cost for one Km	61,663.14	88.3	65	23.3	14.37

Thus, incorrect or erroneous adoption of rates by the Field Officers and subsequent failure of the DCF and CCFs who are the sanctioning authorities in noticing the errors, had resulted in overpayment of ₹ 2.64 crore to contractors.

The Forest Department could have been specific by stipulating “Rate applicable to tank bed as per MI SR” in its own SSR instead of just merely mentioning “rate as per MI SR” against the SSR Item “desilting of tank bed”. This had not only led to incorrect adoption of rates as detailed in the instances above, but is also fraught with the risk of recurrence of such erroneous finalization of estimates in the future too.

The matter was referred to Government in September 2019 and their reply was awaited (September 2020).

It is recommended that the Forest Department should specify by stipulating “Rate applicable to tank bed as per MI SR” in their SSR.

2.3 Violations in diversion of forestland

Compensatory Afforestation charges were short levied (₹ 3.05 crore) and non-forestland (81.29 ha) was not obtained from lessee for raising Compensatory Afforestation

As per guidelines issued by the Ministry of Environment & Forests (MoEF) under Forest (Conservation) Act, 1980 (FC Act), Compensatory Afforestation (CA) is one of the important conditions stipulated by the Central Government while approving proposals submitted by the State Government (SG) for diversion of forest land for non-forest uses. The approval is granted by MoEF in two stages. The Stage-I approval mentions conditions to be observed based on the data and details furnished by the SG and is valid for five years. The Stage-II approval is granted after fulfillment of the conditions including payment of

³⁹ ₹ 41 per cum for removal of silt + ₹ 47.30 per cum towards cost of transportation upto one Km.

statutory charges⁴⁰ and transfer of equivalent non-forestland or double the area in a degraded forestland for raising of CA.

Audit examined (October 2019) records in the Office of the Principal Chief Conservator of Forests (HoFF) relating to the approval of diversion of forestland in four out of six⁴¹ cases granted during 2018-19. The violations noticed in one case are discussed below.

M/s V.S. Lad & Sons was sanctioned a mining lease (ML 2290) in 105.06 ha of forestland for diversion for non-forest purposes (iron ore mining) in 1956 for a period of 20 years. The lease was further renewed twice in 1976 and 1996 for a period of 20 years each. The latest mining lease sanctioned in 1996, which was to expire in 2016, was cancelled in April 2013 (three years prior to expiry of lease) as per the directions of the Hon'ble Supreme Court due to violations⁴² by the lessee. As on the date of cancellation of lease, the lessee had broken up the lease area to the extent of 81.29 ha out of 105.06 ha.

M/s V.S. Lad & Sons had not paid CA charges in all the three occasions, *i.e.* at the time of initial sanction of lease (1956) and subsequent two renewals (1976 and 1996), as the CA charges under the FC Act, 1980 became applicable only from 1980 onwards and also, as per Paragraph 3.2 (viii) (d) of the FC guidelines, CA charges were not required to be paid if it was a renewal of lease.

Subsequent to cancellation of lease in July 2013, the said forest land to the extent of 100.54 ha⁴³ was e-auctioned (October 2016) by the Department of Mines & Geology and a fresh lease was granted in favour of M/s JSW Steel Ltd. The MoEF also granted Stage-I and Stage-II approvals for the mining lease to M/s JSW Steel Ltd during April 2018 and December 2018 respectively for a lease period of 50 years. While according Stage-I approval, the MoEF had specified that the approval required in the instant case was for fresh diversion and not for renewal and CA shall be carried out over non-forest area equivalent to the forest land being diverted excluding the area in which CA was already raised by the earlier lessee. The lessee paid ₹ 9.67⁴⁴ crore towards the statutory levies for 19.25 ha which was the unbroken area left out by the previous lessee (100.54 ha – 81.29 ha).

Audit, however, observed that the sanction of lease to M/s JSW Steel Ltd by the MoEF was treated as a fresh lease and hence the lessee was liable to pay the CA charges for the entire land (100.54 ha) diverted for their mining purpose as per the provisions of FC Act. Moreover, as the previous lessee did not raise the CA by virtue of non-applicability of provisions, the present lessee was liable for CA for the entire lease land (100.54 ha) as per Stage-I approval given by MoEF. Thus, the collection of CA charges and equivalent forestland from M/s JSW Steel Ltd only for 19.25 ha of forestland diverted was in violation of the FC Act and

⁴⁰ Net Present Value, Compensatory Afforestation Charges and other site-specific levies.

⁴¹ Two Wind Power Renewal cases (Dharwad-12 ha and Ballari-18 ha), four fresh cases of diversion viz., Road (Kundapura-0.808 ha), Mining (Ballari-1.135 ha), Irrigation (Ramnagara-4.80 ha) and Mining (Ballari-100.54 ha).

⁴² Illegal mining and dumping of waste outside the leased area.

⁴³ Based on the survey and digitization of the leased area by CEC, the actual extent of the area under lease was 100.54 ha, against 105.06 ha sanctioned to the previous lessee.

⁴⁴ NPV of ₹ 8.07 crore (100.54 ha at ₹ 8.03 lakh per ha), CA of ₹ 0.58 crore (19.25 ha at ₹ 3.0 lakh per ha), 25 per cent of CA towards SMC works of ₹ 0.14 crore, Safety Zone afforestation of ₹ 0.16 crore, Wildlife Conservation Plan of ₹ 0.63 crore and for SMC plan ₹ 0.08 crore.

approvals of MoEF. Further, the CA on Soil and Moisture Conservation (SMC) works were also short levied. Overall, there was a short levy of CA charges by ₹ 3.05 crore⁴⁵ and 81.29 ha of non-forestland was not obtained from M/s JSW Steel Ltd for raising CA.

On this being pointed out (November 2019), the PCCF (HoFF) stated (January 2020) that the CA charges were not insisted upon for the forest area already broken up/used for mining as per Paragraph 3.2 (vii) (d) of the FC guidelines and hence they were not levied.

The reply was not accepted for the following reasons:

- Paragraph 3.2 (vii) (d) of the FC guidelines is applicable only in cases of renewal of mining leases and not for fresh diversion. Furthermore, the MoEF had clearly stated that the approval was a fresh diversion while granting Stage-I approval.
- Audit in a similar case (ML 2365)⁴⁶ had noticed that CA charges (₹ 4 crore) for entire diverted area (133.58 ha) were collected (August 2018) and equivalent non-forestland was obtained even though broken up area of 66.80 ha was involved.

Thus, diversion of forestland for non-forest purposes was flawed and resulted in extension of undue benefit to the lessee by ₹ 3.05 crore.

The matter was referred to the Government in November 2019 and their reply was awaited (September 2020).

It is recommended that the PCCF should ensure that all diversion of forestland proposals should be scrutinised thoroughly at each stage of clearance to ensure that the proposals conform to prescribed rules & guidelines.

MINOR IRRIGATION AND GROUND WATER DEVELOPMENT DEPARTMENT

2.4 Irregularities in construction of feeder canal

The feeder canal taken up to supply water to four tanks was abandoned resulting in wasteful expenditure of ₹ 17.50 crore as a new project was sanctioned to meet the objective.

The work of improvements to Belwadi Doddakere in Chikmagalur taluk was administratively approved (May 2008) by the Government with an objective of irrigating 510 hectares of land by feeding water to four tanks⁴⁷ by utilizing surplus water from Devikere tank through an unused feeder canal⁴⁸ of 4.50 km length. The work was technically sanctioned (November 2008) by the Chief Engineer (CE), MI (South), Bengaluru for ₹ 3.50 crore. The scope of the work included re-sectioning⁴⁹ of the existing feeder canal which did not have the required slope and depth to carry the designed discharge of 26 cusecs of water.

⁴⁵ CA charges - ₹ 2.44 crore; 25 per cent of CA towards SMC Works ₹ 0.61 crore.

⁴⁶ In favour of JSW Steel Ltd.

⁴⁷ Belawadi Doddakere, Kalasapura Uramunidana kere, Kalasapura Thimmappanayakana kere and Eswarahalli Uramundina Kere.

⁴⁸ A canal constructed primarily to transfer water from one source of supply or system to another.

⁴⁹ Excavation as per designed cross section.

The work was entrusted (February 2009) to a contractor for ₹ 4.19 crore (14.50 *per cent* above the revised cost of work amounting to ₹ 3.66 crore) for completion by April 2011. The work witnessed cost and time overrun due to acquisition of additional land/ structures, execution of extra quantities/ items of work, frequent removal of fallen debris etc. The Government approved the revised estimated cost of the project (₹ 17.50 crore) in September 2018. The contractor was paid ₹ 10.22 crore (December 2019) in the pre-final bill.

However, the objective of supplying water to four tanks through the feeder canal did not materialize due to slippages into canal, irregular slope and bed width of the canal which affected the free flow of water. Meanwhile, the Government to meet the objective of supplying water, approved (February 2020) for the construction of a Lift Irrigation Scheme (LIS) estimated to cost ₹ 9.50 crore thereby effectively abandoning the feeder canal project. The canal at several chainages was not excavated to its designed bed level for flow of water by gravity and it was not clear why the same was not pursued to make the canal operational rather than approving a new LIS.

Audit scrutiny of records of Executive Engineer, Minor Irrigation & Groundwater Division, Hassan revealed (February 2019/ February 2020) the following lapses which resulted in the feeder canal becoming infructuous.

- The administrative approval for re-sectioning and deepening of the existing unused/incomplete feeder canal indicated that it was a balance work and hence the Project Report should have contained all the key details such as cost of the work, reference to administrative and technical sanction, design details of the feeder canal, contract cost, extent of work completed etc., of the previous project. No investigation, technical or otherwise, was undertaken by the Department to ascertain the reasons for the stoppage of previous feeder canal work, to undertake re-sectioning work.
- The norms mandate that the alignment should be finalised on grounds of economy and hydraulics. However, the Detailed Project Report only contained minimal details and the work was technically sanctioned though the quantities to be excavated in different soil strata were assumed on percentage basis without taking trial pits or bores as stipulated in Paragraph 125 of the Karnataka Public Works Departmental Code Volume I⁵⁰. The proposed depth of cut varied between three meter and seventeen meter requiring design of stable slopes to prevent slippages into the canal but no such stability analysis was undertaken. The feeder canal had to be abandoned due to frequent slippages of earth into the canal due to the unstable slopes which vindicate that the design was not technically sound. Consequently, the entire expenditure of ₹ 17.50 crore spent on the project was rendered wasteful, which could have been avoided had the soil strata been ascertained at the time of sanction of estimate.

The Department replied (June 2020) that the alignment of the disused canal as per the Revenue Survey map was followed and previous details of the work of the disused canal were not available. The Government also admitted that trial pits and trial bores were not taken and the quantities to be excavated were worked out on assumptions by deducting previous executed quantities. Moreover, as per

⁵⁰ Trial pits should be invariably excavated at the site of work and the nature of soil ascertained before preparing the estimates for a work.

Government reply, the feeder canal had been completed and water was supplied to tanks during 2019-20, thereby achieving the project objective.

The reply is not acceptable for the following reasons:

The canal bed level has not been completed to its designed depth at several chainages and the water supply during 2019-20 was done by pumping of water rather than through a free flow in the canal from the intended supply tank. The Engineer-in-Chief confirmed (June 2020) that the deep cut and loose soil strata resulted in frequent falling of debris, which obstructed the free flow of water in the feeder canal. The very facts of supplying water by pumping and sanctioning a new project (LIS) at a cost of ₹ 9.50 crore, vindicate that the feeder canal was technically unsound due to existence of loose soil strata which was not ascertained before the sanction of work. The poor project appraisals coupled with the decision to continue with the work even after realising that the side slopes were not stable had rendered the expenditure of ₹ 17.50 crore wasteful on the abandoned work.



Fig No 8: Photos of non-uniform canal section



(Source: Information furnished by Department)

➤ Further, for removal and hauling of soil and boulders by machineries, an amount of ₹ 139.07 *per cum*⁵¹ was payable by adopting the basic rate of ₹ 72 *per cum* (inclusive of lead upto one Km) available under Item 52(b) of SR 2014-15. The Department however adopted the basic rate of ₹ 204 *per cum*⁵² applicable for manual execution and paid at the rate of ₹ 306.54 *per cum*⁵³. Adoption of higher rate in respect of 50,449 cum of work executed (pre-final bill) resulted in excess payment of ₹ 84.49 lakh⁵⁴ to the contractor. The Government replied (June 2020) that the excess paid amount which would work out to ₹ 0.35 lakh, based on the rate of ₹ 204.37 *per cum* re-worked by adopting the weighted average rates of Items 52 (a) and 53 (a) of the SR for removal of soil, soft rock and hard rock, would be recovered. The reply is not tenable as the rates under Items 52 (a) and 53

⁵¹ After adding ₹ 2.16 towards Area weightage of 3 *per cent*, ₹ 47.30 towards additional lead charges for extra one Km and ₹ 17.61 towards tender premium of 14.5 *per cent*.

⁵² Available under Item 53(a) of the Schedule of Rates of 2014-15.

⁵³ Area weightage of 3 *per cent* = ₹ 6.12; Lead charges upto two Km = ₹ 57.6; and 14.5 *per cent* tender premium = ₹ 38.82.

⁵⁴ Excess = ₹ 84.49 lakh (₹ 306.54 *per cum* - ₹ 139.07 *per cum*) * 50449 cum.

(a) of the SR relate to manual execution and the actual work executed was removal and hauling of earth and boulders by machineries for which the contractor was eligible for payment as per Item 52(b).

➤ Moreover, the hard rock obtained during excavation had to be issued for other works or disposed through auction sale without delay. Audit noticed that 66,771 cum of hard rock valued at ₹ 1.07 crore was held in the Material at Site Account by the Section Officers for over five years without making efforts for its early disposal. Government replied (June 2020) that a notification was issued now for e-auction of the same. The reply is not tenable as failure to take timely action for disposal of hard rock resulted in delay in realisation of revenue.

Thus, the canal project was taken up without conducting survey, investigation and evaluation of all available alternatives which resulted in cost escalation by four times. Further, as the project has now been suspended, the entire expenditure of ₹ 17.50 crore has been rendered wasteful. Consequently, the objective of supplying water to four MI tanks from feeder canal for further distribution to irrigate 510 hectares of land could not be realised. Besides, the newly sanctioned LIS would lead to additional cost of ₹ 9.50 crore to realise the same objective.

It is recommended that technical clearance should be accorded after survey and investigations were conducted. Further, the Government should fix accountability for the various lapses in sanctioning and implementation of the project.

PUBLIC WORKS, PORTS AND INLAND WATER TRANSPORT DEPARTMENT

2.5 Undue benefit to contractors

The adoption of incorrect item in removal of bituminous surface and inclusion of separate item for incidental works in road improvement works had resulted in undue benefit of ₹ 3.90 crore to contractors

The contractors should execute the road works as laid down in the Specifications for Roads and Bridges⁵⁵ issued by the Ministry of Road Transport & Highways (MORTH) as per the conditions of the contract. Clause 305 of the MORTH Specifications governs the construction of embankment and earthwork over the existing road surface. Clause 305.4.3(ii) stipulates removal of existing road surface which is of bituminous type or cement concrete layer and which lies within one meter of the new formation level. Further, Clause 501 of the MORTH governs the payment of contract unit rate for laying of premixed bituminous materials.

Scrutiny (October 2018) of sanctioned estimates of road improvement works in 4095.16 km length of road under Phase II of Karnataka State Highway Development Project (KSHDP) in the office of the CPO, KSHDP, Bengaluru revealed incorrect estimation in respect of two items of work as detailed below:

- The work of reconstruction of the road involves, *inter-alia*, removal of the existing bituminous layer and a rate of ₹ 3.25 per sq mtr as provided in the

⁵⁵ Issued by the Ministry of Road Transport & Highways (MORTH), Government of India.

Schedule of Rates (Item No. 19.59⁵⁶). This rate was adopted in 113 packages out of 127 packages.

However, in 14 packages⁵⁷ pertaining to PWD, Kalaburagi Circle, a different item carrying a higher rate (₹ 28 per sq mtr) was adopted for scarification of 11,01,757 sq mtr of bituminous surface to undertake construction of embankment as in the other 113 packages. The higher rate i.e. ₹ 28 per sq mtr as per the SSR is for scarifying bituminous road surface to a depth ranging between 50 mm and 75 mm, whereas in these 14 packages the item required to be adopted was for a depth of 50 mm only, the rate of which was ₹ 3.25 per sq mtr. The adoption of incorrect item in 14 packages had resulted in extending extra financial benefit of ₹ 2.73⁵⁸ crore to 14 agencies for scarification of 11.02 lakh sq mtr at differential rate of ₹ 24.75 per sq mtr.

The CPO, SHDP accepted (November 2019) the audit observation and stated that amounts would be recovered from the final bills of the contractors.

b) As per clause 501.8.7.1 of MORTH Specifications, the work of cleaning of the surface using mechanical broom and air-jet shall be incidental to the work of preparation of the surface. The rate analysis appended to Karnataka Standard Rate Analysis for Roads and Bridges (KSRRB) also stipulates that cleaning of the surface is a part of applying the primer coat and tack coats. Thus, cleaning of the surface shall not be paid separately in cases where the estimate provides for applying primer/ tack coats.

The work of ‘cleaning of surface’ at a total cost of ₹ 1.70 crore was included as a separate item in 69 out of 127 packages⁵⁹ under KHSDP Phase II. Though the estimates for the works in question were prepared with the provision of primer/tack coats, which was inclusive of the work ‘cleaning of surface’, the inclusion of the work ‘cleaning of surface’ as separate item in the estimate was not only injudicious but also point towards the lack of monitoring by the authorities authorized to approve the estimates. This injudicious inclusion of a separate item for cleaning of surface ignoring the specifications and the KSRRB stipulation had resulted in overpayment of ₹ 1.70 crore to the agencies out of which ₹ 1.17 crore was already paid (as of May 2019).

The CPO, SHDP replied (November 2019) that cleaning of surface as per Clause 501.8.7.1 relates to preparation of surface for laying bituminous courses (BM/DBM) and wearing courses (SDBC/BC) and not for the work of pot hole filling, patch repair and profile corrective course.

The Department clarified that cleaning was part of the binding course and wearing courses as per Clause 501.8.7.1 but not applicable for pot hole filling. However, the rate for pot hole filling item was inclusive of cleaning of the surface as per specification⁶⁰. Hence, providing separate item in the estimates towards

⁵⁶ Scarifying Existing Bituminous surface to a depth of 50 mm by mechanical means and disposal of scarified material and complete as per specifications.

⁵⁷ Package numbers 138, 139, 140, 141, 142, 143, 145, 146, 147, 148, 149, 150, 151 and 152.

⁵⁸ (₹ 28 - ₹ 3.25)*1101757.

⁵⁹ Package numbers 137, 139 to 143, 146 to 150, 167 to 170, 173 to 178, 202, 203, 204, 206, 208, 209, 212, 213, 216, 217, 219, 220, 221, 222, 224, 225, 227 to 234, 236, 237, 241 to 260, 262 and 263.

⁶⁰ Item No. 35.13.1 of Schedule of Rate.

cleaning of the surface was incorrect and hence amount paid towards cleaning is recoverable.

Thus, errors in estimates had resulted in unintended benefit of ₹ 3.90 crore to contractors. The above two instances also show the manner in which the estimates were prepared and finalized. Such lackadaisical approach indicates towards the deficiencies in the internal control and monitoring mechanism especially by the approving authorities, who had approved the estimate without referring to the corresponding stipulations in the MORTH specifications.

The matter was referred to the Government in September 2019 and their reply was awaited (September 2020).

It is recommended to strengthen the existing system of scrutiny of estimates by the sanctioning authority to avoid recurrence of such errors.

2.6 Overpayment to contractors

Inclusion of Plastering to Ceiling as a separate item in the contract document in construction of buildings had resulted in overpayment of ₹ 1.93 crore to the contractors.

The Karnataka Building Specifications (KBS) and the Karnataka Standard Rate analysis for Buildings (KSRB) should be followed in respect of construction of buildings as per the circular⁶¹ issued by the Government. Paragraph 8 of the Karnataka Public Works Department Code also mandates that all building works shall be in accordance with the KBS and Schedule of Rates (SR) for all building items shall be in accordance with KSRB.

Section 4.6 of KSRB deals with Specification for the Reinforcement Concrete Works (RCC) while Section 4.6.4.7 of KSRB deals with ‘finishing’ of Reinforcement Concrete Works. As per sub-section 7(c) of Section 4.6.4.7 of KSRB, immediately on removal of forms (centering and shuttering) in respect of roof slab, the RCC work shall be examined by the engineer for surface defects of minor nature subject to rectifications. The exposed surface of RCC work shall be plastered with 1: 3 cement mortar (one part cement and three parts fine sand) of thickness not exceeding 6 mm to give a smooth and even surface true to line and form. Any RCC surface which remains permanently exposed to view in the completed structure shall be considered as exposed surface for the purpose of this specification. However, where any RCC surface exceeding 0.5 square meter in each location is not plastered, necessary deduction shall be made for the plastering not done. Thus, providing and laying of RCC for roof slab is inclusive of plastering as per sub-section 7(c). The SR of the Department for the item “providing and laying reinforced cement concrete for roof slabs” clearly specifies execution of work as per Section 4.6 of KSRB.

Audit scrutiny (between August 2018 and September 2019) of estimates in the offices of two⁶² Superintending Engineers (SEs) of the Public Works Department revealed inclusion of “Providing plastering to ceiling” as a separate item in the Bill of Quantities (BOQ) appended to estimates in 11 building contracts in their jurisdiction disregarding Section 4.6 of KSRB. As the item of providing

⁶¹ No.PWD 315 CRM 96 (Part) dated 18.09.2002 with effect from 01.11.2002.

⁶² Bengaluru and Shivamogga.

Reinforced Cement Concrete to roof was a finished item which included plastering, inclusion of a separate item in the BOQ towards plastering of ceiling, leading to double compensation, was unnecessary. The error in the BOQ prepared by the EEs was not noticed by either the Superintending Engineer or the Chief Engineer before sanctioning the estimates. The omission led to unintended benefit to contractors and the overpayment worked out to ₹ 1.93 crore as per the details of works are shown in the *Appendix 2.13*.

Government replied (June 2020) that the plastering component included in the item “Providing and laying reinforced cement concrete for roof slab” was meant for repairing the surface defects on removal of forms and cement requirement was not considered in the rate for RCC for roof slab. Hence, “Plastering to ceiling” was provided as a separate item to give smooth finishing to the entire surface.

The contractors quote rates with reference to specification of BOQ item and not with reference to departmental estimated rates. Further, this irregularity was previously pointed out in the Paragraph 3.2.4, Report of the Comptroller and Auditor General of India No.2 Civil for the year ended 31 March 2010 and the Government had agreed to recover the amount after accepting the audit observation. Further, the Public Accounts Committee had discussed the Paragraph and had recommended⁶³ to recover the amount from other similar works and to avoid such provision in future works.

In view of the above, the reply given by the Government is not acceptable.

It is recommended that the Government may issue circular communicating the recommendation of PAC without any further delay.

2.7 Unwarranted expenditure

Injudicious decision to provide Reflective Pavement Markers in road improvement works in excess of the prescribed standards resulted in unwarranted expenditure of ₹ 6.62 crore.

As per Clause 9.2.2 of the IRC SP 73-2007⁶⁴, Reflective Pavement Markers (RPMs)⁶⁵ were to be provided at hazardous locations / while approaching important intersections in addition to the paint or thermoplastic line markings, and road stretches passing through municipal areas /village settlements and habitations. These norms were revised in June 2015, which prescribed for providing RPMs for specific sections of roads having horizontal curves beyond the prescribed degree of curve, all sections where overtaking is prohibited, all major/ minor bridges and structures, all entry/ exit slip roads, all junctions and median openings and pedestrian crossings, etc. at spacing intervals ranging between six and eighteen meters. These norms were applicable for only two laning of Highways and were to be used for the road stretches passing through municipal areas/village settlements and habitations. These norms are not applicable in the express ways having four lanes, six lanes and eight lanes. The

⁶³ Public Accounts Committee First Report serial number 3, 14th Assembly (2013-14) for Public Works Ports & Inland Water Transport Department.

⁶⁴ Manual of specifications and standards for two laning of highways with paved shoulder.

⁶⁵ Also known as cat's eyes or road studs, they are used to form a semi-permanent marking and provide improved visibility during night time and wet-weather conditions.

ongoing works were municipal/village roads, for which IRC 73-2015 was applicable.

Audit observed that the Project Director (PD), KSHIP in a review meeting (February 2016) on the progress of the ongoing works, issued instructions to provide RPMs at a spacing interval of nine meters for straight sections for the entire length of the roads and at five meters spacing in the curves in respect of all the eight roads. This decision was in deviation from the IRC 73-2007/ IRC 73-2015, as they did not prescribe provision of RPMs for straight sections at all, and RPMs for curves should have been provided between six and eighteen-meter interval against the actual provision of five meters. It was observed that the decision of the PD was not supported by any study/technical opinion.

Resultantly, there was an additional financial implication in eight projects which works out to ₹ 6.62 crore as shown in **Table 2.5:**

Table 2.5: RPM requirements as per IRC 73-2007, IRC 73-2015 and actually provided

Sl. No.	Project	Value of RPMs (₹ in crore)			Avoidable extra cost (₹ in crore)
		Provided as per estimates/ BOQ (IRC 73-2007)	Required as per IRC 73-2015	Actually provided	
1	AEP 3A	0.13	0.56	0.78	0.22
2	AEP 6A	0.24	0.53	0.87	0.34
3	AEP 6B	0.28	1.35	2.07	0.72
4	AEP 9A	0.30	0.58	1.50	0.93
5	WAEP 3A	0.43	0.49	1.14	0.65
6	WAEP 4	0.32	0.98	1.99	1.01
7	WAP-1	0.67	1.73	2.73	1.00
8	WAP-2	0.18	0.18	1.94	1.76
	Total	2.56	6.40	13.02	6.62

(Source: Details of requirements & actuals furnished by the Department)

Government in their reply (June 2020) justified the deviation from IRC norms on the following grounds:

- Providing additional RPMs was an engineering decision to better the safety levels by way of enhancing visibility during night time and adverse weather conditions. The IRC norms are only suggestive and not restrictive, thereby enabling the implementing agencies to experiment with new initiatives. The revision of IRC over time is a result of such efforts.
- IRC guidelines prescribing spacing intervals of 18m/6m ideally suit to four lane expressways with higher level of speeds whereas RPMs at lesser spacing was provided in two lane road with two-way traffic where the vehicles ply at lesser speeds.
- Approval of the Steering Committee was obtained for additional cost towards the RPMs in the 89th Committee meeting.

The justification was not accepted for the following reasons:

- As the matter deals with safety levels, even Audit had taken cognizance of the latest IRC norms i.e., revised during 2015 and applicable when PD had taken the decision to provide RPMs at lesser spacing. The PD's decision was not backed by any study reports or expert committee reports which recommended improvement over the revised norms of IRC. It is not out of context to state that Government on one hand has tried to defend decision of PD but had also sought justification from PD for deviating from IRC 2015 norms.
- The Government's reply regarding spacing of RPMs at intervals of eighteen meters / six meters suggested in IRC was applicable to four lane road and not for two lane road is factually incorrect as IRC 73 2015 cited is applicable for two lane road and not for four lane roads. Further, IRC/MORTH specifically stipulates that RPMs less than 5.5 metres in any category of road are considered undesirable as these entail discomfort to the riders while commuting in the night due to reflection of light which may prove hazardous. By reducing the spacing from the stipulated 18m/6m to 5m, the scope of work had been unnecessarily widened resulting in provision for more number of RPMs entailing higher cost.
- The benefit of higher safety levels should be provided in all two lane roads and the Government ought to have issued suitable instructions in this regard based on KSHIP initiative. However, even after five years, Government has not issued instructions for adoption by other implementing agencies to derive the benefit of higher safety levels.
- The reply that approval of the Steering Committee was obtained is not correct, as it was obtained (December 2018) only after Audit had pointed it out in June 2018. It was only a ratification of the action already taken and hence Audit does not consider it valid prior approval.

Thus, the injudicious decision in providing RPMs in deviation from IRC norms resulted in additional expenditure of ₹ 6.62 crore, which was not warranted.

It is recommended that the Government should view seriously the instances of expenditure incurred by the officers without proper technical justifications.

PART-II

REVENUE SECTOR

Chapter I

General

Chapter-I

General

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2018-19, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the year together with the corresponding figures for the preceding four years are mentioned in **Table 1.1.1**.

Table 1.1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Revenue raised by the State Government					
	• Tax revenue	70,180.21	75,550.18	82,956.13	87,130.38	96,829.71
	• Non-tax revenue	4,688.24	5,355.04	5,794.53	6,476.53	6,772.87
	Total	74,868.45	80,905.22	88,750.66	93,606.91	1,03,602.58
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ⁶⁶	14,654.25	23,983.34	28,759.94	31,751.96	35,894.83
	• Grants-in-aid	14,619.45	13,928.75	15,703.19	21,640.78	25,481.25
	Total	29,273.70	37,912.09	44,463.13	53,392.74	61,376.08
3.	Total revenue receipts of the State Government (1 and 2)	1,04,142.15	1,18,817.31	1,33,213.79	1,46,999.65	1,64,978.66
4.	Percentage of total revenue raised by the State Government to total revenue receipts (1 to 3)	72	68	67	64	63

The above table indicates that during the year 2018-19, the revenue raised by the State Government (₹ 1,03,602.58 crore) was *63 per cent* of the total revenue

⁶⁶ Figures under the major heads of account 0005-Central Goods and Service Tax, 0008-Integrated Goods and Services Tax, 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0028-Other Taxes on Income and Expenditure-Minor head-901, 0032-Taxes on Wealth, 0037-Customs, 0038-Union Excise Duties, 0044-Service Tax and 0045-Other taxes and Duties on Commodities and Services - Minor head-901, as share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2018-19, under 'A-Tax Revenue' have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

receipts. The balance 37 *per cent* of the receipts during 2018-19 came from the Government of India.

1.1.2 The details of the tax revenue raised during the period 2014-15 to 2018- 19 are given in **Table 1.1.2**.

Table 1.1.2
Details of Tax Revenue

(₹ in crore)

Sl. No.	Head of revenue	2014-15		2015-16		2016-17		2017-18		2018-19		Percentage of increase (+)/decrease (-) in 2018-19 over 2017-18	
		BE	Actual	BE	Actual	BE	Actual	BE/RE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	37,250.00	38,286.03	41,329.00	40,448.63	46,504.10	46,105.17	24,485.68*	25,093.16	13,532.05	14,003.06	(-) 44.73	(-) 44.20
2.	State Goods and Services Tax (SGST)	---	---	---	---	---	---	24,087.53*	24,182.18	41,649.95	41,956.03 ⁶⁷	72.91	73.50
3.	State Excise	14,430.00	13,801.08	15,200.00	15,332.88	16,510.00	16,483.75	18,050.00	17,948.51	19,750.00	19,943.93	9.42	11.12
4.	Stamp Duty and Registration Fee	7,450.00	7,025.85	8,200.00	8,214.71	9,100.00	7,805.98	9,000.00	9,023.68	10,400.00	10,774.69	15.55	19.40
5.	Taxes on Vehicles	4,350.00	4,541.57	4,800.00	5,001.69	5,160.00	5,594.39	6,006.00	6,208.57	6,656.42	6,567.67	10.83	5.78
6.	Others	6,389.75	6,525.68	6,916.39	6,552.27	6,590.34	6,966.84	4,300.55	4,674.28	3,832.37	3,584.33	(-) 10.89	(-) 23.32
Total		69,869.75	70,180.21	76,445.39	75,550.18	83,864.44	82,956.13	85,929.76	87,130.38	95,820.79	96,829.71	11.51	11.13

* In these two cases, revised estimates have been considered since Goods and Services Tax (GST) was introduced replacing KVAT in the middle of the year from 1 July 2017.

The reduction in estimation and realisation under VAT was due to introduction of GST in 2017-18 and collection of VAT was restricted to goods not brought under GST and arrears for the earlier period. The disproportionate increase in estimation and realisation of SGST was due to the fact that GST was in force only for six months in 2017-18 and the whole year in 2018-19. The dip in estimation and realisation of revenue under ‘Others’ (Sl.No.6) was due to subsuming of Taxes under the heads 0042 (Taxes on Goods and Passengers) and 0045 (Other Taxes and Duties on Commodities and Services) into GST.

1.1.3 The details of the non-tax revenue raised during the period 2014-15 to 2018-19 are indicated in **Table 1.1.3**.

⁶⁷ Includes interest (₹ 53.84 crore), penalty (₹ 21.45 crore), fee (₹ 137.55 crore), input tax credit cross-utilization of SGST and IGST (₹ 12,246.82 crore), apportionment of IGST-transfer-in of tax component to SGST (₹ 1,669.65 crore) and advance apportionment from IGST (₹ 5,559.04 crore).

Table 1.1.3
Details of Non-Tax Revenue

Sl. No.	Head of revenue	2014-15		2015-16		2016-17		2017-18		2018-19		Percentage of increase (+)/decrease (-) in 2018-19 over 2017-18	₹ in crore
		BE	Actual										
1.	Non-ferrous mining and metallurgical Industries	1,750.00	1,931.10	2,048.15	2,003.80	2,402.83	2,419.43	2,667.65	2,746.80	3,000.00	3,026.58	12.46	10.18
2.	Other Non-tax receipts	2,723.43	2,757.14	3,158.02	3,351.24	3,817.62	3,375.10	4,276.97	3,729.73	5,180.94	3,746.29	21.13	0.44
Total		4,473.43	4,688.24	5,206.17	5,355.04	6,220.45	5,794.53	6,944.62	6,476.53	8,180.94	6,772.87	17.80	4.57

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2019 on some principal heads of revenue amounted to ₹ 23,015.11 crore as detailed in **Table-1.2**.

Table 1.2
Arrears of revenue

₹ in crore

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2019	Replies of Department
1.	0039 (State Excise)	763.62	Out of the total arrears, ₹ 82.83 crore was stayed by courts and ₹ 350.15 crore was covered by Revenue Recovery Certificates. The remaining amount of ₹ 330.64 was at various other stages.
2.	0040 (Taxes on sales, trade etc.)	19,554.34	Out of the total arrears, ₹ 3,025.80 crore was stayed by courts, ₹ 659.61 crore was before BIFR ⁶⁸ , ₹ 571.62 crore was under liquidation process, ₹ 164.50 crore was covered by Revenue Recovery Certificates, ₹ 14,849.42 crore was under Court and Departmental recovery, write off proposals were made for ₹ 180.67 crore and payments of ₹ 102.72 crore received were under verification.
3.	0853(Non-ferrous mining and metallurgical Industries)	2,370.81	Not Furnished
4.	0030 (Stamp and Registration)	162.38	Not Furnished
5.	Energy	163.96	Not Furnished
Total		23,015.11	

Details of arrears of revenue, if any, of Transport and Revenue Departments, though called for (August 2019) were not received (September 2020).

1.3 Evasion of tax detected by the Departments

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

⁶⁸ Board for Industrial and Financial Reconstruction.

Table 1.3
Evasion of tax

(₹ in crore)

Sl. No.	Head of revenue	Cases pending as on 31 March 2018	Cases detected during 2018-19	Total	Number of cases in which assessment/investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2019
					Number of cases	Amount of demand	
1.	0039 (State Excise)	02	01	03	00	00	03
2.	0040 (Taxes on sales, trade etc.)	3,923	10,885	14,808	9,130	6,252	5,678
3.	0030 (Stamp and Registration)	04	06	10	00	00	10
4.	0041 (Taxes on Vehicles)	06	00	06	00	00	06

Early action may be taken to settle these cases in the interest of revenue. Though a majority of cases detected have been settled in CTD, many cases are still outstanding at the end of the year. In respect of Department of Stamps and Registration, State Excise and the Transport Department, there have been no disposals in the cases during the year 2018-19. The Department of Mines and Geology and the Energy Department stated that there were no cases pending and also that no new cases were detected during 2018-19.

Details of frauds and evasions detected, if any, by the Land Revenue Department, though called for (August 2019) had not been received (September 2020).

1.4 Pendency of refund cases

The number of refund cases pending at the beginning of the year, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2018-19 as reported by the Commercial Taxes, State Excise Department and the Department of Stamps and Registration are given in **Table 1.4**.

Table 1.4
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales Tax/VAT		State Excise		Stamps & Registration	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	1,918	313.81	00	00	1,388	3.50
2.	Claims received during the year	9,690	6,802.41	NF	11.22	1,903	11.65
3.	Refunds made during the year	9,292	6,682.51	NF	11.22	1,367	9.07
4.	Balance outstanding at the end of the year	2,316	433.70	00	00	1,924	6.08

The Department of Mines and Geology and the Energy Department stated that there were no claims outstanding and also that there were no claims during the year 2018-19.

Details of pendency of refunds cases, if any, in the Transport and Revenue Departments, though called for (August 2019), were not received (September 2020).

1.5 Response of the Government/Departments towards Audit

Accountant General (Economic and Revenue Sector Audit) conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspections and those not settled on the spot are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Accountant General within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

3,802 paragraphs involving ₹ 1,822.98 crore contained in 1,359 IRs (issued upto December 2018), remained outstanding at the end of June 2019. The details along with the corresponding figures for the preceding two years are given in the **Table 1.5.**

Table 1.5
Details of pending Inspection Reports

	As of June 2017	As of June 2018	As of June 2019
Number of IRs pending for settlement	2,282	1,385	1,359
Number of outstanding audit observations	5,527	4,099	3,802
Amount of revenue involved (₹ in crore)	2,010.14	1,467.14	1,822.98

1.5.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2019 and the amounts involved are given in **Table 1.5.1.**

Table 1.5.1
Department-wise details of IRs

Sl. No	Name of the Department	Nature of receipts	Number of outstanding IRs	Numbers of outstanding Audit observations	Money value involved (₹ in crore)
1.	Finance	Commercial Taxes	630	2179	580.70
2.		State Excise	66	84	13.61
3.	Revenue	Land Revenue	36	68	7.63
4.		Stamps and Registration fees	375	903	226.86
5.	Transport	Taxes on motor vehicles	159	347	20.89
6.	Commerce and Industries	Non-ferrous mining and metallurgical industries	82	206	969.34
7.	Energy	Electricity Tax	11	15	3.95
Total			1,359	3,802	1,822.98

Audit did not receive even the first replies (required to be received from the heads of offices within one month from the date of issue of the IRs) for 192 IRs out of 303 IRs issued during 2018-19. This large pendency of the IRs due to non-receipt of the replies indicated that the Heads of Offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the Accountant General in the IRs.

1.5.2 Departmental Audit Committee meetings

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

No meetings of the Committee were convened by any of the Departments during the year 2018-19. Action may be taken to convene Departmental Audit Committee meetings for clearance of outstanding IRs and audit observations.

1.5.3 Non-production of records to Audit for scrutiny

The programme for local Audit of Tax Revenue/Non-tax Revenue offices is drawn up and intimations sent sufficiently in advance, to enable them to keep the relevant records ready for Audit.

During 2018-19, 303 offices under Finance, Revenue, Transport, Commerce and Industries and Energy Departments were taken up for Audit.

Out of these, 27 records/files were not produced for Audit in 10 offices under Finance and Revenue Departments. Hence, the correctness of the assessments made and taxes levied or revenue collected could not be ensured in those cases mentioned in **Table 1.5.2** below:

Table 1.5.2
Details of non-production of records

Sl. No.	Name of the Office/ Department		Number of records not produced to audit
1.	Finance Department	Commercial Taxes	10
2.	Revenue Department	Stamps and Registration Fee	2
		Land Revenue	15
Total			27

1.5.4 Response of the Departments to the Draft Audit Paragraphs

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

Eighteen Draft Paragraphs (including one Compliance Audit) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2019 were forwarded to the Additional Chief Secretary/Principal Secretaries/Secretaries to the Government and copies endorsed to the heads of Departments concerned between May 2019 and May 2020.

Replies for 12 Draft Paragraphs including one Compliance Audit relating to Commercial Taxes and Mines and Geology have been received from the Government. In respect of the Compliance Audit, Exit Conference was held with the Government during February 2019.

Replies to the remaining six Draft Paragraphs pertaining to Department of Stamps and Registration and Commercial Tax Department have not been received from the Government (September 2020).

1.5.5 Follow-up on the Audit Reports - Summarised position

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

103 paragraphs (including Performance Audits) were included in six⁶⁹ Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Karnataka which got placed before the State Legislature between February 2015 and October 2019.

As of April 2020, out of 103 paragraphs, Departmental Notes have been received for 82 paragraphs. These Departmental Notes were received belatedly, with an average delay of eight to 16 months. However, Departmental Notes for the remaining 21 paragraphs from five Departments (Commercial Taxes, Land Revenue, Stamps and Registration, State Excise and Mines and Geology) have not been received yet.

This indicates that more proactive action is required from the Executive to pursue the important issues highlighted in the Audit Reports, which would also aid in collection of unrealised revenue.

⁶⁹ 1. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended 31 March 2014.
 2. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2015.
 3. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2016.
 4. Report of the Comptroller and Auditor General of India-Grant, Lease, Eviction of Encroachment and Regularisation of Unauthorised Occupation of Government Lands.
 5. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2017.
 6. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2018.

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

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

The succeeding paragraphs 1.6.1 and 1.6.2 discuss the performance of the Department of Stamps and Registration⁷⁰ in respect of the cases detected in the course of local Audit during the last ten years and also the cases included in the Audit Reports for the years 2008-09 to 2017-18.

1.6.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last ten years, paragraphs included in these reports and their status as on 31 March 2019 are tabulated below in **Table 1.6.1**.

Table 1.6.1
Position of Inspection Reports

Sl. No.	Year	Opening Balance			Addition during the Year			Clearance during the Year			Closing Balance		
		IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
1.	2009-10	393	656	120.56	108	135	141.19	4	30	0.14	497	761	261.61
2.	2010-11	497	761	261.61	104	108	95.04	23	68	1.00	578	801	355.65
3.	2011-12	578	801	355.65	143	285	7.34	73	120	1.06	648	966	361.93
4.	2012-13	648	966	361.93	113	328	14.24	30	82	1.27	731	1,212	374.90
5.	2013-14	731	1,212	374.90	132	350	43.51	156	462	16.63	707	1,100	401.78
6.	2014-15	707	1,100	401.78	134	375	19.41	37	121	0.62	804	1,354	420.57
7.	2015-16	804	1,354	420.57	93	241	20.77	55	292	13.30	842	1,303	428.04
8.	2016-17	842	1,303	428.04	92	274	33.61	25	101	0.69	909	1,476	460.96
9.	2017-18	909	1,476	460.96	58	189	21.52	433	819	283.43	534	846	199.05
10.	2018-19	534	846	199.05	51	159	64.93	2	42	22.70	583	963	241.28

During the year 2018-19, no Departmental Audit Committee meetings were held by the Department of Stamps and Registration for settlement of IRs/paragraphs.

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

1.6.2 Recovery in accepted cases

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

⁷⁰ Under the Revenue head-0030.

Table 1.6.2
Recovery in accepted cases

Sl. No.	Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year 2018-19	Cumulative position of recovery of accepted cases as of 31-03-2019 (₹ in crore)
1.	2008-09	6	325.83	6	283.04	0	0.23
2.	2009-10	7	16.49	6	13.19	0	0.063
3.	2010-11	5	7.39	5	7.39	0	0.07
4.	2011-12	7	2.39	7	2.39	0	0.07
5.	2012-13	8	44.42	7	32.39	0	0.60
6.	2013-14	5	3.84	5	3.84	0	1.42
7.	2014-15	5	3.72	5	3.72	0	0.38
8.	2015-16	3	424.71	2	5.96	0	0.47
9.	2016-17	3	20.36	3	20.17	0	0.47
10.	2017-18	4	167.10	3	8.74	0	0.18

As seen from the table above, the percentage of recovery by the Department of Stamps and Registration in accepted cases for the years 2008-09 to 2017-18 was only 1.04 *per cent*. Therefore, the Department must take immediate action to pursue recovery of the dues involved in accepted cases.

1.7 Audit Planning

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

During the year 2018-19, there were 1,253 auditable units, of which 300 units were planned and 303 units had been audited, which was 24 *per cent* of the total auditable units. The details are shown in **Table 1.7.1**.

Table 1.7.1
Details of units audited

Sl. No	Department	Number of units		
		Auditable Units during the year 2018-19	Units planned for audit during 2018-19	Units audited during 2018-19
1.	Commercial Taxes	430	102	102
2.	Stamp Duty and Registration	282	49	51
3.	Motor Vehicles Taxes	82	30	31
4.	Land Revenue	258	38	38
5.	State Excise	129	56	56
6.	Mineral Receipts	34	19	19
7.	Energy	38	6	6
Total		1253	300	303

Besides the audit of units mentioned above, One Compliance Audit on the “Implementation of Transitional provisions under the GST Acts in Karnataka” was also taken up during the year.

1.8 Results of Audit

Position of local Audit conducted during the year

Test-check of the records of 303 units of Sales Tax/Value Added Tax, State Excise, Taxes on Motor Vehicles, Stamps and Registration Fee, Land Revenue and other Departmental Offices conducted during the year 2018-19 showed under assessment/short-levy/loss of revenue aggregating ₹ 1,502.73 crore in respect of cases pointed out through 763 paragraphs. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 985.83 crore raised through 43 paragraphs during 2018-19. The Departments collected ₹ 30.62 crore pointed out in 535 paragraphs pertaining to the audit findings of previous years during 2018-19.

1.9 Coverage of Part-II of this Report

Part-II of this Report contains 17 paragraphs selected from the audit observations made during the local audit referred to above and during earlier years, (which could not be included in earlier reports) including one Compliance Audit involving financial effect of ₹ 1,092.70 crore.

The Departments/Government had accepted audit observations in 2,701 cases relating to 15 paragraphs involving ₹ 1,015.81 crore, out of which ₹ 5.34 crore had been recovered in 88 cases. The replies in the remaining cases had not been received (September 2020). These are discussed in succeeding Chapters II to IV.

Chapter II

Taxes/VAT on

Sales, Trade, etc.

Chapter-II

Taxes/VAT on Sales, Trade, etc.

2.1 Tax administration

Sales Tax/Value Added Tax (VAT) laws and Rules framed thereunder are administered at the Government level by the Additional Chief Secretary, Finance Department. The Commissioner of Commercial Taxes (CCT) is the head of the Commercial Taxes Department (CTD) who is assisted by 14 Additional Commissioners. There are 13 Divisional VAT Offices (DVO), 13 Appeal Offices, 13 Enforcement/Vigilance Offices and one Minor Acts Division in the State managed by 42 Joint Commissioners (JCCTs). There are 123 Deputy Commissioners (DCCT), 321 Assistant Commissioners (ACCT) and 526 Commercial Tax Officers (CTO) in the State. At the field level, VAT is being administered through 118 Local VAT Offices (LVOs) and VAT Sub Offices (VSOs) headed by ACCTs and CTOs respectively. The DCCTs, ACCTs and CTOs head 266 Audit Offices where assessments/re-assessments are finalised by the Department. On introduction of Goods and Services Tax (GST), the organisation set-up of the CTD continued as in the VAT regime. The erstwhile LVOs were re-designated as Local GST Offices (LGSTOs), Sub GST Offices (SGSTOs) and the Audit Offices continued as such.

2.2 Internal Audit

As per the information furnished by the Department, the Internal Audit Wing is functioning from the year 2011-12. During the year 2018-19, 300 Offices were due for audit, of which, 36 Offices were audited. The shortfall in coverage of Offices was due to the preparation for implementation of Goods and Services Tax. Year-wise details of the number of objections raised, settled and pending along with tax effect, as furnished by the Department, are given in **Table 2.1**.

Table 2.1
Year-wise details of observations raised by IAW
(₹ in crore)

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
2014-15	11,684	253.52	7,791	95.41	3,893	158.11
2015-16	2,104	98.16	164	0.93	1,940	97.23
2016-17	2,048	105.97	447	0.73	1,601	105.25
2017-18	1,409	6.13	152	1.51	1,257	4.62
2018-19	1,420	35.51	31	0.43	1,389	35.07
Total	18,665	499.29	8,585	99.01	10,080	400.28

As seen from the table, 10,080 observations involving ₹ 400.28 crore were pending for settlement as on 31 March 2019. Early action may be taken to settle pending observations.

2.3 Results of Audit

There are 430 auditable units in the Commercial Taxes Department. Out of these, Audit selected 102 units for test-check wherein 2.30 lakh assessments were finalised. Out of these, Audit test-checked 32,466 dealers (14.11 *per cent*)

during the year 2018- 19 and noticed 6,019 cases (18.54 *per cent* of audited sample) of non/short-levy of tax, non/short payment of tax as per Form VAT 240, non-levy of tax on sale of liquor, non/short-levy of tax on works contract receipts, non/short-levy of penalties and interest, non-follow-up on payments, incorrect/excess allowance of input tax credit and non-observance of provisions of Acts/Rules, etc., in 97 units involving an amount of ₹ 207.20 crore. These cases are illustrative only as these are based on test-check of records. The observations broadly fell under the following categories as given in **Table 2.2**.

Table 2.2
Results of Audit

Sl. No.	Category	No. of Paragraphs	No. of cases	(₹. in crore)
				Amount
I	Value Added Tax			
1	Non/short declaration of output tax (e-UPaSS)	06	142	17.24
2	Non/ short payment of tax as per Form VAT 240	43	121	17.34
3	Non/ short levy of tax	43	45	32.63
4	Non-levy of tax on sale of liquor	23	150	28.48
5	Non/short levy of penalties (Under Sections 72(1), 72(2) & 74(4) of KVAT Act)	122	8,889	42.97
6	Non/short levy of interest	44	58	3.43
7	Not-Acknowledged Returns	35	283	9.18
8	Incorrect/ excess allowance of Input Tax Credit (ITC)	42	70	20.38
9	Excess carry forward of credit	27	35	10.11
10	Incorrect allowance of sub-contractor payments	11	25	3.66
11	Other irregularities	57	913	20.82
	Total	453	10,731	206.24
II	Entry Tax			
12	Non/short levy of Entry Tax/interest	6	6	0.90
III	Karnataka Agricultural Income Tax (KAIT)			
13	Non/short levy of penalty/interest	4	4	0.06
	Grand total	463	10,741	207.20

During the course of the year, the Department had accepted under assessment and other deficiencies involving ₹ 7.37 crore in 31 paragraphs. An amount of ₹ 17.20 crore was recovered in 391 paragraphs that were pointed out in the earlier years.

A Compliance Audit on ‘Implementation of Transitional provisions under the GST Acts in Karnataka’ involving ₹ 949.09 crore and a few illustrative cases of non/short-realization of VAT, penalty and interest involving ₹ 96.91 crore are discussed in the following paragraphs.

2.4 Compliance Audit on “Implementation of Transitional Provisions under the GST Acts in Karnataka”

2.4.1 Introduction

Good and Services Tax (GST) was implemented with effect from 1 July 2017 on supply of goods or services or both. GST is concurrently administered by the Union (CGST) and the States (SGST) on supply within the State while Integrated GST (IGST) is levied on inter-state supply of goods or services or both.

The Central Goods and Services Tax Act, 2017, the Karnataka State Goods and Services Tax Act, 2017 and the Integrated Goods and Service Tax, 2017 and allied Rules of all the three Acts are applicable in the State of Karnataka.

Goods and Services Tax Network (GSTN), a non-Government Company set up by Government of India provides front-end services to dealers for registration, return filing and payment of tax. Karnataka State, a Model ⁷¹ State, has developed GSTPro for back-end services like registration approval, processing refunds and viewing tax payer details like returns, payments, etc.

Transition to GST necessitated smooth transitional provisions to enable migration of all existing businesses to the new regime. The transitional provisions have been specifically incorporated in all the three GST Acts/Rules. The main areas covered by the transitional provisions are as under:

1. Migration of existing taxpayers;
2. Transition of input tax credit (transitional credit) available under the erstwhile Tax laws (Central Excise/Service Tax/State VAT Acts); and
3. Miscellaneous transition provisions relating to job work, agency businesses, etc.

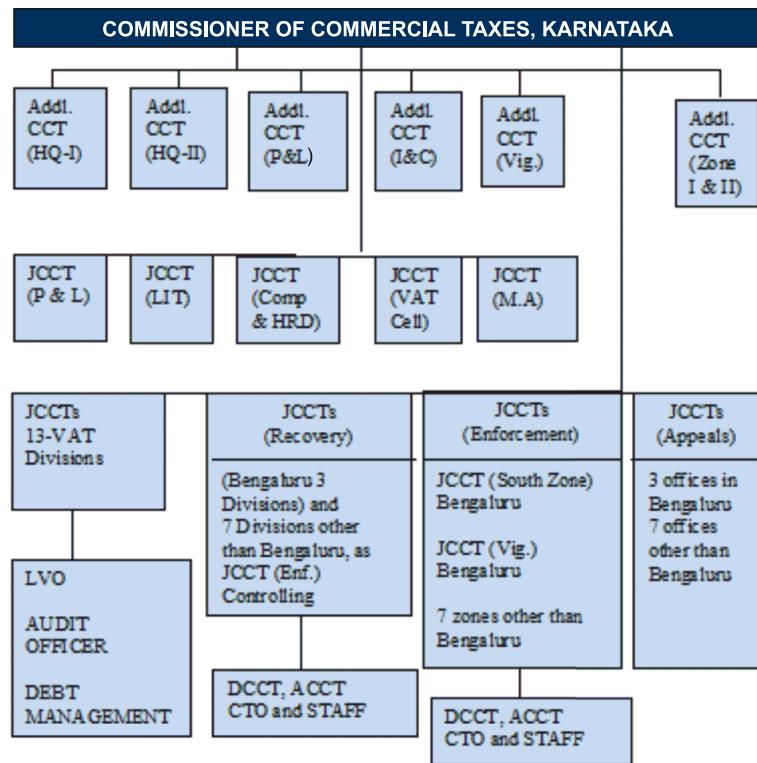
2.4.2 Organisational Set-up

The Commercial Taxes Department (CTD) is headed by the Commissioner of Commercial Taxes (CCT) under the administrative control of the Additional Chief Secretary to the Government of Karnataka, Finance Department. The CCT is assisted by five Additional Commissioners of Commercial Taxes at the Headquarters and an exclusive South Zone Enforcement Wing headed by an Additional Commissioner of Commercial Taxes.

After introduction of GST, the organisational set-up of the CTD continued as in the VAT regime. There are 13 administrative Divisions, seven in Bengaluru and six outside of Bengaluru, each headed by Joint Commissioner of Commercial Taxes. The erstwhile Local VAT Offices were re-designated as Local GST Offices (LGSTOs), Sub GST Offices (SGSTOs) and the Audit Offices continue as such. Every Division also has an Enforcement Wing and an Appeals Wing. There are 118 LGSTOs and 266 Audit Offices in the State.

⁷¹ Model- 1 States- Frontend (GST Portal services) shall be provided by GSTN and the backend modules shall be developed by states.

Model- 2 States- Frontend (GST Portal services) and the backend modules shall be provided by GSTN.



2.4.3 Audit Objectives

The Objectives of this Audit were to examine:

1. Whether it was ensured that migration of dealers from the erstwhile State Laws and subsequent filing of returns were smooth and complete;
2. Whether checks and balances were put in place to verify the transitional credit claimed by the dealers and also to deal with the transitional provisions applicable to job works; and
3. Whether an efficient and effective Action Plan was devised by the Department to deal with legacy issues such as refunds to be made and the re-assessments to be completed under the KVAT regime.

2.4.4 Audit Criteria

The sources of Audit Criteria were:

- The Central Goods and Services Tax Act, 2017 and Rules thereunder
- The Karnataka Goods and Services Tax Act, 2017 and Rules thereunder
- Erstwhile Acts like The Karnataka Value Added Tax Act, 2007 and Rules thereunder and Central Sales Tax Act, 1956 and
- Circulars/Notifications issued by the State/Union Government

2.4.5 Scope of Audit and Methodology

The Compliance Audit covers the period from June 2017 to August 2019. The implementation of GST transitional provisions was examined based on information furnished by the Commissioner of Commercial Taxes (details of dealers with claim of transitional credit) and data available in the Electronic Filing System (e-FS) and GSTPro.

Six Divisions⁷² (three in Bengaluru and three outside Bengaluru divisions) were selected for the Audit based on the total amount of SGST transitional credit claimed in the Division. In each Division, apart from primary matching of the excess credit available in the June 2017 return vis-à-vis the transitional credit carried forward and claimed in the Tran 1 form by all dealers, dealers were also selected on stratified random sampling basis for detailed verification of SGST transitional credit. A total of 611 dealers out of 28,697 dealers who had carried forward credit from their KVAT return were verified for correctness of transitional credit taken under SGST on stratified random sampling. The information such as Form VAT 240, purchase details uploaded in e-UPaSS, re-assessment orders issued under KVAT, filing of statutory forms etc. were verified as available in the e-FS.

Dealers having CGST transitional credit of ₹ one crore and above were selected for verification, which was limited to comparison of the credit balance available in the June 2017 Central Excise/Service Tax returns furnished by the dealers. Out of 500 dealers from whom returns under the erstwhile Central Acts were called for through the LGSTOs/SGSTOs, 141 dealers furnished the information and were verified.

Migration of taxpayers and filing of returns were analysed as per MIS Reports available in the e-FS and GSTPro.

An Entry Meeting was held with the Commissioner of Commercial Taxes (GST) on 22 March 2019 to discuss the Audit scope, methodology and sampling. An Exit Meeting was conducted with the Commissioner of Commercial Taxes (GST) on 3 February 2020. The replies received in the Exit Conference and other points of time have been included in the relevant paragraphs.

2.4.6 Trend of Revenue

The total receipts from taxes subsumed⁷³ and not subsumed⁷⁴ into GST and from GST for the last five years are given in the following **Table 2.3**:

Table 2.3
Trend of Revenue

Year	Receipts from taxes not subsumed into GST and other Receipts under pre-GST regime	Actual Receipts under GST regime	Total receipts	Compensation received	Total Gross receipts	(₹ in crore) Increase in per cent
2014-15	42,091.32	--	42,091.32	--	42,091.32	--
2015-16	44,440.85	--	44,440.85	--	44,440.85	5.58
2016-17	50,504.51	--	50,504.51	--	50,504.51	13.64
2017-18	26,713.69	24,182.18	50,895.87	6,246.00	57,141.87	13.14
2018-19	14,036.79	41,956.03	55,992.82	10,754.00	66,746.82	16.81

⁷² Bengaluru Divisions-1,4 and 5, Belagavi Division, Davanagere Division and Dharwad Division

⁷³ VAT (excluding VAT on Liquor), Central Sales Tax (excluding CST on crude oil), Entry tax, Entertainments Tax, Luxury Tax, Betting Tax, Excise duty on medicinal and toilet preparations.

⁷⁴ Karnataka Sales Tax on Petroleum.

There was an increase of 10.01 *per cent* in taxes collected by the State in 2018-19 (₹ 55,992.82 crore) as compared to 2017-18 (₹ 50,895.87 crore). The total revenue increased by 16.81 *per cent* in 2018-19 as compared to 2017-18.

2.4.7 Preparedness for implementation of GST

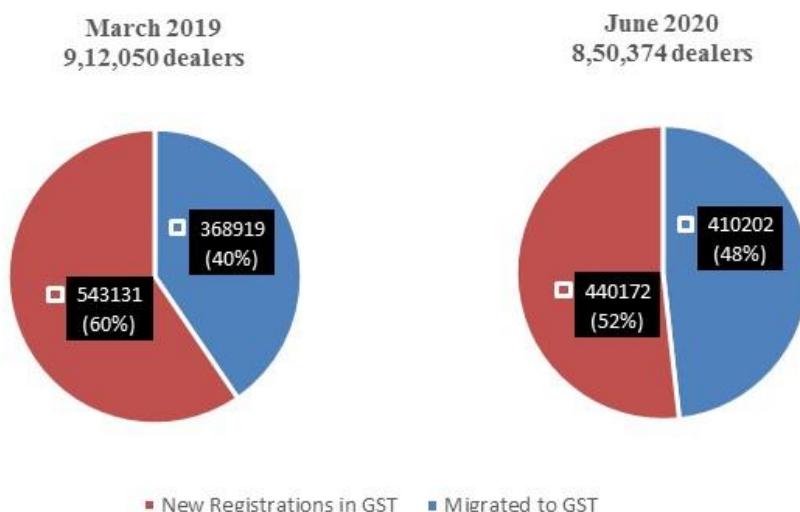
The State Government notified the KGST Act, 2017 and KGST Rules, 2017 on 26 June 2017 and 29 June 2017 respectively. The State was a Model-1 State which, *inter alia*, meant that the dealers would have front-end access to the common GST portal and would initiate their registration, payment of taxes and filing of returns on the GST portal. The State Commercial Taxes Department had developed GSTPro through the National Informatics Centre (NIC) for back-end processes such as approval of registration, monitoring of return filing, payment of taxes, processing of refunds and management information system (MIS) reports.

The Department had conducted 345 trainings/workshops on GST for its Officers and staff between 2015 and September 2019 besides 77 trainings on GSTPro, the backend software utilised by the Department. Further, the Department had also conducted 987 awareness campaigns/workshops/outreach programmes to the business community.

2.4.8 Registration under GST

As per the GST Act, every dealer with a turnover of above ₹ 20 lakh (enhanced to ₹ 40 lakh with effect from 1 April 2019 in respect of dealers dealing with sale of goods only) has to be registered under the GST. The Department had to, during the transition period, deal with migration of existing dealers and approval of new registrations.

The due date of 31 December 2017 for migration was extended by the GST Council and the last date for migration notified was 28 February 2019. The number of dealers under GST as on March 2019 and June 2020⁷⁵ were as follows:



⁷⁵ As per CEDAR-GST-Summary data shared by GSTN, which includes dealers under both erstwhile State and Central Acts

2.4.8.1 Division of dealers between Centre and State Government

As per the GST Council Circular dated 20 September 2017, administrative control of over 90 *per cent* of the dealers with turnover less than ₹ 1.5 crore shall vest with the State tax administration and 10 *per cent* with the Central tax administration. In respect of dealers with turnover of above ₹ 1.5 crore, the administrative control shall be divided in the ratio of 50 *per cent* each for the Central and State tax administration.

Accordingly, the division of tax payers in Karnataka has been notified as shown in **Table 2.4**:

Table 2.4
Division of dealers between Centre and State Government

Order No.	Jurisdiction	Turnover above ₹ 1.5 crore	Turnover below ₹ 1.5 crore	Total
Order No. 1/2017 dated 21/11/2017	Centre	43,115	43,658	5,22,804
	State	43,115	3,92,916	
	Total	86,230	4,36,574	
Order No. 2/2018 dated 11/4/2018	Centre	714	1,760	19,022
	State	714	15,834	
	Total	1,428	17,594	
	Grand Total	87,658	4,54,168	

2.4.8.2 Issues noticed with the migration of existing tax payers

As per Rule 24 of KGST Rules, 2017, every person registered under any existing law of subsumed taxes and having a PAN, shall enroll on the common portal (gst.gov.in), by validating his e-mail address as well as mobile number. Such person shall be granted registration on a provisional basis. Every person who has been granted a provisional registration, shall submit an application along with the information and documents specified in the application on the common portal. A certificate of registration shall be made available to the registered person electronically if the information and the particulars furnished in the application are found to be correct and complete. Such enrolment was supposed to ensure smooth transition to GST. The CTD had, by a Circular dated September 2016, prior to the implementation of GST, instructed all LGSTOs to validate the PAN of the dealers with respect to the database of the Direct Taxes Department.

In order to analyse the effectiveness of the migration process, Audit requested for the registration database, both under KVAT and GST for verifying the extent of migration. The Department replied that there was variation in the number of registered tax payers between the GSTN common portal and the database of CTD of Karnataka and stated that the registration data would be provided after the reconciliation process with GSTN is completed and after the standard operating procedure of sharing the data between the Government of India, the State Governments and the GST Council was finalised.

Constrained by the above, Audit utilised the MIS Report information available in the e-filing system of KVAT to review migration of the dealers mandated under the GST Act. As per these Reports, the progress of migration of the existing registered dealers in the CTD under KVAT is given in the following **Table-2.5**:

Table 2.5
Migration of dealers (*)

	No of active dealers	No. of dealers with valid PAN	No of dealers allotted provisional GSTIN	No. of dealers enrolled	No of dealers migrated	Percentage of dealers enrolled to allotted provisional GSTIN	Percentage of dealers migrated to those enrolled with provisional GSTIN
Whole State	5,81,738	5,74,545	5,66,319	5,15,552	3,65,746	91.04	70.94
Selected six Divisions	2,97,742	2,95,244	2,91,099	2,65,239	1,85,162	91.12	69.81

(*) As per MIS Report generated on 5 August 2019

Source: Summary GSTIN MIS Report available in e-FS (e-Filing System), software used in Karnataka Value Added Tax regime.

The percentage of migration in the State was best in Division 1, Bengaluru with 84 *per cent* and least in Davanagere with 58 *per cent*.

2.4.8.3 Non-enrolment of dealers with provisional registration

As per the table, there were gaps in the number of:

- persons who got provisional registration from those who had valid PAN and;
- persons who got enrolled from those who were granted provisional registration.

After this was pointed out, the CTD stated that the dealers were required to migrate on the common portal of GST. The Department had conducted many outreach programmes targeting stakeholders like dealers, STPs, Chartered Accountants, Trade Bodies etc. The Department stated that despite its best efforts, some dealer might not have migrated due to various reasons such as having business turnover less than the threshold fixed under GST, closure of business or migrating through Service Tax and the percentage of those migrating from those enrolled was not alarming or unusual. The reply furnished by the Department was generic and the Department had not documented case-wise reasons of non-migration to ensure migration of all dealers liable to GST.

2.4.8.4 Non-migration of dealers with valid PAN

The table depicts that only 69.81 *per cent* of dealers who had enrolled got migrated to GST in the selected six Divisions. To verify this gap, Audit analysed the process in the selected six Divisions with respect to the PAN of the dealer and his registration details as available in GSTPro:

- Table No. 2.5 depicts a difference of 80,077 dealers between number of dealers enrolled and number of dealers migrated in the selected six Divisions. However, there were only 22,768 non-migrated cases with turnover above the threshold of ₹ 20 lakh as per the MIS Report of GST Pro. Audit verified this list with the GST registration database as available in GSTPro based on PAN of these dealers and found that out

of 22,768 cases, 20,167 cases were registered in GST. Of these 671 dealers had migrated to GST with same PAN but different GSTIN. Those dealers had taken new registration rather than completing the process through provisional GSTIN. After ignoring the dealers de-registered under KVAT, the balance dealers to migrate totalled to 2,359 cases.

- Apart from the MIS Report in e-FS, Audit also verified the migration of dealers with respect to their turnover for the year 2016-17 under KVAT Act and found that 461 dealers in the test-checked six divisions with turnover of ₹ 20 lakh had not migrated to GST. All these dealers with turnover of ₹ 20 lakh were mandated to be registered under GST during the year 2016-17. CTD needs to verify these cases and bring them to tax net if they are continuing with the business.

Hence, Audit analysis showed that out of the 1.15 lakh dealers with turnover above ₹ 20 lakh in the selected six divisions, 2,820 (2,359 plus 461) had not migrated, which meant 97.54 *per cent* of migration of the dealers with turnover above 20 lakh.

During the Exit Meeting, CTD stated that the 2,359 dealers had migrated. However, audit verification of the details furnished revealed that only 45 of the 2,359 dealers had migrated and the balance cases pointed out in audit had not migrated. Further, the Department examined the cases individually and replied that businesses were closed or had applied for cancellation in 14 cases and sought new registrations in six cases. Specific replies are awaited in remaining 2,294 cases (September 2020).

2.4.8.5 Non-migration of dealers with invalid PAN

As per the statistics available in the e-FS system under the VAT regime, there were 7,193 dealers⁷⁶ across the State with invalid PAN whose turnover was above ₹ 20 lakh. The offices concerned did not furnish details of action taken to ensure that these dealers had subsequently validated their PAN and migrated to GST.

2.4.8.6 Ineligible dealers continued under the Composition scheme

As per Section 10 of the CGST/SGST Act, under the GST regime, dealers engaged in supplies other than that listed in Sl.No.6(b)⁷⁷ of Schedule II are not eligible to opt for Composition Levy⁷⁸. Accordingly, Works Contractors were to be under the regular tax scheme and could not avail the benefit of Composition Scheme of taxation.

⁷⁶ Inclusive of 168 dealers which also appears in Para 2.4.8.4 second bullet.

⁷⁷ Sl.no.6(B) of Schedule II of the CGST Act - supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration.

⁷⁸ The Composition levy scheme is simple, hassle free compliance scheme for small taxpayers. This is a voluntary and optional scheme, which can be utilised by dealers having turnover below ₹ 1.5 crore. A taxpayer registered under composition levy scheme has to pay an amount equal to certain fixed percentage of his annual turnover as tax to the government.

An analysis of the data of 29,870 works contractors under Composition Scheme under the erstwhile KVAT with the current GST registration data in the six Divisions revealed that 273 works contractors under KVAT continued to be under the Composition Scheme in GST also. The classification of works contractors under Composition Scheme was incorrect.

After this was pointed out, the Department stated that the cases would be examined and compliance would be furnished.

2.4.8.7 New registrations under GST

As per the KGST/CGST Act, any dealer desirous of obtaining registration under GST shall apply online furnishing the information mandated. The information was to be verified and approved either by an authorised officer under the CGST Act or the KGST Act. Approval by an Officer under either Act was enough for the dealer to be registered under the other Acts also. The time limit for approval of registration was three days from the date of application. After lapse of the prescribed period of three days, the application for registration would be automatically approved by the system.

After introduction of GST, the trend of new registrations is as shown in the **Table 2.6**:

Table 2.6
New Registrations under GST

Period	Number of dealers	New registrations	Cancellations during the month	Total
July 2017	1,435	5,79,039	7,855	5,72,619
August 2017	5,70,999	33,661	2,351	6,02,309
September 2017	6,02,140	30,139	2,565	6,29,714
October 2017	6,24,792	17,929	7,251	6,35,470
November 2017	6,33,640	18,120	8,965	6,42,795
December 2017	6,46,326	15,389	5,405	6,56,310
January 2018	6,56,700	16,502	4,943	6,68,259
February 2018	6,69,802	14,463	3,281	6,80,984
March 2018	6,79,534	13,234	4,700	6,88,068

Source: MIS Report on New Registration as on August 2019.

As can be seen from the table, the closing balance of each month does not match with the opening balance of the next month. In this connection, the Department stated that the time lag in drawing of data from the GST common portal is leading to such inconsistencies. Data dump regarding registration was not shared and hence Audit could gather information, regarding registration, through MIS Reports only.

GSTPro did not reflect the statistics of auto approved and Officer-verified and approved registrations. Due to this, Audit could not assess the risk of the auto approved cases. However, CTD vide Circular with effect from 1 April 2019, instituted a system of physical verification of dealer premises in respect of new registrations for sensitive and evasive prone commodities like electronic goods, cashew, rubber, arecanut, automobile parts, construction materials like iron and steel, granite, textiles etc.

The Department stated that as per the Department for Promotion of Industry and Internal Trade, Government of India and the World Bank, the registrations are required to be issued within three working days in the interest of ‘ease of doing business’ and the post-registration verification mechanism instituted by Karnataka was the first of its kind in the country and was being used to curb tax evasion. Audit reiterates that generation of a MIS Report on ‘Auto-approved’ registrations would serve as a risk parameter for the post-registration verification mechanism already instituted by the Department as such cases were approved without any verification of the details and hence the uploading of non-genuine details may not be ruled out.

2.4.8.8 Incorrect mapping of dealers to Unit Offices

The CTD had continued the jurisdictional mapping of dealers based on pin codes as already existed in the VAT regime.

Audit verified the pin-codes of the business addresses furnished by the dealers during migration/new registration as available in GSTPro vis-à-vis the pin codes allotted to the respective LGSTOs. Of the total 4,22,305 dealers in 60 LGSTOs in the selected six divisions, Audit found that 21,107 dealers were mapped to wrong jurisdictional Offices between April and August 2019. Even though, the CTD had implemented a ‘Transfer Out’ menu in GSTPro to facilitate transfer of such wrongly mapped dealers, the concerned LGSTOs had not yet finished the process of transferring out wrong dealers.

In reply, the Department stated that 2,339 cases have been reassigned as per the correct pincode, 18 dealers have closed their businesses/applied for cancellation and one dealer has sought new registration. Reply is awaited in the remaining 18,749 cases (September 2020).

Recommendation 1: The CTD needs to complete the process of migration and take action to get all the dealers who are mandated to be registered under GST to optimise the tax base of the State.

Recommendation 2: Auto-approved registrations should be factored in as a risk parameter for the post-registration verification mechanism instituted by the Department as auto approval has the potential to foster the growth of bogus dealers.

2.4.9 Filing of returns under GST

The monthly returns prescribed under GST were as follows:

GSTR-1⁷⁹: Monthly or quarterly return that should be filed by every registered dealer. It contains details of all outward supplies.

GSTR-2: Monthly or quarterly statement which is auto populated from GSTR-1 for inward supplies to a dealer. In case of any inward supplies not being reflected in GSTR-2, the dealer had the option to add such inward supplies which enabled the GSTN portal to flag the issue to the dealer who had made such outward supplies. On acceptance of such outward supplies by the

⁷⁹ Due date- By 10th of the subsequent month.

supplying dealer, the credit of inward supplies would be added to the dealer. Filing of GSTR-2 has been suspended right from inception of GST.

GSTR-3: Monthly return with the summarized details of outward supplies and inward supplies of a dealer during the month along with the amount of GST liability.

GSTR-4⁸⁰: Return to be filed by taxpayers who have opted for Composition Scheme.

GSTR-2 could not be implemented due to issues with the implementation of the Information Technology infrastructure and consequently, GSTR-2A and 3B⁸¹ were introduced from the month of July 2017 itself. GSTR-2A was a read-only statement of all inward supplies auto populated from GSTR-1 but did not facilitate the dealer to add any missing inward supplies. GSTR-3B was a summarised return of outward and inward supplies to be filled in by the dealer based on his books of accounts and was not auto validated from GSTR-1 and GSTR-2A as envisaged.

The dealers under the regular tax scheme were required to file GSTR-1 and GSTR- 3B and composition dealers were to file GSTR-4 quarterly. The due dates of the filing of returns for the period April 2017 to March 2018 have been repeatedly extended with the latest being 31 March 2019 for newly migrated dealers. The status of filing of returns for the period 1 July 2017 to 31 March 2018 as per Analytic Report on Non-filers for GSTR-3B and MIS Report on Return Filing for GSTR-4 is as follows:

2.4.9.1 Filing pattern of GSTR-1, 3B and 4

The following tables illustrate the filing pattern of GSTR-1, 3B and 4 forms.

Table 2.7
Filing pattern of GSTR-1 and 3B

Tax period	GSTR-1				GSTR-3B			
	No. of eligible dealers for filing	No of returns filed as on 17 June 2020	No. of returns filed as of 15 February 2020 as furnished by CTD	Per centage of filing	No. of eligible dealers for filing	No of returns filed as on 17 June 2020	No. of returns filed as of 15 February 2020 as furnished by CTD	Per percentage of filing
July 2017	503407	418268	455207	83.09	503407	487177	498407	96.78
August 2017	312358	27118	273243	86.80	530355	507861	517429	95.76
September 2017	553919	451885	487707	81.58	553919	527118	535901	95.16
October 2017	318679	277788	280489	87.17	537199	507403	512258	94.45
November 2017	324721	282166	285716	86.89	549345	512845	515964	93.36
December 2017	556414	457718	492520	82.26	556414	518022	520284	93.10
January 2018	333690	286914	289461	85.98	568190	526195	528322	92.61
February 2018	339216	289820	292262	85.44	579378	534212	536258	92.20
March 2018	590015	478202	511642	81.05	590015	541567	543882	91.79

Source: GST common portal (gst.gov.in).

⁸⁰ Due date- By 20th of the subsequent month.

⁸¹ Due date- By 20th of the subsequent month.

Table 2.8
Filing pattern of GSTR-4

Tax period	GSTR-4		
	No. of returns due for filing	No of returns filed as of 31 July 2019	Percentage of filing
July 2017 to September 2017	96,172	59,579	62
October 2017 to December 2017	1,01,164	96,354	95
January 2017 to March 2018	1,02,796	99,593	97

Source: MIS Report on return filings of R4 tax payer in GSTPro.

From the above two tables, the compliance on filing of GSTR-1 and GSTR-3B was upto *87 per cent* and *97 per cent* respectively, which was commendable. The CTD had been vigorously pursuing non-filers by issue of notices, provisional assessment and even bank attachment for recovery in a few cases. Audit could not verify the actual progress of filing of returns pursuant to efforts of the CTD as data of returns along with due date of filing, date of issue of notice and date of filing was not available in GSTPro.

Notwithstanding this, it should be noted that the filing of returns furnished by the CTD (column 4 of Table 2.7) varied from the figures in the GST common portal (column 3 of Table 2.7) and it was even higher than the figures in the GST common portal. Returns get filed in the GST common portal and the State portals only draw figures from the GST common portal through Application Programming Interface (APIs)⁸². Hence, the State portal depicting figures higher than the portal where it gets filed originally was unrealistic. This needs to be reconciled by the Department as the actual non-filers will only be known after the reconciliation.

After this was pointed out, on the issue of non- implementation of GSTR-2, the Department stated that the percentage of filing of GSTR-1 and 3B in Karnataka was better than the all-India average. Further the Department explained that the whole gamut of returns were under a major review and the extensive testing of filing new format of returns, namely, Sahaj and Sugam⁸³ prescribed by GSTN was done by Karnataka which includes the uploading of outward supplies in Annexure I and downloading of inward supplies in Annexure II.

2.4.9.2 Failure to achieve invoice matching to validate the input tax claim

One of the established targets of GST was the system verified seamless flow of Input Tax Credit (ITC), which was envisaged to be achieved through the returns under GST. Purchase and sale invoices uploaded in the network were supposed to automatically match each other for dealers to claim Input tax credit.

The State had a well-established computerised system in place for administration of KVAT. One of the striking features of the system was e-UPaSS which enabled invoice matching. e-UPaSS compared purchases and sales invoices uploaded by the purchasing dealers and selling dealers and flagged mismatches between sale invoices and purchase invoices uploaded. These mismatches had to be further verified with other related records to establish the validity of input tax claims. Hence, the State had developed the capability to prove the validity of input tax claims.

⁸² Application Programming Interface (API) is a software intermediary that allows two applications to talk to each other.

⁸³ SAHAJ & SUGAM are quarterly returns for taxpayers with a turnover below ₹ five crore.

Audit observed that post GST implementation, the GSTPro, at present, does not provide for invoice matching owing to the functionality yet to be implemented on the GST common portal. Thus due to introduction of GST, the State Tax Administration had to forgo the capability of validating input tax claims through the system.

During the Exit Meeting, the CTD stated that though MIS Reports were being generated under e-UPaSS regarding mismatch between sale and purchase invoices, no action had been initiated under KVAT for disallowance of input tax credit due to lack of provisions in the KVAT Act. It was elaborated by the Department that notices could not be straight away served from the list of mismatches as the differences could be due to other reasons like non-uploading of invoices by one of the dealers involved in the transaction. Further, the Department did not have provisions to deny input tax credit to a purchaser on the grounds of the output tax being not paid by the seller from which the goods were purchased. The Department also stated that pursuant to GSTN Council introducing simplified returns Sahaj and Sugam, the CTD had launched offline tool for the business community to familiarise themselves.

Audit appreciates the fact that simple generation of mismatches by e-UPaSS was not a sufficient ground to act straight away and there were no provisions under the KVAT Act to deny input tax to a purchaser with a valid invoice. However, the Department could not deny the fact that the data of mismatches could be utilised for analysis to find out defaulters in the system. Hence, it could have served as a tool to assess the risk of input tax credit being allowed without the output tax getting declared. Such kind of risk analysis would have helped the Department in the selection of cases for detailed Audit.

2.4.9.3 Suo-motu cancellation of GST registration for non-filing of returns

Section 29(2) of the KGST Act empowers the competent Officer to cancel the registration under GST if the registered person has failed to furnish returns for a continuous period of six months in case of regular tax payers and for a period of three consecutive tax periods in case of dealers under Composition Scheme.

During audit, it was noticed that the CTD had taken pro-active action to cancel registration in respect of dealers who had not filed 3B returns. Registration in respect of 21,878 dealers was cancelled under the provisions *ibid* in the selected six Divisions. Of these, test-check of VAT turnover declared by the dealers during 2016-17 in respect of 4,401 dealers revealed that 870 (*4 per cent* of test-checked cases) had turnover more than ₹ 40 lakh in the year 2016-17 under the KVAT regime. Such cancellations without ensuring the actual status of the dealer may result in active dealers running businesses without valid registration. Hence, CTD needs to institute a mechanism of inspections based on risk analysis to ensure that cancellation of registration of active dealers does not lead to erosion of tax base for the Department.

After this was pointed out, the Department stated that in respect of dealers who had not filed returns for a period of six months, the authorised office had tried to contact the dealer before cancellation of the registration. Further, mere cancellation of registration would not absolve the dealer of any tax liability arising out of future assessments/audit proceedings. The Department also

replied that the cases pointed out in audit would be reviewed and action, if any, required would be initiated. After review, the department replied that in four cases the dealers were still active and the businesses were closed in three cases. The existence of dealers being active even after cancellation of registration validates the audit observation. Replies awaited in the remaining cases (September 2020).

2.4.10 Transitional Credit under the SGST Act

Transitional credit mainly relates to input tax credit of the old regime (service tax, value-added tax or VAT, etc.) that businesses could claim in the GST regime. All registered taxpayers were eligible to claim transitional credit before 27 December 2017 by filing the TRAN-1 return form. The filing of TRAN-1 was extended to 31 March 2020 in respect of dealers who had attempted but could not file the TRAN-1 due to technical glitches. However, Audit verified transitional credit from TRAN-1 returns database furnished by the Department as on March 2019 only. Both the CGST and the KGST Acts enabled a dealer to carry forward the following as transitional credit under CGST and SGST Acts with specific conditions for availing transitional credit.

- Unutilised credit available in the return filed for June 2017 under the erstwhile Central/State Acts.
- Taxes paid on stock for which input tax credit was not already taken under the erstwhile Laws;
- Tax on exempted goods or services under the erstwhile Acts but taxable under the GST regime and;
- Tax paid under the erstwhile Acts on goods received after 1 July 2017, etc.

2.4.10.1 Absence of an Action Plan for verification of transitional credit and ineffective risk assessment

Audit noticed that the CTD had not formulated any Action Plan for verification of transitional credit as it did not assign importance to the verification of the same. During the Entry Meeting, the CTD stated that the sum total of the amount shown as credit carried forward in June 2017 return under the KVAT Act and the amount of SGST transitional credit claimed by the dealers had not revealed any major difference and hence verification of the transitional credit was not assigned priority. As the control totals of credit available on June 2017 return and the claim of transitional credit under SGST did not differ much, the CTD did not give importance to individual one to one mapping under transitional credit.

In order to verify the ‘no risk’ assessment for transitional credit as stated above by the CTD, Audit analysed the carry forward credit available in the returns of the individual dealers vis-à-vis the transitional credit carried forward by them into GST (as per dealer-wise GST transitional credit data furnished by the CTD to Audit) and found that 59.21 *per cent* of the dealers who had carry forward credit in their KVAT returns had actually not carried forward the transitional credit into GST. Details are given in **Table 2.9**:

Table 2.9
Credit Carry forward Vs SGST Transitional Credit

	(₹ in crore)			
	Carry forward credit available as per June 2017 return		SGST transitional credit carried forward by the dealers as on December 2017	
	Number of dealers	Amount	Number of dealers	Amount
State	1,26,728	2,013.53	51,684	1,950.46
Selected Six Divisions	66,880	1,346.66	28,697	1,635.83

Source: Carry forward credit available in June 2017 return generated through eFS.

Data on SGST transitional credit furnished by the Department.

Data analysis revealed that 75,044 dealers across the State who had excess credit of ₹ 787.56 crore in their June 2017 VAT returns had not claimed the same as transitional credit. It was just incidental that the amount of claim of transitional credit matched with the total carry forward credit available in June 2017 return due to the fact that the dealers who did not stake claim of their eligible transitional credit almost matched with the incorrect claims made by some other dealers. Audit verification on an individual basis revealed cases where dealers with refund claims claimed them as transitional credit, or incorrect credit taken which are discussed in the subsequent paragraphs. Hence the perception of risk based on overall matching was not in order.

Illustration to establish the error in risk assessment made by CTD

A dealer in LGSTO 25, Division 4, Bengaluru had a transitional credit claim of ₹ 747.74 crore whereas the carry forward credit available in June 2017 return filed by him under KVAT was only ₹ 7.47 crore. This single dealer had almost one-third of the total transitional credit claim under SGST which was incorrect and went undetected by CTD in its risk assessment. This clearly establishes the need to map the claims on an individual basis and the impropriety in depending on just the control totals.

Recommendation 3: CTD should consider taking up Audits for the year 2017-18 on priority basis as the transitional credit claims for the year gets time barred during 2020-21, i.e., after three years under the GST Act for assessments.

After this was pointed out, the Department stated that the dealer had, in February 2018, intimated the Department that due to a technical error, the transitional credit posted in the credit ledger was ₹ 747.74 crore and that the mistake had been rectified by GSTN. However, audit verification of the credit ledger revealed no correction and the balance of the ₹ 747.74 crore continued to be exhibited in the electronic credit ledger as on 30 March 2020.

2.4.10.2 Excess claim and ineligible claim of Transitional credit

As per Section 140(1), a registered person, other than a person opting to pay tax under section 10, shall be entitled to take as transitional credit, the amount of credit carried forward in the return relating to the tax quarter or month period ending June 2017, furnished by him under the existing law in such manner as may be prescribed.

Further, as per the provisos under 140(1), the dealer becomes not eligible for transitional credit:

- i. if the dealer has not furnished all the returns required under the existing law for the period of six months immediately preceding the appointed date for GST, that is, 1 July 2017.
- ii. If the dealer keeping in abeyance tax credit needed to discharge liability for non-filing of statutory forms under the Central Tax Act which was to be refunded on filing of the statutory forms like C, F and H.

Audit verification of SGST transitional credit in 25,687 cases (who had claimed input tax credit from June 2017 return), in the selected six Divisions revealed excess credit of ₹ 40.74 crore by 480 dealers and ineligible credit of ₹ 47.04 crore by 490 dealers as given below:

- 80 dealers with transitional credit of ₹ 15.36 crore had not filed returns for all the tax periods between 1 January 2017 to 30 June 2017. Hence, their SGST transitional credit was ineligible.
- 11 dealers who had claimed the SGST transitional credit were de-registered by the CTD under the KVAT Act with effect from 1 January 2012 to 1 June 2017 and had not filed any returns from the date of de-registration/prior to de-registration. Such dealers had taken transitional credit of ₹ 12.20 lakh based on credit available in the last return filed by them for the period between December 2011 and February 2017.
- 438 dealers had claimed SGST transitional credit of ₹ 54.52 crore as against ₹ 27.68 crore carry forward credit available in their June 2017 KVAT returns. This had resulted in excess claim of ₹ 26.84 crore.
- 381 dealers had taken transitional credit of ₹ 31.13 crore even though the same was shown under refund claim in their June 2017 returns. This involves a risk of double benefit to the dealer, if he applies for refund in the erstwhile KVAT Act.
- 42 dealers had shown non-filing of statutory forms such as 'C', 'F' and 'H' in the Tran 1 form filed. However as required under the Act, the dealers had not reduced the transitional credit by tax amount needed to discharge the liability in case of non-filing of statutory forms. The transitional credit taken in contravention of the said provision amounted to ₹ 13.90 crore. The CTD needs to verify all cases of transitional credit claims vis-à-vis pendency in filing of statutory forms and consequent excess transitional credit taken.
- Under the erstwhile KVAT Act, input tax credit was admissible only on purchases from registered dealers within the State and no input tax was admissible on inter-State purchases. However, 18 dealers had claimed transitional credit of ₹ 43.47 lakh on stock related to purchases from outside the state. Such claims of incorrect and excess claims of transitional credit needs to be verified and collected by CTD. The issues noticed indicated the need for a system to verify the claims made by the dealers. However, CTD failed to devise any checks due to the incorrect risk assessment discussed in Paragraph 2.4.10.1.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification. After examining the cases individually, the Department replied that an amount of ₹ 0.92 lakh was paid in five cases and

in another five cases, the transitional credit was reversed in the credit ledger. In 13 cases, the reply stated that the dealers had not initiated refund process and hence has not resulted in any loss of revenue. Audit points out that though the dealers had not initiated refund process, the Department has to rule out the chances of future claims also. Hence, it would be appropriate to pass orders in all such cases to restrict refund wherever transitional credits have been availed. Replies are awaited in the remaining cases (September 2020).

2.4.10.3 Incorrect claims of transitional credit

As per Section 140. (1) of the CGST/KGST Act, a registered person, other than a person opting to pay tax under section 10 (Composition scheme), was entitled to carry forward the credit available in the return for the quarter or month ending June 2017, furnished by him. However, there were various factors such as reduction of credit due to filing of Form VAT 240/reassessment orders, ineligible credit due to mismatches in e-UPaSS/non-filing of TDS etc. which varied the credit available at the end of June 2017.

Audit verified 611 cases and found that there were 141 instances in which the credit related to June 2017 was reduced due to various reasons. However, such variations in credit available were not noticed by the CTD and hence did not make corresponding reductions in the credit available in June 2017. This resulted in incorrect claims of transitional credit by the dealers. Such instances and the effect of the same on the transition credit claimed are discussed below:

(a) Reduction of credit due to filing of Form VAT 240:

According to section 31(4) of KVAT Act, dealers with turnover above one crore have to file Form VAT 240 after getting their books of Accounts audited by a Chartered Accountant. Audit noticed in 26 cases that the credit available at the end of June 2017 was reduced by ₹ 22.58 crore and consequently the transitional credit also has to be reduced to that extent, which was neither done by the dealers and nor has the Department taken any action to recover the same.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

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

Re-assessments orders under section 39 of the KVAT Act are passed after detailed scrutiny of the books of accounts by the Departmental Officers where the output tax and input tax may be subjected to variations due to detection of short/excess declaration of sales/purchase turnovers, non-compliances with the rules and regulations etc. In 15 cases, Audit noticed that the carry forward of tax period of June 2017 or a period prior to June 2017 which eventually impacted the carry forward credit available as of June 2017 was reduced by ₹ 19.56 crore in the Assessment orders (passed between November 2014 and September 2019) after the detailed scrutiny of the books of Accounts. Though these variations affected the carry forward credit available as of June 2017 and consequently the transitional claims, the Department did not take any action to reverse the additional claims made by the assessees.

In one case, the carry forward credit for the month of June 2017 was reduced to ₹ 2.94 crore from ₹ 7.47 crore after the Re-assessment order. Even the ₹ 2.94 crore was not eligible to be carried over as transition credit since the same was adjusted against the additional demand of tax created as per the Reassessment orders. However, Audit found that the dealer had claimed ₹ 747.74 crore under transitional credit, which resulted in incorrect claim of transitional credit of ₹ 747.74 crore.

After this was pointed out, the Department stated that in the case relating to incorrect credit of ₹ 747.74 crore, the dealer was neither given refund under KVAT Act nor allowed to adjust the credit under GST. Audit verification revealed that the incorrect credit of ₹ 747.74 crore was not rectified even as on 30 March 2020 and was still available to the dealer in the credit ledger. Besides, the dealer had utilised ₹ 24.49 lakh of this incorrect transitional credit against the GST liability of ₹ 27.26 lakh in his returns for the months of July 2017, August 2017 and September 2017 and had not filed any returns thereafter. Further, in respect of other cases pointed out, the Department also stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

(c) Reduction in credit due to ineligible ITC on verification from e-UPaSS
e-UPaSS was software developed by CTD for uploading the purchase and sale invoices which served as a tool to match the input tax credit claimed by a dealer with the corresponding output tax. On verification of purchase details for ITC during April 16 to June 2017 under e-UPaSS, Audit found that in 21 cases, the selling dealers had not paid output tax of ₹ 12.42 crore which in turn made the corresponding input tax of ₹ 12.42 crore ineligible. However, this was not detected by the Department and hence no action was initiated to reverse such claims which were carried forward as transitional claims from June 2017 return.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

(d) Reduction in credit due to non-filing of TDS (Tax Deducted at Source) certificates etc.

Section 9-A provides for Tax Deduction at Source (TDS) and the person effecting TDS is required to remit the amount of tax to Government and issue a TDS Certificate in Form 156 to the person from whose payment TDS has been deducted. The TDS certificate enable the person to claim TDS credit against the tax payable while filing his return under KVAT. If a dealer claims TDS credit in his KVAT return against tax payable but does not produce the TDS certificate, the realisation of revenue to the Government cannot be assured. Further, it also affects the carry forward credit in cases where TDS claim is more than his tax liability. Audit noticed that in 56 cases, the TDS Certificate was not filed for the TDS credit claimed in the returns for the months between April 2016 to June 2017. Disallowance of such TDS credit for non-filing of TDS Certificate will result in non-availability of the carry forward of ₹ 25.43 crore shown in their returns after adjustment of TDS credit. The same carry forward was taken as transitional credit under GST. However, this was not detected and rectified by the Department which resulted in incorrect carry forward of ₹ 25.43 crore as transitional credit.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

(e) Reduction in excess credit due to miscellaneous reasons

In respect of 22 dealers with transitional credit of ₹ 27.88 crore, there were various factors impacting the credibility of the excess carry forward taken as transitional credit such as claims of input tax with nil or exempted turnover, adjustment of the excess credit to Central Sales Tax, difference between value of stock as per Profit and Loss Account and stock on which transitional credit was taken. In the absence of detailed information and books of accounts, Audit could not verify the correctness of these transitional credit. The same needs to be examined in detail by the Department. After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

2.4.10.4 Inadmissible transitional credit

The eligibility of an input tax credit as transitional credit was that it should qualify for input tax credit both under the erstwhile Acts and under the GST Act. The KVAT Act prescribed a time limit of six months for claiming input tax credit and the same was reiterated by the CCT vide a Circular stating that no input tax credit is admissible if not claimed within six months.

Further, the provisions relating to claim of transitional credit on capital goods and goods in transit are as below:

- As per Section 140 (2) of the GST Act, a registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, credit of the unavailed input tax credit in respect of capital goods, not carried forward in a return, furnished under the existing law by him, for the period ending with the day immediately preceding the appointed day in such manner as may be prescribed: Provided that the registered person shall not be allowed to take credit unless the said credit was admissible as input tax credit under the existing law and is also admissible as input tax credit under this Act.
- Section 140(5) of the GST Act provided that a registered person shall be entitled to take, in his electronic credit ledger, credit of value added tax, if any, in respect of inputs received on or after the appointed day but the tax in respect of which has been paid by the supplier under the existing law, subject to the condition that the invoice or any other tax paying document of the same was recorded in the books of account of such person within a period of 30 days from the appointed day. Form TRAN 1 mandated the dealer to give invoice details of such credits and date of accounting the same in the books of the dealer.

Audit analysed the invoices based on which transitional credit was claimed and found that some invoices were more than six months old. The dealers concerned filed original returns under KVAT and had already claimed input tax and since the time period of six months for filing of revised returns under KVAT was already over, they were not eligible to file revised returns and claim input tax credit. In such a scenario, the input tax credit in the invoices which were more

than six months old had become ineligible for claim of input tax credit under the KVAT Act. Consequently, the transitional credit claims also were ineligible. Details are given in the following paragraphs:

a) On Capital Goods

Scrutiny of the TRAN-1 details revealed that 1,404 dealers across the State had availed transitional credit of ₹ 107.59 crore on capital goods based on 22,167 invoices uploaded by them. Audit analysis of the invoices uploaded by the dealers in the six divisions selected for audit revealed that 34 dealers had claimed transitional credit based on 546 invoices which were more than six months old as on 1 July 2017, i.e. invoices issued earlier to 1 January 2017. Since the credit involved in the invoices, which were more than six months old, was inadmissible under the KVAT Act, the same was also inadmissible under the GST Act. The inadmissible credit amounted to ₹ 1.17 crore.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

b) On goods in transit on the date of implementation of GST

Audit analysis of details furnished by the dealers on goods in transit at the date of implementation of GST in the six divisions selected for audit revealed that 432 invoices in respect of 23 dealers were more than six months old, i.e. issued before 1 January 2017 and hence had become ineligible for claim of input tax credit under the KVAT Act. The inadmissible transitional credit claimed on such invoices amounted to ₹ 39.53 lakh.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

2.4.10.5 Transitional credit claims by dealers under Composition Scheme

As per Section 140(6), a registered person, who was either paying tax at a fixed rate or paying a fixed amount in lieu of the tax payable under the existing law (Composition Scheme) shall be entitled to take, in his electronic credit ledger, credit of value added tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day subject to the conditions, namely, such inputs or goods are used or intended to be used for making taxable supplies under GST Act and the said registered person is in possession of invoice or other prescribed documents evidencing payment of tax under the existing law in respect of inputs issued not earlier than 12 months immediately preceding the appointed day.

Audit verification of the transitional credit claims revealed that 234 dealers who had obtained 'New' registration and 800 dealers who were under 'Composition Scheme' under GST had brought forward carry forward credit from June 2017 return. Details are as in **Table 2.10**:

Table 2.10
Claim of transitional credit by new and composition dealers

		₹ in crore)	
	No of dealers	SGST transitional credit	CGST transitional credit
Dealers with New registration	234	14.57	118.87
Dealers under Composition Scheme	800	3.76	0.04

Dealers under ‘New’ registration in GST should not have any credit to carry forward from the erstwhile tax regime and the composition dealers were not eligible for input tax credit under KVAT and hence the use of transitional credit by these new/composition dealers was ineligible.

After this was pointed out, the Department stated that though the Composition Dealers had claimed transitional credit by filing TRAN-1 and was reflected in their credit ledger, the Composition Dealers could not utilise the credit for payment of taxes and that such amounts would not be refunded to them as directed vide Circular dated 2 December 2019. The reply is not tenable as the Department needs to foresee the risk that in the event that any of the composition dealers pointed out in Audit switch to the regular scheme of tax in the future, they would automatically become eligible to utilise the amount available in their credit ledger. No reply was furnished in respect of carry forward of credit by dealers who were registered as ‘New’.

2.4.10.6 Credit availed in terms of Section 142(11)

As per Section 142(11) (c), where tax was paid on any supply, both under the Karnataka Value Added Tax Act, 2003 (Karnataka Act 32 of 2004) and under Chapter V of the Finance Act, 1994 (Central Act 32 of 1994), tax shall be leviable under the GST Act and the taxable person shall be entitled to take credit of value added tax or service tax paid under the existing law to the extent of supplies made after the appointed day and such credit shall be calculated in such manner as may be prescribed.

Table 13 of the form TRAN-1 mandated the dealers to furnish details such as KVAT registration number, Service Tax registration number, invoice number and date and amount of tax paid which is taken as transitional credit under GST. Audit verification of the details furnished for credit under this provision revealed that in respect of four dealers, the dealers had either not declared any output tax or declared lesser output tax in the relevant tax periods under KVAT Act. Hence, the transitional credit of ₹ 4.13 crore in respect of four dealers was incorrect.

Illustration:

A dealer has claimed transitional credit of ₹ 29.44 lakh in terms of Section 142(11) in the Tran 1 form giving details of invoice dated 20 June 2017. If the invoice was issued for the said turnover in June 2017 to a prospective purchaser, the turnover for June 2017 return filed under KVAT should reflect that amount in the turnover and the corresponding liability of output tax (₹ 29.44 lakh in this case) should also be reflected in the KVAT return filed. However, Audit verification of June 2017 return filed under KVAT did not reveal either declaration of that turnover nor liability of output tax. The turnover declared in the KVAT return filed for June 2017 included turnover of Nil and output tax liability of Nil. Hence, the claim of transitional credit was wrong and needs to be verified.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

2.4.11 Transitional Credit under CGST Act

The CGST Act provided for a registered dealer to take transitional credit under the erstwhile Central Acts (Central Excise/Service). The returns and all other information of the pre GST period relating to dealers under the erstwhile Central Acts and now under the State Administration were with the Central Tax Authorities. Since CTD had no historical information of these dealers with them, Audit requested the dealers to make available their Central Excise/Service Tax returns based on which CGST transitional credit was taken. Of the 500 dealers who were requested to furnish their erstwhile Tax returns, 141 dealers furnished the information and the audit findings are discussed in the following paragraphs 2.4.11.1 and 2.4.11.2.

2.4.11.1 Incorrect/Excess claim of CGST transitional credit

Audit verified the CGST transitional credit availed by the various dealers in the six Divisions based on the data in Tran-1 form as available in GSTPro and also returns furnished by the dealers and found discrepancies in availing CGST transitional credit. Excess CGST transitional credit of ₹ 59.96 crore availed by 113 dealers is detailed in following **Table 2.11**:

Table 2.11
Incorrect/Excess claim of CGST transitional credit

Sl. No.	Transitional Provision in CGST Act	Audit Observation	No of dealers with discrepancy	Amount of incorrect/excess CGST credit (₹ in crore)
1	As per Section 140(1) of the CGST Act, a registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, the amount of CENVAT credit carried forward in the return relating to the period ending with the day immediately preceding the appointed day, furnished by him under the existing law in such manner as may be prescribed	Audit analysis of the Table 1 (of TRAN-1 in GSTPro) relating to such credit claimed in form TRAN-1 filed by 29 dealers revealed that they had claimed CGST transitional credit more than the closing balance in the Central Excise/Service tax return of June 2017. The excess credit claimed by these 29 dealers amounted to ₹ 4.81 crore. Further, it was also noticed that 50 dealers had claimed the closing balance available in returns other than June 2017 also along with closing credit balance in June 2017 return as transitional credit. The incorrect CGST transitional credit by these 50 dealers amounted to ₹ 8.76 crore.	79	13.57
		Audit verification of the returns furnished by the dealers also revealed excess credit of ₹ 22.52 crore availed by 28 dealers as compared to the credit actually available in their June 2017 return.	28	22.52

2	As per Section 140(2) of the CGST Act, a registered person, who was not liable to be registered under the existing law, or who was engaged in the manufacture of exempted goods or provision of exempted services, or who was providing works contract service and was availing of the benefit of notification No. 26/2012—Service Tax, dated the 20th June 2012 or a first stage dealer or a second stage dealer or a registered importer or a depot of a manufacturer, shall be entitled to take, in his electronic credit ledger, credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day	Audit verified the valuation of closing stock as per Form VAT 240 furnished under the KVAT Act vis-à-vis the value of stock on which transitional credit was claimed and found difference in stock value. CGST credit of ₹ 18.54 crore was claimed on a stock value of ₹ 176.39 crore while the closing stock value as furnished in Form VAT 240 under KVAT Act was only ₹ 90.07 crore. The huge difference of ₹ 86.32 crore needs verification.	5	9.07 ⁸⁴
3	As per Section 140(3) of the CGST Act, a registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, credit of the un-availed CENVAT credit in respect of capital goods, not carried forward in a return, furnished under the existing law by him, for the period ending with the day immediately preceding the appointed day	As per Rule 4 of Cenvat Credit Rules, 2004, conditions for allowing CENVAT credit, (2) (a) The CENVAT credit in respect of capital goods received in a factory or in the premises of the provider of output service at any point of time in a given financial year shall be taken only for an amount not exceeding fifty <i>per cent</i> of the duty paid on such capital goods in the same financial year. Audit observed that a dealer had claimed the entire amount of CENVAT credit on the capital goods in the transitional credit itself with no prior claim under the Central Act. Non-claiming of 50 <i>per cent</i> of the CENVAT on capital goods in any one financial year earlier and taking entire credit in transitional credit is inadmissible.	1	5.33
Total			113	59.96

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

⁸⁴ Calculated proportionate to the Closing Stock value as per P&L Account filed with Form VAT 240

2.4.11.2 Incorrect inclusion of Cesses paid under the erstwhile Central Acts in the CGST transitional credit amount

As per Section 140(1) of the CGST Act, the eligible duties and taxes paid under the erstwhile Central Acts were eligible for transitional credit and the Cesses such as Education Cess, Secondary and Higher Education Cess and Krishi Kalyan Cess did not qualify for transitional credit under GST.

Audit verification of the CGST transitional credit with the returns furnished by the dealers revealed that 56 dealers had included ₹ 61.84 crore of cesses paid under the erstwhile Central Acts in their transitional credit which was incorrect⁸⁵.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification. After examining the cases individually, the Department replied in one case that the credit claimed did not involve cesses but CENVAT and Service Tax only, however, no documentary evidence was produced in this respect. Replies awaited in all the remaining cases (September 2020).

2.4.12 Transitional provisions relating to job-work

To facilitate the completion of transactions relating to job-work initiated before the implementation of GST, i.e., 1st July 2017, the transitional provisions provided for the job-work transactions to be completed within a period of six months from the date of implementation of GST. The provisions state that inputs as such or partially processed inputs which are sent to a job worker by the Principal prior to introduction of GST under the provisions of existing laws and if such goods are returned within six months from the appointed day i.e. 1 July 2017, no tax would be payable. If such goods are not returned within the prescribed time, the input tax credit availed on such goods will be liable to be recovered. This non-levy of tax under the GST regime is applicable only if both the principal and the job-worker have declared the pending job work transactions in the TRAN-1 form. Further, if such inputs/semi-finished are not returned within the six-month period specified, the input tax credit shall be liable to be recovered.

Audit observed that the CTD had not instituted a mechanism of verification for the return of the goods back within the specified six months. Audit analysis of the job-work details uploaded by 110 dealers in the six Divisions revealed that out of a total of 528 job-workers, 147 were either outside the State job-workers or unregistered job-workers. CTD needs to verify the declaration of holding job-work from these dealers by outside the State job-workers in their TRAN-1 and also the receipt of the job-work goods within the stipulated six-month period. The balance 382 job-workers were in the State and 335 job-workers had not uploaded corresponding details of job-work material held by them on behalf of the principal. Hence, the principals were not eligible for transitional provisions relating to job-work and had to declare the goods with job-workers under GST as supply as well as reverse the input tax credit claimed under KVAT in respect of materials stated to be with job-workers. Input tax credit ranging

⁸⁵ The matter is under litigation in the Hon'ble High Court of Karnataka; HP India Sales Private Limited Vs Union of India and Others.

from ₹ 13.61 crore (at the minimum of 5.5. *per cent* under KVAT) to ₹ 35.91 crore (at the maximum of 14.5 *per cent* under KVAT) was liable to be reversed. CTD needs to verify all the cases further to ensure the provisions are complied with correctly.

After this was pointed out, the Department stated that the cases had been referred to the concerned Divisional Offices for verification and that compliance would be submitted after verification.

2.4.13 Legacy Issues relating to pre-GST regime: Assessments, and Refunds

In order to move forward into the GST regime, it is necessary for the CTD to complete all the assessments, follow up of arrears etc., early to facilitate the administration to concentrate on the GST compliance. During the Entry Conference, Audit sought from CTD the details of the Action Plan envisaged in this regard. Though no specific documented Action Plan was made available, it was intimated in the Entry Conference that all efforts would be made to finalise pending re-assessments under KVAT. In this regard, the following observations are made.

2.4.13.1 Refunds

Under the erstwhile KVAT Act, when output tax was less than the input tax credit, the dealer could either claim a refund of the excess input tax credit available in the relevant tax period or carry forward the credit to the next tax period. On claim of refund in the VAT return filed, the dealer was also required to manually file an application for refund along with purchase details. The CTD processed the refunds after due verification of the details submitted by the dealers.

It was observed that the MIS Report of the CTD only compiled details of applications received for refund and processed. However, there are other claims of refund as per returns in which cases, applications for refund are not filed. The Department did not have a database of refund claims as per returns vis-a-vis applications received and processed. The total refund claims, as per returns filed for the period April 2015 to June 2017 for the State were ₹ 2,536.66 crore. The CTD needs to compile the pending refund claims in returns since the verification of details would become cumbersome with lapse of time especially if the refund claim relates to a tax period more than five years old as the dealer would no longer be required even under the KVAT Act to preserve records.

Recommendation 4: The Department may consider sensitising the dealers to apply for refunds as the shortfall in revenue, if any, due to allowing refunds would be compensated by the Central Government during the transitional period of five years.

2.4.13.2 Assessments under KVAT

The CTD had implemented risk analysis for selection of dealers and assignment of Audit under the KVAT. The organisation set-up of the CTD had not changed since implementation of the GST. The Audit Offices are primarily entrusted

with re-assessments. The CTD needed an Action Plan to; (i) identify risky dealers for re-assessment under KVAT; (ii) complete pending assessments; and (iii) prepare and execute, Audit under GST. However, the CTD had not finalised any Action Plan.

As of March 2019, 2,04,772 assessment proceedings (KVAT – 47,784, CST - 1,34,969 and KTEG -22,019) were pending finalisation and ₹ 332.71 crore demand pending realisation.

As mentioned in the observations on Transitional Credit, test-check of cases revealed wrong input tax credit under KVAT to the tune of ₹ 877 crore in 137 cases which indicates huge risk of wrong claims of input tax, non-filing of statutory forms, TDS certificates, non-declaration of output tax etc., which can only be addressed through re-assessment under KVAT. Unless a plan is made based on the relevant risk parameters for reassessment, wrong claims of input tax credit may go unnoticed.

The CTD needs to identify all reassessments required based on risk parameters and finalise a time line to complete the same so that going further, the Audit Offices can concentrate on GST compliance.

After this was pointed out, the Department stated that assessments under pre-GST regime were being finalised on priority basis and assessments were issued only in cases where enforcement report was pending disposal or revenue realisation was envisaged and that all Audit Offices were entrusted only with legacy issues.

2.4.14 Conclusion

Introduction of GST was a gigantic effort to unify the indirect taxes. However, CTD had to scale down its software capabilities under GST as invoice matching was not made operational during the transition period. The CTD had made a pro-active approach to validate PAN of the existing dealers under the erstwhile State Acts and sensitise the dealers to migrate to GST. Emphasis of the Department by following up on the non-filers and prompt cancellation of registration has ensured fair compliance to the provisions under filing of returns. However, the significant differences in filing-statistics between the State and the Central portals impeded the identification of actual non-filers. On the transitional credit front, the CTD failed to detect incorrect credit by the dealers due to ineffective risk assessment. Hence, the failure to accord due importance to transitional credit claims led to loss of revenue under the GST Acts. No Action Plans were in place to deal with legacy issues of re-assessments and refunds, though preparation in this respect was necessary in optimising revenue from the erstwhile Acts and Rules.

In addition to the above Compliance Audit, nine illustrative cases of non-compliance to rules and regulations are as follows.

2.5 Non-levy of penalty under section 72(1) of the KVAT Act

According to Section 35 (1) of the KVAT Act, 2003, every registered dealer shall furnish a return and shall pay tax due on such return within twenty days (or fifteen days⁸⁶) after the end of the preceding month or any other tax period as may be prescribed.

Section 72(1) of KVAT Act, 2003 states that a dealer who fails to furnish a return or who fails to pay the tax due on any return furnished as required under the Act shall be liable to pay together with any tax or interest due, a penalty equal to:

- a) five *per cent* of the amount of tax due or ₹ 50 whichever is higher, if the default is not for more than 10 days; and
- b) ten *per cent* of the tax due, if the default is for more than 10 days.

During test-check of returns (1.3 lakh) of 5,687 assessees (4.38 *per cent*) out of 1,29,758 assessees in 31 Local VAT Offices(LVOs) / VAT Sub-Offices (VSOs) in 11 districts⁸⁷ between February 2018 and March 2019, Audit noticed that 314 assessees (5.52 *per cent* of the audited sample) had filed 2,458 returns for the years 2013-14 to 2017-18 in which tax of ₹ 169.53 crore was paid belatedly, i.e. beyond 20 days after the expiry of the applicable tax period. Though all these cases attracted penalty under Section 72(1) of the Act, it was neither paid by the assessees nor was any effort made by the Officers concerned to impose the same. This has resulted in non-levy of penalty of ₹ 12.20 crore.

It is pertinent to note here that basic checks on the returns filed by the dealers are not exercised by the Department and hence the belated payments of taxes go unnoticed, escaping levy of penalty.

After these cases were brought to the notice of the Department and Government between May 2019 to September 2019, an amount of ₹ 35.37 lakh was collected in 16 cases, demand notices were issued in 73 cases amounting to ₹ 2.22 crore. In one case an amount of ₹ 52,401 was adjusted out of refund. In two cases, dealers paid an amount of ₹ 3.55 lakh and claimed waiver for the remaining ₹ 23.54 lakh under Karasamadhana scheme. In one case the reassessment order was passed for an amount of ₹ 26.13 lakh and an amount of ₹ 10.7 lakh was waived off under Karasamadhana scheme. In 87 cases it was replied that assessees have applied for Karasamadhana and penalty of ₹ 3.83 crore was waived off. In one case it was replied that the assessee had orally stated that he will be availing Karasamadhana scheme. Replies are awaited in remaining 133 cases (September 2020).

Audit had pointed out similar lapses on non-levy of penalty under Section 72(1) of the KVAT Act worth ₹ 23.98 crore in 651 cases in the previous four Audit Reports⁸⁸ out of which an amount of ₹ 12.67 crore was recovered by the

⁸⁶ In case of Dealers opted for paying tax under Composition Scheme.

⁸⁷ Ballari, Bengaluru, Bidar, Chikkaballapura, Chikkamagaluru, Doddaballapur, Hosapete, Jamakhandi, Kalaburgi, Mysuru and Raichuru.

⁸⁸ Paragraph Nos. 2.9, 2.5, 2.6 and 2.6 of Audit Reports for the year ended 31 March 2014 (Report No.7 of 2014), 31 March 2015 (Report No.3 of the year 2015), 31 March 2016 (Report No.5 of the year 2016) and 31 March 2017 (Report No.7 of the year 2017) respectively.

Department. However, the Department failed to devise suitable checks to prevent the recurrence of the same.

Recommendation: Audit recommends that the basic checks on the returns filed, should be taken up by the Local VAT Offices to ensure the completeness of the returns and levy penalty wherever applicable.

2.6 Short-levy of tax on sale of liquor

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

The Government vide Notification⁸⁹ of 28 February 2014 removed exemption of tax payable on sale of liquor and introduced Value Added Tax (VAT) at the rate of five and one half *per cent* on sale of liquor by CL-9 licences⁹⁰ i.e. Bar and Restaurants situated in areas coming under Bruhat Bangalore Mahanagara Palike, City Municipal Corporation, City Municipal Council and Town Municipal Council or Town Panchayat with effect from 1 March 2014.

During check of records of 646 CL-9 licensees (Audited sample-100 *per cent*) in 25 Local VAT Offices in 10⁹¹ Districts between February 2017 and March 2019, Audit noticed that in respect of 104 licensees (16.10 *per cent*) (Bar and Restaurants situated in urban areas), the turnover of sale of liquor for the period from March 2014 to March 2017 was ₹ 233.25 crore. Tax payable at the rate of five and one half *per cent* amounted to ₹ 12.83 crore, of which only ₹ 1.39 crore was paid. This resulted in non-payment of tax of ₹ 11.44 crore. Further, penalty and interest under Sections 72(2) and 36 of KVAT Act, 2003, amounted to ₹ 1.14 crore and ₹ 4.57 crore respectively.

Hence, total non-payment of tax including penalty and interest works out to ₹ 17.16 crore. Though the tax on sale of liquor by Bars and Restaurants situated in urban areas was to be levied with effect from 1st March 2014, the Department did not take action to verify whether the taxes were getting paid from all the dealers concerned.

After these cases were brought to the notice of the Department and Government between January 2019 to June 2019, an amount of ₹ 19.24 lakh was collected in three cases, reassessment orders were passed and demand notices were issued in 25 cases amounting to ₹ 4.94 crore and nine cases were assigned to ACCT(Audit). In seven cases it was replied that dealers have applied for Karasamadhana, wherein, tax of ₹ 37.31 lakh was collected, whereas, penalty and interest amounting to ₹ 18.62 lakh was waived off. Replies are awaited in the remaining 60 cases (September 2020).

⁸⁹ Notification No.FD 21 CSL 2014 (II) dated 28 February 2014.

⁹⁰ CL-9 licence is given by the Excise Department for sale of liquor in Bar and Restaurants.

⁹¹ Ballari, Belagavi, Bengaluru, Chikkaballapura, Davanagere, Hassan, Kalaburgi, Mysuru, Raichuru and Udupi.

Recommendation: Audit recommends that the Department review all such cases in the other Districts as well and demand taxes wherever they are not paid.

2.7 Non-follow up of pending tax liabilities declared in the returns

Under Section 35(1) of the Karnataka Value Added Tax (KVAT) Act 2003, every registered dealer shall furnish a return in the prescribed form and shall pay the tax due on such return within 20 days (or 15 days in the case of dealers assessed under composition of tax) after the end of the tax period.

Test-check of 1,442 returns (58 *per cent*) out of 2,486 returns (total number of ‘Not Acknowledged Returns’) between May 2018 and March 2019 in 22 Local VAT Offices (LVOs)/ VAT Sub Offices (VSOS) in nine⁹² Districts revealed that 281 returns (19.48 *per cent*) pertaining to the tax periods between April 2015 to June 2017 filed by 161 assessees showed a ‘Not acknowledged’ status in the Electronic Filing System (e-FS) and the respective tax liabilities amounting to ₹ 3.88 crore were not discharged. Penalty and interest as applicable worked out to ₹ 0.39 crore and ₹ 1.37 crore respectively. Total amount realisable worked out to ₹ 5.64 crore.

Even though the ‘e-VARADI’ system for online filing of returns clearly indicates a status of ‘**Not acknowledged**’ against all returns where the tax liability is not discharged in full, the Officers concerned failed to follow up these cases and ensure timely recovery.

After these cases were brought to the notice of the Department and Government between July 2019 and September 2019, an amount of ₹ 96,507 was collected in two cases, demand notices were issued in 17 cases amounting to ₹ 88.07 lakh, orders were passed in eight cases and LVOs were instructed to take recovery action in five cases. One case amounting to ₹ 9.25 lakh is before NCLT. Further, it was replied that in 27 cases an amount of ₹ 17.05 lakh was collected whereas, interest and penalty of ₹ 7.64 lakh was waived off under Karasamadhana Scheme. Replies are awaited in the remaining 101 cases (September 2020).

Recommendation: Audit recommends that “Not acknowledged” returns need to be followed up to ensure collection of tax declared by the dealers.

2.8 Non/short-payment of differential tax liability declared in audited statement of accounts

According to Section 31(4) of the Karnataka Value Added Tax (KVAT) Act 2003, every dealer whose total turnover in a year exceeds a prescribed amount⁹³ shall have the accounts audited by a Chartered Accountant or a Cost Accountant or a Tax Practitioner (Auditor) and shall submit to the prescribed authority a copy of the audited statement of accounts in Form VAT 240 and other documents as prescribed in the Act.

⁹² Ballari, Bengaluru, Bidar, Chikkaballapura, Chikkamagaluru, Hassan, Kalaburagi, Mysuru and Shivamogga.

⁹³ ₹ 40 lakh till 31 March 2010, ₹ 60 lakh from 1 April 2010 to 31 March 2011 and ₹ 100 lakh thereafter.

Form VAT 240 provides for the auditor to file a comparative statement of dealer's liability to tax and his entitlements for input tax/refund as declared in the tax returns, and the corresponding correct amount determined on audit. In case of a difference between them, the dealer has to pay the differential tax together with the penalty and interest, if any, or to claim refund due to him, as the case may be.

During test-check of records of 2,625 out of 21,219 dealers (12.37 *per cent*) in 21 Local VAT Offices in eight⁹⁴ Districts between February 2018 and December 2019, Audit noticed that 65 dealers (2.48 *per cent* of the audited sample), in their audited accounts in Form VAT 240, had declared additional tax liability of ₹ 7.05 crore over and above the tax liability declared in the monthly returns for the years from 2014- 15 to 2017-18 . Out of the additional tax liability declared, only ₹ 0.88 crore was paid by 16 dealers. The remaining amount of ₹ 6.17 crore was neither paid by the dealers concerned on their own while filing the audited accounts, nor were the dues demanded by the Local VAT Offices concerned. Further, penalty (at 10 *per cent*) and interest (at 1.5 *per cent* per month) leviable on such additional tax liability amounted to ₹ 0.62 crore and ₹ 2.13 crore respectively. Total non/short-payment thus works out to ₹ 8.92 crore.

The Department had failed to identify the cases of non-payment of additional tax declared by the dealers in the audited statement of accounts. The Offices concerned were not watching the unacknowledged status⁹⁵ of Form VAT 240 in e-FS, which prevented detection of non-payment cases. Mismatch between the digital data sheet depicting summary of Form- VAT 240 and PDF files uploaded⁹⁶ has added to the problem as in such cases, identification needs to be taken up case-wise. Thus, lack of a system for scrutinising the audited statement of accounts in the returns filed by the dealers resulted in non-collection of taxes declared by them as payable.

After these cases were brought to the notice of the Department and Government between January 2019 and July 2019, an amount of ₹ 2.48 lakh was collected in one case, demand notices were issued in three cases amounting to ₹ 25.75 lakh, LVOs were instructed to take recovery action in five cases, letters were submitted to conclude reassessment in four cases and five cases were assigned to Audit. In one case it was replied that demand notice was issued for an amount of ₹ 2.70 lakh, whereas, penalty and interest of ₹ 1.10 lakh were waived off under Karasamadhana Scheme. Replies are awaited in remaining 46 cases (September 2020).

Audit had pointed out similar lapses on non-collection of additional tax worth ₹ 28.82 crore, declared by 200 dealers in their audited statement of accounts, in the previous seven⁹⁷ Audit Reports out of which an amount of ₹ 9.22 crore was

⁹⁴ Ballari, Bengaluru, Bidar, Davanagere, Kalburgi, Mysuru and Raichuru.

⁹⁵ "Unacknowledged" status indicates non-payment of additional tax.

⁹⁶ PDF formats of Form VAT 240, Profit and Loss Account and Balance Sheet.

⁹⁷ Paragraph Nos 2.9.1, 2.10.7, 2.4.4.5, 2.4, 2.7 ,2.7 and 2.9 of Audit Reports for the year ended 31 March 2012 (Report No.3 of 2013), 31 March 2013 (Report No.1 of the year 2014), 31 March 2014 (Report No.7 of the year 2014), 31 March 2015 (Report No.3 of the year 2015), 31 March 2016 (Report No.5 of the year 2016), 31 March 2017 (Report No.7 of the year 2017) and 31 March 2018 (Report No.1 of the year 2019) respectively.

recovered by the Department. However, the Department failed to devise suitable checks to prevent the recurrence of the same.

Recommendation: Audit recommends to institute a process of scrutiny of Form VAT 240 to follow up the collection of additional tax declared by the dealers.

2.9 Non/short-levy of interest

Under Section 36(2) of the Karnataka Value Added Tax (KVAT) Act, 2003, every dealer who fails to pay any amount of tax or additional tax declared in the returns or furnishes a revised return more than three months after the tax becomes payable, shall be liable to pay simple interest on tax payable. Further, under Section 36(3) of KVAT Act, 2003 any other amount payable under this Act also is liable for interest as aforesaid. The rate of interest was *1.25 per cent* per month upto 31 March 2011 and *1.5 per cent* per month with effect from 01 April 2011 under Section 37(1) of the above Act, leviable from the date on which any amount payable under this Act was due.

During test-check of 5,120 Re-assessment Orders/Rectification Orders (Audited sample-100 *per cent*) in eight Audit Offices in five⁹⁸ Districts between April 2017 and September 2018, it was noticed that an additional demand of ₹ 9.87 crore was raised/created in respect of nine dealers for the years 2007-08 to 2014-15. Though interest was leviable under Section 36(2) or 36(3) of the Act in all these cases, it was either not levied or levied short by the Assessing Officers concerned. This resulted in non/short-levy of interest aggregating ₹ 2.05 crore.

After these cases were brought to the notice of the Department and Government between January 2019 and August 2019, an amount of ₹ 56.07 lakh was collected in one case, rectification Orders were passed in four cases amounting to ₹ 64.98 lakh, demand notice was issued in one case for an amount of ₹ 12.29 lakh and in one case an amount of ₹ 15.45 lakh was waived off under Karasamadhana Scheme. Replies are awaited in remaining two cases (September 2020).

Recommendation: Audit recommends a system of review of the assessment orders to avoid omissions like levy of interest which is mandatory as per the KVAT Act.

2.10 Incorrect allowance of Input Tax Credit (ITC)

Under Section 10(2) of the Karnataka Value Added Tax (KVAT) Act 2003, input tax in relation to any registered dealer means the tax collected or payable under this Act on the sale to him of any goods for use in the course of his business, and includes the tax on sale of goods to his agent who purchases such goods on his behalf subject to the manner as may be prescribed to claim input tax in such cases.

⁹⁸ Ballari, Bengaluru, Davanagere, Hassan and Hubballi.

During check of 2974 re-assessments (100 *per cent*) in seven⁹⁹ Audit Offices and test-check of 343 dealers (3.3 *per cent*) in two LVOs (out of 10,545 dealers), it was noticed that in 16 re-assessment cases (0.54 *per cent*) in Audit Offices and three dealers (0.1 *per cent* of the Audited sample) in LVOs, input tax credit (ITC) was allowed in contravention of the provisions of the KVAT Act as detailed below:

(i) Incorrect allowance of ITC attributable to sale of exempt goods

As per Section 11(a)(1) of the KVAT Act, input tax shall not be deducted in calculating the net tax payable in respect of tax paid on purchases attributable to sale of exempted goods under Section 5 of the KVAT Act,

Further, under Section 17 of the KVAT Act, a registered dealer making sale of both taxable and non-taxable goods (exempt under Section 5 of the Act), shall avail the input tax in proportion to taxable sales as per Rule 131¹⁰⁰ of the KVAT Rules.

On a test-check of the VAT Returns of Local VAT Office-495-Ballari during September 2018, Audit noticed two dealers (M/s Shivaganga Food Oil Extractions and M/s Srinidhi Edible Bran Oils Pvt. Ltd.), who were manufacturers of edible oil, had purchased edible crude rice bran, husk, hexane, chemicals during the years 2015-16 and 2016-17 and claimed ITC on these purchases. They had effected taxable sale of edible oil and exempted sale of de-oiled bran. However, they had taken credit of entire ITC without restricting the ITC (non-deductible ITC) attributable to sale of de-oiled rice bran (exempted good) as per the provisions under Section 17 of the KVAT Act read with Rule 131 of KVAT Rules. This resulted in incorrect allowance of ITC of ₹ 6.25 crore. Besides, penalty of ₹ 0.41 crore and interest of ₹ 1.36 crore was also leviable. Total liability worked out to ₹ 8.02 crore.

After these cases were brought to the notice of the Department and Government between July 2019 and November 2019, re-assessment orders were passed in one case, restricting input tax for the years 2015-16 and 2016-17. Accordingly, tax, interest and penalty amounting to ₹ 4.79 crore was levied for the year 2015-16, whereas for 2016-17, tax amount of ₹ 7.35 lakh was collected and interest/penalty were waived off under Karasamadhana Scheme. Reply is awaited in the remaining one case (September 2020).

(ii) Incorrect allowance of ITC on purchase of Diesel under KST Act

On a test-check of VAT Returns of Local VAT Office-120-Bengaluru during January 2019, Audit noticed that an assessee M/s SVG Exports Pvt Ltd who is a manufacturer of granite slabs, marbles, etc., had purchased Diesel (tax paid under the Karnataka Sales Tax Act) for his manufacturing activity and claimed ITC during the years 2014-15, 2015-16, 2016-17 and 2017-18 (upto June 2017). As tax paid on Diesel was not under KVAT Act, ITC claimed under KVAT was not in order. This resulted in incorrect allowance of ITC of ₹ 1 crore. Besides,

⁹⁹ ACCT(Audit)-3-Ballari, CTO(Audit)-1-Davanagere, DCCT(Audit)-1.3-Bengaluru, DCCT(Audit)-5.1-Bengaluru, DCCT(Audit)-5.5-Bengaluru, DCCT(Audit & Recovery)-5.7- Bengaluru and DCCT(Audit& Recovery)-Hassan.

¹⁰⁰ Non-Deductible ITC = (Sale of Exempt goods + Nontaxable transactions) X (Total ITC/Total Turnover).

penalty of ₹ 0.1 crore and interest of ₹ 0.47 crore was also leviable. Total liability worked out to ₹ 1.57 crore as detailed in **Table 2.12**:

Table 2.12
Details of Incorrect claim on Diesel

Tax period	Incorrect claim of ITC on Diesel	Penalty leviable u/s 72(2) (₹)	No of months	Interest leviable u/s 36	Total liability	(₹ in crore)
2014-15	0.27	0.03	45	0.18	0.48	
2015-16	0.34	0.03	33	0.17	0.54	
2016-17	0.31	0.03	21	0.10	0.44	
2017-18 (upto June 2017)	0.08	0.01	18	0.02	0.11	
Total	1.00	0.10	--	0.47	1.57	

Note: Interest calculated till the date of Audit. However, interest is leviable till the date of payment.

After this case was brought to the notice of the Department and Government between July 2019 and November 2019, it was replied that the company was 100 *per cent* export oriented company engaged in the business of “Granite Quarrying, processing and exporting of Granite slabs, blocks, tiles and marbles.” The company purchased diesel (HSD) for operating quarry equipments, diesel generator etc. and claimed input tax credit as per Section 11(6) of the KVAT Act, read with Section 14 of the KVAT Act. Hence the claim was in order.

The reply cannot be accepted as input tax credit as per Section 10 of the KVAT Act means the tax collected or payable under the KVAT Act on sale of goods to a dealer. Taxation of diesel is still dealt under the KST Act and tax on diesel is paid under the KST Act. Since no tax is paid under the KVAT Act, the tax paid on diesel does not qualify as input tax credit according to Section 10 of the KVAT Act. Further, it should also be noted that the term ‘light diesel oil’ which was included under Section 11 (6) of the KVAT Act was omitted from 01 April 2005, i.e., from the introduction of KVAT itself. Hence, claim of input tax on diesel was not in order.

(iii) Excess allowance of ITC due to incorrect adoption of purchase turnover

On a test-check of re-assessment Orders and related records in DCCT (Audit)-1.3-Bengaluru during April 2018, it was noticed from the re-assessment Order for the year 2014-15 dated 27-6-2016 in respect of an assessee, M/s Lalitha Jewellery Mart (P.) Ltd. that total ITC of ₹ 8.37 crore was allowed on purchase of gold/silver/diamond from Registered Dealers (RDs) and Un-Registered Dealers (URDs). Though the same was declared in the monthly returns, on a cross-verification of purchase statements furnished by the assessee, total ITC on purchases worked out to only ₹ 6.27 crore (₹ 4.40 crore on RD purchases and ₹ 1.87 crore on URD purchases). Also, in Form VAT 240, ₹ 6.27 crore was declared as ITC on Audit of accounts. Thus, excess allowance of ITC worked out to ₹ 2.10 crore. Besides, penalty of ₹ 0.21 crore and interest of ₹ 0.44¹⁰¹ crore were leviable. Total liability worked out to ₹ 2.75 crore.

¹⁰¹ Interest is calculated for 14 months from May 2015 to June 2016 i.e. till the date of assessment order; however, interest is leviable till the date of payment.

After these cases were brought to the notice of the Department and Government between July 2019 and November 2019, demand notice was issued for an amount of ₹ 2.79 crore.

(iv) Loss of revenue in the form of ITC

Test-check of re-assessments concluded in six Audit Offices in Bengaluru, Hassan, Ballari and Davanagere Districts between May 2018 and January 2019 revealed that 15 assessees were allowed ITC aggregating ₹ 0.59 crore for the years 2010-11 to 2014-15.

On a verification of the purchase registers of such assessees, it was noticed that there were 32 corresponding selling dealers for the input tax claimed. Cross verification of the details of the selling dealers in e-FS revealed that 14 of them were either de-registered or not registered during the period in which ITC was allowed. The remaining 18 selling dealers filed returns but had paid lesser output tax than the input tax claimed by the purchasing dealers. Consequently, as against the input tax of ₹ 0.59 crore allowed by the Department, the corresponding output tax declared was only ₹ 0.03 crore. Thus, allowing input tax credit without realising the corresponding output tax resulted in loss of revenue of ₹ 0.56 crore. Besides, penalty of ₹ 0.06 crore and interest of ₹ 0.53 crore was leviable. Total dues worked out to ₹ 1.15 crore.

After these cases were brought to the notice of the Department and Government between July 2019 and November 2019, it was replied that demand notices were issued in six cases amounting to ₹ 0.44 crore and an amount of ₹ 11.34 lakh was collected in another three cases. In one case, Department replied that the ITC claimed by the seller was in order and in another two cases, the Department replied that the demand has to be levied from the sellers and not purchasers.

Audit verified the case in which the ITC claimed was stated to be in order and found that the seller was not registered when he collected tax from the purchaser and the amount was not found remitted in the e-FS. In respect of the position of the Department that demand has to be raised from the sellers, Audit is of the opinion that irrespective from whom the revenue has to be demanded, it is to be kept in view that the revenue is getting lost, if the seller does not pay output tax and the purchaser claims input tax credit. Department should find ways to curb revenue erosion in the name of input tax credit.

Replies are awaited in the remaining six cases (September 2020).

Recommendation: Audit recommends to institute checks at the Local VAT Offices to examine genuineness of the ITC claims.

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

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

composition at the specified rate on the total consideration for the works contracts executed.

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

During test-check of 154 out of 3,078 (five *per cent*) records of eight Local VAT Offices (LVOs) in Bengaluru and Raichuru Districts between July 2018 and March 2019, Audit noticed 13 cases (8.44 *per cent*) in which the civil works contractors had claimed deduction of ₹ 50 crore in turnover towards sub-contractor payments for the tax periods 2015-16 to 2017-18 (upto June 2017).

On cross-verification of returns filed by these works contractors with those filed by related sub-contractors, it was noticed that a turnover aggregating ₹ 2.52 crore only was declared in the returns filed by the sub-contractors as against ₹ 50.01 crore claimed as exemption by the works contractors in their returns. This resulted in excess allowance of sub-contractor turnover of ₹ 47.48 crore and consequent short-levy of tax of ₹ 1.90 crore. Besides, penalty of ₹ 0.19 crore and interest of ₹ 0.92 crore was also leviable. Total liability worked out to ₹ 3.01 crore.

The absence of a system for verification of returns of the works contractors vis-à-vis the sub-contractors was responsible for the excess allowance of sub-contractor turnover.

After these cases were brought to the notice of the Department and Government between May 2019 and October 2019, demand notice was issued in one case. Replies are awaited in remaining 12 cases (September 2020).

Recommendation: Audit recommends verification of claims of works contractors vis-à-vis sub-contractors as a risk parameter for selection of cases for detailed scrutiny.

2.12 Non-levy of penalty under Section 74(4) of KVAT Act for non-filing of Form VAT 240

According to Section 31(4) of the Karnataka Value Added Tax (KVAT) Act, 2003 read with Rule 34(3) of KVAT Rules, 2005 every dealer whose total turnover in a year exceeds one hundred lakh rupees shall have his accounts audited by a Chartered Accountant or a Cost Accountant or a Tax Practitioner and submit a copy of the audited statement of accounts in Form VAT 240 and prescribed documents within *nine months* after the end of the relevant year.

Further, under Section 74(4) of the KVAT Act, any dealer who fails to submit within the time prescribed a copy of the audited statement of accounts, shall be liable to pay a *penalty of five thousand rupees and, a further penalty of fifty*

rupees per day for so long as the failure to submit a copy of the audited statement of accounts continues.

Test-check of 22,238 out of 23,106 records (Audited sample-96.24 *per cent*) of 22 Local VAT Offices (LVOs)/VAT Sub Offices (VSOs) in eight¹⁰² Districts between June 2018 and March 2019 revealed that 5,193 assessees (23.35 *per cent*) did not file Form VAT 240 for the years 2015-16 and 2016-17. Non-submission of Form VAT 240 implies that the assessees have not got their accounts audited by the prescribed Authority. Further, the Assessing Officers concerned had not taken any action to enforce compliance in this regard either by issue of notice or by levy of the mandatory penalty under Section 74(4) of the KVAT Act. Consequently, the Assessing Officers are not ensuring the audit of books of accounts maintained by those assessees and thereby the correctness of tax paid by such assessees. As monthly returns filed by the assessees are deemed to be assessed, failure to enforce such controls built into the system will result in leakage of revenue. Non levy of penalty under Section 74(4) of the KVAT Act in respect of the above assessees works out to ₹ 17.62 crore.

After these cases were pointed out to the Department and the Government between August 2019 and December 2019, the Government replied that ₹ 0.84 lakh was recovered in three cases, penalty orders amounting to ₹ 4.20 crore were issued in 1,081 cases, notices amounting to ₹ 19.02 lakh were issued in 67 cases and in 510 cases, the penalty was waived off under the Comprehensive Karasamadhana Scheme, 2019, on filing of Form VAT 240.

On a verification of the orders passed under the Comprehensive Karasamadhana Scheme, 2019, Audit noticed that none of the orders specify whether any additional tax liability was declared in the Form VAT 240 filed by the dealers and the same was remitted to the Government or not. This being one of the conditions for waiving off the penalty under the Karasamadhana Scheme, the details regarding the same were required to be stated in the order.

Audit verified a sample of 50 cases in which the penalty was waived off under the Karasamadhana Scheme and found the following:

- Four dealers had declared additional tax liability of ₹ 15.15 lakh in Form VAT 240, out of which only two dealers had paid up the tax of ₹ 3.63 lakh. The remaining tax liability of ₹ 11.52 lakh to be paid by the other two dealers, remained unpaid as per the Electronic Filing System (e-FS) of the Commercial Taxes system. Thus, it was found that the penalties were waived off even without payment of the additional tax liability.
- One dealer had not filed Form VAT 240 as per e-FS. In respect of another dealer, though Form VAT 240 was uploaded, the part-files relating to the same were not found uploaded but penalty was waived off.

Audit concludes that the filing of Form VAT 240 is one of the controls in the KVAT Act to authenticate the payment of taxes made by the dealers monthly. Ensuring the filing of Form VAT 240 and the payment of differential tax liability, if any, was the responsibility of the Local VAT Officers concerned.

¹⁰² Ballari, Bengaluru, Bidar, Chikkaballapura, Chikkamagaluru, Hosapete, Kalaburagi and Raichuru.

Waiving the penalty thereon for non-filing of Form VAT 240 without ensuring the payment of additional tax liability was not appropriate.

Replies are awaited in the remaining 3,532 cases (September 2020).

Recommendation: Audit recommends stricter implementation in respect of filing of Form VAT 240 as it serves as a control over the deemed assessment system.

2.13 Non/Short-declaration of output tax under KVAT Act (cross verification of e-UPaSS)

Under Section 10(2) of the Karnataka Value Added Tax (KVAT) Act 2003, input tax in relation to any registered dealer means the tax collected or payable under this Act on the sale to it, of any goods for use in the course of his business, and includes the tax on sale of goods to his agent who purchases such goods on his behalf subject to the manner as may be prescribed to claim input tax in such cases. Under Section 72(2) if a dealer furnishes a return which understates his liability to tax by more than five *per cent* of his actual liability to tax, he shall, after being given the opportunity of showing cause, be liable to a penalty equal to 10 *per cent* of the amount of such tax understated. Further, under Section 36(2) every dealer shall be liable to pay simple interest on any amount of tax which should have been declared on a return but has not been declared.

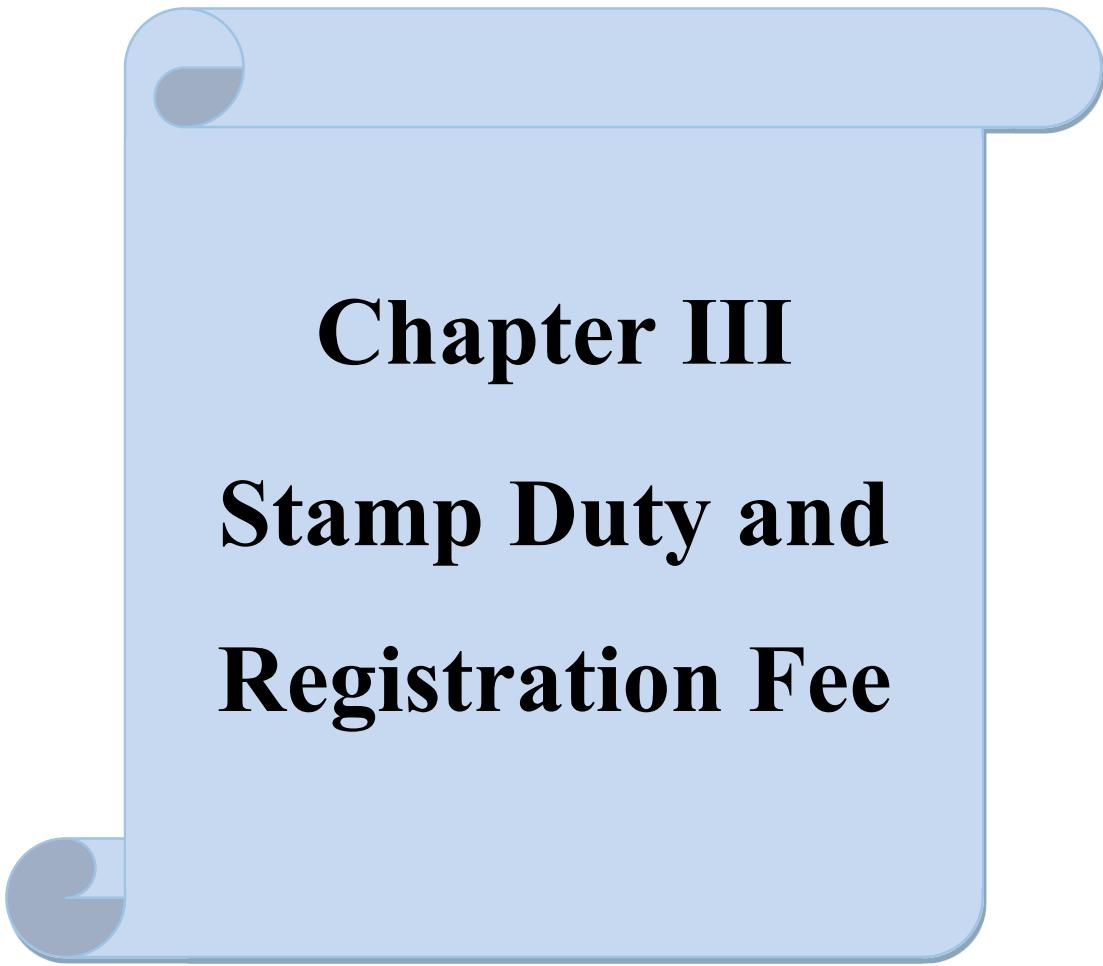
For verification of input tax claims the Commercial Taxes Department has introduced e-UPaSS (Electronic Uploading of Purchase and Sales Statements) module in e-FS (Electronic Filing System). Dealers have to upload their purchase and sale invoices and the e-UPaSS module enables matching of the input tax claimed on purchase invoices uploaded by the purchasing dealers' vis-à-vis corresponding output tax declared by the selling dealers.

During the audit of six¹⁰³ (out of 36 selected for Audit) Local VAT Offices (LVOs) in Bengaluru District between January 2019 and March 2019, Audit test-checked 2,958 out of 7,221 dealers (Audited Sample - 40.96 *per cent*) in e-UPaSS module and noticed 140 selling dealers (4.73 *per cent*), who had not paid Output Tax corresponding to the Input Tax claimed by the purchasers. In this connection, Audit examined Input Tax claim of ₹ 11.04 crore in 5,566 invoices uploaded by the purchasers. Out of 5,566 invoices, 4,369 purchase invoices amounting to ₹ 6.87 crore did not have any corresponding output tax declared by the 116 sellers. In the remaining 1,197 invoices, out of input tax of ₹ 4.17 crore claimed, the corresponding output tax declared by 24 sellers was only ₹ 0.49 crore for the tax periods April 2015 to June 2017. Total non/ short declaration of output tax amounts to ₹ 10.55 crore. Besides, penalty (at 10 *per cent*) under Section 72(2) of ₹ 1.06 crore and interest (at 1.5 *per cent* per month) under Section 36(2) of ₹ 5.21 crore was also leviable. Total liability worked out to ₹ 16.82 crore.

¹⁰³ LVO-35-Bengaluru, LVO-45-Bengaluru, LVO-55-Bengaluru, LVO-55A-Bengaluru, LVO-100-Bengaluru and LVO-110A-Bengaluru.

After these cases were pointed out to the Department and the Government between August 2019 and May 2020, the Assessing Officers concerned agreed to examine all cases. Further compliance is awaited (September 2020).

Recommendation: Audit recommends utilisation of the reports generated in e-UPaSS as a criterion for selection of cases for detailed scrutiny.



Chapter III

Stamp Duty and Registration Fee

Chapter-III

Stamp Duty and Registration Fee

3.1 Tax administration

Receipts from Stamp Duty and Registration Fee are regulated by the Indian Stamp Act (IS Act), 1899, the Karnataka Stamp Act (KS Act), 1957, the Registration Act, 1908 and the Rules made thereunder. In Karnataka, the levy and collection of Stamp Duty and Registration Fee is administered at the Government level by the Principal Secretary, Revenue Department. The Department of Stamps and Registration (DSR) under the administrative control of the Revenue Department regulates the levy and collection of Stamp Duty and Registration Fee.

3.2 Internal Audit

The Department stated that though an Internal Audit Cell was constituted in December 2012, it was still not functional due to lack of manpower. But, the Department has a mechanism in place where the District Registrars are in charge of circle-wise periodic audits. The results of such Audit are reported to the Inspector General of Registration and Commissioner of Stamps (IGR&CS). The position of observations is as shown in **Table 3.1**.

Table 3.1
Year-wise details of observations

Year	Observations raised		Observations settled		Observations pending		(₹ in crore)
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	
2014-15	749	10.99	232	2.38	517	8.61	
2015-16	239	2.54	90	0.45	149	2.09	
2016-17	799	3.59	108	0.39	691	3.20	
2017-18	705	6.51	103	0.67	602	5.84	
2018-19	611	9.36	60	0.36	551	9.00	
Total	3103	32.99	593	4.25	2510	28.74	

As seen from the above, 2,510 observations involving ₹ 28.74 crore were pending settlement as on 31 March 2019. Early action may be taken to settle the pending observations.

3.3 Results of Audit

There are 282 auditable units in the Department of Stamps and Registration. Out of these, Audit selected 51 units for test check wherein 10.86 lakh documents were registered. Out of these, Audit test checked 1.62 lakh documents (14.92 *per cent*) during the year 2018-19 and noticed 1846 cases (1.14 *per cent* of audited sample) of short-levy of Stamp Duty and Registration Fee due to undervaluation and suppression of consideration and non-observance of provisions of Acts/Rules, etc., in 41 units involving an amount of ₹ 93.87 crore. These cases are illustrative only as these are based on test check of records. The observations broadly fell under the following categories.

Table 3.2
Results of Audit

Sl. No.	Category	No. of Paragraphs	Amount (₹ in crore)
1	Short-levy of SD and RF due to undervaluation	37	64.90
2	Short-Levy SD and RF due to suppression of consideration	20	4.79
3	Short-levy of SD and RF on Development agreements	10	9.46
4	Other irregularities	32	14.72
	Total	99	93.87

During the year an amount of ₹ 97.73 lakh was recovered in 27 Paragraphs pointed out in earlier years.

A few illustrative cases of non/short realization of Stamp Duty and Registration Fee involving ₹ 39.41 crore are discussed in the following paragraphs.

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

According to Section 3 of the Karnataka Stamp Act 1957, Stamp Duty is levied on instruments chargeable with duty as prescribed under various Articles in the Schedule of the Act, *ibid*. Under Article 20, for instruments of conveyance, Stamp Duty is charged as a percentage of the consideration or of the market value of the property, whichever is higher. Market Value Guidelines are prescribed for properties situated in the State by the Central Valuation Committee under Section 45-B of the Act. This forms the basis for estimation of market value by the Registering Officer while registering documents chargeable with Stamp Duty. A set of Special Instructions is also appended as Annexure-I to the statement of estimated values to deal with specific enhancements in the nature of the property. These instructions are to be correctly applied during valuation to arrive at the proper market value of the property.

During audit of 77 Sub-Registrar Offices (SROs) between April 2016 and June 2018, Audit noticed short-levy of Stamp Duty and Registration Fee amounting to ₹ 16.18 crore due to adoption of incorrect guidance values, incorrect classification of the nature of the document, non-adherence to Special Instructions, etc. in 19 SROs¹⁰⁴ (24.67 *per cent*). In this connection, Audit had test checked 89,382 documents (18.63 *per cent*) out of 4,79,576 documents and noticed the above discrepancies in 73 sale deeds (0.08 *per cent* of the audited sample). The details are as follows.

a. Non-application of enhanced rates

The market value guidelines contain general rates for each area under the jurisdiction of the SRO concerned. In addition, there are a set of special instructions regarding valuation, to be applied under special circumstances. As

¹⁰⁴ SROs-Bidar, Bidarahalli, Bommanahalli, BTM layout, Channagiri, Chitradurga, Davanagere, Ganganagar, Hunsur, Karkala, Karwar, K.R.puram, Malleswaram, Mangaluru, Moodabidri, Periyapatna, Sindanoor, Shivajinagar and Shivamoga.

per these instructions enhanced rates are to be applied depending on the type of property being conveyed, as follows.

Table 3.3
Prescribed rates of enhancement

Nature of property	Percentage enhancement of general rates
Property abutting National Highway	50 <i>per cent</i> enhancement
Property with roads on two sides	10 <i>per cent</i> enhancement
For Commercial sites	30 <i>per cent</i> enhancement
For Commercial buildings	40 <i>per cent</i> enhancement

Audit noticed 14 documents¹⁰⁵ wherein properties (i) abutting NH, (ii) with roads on two sides and (iii) commercial properties, were conveyed. All these cases warranted enhancement of general rates by percentages prescribed, but were valued at general rates instead. This resulted in short-levy of Stamp Duty and Registration Fee of ₹ 1.76 crore.

b. Non-adoption of full consideration shown in the document

Stamp Duty is levied on the consideration stated in the document or the estimated market value whichever is higher.

Audit noticed 15 documents¹⁰⁶ of sale of apartments, where Stamp Duty and Registration Fee were levied on the consideration stated in the document. On perusal of the recitals of the documents, it was noticed that there were entries of all individual cheques through which the consideration was paid. Audit noticed that the total amounts of these cheques were more than the figure depicted as consideration and hence Stamp Duty and Registration Fee were to be levied on the total amount of the cheques. This was not done during valuation of the documents, which resulted in short-levy of Stamp Duty and Registration Fee of ₹ 10.41 lakh.

c. Adoption of incorrect guidance values

The market value guidelines prescribe higher rates for wet¹⁰⁷ agricultural lands as compared to dry¹⁰⁸ agricultural lands. This has to be ascertained through the Right, Tenancy and Crop (RTC)¹⁰⁹ of the lands, by the SRO and apply appropriate rates. Audit noticed 10 cases¹¹⁰ where properties conveyed were wet agricultural lands. However, in all these cases the Sub-Registrar (SR) applied the rates for dry agricultural lands.

Audit also noticed two cases¹¹¹ of individual sites, whose rates were specifically prescribed in the market value guidelines. However, while valuating the properties, instead of these specific rates, rates pertaining to other similar

¹⁰⁵ SROs— Bidar, BTM layout, Channagiri, Chitrdurga, Davanagere, Karkala, Malleswaram, Mangaluru, Moodabidri, Periyapatna and Shivamoga.

¹⁰⁶ SRO, Bidarahalli.

¹⁰⁷ Wet land— land in which wet crops can be grown by use of rain water or water obtained from any source of water which is not the property of the State Government.

¹⁰⁸ Dry lands— land in which wet crops cannot be grown except when irrigated by water obtained from any source of water which is the property of the State Government.

¹⁰⁹ Right, Tenancy and Crop information issued by the Land Revenue Department.

¹¹⁰ SRO, Sindanoor.

¹¹¹ SROs, Ganganagar and Bommanahalli.

properties with lesser rates were adopted. Thus, error in identifying the properties correctly led to undervaluation and consequent short-levy of Stamp Duty and Registration Fee of ₹ 26.87 lakh.

d. Non-application of sital rates

When agricultural lands or converted un-developed lands upto five guntas are conveyed, they have to be valued at full sital¹¹² rates and when lands conveyed are from five guntas to 10 guntas, they have to be valued at 50 *per cent* of the sital rates. Further, lands converted for non-agricultural use, but remaining un-developed, have to be valued at multiples of agricultural rates depending on the nature of conversion.

Audit noticed eight documents¹¹³ wherein agricultural rates were adopted for valuation instead of sital rates. In one case, seven parcels of land in different Survey numbers were conveyed through a single document, where each parcel was less than five guntas. In the remaining seven cases, portions of converted un-developed land were conveyed. In all these eight cases, valuation was to be done as per special instructions, at sital rates. However, the SRO concerned had valued the land at agricultural rates resulting in short-levy of Stamp Duty and Registration Fee of ₹ 44.04 lakh.

e. Application of general rates for specific projects

The market value guidelines prescribe general rates for areas within its jurisdiction and specific rates for individual properties wherever possible. Further, as per one of the special instructions, any *new* apartments, villas, layouts etc. are to be referred to the CVC for fixing of rates before Registration. Audit noticed twenty documents¹¹⁴ where commercial apartments in a project named Prestige Tech Park-III situated in Varthur hobli were conveyed. The SRO while registering these documents had applied general rates which were approximately ₹ 3,000 per sq.ft, since there were no specific rates prescribed in the market value guidelines. However, as per the recitals of the document, there were two other projects named Prestige Tech Park-I and Prestige Tech Park-II within the same campus with prescribed guidance value of ₹ 6200 and ₹ 6000 per sq.ft respectively. There were 14 Tech Parks including the above mentioned, in Varthur hobli, with specific market values stipulated against each Tech park and the lowest rate among the 14 was ₹ 5,900 per sq.ft. Hence, it is evident that value adopted by the SRO was lesser in comparison to all other Tech-parks in the area.

The SRO, instead of referring the matter to the CVC to get the rates prescribed, had applied general rates, which resulted in short-levy of Stamp Duty and Registration Fee of ₹ 70.69 lakh compared with the least (₹ 5900 per sq.ft) of the values prescribed in that area.

f. Non-application of prescribed specific rates

The market value guidelines prescribe general rates for all the areas within its jurisdiction and specific rates for individual properties wherever possible. These

¹¹² Sital rates means rates prescribed for sites in the market value guidelines.

¹¹³ SROs, K.R.puram and Hunsur.

¹¹⁴ SRO, Shivajinagar.

values are to be correctly applied while estimating the value of a property being conveyed.

Audit noticed three¹¹⁵ documents¹¹⁶ through which industrial land measuring 186 Acre and 27 Guntas situated in several survey numbers were conveyed. The market value guidelines pertaining to the jurisdictional SRO, Karwar, had assigned specific rates for this industrial land by its name¹¹⁷ at ₹ 234 per sq.ft. However, during valuation, these lands were valued by applying rates between ₹ 15 per sq.ft and ₹ 36 per sq.ft. The total value was arrived at ₹ 41.28 crore and Stamp duty and Registration Fee levied accordingly, whereas, the value worked out to ₹ 224 crore at ₹ 234 per sq.ft. as prescribed in the market value guidelines. This resulted in short-levy of Stamp Duty and Registration Fee of ₹ 12.19 crore.

g. Misclassification of document

As per the Karnataka Stamp Act, an instrument of Gift attracts Stamp Duty at the rate of conveyance (i.e. five *per cent* on the market value of the property) if it is between non-family members, whereas if it is between family members, a fixed sum ranging from ₹ 1000 to ₹ 5000 depending on the location of the property is levied as Stamp Duty.

Audit noticed one document¹¹⁸ where the President of an Educational Society had gifted land to the same Society. This did not constitute a transaction between the members of a family as defined in the Article. However, the SRO while valuing the document, treated it as between family members and levied Stamp Duty of ₹ 5,000, whereas Stamp Duty was to be levied at the rate of conveyance. This resulted in short-levy of Stamp Duty and Registration fee of ₹ 70.58 lakh.

After these cases were brought to the notice of the Department (January 2019) and the Government (April 2020), the IGR&CS replied that the Department has recovered ₹ 30.84 lakh in 16 cases and referred 31 cases to the District Commissioner for recovery as arrears of land revenue. In six cases, the parties involved had gone for appeals against the orders of the District Registrar and the DR has initiated action in the remaining cases (September 2020).

Recommendation: Audit recommends judicious utilisation of market value guidelines to enhance revenue realised through Stamp duty and Registration fee.

3.5 Short-levy of Stamp Duty and Registration Fee on Release deeds

As per Article 45 of the schedule to the Karnataka Stamp Act, 1957, a deed whereby a person renounces a claim upon another person or against any specified property is treated as a Release deed and SD and RF are charged as below:

¹¹⁵ SRO, Karwar.

¹¹⁶ These three sale-deeds were noticed during check of an amalgamation deed registered during the year 2017-18.

¹¹⁷ BILT area-Ballarpur Industries Limited.

¹¹⁸ SRO, Bommanahalli.

- i) Where the release is **not** between family members, SD is charged at five percent and RF at one percent on the market value of the property on which claim is renounced or on the consideration taken for such release, whichever is higher.
- ii) Where the release is between family members, SD is charged at fixed rates¹¹⁹ ranging from ₹ 1,000 to ₹ 5,000 depending on the place where the property is situated, and RF at a fixed rate of ₹ 500;

Family is defined in *Explanation*¹²⁰ below the Article.

During audit of three Sub-Registrar Offices¹²¹ between May 2018 and November 2018, Audit test checked 153 documents (5 *per cent* out of 3063) titled as Release deeds and noticed 23 cases (15 *per cent* of the audited sample) of short-levy of SD and RF as detailed below.

a. Application of fixed rates for release between non-family members

In two Sub-Registrar Offices, Karkala and Mahadevapura, Audit noticed nine cases wherein SD was charged at fixed rates treating the document as between family members. Scrutiny of the documents revealed that the executants were not within the definition of the family under the Article in five cases and hence SD and RF were to be charged on the market value of the property. In the remaining cases, the executants contained both family and non-family members. In these cases, the SD and RF were to be charged on the market value of the property being released, proportionate to the share of the non-family members. However, in all these cases SD and RF were charged treating the documents as between family members. Consequent short-levy of SD and RF amounted to ₹ 65.79 lakh.

b. Application of incorrect rates

Audit noticed 13 cases in SRO, Karwar and one case in SRO, Karkala wherein properties were conveyed between parties through deeds titled as 'Relinquishment/Release deeds'. On verification of the recitals of the documents, Audit found that all these cases were sale of agricultural land. Hence, these cases were to be treated as sale-deeds and SD and RF were to be levied on the market value of the property or the consideration whichever was higher. It was, however, noticed that in nine cases, the documents were registered by collecting SD and RF on the consideration stated therein instead of the market value which was higher. In the remaining five cases, values of the properties were estimated by applying incorrect guidance values. This resulted in short-levy of SD and RF of ₹ 24.39 lakh.

¹¹⁹ Within BBMP, BMRDA or City Corporation limits-₹5000; within City, Town Municipal Council or Town Panchayath Area-₹ 3,000; and other than these two limits-₹ 1000.

¹²⁰ Explanation under Article 45 defines Family for the purpose of Release deed as – Husband, Wife, Son, Daughter, Father, Mother, Brother, Wife/Children of predeceased Brother, Sister, Husband and Children of predeceased Sister, Wife of predeceased Son and Children of a predeceased Son or Daughter.

¹²¹ SROs – Karkala, Karwar and Mahadevapura.

After these cases were brought to the notice of the Department (June 2019) and the Government (February 2020), the IGR&CS has replied that the District Registrars concerned have initiated action in all the cases under Section 45(A)(3) and 46 (A) of the KS Act, 1957 (September 2020).

Recommendation: Audit recommends that the Sub-Registrars may adhere to the definition of ‘family’ while charging duty on Release deeds comprising of family and non-family members.

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

Joint Development Agreement is an arrangement between a Developer and a Land Owner, where the Developer forms a layout or builds apartments on the land belonging to the Owner. As per the arrangement, a portion of the developed layout or the apartments is transferred to the Owner, after development.

As per Article 5(f) of the Karnataka Stamp Act, 1957, Joint Development Agreements (JDA) for a property are to be levied Stamp Duty at two *per cent* on the market value of the share of the developer in the land transferred for development or the market value of the developed property transferred to the owner, whichever is higher, including money advanced, if any. Registration Fee¹²² is also leviable at one *per cent* ad-valorem.

During audit of five¹²³ Sub-Registrar Offices (SRO) between March 2018 and October 2018, Audit test-checked 155 JDAs (50 *per cent* out of 311 JDAs) pertaining to the period 2016-17 and 2017-18 and noticed 50 JDAs (32 *per cent* of the audited sample) wherein Stamp Duty and Registration Fee were short-levied. It was noticed that four JDAs pertained to development of layouts and 46 JDAs pertained to construction of apartments.

In all these cases the market value of the developed property transferred to the owner was higher and hence Stamp Duty and Registration Fee were to be levied on the share of the owner. However, out of the aforesaid 50 documents, in 28 cases, Stamp Duty and Registration Fee were levied on the Developer’s share in land which was lower in market value than the owners’ share in the developed property. In the remaining cases, though the owners’ share was adopted for valuation, either the rates applied to compute the market value were not correct¹²⁴ or the percentage of share transferred to the owner was adopted incorrectly resulting in short-computation of market value. Consequent short-levy of Stamp Duty and Registration Fee worked out to ₹ 9.44 crore.

After these cases were brought to the notice of the Department (February 2019) and the Government (November 2019), the IGR&CS replied that the Department has recovered ₹ 32.15 lakh in three cases and referred 20 cases to the District Commissioner for recovery as arrears of land revenue. In four cases, the parties involved had gone for appeals against the orders of the District Registrar and the DR has initiated action in the remaining cases (September 2020).

¹²² Registration Fee limited to ₹ 1.50 lakh.

¹²³ Chitradurga, Mahadevapura, Mangaluru, Shivajinagar and Varthur.

¹²⁴ Agricultural rates were applied instead of sital rates/general rates were not enhanced by 30 *per cent* even though property was being developed for commercial purposes.

Recommendation: Audit recommends clarificatory orders from IGR&CS in respect of computation of shares in JDA as a significant percentage of JDAs are undervalued.

3.7 Incorrect application of rates resulted in undervaluation of Sale-Deeds

Guidance Market Values (GMV) are prescribed for properties situated in the State by the Central Valuation Committee (CVC) under Section 45-B of the Karnataka Stamp Act, 1957. These values are to be correctly applied during valuation to arrive at the proper market value of the property. This forms the basis for estimation of market value by the Registering Officer while registering documents. Whenever, the value estimated by the Sub-Registrar is not accepted by the parties concerned, the Sub-Registrar shall keep the process of registration pending and refer the matter to the Deputy Commissioner for determination of proper market value, as per Section 45 A of the Act ibid.

During test-check of records of Sub-Registrar Office Belagavi during April 2018, Audit noticed nine sale deeds wherein individual un-divided shares of the vendors in a property totally measuring 1,18,320 sq. yards were conveyed to a purchaser. As per the recitals of the documents, this property was situated in the city corporation limits of Belagavi and abutted the Old Pune-Bangalore Road. The Belagavi City Corporation had assigned City Title Survey (CTS) number (CTS nos.3928, 3929, 3929/1, 3929/2 and 3929/5) and the CTS numbers 3928 and 3929/2 were assigned specific rate of ₹22,540 per square metre as per the GMV prescribed for the jurisdiction of SRO, Belagavi. However, all the remaining CTS numbers along with 3928 and 3929/2 share the same boundaries as per the schedule of the document, since the whole property was one contiguous block and it commanded a similar valuation. Besides, from the tax-paid receipts, it was noted that the property had buildings of both commercial and residential nature.

However, during valuation, the SRO did not consider the specific rate prescribed in GMV, contiguous nature of the property and the existence of buildings in the property and estimated the value on agricultural basis, which is the lowest valuation under GMV. The estimated value of the Sub-Registrar was ₹ 13.75 crore, whereas the consideration stated in the document was ₹78.00 crore on which SD and RF of ₹ 5.15 crore was charged. The difference between valuation and consideration itself indicated the error in assessment of value by the Sub-Registrar.

Based on the specific value assigned in the GMV, the value of the property was ₹ 222.92 crore on which SD and RF of ₹ 14.71 crore was chargeable. Non-adoption of specific rates during estimation led to under valuation of documents and resultant short-levy of SD and RF of ₹ 9.56 crore.

This was brought to the notice of the Sub-Registrar concerned. The Sub-Registrar in reply, endorsed by the District Registrar, stated that the land was agricultural in status without conversion and that it was un-developed without any civic amenities, and hence the value estimated was correct.

This reply is not accepted because the error in valuation of property based on agricultural rates was already evident from the difference in valuation made by

SRO and the consideration stated in the document. Though the land was stated to be agricultural in status, the SRO was bound by the specific values assigned by the CVC. If the values as estimated were not agreed to by the parties concerned, the documents were to be forwarded to the District Registrar for valuation, and not mere endorsement, as was noticed in the present case. However, the SRO did not follow the process and failed to consider the contiguous nature of the property and existence of buildings of residential and commercial nature in the property and make a fair estimation.

After this was brought to the notice of the Department (January 2019) and the Government (September 2019), the IGR&CS has replied that the District Registrar concerned has initiated action under Section 46 (A) of the KS Act and 80 (A) of the Registration Act (September 2020).

Recommendation: Audit recommends to consider the advantage of the location and price of adjacent lands to evaluate properties appropriately.

3.8 Non-remittance of Demand Drafts and cash into Government Account indicating possible misappropriation of Government Revenue

Article 4 of the Karnataka Financial Code, 1958 stipulates that transactions to which any Government Servant in his official capacity is a party must, without any reservation, be brought to account, and all moneys received should be paid in full without undue delay, in any case within two days, into Government treasury, to be credited to the appropriate account and made part of the general treasury balance.

Article 329(v) of the KFC requires that ‘when Government money in the custody of a Government Officer is paid into the Treasury or the bank, the Head of the Office making such payments should as soon as possible after the end of the month, obtain from the treasury, a consolidated receipt of all the remittances made during the month which should be compared with the postings in the cash book’.

Stamp Duty (SD) and Registration Fee (RF) are collected in the Sub-Registrar office by way of DDs and cash. These are entered in the ‘A’ register, which is closed each day. Entries of amounts from the ‘A’ register are taken to Remittance Register for crediting into the treasury branch of Bank. At the end of each month these remittances are verified with that of treasury schedules (KTC-25), to ensure that the figures appear in the Government Account.

During test check of records in the Office of the Sub-Registrar (SRO), Karwar in April 2018, Audit noticed that, between the period July 2017 and April 2018, DDs amounting to ₹ 5.90 crore and cash amounting to ₹ 2.37 crore were collected towards SD, RF, etc., and entered in the ‘A’ register. However, out of the above, DDs amounting to ₹ 3.89 crore and cash amounting to ₹ 1.05 crore only were remitted to the nodal banks for realization into the Government account. Thus, DDs and cash amounting to ₹ 2.01 crore and ₹ 1.32 crore respectively, during the above period were not remitted to the nodal bank. The DDs were kept under custody of the Sub-Registrar (In-charge) and cash, though entered in the remittance register, was not found remitted to the Government Account. Thus, an amount of ₹ 3.33 crore was not remitted into the Government

Account. This was not only in contravention to the articles of the KFC but also raised the possibility of mismanagement of the money collected. Though the DDs were less susceptible for any misuse, the misappropriation of cash cannot be ruled out and Department needs to conduct appropriate investigation to fix the responsibility on the persons involved in the mismanagement of Government money.

As per provisions of KFC, the Departmental Officers are supposed to reconcile the remittances with the treasury schedule every month to ensure revenue realization into the Government Account. The supervisory control in this respect rests with the Departmental Controlling Officers through accounts and returns from their subordinates. Audit noticed that monthly reconciliation was not conducted at the Office and this fact was not noticed and rectified at the level of Departmental Controlling Officers. This indicated lapses in the due remittance of the Revenue realised in the Office and also in the monitoring process by the Departmental Controlling Officers as a result of which non-remittance of ₹ 3.33 crore remained unnoticed. Such lapses in the control procedures in place to ensure timely remittance of Government Revenue, kept the system exposed to the risk of frauds and non-realization of Government money.

After this was brought to the notice of the Department (March 2019) and the Government (May 2020), the IGR&CS has replied that departmental proceedings were underway against the SRO concerned and that the Department has recovered ₹ 1.97 crore pertaining to DDs and ₹ 50.00 lakh pertaining to cash (September 2020).

Recommendation: Audit recommends that the IGR&CS must take a periodic review of the process of Revenue Reconciliation under the Offices which collect revenue to mitigate the risk of malpractices which lead to non-remittance of revenue.

Chapter IV

Mineral Receipts

Chapter-IV Mineral Receipts

4.1 Tax administration

The responsibility for the management of mineral resources is shared between the Central and State Governments¹²⁵. The Mines and Minerals (Development and Regulation) (MMDR) Act, 1957 enacted by the Central Government, lays down the legal framework for regulation of mines and development of minerals¹²⁶. The Mineral Concession (MC) Rules, 1960, the Mineral Conservation and Development (MCD) Rules, 1988, and the Granite Conservation and Development Rules, 1999, have been framed for conservation and systematic development of minerals and for regulating grant of permits, licences and leases.

Legislations for exploitation of minor minerals have been delegated to the States. Accordingly, Karnataka Minor Mineral Concession (KMMC) Rules, 1994 were framed by the State Government.

4.2 Internal Audit

The Internal Audit Wing (IAW) is functional in the Department of Mines and Geology (DMG) since 1985. It is headed by an Accounts Officer on deputation from the State Accounts Department under the overall control of the Director of Mines and Geology.

As per the information furnished by the Department, Internal Audit has not been conducted since 2015-16, due to deficiency of staff in Internal Audit Wing. The year-wise details of the number of objections raised, settled and pending along with tax effect, as furnished by the Department, are given in **Table 4.1**:

Table 4.1
Year wise details of observations raised by IAW

Year	Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2014-15	334	117.48	-	-	334	117.48
2015-16	-	-	-	-	-	-
2016-17	-	-	-	-	-	-
2017-18	-	-	-	-	-	-
2018-19						

As seen from the above, it is clear that there were no activities of the IAW in the Department in the previous four-year period. At the end of the year 2014- 15, there were 334 cases pending with a money value of ₹ 117.48 crore, on which there was no clearance during the last five years. This indicates that the Department is not according due importance to Internal Audit. Internal Audit has a deterrent and reforming effect by pointing out mistakes and ensuring

¹²⁵ Entry 54 of the Union list (list I) and entry 23 and 50 of the State list (list II) of the Seventh Schedule of the Constitution of India.

¹²⁶ Other than petroleum and natural gas and atomic minerals.

remedies without loss of time, and non-conduct of Internal Audit leaves the Department vulnerable to the risk of control failure.

4.3 Results of Audit

There are 34 auditable units in the Department of Mines and Geology. Out of these, Audit selected 19 units for test check wherein there were 1876 leases. Audit checked records of all 1876 leases (*100 per cent*) during the year 2018-19 and noticed 1015 cases (*54.10 per cent* of audited sample) of non-collection of Performance Guarantee and Financial Assurance and non-observance of provisions of Acts/Rules, etc., in 16 units involving an amount of ₹ 217.05 crore. These cases are illustrative only as these are based on test check of records. The observations broadly fell under the following categories as given in **Table 4.2**.

Table: 4.2
Results of Audit

Sl. No.	Category	Number of Paragraphs	(₹. in crore)
1.	Non-levy of penalty for transporting minor minerals without obtaining MDP	9	141.83
2.	Non-levy of royalty on the minerals removed without obtaining MDP	9	16.65
3.	Non-collection of Performance Guarantee and Financial Assurance	13	15.92
4.	Other irregularities	19	42.65
	Total	50	217.05

During the course of the year, the Department had accepted under assessment and other deficiencies involving ₹ 29.33 crore in seven paragraphs. An amount of ₹ 4.77 crore was recovered in 12 paragraphs that were pointed out in the earlier years.

A couple of illustrative cases involving ₹ 7.29 crore is discussed in the following paragraphs.

4.4 Non-levy of royalty on minor minerals transported without obtaining Mineral Despatch Permits

Rule 36 of the Karnataka Minor Mineral Concession (KMMC) Rules, 1994, stipulates that the holder of a quarrying lease or licence shall pay royalty on minor mineral¹²⁷ removed or consumed at the rates specified in Schedule-II of the Rules. Rule 42 (1) of the KMMC Rules, 1994, requires that no person shall transport, or cause to be transported, any minor mineral, except under or in accordance with a computerised Mineral Despatch Permit (MDP) generated in electronic form (e-permit or m-permit). Additionally, as per Part-V, Clause-4 of the quarrying lease deed, the lease holder will be liable for penalty at five times of royalty for transporting minor mineral without obtaining MDP.

¹²⁷ As per 3(e) of The Mines and Minerals Development and Regulation Act, 1957, “Minor minerals” means building stones, gravel, ordinary clay, ordinary sand other than sand used for prescribed purposes, and any other mineral which the Central Government may, by notification in the Official Gazette, declare to be a minor mineral.

Further, the Director of Mines and Geology has issued (May 2016) circular¹²⁸ instructing all the offices of the Department to levy penalty at five times of royalty for transporting minor mineral without obtaining MDP.

During test check of records in one¹²⁹ out of 16 Deputy Director (DD)/Senior Geologist (SG) offices of Department of Mines and Geology in May 2018, Audit noticed that 10,49,961 metric ton (MT) of building stone was transported without obtaining MDP during the years 2015-16 and 2016-17 by the quarry lease holders, for which penalty at five times the royalty was levied. However, royalty amounting to ₹ 6.47 crore¹³⁰ was not levied.

After Audit brought these cases to the notice of the Department and Government between January 2019 and October 2019, the department replied that royalty has been deducted by Work Executing Departments (WEDs) from the contractors' bills and in case of private supply by quarry lease holders, the department collected royalty through yearly assessment.

The reply cannot be accepted due to the following reasons:

- i. The Department did not provide any documents to support the claim of supply of minerals to WEDs, though the same was requested (25 April 2019).
- ii. Audit could not find any evidence of levy of royalty through yearly assessment in case of private supply. Only penalty was levied in all the cases brought out in the para and royalty as per Rule 36 of KMMC Rules, 1994 was not levied.

Further, Audit has already pointed out possibilities of illegal quarrying in the State vide Paragraph 5.4.2 in the Audit Report (Revenue Sector) for the year ended March 2017, which showed discrepancies in pit measurement by the Department. This paragraph shows that the collection of Royalty by the DMG through its own volume estimation of the pits in the quarries amounted to only around 25 *per cent* of the total collection of Royalty. Besides, Audit has also proved large scale unauthorised mining in the Taluk of Chikkaballapura in the Performance Audit on "Systematic and Scientific Mining and Protection of Environment in respect of Quarry Leases of Minor Minerals"¹³¹. In the light of such unauthorised activities and the deficiency in pit measurement by the Department, maintaining the position that the mineral extracted is exactly measured through pit measurements and whatever royalty not levied by the Department is getting levied at the point of WEDs seems not realistic.

Recommendation: Audit recommends that the Department must ensure levy of royalty and penalty in respect of minerals extracted and transported without the MDPs.

¹²⁸ Circular No.M&G:DCB/SQL-1/22/DCB Section/2016-2017 dated 3 May 2016.

¹²⁹ Deputy Director, Mangaluru.

¹³⁰ Rate of royalty for building stone is ₹ 60/- per MT.

¹³¹ Paragraphs 4.4.9.5 and 4.4.15 of the Audit Report (Revenue Sector) for the year ended March 2018.

4.5 Unauthorised extraction of building stone

Rule 36 of the Karnataka Minor Mineral Concession (KMMC) Rules, 1994, stipulates that the holder of a quarrying lease or license shall pay royalty on minor mineral¹³² removed or consumed at the rates specified in Schedule-II of the Rules.

Further, Rule 44(3) of KMMC Rules, 1994, stipulates that any person who undertakes any quarrying operation in respect of the minor mineral without a license or lease is liable to pay a penalty of ₹ 5,000/- or value of the mineral, whichever is higher upto 11th August 2016, and 15 times of royalty till 17th November 2017 and five times of royalty thereafter.

Audit conducted Joint Inspection (December 2018) of 20 Building Stone Quarries¹³³ along with the Geologist and Engineer of the Office in two Taluks¹³⁴ of the Senior Geologist Office, Ballari¹³⁵. During inspection, Audit noticed extraction of 22,904 MTs of building stone from six areas, four of which were on leases, whose period had already expired or were cancelled and two were areas for which no quarry lease/license was granted. These incidents of quarrying in expired/cancelled leases and in areas where lease was not granted was not noticed by the Department and indicates the lack of periodical inspections of the areas under the jurisdiction of the Office. Further, quarrying, not in compliance with the extant Rules, attracts penalty at the rate of five times of royalty and also royalty for removal of mineral. Royalty and penalty applicable in these six cases works out to ₹ 82.47 lakh as shown in **Table 4.3**.

Table 4.3
Details of Unauthorised Extraction of Building Stone

Sl. No	Name of the Quarry Lease Holder/Area	Inspection Date	Survey Number	Particulars	Quantity extracted (In Metric Tonne)	Royalty leviable	Penalty	₹ in lakh	Total
1.	Sirwara Village, Ballari Taluk and District	28.12.2018	Sy No. 316	Extraction without License	5,755.65	3.45	17.27	20.72	
2.	Halekotte Village, Siraguppa Taluk, Ballari District	28.12.2018	Sy. No. 525		365.57	0.22	1.10	1.32	
3.	Sr. M Sai Babu QL No.324	28.12.2018	Sy No. 528, Halekote Village	Extraction on expired leases	5,045.66	3.03	15.14	18.17	

¹³² As per 3(e) of The Mines and Minerals Development and Regulation Act, 1957, “Minor minerals” means building stones, gravel, ordinary clay, ordinary sand other than sand used for prescribed purposes, and any other mineral which the Central Government may, by notification in the Official Gazette, declare to be a minor mineral.

¹³³ The basis for selection in an Office was the Taluks with highest number of expired leases. In such Taluks, one survey number was selected on a random basis for joint inspection.

¹³⁴ Ballari and Siruguppa.

¹³⁵ Audit conducted similar joint inspections in eight more districts as part of the Performance Audit on “Systematic Mining and Protection of Environment in respect of Quarry Leases of Minor Minerals” and found unauthorized extraction of mineral from 53 expired leases. These cases have been included under paragraph no.4.4.9.4.in the Report No.1 for the year 2019.

4.	Sri. Srinivasulu QL No.345	28.12.2018	Sy. No. 525, Halekote Village		3,402.56	2.04	10.21	12.25
5.	Sri. Ramakotgeshwara Rao, Lease expired with effect from 26.01.2014 QL No.312	28.12.2018	Sy. No. 354, Halekote Village		552.30	0.33	1.66	1.99
6.	Details of persons not known	28.12.2018	Quarries in Sy. No. 666 of Kurugodu Village, Ballari Taluk	Extraction on Cancelled lease	7,782.20	4.67	23.35	28.02
Total					22,903.94	13.74	68.73	82.47

After these cases were brought to the notice of the Department and the Government between February 2019 and January 2020, notices have been issued in all these cases and an amount of ₹ 32.40 lakh has been collected in three cases (September 2020).

Recommendation: The Department may include expired leases in their annual scheme of inspections of quarries to prevent such illegal occurrences.



**Bengaluru
The**

**(Anup Francis Dungdung)
Accountant General (Audit-II)
Karnataka**

Countersigned



**New Delhi
The**

**(Girish Chandra Murmu)
Comptroller and Auditor General of India**

Appendices

Appendix 1.1
(Paragraph 1.8, Page 4)
Details of Outstanding Paragraphs

Sl. No.	Department	Up to 2013	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total IRs	Total paras							
1	Forest, Ecology & Environment	106	415	32	161	34	205	15	94	27	233	34	396	24	241	272	1745
2	WRD (MI)	39	146	16	102	15	125	13	99	18	143	19	157	2	12	122	784
3	PWP & IWT	113	354	53	231	55	313	59	375	59	404	51	356	58	582	448	2615
4	WRD	6	28	9	40	7	41	3	16	0	0	0	0	0	0	0	25
5	Commerce & Industries	20	200	10	70	6	39	15	111	4	22	12	51	5	40	72	533
6	Co-operation	11	39	7	54	3	19	15	70	8	44	1	2	2	2	18	47
7	Economics and Statistics	1	1	1	11	1	3	2	8	1	4	0	0	0	0	0	6
8	Food, Civil Supplies & Consumer Affairs	12	50	3	29	2	21	11	61	3	17	0	0	3	14	34	192
9	Sericulture	39	108	16	61	2	3	7	48	1	7	0	0	0	0	0	65
10	Tourism	3	96	1	14	0	0	0	1	1	14	6	42	2	11	13	177
11	IT&BT	7	18	6	32	3	26	3	28	3	24	1	7	1	10	24	145
	Total	357	1455	154	805	128	795	143	910	125	912	124	1011	97	928	1128	6816

Appendix 1.2
(Paragraph 1.9, Page 4)
Details of Departmental Notes pending as of March 2020

Sl. No.	Department	2003-04	2015-16 [@]	2016-17 [@]	2017-18	Total
1	Commerce & Industries	--		2	1	4
2	Food, Civil Supplies and Consumer Affairs	--		1	--	1
3	Forest, Ecology & Environment	--		2	1	3
4	Horticulture (Sericulture)	--		--	1	1
5	Water Resources (Minor Irrigation)	1		3	2	6
6	PWP & IWT	--	3	4	3	10
7	Tourism	--	--	1	--	1
8	Co-operation Department	--	--		1	1
Total		01	03	13	9	27

([@] Report on Economic Sector)

(In addition to the above Departmental Note for the Stand Alone Report on Administration of National Parks and Wildlife Sanctuaries in Karnataka is also pending)

Appendix 1.3
(Paragraph 1.9, Page 4)
Number of Paragraphs/Reviews yet to be discussed by PAC as of March 2020

Sl. No.	Dept [#]	1996-2003	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12 [@]	12-13 [@]	13-14 [@]	14-15 [@]	15-16 [@]	16-17	17-18	Total	
1	Forest, Ecology & Environment	--	1	--	--	--	1	--	--	--	1	--	--	--	1	2 ⁺	2	1	09
2	Food, Civil Supplies & Consumer Affairs	--	--	--	--	--	--	--	--	--	--	--	--	--	1	1	--	02	
3	WRD	3	--	--	--	--	--	--	--	--	--	--	--	1	--	--	--	04	
4	WRD (MI)	--	1	2	1	--	--	3	2	1	--	1	2	3	5	1	2	24	
5	PWP & IWT	--	1	--	--	--	--	--	--	--	--	5	--	--	5	3	3	17	
6	Co-operation	--	--	--	1	--	--	--	--	--	--	--	--	--	--	--	1	02	
7	Commerce & Industries	--	--	--	1	--	1	--	1	--	--	--	3	2	3	2	1	14	
8	Horticulture	--	--	--	--	--	--	--	--	--	1	--	--	--	--	--	1	02	
9	IT&BT	--	2	--	--	--	--	--	--	1	--	--	--	--	--	--	--	03	
10	Tourism	--	--	--	--	--	--	--	1	--	--	1	--	--	1	--	1	03	
11	Infrastructure Development	--	--	--	--	--	--	--	--	--	--	1	--	--	--	--	1	01	
Total		3	5	2	2	1	1	4	2	3	1	8	7	7	16	10	9	81	

([@] Report on Economic Sector)

(⁺ Includes Stand Alone Report on Administration of National Parks and Wildlife Sanctuaries in Karnataka)

Appendix 2.1
(Paragraph 2.1.2, Page 9)
Status of Recognition of Zoos

Sl. No.	Name of the zoo	Category of Zoo	Recognition valid up-to	Status of recognition of zoos as of March 2020
1	Mysore Zoo	Large	28/8/2020	Recognition valid
2	Bannerghatta Biological Park, Bengaluru	Large	5/5/2019	Yet to be renewed
3	Bellary Zoo – Relocated as Atal Bihari Vajpayee Zoological Park, Kamalapur, Hospet	Small	23/1/2019	Yet to be renewed
4	Shivamogga Zoo	Small	27/9/2019	Yet to be renewed
5	Kalaburagi Zoo	Mini	30/4/2017	Recognition suspended for one year (January 2019)
6	Gadag Zoo	Mini	20/1/2019	Yet to be renewed
7	Belagavi Zoo	Small	23/8/2018	Yet to be renewed
8	Davanagere Zoo	Mini	28/9/2019	Yet to be renewed
9	Chitradurga Zoo	Mini	30/4/2017	Recognition suspended for one year (January 2019)

Appendix 2.2
(Paragraph 2.1.3.1, Page 10)
Details of approval of Master Plans and Master (Layout) Plans of Zoos

Sl. No.	Name of the zoo	Year of establishment of zoo	Date of approval of Master (layout) Plan	Date of approval of Master Plan
1	Mysore Zoo	1892	26/10/2013	29/10/ 2013
2	Bannerghatta Biological Park, Bengaluru	1974	3/1/2014	10/12/2014
3	Kamalapur Zoo	2017	31/12/2012	13/11/2014
4	Shivamogga Zoo	1988	12/2/2019	-
5	Kalaburagi Zoo	1988	-	-
6	Gadag Zoo	1972	18/2/2019	-
7	Belagavi Zoo	1989	12/2/2019	-
8	Davanagere Zoo	1993	-	-
9	Chitradurga Zoo	1987	12/12/2018	-

Appendix 2.3
(Paragraph 2.1.4.2, Page 12)
Details of surplus species in Zoos

Sl . No.	Name of the Zoo	Total No of Species Displayed	No of surplus species in respective zoo
1	Mysore Zoo	152	27
2	BBP, Bengaluru	95	06 (Leopard, Jungle cat, Black buck, Hogg Deer, Spotted Deer and Star Tortoise)
3	Shivamogga Zoo	30	03 (Leopard, Spotted deer and Sambar)
4	Gadag Zoo	34	02 (Spotted deer and black buck)
5	Belagavi Zoo	23	02 (Spotted deer and black buck)
6	Kamalapur Zoo	32	03 (Stone tortoise, Spotted deer and Black buck)
7	Kalaburagi Zoo	21	02 (Marsh crocodile and Black kite)
8	Davanagere Zoo	15	01 (Spotted Deer)
9	Chitradurga Zoo	16	01 (Black buck)

Appendix 2.4
(Paragraph 2.1.4.2, Page 12)
Details of surplus animals in Mysore Zoo

Sl. No.	Species	Numbers as of March 2019			
		M	F	U	T
1	Asiatic Elephant	1	5	0	6
2	Indian Leopard	4	9	0	13
3	Bengal Tiger	6	0	0	6
4	Barasingha/Swamp Deer	0	0	6	6
5	Black Buck	0	0	28	28
6	Gaur	2	1	0	3
7	Striped Hyena	0	2	0	2
8	Spotted Deer	10	10	0	20
9	Hog Deer	22	1	0	23
10	Sambar	1	1	0	2
11	Nilgai	14	7	0	21
12	Himalayan Goral	2	0	0	2
13	Common Peafowl	2	3	0	5
14	Lady Amherst's Pheasant	2	2	0	4
15	Black Swan	0	0	18	18
16	Black Crowned Night Heron	3	10	47	60
17	Sarus Crane	4	0	0	4
18	Budgerigar	20	20	0	40
19	Grey Indian Wolf	4	2	0	6
20	Hippopotamus	4	2	0	6
21	Rhesus Macaque	1	3	5	9
22	Yellow Golden Pheasant	2	2	0	4
23	Red Avadavit	0	0	4	4
24	Sloth Bear	2	0	0	2
25	Asiatic Black Bear	1	0	0	1
26	Chinese Ring-Necked Pheasant	2	2	0	4
27	Giraffe	0	2	0	2

Appendix 2.5
(Paragraph 2.1.4.2, Page 13)
Single or Mono-sex animals displayed at Zoos

Sl . No.	Species	Mysore Zoo	BBP Zoo	Shivamogga Zoo	Gadag Zoo	Belagavi Zoo	Kamalapur Zoo	Kalaburagi Zoo	Davana - gare Zoo	Chitra- durga Zoo
		Status	Status	Status	Status	Status	Status	Status	Status	Status
1	Small Indian Civet	Single	--	--	--	--	--	--	--	--
2	African Elephant	Single	--	--	--	--	--	--	--	--
3	Smooth coated otter	Mono-sex	--	--	--	--	--	--	--	--
4	Tawny Eagle	Single	--	--	--	--	--	--	--	--
5	Great Indian Hornbill	Single	Single	--	--	--	--	--	--	--
6	Cassowary	Mono-sex	--	--	--	--	--	--	--	--
7	Flamingo	Single	--	--	--	--	--	--	--	--
8	Goffins Cockatoo	Mono-sex	--	--	--	--	--	--	--	--
9	African slender snouted crocodile	Mono-sex	--	--	--	--	--	--	--	--
10	Nile crocodile	Mono-sex	--	--	--	--	--	--	--	--
11	Albino Black Buck	Single	--	--	--	--	--	--	--	--
12	Brahminy Kite	Single	--	--	--	--	--	--	--	--
13	Bar Headed Goose	Single	--	--	--	--	--	--	--	--
14	Tawny Eagle	Single	--	--	--	--	--	--	--	--
15	Comb Duck	Mono-sex	--	--	--	--	--	--	--	--
16	Moustached Parakeet	Single	--	--	--	--	--	--	--	--
17	Common Indian Krait	Single	--	--	--	--	--	--	--	--
18	Jaguar	Single	--	--	--	--	--	--	--	--
19	Bat Eared Fox	Single	--	--	--	--	--	--	--	--
20	North American Wood Duck	Single	--	--	--	--	--	--	--	--
21	Red Lory	Single	--	--	--	--	--	--	--	--
22	Patagonian Connure	Single	--	--	--	--	--	--	--	--
23	Salmon Crested Cockatoo	Single	--	--	--	--	--	--	--	--
24	Livingston's Turaco	Single	--	--	--	--	--	--	--	--
25	Paradise Whydah	Single	--	--	--	--	--	--	--	--
26	Darwin's rhea	Single	--	--	--	--	--	--	--	--
27	Cheetah	Single	--	--	--	--	--	--	--	--
28	Common barn owl	Single	Single	--	--	--	--	--	--	--
29	Lesser Adjutant Stork	Mono-sex	--	--	--	--	--	--	--	--
30	King cobra	Mono-sex	--	--	--	--	--	--	--	--
31	Common Langur	Mono-sex (upto 2018)	--	--	--	--	--	--	--	--
32	Brown Lemur	Single (upto 2016)	--	--	--	--	--	--	--	--
33	White Rhino	Single (upto 2016)	--	--	--	--	--	--	--	--
34	Brown Wood Owl	Single (upto 2016)	--	--	--	--	--	--	--	--

35	Red-billed toucan	Single (upto 2018)	--	--	--	--	--	--	--	--	--
36	Jungle cat	Single (upto 2018)	--	--	Single	--	--	--	--	--	--
37	Mouse Deer	Mono-sex (upto 2018)	--	--	--	--	--	--	--	--	--
38	Fallow Deer	Mono-sex (upto 2018)	--	--	--	--	--	--	--	--	--
39	Spoon Bill	--	Single	--	--	--	--	--	--	--	--
40	Eurasian Eagle Owl	--	Mono-sex	--	--	--	--	--	--	--	--
41	Painted Stork	--	Mono-sex	--	Single	--	--	--	--	--	--
42	Golden Pheasant	--	Single	--	--	Mono-sex	Single	--	--	--	--
43	Yellow Golden Pheasant	--	--	--	--	--	Single	--	Single	--	--
44	Khaleej Pheasant	--	Single	--	--	--	--	--	--	--	--
45	Lady Amerset Pheasant	--	--	Single	--	--	Single	--	--	Mono-sex	--
46	Silver Pheasant	--	--	--	--	--	--	--	--	Single	--
47	Chinese Ring necked Pheasant	--	Single	--	--	Single	--	--		--	
									Mono-sex		
48	Common Ring necked Pheasant	--	--	--	--	Single	Single (upto 2017)	--	--	--	--
49	White Peafowl	--	Mono-sex		Single						
50	Mottled wood owl	--	Single	--	--	--	--	--	--	--	--
51	Rainbow lorikeet	--	Mono-sex	--	--	--	--	--	--	--	--
52	Red lorikeet	--	Mono-sex	--	--	--	--	--	--	--	--
53	Lion Tailed Macaque	--	Single	--	--	--	--	--	--	--	--
54	Common Langur	--	Mono-sex (upto 2018)	--	--	--	--	--	--	--	--
55	Malabar Giant Squirrel	--	Single (upto 2017)	Mono-sex	--	--	--	--	--	--	--
56	Four horned antelope	--	Mono-sex	--	--	--	--	--	--	--	--
57	Goral	--	Single	--	--	--	--	--	--	--	--
58	Slender Loris	--	Single	--	--	--	--	--	--	--	--
59	Giraffe	--	Single	--	--	--	--	--	--	--	--
60	Hamadryas Baboon	--	Single	--	--	--	--	--	--	--	--
61	Marmosets	--	Single (upto 2018)	--	--	--	--	--	--	--	--
62	Gharial	--	Mono-sex	--	--	--	--	--	--	--	--
63	Indian Mud or Flapshell Turtle	--	Single	--	--	--	--	--	--	--	--
64	Morelet's crocodile	--	Single	--	--	--	--	--	--	--	--
65	Graylag Goose/white goose	--	--	Single	--	--	--	--	--	--	--
66	Porcupine	--	--	Single	--	--	--	--	--	--	--
67	Black Buck	--	--	Single	--	--	--	--	--	--	--
68	Indian Rock Python	--	--	Mono-sex	Mono-sex	--	--	--	--	--	--

69	Marsh Crocodile	--	--	Mono-sex		--	--	--	--	--
70	Common Palm civet	--	--	--	Single	--	--	--	--	--
71	Grey Jungle Fowl	--	--	--	--	Mono-sex	--	--	--	--
72	Red Jungle Fowl	--	--	--	--	Mono-sex	--	--	Mono-sex	--
73	Love Birds	--	--	--	--	Mono-sex (Unknown)	--	--	--	--
74	ButhanSilkes	--	--	--	--	Mono-sex	--	--	--	Single (upto 2018)
75	Red monkey	--	--	--	--	--	Single (upto 2017)	--	--	--
76	Sloth Bear	--	--	--	--	--	Single	--	Single	Single
77	Jackal	--	--	--	--	--	Single	--	--	Single (upto 2018)
78	Alexandrian parakeet	--	--	--	--	--	Single	--	--	--
79	White necked stork	--	--	--	--	--	--	Single	--	--
80	Sambar	--	--	--	--	--	--	Single	--	--
81	Indian Soft shell turtle	--	--	--	--	--	--	--	Single	--
	Total	38	24	07	05	07	08	02	05	05

Appendix 2.6
(Paragraph 2.1.7.1, Page 18)
Requirement and procurement of food items

Sl. No.	Name of the Zoo	Period	Name of food item	Requirement (Kg)	Procurement (Kg)	Variation (%)	Excess Amount (₹)
1	Mysore Zoo	2018-19	Beef	114292	111300	-2.62%	
2	Kalaburagi Zoo	2018-19	Beef	5751	4380	-23.84%	
3	Belagavi Zoo	2014-15 to 2018-19	Green Grass	150380	71495	-52.46%	
4	Kamalapur Zoo	2014-15 to 20115-16	Beef	11473	20261	76.59%	7,90,845
		2016-17 to 2018-19	Beef	46580	25178	-45.94%	
		2014-15	Chicken	156	35	-345%	
		2016-17 to 2018-19	Chicken	468	1751	274%	2,38,400
		2016-17 to 2018-19	Garlic	320	170	-46.87%	
			Groundnut	1862	1076	-42.24%	
			Hay	56063	107829	92.33%	4,14,126
5	Gadag Zoo	2014-15 to 2018-19	Beef	76247	41172	-46%	
			Chicken	1964	1120	-42.97%	
6	Shivamogga Zoo	2017-18 & 2018-19	Beef	123447	115658	-6.3%	
		2017-18	Chicken	2444	8576	250.9%	10,42,440
		2018-19	Chicken	2236	1906	-14.78%	
7	Davanagere Zoo	2014-15 to 2018-19	Lucerne	74098	25810	-65.16%	
			Green Grass	427415	273111	-36.10%	
			Hay	42705	41555	-2.69%	
			Groundnut cake	32110	21874	-31.88%	
8	BBP	2014-15 to 2018-19	Beef	1024747	989170	-3.47%	
			Chicken	7453	26190	251.4%	35,26,534

Appendix 2.7
(Paragraph 2.1.7.2, Page 18)
Non-procurement of items in diet chart

Sl. No.	Name of the zoo	Food item not procured	Period	Species and requirement
1	Belagavi Zoo	DC oats	2014-15 to 2018-19	Spotted Deer (0.68kg per day)
		Honey	2014-15 to 2018-19	Sloth Bear (10 gm per day)
		Sweet Potato	2014-15 to 2018-19	Sloth Bear – 100 gms per day
		Soya Bean meal	2014-15 to 2018-19	Emu – 160 gm per day
2	Kamalapur Zoo	Wheat Bran	2014-15 to 2016-17 and 2018-19	Black buck (0.4 kg per day) Spotted deer (0.5 kg per day)
3	Shivamogga Zoo	Horse gram	2017-18, 2018-19 (For balance years complete details not furnished)	Black buck (0.2 kg per day), Sambar deer (0.4 kg per day), Spotted deer (0.25 kg per day)
		Soya bean		Pea fowl (0.02 kg per day), Red jungle fowl (0.01 kg per day), Greylag goose (0.2 kg per day)
		Lucerne		Peafowl (0.01kg per day), Black buck (0.01 kg per day), greylag goose (0.06 kg per day), Emu (0.04 kg), Lady Amherst's pheasant- (0.02kg per day)
		DC oats		Spotted Deer (0.68kg per day)
		Paddy		Budgerigar (0.05 kg per day), Love birds (0.02 kg per day)
		Sugarcane		Budgerigar (0.01 kg per day), love bird (0.01 kg per day)

Appendix 2.8
(Paragraph 2.1.7.2, Page 18)
Procurement of items not in diet chart

Sl. No.	Zoo	Period	Species	Item	Quantity in Kgs	Expenditure in ₹
1	Belagavi Zoo	2016-17 to 2018-19	Tortoise	Minced Meat	720	1,14,960
		2016-17 to 2018-19	Tortoise	Fish	120	9,733
2	Kamalapur Zoo	2014-15, 2015-16, 2016-17, and 2018-19.	Not available	Wheat	2,77,783.5	61,98,403
3	Davanagere Zoo	2014-15, 2016-17, 2017-18 and 2018-19	Not available	Fruits	3,860.16	1,44,828.8
		2014-15 to 2018-19	Not available	Vegetables	5,566.9	1,60,931
		2014-15, 2016-17, 2017-18 and 2018-19	Not available	Black grapes	391	11,630
	Total					66,40,486

Appendix 2.9
(Paragraph 2.1.8, Page 19)
Statement of enrichment activities carried out in Zoos

Sl. No.	Name of the Zoo	Habitat Enrichment	Feed Enrichment	Total Species/ Enriched	Expenditure (₹ in lakh)	Biologist
1	Mysore Zoo	P	P	152/46	106.37	P
2	BBP, Bengaluru	P	P	95/25	1.02	P
3	Shivamogga Zoo	P	Ab	30/8		Ab
4	Gadag Zoo	P	Tiger & bear	34/02		Ab
5	Belagavi Zoo	Ab	Ab	23/Nil		Ab
6	Kamalapur Zoo	P	Ab	32/		Ab
7	Kalaburagi Zoo	P	Ab	21/6	1.00	Ab
8	Davanagere Zoo	Ab	Ab	15/Nil		Ab
9	Chitradurga Zoo	P	Ab	16/06		Ab

Appendix 2.10
(Paragraph 2.1.9, Page 20)
Details of veterinary infrastructure and its status in Zoos

Sl. No.	Name of the Zoo	Type of Zoo	Minimum staff required as per CZA Norms	Available Staff	Annual Zoonotic disease screen	Health committee	Infrastructure
							Animal/keeper
1	Mysore Zoo	Large	2 Veterinarian, 1 Lab Asst. & 2 compounder	Present	No/ only regular check up	Present/ Not regular	Complete setup in place
2	BBP, Bengaluru	Large	2 Veterinarian, 1 Lab Asst. & 2 compounder	Present	No/ only regular checkup	Present/ Not regular	Complete setup in place. Except for a proper quarantine & isolation room
3	Shivamogga Zoo	Small	1 Veterinarian & 1 compounder		No/ only regular checkup	Present/ Not regular	Complete setup in place
4	Gadag Zoo	Small	1 Veterinarian & 1 compounder	Ab/ Now Asst Vet	No/ only regular checkup	Absent	Hospital building constructed/ Yet to get apparatus and yet to be functional
5	Belagavi Zoo	Small	1 Veterinarian & 1 compounder	Ab	No/ only regular checkup	Absent	No treatment room also
6	Kamalapur Zoo	Mini	At least a local Veterinarian	Present	No/ only regular checkup	Absent	Basic structure constructed/ yet to get apparatus and yet to be functional
7	Kalaburagi Zoo	Mini	At least a local Veterinarian	Present	No/ only regular checkup	Absent	No treatment room also
8	Davanagere Zoo	Mini	At least a local Veterinarian	Ab	No/ only regular checkup	Absent	No treatment room also
9	Chitradurga Zoo	Mini	At least a local Veterinarian	Present	No/regular checkup only	Absent	No treatment room also

Appendix 2.11
(Paragraph 2.1.11.1, Page 23)
Details of visitor facilities in Zoos

Facility Provided	Mysore Zoo	Kalaburagi Zoo	Belagavi Zoo	Davanagere Zoo	Shivamogga Zoo	Kamalapur Zoo	BBP	Gadag Zoo	Chitradurga Zoo
Drinking water	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Shelters/shade areas	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Toilets	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Child care area	Yes	No	No	No	Yes	Yes	Yes	No	No
Canteen	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Information/display board	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Route Map display	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pathway directions	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Electric cars (Battery operated cars)	Yes	No	No	No	No	No	Yes	Yes	No
First aid kit	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Parking	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wheel chair/ ramps for physically challenged	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes

Appendix 2.12
(Paragraph 2.1.13, Page 25)
Details of sanctioned and working strength in Zoos

Sl. No.	Name of the Zoos	Sanctioned strength	Working strength as in March-2019
1	Mysore Zoo	137	310
2	Kalaburagi Zoo.	11	12
3	Belagavi Zoo	14	8
4	Kamalapur Zoo	16	36
5	Gadag Zoo	8	23
6	Chitradurga Zoo	7	7
7	Shivamogga Zoo	27	42
8	Davanagere Zoo	6	7
9	BBP, Bengaluru	162	317
	Total	388	762

Appendix 2.13
(Paragraph 2.6, Page 36)
Overpayment to contractors towards plastering to ceiling

Name of the Circle Office	Name of the work/Division/ Contractor	Est. Cost (₹ in crore)	CER No.	Excess payment (₹ in lakh)
Superintending Engineer, Shivamogga	C/o Mini Vidhana Soudha at Challakere/ PWD Division, Chitradurga/ M/s Ramkrishy Infrastructure Pvt. Ltd (Indent No. 54476)	9	310/August 2016	8.05
	C/o Post Metric Boys Hostel building at Chitradurga/ PWD Division, Chitradurga/ M/s Ramkrishy Infrastructure Pvt. Ltd.,/ Package No.1 Indent No.77640	11.68	1062/1063/ 1065 of 2017	11.68
	C/o Post Metric Girls Hostel building at Chitradurga/ PWD Division, Chitradurga/M/s Ramkrishy Infrastructure Pvt. Ltd.,/ Package No.2 Indent No.77642	15.52	1061/1064/ 1066/ 1068 of 2017	7.92
	C/o Post Metric Girls Engineering and Medical Hostel at Chitradurga/PWD Division, Chitradurga/M/s. S.R. Constructions/ Package No.3 (Indent No. 77644)	14	1059/1060/ 1067 of 2017	7.30
Superintending Engineer, Bengaluru	C/o New Building for Karnataka Judicial Academy/ No.1 Buildings Division/ B.S.R Infrastructure	76	15/15-16	36.76
	C/o Family Flats to MLS at LH premises/ No.1 Buildings Division/ Sri. Jayaprakash Rao	35	112/14-15	27.08
	C/o 202 Rooms at Kumara krupa Guest House/ No.1 Buildings Division/ B.G.Shirke Construction	80	44/14-15	46.36
	C/o Car parking, Court Hall & Advocate Building at CMM Court Building/ No.2 Buildings Division/ V.Shekhar	26	11/14/2015	9.02
	C/o 5 th & 6 th Floor at CCC premises/ No.2 Buildings Division/S.Shivaraju	13.7	56/13-14	23.01
	C/o Annex Building at Kaveri Guest House/ No.2 Buildings Division/Dhamodar & Co	18	99/14-15	13.18
	Haigreeva Infratech Ltd	4.8	75/2016-17	2.81
		Total		193.17

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