

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Kerala during the year 2011-12, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Revenue raised by the State Government					
	• Tax revenue	13,668.95	15,990.18	17,625.02	21,721.69	25,718.60
	• Non-tax revenue ¹	1,209.55 (1,078.00)	1,559.29 (1,390.00)	1,852.22 (1,633.22)	1,930.79 (1,739.58)	2,592.18* (2,228.97)
	Total	14,878.50 (14,746.95)	17,549.47 (17,380.18)	19,477.24 (19,258.24)	23,652.48 (23,461.27)	28,310.78 (27,947.57)
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	4,051.70	4,275.52	4,398.78	5,141.85	5,990.36
	• Grants-in-aid	2,176.59	2,687.19	2,233.38	2,196.62	3,709.22
	Total	6,228.29	6,962.71	6,632.16	7,338.47	9,699.58
3.	Total revenue receipts of the State Government (1 and 2)	21,106.79 (20,975.24)	24,512.18 (24,342.89)	26,109.40 (25,890.40)	30,990.95 (30,799.74)	38,010.36 ² (37,647.15)
4.	Percentage of 1 to 3	70	72	75	76	74

* Includes ₹ 47.70 crore (treated as non-tax revenue), the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Governments by the Ministries other than Ministry of Finance written off as per the recommendation of the Thirteenth Finance Commission (XIII FC).

Source: Finance Accounts.

The above table indicates that during the year 2011-12, the revenue raised by the State Government (₹ 28,310.78 crore) was 74 per cent of the total revenue receipts against 76 per cent in the preceding year. The balance 26 per cent of receipts during 2011-12 was from the Government of India.

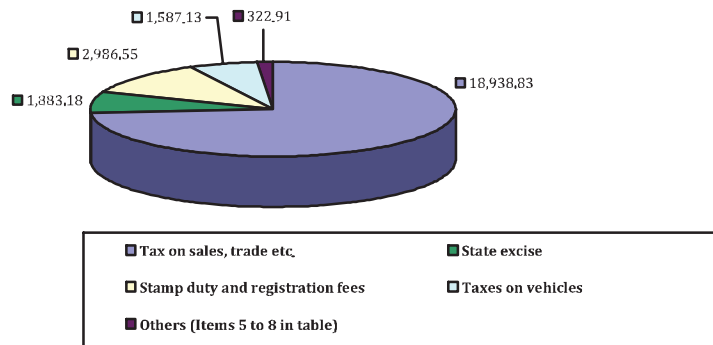
¹ The difference between the figures shown in column and bracket represent expenditure on prize winning tickets of lotteries conducted by the Government.

² For details please see Statement No. 11 – Detailed accounts of revenue by minor heads in the Finance Accounts of Kerala for the year 2011-12. Figures under the major heads 0020 – Corporation tax, 0021 – Taxes on income other than corporation tax, 0028 – Other taxes on income and expenditure, 0032 – Taxes on wealth, 0037 – Customs, 0038 – Union excise duties, 0044 – Service tax and 0045 – Other taxes and duties on commodities and services – Share of net proceeds assigned to States booked in the Finance Accounts under A – Tax revenue has been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this statement.

1.1.2 The following table presents the details of tax revenue raised during the period 2007-08 to 2011-12:

Sl. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase(+)/ decrease (-) in 2011-12 over 2010-11
		₹ in crore					
1.	0040 - Tax on sales, trade etc.	9,371.76	11,377.13	12,770.89	15,833.11	18,938.83	19.62
2.	0039- State excise	1,169.25	1,397.64	1,514.81	1,699.54	1,883.18	10.81
3.	Stamp duty and Registration fees						
	0030-01 - Stamps - judicial	81.89	71.25	83.52	75.30	79.66	5.79
	0030-02 - Stamps - non-judicial	1,607.85	1,580.94	1,495.26	1,884.01	2,153.80	14.32
	0030-03 - Registration fees	338.23	350.81	317.63	593.18	753.09	26.96
4.	0041 - Taxes on vehicles	853.17	937.45	1,131.10	1,331.37	1,587.13	19.21
5.	0043 - Taxes and duties on electricity	39.04	56.00	24.78	20.71	21.28	2.75
6.	0022 - Taxes on agricultural income	22.05	11.97	27.73	46.97	42.86	(-) 8.75
7.	0029 - Land revenue	47.21	47.56	53.93	55.97	60.75	8.54
8.	Others	138.50	159.43	205.37	181.53	198.02	9.08
Total		15,990.18	13,668.95	17,625.02	21,721.69	25,718.60	18.40

Tax Revenue 2011-12
₹ in crore



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

Tax on sales, trade etc.: The increase was due to increase in price, e-filing, e-payments, KVATIS³ scrutiny and improvement of enforcement machinery.

State Excise : The variation was due to increase in sale of Indian made foreign liquor (IMFL) and beer.

Stamps and registration fees : The increase was due to introduction of fair value of land and increase in number of documents registered.

Taxes on vehicles : The increase was due to increase in vehicle population, enhancement of tax rate and intensive field check to detect tax evasion.

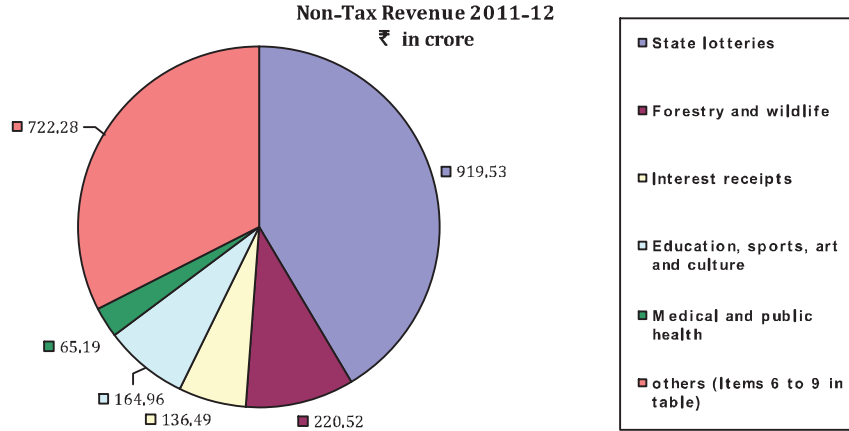
The other departments did not inform (December 2012) the reasons for variations, despite being requested (April 2012).

1.1.3 The following table presents the details of the non-tax revenue raised during the period 2007-08 to 2011-12:

Sl. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase(+)/ decrease (-) in 2011-12 over 2010-11
		₹ in crore					
1.	0075-103 - State lotteries ⁴	193.70	312.10	405.07	380.25	919.53	141.82
2.	0406 - Forestry and wildlife	154.45	223.71	272.80	274.10	220.52	(-) 19.55
3.	0049 - Interest receipts	69.65	83.69	152.50	171.47	136.49	(-) 20.40
4.	0202 - Education, sports, art and culture	100.89	130.24	130.62	150.83	164.96	9.37
5.	0210 - Medical and public health	20.02	38.58	34.43	63.46	65.19	2.73
6.	0401 - Crop husbandry	10.91	15.04	7.88	10.03	11.55	15.15
7.	0403 - Animal husbandry	5.26	2.96	3.11	3.97	4.06	2.27
8.	0059 - Public works	3.28	3.80	6.54	6.59	4.10	(-) 37.78
9.	Others	519.84	579.88	620.27	678.88	702.57	3.49
Total		1,390.00	1,078.00	1,633.22	1,739.58	2,228.97	28.13

³ Kerala Value Added Tax Information System

⁴ From gross receipts of ₹ 1,282.74 crore, expenditure of ₹ 363.21 crore on prize winning tickets has been deducted, but other expenditure like commission to agents (₹ 415.20 crore), establishment expenses (₹ 97.51 crore) etc. have not been deducted.



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

State lotteries : The Government introduced lotteries with draws on all days. Also other State lotteries were banned in the State. This resulted in the increase of revenue collection during 2011-12.

Forestry and Wildlife : The decrease was due to the delay in approval of working plans of Forest divisions and shortage in supply of timber.

The other departments did not inform (December 2012) the reasons for variations, despite being requested (April 2012).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2012 in respect of some principal heads of revenue amounted to ₹ 10,272.91 crore of which ₹ 3,767.72 crore were outstanding for more than five years as mentioned below:

(₹ in crore)			
Sl. No.	Department	Amount of arrears as on 31 March 2012	Arrears outstanding for more than 5 years
1.	Commercial taxes department	5,458.64	1,641.14
	An amount of ₹ 3,274.86 crore was due from individuals, private firms and private companies, ₹ 1,915.06 crore was due from Public Sector Undertakings (PSUs) of Government of India and ₹ 266.04 crore was due from PSUs of Government of Kerala. The remaining amount was due from Government of India, State Government and Local Bodies of the State.		
2.	Forest	247.56	143.25
	An amount of ₹ 184.49 crore was due from PSUs of Government of Kerala, ₹ 48.50 crore was due from PSUs of Government of India and ₹ 10.69 crore was due from individuals, private companies etc. The remaining amount was due from Government of India, State Government and Karnataka State Forest Corporation.		
3.	Local Fund Audit	657.18	136.87
	The arrear represents audit charge due from various local bodies.		
4.	Police	62.28	23.58
	₹ 51.70 crore and ₹ 5.67 crore were due from Central and State PSUs respectively.		

Sl. No.	Department	Amount of arrears as on 31 March 2012	Arrears outstanding for more than 5 years
	₹ 3.14 crore was due from Government of India and ₹ 1.30 crore was due from other State Governments. The remaining amount of ₹ 1.47 crore was due from individuals and private firms.		
5.	Stationery	12.67	8.74
	An amount of ₹ 2.89 crore was due from Education Department (Pareeksha Bhavan), ₹ 1.23 crore was due from Director of Civil Supplies and ₹ 1.15 crore was due from Election Department. The remaining amount of ₹ eight lakh was due from various State Government Departments.		
6.	Electrical Inspectorate	3,663.32	1,648.77
	An amount of ₹ 3,646.06 crore was due from PSUs of Government of Kerala. ₹ 12.99 crore was due from local bodies and ₹ 4.37 crore was due from individuals, private firms, private companies etc.		
7.	Excise	167.70	165.25
	An amount of ₹ 164.06 crore was due from individuals, private firms, private companies etc. and ₹ 3.64 crore was due from PSUs of Government of Kerala.		
8.	Labour	0.67	0.02
	The entire arrear was due from individuals, private firms, private companies etc.		
9.	Port	2.89	0.09
	The amount was due from individuals, private firms, private companies etc.		
	Total	10,272.91	3,767.72

1.3 Response of the departments/Government towards audit

1.3.1 Response to Inspection Reports

Periodical inspection of the Government departments were conducted to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. Our inspections are followed up with inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot. Our inspection reports are issued to the head of the offices inspected with copies to the next higher authorities for taking prompt corrective action. As per Article 63(c) of Kerala Financial Code Vol. I, the first replies to inspection reports should be sent within four weeks from the date of receipt of the inspection report. The first replies should not be delayed on any account. In respect of those particular paras for which final replies could not be furnished to the Accountant General within the time limit, an interim reply should be given indicating the action taken to rectify the defects pointed out.

It was noticed that out of the inspection reports issued upto December 2011, 20,629 paragraphs involving ₹ 2,102.05 crore relating to 2,751 IRs remained outstanding at the end of June 2012. A table containing figures for the current year and preceding two years is given below:

	June 2010	June 2011	June 2012
Number of outstanding IRs	2,581	2,581	2,751
Number of outstanding audit observations	15,052	18,604	20,629
Amount involved (₹ in crore)	1,426.98	1,522.81	2,102.05

The outstanding audit observations had increased by 37 per cent during the two years period indicating that the heads of departments had not initiated prompt action to clear audit observation.

The department-wise details of the IRs and audit observations outstanding as on 30 June 2012 and the amounts involved are mentioned below:

Sl. No.	Name of the Departments	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Taxes	Taxes on sales, trade etc	1317	15,962	1,848.44
		Taxes on agricultural income	164	756	47.22
2.	Revenue	Land revenue	309	1,275	133.74
3.	Transport	Taxes on vehicles	254	1,324	29.58
4.	Stamps and registration	Stamps and registration fees	424	874	12.46
5.	Excise	Excise duty	250	355	26.47
6.	Power	Taxes and duties on electricity	17	62	0.63
7.	Lotteries	Lotteries	16	21	3.51
Total			2,751	20,629	2,102.05

First replies from the heads of offices for 175 IRs issued upto December 2011 have not been received.

Non-receipt of first replies and increase in the number of outstanding audit observations indicate that the head of offices and head of departments did not initiate timely action to rectify the omissions pointed out in the IRs.

It is recommended that the Government may take suitable steps to design effective procedures to ensure prompt and appropriate response to audit observations.

1.3.2 Departmental audit committee meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2011-12 and the paragraphs settled are mentioned below:

Head of revenue	Number of meetings held	Number of paragraphs settled		Amount of settled paras	Number of audit paragraphs outstanding and percentage of settlement
				₹ in crore	
Tax on sales, trade etc.	2	2000-01	8	1.51	<u>14798</u> 1.46
		2001-02	11		
		2002-03	8		
		2003-04	69		
		2004-05	74		
		2005-06	46		
		Total	216		
Stamp duty and registration fees	4	2006-07	1	0.34	<u>1134</u> 7.05
		2007-08	6		
		2008-09	15		
		2009-10	29		
		2010-11	27		
		2011-12	2		
		Total	80		
Taxes on vehicles	6	2005-06	7	1.29	<u>1487</u> 14.79
		2006-07	15		
		2007-08	24		
		2008-09	32		
		2009-10	104		
		2010-11	38		
		Total	220		
Land Revenue and Building Tax	4	2003-04	2	0.24	<u>1343</u> 10.05
		2004-05	3		
		2005-06	9		
		2006-07	11		
		2007-08	19		
		2008-09	28		
		2009-10	35		
		2010-11	28		
		Total	135		
Grand Total	16		651	3.38	<u>18762</u> 3.47

During the year 2011-12, Agricultural Income Tax Department, Excise department and Lotteries department did not conduct any departmental audit committee meetings.

It is recommended that the Departments may conduct more number of audit committee meetings so as to clear all IRs prior to 2006-07 and to see that the percentage of clearance is substantial in the other cases.

1.3.3 Non-production of records to Audit for scrutiny

The programme of local audit of Commercial Tax Offices is prepared sufficiently in advance and intimated to the Department usually one month before the commencement of audit, to enable them to keep the relevant records ready for audit scrutiny.

During 2011-12, 9,364 tax assessment records relating to 115 offices were not made available to Audit. Of these cases, 1,409 files pertained to 13 special circles, where assessments of major dealers are dealt with, details of which are as follows:

Name of Office	Year in which it was to be audited	KGST	VAT
AC Spl. Circle I, Kozhikode	Upto 2011-12	-	28
AC (Assmt.), Spl. Circle, Kannur	„	-	34
AC Spl. Circle, Kasaragode	„	-	6
AC (Assmt.) Spl. Circle, Kottarakara	„	2	18
AC (Assmt.) Spl. Circle, Thiruvananthapuram	„	32	108
Spl. Circle, (Produce), Mattanchery	„	274	44
Spl. Circle I, Ernakulam	„	5	88
Spl. Circle II, Ernakulam	„	10	31
Spl. Circle III, Ernakulam	„	220	28
Spl. Circle, Perumbavoor	„	-	11
Spl. Circle, Malappuram	„	158	134
Spl. Circle, Palakkad	„	50	57
Spl. Circle, Kottayam	„	-	71
Total		751	658

Non-production of large number of records involving substantial revenue seriously hamper audit in discharging the Constitutional responsibility and deprives the State of additional revenue that may accrue due to audit.

It is recommended that the Government may issue strict instructions to officers concerned for ensuring availability of these files at the time of audit and punitive action may be taken against the officers who are defaulting regularly.

1.3.4 Position of Inspection Reports

The summarised position of inspection reports issued on revenue receipts relating to various departments during the last five years, paragraphs included in these reports and their status as on 31 March 2012 are tabulated below:

(₹ in crore)

Year	Opening balance		Addition during the year		Clearance during the year		Closing balance	
	IRs/ Paragraphs	Money value	IRs/ Paragraphs	Money value	IRs/ Paragraphs	Money value	IRs/ Paragraphs	Money value
2007-08	2,469 13,609	651.17	599 3,525	557.96	292 2,156	272.16	2,776 14,978	936.99
2008-09	2,776 14,978	936.99	631 4,961	196.72	438 2,804	129.24	2,969 17,133	1,004.47
2009-10	2,969 17,133	1,004.47	712 7,017	688.19	1,081 7,699	198.66	2,600 16,451	1,493.99
2010-11	2,600 16,451	1,493.99	593 6,359	4,313.84	377 2,664	192.53	2,816 20,146	5,615.30
2011-12	2,816 20,146	5,615.30	480 4,916	1,004.36	357 2,323	59.99	2,940 22,741	6,559.67

During the five year period, the departments concerned conducted 95 audit committee meetings and cleared 4,976 paras.

1.3.5 Response of the departments to the draft audit paragraphs

Draft paragraphs/reviews proposed for inclusion in the Audit Report are forwarded to the Secretaries of the departments concerned through demi-official letters. All departments are required to furnish their remarks on the draft paragraphs/reviews within six weeks of their receipt as per the instructions issued in 1965 by the Government. The fact of non-receipt of replies from the Government are indicated at the end of each paragraph included in the Audit Report.

113 draft paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2012 were forwarded to the Secretaries concerned to the Government and copies were endorsed to the head of the departments concerned. However, replies/response to 34 draft paragraphs (out of 113 paragraphs) were not received (December 2012).

1.3.6 Follow-up on Audit Reports – summarised position

Instructions were issued by the Government from time to time for timely follow-up action on the Audit Reports. The Public Accounts Committee (PAC) stipulates submission of action taken notes (ATNs) on paragraphs and reviews included in the Audit Report indicating the remedial action taken or proposed to be taken, within two months from the date of presentation of the Audit Report to the legislature without waiting for any notice or call from the PAC.

The review of the outstanding ATNs on 630 paragraphs included in 17 Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1995 to 31 March 2010 disclosed that the departments had not submitted remedial ATNs on all paragraphs within the prescribed time.

Out of 630 paragraphs included in the above 17 Audit Reports, the departments had not submitted ATNs on 57 paragraphs.

The Audit Reports (No.3 and No.6) for the year ended 31 March 2011 were laid on the table of the legislature on 06 March 2012. The departments had not submitted ATNs on 48 paragraphs included in the above Audit Reports by July 2012 although the prescribed time period was over in May 2012. This indicates that the executive did not take prompt action on the important issues highlighted in the Audit Reports that involved unrealised revenue.

1.3.7 Compliance with the earlier Audit Reports

During the years between 2006-07 and 2010-11 the departments/Government accepted audit observations involving revenue of ₹ 835.32 crore out of which an amount of ₹ 79.55 crore was recovered till July 2012 as mentioned below:

(₹ in crore)

Sl. No.	Year	Total money value	Money value of accepted cases	Amount recovered
1	2006-07	279.90	26.86	3.81
2	2007-08	276.21	250.15	7.43
3	2008-09	675.44	109.52	57.95
4	2008-09 Vol.II	295.24	116.93	0
5	2009-10	1,048.55	327.04	9.35
6	2010-11	1,622.36	4.82	1.01
7	2010-11 Vol.II	253.75	0	0
Total		4,451.45	835.32	79.55

The departments had recovered only 9.5 *per cent* of the accepted amount. The departments may take earnest efforts for the recovery of the balance amount.

1.4 Planning for audit during 2011-12

Unit offices under various departments were categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan was prepared on the basis of risk analysis using data on Government revenues and tax administration i.e., budget speech, reports of the finance commission (State and Central), recommendation of the taxation reforms committee, statistical analysis of the revenue earnings during the past 5 years, features of the tax administration, audit coverage and its impact during the last 5 years etc.

During 2011-12, the audit universe comprised 833 units of which 472 were planned for audit. 100 *per cent* of the units planned for audit during the year were audited.

A performance audit was conducted besides the compliance audit mentioned above.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

The records of 503[^] units of commercial tax, motor vehicles and other departmental offices were test checked during the year 2011-12 and underassessment/short levy/loss of revenue aggregating ₹ 955.57 crore in 3,249 cases were noticed. During the course of the year the departments concerned accepted underassessment and other deficiencies of ₹ 34.08 crore involved in 1127 cases of which 374 cases involving ₹ 9.44 crore were pointed out in audit during 2011-12 and the rest in the earlier years. The departments collected ₹ 10.10 crore in 856 cases during 2011-12.

The Department recovered in full ₹ 8.3 lakh involved in two draft paragraphs which were issued based on the audit observations pointed out between April and November 2010.

1.5.2 Material included in this report

This Report contains 39 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 performance audit on 'Levy and collection of VAT on evasion prone commodities/areas in Commercial Taxes Department' involving financial effect of ₹ 304.66 crore. The departments/Government have accepted audit observations involving ₹ 12.32 crore. The replies in the remaining cases have not been received (December 2012). These are discussed in succeeding chapters II to VIII.

[^] Figures are taken based on the number of IRs issued during the year.