

CHAPTER I

GENERAL

1.1. Trend of revenue receipts

1.1.1. The tax and non tax revenue raised by Government of Kerala during the year 2004-05, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants in aid received from Government of India during the year and the corresponding figures for the preceding four years are given below.

(In crore of rupees)

		2000-01	2001-02	2002-03	2003-04	2004-05
1	Revenue raised by the State Government					
	a) Tax revenue	5,870.26	5,923.42	7,302.54	8,088.77	8,963.65
	b) Non tax revenue*	659.08 (610.12)	543.38 (477.73)	677.76 (618.05)	806.98 (752.02)	819.09 (760.43)
	Total *	6,529.34 (6,480.38)	6,466.80 (6,401.15)	7,980.30 (7,920.59)	8,895.75 (8,840.79)	9,782.74 (9,724.08)
2	Receipts from Government of India					
	a) Share of net proceeds of divisible Union taxes and duties	1,585.61	1,614.26	1,715.22	2,012.01	2,404.95
	b) Grants in aid	615.90	975.33	938.37	907.61	1,312.80
	Total	2,201.51	2,589.59	2,653.59	2,919.62	3,717.75
3	Total revenue receipts of the State Government (1 and 2) *	8,730.85* (8,681.89)	9,056.39* (8,990.74)	10,633.89* (10,574.18)	11,815.37* (11,760.41)	13,500.49* (13,441.83)
4	Percentage of 1 to 3	75	71	75	75	72

* The figures shown in brackets are the figures net of expenditure on prize winning tickets of lotteries conducted by Government.

* For details please see statement No. 11 – Detailed Accounts of Revenue by Minor Heads in the Finance Accounts of Kerala for respective years. 'Share of net proceeds assigned to States' under the Major Heads 0020, 0021, 0028, 0032, 0037, 0038, 0044 and 0045 booked in the Finance Accounts under 'A-Tax Revenue' have been excluded from the revenue raised by the State and included in the State's share of divisible Union taxes in this statement.

1.1.2. Details of tax revenue raised during the year 2004-05, along with the figures for the preceding four years are given below.

(In crore of rupees)

Sl. No.	Revenue Head	2000-01	2001-02	2002-03	2003-04	2004-05	Percentage of increase (+)/ decrease (-) in 2004-05 over 2003-04
1	Sales Tax	4,344.33	4,440.85	5,343.15	5,991.43	6,701.05	(+) 11.84
2	State Excise	688.94	541.46	663.07	655.91	746.45	(+) 13.80
3	Stamps and Registration Fees						
	• Stamps- Judicial	26.65	24.04	39.84	43.32	47.37	(+) 9.35
	• Stamps – Non Judicial	210.89	262.87	314.14	334.02	489.99	(+) 46.69
	• Registration Fees	103.56	107.37	132.55	172.47	237.99	(+) 37.99
4	Taxes and Duties on Electricity	14.92	5.18	192.63	189.97	9.62	(-) 94.94
5	Taxes on Vehicles	394.85	452.18	513.20	585.78	610.48	(+) 4.22
6	Taxes on Agricultural Income	3.83	1.87	6.40	8.74	4.93	(-) 43.59
7	Land Revenue	39.35	34.93	38.40	40.59	43.85	(+) 8.03
8	Others	42.94	52.67	59.16	66.54	71.92	(+) 8.09
	Total	5,870.26	5,923.42	7,302.54	8,088.77	8,963.65	(+) 10.82

The departments attributed the variation in receipts during 2004-05 as compared to 2003-04 to the following.

Stamps and Registration Fees: The increase was due to increase in the number of documents registered during 2004-05.

Taxes and Duties on Electricity: The decrease was due to non remittance of electricity duty and surcharge by the Kerala State Electricity Board.

The reasons for variation though called for in May 2005 from heads of other departments have not been received till December 2005.

1.1.3. Details of non tax revenue realised during the year 2004-05 along with the figures for the preceding four years are given below.

(In crore of rupees)

Sl. No.	Revenue Head	2000-01	2001-02	2002-03	2003-04	2004-05	Percentage of Increase(+) / decrease (-) in 2004-05 over 2003-04
1	State Lotteries	85.21	55.94	68.38	78.72	92.72 [▲]	(+) 17.78
2	Forestry and Wild Life	141.24	113.70	149.58	187.18	199.69	(+) 6.68
3	Interest Receipts	36.81	31.08	35.86	32.40	40.51	(+) 25.03

[▲] From gross receipts of Rs 151.38 crore expenditure of Rs 58.66 crore on prize winning tickets has been deducted, but expenditure of Rs 59.37 crore on commission to agents and establishment expenses of Rs 2.80 crore have not been deducted.

(In crore of rupees)

Sl. No.	Revenue Head	2000-01	2001-02	2002-03	2003-04	2004-05	Percentage of Increase(+) / decrease (-) in 2004-05 over 2003-04
4	Education, Sports, Art and Culture	44.98	53.56	63.41	81.86	85.76	(+) 4.76
5	Medical and Public Health	20.66	19.85	28.16	27.61	27.52	(-) 0.33
6	Crop Husbandry	40.53	7.58	12.76	22.71	11.51	(-) 49.32
7	Animal Husbandry	5.28	5.03	6.94	6.31	5.68	(-) 9.98
8	Public Works	2.17	1.56	2.15	2.90	2.70	(-) 6.90
9	Others	233.24	189.43	250.81	312.33	294.34	(-) 5.76
	Total	610.12	477.73	618.05	752.02	760.43	(+) 1.12

The departments attributed the increase in receipts during 2004-05 as compared to 2003-04 to the following.

State Lotteries: The increase was due to increase in the sale of State lottery tickets on account of ban on illegal paper lotteries and on-line lotteries.

The reasons for variation though called for in May 2005 from heads of other departments have not been received till December 2005.

1.2. Initiatives for mobilisation of additional resources

During the year 2004-05, Government of Kerala raised a total revenue of Rs 9,782.74 crore comprising tax revenue of Rs 8,963.65 crore and non tax revenue of Rs 819.09 crore. The XI Finance Commission's projection of revenue of the State, budget estimates and actual receipts were as under.

(In crore of rupees)

Nature of revenue	XI Finance Commission's Projection	Budget estimates	Actual receipts	Percentage of variation between	
				Finance Commission's projection and actual receipts	budget estimates and actual receipts
Own tax revenue	11,836.61	9,732.71	8,963.65	(-) 24.27	(-) 7.90
Own non tax revenue	1,441.08	977.93	819.09	(-) 43.16	(-) 16.24
Total	13,277.69	10,710.64	9,782.74	(-) 26.32	(-) 8.66

Against the Finance Commission's projection of Rs 13,277.69 crore, budget estimates aggregated only Rs 10,710.64 crore and the actual receipt of Rs 9,782.74 crore was 26 per cent short of the Commission's projection and nine per cent short of the budget estimates.

In the Budget speech for 2004-05, the Minister for Finance had proposed mobilisation of additional resources to the tune of Rs 297.10 crore by levying entry tax on 15 additional items, one time settlement of arrear cases, revision of licence fee in lieu of tax on lotteries, specific duties for different segments of

Indian made foreign liquor, etc. Government was requested in August 2005 to furnish the actual revenue realised on account of above proposals. Government has not furnished the details till December 2005.

1.3. Analysis of budget preparation

Under the Kerala Budget Manual, the heads of departments shall forward proposals for budget estimates of receipts directly to the Finance Department with copy to the concerned administrative departments in Government, which in turn shall forward the same to the Finance Department with their remarks and the Finance Department shall thereafter finalise the budget estimates. The budget estimates of revenue shall be based on existing rates and no increase or decrease in the rates shall be proposed unless approved by Government.

The budget estimates of revenue under principal heads for the year 2004-05 and the actual receipts were as under.

(In crore of rupees)

Revenue head	Budget estimates made by Government		Actual receipts	Variation between Government estimates and actual receipts
	Original	Revised		
Sales Tax	7,123.00	7,001.30	6,701.05	(-) 421.95
State Excise	750.00	737.55	746.45	(-) 3.55
Taxes and Duties on Electricity	241.62	165.02	9.62	(-) 232.00
Stamps and Registration Fees				
• Stamps – Non judicial	615.00	464.00	489.99	(-) 125.01
• Registration Fees	161.38	174.39	237.99	(+) 76.61

The above table indicates that though estimates under ‘Sales Tax’ and ‘Taxes and Duties on Electricity’ were scaled down, the actual receipts were less than the revised estimates. Under ‘Stamps-Non judicial’, though the original estimate of Rs 615 crore was scaled down to Rs 464 crore, the actual receipts were more by Rs 26 crore. Similarly, though the original estimate of Rs 161.38 crore under ‘Registration fees’ was enhanced to Rs 174.39 crore, the actual receipts were Rs 237.99 crore.

The above suggests that the original and revised budget estimates were not prepared in a realistic manner.

1.4. Variation between budget estimates and actuals

The variation between budget estimates of revenue for the year 2004-05 and the actual receipts under principal heads of revenue are given below.

(In crore of rupees)

Revenue Head	2004-05			Percentage of variation
	Budget estimates	Actual receipts	Variation Increase (+)/ Shortfall (-)	
Sales Tax	7,123.00	6,701.05	(-) 421.95	(-) 5.92
State Excise	750.00	746.45	(-) 3.55	(-) 0.47
Stamps and Registration Fees				
• Stamps- Non-Judicial	615.00	489.99	(-) 125.01	(-) 20.33
• Registration Fees	161.38	237.99	(+) 76.61	(+) 47.47
Taxes on Vehicles	620.00	610.48	(-) 9.52	(-) 1.54
Forestry and Wild Life	250.00	199.69	(-) 50.31	(-) 20.12
Taxes and Duties on Electricity	241.62	9.62	(-) 232.00	(-) 96.02
Taxes on Agricultural Income	4.43	4.93	(+) 0.50	(+) 11.29
Land Revenue	43.29	43.85	(+) 0.56	(+) 1.29

The reasons given by the departments for variation between budget estimates and actuals for 2004-05 were as follows.

Stamps and Registration Fees: The decrease was due to undervaluation of documents in the absence of fair value of land.

Taxes and Duties on Electricity: The decrease was due to non remittance of electricity duty and surcharge by Kerala State Electricity Board during 2004-05.

The reasons for variation though called for in May 2005 from heads of other departments have not been received till December 2005.

1.5. Cost of collection

The gross collection under major revenue heads, expenditure incurred on collection and the percentage of expenditure to gross collection during the years 2002-03, 2003-04 and 2004-05 along with the relevant all India average percentage of expenditure on collection to gross collection for 2003-04 are given below.

(In crore of rupees)

Sl. No.	Revenue Head	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage
1.	Sales Tax	2002-03	5,343.15	44.55	0.83	1.15
		2003-04	5,991.43	56.73	0.95	
		2004-05	6,701.05	52.10	0.78	

(In crore of rupees)

Sl. No.	Revenue Head	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage
2.	Stamps (Non Judicial) and Registration Fees	2002-03	446.69	38.13	8.54	
		2003-04	506.49	40.00	7.90	3.66
		2004-05	727.98	42.35	5.82	
3.	State Excise	2002-03	663.07	35.29	5.32	
		2003-04	655.91	41.69	6.36	3.81
		2004-05	746.45	43.72	5.86	
4.	Taxes on Vehicles	2002-03	513.20	14.08	2.74	
		2003-04	585.78	15.47	2.64	2.57
		2004-05	610.48	16.52	2.71	

It can be seen from the above table that percentage of cost of collection during 2003-04 in respect of 'Stamps and Registration Fees' and 'State Excise' was much higher than all India average. However, there was a marginal reduction in the percentage of expenditure compared to the previous year. The Excise Department attributed the reason for the high cost of collection to priority given for enforcement of Abkari laws/rules consequent to ban on sale of arrack. The Registration Department attributed the increase in expenditure to computerisation.

1.6. Collection of sales tax per assessee

As per the data furnished by the Commissioner of Commercial Taxes, the sales tax revenue realised per assessee was Rs 0.03 crore during 2000-01 and 2001-02 and Rs 0.04 crore in 2002-03 and 2003-04. The information regarding the number of assesseees who were assessed under 'Sales Tax' during 2004-05 was called for from the Commissioner of Commercial Taxes in June 2005. The Department has not furnished the details till December 2005. The year wise particulars of the number of assesseees and sales tax revenue realised are given below.

(In crore of rupees)

Year	No. of assesseees	Sales tax revenue	Revenue per assessee
2000-01	1,34,944	4,344.33	0.03
2001-02	1,38,100	4,440.85	0.03
2002-03	1,41,290	5,343.15	0.04
2003-04	1,43,669	5,991.43	0.04
2004-05	♦	6,701.05	

♦ The information called for in June 2005 has not been received till December 2005.

1.7. Analysis of arrears of revenue

As on 31 March 2005, arrears of revenue under principal heads of revenue, as reported by the departments were as under.

(In crore of rupees)

Sl. No.	Department	Arrears	Arrears outstanding for more than 5 years	Remarks
1.	Power	1,691.89	848.87	Due to non remittance of electricity duty and surcharge by the Kerala State Electricity Board.
2.	Local Fund Audit	54.15	7.97	Non remittance of fees by auditee institutions.
3.	Factories and Boilers	1.44	-	Dues from factories which had stopped functioning.
4.	Mining and Geology	0.47	0.12	The arrears were due to dispute regarding claims, court stays, etc.

The details of arrears of revenue in respect of other departments though called for in June 2005 have not been received till December 2005.

1.8. Arrears in assessment

The details of sales tax and agricultural income tax assessment cases pending at the beginning of the year, cases becoming due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of each year during 2003-04 and 2004-05 as furnished by the Department are given below.

Year	Opening balance	Cases due for assessment	Total	Cases finalised	Balance at the close of the year	Percentage of column 5 to 4
1	2	3	4	5	6	7
Sales Tax						
2003-04	1,21,321	1,73,035	2,94,356	1,65,035	1,29,321	56
2004-05	♣	♣	♣	♣	♣	♣
Agricultural Income Tax						
2003-04	6,115	7,156	13,271	7,380	5,891	56
2004-05	♣	♣	♣	♣	♣	♣

1.9. Write off of revenue

In the Excise Department, arrears of revenue of Rs 15.08 lakh due in five different cases were written off as they were irrecoverable.

♣ The information called for in June 2005 has not been received till December 2005.

1.10. Refund

The number of refund cases pending at the beginning of the year 2004-05, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2004-05 have not been made available by the Commercial Taxes Department as of December 2005.

1.11. Results of audit

Test check of the records of sales tax, agricultural income tax, state excise, motor vehicles, forest and other departmental offices conducted during the year 2004-05 revealed underassessments/short levy/loss of revenue aggregating Rs 106.77 crore in 1,684 cases. During the course of the year, the departments concerned accepted underassessments, etc., of Rs 7.82 crore involved in 475 cases, of which 170 cases involving Rs 2.35 crore were pointed out in audit during 2004-05 and the rest in earlier years. At the instance of audit, the departments collected Rs 1.72 crore in 319 cases during 2004-05.

This report contains 23 paragraphs including four reviews relating to short/non levy of tax, duty and interest, penalty, etc., involving financial effect of Rs 55.49 crore. The departments/Government have so far accepted audit observations involving Rs 4.89 crore out of which Rs 12.10 lakh was recovered. Final reply had not been received in the remaining cases till December 2005.

1.12. Control environment for accountability

1.12.1. Responsiveness to audit inspection reports

According to the instructions issued by Government in November 1965, first reply to inspection reports are required to be sent within four weeks from the date of their receipt. In order to apprise Government of the position of pending audit observations from time to time, statements of outstanding audit observations are forwarded to Government and their replies watched in audit. Important irregularities and defects in assessments, demand and collection of State receipts, noticed during local audit but not settled on the spot, are communicated to the heads of the offices and to the next higher departmental authorities through inspection reports. The more important financial irregularities are brought to the notice of the heads of departments and Government for taking prompt corrective measures.

As at the end of June 2005 there were 1,638 outstanding inspection reports containing 9,659 audit observations involving Rs 382.14 crore issued up to December 2004. The details of reports outstanding as at the end of June for the years 2003 to 2005 are given below.

(In crore of rupees)

Period	Number of inspection reports	Number of audit observations	Amount involved
As at the end of June 2003	3,614	15,584	586.99
As at the end of June 2004	3,095	13,812	447.71
As at the end of June 2005	1,638	9,659	382.14

Revenue head wise details of the outstanding inspection reports as at the end of June 2005 are given below.

(In crore of rupees)

Sl. No.	Revenue Head	Number of inspection reports	Number of audit observations	Amount
1	Sales Tax	615	5,980	138.04
2	Taxes on Agricultural Income	143	1,120	47.94
3	State Excise	37	55	7.40
4	Taxes on Vehicles	238	1,248	8.85
5	Land Revenue	64	155	2.22
6	State Lotteries	3	9	30.85
7	Forestry and Wild Life	74	147	28.37
8	Stamps and Registration Fees	450	898	1.30
9	Taxes and Duties on Electricity	14	47	117.17
	Total	1,638	9,659	382.14

First reply to 249 inspection reports issued up to December 2004 were not furnished by the departments till the end of June 2005. This was brought to the notice of the Chief Secretary to Government in July 2005.

1.12.2. Departmental audit committee meetings

Government set up audit committees (during various periods) to monitor and expedite the progress of settlement of inspection reports and paragraphs in the inspection reports relating to departments of Commercial Taxes, Motor Vehicles, Registration, etc. Details of audit committee meetings held during the year 2004-05 and the paragraphs settled are given below.

(In crore of rupees)

Revenue Head	No. of meetings held during 2004-05	No. of paragraphs outstanding as on 31 March 2004	Amount	Year-wise details of paragraphs settled		Amount
Sales Tax	2	8,493	589.84	Up to 2000-01	404	16.42
				2001-02	2	
				2002-03	1	
				2003-04	2	
				Total	409	
Taxes on Vehicles	3	2,164	12.74	Up to 2000-01	543	1.64
				2001-02	146	
				2002-03	87	
				2003-04	15	
				Total	791	

Revenue Head	No. of meetings held during 2004-05	No. of paragraphs outstanding as on 31 March 2004	Amount	Year-wise details of paragraphs settled		Amount
Stamps and Registration Fees	2	1,112	3.30	Up to 2000-01	64	0.46
				2001-02	18	
				2002-03	10	
				Total	92	
State Excise	5	1,057	7.50	Up to 2000-01	49	0.35
				2001-02	15	
				2002-03	22	
				2003-04	14	
				Total	100	
Land Revenue	2	913	3.53	2000-01	3	0.08
				2001-02	8	
				2002-03	27	
				2003-04	7	
				Total	45	
Grand total	14	13,739	616.91		1,437	18.95

1,437 paragraphs involving Rs 18.95 crore were settled in 14 meetings of the audit committees under various revenue heads during 2004-05. Though 10.46 per cent of the number of paragraphs outstanding at the beginning of the year was settled, the monetary value of clearance was only 3.07 per cent.

No audit committee has been constituted for the revenue heads 'Taxes and Duties on Electricity' and 'Taxes on Agricultural Income' and no meeting was held during 2004-05 in respect of revenue head 'Forestry and Wild Life'.

1.12.3. Response of the departments to draft audit paragraphs

According to the instructions issued in 1965 by Government of Kerala, result of verification of facts on the draft audit paragraphs are required to be communicated to the Accountant General within six weeks from the date of receipt of the same. Draft paragraphs are always forwarded to the Secretaries by name drawing their attention to the audit findings and requesting them to send their response within six weeks. In case the final reply cannot be given within six weeks, an interim reply is to be given to the Accountant General and in any case, final reply should be sent within three months from the date of receipt of the draft paragraph. The fact of non receipt of replies from Government is invariably indicated at the end of each paragraph included in the Audit Report.

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 (Revenue Receipts), Government of Kerala, includes 64 draft paragraphs which were forwarded to the Secretaries to Government. However, replies/response to 12 draft paragraphs have not been received till December 2005. The draft paragraphs have been suitably clubbed into 23 paragraphs in this Report. Two cases where recoveries of Rs 4.86 lakh have been effected in full are mentioned in the results of audit under the relevant chapters.

1.12.4. Follow up action on Audit Reports - Summarised position

The instructions issued by Government from time to time for timely follow up action on the Audit Reports and matters pertaining to the Committee on Public Accounts stipulate that it is imperative to submit action taken notes (ATNs) on paragraphs and reviews included in the Audit Report indicating the remedial action taken or proposed to be taken, within three months from the date of presentation of Audit Report to the legislature without waiting for any notice or call from the Committee on Public Accounts.

The Committee on Public Accounts had also expressed displeasure over the extraordinary delay on the part of Government in furnishing statement of remedial ATNs on audit paras to the legislature. Government directed (April 1997) all heads of departments/Secretaries to Government to give topmost priority to the work and to ensure that remedial measures on all audit paras were furnished to the legislature within a period of three months of the presentation of the Report to the legislature. In spite of this, delay continued in furnishing of ATNs.

Review of outstanding ATNs on paragraphs included in nine Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1995 to 31 March 2003 disclosed that the departments had not submitted remedial ATNs on 70 paragraphs on which ATNs were due as on 31 December 2005. The year wise, revenue head wise statement is furnished in Annexure I.

Out of the total 414 audit paragraphs included in the above nine Audit Reports, the departments submitted remedial ATNs on 344 paragraphs only and none of these ATNs was furnished within the prescribed period of three months.

Though the Audit Report for the year ended 31 March 2004 was laid on the table of the legislature in July 2005 and the time limit of three months for furnishing remedial ATNs had elapsed in October 2005, the departments had submitted ATN only on one of the 28 paragraphs included in the above Audit Report till December 2005.