

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 2005-06, 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)

		2001-02	2002-03	2003-04	2004-05	2005-06
1	Revenue raised by the State Government					
	• Tax revenue	5,923.42	7,302.54	8,088.77	8,963.65	9,778.62
	• Non tax revenue♣	543.38 (477.73)	677.76 (618.05)	806.98 (752.02)	819.09 (760.43)	936.78 (863.79)
	Total	6,466.80 (6,401.15)	7,980.30 (7,920.59)	8,895.75 (8,840.79)	9,782.74 (9,724.08)	10,715.40 (10,642.41)
2	Receipts from Government of India					
	• Share of net proceeds of divisible Union taxes and duties	1,614.26	1,715.22	2,012.01	2,404.95	2,518.20
	• Grants in aid	975.33	938.37	907.61	1,312.80	2,060.93
	Total	2,589.59	2,653.59	2,919.62	3,717.75	4,579.13
3	Total revenue receipts of the State Government (1 and 2)	9,056.39* (8,990.74)	10,633.89* (10,574.18)	11,815.37* (11,760.41)	13,500.49* (13,441.83)	15,294.53* (15,221.54)
4	Percentage of 1 to 3	71	75	75	72	70

♣ 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 the year 2005-06, 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 have been excluded from revenue raised by the State and included in State's share of divisible Union taxes in this statement.

1.1.2 Details of tax revenue raised during the year 2005-06, along with the figures for the preceding four years are given below:

(In crore of rupees)

Sl. No.	Revenue head	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+)/ decrease (-) in 2005-06 over 2004-05
1	Sales tax	4,440.85	5,343.15	5,991.43	6,701.05	7,037.97	(+) 5.03
2	State excise	541.46	663.07	655.91	746.45	841.00	(+) 12.67
3	Stamp duty and registration fees						
	• Stamps- judicial	24.04	39.84	43.32	47.37	53.39	(+) 12.71
	• Stamps – Non judicial	262.87	314.14	334.02	489.99	852.51	(+) 73.99
	• Registration fees	107.37	132.55	172.47	237.99	195.51	(-) 17.85
4	Taxes and duties on electricity	5.18	192.63	189.97	9.62	31.52	(+) 227.65
5	Taxes on vehicles	452.18	513.20	585.78	610.48	628.51	(+) 2.95
6	Taxes on agricultural income	1.87	6.40	8.74	4.93	6.15	(+) 24.75
7	Land revenue	34.93	38.40	40.59	43.85	43.88	(+) 0.07
8	Others	52.67	59.16	66.54	71.92	88.18	(+) 22.61
	Total	5,923.42	7,302.54	8,088.77	8,963.65	9,778.62	(+) 9.09

The departments attributed the reasons for variation in receipts during 2005-06 as compared to 2004-05 to the following:

State excise: The increase was due to enhancement of rent of toddy shop from 10 to 25 *per cent*.

Stamp duty and registration fees: The increase was due to enhancement of rate of stamp duty on instruments of conveyance from four, five and six *per cent* to 10, 12.5 and 13.5 *per cent* in panchayat, municipal and corporation areas respectively with effect from 1 April 2005.

Taxes and duties on electricity: The increase was due to adjustment of Rs 19.36 crore against the dues payable by the Kerala State Electricity Board.

The reasons for variation though called for in June 2006 from heads of other departments have not been received till December 2006.

1.1.3 Details of non tax revenue realised during the year 2005-06 along with the figures for the preceding four years are given below:

(In crore of rupees)

Sl. No.	Revenue head	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase(+) / decrease (-) in 2005-06 over 2004-05
1	State lotteries	55.94	68.38	78.72	92.72	156.58 [▲]	(+) 68.87
2	Forestry and wild life	113.70	149.58	187.18	199.69	189.63	(-) 5.04
3	Interest receipts	31.08	35.86	32.40	40.51	46.36	(+) 14.44
4	Education, sports, art and culture	53.56	63.41	81.86	85.76	82.09	(-) 4.28
5	Medical and public health	19.85	28.16	27.61	27.52	29.80	(+) 8.28
6	Crop husbandry	7.58	12.76	22.71	11.51	13.74	(+) 19.37
7	Animal husbandry	5.03	6.94	6.31	5.68	5.68	-
8	Public works	1.56	2.15	2.90	2.70	2.68	(-) 0.74
9	Others	189.43	250.81	312.33	294.34	337.23	(+) 14.57
	Total	477.73	618.05	752.02	760.43	863.79	(+) 13.59

The departments attributed the reasons for variation in receipts during 2005-06 as compared to 2004-05 to the following:

State lotteries: The increase was due to hike in sale of lottery tickets on its reintroduction in April 2005 after a ban in January 2005.

The reasons for variation though called for in June 2006 from heads of other departments have not been received till December 2006.

1.2 Initiatives for mobilisation of additional resources

During the year 2005-06, Government of Kerala raised a total revenue of Rs 10,715.40 crore comprising tax revenue of Rs 9,778.62 crore and non tax revenue of Rs 936.78 crore. The XII Finance Commission's projection of revenue of the State, budget estimates and actual receipts were as under:

(In crore of rupees)

Nature of revenue	XII 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	11,124.82	11,106.88	9,778.62	(-)12.10	(-)11.96
Own non tax revenue	1,080.90	843.05	936.78	(-)13.33	(+)11.12
Total	12,205.72	11,949.93	10,715.40	(-)12.21	(-)10.33

Against the Finance Commission's projection of Rs 12,205.72 crore, budget estimates aggregated only Rs 11,949.93 crore and the actual receipt of

[▲] From gross receipts of Rs 229.57 crore expenditure of Rs 72.99 crore on prize winning tickets has been deducted, but expenditure of Rs 89.78 crore on commission to agents and establishment expenses of Rs 9.07 crore have not been deducted.

Rs 10,715.40 crore was 12 *per cent* short of the Commission's projection and 10 *per cent* short of the budget estimates.

In the budget speech for 2005-06, the Minister for Finance proposed mobilisation of additional resources to the tune of Rs 12 crore by levying luxury tax on auditoria, *kalyanamandapam* etc., and by enhancement of tax on house boat. Government was requested in September 2006 to furnish the actual revenue realised on account of the above proposal. Government has not furnished the details so far (December 2006).

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. 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 2005-06 and the actual receipts were as under:

Revenue head	Budget estimates made by Government		Actual receipts	Variation between Government estimates and actual receipts
	Original	Revised		
Sales tax	8,200.01	7,281.00	7,037.97	(-) 1,162.04
State excise	825.82	839.76	841.00	(+) 15.18
Taxes and duties on electricity	237.06	468.17	31.52	(-) 205.54
Stamp duty and registration fees				
• Stamps – Non judicial	566.13	566.65	852.51	(+) 286.38
• Registration fees	267.78	248.04	195.51	(-) 72.27

The above table indicates that though estimates under 'sales tax' and 'registration fees' were scaled down, the actual receipts were less than the revised estimates. Under 'Taxes and duties on electricity' the original estimate of Rs 237.06 crore was enhanced to Rs 468.17 crore whereas the actual receipt was only Rs 31.52 crore. Under 'Stamps – non judicial' though the original estimate of Rs 566.13 crore was marginally enhanced to Rs 566.65 crore, the actual receipts were more by Rs 286.38 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 2005-06 and the actual receipts under principal heads of revenue are given below:

(In crore of rupees)

Revenue head	2005-06			Percentage of variation
	Budget estimates	Actual receipts	Variation Increase (+)/ Shortfall (-)	
Sales tax	8,200.01	7,037.97	(-)1,162.04	(-) 14.17
State excise	825.82	841.00	(+) 15.18	(+) 1.84
Stamp duty and registration fees				
• Stamps- Non-judicial	566.13	852.51	(+) 286.38	(+) 50.59
• Registration fees	267.78	195.51	(-) 72.27	(-) 26.99
Taxes on vehicles	771.02	628.51	(-) 142.51	(-) 18.48
Forestry and wild life	249.67	189.63	(-) 60.04	(-) 24.05
Taxes and duties on electricity	237.06	31.52	(-) 205.54	(-) 86.70
Taxes on agricultural income	10.90	6.15	(-) 4.75	(-) 43.58
Land revenue	68.60	43.88	(-) 24.72	(-) 36.03

The reasons given by the departments for variation between budget estimates and actuals for 2005-06 were as follows:

Motor Vehicles Department: The decrease was due to withdrawal of tax revision notified in June 2003 and accounting of excess tax collected against future tax due as a result of withdrawal. Government granted the defaulters the facility to pay in increased number of instalments.

Electricity duty: The decrease was due to non remittance of duty by Kerala State Electricity Board during 2005-06.

The reasons for variation though called in May 2006 from the heads of other departments have not been received till December 2006.

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 2003-04, 2004-05 and 2005-06 along with the relevant all India average percentage of expenditure on collection to gross collection for 2004-05 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	2003-04	5,991.43	56.73	0.95	0.95
		2004-05	6,701.05	52.10	0.78	
		2005-06	7,037.97	60.96	0.87	
2.	Stamps (non judicial) and registration fees	2003-04	506.49	40.00	7.90	3.44
		2004-05	727.98	42.35	5.82	
		2005-06	1,048.03	46.81	4.47	
3.	State excise	2003-04	655.91	41.69	6.36	3.34
		2004-05	746.45	43.72	5.86	
		2005-06	841.00	48.78	5.80	
4.	Taxes on vehicles	2003-04	585.78	15.47	2.64	2.74
		2004-05	610.48	16.52	2.71	
		2005-06	628.51	17.73	2.82	

It can be seen from the above table that percentage of cost of collection in respect of 'stamp duty and registration fees' and 'state excise' was much higher than all India average. The Registration Department had not furnished any specific reason but stated that no system of analysis of cost of collection prevailed in the department. The Excise Department stated that the reason for high cost of collection was due to strengthening of enforcement activities consequent to the ban of arrack.

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 2001-02 and Rs 0.04 crore in 2002-03 and 2003-04 and Rs 0.05 crore in 2004-05 and 2005-06 . The year wise particulars of the number of assessees and sales tax revenue realised are given below:

(In crore of rupees)

Year	No. of assessees	Sales tax revenue	Revenue per assessee
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	1,46,909	6,701.05	0.05
2005-06	1,28,220	7,037.97	0.05

1.7 Analysis of arrears of revenue

As on 31 March 2006, 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 4years	Remarks
1.	Mining and geology	0.51	0.22	Arrears were due to dispute regarding claims, court stays, etc.
2.	Local fund audit	64.93	15.66	Non remittance of fees by auditee institutions.

The details of arrears of revenue in respect of other departments though called for in May 2006 have not been received till December 2006.

1.8 Arrears in assessment

The details of sales tax, agricultural income tax, building tax and plantation 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 2004-05 and 2005-06 in Commercial Taxes and Land Revenue departments have not been furnished though called for in May 2006.

1.9 Write off and waiver of revenue

The table below indicates details of revenue exceeding Rs 10,000 (for each department) written off or waived by some departments during the year 2005-06:

(In lakh of rupees)

Sl. No.	Revenue head	Written off		Waived	
		No. of cases	Amount	No. of cases	Amount
1.	State excise	4	6.33	1	4.18
2.	Stamp duty and registration fees	1	21.40	1	0.22
3.	Forest and wild life	1	0.48	--	--
4.	Land revenue	1	0.73	--	--
5.	Sales tax	--	--	2	1.43

In Excise Department, *abkari* arrears of Rs 6.33 lakh in four cases were written off as they were irrecoverable and excise duty of Rs 4.18 lakh was waived in one case on loss of extra neutral alcohol as the tanker carrying alcohol capsized.

In Registration Department, loss sustained due to irregular exemption of stamp duty of Rs 21.40 lakh granted to mortgage deeds and release deeds of Kerala State Housing Board was written off and the balance amount of Rs 0.22 lakh outstanding in the house building loan of a deceased employee was waived.

In Forest Department, the amount of Rs 0.48 lakh due from a contractor was written off as it was irrecoverable.

In Land Revenue Department, short levy of building tax of Rs 0.73 lakh due from an assessee was written off as it was irrecoverable.

In Commercial Taxes Department, sales tax arrears of Rs 1.43 lakh were waived due to erroneous grant of exemption in one case and irregular levy of sales tax in the other case.

1.10 Refunds

Information relating to the number of refund cases pending at the beginning of the year 2005-06, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2005-06 have not been made available by the Commercial Taxes Department and State Excise Department as of December 2006.

1.11 Results of audit

Test check of the records of commercial tax, State excise, motor vehicles, forest and other departmental offices conducted during the year 2005-06 revealed underassessments/short levy/loss of revenue aggregating Rs 128.46 crore in 1,378 cases. During the course of the year, the departments concerned accepted underassessments, etc., of Rs 5.98 crore involved in 670 cases, of which 102 cases involving Rs 1.14 crore were pointed out in audit during 2005-06 and the rest in earlier years. At the instance of audit, the departments collected Rs.58.82 lakh in 250 cases during 2005-06.

This report contains 21 paragraphs including one review relating to short/non levy of tax, duty and interest, penalty, etc., involving financial effect of Rs 29.23 crore. The departments/Government have so far accepted audit observations involving Rs 4.16 crore out of which Rs 48.71 lakh was recovered. Final reply had not been received in the remaining cases till December 2006.

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 (IRs) 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 IRs. 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 2006, there were 1,813 outstanding IRs containing 7,652 audit observations involving Rs 454.24 crore issued up to December 2005. The details of reports outstanding as at the end of June for the years 2004 to 2006 are given below:

(In crore of rupees)

Period	Number of IRs	Number of audit observations	Amount involved
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
As at the end of June 2006	1,813	7,652	454.24

Revenue head wise details of the outstanding IRs as at the end of June 2006 are given below:

(In crore of rupees)

Sl. No.	Revenue head	Number of IRs	Number of audit observations	Amount
1	Sales tax	700	3,866	161.06
2	Taxes on agricultural income	150	1,052	47.86
3	State excise	41	54	7.31
4	Taxes on vehicles	249	1,227	7.53
5	Land revenue	75	152	9.28
6	State lotteries	2	2	-
7	Forestry and wild life	73	133	29.01
8	Stamp duty and registration fees	513	1,132	73.63
9	Taxes and duties on electricity	10	34	118.56
	Total	1,813	7,652	454.24

First replies to 241 IRs issued upto December 2005 were not furnished by the departments till the end of June 2006. This was brought to the notice of the Chief Secretary to Government in July 2006.

1.12.2 Departmental audit committee meetings

Government set up audit committees (during various periods) to monitor and expedite the progress of settlement of IRs and paragraphs in the IRs relating to departments of Commercial Taxes, Motor Vehicles, Registration, etc. Details of audit committee meetings held during the year 2005-06 and the paragraphs settled are given below:

(In crore of rupees)

Revenue head	No. of meetings held during 2005-06	No. of paragraphs outstanding as on 31 March 2005	Amount	Year-wise details of paragraphs settled		Amount
Sales tax	4	4,310	154.53	Up to 2001-02	204	2.35
				2002-03	8	
				2003-04	1	
				2004-05	-	
				Total	213	
Taxes on vehicles	3	599	11.32	Up to 2001-02	139	3.64
				2002-03	60	
				2003-04	155	
				2004-05	50	
				Total	404	
Stamp duty and registration fees	5	1,126	123.48	Up to 2001-02	25	0.01
				2002-03	16	
				2003-04	9	
				2004-05	6	
				Total	56	
State excise	2	559	8.98	Up to 2001-02	5	-
				2003-04	2	
				2004-05	15	
				2005-06	1	
				Total	23	
Land revenue	2	984	7.61	Up to 2001-02	15	0.82
				2002-03	13	
				2003-04	15	
				2004-05	23	
				Total	66	
Taxes on agricultural income	1	1,136	48.61	Up to 2001-02	1	-
				2004-05	1	
				Total	2	
Forestry and wild life	1	208	41.46	Up to 2001-02	20	6.40
				2002-03	2	
				2003-04	9	
				2004-05	1	
				Total	32	
Grand total	18	8,922	395.99		796	13.22

Seven hundred and ninety six paragraphs involving Rs 13.22 crore were settled in 18 meetings of the audit committees under various revenue heads during 2005-06. Though 8.92 per cent of the number of paragraphs outstanding at the beginning of the year was settled, monetary value of clearance was only 3.34 per cent.

No audit committee has been constituted for the revenue head 'Taxes and duties on electricity'.

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 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 2006 (Revenue Receipts), Government of Kerala, includes 64 draft paragraphs which were forwarded to the secretaries to Government. However, replies/response to 33 draft paragraphs have not been received till December 2006. The draft paragraphs have been suitably clubbed into 21 paragraphs in this Report. Nine cases where recoveries of Rs 38.67 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.

Review of outstanding ATNs on paragraphs included in 10 Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1995 to 31 March 2004 disclosed that the departments had not submitted remedial ATNs on 66 paragraphs on which ATNs were due as on 31 December 2006. The year wise, revenue head wise statement is furnished in Annexure I.

Out of 442 audit paragraphs included in the above 10 Audit Reports, the departments submitted remedial ATNs on 376 paragraphs and none of these ATNs was furnished within the prescribed period of three months.

Though the Audit Report for the year ended 31 March 2005 was laid on the table of the legislature in February 2006 and the time limit of three months for furnishing remedial ATNs elapsed in May 2006, the departments had not submitted ATN on any of the 23 paragraphs included in the above Audit Report till December 2006.

1.12.5 Recovery of revenue of accepted cases

Position of recoveries effected based on paragraphs mentioned in Reports of the Comptroller and Auditor General of India for the years from 2001-02 to 2004-05 as on 31 December 2006 is given below:

(In crore of rupees)

Sl No	Year	Money value of paragraphs	Money value of accepted cases	Amount recovered
1	2001-02	454.15	16.69	0.94
2	2002-03	468.78	13.82	1.38
3	2003-04	130.68	23.20	0.82.
4	2004-05	55.49	13.43	0.31