

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 2006-07, 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:

(Rupees in crore)

Sl. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1.	Revenue raised by the State Government					
	• Tax revenue	7,302.54	8,088.77	8,963.65	9,778.62	11,941.82
	• Non tax revenue ¹	677.76 (618.05)	806.98 (752.02)	819.09 (760.43)	936.78 (863.79)	937.57 (844.51)
	Total	7,980.30 (7,920.59)	8,895.75 (8,840.79)	9,782.74 (9,724.08)	10,715.40 (10,642.41)	12,879.39 (12,786.33)
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	1,715.22	2,012.01	2,404.95	2,518.20	3,212.04
	• Grants-in-aid	938.37	907.61	1,312.80	2,060.93	2,095.19
	Total	2,653.59	2,919.62	3,717.75	4,579.13	5,307.23
3.	Total revenue receipts of the State Government (1 and 2)	10,633.89² (10,574.18)	11,815.37² (11,760.41)	13,500.49² (13,441.83)	15,294.53² (15,221.54)	18,186.62² (18,093.56)
4.	Percentage of 1 to 3	75	75	72	70	71

The above table indicates that during the year 2006-07, the revenue raised by the State Government was 71 *per cent* of the total revenue receipts (Rs. 12,879.39 crore) against 70 *per cent* in the preceding year. The balance 29 *per cent* of receipts during 2006-07 was from the Government of India.

¹ The figures shown in brackets represent the figures net of 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 2006-07. 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 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 2002-03 to 2006-07:

(Rupees in crore)							
Sl. No.	Head of revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase (+)/ decrease (-) in 2006-07 over 2005-06
1.	Sales tax	5,343.15	5,991.43	6,701.05	7,037.97	8,563.31	(+) 21.67
2.	State excise	663.07	655.91	746.45	841.00	953.07	(+) 13.33
3.	Stamp duty and registration fees						
	• Stamps - judicial	39.84	43.32	47.37	53.39	49.20	(-) 7.85
	• Stamps – Non judicial	314.14	334.02	489.99	852.51	1,213.36	(+) 42.33
	• Registration fees	132.55	172.47	237.99	195.51	257.37	(+) 31.64
4.	Taxes and duties on electricity	192.63	189.97	9.62	31.52	31.78	(+) 0.82
5.	Taxes on vehicles	513.20	585.78	610.48	628.51	707.74	(+) 12.61
6.	Taxes on agricultural income	6.40	8.74	4.93	6.15	9.63	(+) 56.59
7.	Land revenue	38.40	40.59	43.85	43.88	47.00	(+) 7.11
8.	Others	59.16	66.54	71.92	88.18	109.36	(+) 24.02
	Total	7,302.54	8,088.77	8,963.65	9,778.62	11,941.82	(+) 22.12

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

Sales tax: The increase in collection was due to rise in price of commodities as well as effective steps taken for maximising the collection.

State excise: The increase was due to revision of excise duty imposed on sale of foreign liquor and increase in rental/license fee of liquor shops and other licenses issued by the department.

Stamp duty and registration fees: The appreciation in land value and the increase in transaction of landed properties contributed to the increase in revenue collection.

Taxes on vehicles: The collection of vehicle tax at revised rates from July 2003 and subsequent withdrawal of the revised rates in April 2005 led to adjustment of the revised tax collected against the future tax dues till 2005-06. Therefore the tax collection in 2006-07 without refunds or adjustments registered an increase compared to previous year. Increased vehicle population also enhanced the tax collection.

Taxes on agricultural income: The increase in collection was due to rise in price of agricultural commodities as well as effective steps taken for maximising the collection.

Land revenue: The increase was due to collection of arrears, increase in construction of building, flats etc.

Taxes and duties on electricity: The increase was due to excess consumption of energy by the licensees.

The other departments did not inform (December 2007) the reasons for variation, despite being requested (April 2007).

1.1.3 The following table presents the details of the non-tax revenue raised during the period 2002-03 to 2006-07 :

(Rupees in crore)							
Sl. No.	Head of revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase (+)/ decrease (-) in 2006-07 over 2005-06
1.	State lotteries	68.38	78.72	92.72	156.58	142.93 ³	(-) 8.72
2.	Forestry and wild life	149.58	187.18	199.69	189.63	174.56	(-) 7.95
3.	Interest receipts	35.86	32.40	40.51	46.36	44.63	(-) 3.73
4.	Education, sports, art and culture	63.41	81.86	85.76	82.09	99.91	(+) 21.71
5.	Medical and public health	28.16	27.61	27.52	29.80	32.99	(+) 10.70
6.	Crop husbandry	12.76	22.71	11.51	13.74	12.33	(-) 10.26
7.	Animal husbandry	6.94	6.31	5.68	5.68	6.43	(+) 13.20
8.	Public works	2.15	2.90	2.70	2.68	2.56	(-) 4.48
9.	Others	250.81	312.33	294.34	337.23	328.17	(-) 2.69
Total		618.05	752.02	760.43	863.79	844.51	(-) 2.23

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

State lotteries: The decrease was due to stoppage of purchase of ticket by a major agent as per the direction of the Kerala High Court.

Forestry and wildlife: The revenue collection was affected due to non-availability of timber for sale owing to labour problem till February 2007.

Interest receipts: The decrease was mainly due to reduction in outstanding balance of loans advanced to the State Government employees as no fresh loans were sanctioned during the year.

Education, sports, art and culture: The increase in revenue collection was due to increase in issue of duplicate certificate as well as increase in tuition fee.

³ From gross receipts of Rs. 235.99 crore expenditure of Rs. 93.06 crore on prize winning tickets has been deducted, but expenditure of Rs. 91.34 crore on commission to agents and establishment expenses of Rs. 9.80 crore have not been deducted.

Medical and public health: The increase in collection of fees consequent to the increase on services provided in Hospitals.

Public works: The decrease in revenue collection was due to decrease in sale of tender forms on account of delay in approval of administrative sanction of plan schemes.

The other departments did not inform (December 2007) the reasons for variations, despite being requested (April 2007).

1.2 Variation between the budget estimates and the actuals

The variation between the budget estimates and the actuals of revenue receipts for the year 2006-07 in respect of the principal heads of tax and non-tax revenue are mentioned below:

(Rupees in crore)					
Sl. No.	Head of revenue	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation
1.	Sales tax	7,930.38	8,563.31	(+) 633.93	(+) 7.98
2.	State excise	944.73	953.07	(+) 8.34	(+) 0.88
3.	Stamp duty and registration fees				
	• Stamps - Non-judicial	642.30	1,213.36	(+) 571.06	(+) 88.91
	• Registration fees	282.33	257.37	(-) 24.96	(-) 8.84
4.	Taxes on vehicles	730.00	707.74	(-) 22.26	(-) 3.05
5.	Forestry and wild life	250.32	174.56	(-) 75.76	(-) 30.27
6.	Taxes and duties on electricity	265.69	31.78	(-) 233.91	(-) 88.04
7.	Taxes on agricultural income	6.24	9.63	(+) 3.39	(+) 54.33
8.	Land revenue	55.72	47.00	(-) 8.72	(-) 15.65

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

Sales tax: The variation was due to rise in price of commodities as well as effective steps taken for maximising the collection.

State excise: The increase was due to revision of license fee for toddy shops by ten *per cent* of existing rate.

Stamp duty and registration fees: The appreciation in land value and the increase in transaction of landed properties contributed to the increase in revenue collection.

Forestry and wildlife: The variation was due to non-availability of timber for sale, consequent to labour problems.

Taxes on agricultural income: The variation was due to rise in price of agricultural commodities as well as effective steps taken for maximising the collection.

Taxes and duties on electricity: The decrease was due to non-remittance of duty by the Kerala State Electricity Board during the year.

Land revenue: The decrease was due to over estimation of budget figures.

The other departments did not inform (December 2007) the reasons for variation, despite being requested (April 2007).

1.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of expenditure to gross collection during the years 2004-05, 2005-06 and 2006-07 along with the relevant all India average percentage of expenditure on collection to gross collection for 2005-06 are shown below:

(Rupees in crore)

Sl. No.	Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage (2005-06)
1.	Sales tax	2004-05	6,701.05	52.10	0.78	0.91
		2005-06	7,037.97	60.96	0.87	
		2006-07	8,563.31	78.21	0.91	
2.	Stamps (non-judicial) and registration fees	2004-05	727.98	42.35	5.82	2.87
		2005-06	1,048.03	46.81	4.47	
		2006-07	1,470.73	59.06	4.02	
3.	State excise	2004-05	746.45	43.72	5.86	3.40
		2005-06	841.00	48.78	5.80	
		2006-07	953.07	58.07	6.09	
4.	Taxes on vehicles	2004-05	610.48	16.52	2.71	2.67
		2005-06	628.51	17.73	2.82	
		2006-07	707.74	21.61	3.05	

Thus, the percentage cost of collection in respect of 'state excise', 'stamp duty and registration fees' and 'taxes on vehicles' was higher than the all India average and the Government needs to look into this aspect.

1.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2007 in respect of some departments amounted to Rs 2,868.96 crore, of which Rs. 1,566.41 crore (Rs. 1,325.51 crore relating to electrical inspectorate, Rs. 225.06 crore relating to motor vehicles, Rs. 120.85 crore relating to land revenue, Rs. 15.66 crore relating to local fund audit and Rs. 18 lakh relating to mining and geology) was outstanding for more than four years as mentioned below:

(Rupees in crore)

Sl. No.	Department	Amount of arrears as on 31 March 2007	Arrears outstanding for more than 4 years	Remarks
1.	Electrical inspectorate	2,192.18	1,325.51	Non-remittance of dues by the Kerala State Electricity Board.
2.	Motor vehicles	604.32	225.06	Non-remittance of tax by registered owners.
3.	Land revenue	157.28	120.85	The arrears were due to stay by Courts.
4.	Local fund audit	71.94	15.66	Non-remittance of fees by auditee institutions.
5.	Mining and Geology	0.52	0.18	Arrears were due to dispute regarding claims, court stays, etc.
Total		2,868.96	1,566.41	

Arrears of revenue outstanding as on 31 March 2007 and its breakup in respect of sales tax, agricultural income tax, state excise and forestry and wildlife departments were not available with these departments.

1.5 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 two departments during the year 2006-07:

(Rupees in lakh)

Sl. No.	Revenue head	Written off		Waived	
		No. of cases	Amount	No. of cases	Amount
1.	State excise	6	3.08	1	70.03
2.	Motor vehicles	-	-	1	1.64

In Excise Department *abkari* arrears of Rs 3.08 lakh in six cases were written off as they were irrecoverable and excise duty of Rs 70.03 lakh was waived in one case on loss of rectified spirit during interstate transit.

In the Motor Vehicles Department, vehicle tax of Rs. 1.64 lakh was waived on the basis of a judgment of the High Court in a writ petition.

1.6 Refunds

Information relating to the number of refund cases pending at the beginning of the year 2006-07, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2006-07, was not made available by the Commercial Taxes Department and State Excise Department as of December 2007.

1.7 Results of audit

Test check of the records of commercial tax, State excise, motor vehicles, forest and other departmental offices conducted during the year 2006-07 revealed underassessments/short levy/loss of revenue aggregating Rs. 593.46 crore in 1,448 cases. During the course of the year, the departments concerned accepted underassessments and other deficiencies of Rs. 10.75 crore involved in 458 cases of which 104 cases involving Rs. 2.15 crore were pointed out in audit during 2006-07 and the rest in the earlier years. The departments collected Rs. 95.90 lakh in 213 cases during 2006-07.

This report contains 26 paragraphs including two reviews relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of Rs. 279.90 crore. The departments/Government have accepted audit observations involving Rs. 18.21 crore out of which Rs. 1.16 crore has been recovered. The replies in the remaining cases have not been received (December 2007).

1.8 Outstanding inspection reports and audit observations

Principal Accountant General (Audit) (AG) conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). 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.

According to the instructions issued by the Government in November 1965, first reply to IRs are required to be sent within four weeks from the date of their receipt. In order to apprise the Government of the position of pending audit observations from time to time, statements of outstanding audit observations are forwarded to the Government and their replies watched in audit.

As at the end of June 2007, there were 1,723 outstanding IRs containing 9,978 audit observations involving Rs. 1,044.60 crore issued upto December 2006. The details of reports outstanding at the end of June for the years 2005 to 2007 are mentioned below:

(Rupees in crore)			
Period	Number of outstanding IRs	Number of outstanding audit observations	Amount involved
At the end of June 2005	1,638	9,659	382.14
At the end of June 2006	1,813	7,652	454.24
At the end of June 2007	1,723	9,978	1,044.60

Out of 1,723 pending IRs, even first replies have not been received (June 2007) for 293 IRs. Pendency of these reports was reported to the Government (July

2007).

Revenue head wise details of the outstanding IRs and audit observations as on 30 June 2007 are mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Number of IRs	Number of audit observations	Amount
1.	Sales tax	838	7,537	185.68
2.	Taxes on agricultural income	24	152	3.98
3.	State excise	106	230	165.38
4.	Taxes on vehicles	44	303	1.03
5.	Land revenue	77	166	68.99
6.	State lotteries	13	29	32.00
7.	Forestry and wild life	254	724	584.00
8.	Stamp duty and registration fees	362	823	1.27
9.	Taxes and duties on electricity	5	14	2.27
Total		1,723	9,978	1,044.60

1.9 Departmental audit committee meetings

The Government set up audit committees (during various periods) to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs relating to departments of Commercial Taxes, Motor Vehicles, Registration, etc. The details of the audit committee meetings held during the year 2006-07 and the paragraphs settled are mentioned below:

(Rupees in crore)

Head of revenue	No. of meetings held	Number of paragraphs settled		Amount
Sales tax	4	Up to 2002-03	432	19.85
		2003-04	17	
		2004-05	42	
		2005-06	14	
		Total	505	
Taxes on vehicles	2	Upto 2002-03	54	0.39
		2003-04	94	
		2004-05	105	
		2005-06	69	
		Total	322	
Stamp duty and registration fees	4	Up to 2002-03	32	16.20
		2003-04	8	

Head of revenue	No. of meetings held	Number of paragraphs settled		Amount
		2004-05	51	
		2005-06	55	
		2006-07	26	
		Total	172	
State excise	1	Up to 2002-03	1	NIL
		2004-05	8	
		2005-06	2	
		Total	11	
Land revenue	3	Up to 2002-03	9	0.32
		2003-04	18	
		2004-05	28	
		2005-06	18	
		2006-07	5	
		Total	78	
Total	14		1,088	36.76

The department concerned had not convened audit committee meeting to discuss the IRs on revenue receipts relating to forestry and wildlife and taxes on agricultural income.

The Government did not constitute audit committee for the revenue head 'Taxes and duties on electricity'.

1.10 Response of the departments to draft audit paragraphs

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

Eighty seven draft paragraphs clubbed into 26 paragraphs (including two reviews) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2007 were forwarded to the concerned Secretaries to the Government and copies endorsed to the concerned heads of the departments. However, the replies/response to 21 draft paragraphs (out of 87 paragraphs) have not been received (December 2007). In ten cases recoveries totalling Rs. 73.41 lakh have been made in full.

1.11 Follow-up on Audit Reports

Instructions issued by the 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 the Audit Report to the legislature without waiting for any notice or call from the Committee on Public Accounts.

A review of the outstanding ATNs on paragraphs included in 11 Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1995 to 31 March 2005 disclosed that the departments had not submitted remedial ATNs on 35 paragraphs on which ATNs were due as on 31 December 2007.

Out of 465 audit paragraphs included in the above 11 Audit Reports, the departments submitted remedial ATNs on 428 paragraphs and none of these ATNs was furnished within the prescribed period of three months.

The Audit Report for the year ended 31 March 2006 was laid on the table of the legislature in March 2007. The departments had not submitted ATNs on 5 paragraphs included in the above Audit Report (December 2007) although the prescribed time period was over in June 2007. This indicates that the executive failed to take prompt action on the important issues highlighted in the Audit Reports that involved large sums of unrealised revenue.

1.12 Compliance with the earlier Audit Reports

In the Audit Reports 2001-02 to 2005-06, 546 cases of underassessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. were included involving Rs. 1,138.33 crore. Of these, as of December 2007, the departments concerned have accepted 282 cases involving Rs. 108.72 crore and recovered Rs. 6.91 crore in 59 cases. Audit Report wise details of cases accepted and recovered are as mentioned below:

(Rupees in crore)

Sl. No.	Year	No. of cases	Money value of Audit Reports	No. of cases	Money value of accepted cases	No. of cases	Amount recovered
1.	2001-02	167	454.15	64	17.52	9	1.03
2.	2002-03	150	468.78	61	20.69	8	1.48
3.	2003-04	101	130.68	63	39.11	9	1.03
4.	2004-05	64	55.49	64	27.08	7	0.64
5.	2005-06	64	29.23	30	4.32	26	2.73
Total		546	1,138.33	282	108.72	59	6.91