

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 2003-04, the State's share of net proceeds of the 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.

		1999-2000	2000-01	2001-02	2002-03	2003-04
		(In crore of rupees)				
1	Revenue raised by the State Government					
	a) Tax revenue	5,193.50	5,870.26	5,923.42	7,302.54	8,088.77
	b) Non-tax revenue*	530.72 (487.21)	659.08 (610.12)	543.38 (477.73)	677.76 (618.05)	806.98 (752.02)
	Total *	5,724.22 (5,680.71)	6,529.34 (6,480.38)	6,466.80 (6,401.15)	7,980.30 (7,920.59)	8,895.75 (8,840.79)
2	Receipts from Government of India					
	a) Share of net proceeds of the divisible Union Taxes and Duties	1,535.22	1,585.61	1,614.26	1,715.22	2,012.01
	b) Grants-in-aid	682.31	615.90	975.33	938.37	907.61
	Total	2,217.53	2,201.51	2,589.59	2,653.59	2,919.62
3	Total revenue receipts of the State Government (1 and 2) *	7,941.75* (7,898.24)	8,730.85* (8,681.89)	9,056.39* (8,990.74)	10,633.89* (10,574.18)	11,815.37* (11,760.41)
4	Percentage of 1 to 3	72	75	71	75	75

* The figures shown in brackets are the figures net of expenditure on prize winning tickets of the lotteries conducted by the 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’ has 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 the tax revenue raised during the year 2003-04, along with the figures for the preceding four years are given below.

Sl. No.	Revenue Head	1999-2000	2000-01	2001-02	2002-03	2003-04	Percentage of increase (+) / decrease (-) in 2003-04 over 2002-03
		(In crore of rupees)					
1	Sales Tax	3,853.54	4,344.33	4,440.85	5,343.15	5,991.43	(+) 12
2	State Excise	591.10	688.94	541.46	663.07	655.91	(-) 1
3	Stamps and Registration Fees						
	a) Stamps- Judicial	23.21	26.65	24.04	39.84	43.32	(+) 9
	b) Stamps - Non- Judicial	164.98	210.89	262.87	314.14	334.02	(+) 6
	c) Registration Fees	91.46	103.56	107.37	132.55	172.47	(+) 30
4	Taxes and Duties on Electricity	3.33	14.92	5.18	192.63	189.97	(-) 1
5	Taxes on Vehicles	380.83	394.85	452.18	513.20	585.78	(+) 14
6	Taxes on Agricultural Income	14.19	3.83	1.87	6.40	8.74	(+) 37
7	Land Revenue	34.67	39.35	34.93	38.40	40.59	(+) 6
8	Others	36.19	42.94	52.67	59.16	66.54	(+) 12
	Total	5,193.50	5,870.26	5,923.42	7,302.54	8,088.77	(+) 11

The Departments attributed the increase in receipts during 2003-04 as compared to 2002-03 to the following.

Taxes on Vehicles: The increase was attributed to the increase in vehicle population, enhancement of rate of tax and increase in collection of arrears of tax.

Stamps and Registration Fees: Increase in the number of documents registered during the year.

The reasons for variation though called for in May 2004 from heads of other departments have not been received till December 2004.

1.1.3. Details of non-tax revenue realised during the year 2003-04 along with the figures for the preceding four years are given below.

Sl. No.	Head of Revenue	1999-2000	2000-01	2001-02	2002-03	2003-04	Percentage of Increase(+) / decrease (-) in 2003-04 over 2002-03
		(In crore of rupees)					
1	State Lotteries	57.31	85.21	55.94	68.38	78.72 [▲]	(+) 15
2	Forestry and Wild Life	109.88	141.24	113.70	149.58	187.18	(+) 25
3	Interest Receipts	37.31	36.81	31.08	35.86	32.40	(-) 10
4	Education, Sports, Art & Culture	39.18	44.98	53.56	63.41	81.86	(+) 29
5	Medical and Public Health	18.82	20.66	19.85	28.16	27.61	(-) 2
6	Crop Husbandry	5.25	40.53	7.58	12.76	22.71	(+) 78
7	Animal Husbandry	5.08	5.28	5.03	6.94	6.31	(-) 9

[▲] From gross receipts of Rs 133.68 crore expenditure of Rs 54.96 crore on prize winning tickets has been deducted, but expenditure of Rs 53.45 crore on commission to agents and establishment expenses of Rs 2.92 crore have not been deducted.

Sl. No.	Head of Revenue	1999-2000	2000-01	2001-02	2002-03	2003-04	Percentage of Increase(+) / decrease (-) in 2003-04 over 2002-03
		(In crore of rupees)					
8	Public Works	1.82	2.17	1.56	2.15	2.90	(+) 35
9	Others	212.56	233.24	189.43	250.81	312.33	(+) 25
	Total	487.21	610.12	477.73	618.05	752.02	(+) 22

The Departments attributed the increase in receipts during 2003-04 as compared to 2002-03 to the following.

State Lotteries: The increase was due to introduction of a new lottery 'Chaithanya' with effect from September 2003.

The reasons for variation though called for in May 2004 from the heads of other departments have not been received till December 2004.

1.2. Initiatives for mobilisation of Additional Resources

During the year 2003-04, Government of Kerala raised a total revenue of Rs 8895.75 crore comprising tax revenue of Rs 8088.77 crore and non-tax revenue of Rs 806.98 crore. The XI Finance Commission's projection of revenue of the State, budget estimates and the 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	between budget estimates and actual receipts
Own tax revenue	10,134.08	8,683.92	8,088.77	(-) 20	(-) 7
Own non-tax revenue	1,164.36	767.87	806.98	(-) 31	(+) 5
Total	11,298.44	9,451.79	8,895.75	(-) 21	(-) 6

Against the Finance Commission's projection of Rs 11298.44 crore, budget estimates aggregated only Rs 9451.79 crore and the actual receipt of Rs 8895.75 crore was 21 per cent short of the Commission's projection and six per cent short of the budget estimates.

The Government had not proposed mobilisation of any additional revenue during the year, but expected a revenue loss of Rs 500 crore on introduction of VAT with effect from 1 April 2003. As the introduction of VAT was deferred till 1 April 2005, Government imposed 15 per cent of additional sales tax on sales tax with effect from 1 July 2003 and stated in July 2004 that an additional revenue of Rs 293.26 crore was realised during 2003-04. However, the receipt under 'Sales Tax' was Rs 427 crore less than the estimate of Rs 6418 crore.

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 the 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 the Government.

The budget estimates of the revenue for the year 2003-04 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	6,418.00	6,200.00	5,991.43	(-) 426.57
State Excise	800.00	687.00	655.91	(-) 144.09
Taxes and Duties on Electricity	177.27	303.79	189.97	(+) 12.70
Stamps & Registration Fees				
a) Stamps Non-judicial	376.12	459.81	334.02	(-) 42.10
b) Registration fees	150.08	144.11	172.47	(+) 22.39

The above table indicates that though estimates under 'Sales Tax' and 'State Excise' were scaled down, the actual receipts were less than the revised estimates. Under 'Taxes and Duties on Electricity' the original estimate of Rs 177.27 crore was enhanced to Rs 303.79 crore whereas the actual receipt was only Rs 189.97 crore. Under Stamps (Non-judicial), even though the original estimate of Rs 376.12 crore could not be achieved, the estimate was revised to Rs 459.81 crore.

The above suggests that the budget estimates were not being prepared in a realistic manner.

1.4. Variation between budget estimates and actuals

The variation between budget estimates of revenue for the year 2003-04 and the actual receipts under principal heads of revenue are given below.

Revenue Head	2003-04			Percentage of variation
	Budget estimates	Actual receipts	Variation Increase (+)/ Shortfall (-)	
	(In crore of rupees)			
Sales Tax	6,418.00	5,991.43	(-) 426.57	(-) 7
State Excise	800.00	655.91	(-) 144.09	(-) 18
Stamps and Registration Fees				
a) Stamps- Non-Judicial	376.12	334.02	(-) 42.10	(-) 11
b) Registration Fees	150.08	172.47	(+) 22.39	(+) 15
Taxes on Vehicles	582.40	585.78	(+) 3.38	(+) 1
Forestry and Wild Life	220.00	187.18	(-) 32.82	(-) 15
Taxes and Duties on Electricity	177.27	189.97	(+) 12.70	(+) 7
Taxes on Agricultural Income	3.00	8.74	(+) 5.74	(+) 191
Land Revenue	47.47	40.59	(-) 6.88	(-) 14

The reasons given by the departments for the variation between budget estimates and actuals for 2003-04 were as follows.

Stamps and Registration Fees: Reduction of stamp duty and undervaluation of documents due to non-fixation of fair value of land.

Taxes and Duties on Electricity: Increase was due to remittance of a portion of arrears by the Kerala State Electricity Board during 2003-04.

Taxes on Agricultural Income: Increase was due to collection of arrears.

The reasons for variation called for in May 2004 from the heads of other departments have not been received till December 2004.

1.5. Cost of collection

The gross collections under major revenue heads, expenditure incurred on collections and the percentage of expenditure to gross collections during the years 2001-02, 2002-03 and 2003-04 along with the relevant all India average percentage of expenditure on collection to gross collections for 2002-03 are given below.

Sl. No.	Revenue Head	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage
			(In crore of rupees)			
1.	Sales Tax	2001-02	4,440.85	40.04	0.90	
		2002-03	5,343.15	44.55	0.83	1.18
		2003-04	5,991.43	56.73	0.95	
2.	Stamps (Non- Judicial) and Registration Fees	2001-02	370.24	32.57	8.80	
		2002-03	446.69	38.13	8.54	3.46
		2003-04	506.49	40.00	7.90	
3.	State Excise	2001-02	541.46	30.77	5.68	
		2002-03	663.07	35.29	5.32	2.92
		2003-04	655.91	41.69	6.36	
4.	Taxes on Vehicles	2001-02	452.18	12.69	2.81	
		2002-03	513.20	14.08	2.74	2.86
		2003-04	585.78	15.47	2.64	

It can be seen from the above table that percentage of cost of collection in respect of 'Stamps and Registration Fees' and 'State Excise' was much higher than All India Average. The Excise Department attributed the reason for the high cost of collection to priority given for enforcement of Abkari laws /rules consequent on ban in sale of arrack with effect from 1996. The Registration Department had not furnished any specific reason but stated that no system of analysis of cost of collection existed in the Department.

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 1999-2000 to 2001-02 and Rs 0.04 crore in 2002-03 and 2003-04. The year-wise particulars of the

number of assessees and sales tax revenue realised is given below.

(In crore of rupees)

Year	No. of assessees	Sales tax revenue	Revenue per assessee
1999-2000	1,30,379	3853.54	0.03
2000-01	1,34,944	4344.33	0.03
2001-02	1,38,100	4440.85	0.03
2002-03	1,41,290	5343.15	0.04
2003-04	1,43,669	5991.43	0.04

1.7. Analysis of arrears of revenue

As on 31 March 2004, 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	65.77	0.34	Since Government had decided in October 2002 to net off the dues between Kerala State Electricity Board and Government as on 31 March 2002, the arrears due from Kerala State Electricity Board up to 31 March 2002 have not been included by the Chief Electrical Inspector in the arrears.
2.	Local Fund Audit	37.37	5.60	The department attributed arrears to non-remittance of audit fees by auditee institutions.
3.	Factories and Boilers	1.27	0.03	Dues from factories which had stopped functioning.
4.	Mining and Geology	0.52	0.12	The arrears were due to dispute regarding claims, court stays, etc.

Details of arrears of revenue in respect of other departments though called for in May 2004 have not been received till December 2004.

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 2002-03 and 2003-04 as furnished by the Department, are given below.

Year	Opening balance	Cases due for assessment during the year	Total	Cases finalised during the year	Balance at the close of the year	Percentage of column 5 to 4
1	2	3	4	5	6	7
Sales Tax						
2002-03	1,42,209	1,54,981	2,97,190	1,75,869	1,21,321	59
2003-04	1,21,321	1,73,035	2,94,356	1,65,035	1,29,321	56
Agricultural Income Tax						
2002-03	8,817	4,550	13,367	7,252	6,115	54
2003-04	6,115	7,156	13,271	7,380	5,891	56

The above table shows that the Department completed only 56 per cent of the assessments due for completion under 'Sales Tax' and 'Agricultural Income Tax' during 2003-04. The delay in finalisation of assessments resulted in delay in realisation of the revenue involved in these cases.

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 2003-04.

(In lakh of rupees)

Revenue Head	Written-off		Waived	
	No. of cases	Amount	No. of cases	Amount
Sales Tax	-	-	3	119.36
State Excise	8	8.44	-	-
Total	8	8.44	3	119.36

Arrears of instalments of rental of Rs 8.44 lakh due from contractors of toddy shops in 8 cases were written off as they were either insolvent or no more. Waiver of Rs 119.36 lakh represented central sales tax due from Kerala State Rubber Marketing Federation (Rs 39.65 lakh) and sales tax due from Paying Counter of Medical College Hospital, Thiruvananthapuram (Rs 40.11 lakh) and Keraleeya Ayurveda Samajam Hospital and Nursing Home, Shoranur (Rs 39.60 lakh).

1.10. Refunds

The number of refund cases pending at the beginning of the year 2003-04, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2003-04 were not available with the Commercial Taxes Department.

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 2003-04 revealed underassessments/short levy/loss of revenue aggregating Rs 201.01 crore in 1,791 cases. During the course of the year, the Departments

concerned accepted underassessments, etc., of Rs 8.61 crore involved in 536 cases, of which 146 cases involving Rs 2.72 crore were pointed out in audit during 2003-04 and the rest in earlier years. At the instance of Audit, the Departments collected Rs 3.71 crore in 371 cases during 2003-04.

This report contains 28 paragraphs including two reviews relating to short/non-levy of tax, duty and interest, penalty, etc., involving financial effect of Rs 130.68 crore. The Departments/Government have so far accepted the audit observations involving Rs 20 crore out of which Rs 68.29 lakh was recovered. Final reply had not been received in the remaining cases till December 2004.

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 replies to inspection reports are required to be sent within four weeks from the date of its 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 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 the Government for taking prompt corrective measures.

As at the end of June 2004, there were 3,095 outstanding inspection reports containing 13,812 audit observations involving Rs 447.71 crore issued up to December 2003. The details of reports outstanding as at the end of June for the years 2002 to 2004 are given below.

(In crore of rupees)

Period	Number of inspection reports	Number of audit observations	Amount involved
As at the end of June 2002	4,493	15,967	1,118.82
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

Revenue head-wise details of the outstanding inspection reports as at the end of June 2004 are given below.

(In crore of rupees)

Sl. No.	Revenue Head	Number of inspection reports	Number of audit observations	Amount
1	Sales Tax	1,229	7,574	259.68
2	Taxes on Agricultural Income	345	2,552	65.38
3	State Excise	367	661	7.01
4	Taxes on Vehicles	402	1,703	12.45
5	Land Revenue	82	163	2.55
6	Forestry and Wild Life	133	236	68.54

Sl. No.	Revenue Head	Number of inspection reports	Number of audit observations	Amount
7	Stamps and Registration Fees	526	898	2.96
8	Taxes and Duties on Electricity	11	25	29.14
	Total	3,095	13,812	447.71

First replies to 221 inspection reports issued up to December 2003 were not furnished by the departments till the end of June 2004. This was brought to the notice of the Chief Secretary to Government between July 2004 and September 2004.

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 Commercial Taxes, Motor Vehicles, Registration, etc., departments. Details of Audit Committee meetings held during the year 2003-04 and the paragraphs settled are given below.

(In crore of rupees)

Revenue Head	No. of meetings held during 2003-04	No. of paragraphs outstanding as on 31 March 2003	Amount	Year and number of paragraphs settled	Amount
Sales Tax	2	8,066	442.86	Between 1988-89 and <u>1998-99</u> 364	6.97
Motor vehicles	2	2,164	12.74	Up to 1999-2000 and 2000-01 to <u>2002-03</u> 382	1.92
Land Revenue	2	1,054	4.55	Between 1991-92 and <u>2002-03</u> 71	1.17
Stamps and Registration Fees	2	1,152	3.73	Between 1991-92 and <u>2002-03</u> 159	0.77
Forest	1	1,079	78.50	Between 1983-84 and <u>2001-02</u> 40	0.25
State Excise	1	1,303	7.74	Between 2001-02 and <u>2002-03</u> 4	Nil
Grand total	10	14,818	550.12	1,020	11.08

One thousand and twenty paragraphs involving Rs 11.08 crore were settled in 10 meetings of the Audit Committees under various revenue heads during 2003-04. Though seven *per cent* of the number of paragraphs outstanding at the beginning of the year was settled, the monetary value of clearance was only two *per cent*.

No Audit Committee has been constituted for the revenue head 'Taxes and Duties on Electricity' and no meeting was held during 2003-04 in respect of revenue head 'Taxes on Agricultural Income'.

1.12.3. Response of the departments to Draft Audit Paragraphs

According to the instructions issued in 1965 by Government of Kerala, the result of verification of the 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 are 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 2004 (Revenue Receipts), Government of Kerala, includes 101 draft paragraphs which were forwarded to the Secretaries to Government. However, replies/response to 65 draft paragraphs were awaited (December 2004). The draft paragraphs have been suitably clubbed into 28 paragraphs in this Report.

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 nine Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1994 to 31 March 2002 disclosed that the departments had not submitted remedial ATNs on 75 paragraphs on which ATNs were due as on 31 December 2004 as indicated in Annexure-I.

Out of the total 404 audit paragraphs included in the above nine Audit Reports, the departments submitted remedial ATNs on 329 paragraphs only and none of these ATNs was furnished within the prescribed period of three months.

The Committee on Public Accounts had also expressed displeasure over the extraordinary delay on the part of the 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.

Though the Audit Report for the year ended 31 March 2003 was laid on the table of the Legislature in June 2004 and the time limit of three months for furnishing remedial ATNs had elapsed in September 2004, the departments had submitted ATNs only on six of the 43 paragraphs included in the above Audit Report till December 2004.