

## 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 2015-16, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-aid received from Government of India during the year and the corresponding figures for the preceding four years are mentioned in Table- 1.1.

**Table – 1.1**  
**Trend of revenue receipts**

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
<b>1.</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	25,718.60	30,076.61	31,995.02	35,232.50	38,995.15
	• Non-tax revenue <sup>1</sup>	2,592.18 (2,228.97)	4,198.51 (3,272.25)	5,575.03 (4,059.49)	7,283.69 (5,097.95)	8,425.49 (5,902.45)
	<b>Total</b>	<b>28,310.78</b> (27,947.57)	<b>34,275.12</b> (33,348.86)	<b>37,570.05</b> (36,054.51)	<b>42,516.19</b> (40,330.45)	<b>47,420.64</b> (44,897.60)
<b>2.</b>	<b>Receipts from Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	5,990.36	6,840.65	7,468.68	7,926.29	12,690.67
	• Grants-in-aid	3,709.22	3,021.53	4,138.20	7,507.99	8,921.35
	<b>Total</b>	<b>9,699.58</b>	<b>9,862.18</b>	<b>11,606.88</b>	<b>15,434.28</b>	<b>21,612.02</b>
<b>3.</b>	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>38,010.36</b> (37,647.15)	<b>44,137.30</b> (43,211.04)	<b>49,176.93</b> (47,661.39)	<b>57,950.47</b> (55,764.73)	<b>69,032.66</b> (66,509.62)
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>74</b>	<b>78</b>	<b>76</b>	<b>73</b>	<b>69</b>

Source : Finance Accounts prepared by PAG(A&E), Kerala.

The above table indicates that during the year 2015-16, the revenue raised by the State Government (₹ 47,420.64 crore) was 69 *per cent* of the total revenue receipts. The balance 31 *per cent* of the receipts during 2015-16 was from the Government of India.

<sup>1</sup> The receipt from State lotteries for the year 2015-16 was ₹ 6,271.41 crore which was 74.43 *per cent* of non tax revenue. The difference between the figures shown in column and bracket represent expenditure on prize winning tickets of lotteries conducted by the Government.

**1.1.2** The details of the tax revenue raised during the period 2011-12 to 2015-16 are given in **Table - 1.2**.

**Table – 1.2**  
**Details of Tax Revenue raised**

(₹ in crore)

Sl. No.	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	0040 - Tax on sales, trade etc.	19,427.90	18,938.83	23,450.52	22,511.09	28,456.62	24,885.25	31,913.47	27,908.33	34,712.28	30,736.78	8.77	10.13
2.	0030-Stamps and Registration fees	3,252.17	2,986.55	3,775.71	2,938.38	4,207.01	2,593.29	3,733.67	2,659.02	4,311.33	2,877.73	15.47	8.23
3.	0041 - Taxes on vehicles	1,410.73	1,587.13	1,694.49	1,924.62	2,570.65	2,161.09	2,799.82	2,364.95	3,087.35	2,814.30	10.27	19.00
4.	0039 - State Excise	2,059.05	1,883.18	2,550.65	2,313.95	2,801.75	1,941.72	3,208.36	1,777.42	2,600.66	1,964.16	(-)18.94	10.51
5.	0029 - Land Revenue	162.84	60.75	127.72	121.58	135.49	88.78	169.57	139.03	138.46	182.28	(-)18.35	31.11
6.	0043 - Taxes and Duties on Electricity	29.31	21.28	250.00	24.71	284.15	42.25	309.14	48.71	189.06	57.66	(-)38.84	18.37
7.	0022 - Taxes on Agricultural Income	14.49	42.86	15.98	18.92	23.99	21.55	26.35	8.60	28.33	2.01	7.51	(-)76.63
8.	Others <sup>2</sup>	285.06	198.02	257.14	223.36	291.44	261.09	307.11	326.44	360.56	360.23	17.40	10.35
	<b>Total</b>	<b>26,641.55</b>	<b>25,718.60</b>	<b>32,122.21</b>	<b>30,076.61</b>	<b>38,771.10</b>	<b>31,995.02</b>	<b>42,467.49</b>	<b>35,232.50</b>	<b>45,428.03</b>	<b>38,995.15</b>	<b>6.97</b>	<b>10.68</b>

Source : Budget Estimates and Finance Accounts of the respective years.

The respective Departments reported the following reasons for variation.

**Commercial Taxes:** The Department stated that the budget estimates are prepared considering the last year's collection by adding reasonable growth percentage to it. During the year, the decrease in actual receipts when compared to budget estimates was due to the fall in collection from oil companies and certain commodities like motor vehicles, rubber, iron & steel, bar hotels, chicken and timber. The collection from motor vehicles decreased due to the recessionary trend in motor vehicles, which showed a growth rate of seven *per cent* increase during 2015-16 as against 23 *per cent* growth rate of previous years. The growth rate of petroleum products was only nine *per cent* as against 20 *per cent* growth rate in previous years. Also, rice, wheat, atta, maida, suji were exempted from tax.

<sup>2</sup> Taxes on immovable property other than agricultural land, Luxury tax and Entertainment tax.

Apart from the above, Audit found that the following reasons also attributed to the decrease in receipts when compared to estimates.

- (i) Failure of CTD to comply with the provisions of statute for taxation of gold, diamond and platinum.
- (ii) Laxity of enforcement and assessing officers in complying with the Act/Rules to identify, detect and to take remedial action against evasion of tax.
- (iii) Failure of the assessing officers to ensure that the turnover relating to exemption availed by the principal contractors were subjected to tax at the hands of the subcontractors.

In the case of agricultural income tax, the steep fall in price of rubber has affected collection severely and rubber was exempted from tax also.

**Taxes on vehicles:** There was a decrease in the actual receipts over the budget estimates for 2015-16. The Department stated that this was due to decrease in number of vehicles registered. Also, Audit found that the Department did not have an efficient system to levy road taxes on motor vehicles and enforcement of the conditions laid down in the permits and other related provisions of the Act/Rules by the Department was weak which resulted in short realisation of motor vehicles tax and permit fees. The reason for increase in receipts for 2015-16 over 2014-15 was not furnished by the Department.

**Land Revenue:** The increase in revenue receipts from the budget estimates was due to the upward revision of basic tax. Plantation tax was abolished on the individuals holding plantations which resulted in decrease of revenue receipts when compared to budget estimates. The increase in receipts for the year 2015-16 over 2014-15 was due to enhancement of luxury tax, basic land tax and building tax.

**Power:** The Department stated (October 2016) that the increase in receipts for 2015-16 was due to increase in arrear collection. The decrease of actual receipts over budget estimates was related to electricity duty. The Department stated that the Kerala State Electricity Board Limited has neither adjusted nor remitted electricity duty, which was the reason for huge variation between budget estimates and receipts for the year.

**Registration:** The Department attributed the reason for the variation between the budget estimate and actual receipts for 2015-16 to short fall in number of documents registered during the year. There was increase in revenue receipts in 2015-16 when compared to that in 2014-15, which was due to enhancement in the fair value of land by fifty *per cent*.

**Excise:** There was decrease in the actual receipts when compared to the budget estimates for 2015-16. The Department explained the reason for this as the reduction in gallonage fee on beer to be paid by the Kerala State Beverages

Corporation Limited (KSBCL), reduction of annual rental of wholesale shops (FL-9) of liquor from ₹ 25 lakh to rupees one lakh, closure of outlets run by KSBCL and Consumerfed, reduction of annual rental of FL-1 shops from ₹ 63 lakh to rupees three lakh and reduction in sale of Indian Made Foreign Liquor.

Apart from the above, Audit found that failure of the Department to realise fine for unauthorised reconstitutions from companies and partnership firms and to realize fine from KSBCL for violating permit conditions in cases of shortage in consignment of liquor resulted in decrease of revenue as compared to the budget estimates for the year.

**1.1.3** The details of non-tax revenue raised during the period 2011-12 to 2015-16 are indicated in **Table - 1.3**.

**Table – 1.3**  
**Details of Non-Tax Revenue raised**

(₹ in crore)

Sl. No.	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	0075- Miscellaneous General Services 103 - State Lotteries	462.05	919.53	1,381.20	1,747.51	2,307.00	2,280.15	2,875.00	3,259.14	4105.60 <sup>3</sup>	3,748.37 <sup>4</sup>	42.80	15.01
2.	0406 - Forestry and Wild Life	330.12	220.52	321.26	237.33	328.83	329.95	376.17	300.40	468.73	283.04	24.61	(-)5.78
3.	0202 - Education, Sports, Art and Culture	183.61	164.96	222.07	182.78	259.18	308.13	253.15	246.41	369.71	243.63	46.04	(-)1.13
4.	Others <sup>5</sup>	1,306.25	923.96	1,092.08	1,104.63	1,333.56	1,141.26	1,473.15	1,292.00	1,725.98	1,627.41	17.16	25.96
	<b>Total</b>	<b>2,282.03</b>	<b>2,228.97</b>	<b>3,016.61</b>	<b>3,272.25</b>	<b>4,228.57</b>	<b>4,059.49</b>	<b>4,977.47</b>	<b>5,097.95</b>	<b>6,670.02</b>	<b>5,902.45</b>	<b>34.00</b>	<b>15.78</b>

Source: Budget estimates and Finance Accounts of the respective years.

<sup>3</sup> The District Lottery Officers are authorised to incur expenditure towards prize winning tickets (small denominations upto and including ₹ 100) by appropriating the receipts collected in the respective offices. The other expenditures are met from the budget allocation of the State. From gross receipts (budget estimates) of ₹ 6,366.70 crore, expenditure on prize winning tickets of lotteries (budget estimates) of ₹ 2,261.10 crore has been deducted.

<sup>4</sup> From gross receipts of ₹ 6,271.41 crore, expenditure of ₹ 2,523.04 crore on prize winning tickets has been deducted, but other expenditure like commission to agents (₹ 2,036.45 crore), establishment expenses (₹ 277.63 crore) etc. have not been deducted.

<sup>5</sup> Receipts from Interest receipts, Medical and Public Health, Crop Husbandry, Animal Husbandry, Public Works, Other Administrative Services, Police, Co-operation, Major Irrigation Projects, Judiciary, Jail, Stationery, etc.

**State Lotteries:** The Department stated that there was increase in revenue receipts for the year 2015-16 when compared to that of 2014-15 due to increase in the sale of lottery tickets. Both the revenue and expenditure on the prize winning tickets also increased during the year. As a section of agents kept away from selling of lottery tickets, there was decrease of actual receipts when compared to budget estimates for the year.

**Stationery:** During the year 2015-16, there was decrease in stationery receipts over 2014-15 and decrease in the actual receipts over budget estimates for 2015-16. The Department stated that the reason for decrease in revenue was due to failure of the Government undertakings in payment of stationery charges.

**Forestry & Wild Life:** The Department stated that the budget estimates were prepared based on the timber extraction work proposed. Due to delay in preparation of working plan, labour problems etc., extraction work could not be taken up in all the final felling areas and hence the estimated revenue could not be realised. It was also stated that notification and timber e-auction could not take place as desired due to model code of conduct in force during the Local Self Government elections. In some areas the trees could not be felled due to increase in unsold stock in nearby depots which resulted in decrease in revenue.

**Agriculture:** There was increase in actual receipt for 2015-16 over that of 2014-15. The Director of Agriculture stated that this was due to increase in sale proceeds of seeds, seedlings and farm products. The increase in actual receipts over budget estimates for 2015-16 was because of importance given to the distribution of quality planting materials, introduction of new components such as dwarf coconut seedling production, hi-tech agriculture through farms etc.

**Animal Husbandry:** There was decrease in actual receipts over the budget estimate for 2015-16. This was due to heat stress and natural disasters badly affecting the farm animals and causing slight decrease in the farm production. The increase in receipts for 2015-16 over 2014-15 was due to increase in the sale of farm products and periodical revision in price of some farm products like milk, hen, egg, chicks etc.

**Public Works:** The increase in revenue of Public Works Department under Buildings for 2015-16 over 2014-15 was due to enhancement of rate in centage charges. The variation between budget estimates and actual receipts for 2015-16 was due to shortfall in other receipts and works and non occupancy of buildings.

Various divisions under PWD (Roads & Bridges) had transferred huge pending unclaimed deposits to revenue and hence there was increase in revenue receipts. As 11 tolls across Kerala have been stopped, there was a slight decrease in toll collection.

**Health Services:** The increase in revenue receipts during 2015-16 over 2014-15 was due to variation in fee structure and amount received as auction sale of unserviceable articles.

The details were not furnished by Printing Department (October 2016).

## **1.2 Analysis of arrears of revenue**

The arrears of revenue as on 31 March 2016 on some principal heads of revenue amounted to ₹ 2,323.02 crore of which ₹ 742.03 crore was outstanding for more than five years, as detailed in the **Table - 1.4**.

**Table – 1.4**  
**Arrears of revenue**

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than 5 years as on 31 March 2016	Remarks of Departments
1.	0041-Taxes on vehicles	1,536.74	313.62	The Department stated (October 2016) that out of the total arrears of ₹ 1,536.74 crore, the dues from the Kerala State Road Transport Corporation is ₹ 1,264.33 crore and the balance of ₹ 272.41 crore is from individuals, private firms and private companies. It was also stated (October 2016) that a demand of ₹ 136.29 crore is covered by Revenue Recovery Certificate, ₹ 0.10 crore is under stay by High Court and other judicial authorities, recovery is held up on ₹ 0.27 crore due to rectification/ review of applications and ₹ 1,400.08 crore is under other States. The Department stated (October 2016) that revenue recovery action has been initiated for recovery of arrear amount.
2	0406-Forestry and Wild Life	315.73	176.03	The Principal Chief Conservator of Forests stated (September 2016) that the nature of demand in the Forest Department includes value of timber, teak stumps, lease rent, penal interest, re-auction loss, centage charges etc. An amount of ₹ 0.68 crore pending for more than five years is due from Government of India, ₹ 0.23 crore from other State Governments, ₹ 57.35 crore from public sector undertakings of Government of India, ₹ 243.60 crore from public sector undertakings of Government of Kerala and other States and ₹ 13.87 crore from individuals, private companies etc. The Department attributed (September 2016) the reason for delay in collecting the revenue to pending revenue recovery steps against the defaulters, court cases, stay orders etc. The Department stated (September 2016) that necessary action has been initiated to realise the arrears of lease rent and

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than 5 years as on 31 March 2016	Remarks of Departments
				other dues from departments and Public sector undertakings through discussions at Government level.
3	0039-Excise	199.05	198.67	The Excise Commissioner stated (October 2016) that the <i>abkari</i> arrears in the Department are pending from 1952 onwards. The <i>abkari</i> arrears of ₹199.05 crore are due from individuals, private firms, private companies etc. Of this, an amount of ₹ 178.61 crore is pending realisation from 307 defaulters from whom rupees one lakh or more is due. The Department attributed (September 2016) the reasons for delay in collection of revenue to pending revenue recovery action and stay by court. The reason furnished by the Commissioner is not acceptable since only ₹ 52.39 crore (26.32 per cent) out of a total ₹199.05 crore were covered under judicial intervention.
4	0055-Police	178.09	40.54	The Police Department stated (October 2016) that the nature of demand in the Police Department is cost of police guard. The Department stated (October 2016) that an amount of ₹ 122.06 crore is pending from Government of India, ₹ 12.96 crore from public sector undertakings of Government of India, ₹ 41.98 crore from public sector undertakings of Government of Kerala and ₹ 1.09 crore from individuals, private firms and private companies. The major defaulters were Southern Railway, KSEB and Ministry of Home Affairs.
5	0070-60-110- Fees for Government audit	38.00	Not furnished	The Director, Kerala State Audit Department stated (August 2016) that the arrears of revenue pending collection towards audit charge are ₹ 15.16 crore from universities, ₹ 3.10 crore from Devaswom Boards, ₹ 0.94 crore from temples and ₹ 18.80 crore from miscellaneous institutions and development authorities. The Kerala State Audit Department attributed (August 2016) the reasons for pendency to the lack of initiative from auditee institutions in remitting the audit charge. The Director stated (August 2016) that demand notices are being sent to auditee institutions and proposals have been submitted to the Government for realising audit charge from the grants given to the auditee institutions.
6	0030-Stamps and Registration	29.52	Not furnished	The Registration Department stated (October 2016) that revenue pending collection in the Department is from 1986 onwards. Out of ₹ 29.52 crore, ₹ 3.81 crore is covered by revenue recovery certificates and ₹ 5.55 crore are under



Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than 5 years as on 31 March 2016	Remarks of Departments
				stay by courts and Government. The Department had not furnished the details of stages of action for the remaining amount of ₹ 20.16 crore.
7	0058-Printing and Stationery	19.08	10.22	The Controller of Stationery stated (October 2016) that the amounts due to the Stationery Department are ₹ 16.84 lakh from Government of India, ₹ 18.75 crore from public sector undertakings of Government of Kerala, ₹ 14.30 lakh from public sector undertakings of Government of India and ₹ 2.04 lakh from local bodies. Out of ₹19.08 crore, ₹ 10.17 crore is likely to be written off. The Department stated (October 2016) that non-payment by the Departments/offices concerned is the reason for revenue pending collection.
8	0230-101-Receipts under labour laws	5.01	2.71	The Labour Commissioner stated (October 2016) that the nature of demand in the Labour Department was revenue receipts under labour laws. The amount of arrears of ₹ 5.01 crore is pending collection from individuals, private firms and private companies. The reasons for delay in collection of revenue were non-submission of application for renewal of registration and negligence from the employers in renewing the registration certificates in due time. The Labour Commissioner stated (October 2016) that inspection and follow up action is being taken to realise the arrears.
9	0230-103-Labour and Employment	0.82	0.02	The Director of Factories and Boilers stated (June 2016) that the nature of demand of the Department of Factories and Boilers was fee for renewal of licence of factories. An amount of ₹ 1.11 lakh and ₹ 80.69 lakh are due from public sector undertakings of Government of Kerala and individuals, private firms and private companies respectively. The Director stated (June 2016) that the delay in collection was due to the fact that most of the factories, which have arrears, are not working.
10	0853-Non-Ferrous Mining and Metallurgical Industries	0.98	0.22	The Director of Mining & Geology stated (June 2016) that the main source of revenue is from the grant of mineral concessions and realisation of royalty of minerals. The arrears of revenue pending collection are ₹ 0.30 crore from Co-operative Society, ₹ 0.29 crore from public sector undertakings of Government of Kerala and ₹ 0.39 crore from individuals, private firms, private companies etc. The Department stated (June 2016) that the reason for delay in collection of revenue was due to dispute regarding the claims, court stays, appeals and



Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than 5 years as on 31 March 2016	Remarks of Departments
				Government stays and that action was being taken to redress the dispute and to vacate the stays.
	<b>Total</b>	<b>2,323.02</b>	<b>742.03</b>	

Ineffective implementation of the system for the realisation of arrears of revenue such as prompt reporting of arrears to Revenue Department and pursuance by the departments concerned for realising the arrears were the main reason for this huge pendency. The arrears of ₹ 742.03 crore pending for more than five years in eight departments included those of Excise Department from 1952 onwards. The cases referred to Government for write off (₹ 15.48 crore) were also not being pursued by the departments/offices concerned.

The Commissioner (Land Revenue) stated (June 2016) that details would be collected from district offices and furnished soon. This has not been received despite reminders issued between August and September 2016. The Chief Town Planner furnished a nil statement. The details called for in May 2016 have not been furnished by Commercial Taxes and Ports Departments (October 2016).

### 1.3 Arrears in assessments

The particulars regarding the arrears in assessment such as cases pending at the beginning of the year, cases becoming due for assessment, cases disposed off during the year and number of cases pending for finalisation at the end of the year 2015-16 were called for (May 2016) from the Revenue and Disaster Management (R&DM) Department and the Commercial Taxes Department. The details furnished by the R&DM Department were as given in **Table -1.5**.

**Table – 1.5**  
**Arrears in assessments**

Head of revenue	Opening balance	New cases due for assessment during 2015-16	Total assessments due	Cases disposed off during 2015-16	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
<b>Revenue and Disaster Management Department</b>						
Building Tax	16,434	1,44,056	1,60,490	1,48,689	11,801	92.65
Plantation tax	2,818	736	3,554	740	2,815	20.82

During the year, the R&DM Department cleared 14,803 out of 16,434 arrear cases of building tax and 166 out of 2,818 cases of plantation tax.

The details of arrears in assessment were not furnished (October 2016) by the Commercial Taxes Department though called for in May 2016 and further in

August and September 2016.

#### **1.4 Evasion of tax detected by the Departments**

The details of cases of evasion of tax detected by the Departments were called for by Audit in May 2016 and reminded in August and September 2016. The details as furnished by Transport, Registration and Forest Departments are given in **Table - 1.6**.

**Table – 1.6**  
**Details of evasion of tax detected**

Sl. No.	Head of revenue	Cases pending as on 31 March 2015	Cases detected during 2015-16	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Number of cases pending for realisation as on 31 March 2016
					Number of cases	Amount of demand (₹ in crore)	
1.	0041 - Taxes on vehicles	98	7	105	99	1.23	104
2.	0030-Stamp duty and registration fee	10,17,447	5,326	10,22,773	9,48,159	220.20	10,13,732
3.	0029-Land Revenue	779	10	789	87	0.06	702
4.	0406-Forestry and Wild Life	13	-	13	-	-	13

The number of cases of evasion of tax pending as on 31 March 2015, furnished by the Transport Department was 1,425. The Department stated (September 2016) that these cases included cannot be termed as evasion of tax and furnished a revised statement (September 2016) in which the number of cases of tax evasion as on 31 March 2015 was 98. The reason for pendency of these cases was not furnished by the Department.

Out of 10,22,773 cases of evasion of tax detected by the Registration Department, though the Department could complete assessment and raise demand in 9,48,159 cases, amount was realized only in 9,041 cases. The details such as reason for huge pendency, delay in clearance of the cases, realisation of the demand, at what level they were pending etc., though called for were not furnished by Registration Department (October 2016).

The cases of evasion pending as on the beginning of the year for Land Revenue Department was 779 excluding the figure relating to Thrissur district which was not available with the Department. The Department stated that the details of evasion called for by Audit (May 2016) were not recorded in that office. The number of cases of evasion detected and settled during the year as furnished by

the Department included only that of three districts. The total number of cases of evasion pending was not furnished by the Land Revenue Department.

The Forestry and Wild Life Department, did not take any action during the year on the 13 cases which were pending at the beginning of the year.

The Excise, Power, PWD, State Lotteries, Agriculture, Animal Husbandry and Stationery Departments stated (between June and August 2016) that no case of evasion of tax was detected by them.

The details were not furnished (October 2016) by Commercial Taxes, Printing, and Crop Husbandry Departments and the Directorate of Health Services.

### 1.5 Pendency of refund cases

The details of refund cases pending at the beginning of the year 2015-16, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2015-16 as reported by the Excise Department are given in **Table -1.7**.

**Table – 1.7**  
**Details of pendency of refund cases**

(₹ in crore)

Sl. No.	Particulars	Commercial Taxes		State Excise	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year 2015-16	5,363	190.53	6	0.80
2.	Claim received during the year	5,236	103.21	24	4.37
3.	Refunds made during the year	5,150	120.50	16	3.28
4.	Balance outstanding at the end of the year 2015-16	5,449	173.24	14	1.89

In Commercial Taxes Department, number of refund cases outstanding as at the end of March 2016 was 5,449 of which, 5,448 cases pertain to refund of value added tax. The Commissioner of Commercial Taxes stated (October 2016) that there were some gaps in the system of refund process and to process the refund application within the time limit prescribed, instructions<sup>6</sup> had been issued to the assessing authorities for compliance.

### 1.6 Analysis of stay granted

An analysis of arrears of revenue which were under various stages of collection revealed that the arrears pending collection as on 31 March 2016 included collections stayed by various authorities at various stages on some principal heads of revenue as detailed in **Table -1.8**.

<sup>6</sup> Circular 9/2016 dated 25.7.2016 and Circular 14/2016 dated 20.8.2016.

**Table – 1.8**  
**Stages of stay granted**

(₹ in crore)

Sl. No.	Head of revenue	Total arrear amount	Stage wise details of		Total amount under stay	% of stay to total arrear
			Stay by Court and other judicial authorities	Stay by Government		
1	0041-Taxes on vehicles	1,536.74	0.10	0	0.10	0
2	0406-Forestry and Wild Life	315.73	2.50	73.06	75.56	23.93
3	0039-Excise	199.05	52.39	0	52.39	26.32
4	0030-Stamps and Registration	29.52	5.55	0	5.55	18.80
5	0853-Non-Ferrous Mining and Metallurgical Industries	0.98	0.12	0.40	0.52	53.06
	<b>Total</b>	<b>2,082.02</b>	<b>60.66</b>	<b>73.46</b>	<b>134.12</b>	<b>6.44</b>

An amount of ₹ 134.12 crore is pending under stay, which is 6.44 *per cent* of the total arrear amount. The Departments need to take effective action to vacate the stay and to realise the amounts.

The arrears of revenue pending under stay in respect of Police, Kerala State Audit, Stationery, Town Planning and Labour Departments were nil.

The details were not furnished by Commercial Taxes, Land Revenue, Printing and Ports Departments (October 2016) though called for in May, August and September 2016.

### **1.7 Response of the Government/Departments to Audit**

The Principal Accountant General (E&RSA), Kerala, conducts periodical inspection of the Government Departments to test check the transactions and verifies the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to furnish first reply within four weeks from the date of receipt of the Inspection Report. Even if final reply to certain paras in Inspection Report could not be furnished within the prescribed time limit, an interim reply may be furnished indicating the action taken to rectify the defects pointed out by Audit. Serious financial irregularities are reported to the heads of the Departments and the Government.

Inspection reports issued upto December 2015 disclosed that 24,662 paragraphs involving ₹ 7,253.02 crore relating to 2,672 IRs were outstanding at the end of

June 2016 as mentioned below with the corresponding figures for preceding two years in **Table - 1.9**.

**Table – 1.9**  
**Details of pending Inspection Reports**

	June 2014	June 2015	June 2016
Number of IRs pending for settlement	3,027	3,193	2,672
Number of outstanding audit observations	23,324	24,691	24,662
Amount of revenue involved (₹ in crore)	6,018.52	9,146.67	7,253.02

**1.7.1** The Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amounts involved are mentioned in the **Table - 1.10**.

**Table – 1.10**  
**Department-wise details of IRs**

(₹ in crore)					
Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Commercial Taxes	Taxes on sales, trade, etc.	1,821	20,669	3,880.22
		Taxes on agricultural income	21	52	27.99
2.	Power	Electricity duty	24	82	3,176.25
3.	Revenue	Land Revenue	46	502	46.58
4.	Transport	Taxes on motor vehicles	367	2,229	110.87
5.	Excise	State Excise	12	22	0.20
6.	Stamps and Registration	Stamp duty and registration fees	370	1,075	10.70
7.	Lotteries	Receipts from lotteries	11	31	0.21
<b>Total</b>			<b>2,672</b>	<b>24,662</b>	<b>7,253.02</b>

Audit did not receive even first replies in case of 244 IRs within four weeks from the date of issue of the IRs from seven heads of offices during 2015-16. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs. The large pendency of IRs due to non receipt of replies shows the failure of effective monitoring of clearing the pending Audit observations by the Audit Monitoring Committees at Secretary level and Apex Committees at Chief Secretary level.

The Government needs to have more effective system for ensuring prompt and appropriate response to audit observation within the time frame prescribed in the

circular<sup>7</sup> issued by the Finance Department by improved monitoring and putting in further checks and balances and incentives and disincentives into this mechanism.

### **1.7.2 Departmental Audit Committee Meetings**

The Government set up audit committees to monitor and expedite the progress of settlement of local audit reports and paragraphs in the local audit reports. The details of the audit committee meetings held during the year 2015-16 and the paragraphs settled are mentioned in **Table – 1.11**

**Table – 1.11**  
**Details of Departmental audit committee meetings**

(₹ in lakh)

<b>Head of revenue</b>	<b>Number of meetings held</b>	<b>Number of audit observations pending as on 31 March 2015</b>	<b>Number of paragraphs settled</b>	<b>Amount involved in settled paragraphs</b>
Taxes on vehicles	5	1,996	391	34.28
Tax on sales, trade etc.	3	20,085	266	639.16
State Excise	1	305	23	0.15
Stamp duty and registration fees	2	761	30	10.14
Land Revenue and Building Tax	1	1,940	75	227.06
Electricity duty	1	82	9	0
<b>Total</b>	<b>13</b>	<b>25,169</b>	<b>794</b>	<b>910.79</b>

An amount of ₹ 1.06 crore was recovered after discussion in these meetings. The progress of settlement of paragraphs pertaining to the Commercial Taxes Department, Excise Department and Revenue Department was negligible compared to the huge pendency of the local audit reports and paragraphs despite holding departmental audit committee meetings.

### **1.7.3 Non-production of records to Audit for scrutiny**

The programme of local audit of Tax Revenue/Non-tax Revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

During the year 2015-16 files relating to KVAT assessments in which the turnover of the assessee was above ₹ 60 lakh and KGST assessments in which the tax effect was above ₹ 2 lakh were called for by Audit for scrutiny in Commercial Taxes Department. However, 6,492 tax assessment files relating to 100 offices were not made available to Audit. Of these 2,725 files pertained to 27 special

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<sup>7</sup> Circular memorandum No. 57374/Ins.2/65/Fin. Dated 15 November 1965.

circles and works contract offices, where assessments of major dealers are dealt with is as given in **Appendix I**.

Circle/division wise analysis showing the names of head of offices for the years 2011-12 to 2015-16 is given in **Appendix II**.

In R&DM Department, two assessment files in *Taluk* Office, Thalappilly involving tax effect of ₹ 2.85 crore were not made available to Audit for scrutiny.

The matter was brought to the notice of the Chief Secretary and the Additional Chief Secretary (Finance) to Government by the Principal Accountant General. The Additional Chief Secretary (Finance) stated that the matter of non production of records by departments may be taken up as an agenda item in AMC meeting conducted quarterly by departments. Directions have been given to all departments that the AMC should monitor and ensure production of necessary records and replies to the audit parties and to take stringent action against the officers for non compliance.

Non-production of large number of transaction records involving substantial revenue hinders Audit in discharging the constitutional responsibility and comes in the way of assuring the State Government about the quality and risk involved in these transactions involving revenue for the State Government. The possibility of fraud or misappropriation or business malfeasance remaining hidden/surpassed and escaping detection during audit also remains high.

#### **1.7.4 Response of the Departments to the draft paragraphs**

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are sent by the Principal Accountant General to the Principal Secretaries/ Secretaries of the respective Departments drawing their attention to audit findings and requesting their response within six weeks.

Forty four draft paragraphs including one performance audit were sent to the Principal Secretaries/Secretaries of the respective Departments by name between June and October 2016. The Principal Secretaries/ Secretaries of the Departments furnished replies to 25 compliance audit paragraphs. Response of Government to the Performance Audit Report on 'Disaster Management in the State' and to the Compliance Audit Reports have not been received (November 2016).

Partial response of Government on CA on Enforcement under KVAT Act was received.

#### **1.7.5 Follow up on the Audit Reports-summarised position**

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government to the



Legislature Secretariat with copies to Accountant General and Finance (PAC) Department within two months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. It is worth mentioning that 179 paragraphs (including performance audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Kerala for the year ended 31 March 2011 to 31 March 2015 were placed before the State Legislature Assembly between 06 March 2012 and 24 February 2016. The action taken explanatory notes from the Departments concerned on 108 paragraphs were received late with an average delay of 2 months to 34 months in respect of each of these Audit Reports. Action taken explanatory notes in respect of 27 paragraphs from three departments (Taxes, Revenue and Disaster Management and Power) had not been received in Audit for the Audit Report of the year ended 31 March 2015 so far (October 2016).

It was noticed that six departments did not submit action taken explanatory notes as of October 2016 in respect of 70 paragraphs (62 individual and eight PAs/Review paragraphs) featured in the C&AG's Audit Reports in respect of Audit Reports from the year 2012. For 62 individual transaction audit paragraphs, compliance was not furnished by four Departments. The Departments largely responsible for non-submission of action taken explanatory notes were Taxes, Transport and Revenue and Disaster Management.

The PAC discussed 49 paragraphs pertaining to the Audit Reports for the years from 2011 to 2015. PAC recommendations have not been received on these paras (December 2016). ATNs have not been received in respect of 114 recommendations of the PAC from the Departments concerned as mentioned in the **Table 1.12**.

**Table – 1.12**

Year	Name of the Department							Total
	Taxes	Transport	Revenue & Disaster Management	Forest & Wildlife	Education	Co-operation	Water Resources	
2008-11	23	2	7	-	1	1	-	34
2011-14	9	10	-	-	-	-	-	19
2014-16	29	11	6	1	1	12	1	61
<b>Total</b>	<b>61</b>	<b>23</b>	<b>13</b>	<b>1</b>	<b>2</b>	<b>13</b>	<b>1</b>	<b>114</b>

The non receipt of ATNs have been brought to the notice of Chief Secretary to the Government in Apex Committee Meeting held on 19 July 2016 and through letters issued to the Chairman, Public Accounts Committee, the Chief Secretary to Government and Secretaries of administrative departments.

## 1.8 Status of the mechanism for dealing with the issues raised in audit

To analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Departments/Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The following paragraphs 1.8.1 to 1.8.2 discuss the performance of the Revenue and Disaster Management Department under revenue head 0029-Land Revenue and cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2005-06 to 2014-15.

### 1.8.1. Position of Inspection Reports

The summarised position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2016 are tabulated below in **Table - 1.13**.

**Table – 1.13**  
**Position of Inspection Reports**

(₹ in crore)

Sl No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year		
		IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value
1	2005-06	205	984	7.61	63	354	1.46	31	327	2.77	237	1011	6.30
2	2006-07	237	1011	6.3	50	309	3.18	29	370	1.84	258	950	7.64
3	2007-08	258	950	7.64	54	359	3.58	27	252	0.42	285	1057	10.81
4	2008-09	285	1057	10.81	49	287	8.47	31	158	0.57	303	1186	18.71
5	2009-10	303	1186	18.71	54	386	17.79	90	393	7.49	267	1179	29.01
6	2010-11	267	1179	29.01	72	425	19.33	25	261	2.88	314	1343	45.46
7	2011-12	314	1343	45.46	55	341	91.57	41	267	409.38	328	1417	136.82
8	2012-13	328	1417	136.82	51	376	46.02	24	178	1.2	355	1615	181.64
9	2013-14	355	1615	181.64	53	369	17.02	33	385	1.16	375	1599	197.50
10	2014-15	375	1599	197.5	44	416	36.54	22	75	19.65	397	1940	214.39

The Government arranges Audit Monitoring Committee and Apex Committee meetings between the Department and office of the Principal Accountant General to settle the old paragraphs. As would be evident from the above table, against 205 outstanding IRs with 984 paragraphs as on start of 2005-06, the number of outstanding IRs increased to 397 with 1,940 paragraphs at the end of 2014-15. This is indicative of the fact that the response to the local audit reports is poor and the steps taken by the Department to clear the outstanding IRs and paragraphs are inadequate.

### 1.8.2. Recovery in accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned in **Table - 1.14**.

**Table – 1.14**

(₹ in crore)

Sl. No.	Year of Audit Report	Number of paragraphs included	Money value of paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases as of 31.03.2015
1	2005-06	5	2.80	4	1.53	0.07	0.07
2	2006-07	3	0.20	3	0.20	0.11	0.11
3	2007-08	4	51.31	3	51.23	0.09	0.11
4	2008-09	6	339.98	3	1.70	0.04	0.04
5	2009-10	6	5.23	5	2.90	-	1.19
6	2010-11	6	5.38	4	1.99	-	1.15
7	2011-12	7	1.48	7	1.48	0.50	0.55
8	2012-13	6	1507.70	6	1507.70	0.42	1.03
9	2013-14	2	1.50	2	1.50	0.39	0.84
10	2014-15	4	5.99	4	5.99	1.30	1.30

It is evident from the above table that the progress of recovery in accepted cases was slow throughout the last ten years. The recovery in accepted cases was to be pursued as arrears recoverable from the parties concerned.

### 1.9 Action taken on the recommendations accepted by the Departments/ Government

The draft reports of Performance Audit (PA) conducted by the Principal Accountant General are forwarded to the Department concerned/Government for their information with a request to furnish their replies. These reports are also discussed in an Exit Conference and the views of the Department/Government are included while finalising the Audit Reports.

The details of 12 Performance Audit Reports on the Departments of Commercial Taxes, Registration, Excise, Transport, Power and Revenue and Disaster Management featured in the Reports for the last five years along with recommendations and their status are given in **Appendix III**. The PAs on Commercial Taxes Department covered the areas such as Compounding Schemes, Utilisation of declaration forms in interstate trade, Levy and collection of VAT on evasion prone commodities/areas, Assessment, levy and collection of VAT on

transfer of goods involved in the execution of works/supply contract and Effectiveness of KVATIS in Tax administration and System of assessment under KVAT. In tune with the recommendations of Audit, the Department decided for restoration of audit assessment wing, periodic fixation/refixation of floor rates on evasion prone commodities, enabling of online filing of application of compounding in KVATIS, upgradation of e-governance infrastructure and has constituted Economic Intelligence Wing.

### **1.10 Audit planning**

The unit offices under various departments were categorised into high, medium and low risk units according to their revenue position, past trends of audit observations, complaints, media reports, non-production of records, information regarding malpractice obtained through RTI and misappropriation. The annual audit plan was prepared on the basis of risk analysis which *inter-alia* included critical issues in government revenue, tax administration i.e. budget speech, white paper on finances, reports of the Finance Commission (State and Central), recommendation of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during the past five years etc.

During the year 2015-16, there were 823 audit units, of which 461 units were planned and audited, which is 56.01 *per cent* of the total audit units.

### **1.11 Results of audit**

#### **Position of local audit conducted during the year**

Test check of the records of 461 units<sup>8</sup> of Sales Tax/Value Added Tax, State Excise, Motor Vehicles and other Departmental offices conducted during the year 2015-16 showed under-assessment/short levy/loss of revenue aggregating to ₹ 4,276.95 crore in 3,408 cases. Deficiencies in the management of finance and inadmissible expenditure from State Disaster Response Fund with expenditure impact of ₹ 153.63 crore was also noticed in one case. During the course of the year, the Departments concerned accepted under-assessment and other deficiencies of ₹ 3283.52 crore involved in 789 cases which were pointed out in audit during 2015-16. The Departments collected ₹ 58.67 crore in 1,358 cases during 2015-16, pertaining to the audit findings of previous years.

### **1.12 Coverage of this Report**

The Report contains 27 paragraphs which came to notice in the course of test audit of records during the year 2015-16 as well as those in earlier years involving revenue impact of ₹ 3,458.41 crore and expenditure impact of ₹ 153.63 crore. Instances relating to the period subsequent to 2015-16 have also been included

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<sup>8</sup> In the case of remaining 12 units, IRs were issued during the year 2016-17.

wherever necessary. The Department/Government have accepted audit observations involving ₹ 3,206.53 crore out of which ₹ 35.49 crore had been recovered. These are discussed in succeeding Chapters II to V.