

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 2007-08, 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	2003-04	2004-05	2005-06	2006-07	2007-08
1.	Revenue raised by the State Government					
	• Tax revenue	8,088.77	8,963.65	9,778.62	11,941.82	13,668.95
	• Non-tax revenue ¹	806.98 (752.02)	819.09 (760.43)	936.78 (863.79)	937.57 (844.51)	1,209.55 (1,078.00)
	Total	8,895.75 (8,840.79)	9,782.74 (9,724.08)	10,715.40 (10,642.41)	12,879.39 (12,786.33)	14,878.50 (14,746.95)
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	2,012.01	2,404.95	2,518.20	3,212.04	4,051.70
	• Grants-in-aid	907.61	1,312.80	2,060.93	2,095.19	2,176.59
	Total	2,919.62	3,717.75	4,579.13	5,307.23	6,228.29
3.	Total revenue receipts of the State Government (1 and 2)	11,815.37 (11,760.41)	13,500.49 (13,441.83)	15,294.53 (15,221.54)	18,186.62 (18,093.56)	21,106.79² (20,975.24)
4.	Percentage of 1 to 3	75	72	70	71	70

The above table indicates that during the year 2007-08, the revenue raised by the State Government (Rs. 14,878.50 crore) was 70 per cent of the total revenue receipts against 71 per cent in the preceding year. The balance 30 per cent of receipts during 2007-08 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 2007-08. 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 2003-04 to 2007-08:

(Rupees in crore)

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+)/ decrease (-) in 2007-08 over 2006-07
1.	Sales tax	5,991.43	6,701.05	7,037.97	8,563.31	9,371.76	(+) 9.44
2.	State excise	655.91	746.45	841.00	953.07	1,169.25	(+) 22.68
3.	Stamp duty and registration fees						
	• Stamps - judicial	43.32	47.37	53.39	49.20	81.89	(+) 66.44
	• Stamps – non-judicial	334.02	489.99	852.51	1,213.36	1,607.85	(+) 32.51
	• Registration fees	172.47	237.99	195.51	257.37	338.23	(+) 31.42
4.	Taxes and duties on electricity	189.97	9.62	31.52	31.78	39.04	(+) 22.84
5.	Taxes on vehicles	585.78	610.48	628.51	707.74	853.17	(+) 20.55
6.	Taxes on agricultural income	8.74	4.93	6.15	9.63	22.05	(+) 128.97
7.	Land revenue	40.59	43.85	43.88	47.00	47.21	(+) 0.45
8.	Others	66.54	71.92	88.18	109.36	138.50	(+) 26.65
	Total	8,088.77	8,963.65	9,778.62	11,941.82	13,668.95	(+) 14.46

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

State excise: The increase was due to restoration of 1,610 toddy shops and enhancement of license fees pertaining to toddy and foreign liquor sector and increased collection of excise duty and vending fee of Indian made foreign liquor due to increase in the sale.

Stamp duty and registration fees: The variation was due to increase in the value of land which was reflected in registration of documents as a result of close vigil and effective monitoring by the departmental officers.

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

Taxes on vehicles: Increase in the number of vehicle resulted in increased revenue collection.

Taxes on agricultural income: The increase was due to arrear collection from a major assessee.

The other departments did not inform (December 2008) the reasons for variation, despite being requested (March 2008).

1.1.3 The following table presents the details of the non-tax revenue raised during the period 2003-04 to 2007-08:

(Rupees in crore)

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+)/ decrease (-) in 2007-08 over 2006-07
1.	State lotteries	78.72	92.72	156.58	142.93	193.70 ³	(+) 35.52
2.	Forestry and wild life	187.18	199.69	189.63	174.56	154.45	(-) 11.52
3.	Interest receipts	32.40	40.51	46.36	44.63	69.65	(+) 56.06
4.	Education, sports, art and culture	81.86	85.76	82.09	99.91	100.89	(+) 0.98
5.	Medical and public health	27.61	27.52	29.80	32.99	20.02	(-) 39.31
6.	Crop husbandry	22.71	11.51	13.74	12.33	10.91	(-) 11.52
7.	Animal husbandry	6.31	5.68	5.68	6.43	5.26	(-) 18.20
8.	Public works	2.90	2.70	2.68	2.56	3.28	(+) 28.13
9.	Others	312.33	294.34	337.23	328.17	519.84	(+) 58.41
Total		752.02	760.43	863.79	844.51	1,078.00	(+) 27.65

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

State lotteries: The increase was due to introduction of new lotteries.

Forestry and wildlife: The reason for shortfall was due to the non-sale of sandalwood, non-extraction of teak due to labour dispute, non-execution of works and non-remittance of lease rent by PSUs like KSEB, State Farming Corporation etc.

Interest receipts: The increase was due to the realisation of interest against investment of balance in the consolidated sinking fund and interest receipt from a public sector undertaking.

The other departments did not inform (December 2008) the reasons for variations, despite being requested (March 2008).

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 2007-08 in respect of the principal heads of tax and non-tax revenue are mentioned below:

³ From gross receipts of Rs. 325.25 crore, expenditure of Rs. 131.55 crore on prize winning tickets has been deducted, but expenditure of Rs. 115.35 crore on commission to agents and establishment expenses of Rs. 28.01 crore have not been deducted.

(Rupees in crore)

Sl. No.	Head of revenue	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation
1.	Sales tax	10,035.51	9,371.76	(-) 663.75	(-) 6.61
2.	State excise	986.86	1,169.25	(+) 182.39	(+) 18.48
3.	Stamp duty and registration fees				
	• Stamps - Non-judicial	1,179.19	1,607.85	(+) 428.66	(+) 36.35
	• Registration fees	270.28	338.23	(+) 67.95	(+) 25.14
4.	Taxes on vehicles	835.08	853.17	(+) 18.09	(+) 2.17
5.	Forestry and wild life	268.44	154.45	(-) 113.99	(-) 42.46
6.	Taxes and duties on electricity	250.01	39.04	(-) 210.97	(-) 84.38
7.	Taxes on agricultural income	6.56	22.05	(+) 15.49	(+) 236.13
8.	Land revenue	55.69	47.21	(-) 8.48	(-) 15.23

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

State excise: The variation was due to the impact of excise policy for the year 2007-08 and increase in sale of IMFL.

Forestry and wildlife: The decrease was due to non-sale of sandalwood available at one of the depot and non-extraction of teak wood from final felling.

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

Taxes on agricultural income: The actual receipts were increased considerably due to arrear collection from a major assessee.

Land revenue: The variation was due to over estimation of budget figures, short fall in collection, stagnation for collection due to stay by court, appellate authorities, Government etc.

The other departments did not inform (December 2008) the reasons for variation, despite being requested (March 2008).

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 2005-06, 2006-07 and 2007-08 along with the relevant all India average percentage of expenditure on collection to gross collection for 2006-07 are mentioned 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 (2006-07)
1.	Sales tax	2005-06	7,037.97	60.96	0.87	0.82
		2006-07	8,563.31	78.21	0.91	
		2007-08	9,371.76	89.75	0.96	
2.	Stamps (non-judicial) and registration fees	2005-06	1,048.03	46.81	4.47	2.33
		2006-07	1,470.73	59.06	4.02	
		2007-08	1,946.08	77.64	3.99	
3.	State excise	2005-06	841.00	48.78	5.80	3.30
		2006-07	953.07	58.07	6.09	
		2007-08	1,169.25	69.40	5.94	
4.	Taxes on vehicles	2005-06	628.51	17.73	2.82	2.47
		2006-07	707.74	21.61	3.05	
		2007-08	853.17	26.00	3.05	

Thus, the expenditure on collection in respect of sales tax, stamp duty and registration fees, State excise and taxes on vehicles was higher as compared to 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 2008 in respect of some principal heads of revenue amounted to Rs. 10,610.15 crore, of which Rs. 4,519.42 crore were outstanding for more than five years as mentioned below:

(Rupees in crore)

Sl. No.	Department	Amount of arrears as on 31 March 2008	Arrears outstanding for more than 5 years	Remarks
1.	Commercial taxes department	4,425.47	1,732.98	Rs. 1,998.21 crore was covered under revenue recovery certificate. Rs. 866.25 crore was stayed by High Courts/ others. Rs. 339.90 crore was stayed by Government and the balance of Rs. 1,221.11 crore was under various stages.
2.	Electrical inspectorate	2,736.87	1,432.00	Rs. 1 lakh was covered under revenue recovery certificate. Rs. 4.20 crore was likely to be written off and the balance arrears of Rs. 2,731.67 crore were under various stages.
3.	Land revenue	2,111.84	650.87	Rs. 448.30 crore was covered under revenue recovery certificate. Rs. 502.16 crore was stayed by High Court. Rs. 398.93 crore was likely to be written off. Arrears of Rs. 762.45 crore were under different stages.

Sl. No.	Department	Amount of arrears as on 31 March 2008	Arrears outstanding for more than 5 years	Remarks
4.	Motor vehicles	680.04	290.81	Rs. 11.92 crore was covered under revenue recovery certificate. Rs. 624.85 crore was stayed by Courts etc. Arrears of Rs. 43.27 crore were under various stages.
5.	State Excise	355.94	280.70	Rs. 104.80 crore was stayed by High Court and arrears of Rs. 251.14 crore was under various stages.
6.	Local fund audit	77.91	22.93	Non-remittance of fees by auditee institutions.
7.	Police	58.66	15.83	---
8.	Printing	24.79	12.66	---
9.	Stationery	11.35	8.95	The arrears were due to default on the side of department as well as autonomous bodies.
10.	Factories & Boilers	0.87	0.12	Rs. 16 lakh was likely to be written off. Demand of Rs. 71 lakh was under various stages.
11.	Mining and Geology	0.50	0.23	Rs. 1 lakh was under revenue recovery certificate, Rs. 19 lakh was stayed by Courts/ Government. Rs. 25 lakh was likely to be written off and balance of Rs. 5 lakh was under various stages.
12.	Forestry and wildlife	125.91	71.34	---
	Total	10,610.15	4,519.42	

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 three departments during the year 2007-08:

(Rupees in lakh)

Sl. No.	Revenue head	Written off		Waived	
		No. of cases	Amount	No. of cases	Amount
1.	Sales Tax	Nil	Nil	1	44.03
2.	State excise	1	4.59	12	14.76
3.	Land revenue	1	24.00	Nil	Nil

In the Sales Tax Department, the Government had waived Rs. 44.03 lakh being the interest payable by Indian Oil Corporation to the Government of Kerala on deferred payment of sales tax.

In the Excise Department, *abkari* arrears of Rs. 4.59 lakh in one case was written off as it was irrecoverable and excise duty of Rs. 14.76 lakh was waived in 12 cases.

In Land Revenue Department lease rent of Rs. 24 lakh due from Kannur university was written off as the land leased out at Rs. 300 per cent⁴ was re-allotted on long term lease at Rs. 100 per cent.

1.6 Refunds

Information relating to the number of refund cases pending at the beginning of the year 2007-08, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2007-08, was not made available by the Commercial Taxes Department and State Excise Department as of December 2008.

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 2007-08 revealed underassessments/short levy/loss of revenue aggregating Rs. 517.11 crore in 1,684 cases. During the course of the year, the departments concerned accepted underassessments and other deficiencies of Rs. 31.47 crore involved in 717 cases of which 179 cases involving Rs. 6.88 crore were pointed out in audit during 2007-08 and the rest in the earlier years. The departments collected Rs. 3.99 crore in 296 cases during 2007-08.

This report contains 21 paragraphs including a review on luxury tax and paragraphs relating to non/short levy of tax, duty, interest, penalty etc., involving financial effect of Rs. 276.21 crore. The departments/Government have accepted audit observations involving Rs. 243.08 crore out of which Rs. 132.39 lakh has been recovered. The replies in the remaining cases have not been received (December 2008).

1.8 Failure of senior officials to enforce accountability and protect interest of the Government

Principal Accountant General (Audit) (PAG) arranges to conduct 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 2008, there were 2,566 outstanding IRs containing 13,695 audit observations involving Rs. 1,005.99 crore issued upto December

⁴ Cent denotes the measurement of land equal to 435.6 sq.ft.

2007. The details of reports outstanding at the end of June for the years 2006 to 2008 are mentioned below:

(Rupees in crore)

Period	Number of outstanding IRs	Number of outstanding audit observations	Amount involved
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
At the end of June 2008	2,566	13,695	1005.99

Out of 2,566 pending IRs, even first replies have not been received (June 2008) for 232 IRs of which 75 IRs related to 2007-08 and the remaining 157 IRs to the previous years. Pendency of these reports was reported to the Government (July 2008).

Revenue head wise details of the outstanding IRs and audit observations as on 30 June 2008 are mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Number of IRs	Number of audit observations	Amount
1.	Sales tax	953	8,432	515.59
2.	Taxes on agricultural income	185	1,163	56.12
3.	State excise	369	703	117.05
4.	Taxes on vehicles	255	1,344	10.49
5.	Land revenue	101	217	10.19
6.	State lotteries	21	42	0.43
7.	Forestry and wild life	237	730	178.35
8.	Stamp duty and registration fees	420	992	2.27
9.	Taxes and duties on electricity	25	72	115.50
Total		2,566	13,695	1,005.99

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. The details of the audit committee meetings held during the year 2007-08 and the paragraphs settled are mentioned below:

(Rupees in crore)

Head of revenue	Number of meetings held	Number of paragraphs settled		Amount
Sales tax	5	Up to 2000-01	138	10.95
		2001-02	141	
		2002-03	167	
		Total	446	

Taxes on vehicles	3	Upto 2000-01	15	1.05
		2001-02	23	
		2002-03	10	
		2003-04	115	
		2004-05	198	
		2005-06	140	
		2006-07	37	
		Total	538	
Stamp duty and registration fees	3	Up to 2000-01	4	0.01
		2001-02	1	
		2002-03	4	
		2003-04	1	
		2004-05	13	
		2005-06	21	
		2006-07	22	
		2007-08	27	
		Total	93	
Forest	2	Up to 2002-03	34	7.84
		2003-04	13	
		2004-05	12	
		2005-06	31	
		2006-07	10	
		Total	100	
Land revenue	4	Up to 2000-01	11	0.77
		2001-02	1	
		2002-03	37	
		2003-04	22	
		2004-05	26	
		2005-06	23	
		2006-07	12	
		Total	132	
State excise	3	Up to 2000-01	2	0.23
		2002-03	4	
		2003-04	5	
		2004-05	15	
		2005-06	14	
		2006-07	11	
		2007-08	1	
		Total	52	
Total	20		1,361	20.85

The department concerned had not convened audit committee meeting to discuss the IRs on revenue receipts relating to 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 PAG 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.

Sixty eight draft paragraphs (clubbed into 21 paragraphs including a review) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2008 were forwarded to the concerned Secretaries to the Government and copies endorsed to the concerned head of the departments. However, the replies/response to 38 draft paragraphs (out of 68 paragraphs) have not been received (December 2008). In six cases recoveries involving Rs. 91.23 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 two 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 12 Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1995 to 31 March 2006 disclosed that the departments had not submitted remedial ATNs on 16 paragraphs on which ATNs were due as on 31 December 2008.

Out of 486 audit paragraphs included in the above 12 Audit Reports, the departments submitted remedial ATNs on 470 paragraphs and none of these ATNs were furnished within the prescribed period of two months.

The Audit Report for the year ended 31 March 2007 was laid on the table of the legislature in March 2008. The departments had not submitted ATNs on seven paragraphs included in the above Audit Report (December 2008) although the prescribed time period was over in June 2008. This indicates that the departments 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

During the years between 2001-02 and 2006-07, the department/Government accepted audit observations involving revenue of Rs. 116.33 crore out of which an amount of Rs. 8.13 crore was recovered till March 2008 as mentioned below:

(Rupees in crore)

Sl. No.	Year	Total money value	Money value of accepted cases	Amount recovered
1.	2001-02	454.15	17.60	1.07
2.	2002-03	468.78	24.58	1.53
3.	2003-04	130.68	39.34	1.05
4.	2004-05	55.49	27.08	0.75
5.	2005-06	29.23	5.01	2.82
6.	2006-07	279.90	2.72	0.91
Total		1,418.23	116.33	8.13