

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 2002-03, 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.

		1998-99	1999-2000	2000-01	2001-02	2002-03
		(In crore of rupees)				
1	Revenue raised by the State Government					
	a) Tax revenue	4649.56	5193.50	5870.26	5923.42	7302.54
	b) Non-tax revenue♣	557.66 (509.52)	530.72 (487.21)	659.08 (610.12)	543.38 (477.73)	677.76 (618.05)
	Total ♣	5207.22 (5159.08)	5724.22 (5680.71)	6529.34 (6480.38)	6466.80 (6401.15)	7980.30 (7920.59)
2	Receipts from Government of India					
	a) Share of net proceeds of the divisible Union Taxes and Duties	1382.30	1535.22	1585.61	1614.26	1715.22
	b) Grants-in-aid	608.60	682.31	615.90	975.33	938.37
	Total	1990.90	2217.53	2201.51	2589.59	2653.59
3	Total revenue receipts of the State Government (1 and 2) ♣	7198.12♣ (7149.98)	7941.75♣ (7898.24)	8730.85* (8681.89)	9056.39* (8990.74)	10633.89* (10574.18)
4	Percentage of 1 to 3	72	72	75	71	75

1.1.2. Details of the tax revenue raised during the year 2002-03, along with the figures for the preceding four years are given below.

♣ 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.

♣ For details please see statement No. 11 – Detailed Accounts of Revenue by Minor Heads in the Finance Accounts of Kerala for respective years. Figures under the Head “0021-Taxes on income other than Corporation tax-Share of net proceeds assigned to States” 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.

Sl. No.	Head of Revenue	1998-99	1999-2000	2000-01	2001-02	2002-03	Percentage of Increase (+)/ decrease (-) in 2002-03 over 2001-02
		(In crore of rupees)					
1	Sales Tax	3366.62	3853.54	4344.33	4440.85	5343.15	(+) 20
2	State Excise	529.62	591.10	688.94	541.46	663.07	(+) 22
3	Stamps and Registration Fees						
	a) Stamps- Judicial	19.32	23.21	26.65	24.04	39.84	(+) 66
	b) Stamps - Non-Judicial	205.36	164.98	210.89	262.87	314.14	(+) 20
	c) Registration Fees	76.47	91.46	103.56	107.37	132.55	(+) 23
4	Taxes and Duties on Electricity	39.06	3.33	14.92	5.18	192.63	(+) 3619
5	Taxes on Vehicles	323.31	380.83	394.85	452.18	513.20	(+) 13
6	Taxes on Agricultural Income	27.02	14.19	3.83	1.87	6.40	(+) 242
7	Land Revenue	32.73	34.67	39.35	34.93	38.40	(+) 10
8	Others	30.05	36.19	42.94	52.67	59.16	(+) 12
	Total	4649.56	5193.50	5870.26	5923.42	7302.54	

The departments attributed the increase in receipts during 2002-03 as compared to 2001-02 to the following.

Taxes and Duties on Electricity : Increase was due to Government sanction of loan of Rs 185 crore and adjustment thereof towards arrears of electricity duty from the Kerala State Electricity Board.

State Excise : Increase was due to increase in the number of foreign liquor shops and increase in the volume of sale of IMFL.

Stamps and Registration Fees : Increase was due to the increase in the number of documents registered.

Taxes on Vehicles : Increase was due to the increase in the number of vehicles registered during 2002-03.

The reasons for variation though called for in May 2003 from heads of other departments have not been received till October 2003.

1.1.3. Details of non-tax revenue realised during the year 2002-03 along with the figures for the preceding four years are given below.

Sl. No.	Head of Revenue	1998-99	1999-2000	2000-01	2001-02	2002-03	Percentage of Increase(+) / decrease (-) in 2002-03 over 2001-02
		(In crore of rupees)					
1	State Lotteries	64.17	57.31	85.21	55.94	68.38 [▲]	(+) 22
2	Forestry and Wild Life	121.03	109.88	141.24	113.70	149.58	(+) 32
3	Interest Receipts	70.96	37.31	36.81	31.08	35.86	(+) 15
4	Education, Sports, Art & Culture	35.34	39.18	44.98	53.56	63.41	(+) 18
5	Medical and Public Health	21.44	18.82	20.66	19.85	28.16	(+) 42
6	Crop Husbandry	15.81	5.25	40.53	7.58	12.76	(+) 68
7	Animal Husbandry	5.71	5.08	5.28	5.03	6.94	(+) 38
8	Public Works	1.80	1.82	2.17	1.56	2.15	(+) 38
9	Others	173.26	212.56	233.24	189.43	250.81	(+) 32
	Total	509.52	487.21	610.12	477.73	618.05	

The increase during 2002-03 was attributed by the Lotteries Department to the conducting of a special lottery to raise funds for the Chief Minister's Distress Relief Fund.

The reasons for variation though called for in May 2003 from the heads of other departments have not been received till October 2003.

1.2. Initiatives for mobilisation of Additional Resources

During the year 2002-03, Government of Kerala raised a total revenue of Rs 7980.30 crore comprising tax revenue of Rs 7302.54 crore and non-tax revenue of Rs 677.76 crore. The XI Finance Commission's projection of revenue of the State, budget estimates and the actual receipts were as under:

Nature of revenue	XI Finance Commission's Projection	Budget estimates	Actual receipts	(In crore of rupees)	
				Per centage of variation	
				between Finance Commission's projection and actual receipts	between budget estimates and actual receipts
Own tax revenue	8676.44	7521.46	7302.54	(-) 16%	(-) 3%
Own non-tax revenue	984.24	904.53	677.76	(-) 31%	(-) 25%
Total	9660.68	8425.99	7980.30	(-) 17%	(-) 5%

Against the Finance Commission's projection of Rs 9660.68 crore, budget estimates aggregated only Rs 8425.99 crore and the actual receipt of Rs 7980.30 crore was 17 per cent short of the Commission's projection and five per cent short of the budget estimates.

As per the Medium Term Fiscal Reform Programme (MFRP) of the State, the estimates were revised as Rs 8140.59 crore (tax revenue of Rs 7403.63 crore and non-tax revenue of Rs 736.96 crore). However, the actual receipts of

[▲] From gross receipts of Rs 128.09 crore expenditure of Rs 59.71 crore on prize winning tickets has been deducted, but expenditure of Rs 51.21 crore on commission to agents and establishment expenses of Rs 2.31 crore have not been deducted.

Rs 7980.30 crore registered a decrease of two *per cent* despite mobilisation of additional resources of Rs 309.67 crore against the target of Rs 283.50 crore.

The State Government had not signed any Memorandum of Understanding with Government of India in accordance with the MTFRP. However, the Government exchanged in January 2002 with the Government of India, a document of shared fiscal goals and objectives of the MTFRP.

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 finally make 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.

Scrutiny of the records in the Finance Department revealed that the estimates furnished by the heads of departments were changed without specifying reason thereof. The estimates of revenue for the year 2002-03 furnished by the heads of major revenue earning departments, the estimates made by the Finance Department and the actual receipts were as under:

Revenue head	Estimates furnished by department	Budget estimates made by Government		Actual receipts	Variation between departmental estimates and actual receipts	Variation between Government estimates and actual receipts
		Original	Revised			
Sales Tax	5100.00	5600.40	5400.00	5343.15	(+ 243.15)	(-) 257.25
State Excise	663.96	748.41	655.00	663.07	(-) 0.89	(-) 85.34
Taxes on vehicles	528.91	540.81	520.00	513.20	(-) 15.71	(-) 27.61
Taxes and Duties on Electricity	185.81	16.81	221.27	192.63	(+ 6.82)	(+ 175.82)
Stamps & Registration fees						
Stamps Non-judicial	327.00	341.93	334.33	314.14	(-) 12.86	(-) 27.79

The actual receipts were nearer to the proposals of the concerned departments than to the budget estimates. This indicates that the budget estimates were not made in a scientific and realistic manner.

1.4. Variation between budget estimates and actuals

The variation between budget estimates of revenue for the year 2002-03 and the actual receipts under principal heads of revenue are given below.

Revenue Head	2002-03			Percentage of variation
	Budget estimates	Actual receipts	Variation Increase (+)/ Shortfall (-)	
	(In crore of rupees)			
Sales Tax	5600.40	5343.15	(-) 257.25	(-) 5
State Excise	748.41	663.07	(-) 85.34	(-) 11
Stamps and Registration Fees				
a) Stamps- Non-Judicial	341.93	314.14	(-) 27.79	(-) 8
b) Registration Fee	123.70	132.55	(+) 8.85	(+) 7
Taxes on Vehicles	540.81	513.20	(-) 27.61	(-) 5
Forestry and Wild Life	181.90	149.58	(-) 32.32	(-) 18
Taxes and Duties on Electricity	16.81	192.63	(+) 175.82	(+)1046
Taxes on Agricultural Income	10.60	6.40	(-) 4.20	(-) 40
Land Revenue	49.46	38.40	(-) 11.06	(-) 22

The reasons given by the departments for the variation between budget estimates and actuals for 2002-03 were as follows.

Taxes and Duties on Electricity : Increase was due to the Government sanctioning loan of Rs 185 crore to Kerala State Electricity Board in March 2003 and adjusting the same against arrears of duty due.

Land Revenue : Decrease was due to short fall in collection in the districts of Thiruvananthapuram, Kollam and Alappuzha.

State Excise : Decrease was due to non collection of duty on Indian Made Foreign Liquor, Beer, etc., and rentals from toddy shops as estimated in the budget.

The reasons for variation called for in May 2003 from the heads of other departments have not been received till October 2003.

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 2000-01, 2001-02 and 2002-03 along with the relevant all India average percentage of expenditure on collection to gross collections for 2001-02 are given below.

Sl. No.	Head of Revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage for the year 2001-02
			(In crore of rupees)			
1.	Sales Tax	2000-01	4344.33	45.89	1.05	
		2001-02	4440.85	40.04	0.90	1.26
		2002-03	5343.15	44.55	0.83	
2.	Stamps [#] (Non- Judicial) and Registration Fees	2000-01	314.45	35.44	11.27	
		2001-02	370.24	32.57	8.80	3.51
		2002-03	446.69	38.13	8.54	
3.	State Excise [#]	2000-01	688.94	34.02	4.94	
		2001-02	541.46	30.77	5.68	3.21
		2002-03	663.07	35.29	5.32	
4.	Taxes on Vehicles [#]	2000-01	394.85	14.04	3.56	
		2001-02	452.18	12.69	2.81	2.99
		2002-03	513.20	14.08	2.74	

It can be seen from the above table that cost of collection in respect of Stamps & Registration Fees and State Excise was much higher than All India average.

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 3 lakh during 1998-99 to 2001-02 and Rs 4 lakh in 2002-03. The year-wise particulars of the number of assessees and sales tax revenue realised is given below.

(Rupees in crore)

Year	No. of assessees	Sales tax revenue	Revenue per assessee
1998-99	1,27,180	3366.62	0.03
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

1.7. Analysis of arrears of revenue

As on 31 March 2003, arrears of revenue under principal heads of revenue, as reported by the departments were as under.

[#] According to the Departments, the expenditure incurred cannot be considered as having been incurred solely for collecting revenue as the departments have several other administrative functions. The figures of expenditure on *pro rata* basis are not available.

(Rupees in crore)

Sl. No.	Department	Arrears	Arrears outstanding for more than 5 years	Reason
1.	Power	1373.31	91.71	Rs 1371.52 crore was due from the Kerala State Electricity Board. Arrears shown do not include duty due from the Kerala State Electricity Board up to 31.3.1989.
2.	Local Fund Audit	24.71	2.68	The department attributed arrears to non-remittance of audit fees by auditee institutions.
3.	Stationery	12.50	4.91	Failure of various departments to remit the dues
4.	Factories and Boilers	0.83	--	Dues from factories which had stopped functioning
5.	Mining and Geology	0.53	0.12	The arrears were due to dispute regarding claims

Details of arrears of revenue in respect of other departments though called for in May 2003 have not been received till October 2003.

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 2001-02 and 2002-03 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						
2001-02	1,24,186	1,29,519	2,53,705	1,11,496	1,42,209	44
2002-03	1,42,209	1,54,981	2,97,190	1,75,869	1,21,321	59
Agricultural Income Tax						
2001-02	7,564	9,654	17,218	8,401	8,817	49
2002-03	8,817	4,550	13,367	7,252	6,115	54

The above table shows that the Department was able to complete between 44 and 59 *per cent* of the assessments due for completion during 2001-02 and 2002-03. The delay in finalisation of assessments resulted in delay in realisation of the revenue involved in those 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 2002-03.

(Rupees in lakh)

Revenue Heads	Written-off		Waived	
	No. of cases	Amount	No. of cases	Amount
State Excise	6	3.16	-	-
Interest Receipts	-	-	4	0.99
Total	6	3.16	4	0.99

Arrears of instalments of rental of Rs 3.16 lakh due from contractors of toddy shops in six cases were written off as they were either insolvent or no more in existence. Waiver of Rs 0.99 lakh represented the interest on house building advances due from deceased Government employees.

1.10. Refunds

The number of refund cases pending at the beginning of the year 2002-03, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2002-03 were not available in the Commercial Taxes Department.

In the Excise Department one claim for refund of Rs 16,872 pending at the beginning of the year 2002-03 was not settled in the year.

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 2002-03 revealed underassessments/short levy/loss of revenue aggregating Rs 518.74 crore in 1,997 cases. During the course of the year, the Departments concerned accepted underassessments, etc., of Rs 6.81 crore involved in 457 cases, of which 175 cases involving Rs 2.57 crore were pointed out in audit during 2002-03 and the rest in earlier years. At the instance of Audit, the Departments collected Rs 92.33 lakh in 229 cases during 2002-03.

This report contains 43 paragraphs including three reviews relating to short/non-levy of tax, duty and interest, penalty, etc., involving financial effect of Rs 468.78 crore. The Departments/Government have so far accepted the audit observations in 143 cases involving Rs 12.71 crore and recovered Rs 1.17 crore in seven cases included in the Report. Final reply has not been received in the remaining cases till October 2003.

1.12. Failure of senior officials to enforce accountability and protect interest of Government

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 2003, there were 3,614 outstanding inspection reports containing 15,584 audit observations involving Rs 586.99 crore issued up to December 2002. The details of reports outstanding as at the end of June for the years 2001 to 2003 are given below.

(Rupees in crore)

Period	Number of inspection reports	Number of audit observations	Amount involved
As at the end of June 2001	4,534	20,111	1233.96
As at the end of June 2002	4,493	15,967	1118.82
As at the end of June 2003	3,614	15,584	586.99

Revenue head-wise details of the outstanding inspection reports as at the end of June 2003 are given below.

(Rupees in crore)

Sl. No.	Head of Revenue	Number of inspection reports	Number of audit observations	Amount
1	Sales Tax	1,385	7,884	440.32
2	Taxes on Agricultural Income	401	3,014	63.55
3	State Excise	394	797	7.39
4	Taxes on Vehicles	414	2,072	10.13
5	Land Revenue	90	238	2.31
6	Forestry and Wild Life	250	563	59.90
7	Stamps and Registration Fees	674	990	3.38
8	Electricity Duty	6	26	0.01
	Total	3614	15,584	586.99

First replies to 289 inspection reports issued up to December 2002 were not furnished by the departments till the end of June 2003. This was brought to the notice of the Chief Secretary to Government in July and August 2003, but reply was awaited (October 2003).

1.13. 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 Inspection Report relating to Sales Tax, Motor Vehicles, Stamp and Registration etc. departments. Details of Audit Committee meetings held during the year 2002-03 and the paragraphs settled are given below.

(Rupees in crore)

Revenue Head	No. of meetings held during 2002-03	No. of paragraphs outstanding as on 31 March 2002	Amount	Year-wise details of paragraphs settled		Amount
Sales Tax	6	12,165	1074.18	1985-86	32	1.40
				1986-87	78	
				1987-88	4	
				1989-90	2	
				1990-91	26	
				1991-92	23	
				1992-93	27	
				1994-95	1	
				Total	193	
Motor vehicles	1	2222	13.77	1993-94	11	0.47
				1994-95	22	
				1995-96	21	
				1996-97	8	
				1997-98	26	
				1998-99	12	
				1999-2000	39	
				2000-01	26	
				Total	165	
Forest	1	1127	169.08	1993-94	1	Nil
				1998-99	6	
				1999-2000	1	
				2000-01	9	
				2001-02	2	
				Total	19	
Stamps and Registration Fees	1	530	6.87	1995-96	35	1.68
				1996-97	22	
				1997-98	24	
				1998-99	27	
				1999-2000	14	
				2000-01	9	
				2001-02	3	
				Total	134	
Grand total	9	16,044	1263.90		511	3.55

1.14. 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 can not 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 2003 (Revenue Receipts), Government of Kerala, includes 150 draft paragraphs which were forwarded to the Secretaries to Government.

However, replies/response to 125 draft paragraphs were awaited. These paragraphs have been included in this Report without the response of the Government.

1.15. 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 eight Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1994 to 31 March 2001 disclosed that the departments had not submitted remedial ATNs on 60 paragraphs on which ATNs were due as on 31 October 2003 as indicated in Appendix.

Out of the total 361 audit paragraphs included in the above eight Audit Reports, the departments submitted remedial ATNs on 301 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 2002 was laid on the table of the Legislature in June 2003 and the time limit of three months for furnishing remedial ATNs had elapsed in September 2003, the departments did not submit ATNs on any of the 43 paragraphs included in the above Audit Report.

Appendix

(Reference: Paragraph 1.15)

Year wise analysis

Year of Audit Report	Date of presentation to the Legislature	Due date for ATN	Delay in terms of month up to October 2003	Number of paragraph for which ATN not furnished
1993-94	25.4.1995	24.8.1995	98	2
1994-95	4.3.1996	3.6.1996	88	2
1995-96	11.3.1997	10.6.1997	76	6
1996-97	23.4.1998	22.7.1998	63	3
1997-98	19.2.1999	18.5.1999	53	7
1998-99	21.2.2000	21.5.2000	41	2
1999-2000	1.3.2001	1.6.2001	29	7
2000-01	11.3.2002	11.6.2002	16	31
Total				60

Department wise and age wise analysis

Period of delay	Commercial Tax		Excise	Motor Vehicles	Registration	Land Revenue	Forest	Others	Total
	Sales Tax	Agricultural Income Tax							
Between 12 months and 23 months	10	6		7		3		5	31
Between 24 months and 59 months	1					6		9	16
Between 60 months and 119 months		1				9	1	2	13
Total	11	7		7		18	1	16	60