

Chapter I

General

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 2014-15, 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	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Revenue raised by the State Government					
	• Tax revenue	21,721.69	25,718.60	30,076.61	31,995.02	35,232.50
	• Non-tax revenue ¹	1,930.79 (1,739.58)	2,592.18 (2,228.97)	4,198.51 (3,272.25)	5,575.03 (4,059.49)	7,283.69 (5,097.95)
	Total	23,652.48 (23,461.27)	28,310.78 (27,947.57)	34,275.12 (33,348.86)	37,570.05 (36,054.51)	42,516.19 (40,330.45)
2.	Receipts from Government of India					
	• Share of net proceeds of divisible Union taxes and duties	5,141.85	5,990.36	6,840.65	7,468.68	7,926.29
	• Grants-in-aid	2,196.62	3,709.22	3,021.53	4,138.20	7,507.99
	Total	7,338.47	9,699.58	9,862.18	11,606.88	15,434.28
3.	• Total revenue receipts of the State Government (1 and 2)	30,990.95 (30,799.74)	38,010.36 (37,647.15)	44,137.30 (43,211.04)	49,176.93 (47,661.39)	57,950.47 (55,764.73)
4.	Percentage of 1 to 3	76	74	78	76	73

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

The above table indicates that during the year 2014-15, the revenue raised by the State Government (₹ 42,516.19 crore) was 73 *per cent* of the total revenue receipts. The balance 27 *per cent* of the receipts during 2014-15 was from the Government of India.

¹ 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 2010-11 to 2014-15 are given in **Table - 1.2**.

Table -1.2
Details of Tax Revenue raised

(₹ in crore)													
Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	0040 - Tax on sales, trade etc.	15,125.69	15,833.11	19,427.90	18,938.83	23,450.52	22,511.09	28,456.62	24,885.25	31,913.47	27,908.33	12.15	12.15
2.	0030- Stamps and Registration fees	2,187.51	2,552.49	3,252.17	2,986.55	3,775.71	2,938.38	4,207.01	2,593.29	3,733.67	2,659.02	(-) 11.25	2.53
3.	0041 - Taxes on vehicles	1,301.88	1,331.37	1,410.73	1,587.13	1,694.49	1,924.62	2,570.65	2,161.09	2,799.82	2,364.95	8.91	9.43
4.	0039 - State Excise	1,836.21	1,699.54	2,059.05	1,883.18	2,550.65	2,313.95	2,801.75	1,941.72	3,208.36	1,777.42	14.51	(-) 8.46
5.	0029 - Land Revenue	155.13	55.97	162.84	60.75	127.72	121.58	135.49	88.78	169.57	139.03	25.15	50.60
6.	0043 - Taxes and Duties on Electricity	64.40	20.71	29.31	21.28	250.00	24.71	284.15	42.25	309.14	48.71	8.72	15.29
7.	0022 - Taxes on Agricultural Income	12.00	46.97	14.49	42.86	15.98	18.92	23.99	21.55	26.35	8.60	9.84	(-) 60.09
8.	Others ²	289.04	181.53	285.06	198.02	257.14	223.36	291.44	261.09	307.11	326.44	5.38	25.03
	Total	20,971.86	21,721.69	26,641.55	25,718.60	32,122.21	30,076.61	38,771.10	31,995.02	4,2467.49	35,232.50	9.53	10.12

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 under sales tax, the receipts were less than the budget estimates due to fall in collection of tax on certain commodities such as rubber, motor vehicles, petroleum products, Indian made foreign liquor, gold etc.

In the case of agricultural income tax, the major revenue derived from the assesseees were from rubber and tea. The decrease in the receipts for the year was due to decrease in production and sales of rubber and tea and fall in price of rubber. Tea plantations showed loss due to decrease in price and increase in plantation expenses.

² Taxes on immovable property other than agricultural land, Luxury tax and Entertainment tax.

Taxes on vehicles: The increase in receipts for 2014-15 over 2013-14 was due to increase in tax rate and arrear collection through one time settlement. There was a decrease in the actual receipts over the budget estimates for 2014-15. The Department stated that this was due to decrease in number of vehicles registered.

Land Revenue: The increase in revenue receipts was due to the upward revision of rates of building tax.

State Excise: There was drastic reduction in the actual receipts during 2014-15 compared to the budget estimates. The Department stated (December 2015) that the excise duty collected is directly related to the volume of the sale of Indian Made Foreign Liquor. The sale of liquor is showing a negative growth rate when compared to the sale volume in previous years. The Department stated that the Deputy Commissioner, Kerala State Beverages (M&M) Corporation Limited has been directed to furnish the actual reason for variation in receipts for 2014-15 over the receipts for 2013-14. This has not been received.

Power: The Department stated (November 2015) that the decrease of actual receipts over budget estimates was due to non-remittance of electricity duty and surcharge by Kerala State Electricity Board Limited. There was an increase in revenue receipts during the year which was due to increase in arrear collection.

The reason for variation between revenue receipts for 2014-15 and 2013-14 was called for from various Departments. The details were not furnished by Registration Department (January 2016).

1.1.3 The details of non-tax revenue raised during the period 2010-11 to 2014-15 are indicated in **Table - 1.3**.

Table -1.3
Details of Non-Tax Revenue raised

(₹ in crore)													
Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual		
1.	0075- Miscellaneous General Services 103 – State Lotteries	464.60	380.25	462.05	919.53	1,381.20	1,747.51	2,307.00	2,280.15	2,875.00 ³	3,259.14 ⁴	24.62	42.94

³ From gross receipts (budget estimates) of ₹ 4,235 crore, expenditure on prize winning tickets of lotteries (budget estimate) of ₹ 1,360 crore has been deducted, but other expenditure like commission to agents (budget estimate - ₹ 1,200 crore), establishment expenses (budget estimates - ₹ 256 crore) have not been deducted.

⁴ From gross receipts of ₹ 5,444.88 crore, expenditure of ₹ 2,185.74 crore on prize winning tickets has been deducted, but other expenditure like commission to agents (₹ 1,792.67 crore), establishment expenses (₹ 280.22 crore) etc. have not been deducted.

(₹ in crore)													
Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual		
2.	0406 – Forestry and Wild Life	360.11	274.10	330.12	220.52	321.26	237.33	328.83	329.95	376.17	300.40	14.40	(-) 8.96
3.	0202 – Education, Sports, Art and Culture	164.25	150.83	183.61	164.96	222.07	182.78	259.18	308.13	253.15	246.41	(-)2.33	(-)20.03
4.	Others ⁵	1,095.35	934.40	1,306.25	923.96	1,092.08	1,104.63	1,333.56	1,141.26	1,473.15	1,292.00	10.47	13.21
	Total	2,084.31	1,739.58	2,282.03	2,228.97	3,016.61	3,272.25	4,228.57	4,059.49	4,977.47	5,097.95	17.71	25.58

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

State Lotteries: The Department attributed the reasons for increased revenue receipts to improved sale of lottery tickets due to revised prize structures, increased face value of four lottery tickets and hike in agency registration fees.

Stationery: During the year 2014-15, there was decrease in stationery receipts over 2013-14 and decrease in the actual receipts over budget estimates for 2014-15. The Department stated that the reason for decrease in revenue was due to failure of the Government undertakings in payment of stationery charges.

Printing: There was a decrease in the revenue for 2014-15 when compared to the revenue for 2013-14. The Department furnished the reason for this as increased arrear collection during 2013-14 over 2014-15.

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.

Agriculture: There was decrease in actual receipt for 2014-15 over that in 2013-14. The Director of Agriculture stated that this was due to decrease in distribution of planting materials.

Animal Husbandry: There was decrease in actual receipts over the budget estimate for 2014-15. This was due to outbreak of avian influenza and slight decrease in the demand for poultry products and sale thereof. The increase in receipts for 2014-15 over 2013-14 was due to increase in the sale of farm products and periodical revision in price of some farm products like hen, egg, chicks etc.

⁵ 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.

Public Works: The nature of receipts includes rent from office buildings, centage charges, sale proceeds, etc. There was increase in the receipts for 2014-15 over 2013-14, which was due to enhancement in rates. The actual receipts for 2014-15 were less than the budget estimates. The Department attributed the reason for this due to shortfall in works, due to non-occupancy of buildings and poor sale proceeds.

The reason for variation between the receipts for 2014-15 over 2013-14 and that of budget estimates and actual receipts for 2014-15 were called for from various departments (May 2015). This was not furnished by Departments of Crop Husbandry and Health (January 2016).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 on some principal heads of revenue amounted to ₹ 10,435.55 crore of which ₹ 1,872.12 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 2015	Amount outstanding for more than 5 years as on 31 March 2015	Replies of Departments
1.	0040- Tax on sales, trade etc.	6,398.31	1,374.51	In Commercial Taxes Department, an amount of ₹ 3,673.98 crore is pending due from individuals, private firms, private companies which relate to the period from 1974-75 onwards. An amount of ₹ 2,384.23 crore is pending due from public sector undertakings of Government of India, ₹ 197.23 crore from public sector undertakings of Government of Kerala, ₹ 135.20 crore from other State Governments, ₹ 7.01 crore from Government of India and ₹ 0.66 crore from local bodies. An amount of ₹ 4,459.10 crore is under revenue recovery proceedings, recoveries involving ₹ 1,266.57 crore are under stay by High Court and other judicial authorities and by Government. The Department attributed (December 2015) the reason for delay in collection of revenue to stayal of proceedings by various authorities. However, only ₹ 1,266.57 crore (19.79 per cent) out of a total of ₹ 6,398.31 crore was covered under such judicial intervention.
2.	0029- Land Revenue	2,057.43	Not furnished by Commissioner (Land Revenue)	In the Revenue and Disaster Management Department, the nature of demand includes land revenue and revenue recovery dues. An amount of ₹ 1,974.92 crore is under stay by High Courts and other judicial authorities and by Government. However, an amount of ₹ 82.51 crore was collectible balance. The Department attributed (November 2015) the reasons for delay in collection of revenue to stays by Government, Court and appellate authorities and that the Department has taken legal steps to realise the arrears.

(₹ in crore)				
Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than 5 years as on 31 March 2015	Replies of Departments
3.	0041-Taxes on vehicles	1,279.46	85.98	The arrears of ₹ 984.49 crore are pending due from Kerala State Road Transport Corporation and ₹ 294.97 crore are pending due from individuals, private firms, private companies etc. Revenue recovery certificates have been issued for an amount of ₹ 80.87 crore and ₹ 0.30 crore have been stayed by High Courts and other judicial authorities. The Transport Department stated (October 2015) that demand notices have been sent to the registered owners of the vehicles and the dues would be collected.
4.	0406-Forestry and Wild Life	411.55	187.61	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 ₹ 0.67 crore pending for more than five years is due from Government of India, ₹ 0.23 crore from other State Governments, ₹ 3.51 crore from public sector undertakings of Government of India, ₹ 393.35 crore from public sector undertakings of Government of Kerala and other States and ₹ 13.67 crore from individuals, private companies etc and ₹ 0.12 crore from local bodies. The Department attributed (October 2015) the reason for delay in collecting the revenue to pending revenue recovery steps taken against the defaulters, court cases, stay orders etc. The Department stated that necessary action has been initiated to realise the arrears of lease rent and other dues from departments and Public sector undertakings through discussions at Government level.
5.	0039-Excise	193.50	190.72	The abkari arrears in the Department are pending from 1952 onwards. The abkari arrear dues are ₹ 0.85 lakh from public sector undertakings of Government of Kerala and ₹ 193.50 crore from individuals, private firms, private companies etc. The Department attributed (July 2015) 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 ₹ 15.68 crore (8.11 <i>per cent</i>) out of a total of ₹ 193.50 crore was covered under judicial intervention.
6.	0070-60-110- Fees for Government audit	35.15	Not furnished by Director, Local Fund Audit Department	The arrears of revenue pending collection towards audit charge are ₹ 14.36 crore from universities, ₹ 3.32 crore from Devaswom Boards, ₹ 0.84 crore from temples and ₹ 16.63 crore from miscellaneous institutions and development authorities. The Local Fund Audit Department stated (July 2015) that demand notices are being sent to defaulters and proposals have been submitted to the Government for realising audit charge from the grants given to these bodies/institutions.
7.	0058-Printing and Stationery	16.55	9.58	The amounts due to the Stationery Department are ₹ 13.32 crore from Government of Kerala, ₹ 1.96 crore from public sector undertakings of Government of Kerala, ₹ 1.25 crore from Government of India and ₹ 1.43 lakh from public

(₹ in crore)				
Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than 5 years as on 31 March 2015	Replies of Departments
				sector undertakings of Government of India and ₹ 0.42 lakh from local bodies. The Department stated (July 2015) that reminders are being sent to the offices concerned who have not remitted the amounts.
8.		41.49	23.49	The nature of demand of the Printing Department includes printing charges charged from Departments of Education, Public Service Commission, High Court, Medical Council, Universities etc. An amount of ₹ 0.08 crore is due from Government of India and ₹ 41.41 crore is due from local bodies, public sector undertakings of Kerala and from Government of Kerala. The Department attributed (November 2015) the reason for the delay in collection of revenue to delay in settlement of arrears by the departments concerned. The Department stated that frequent reminders are being sent for settlement of outstanding arrears and that meetings had been held at Government level.
9.	0230-Labour and Employment	1.20	0.06	The nature of demand of the Department of Factories and Boilers was fee for renewal of licence of factories. An amount of ₹ 0.11 crore and ₹ 1.09 crore is due from public sector undertakings of Government of Kerala and individuals, private firms and private companies respectively. The Director stated (August 2015) 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	0.91	0.17	The nature of demand made by Mining and Geology Department is royalty of minerals. The arrears of revenue pending collection are ₹ 30.21 lakh from Co-operative Society, ₹ 25.92 lakh from public sector undertakings of Government of Kerala and ₹ 35.36 lakh from individuals, private firms, private companies etc. The Department stated (June 2015) that the reason for delay in collection of revenue was due to dispute regarding the claims, court stays, appeals and Government stays and that action was being taken to redress the dispute and to vacate the stays.
	Total	10,435.55	1,872.12	

It could be seen from the table that recovery of ₹ 1,872.12 crore was pending for more than five years and no effective efforts were being made to recover them. Also arrears of ₹ 2,138.17 crore were pending with the departmental authorities. The cases referred for write off (₹ 70.14 crore) were also not being pursued by the departments with the offices concerned.

The arrears of revenue pending for collection in respect of Town Planning Department and Registration Department were shown as Nil (November 2015) despite huge dues pending recovery under revenue recovery proceedings in the case of Registration Department. The exact dues pending recovery with Revenue Department was not made available by Registration Department despite called for

(December 2015) from the IG of Registration. Further the details of arrears of revenue called for in May 2015 have not been furnished by Police, Power, Labour and Ports Departments (January 2016).

The enforcement of the systems existed in the Departments for the realisation of arrears of revenue was inadequate and inefficient. The indifferent attitude of the officials concerned in vacating the stay, enforcing revenue recovery proceedings, etc., also resulted in poor recovery of arrears of revenue.

Departmental instructions for fixing accountability on assessing officers for inefficiencies in revenue collection may be considered for issue.

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 of during the year and number of cases pending for finalisation at the end of the year 2014-15 were called for (May 2015) from the Revenue and Disaster Management (R&DM) Department and the Commercial Taxes Department. The details furnished (between November and December 2015) by the R&DM Department and Commercial Taxes Department are given in **Table -1.5**.

Table – 1.5
Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2014-15	Total assessments due	Cases disposed of during 2014-15	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Revenue and Disaster Management Department						
Building Tax	10,863	1,43,028	1,53,891	1,37,457	16,434	89.32
Plantation tax	4,318	1,085	5,403	2,585	2,818	47.84
Commercial Taxes Department						
1) a) Sales Tax	2,259	1,168	3,427	1,542	1,885	45.00
b. Motor Sprit Tax	82	75	157	90	67	57.32
c. Luxury Tax	6,207	7,139	13,346	5,994	7,352	44.91
d. Tax on Works Contracts	724	828	1,552	624	928	40.21
e. Others	7,314	5,346	12,660	6,325	6,335	49.96
Total	16,586	14,556	31,142	14,575	16,567	46.80
2) Taxes on Agricultural Income	2,060	433	2,493	1,546	947	62.01

Audit found that during the year, clearance of the arrear cases of building tax and plantation tax in R&DM Department were 7,168 and 1,567 respectively which

were 67.78 *per cent* and 36.65 *per cent* respectively. In the Commercial Taxes Department the clearances in sales tax and agricultural income tax assessments were 1,198 and 1,421 respectively which were 53.03 *per cent* and 68.32 *per cent* respectively.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Department was called for by Audit in May 2015 and reminded in September and October 2015. The details as furnished by the Commercial Taxes, State Excise and Transport Departments and the Chief Electrical Inspectorate are given in **Table - 1.6**.

Table -1.6
Details of evasion of tax detected

(₹ in crore)							
Sl. No.	Head of revenue	Cases pending as on 31 March 2014	Cases detected during 2014-15	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 2015
					Number of cases	Amount of demand	
1.	0040- Tax on sales, trade etc.	3,213	4,953	8,166	4,633	83.91	3,445
2.	0039 - State Excise	795	-	795	30	241.05	765
3.	0041 - Taxes on vehicles	2,898	279	3,177	1,752	3.73	1,425
4.	0043-101-99 Electricity duty	-	4	4	4	24.81	4 ⁶

The Agriculture, State Lotteries, Health Services, Animal Husbandry, Printing and Stationery Departments stated (between May and June 2015) that no case of evasion of tax was detected by them.

The Commissioner of Land Revenue stated (November 2015) that the details are being gathered from District Collectors. Final reply has not been received as of January 2016. Details had also not been furnished by Public Works and Forest Departments as of January 2016.

⁶ Though investigation has been completed and demand raised in four cases, amount is pending realisation.

1.5 Pendency of refund cases

The details of refund cases pending at the beginning of the year 2014-15, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2014-15 as reported by the Commercial Taxes and Excise Departments are given in **Table -1.7**.

Table- 1.7
Details of pendency of refund cases

Sl. No.	Particulars	(₹ in crore)			
		State Excise		Commercial Taxes	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year 2014-15	6	1.72	4,271	142.30
2.	Claims received during the year	2	0.05	4,966	140.32
3.	Refunds made during the year	2	0.97	3,874	92.09
4.	Balance outstanding at the end of the year 2014-15	6	0.80	5,363	190.53

The closing balance of refund cases for 2013-14 furnished by the Commissioner, Excise Department was four involving an amount of ₹ 1.69 crore. The Department furnished opening balance for 2014-15 as six involving an amount of ₹ 1.72 crore and explained (October 2015) that the Government orders for refund of two claims pertaining to 2013-14 were received only on 2014-15. However, the Department showed this in the clearance of 2013-14 itself, thereby making the closing balance of 2013-14 as four and ₹ 1.69 crore. This was irregular.

In Commercial Taxes Department, out of the 5,363 outstanding cases, 5,358 cases pertain to refund of value added tax. The reason for pendency though called for (May 2015) in Audit had not been explained by the Department (January 2016).

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 2015 included collections stayed by various authorities at various stages on some principal heads of revenue as detailed in the **Table -1.8**.

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.	0040- Tax on sales, trade etc.	6,398.31	1,056.90	209.67	1,266.57	19.80
2.	0029- Land Revenue	2,057.43	1,214.34	760.58	1,974.92	95.99
3.	0041-Taxes on vehicles	1,279.46	0.30	0	0.30	0.02
4.	0406-Forestry and Wild Life	411.55	2.73	79.14	81.87	19.89
5.	0039- State Excise	193.50	15.68	0	15.68	8.10
6.	0853-Non-Ferrous Mining and Metallurgical Industries	0.91	0.12	0.40	0.52	57.14
	Total	10,341.16	2,290.07	1,049.79	3,339.86	32.30

An amount of ₹ 3,339.86 crore was pending under stay, which is 32.20 *per cent* of the total arrear amount. The Departments had not taken effective action to vacate the stay and to realise the amounts.

The arrears of revenue pending under stay in respect of Registration Department, Printing Department, Stationery, Local Fund and Town Planning Department were Nil. The details of arrears pending under stay were not furnished by Power Department (January 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 2014 disclosed that 24,691 paragraphs involving ₹ 9,146.67 crore relating to 3,193 IRs were outstanding at the end of

June 2015 as mentioned below with the corresponding figures for preceding two years in **Table 1.9**.

Table – 1.9
Details of pending Inspection Reports

	June 2013	June 2014	June 2015
Number of IRs pending for settlement	2,906	3,027	3,193
Number of outstanding audit observations	22,189	23,324	24,691
Amount of revenue involved (₹ in crore)	2,794.17	6,018.52	9,146.67

1.7.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 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	Tax on sales, trade, etc.	1,695	19,003	5,538.04
		Taxes on agricultural income	186	756	141.31
2.	Power	Electricity duty	22	74	3,176.12
3.	Revenue	Land Revenue	376	1,702	208.34
4.	Transport	Taxes on motor vehicles	339	1,869	56.28
5.	Excise	State Excise	186	445	14.98
6.	Stamps and Registration	Stamp duty and registration fees	375	824	9.59
7.	Lotteries	Receipts from lotteries	14	18	2.01
Total			3,193	24,691	9,146.67

Audit did not receive even the first replies in case of 443 IRs within four weeks from the date of issue of the IRs from seven heads of offices during 2014-15. 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 and it also showed the failure to monitor effectively the clearance of pending Audit observations by the Audit Monitoring Committees at Secretary level and Apex Committee 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

Circular⁷ 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 2014-15 and the paragraphs settled are mentioned in **Table 1.11**.

Table 1.11
Details of Departmental Audit Committee Meetings

(₹ in crore)				
Head of revenue	Number of meetings held	Number of audit observations pending as on 31 March 2014	Number of paragraphs settled	Amount involved in settled paragraphs
Taxes on vehicles	5	1,673	437	5.81
Tax on sales, trade etc.	4	19,025	709	43.94
State Excise	3	423	52	0.97
Stamp duty and registration fees	1	674	14	0.01
Land Revenue and Building Tax	1	1,773	75	0.80
Total	14	23,568	1,287	51.53

An amount of ₹ 8.61 crore was recovered after discussion in these meetings. The progress of settlement of paragraphs pertaining to the Commercial Taxes Department, Transport 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 2014-15 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 ₹ two lakh were called for by Audit for scrutiny in Commercial Taxes Department. However, 6,355 tax assessment files relating to

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

80 offices were not made available to Audit. Of these 2,421 files pertained to 20 special circles and works contract offices, where assessments of major dealers are dealt with as given in **Appendix I**.

Circle/division wise analysis showing the names of head of offices for the years 2010-11 to 2014-15 is given in **Appendix II**.

Non-production of large number of transaction records involving substantial revenue not only hinders Audit in discharging the constitutional responsibility but also 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.

The matter was brought to the notice of the Chief Secretary and the Additional Chief Secretary (Finance) to Government by the Principal Accountant General in September 2015. The Additional Chief Secretary (Finance) stated (October 2015) that the matter of non production of records by Departments may be taken up as an agenda item in Audit Monitoring Committee (AMC) meeting conducted quarterly by Departments. Directions have been given (October 2015) 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.

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.

Eighty seven draft paragraphs including two performance audits were sent to the Principal Secretaries/Secretaries of the respective Departments by name between June and October 2015. The Principal Secretaries/ Secretaries of the Departments furnished replies to all the compliance audit paragraphs and to the Performance Audit Reports on System of Assessment under Kerala Value Added Tax and Levy, Collection and Accounting of Electricity Duty, Surcharge and Inspection Fee and the same has been included in this Report.

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 within three

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. 215 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 years ended 31 March 2009 to 31 March 2013 were placed before the State Legislature Assembly between 01 March 2010 and 17 July 2014. The action taken explanatory notes from the Departments concerned on 183 paragraphs were received late in respect of each of these Audit Reports. Action taken explanatory notes in respect of 30 paragraphs from four departments (Taxes, Revenue and Disaster Management, Transport and Power) had not been received for the Audit Report for the year ended 31 March 2014 so far (January 2016).

It was noticed that six out of nine departments did not submit action taken explanatory notes as of December 2015 in respect of 62 paragraphs (56 individual and six PAs/Review paragraphs) featured in the C&AG's Audit Reports in respect of Audit Reports from the year 2012. For 56 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, Revenue and Disaster Management and Transport.

The PAC discussed 146 paragraphs pertaining to the Audit Reports for the years from 2009 to 2013 and its recommendations on 77 paragraphs were incorporated in their Reports brought out during their respective tenure for the period 2008-16. However, ATN have not been received in respect of 138 recommendations of the PAC from the Departments concerned as mentioned in the **Table 1.12**.

Table 1.12

Year of PACs ⁸	Name of the Department										Total
	Taxes	Transport	Land Revenue	Forest & Wildlife	Finance	Home	Education	Power	Co-operation	Water resources	
2008-11	30	3	9	-	-	2	1	1	1	-	47
2011-14	9	12	2	-	-	-	-	2	-	-	25
2014-16	20	12	8	6	1	1	1	-	16	1	66
Total	59	27	19	6	1	3	2	3	17	1	138

The Departments largely responsible for non-submission of ATN were Taxes, Transport, Revenue and Disaster Management and Co-operation.

The non receipt of ATN have been brought to the notice of Chief Secretary to the Government in Apex Committee meetings held (May and December 2015) and through DO letter by the Principal Accountant General to the Chief Secretary to Government.

⁸ Year represents tenure of the PAC.

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 Commercial Taxes Department under revenue head 0040-Tax on sales, trade etc. 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 2004-05 to 2013-14.

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 2015 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	2004-05	1,418	12,396	442.85	149	1,932	165.17	145	1,036	18.18	1,422	13,292	589.84
2	2005-06	1,422	13,292	589.84	166	1,837	51.81	891	8,454	487.13	697	6,675	154.52
3	2006-07	697	6,675	154.52	167	1,568	43.48	95	948	17.72	769	7,295	180.28
4	2007-08	769	7,295	180.28	195	1,770	91.91	8	537	13.37	1,033	9,182	540.66
5	2008-09	1,033	9,182	540.66	178	2,826	92.46	88	1,237	5.11	1,123	10,769	628.01
6	2009-10	1,123	10,769	628.01	295	4,916	622.11	278	4,240	44.35	1,140	11,445	1,205.77
7	2010-11	1,140	11,445	1,205.77	206	4,401	515.36	86	1,048	50.91	1,260	14,798	1,670.22
8	2011-12	1,260	14,798	1,670.22	159	3,212	858.84	50	783	16.44	1,369	17,227	2,512.62
9	2012-13	1,369	17,227	2,512.62	161	2,802	243.85	26	1,783	261.89	1,504	18,246	2,494.58
10	2013-14	1,504	18,246	2,494.58	147	2,493	516.54	2	1,214	42.31	1,649	19,525	2,968.81

The Government arranges Audit 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 1,418 outstanding IRs with 12,396 paragraphs as on start of 2004-05, the number of outstanding IRs increased to 1,649 with 19,525 paragraphs at the end of 2013-14. This is indicative of the fact that the response to the local audit reports was poor and the steps taken by the Department to clear the outstanding IRs and paragraphs were 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
Details of paragraphs included in Audit Reports

(₹ 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 31.03.2014
1	2004-05	9	40.69	8	11.93	0	0.12
2	2005-06	8	25.52	7	1.96	0.09	0.66
3	2006-07	12	12.54	10	3.23	0	0.52
4	2007-08	9	253.11	8	10.98	0.09	4.55
5	2008-09	16	632.19	14	305.78	0.08	17.24
6	2009-10	20	463.59	13	276.77	0	1.77
7	2010-11	27	449.65	22	379.82	7.78	8.88
8	2011-12	16	290.50	9	238.06	0	4.26
9	2012-13	16	12,902.39	15	12,886.24	0.33	1.97
10	2013-14	14	75.52	8	18.57	0.46	0.46

It is evident from the above table that the progress of recovery in accepted cases was slow throughout during the last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the parties concerned. No mechanism for pursuance of the accepted cases had been put in place by the Department/ Government as of December 2015.

The reasons for poor recovery even in accepted cases though called for had not been furnished by the Department (January 2016).

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

The draft reports of performance Audits 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 Performance Audits on the Departments of Commercial Taxes, Registration, Excise, Transport 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**.

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 2014-15, there were 849 audit units, of which 451 units were planned and audited, which is 53.12 *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 443 units⁹ of sales tax/Value Added Tax, State Excise, Motor Vehicles and other Departmental offices conducted during the year 2014-15 showed under-assessment/short levy/loss of revenue aggregating ₹ 5,148.21 crore in 2,647 cases. During the course of the year, the Departments concerned accepted under-assessment and other deficiencies of ₹ 658.95 crore involved in 230 cases which were pointed out in audit during 2014-15. The Departments collected ₹ 15.27 crore in 949 cases during 2014-15, pertaining to the audit findings of previous years.

1.12 Coverage of this Report

The Report contains 31 paragraphs involving financial effect of ₹ 4,506.23 crore. The Department/Government had accepted audit observations involving ₹ 710.29 crore out of which ₹ 6.94 crore had been recovered. These are discussed in succeeding Chapters II to VII.

⁹ In the case of remaining 8 units, IRs were issued during the year 2015-16.