



**REPORT OF
THE COMPTROLLER AND AUDITOR GENERAL
OF INDIA**

FOR THE YEAR ENDED 31 MARCH 2005

**(REVENUE RECEIPTS)
GOVERNMENT OF KERALA**

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PREFACE

This report for the year ended 31 March 2005 has been prepared for submission to Governor under Article 151(2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising sales tax, taxes on agricultural income, state excise, land revenue and building tax, taxes on vehicles, taxes and duties on electricity, stamps and registration fees and non tax receipts of the State.

The cases mentioned in this Report are among those which came to notice in the course of test audit of records during the year 2004-05 as well as those which came to notice in earlier years but could not be included in previous Reports.

Overview

Overview

This Report contains 23 paragraphs including four reviews relating to nor levy/short levy/loss of tax involving Rs 55.49 crore. Some of the major findings are mentioned below.

I. General

During the year 2004-05, Government of Kerala raised a total revenue of Rs 9,782.74 crore comprising tax revenue of Rs 8,963.65 crore and non tax revenue of Rs 819.09 crore. The State Government received Rs 2,404.95 crore by way of State's share of divisible Union taxes and duties and Rs 1,312.80 crore as grants in aid from the Government of India. Sales tax (Rs 6,701.05 crore) formed the major portion (75 per cent) of the tax revenue of the State. Receipts from Forestry and Wild Life (Rs 199.69 crore) formed the major portion (24 per cent) of the non tax revenue. Compared to the previous year, the total revenue raised by the State Government registered an increase of 10 per cent, the State's share of divisible Union taxes and duties registered increase of 20 per cent and grants in aid from Government of India recorded increase of 45 per cent during 2004-05.

(Paragraph 1.1.)

Test check of records of the departments of Agricultural Income Tax and Sales Tax, State Excise, Land Revenue, Motor Vehicles, Registration, Power, Forest, etc., conducted during 2004-05, revealed underassessments /short levy of revenue aggregating Rs 106.77 crore in 1,684 cases. During the course of the year 2004-05, the departments concerned accepted underassessments, etc., of Rs 7.82 crore involved in 475 cases of which 170 cases involving Rs 2.35 crore were pointed out in audit during 2004-05 and the rest in earlier years.

(Paragraph 1.11.)

Out of inspection reports issued up to the end of December 2004 there were 1,638 outstanding reports containing 9,659 audit observations involving Rs 382.14 crore as at the end of June 2005 for want of final replies from the departments.

(Paragraph 1.12.1.)

II. Sales Tax

A review on "Working of sales tax check posts in Kerala" revealed the following.

- *Bank guarantees of Rs 42.60 lakh were not renewed*

(Paragraph 2.2.6.)

- *Misclassification of entry tax of Rs 2.35 crore paid by Kerala Police Department*

(Paragraph 2.2.6.)

- *Non levy of tax and penalty of Rs 4.33 crore in cases where transit passes were not surrendered*

(Paragraph 2.2.7.)

- *Entry tax of Rs 1.02 crore from importers of the goods was not levied*

(Paragraph 2.2.9.)

- *Entry tax of Rs 12.45 lakh on goods used as component parts was not levied*

(Paragraph 2.2.9.)

Interest of Rs 50.61 lakh accrued as a result of delay/non payment of tax was short/not demanded in 11 cases

(Paragraph 2.3.)

Application of incorrect rate of tax resulted in short levy of tax of Rs 31.12 lakh in 12 cases

(Paragraph 2.4.)

Underassessment of turnover in seven cases resulted in short levy of tax of Rs 99.95 lakh

(Paragraph 2.5.)

Inadmissible exemption of tax of Rs 1.15 crore was granted in one case

(Paragraph 2.6.)

Incorrect grant of exemption in 21 cases resulted in short levy of tax of Rs 1.01 crore

(Paragraph 2.7.)

Irregular refund of surcharge in one case resulted in revenue loss of Rs 34.76 crore

(Paragraph 2.8.)

III. Taxes on Vehicles

A review on “Information Technology Audit of Motor Vehicles Department” revealed the following.

- *Government decided in December 2001 to computerise the Motor Vehicles Department. Only one out of seven offices in Thiruvananthapuram district scheduled in phase 1 is computerised. Service providers for computerisation of remaining offices under build, operate, maintain and transfer mode are yet to be selected*

(Paragraph 3.2.3.)

- *Several essential provisions were lacking in the software – SMART Move developed by NIC*

(Paragraph 3.2.4.)

- *Several irregularities noticed in licence data due to inadequate input control*

(Paragraph 3.2.5.)

- *Information generated from the system could not be authenticated as registration data was not properly validated*

- *Several vehicles with duplicate engine number and chassis number were entered in the registration data*

- *Incorrect/non accounting of remittance of fees/tax at FRIENDS Centre*

(Paragraph 3.2.6.)

- *Information security was not adequate for smooth functioning of the system as there was no documented password policy, business continuity planning*

(Paragraph 3.2.7.)

Tax of Rs 18.19 lakh on 110 interstate carriages of KSRTC was short remitted.

(Paragraph 3.3.1.)

Composite tax of Rs 10.82 lakh was short collected on 541 goods carriages.

(Paragraph 3.3.2.)

Tax of Rs 20.20 lakh was short levied on 250 permit lapsed stage carriages.

(Paragraph 3.4.)

Fee of Rs 15.78 lakh for renewing driving licence was short levied in 31,551 cases.

(Paragraph 3.5.)

IV. Land Revenue and Building Tax

Collection charge of Rs 2.07 crore for recovery of arrears was not/short demanded from defaulters in 21 offices.

(Paragraph 4.2.)

Luxury tax of Rs 12.52 lakh on residential buildings was not demanded in 12 taluk offices.

(Paragraph 4.3.)

V. Other Tax Receipts

A. Stamps and Registration fees

A review on “Disposal of undervaluation cases in Registration Department” revealed the following.

- *Though 5,80,080 cases with anticipated additional revenue of Rs 94.39 crore were brought under the compounding scheme 2002, revenue realised was only Rs 13.70 crore in 94,991 cases*

(Paragraph 5.2.10.)

- *4,85,089 cases involving Rs 268.96 crore were pending settlement on expiry of compounding scheme 2002 in March 2004*

(Paragraph 5.2.11.)

- *Stamp duty and registration fee amounting to Rs 9.03 crore was not demanded in 18,403 cases*

(Paragraph 5.2.12.)

B. State Excise

Failure to achieve the norms fixed by the Central Board of Molasses resulted in non levy of excise duty of Rs 1.20 crore.

(Paragraph 5.3.)

Interest of Rs 11.31 lakh was short levied while settling the abkari arrears in four cases.

(Paragraph 5.4.)

VI. Non Tax Receipts

Forest Receipts

A review on “Receipts of Forest and Wild Life Department” revealed the following.

- *Revenue of Rs 75.27 crore was blocked due to non extraction of timber on account of delay in preparation of working plan/omission to include necessary prescription in working plan/non execution of work as per working plan*

(Paragraph 6.2.6.)

- *Timber worth Rs 61.65 crore in the lands assignable to pre 1977 encroachers remains unextracted in five divisions*

(Paragraph 6.2.7.)

- *Non/short demand of lease rent of Rs 1.22 crore from two lessees*

(Paragraph 6.2.8.)

Licence fee of Rs 15.14 lakh was short demanded for lands made available for the Parambikulam-Aliyar Project.

(Paragraph 6.3.)

Value of trees in plantations transferred to HNL amounting to Rs 14.91 lakh was short realised.

(Paragraph 6.4.)

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 2004-05, the State's share of net proceeds of 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.

(In crore of rupees)

		2000-01	2001-02	2002-03	2003-04	2004-05
1	Revenue raised by the State Government					
	a) Tax revenue	5,870.26	5,923.42	7,302.54	8,088.77	8,963.65
	b) Non tax revenue*	659.08 (610.12)	543.38 (477.73)	677.76 (618.05)	806.98 (752.02)	819.09 (760.43)
	Total *	6,529.34 (6,480.38)	6,466.80 (6,401.15)	7,980.30 (7,920.59)	8,895.75 (8,840.79)	9,782.74 (9,724.08)
2	Receipts from Government of India					
	a) Share of net proceeds of divisible Union taxes and duties	1,585.61	1,614.26	1,715.22	2,012.01	2,404.95
	b) Grants in aid	615.90	975.33	938.37	907.61	1,312.80
	Total	2,201.51	2,589.59	2,653.59	2,919.62	3,717.75
3	Total revenue receipts of the State Government (1 and 2) *	8,730.85* (8,681.89)	9,056.39* (8,990.74)	10,633.89* (10,574.18)	11,815.37* (11,760.41)	13,500.49* (13,441.83)
4	Percentage of 1 to 3	75	71	75	75	72

* The figures shown in brackets are the figures net of expenditure on prize winning tickets of lotteries conducted by 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' have been excluded from the revenue raised by the State and included in the State's share of divisible Union taxes in this statement.

1.1.2. Details of tax revenue raised during the year 2004-05, along with the figures for the preceding four years are given below.

(In crore of rupees)							
Sl. No.	Revenue Head	2000-01	2001-02	2002-03	2003-04	2004-05	Percentage of increase (+)/ decrease (-) in 2004-05 over 2003-04
1	Sales Tax	4,344.33	4,440.85	5,343.15	5,991.43	6,701.05	(+) 11.84
2	State Excise	688.94	541.46	663.07	655.91	746.45	(+) 13.80
3	Stamps and Registration Fees						
	• Stamps- Judicial	26.65	24.04	39.84	43.32	47.37	(+) 9.35
	• Stamps – Non Judicial	210.89	262.87	314.14	334.02	489.99	(+) 46.69
	• Registration Fees	103.56	107.37	132.55	172.47	237.99	(+) 37.99
4	Taxes and Duties on Electricity	14.92	5.18	192.63	189.97	9.62	(-) 94.94
5	Taxes on Vehicles	394.85	452.18	513.20	585.78	610.48	(+) 4.22
6	Taxes on Agricultural Income	3.83	1.87	6.40	8.74	4.93	(-) 43.59
7	Land Revenue	39.35	34.93	38.40	40.59	43.85	(+) 8.03
8	Others	42.94	52.67	59.16	66.54	71.92	(+) 8.09
	Total	5,870.26	5,923.42	7,302.54	8,088.77	8,963.65	(+) 10.82

The departments attributed the variation in receipts during 2004-05 as compared to 2003-04 to the following.

Stamps and Registration Fees: The increase was due to increase in the number of documents registered during 2004-05.

Taxes and Duties on Electricity: The decrease was due to non remittance of electricity duty and surcharge by the Kerala State Electricity Board.

The reasons for variation though called for in May 2005 from heads of other departments have not been received till December 2005.

1.1.3. Details of non tax revenue realised during the year 2004-05 along with the figures for the preceding four years are given below.

(In crore of rupees)							
Sl. No.	Revenue Head	2000-01	2001-02	2002-03	2003-04	2004-05	Percentage of Increase(+) / decrease (-) in 2004-05 over 2003-04
1	State Lotteries	85.21	55.94	68.38	78.72	92.72 [▲]	(+) 17.78
2	Forestry and Wild Life	141.24	113.70	149.58	187.18	199.69	(+) 6.68
3	Interest Receipts	36.81	31.08	35.86	32.40	40.51	(+) 25.03

[▲] From gross receipts of Rs 151.38 crore expenditure of Rs 58.66 crore on prize winning tickets has been deducted, but expenditure of Rs 59.37 crore on commission to agents and establishment expenses of Rs 2.80 crore have not been deducted.

(In crore of rupees)

Sl. No.	Revenue Head	2000-01	2001-02	2002-03	2003-04	2004-05	Percentage of Increase(+) / decrease (-) in 2004-05 over 2003-04
4	Education, Sports, Art and Culture	44.98	53.56	63.41	81.86	85.76	(+) 4.76
5	Medical and Public Health	20.66	19.85	28.16	27.61	27.52	(-) 0.33
6	Crop Husbandry	40.53	7.58	12.76	22.71	11.51	(-) 49.32
7	Animal Husbandry	5.28	5.03	6.94	6.31	5.68	(-) 9.98
8	Public Works	2.17	1.56	2.15	2.90	2.70	(-) 6.90
9	Others	233.24	189.43	250.81	312.33	294.34	(-) 5.76
	Total	610.12	477.73	618.05	752.02	760.43	(+) 1.12

The departments attributed the increase in receipts during 2004-05 as compared to 2003-04 to the following.

State Lotteries: The increase was due to increase in the sale of State lottery tickets on account of ban on illegal paper lotteries and on-line lotteries.

The reasons for variation though called for in May 2005 from heads of other departments have not been received till December 2005.

1.2. Initiatives for mobilisation of additional resources

During the year 2004-05, Government of Kerala raised a total revenue of Rs 9,782.74 crore comprising tax revenue of Rs 8,963.65 crore and non tax revenue of Rs 819.09 crore. The XI Finance Commission's projection of revenue of the State, budget estimates and actual receipts were as under.

(In crore of rupees)

Nature of revenue	XI Finance Commission's Projection	Budget estimates	Actual receipts	Percentage of variation between	
				Finance Commission's projection and actual receipts	budget estimates and actual receipts
Own tax revenue	11,836.61	9,732.71	8,963.65	(-) 24.27	(-) 7.90
Own non tax revenue	1,441.08	977.93	819.09	(-) 43.16	(-) 16.24
Total	13,277.69	10,710.64	9,782.74	(-) 26.32	(-) 8.66

Against the Finance Commission's projection of Rs 13,277.69 crore, budget estimates aggregated only Rs 10,710.64 crore and the actual receipt of Rs 9,782.74 crore was 26 *per cent* short of the Commission's projection and nine *per cent* short of the budget estimates.

In the Budget speech for 2004-05, the Minister for Finance had proposed mobilisation of additional resources to the tune of Rs 297.10 crore by levying entry tax on 15 additional items, one time settlement of arrear cases, revision of licence fee in lieu of tax on lotteries, specific duties for different segments of

Indian made foreign liquor, etc. Government was requested in August 2005 to furnish the actual revenue realised on account of above proposals. Government has not furnished the details till December 2005.

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 Government, which in turn shall forward the same to the Finance Department with their remarks and the Finance Department shall thereafter finalise the budget estimates. The budget estimates of revenue shall be based on existing rates and no increase or decrease in the rates shall be proposed unless approved by Government.

The budget estimates of revenue under principal heads for the year 2004-05 and the actual receipts were as under.

Revenue head	Budget estimates made by Government		Actual receipts	Variation between Government estimates and actual receipts
	Original	Revised		
Sales Tax	7,123.00	7,001.30	6,701.05	(-) 421.95
State Excise	750.00	737.55	746.45	(-) 3.55
Taxes and Duties on Electricity	241.62	165.02	9.62	(-) 232.00
Stamps and Registration Fees				
• Stamps – Non judicial	615.00	464.00	489.99	(-) 125.01
• Registration Fees	161.38	174.39	237.99	(+) 76.61

The above table indicates that though estimates under ‘Sales Tax’ and ‘Taxes and Duties on Electricity’ were scaled down, the actual receipts were less than the revised estimates. Under ‘Stamps-Non judicial’, though the original estimate of Rs 615 crore was scaled down to Rs 464 crore, the actual receipts were more by Rs 26 crore. Similarly, though the original estimate of Rs 161.38 crore under ‘Registration fees’ was enhanced to Rs 174.39 crore, the actual receipts were Rs 237.99 crore.

The above suggests that the original and revised budget estimates were not prepared in a realistic manner.

1.4. Variation between budget estimates and actuals

The variation between budget estimates of revenue for the year 2004-05 and the actual receipts under principal heads of revenue are given below.

(In crore of rupees)

Revenue Head	2004-05			Percentage of variation
	Budget estimates	Actual receipts	Variation Increase (+)/ Shortfall (-)	
Sales Tax	7,123.00	6,701.05	(-) 421.95	(-) 5.92
State Excise	750.00	746.45	(-) 3.55	(-) 0.47
Stamps and Registration Fees				
• Stamps- Non-Judicial	615.00	489.99	(-) 125.01	(-) 20.33
• Registration Fees	161.38	237.99	(+) 76.61	(+) 47.47
Taxes on Vehicles	620.00	610.48	(-) 9.52	(-) 1.54
Forestry and Wild Life	250.00	199.69	(-) 50.31	(-) 20.12
Taxes and Duties on Electricity	241.62	9.62	(-) 232.00	(-) 96.02
Taxes on Agricultural Income	4.43	4.93	(+) 0.50	(+) 11.29
Land Revenue	43.29	43.85	(+) 0.56	(+) 1.29

The reasons given by the departments for variation between budget estimates and actuals for 2004-05 were as follows.

Stamps and Registration Fees: The decrease was due to undervaluation of documents in the absence of fair value of land.

Taxes and Duties on Electricity: The decrease was due to non remittance of electricity duty and surcharge by Kerala State Electricity Board during 2004-05.

The reasons for variation though called for in May 2005 from heads of other departments have not been received till December 2005.

1.5. Cost of collection

The gross collection under major revenue heads, expenditure incurred on collection and the percentage of expenditure to gross collection during the years 2002-03, 2003-04 and 2004-05 along with the relevant all India average percentage of expenditure on collection to gross collection for 2003-04 are given below.

(In crore of rupees)

Sl. No.	Revenue Head	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage
1.	Sales Tax	2002-03	5,343.15	44.55	0.83	
		2003-04	5,991.43	56.73	0.95	1.15
		2004-05	6,701.05	52.10	0.78	

(In crore of rupees)

Sl. No.	Revenue Head	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage
2.	Stamps (Non Judicial) and Registration Fees	2002-03	446.69	38.13	8.54	
		2003-04	506.49	40.00	7.90	3.66
		2004-05	727.98	42.35	5.82	
3.	State Excise	2002-03	663.07	35.29	5.32	
		2003-04	655.91	41.69	6.36	3.81
		2004-05	746.45	43.72	5.86	
4.	Taxes on Vehicles	2002-03	513.20	14.08	2.74	
		2003-04	585.78	15.47	2.64	2.57
		2004-05	610.48	16.52	2.71	

It can be seen from the above table that percentage of cost of collection during 2003-04 in respect of 'Stamps and Registration Fees' and 'State Excise' was much higher than all India average. However, there was a marginal reduction in the percentage of expenditure compared to the previous year. The Excise Department attributed the reason for the high cost of collection to priority given for enforcement of Abkari laws/rules consequent to ban on sale of arrack. The Registration Department attributed the increase in expenditure to computerisation.

1.6. Collection of sales tax per assessee

As per the data furnished by the Commissioner of Commercial Taxes, the sales tax revenue realised per assessee was Rs 0.03 crore during 2000-01 and 2001-02 and Rs 0.04 crore in 2002-03 and 2003-04. The information regarding the number of assesseees who were assessed under 'Sales Tax' during 2004-05 was called for from the Commissioner of Commercial Taxes in June 2005. The Department has not furnished the details till December 2005. The year wise particulars of the number of assesseees and sales tax revenue realised are given below.

(In crore of rupees)

Year	No. of assesseees	Sales tax revenue	Revenue per assessee
2000-01	1,34,944	4,344.33	0.03
2001-02	1,38,100	4,440.85	0.03
2002-03	1,41,290	5,343.15	0.04
2003-04	1,43,669	5,991.43	0.04
2004-05	♦	6,701.05	

♦ The information called for in June 2005 has not been received till December 2005.

1.7. Analysis of arrears of revenue

As on 31 March 2005, arrears of revenue under principal heads of revenue, as reported by the departments were as under.

(In crore of rupees)

Sl. No.	Department	Arrears	Arrears outstanding for more than 5 years	Remarks
1.	Power	1,691.89	848.87	Due to non remittance of electricity duty and surcharge by the Kerala State Electricity Board.
2.	Local Fund Audit	54.15	7.97	Non remittance of fees by auditee institutions.
3.	Factories and Boilers	1.44	-	Dues from factories which had stopped functioning.
4.	Mining and Geology	0.47	0.12	The arrears were due to dispute regarding claims, court stays, etc.

The details of arrears of revenue in respect of other departments though called for in June 2005 have not been received till December 2005.

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 2003-04 and 2004-05 as furnished by the Department are given below.

Year	Opening balance	Cases due for assessment	Total	Cases finalised	Balance at the close of the year	Percentage of column 5 to 4
1	2	3	4	5	6	7
Sales Tax						
2003-04	1,21,321	1,73,035	2,94,356	1,65,035	1,29,321	56
2004-05	♣	♣	♣	♣	♣	♣
Agricultural Income Tax						
2003-04	6,115	7,156	13,271	7,380	5,891	56
2004-05	♣	♣	♣	♣	♣	♣

1.9. Write off of revenue

In the Excise Department, arrears of revenue of Rs 15.08 lakh due in five different cases were written off as they were irrecoverable.

♣ The information called for in June 2005 has not been received till December 2005.

1.10. Refund

The number of refund cases pending at the beginning of the year 2004-05, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2004-05 have not been made available by the Commercial Taxes Department as of December 2005.

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 2004-05 revealed underassessments/short levy/loss of revenue aggregating Rs 106.77 crore in 1,684 cases. During the course of the year, the departments concerned accepted underassessments, etc., of Rs 7.82 crore involved in 475 cases, of which 170 cases involving Rs 2.35 crore were pointed out in audit during 2004-05 and the rest in earlier years. At the instance of audit, the departments collected Rs 1.72 crore in 319 cases during 2004-05.

This report contains 23 paragraphs including four reviews relating to short/non levy of tax, duty and interest, penalty, etc., involving financial effect of Rs 55.49 crore. The departments/Government have so far accepted audit observations involving Rs 4.89 crore out of which Rs 12.10 lakh was recovered. Final reply had not been received in the remaining cases till December 2005.

1.12. Control environment for accountability

1.12.1. Responsiveness to audit inspection reports

According to the instructions issued by Government in November 1965, first reply to inspection reports are required to be sent within four weeks from the date of their receipt. In order to apprise 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 Government for taking prompt corrective measures.

As at the end of June 2005 there were 1,638 outstanding inspection reports containing 9,659 audit observations involving Rs 382.14 crore issued up to December 2004. The details of reports outstanding as at the end of June for the years 2003 to 2005 are given below.

(In crore of rupees)

Period	Number of inspection reports	Number of audit observations	Amount involved
As at the end of June 2003	3,614	15,584	586.99
As at the end of June 2004	3,095	13,812	447.71
As at the end of June 2005	1,638	9,659	382.14

Revenue head wise details of the outstanding inspection reports as at the end of June 2005 are given below.

(In crore of rupees)

Sl. No.	Revenue Head	Number of inspection reports	Number of audit observations	Amount
1	Sales Tax	615	5,980	138.04
2	Taxes on Agricultural Income	143	1,120	47.94
3	State Excise	37	55	7.40
4	Taxes on Vehicles	238	1,248	8.85
5	Land Revenue	64	155	2.22
6	State Lotteries	3	9	30.85
7	Forestry and Wild Life	74	147	28.37
8	Stamps and Registration Fees	450	898	1.30
9	Taxes and Duties on Electricity	14	47	117.17
	Total	1,638	9,659	382.14

First reply to 249 inspection reports issued up to December 2004 were not furnished by the departments till the end of June 2005. This was brought to the notice of the Chief Secretary to Government in July 2005.

1.12.2. Departmental audit committee meetings

Government set up audit committees (during various periods) to monitor and expedite the progress of settlement of inspection reports and paragraphs in the inspection reports relating to departments of Commercial Taxes, Motor Vehicles, Registration, etc. Details of audit committee meetings held during the year 2004-05 and the paragraphs settled are given below.

(In crore of rupees)

Revenue Head	No. of meetings held during 2004-05	No. of paragraphs outstanding as on 31 March 2004	Amount	Year-wise details of paragraphs settled		Amount
Sales Tax	2	8,493	589.84	Up to 2000-01	404	16.42
				2001-02	2	
				2002-03	1	
				2003-04	2	
				Total	409	
Taxes on Vehicles	3	2,164	12.74	Up to 2000-01	543	1.64
				2001-02	146	
				2002-03	87	
				2003-04	15	
				Total	791	

Revenue Head	No. of meetings held during 2004-05	No. of paragraphs outstanding as on 31 March 2004	Amount	Year-wise details of paragraphs settled		Amount
Stamps and Registration Fees	2	1,112	3.30	Up to 2000-01	64	0.46
				2001-02	18	
				2002-03	10	
				Total	92	
State Excise	5	1,057	7.50	Up to 2000-01	49	0.35
				2001-02	15	
				2002-03	22	
				2003-04	14	
				Total	100	
Land Revenue	2	913	3.53	2000-01	3	0.08
				2001-02	8	
				2002-03	27	
				2003-04	7	
				Total	45	
Grand total	14	13,739	616.91		1,437	18.95

1,437 paragraphs involving Rs 18.95 crore were settled in 14 meetings of the audit committees under various revenue heads during 2004-05. Though 10.46 *per cent* of the number of paragraphs outstanding at the beginning of the year was settled, the monetary value of clearance was only 3.07 *per cent*.

No audit committee has been constituted for the revenue heads 'Taxes and Duties on Electricity' and 'Taxes on Agricultural Income' and no meeting was held during 2004-05 in respect of revenue head 'Forestry and Wild Life'.

1.12.3. Response of the departments to draft audit paragraphs

According to the instructions issued in 1965 by Government of Kerala, result of verification of facts on the draft audit paragraphs are required to be communicated to the Accountant General within six weeks from the date of receipt of the same. Draft paragraphs are always forwarded to the Secretaries by name drawing their attention to the audit findings and requesting them to send their response within six weeks. In case the final reply cannot be given within six weeks, an interim reply is to be given to the Accountant General and in any case, final reply should be sent within three months from the date of receipt of the draft paragraph. The fact of non receipt of replies from Government is 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 2005 (Revenue Receipts), Government of Kerala, includes 64 draft paragraphs which were forwarded to the Secretaries to Government. However, replies/response to 12 draft paragraphs have not been received till December 2005. The draft paragraphs have been suitably clubbed into 23 paragraphs in this Report. Two cases where recoveries of Rs 4.86 lakh have been effected in full are mentioned in the results of audit under the relevant chapters.

1.12.4. Follow up action on Audit Reports - Summarised position

The instructions issued by Government from time to time for timely follow up action on the Audit Reports and matters pertaining to the Committee on Public Accounts stipulate that it is imperative to submit action taken notes (ATNs) on paragraphs and reviews included in the Audit Report indicating the remedial action taken or proposed to be taken, within three months from the date of presentation of Audit Report to the legislature without waiting for any notice or call from the Committee on Public Accounts.

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

Review of outstanding ATNs on paragraphs included in nine Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1995 to 31 March 2003 disclosed that the departments had not submitted remedial ATNs on 70 paragraphs on which ATNs were due as on 31 December 2005. The year wise, revenue head wise statement is furnished in Annexure I.

Out of the total 414 audit paragraphs included in the above nine Audit Reports, the departments submitted remedial ATNs on 344 paragraphs only and none of these ATNs was furnished within the prescribed period of three months.

Though the Audit Report for the year ended 31 March 2004 was laid on the table of the legislature in July 2005 and the time limit of three months for furnishing remedial ATNs had elapsed in October 2005, the departments had submitted ATN only on one of the 28 paragraphs included in the above Audit Report till December 2005.

Chapter II

Sales Tax

CHAPTER II

SALES TAX

2.1. Results of Audit

Test check of sales tax assessments and refund cases and connected documents of sales tax offices conducted in audit during the year 2004-05 revealed non levy of interest, grant of irregular exemption, application of incorrect rate of tax, turnover escaping assessment etc., amounting to Rs 69.59 crore in 1,177 cases which may broadly be categorised as under:

(In crore of rupees)			
Sl. No.	Category	Number of cases	Amount
1.	Turnover escaping assessment	125	4.51
2.	Grant of irregular exemption	116	10.05
3.	Application of incorrect rate of tax	207	8.62
4.	Interest	368	25.81
5.	Other lapses	360	18.76
6.	Review on "Working of sales tax check posts in Kerala"	1	1.84
	Total	1,177	69.59

During 2004-05, the Department accepted underassessments, etc., of Rs 3.81 crore involved in 269 cases of which 144 cases involving Rs 1.85 crore were pointed out during 2004-05 and the rest in earlier years. At the instance of audit, the Department recovered an amount of Rs 0.71 crore involved in 154 cases during the year.

A few illustrative cases, including a review on 'Working of sales tax check posts in Kerala', involving Rs 40.69 crore are given in the following paragraphs:

2.2. Review on “Working of sales tax check posts in Kerala”

HIGHLIGHTS

- **Bank guarantees of Rs 42.60 lakh were not renewed.**
(Paragraph 2.2.6)
- **Misclassification of entry tax of Rs 2.35 crore paid by Kerala Police Department.**
(Paragraph 2.2.6)
- **Non levy of tax and penalty of Rs 4.33 crore in cases where transit passes were not surrendered.**
(Paragraph 2.2.7)
- **Entry tax of Rs 1.02 crore from importers of goods was not levied.**
(Paragraph 2.2.9)
- **Entry tax of Rs 12.45 lakh on goods used as component parts was not levied.**
(Paragraph 2.2.9)

2.2.1. Introduction

The Kerala General Sales Tax Act, 1963 (KGST Act) empowers Government to establish check posts at places considered necessary to prevent and check evasion of tax. The driver or any other person incharge of the vehicle entering/leaving the State shall stop the vehicle at the check post, to enable the officer incharge to inspect the goods under transport and examine the documents relating to the goods carried. Where the goods transported exceed the quantity or value shown in documents and are not supported by proper documents, the incharge of check post shall detain such vehicle or seize and confiscate the goods. The owner of the goods or any other person incharge of the vehicle, shall be given the option to pay, in lieu of confiscation, penalty equal to double the amount of tax due on the value of goods or security deposit to the extent of penalty leviable and shall be allowed to transport the goods. Under the Kerala Tax on Entry of Goods into Local Area Act, 1994 (KTEGLA Act), the check post authority is to levy and collect entry tax on notified goods imported in the State. The incharge of check post is to send the information or document to the concerned circle offices to utilise the information at the time of assessment.

2.2.2. Organisational set up

The Department of Commercial Taxes which administers the sales tax and entry tax law of the State is under the control of the Commissioner of Commercial Taxes (CCT). The Commissioner is assisted by the Joint Commissioner (Enforcement) in the functioning of check posts with the assistance of Deputy Commissioners (DCs),

Inspecting Assistant Commissioners (IACs) and sales tax officers (STOs). There are 44 check posts in the State. The check posts at Amaravila, Bengara Manjeswar and Walayar are managed by IACs and remaining by the STOs/inspectors under the control of DCs.

2.2.3. Scope of Audit

A review on the working of sales tax check posts on collection of tax and penalty etc., under the KGST Act and entry tax under the KTEGLA Act during the period from 1999-2000 to 2003-04 was conducted between October 2004 and January 2005. Out of the 44 check posts all the 11* major check posts (A class and B class) and seven* out of the remaining 33 check posts were selected for review. The data collected from these check posts was verified with the records of concerned 10* sales tax offices, three DCs (Palakkad, Thiruvananthapuram and Kasargod) as well as that maintained in CCT office.

2.2.4. Audit objectives

Audit conducted the review of the working of check posts to ascertain whether:

- adequate and effective internal control system existed to ensure compliance of provisions in the Act, Rules and notifications,
- infrastructure facilities in the check posts were adequate to check evasion of tax.

2.2.5. Trend of revenue

The revenue collected by the sales tax check posts in the State during the year 1999-2000 to 2003-04 is shown as under:

(in crore of rupees)

Year	Security deposit/ bank guarantee	Sales tax	Entry tax	Total
1999-2000	6.04	3.83	3.47	13.34
2000-2001	7.08	5.04	5.24	17.36
2001-2002	6.64	8.71	5.88	21.23
2002-2003	8.93	7.81	53.01	69.75
2003-2004	8.72	5.63	75.59	89.94
Total	37.41	31.02	143.19	211.62

The increase in revenue in entry tax during the years 2002-03 and 2003-04 was due to inclusion of more goods under the purview of KTEGLA Act.

* Sales tax check posts at Amaravila, Aryankavu, Bengara Manjeswar, Feroke, Govindapuram, Gopalapuram, Karukutty, Kumily, Meenakshipuram, Velanthavalam and Walayar

* Sales tax check posts at Amaravila Tile factory, Cumbummettu, Mandapathinkadavu, Muthanga, Naduppuni, Noolpuzha and Thaloor

* Sales Tax Special Circles Ernakulam I, II, III, Palakkad, Kollam and Sales Tax Offices Kasargod, Palakkad I, II, III and First Circle, Thiruvananthapuram

2.2.6. Internal Control

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. Internal audit is expected to bring the financial and procedural irregularities to the notice of the offices audited and the Department to ensure that the same are not repeated. The internal control is effected through internal audit, inspection, periodical returns and maintenance of registers. The deficiencies noticed are enumerated below.

- **Internal audit**

Though there is an internal audit wing functioning under the control of DC (Audit and Inspection) in CCT office and the audit of check posts is conducted by the Department, there is no provision in the manual for the audit of check posts. Government directed all heads of departments in December 2003 to ensure that internal audit wing under their control works efficiently and that financial/procedural irregularities are not repeated.

It was noticed that in 12 check posts where internal audit was conducted, the inspection reports were not made available for review and in two check posts a review of inspection reports revealed that there was no comment on any financial irregularity. However, during review audit pointed out certain financial irregularities as mentioned in succeeding paragraphs.

Though the Department assured in July 2005 to make available the remaining inspection reports for scrutiny, the same were not produced (December 2005).

- **Cash management**

According to the Kerala Treasury Code, Volume I, every officer authorised to receive cash on behalf of Government should issue receipts in the form prescribed and account for the cash received in the cash book immediately.

Audit noticed that in the case of check post at Karukutty, one used receipt book was not made available. Though there were entries in the cash book of that receipt book but in case of three numbers, entries of receipts were not shown in the cash book. In the absence of receipt book, it could not be ensured whether the money received had been correctly accounted for and remitted to Government account or not.

The Department admitted (May 2005) that the counterfoils could not be traced out.

- **Non renewal of bank guarantee**

As per KGST Act, if the officer incharge of the check post has reason to suspect that the goods transported are without proper and genuine documents, he shall detain the goods and shall allow the same to be transported only after furnishing cash security for double the amount of tax likely to be evaded. He may also release the goods on

executing bond with or without sureties or bank guarantee for securing the amount due as security deposit. In case of bank guarantee, the same has to be renewed before its expiry till the offence is settled finally.

It was noticed that in 33 unsettled cases, bank guarantees of Rs 42.60 lakh which were due for renewal during the months between March 1996 and November 2004 were neither renewed nor any efforts were made to obtain security deposit in these cases.

The Department stated that action to review the cases was in progress.

- ***Non reporting of robbery to the Accountant General***

As per Kerala Financial Code Vol. I, when any loss has occurred, the head of office is required to send a preliminary report immediately to the Accountant General.

It was noticed that at Naduppuni check post, a robbery of cash of Rs 3.58 lakh took place on 17 May 2002. The FIR lodged with police authority in May 2002 was reported as undetectable in October 2003. The case was not reported to the Accountant General. No action was also taken to write off the case as required under the Code.

- ***Reconciliation of remittances***

The Kerala Financial Code, Vol. I, requires every head of office to consolidate revenue collection and remittances in a register and arrange to reconcile the same with treasury figures. The CCT in circular dated 27 July 2000 instructed that the reconciliation of receipts for the previous month should be done in the succeeding month.

It was noticed in audit that no reconciliation was conducted by the incharges of check posts during the period from 1999-2000 to 2003-04. Test check of records of Amaravila check post and Sales Tax Office, First Circle, Thiruvananthapuram revealed that the Police Department remitted Rs 2.35 crore towards entry tax in March 2004. The verification of the remittance by audit with the records of Sub Treasury, Vellayambalam, Thiruvananthapuram revealed that the amount was credited under head of account '0021' relating to Income Tax Department instead of head of account '0040' Entry Tax. Had the Department conducted reconciliation, the misclassification could have been set right.

The amount has not been credited to the accounts of the Department so far. The Department stated that the matter was pending with the treasury and Police Department (December 2005).

• ***Maintenance of registers***

As per Agricultural Income Tax and Sales Tax Manual Volume III (Manual), the following registers shall be maintained by the incharge of the check post.

1. Register No. I – Register of vehicles checked
2. Register No.II - Register of particulars of cases detected (offence register)
3. Register No.III- Register of goods seized and confiscated
4. Register No.IV – General Diary
5. Register of despatch of declaration in form 27B.
6. Register of commodities sent out of state
7. Register of commodities brought into the state
8. Bank guarantee register

• ***Offence register – Register No. II***

The incharge of the check post is required to maintain an offence register containing the number of goods vehicle, name and address of owner of goods, nature of irregularity, quantity/value of goods, sales tax due, number and date of challan and amount/security/bank guarantee etc. The incharge is empowered to release goods on receipt of penalty/security deposit or bank guarantee and enter the same in the register.

Test check of seven* check posts revealed that in 39 cases the goods were released during the period from 1999-2000 to 2003-04 without recording the details of security deposit or advance tax collected, if any, or reasons for release. The security deposit due in these cases amounted to Rs 55.81 lakh as shown in Annexure II.

The Department stated in May 2005 that instructions were issued for proper maintenance of registers.

• ***Entry tax register***

The KTEGLA Act and rules made thereunder states that the entry tax other than from registered dealers, is to be collected at check posts. But the Act and rules do not contemplate maintenance of registers of entry tax at check posts.

Test check of records of check posts at Walayar and Amaravila revealed that though entry tax registers were maintained but entries therein were incomplete. In 49 cases having tax effect of Rs 97.71 lakh as shown in Annexure III it was noticed that the name of importers and nature of goods were not noted therein. In a number of cases though the entry tax due was recorded, the fact whether tax had been collected or not,

* Amaravila, Cumbammattu, Karukutty, Meenakshipuram, Naduppunni, Velanthavalam and Walayar

was not recorded. In the absence of such entries, it was not possible to verify whether goods liable to tax had paid tax or not.

The Department stated in May 2005 that instructions have been issued for proper maintenance of registers.

- ***Non utilisation of check post declaration***

As per the KGST Rules, no person shall transport within the state any consignment of goods, if the value is Rs 25 and above, by any vehicle without a bill or a certificate of ownership. According to instructions in the department manual, officers incharge of the check posts should collect the declarations and send them to the assessing officers concerned to make use at the time of assessment.

Cross check of details from five* check posts with assessment records of seven circle offices® revealed that out of 506 declarations relating to 2000-01 to 2003-04, only 16 declarations were made use of for assessment. 347 declarations, were not seen filed in the concerned assessment files.

The Department stated that check posts will be linked with circle offices on computerisation.

2.2.7. Absence of control over transit of goods

The KGST Act stipulates that in case where any vehicle carrying goods from outside the state and bound for outside the State enters the State, the owner or driver or any other person incharge of the vehicle shall obtain three copies of transit pass (TP) (Form 27C) from the officer incharge of the check post at the entry point and deliver it to the officer incharge of the exit check post before leaving the State. No time limit has been prescribed by the Department for surrendering of TPs at the exit check posts.

The incharge of the entry check post who issues TP shall forward one copy of the TP to the concerned STO within a month, who is required to enter the details in a register. Incharge of the exit check post of the State is also required to send the copy of TP to the same officer who shall enter the details in that register to ensure that the goods have actually crossed the State. If the owner or driver or person incharge of the vehicle fails to deliver TP to the designated exit check post, it shall be presumed that the goods were sold within the State. In such cases the driver, owner, or any other person incharge of the goods shall be assessed to tax and penalty equal to twice the amount of tax shall be levied on him.

* STCP Amaravila, Walayar, Gopalapuram, Naduppuni and Velanthavalam

® Sales Tax Offices: Special Circles Kollam, Ernakulam I, II, III, Palakkad and ordinary Circles Palakkad I and II

Test check of records of check posts Amaravila, Bengara Manjeswar, Velanthavalam, Gopalapuram and Walayar revealed that 29 TPs having tax effect of Rs 13.37 lakh sent by the check posts during 2001-02 and 2002-03 were not entered in the register by the circle offices, Chittur and Thiruvananthapuram. In the absence of these entries, the receipt of TPs from exit check posts and tax leviable, if any, could not be watched as shown in Annexure IV.

In sales tax offices at Kasaragod and Chittur, it was noticed that in 170 cases goods valued at Rs 10.35 crore having tax effect of Rs 4.33 crore were entered in the register on the basis of TPs sent by entry check posts, but no TPs were received from the exit check post. In absence of this, it is presumed that goods have been sold in the State. As such tax of Rs 4.33 crore including penalty was leviable.

Follow up action on TPs sent to circle offices from check posts was not monitored by the Department.

2.2.8. Infrastructure facilities in check posts

As per the instructions in the Manual, the officer incharge of check post has to examine the documents relating to the goods transported and to physically inspect the goods to ensure that the nature, description, quantity and weight of the goods shown in the document agrees with those transported.

It was noticed that no weighing machine has been provided in 16 out of 18 check posts test checked. In case of other two check posts, though weighing machines were provided, these were not functioning at check post Feroke for the last 20 years and at Walayar for the last two years.

The remarks were accepted by Government. It was further stated in July 2005 that weighing machine at Walayar has since been repaired.

2.2.9. Non/ short levy of entry tax

As per KTEGLA Act, entry tax shall be levied and collected on the entry of any goods into local areas for consumption, use or sale therein at such rate as may be fixed by the Government on the purchase value of goods but not exceeding the rates specified for the goods in the KGST Act. The KTEGLA Rules prescribe the procedure for levy and collection of entry tax. A few illustrative cases where short levy of entry tax was detected by audit are detailed below.

- ***Other than registered dealers in the goods***

Under KTEGLA Rules, every importer other than registered dealer in the goods shall file a return in duplicate before the officer incharge of the check post along with proof of payment of tax on the purchase turnover of the goods. Government exempted iron

and steel, timber and petroleum products from levy of entry tax provided these are used as raw material in the manufacture of other goods in the State for sale, and products are liable for sales tax.

Test check of records of nine[♦] check posts revealed that in 50 cases entry tax of Rs 96.49 lakh on the import of generators, air conditioners, furniture, computers, trucks, paints, electrical goods, hospital equipments and tiles was not collected during the period from 2000-01 to 2003-04 as shown in Annexure V, even though importers were not registered dealers in these goods. These goods were imported by them for their own use. It was also noticed that in 16 cases iron and steel, timber and petroleum products imported for use in manufacture of other goods were actually not used for the purpose. Entry tax of Rs 5.98 lakh was exempted in these cases as shown in Annexure VI. This resulted in a loss of revenue of Rs 1.02 crore.

After this being pointed out, the Department replied in 32 cases that most of the importers were public sector undertakings which were having registration certificates. In such cases, there would be directions from the higher authorities to release goods without payment of entry tax. It was also stated that entry tax was recoverable at the time of assessment, importers being registered dealers.

The reply is not tenable, since these importers were not registered dealers in the goods which were imported. The goods were intended for their own use and not for sale. Further reply was awaited (December 2005).

• ***Goods used as component parts***

Test check of records of check posts Gopalapuram and Walayar revealed that Indian Telephone Industries, Kanjikkode which imported computers and UPS[^] valued at Rs 3.10 crore during the period during 2000-01 to 2003-04 through these check posts without payment of entry tax on the ground that the goods were for sale. On verification of assessment records of AC (Assessment) Special Circle, Palakkad, it was noticed that the dealer sold electronic exchanges and batteries and not computers or UPS. Non levy of entry tax worked out to Rs 12.45 lakh.

After this was pointed out in November 2004, the Department stated that the imported goods were used to manufacture telephone exchanges which suffered sales tax. The reply is not tenable as Government has specifically exempted certain goods from entry tax which were used in the manufacture of other goods by the registered dealer, but computers and UPS were not included in that list. Further reply was awaited (December 2005).

[♦] Amaravila, Bengara Manjeswar, Feroke, Gopalapuram, Meenakshipuram, Aryankavu, Walayar, Velanthavalam and Muthanga

[^] Uninterrupted power supply

- ***Entry tax on Petroleum products***

Government vide notification dated 30 March 2002 levied entry tax on petroleum products with effect from 1 April 2002 and superseded this notification on 2 September 2002 exempting the same from entry tax.

Test check of records of check posts Bengara Manjeswar and Walayar revealed that seven dealers in eight cases imported petroleum products valued at Rs 22.85 lakh between the period from 1 April 2002 to 1 September 2002, but no entry tax was levied. This resulted in loss of revenue of Rs 5.11 lakh.

- ***Entry tax on import of bitumen***

Government vide notification dated 19 June 2003 exempted bitumen imported by Kerala State Public Works Department from levy of entry tax.

Test check of records of check post Bengara Manjeswar revealed that the Executive Engineer, Roads Division Kannur and Kasargod imported bitumen valued at Rs 8.93 lakh between April 2002 and April 2003, but entry tax was not levied. This resulted in loss of revenue of Rs 2.68 lakh.

- ***Entry tax on excavators***

It has been held[♥] by the Hon'ble Supreme Court of India that excavators are motor vehicles as defined in Section 2(28) of the Motor Vehicles Taxation Act, 1988. Therefore, it is liable for entry tax.

During the course of review, it was noticed that entry tax of Rs 0.55 lakh was not levied on import of two excavators valued at Rs 13.60 lakh during the period from 1999-2000 to 2002-03.

- ***Application of incorrect rate of entry tax***

Government of Kerala vide notifications issued from time to time prescribed the rate of entry tax leviable on the goods imported.

Test check of records of check posts Amaravila, Bengara Manjeswar and Walayar revealed that generators, bitumen, petroleum products, road rollers, air conditioners etc., were imported in the State during the period between January 2002 to November 2003 but entry tax was levied at incorrect rates. This resulted in short levy of entry tax of Rs 5.10 lakh.

After this was pointed out, the Department stated that the rate of entry tax of bitumen was 24 per cent. The reply is not tenable as the rate of other petroleum products

[♥] Bose Abraham Vs State of Kerala and another - 9 KTR 336 (SC)

which includes bitumen is 30 *per cent* with effect from 1 April 2002. Further progress in the case and reply in other cases was awaited (December 2005).

2.2.10. Recommendations

Government may consider that:

- the internal control mechanism may be toned up to ensure better financial management and adherence to prescribed rules and procedures,
- directions may be issued to the officers in charge of the check posts and circle offices to maintain the prescribed registers properly and completely,
- time limit may be prescribed for surrendering TPs at the exit check posts,
- weighing machines may be provided at check posts for effective functioning.

2.2.11. Acknowledgement

Audit findings as a result of review on the working of sales tax check posts (STCPs) in Kerala were reported to Government/ Department in June 2005 with a specific request to attend the meeting of Audit Review Committee for Comprehensive Appraisal of State Receipts (ARCCASR) so that the viewpoint of Government/Department was taken into account before finalising the review. The meeting of ARCCASR was held on 30 July 2005 and attended by the Secretary, Taxes Department, Government of Kerala and Commissioner of Commercial Taxes. The views expressed by the members have been taken into account during finalisation of review. All the recommendations were accepted by Government.

2.3. Non /short levy of interest

Under KGST Act read with Central Sales Tax Act, 1956 (CST Act), where any dealer has failed to include any turnover in the return filed by him or any turnover has escaped assessment or if the tax due is not paid by him within the time prescribed, the dealer shall pay interest at the rate of one *per cent* per month for first three months and at the rate of two *per cent* per month for subsequent months of delay.

During the course of audit of nine* offices it was noticed, that while finalising the assessments between November 2002 and February 2004 the assessing officers failed to levy or levied short interest of Rs 50.61 lakh in 11 cases. A few illustrative cases are given below:

(In lakh of rupees)

Sl. No.	Name of office No. of cases	Assessment year/Month and year of assessment	Nature of irregularity	Turnover tax (Non/short levy of interest)	Remarks
1.	STO, Special Circle I, Ernakulam 1	1998-99 November 2002	Turnover detected towards purchase suppression was added and subjected to levy of tax. But interest on tax due on the escaped turnover for the period from May 1999 to December 2002 was not demanded.	260.76 20.86 (17.73)	After this was pointed out in November 2003, the assessing authority stated that notice was issued in December 2003 to the assessee demanding Rs 17.73 lakh. Government informed in November 2005 that the assessment had been revised making good the loss pointed out by Audit.
2.	STO, Special Circle, Alappuzha 2	1999-2000 January 2004	Revenue recovery certificates (RRC) were issued to the revenue authority for recovery of interest of Rs 99.94 lakh on 01.06.2004 against the correct amount of Rs 1.07 crore.	-- -- (7.54)	After this was pointed out in July 2004, Government stated in July 2005 that revised RRC was issued in July 2004 demanding Rs 7.54 lakh towards interest. Further report was not received (December 2005).
3.	STO, Special Circle, Kollam 2	2001-02 January 2003	While finalising the assessment of a dealer in cashew, the turnover detected towards suppression was considered for assessment. But interest for the period from July 2001 to February 2003 on tax due on the escaped turnover was not levied.	239.30 21.68 (6.49)	After this was pointed out in July 2003, the assessing officer stated that the interest could not be levied if the assessee had not admitted the tax liability. The reply was not tenable in view of the extant provision of KGST Act. Further report has not been received (December 2005).
4.	AIT & STO, I Circle, Thodupuzha 1	1998-99 March 2003	Interest on tax due on the escaped turnover on unaccounted interstate purchase for the period from May 1999	30.70 3.84	After this was pointed out in February 2004, the assessing authority stated that demand notice for payment of interest

* Sales Tax Office Special Circles Alappuzha, Ernakulam I, Kollam, Palakkad, Sales Tax Offices Pala, Kasargod and III Circle Kollam, Agricultural Income Tax and Sales Tax Offices Thodupuzha I and Kuthiathode

(In lakh of rupees)

Sl. No.	Name of office No. of cases	Assessment year/Month and year of assessment	Nature of irregularity	Turnover tax (Non/short levy of interest)	Remarks
			to March 2003 was not levied.	(3.49)	was issued in February 2004. The collection particulars have not been received (December 2005).

The above cases were reported to Government between June 2004 and April 2005; Government informed that the assessment had been revised in eight cases.

2.4. Application of incorrect rate of tax

Under the KGST Act, rate of tax depends on the nature of sale, point of sale and also on the kind of commodity. Under the Kerala Surcharge on Taxes Act, 1957, surcharge at the rate prescribed is also leviable on sale and purchase tax.

In 11 offices, it was observed that while finalising assessment between November 2000 and March 2004 the assessing officers levied tax and surcharge of Rs 31.12 lakh short in 12 cases due to application of incorrect rate as shown in Annexure VII.

The cases were reported to Department/Government between May 2004 and April 2005. Assessments were revised in six cases raising demand of Rs 19.94 lakh and notice to revise the assessment was issued in two cases and final report and reply was awaited in other cases (December 2005).

2.5. Underassessment of turnover

2.5.1 Under the KGST Act, every dealer whose total turnover for a year exceeds Rs 2 lakh shall pay tax at the rate of six *per cent* in the case of transfer of right to use any goods for any purpose. It has been judicially* held that rentals collected by Department of Telecom from subscribers is exigible to tax. On the analogy of the said decision, rental collected for the use of pager is also taxable.

In sales tax office, Special Circle I, Ernakulam, while finalising the assessment in March 2003 of a dealer in pagers for the year 1998-99, rent received for pagers amounting to Rs 3.90 crore was not assessed to tax. This resulted in short levy of tax and surcharge of Rs 25.72 lakh.

* State of Uttar Pradesh Vs Union of India (2003) 11 KTR 79(SC)

After this was pointed out in December 2003, the assessing authority revised the demand in February 2004. Further progress in the case was awaited (December 2005).

The case was reported to Government in June 2004; their reply had not been received (December 2005).

2.5.2. Under the KGST Act, any dealer in gold or silver ornaments or wares, may at his option, instead of paying tax, opt to pay tax at the compounded rate at 120 *per cent* of the tax payable for the previous year.

In sales tax office, Special Circle II, Ernakulam, it was noticed in December 2004 that the assessing authority completed the assessment under compounding scheme of a dealer in jewellery of gold, standard gold and precious stones for 2000-01 in March 2003, leaving the turnover of standard gold and precious stones which should have been assessed separately. This resulted in escapement of turnover of Rs 24.50 crore and consequent short levy of tax of Rs 24.50 lakh. Besides, interest of Rs 20.82 lakh was also leviable.

After this was pointed out in December 2004, Government informed in December 2005 that notice had been issued to revise the assessment. Further report was not received (December 2005).

2.5.3. Under the KGST Act, taxable turnover means the turnover on which a dealer shall be liable to pay tax, after making the prescribed deductions from the gross turnover.

In two offices, turnover of Rs 1.49 crore in three cases was incorrectly excluded from levy of tax resulting in short levy of tax of Rs 15.03 lakh including surcharge as shown below.

(In lakh of rupees)

Sl. No.	Name of office/ No. of cases	Assessment year/ Month of assessment	Name of commodity/ Rate of tax	Nature of irregularity	Short levy of tax including surcharge	Remarks
1.	STO, Special Circle, Palakkad 2	1998-99 November 2002	DEPB ^α licence 10	While finalising the assessment of a manufacturer and exporter of electronic goods, the assessing authority did not levy tax on Rs 79.96 lakh received towards sale of import entitlement.	8.80	After this was pointed out in September 2003, the Department intimated in June 2004 that the assessment was revised in January 2004 and demand raised. Government informed in November 2005 that the amount was still pending collection. Further report was not received (December 2005).

^α Duty Entitlement Pass Book

(In lakh of rupees)

Sl. No.	Name of office/ No. of cases	Assessment year/ Month of assessment	Name of commodity/ Rate of tax	Nature of irregularity	Short levy of tax including surcharge	Remarks
		2000-01 August 2002	Raw cashew nut 8	While finalising the assessment of an assessee engaged in the manufacture, export and local sale of cashew kernel, the assessing authority did not levy tax on turnover of raw cashew nut of Rs 13.50 lakh purchased within the State.	1.08	After this was pointed out in September 2003, the assessing authority stated in April 2004 that the assessment was revised and demand notice issued. Government stated in November 2005 that the balance tax was recommended for recovery under the Revenue Recovery Act. Further report was not received (December 2005).
2.	STO, II Circle, Palakkad 1	2001-02 July 2003	DEPB licence 8	While finalising the assessment of a dealer, the assessing authority did not assess to tax sale proceeds of DEPB licence amounting to Rs 56.01 lakh.	5.15	After this was pointed out in November 2004, Government informed in November 2005 that the amount pertains to branch transfer and closing stock of DEPB licence not sold on 31 March 2002. In the accounts of the assessee the amount is shown as sale proceeds received and not as branch transfer or closing stock. Hence the reply is not tenable. Further report was not received (December 2005).
Total					15.03	

2.5.4. Under the KGST Act, in respect of manufactured goods other than tea which are sold under a trade mark or brand name, the sale by the brand name holder or the trade mark holder within the State shall be the first sale for the purpose of this Act.

In Sales Tax Office, Pala, while finalising the assessment in March 2004 for the assessment year 2002-03 of a dealer in coconut oil, turnover of Rs 1.12 crore relating to sale of coconut oil under the brand name "Leader Cook coconut oil" was exempted from levy of tax instead of levying tax at four *per cent*. This resulted in short levy of tax of Rs 5.15 lakh.

After this was pointed out in April 2004, the Department intimated in October 2004 that the assessment was revised in May 2004 and the entire demand had been advised for revenue recovery. Further progress in the case was awaited (December 2005).

The case was reported to Government in September 2004. Further report had not been received (December 2005).

2.5.5. Under the KGST Act, where any dealer after purchasing any goods by furnishing a declaration in Form 18 fails to make use of the same for the purpose for which the declaration was furnished, he shall be liable to pay tax that would have been payable by him had the declaration not been furnished.

In Sales Tax Office, Special Circle, Mattancherry, while finalising the assessments of a dealer for 1998-99 and 1999-2000 in October 2002, the assessing authority failed to demand the differential tax due on raw materials purchased by issuing declarations in Form 18 which were not utilised for the purpose. This resulted in short demand of tax of Rs 4.77 lakh including surcharge. Besides, interest of Rs 3.96 lakh was also leviable.

After this was pointed out in December 2003, the Department revised the assessment creating an additional demand of Rs 2.87 lakh including interest applying concessional rate of five *per cent*. Application of concessional rate of five *per cent* is not correct in the absence of the certificate prescribed in the notification allowing concessional rate of tax.

The matter was referred to Government in May 2004 and reminded in September 2004. Their reply had not been received (December 2005).

2.6. Inadmissible exemption of tax

As per notification issued by the Government in November 1993, medium and large scale industrial units will have the option for deferment of taxes for a period for 10 years from the date of commencement of commercial production or from the date on which diversification, expansion or modernisation has been completed. The unit which opts for deferment of taxes will not be permitted to avail exemption of tax, but will be permitted to collect taxes as per rules. The accumulated taxes so deferred shall be remitted to Government in equal monthly instalments over a period of five years from the eleventh year of the date of commencement of commercial production or the date of completion of such diversification, expansion or modernisation, as the case may be, with simple interest at the rate of 15 *per cent per annum* from the eleventh year. If any instalments are defaulted, penal interest at the rate of two *per cent per annum* shall be charged for the amount so defaulted.

In the office of the Inspecting Assistant Commissioner, Commercial Taxes, Kattappana, it was noticed that an industrial unit was allowed sales tax deferment in January 2003 for seven years from March 1999 to February 2006. While finalising the assessment of a dealer for the years 1998-99, 1999-2000 and 2000-01 between March and June 2003, the assessing authority granted tax exemption of Rs 1.15 crore which was fully availed of although the assessee was permitted to avail the deferment of payment of tax. This resulted in inadmissible exemption of tax of Rs 1.15 crore.

After this was pointed out in audit in May 2004, the assessing officer stated in August 2004 that necessary steps would be taken to rectify the mistake by revising the assessment. Further reply was awaited (December 2005).

The case was reported to Government in November 2004. Their reply had not been received (December 2005).

2.7. Incorrect grant of exemption

2.7.1. Under the CST Act, Government exempted tax on interstate sale of declared goods, which had suffered tax under the KGST Act on its purchase or sale. It was judicially held[▼] that raw hides and dressed hides are commercially different commodities and dealers who paid tax on purchase of raw hides and skins are liable to pay tax on sale of dressed hides and skins.

In Sales Tax Office, Special Circle, Mattancherry, while finalising the assessment in July 2002 of a dealer in hides and skins for the year 1998-99, turnover of dressed hides and skins for Rs 3.13 crore was exempted from CST assessment on the ground that purchase turnover of raw hides was assessed under the KGST Act. This resulted in short levy of tax of Rs 12.52 lakh.

After this was pointed out in November 2003, Government informed that the Department had revised the assessment in December 2004. The position of recovery had not been received (December 2005).

2.7.2. Under the CST Act, every dealer shall be liable to pay tax on all sales effected by him in the course of interstate trade or commerce. Where any dealer claims that he is not liable to pay tax under the Act, in respect of any goods, on the ground that the movement of such goods from one state to another was occasioned by reason of transfer of such goods by him to any other place of his business or to his agent or principal, the burden of proving that the movement of those goods so occasioned shall be on the dealer. In such cases, he shall furnish a declaration in Form 'F' duly filled in and signed. It was judicially held[♦] that in order to grant exemption under the CST Act, the dealer has to produce a delivery note in Form 26.

In Sales Tax Office, Neyyattinkara, while finalising the assessment for 1999-2000 in March 2004 of a dealer, transferred goods valued at Rs 90.46 lakh to his branch office on the strength of Form 'F' declaration alone without copy of delivery note in Form 26 duly sealed in at check post was incorrectly exempted from levy of tax. This resulted in non levy of tax of Rs 9.05 lakh.

The matter was reported to Department in April 2004 and Government in September 2004. Government informed that as the branch transfer was proved otherwise, declaration in Form 26 need not be insisted upon for granting exemption. However, in the judicial decision referred to in this paragraph, the High Court of Kerala held that despatch of goods in the course of interstate movement under section 6A should be

[▼] K.A.K.Anwar & Co. Vs State of Tamil Nadu 108 STC 258 (SC)

[♦] Esab India Limited Vs State of Kerala 12 KTR 34 (Ker)

despatch of goods from the business place of the dealer across the boundary of the State, and therefore, proof of crossing of goods through the boundary check posts is a necessary precondition for granting exemption. Hence the reply is not tenable. Further reply had not been received (December 2005).

2.7.3. Under the CST Act, where a sale of any goods in the course of interstate trade or commerce has either occasioned the movement of such goods from one State to another or has been effected by a transfer of document of title to such goods during their movement from one State to another, any subsequent sale during such movement effected by a transfer of documents of title to such goods shall be exempted from tax subject to production of prescribed certificates in Form C and E1. Government clarified in February 2004 that when goods are delivered directly to the ultimate purchaser, exemption under the provision cannot be allowed as there is no interstate sale during the movement of goods.

In Sales Tax Office, Third Circle, Ernakulam, the assessing authority finalised the assessment of two dealers for 1999-2000 and 2000-01 between June 2003 and December 2003 and exempted interstate sales of goods transferred direct to ultimate purchaser by the first seller as 'sale in transit'. Scrutiny of records revealed that the original seller despatched the goods from outside the State not to the assessee but directly to the ultimate purchaser before movement of goods. Hence, the sale was not a 'sale in transit'. Incorrect exemption granted to the assessee as 'sale in transit' resulted in short levy of tax of Rs 7.66 lakh.

After this was pointed out between October and November 2004, Government stated that all the conditions of 'sale in transit' were fulfilled in these cases. The reply was not tenable as the sales were not a transit sale in view of the clarification from Government. Further reply was awaited (December 2005).

2.7.4. Under the KGST Act, cooked food served in bar attached hotels and/or star hotels is taxable at the rates prescribed with effect from 1 January 2000. 'Bar attached hotel' means a hotel or restaurant, which is licenced under the Foreign Liquor Rules to serve foreign liquor. It has been judicially[▼] held that club is not entitled for exemption from tax.

In Sales Tax Office, First Circle, Thiruvananthapuram, while finalising the assessments of two clubs for the years 1999-2000 and 2000-01 between August 2002 and November 2003 licence fee on cooked food was levied instead of levying tax on cooked food served in bar attached hotels. This resulted in non levy of tax of Rs 8.85 lakh.

The matter was reported to Department in February 2004 and Government in October 2004. Government informed in November 2005 that cooked food served in club was liable to be taxed only with effect from 1 April 2005. The reply is not tenable in view of the above court decision. Further reply was not received (December 2005).

2.7.5. Government by notifications in 1980 and thereafter exempted new small scale industrial (SSI) units from payment of tax due on goods produced and sold by them

[▼] Trivandrum Club Vs State of Kerala (1999) 7 KTR 90 (Ker)

for a period of five/seven years from the date of commencement of production. Exemption from sales tax is admissible only for goods manufactured and sold by the unit. It has been judicially held* that rice and paddy are two separate commodities, distinct in nature and character and that a dealer is liable to pay purchase tax on the purchase of paddy procured in circumstances in which no tax has been paid. It was also judicially held* that SSI units are not entitled to exemption on purchase tax under KGST Act.

In Sales Tax Offices, Angamaly, Aluva, Kozhikode and Sales Tax Office Special Circle Palakkad, it was noticed that while finalising the assessments of 15 dealers of paddy, timber and ayurvedic medicines for the years from 1998-99 to 2001-02 during the period between July 2002 to March 2003 the assessing authority levied purchase tax of Rs 62.54 lakh and incorrectly adjusted against the SSI exemption. This resulted in non recovery of purchase tax of Rs 62.54 lakh.

After this was pointed out between August 2003 and March 2004, Government/ Department informed that the assessment had been revised in three cases and notices issued in other cases. Final action in other cases was awaited (December 2005).

2.8. Irregular refund of surcharge

Under the KGST Act, when an assessing authority finds, at the time of final assessment, that the dealer had paid tax in excess of what is due from him, it shall refund the excess tax to the dealer. Further under Sub Section (2) of Section 44 of the Act, when the assessing authority receives an order from any appellate or revisional authority to refund tax or penalty paid by a dealer it shall effect the refund. According to Agricultural Income Tax and Sales Tax Manual, Vol. III (Administration and Procedures), erstwhile Board of Revenue alone is competent to sanction refunds of revenue against original credits.

Government issued notification* exempting Kerala State Beverages Corporation from payment of surcharge on sales tax payable by it for six months from 1 October 2002 to 31 March 2003 so as to set off the loss sustained by the corporation. As per the Annual Reports for 1999-2000, 2000-2001 and 2001-2002, the corporation had necessary surplus of Rs 30.74 crore after payment of tax and duties. According to the provisional balance sheet as on 31.03.2003 filed before the assessing authority, there was a surplus of Rs 3.40 crore with the corporation even before granting the aforesaid exemption for setting off the loss sustained by it. Hence, grant of exemption of surcharge without taking into account the accumulated reserve of profit of the corporation was detrimental to the interest of revenue.

In Sales Tax Office, Special Circle, Thiruvananthapuram the Assistant Commissioner (Assessment) refunded Rs 34.76 crore on 5 May 2003 on the request of the Managing

* Raja Provision Stores Vs Appellate Tribunal (Sales Tax), Trivandrum 105 STC 225 (SC)

* State of Kerala Vs M/s Vattukalam Chemical Industries (2002) 10 KTR 69 (SC)

* SRO No. 325/03 dated 31 March 2003

Director of the corporation, citing the exemption notification, in violation of the authority entrusted to him under sub section (1) of Section 44 of the KGST Act. At the time of refund of the amount, the general sales tax assessment of the corporation for the years 2000-01 to 2002-03 were pending. Further, the refund was effected in the absence of a provisional/final (original) assessment for the year 2002-03.

After this irregularity was pointed out in September 2004, Government stated that the refund order was issued in strict obedience to the sovereign order.

The reply is not sustainable as the notification had only exempted the corporation from payment of surcharge under FL9 licence and had not authorised the assessing authority to make any refund in the absence of finalisation of the assessment of the corporation for the year 2002-03. According to sub section (3) of Section 44 of KGST Act, the assessing authority shall have power to adjust the amount due to be refunded towards the recovery of any amount due on the date of adjustment. Instead of finalising the pending assessments and adjusting the tax due, the assessing authority resorted to an irregular refund of surcharge of Rs 34.76 crore.

2.9. Short demand of tax/interest due to non liquidation of interest

Under the KGST Act, if the tax due is not paid within the time prescribed, the dealer shall pay interest. Further, where any tax or any other amount due or demanded is paid by any dealer, the payment so made shall be appropriated first towards interest accrued on such tax or other amount under sub section (3) of Section 23 on such date of payment and the balance available shall be appropriated towards principal outstanding.

In two offices in two cases, non liquidation of interest resulted in non/short demand of tax/ interest of Rs 9.64 lakh as detailed below.

(In lakh of rupees)

Sl. No.	Name of office No. of cases	Assessment year/Month and year of assessment	Nature of irregularity	Non/short levy of tax/ interest	Remarks
1.	AIT & STO, Kuthiathode 1	1999-2000 April 2003	An assessee did not pay the balance tax of Rs 7.56 lakh for the year 1999-2000 within the prescribed time. However, while finalising the assessment in April 2003 and revising it in June 2003 to rectify the mistake in the original assessment, the assessing authority failed to levy interest and adjust the payment subsequently made by the assessee towards interest. This	8.03	After this was pointed out in December 2004, Government informed in December 2005 that the assessment had been revised. Further report had not been received (December 2005).

(In lakh of rupees)

Sl. No.	Name of office No. of cases	Assessment year/Month and year of assessment	Nature of irregularity	Non/short levy of tax/ interest	Remarks
			resulted in short demand of tax of Rs 5.82 lakh and interest of Rs 2.21 lakh (Total Rs 8.03 lakh).		
2.	STO, Thiruvalla 1	1999-2000 February 2004	Payment of Rs 2.50 lakh made by an assessee in December 2003 was adjusted fully towards the tax due instead of adjusting Rs 2.35 lakh against interest due from the assessee.	1.61	After this was pointed out in audit in June 2004, the assessing officer stated in September 2004 that notice had been issued in June 2004 to realise the amount. Government informed in November 2005 that the assessment had been revised. Further report had not been received (December 2005).
	Total			9.64	

2.10. Incorrect raising of demand

The KGST Rules, and instructions issued in February 1992 by the erstwhile Board of Revenue (Taxes), lay down the departmental procedure for verifying and checking calculations and credits given in an assessment order.

In Sales Tax Office, Special Circle, Thrissur the assessing officer finalised the modified assessment of a dealer for 1990-91 in March 2004 and incorrectly worked out the balance tax due from the assessee as Rs 31.62 lakh instead of Rs 33.62 lakh and issued demand notice on 16 March 2004. This resulted in short raising of demand of tax of Rs 2 lakh.

After this was pointed out in August 2004, the assessing authority revised the assessment in July 2005 and raised the demand. Further progress of the case was awaited (December 2005).

Chapter III

Taxes on Vehicles

CHAPTER III

TAXES ON VEHICLES

3.1. Results of Audit

Test check of the records of the offices of the Motor Vehicles Department conducted in audit during 2004-05 revealed short/non levy of tax and other underassessments amounting to Rs 2.52 crore in 164 cases which may broadly be categorised as under:

(In crore of rupees)			
Sl. No.	Category	Number of cases	Amount
1.	Short/non levy of tax	113	0.92
2.	Other lapses	51	1.60
	Total	164	2.52

During 2004-05, the Department accepted underassessments, etc., of Rs 38.09 lakh involved in 60 cases of which nine cases involving Rs 5.76 lakh were pointed out in audit during 2004-05 and the rest in earlier years. At the instance of audit, the Department recovered an amount of Rs 14.75 lakh in 58 cases of which six cases involving Rs 1.66 lakh pertained to 2004-05.

In one case entire amount of Rs 2.20 lakh was recovered after the case was brought to the notice of the Government. A few illustrative cases including review on "Information Technology Audit of Motor Vehicles Department" involving Rs 71.87 lakh are given in the following paragraphs.

3.2. Review on “Information Technology Audit of Motor Vehicles Department”

Highlights

- Government decided in 2001 to computerise the Motor Vehicles Department. Only one out of the seven offices in Thiruvananthapuram district scheduled in phase I is computerised. Service providers for computerisation of remaining offices under build, operate, maintain and transfer mode are yet to be selected

(Paragraph 3.2.3.)

- Several essential provisions are lacking in the software – SMART MOVE developed by NIC

(Paragraph 3.2.4.)

- Several irregularities noticed in licence data due to inadequate input control

(Paragraph 3.2.5.)

- Information generated from the system could not be authenticated as registration data was not properly validated

- Several vehicles with duplicate engine number and chassis number were entered in the registration data

- Incorrect/non accounting of remittance of fees/tax at FRIENDS centre

(Paragraph 3.2.6.)

- Information security was not adequate for smooth functioning of the system as there was no documented password policy, business continuity planning

(Paragraph 3.2.7.)

3.2.1. Introduction to computerisation in Transport Department

The Motor Vehicles Department, with its head office at Thiruvananthapuram, functions under the Transport Commissioner and is responsible for enforcement of laws governing the registration of motor vehicles, issue of driving licences, permits, collection of vehicle taxes, etc. There are four zonal offices, 18 regional transport offices (RTO), 42 sub regional transport offices (SRTO) and 12 motor vehicle check posts.

Based on a feasibility study report submitted by National Informatic Centre (NIC) in May 2000, Government decided in December 2001 to computerise various functions in the department to ensure efficient, satisfactory, speedy and public friendly services to the general public.

The Department installed eight servers and 87 PCs at a cost of Rs 2.81 crore till January 2004 for registration of vehicles and driving licences related work at head office, RTO Thiruvananthapuram, Ernakulam and Kozhikode.

The software for computerisation of Motor Vehicles Department SMART-MOVE developed by NIC in SQL server with Visual Basic as front end was installed for on line operation in RTO, Thiruvananthapuram during October 2002.

3.2.2 Objective, scope and methodology of Audit

IT Audit was conducted during the period between February and June 2004 to assess the reliability of the information generated and the extent of security provided by the system.

The data stored in SQL Server in RTO, Thiruvananthapuram was made available to audit in MS Access format and the same was analysed using Computer Assisted Audit Technique (IDEA 2001). The data relating to fees and stolen vehicles were also cross checked with the data at FRIENDS* centre and Police Commissioner's office, Thiruvananthapuram respectively, using file comparison method to detect data mismatch.

System Development and Implementation

3.2.3 Delay in implementation of project

• Delay in Computerisation of offices

Computerisation in the Motor Vehicle Department was taken up in three modes. Firstly, the Department acting on the basis of the feasibility report prepared by NIC, decided to computerise activities like registration of vehicles, issue of driving licences, permits, certificates of fitness and wings for accounts, statutory action, establishment and planning and statistics at its head office, zonal office, RTO and RTO (NS*) and four SRTOs* and Amaravila check post in Thiruvananthapuram district in phase 1. The other offices were to be covered in phase 2. Out of seven offices scheduled in phase 1, only RTO, Thiruvananthapuram was computerised.

In the second mode, under a project sanctioned by Government of India, Ministry of Information Technology (MIT) in March 2003, offices in Ernakulam district were also taken up for computerisation. This is presently operational.

* A common facility centre for collection of tax/fees to be remitted to Government/authorities

* Nationalised Sector

* Parassala, Neyyattinkara, Attingal and Nedumangad

- **Delay in development of software**

Till April 2005 NIC had developed software for computerisation of RTO (except modules for establishment, statistical and accounts wings) and installed it at RTO, Thiruvananthapuram. Development of software for use of head office and check post was still due.

- **Delay in selecting service provider**

On the basis of administrative sanction accorded by Government in February 2003 to implement the project *Fully Automated Services of Transport Department (FAST)* on build operate maintain and transfer (BOMT) mode, computerisation of the remaining offices was also to be taken up and completed within one year. In terms of the administrative sanction, a consultant cum service provider (CSP) would be responsible for supply, delivery and installation of hardware, network equipment etc. Government in August 2003 authorised M/s Wipro Infotech to serve as consulting agency for the project FAST. They were to also prepare bid document for selection of CSP. Government had not selected the CSP till September 2005.

No project has been drawn up for networking of offices to interconnect the district level database for cross verification and generating state level management information system (MIS).

Due to delay in computerisation, the Department is not in a position to identify defaulters in tax payment, re-registration of vehicles and renewal of driving licences and to take prompt action to realise revenue due to Government.

Government stated in July 2005 that the delay in computerisation was solely due to paucity of funds, procedural delay and constraints in procurement.

3.2.4 Inadequacies in the software

- **Absence of relevant provisions:**

A scrutiny of SMART-MOVE application installed at RTO, Thiruvananthapuram revealed that the system lacked provision for:

- accounting of compounding fees realised and other recoveries made by motor vehicle inspector (MVI)/assistant motor vehicle inspector (AMVI) during field checking. Hence the figures as per cashbook did not tally with electronic data.
- generating bankwise list of demand drafts to be sent to banks for collection every day from details of drafts entered into the computer. At present the list is prepared manually and this resulted in abnormal delays in sending demand drafts to the bank for timely collection and credit to Government.
- generating demand collection balance (DCB) statement for effective monitoring of collection of tax on vehicles for both transport and non

transport. DCB is not maintained on non transport vehicles under the manual system in force.

- capturing quarterly returns of permit holders of stage carriers and goods vehicles to ensure regular submission of returns, identify defaulters, to study road and transport sector economy and furnish data to transport regulatory authority
- generating reports on the details of tax due on registered vehicles, tax if any, due consequent to revision of tax, short levy of tax due to incorrect fixation of passenger capacity, shortfall in one time tax collection on motor car and two wheelers etc.
- an audit module for viewing data, querying/retrieving information required by audit etc. Manual maintenance of register of vehicles (B Register), subsidiary cashbook, tax endorsement register etc., has been dispensed with after computerisation. There is no facility to generate reports which can substitute these records and hence accuracy of accounting of receipts cannot be verified.

The Department stated (March 2005) that provision to generate DCB would be incorporated.

3.2.5 Application Controls

Application controls include controls that help to ensure the proper authorisation, competence, accuracy and validity of transactions and other types of data input e.g. to check possible invalid input, system enforced transaction controls that prevent users from performing transactions that are not part of the normal duties.

- **Irregularities due to inadequate input control**

Class of vehicles, vehicle description, name of manufacturer and unladen weight are standardised information specific to each type/class of vehicle. For capturing such information combo boxes have been provided for making appropriate selection with regard to classification of the vehicle in the software. But it was seen that after selecting appropriate classification from combo box, the entries in these fields are altered by the data entry staff based on the details contained in Form 21 submitted by the dealers. Thus there is no input control to prevent such unauthorised changes to the description of master data in combo box.

Government replied (July 2005) that due to frequent introduction of new models of vehicles, the updation in the master table is not possible and hence users have been given privilege of editing the entries of the combo boxes. The reply is not tenable as updating of data tables is a continuous process and related master data is required to be updated regularly.

- **Incorrect data capture due to lack of input control**

An analysis of database of driving licences of RTO Thiruvananthapuram revealed that in the case of 14,256 licence holders the date of birth was shown prior to 2 January 1901 and in 2,073 cases the licence holders had age less than 16 years at the time of grant of licences. The date of birth and date of issue of licences were shown same in 1,310 cases. In 9,486 records the licence year indicating the year in which licences were issued did not tally with the year in the licence date. Thus the licences generated by the system might not be authentic unless the entire data is validated.

- **Duplicate demand draft accepted towards tax**

Tax on transport vehicles is remitted by demand draft (DD) and its details are stored in database. Due to lack of provision for data validation to prevent entry of duplicate DD number of the same bank, duplication of DD number, date and issue bank code is possible.

An analysis of database containing records of DDs revealed 193 cases or records with duplicate DD number, bank, branch, amount etc., resulting in potential revenue loss to the extent of Rs 2.24 lakh. Further analysis of these records revealed that 145 duplicate DDs were issued by State Bank of Travancore, Fort Branch.

The Department accepted in March 2005 the mistakes and stated that not a single licence was issued to ineligible persons after computerisation and provision to prevent acceptance of duplicate DD would be incorporated. The errors in legacy data were due to inadequate validation.

3.2.6 Defect in database

- **Non validation of legacy data entry**

RTO is required to maintain a register (B Register) for registration of vehicles containing information such as registration number, registration date, name of the owner, name of the manufacturer, type of vehicle, chassis number, engine number, unladen weight, registered gross weight, passenger capacity, details of tax paid such as amount and date up to which tax has been paid etc. The software provided for capture of vehicle particulars of B Register in database.

An analysis of registration data of vehicles of RTO, Thiruvananthapuram made available to audit as on 27 February 2004 revealed that in 45 records the registration date was shown later than 27 February 2004, in 37 records the registration date was left blank, and in 107 records it was shown as 1 January 1901. The registration numbers of vehicles were shown as chassis number in 963 records. Registered gross weight was shown as zero in 18,191 records and engine number field was blank in 1,145 records.

The aforesaid mistakes in the database evidently due to defective legacy data entry, were not rectified by proper data validation before commencing on line

transaction. Hence information generated out of the system may not be authentic and reliable.

RTO, Thiruvananthapuram stated in July 2004 that defects have been rectified. The correctness of the reply furnished by the Department could not be verified as most of the B Registers called for by audit were not traceable.

- **Registration of vehicles with duplicate engine number/chassis number**

Engine number and chassis number are unique numbers allotted by the manufacturer to a vehicle and two vehicles cannot have same engine or chassis number.

Test check of data base relating to registration of vehicles maintained in RTO, Thiruvananthapuram revealed that in 3,833 vehicles the chassis numbers and in 5,064 vehicles the engine numbers were duplicate. Out of these in 2,357 cases both the engine and chassis number were duplicated indicating possible double registration of a vehicle.

Against manual B Registers on 2,361 (1,180 pairs) vehicles requisitioned from RTO, B Registers on only 233 vehicles were made available to audit for cross verification. A cross check of these B Registers with electronic database revealed that engine number and chassis number in both records differed in 51 cases. From the manual B Registers, 38 duplicate pairs in electronic database could be verified and both the engine number and chassis number tallied in five pairs confirming duplication in manual B Register also. As regards remaining 33 pairs they were not actually duplicate with reference to manual register indicating incorrect data entry. This indicates a strong possibility of double registration of the same vehicle.

- **Non verification of data entry**

Under the computerised system of registration of vehicles, the registration details based on application for registration submitted by owner of vehicle is entered in the computer. The MVI/AMVI concerned inspects the vehicle and confirms that the chassis number and the engine number contained in sale letter of the dealer and manufacturer agree with that carved on the vehicle and certify accordingly. A true stencil of the chassis number taken direct from the chassis of the vehicles at the time of inspection is a vital data for registration.

A cross check of the data relating to vehicles registered during January 2004 with the original applications for registration revealed that in six cases the chassis number and engine numbers certified by the inspectors did not tally with the stencil taken from the number carved on the vehicles. In case of 18 non transport vehicles, though the chassis numbers were correctly entered initially, had been modified wrongly while entering the rest of the data after inspection. Further the chassis/engine number in the database were found incorrect in 12 cases and did not tally with the numbers in the sale letters, Form No.22, slip and stencils.

It is evident that the certifying authorities have not taken due care while inspecting the vehicles for identification and there were lapses on the part of the supervisory level staff in verification of data entry. As a result, some vehicle owners are in possession of RC books with wrong chassis/engine numbers.

- **Non maintenance of input data**

The applications for registration submitted at the time of initial registration of the vehicles, which are the main source of input data, were not maintained properly. Though applications of all the 1,627 new registrations made in January 2003 were called for in audit only 207 applications could be made available and the balance could not be produced as these were not traceable. Thus the Department was also not in a position to cross check data with reference to original records for future references.

- **Failure to update database of tax remitted in other offices**

As per the present procedure, vehicle tax in respect of a non transport vehicle can be remitted at any of the RTO or FRIENDS centres. Even though the scrolls of tax collected are sent by the FRIENDS centres to the RTO on a daily basis, the particulars of tax collected at the FRIENDS centres are not keyed into the system. As a result, the position of defaulters could not be correctly generated from the database.

- **Incorrect accounting of fees remitted at FRIENDS centre**

The Department renders different services to vehicle owners after collecting prescribed fees. The data of fees collected at FRIENDS centre is entered on the basis of the receipts produced by the public alongwith applications instead of daily scroll received from FRIENDS centre.

A cross verification of the data relating to remittance of fee with the data for the period from 1 April 2003 to 31 December 2003 received from the FRIENDS centre, revealed that out of 35,397 remittances aggregating Rs 87.02 lakh made at the FRIENDS centre, Thiruvananthapuram only 12,853 remittances amounting to Rs 18.17 lakh were included in the database of the RTO, Thiruvananthapuram.

In 346 cases the amount remitted (Rs 0.77 lakh) at FRIENDS centre did not tally with the fees (total Rs 2.71 lakh) entered in the database. Out of this in 179 cases the amount remitted at FRIENDS centre (Rs 0.23 lakh) was less than the fees entered in the database (Rs 2.48 lakh) involving excess accounting of Rs 2.25 lakh.

1,653 receipts included in the RTO database during 2003 could not be traced in the FRIENDS scroll. Unauthorised accounting involved Rs 3.06 lakh.

The above disparities would indicate that data entry in the database has not been validated with reference to scroll at supervisory level before rendering services against such remittances. It also indicates a risk of manipulation of

data entry in relevant table to render services fraudulently without actually realising the fees prescribed therefor.

- **Deficiency in data on the stolen vehicles**

Database of stolen vehicles reported to RTO is to be maintained to prevent any transaction of these vehicles till the vehicle is reclaimed as normal.

The database of stolen vehicles in RTO Thiruvananthapuram contained only 14 vehicles. Cross check with Police Department revealed that only five out of the 156 theft cases registered under the jurisdiction of Police Commissioner, Thiruvananthapuram City between January 2003 and April 2004 were included in the database of RTO. In 67 cases chassis numbers, which are vital to identify vehicles, did not match these data. As data on stolen vehicles was not updated with reference to Police Department data there was a risk of allowing transactions on vehicles with the same engine numbers and chassis numbers as stolen ones.

The Department stated in March 2005 that a website was proposed to be hosted to access the vehicle data by others.

- **Imperfection in data on permits to transport vehicles**

Under the Motor Vehicles Act 1988, every transport vehicle must possess a valid permit. A scrutiny of data in the relevant table showed that only 3,533 records were entered in the table. The details of permits issued prior to computerisation were not entered in computer. In five records, permit numbers were shown as zero and in 222 cases the date of issue of permits and the date up to which the permits were valid were left blank and in three records the date from which permit was valid was shown later than the date up to which it was valid.

Though 1,784 transport vehicles were registered during the year 2003 the details of permits issued to 744 transport vehicles were not available in the database. These included 66 auto rickshaws and 82 other vehicles of registered gross weight over 3,000 kg. It is therefore evident that the Department did not correlate the registration data in database with permits data to rule out possible non realisation of permit fees due to Government.

General Controls:

General controls create the environment in which the application systems and application controls operate e.g., IT policies, standard and guidelines pertaining to IT security and information protection.

The following deficiencies in general controls were noticed in Audit.

3.2.7 Lack of information security

Audit found that the Department did not take adequate measures for security of the information system to ensure smooth functioning of the system as

elucidated below:

- **Absence of password policy**

Though SMART MOVE restricts access to the system through user ids and password, no documented password policy, specifying the need to change the password periodically, was circulated. There was also no restriction of log on attempts to prevent such access by unauthorised users. As such the system was exposed to the risk of unauthorised access and consequent damages.

- **Inadequate segregation of duties**

There are three levels of users of the system: entry level, verify level and issue level. These levels are used to enable or disable certain functions depending on the duties assigned to different users.

A scrutiny of database, which indicated menu name and access privileges assigned to each user revealed that entry, verification and issue level access was given to the same user in 948 records involving 66 users. Role allocation, menu access in database had no relation to the level of access assigned to the user in relevant table.

- **Lack of change management control**

Once a system is implemented, change controls should be put in place to ensure that the changes to the system are authorised, tested, documented and to see that there is adequate audit trail. The requests for changes (RFC) should be signed by the higher level functionary of the Department and all the changes should be tested before they are put to use in the live environment. But there was no documentation of the modifications in the software, its approval and testing, though a lot of modifications had been made in the software for enhancing facilities or for other reasons.

- **Absence of business continuity planning**

Business continuity planning is essential to ensure that the organisation can prevent disruption of business and resume processing in the event of a total or partial interruption of information availability. Regular backup of data is the backbone of such business continuity planning. But no back up policy has been evolved and circulated by the Department. Though backup is taken on CDs, there is no documented procedure about the frequency of taking backup and its storage away from the premises, as per an approved plan.

The Department has also not evolved any disaster management policy to restore the system in the event of loss of data due to natural disasters.

3.2.8 Non availability of preprinted stationery with security features

Pending decision on the acceptance of general format for a computer generated cash receipt applicable to all Government departments, Government approved in October 2002 the use of a new form of computer generated cash

receipt in the Motor Vehicles Department, in relaxation of relevant provisions in the KTC. The order stipulated that the cash receipt in TR 5(C) would be in triplicate, with shaded watermark in the original copy so as to prevent fraud and counterfeiting etc. But the TR 5(C) form printed in duplicate is being used even at present.

The Kerala Motor Vehicles Taxation Rules, 1975 was amended in October 2002 to issue computerised tax licence in Form CTL using preprinted and serially numbered stationery. But preprinted stationery required for printing tax licence tokens were not ready till August 2004 and CTLs were printed on ordinary paper. Recommendation of the Empowered Committee on computerisation for introduction of computer based tax licence (tax token) with necessary plastic coating/lamination to prevent tampering of entry has not yet been implemented due to delay in providing preprinted stationery for the purpose.

Government stated in July 2005 that Government press could not take up the printing work due to lack of facility for printing with security features and the work had been entrusted to private parties. During subsequent visit, audit found that even though tax licences have been got printed, they were not being utilised due to incompatibility problems with the printer.

3.2.9 Conclusion

The major objective of computerisation of the Motor Vehicles Department was to ensure efficient and satisfactory services to public avoiding undue delay.

Though the computerised operations in the RTO Thiruvananthapuram commenced during October 2002, there was delay of over two weeks in issue of the RC books on newly registered vehicles and delay of over one week for other services like change of address in the RC book, issue of driving licence and its duplicate, renewal of driving licence etc.

Apart from introduction of some transparency in the issue of learner's licence and driver's licence, the delay in rendering various services still persists and the customers have not benefited due to computerisation in the RTO.

Under the present system, the data in the system is not verifiable and accuracy is not ensured and hence the certificates generated out of the system could not be treated as reliable with absolute authenticity. The system in the present form is susceptible to fraudulent transaction and continuance of the system involved the risk of revenue loss.

3.2.10 Recommendations

The Department may arrange

- for verification of data entry relating to registration of vehicles, issue of licence and permits to ensure data integrity,
- to modify the software to include essential provisions and input control to prevent duplicate data entry,
- to develop the remaining modules for establishment and statistical wings,
- to replicate the software at other offices only after testing and acceptance of modified version,
- to network offices to interconnect the database with adequate firewall protection,
- for online updating of remittance of fees/tax at FRIENDS centre,
- to provide link to Police Department data on stolen vehicles to prevent transactions on stolen vehicles,
- to formulate suitable password policy, backup policy and business continuity planning and circulate it among staff to create security awareness

Department stated in April 2005, that the bugs in the software can only be rectified by trial and error after prolonged usage. Department also agreed to carry out the recommendations in consultation with NIC.

3.3. Non demand of balance tax

3.3.1. Under the Kerala Motor Vehicle Taxation (KMVT) Rules, 1975 tax on every transport vehicle shall be paid by crossed demand draft within such period as specified in the rules. Appropriate entries are required to be made in demand, collection and balance (DCB) register. Regional Transport Officer (RTO) is required to prepare list of transport vehicles for which tax is in arrear and issue demand notices to the owners of the vehicles requiring them to clear the arrears within a specified time.

In Regional Transport Office (Nationalised Sector), Thiruvananthapuram, verification of lists for 2002-03 and 2003-04 revealed that tax on 110 interstate stage carriages of KSRTC[▼] was remitted short due to adoption of lower seating capacity and reckoning of fast passenger and express as ordinary services. The Department failed to detect short remittance of tax and demand the balance tax. This resulted in short realisation of tax of Rs 18.19 lakh.

The matter was reported to the Department in September 2003 and September 2004 and to Government in January 2005; their replies have not been received (December 2005).

3.3.2. Under the KMVT Act, composite tax on goods carriage vehicles registered and usually kept in any other State or Union Territory in India and authorised to ply in the State of Kerala under a national permit shall be levied at the rate of Rs 3,000 *per annum* or the rate at which similar vehicle from Kerala is taxed in their home State, whichever is higher. Haryana, Maharashtra, Rajasthan, West Bengal and National Capital Region (NCR) of Delhi levy composite tax of Rs 5,000 *per annum* for national permit goods carriages registered in the State of Kerala and plying in those states.

Test check of the records of the Transport Commissioner's (TC) Office, Thiruvananthapuram revealed that 541 goods carriages registered in Haryana, Maharashtra, Rajasthan, West Bengal and NCR of Delhi and authorised to ply in Kerala under National Permit during the year 2002-03 plied in the State on payment of composite tax of Rs 3,000 *per annum* instead of at the rate of Rs 5,000 *per annum*. However, the Department did not take any action to demand and collect differential tax through the concerned Regional/ State Transport Authorities (STAs). This resulted in short levy of composite tax of Rs 10.82 lakh.

After this was pointed out in February 2004, the Department stated in July 2004 that STAs of concerned States have been addressed for realisation of tax and the motor vehicles inspectors of check posts have been directed to watch such vehicles. Further report has not been received (December 2005).

▼ Kerala State Road Transport Corporation

The matter was reported to the Government in February 2005; their reply has not been received (December 2005).

3.3.3. Government by a notification dated 28 June 2003, enhanced the tax payable under the KMVT Act, on motor cars which are not liable to one time tax and on omnibus for private use, with effect from 1 July 2003 as under.

Sl. No	Nature of vehicle	Unladen weight/ seating capacity	Tax per quarter (Rs)	
			Prerevised rate	Revised rate
1.	Motor cars	Up to 750 kg	290	350
		751-1500 kg	390	450
		Above 1500 kg	480	720
2.	Omnibus for private use	Up to 10 seats	70 per seat	105 per seat
		Above 10 seats	130 per seat	195 per seat

At Regional Transport Office, Thiruvananthapuram and at FRIENDS Janasevana Kendram, Thiruvananthapuram tax for the period from 1 July 2003 to 30 June 2004 on 273 motor cars and 33 omnibus for private use was realised between 2 June 2003 and 28 June 2003 in advance at pre revised rates. But the RTO did not demand the balance tax consequent to revision of rates from 1 July 2003. This resulted in short demand of vehicle tax of Rs 1.65 lakh.

After this was pointed out in August 2004, the Department stated that action would be initiated to collect the balance tax. Further reply has not been received (December 2005).

The matter was reported to the Government in January 2005; their reply has not been received (December 2005).

3.4. Short levy of vehicle tax

Under the Motor Vehicles Act, 1988 (Central Act), omnibus means any motor vehicle constructed or adopted to carry more than six persons excluding the driver. The Act does not impose any restriction for use of an omnibus as non transport vehicle, when validity of a permit for use of the same as transport vehicle has lapsed. Hence permit lapsed stage carriages are to be taxed as omnibus for private use at the rate of Rs 130 per quarter up to 30 June 2003 and thereafter at Rs 195 per quarter for every seated passenger. The TC clarified in September 1994 that tax at residual rate only is leviable on vehicles without permit. Public Accounts Committee (PAC) during discussion on para 6.4 included in the Audit Report (Revenue Receipts) for the year ending 31 March 1997 observed that the TC's direction was against the provisions of the Central Act and recommended that Department should issue strict instructions to its officers to be vigilant while issuing such directions in

future. Government thereafter informed the PAC that the RTO had been instructed to make good the short levy.

In seven RTOs[♦] in 250 cases, permit lapsed stage carriages with seated passenger capacity ranging from 13 to 49 were taxed during 2003-04 at Rs 150 to Rs 1,200 per vehicle per quarter based on unladen weight instead of passenger capacity. This resulted in short levy of vehicle tax of Rs 20.20 lakh.

After this was pointed out between June and December 2004, RTOs at Malappuram and Kasargod stated that tax was levied as per clarification of the TC given in September 1994. The reply is not tenable in view of the observation of the PAC and action taken note of Government. Further reply has not been received (December 2005).

The matter was reported to the Government in December 2004; their reply has not been received (December 2005).

3.5. Short levy of fee for renewal of driving licence

Under Central Motor Vehicles Rules, 1989 from 10 October 2003 where an application for renewal of a driving licence is made after 30 days from the date of expiry of licence, the fee payable for such renewal shall be Rs 100. Besides an additional fee of Rs 50 for delay of every year or part thereof reckoned from the date of expiry of grace period of 30 days is also payable.

Test check of records in 30[♥] transport offices revealed that 31,551 driving licences were renewed between 10 October 2003 and 31 March 2004 based on applications made after 30 days but within one year from date of expiry of licence and the licensing authority levied fees at Rs 100 but failed to levy additional fee at the rate of Rs 50. This resulted in short levy of Rs 15.78 lakh.

After this was pointed out between May and November 2004 the Department stated that the short levy was due to delay in receipt of communication regarding enhancement and realised Rs 3,250 in 54 cases in two[♦] offices. Further reply has not been received (December 2005).

The matter was reported to Government in February 2005; their reply has not been received (December 2005).

[♦] Ernakulam, Kannur, Kasargod, Malappuram, Palakkad, Pathanamthitta and Wayanad

[♥] RTOs: Alappuzha, Kasargod, Kozhikode, Malappuram, Pathanamthitta, Thrissur and Wayanad

SRTOs: Adoor, Alathur, Aluva, Cherthala, Chengannur, Irinjalakkuda, Kanhangad, Kayamkulam, Kazhakootam, Koduvally, Kothamangalam, Mattancherry, Mavelikkara, Nedumangad, North Parur, Ottappalam, Parassala, Perinthalmanna, Perumbavoor, Ponnani, Thiruvalla, Tirur and Tripunithura

[♦] Sub Regional Transport Offices Adoor and Chengannur

3.6. Defalcation of Government money

- Under the Kerala Treasury Code volume 1 (KTC), Government servant who receives any money on behalf of Government shall give the payer a receipt in Form TR 5. A new TR 5 receipt book should be brought to use only after the old one is exhausted. Transport Commissioner in January 1986 directed that the checking officers, who are empowered to compound offences under Central Act and receive the compounding fee in cash on issue of TR 5 receipt should hand over the money collected every day to the head accountant of the regional /sub regional transport office on the same day or the next day. They should also hand over the exhausted TR5 receipt book to the head accountant.

Verification of stock register of TR 5 receipt books at sub regional transport office, Neyyattinkara revealed that an assistant motor vehicle inspector (AMVI) who joined the office on 17 April 2002 and got relieved on transfer on 25 June 2004 did not return counterfoils of 25 out of 26 TR 5 receipt books issued to him, till they were called for in audit in September 2004. Between 22 April 2002 and 25 June 2004 he collected Rs 7.44 lakh as compounding fee, but remitted only Rs 3.23 lakh to the head accountant. Failure to comply with the provisions of KTC and directions of TC resulted in defalcation of Government money of Rs 4.21 lakh.

After this was pointed out in September 2004, the Department stated in January 2005 that the AMVI was suspended in September 2004 and a police case filed in October 2004. Further reply has not been received (December 2005).

The matter was reported to Government in December 2004; their reply has not been received (December 2005).

- According to KTC all monetary transactions should be entered in the cash book promptly and should be attested by the head of office. When the number of payments made in a month is more than 10 and the total amount exceeds Rs 1000, as soon as possible after the end of the month, the head of the office is required to prepare a statement of all remittances made during the month and get it verified and certified by the treasury officer which should be compared with the posting in the cash book.

In regional transport office, Kozhikode and sub regional transport office, Koduvally, in 10 cases, vehicle tax, fees, compounding fee etc collected between January 2002 and July 2003 were either not remitted or remitted short to Government account. Government money so defalcated amounted to Rs 1.02 lakh.

After this was pointed out to the Department in October 2003 and November 2003 and reported to the Government in March 2004, the Department stated in May 2005 that Rs 84,115 had been remitted till November 2004. Further report has not been received (December 2005).

Chapter IV

Land Revenue and Building Tax

CHAPTER IV

LAND REVENUE AND BUILDING TAX

4.1. Results of Audit

Test check of the records of the Offices of the Land Revenue Department conducted in audit during 2004-05 revealed short/non levy of tax, etc., amounting to Rs 4.84 crore in 95 cases which may broadly be categorised as under.

(In crore of rupees)			
Sl. No.	Category	Number of cases	Amount
1	Short levy under building tax	68	0.97
2	Short levy under other items	27	3.87
	Total	95	4.84

During 2004-05, the Department accepted underassessment of Rs 1.05 crore involved in 30 cases of which 6 cases involving Rs 5.02 lakh were pointed out in audit during 2004-05 and the rest in earlier years. During the year, the Department recovered an amount of Rs 4.52 lakh in 26 cases.

A few illustrative cases involving Rs 2.22 crore are given in the following paragraphs.

4.2. Non/Short realisation of collection charges

Under the Kerala Revenue Recovery (KRR) Rules, 1968, collection charges at the rate of five *per cent* of the arrears collected by the Government on behalf of any Government department/ notified institution are to be recovered from the defaulters.

Test check of records in 21 Offices[▼] between November 2003 and December 2004 revealed that, while recovering arrears of Rs 54.51 crore on behalf of various Government departments/notified institutions during the period from April 2001 to March 2004, the tahsildars did not realise the collection charges or realised it short from the defaulters. This resulted in non/short realisation of collection charges of Rs 2.07 crore.

After this was pointed out between November 2003 and December 2004, the Department stated that as per a Government clarification in September 1999, collection charges need not be realised on requisitions received from Government departments. Hence it was not collected. Reply is not tenable as the rules specifically provide for realisation of collection charges from defaulters of Government dues.

The matter was referred to the Government in April 2005. Government stated in November 2005 that direction to realise collection charge on all kinds of revenue recovery had been issued in August 2005.

4.3. Non levy of luxury tax on residential buildings

Under the Kerala Building Tax Act, 1975, luxury tax at the rate of Rs 2,000 *per annum* alongwith building tax is recoverable on every residential building having a plinth area of 278.7 Sq. metres or more and completed on or after 1 April 1999 in advance on or before 31 March every year.

In 12 taluk offices^{*} assessing authorities who assessed building tax failed to assess and demand luxury tax on 313 residential buildings having a plinth area exceeding 278.7 Sq. metres and completed in different years between April 1999 and March 2004. This resulted in non realisation of luxury tax of Rs 12.52 lakh.

After this was pointed out between December 2003 and November 2004, the department stated in November and December 2004 that Rs 0.40 lakh had been realised in 19 cases in Mannarkad Taluk and Rs 0.22 lakh demanded in Kanayannur Taluk. Further reply has not been received (December 2005).

▼ Taluk Offices: Adoor, Chengannur, Cherthala, Chirayinkeezh, Ernad, Hosdurg, Karthikappally, Kuttanad, Mukundapuram, Muvattupuzha, Thalappilly, Thaliparamba, Thiruvalla and Vythiri.

Tahsildar (RR): Aluva, Kanayannur, Kollam, Kottayam, Thrissur, Udumbanchola and Vadakara

* Taluk offices: Adoor, Cherthala, Ernad, Hosdurg, Kanayannur, Kasargod, Kottarakkara, Kozhikode, Mannarkad, Palakkad, Thalappilly and Udumbanchola.

The matter was reported to Government in April 2005. Government stated in November 2005 that tax had been realised in 135 cases and that appeal or OP is pending in seven cases. Further report has not been received (December 2005).

4.4. Underassessment of building tax

Under the Kerala Building Tax Act, 1975, building tax based on plinth area, at the rate specified in the Act is leviable on every building, the construction of which is completed after 10 February 1992, having plinth area exceeding 100 Sq. metres in the case of residential buildings and 50 Sq. metres in the case of other buildings. Plinth area of appurtenant structures built for more convenient enjoyment of the main building shall be added to its plinth area for assessment of tax.

- In taluk offices Aluva, Kottayam and Vythiri, while finalising between July 2001 and March 2004 building tax assessment of two tourist resorts, buildings appurtenant to the main buildings were assessed as separate units instead of reckoning the resorts as a single unit by the assessing authorities and tax on another two buildings were assessed for area lesser than the actual plinth area of the completed portion. These resulted in short levy of building tax of Rs 2.48 lakh.

After this was pointed out between March and November 2004, the Department stated in December 2004 and January 2005 that action had been taken to revise the assessment at Vythiri and Aluva. Final reply has not been received (December 2005).

The matter was reported to Government in June 2005. Government stated in November 2005 that revised notice had been issued in three cases involving Rs 1.47 lakh out of which Rs 0.50 lakh had been realised in two cases. Further report has not been received (December 2005).

Chapter V

Other Tax Receipts

CHAPTER V

OTHER TAX RECEIPTS

5.1. Results of Audit

Test check of the records of the offices of the State Excise and Registration departments, Agricultural Income Tax offices and Office of the Chief Electrical Inspector conducted in audit during the year 2004-05 revealed non/short levy of duty/tax, incorrect exemption, etc., amounting to Rs 21.17 crore in 232 cases which may be categorised as under.

(In crore of rupees)			
Sl. No.	Category	No. of cases	Amount
A. Stamps and Registration fees			
1.	Undervaluation of documents	40	0.51
2.	Incorrect exemption	6	0.03
3.	Other lapses	39	1.91
4.	Review on "Disposal of undervaluation cases in Registration Department"	1	9.03
B. State Excise			
5.	Less production of spirit from molasses	2	1.05
6.	Short levy of cost of establishment	5	0.15
7.	Non/short levy of interest on arrears	8	0.18
8.	Short/non-levy of duty due to other lapses	21	1.01
C. Taxes on Agricultural Income			
9.	Short levy due to grant of inadmissible expenses	34	1.70
10.	Income escaping assessment	21	0.40
11.	Incorrect computation of income	8	0.07
12.	Incorrect computation of tax	5	0.06
13.	Other items	38	3.67
D. Taxes and Duties on Electricity			
14.	Short collection of surcharge	1	0.90
15.	Non demand of interest on duty/surcharge	3	0.50
	Total	232	21.17

During the year 2004-05 the departments accepted underassessments, etc., of Rs 2.57 crore involved in 115 cases of which 10 cases involving Rs 38.31 lakh were pointed out during 2004-05 and rest in earlier years. At the instance of audit, the departments collected an amount of Rs 81.34 lakh in 81 cases of which five cases involving Rs 1.57 lakh were pointed out during 2004-05 and the rest in earlier years.

In one case entire amount on a draft para on 'short collection of cost of establishment' amounting Rs 2.66 lakh was collected by the Excise Department after the facts were brought to notice of the Government.

A few illustrative cases including review on 'Disposal of undervaluation cases in Registration Department' involving Rs 10.34 crore are given in the following paragraphs.

A. Stamps and Registration fees

5.2. Review on "Disposal of undervaluation cases in Registration Department"

Highlights

- Though 5,80,080 cases with anticipated additional revenue of Rs 94.39 crore were brought under the compounding scheme 2002, revenue realised was only Rs 13.70 crore in 94,991 cases. (Paragraph 5.2.10.)
- 4,85,089 cases involving Rs 268.96 crore were pending settlement on expiry of compounding scheme 2002 in March 2004 (Paragraph 5.2.11.)
- Stamp duty and registration fee amounting to Rs 9.03 crore was not demanded in 18,403 cases (Paragraph 5.2.12.)

5.2.1. Introductory

Under the Registration Act, 1908, instruments affecting immovable property are to be presented for registration in the office of Sub Registrar (SR) within whose sub district the whole or some portion of the property is situated. Section 45 B of the Kerala Stamp Act, 1959 (KSA) provides that if the registering officer while registering instruments involving transfer of property has reason to believe that the value of the property or the consideration has not been fully and truly set forth in the document, he may, after registering such document refer the same to the Collector for determination of the value or consideration and the duty payable thereon. The Collector may *suo motu*, within two years from the date of registration of any instrument not already referred to him, call for and examine the instrument and determine its consideration and the duty payable thereon. Government in October 1986 appointed District Registrars (DR) as Collectors for this purpose. Procedure for determining consideration and duty is prescribed in Kerala Stamp (Prevention of Undervaluation of Instruments) Rules 1968 (KSPUVIR). A right of appeal against the order of the DR lies with the District Court within whose jurisdiction the property transferred is situated.

Government introduced compounding schemes in 1997 and 2002 with the objective of settling pending undervaluation cases. Under the first scheme liability of the parties stood completely discharged on payment of 30 *per cent* of the stamp duty already levied and under the second scheme on payment of 30 *per cent* of the deficit stamp duty and registration fee in addition to the amount already paid by them.

5.2.2. Organisational set up

Registration Department is headed by the Inspector General of Registration (IGR). Under him, there are four* zonal offices headed by Deputy IGRs. There are 14 offices of DR (General) one in each district, 10 offices of DR (Audit) and 308 sub registry offices (SROs). DR (General) exercises general supervision and DR (Audit) is entrusted with the internal audit of the SROs. Disposal of undervaluation cases is being done by DR (General)

5.2.3. Audit objectives

The review was conducted with a view to ascertain :

- reasons for huge pendency of undervaluation cases;
- whether prompt action was taken to report and dispose of undervaluation cases and demand and realise deficit amount due;
- whether the objectives of the compounding scheme introduced in 2002 were achieved;
- whether there was any lacuna in the relevant Act and Rules and
- whether proper internal control system existed in the Department.

5.2.4 Scope of audit

A review on "Disposal of undervaluation cases in Registration Department" with special emphasis on the compounding scheme introduced in 2002 was conducted between October 2004 and February 2005 with reference to the records in the office of the IGR and nine* offices each of DR (General) and DR (Audit) and 31 SROs. The results of review are given in succeeding paragraphs.

5.2.5. Fixation of fair value of land

Section 28A of the KSA requires that every revenue divisional officer (RDO) shall, subject to such rules as may be made by the Government, fix the fair value of land situated within the area of his jurisdiction, for the purpose of determining the duty chargeable at the time of registration of instruments involving land. Government constituted a committee for studying the fixation

* South Zone, South Central Zone, North Central Zone and North Zone

* District Registrars' offices at Alappuzha, Ernakulam, Kannur, Kottayam, Kozhikode, Malappuram, Palakkad, Thiruvananthapuram and Thrissur

of fair value of land for registration purpose and allied subjects which observed that under the existing law there was no effective machinery to check undervaluation in property transaction and that there would be substantial reduction in undervaluation once the fair value was fixed. The committee recommended in January 1999 fixation of fair value of each and every survey number of land using scientific methods. Accordingly, fair value of land in the State was fixed by the RDOs concerned as per notifications issued on 5 January 2004. This was, however, withdrawn on 19 February 2004 in response to public complaints to provide opportunity to interested parties to file objections/suggestions on the value notified. Government directed the RDOs in February 2004 to notify the earlier fair value as a draft notification and issue final notification after considering objections and suggestions received from the public within 120 days from the draft notification. But final notification of fair value has not been issued even after 17 months.

In the absence of fair value/minimum value, the registering officers were forced to report cases indiscriminately to the DR leading to huge accumulation of undervaluation cases.

The Department admitted in May and July 2005 that fixing of value of land would reduce the number of undervaluation cases apart from bringing more revenue to Government. Valuation of land had almost been finalised and Government had to decide the date from which it is to be made applicable.

5.2.6 Trend of disposal of undervaluation cases

As per general memorandum dated 21 October 1986, the DRs were required to maintain a register for the purpose of watching progress of disposal of undervaluation cases. Out of nine DR offices test checked, the prescribed register was not maintained in seven^{*} offices during the period falling prior to January 1995 and January 2001. In the absence of these registers, year wise/age wise analysis of disposal of undervaluation cases could not be made.

The table below indicates the overall achievement in disposal of undervaluation cases reported from 1 January 1996 to 31 March 2002 as on 13 August 2002, the date of introduction of compounding scheme of 2002.

(In crore of rupees)			
Sl. No	Description	No.	Stamp duty (including registration fee involved)
1.	Cases reported from 1.1.96 to 31.3.02	5,18,798	
2.	i) Cases where final orders were issued by the DR	3,19,693	154.27
	ii) Cases where recovery was made	1,42,591 (45 per cent)	35.36
	iii) Cases where recovery was not made despite issue of final order	1,77,102 (55 per cent)	118.91
3.	Cases where final orders were not issued 1-2(i)	1,99,105	
4.	Cases pending settlement as on 13.8.02 and subsequently brought under compounding scheme 2002 2(iii) + 3	3,76,207	

^{*} Ernakulam, Kannur, Kottayam, Kozhikode, Malappuram, Thiruvananthapuram and Thrissur

The Department attributed non serving of Form II notices for want of prescribed forms in 16,755 cases and non initiation of further action since issue of Form II notices in 1,82,350 cases as reason for non issue of final orders.

Out of 1,77,102 cases where remittance of deficit amount as per final order was due as on 13 August 2002, only 27,524 cases were reported for recovery under RR Act. Remaining 1,49,578 cases involving deficit amount of Rs 98.27 crore were not referred under RR Act, due to non receipt of recommendations from SRs.

5.2.7. Delay in processing undervaluation cases

Under KSPUVIR, the registering officer should furnish a statement in Form IA along with a reference for determination of value or consideration and proper duty payable thereon to DR. The DR by a notice in Form II/IIA should intimate the parties involved of the receipt of such reference and allow them 21 days for making representation, if any. He may collect records from any public office, inspect the property, consider the representation, if any, from the parties and pass a provisional order determining the value and duty payable and communicate a copy of the order to all those liable to pay duty. He should pass the final order on the value or consideration and duty payable after giving the parties a reasonable opportunity of being heard and considering relevant facts and evidence before him. DR should communicate the order to the parties and registering officer concerned and take steps to collect the deficit amount. If the amount as per the final order is not remitted within the time allowed, the SR is required to report such cases to the DR for revenue recovery (RR). No time limit has been prescribed in the Rules for issue of Form II/IIA notices and provisional/final orders

Test check in audit of 650 cases in 9 DR offices and 580 cases in 31 SROs referred between April 1999 and March 2002 revealed that:

in 27 SROs there were delays ranging from three to 49 months in recommending 580 cases involving Rs 48.86 lakh between April 1999 and March 2002 under RR Act to the DR;

column in Form IA explaining how consideration/ duty was arrived at had not been filled by the SRs in 75 cases (Rs 84.93 lakh), presumptive value was given in 66 cases (Rs 98.87 lakh) and explanation given was not specific in 57 cases (Rs 72.13 lakh);

- there was delay ranging from three months to five years in issuing Form II/IIA notices in 175 cases;
- in 133 cases (Rs 12 lakh), provisional orders were passed after four to 60 months from issue of Form II/IIA notices.

- in Kannur in 25 cases involving Rs 1.98 lakh, Form II notices and provisional orders were issued on the same day, and
- in 120 cases (Rs 10.02 lakh) final orders were passed after a delay of four to 60 months after issue of provisional orders.

After this was pointed out, the Department accepted in July 2005 audit observations and attributed the delay to shortage of staff. It was further stated that the shortage of staff had not been worked out and no work study in this regard was conducted during past 20 years and that it could not quantify the shortage as no work norms existed in the Department.

5.2.8. Loss due to non preservation of case files

Under Order No. 568 of Kerala Registration Manual Part I Vol. II, special care shall be taken regarding preservation and against tampering of the records maintained in registration offices.

On expiry of compounding scheme 1997 in 1999 March, 7,47,479 cases of pre 1996 period were pending settlement. The Department failed to take further action for realising the deficit amount or to preserve the files properly. Consequently, 5,04,922 case files in 13* DR offices were reported to be destroyed by white ants/not traceable making it impossible to realize the dues. Loss of revenue on this account based on average rate of demand under the compounding scheme 2002 worked out to Rs 275.20 crore.

The Department stated that the files could not be arranged/preserved properly due to lack of space and adequate infrastructural facilities.

5.2.9. Appeals allowed/remanded due to non compliance of the provisions of the Act/Rules

According to sub section (4) of Section 45B of the KSA, any person aggrieved by an order of the Collector under sub sections (2) or (3) may appeal to the District Court within whose jurisdiction the property transferred is situated. The appeal shall be filed within thirty days of the date of the order sought to be appealed against.

Under Article 21 of the schedule to the KSA, stamp duty on “conveyance” is to be paid on the amount or value of the consideration for such conveyance. The procedure/principles for determination of value or consideration, issue of provisional/ final orders, manner of service of notice and orders to the parties are laid down in Rules 4 to 7 and Rule 15 of the KSPUVIR. The above provisions were not often complied with by the DRs with the result that the appeals filed against the orders of the DRs were either allowed or remanded for fresh disposal.

* Ernakulam, Idukki, Kannur, Kasargod, Kollam, Kottayam, Kozhikode, Malappuram, Palakkad, Pathanamthitta, Thiruvananthapuram, Thrissur and Wayanad.

Test check of 140 cases disposed of by District Courts between October 2000 and July 2004 revealed that appeals were allowed in 43 cases in four* DR offices and were remanded for fresh disposal in accordance with law in 88 cases in six †DR offices.

The above situation could have been avoided had the provisions of the Act/Rules been complied with by the DRs.

Department stated in July 2005 that officers were not competent or adequately trained for handling quasi judicial function.

5.2.10. Disposal of undervaluation cases under Compounding Scheme 2002

Government vide notification dated 13 August 2002 introduced a scheme for disposal of about nine lakh undervaluation cases referred to the Collectors by the registering officers under sub section (1) of Section 45B of KSA or on the cases on which *suo motu* action had been taken by the Collector under sub section (3) and pending as on 31 March 2002. The salient features of the scheme were:

- liability of the parties for stamp duty and registration fee shall stand completely discharged on payment of 30 *per cent* of the deficit stamp duty and registration fee in addition to the amount already paid by them;
- the cases of undervaluation referred for RR proceedings for recovery of deficit stamp duty and registration fee shall also be brought under the purview of the notification except those cases in which the parties have already paid the due amount in part or full.

Government estimated recovery of Rs 105 crore under the scheme. The scheme was initially for a period of one year from 13 August 2002 and it was later extended to 31 March 2004 vide notification dated 20 January 2004.

Under this scheme, additional demand of Rs 94.39 crore (stamp duty Rs 79.92 crore and registration fee Rs 14.47 crore) was raised in 5,80,080 cases. But only Rs 13.70 crore could be realised in 94,991 cases. The Department failed to collect Rs 80.69 crore in remaining 4,85,089 cases.

The overall achievement during the two terms of the scheme was only 16 *per cent* of the pending cases. As against mobilisation of additional revenue of Rs 105 crore estimated under the scheme, the revenue actually realised was only Rs 13.70 crore. Thus the scheme failed to achieve the intended results.

* Ernakulam, Palakkad, Thiruvananthapuram and Thrissur.

† Alappuzha, Kannur, Kottayam, Kozhikode, Malappuram and Thiruvananthapuram

After this was pointed out, the Department stated in May 2005 that only ordinary people who were afraid of law and Government policies and who did not have the ability to move the court remitted the deficit amount and the parties well versed in legal aspects did not respond leading to failure of the scheme.

5.2.11. Lack of follow up action on unsettled cases

Currency of compounding scheme 2002 expired on 31 March 2004. In cases where the parties did not respond to the scheme, the Department was required to demand 100 per cent of the deficit stamp duty and registration fee payable as required under section 45 B of KSA

On expiry of the scheme, 4,85,089 cases involving stamp duty and registration fee of Rs 228.23 crore and Rs 40.73 crore respectively were pending settlement. No action was taken for realisation of the same.

Department stated in May 2005 that separate instructions had not been issued into the DRs to realise the dues in the above cases.

5.2.12. Non demand of deficit duty

According to information furnished by Department, in DR offices Ernakulam, Kasargod and Pathanamthitta in 18,403 cases, demands were not raised under the compounding scheme, 2002. These cases also did not figure in the list of cases pending settlement after expiry of the scheme. This resulted in non demand of deficit duty and fee amounting to Rs 9.03 crore at the average rate of demand under the compounding scheme.

5.2.13. Compounding scheme ultra vires the provisions of the Act

Section 9 of the KSA under which the compounding scheme was introduced empowers Government to reduce or remit stamp duty on any or all of a particular class of instrument and on instruments executed by or in favour of a class of persons. But the Act does not provide for composition or consolidation of duties on any instrument other than duty on bonds and marketable securities (excluding debentures) issued by incorporated company or other body corporate. Hence, the compounding scheme 2002 introduced by Government was beyond the powers conferred by the Act.

5.2.14. Deficiencies in Act and Rules

Prior to 1988 undervaluation cases were dealt with under Section 45A of the KSA. By an amendment in 1988 it was renumbered as Section 45B and a provision to deal with instruments not bearing stamp of sufficient amount as per minimum value of land was introduced as Section 45A. However, corresponding amendment was not incorporated in the KSPUVIR and hence

existing Section 45B of the KSA continues to be mentioned as 45A in the Rule.

After this was pointed out, the Department stated in May 2005 that necessary amendments to the KSPUVIR are to be made and steps will be taken in this matter at the earliest. Further reply has not been received (December 2005).

5.2.15. Internal control

Internal control is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built in internal control mechanism and strict adherence to statutes, codes and manuals provide reasonable assurance to the Department about compliance of applicable Rules, thus achieving reliability of financial reporting, effectiveness and efficiency in departmental operations. Internal control is effected through internal inspection, internal audit and maintenance of registers. The Registration Department has separate wings for inspection and internal audit.

• Inspection

According to Kerala Registration Manual Part II Vol. I, the IGR should inspect the SR office at least once in five years and DR's office every year. The DR shall inspect the SR office twice in every calendar year.

The position of inspection by IGR and DRs is given as under :

Year	Number of Inspections							
	Target		Achievement		Shortfall		Percentage of shortfall	
	IGR	DR*	IGR	DR	IGR	DR	IGR	DR
1999	24	588	2	164	22	424	92	72
2000	24	588	7	164	17	424	71	72
2001	24	588	3	181	21	407	88	69
2002	24	588	20	176	4	412	17	70
2003	24	588	6	208	18	380	75	65

It would be seen that there was a short fall of 17 to 92 *per cent* in Inspection of DR's office by the IGR and short fall in inspection of SROs by DR (General) ranged between 65 and 72 *per cent*.

* does not include 14 Principal SROs which need not be inspected by DR (GI)

- **Internal audit**

Internal Audit is expected to provide an assurance regarding the adequacy and effectiveness of internal controls. According to Kerala Registration Manual, DR (Audit) who is entrusted with the internal audit of the SROs should audit the SROs twice a year. The position of internal audit during last five years is given as under:

Year	Number of Inspections			
	Target	Achievement	Shortfall	Percentage of shortfall
1999	616	229	387	63
2000	616	214	402	65
2001	616	233	383	62
2002	616	198	418	68
2003	616	231	385	63

There was a short fall of 62 to 68 *per cent*

Department stated diversion of staff for disposal of undervaluation cases, shortage of staff and priority given for issue of liability certificate to retired officials as reason for shortfall in inspection/audit.

5.2.16. Conclusion

The review revealed that the Government failed to fix fair value of land for registration purposes resulting in accumulation of undervaluation cases. Absence of time limit for disposal of undervaluation cases resulted in inordinate delay in disposal as well as in raising demand and realisation of amount ordered to be collected. Only 13 *per cent* of the targeted amount could be collected under Compounding Scheme 2002. The Department failed to take action against those who did not respond to the compounding schemes of Government. Lack of adequate system for preservation of undervaluation cases resulted in destruction/loss of lakhs of files. In addition, there was deficiency in relevant Act and Rules.

5.2.17. Recommendations

Government may consider

- issue of notification to prescribe fair value of lands as required under Section 28A of the KSA at the earliest;
- fixation of a specific time limit for disposal of undervaluation cases;
- fixing responsibility for pursuance of arrear cases under RR Act on a time bound basis and
- providing adequate infrastructure for preservation of undervaluation case files etc.

5.2.18. Acknowledgement

Audit findings as a result of review were reported to Department/Government in July 2005 with a specific request to attend the meeting of Audit Review Committee so that the view point of Department/Government was taken into account before finalising the review. The meeting was held on 29 July 2005 and attended by the Additional Secretary, Taxes Department, Government of Kerala and IGR. The views expressed by the members have been taken into account during finalisation of the review.

B. State Excise

5.3. Low production of spirit from molasses

As per the Kerala Excise Manual, Volume II, a yield of about 475 proof litres of spirit per tonne of molasses may be taken as a fair average out turn whereas the norm fixed by the Central Board of Molasses was 373.5 proof litres. The Kerala Distillery and Warehouse Rules, 1968, envisage that whenever the out turn of spirit is consistently low, the officer should arrange for examination of samples of the spent wash as it leaves the still. Mention was made in the Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1997 and 31 March 1999 on low yield of spirit in the years 1994-95, 1996-97 and 1997-98. Government in the statement of action taken on the recommendation of Committee on Public Accounts (1998-2000) in their 59 Report stated in April 2003 that action had been taken to amend the Manual and Rules to ensure correct yield of spirit and to make sample testing of fermented wash before distillation and spent wash after distillation mandatory.

Test check of records of three distilleries at Thiruvalla, Cherthala and Palakkad for the years 2002-03 and 2003-04 revealed that 80.48 lakh proof litres of spirit was produced from 23617.185 metric tonnes of molasses as against Rs 88.21 proof litres due under the norms fixed by Central Board of Molasses. Excise duty involved in the short yield of 7.73 lakh proof litres amounted to Rs 1.20 crore. No action has been taken to amend the Manual so far.

The matter was reported to the Department and Government between January 2004 and August 2005; their reply has not been received (December 2005).

5.4. Short levy of interest

Under the Kerala Abkari Shops (Disposal in Auction) Rules, 1974, interest payable on all money due to Government was 12 *per cent per annum* up to 31 March 1986 and 18 *per cent* thereafter. Honorable High Court of Kerala held* that State can demand interest at 18 *per cent* from 1 April 1986 on arrears accrued prior to that date. Government amended the Rule in June 2000 to allow reduction in interest to defaulters who pay the entire arrears of rental, taxes, duties, etc., before 31 August 2000. Interest payable was 25 *per cent* of the interest accrued limited to the amount of principal.

In three* excise circle offices, in four cases, while settling in August 2000 the abkari arrears of Rs 39.30 lakh for the period from 1980-81 to 1983-84 under the scheme in force from June to August 2000, circle officers computed the interest from 1 April 1986 at the rate of 12 *per cent* instead of 18 *per cent*. This resulted in short levy of interest of Rs 11.31 lakh.

After this was pointed out between March 2003 and January 2005, the Department stated in March 2005 that a sum of Rs 1.53 lakh due from Sulthan Bathery had been adjusted from excess licence fee remitted on a bar hotel owned by the defaulter. Further report has not been received (December 2005).

This was reported to Government in August 2004. Government informed in November 2005 that demand notice had been issued for realisation of Rs.6.73 lakh in two cases of North Parur. Further report has not been received (December 2005).

* G. Mohandas Vs State of Kerala 1999

* North Parur, Sulthan Bathery and Wadakkancherry

Chapter VI

Non Tax Receipts

CHAPTER VI

NON TAX RECEIPTS

Forest Receipts

6.1. Results of Audit

Test check of the records of offices of the Forest Department conducted in audit during 2004-05 revealed non levy/short realisation of revenue amounting to Rs 8.65 crore in 16 cases, which may broadly be categorised as under.

(In crore of rupees)			
Sl. No.	Category	Number of cases	Amount
1.	Short/non demand of lease rent/penal interest on forest lands	4	0.52
2.	Loss in auction/reauction, disposal of forest produce, short/non realisation of penalty and other charges	6	2.11
3.	Other lapses	5	4.80
4.	Review on “Receipts of Forest and Wild Life Department”	1	1.22
	Total	16	8.65

During 2004-05, the Department accepted underassessment of Rs 1.15 lakh involved in one case pointed out during 2004-05.

A few illustrative cases including a review on “Receipts of Forest and Wild Life Department” involving Rs 1.52 crore are given in the following paragraphs.

6.2. Review on “Receipts of Forest and Wild Life Department”

Highlights

- Blockage of revenue of Rs 75.27 crore due to non extraction of timber on account of delay in preparation of working plan/omission to include necessary prescription in working plan/non execution of work as per working plan.

(Paragraph 6.2.6.)

- Timber worth Rs 61.65 crore standing in the lands assignable to pre 1977 encroachers remains unextracted in five divisions.

(Paragraph 6.2.7.)

- In three divisions there was non/short demand of lease rent of Rs 1.22 crore from two lessees.

(Paragraph 6.2.8.)

6.2.1. Introduction

The Kerala Forest Act, 1961 governs the laws relating to protection and management of forests in the State. The Forest (Conservation) Act, 1980 (Central Act) controls the activities in forests to protect and maintain forest cover. Under the Central Act, it is necessary to get prior approval of the Central Government for the use of forest land for non forest purposes. The Forest and Wild Life (F&WL) Department is entrusted with the work of conservation and exploitation of forests. The functions include protection and development of forests so as to ensure their sustainable use and maintenance.

Receipts of F&WL Department include receipts from the sale of timber and other forest produce, royalty on raw materials supplied, lease rent, licence fee, entry fee, etc., and form a major portion of the non tax revenue of the State.

6.2.2. Organisational set up

Principal Chief Conservator of Forests (PCCF), Thiruvananthapuram is the head of the department. One additional PCCF (D&P^{*}), two Regional Chief Conservators of Forests (RCCF) at Kollam and Kozhikode and seven Chief Conservators of Forests (CCF) at headquarters assist him in the functioning of the Department. CCF (Wild Life) and CCF (Social Forestry) control the functioning of the respective wings. The forest area is divided into territorial and wild life circles. The circles are subdivided into divisions and divisions into ranges.

^{*} Development and Planning

There are eight territorial/wild life circles^{*}, 36 divisions[‡] and six timber sales divisions[♦] (TSDs). The circles are under the charge of Conservator of Forests (CF) and divisions under the charge of Divisional Forest Officers (DFO). Forestry operations are carried out by the Range Officers (RO) under the control and direction of the DFO and CF.

6.2.3. Scope of Audit

A review of the assessment and collection of forest revenue covering the period from 1999-2000 to 2003-04 was conducted between October 2004 and January 2005. Records in the office of PCCF, two RCCFs[♥], five^{*} out of eight circles, 16[♦] out of 36 divisions and three^{*} out of six TSDs were verified.

6.2.4. Audit objectives

The review was conducted to ascertain whether:

- working plans (WPs) of the divisions were prepared and got approved by the Government of India in time and whether the activities envisaged in the WPs were executed promptly;
- trees available in forest lands assignable to other parties were extracted and the revenue therefrom realised;
- lease deeds were executed for the lands leased out to PSUs[®]/autonomous bodies of Government and the lease rent was correctly demanded, collected and accounted for;
- internal audit system in the department was adequate and effective.

6.2.5. Trend of Revenue

Under the Kerala Budget Manual, the heads of departments shall forward proposals for budget estimates of receipts directly to the Finance Department with a copy to the concerned administrative department in Government, which in turn shall forward the same to the Finance Department with their remarks. The Finance Department will examine the estimates in the light of actuals for the previous financial year and the first five months of the current year and

^{*} Northern Circle - Kannur, Southern Circle- Kollam, High Range Circle - Kottayam, Eastern Circle - Palakkad, Central Circle - Thrissur, and Wild Life Circles at Kottayam, Palakkad and Thiruvananthapuram.

[‡] Achencoil, Chalakkudy, Kannur, Konni, Kothamangalam, Kottayam, Kozhikode, Malayattur, Mankulam, Mannarkkad, Munnar, Nenmara, Nilambur North, Nilambur South, Palakkad, Punalur, Ranni, Thenmala, Thiruvananthapuram, Thrissur, Vazhachal, Wayanad North, Wayanad South, and Wild life divisions at Agasthyavanam Biological Park, Aralam, Eravikulam, Idukki, Parambikulam, Peechi, Periyar East, Periyar West, Shendurani, Silent Valley, Wayanad, Eco Development Division Thekkady and Thiruvananthapuram.

[♦] Timber sales divisions at Kottayam, Kozhikode, Palakkad, Perumbavoor, Punalur and Thiruvananthapuram

[♥] Kollam and Kozhikode

^{*} Southern Circle Kollam, High Range Circle Kottayam, Field Director (Project Tiger) Kottayam, Eastern Circle Palakkad and Wild Life Circle Palakkad.

^{*} Achencoil, Konni, Kothamangalam, Kottayam, Malayattur, Munnar, Nilambur(N), Nilambur (S), Palakkad, Punalur, Ranni, Thiruvananthapuram, Thrissur, Wayanad (S), Wayanad (N) and Wild Life Division Peechi.

^{*} Palakkad, Perumbavoor and Punalur

[®] Public sector undertakings

then finalise the estimates for the ensuing year. 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 Government.

The budget estimates and actual receipts of the department during the years 1999-2000 to 2003-04 were as follows.

(In crore of rupees)

Year	Estimates furnished by the department	Budget Estimates	Actual Receipts	Variation increase (+)/ decrease (-)	Percentage of variation
1999-2000	♥	160.08	109.88	(-) 50.20	(-) 31
2000-01	♥	182.72	141.24	(-) 41.48	(-) 23
2001-02	150.00	150.00	113.70	(-) 36.30	(-) 24
2002-03	165.00	181.90	149.58	(-) 32.32	(-) 18
2003-04	♥	220.00	187.18	(-) 32.82	(-) 15

The above table shows that the department has not followed the provisions of budget manual while submitting proposals for the years 2001-02 to 2002-03 and also was not able to achieve the target in any of the five years, the shortfall ranging from 15 to 31 *per cent*. The Department stated in May 2005 that the shortfall was due to restriction on tree felling, paucity of funds for timber operations, non realisation of lease rent, etc.

6.2.6. Preparation and implementation of working plan

The silvicultural activities of a forest division are governed by the prescriptions in the approved WP of the division. A WP is a written scheme of management aiming at a continuity of policy, controlling the systematic treatment of a forest. The WPs are prepared by the Forest Department for a period of 10 years and contain prescriptions for timber operation in plantations, regeneration activities, collection of timber from dead and wind fallen trees, etc., and are got approved from the RCCF, Ministry of Environment and Forests, Government of India (GOI), Bangalore from 1998-99 onwards. Non following of the WP prescriptions/non inclusion of prescriptions in the WPs would lead to non realisation of revenue from timber operations and block regeneration activities affecting future revenue adversely. Test check of the records of 15 divisions and office of the PCCF relating to the preparation of WPs and the activities undertaken as per approved plans revealed the following:

- Two divisions (Malayattoor and Ranni) had no approved WP during the years 1999-2000 to 2001-02 resulting in blocking up of revenue from timber extraction during these years. Details of revenue blocked were neither furnished by the department nor could be worked out in audit due to non marking of trees for extraction.

♥ not made available

- As at the end of March 2004, six⁺ divisions had no WP. WPs in three⁺ of these divisions had expired between 1999 and 2002 and in the remaining three⁺ divisions in March 2004. The Department had not initiated action to finalise WPs of these divisions before the expiry of currency of WP in hand. The matured plantations in these divisions could not be extracted. Revenue blocked in three of these divisions (Achencoil, Munnar and Thiruvananthapuram) was Rs 8.51 crore as worked out by the Department.

After this was pointed out, the Department stated in May 2005 that WP of Thiruvananthapuram division had since been prepared and that action in respect of the other five divisions was in progress. As regards blockage of revenue, the Department stated that non extraction could not be considered as a blockage of revenue since the trees were growing and it was a source of increased revenue. The reply is not tenable since the plantations due for extraction were all matured and matured plantations exposed to the vagaries of nature would deteriorate in quality and hence less revenue would be realised in future.

- In four⁺ divisions, thinning operations due as per WP were not carried out in 27 plantations between 1999-2000 and 2003-04. This resulted in blockage of revenue of Rs 51.40 crore in two divisions (Ranni and Thrissur) as worked out by the Department. The other two divisions did not furnish the quantum of revenue involved.

- In five⁺ divisions, timber worth Rs 11 crore available from the windfallen trees could not be extracted due to non inclusion of requisite prescriptions in the WPs. RCCF, GOI requested the Secretary, Forest in July 2004 to forward a comprehensive proposal for all divisions where similar prescriptions were to be included.

After this was pointed out, the department stated in March 2005 that action was being taken to include requisite prescriptions in the WPs. Further report has not been received (December 2005).

- In five⁺ divisions, timber was not extracted from the windfallen trees between 2001 and 2004 despite prescriptions in the WP. The Department estimated value of timber in three divisions (Achencoil, Nilambur (North) and Wayanad (North)) at Rs 4.36 crore whereas in remaining two divisions, the Department did not estimate the value of timber.

After this was pointed out, the department stated in March 2005 that action had since been initiated for extraction.

⁺ Achencoil, Kottayam, Munnar, Palakkad, Thenmala and Thiruvananthapuram

⁺ Kottayam, Munnar and Thiruvananthapuram

⁺ Achencoil, Palakkad and Thenmala

⁺ Malayattur, Konni, Ranni and Thrissur

⁺ Kothamangalam, Malayattur, Mankulam, Thrissur and Wayanad (S)

⁺ Achencoil, Konni, Nilambur (N), Ranni and Wayanad (N)

6.2.7. Non extraction of timber from forest lands assignable to encroachers

Under the Kerala Forest Act, all trees standing in forest lands under the occupation of private persons are the property of Government.

Government of Kerala approached the GOI in 1986 to regularise all pre January 1977 encroachments of forest land. GOI approved in January 1995 State's proposal to regularise 28,588 ha of encroached land.

It was decided in April 1997 at the level of Minister for Forests to carry out extraction of timber in encroached lands in Ranni and Punalur divisions without causing damage to the crops and property of the encroachers. However, verification of records in eight divisions revealed that standing trees on encroached forest lands were not felled and extracted as of January 2005 despite the decision taken in 1997. As per the estimation furnished by the Department, the value of such trees was Rs 61.65 crore in five divisions as detailed below.

(In crore of rupees)

Sl. No.	Division	Extent (ha)	Quantity (m ³)	Value
1.	Ranni	3,833.65	28,751	29.75
2.	Thrissur	725.00	12,750	25.50
3.	Thenmala	178.00	1,100	0.55
4.	Punalur	149.00	3,700	1.85
5.	Kannur	773.78	2,000	4.00
6.	Kottayam	14,942.00	(not furnished)	(not furnished)
7.	Munnar	474.64	2,046.35	(not furnished)
8.	Kothamangalam	2,000.00	15,000	(not furnished)
	Total	23,076.07	65,347.35	61.65

The Department stated in March 2005 that timber extraction from these areas was to be done without causing damage to environment and hence reports from the DFOs had been called for. Since the land is under encroachment and there is possibility of illicit felling/deterioration in quality and value of timber, Department/Government may consider extraction of these trees in a time bound programme.

6.2.8. Revenue from lease rent

Forest lands are leased out to various PSUs/autonomous bodies, individuals, etc., for raising plantations and for other purposes. The department levies lease rent at the rates prescribed by Government from time to time.

Government had fixed in January 1989 the rent payable by PSUs as Rs 1,300 per ha per year from 18 December 1987. Mention was made in paragraph 7.2 of the Report of the Comptroller and Auditor General of India (Revenue Receipts) Government of Kerala for the year ended 31 March 2000 about lease rent leviable from forest lands. The Committee on Public Accounts in their 46 Report recommended that urgent action be taken to resume back to Forest Department lands not used by the lessee agencies, collect the arrear lease rent

and prevent accumulation of arrears. The action taken by Government on these recommendations had not been received till May 2005. With a view to further examine the effectiveness in the recovery of lease rent from PSUs, records of the office of the PCCF were test checked and findings thereof are as given under.

Non execution of lease deeds

Lease deeds for 13,825.93 ha of forest land leased out to KSEB* since 1964 and 10,717.182 ha of forest land leased out to KFDC* between 1976 and 1982 have not been executed. Government refixed in January 2000 the lease rent payable by KSEB with retrospective effect from 1 January 1978. Similarly, in January 2002, Government refixed the lease rent payable by KFDC from 1976.

Non execution of lease deeds enumerating the conditions of leasehold, schedule of payment of lease rent and clauses for violating the condition of leasehold would affect prompt realisation of Government revenue and cause consequent accumulation of arrears.

Non/short levy of lease rent

- Government accorded sanction in November 1964 for transfer of forest land from Ranni division for Sabarigiri Hydro Electric Project of KSEB and exempted areas covered by dams, water spread area, etc., from lease rent. However, in January 2000, Government refixed lease rent payable by KSEB for land area and water spread area with effect from 1 January 1978 as follows.

Period	Rate
1 January 1978 to 17 December 1978	Rs 250 per ha <i>per annum</i>
18 December 1978 to 17 December 1981	Rs 475 per ha <i>per annum</i>
18 December 1981 to 17 December 1987	Rs 615 per ha <i>per annum</i>
From 18 December 1987	Rs 1,300 per ha <i>per annum</i>
	For water spread area, the rates would be fixed at 25 <i>per cent</i> of the above rates

Ranni division collected lease rent from 1999-2000 to 2001-2002 for both land and water spread areas at the rate specified in Government order. But demand of lease rent for the water spread area of 1,968 ha for the period 1 January 1978 to 31 March 1999 was not raised. This resulted in non realisation of lease rent of Rs 98.33 lakh.

* Kerala State Electricity Board

♦ Kerala Forest Development Corporation Limited

- Government fixed in January 2002 the lease rent payable by KFDC as below.

Nature of land/ area in ha	Period	Lease rent per ha per annum (Rs)	Old rates of lease rent per ha per annum (Rs)
Cultivated with trees/ 7,748.441	1976 to March 2001	25	1976-78 - 250
	April 2001 onwards	50	1978-81 - 475 1981-87 - 615
Cultivated with cash crops/ 2,968.741	1976 to March 2001	100	1988-till date - 1,300
	April 2001 onwards	200	

In Kothamangalam and Munnar divisions, 539.89 ha and 1,212.58 ha respectively of forest land were leased out to KFDC from 1976 onwards. But the concerned DFOs did not raise the demand for payment of lease rent for the years between 1976 and 2002 at revised rates. Further, the DFO, Kothamangalam demanded lease rent for the years 2002-03 and 2003-04 at the rate of Rs 50 instead of Rs 200 applicable for cash crops. This resulted in short/non levy of lease rent of Rs 23.78 lakh.

After this was pointed out, the department stated in May 2005 that demand for Rs 9.20 lakh had since been raised. Report of recovery in this case and reply for recovery of the remaining amount have not been received.

Unauthorised retention of leasehold land

The Forest (Conservation) Act prohibits the use of forest land for non forest purpose without the prior approval of the Central Government.

An extent of 21.20 acres (8.58 ha) in Periyar East Division, Thekkady was leased out to Kerala Tourism Development Corporation Limited (KTDC) for a period of 25 years from August 1971. On expiry of the lease period in August 1996, the Wild Life Preservation Officer, Thekkady requested KTDC to surrender the leasehold. KTDC did not hand over the leasehold and submitted formal application for renewal of leasehold. State Government forwarded, in March 1998, the application for renewal to GOI for approval. GOI rejected, in July 2001, the proposal for renewal of leasehold in view of the provisions of Wild Life Protection Act, 1972 and orders of the Hon'ble Supreme Court imposing complete embargo on dereservation of any national park/sanctuary. Government/department did not initiate any action to get the leasehold land surrendered. Instead, Government again took up the matter with GOI in November 2002 for getting approval for extension of the leasehold, against which further response of GOI is awaited. Thus, even though the request of KTDC was not admissible in view of specific provision in the Forest (Conservation) Act and was liable to be rejected, Government of Kerala opted to keep the case pending with repeated requests to GOI. This has resulted in unauthorised retention of 8.58 ha of forest land by KTDC.

Arrears of lease rent

Arrears of lease rent as on 31 March 2004, as reported by the Department in September 2005, was Rs 43.06 crore. Of these, arrears due from three[▼] PSUs were Rs 41.43 crore. The arrears of lease rent due as on 31 March 2003 and 31 March 2004 from four PSUs furnished by the Department were as follows:

(In crore of rupees)			
Sl. No.	Name of PSU	Arrears as on 31 March 2003	Arrears as on 31 March 2004
1.	Kerala Forest Development Corporation Limited (KFDC)	2.32	0.44
2.	Kerala State Electricity Board (KSEB)	13.46	20.99
3.	The Plantation Corporation of Kerala Limited (PCK)	40.80	20.00
4.	The State Farming Corporation of Kerala Limited (SFCK)	4.26	-
	Total	60.84	41.43

Government, in the Agricultural Department, had declared moratorium in January 2003 on the payment of lease rent by PCK till it repaid the loan taken by it from bank. The Department has been requested to state the reason for the arrears getting reduced from Rs 40.80 crore in March 2003 to Rs 20 crore in March 2004 when there was a moratorium on the payment of lease rent.

6.2.9. Other points

- Forest offences**

Forest offence means an offence punishable under Forest Act which includes felling of trees, quarrying of stones, setting fire to forest area, etc. Any produce/vehicle involved is liable to seizure/confiscation and is disposable after the Department compounds the offence or a court of law disposes the offence. Perishable items could be disposed of after obtaining necessary orders of the court before final disposal of the court case.

As per the information furnished by RCCFs Kollam and Kozhikode, 12,936 forest offences were pending disposal in five circles as on 31 March 2004. The value of seizures pending disposal was Rs 7.85 crore in four of these circles as given below.

(In crore of rupees)			
Sl. No.	Name of Circle	No. of cases	Value of seizures
1.	Southern Circle, Kollam	505	0.81
2.	High Range Circle, Kottayam	6,574	5.01
3.	Eastern Circle, Palakkad	3,971	1.18
4.	Northern Circle, Kannur	994	0.85
5.	Central Circle, Thrissur	892	Not furnished
	Total	12,936	7.85

In addition, 352 vehicles involved in 438 offences were also pending disposal. The year wise/stage wise details of pendency were not furnished. Non disposal

[▼] Kerala State Electricity Board, The Plantation Corporation of Kerala Limited, Kerala Forest Development Corporation Limited.

of thondy articles (seizures) would lead to exposure to the vagaries of nature and result in deterioration.

The encroachers of forest land who felled trees in the encroached area were booked in Peechi Range during 1999. The RO seized 576 pieces of timber valued at Rs 23.04 lakh and the offences were charged in the court. CCF (WL) accorded sanction in December 1999 for the disposal of materials subject to obtaining court order. The RO sought permission from court for the disposal of the thondy articles only in February 2003 and the same was granted in March 2003. However, only 46 pieces valued at Rs 3.12 lakh were available for disposal. Thus, delay on the part of the RO to seek permission from the court resulted in deterioration of the thondy articles and consequent loss of Rs 19.92 lakh.

- ***Non fixation of liability in case of loss sustained by Government***

As per Kerala Forest Code, the Government could hold any Government servant responsible for any loss sustained by Government through fraud or negligence on his part and fix responsibility for the loss sustained.

Range Officer, Nagarumpara reported to the DFO, Kottayam in October 2002 that 1,750 marked trees in Kottayam division were missing. Though the value of missing timber was reported to be Rs 1.35 crore, the liability for the loss sustained by Government was not fixed even after two years.

- ***Receipts from Wild Life wing***

Revenue collection in the Wild Life wing during the review period was as follows.

(In crore of rupees)	
Year	Amount
1999-2000	2.34
2000-2001	1.90
2001-2002	2.72
2002-2003	1.33
2003-2004	2.02

Major portion of the revenue of wild life divisions was from entry fees and boat charges. During 2002-03, Rs 78.10 lakh was collected as entry fee and boat charges. The rates were last fixed in October 1994. Though establishment charges of the personnel posted and operation charges of the boats have increased during the last 10 years, the rates have not been revised.

6.2.10. Internal audit

The internal audit wing (IAW) attached to the PCCF is headed by the Senior Finance Officer and is assisted by one junior superintendent and four clerks. Out of 139 ranges, the IAW inspected only 14 to 39 ranges per year during the years 1999-2000 to 2003-04. No divisions were audited during this period.

The year wise break up of the IRs/paras issued during the years 1999-2000 to 2003-04 were as follows.

Period	Opening balance		Addition during the year		Clearance		Closing balance		Percentage of clearance	
	No. of IRs	No. of paras	No. of IRs	No. of paras	No. of IRs	No. of paras	No. of IRs	No. of paras	No. of IRs	No. of paras
1999-00	147	475	36	227	-	-	183	702	-	-
2000-01	183	702	14	97	5	56	192	743	3	7
2001-02	192	743	34	124	17	354	209	513	8	41
2002-03	209	513	20	157	12	132	217	538	5	20
2003-04	217	538	39	231	13	210	243	559	5	27

The above table shows that the percentage of clearance of the IRs ranged between 'nil' and eight *per cent* and clearance of paras between 'nil' and 41 *per cent*. Increasing trend of outstanding objections indicated absence of a proper supportive environment for internal audit in the Forest Department. At the end of March 2004, 243 IRs with 559 paragraphs having a money value of Rs 1.61 crore were outstanding for remedial measures.

The department did not give any reason for the low clearance of audit observations but stated in May 2005 that audit of division offices was being taken up from 2005 onwards and audit plans were being drawn quarterly covering range offices and division offices where audit was pending for more than two years.

6.2.11. Recommendations

- The preparation of WPs may be closely monitored at forest headquarters. A check list of items to be incorporated in the WP may be prepared and circulated to the divisions for guidance and compliance. Similarly, programme may be chalked out that the divisions submit new WPs well in advance to PCCF so that approval of the same can be obtained from GOI before the expiry of the WP in hand. Headquarters office may watch the same through a calendar of returns.
- A time bound programme may be chalked out to extract timber from lands assigned to pre 1977 encroachers of forest land.
- Urgent action may be initiated to execute lease deeds for the lands leased out to KFDC and KSEB. It may be ensured that the lease rent is correctly and promptly demanded and collected.
- Government may consider revision of entry fee, boat charges, etc., to augment its resources.
- The IAW may be streamlined giving top priority for clearance of internal audit objections and conducting audit of all division/range offices in a span of five years.

During discussion, the department accepted all recommendations.

6.2.12. Acknowledgement

Audit findings as a result of review were reported to Department/Government in July 2005 with a specific request to attend the meeting of Audit Review

Committee on the topic so that the views of the department/Government were taken into account before finalising the review. The meeting was held on 1 August 2005 and attended by the Secretary, F&WL Department, Government of Kerala and Additional PCCF. The views expressed by the members have been taken into account while finalising the review.

6.3. Short demand of licence fees

As per the agreement between the Governments of Tamil Nadu and Kerala, Government of Tamil Nadu shall pay, in respect of all the lands made available to them by Government of Kerala for the Parambikulam-Aliyar Project, licence fees at the rate of land revenue prevailing in Kerala from time to time. The rates of land revenue from 1 April 1993 was Rs 50 per ha *per annum* and Rs 100 per ha *per annum* from 1 April 1998.

In Parambikulam Wild Life division, licence fee for the period 1 April 1992 to 31 March 2002 on 2,457.3466 ha of land leased out for the Parambikulam-Aliyar Project was remitted in May 2003. Audit noticed that fee for the period 1 April 1993 to 31 March 2002 was realised at the rate of Rs 24.70 per ha instead of Rs 50 per ha from 1 April 1993 to 31 March 1998 and at Rs 100 per ha from 1 April 1998. This resulted in short realisation of Rs 10.51 lakh towards licence fee for the period from 1 April 1993 to 31 March 2002. Similarly, the division had calculated licence fee for the period from 1 April 2002 to 30 September 2004 at the rate of Rs 24.70 per ha instead of Rs 100 per ha resulting in short demand of Rs 4.63 lakh.

After this was pointed out, the department stated in July 2005 that the Wild Life Warden, Parambikulam had raised additional demand for the balance amount. Further report has not been received (December 2005).

The matter was reported to Government in May 2005; their remarks have not been received (December 2005).

6.4. Short realisation of value of standing trees

As per the agreement executed in April 2000 by Government of Kerala and Hindustan Newsprint Limited (HNL), the value of standing trees in plantations transferred to HNL is to be paid as per valuation approved by Government. Apart from royalty on trees, the value also includes additional price and taxes in force from time to time.

In Munnar Division, value of Rs 1.03 crore was realised between 1994 and 2001 for the trees in 21 plantations transferred to HNL during that period. However, value of trees in 17 plantations was realised reckoning royalty only. This resulted in short realisation of Rs 14.91 lakh.

After this was pointed out in May 2005, the DFO, Munnar replied in September 2005 that a demand for Rs 14.91 lakh had been issued to HNL for remittance. Further report has not been received (December 2005).

The matter was reported to Government in May 2005; their reply has not been received (December 2005).

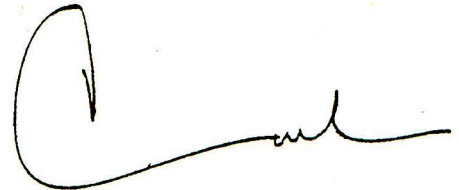


Thiruvananthapuram,
The

6 FEB 2006

(ARVIND K. AWASTHI)
Principal Accountant General (Audit), Kerala

Countersigned



New Delhi,
The

8 FEB 2006

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

Annexures

ANNEXURE – I

(Ref: Paragraph 1.12.4)

Yearwise, revenue head wise statements of remedial action taken notes due on Audit Paragraphs

Revenue Head Year of Report Date of presentation to the Legislature	Sales Tax	Taxes on Agricultural Income	State Excise	Forest Receipts	Stamps and Registration Fees	Others	Total
1994-95 4 March 1996	1						1
1995-96 11 March 1997						6	6
1996-97 23 April 1998						2	2
1997-98 19 February 1999						6	6
1998-99 21 February 2000						2	2
1999-00 1 March 2001	1					1	2
2000-01 11 March 2002	1	1					2
2001-02 16 June 2003	7	6			1	3	17
2002-03 28 June 2004	14	11	3	1		3	32
Total	24	18	3	1	1	23	70

ANNEXURE - II

Goods released without recording security deposit or advance tax collected (Ref : Paragraph 2.2.6)

						(Rs. in lakh)
Sl. No.	Name of Check post	Date of entry	Consignee/ Consigner	Name of goods	Value	Security Deposit due as noted in the Register
1.	Amaravila	1.1.2004	Not noted	Raw Rubber	5.11	1.12
2.	Karukutty	4-01	Jagajith Industries Kanjikode	IMFL	2.02	3.64
3.	„	2002-03	Ruchi Health Food Ltd.	Palm oil	3.66	0.34
4.	„	2003-04	Not noted	Rice and Wheat production	1.06	0.08
5.	„	2003-04	„	Body spray powder	11.56	5.32
6.	„	2003-04	„	Hydraulic Oil	9.58	6.61
7.	„	2003-04	„	„	9.58	6.61
8.	Cumbammettu	26.2.2001	„	Weighing machine	0.26	0.04
9.	„	25.5.2001	„	Tea	0.90	0.14
10.	„	16.6.2003	„	Electronic goods	1.68	0.31
11.	„	24.6.2003	„	Cast Iron Pipes	1.56	0.43
12.	„	29.5.2000	ABT Parcel Service	Cookware	2.22	0.53
13.	Meenakshipuram	2002-03	Not recorded	Molassess	4.08	0.75
14.	„	2000-01	„	Soap	1.41	0.34
15.	„	2000-01	„	Timber Logs	1.29	0.31
16.	„	2000-01	„	„	1.24	0.30
17.	„	2000-01	„	Base Oil (heavy)	1.25	0.30
18.	„	2000-01	„	G.I Sheet	5.21	0.42
19.	„	2000-01	„	Carbon black	3.20	0.77
20.	„	2000-01	„	Teak wood logs	3.78	0.91
21.	Naduppunni	2000-01	„	Machinery	0.67	0.11
22.	„	2003-04	„	Rectified spirit Paddy	9.83 0.84	4.52
23.	Velanthavalam	2002-03	„	Boomer straw	8.41	2.32
24.	„	2002-03	„	Eucalypts oil	3.13	0.29
25.	„	2002-03	„	Aluminium sheets	2.33	0.43
26.	„	2002-03	„	Clocks	1.00	0.28
27.	Walayar	2003-04	Kovalam Hotels Ltd	Polythene Mattings	4.47	0.12
28.	„	2003-04	Saradhi Industries Cochin	H.R Sheets	5.80	0.46
29.	„	2003-04	Cochin	Laminated sheet	7.91	2.18

(Rs. in lakh)

Sl. No.	Name of Check post	Date of entry	Consignee/ Consigner	Name of goods	Value	Security Deposit due as noted in the Register
30.	„	2002-03	Cochin	Fax machine	8.60	1.38
31.	„	2002-03	Taj Hotel Cochin	Furniture	2.61	0.72
32.	„	2001-02	Ernakulam	TV, Cnetta	16.40	1.31
33.	„	2001-02	KTC Industries Wadakkancherry	Carbon Slury	0.46	0.11
34.	„	2001-02	Apollo Tyres Cochin	Process Oil	1.54	0.74
35.	„	2001-02	Falcon Agencies	Foot ware	0.76	0.18
36.	„	2002-03	Glasstech Industries	Glasses	16.02	4.42
37.	„	29.1.03	Javoor Textiles Thimchirayode	Readymade Garments	20.76	3.82
38.	„	12.3.03	Nammkkal/ Pathanamthitta	Rectified Spirit	9.29	2.14
39.	„	20.10.02	V.S.N.L Kochi	Tel. Printer	5.43	1.00
Total						55.81

ANNEXURE – III
Incomplete maintenance of Entry tax register
(Ref: Paragraph 2.2.6)

(Rs. in lakh)

Sl. No.	Name of Check post	Date of entry	Name of Importer	Name of goods	Value	Rate	ET notings as per register
1	Amaravila	-10-03	M/s Rajeev Gandhi Centre for Bio Technology, Trivandrum	Air handling unit	3.76	16%	0.60
2	Walayar	-4-2001	BSNL, Trivandrum	Air Conditioner	6.62	16%	1.06
3	„	11.7.2001	Lake Shore Hospital Kochi	Scanner	116.11	8%	9.29
4	„	18.4.2001	Ceat Ltd Kochi	Power Oil	1.65	30%	0.50
5	„	7.12.2002	Kerala State Electronic Development Corp.	Computer	10.00	4%	0.40
6	„	7.12.2002	Cochin University of Science and Technology	Computer	7.22	4%	0.29
7	„	1-03	Cochin Refineries, Cochin	Electrical goods	15.97	8%	1.28
8	„	12-03	Honda Silicon production, Kochi	Generator	25.62	12%	3.07
9	„	21.12.03	KSEB Kalamassery	ACSR conductor	6.38	12%	0.77
10	„	21.12.03	„	ACSR conductor	6.85	12%	0.82
11	„	24.12.03	Edanad Health Care Ltd. Chengannur	Medical equipments	17.50	8%	1.40
12	„	27.12.03	Molali lubricates , Thrissur	Lubricating Oil	3.72	24%	0.89
13	„	12.03	S.B.I Chalakudy	A.T.M	5.98	8%	0.48
14	„	12.03	S.B.I Chalakudy	A.T.M	5.98	8%	0.48
15	„	12.03	Gulf Lubricants, Thrissur	Lubricating Oil	5.56	24%	1.39
16	„	5.1.04	Castor Oil Ltd. Kanjikode	Lubricating Oil	7.00	24%	0.21
17	„	5.1.04	K.S.E.B, Palakkad	Electric Meter	23.03	8%	1.84
18	„	11.1.04	Technator Oil India Ltd. Cochin	Lubricating oil	3.85	24%	0.65
19	„	15.1.04	BSNL Cochin	Base transmission station	118.93	8%	11.91
20	„	21.1.04	KSEB Palakkad	Electric Meter	57.63	8%	4.61
21	„	22.3.04	Popular Vehicle Service, Kannur	Generator	5.89	12%	0.71
22	„	1.02	P.U Muhammed Ali Malappuram	Marble	4.95	12%	0.59

(Rs. in lakh)

Sl. No.	Name of Check post	Date of entry	Name of Importer	Name of goods	Value	Rate	ET notings as per register
23	„	1.02	Canara Bank Sasthamangalam	U.P.S	15.40	8%	1.23
24	Walayar	02.03	M/s Varghese Tripunithura	Grease Lubricating Oil	5.23	24%	1.26
25	„	31.7.00	Director, Institute of Animal husbandry & Veterinary, Palode, Tvm.	Freezer	17.33	16%	2.93
26	„	2000-01	The LIC of India Kottayam Division	Computer accessories	12.25	4%	0.49
27	„	2000-01	The LIC of India Kozhikode Division	Computer accessories	9.10	4%	0.36
28	„	2000-01	Sub Divisional Engineer Computer cell (Telephone) Ernakulam	Computer accessories	42.83	4%	1.71
29	“	7.11.00	MGM Hospital Puthoor Kollam	Scanner	4.61	8%	0.37
30	„	4.1.01	Akbar Alikhan 74347/Soorath	Maruthi Zen Lx	3.08	12%	0.37
31	„	5.1.01	School of Distance Education M.G University Kottayam	Xerox	5.55	8%	0.44
32	„	5.1.01	Calicut University UGC aided Centre, Calicut	Xerox	5.29	8%	0.42
33	„	2003-04	The Director Ground Water Department Trivandrum	PVC 150 nos. 1080 nos.	5.63	12%	0.68
34	„	2001-02	-	Qualis 10 nos.	25.14	12%	3.02
35	„	2001-02	DC Mills (P) Ltd. Alappuzha	Prefabricated Building materials	11.40	4%	0.46
36	„	2002-03	Dy. Chief Engineer, Electrical, Kottarakkara	Electrical goods	35.58	8%	4.27
37	„	2002-03	Plant Lipid Ltd, Kolenchery	F.G Hasan (Petroleum Product)	1.82	30%	0.55
38	„	2002-03	Indira Gandhi Co-op Hospital, Thalassery	C.T Scanner	16.60	8%	1.33
39	„	2002-03	Indira Gandhi Co-op Hospital, Thalassery	C.T Scanner	100.63	8%	8.05
40	„	29.7.02	Executive Engineer, K.S.E.B Kundara.	Electrical Wire	5.06	8%	0.40

(Rs. in lakh)

Sl. No.	Name of Check post	Date of entry	Name of Importer	Name of goods	Value	Rate	ET notings as per register
41	„	19.8.02	Chennai Petroleum Corporation, Alappuzha	Paraffin Wax	3.38	30%	1.01
42	„	11.9.02	Wipro GE Medical System Cochin	Ultra Sound Scanner	65.10	8%	5.21
43	„	2002-03	Not noted	Generator	7.31	8%	0.88
44	„	2002-03	Wipro Medical System Cochin	Scanner with Accessories	122.08	8%	9.78
45	„	2002-03	Srinivas Construction Ltd, Hyderabad	Excavator	16.89	12%	2.03
46	„	2002-03	Ex-Engineer, K.S.E.B, Angamaly	Electrical goods	13.09	8%	1.57
47	„	2002-03	-	Generator	15.61	8%	1.87
48	„	2002-03	Elite Mission Hospital Thrissur	Scanning Machine	40.07	8%	3.21
49	„	2002-03	K. Sitharam	Lubricating Oil Grease	2.39	24%	0.57
Total							97.71

ANNEXURE – IV
Transit passes not entered in registers in circle offices
(Ref: Paragraph 2.2.7)

(Rs. in lakh)

Sl. No.	Issuing Check post	Transit Pass No. Date	Goods	Value	Consigner	Destination	Tax
1	Amaravila	<u>114</u> 2003/2004	Surgical goods	19.54	Kerala Latex India	Nagarcoil to Kundapura	1.80
2	”	<u>115</u> 2003/2004	Coconut	0.60	Y.S Base	Palukal to Kundapura	0.02
3	”	<u>118</u> 2003/2004	Packed Cashew Kernel	3.65	Krisons Agencies	K.K District to Delhi	0.34
4	”	<u>119</u> 2003/2004	Packed Cashew Kernel	3.68	Olam exports	K.K District to Ahamadabad	0.34
5	”	<u>122</u> 2003/2004	Packed Cashew Kernel	12.60	Olam exports	K.K District to Ahamadabad	1.16
6	”	<u>126</u> 2003/2004	Packed Cashew Kernel	9.52	Bindu Cashew Corporation	K.K District to Delhi	0.88
7	”	<u>148</u> 2003/2004	Raw Cashew	2.11	Western India Cashew KK District	K.K District to Goa	0.19
8	”	<u>163</u> 2003/2004	Raw Cashew	2.11	”	K.K District to Goa	0.19
9	”	<u>164</u> 2003/2004	Raw Cashew	2.11	”	K.K District to Goa	0.19
10	”	<u>165</u> 2003/2004	Raw Cashew	2.11	”	K.K District to Goa	0.19
11	”	<u>176</u> 2003/2004	Raw Cashew	2.11	”	K.K District to Goa	0.19
12	”	<u>177</u> 2003/2004	Raw Cashew	2.11	”	K.K District to Goa	0.19
13	”	<u>182</u> 2003/2004	Raw Cashew	1.61	Olam exports	Padathalathmoodu to New Mumbai	0.15
14	Velanthavalam	<u>406</u> 2002/2003	L.P.G	0.71	-	Mahe	0.11
15	”	<u>408</u> 2002/2003	L.P.G	0.73	-	Mahe	0.12

(Rs. in lakh)

Sl. No.	Issuing Check post	Transit Pass No. Date	Goods	Value	Consigner	Destination	Tax
16	„	<u>412</u> 2002/2003	L.P.G	0.71	-	Mahe	0.11
17	„	<u>432</u> 2002/2003	L.P.G	0.74	-	Mahe	0.12
18	„	<u>472</u> 2002/2003	L.P.G	0.74	-	Mahe	0.12
19	„	<u>437</u> 2002/2003	L.P.G	0.71	-	Mahe	0.11
20	„	<u>508</u> 2002/2003	Live Chicken	0.70	-	Mahe	0.06
21	„	<u>515</u> 2002/2003	Live Chicken	0.70	-	Mahe	0.06
22	„	<u>526</u> 2003/2003	Live Chicken	0.70	-	Mahe	0.06
23	Gopalapuram	<u>349</u> 2001/2002	Tyre & Tube	9.79	-	Mangalore	0.90
24	„	<u>415</u> 2001/2002	Automobile springs	27.97	-	Mangalore	2.57
25	„	<u>418</u> 2001/2002	Spring leaves	4.14	-	Mangalore	0.38
26	„	<u>422</u> 2001/2002	Spring leaves	4.14	-	Mangalore	0.38
27	„	<u>425</u> 2001/2002	Spring leaves	2.74	-	Mangalore	0.25
28	„	<u>440</u> 2001/2002	Washing Machine	4.94	-	Mangalore	0.91
29	„	<u>452</u> 2001/2002	Washing Machine	6.98	-	Mangalore	1.28
Total							<u>13.37</u>

ANNEXURE - V
Non levy of entry Tax
(Ref: Paragraph 2.2.9)

(Rs. in lakh)

Sl. No.	Name of check post	Date of entry	Name of Importer	Name of goods	Value	Rate	ET
1.	Amaravila	2003-04	Power grid Corporation of India, Trivandrum	245KV current Transformer	7.32	8%	0.59
2.	„	2003-04	Syndicate Bank, Trivandrum	Split A/c (2 pieces)	0.77	16%	0.12
3.	„	6.5.03	Geosam Mudavanmugal	Chairs	2.78	12%	0.33
4.	„	9.6.03	Divisional Engineer BSNL, Trivandrum	Computer & Accessories	15.15	4%	0.61
5.	„	1.7.03	Quilon Consulting Engineers, Trivandrum	Electric cables	9.17	12%	1.10
6.	„	8/2003	B.S.N.L	A/C parts	7.94	16%	1.27
7.	„	10/2003	Sathyaprakash & Brothers, Airport, Trivandrum	Micro processor based AC DC panels	3.34	4%	0.13
8.	„	23.10.03	Principal K.T.T.E Tooling Systems Thannimood, Trivandrum.	Computer	6.60	4%	0.26
9.	„	22.7.03	H.M Packings	L.M.V Trucker	3.52	12%	0.42
10.	„	29.12.03	Syndicate Bank Kesavadasapuram	A/C (split)	0.60	16%	0.10
11.	„	21.06.02	Not specified	Invertors	9.94	8%	0.80
12.	Bengara Manjeswar	8.3.04	TATA Project Ltd, Kundara	A.C.S.R conductors	22.27	12%	2.67
13.	„	13.2.04	Rubco huarts (P) Ltd., Thalassery	Paints	2.59	15%	0.39
14.	„	1.4.02	Malabar Cements Cherthala	Electrical cables	4.61	12%	0.55
15.	Bengara Manjeswar	15.8.02	Reliance Info com Ernakulam	Air conditioner	14.32	16%	2.29
16.	„	19.9.02	Adams Timbers – Industries,	Paint	2.62	15%	0.39

(Rs. in lakh)

Sl. No.	Name of check post	Date of entry	Name of Importer	Name of goods	Value	Rate	ET
			Tellicherry				
17.	Feroke	26.1.04	M/s Ajoy Acclytors Kochi	Generator	9.05	12%	1.09
18.	„	29.12.02	Federal Bank Chalappuram	Computer	0.88	4%	0.04
19.	Gopalapuram	5.3.04	-	Transformer	20.00	8%	1.60
20.	„	2000/01	-	U.P.S	1.50	8%	0.12
21.	Aryankavu	2003/04	T.K.M college of Engineering Kollam	Pentium computer printer	1.16	4%	0.05
22.	Aryankavu	01/02	-	Generator	8.50	12%	1.02
23.	Walayar	5.2.04	RDS Projects Kadavanthara	Generator	8.95	12%	1.07
24.	„	28.3.04	BSNL Thrissur	Electric Equipments	423.79	8%	33.94
25.	„	11.1.01	Bharath Hospital Azad Lane, Kottayam	Scanner	90.00	8%	7.20
26.	„	19.1.01	National Hospital Calicut	Refrigerator water chiller	76.90	12%	9.23
27.	„	2/01	NCERT Techno part, Trivandrum	Computer goods	58.87	4%	2.35
28.	„	4/01	Nas & Dymas Premkumar	Generator	5.34	12%	0.64
29.	„	16.6.01	M.G.M Hospital, Kollam	Scanner	3.01	8%	0.24
30.	„	26.6.01	Telephone Ex-change Chengannor	Generator	6.27	12%	0.75
31.	„	11.7.01	S.N Trust Medical Hospital, Kollam	Scanner	45.08	8%	3.61
32.	„	26.4.02	DE(CTSD), BSNL, Ernakulam	Electrical cable	10.47	12%	1.26
33.	„	2.9.02	Hindustan News Print Ltd, Kottayam	Electrical goods	37.52	8%	3.00
34.	„	03/04	Amala Institute of Medical science, Thrissur	Ceramic tiles	2.54	12%	0.31

(Rs. in lakh)

Sl. No.	Name of check post	Date of entry	Name of Importer	Name of goods	Value	Rate	ET
35.	„	03/04	Poduval Industries Edayar, Kochi	Generator set	6.00	12%	0.72
36.	„	03/04	Principal Government Ayurveda college Trivandrum	Hospital Equipments	2.27	8%	0.18
37.	„	03/04	Superintendent Medical College Hospital Calicut	Surgical Instruments	41.96	8%	3.34
38.	„	01/02	Malabar Breweries Veloor	Pipe fitting	17.21	4%	0.69
39.	Muthanga	11.7.02	Kerala State Co-operative Hospital Medical Centre, Pariyaram	Tables	4.12	12%	0.51
40.	„	01/02	Chief A/O Telcom Ernakulam	Invertors	29.44	8%	2.36
41.	„	01/02	Chief A/O Telecom Ernakulam	Computer & Accessories	31.13	4%	1.25
42.	„	02/03	Instrumentation Ltd Kanjikode	Generator	1.30	12%	0.16
43.	„	02/03	BSNL Trivandrum	Computer parts	3.04	4%	0.12
44.	„	2000/01	M/s Mariyan Medical Centre Palai	Computer accessories	13.01	4%	0.52
45.	„	2000/01	M/s Snow cap Ice crème (Pvt) Ltd Cochin	Techno freeze 1 case	17.43	16%	2.79
46.	„	2000/01	M/s Comihead float (p) Ltd. Kadavanthara Cochin	Techno freeze 1 case	17.43	16%	2.79
47.	„	2000/01	M/s Archana Industries	Diesel generator set	2.94	12%	0.35
48.	„	2000/01	M/s Shenoy's Enterprises Fort Road Kannur	Diesel generator set	3.07	12%	0.37
49.	Muthanga	5.3.03	Cochin Shipyard	Uniflex cable	5.65	12%	0.68
50.	„	22.7.02	Not recorded	Granite tiles	1.01	12%	0.12
Total							<u>96.49</u>

ANNEXURE – VI

Non levy of entry tax on goods imported but not used for manufacture of other goods

(Ref: Paragraph 2.2.9)

(Rs. in lakh)

Sl. No.	Name of check post	Date of entry	Name of Importer	Name of goods	Value	Rate	ET
1.	Amaravila	26.5.03	English India clays	Iron	3.88	4%	0.16
2.	Bengara Manjeswar	18.3.04	Paramount Food Pvt. Ltd	Iron & Steel	9.25	4%	0.37
3.	Gopalapuram	12/02	-	Paraffin Wax	3.57	4%	0.14
4.	Bengara Manjeswar	16.4.02	District Panchayat Kannur	Bitumen	1.06	30%	0.32
5.	Meenakshipuram	2003/04	M/s Jaya Auto (Pvt) Ltd.	Lubricating Oil	5.71	24%	1.37
6.	Velanthavalam	10.5.02	-	Timber	0.75	12%	0.09
7.	Walayar	17.1.04	G.T.N Textiles Alwaye	HSD	4.44	24%	1.06
8.	„	20.5.01	Philip Carbon black, Cochin	Iron sheet	11.25	4%	0.45
9.	„	6/01	KSEB	Steel	2.82	4%	0.11
10.	„	6/01	KSEB	Steel	2.55	4%	0.10
11.	„	01/02	SDE Stores BSNL Gandhinagar, Ernakulam	Steel tube sheets	4.76	4%	0.19
12.	„	01/02	KSEB Kollenkode	Iron structural	6.28	4%	0.25
13.	Walayar	01/02	Malabar Breweries Thrissur	Pre-fabricated steel building materials	10.25	4%	0.41
14.	Bengara Manjeswar	16.4.02	District Panchayat Kannur	Bitumen	1.06	30%	0.32
15.	Bengara Manjeswar	16.5.02	Kattakkal Grama Panchayat	Bitumen	1.06	30%	0.32
16.	Gopalapuram	4.11.02	Chandragiri Construction company Kozhikode	Bitumen	1.06	30%	0.32
	Total						<u>5.98</u>

Annexure VII
Application of incorrect rate of tax
(Ref: Para 2.4)

(In lakh of rupees)

Sl. No.	Name of Office/ No. of cases	Commodity	Assessment year/ Month of assessment	Rate applicable	Turn-over	Tax short levied and surcharge	Remarks
				Rate applied (In per cent)			
1.	<u>STO, Special Circle, Thiruvananthapuram</u> 1	Works contract (installation of elevator)	1999-2000 March 2003	14 5	71.73	7.10	After this was pointed out in September 2003, the Government intimated in July 2005 that the Assessing Authority had revised the assessment in September 2004 and the amount had been advised for revenue recovery. Further report was not received (December 2005).
2.	<u>STO, Special Circle, Alappuzha</u> 1	Polyester fibre yarn	1998-99 February 2003	10 4	97.45	5.85	After this was pointed out in July 2003, the Department revised the assessment in March 2004 raising additional demand of Rs 5.85 lakh. Government informed in March 2005 that the additional demand created was advised for revenue recovery. Further report was not received (December 2005).
3.	<u>STO, Special Circle II, Ernakulam</u> 1	Plaster of paris and cotton crepe bandages	1999-2000 November 2002	10 8	129	2.83	After this was pointed out in December 2003, Government stated that the items fall under entry 80 relating to medicated bandages, surgical cotton and absorbent cotton etc. The reply is not tenable that the commodity plaster of paris and cotton crepe bandages etc., cannot be classified as medicated bandages. Further report was not received (December 2005).

(In lakh of rupees)

Sl. No.	Name of Office/ No. of cases	Commodity	Assessment year/ Month of assessment	Rate applicable Rate applied	Turn- over	Tax short levied and surcharge	Remarks
				(In per cent)			
4.	STO, Special Circle, <u>Mattancherry</u> 1	Cotton/ elastic bandages, plaster of paris and cast padding	1998-99 October 2002	<u>10</u> 8	92.40	2.03	After this was pointed out in December 2003, Government informed in December 2005 that the assessing authority had initiated action to revise the assessment. Further report was not received (December 2005).
5.	<u>STO, Second</u> <u>Circle, Ernakulam</u> 1	Public address system	2002-03 March 2004	<u>12</u> 8	35.68	1.64	After this was pointed out by Audit in May 2004, Government informed in December 2005 that the items dealt with by the dealer were included in the IT policy. The reply is not tenable as the goods sold were entirely different from goods included in the IT policy. Further report was not received (December 2005).
6.	<u>STO, Special</u> <u>Circle I,</u> <u>Ernakulam</u> 2	Works contract – recondition- ing work of damaged compressors	1998-99 March 2003	<u>12.5</u> 10	55.63	1.53	After this was pointed out in November 2003, Government stated in November 2005 that steps had been taken to rectify the mistake. Further report was not received (December 2004).
		Compact disc	1998-99 February 2003	<u>10</u> 6	29.14	1.28	After this was pointed out in December 2003, Government informed that DC(Appeals) had directed to assess the item at six <i>per cent</i> as per SRO 301/99. The reply is not tenable as the SRO has effect from 1 April 1999 only. Further report was not received (December 2005).
7.	<u>STO, Special</u> <u>Circle, Kollam</u> 1	Titanium dioxide	1999-2000 March 2004	<u>15/20</u> 4	14.67	2.25	After this was pointed out in July 2004, Government stated that the assessment had been revised. Further report had not been received (December 2005).

(In lakh of rupees)

Sl. No.	Name of Office/ No. of cases	Commodity	Assessment year/ Month of assessment	Rate applicable Rate applied	Turn- over	Tax short levied and surcharge	Remarks
				(In per cent)			
8.	STO, Special Circle III, Ernakulam 1	Synthetic rubber and carbon black	1996-97 November 2000	$\frac{12.5}{8}$ $\frac{10}{8}$	41.06 3.04	2.09	After this was pointed out in August 2001, the Department revised the assessment in March 2002 creating an additional demand of Rs 2.09 lakh. Government informed that the amount had been collected.
9.	STO, Special Circle (Hill Produce), Mattancherry 1	Coffee powder sold under brand name 'Tata Kappi'	1999-2000 March 2004	$\frac{12.5}{12}$	340	1.87	After this was pointed out in April 2004, Government stated that Tata Coffee was French coffee and was tax leviable at eight per cent. The reply was not tenable as French coffee was also coffee powder and hence coffee powder sold under brand name would attract tax at 12.5 per cent. Further report was not received (December 2005).
10.	STO, Vaikom 1	Call Monitor	2001-02 March 2003	$\frac{12}{4}$	17.39	1.55	After this was pointed out in November 2003, the Assessing Authority revised the assessment in July 2004. Further report had not been received (December 2005).
11.	Office of the Deputy Commissioner, Commercial Taxes, Wayanad 1	Works contract – civil works	1998-99 March 2004	$\frac{8}{6}$	50.13	1.10	After this was pointed out in June 2004, the Department revised the assessment and informed in January 2005 that the entire amount had been covered under revenue recovery. Collection particulars had not been received (December 2005).
	Total					31.12	