

CHAPTER-V: TAXES ON VEHICLES

5.1 Tax administration

Transport department is under the control of Secretary (Transport) at Government level and the Transport Commissioner is the head of the department. The levy and collection of tax and fee in the State are governed by the Motor Vehicles (MV) Act, 1988, Central Motor Vehicles (CMV) Rules 1989 and the Kerala Motor Vehicles Taxation (KMVT) Act, 1976. The activities of the department include registration of motor vehicles, levy and collection of motor vehicle tax, grant of driving licence and road permits.

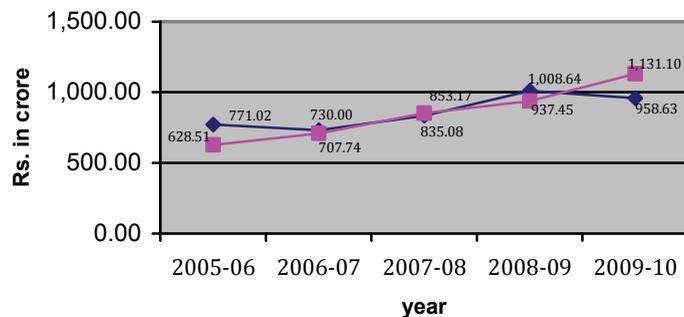
5.2 Trend of receipts

Actual receipts from the taxes on motor vehicles during the years 2005-06 to 2009-10 along with the budget estimates during the same period is exhibited in the following table and graph.

(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	771.02	628.51	(-) 142.51	(-) 18.48	9,778.62	6.43
2006-07	730.00	707.74	(-) 22.26	(-) 3.05	11,941.82	5.93
2007-08	835.08	853.17	(+) 18.09	(+) 2.17	13,668.95	6.24
2008-09	1,008.64	937.45	(-) 71.19	(-) 7.06	15,990.18	5.86
2009-10	958.63	1,131.10	(+)172.47	(+) 18.00	17,625.02	6.42

Budget estimates and Actual receipts



We noticed that except during 2005-06 and 2009-10 the variation between budget estimates and actual receipts was less than 10 *per cent*.

5.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 amounts to ₹ 684.46 crore of which ₹ 388.89 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2005-06 to 2009-10.

(Rupees in crore)					
Year	Opening balance of arrears	Additions	Amount collected during the year	Closing balance of arrears	Trend of revenue
2005-06	388.89	91.07	10.07	469.89	628.51
2006-07	469.89	85.24	9.93	545.21	707.74
2007-08	545.21	87.70	10.07	622.84	853.17
2008-09	622.84	72.02	10.40	684.46	937.45
2009-10	684.46	-	Not available	Not available	Not available

The above table shows that the total collection during the period from 2005-06 to 2008-09 was only ₹ 40.47 crore as compared to the addition in the demand of ₹ 336.03 crore during the period. As compared to the accumulated arrears of ₹ 684.46 crore as on March 2009, the collection was only ₹ 40.47 crore during the four years.

We recommend the department to start a special drive to collect the mounting arrears.

5.4 Cost of collection

The gross collection of revenue receipts under the head Taxes on vehicles, expenditure incurred on collection and the percentage of expenditure to gross collection during 2005-06 to 2009-10 alongwith the all India average percentage of expenditure on collection to gross collection for relevant years are mentioned below:

Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage
	(Rupees in crore)			
2005-06	628.51	17.73	2.82	2.67
2006-07	707.74	21.61	3.05	2.47
2007-08	853.17	26.00	3.05	2.58
2008-09	937.45	30.05	3.21	2.93
2009-10	1,131.10	33.96	3.00	Not available

We noticed that the expenditure on collection in respect of taxes on vehicles was higher than the all India average.

We recommend the Government to examine the reasons for such high costs of collection.

5.5 Impact of audit

Revenue impact

During the last four years, we pointed out short/non-levy of tax, incorrect classification, irregular exemption etc., with revenue implication of ₹ 11.74 crore in 899 paragraphs. Of these, the department/Government accepted audit observations involving ₹ 13.13 crore and had since recovered ₹ 1.21 crore. The details are shown in the following table:

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2005-06	188	271.00	37	37.66	156	22.89
2006-07	159	299.00	184	399.24	35	7.45
2007-08	148	206.00	162	271.43	25	13.07
2008-09 Vol I	404	398.00	138	604.64	131	77.66
Total	899	1,174.00	521	1,312.97	347	121.07

We noticed that the Government failed to recover even the amount it has accepted.

We recommend that the Government may revamp the recovery mechanism to ensure that at least the amount involved in accepted cases are promptly recovered.

5.6 Working of internal audit wing

Finance Officer attached to the office of the Transport Commissioner conducts annual audit of RTOs and the office of the Deputy TC conducts internal audit of Sub RTOs. The internal audit team at Commissioner's office comprises one Accounts Officer, one Senior Superintendent and three Clerks and the team at each of four DTC zones in the State has a strength of one Senior Superintendent and one Clerk for internal audit of the respective zones. The periodicity of audit of all offices is once a year but the department could not achieve the target due to shortage of staff. Against the target of 66 units, 27 units have been audited during 2009-10. The department has not prepared a separate Internal Audit Manual. 868 paragraphs involving ₹ 86.31 lakh relating to 221 IRs remained outstanding at the end of March 2010.

We recommend that the IAW may be strengthened so that they are able to achieve their planned audit target. Besides, a mechanism needs to be installed for timely settlement of the audit observations raised by the IAW.

5.7 Results of audit

We test checked the records of 63 units relating to motor vehicles department. We detected underassessment of tax and other irregularities involving ₹ 371.49 crore in 453 cases which fall under the following categories:

(Rupees in crore)			
Sl. No.	Categories	No. of cases	Amount
1.	Levy and collection of Motor Vehicles Tax (A review)	1	362.37
2.	Short/non-levy of tax	207	3.21
3.	Incorrect classification	58	0.37
4.	Irregular exemption	24	0.17
5.	Other lapses	163	5.37
Total		453	371.49

The department accepted underassessment and other deficiencies of ₹ 4.16 crore in 369 cases, of which 164 cases involving ₹ 2.26 crore were pointed out in audit during the year 2009-10 and the rest in earlier years. An amount of ₹ 1.13 crore was realised in 432 cases during the year 2009-10.

A review on 'Levy and collection of Motor Vehicles Tax' with financial impact of ₹ 362.37 crore and a few illustrative audit observations involving ₹ 41.67 lakh are mentioned in the following paragraphs.

5.8 Levy and collection of Motor Vehicles Tax

5.8.1 Highlights

- Automatic renewal of licences to drive non-transport vehicles at the time of renewal of badge had resulted in non-levy of renewal fee of ₹ 3.76 crore.

(Paragraph 5.8.8)

- Rent payable by the department to the KSRTC was adjusted against tax due from the KSRTC leading to diversion of funds of ₹ 41.54 lakh.

(Paragraph 5.8.9)

- The enforcement wing in the department is weak and was not able to collect ₹ 2.91 crore leviable from operators of transport vehicles plying without fitness certificates.

(Paragraph 5.8.10)

- The department failed to collect fee of ₹ 5.61 crore for exhibiting advertisements in transport vehicles.

(Paragraph 5.8.11.2)

- The computers and servers have neither bios password nor windows password.

(Paragraph 5.8.12.5)

- Resources like the Queue Management System, stock entry module, finger print biometric devices were not used/partially used.

(Paragraph 5.8.13)

- Revenue is understated by ₹ 36.34 crore due to non-inclusion of old arrears in the computerised DCB.

(Paragraph 5.8.15.2)

- Absence of a system to monitor collection of bank drafts and revalidation of time barred bank drafts led to revenue loss of ₹ 1.67 crore.

(Paragraph 5.8.17.1)

- Surcharge of ₹ 158.15 crore was not levied from the KSRTC.

(Paragraph 5.8.18.1)

- Additional tax of ₹ 186.62 crore was not levied for non-payment of tax.

(Paragraph 5.8.18.2)

- Non-compliance of Central Government direction in the case of educational institution buses resulted in short levy of ₹ 3.69 lakh.

(Paragraph 5.8.18.3)

5.8.2 Introduction

The functioning of the Motor Vehicles Department (MVD) and the levy and collection of tax and fee in the State are governed by the Motor Vehicles (MV) Act, 1988, the Central Motor Vehicles (CMV) Rules, 1989 and the Kerala Motor Vehicles Taxation (KMVT) Act, 1976. Major activities of the MVD include registration of motor vehicles, levy and collection of motor vehicle taxes, grant of driving licence and road permits and monitoring the transport system in the State. The main source of revenue in the department comprises tax/additional tax on the motor vehicles and fee for registration, grant of driving licences and issue of road permits etc., apart from fines and penalty for default.

The Motor vehicles Department which administers the provisions of the MV Acts and Rules in the State is one of the major revenue earning departments of the State. MVD had undertaken computerisation of all its major operations such as registration of vehicles, collection of road tax, issue of permits, driving licence, fitness certificates, conductor licence etc. Taxes on transport vehicles except motor cabs and *auto-rickshaws* are levied and collected quarterly and that of motor cabs and *auto-rickshaws* are levied and collected annually. One time tax for fifteen years is levied and collected in respect of newly registered non-transport vehicles (NTVs). In respect of NTVs more than 15 years old, tax is levied and collected biennially.

We conducted a review on ‘Levy and collection of Motor Vehicles Tax’ in the State of Kerala which revealed a number of system and compliance deficiencies as discussed in the succeeding paragraphs.

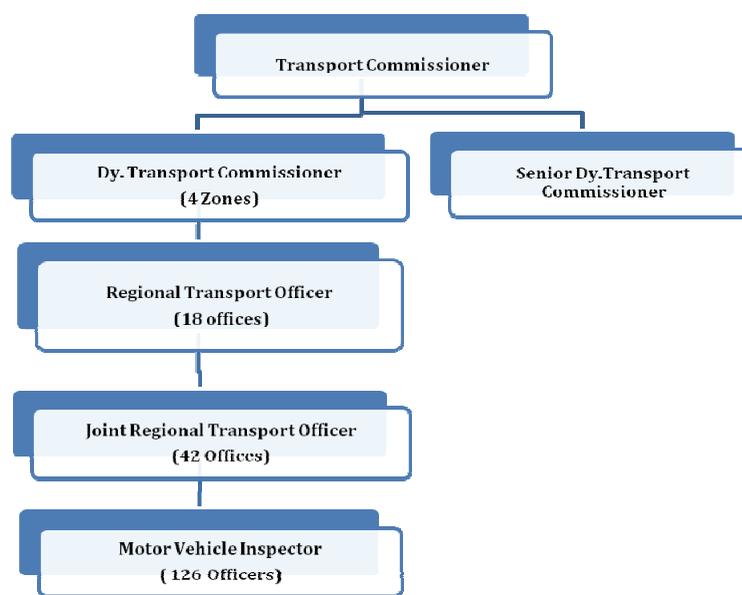
5.8.3 Organisational set up

The Transport Commissioner is the head of the MVD. A Senior Deputy Transport Commissioner is the State Transport Authority.

The Transport Commissioner is assisted by the Deputy Transport Commissioners at the zonal level and under them there are Regional Transport Officers.

The organisational setup is explained below:

- Eighteen Regional Transport Offices (RTOs) under the Regional Transport Officers, of which one RTO has State-wide jurisdiction exclusively for nationalised sector.
- Forty two Sub-Regional Transport Offices (SRTOs) under the Joint Regional Transport Officers.
- In addition there are seventeen motor vehicle border check posts headed by Motor Vehicle Inspectors.



5.8.4 Audit objectives

We conducted the review to ascertain whether:

- the provisions of the MV Act 1988/KMVT Act 1976 and rules/orders made thereunder governing assessment, levy and collection of tax and fees are enforced effectively;
- an efficient and effective public service system was set up in the department;
- implementation of computerisation was efficient and covered all functions of the department and adequate IT controls are in place; and
- effective internal control mechanism exists in the department.

5.8.5 Scope and methodology of audit

We conducted the audit during the period from February to May 2010 covering the period 2004-09. Apart from the office of the Transport Commissioner we collected data from 42 field offices spread all over Kerala. For selection of offices, 81 field offices were divided into four clusters; cluster I consisting of four DTC Offices, cluster II consisting of 18 RTOs, cluster III consisting of 42 SRTOs and cluster IV consisting of 17 motor vehicle check posts. One DTC (25 per cent) from cluster I, 13 RTOs (72 per cent) from cluster II, 13 SRTOs (31 per cent) from cluster III and 13 check posts (75 per cent) from cluster IV were selected by using Probability Proportional to Size Sampling Without Replacement (PPSWOR) method. In addition, RTO Vadakara and SRTO Thalasserry were selected at the request of Transport Commissioner during the entry conference. Audit observations of similar nature, which we noticed during previous audits have also been incorporated in the review.

5.8.6 Acknowledgement

We acknowledge the co-operation extended by the MVD in providing necessary information and records for audit. We held an entry conference on 5 March 2010 with the Secretary to Government and Transport Commissioner wherein the scope and methodologies of audit were explained. As suggested by the Transport Commissioner, examination of the implementation of the Citizen Charter was also included in the scope of audit. The draft review report was forwarded to the department on 8 June 2010 with the request for their response. We held an exit conference on 13 July 2010 to discuss the audit findings and recommendations with the Secretary to Government, Transport Department. The Government accepted most of our findings and recommendations and assured that steps will be taken to implement them. The specific replies received during the exit conference and at other times have been appropriately included under the respective paragraphs.

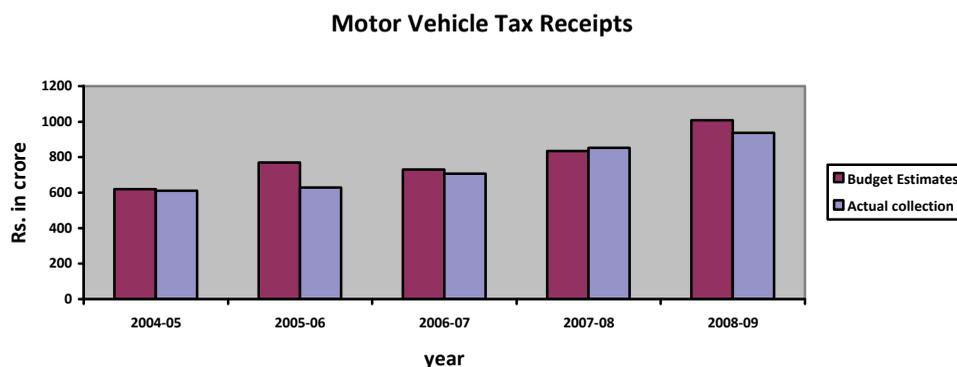
Audit findings

5.8.7 Trend of revenue

The Budget estimates and actuals are as shown below:

Year	Budget estimates	Actual collection				Percentage of collection to budget estimates
		Tax	Fee	Other receipts	Total	
2004-05	620.00	507.07	95.79	7.62	610.48	98.46
2005-06	771.02	531.76	95.58	1.17	628.51	81.52
2006-07	730.00	579.83	120.44	7.47	707.74	96.95
2007-08	835.08	730.18	117.06	5.93	853.17	102.17
2008-09	1,008.64	793.38	123.07	21.00	937.45	92.94

The Motor Vehicle Tax (MVT) collection in the State showed regular increase during the period 2004-09. The percentage of collection to budget estimates was above 90 during the last five years except in 2005-06.



5.8.8 Loss of revenue due to automatic renewal of licence to drive non-transport vehicles at the time of renewal of badge

According to Section 15 (1) and 15 (4), a driving licence shall be renewed only with effect from its date of expiry even if the application was made prior to its date of expiry.

A driving licence issued or renewed shall, in case of a licence to drive a transport vehicle (Badge) be effective for a period of three years and in case of any other licence, for a period of 20 years from the date of issue or renewal or until the licence holder attains the age of 50 years, whichever is earlier. After attaining the age of 50 years it shall be renewed for a period of five years. A fee of ₹ 250 is also prescribed in Rule 32 of the CMV Rules for renewal. The Transport Commissioner clarified¹⁷ that separate validity shall be assigned to licences to drive transport vehicle and non-transport vehicle.

We observed from data in respect of renewal of driving licences in the system database in 26 RTOs/SRTOs¹⁸ covered that at the time of renewal of driving licences to drive transport vehicle (Badge) the system automatically renewed the period of validity of the licences to drive non-transport vehicle also from the date of renewal of badge for a period upto 20 years or five years even beyond the period of validity of the badge issued irrespective of whether the licence holder had attained the age of fifty years, even in cases where the validity to drive the non-transport vehicle had not expired. In the instant cases all the renewals were effected as on the date of renewal of badge and not from the date of expiry of the non-transport licence. In certain cases automatic renewal had happened even beyond the age of 50 years, even though the validity of the badge issued was for the period less than the age of 50 years. We observed in 2,347 cases non-transport driving licences were automatically renewed beyond the age of 50 years. CMV Rules provide production of medical certificate for renewal of driving licence for persons who attained the age of 50 years. Automatic renewal of driving licence beyond 50 years without medical certificate may cause hazards to the general public. We had already mentioned about the automatic renewal of driving licence in the Report of the Comptroller and Auditor General of India for the year ending 31 March 2009 (Revenue Receipts).

The erroneous renewal of non-transport driving licences beyond the validity of badge without an application and payment of prescribed fee of ₹ 250 in each case had given undue benefit of extended validity to licence holders in 1,50,341 cases and resulted in loss of revenue of ₹ 3.76 crore.

5.8.9 Short remittance of Government receipts

Kerala Financial Code and Kerala Treasury Rules prescribe that money received

¹⁷ Circular Number 5/98 dated 21.2.1998.

¹⁸ RTOs Alappuzha, Ernakulam, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Thiruvananthapuram, Thrissur, Vada kara and SRTOs, Aluva, Changanacherry, Chertala, Irinjalakuda, Kanjangad, Karunagapally, Neyyattinkara, Ottappalam, Quilandy, Thalassery, Taliparamba, Tirur and Tiruvalla.

by or on behalf of Government either as dues of Government or deposit, remittance or otherwise shall be remitted to treasury and brought into Government account without undue delay. There is no provision to meet any expenditure from the departmental receipts.

Sanction was accorded to occupy the second floor of the Transport Bhavan, Thiruvananthapuram owned by the KSRTC for the accommodation of the Transport Commissioner's Office at a monthly rent of ₹ 30,100. The rent for the above building payable by the TC to the KSRTC was adjusted from the motor vehicle tax due from KSRTC. There is no provision in the Act and Rule to meet any expenditure from the departmental receipts. We had already mentioned about irregular adjustment for the period from October 2006 to March 2008 in the Report of the Comptroller and Auditor General of India for the year ending 31 March 2009 (Revenue Receipts) Vol. I. Short remittance of tax due to irregular adjustment from October 1997 to March 2009 worked out to ₹ 41.54 lakh.

5.8.10 Motor vehicles plying without fitness certificate

Section 56 of the MV Act prescribes the necessity of certificate of fitness for a transport vehicle plying on the road. The validity of the certificate prescribed for a new transport vehicle is two years from the date of registration and it shall be renewed each year. Further, MV Act stipulates that a transport vehicle shall not be deemed to be validly registered unless it carries a certificate of fitness issued by the competent authority. Government of Kerala had prescribed¹⁹ a minimum fine of ₹ 500 for two or three wheelers, ₹ 1,000 for light motor vehicles, ₹ 2,000 for medium vehicles and ₹ 3,000 for heavy motor vehicles for violation of provisions of the Act. Besides, inspection fee at the rate of ₹ 200 for two or three wheelers, ₹ 300 for light motor vehicles, ₹ 400 for medium vehicles and ₹ 500 for heavy motor vehicles are collectible. Besides, KMV Rules provide levy of penalty for delay in obtaining fitness certificate at the rate of ₹ 100 in the case of two wheelers and *auto-rickshaws*, ₹ 150 in the case of motor cab and ₹ 200 for other transport vehicles for every calendar month and part thereof. Government authorised officers above the rank of Assistant Motor Vehicles Inspectors in the MVD to compound the offences punishable under various sections of the Act.

We observed that in 23 RTOs/SRTOs²⁰, certificates of fitness issued to 10,319 transport vehicles of different categories had expired in March 2009. Tax in respect of these vehicles was accepted even after the expiry of the fitness certificate. There is no system in the department to ensure the fitness of the vehicle before accepting tax. The compounding fee, inspection fee and penalty for delay leviable on these vehicles works out to ₹ 2.91 crore.

Permitting vehicles without fitness certificate to ply may imperil public safety.

¹⁹ GO (P) 9/2002 dated 20/3/2002.

²⁰ RTOs Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Thiruvananthapuram, Thrissur, Vadamara and SRTOs Aluva, Chertala, Irinjalakuda, Kanjangad, Karunagappally, Neyyattinkara, Ottappalam, Quilandy, Thalassery, Taliparamba, Tirur and Tiruvalla.

We recommend that the MVD must insist on production of certificate of fitness before accepting tax in respect of transport vehicles.

5.8.11 Enforcement system

The vehicle population of the State is increasing steeply year by year. Since the density of vehicle is far increasing, strict enforcement of traffic rules is essential for the security of the public considering the gravity of the situation. All executive officers in the MVD are acting as enforcement staff also. Further, the Police Department is assisting the MVD by booking traffic offenders. Even though the vehicle population had increased by 45 *per cent* during 2004-09, the strength of the enforcement wing has almost remained static throughout this period resulting in ineffective enforcement.

Monthly target for booking offences was fixed for RTOs at 20 cases per month and junior officers at 50 cases in March 2004 and the monetary limit for RTOs was ₹ 20,000 and for junior officers was ₹ 50,000. Even though the vehicle population had increased by 45 *per cent*, the monthly targets for booking offence fixed for enforcement staff in March 2004 have not been revised. We observed that the enforcement system was deficient as illustrated in the following paragraphs.

5.8.11.1 Delay in disposal of check reports

Enforcement staff of the MVD is empowered to conduct field check to detect offences committed by the vehicle owners/drivers and to compound such offences after collecting the fine prescribed by the Government.

We observed that 23,216 check reports are pending out of 99,022 cases booked in 25 offices²¹ as on 31 March 2009. Out of the pending check reports the nature of offence column in the database was left blank in 8,363 cases. The compounding fee leviable in these cases could not be computed due to the absence of sufficient data in the database. The rest of the check reports relates to multiple offences like non-production of licence, insurance certificate, pollution under control certificate, driving without permit, over speeding etc. Check reports from 1979 onwards are still pending in the database. There is no provision in the Kerala Revenue Recovery Act to recover the compounding fees from the offenders. Therefore in case of non-response to the charge memo within the specified period, prosecution action should be taken against the offenders.

The MV Act provides compounding fee of ₹ 2,000 and an additional fine of ₹ 1,000 per ton of excess load for vehicles with overload. We observed that 610 check reports relating to overload were pending disposal in the database for which compounding fee collectible is ₹ 48.29 lakh.

²¹ RTOs Alappuzha, Ernakulam, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Thrissur, Vadakara and SRTOs Aluva, Changanacherry, Chertala, Irinjalakuda, Kanjangad, Karunagappally, Ottappalam, Quilandy, Thalassery, Taliparamba, Thodupuzha, Tirur and Tiruvalla.

In respect of the remaining 22,606 pending check reports where offences were not specified, minimum compounding fee of ₹ 100 per pending check report is collectible which works out to ₹ 22.60 lakh. Total compounding fee collectible in 23,216 cases worked out to ₹ 70.89 lakh.

5.8.11.2 Vehicles plying with unauthorised exhibition of advertisements

The Kerala Motor Vehicles Rules 1989 provides for prior approval of State or Regional Transport Authority for exhibiting advertisements in transport vehicles. However, KSRTC exhibited advertisements in its stage carriages from 1 February 2000 to 30 April 2008 without the prior approval of State/Regional Transport Authority.

The Government had not exempted the KSRTC from payment of the advertisement fees. KSRTC had sold the right to exhibit advertisements on their buses to a private agency and according to the conditions of the agreement, the advertising agency was bound to pay the fees due to the Government. Even though the KSRTC buses with the advertisements are operated all over the State, the enforcement wing of the MVD had not booked any offence against the KSRTC. Failure to book this offence by the MVD resulted in non-levy of advertisement fee at the prescribed rate of ₹ 10 per 100 sq.cms amounting to ₹ 5.61 crore for the period from 1 April 2006 to 31 March 2009, which was realisable from the advertising agency.

5.8.11.3 Rent a cab scheme

In exercise of the powers conferred by the MV Act, Government of India, Ministry of Shipping, Road Transport and Highways vide notification²² introduced a scheme for regulating the business of 'rent a cab called 'Rent a cab Scheme 1989'. According to the scheme, a person engaged in the business had to obtain a licence from the State Transport Authority (STA) after remitting the prescribed fee of ₹ 5,000.

As per the data collected from three²³ Central Excise Commissionerates, 128 agents conducted 'rent a cab' services and paid service tax during 2006-07, but none of these operators are registered with the State Transport Authority. The enforcement wing of the department failed to book any of the unauthorised operators.

5.8.11.4 Media reports

Media reports appearing frequently in various channels and newspapers highlight the violation of motor vehicle laws, but enforcement wing of the department has not been effectively intervening to check violation of the traffic Laws.

²² No.S.O.437 (E) dated 12 June 1989.

²³ Kochi, Kozhikode and Thiruvananthapuram.

The photograph shown below had appeared in a leading daily about the breach of traffic rules. The report says that no authority is questioning the parking of a motor vehicle with foreign registration number on the footpath.



The enforcement wing of the department may be strengthened to effectively plug the offences committed under the Motor vehicle Laws.

5.8.12 Computerisation of MVD – General controls

Fully Automated Services of the Transport Department (FAST) was initially set up as a “FAST” pilot project at RTO Thiruvananthapuram and Kochi, for providing end-to-end Government to citizen services. Department extended the coverage of computerisation to all the offices and check posts during 2006-08. The customised application software Smart-Move was developed by National Informatics Centre (NIC), Kerala, based on ‘Vahan’ & ‘Sarathi’. The comprehensive package is designed to automate all citizen-centric procedures and prevent the necessity to maintain manual records.

The MVD implemented Client-Server Computing in Two-tier Architecture on Microsoft SQL Server hosted on Windows Server 2003 in each RTOs/SRTOs. The client PCs are working on Windows XP. All computers in the department are protected with ‘Symantec End Point Protection’ to guard against virus infection.

5.8.12.1 IT Strategy and Policy

We noticed that the department has not evolved a long term IT strategy that is aligned within the overall organisational strategy. The MVD has also not constituted a steering committee to guide the IT operations.

IT policy on key areas of computerisation like system security, access controls, configuration management, business continuity planning, documentation, system testing and acceptance and service level agreement (SLA) have not been formulated as elaborated in the ensuing paragraphs.

5.8.12.2 Configuration management

Effective configuration management ensures compatibility between various versions of software and hardware used in IT systems.

We noticed that the Smart-Move application developed by NIC was compatible only with windows XP as a result of which, 20 new computers bought for RTO Ernakulam in February 2009 with VISTA as operating system was not compatible with Smart-Move.

We recommend the MVD to introduce effective management procedures to resolve such compatibility issues.

5.8.12.3 Lack of documentation

Adequate documentation of IT systems is essential to ensure effective systems operations, change management and for training. We noticed that NIC, the software developer or MVD has not maintained any documentation of the six major changes to the application made between 1 January 2007 and 1 April 2010.

We recommend that the MVD should develop documentation for the software Smart-Move in a time bound manner.

5.8.12.4 Non-recovery of down-time charges as per SLA

The Fully Automated Services of the Transport Department (FAST) was a Build, Operate, Maintain, and Transfer (BOMT) project awarded to Electronics Corporation of India Limited (ECIL) as the Service Provider in September 2005 for a period of three years from the date of commissioning (Go Live). Having created the infrastructure at all RTO/SRTO Offices, the project was declared 'Go Live' with effect from 1 January 2007.

According to SLA, ECIL is expected to provide 97 *per cent* uptime of all terminal counters including printing facility and photo capturing. In case of default in this regard, the agreement provides for down-time charges. When the downtime provided exceeds the limit, ECIL is bound to pay down-time charges which shall be adjusted from the instalment payable to it.

We noticed that the MVD calculated down time charges of ₹ 6.06 crore but did not adjust it from the payment due to ECIL as per the SLA.

5.8.12.5 Ineffective Access Control

Effective access control is necessary to ensure that only authorised users can access IT resources and that users could be held accountable for their activity in IT Systems. Implementing a system of user identification and password which is frequently changing are access control tools. We noticed that the computers and

servers in the MVD had neither bios password nor windows password. There is no physical access control preventing entry of persons into the server room as it is not kept locked. Thus any one has free access even to the server. Lack of user identification and password compromises the security of the System on the LAN and allows free access to users to valuable data stored in computers and server.

The departmental users of computers access the backend server through the Smart-Move application. For this purpose, each user has been allotted a user identification and password.

To make the security of the LAN computers more stringent, a biometric device is also used to log into the system. This was intended to provide fool-proof security. However, we noticed that the Windows Server 2003 which hosts the MS SQL database has neither system nor database password and hence access control for initial logging into the Smart-Move application can be bypassed by a user in any of the following ways:

- If remote desktop is enabled on the server, every user being administrative user on the client computer can get direct access to the server.
- The server can be accessed from the local computer using the 'get external data option' of Excel. This facilitates import of all the tables into the client computer.
- Using SQL query option in MS Excel, the user can write SQL queries in the Query Window in Excel and modify data in the backend database.
- User can create programmes in the local computer either in Visual Basic script or any windows based programming language to access the backend server.

As providing unrestricted access to application database can seriously compromise the integrity of data, **we recommend that the MVD should introduce effective access control immediately.**

The MVD accepted (July 2010) the audit finding and replied that security will be put in place as suggested.

5.8.12.6 Business Continuity Planning

It is essential that every organisation that is heavily dependent on its information systems to carry on its activities, has business continuity plan (BCP) to enable the organisation to function. We observed that the MVD is backing up transaction logs every 10 minutes to a standby server and a differential back-up on everyday and a full database back-up every week which is commendable.

We noticed that the RTO Offices as well as the TC Offices are not presently interconnected. Thus the back-up of data taken on CDs are physically transferred to TC at present. Due to lack of interconnection, it is not possible to verify the data of a different office when some service has to be rendered in respect of a vehicle registered at another RTO Office. The MVD should seriously think of interconnection of RTO/SRTO and TC Office as well as migrating to a single

server based IT Architecture in order to avoid redundancy and duplication of data existing at present as well as to provide improved services across the State. This would also enhance easy back-up of data at one location without the necessity of having to backup the data of 60 offices.

5.8.12.7 Anti-Virus features either not updated or configured properly

1,610 copies of licensed anti-virus programmes protect the server and client computers of the MVD from various virus threats.

We found that the network protection had not been updated since November 2007. The personal firewall feature of Anti-Virus programme preventing internet access had also not been enabled in the computers. Due to lack of timely updating of Anti-Virus software, virus outbreak resulted in system crash at the RTO, Ernakulam in June 2009. The department had not imposed any penalty on the ECIL.

The department replied that updating of antivirus definition files was entrusted with service provider.

Though updating was the responsibility of the service provider, the department did not ensure that the service provider was attending to the updating which resulted in server crash at RTO Office, Ernakulam for four days due to virus infection.

5.8.12.8 Poor Environmental Control

We observed that a number of unnecessary equipments such as monitors, switched mode power supplies and obsolete computers, software media and items not related to the operation of the server were stored in the server room within paper cartons. As poor environmental control may damage IT systems or precipitate fire accident, the MVD should instruct all offices to maintain a clean IT environment.

The MVD replied (July 2010) that the server room will be maintained properly.

5.8.12.9 Pre-commissioning tests not done and electrical wiring not conforming to standards

ECIL had to conduct pre-commissioning test on all hardware and infrastructure deployed at each office by a team of technical experts appointed by MVD as per the agreement. The department had declared the project 'Go Live' as on 1 January 2007.

We noticed that in respect of electrical works, the MVD did not carry out necessary tests before declaring 'Go-Live'. After commissioning, the evaluation work was entrusted to the PWD Engineers. We observed, based on the reports of the PWD Engineers, that serious defects like the generator connections without grounding, UPS connections without protective devices etc., existed in 16 Offices.

As defective electrical work may damage costly IT hardware and the data present in them, **we recommend that the MVD may immediately rectify the defects.**

5.8.12.10 Non-adherence to standardisation testing and quality certification

The Government of Kerala had issued directions to all departments implementing e-governance about initiatives to ensure efficiency, transparency and reliability of such services at affordable costs. Government circular stated that the e-governance solutions should be assessed for quality before and after the deployment of such services. The standardisation had to be done by the Department of Information Technology. We observed that steps for carrying out the standardisation test have not been done so far.

5.8.13 Non/partial utilisation of system resources

5.8.13.1 Queue Management System

Automatic Queue Management System (QMS) was intended to facilitate speedy and prompt disposal of the customers' requirements from the counter on first come first serve basis. QMS had to be implemented in 12 'A' category RTOs as part of agreement with ECIL. We observed that QMS had not been functional in any of the offices despite the existence of facilities in the Smart Move application.

After we pointed out the deficiency, the department stated that implementation of QMS was impractical. The reply is not tenable as the system was successfully used in various organisations like Railways, Banks etc. Moreover the QMS has been setup for use in the department as part of the agreement with ECIL. The department has not used the QMS service and hence cannot claim that the system is impractical.

5.8.13.2 Stock entry Module

The MVD was using high security holograms with special security features to emboss on RC books, permits, licences, etc., to make them tamper proof. Though Smart-Move application provides computerised accounting of pre-printed stationary like fee receipts, tax tokens, license cards and registration cards, no such provision is made for high security holograms which resulted in non-monitoring of stock inventory.

The MVD accepted (July 2010) audit findings and replied that stock entry module will be incorporated in Smart-Move application.

5.8.13.3 Non-use of biometric devices

1,540 finger print biometric devices were purchased at a cost of ₹ 77 lakh for logging into the computers. At the Transport Commissionerate, 85 devices costing ₹ 4.25 lakh were kept idling for want of installation of its software. Elsewhere, the biometric devices are used only for logging to the Smart-Move application. If the MVD had installed the appropriate software for the biometric device, control of unauthorised access into the client computers on the LAN as well as access to the server through LAN would have enhanced IT Security.

The MVD replied (July 2010) that the finger print biometric device which was used to log into windows was found to be impractical. The reply is not tenable since the MVD is still using finger print biometric partly for logging into Smart-Move application.

5.8.13.4 Bar code scanners

Bar code scanners were intended to capture data from RC Book, licence, etc. This would enhance the data entry speed and eradicate data entry mistakes. 140 bar code scanners costing ₹ 14.01 lakh were supplied by the Service Provider, ECIL as part of the implementation of the FAST project agreement. These were never put to use in any of the offices due to lack of appropriate training in the use of the Barcode scanner and as well as due to the complex method of menus built in Smart-Move application which does not facilitate ease of use of the Barcode scanner. This resulted in infructuous expenditure.

The MVD replied (July 2010) that staff members have been given training in the use of bar code scanners.

5.8.14 Input controls

IT systems should have built in input control that ensures completeness, accuracy and validity of data entered into the System. We noticed that the three tier user roles like data entry, verification and issue by staff on the basis of roles assigned to them are strictly followed which deserves appreciation.

5.8.14.1 Existence of duplicate chassis numbers

The chassis number is a unique identification number documented on the RC of a vehicle. An analysis of data stored in vehicle registration table shows that the chassis number is not unique. The presence of duplicate chassis numbers in the database is due to the fact that the chassis number column in the database was not set with a constraint of unique value. This shows lack of input validation check in the database. We found 11,066 cases of duplicate chassis numbers in the Registration table of 12 Offices²⁴.

We recommend that the MVD should consider taking action to eliminate duplicates in such a vital field.

5.8.14.2 Absence of validation checks

The tax for transport buses and rickshaws are determined with respect to their seating capacity while the tax for other vehicles like goods vehicles are determined by their registered gross weight. When a user makes use of the menu provided in the user interface to select the type of vehicles, relevant information relating to that class of vehicle like seating capacity, un-laden weight, gross vehicle weight, wheel-base, cubic capacity etc. would automatically become

²⁴ RTOs Ernakulam, Kannur, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Vadakara and SRTOs Irinjalakuda, Ottappalam, Quilandy, Thodupuzha and Tirur.

available in the interface. In cases where seats of vehicles are altered, data relating to seating capacity alone need to be manually inserted.

We noticed that all the above details are keyed into the system which could result in non-standardised data being captured into the system. Further non-existence of validity check on the number of seats may result in erroneous calculation of tax.

We recommend that the software should be modified to permit selection of details from menus and range checks on seating capacity may be introduced.

5.8.14.3 Absence of provision for capturing insurance details

No person shall use, except as a passenger, or cause or allow any other person to use, a motor vehicle in a public place, unless there is in force, in relation to the use of the vehicle, a policy of insurance complying with the requirements of Chapter XI of the MV Act.

A valid insurance certificate is required to be furnished alongwith an application for registration. Moreover, there should be a validation check in the system to ensure that every vehicle owner has taken an insurance to cover the third-party risk before registration.

We observed that there was no provision in the registration module to capture details of insurance cover and the MVD was not having information in respect of insurance coverage of the motor vehicles registered with them.

We recommend that the MVD may redesign the database and the input forms to capture details of vehicle insurance at the time of registration.

5.8.15 Other IT control

5.8.15.1 Incorrect DCB Module

Demand, collection and balance register is an important record to watch the collection and arrears of tax on vehicles. We observed that DCB module in the software SMART-MOVE is not generating true information on arrears of tax in respect of transport vehicles for the following reasons:-

- The opening balance at the beginning of each quarter does not tally with the closing balance of the DCB for the previous quarter.
- There is no provision in the software to exclude vehicles which do not come under the jurisdiction of the concerned office for the purpose of generating the DCB statement.

We recommend that a DCB module may be developed where the closing balance of the previous quarter appears as the opening balance of the current quarter and a provision may be installed in the software to exclude vehicles which do not come under the jurisdiction of the concerned office for the purpose of generating the DCB statement.

5.8.15.2 Arrears of revenue under stated

From the date of computerisation, DCB is prepared using the DCB module in the software. We observed that the manual data was not included in the system generated DCB. As a result, arrears of revenue pending collection were under stated. The amount of arrears under stated in 21 RTOs/SRTOs²⁵ worked out to ₹ 36.34 crore.

5.8.16 Internal control

5.8.16.1 Arrears in reconciliation of remittances

The Kerala Treasury Code Volume I and the Kerala Financial Code Volume I provide for periodical reconciliation of remittances into the treasury. In the MVD, reconciliation is to be done every month and the reconciled statement of remittances should reach the DTC/TC office before the 20th of the succeeding month.

We however, noticed that in 22 out of 61 offices from where information was received, the reconciliation was in arrears from one to 30 months.

5.8.16.2 Internal Audit

Effective internal audit is essential to independently evaluate the working of a department and to suggest ways and means to plug the leakage of revenue. In the Transport Commissionerate, the internal audit wing has been functioning with the staff strength of four officers (one senior superintendent and three clerks). The efficiency of the internal audit wing is very poor with regard to the audit plan as shown below:

Year	Units due for audit during the year	Pending units due for audit	Total units due for audit	Units audited during the year	Units remained un-audited	Shortfall in per cent
2004-05	23	-	23	3	20	86.96
2005-06	23	20	43	1	42	97.67
2006-07	23	42	65	2	63	96.92
2007-08	23	63	86	9	77	89.53
2008-09	23	77	100	2	98	98.00

We observed that no control registers to watch the issue of the inspection reports and the observations raised and settled was maintained by the MVD. The total number of inspection reports and audit observations pending for disposal was not available with the internal audit wing. We also observed that training was not imparted to the audit staff. Internal audit of few offices is pending from September 2001 onwards. The performance of the internal audit wing was not

²⁵ RTOs Alappuzha, Ernakulam, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode Malappuram, Muvattupuzha, Palakkad, Thrissur and SRTOs Aluva, Changanacherry, Chertala, Irinjalakuda, Kanjangad, Neyyattinkara, Ottappalam, Thalassery, Tirur and Tiruvalla.

monitored by the higher authorities. The MVD had not taken any steps to strengthen the functioning of internal audit wing.

We recommend that the internal audit wing may be strengthened.

5.8.16.3 Delay in Services

According to the Citizens' charter issued by the Government of Kerala, time limit has been prescribed for 20 important services related to licences, registration and permits rendered to public by the RTOs. Service charge is also collected from the public for the promptness of the service to be rendered. A sum of ₹ 80.46 crore has been collected during 2007-08 and 2008-09 from the public by the department as user charges. The time limit ranges from one to a maximum of 15 days for different services. Services like issue of learner's licence, conductor licence and temporary registration and fitness certificate is rendered on the same day itself. In respect of issue of permits, assignment of new registration numbers for vehicles migrated from other States, issue of duplicate registration certificate etc., we could not assess the delay involved because data related to date of production of additional documents is not captured into the system.

We noticed from an analysis of the data collected from 10 RTOs/SRTOs²⁶ between 1 April 2007 and 31 March 2009 that the time limit as specified in the charter was not adhered to by the MVD. The details are as follows:

Sl. No.	Particulars and time prescribed	No. of cases issued	Issued in time	Percentage of cases issued in time	Delay upto 1 month	Delay upto 6 months	Delay beyond one year
1.	Issue of new registration certificate (3 days)	2,53,427	93,951	37.07	1,39,513	19,360	603
2.	Driving licence renewal(3 days)	1,92,438	93,372	48.52	90,371	7,959	736
3.	Duplicate driving licence (7 days)	19,341	14,553	75.24	3,927	737	124
4.	Driving licence particulars (one day)	2,786	2,121	76.13	602	61	2

We recommend that the MVD may consider ways to render services to the public within the prescribed time.

5.8.16.4 Preparation of Departmental Manual

The Manual kept in use by the MVD was prepared in 1975 i.e. before the motor vehicle laws prevailing in the State came into effect. As all the operations in the department are executed through computerised system there is an urgent need to update the departmental manual.

²⁶ RTOs Ernakulam, Kannur, Malappuram, Muvattupuzha, Thrissur and Vada kara and SRTOs, Aluva, Irinjalakuda, Ottappalam and Quilandy.

5.8.17 Management of demand drafts

5.8.17.1 Blockage/loss of revenue due to non-crediting of demand drafts into Government accounts

The tax due (composite fees) on the vehicles of other States permitted to ply in Kerala on the authority of national permits, corporate permits, short term temporary permits etc. are received by the State Transport Authority, Kerala in the form of demand drafts (DDs) payable at the branches of the banks at Thiruvananthapuram.

We noticed abnormal delay in crediting the demand drafts to the Government account. The reason for the delay was either the demand drafts had become time-barred after receipt at the time of receipt in the office or due to delay in presenting demand drafts to the treasury/bank. The office was not ensuring that all the DDs sent to the bank were being credited to the Government account. The MVD had not evolved a fool proof system to monitor the collection of DDs and follow up action in respect of time-barred DDs returned for revalidation.

₹ 1.67 crore was not credited for the years 2007-08 and 2008-09 as detailed below:

Year	No. of DDs received	Amount (Rs. in crore)	No. of DDs remitted	Amount (Rs. in crore)	No. of DDs pending	Amount (Rs. in crore)
2007-08	61,519	25.98	60,195	25.31	1,324	0.67
2008-09	63,900	26.01	61,922	25.01	1,978	1.00
Total						1.67

The details of DDs relating to the years 2004-05 to 2006-07 were not produced to us.

We conducted a detailed analysis of the management of DDs for the year 2008-09 and we observed that out of 50,815 DDs amounting to ₹ 21.25 crore received during the year, only 48,414 DDs amounting to ₹ 20.11 crore could be remitted to Government account and 2,401 DDs amounting to ₹ 1.14 crore still remain to be credited to Government account (February 2010). The split up of the un-credited DDs is shown in the table:

DDs sent for revalidation and returned without revalidation and kept without further action		Time barred DDs not sent for revalidation		Revalidated DDs kept without crediting to Government account		DDs kept in office without any action	
Number	Amount (Rs. in lakh)	Number	Amount (Rs. in lakh)	Number	Amount	Number	Amount (Rs. in lakh)
571	26.78	41	1.78	7	Rs. 3,850	1,782	85.13

5.8.17.2 Delay in crediting of DDs – non-realisation of interest

Transport Commissioner had instructed²⁷ levy of interest at 12 *per cent* from the banks responsible for the delay in crediting the demand drafts. We observed that

²⁷ Circular No. 8/98 dated 21 April 1998.

vehicle tax collected in 20 offices²⁸ in respect of transport vehicles was remitted by DDs to State Bank of India/State Bank of Travancore for encashment and credit to Government account. We noticed delay ranging from five to 116 days in 3,893 cases for transfer credit of the amounts to Government account. Though delay was noticed in transfer of credit of the amounts, no action was taken to realise the interest from the banks as directed in the circular.

Non-realisation of interest in 20 offices worked out to ₹ 46.23 lakh.

The MVD replied (July 2010) that the present system of management of DDs had now been dispensed with and a new online system followed.

5.8.18 Short/non-collection of tax

5.8.18.1 Non-levy of surcharge

The KMVT Act, 1976 provides for levy of surcharge at the rate of 40 *per cent* on the tax leviable on stage carriages operated by fleet owners. The Kerala State Road Transport Corporation (KSRTC) is the only fleet owner in the State.

We observed that no surcharge was levied for the stage carriages of the KSRTC on the total tax demand of ₹ 395.39 crore for the period from 2004-05 to 2008-09. Short levy of surcharge worked out to ₹ 158.15 crore.

5.8.18.2 Non-levy of additional tax for non-payment of tax

The KMVT Act prescribes levy of the additional tax when tax in respect of a motor vehicle is not paid within the prescribed time limit. According to Rule 5 of the KMVT Rules, time prescribed for remittance of tax in respect of a stage carriage is 45 days from the commencement of the respective quarter. For delay exceeding six months, 50 *per cent* of the tax is leviable as additional tax.

In RTO (NS), Thiruvananthapuram, we observed that the total demand of intrastate stage carriage tax in respect of the KSRTC for the period from 2004-05 to 2008-09 was ₹ 395.39 crore. As the tax amounting to ₹ 373.16 crore was not paid within the six months time, additional tax at the rate of 50 *per cent* of the pending tax was leviable. Non-levy of the additional tax worked out to ₹ 186.62 crore.

5.8.18.3 Short collection of permit fee for educational institution buses

Motor Vehicles (Amendment) Act, 2000 prescribes contract carriage permit for educational institution buses (EIB). Government of India, Ministry of Road Transport and Highways in their letter²⁹ reiterated and clarified that EIBs are Contract carriages.

²⁸ RTOs Alappuzha, Attingal, Ernakulam, Kollam, Kottayam, Malappuram, Muvattupuzha, Palakkad, Thrissur, Thiruvananthapuram and SRTOs Aluva, Irinjalakuda, Karunagappally, Kodungallur, Pala, Perumbavoor, Ponnani, Punalur, Tirur and Transport Commissionerate.

²⁹ Lr.No.RT-11012/32/008MVT dt 28 August 2006.

We found that the department issued private service vehicle permit (PSV) for EIBs from 2004 onwards. The fee prescribed for PSV permit is ₹ 500 whereas the fee prescribed for contract carriage permit is ₹ 2,000, ₹ 2,500 and ₹ 3,000 for vehicles having seats upto 13, between 14 & 20 and above 20 respectively. Despite being pointed out repeatedly in local audit reports, MVD complied Central Government direction only with effect from 1 June 2009. We observed that the non-compliance of Central Government direction resulted in short levy of permit fee in 154 cases in 24 offices³⁰ (out of 43 offices) test checked amounting to ₹ 3.69 lakh.

5.8.18.4 Incorrect classification of omnibuses as non-transport vehicles

Under the MV Act, “Private Service Vehicle” is a motor vehicle constructed or adapted to carry more than six persons excluding driver and ordinarily by or on behalf of the owner of such vehicle for the purpose of carrying persons for, or in connection with his trade or business otherwise than for hire or reward. It was clarified by Ministry of Shipping, Road Transport and Highways, that “private service vehicle registered in the name of an individual and if declared to be used by him solely for personal use” only can be classified under non-transport vehicles and others would come under transport vehicles.

We observed that the department was classifying motor vehicles owned by an individual as private service vehicle for personal use under non-transport vehicle in 56 offices³¹ test checked. This classification was against the provisions of the Act and had resulted in recurring revenue loss on fee for certificate of fitness and permit. We had already mentioned about incorrect classification for the period 2006-08 in the Report of the Comptroller and Auditor General for the year ending 31 March 2009 (Revenue Receipts). The total revenue effect worked out to ₹ 78.19 lakh in 8,598 cases.

5.8.18.5 Short collection of fee for conductor licence

The CMV Rules prescribed fee for issue of conductor licence and fee for each renewal thereof shall be half of that for a driving licence. As per Rule 57 and Rule 60 (3) of Kerala Motor Vehicles Rules, 1989, fees of ₹ 50 each for oral test for conductor licence and issue of conductor’s badge shall be levied. Therefore

³⁰ RTOs Alappuzha, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Vadakara and SRTOs Changanacherry, Chertala, Irinjalakuda, Kanjangad, Karunagappally, Neyyattinkara, Ottappalam, Quilandy, Taliparamba, Thalassery, Thiruvananthapuram, Thodupuzha, Tirur and Tiruvalla.

³¹ RTOs Alappuzha, Attingal, Ernakulam, Idukki, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Thiruvananthapuram, Thrissur, Vadakara and Wayanad and SRTOs Alathur, Aluva, Changanacherry, Chertala, Chengannur, Guruvayoor, Irinjalakuda, Kanjangad, Kanjirappally, Karunagappally, Kayamkulam, Kazhakkutam, Kodungallur, Koduvally, Kothamangalam, Kottarakkara, Mannarkad, Mattancherry, Mavelikkara, Nedumangad, Neyyattinkara, North Parur, Ottappalam, Pala, Parassala, Pattambi, Perinthalmanna, Perumbavoor, Ponnani, Punalur, Quilandy, Taliparamba, Thalassery, Thodupuzha, Thripunithura, Tirur, Tiruvalla, Vaikom, Vandiperiyar and Wadakkancherry.

the total fee leviable for issue of a conductor licence with badge is ₹ 200 (half of driving licence fees ₹ 100+50+50).

However, we noticed that only ₹ 125 was levied for issue of conductor licence with badge and ₹ 25 for renewal instead of ₹ 200 and ₹ 125 respectively during the period from 1 April 2004 to 21 April 2008. As the fee is automatically generated by the computer system for each service, the short levy was due to an incorrect entry in the 'Fees Master table' in the database of the system. The total short collection of fees in 4,277 cases of issue and in 10,128 cases of renewal in 26 offices³² worked out to ₹ 12.37 lakh.

5.8.18.6 Non-levy of one time tax on percentage basis

The KMVT Act as amended by the Finance Act, 2007 stipulates levy of onetime tax in case of motor cars which were originally registered in other State on or after 1 April 2007 and migrated to Kerala State. In case of motor cars which were registered on or after 1 April 2007 and reclassified from the category of transport vehicle, tax is calculated on percentage basis depending on the age of the vehicle from the month of original registration.

We observed in 298 cases of assignment of new registration numbers to the migrated/reclassified vehicles, the department inadvertently collected biennial tax applicable to the old vehicles instead of onetime tax at the prescribed rate in 48 offices³³. The short collection in this regard worked out to ₹ 41.85 lakh.

5.8.18.7 Non-realisation of arrear tax on violation of instalment conditions

The KMVT Act and the rules made thereunder do not permit remitting the tax in instalments. But Government, vide various orders granted instalment facility to remit arrear tax of certain vehicles subject to certain conditions. One such condition was that the Government order would not be valid if the amount was not remitted within the period prescribed. In such cases, balance tax may be realised through action like seizure of vehicles, revenue recovery etc.

We noticed that in 64 cases though the condition for granting instalment facility was violated, the department did not take action to collect the arrear tax.

³² RTOs Alappuzha, Ernakulam, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Thrissur, Vadakara and SRTOs Aluva, Changanacherry, Chertala, Irinjalakuda, Kanjangad, Karunagappally, Neyyattinkara, Ottappalam, Quilandy, Thalassery, Thodupuzha, Taliparamba, Tirur and Tiruvalla.

³³ RTOs Alappuzha, Attingal, Ernakulam, Idukki, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Pathanamthitta, Thiruvananthapuram, Thrissur, Vadakara and Wayanad and SRTOs Adoor, Alathur, Aluva, Changanacherry, Chengannur, Chertala, Guruvayoor, Irinjalakuda, Karunagappally, Kayamkulam, Kazhakkuttam, Kodungallur, Kottarakkara, Mattancherry, Mavelikara, North Parur, Neyyattinkara, Ottappalam, Parassala, Pattambi, Perumbavoor, Perinthalmanna, Ponnani, Quilandi, Taliparamba, Thalassery, Thripunithura, Tirur, Tiruvalla, Vaikom and Wadakkancherry.

Non-realisation of tax in respect of those cases in 18 offices³⁴ worked out to ₹ 19.63 lakh.

5.8.18.8 Excess levy of additional tax due to defects in Smart-Move

The KMVT Act prescribes levy of additional tax when tax is not paid within the grace period prescribed in Kerala Motor Vehicles Taxation Rules, 1975.

The benefit of grace period (45 days, one month or 14 days as the case may be) should be allowed to a vehicle owner for the payment of tax in respect of his newly registered vehicle or a vehicle brought from outside the State for which tax endorsement was made within the grace period of the quarter, but the software 'SMART-MOVE' was so designed to levy additional tax for payment of tax after seven days irrespective of whether the date of remittance falls within the grace period or not. This defect in the software resulted in excess collection of additional tax. In six offices³⁵, we observed that in 160 cases there was excess collection of tax amounting to ₹ 1.79 lakh. The excess collection was refunded in 36 cases amounting to ₹ 1.03 lakh by allowing rebate.

We recommend that necessary changes are required to be made in the software to rectify levying excess tax.

Conclusion

We found that:

- the enforcement wing in the MVD is weak;
- the system security is compromised due to lack of access controls;
- poor IT general and input controls compromises the confidentiality, integrity and availability of IT resources;
- there was leakage in revenue assessment and collection due to poor internal controls and non-alignment of IT system with manual provisions;
- prompt service as prescribed in Citizen Chart was not provided to the public; and
- internal control mechanism in the MVD was not effective.

³⁴ RTOs Attingal, Ernakulam, Idukki, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Pathanamthitta and SRTOs Adoor, Aluva, Changanacherry, Neyyattinkara, Punalur, Thalassery, Thrissur and Vadakara.

³⁵ RTOs Kannur, Muvattupuzha, Vadakara and SRTOs Quilandy, Taliparamba and Thodupuzha.

Recommendations

We recommend that:

- Government may consider adequate change in the fee for duplicate driving licence covering the cost of card;
- the enforcement wing may be strengthened to plug the offences committed under motor vehicle laws;
- the computer servers may be made secure by providing necessary passwords;
- strengthening of input controls and validation checks may be done to ensure data completeness and correctness;
- the quality of the infrastructure developed by the service provider may be ensured;
- the department may consider ways to render prompt services to the public without delay; and
- internal control mechanism may be strengthened to avoid compliance deficiency and internal audit wing may be made efficient and effective.

5.9 Other audit observations

We scrutinised the records of various Transport Offices which revealed several cases of non-compliance of the provisions of the Motor Vehicles Act 1988 (MV Act) and Kerala Motor Vehicles Taxation Act (KMVT Act), 1976 and Government notifications and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of the Regional Transport Offices (RTOs) are pointed out in audit each year but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system.

5.10 Non-compliance of provisions of Acts/Rules

The provisions of the MV Act and KMVT Act and Rules made thereunder provide for:

- i) collection of revenue on transport vehicles/stage carriages;*
- ii) levy of tax/fees at the prescribed rates within the due dates; and*
- iii) levy of penalty for various offences.*

We noticed that the RTOs did not observe some of the above provisions which resulted in non/short levy of tax/fee/fine of ₹ 41.67 lakh as mentioned in paragraphs 5.10.1 to 5.10.5.

5.10.1 Short levy of one time tax

5.10.1.1 (13 RTOs³⁶ and 26 SRTOs³⁷; between April 2009 and January 2010).

The KMVT Act stipulates that one time tax shall be levied from the date of purchase of vehicle at the rates specified at the time of first registration of the vehicle. The rate for motorcycles, motor cars, three wheelers and omnibus is six *per cent* of the purchase value of the vehicle as per proviso to Section 3(1) of KMVT Act. Tax is payable in respect of vehicles owned by Government companies, public sector undertakings, autonomous bodies, corporations etc.

We noticed that the department short levied one time tax due to incorrect computation of purchase value in 1,339 cases. This resulted in short levy of tax of ₹ 13.68 lakh.

After we pointed out the matter, the department stated (between April 2009 and January 2010) that action would be taken to realise the short collection. We have not

³⁶ Alappuzha, Attingal, Ernakulam, Idukki, Kannur, Kottayam, Kozhikode, Malappuram, Palakkad, Thiruvananthapuram, Thrissur, Vadakara and Wayanad.

³⁷ Adoor, Alathur, Aluva, Chengannur, Cherthala, Kanjirappally, Karunagappally, Kayamkulam, Kazhakuttam, Koduvally, Kothamangalam, Kottarakkara, Mattancherry, Mavelikkara, Nedumangad, North Parur, Pala, Perinthalmanna, Perumbavoor, Ponnani, Punalur, Quilandy, Thodupuzha, Thripunithura, Tirur and Vandiperiyar.

received further developments from the department (December 2010).

We reported the matter to the Government in February 2010. We have not received any further information from them (December 2010).

5.10.1.2 (RTO, Thiruvananthapuram; July 2009)

We noticed that in the cases of nine vehicles owned by autonomous bodies, public sector undertakings etc. one time tax was not levied on the purchase value of the vehicle. This resulted in non-levy of tax of ₹ 2.95 lakh.

After we pointed out the matter in July 2009, the department stated that matter would be examined. We have not received further developments from the department (December 2010).

We reported the matter to Government in March 2010. We have not received any further information from them (December 2010).

5.10.2 Incorrect grant of moffusil permits

(10³⁸ RTOs; between April 2009 and December 2009)

KMV Rule 269 stipulates that the minimum seating capacity of a stage carriage shall be directly proportionate to the wheel base of the vehicle. The seating capacity determines the tax due on stage carriage. The seating capacity can be reduced by two seats in respect of vehicles with separate entrance and exit and further reduced by one fifth in respect of vehicles operating as City/Town service. However, such vehicles with reduced seating capacity are eligible for moffusil permit only on enhancement of seating capacity to the minimum prescribed in the Rule.

We noticed that while transferring the vehicles to the jurisdiction of other RTOs/SRTOs moffusil permits were granted to 33 vehicles after collecting tax based on the reduced seating capacity of the vehicles instead of collecting tax at the minimum seating capacity of stage carriage proportionate to wheel base prescribed. This resulted in short collection of tax of ₹ 13.60 lakh.

After we pointed out the cases between April 2009 and December 2009, the

department stated that action would be taken to realise the balance tax. We have not received further developments from the department (December 2010).

We reported the matter to Government in February 2010. We have not received any further information from them (December 2010).

³⁸ RTOs: Alappuzha, Attingal, Idukki, Kottayam, Kozhikode, Malappuram, Palakkad, Pathanamthitta, Thrissur and Vadakara.

5.10.3 Non-realisation of tax from stage carriages

(Six RTOs³⁹; between April 2009 and January 2010)

Exemption from payment of tax in respect of a motor vehicle which has not been used for the first month or the first and second months of a quarter, or the whole of quarter or year shall be allowable if the owner furnishes a declaration in form 'G' as per Section 5(1) of the KMVT Act. Tax is leviable for the part of the quarter for which declaration in form 'G' is not furnished.

We noticed that on 43 contract carriages tax due was not realised for the period for which non-use intimation had not been filed. This resulted in short levy of tax of ₹ 4.78 lakh.

After we pointed out the omission, the department stated that the matter would be examined. We have not

received any further information from them (December 2010).

We reported the matter to Government in March 2010. We have not received any further information from them (December 2010).

5.10.4 Short collection of tax due to registration of contract carriage as educational institution bus

(SRTO, Koduvally; October 2009)

Educational Institution Bus (EIB) means an omnibus which is owned by a college, school or other educational institution and used solely for the purpose of transporting students or staff of the educational institution in connection with any of its activities and the tax payable on such EIBs is ₹ 1,000 per quarter as per Section 2(11) of the MV Act. Contract carriages having seating capacity of more than 20 which are registered as EIBs are liable to pay tax at the rate of ₹ 750 per passenger per quarter.

We noticed that an omnibus registered in the name of a person was altered as educational institution bus and tax had been realised at the rate of ₹ 1,000 per quarter as applicable to EIB. Tax should have been collected at the rate of ₹ 750 per person per quarter applicable for contract carriage as the vehicle continued to be

registered in the name of a person. The alteration of contract carriage as EIB resulted in short collection of tax amounting to ₹ 3.77 lakh.

After we pointed out the omission, the department stated that matter would be examined. We have not received any further information from them (December 2010).

We reported the matter to Government in March 2010. We have not received any further information from them (December 2010).

³⁹ Ernakulam, Kollam, Kottayam, Kozhikode, Muvattupuzha and Thrissur.

5.10.5 Irregular adjustment of rent against tax

(RTO (NS), Thiruvananthapuram; April 2009)

KMVT Act stipulates that tax shall be levied on every motor vehicle used or kept for use in the State, at the rate specified for such vehicle in the Schedule. Government issued orders in December 1989 granting adjustment of rent of space utilised by Transport Commissioner's Office in Transport Bhavan, a building owned by KSRTC, against the tax due on inter-state stage carriages. The rent payable was at the rate of ₹ 30,100 p.m. Accordingly KSRTC is required to remit the tax due on inter-state stage carriages to Government after adjusting the rent.

We noticed that KSRTC had been remitting the tax after adjusting the rent even though the Transport Commissioner's Office was shifted in October 2006 and the space utilised by Transport Commissioner's Office was in possession of KSRTC. Further KSRTC deducted income tax at the rate of 20 *per cent* from the tax payable from the balance rent. We mentioned the irregular

adjustment made during the period from October 2006 to March 2008 in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2009. The Government or KSRTC did not take corrective action on the matter. The irregular adjustment made during the period from April 2008 to March 2009 had resulted in short remittance of tax of ₹ 2.89 lakh.

After we pointed out the matter in April 2009, the department stated that the matter would be informed to the Transport Commissioner. We have not received further developments from the department (December 2010).

We reported the matter to Government in February 2010. We have not received their reply (December 2010).