

Overview

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The Report of the Comptroller and Auditor General of India on State Revenues for the period ended March 2024 covers Audit Observations under Revenue Sector including Tax on Vehicles, Excise duty, Stamp duty and Registration fees and Agricultural Income Tax. The Report contains 11 paragraphs including two Subject Specific Compliance Audits (SSCA) involving revenue impact of ₹603.53 crore.

Chapter-I deals with the general aspects of the revenue receipts of the State. The total revenue receipts of the State Government for the year 2023-24 amounted to ₹1,24,486.15 crore, consists of State's own revenue of ₹90,674.97 crore and receipts from Government of India (GoI) of ₹33,811.18 crore (27 *per cent*). Arrears of revenue under some principal heads amounted to ₹30,308.52 crore, which represented 24.35 *per cent* of the total revenue of the State. The Chapter also provides an overview of the audits conducted in the departments. As of June 2024, 15,021 paragraphs involving ₹4,978.61 crore, contained in 2,461 Inspection Reports issued up to December 2023, remained outstanding.

Chapter-II deals with a Subject Specific Compliance Audit (SSCA) on 'Functioning of Regional Transport Offices and State Transport Authority in the Motor Vehicles Department of Kerala'. It was conducted to seek an assurance that the RTOs/ SRTOs managed the issue, renewal, and cancellation of licences effectively, regulated and controlled the registration and use of vehicles, assessed, levied and collected the revenue effectively, and conducted enforcement activities with adequate follow-up to deter violations.

In the SSCA, Audit observed that the department initiated modernisation efforts by setting up nine Automated Driving Test Tracks (ADTTs) and nine Automated Testing Stations (ATSSs) aimed at improving transparency and minimizing human intervention. However, despite incurring ₹37.48 crore, only two ADTTs became functional while none of the ATSSs were operational, resulting in continued dependence on manual licensing and testing. Audit revealed non-levy of applicable Green Tax, during Certificate of Fitness (CF) and registration renewals amounting to ₹2.57 crore. This non-levy highlighted an overreliance on vehicle owners' self-declarations, amidst the absence of effective system-based validations.

Analysis of VAHAN database, revealed that while the Certificate of Fitness of 48,059 (2.63 *per cent*) active transport vehicles had expired, these vehicles were neither presented for inspection nor reported as non-use to the Registering Authority. Audit observed that even though payment of motor vehicle tax for the corresponding period indicated the vehicles' intended use, the Enforcement Wing neither issued notices to the defaulting owners nor initiated any action to cancel registrations or permits of such vehicles operating without a valid CF. This inaction led to non-collection of penalty and compounding fees of ₹23.12 crore. Comparison with the Accident data of the Police Department, revealed that 197 of these vehicles with expired CF met with accident, involving 19 fatalities.

Audit also noticed lack of action on operation of vehicles with expired Certificate of Registration (RC). While on one hand, the Registering Authority accepted tax beyond the registration validity and thereby permitted the use of such vehicles on public roads, on the other hand the Enforcement Wing failed to issue notices or initiate action against the defaulters. This combined lapse not only undermined statutory compliance but also resulted in non-collection of revenue of ₹24.57 crore, on account of non-imposition of fine and non-collection of renewal fees. Comparison with the Accident data of the Police Department, revealed that 147 of these vehicles with expired RCs met with accident, involving 13 fatalities.

Audit further observed that out of 1,27,100 contract carriage and goods carriage vehicles registered in the State, 1,620 vehicles (Contract carriages – 557 and Goods Carriage Tipper – 1,063) were operating after paying the prescribed Motor Vehicles tax but without a valid permit, in violation of Section 66. It was also observed that vehicle inspections by the Enforcement Wing turned up CF expiry in respect of 6,803 transport vehicles and the registration certificates expiry of 30,948 non-transport vehicles. However, even in such cases, while compounding fees for other violations were collected, the offences of operating vehicles without a valid CF or RC were ignored. Ensuring adherence to permit regulations, and certificate of fitness and registration requirements is essential for maintaining road safety, regulatory compliance, and safeguarding government revenue. Above non-adherences resulted in non-collection of compounding fees amounting to ₹12.18 crore.

Recommendations of Chapter II:

- The Government should automate driver licence issuance and establish a structured, time-bound roadmap towards State-wide implementation of technology-driven driving tests across all RTOs and SRTOs, while simultaneously accelerating the establishment of the 19 planned ATS and upgradation of existing facilities, with clearly defined timelines to ensure full compliance with the Central Notification.
- The Government may instruct the Motor Vehicles department to take prompt action to recover the Green Tax in the identified cases.
- The Government may mandate regular reviews of the VAHAN database to identify vehicles operating with expired CFs, RCs, or permits, and ensure timely renewal or removal of such vehicles from road operations. This should be supported by strengthened enforcement through routine inspections, digital tracking of permit renewals via the VAHAN portal, and periodical reporting by field officials on action taken to ensure compliance.
- The Government may establish a monitoring mechanism to ensure that instruction issued to the officials regarding booking of offences are complied with, without exception.

(Paragraph 2.4)

Chapter-III includes a Subject Specific Compliance Audit (SSCA) on 'Manufacture and Sale of Foreign Liquor in Kerala'. It was conducted to ascertain whether the provisions of the Acts/ Rules governing the manufacture/ import, transportation, storage and sale of foreign liquor and beer were complied with. Audit also sought assurance that the realisable revenue was demanded and collected in time and the internal control mechanism existing in the department is adequate and effective.

The SSCA highlights significant revenue losses arising right from the sourcing of Extra Neutral Alcohol (ENA) through to the manufacture and sale of liquor. In a distillery in Thiruvalla, significant discrepancies in ENA stock during inspections by higher officials, conducted after a theft incident, highlights serious shortcomings in the monitoring and stock verification processes at the distillery's premises. While a Police FIR was filed for the theft, the department neither initiated any action to recover the revenue lost due to the shortage of ENA in the distillery's stock, nor did it pursue recovery from the individuals involved in the diversion of ENA, resulting in total unrecovered loss of ₹51.88 crore.

During the SSCA, Audit also reviewed the registration of dealers, scrutiny of returns, and the assessment, levy, and collection of Sales Tax and Turnover Tax (ToT) on the sale of foreign liquor under the Kerala General Sales Tax (KGST) Act, 1963 by the State GST department. The failure of the Assessing Authorities to include the sales tax component while computing the turnover tax, resulted in a short levy of ToT amounting to ₹1.65 crore. Further, a brewery in Kanjikode, claimed exemption from payment of ToT on the sale of beer by citing a Government Notification that was applicable only to liquor manufactured by distilleries and did not extend to beer produced by breweries. Hence, the exemption claimed by the assessee was irregular, and the failure of the Assessing Authority to initiate recovery proceedings resulted in non-levy of ToT amounting to ₹13.81 crore. Instances of short levy/ collection of Sales Tax due to application of incorrect rate of tax were also observed. While in one case, the assessee failed to revise the applicable tax rate for the financial year, in another case, the revised rate was not applied from the effective date of revision. In both these instances, the assessing officers accepted the returns filed by the assessees without verifying the correctness of the applicable rates. This resulted in short levy of tax of ₹3.71 crore.

Audit cross verified, the transit permits issued by Excise department for import of liquor into Mahe, with the records maintained at check points and found that 22 permits, involving 1,10,720 Bulk Litres of IMFL, had no corresponding records of exit, indicating possible diversion to Kerala market for illicit sale. The estimated revenue loss due to the possible diversion of 12,302 cases of IMFL amounts to ₹5.10 crore.

Recommendations of Chapter III:

- Government may direct the Department to ensure that surprise and independent stock verifications in Distilleries are conducted at regular intervals, by separate departmental teams, to ensure unbiased assessments and early detection of discrepancies.

- Government may develop and circulate detailed standard operating procedures (SOPs) to Assessing Authorities of State GST, on common areas of error including exemption eligibility to ensure uniformity in assessments. Government may also institute accountability mechanisms for assessment errors and conduct regular internal audits to evaluate the quality of assessments.
- Government may introduce a GPS-enabled transit permit system with real-time tracking and automated for route deviations or delays alerts to Excise enforcement wing, to monitor whether consignments reach their intended destinations.

(Paragraph 3.4)

Chapter-IV deals with ‘stamp duty and registration fees’, wherein, instances of omission of adopting fair value of land and non-adoption of fair value available in the mother survey that resulted in short levy of Stamp duty and Registration fees were observed.

(Paragraph 4.4 & 4.5)

Chapter-V deals with ‘other Receipts’. The chapter discuss the observations such as non-levy of revised Licence fee from Government of Tamil Nadu for land assigned for Parambikkulam Aliyar Project and consequent shortfall in Forest Revenue amounted to ₹1.70 crore, along with a short collection of ₹27.40 crore from another lessee due to non-revision of lease rent.

(Paragraph 5.1.1 & 5.1.2)