

Chapter-VI Other Tax and Non-Tax Receipts

6.1 Tax administration

This chapter consists of receipts from Power sector projects, Revenue, Industries, Irrigation & Public Health and Public Works Departments. The tax administration is governed by Acts and Rules framed separately for each Department.

6.2 Results of audit

Test check of the records of the Multi Purpose Projects and Power, Revenue, Industries, Irrigation & Public Health and Public Works Departments, conducted during the year 2010-11, revealed non-deposit of tax and royalty etc. and other irregularities amounting to ₹ 268.41 crore in 388 cases, which fall under the following categories:

Sr. No.	Categories	₹ in crore)	
		Number of cases	Amount
1.	“Interest Receipts including Dividends and Profits” (A Performance audit)	01	20.96
2.	Incorrect determination of market value of property/ exemption on housing loan	48	0.22
3.	Non/short levy of stamp duty and registration fee	15	0.05
4.	Non/short realisation of royalty, dead rent etc.	2	0.82
5.	Non/short recovery of water and <i>abiana</i> charges	47	14.37
6.	Non-deposit of tax and royalty etc.	08	2.62
7.	Other Irregularities	267	229.37
Total		388	268.41

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 19.68 crore in 57 cases which were pointed out in earlier years. An amount of ₹ 18.29 lakh was realised in nine cases during the year 2010-11.

A performance audit of **“Interest Receipts including Dividends and Profits”** with financial impact of ₹ 20.96 crore and few illustrative cases involving ₹ 21.06 crore are mentioned in the following paragraphs:

A. Finance Department

6.3 Performance audit on “Interest Receipts including Dividends and Profits”

Highlights

- During 2005-06 to 2009-10 the Budget estimates and actual receipts fluctuated between (-) 27 per cent and 5,872 per cent indicating defective budgetary preparation.

(Paragraph 6.3.7)

- Terms and conditions of loans of ₹ 6.13 crore by Multi Purpose Projects and Power Department and Horticulture Department were not prescribed. Thus, monitoring and recovery of interest was not possible.

(Paragraph 6.3.8.3)

- Non-demanding of interest of ₹ 1.21 crore due on overdue payment of principal and interest instalments by the Multi Purpose Projects and Power Department.

(Paragraph 6.3.12)

- Budget estimation was understated by ₹ 52.05 crore as interest accrued was directly converted into equity in Agriculture, Co-operation and Horticulture Departments.

(Paragraph 6.3.13.3)

6.3.1 Introduction

Interest receipts constituted a major source⁸³ of non-tax revenue during 2005-06 to 2009-10. Sources of interest receipts are loans advanced to commercial units, public sector undertakings, co-operative societies, local bodies, industries, agriculturists, Government employees, interest from investment of cash balances and refund of interest from the Government of India. The loans, i.e. principal and interest are recoverable within a stipulated period in equal periodical instalments and as per terms and conditions of the sanction order. In case of default in repayment of loan or interest due as per the terms and conditions of the sanction, penal interest is also chargeable from loanees.

Dividends and profits are also received on the investment made in various Corporations/Boards, Companies, Co-operative Banks and Societies.

A review of the interest receipts covering loans disbursed by three Departments⁸⁴ was included in the report of Comptroller and Auditor General of India (Revenue Receipts)-Government of Himachal Pradesh for the year ended 31 March 2001. The Public Accounts Committee (PAC) in their Reports⁸⁵ recommended that the Departments should ensure prompt recovery of principal, interest and penal interest.

⁸³ Ranging between four to seven per cent of non-tax revenue

⁸⁴ Agriculture, Co-operation and Industry

⁸⁵ 36th, 37th, 76th and 123rd Reports of Tenth Vidhan Sabha

The current review of “Interest Receipts including Dividends and Profits” revealed that the PAC’s recommendations have not been complied with and a number of system and compliance deficiencies continue to exist. These have been discussed in the subsequent paragraphs.

6.3.2 Organisational set up

The Finance Department (FD) is the nodal agency for according sanction to the loan and investment proposals processed by the Head of the Departments (HODs) and recommended by Administrative Departments (ADs). Recovery of loan with interest is watched by the HODs, ADs and the FD through quarterly progress reports (QPRs) and annual reports (ARs) sent by subordinate offices who maintain basic records of the loanees. In case, where loans are disbursed directly by HODs, the basic records are to be maintained at the Directorate level.

6.3.3 Scope of audit and audit methodology

There are 14 Departments involved in disbursement of loans under 19 major heads of accounts. On the basis of statistical sampling, the records of seven Departments viz. Agriculture, Co-operation, Education, Horticulture, Multi Purpose Projects and Power (MPP & Power), Industry and Urban Development accounting for 80 *per cent* of the total outstanding loans as on 31.03.2010, were test checked alongwith records maintained by the FD. We also test checked the records of subordinate offices⁸⁶ of Co-operation and Industry Departments.

6.3.4 Acknowledgement

We acknowledge the co-operation of the Departments selected for test check in providing necessary information and records for audit. An entry conference was held in December 2010 with the Principal Secretary (Finance) and the scope and methodology for conducting the review were discussed. Shortcomings noticed during the review were also discussed and brought to the notice of the head of the concerned office. The exit conference was held in October 2011. The Principal Secretary (Finance) represented the Government. The views of the Government have suitably been incorporated in the relevant paragraphs.

6.3.5 Audit Objectives

We conducted the review with a view to ascertain;

- existence of an adequate system for sanctioning and disbursing of loans;
- existence of an adequate and effective system for realisation of principal and interest on loans;
- adequacy of remedial measures against the defaulters for safeguarding the interest of the Government;
- whether an internal control mechanism was in place and was working effectively for monitoring compliance with the terms and conditions of loans; and

⁸⁶ ARCS- Dharamshala, Kullu, Mandi, Palampur and Shimla: Industry- Dharamshala, Hamirpur, Kullu, Mandi, Shimla and Una

- existence of adequate and effective system for realisation of dividends on investments.

6.3.6 Source of information

We found that basic records viz. loan and interest ledgers and Demand, Collection and Balance (DCB) registers had not been maintained at the Directorate level by six Departments⁸⁷, out of the seven test checked Departments. Our source of information is therefore based on the Finance Accounts (FA)⁸⁸, calculation statement of interest, QPRs, ARs and correspondence exchanged between the FD, concerned department and loanee organisations.

6.3.7 Trend of revenue

The provisions of the H.P Budget Manual (HPBM) lay down that the actuals and revised estimates of previous years should be taken as the best guide in framing the budget estimates (BEs) and continuance of any growth or decline in contrary, properly be assumed in all cases in which proportionate estimate can be usefully employed. The provisions also suggest that special attention should be paid to new sources of revenue of which account has not been taken in previous years. The reasons which led to the adoption of the figures for the BEs should be briefly and clearly explained. The FD is required to receive inputs from the HODs for this purpose as stipulated in para 3.1 of HPBM.

The position of outstanding loans and advances of the Government during 2005-06 to 2009-10 was as under:-

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1.	Opening balance	242.46	234.62	236.97	224.85	293.49	
2.	Amount advanced during the year	14.13	25.75	13.94	89.61	69.67	213.10
3.	Amount repaid during the year	21.97	23.40	26.05	20.97	33.84	126.24
4.	Interest received during the year	10.22	11.29	15.70	11.11	11.36	59.68
5.	Closing balance	234.62	236.97	224.85	293.49	329.32	

Source: Finance Accounts of the respective year

The outstanding loans and advances under different heads had increased by over 40.36 per cent from ₹ 234.62 crore to ₹ 329.32 crore over the period 2005-06 to 2009-10.

⁸⁷ Agriculture, Education, Horticulture, Industry, MPP & Power and Urban Development

⁸⁸ FA of the Government contain details of receipts and disbursements including balances, assets and liabilities as worked out from the balances recorded in the accounts during a year. These are compiled from the vouchers, challans and initial & subsidiary accounts rendered by treasuries, offices and Departments responsible for the keeping of such accounts.

The position of loans disbursed by the test checked Departments during 2005-06 to 2009-10 was as under:

(₹ in crore)

Sr. No.	Name of Department	Loans disbursed					Total	Outstanding as on 31.03.2010
		2005-06	2006-07	2007-08	2008-09	2009-10		
1.	MPP & Power	1.97	---	1.33	75.00	62.34	140.64	200.47
2.	Co-operation	0.81	10.89	0.58	0.06	---	12.34	13.06
3.	Agriculture/ Horticulture	---	0.65	0.68	1.56	0.97	3.86	40.89
4.	Urban Development	---	---	---	2.00	---	2.00	2.58
5.	Industry	---	0.98	0.50	0.20	---	1.68	5.69
6.	Education	---	---	---	---	---	---	0.10
	Total	2.78	12.52	3.09	78.82	63.31	160.52	262.79

Source: Finance Accounts of the respective year

6.3.7.1 A comparison of BEs with the actuals of interest realised during 2005-06 to 2009-10 is given below:-

(A) Interest Receipts

(₹ in crore)

Year	BEs	Actual Receipts		Total (Col.3+ Col.4)	Variation Excess (+) Shortfall(-) (Col.2-Col.5)	Percentage of variation
		Interest on loans	Interest on investment of cash balances			
1	2	3	4			
2005-06	11.58	23.81	25.48	49.29	(+) 37.71	(+)326
2006-07	12.19	61.21	25.97	87.18	(+) 74.99	(+) 615
2007-08	12.77	18.28	48.62	66.90	(+) 54.13	(+) 424
2008-09	63.58	17.52	60.45	77.97	(+) 14.39	(+) 23
2009-10	105.27	13.23	63.70	76.93	(-) 28.34	(-) 27

Source: Budget estimates of the respective year

It may be seen that the variation between BEs and actual during the years 2005-06 to 2009-10 ranged between (-) 27 per cent to 615 per cent. Thus, there appeared no relevance between BEs and actuals throughout these five years. Actuals of interest were excessively on the higher side during 2005-06 to 2008-09, whereas it showed a sharp decline during 2009-10.

After we pointed this out (June 2010), we were informed (July 2010) that the BEs are being framed in the FD itself on the basis of trend of actuals of the past three years as no information was being received from other Departments in time. The major portion of receipt under this head was interest realised on investment of cash balances which could not be accurately estimated in advance. This reply indicates lack of control of the FD over various Departments of the State. As would be evident from the above table, the preparation of the BEs on the basis of trend of the actuals of the past three years was not followed and the budget estimation was not being done as per the HPBM provisions.

(B) Dividends and Profits

(₹ in crore)

Year	BEs	Actuals	Variation excess (+) shortfall (-)	Percentage
1	2	3	4	5
2005-06	0.65	28.61	(+) 27.96	4,302
2006-07	0.65	1.81	(+) 1.16	178
2007-08	0.85	1.03	(+) 0.18	21
2008-09	1.50	89.58	(+) 88.08	5,872
2009-10	2.65	73.49	(+) 70.84	2,673

Source: BEs and FA of the respective year

It may be seen that the variation between BEs and actuals ranged between 21 per cent and 5,872 per cent during 2005-06 to 2009-10. The BEs for receipts from dividends and profits during these years gradually increased from ₹ 65 lakh to ₹ 2.65 crore whereas actual receipts varied between ₹ 1.03 crore and ₹ 89.58 crore. Procedures adopted for preparation of BEs and reasons for variation between BEs and actuals were called for from the FD (June 2010).

The FD stated (May and June 2011) that during 2005-06 to 2007-08, the dividend received from Central Government was wrongly credited to receipt head "0801-Power" by the companies and from 2008-09 onward correct head "0050-Dividends and Profits" is being operated which led to huge variation during 2008-09 and 2009-10. The reply is not acceptable in audit as while framing the estimates for 2008-09 and 2009-10 the actual amount of dividend wrongly credited to MH "0801-Power" from 2005-06 to 2007-08 was not taken into account.

Audit findings**System deficiencies****6.3.8 Non-prescribing of procedure for maintenance of loan accounts****6.3.8.1 Absence of provisions**

Loans are disbursed to loanees after sanction from the competent authority. The repayment of loan should be effected in instalments which should ordinarily be fixed on a half-yearly or yearly basis.

Our scrutiny of records revealed that no rules or guidelines have been framed to watch repayments of loan/interests. Administrative instructions for maintenance of loan accounts have also not been issued. Resultantly different Departments were maintaining records on different patterns. Scrutiny of the records maintained by the seven test checked Departments revealed the following deficiencies:-

- Except for the Cooperation Department, loan ledgers were not maintained at the Directorate level by any other Department;

- Entries of principal and interest recovery recorded in the ledger were not attested by the head of the office in six test checked units⁸⁹;
- Interest/penal interest due were not calculated/computed upto date by seven test checked units⁹⁰;
- Separate DCB registers were not being maintained by any of the test checked units.

After we pointed this out (January and February 2011), the test checked units while admitting the facts stated that there are no instructions to maintain DCB registers and loan ledgers could not be completed due to shortage of staff and assured that interest would henceforth be calculated and depicted in the loan ledgers. As regards maintenance of records at the levels of AD/HOD, we called for information from the FD (June 2010). The FD stated (June 2011) that no such instructions were available.

The Government may consider prescribing instructions for maintaining loan accounts, loan ledgers and DCB registers for monitoring recovery of loan and interest on a uniform pattern.

6.3.8.2 Non-acceptance of outstanding loans and advances

Our enquiries from three Departments (Agriculture, Urban Development & Education) and cross-reference with FA revealed that these Departments were not monitoring accounts for the loans disbursed prior to 1988-89. The outstanding balance as on 01.04.2005 was ₹ 10.64 crore as shown in the table below:

(₹ in lakh)

Sl. No.	Major Head	Loan amount	Accepted by the department	Period of disbursement (prior to)
1.	6435-Other Agricultural Programme (Marketing facilities)	433.89	Nil	1987-88
Director Agriculture intimated (July 2010) that no loan had been disbursed under this head or was outstanding under this head. As per AG (A&E) office these loans were disbursed prior to 1987-88, thereafter, no recovery has been received.				
2.	6217-Loans for Urban Development	58.42	Nil	1988-89
The Director Urban Development intimated (July 2010) that loan does not pertain to his office. Whereas as per AG (A&E) office ₹ 108.07 lakh disbursed prior to 1988-89 and part recovery was made up to 2001-02 by the Director Urban Development.				
3.	6401-Loans for Crop Husbandry, 800- Other loans (ii) Loans to Himachal Pradesh Krishi Vishvavidyalaya	562.37	183.27	1985-86
The Director Agriculture intimated (June 2010) that a sum of ₹ 183.27 lakh only was sanctioned during 1985-86.				
4.	6202-Loans for Education, Sports and Culture	9.74	Nil	1988-89
Director Elementary Education intimated (October 2010) that no loan was drawn by that office.				
Total		1,064.42	183.27	

⁸⁹ Assistant Registrar Co-operative Societies-Kullu, Mandi and Shimla :: Industry-Hamirpur, Kullu and Shimla

⁹⁰ Industry-Dharamshala, Hamirpur, Mandi, Kullu, Shimla, Una, ARCS-Kullu

From the above it is clear that out of outstanding loan of ₹ 10.64 crore, ₹ 1.83 crore has been accepted by the loan disbursing Departments. Due to non-acceptance of the loans amounting to ₹ 8.81 crore the Government could neither realise nor raise the demand for recovery of interest as well as principal.

6.3.8.3 Non-prescribing the terms and conditions of loan

The sanction for payment of loans issued by the Government should contain the terms and conditions for repayment of loan such as the number of instalments for repayment of principal and interest, date and year of commencement of the first instalment and rate of interest/penal interest chargeable. Further, according to Rule 10.5 (i) of HPFR, 1971, interest should be charged at the rate provided by Government for any particular loan or for the class of loans concerned.

On scrutiny of Schedule-33 of the balance sheet of the Himachal Pradesh State Electricity Board (HPSEB) and concerned correspondence files, we found that a loan of ₹ 5 crore was sanctioned in favour of the Principal Secretary (MPP & Power) for further disbursement to that organisation. Our scrutiny of principal sanctions further revealed that the terms and

conditions of the loan had not been prescribed. Similarly, loans of ₹ 1.13 crore were disbursed by the Horticulture Department to Agro Industry Packaging India Ltd. (AIPIL), without prescribing terms and conditions. The details are given below:-

(₹ in crore)

Sr. No.	Head of Account	Name of Department	Name of loanee	Amount of loan	Date of drawl	Purpose of loan
1.	6801	MPP & Power Department	HPSEB	5.00	16.07.2008 and 11.02.2009	Rajiv Gandhi Vidhyut Yojna Scheme
2.	6401	Horticulture	AIPIL	1.13	14.01.2009, 27.07.2009 and 30.12.2009	For redemption of liabilities
Total				6.13		

In the absence of terms and conditions for repayment of loan, monitoring and recovery of loan and interest was not possible. After this was pointed out in audit (November 2010), the HPSEB admitted this fact and stated that the matter had been taken up with the concerned quarters (December 2010) to prescribe terms and conditions. This was also pointed out to MPP & Power Department (May 2011) for which no reply was furnished (December 2011). The Horticulture Department while admitting the facts (August 2011) supplied the copies of sanctions instead of furnishing concrete reply.

6.3.9 Internal Control Mechanism

6.3.9.1 Absence of reporting system

Maintenance of records on a uniform pattern or periodical returns to watch recovery of loans and interest has not been prescribed by the FD. However,

three Departments⁹¹ had been preparing QPRs and ARs but these were not being scrutinised at higher levels paving way for discrepancies as discussed in the succeeding paragraphs. This reflects absence of departmental checks over loans disbursed by them.

6.3.9.2 Absence of monitoring system

Under the provisions of HPFR Vol.-I, as soon as any advance become irrecoverable, the Administrative Department is required to take necessary steps to write-off the dues from the accounts with the approval of competent authority.

The Government considering the proposal of the Department (September 2007) accorded sanction (May 2010) to write off principal loan of ₹ 1.76 crore outstanding against the Agriculture Department disbursed by it to agriculturists.

We noticed that as per the FA, principal of ₹ 1.20 crore only was outstanding as on March 2010. Resultantly, ₹ 56 lakh was written off in excess of the actual

outstanding. This shows absence of monitoring and control mechanism at the Directorate level.

6.3.9.3 Incorrect opening and closing balances of principal and interest

We test checked the QPRs and ARs and found that opening balance of principal and interest were taken excess by ₹ 4.47 lakh and ₹ 18.12 lakh respectively in the Industry Department, whereas closing balance of interest was taken excess by ₹ 6.69 lakh in Co-operation Department during 2004-05 to 2009-10, as shown in **Annexure-X** and **Annexure-XI**. The loans and arrears of interest were thus over stated to that extent.

After we pointed this out (July 2010), the Co-operation Department stated (September 2010) that difference in closing balances of overdue interest is due to advance/excess payment made by some institutions which shall not affect the overdue position of interest.

Compliance Deficiencies

6.3.10 Non-assessment of interest

We test checked the records of Director Agriculture and found that in July 1997 ₹ 50 lakh was advanced to H.P. Agro Industries Corporation under the Potato Support Price Scheme. The Corporation did not enter the market for potato procurement and the advance remained unutilised.

A mention was made of this in para 3.7 (i) of Audit Report No. 2 of 1999 (Civil). During meeting of the PAC the Government accepted that principal and interest would be demanded from the corporation. Instead of this, the Government converted the principal amount of ₹ 50 lakh into equity investment as late as in June 2008 but no action was taken either to recover the interest of

⁹¹ Agriculture, Co-operation and Industry

₹ 66 lakh⁹² that accrued from July 1997 to June 2008 or to convert the same into equity. As no decision was taken in respect of the interest, the recommendations of the PAC remained un-attended.

6.3.11 Under-assessment of penal interest

On the basis of the sanctions conveyed by the Government, loans in favour of various Cooperative Societies for activities like construction of godown, work shed and renovation of showroom and purchase of vehicle are disbursed by the RCS through ARCS of concerned districts who monitor the institution and watch recoveries of principal and interest as per approved recovery schedules and submit consolidated statement annually to the RCS. In case of default in repayment of loan, penal interest at prescribed rate is to be assessed and recovered.

We scrutinised the loan ledgers maintained by three ARCS⁹³ and noticed that out of 135 cases, in 19 cases, loans aggregating to ₹ 31.41 lakh were disbursed between 1979-80 and 2006-07 with interest/penal interest rates ranging between 8.5 per cent and 17.5 per cent. We noticed that repayment of loans was not made as per prescribed recovery schedule.

Out of total loan of ₹ 31.41 lakh, ₹ 22.29 lakh was recoverable between 1980-81 and 2009-10. Against this, principal of ₹ 7.37 lakh was recovered and a sum of

₹ 14.92 lakh remained un-recovered as on 31.03.2010. The delay in recovery ranged between two and 30 years. Penal interest of ₹ 36.04 lakh was due on delayed payments of overdue principal as per approved recovery schedule, against which the department assessed ₹ 16.67 lakh. This resulted in underassessment of penal interest of ₹ 19.37 lakh.

After we pointed this out (February 2011), the concerned ARCS stated (February 2011) that underassessment of penal interest would be reviewed and results thereof intimated. Further reply is awaited (December 2011).

6.3.12 Non-payment of interest on overdue principal/interest instalments

Under the Accelerated Power Development Reforms Programme (APDRP) the Government of India provided loans to the State Government to be disbursed to the HPSEB through MPP & Power Department. Maturity period of these loans was 20 years with equal instalments of principal and interest and carrying interest between 11.5 per cent and 12 per cent per annum. In case of default in repayment of principal and interest, interest at the rate of 14.20 and 14.75 per cent was chargeable on all such overdue instalments.

On the basis of the information furnished by HPSEB and on scrutiny of their records, we noticed that interest of ₹ 7.69 crore was due on loan of ₹ 11.13 crore between October 2002 and October 2010. Against this, ₹ 7.29 crore was paid by the HPSEB which resulted

⁹² Calculated at the prevailing rate of 12 per cent

⁹³ ARCS-Kullu, Mandi and Shimla

in short payment of interest of ₹ 40.53 lakh. Loans of ₹ 15.62 crore were repaid by the HPSEB between March 2005 and October 2010, out of which ₹ 6.81 crore were repaid after delays ranging between 30 and 760 days. Although there was delay in repayment of loans, interest of ₹ 80.34 lakh on higher rates was not demanded/paid. Thus, interest of ₹ 1.21 crore was still recoverable from HPSEB.

We brought the above facts to the notice of the Department as well as the loanee (May 2011 and December 2010 respectively) for which reply was awaited (December 2011).

6.3.13 Non-reconciliation with Statement of loans and advances

6.3.13.1 Variation between FA figures and departmental figures

Finance Accounts of the Government are compiled from the vouchers, challans and initial & subsidiary accounts rendered by treasuries, offices and Departments. As such, these reflect the financial position of the State. Under the provisions of HPFR Vol.-I, the drawing and disbursing officers are required to prepare a monthly statement of receipts & expenditure and are required to submit the same to concerned treasury officer by the seventh day of the succeeding month. The treasury officer thereafter is required to reconcile the figures with the accounts and return the same to the DDO by 15th day of the succeeding month to which transactions are related.

We cross verified the records and found that during the years 2005-06 to 2009-10, the figures relating to recovery of principal and interest appearing in the FA were at variance with the figures of recovery shown in the departmental records/ returns of three departments as shown in the following table:-

(₹ in lakh)

Sr. No.	Name of department	Period	Recovery position of principal			Recovery position of interest		
			As per FA	As per office records	Variation (+) Excess (-) Short	As per FA	As per office records	Variation (+) Excess (-) Short
1.	Co-operation	04/05 to 03/10	1938.62	1972.69	(+)34.07	1054.39	1053.55	(-)0.84
Recovery of principal was on the higher side while recovery of interest was on lower side as per office records. (Annexure-XII)								
2.	MPP& Power (HPSEB)	04/07 to 03/10	Nil	Nil	Nil	961.48	950.99	(-)10.49
As per office records, recovery of interest was on the lower side. (Annexure-XIII)								
3.	Industry	04/05 to 03/10	56.11	55.20	(-)0.91	81.52	66.54	(-)14.98
Recovery of principal and interest was on the lower side as per office records.(Annexure-XIV)								

Thus, it is clear that reconciliation of recovery of loans in respect of departmental figures with those appearing in the FA were not being carried out by these Departments.

After we pointed this out in audit (July 2010 and November 2010), the Director Industries (September 2010) stated that this variation was not in the knowledge of the Department. The Registrar, Co-operative Societies (RCS), accepted the observation and stated (September 2010) that in future reconciliation with the FA would also be ensured. HPSEB stated that the figures were reconciled with the AG's office (December 2010) but could not justify the difference. The MPP & Power Department (May 2011) did not furnish any reply (December 2011). The replies of the Departments were not acceptable as the variation in figures could have been sorted out, had the provisions of the financial rules been observed.

The Departments may ensure reconciliation with the figures appearing in the Finance Accounts as provided in the HPFR Vol.-I.

6.3.13.2 Variation in outstanding loans

We test checked the ARs sent to the FD by the RCS and annual accounts (Schedule-33) of HPSEB and found that there was variation of ₹ 4.80 crore and ₹ 59.31 crore respectively in outstanding loans with those worked out by the Department as shown below:-

Sr. No.	Name of department	Outstanding as on	Outstanding as per		Variation (+)Excess (-)Short
			FA	Departmental Records	
1.	Co-operation	31.03.2010	1436.72	956.70	(-) 480.02
2.	MPP & Power (HPSEB)	01.04.2005	7801.30	1870.58	(-) 5930.72

This indicates that Departments are not reconciling their accounts with the FA.

After we pointed out (July 2010), the RCS intimated that during 2003-04, ₹ 3.18 crore was converted into share capital and during 2004-05, loan of ₹ 34.44 lakh was adjusted from credit stabilisation fund but adjustment of above figures had not been carried out in the FA. The variation of balance amount of ₹ 1.28 crore remained un-explained (December 2011).

We pointed out this to the MPP & Power Department (May 2011) for which no reply was furnished (December 2011).

6.3.13.3 Irregular conversion of interest and loan into equity and share capital

Under the rules, direct utilisation of departmental receipts towards expenditure is strictly prohibited.

From the correspondence exchanged between Departments and the loanees, it was revealed that principal of ₹ 39.96 crore and interest of ₹ 52.05 crore pertaining to four Departments was converted into equity/share capital of the concerned loanee between February 2004 and June 2008 without crediting the same to receipt

head as detailed in **Annexure-XV**.

Our scrutiny revealed that out of principal amount of ₹ 39.96 crore converted into equity/share capital, ₹ 24.81 crore was still being shown as loan in the FA. The balance amount of ₹ 15.15 crore was being reflected as investment and as loan also.

Besides, loan amount of ₹ 57.07 crore (Principal ₹ 22.13 crore and interest ₹ 34.94 crore) as on 31.03.2008 was converted into share capital of AIPIL in June 2008. In October 2009, the same amount was approved by the Government to be treated as interest free loan.

After this was pointed out (October 2010) for giving two treatments to the same amount, the Director Horticulture admitted the facts and stated that related information is being collected from the corporation concerned (November 2010). Our scrutiny revealed that neither intimation/sanction for conversion of loans into equity/share capital was received in AG office, nor any adjustment in the accounts was intimated by the Departments to reduce the loan amount and increase the investments.

6.3.14 Late deposit of receipt into treasury

Rule 2.4 of HPFR provides that at the close of the day while signing the cash book, the head of the office should see that departmental receipts collected during the day are credited into the treasury on the same day or on the morning of the next day and that there is corresponding entry on the payment side of the cash book. The money collected in recovery camps can be deposited at the nearest treasury/sub-treasury.

We test checked the records of General Manager, District Industry Centre (GM DIC), Dharamshala and found that ₹ 1.54 lakh received on account of interest/repayment of loan between April 2005 and March 2006 in 71 cases was deposited late into the treasury with delays ranging between three and 71 days.

After we pointed this out (January 2011), the GM, DIC stated that delay in deposit had occurred due to the reasons that camps for recovery are organised in the district in a

continuous manner and the money so collected is deposited into the treasury on return to Headquarters. However, it would be ensured in future that the amount collected is deposited within the prescribed limit. The reply of the Department is not tenable as the money so collected was required to be deposited at the nearest treasury/sub-treasury as per provisions of the rules.

6.3.15 Repayment of interest free loan not routed through treasury

A loan of ₹ 12.13 crore was recoverable by the Horticulture Department against Horticulture Produce Marketing Corporation (HPMC) as on 01.04.2005. As per information supplied by the loanee in June 2008, ₹ 2.13 crore was shown as repaid during 2007-08 leaving a balance of ₹ 10 crore. Relying on this information, the Department also reduced the loan liability of HPMC to ₹ 10 crore. The annual FA, year after year, was reflecting the amount of ₹ 12.13

crore as outstanding loan which shows that no repayment of ₹ 2.13 crore was ever made.

The Department stated (November 2010) that information relating to repayment of loan is being collected from the HPMC which indicates poor monitoring of recovery of loans.

6.3.16 Non-reconciliation with treasury

Rule 2.2(v) of the HPFR provides that at the end of the month, the drawing and disbursing officers are required to prepare a statement of amounts credited into the treasury both by the departmental officers and others and get it verified by the Treasury Officer concerned and difference noticed, if any, are to be got reconciled.

We observed that the statements of receipts had not been prepared and reconciliation not carried out in respect of interest receipts and repayment of loans credited into the treasury between the period 2005-06 and 2009-10 by eight field units⁹⁴.

After we pointed this out (January and February 2011), the departmental officers stated that the needful would be done.

6.3.17 Conclusion

Basic records i.e. loan ledgers and DCB registers had not been prescribed and as such were not maintained at the directorate level. Outstanding loans appearing in FA were not reconciled by the Departments. The direct conversion of loans into equity/share capital without required accounting adjustments had led to double appearance of the same amount as investment as well as outstanding loans in Co-operation, Horticulture and Industry Departments. The direct investment of accrued interest, without crediting the same first to revenue account, resulted in understatement of revenue in Agriculture, Co-operation, Horticulture and Industry Departments.

6.3.18 Recommendations

The State Government may consider:

- **prescribing instructions for maintaining loan account, loan ledgers and DCB registers for monitoring recovery of loan and interest on a uniform pattern;**
- **setting up an effective IA system to monitor the assessment and correctness of interest accrued, proper accounting procedure and repayment of loans; and**
- **reconciliation with the figures appearing in the Finance Accounts.**

⁹⁴ ARCS Dharamshala, Kullu, Palampur and GM DIC Hamirpur, Kullu, Mandi, Shimla and Una

6.4 Other Audit observations

Our scrutiny of the records in the offices of Power, Revenue and Stamp duty and Registration Departments revealed cases of non-recovery, short recovery, non-deposit and incorrect determination of market value etc., as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these also remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.

B. Multi Purpose Projects and Power Department

6.5 Non-recovery of electricity duty

According to the Himachal Pradesh Electricity (Duty) Act, 1975, and the Rules made there under, electricity duty (ED) was leviable on energy supplied by the Himachal Pradesh State Electricity Board (Board) to consumers. Under the rules *ibid*, the duty collected by the Board in monthly bills for the energy supplied shall be deposited into the Government account half yearly i.e. in April and October every year. There is no provision for levy of interest/penalty for non/belated payment of electricity duty into the Government account.

We collected the information from the office of the Chief Electrical Inspector (CEI), and noticed (April 2011) that ED of ₹ 269.19 crore realised by the Board up to 31.03.2010, was payable in April 2010. Out of this, ₹ 140 crore only was paid upto April 2010 and ₹ 62 crore was paid between August 2010 and September 2010. Apart from the balance amount of ₹ 67.19 crore, ED of ₹ 90.61 crore for the period April 2010 to September 2010 was also recoverable from the Board by October 2010. Out of this ₹ 142 crore were paid by the Board in eight instalments from October

2010 to April 2011. Consequently a balance amount of ₹ 15.80 crore on account of the ED was yet to be recovered. Thus, in absence of the provision for levy of interest/deterrent penalty on delayed/non-payments of ED, the Board was making payments of Government dues at its own will and not on due dates. In case the Board had made payments on due dates, the Government could have saved the minimum interest liability of ₹ 8.83 crore on loans raised by it.

We reported the matter to the Department and to the Government in July 2010. Further report on recovery of the remaining ED amounting to ₹ 15.80 crore was awaited (December 2011).

The Government may consider incorporating a provision of interest/penalty for non/belated payment of electricity duty into the Government account.

C. Industries Department

6.6 Non-realisation of royalty on rock salt

Mining Officer Mandi

Royalty is leviable as soon as the mineral is removed from the leased area. Further, as per the GOI notification dated April 2003, royalty on rock salt shall be computed on the basis of average value as published by Indian Bureau of Mines in the "Monthly Statistics of Mineral Production". The State Government shall add 20 per cent to the benchmark⁹⁵ value for the purpose of levy of royalty payable at the rate of 10 per cent of the value so arrived at.

During scrutiny of the returns filed by a lessee⁹⁶ in the above office we noticed (July 2010) that the lessee had extracted 1,836 metric tonnes of rock salt during the year 2009-10. The lessee was liable to pay a royalty of ₹ 5.95 lakh, which was neither paid by it nor was it demanded by the Department resulting in non-realisation of

Government revenue to that extent. Though the lessee had filed the returns, the mistakes were not detected by the MO.

After it was pointed out in audit, the Government intimated in August 2011 that the company/lessee had stopped mining activities from 15 January 2011 and has been directed to deposit the royalty. No further report on realisation has yet been received (December 2011).

6.7 Short recovery of royalty due to application of incorrect rates

Mining Officer (MO) Kullu

The Himachal Pradesh Minor Minerals (Concession) Revised Rules, 1971, provide that the lessee shall pay the royalty in advance for the materials to be removed from the leased area. Royalty for sand, stone etc. is to be charged at the rate of ₹ 20 per tonne in terms of notification dated 8.10.2007, issued by the Department of Industries. In case of default in payment of royalty, interest at the rate of 24 per cent per annum is also leviable.

6.7.1 We test checked between June and July 2010 the register of royalty and returns filed in the office of the MO Kullu and noticed that a lessee⁹⁷ engaged in construction of Parbati Hydro Electric Project stage-III in the district had entrusted civil and hydro-mechanical works of the project to 12 sub-contractors. Our scrutiny further revealed that 0.242 lakh tonnes of sand, stone and aggregate⁹⁸ was supplied by these sub-contractors to the lessee during April and May 2008. The lessee deposited ₹ 2.11 lakh as royalty deducted from the bills of these sub-contractors at the rate of ₹ 6 (sand) and

⁹⁵ Month wise average value of rock salt fixed by Indian Bureau of Mines

⁹⁶ M/s Hindustan Salts Ltd., Mandi

⁹⁷ M/s NHPC Ltd, Nagwain, Mandi

⁹⁸ Crushed stone

₹ 10 (stone and aggregate) per tonne instead of ₹ 20 per tonne for all. Application of incorrect rates of royalty was also not detected by the Department, which resulted in short recovery of royalty of ₹ 3.88 lakh including interest of ₹ 1.14 lakh.

6.7.2 We noticed that royalty of ₹ 16.05 lakh was required to be recovered from three other lessees⁹⁹ on account of 0.802 lakh tonnes crushing stone extracted by them from the leased area during 2008-09 and 2009-10. Out of this, the Department had recovered only ₹ 12.25 lakh, which resulted in short recovery of royalty of ₹ 3.80 lakh. Besides, interest of ₹ 1.25 lakh at the prescribed rates was also leviable.

After we pointed this out, the Department intimated in August 2011 that ₹ 3.34 lakh (₹ 1.52 lakh in respect of M/s NHPC Ltd. Nagwain, Mandi and ₹ 1.82 lakh in respect of M/s Jonson and M/s Bhawani Stone Crusher) has been recovered and notices have been issued to the remaining lessees to deposit the outstanding amount of royalty.

We reported the matter to the Government in July 2010; we have not received their reply (December 2011).

6.8 Non-recovery of dead rent

Mining Officer (MO) Kullu

As per the Himachal Pradesh Minor Minerals (Concession) Revised Rules 1971, dead rent of the leased area or royalty due from the mineral extracted from the leased area, whichever is higher, shall be payable by a lessee.

We test checked between June and July 2010 the royalty registers and returns filed by the lessees in MO Kullu and noticed that six lessees¹⁰⁰ with leased area of 17.667 hectares did not extract any produce during 2008-09 and 2009-10. Therefore, these lessees were liable to pay dead rent of ₹ 3.38 lakh. The Department

did not apply the provisions of the rules, which resulted in non-recovery of dead rent to that extent.

After we pointed this out, the Government intimated in August 2011 that recovery of ₹ 2.97 lakh has been made from four lessees and the notices have been issued to the remaining lessees to deposit the amount of dead rent. Further report on recovery has not been received (December 2011).

⁹⁹ M/s Jonson stone crusher, M/s Bhawani stone crusher and M/s Shobha hydro stone crusher

¹⁰⁰ Shri Nathu Ram, M/s SJVN Ltd., Rampur, M/s NHPC, Parbati project, Sainj, M/s PHEP, stage-III, Sh. Thakur Dass, Maraur and Sh. Kuldeep Chand, Niyahi

D. Public Works and Irrigation & Public Health Departments

6.9 Non-credit of lapsed deposits to the Government revenue account

6.9.1 11 Public Works Divisions (B&R)

The Himachal Pradesh Financial Rules, 1971, stipulate that all balances remained unclaimed for more than three complete account years shall, at the close of March in each year, be credited to the Government account by means of transfer entries. The Rules also forbid direct utilisation of receipts towards expenditure.

We test checked security/deposits registers of 11 B&R divisions¹⁰¹ between January 2011 and March 2011 and noticed that an amount of ₹ 3.23 crore¹⁰² for 3,500 items deducted from the contractors bills on account of deposits during 1985-86 to 2007-08 was not credited to the Government account as required. Thus, ₹ 3.23 crore remained out of the revenue

account, which also resulted in understatement of revenue to that extent.

After we pointed this out, the Bilaspur B&R division intimated in August 2011 that an amount of ₹ 1.43 lakh in respect of 49 items has been credited to the Government account. Out of the remaining amount of ₹ 25.29 lakh, ₹ 16.32 lakh related to Court/Arbitration cases/work in progress and efforts for credit the balance amount into the Government account were being made. Solan B&R division intimated (September 2011) that an amount of ₹ 6.05 lakh in respect of 64 items has been credited to the Government account. The replies of the remaining divisions have not been received (December 2011).

We reported the matter to the Government in January and May 2011; their reply has not been received (December 2011).

Eight Irrigation-cum-Public Health (IPH) divisions

6.9.2 We test checked the security/deposits registers of eight IPH divisions¹⁰³ between December 2010 and March 2011 and noticed that an amount of ₹ 1.51 crore¹⁰⁴ for 1,968 items deducted from the bills of the contractors on account of deposits during 1993-94 to 2007-08 were not credited to the revenue account as required.

After we pointed this out, IPH division, Paonta Sahib intimated in April 2011, that ₹ 3.34 lakh has been credited to the Government account and efforts were being made to credit the balance amount. The IPH Division, Hamirpur stated that for want of LOC the amount of ₹ 16.17 lakh could not be credited to revenue account. This indicates that security deposits deducted from the bills of contractors had been utilised towards expenditure in contravention of financial

¹⁰¹ Baijnath, Bangana, Bilaspur, Dehra, Joginernagar, Kasauli, Kullu-I, Kullu-II, Padhar, Palampur and Sarkaghat

¹⁰² Upto 2004-05: 2,232 items: ₹ 135.81 lakh; 2005-06: 443 items: ₹ 38.43 lakh; 2006-07: 549 items: ₹ 49.98 lakh and 2007-08: 276 items ₹ 98.41 lakh

¹⁰³ Anni, Chamba, Hamirpur, Paonta Sahib, Rohroo, Sarkaghat, Solan and Una

¹⁰⁴ Upto 2004-05 : 883 items: ₹ 73.12 lakh; 2005-06: 405 items: ₹ 24.16 lakh; 2006-07: 655 items: ₹ 52.35 lakh and 2007-08: 15 items: ₹ 1.15 lakh

rules. The replies of the remaining divisions have not been received (December 2011).

We reported the matter to the Government in January and May 2011; further progress of recovery and reply has not been received (December 2011).

6.10 Non-recovery of water/*abiana* charges

6.10.1 Water Charges

Under section 5 of the Himachal Pradesh Water Supply Act, 1968, the water rates shall be levied on the basis of flat rate or metered connections and at the rates prescribed from time to time. The rates levied shall, if not paid when due, be recovered as arrear of land revenue (ALR).

We test checked the arrears registers of five IPH divisions between January 2011 and March 2011 and noticed that water charges amounting to ₹ 36.48 lakh¹⁰⁵ for the period 2008-09 and 2009-10 was not paid by the concerned individuals. The Department did not take any action to recover the outstanding amount of water charges as ALR. This resulted in non-recovery of ₹ 36.48 lakh.

After we pointed out the cases, IPH division, Paonta Sahib intimated (April 2011) that notices have been issued to the defaulters to deposit the outstanding amount. Further report of recovery has not been received (December 2011).

6.10.2 *Abiana* charges¹⁰⁶

Under section 62 of the Himachal Pradesh Minor Canals Act, 1976, all the charges of *abiana* due, if not paid, were recoverable as if the same were arrears of land revenue.

We further noticed from the arrears register of two IPH divisions in January and March 2011 that *abiana* charges amounting to ₹ 8.17 lakh¹⁰⁷ for 2009-10 were not recovered by the Department from the individuals. This resulted in non-recovery of ₹ 8.17 lakh. Action to recover the dues as ALR had not been initiated by the Department.

We reported the matter to the Department and the Government between February and May 2011; their replies have not been received (December 2011).

¹⁰⁵ Barsar: ₹ 2.34 lakh, Hamirpur: ₹ 1.69 lakh, Kasumpti: ₹ 16.41 lakh, Paonta Sahib: ₹ 14.14 lakh and Una-II: ₹ 1.90 lakh

¹⁰⁶ Means Canal water charges levied for water supplied for irrigation

¹⁰⁷ Kasumpti: ₹ 15,000 and Paonta Sahib: ₹ 8.02 lakh

E. Revenue Department

6.11.1 Incorrect preparation of valuation report by *Patwaris*

As per clarification issued by the Inspector General of Registration in July 1997, June 1998 and October 2004, market value of land is to be worked out on the basis of mutations done during the preceding 12 months. The registering officer is also required to verify the consideration shown in the sale deeds with valuation reports prepared by the concerned *patwari*. Under the Indian Stamps Act, stamp duty and registration fee on documents presented for registration is to be levied on consideration amount or market value whichever is higher. Under the Himachal Pradesh Land Record Manual 1992 (Appendix-XXI) the *patwaris* are responsible for preparation of valuation report of the land.

We test checked the documents of sale deeds of 12 SRs¹⁰⁸ between May 2010 and March 2011 and noticed that the *patwaris*, while preparing the valuation report, considered the amount of consideration set forth in 93 documents, instead of market value of the land recorded on the face of the documents. These 93 documents for ₹ 3.67 crore were registered during 2008-09 whereas the actual market value of these documents was ₹ 7.28 crore. The registering officers, while registering these documents did not point out the mistake.

This resulted in short realisation of stamp duty of ₹ 17.90 lakh and registration fee of ₹ 3.71 lakh as per the details in **Annexure-XVI**.

We reported the matter to the Department and the Government in July 2011; their replies have not been received (December 2011).

6.11.2 Incorrect determination of market value of property

We noticed between June 2010 and March 2011 from the documents of sale deeds of six SRs¹⁰⁹ that consideration of properties set forth in 37 documents registered during 2008-09 was much below the market value shown in the valuation reports prepared by the concerned *patwaris* of the localities. Against the market value of ₹ 3.29 crore, the value set forth in the deeds was ₹ 1.54 crore. The registering officers while registering these documents did not correlate the consideration with that of the valuation reports. This resulted in short realisation of stamp duty of ₹ 8.78 lakh and registration fee of ₹ 1.74 lakh as per the details in **Annexure-XVII**.

We reported the matter to the Department and the Government in July 2011; their replies have not been received (December 2011).

¹⁰⁸ Baldwara, Barsar, Chirgaon, Indora, Kangra, Morang, Nurpur, Palampur, Pooh, Rajgarh, Rampur, and Sunni

¹⁰⁹ Banjar, Jawalamukhi, Nerwa, Rajgarh, Sundernagar, and Sunni

6.12 Short deposit/retention of Government money

Every officer receiving money on behalf of Government should maintain a cash book in the prescribed form and close it daily after it is completely checked. All monetary transactions should be entered in the cash book as soon as they occur and attested by the head of the office or the officer authorised in this behalf, in token of check. Before attesting the cash book, he should satisfy himself that the amount has been actually credited into the treasury or the bank. Under the HP Financial Rules, 1971, every Government servant is personally responsible for the money which passes through his hands and for the prompt record of receipts and payments in the relevant account as well as for the correctness of the account in every respect. It further stipulates that all Departmental receipts collected during the day should be credited into the treasury on the same day or latest by the morning of the next working day.

6.12.1 We noticed between November 2010 and March 2011 from the Cash Books and receipts books of SRs Baldwara and Rajgarh that an amount of ₹ 2.48 lakh was collected as registration and miscellaneous fee¹¹⁰ between December 2008 and May 2009. We cross checked the receipt book with the cash book/treasury and found that ₹ 1.30 lakh only was deposited in the treasury and the remaining amount of ₹ 1.18 lakh was not deposited. In SR Baldwara our scrutiny

revealed that entries in the cash book were neither attested by the head of the office nor by any other officer authorised in this behalf. This resulted in short deposit of Government money of ₹ 1.18 lakh.

After we pointed this out, the SR Baldwara, while admitting the lapse, stated in November 2010 that an amount of ₹ 1.16 lakh had been recovered from the concerned official. The SR Rajgarh stated that the matter was under examination.

We reported the matter to the Department and the Government in July 2011; their replies have not been received (December 2011).

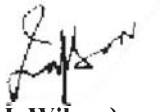
6.12.2 We noticed from the Cash Books and receipts books of 16 SRs¹¹¹ that an amount of ₹ 31.87 lakh realised as registration fee and miscellaneous fee from October 2007 to December 2009, was not deposited in the treasuries within the prescribed period. The delay in deposit of Government money ranged between two and 532 days. Non-maintenance of Cash Book and delay in deposit of Government receipts was a violation of the Financial Rules, paving way for undue retention and temporary misappropriation of Government money.

¹¹⁰ Pasting fee

¹¹¹ Baldwara, Balichowki, Bharmour, Bharwain, Bijhari, Chirgaon, Harchakian, Indora, Jaisinghpur, Kasouli, Nahan, Rajgarh, Sainj, Shahpur, Sunni, and Theog

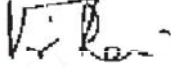
We reported the matter to the Department and the Government in July 2011; their replies have not been received (December 2011).

Shimla
The


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