

## CHAPTER – VII

### NON TAX RECEIPTS

#### 7.1 Results of Audit

Test check of records in various departmental offices relating to the following receipts conducted during 2003-04 revealed non/short recovery of receipts amounting to Rs.162.52 crore in 86 cases as detailed below:

(Rupees in crore)

Sl. No.	Category	No. of cases	Amount
1	Geology & Mining	41	16.23
2	Forest Receipts	44	0.41
3	Interest Receipts	01	145.88
	<b>Total</b>	<b>86</b>	<b>162.52</b>

During the year 2003-04 the Departments accepted and recovered under assessment of Rs.2.88 lakh in seven cases pertaining to earlier years. A few illustrative cases highlighting important audit observations involving Rs.156.48 crore are given in the following paragraphs.

#### 7.2 Interest Receipts

Interest Receipts constitute a significant part of the non-tax revenue of the State Government, which comprises interest chargeable on loans and advances to various public sector undertakings, local bodies, co-operative societies etc. and individuals including its employees. The loans granted usually carry interest at a rate fixed by the sanctioning authority, keeping in view the instructions issued by the Government from time to time and the purpose for which the loan is sanctioned. The Gujarat Financial Rules, 1971, contain provisions governing grant of loans, levy and recovery of interest and penal interest etc. The terms and conditions specified in the orders sanctioning the loan indicate the rate of interest, mode and manner of repayment of principal, the periodicity of instalments and payment of interest. Penal interest is chargeable on instalments of principal not paid as per the terms and conditions of the sanction.

The rates of interest chargeable in respect of the loans sanctioned for commercial and industrial purposes as also to Government companies/undertakings were revised twice by the Government from 1 April 1992 and from 1 April 1999. In the case of loans granted during the year 1999-2000, the rates of interest remained effective for the financial year 1999-2000 only.

The ineffectiveness of administrative departments in effecting recoveries of interest on loans granted by them from time to time are discussed in succeeding paragraphs.

#### Non recovery of interest on loans converted into equity

**7.2.1** The Government of Gujarat had revised the rate of interest under the Finance Department Resolution of 30 June 1999. It was contemplated therein

that every single rupee whether from the Government or from the private sector bears a definite cost of borrowing, which cannot be neglected. State Government has to bear specific cost of borrowing funds. In turn, when State Government extends financial assistance in form of loan to any organisation, it is expected that Government should recover its cost of borrowing from the debtor since those funds were availed for the commercial purpose. Further according to Government Resolution of 14 March 2001 issued by Industries and Mines Department, different loans granted to Gujarat Industrial Investment Corporation (GIIC) were allowed to be converted into equity from 1 April 2000 and October 2000. The conversion was effective from the date of issue of shares by GIIC in favour of State Government. GIIC was required to pay interest at the applicable rate on the outstanding amount of loan to be converted till date of issue of the shares in favour of Government of Gujarat.

Mention was made in para 7.2.12 of Audit Report 1999-2000 about non-recovery of principal and interest on outstanding loans sanctioned by Industries and Mines Department from GIIC. Further scrutiny of loan records of GIIC revealed that loan aggregating Rs.99.22 crore granted to GIIC between January 1975 and March 2000 of which Rs.68.31 crore was interest bearing loans were converted into equity from 1 April 2000 (Rs. 80 crore) and October 2000 (Rs.19.22 crore). However, interest accrued and payable on the outstanding amount of loan as on date of conversion was not paid by GIIC. Though the corporation showed the outstanding interest of Rs.31.50 crore as on 31 March 2001 as a liability towards interest payable to Government in their Annual Report for the year ended 31 March 2002, the Administrative Department (Industries and Mines) had failed to effect recovery of interest as no subsidiary records like demand and collection register were maintained.

Under the Government Resolution of 2001, the Industries and Mines Department had converted Rs.68.31 crore being the amount of outstanding interest bearing loans sanctioned to the GIDC into equity. The share certificates were allotted to the Government on 30 March 2001. Since the Corporation did not declare dividend thereon during the period between April 2001 and March 2003 and accrual of interest obviously ceased on conversion, the Government could not recover the cost of borrowing of funds in this case as contemplated in the Government Resolution of 1999. Hence the intention of the Government to recover its cost of borrowings from the debtor was defeated in the case of loan granted to GIIC and resulted in unsound financial accommodation to the GIIC of Rs.19.69 crore worked out on basis of rates of interest stipulated in the terms and conditions while granting the loan.

### **Non recovery of interest and penal interest**

**7.2.2** As per the provisions of Gujarat Financial Rules, 1971, it shall be the responsibility of the authority sanctioning the loan to see that the loanee adheres strictly to the terms settled for the loan paid to him. Demand for payment of interest and repayment of loans are required to be raised by the departments as per terms and conditions prescribed in the Government orders sanctioning the loans. In case of default in repayment of instalments of principal and interest, penal interest is chargeable as per Government Resolution of 16 October 1976.

Test check of the records of the departments of Industries and Mines, Agriculture and Co-operation, Rural Development and Rural Housing and Urban Development and Urban Housing revealed that the loans aggregating Rs.128.46 crore were sanctioned to 11 loanees<sup>#</sup> between December 1989 and March 2003 for projects like social development, conversion into cumulative redeemable preference share/working capital cash deficit and development of fire services and other purposes. The loans and interest thereon were not repaid by the loanees. The departments also failed to work out outstanding loan and interest/penal interest thereon as prescribed registers/records like demand and collection were not maintained. However, on the basis of information collected from the loanee organisation, the amount of interest of Rs.76.12 crore including penal interest of Rs.6.67 crore was recoverable for the period from 1 April 1999 to 31 March 2003.

After this was pointed out between May and October 2003, the Government in the case of the Dairy Development Corporation replied in October 2003 that the outstanding loan amount including interest due to Government would be adjusted/settled by disposing of the assets of Ahmedabad Dairy and surplus land of Jamnagar Dairy as mentioned in the final order of Board of Industrial and Financial Reconstruction (BIFR) dated 14 January 2003. The matter relating to disposal of properties of above Corporations is under consideration of Government. Further progress in the matter and replies in remaining cases were awaited (August 2004).

### **Non-finalisation of terms and conditions**

**7.2.3** As per the provisions contained in the Gujarat Financial Rules, 1971, the order sanctioning the loan shall specify its terms and conditions including the terms of its repayment, rate of interest etc. In the case of interest free loans the Government decided (October 1976) that prompt repayment of loans should be ensured and in the case of default interest at the rates prescribed from time to time would be charged.

Mention was made in para 7.2.10 of Audit Report 1999-2000 about non-finalisation of terms and conditions of loans sanction orders issued by the Departments of Narmada and Water Resources, Industries & Mines, Agriculture, Co-operation and Rural Development. Further scrutiny of loan records of these Departments revealed that loan sanction orders issued by these departments to four<sup><</sup> loanees sanctioning loans aggregating Rs.20.62 crore between 1994 and 2003 did not contain any terms and conditions for the repayment of loans and interest. Non finalisation of terms and conditions had resulted in non-raising of demand for interest amounting to Rs.9.38 crore from 1 April 1999 to March 2003, besides the principal of Rs.20.62 crore.

<sup>#</sup> Tourism Corporation, Gujarat State-Handicraft Development Corporation, Handloom Development Corporation, Gujarat Tractor Corporation Ltd., Dairy Development Corporation, Rural Housing Board, Ahmedabad Municipal Corporation and Kapadvanj, Nadiad, Padra and Borsad Municipalities.

<sup><</sup> Gujarat State Khadi Gramodyog Board, Gujarat Land Development Corporation, Gujarat Water Resources Development Corporation and Gujarat Water Supply and Sewerage Board.

### **Non-levy of interest in the event of default in repayment of interest-free loans**

**7.2.4** According to the Government Resolution, interest free loans should be repaid promptly on the due dates. In the event of default in repayment of principal, interest at the rates prescribed by the Government from time to time should be charged on these loans.

Mention was made in para 7.2.14 of Audit Report 1999-2000 regarding non levy of interest for default in repayment of interest-free loans by Industries and Mines Department. Further scrutiny of records revealed that the GIIC and the Gujarat State Financial Corporation (GSFC) continued their practice of non-payment of instalment of interest free loan of Rs.30.05 crore sanctioned between the years 1979-80 and 1991-92 at prescribed intervals. The department had also failed to effect recovery of loan and levy of interest for default in payment of loan by both the corporations at prescribed intervals. This resulted in non-recovery of further interest of Rs.9.19 crore relating to the period from 1 April 1999 to 31 March 2003.

## **MINING RECEIPTS**

### **Non/short levy of royalty, dead rent and surface rent**

**7.3.1** Under the Mines and Minerals (Regulation and Development) Act, 1957 and the Gujarat Minor Mineral Rules, 1966, a lessee is liable to pay in respect of each lease for major/minor mineral, dead rent or royalty whichever is higher. The rent is payable at the rate of 50 *per cent* of the dead rent if land granted on lease is less than a hectare. If payment of royalty or dead rent is not made within the date prescribed, interest at the rate of 24 *per cent* per annum is chargeable for the period of delay. Further, the lessee is liable to pay surface rent as specified by the Government in lease for the surface area used by him for the purpose of mining operations. Rules also provide for issue of demand notices for non payment of royalty/dead rent in time.

During test check of records of six\* Geologist/Assistant Geologist Offices, it was noticed between January and September 2003 that in 153 cases, the lease holders had not paid royalty/dead rent/surface rent for the major/minor minerals during the period between 2001-02 and 2002-03. Failure of departmental officials to issue demand notices and take recovery action, resulted in non/short levy of royalty, dead rent and surface rent of Rs.10.48 crore including interest.

This was brought to the notice of the Department between February and November 2003 and of the Government in March 2004. The Commissioner of Geology replied in July 2004 that an amount of Rs.9.79 crore has been recovered in 60 cases and recovery proceedings are in progress in remaining cases (August 2004).

**7.3.2** Government by issue of notifications in January and June 1999, fixed lump sum rate for payment of royalty by bricks/roofing tiles manufacturers.

\* Bharuch, Godhra, Kheda, Palanpur, Surat and Surendranagar.

The rate was fixed on the basis of quantity of bricks manufactured/with reference to number of dye revolving press used, for roofing tiles.

During test check of records of three Geologists/Assistant Geologists of Ahmedabad, Rajkot and Surat, it was noticed between March and July 2003 that 25 roofing tiles and 34 brick manufacturers either did not pay the royalty or paid short for the periods between 2001-02 and 2002-03. Failure of departmental officials to issue demand notices and take recovery action, resulted in non/short levy of royalty of Rs.12.17 lakh including interest.

The above facts were brought to the notice of the Department between April and August 2003 and of the Government in March 2004. The Commissioner of Geology and Mining replied in July 2004 that an amount of Rs.8.58 lakh has been recovered in 45 cases and issued demand notices in remaining cases. Recovery particulars and reply in remaining cases have not been received (August 2004).

The above matters were followed up with reminders to the Principal Secretaries in May/June and Chief Secretary in July 2004. However, inspite of such efforts, no reply was received from the Government (August 2004).

**Ahmedabad**  
**The:**

**(Anupam Kulshreshtha)**  
**Principal Accountant General**  
**(Commercial and Receipt Audit) Gujarat**

**Countersigned**

**New Delhi**  
**The :**

**(Vijayendra N. Kaul)**  
**Comptroller and Auditor General of India**