

CHAPTER -VII : NON-TAX RECEIPTS

7.1 Results of audit

Test check of records of the Forest, Mines and Geology Departments, conducted in audit during the year 2003-2004, disclosed under-assessments, non-recovery/short recovery of revenue amounting to Rs.394.30 crore in 159 cases, under the following broad categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
Forest Receipts			
1	Non-recovery/short recovery of lease rent and licence fee	11	6.32
2	Non-recovery/short recovery of taxes and royalty	8	0.04
3	Short recovery of forest development tax	06	1.71
4	Other irregularities	41	30.23
	Total	66	38.30
Mineral Receipts			
1	Non-levy/short levy of dead rent	23	1.44
2	Non-levy/short levy of royalty	14	12.41
3	Other irregularities	55	30.13
	Total	92	43.98
Interest Receipts			
	Review : Interest Receipts	1	312.02
	Total	1	312.02
	Grand Total	159	394.30

During the course of the year 2003-2004, the Departments accepted under-assessments of Rs.0.33 crore in 14 cases which had been pointed out in audit in earlier years and recovered Rs.0.31 crore in nine of them.

A few illustrative cases involving Rs.312.68 crore including the results of a Review on **Interest Receipts** involving Rs.312.02 crore are given in the following paragraphs. Of this, Rs. 19.83 lakh had been recovered.

7.2 Review : Interest receipts

Highlights

Non-fixation of terms and conditions of loans amounting to Rs.986.25 crore sanctioned in 191 cases to 66 loanees resulted in non-demanding of interest of Rs.283.18 crore for the period 1998-99 to 2002-2003.

In 52 cases of sanction of loans of Rs.89.68 crore to pertaining to 1998-99 to 2001-02, though terms had been fixed, demands for interest of Rs.27.42 crore for the period 1998-99 to 2002-2003 had not been raised.

(Paragraph 7.2.7)

In 15 cases of loans aggregating Rs.18.24 crore disbursed during 1998-99 to 2001-02 to five loanees, lower rates of interest than applicable were prescribed leading to undercharging of interest of Rs.1.42 crore.

(Paragraph 7.2.8)

The lending department's failure to ensure consultation with Internal Financial Advisers, fixation of terms at the time of sanction of loans, reconciliation of departmental accounts indicated absence of internal control mechanism

(Paragraph 7.2.9)

7.2.1 Introduction

Interest receipts of the State Government comprise interest earned on - (i) capital investments in Departmental Commercial Undertakings, (ii) short-term investments of cash balances of the Government, (iii) interest charged on loans and advances sanctioned by it to public sector and other undertakings, local bodies, co-operative societies and individuals including Government employees as also interest on certain deferred payments. While interest on investments in Departmental Commercial Undertakings is adjusted at rate(s) fixed by Government, earnings from interest on cash balances mainly depends on the discounting/rediscounting rates of Treasury Bills of the Government of India by the Reserve Bank of India.

The rates of interest chargeable in respect of loans for non-commercial purposes, for infrastructure development, for commercial and industrial purposes as also to Government companies/undertakings, co-operative processing units and other purposes as prescribed in September 1991 were dependent on the purpose and the source of their funding and ranged from 12 to 18 *per cent*.

7.2.2 Organisational set up

The requests for sanction of loans and advances are processed by the heads of departments and are recommended to Government in the concerned administrative department. The sanctions specifying the terms and conditions, rate of interest chargeable and repayment plan and the authority responsible for maintenance of loan ledgers and watching recovery are issued by administrative departments with the concurrence of the Finance Department.

7.2.3 Audit objectives

To verify –

- prescription of terms and conditions of sanction, proper maintenance of loan ledgers; raising of demands for instalments of principal and interest (including penal interest) on due dates; and
- existence of internal control mechanism to ensure compliance of terms and conditions of sanction with particular reference to the above-mentioned aspects.

7.2.4 Scope of audit

A review of interest receipts of Government during the period 1998-99 to 2002-2003 was conducted between July 2003 and June 2004 by a test check of records of nine^E Departments and also by obtaining information from related beneficiary organisations, where necessary.

^E Agriculture, Commerce and Industries, Co-operation, Energy, Food, Civil Supplies and Consumer Affairs, Forest, Ecology and Environment, Housing, Irrigation, Urban Development

7.2.5 Trend of interest receipts

- The details of estimated interest receipts, actual realisation and its percentage to total non-tax revenues during the period 1998-99 to 2002-2003 are given below:

(Rupees in crore)

Year	Interest receipts		Variation [Excess (+)/ Shortfall (-)]		Actual non-tax revenue	Percentage of (3) to (6)
	Budget Estimates (BE)	Actual	Amount	Percentage		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1998-99	682.87	669.74	(-) 13.13	2	1,469.92	46
1999-00	671.71	801.67	(+) 129.96	19	1,611.29	50
2000-01	680.23	721.18	(+) 40.95	6	1,659.97	43
2001-02	211.51	141.92	(-) 69.59	33	1,093.42	13
2002-03	126.00	34.36	(-) 91.64	73	1,277.67	3

The break-up of actual interest receipts into realisation from adjustments in respect of interest on capital employed in Departmental Commercial Undertakings including Irrigation Works (Commercial) and from other means including by way of cash is as under:

(Rupees in crore)

Year	Total actual interest receipts	Receipts from adjustments	Receipts by other means	Percentage of (3) to (2)
(1)	(2)	(3)	(4)	(5)
1998-99	669.74	421.23	248.51	63
1999-00	801.67	497.64	304.03	62
2000-01	721.18	560.96	160.22	78

Thus, during the years 1998-99 to 2000-2001, of the actual interest receipts, 62 to 78 per cent was derived from adjustments. Interest receipts formed the principal source of non-tax revenues of the Government during these years. The adjustment in respect of Irrigation Works (Commercial) was discontinued from 2001-2002 and the total interest receipts fell sharply thereafter. Government reported in March 2003 that this discontinuance was “in view of the difficulties created in monitoring non-tax revenues.” The further decline in actual receipts in 2002-2003 over 2001-2002 was due to reduced realisation under ‘Interest from public sector and other undertakings’ from Rs.111.50 crore to Rs.20.42 crore.

The basis of estimation for Budget Estimates (BE) as also reasons for variation between BE and actual realisation for all the years called for from Government in March 2004 had not been furnished till September 2004.

- The position of total loans disbursed during the years 1998-99 to 2002-2003 and loans outstanding at the end of each of the years, estimated and actual interest realised during the years is given below:

(Rupees in crore)

Year	Loans disbursed	Loans outstanding at the end of the year	Interest due as per budget estimates	Interest actually realised	Percentage of (5) to (4)
(1)	(2)	(3)	(4)	(5)	(6)
1998-99	290.40	3,494.74	246.41	214.07	87
1999-00	316.59	3,666.62	194.26	271.02	140
2000-01	511.30	4,076.69	179.51	130.11	72
2001-02	514.47	4,556.46	190.82	114.00	60
2002-03	627.57	4,256.03	115.43	22.44	19

Though loans disbursed continuously increased and the loans outstanding also increased except in 2002-2003, interest actually realised showed declining trend. In the absence of non-availability of the basis of preparation of budget estimates, reasons for low recoveries could not be ascertained.

7.2.6 Non-revision of interest rate

In order to ascertain the working results of Irrigation Works that are classified as 'Commercial', the Karnataka Public Works Departmental Code prescribes preparation of annual *pro forma* accounts of such works which include 'Interest Account' also. Interest charges on the capital outlay of such projects were being computed at the rate of six *per cent* from April 1970 as prescribed by Government.

This rate had not been revised though the average rate of interest paid on borrowings by the Government during the years 1998-2001 varied between 9.44 and 9.84.

7.2.7 Fixation of terms and conditions of loans

In September 1991, Government in the Finance Department ordered that all sanction orders for loans and advances are to be invariably accompanied by terms and conditions containing period of loan, moratorium towards repayment, if any, date and year from which repayment is to commence, rates

of interest – both normal and penal in the event of defaults in repayment/ interest payments, mode of repayment/recovery all of which are essential for correct computation of the dates and amounts of instalments of principal and interest/penal interest due.

- In 191 cases of loans aggregating Rs.986.25 crore disbursed to 66 loanees during the period 1998-99 to 2001-02, no terms and conditions for repayment of loans or for levy of interest were specified. As a result, interest payable could not be computed and levied. By adoption of economic/ borrowing interest rate, the amount of interest worked out to Rs.283.18 crore for the loans sanctioned between 1998-99 to 2001-02. Thus, non-finalisation of the terms and conditions of the loans resulted in non levy of Government revenue to that extent. The details are given below:

(Rupees in crore)				
Department/ Controlling Officer	Year of sanction (Number of loanees)	Amount of loan (Number of sanctions)	Rate of interest	Interest due
Energy/ Principal Secretary to Government	2000-01 (1)	40.75 (1)	12.5	10.19
Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	1998-99 to 2001-02 (7)	78.92 (35)	18	29.80
Commissioner for Textile Development and Director of Handloom and Textiles	1998-99, 2000-01 & 2001-02 (1)	0.66 (3)	18	0.41
Commissioner for Sericultural Development and Director of Sericulture	2000-01 (1)	2.45 (3)	18	0.88
Commissioner for Cane Development and Director of Sugar	1999-00 (1)	2.42 (1)	18	1.31
Co-operation/ Principal Secretary to Government	2000-01 & 2001-02 (1)	0.86 (2)	12	0.17
Commissioner for Cane Development and Director of Sugar	2001-02 (1)	3.88 (1)	12	0.47
Commissioner for Textile Development and Director of Handloom and Textiles	1998-99 to 2000-01 (7)	28.56 (14)	16 & 18	13.65
Forest, Ecology and Environment/ Principal Chief Conservator of Forests	2000-01 (1)	13.91 (1)	18	5.01

(Rupees in crore)

Department/ Controlling Officer	Year of sanction (Number of loanees)	Amount of loan (Number of sanctions)	Rate of interest	Interest due
Urban Development/ Principal Secretary to Government	1998-99 to 2001-02 (4)	743.10 (73)	12.5 & 16	200.87
Director of Municipal Administration	1998-99 to 2001-02 (39)	12.32 (12)	12.5	3.09
Housing/ Principal Secretary to Government	1998-99 to 2001-02 (2)	58.42 (45)	12 & 12.5	17.33
Total	1998-99 to 2001-02 (66)	986.25 (191)		283.18

- **Delay in fixing terms and conditions.**

In seven cases of loans aggregating Rs.24.85 crore disbursed by two Departments to five loanees during 1999-2000 to 2001-2002, the terms and conditions were fixed after delays ranging from four to 29 months. The delays resulted in postponement of realisation of interest of Rs.3.25 crore. Details are given below:

(Rupees in crore)

Department/ Controlling Officer	Year of sanction (Number of loanees)	Delay in months	Amount of loan (Number of sanctions)	Rate of interest	Interest due
Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	1999-00 & 2001-02 (3)	4 to 19	8.55 (4)	12 to 18	0.11
Co-operation/ Principal Secretary to Government	2000-01 & 2001-02 (1)	28 to 29	12.80 (2)	12	3.07
Commissioner for Cane Development and Director of Sugar	2000-01 (1)	11	3.50 (1)	4	0.07
Total	1999-00 to 2001-02 (5)	4 to 29	24.85 (7)	4 to 18	3.25

• **Defective terms and conditions.**

In 21 cases of loans aggregating Rs.191.80 crore disbursed by three Departments to seven loanees during 1998-99 to 2001-2002, though terms and conditions were specified, they were defective and affected the determination of dates and amounts of principal/interest. The deficiency in terms prescribed included: penal interest for default of principal not prescribed, ambiguity of term such as “after two years’ period is over”, periodicity of repayment of principal and interest not specified, amount of loan itself not specified, repayment to be made after sale of assets, to be repaid from its own resources or from sale of assets as convenient, repayment at Rs.50 per bag of sugar sold by sugar mills, to be repaid immediately after the current year’s Minimum Support Price Operations are over, etc. The amount of interest due approximately worked out to Rs.14.67 crore as computed by Audit. Details are given below:

(Rupees in crore)				
Department/ Controlling Officer	Year of sanction (Number of loanees)	Amount of loan (Number of sanctions)	Rate of interest	Interest due
Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	1998-99, 1999-00, 2001-02 (4)	178.30 (16)	0 to 18	13.81
Co-operation/ Commissioner for Cane Development and Director of Sugar	2000-01 & 2001-02 (2)	5.00 (2)	12 to 18	0.86
Food, Civil Supplies and Consumer Affairs/ Commissioner for Food and Civil Supplies	2000-01 (1)	8.50 (3)	0	0
Total	1998-99 to 2001-02 (7)	191.80 (21)	0 to 18	14.67

• **Demands not raised.**

In 52 cases, loans amounting to Rs.89.68 crore sanctioned between 1998-99 to 2001-02, though the terms and conditions for repayment of loan and interest were prescribed, demand for levy of interest was neither raised by the Department nor was it paid by the loanees. This resulted in short realisation of the interest of Rs.27.42 crore on the loans sanctioned between 1998-99 to 2001-02. Details are given below:

(Rupees in crore)

Department/ Controlling Officer	Year of sanction (Number of loanees)	Amount of loan (Number of sanctions)	Rate of interest per annum	Interest due
Commerce and Industries/ Commissioner for Industries and Director of Industries and Commerce	1998-99, 1999-00 & 2001-02 (4)	24.34 (7)	12 to 18	9.56
Co-operation/ Principal Secretary to Government	2000-01 & 2001-02 (1)	12.80 (2)	12	2.13
Commissioner for Cane Development and Director of Sugar	1998-99 & 2001-02 (3)	10.96 (4)	6.5 to 14.5	1.27
Commissioner for Textile Development and Director of Handloom and Textiles	1998-99 & 1999-00 (2)	6.08 (2)	16	3.42
Forest, Ecology and Environment/ Principal Chief Conservator of Forests	1999-00 (1)	1.51 (3)	12 & 18	0.40
Agriculture and Horticulture/ Commissioner for Agriculture	1999-00 (1)	1.25 (2)	6	0.23
Urban Development/ Principal Secretary to Government	1998-99 to 2001-02 (1)	17.48 (18)	12.5	5.05
Director of Municipal Administration	1998-99 to 2001-02 (62)	13.96 (6)	9.75 & 13	4.89
Housing/ Principal Secretary to Government	1998-99 & 1999-00 (1)	1.30 (8)	10.25	0.47
Total	1998-99 to 2001-02 (76)	89.68 (52)		27.42

7.2.8 Short levy of interest

The Karnataka Financial Code provides that loans should not ordinarily be sanctioned at concessional rates of interest; if any concession is considered necessary it should be in the form of subsidy after the loan is fully paid.

In 15 cases of loans aggregating Rs.18.24 crore disbursed to five loanees during 1998-99 to 2001-2002, the interest rates were fixed at a concessional rate at the time of sanction itself. Application of concessional interest rates before repayment of the loans was incorrect and resulted in short levy of interest of Rs.1.42 crore as detailed below:

Department/ Controlling Officer	Year of sanction (Number of loanees)	Purpose	Amount of loan (Number of sanctions)	Rate of interest			Amount of short levy
				Economic	Levied	Short levied	
Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	2001-02 (2)	For implementation of Voluntary Retirement Scheme/ Conversion of sales tax dues into loan	3.21 (2)	18	12	6	0.19
Co-operation/ Principal Secretary to Government	2000-01 & 2001-02 (1)	Construction of godowns	12.80 (2)	18	12	6	1.07
Forest, Ecology and Environment/ Principal Chief Conservator of Forests	1999-00 & 2001-02 (1)	Working capital/for implementation of Voluntary Retirement Scheme	0.93 (3)	18	12	6	0.08
Housing/ Principal Secretary to Government	1998-99 & 1999-00 (1)	Rental Housing Scheme	1.30 (8)	12	10.25	1.75	0.08
Total	1998-99 to 2001-02 (5)		18.24 (15)				1.42

7.2.9 Internal control

- The Karnataka Financial Code requires that an application for loan must be considered primarily on the basis of the repaying capacity of the applicant calling for a close scrutiny of financial position of the applicant.

It was, however, noticed that loans were being sanctioned on a continuous regularity even though the loanees had defaulted in repayment of principal and payment of interest. A few such cases are detailed below by way of illustration:

(Rupees in crore)						
Sl. No.	Department/ Controlling Officer	Name of the loanee	First loan defaulted	Further sanctions issued		
				Period	Number of sanctions	Amount
1	Commerce and Industries/ Commissioner for Industrial Development and Director of Industries and Commerce	Karnataka Industrial Areas Development Board	1991-92	1998-99, 2000-01 and 2001-02	6	6.42
		Mysore Minerals Limited	1997-98	1998-99 to 2002-03	9	19.51
		Vijaynagar Steel Limited	1995-96	1998-99 & 1999-00	3	0.13
		New Government Electric Factory Limited	1999-00	1999-00 to 2002-03	19	139.96
2	Urban Development/ Principal Secretary to Government	Karnataka Urban Water Supply and Drainage Board	Prior to 1998-99	1998-99 to 2002-03	23	21.18

- In July 1982, the State Government introduced the system of Internal Financial Advisers (IFA) under the Government of Karnataka (Consultation with Financial Adviser) Rules. Accordingly, a Department of the State Government is to refer to the IFA all proposals requiring consultation with the Finance Department. His comments/views would be obtained before such a case is referred to the Finance Department. Further, all proposals for the sanction of loans would be referred to the IFA before the issue of final orders. In particular, he would be consulted on the financial aspects of all transactions relating to loans.

It was, however, noticed that no cases of sanction of loans were referred to the IFAs.

- The Government Order issued by the Finance Department in September 1991 required that all sanction orders were to be invariably accompanied by the terms and conditions of loans in the prescribed *pro forma* and also required that copies of all sanctions are to be endorsed to it. According to the procedure in vogue, all proposals for sanction of loans were being referred to the Finance Department for concurrence before issue of final orders.

Though prior consultation with the Finance Department and endorsement of all sanction orders to it were being invariably made, compliance with the requirement of prescription of terms and conditions at the time of sanction was not ensured, the impact of which has been brought out in **paragraph 7.2.7**.

- The Karnataka Financial Code provides that the receipts as recorded in the departmental books are to be reconciled by the controlling officers with those recorded in the books of the Accountant General (Accounts & Entitlement) (AG (A&E)).

But it was not being done as the AG (A&E) had reported the following position regarding reconciliation to Government in August 2003:

Particulars	Total number of Controlling Officers	Number of Controlling Officers		
		Fully reconciled	Partly reconciled	Not at all reconciled
Expenditure	337	96	119	122
Receipts	83	28	25	30

- In November 1998, Government ordered constitution of Departmental Committees to conduct periodical review of the loans borrowed by Boards/Corporations/Institutions/Agencies, etc. The Committees to be constituted for each Administrative Department of the Secretariat were to comprise the Principal Secretary to Government in the Finance Department as Chairman, Principal Secretary/Secretary to Government of the concerned Administrative Department, Head of the Department, Chairman/Managing Director of the recipient and a nominee of the lending institution such as NABARD, NCDC, HUDCO as members.

While the Principal Chief Conservator of Forests stated in February 2004 that he had not received any Government Order constituting such a committee, information about the reports of the review, if actually conducted and action taken thereon, was not made available in respect of other Departments.

The points mentioned above were reported to Government in June 2004; their reply is awaited (January 2005).

7.2.10 Recommendations

- Government should prescribe standard terms and conditions of sanction of loans to be universally applicable; in addition, the concerned sanctioning authorities may prescribe additional or modified terms, duly recording reasons for the same and ensure adherence to the financial regulations at the time of sanction of loans.
- Internal Control mechanism needs to be strengthened by consulting IFAs in respect of proposals relating to loans.
- The controlling officer should carry out reconciliation with AG(A &E).

Forest Receipts

7.3 Non-recovery of cost of protection and regeneration of safety zone and afforestation

According to Consolidated Guidelines for Diversion of Forest Land under the Forest (Conservation) Act, 1980, safety zone all along the outer boundary of mining lease area shall be indicated separately in the proposal submitted to Central Government. Project authority shall deposit funds with Forest Department for the protection and regeneration of such safety zone area and will bear the cost of afforestation over one and a half times of the safety zone area in degraded forest elsewhere. Government of India issued in May 1999 clarification about calculation of safety zone in mining areas. Based on this clarification, the Principal Chief Conservator of Forests (PCCF) issued in July 1999 guidelines for calculation of safety zone and afforestation charges and directed the field officers to raise demand and recover the charges.

It was, however, noticed between July and November 2003 in three districts, in respect of 12 mining leases (11 lessees) involving 74.968 ha of safety zone area, the cost of protection and regeneration of the safety zone and the cost of

raising afforestation have remained un-recovered till November 2003 by three Deputy Conservators of Forest (DCF). The total amounts recoverable works out to Rs.58.90 lakh as detailed below:

(Rupees in lakh)

Sl. No.	District (No. of leases, No. of lessees)	Extent of land on which amounts recoverable (in hectares)			Amounts recoverable
		Safety zone	One and half times of safety zone	Total area on which charges recoverable	
1	Bellary (9, 8)	68.674	103.012	171.686	53.64
2	Davangere (2, 2)	5.024	7.537	12.561	4.31
3	Tumkur (1, 1)	1.27	1.905	3.175	0.95
	Total (12, 11)	74.968	112.454	187.422	58.90

After these cases were pointed out in audit, Government reported in September 2004 recovery of Rs.19.83 lakh from five lessees and issue of notices to another five lessees. Final reply in respect of one lessee has not been received (January 2005).

7.4 Short levy of forest development tax

Under the Karnataka Forest Act, 1963, forest development tax (FDT) is leviable on all forest produce disposed of by sale or otherwise at the rate of eight *per cent* on the amount of consideration. Further, on the disposal of timber to industries, FDT is to be levied at 12 *per cent* on the amount of consideration. As per Circular issued by PCCF, in September 1983, FDT was to be levied at eight *per cent* only for auction sale of timber irrespective of who the buyer was.

During audit of the offices of the DCF, Virajpet and Chickmagalur, it was noticed in February/June 2003 that in respect of sale of timber of Rs.1.87 crore between January 2001 and February 2003, FDT was levied at eight *per cent* in 77 cases. Audit scrutiny revealed that these purchasers had produced Income-tax exemption certificate issued by the Income-tax Department which clearly stated that the timber was to be used for manufacturing/processing/producing articles and not for trading purposes. Thus, due to the Circular (clarification) issued in September 1983 which was not in consonance with the provisions of the Act, there was short levy of FDT of Rs.7.48 lakh.

After these cases were pointed out in audit in February/June 2003, Government reported in September 2004 that in order to provide equal competition in auction sale, FDT was being levied at eight *per cent*. The reply is not tenable as the circular was in contravention of the provisions of the Act.

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