

CHAPTER VII : OTHER NON-TAX RECEIPTS

7.1 Results of audit

Test check of the records relating to the Public Works, Water Resources, Forest and Electricity Duty departments during the year 2006-07 revealed non/short realisation and loss of revenue amounting to Rs. 509.45 crore in 12,466 cases which fall under the following categories:

Sl. No.	Category	Number of cases	Amount (Rs. in crore)
A. FINANCE DEPARTMENT			
	Interest Receipts (A review)	01	379.72
Total		01	379.72
B. PUBLIC WORKS DEPARTMENT			
1.	Non-levy of percentage charges on deposit works	89	5.12
2.	Non-recovery of lease rent	13	4.59
3.	Short imposition of licence fee due to misclassification of Government accommodation	465	0.03
4.	Non-levy of licence fee and penal rates	01	0.02
5.	Others	1,384	6.55
Total		1,952	16.31
C. ELECTRICITY DUTY			
1.	Short assessment of electricity cess	01	0.02
2.	Loss of revenue due to non-inspection of electrical installations	3,513	1.51
Total		3,514	1.53
D. FOREST RECEIPTS			
1.	Non/short realisation of forest receipts	110	37.08
Total		110	37.08
E. WATER RESOURCES DEPARTMENT			
1.	Non-levy of betterment contribution	01	1.07
2.	Non-levy of penalty on delayed payment	01	0.06
3.	Short imposition of agriculture cess	01	0.01
4.	Others	4,346	52.25
Total		4,349	53.39

F. CO-OPERATIVE DEPARTMENT			
1.	Others	1,071	7.30
Total		1,071	7.30
G. FOOD & CIVIL SUPPLIES DEPARTMENT			
1.	Non-disposal of seized goods	01	0.13
2.	Others	93	13.01
Total		94	13.14
H. AGRICULTURE DEPARTMENT			
1.	Loss due to non-registration of institutions	170	0.05
2.	Others	34	0.52
Total		204	0.57
I. PUBLIC HEALTH DEPARTMENT			
1.	Others	1,171	0.41
Total		1,171	0.41
Grand total		12,466	509.45

During the year 2006-07, the concerned departments accepted underassessment of tax of Rs. 60.82 crore involved in 11,097 cases, out of which Rs. 17.27 lakh had been recovered in five cases. All these cases were pointed out during 2006-07.

A few illustrative cases involving Rs. 278.58 crore including a review of “**Interest Receipts**” are mentioned in the following paragraphs:

A. FINANCE DEPARTMENT

7.2 Interest receipts

Highlights

- Failure of the Finance Department to monitor maintenance of the records and ensure regular submission of returns by the loan disbursing departments resulted in lack of complete information regarding the position of overdue principal and interest.

(Paragraph 7.2.6)

- Lack of monitoring on the part of the Finance Department to ensure that the loans were disbursed by the administrative departments only after specifying the terms and conditions resulted in sanction of loans aggregating Rs. 678.66 crore to various loanees during the period 2001-02 to 2005-06 without prescribing the terms and conditions for repayment of loan and interest/penal interest thereon. This led to loss of interest and penal interest of Rs. 263.81 crore.

(Paragraph 7.2.7)

- Failure of the administrative departments to maintain the relevant records required to watch the recovery of principal and interest thereon and lack of a system in the Finance Department to monitor the disbursement and recovery of loans by these departments resulted in non-assessment/raising of demand for interest and penal interest of Rs. 114.95 crore.

(Paragraph 7.2.8)

- Delay in disbursement of loans resulted in the loss of interest of Rs. 96 lakh.

(Paragraph 7.2.9)

7.2.1 Introduction

Interest receipts constitute a significant part of the non-tax revenue of the State Government and comprise interest chargeable on loans and advances granted to the various public sector undertakings, local bodies, co-operative societies etc. and individuals including Government employees.

According to the Madhya Pradesh Financial Code, the rate of interest shall be decided every year keeping in view the rate of interest at which the Government borrows or can borrow from the open market or the rate at which the loans are received from the Government of India or other financial institutions. The rate of interest ranges from 8.3 to 13.25 *per cent* per annum, depending on the nature and purpose of the loan and the period of repayment. Penal interest is also chargeable in cases of default in timely repayment of principal and interest as per the terms and conditions specified in the respective sanction order.

The position of outstanding loans and advances¹ of the Government during 2001-02 to 2005-06 was as mentioned below:

(Rupees in crore)

Sl. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Opening balance	2,990.98	2,001.91	2,439.89	2,608.42	5,866.08
2.	Amount advanced during the year	598.58	480.69	204.36	3,310.86	834.45
3.	Amount repaid during the year	1,587.65	42.71	35.83	53.20	2,851.99 ²
4.	Closing balance	2,001.91	2,439.89	2,608.42	5,866.08	3,848.54

Thus, the outstanding loans and advances have been continuously rising except during 2005-06 in which interest free loan amounting to Rs.2,749.36 crore granted in 2004-05 was converted into equity by the Government. Also, the amount repaid by the loanees during the last four years is meagre as compared to the amount of outstanding loans/loans extended by the Government during that period.

A review of the interest receipts was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1999 of the receipts of the Government of Madhya Pradesh. The Public Accounts Committee (PAC) recommended in March 2006 that the departments should ensure prompt recovery of principal and interest thereon to avoid loss to the Government. Action taken notes (ATNs) on the recommendations of the PAC have not been received from the Government even after than seven years although instructions of the State Legislature Affairs Department of 2 November 1994 stipulate that ATNs should be furnished within six months of the receipt of the recommendations of the PAC by the concerned Government department. The current review of interest receipts has revealed a number of system and compliance deficiencies which have been discussed in the subsequent paragraphs.

7.2.2 Organisational set up

Intending loanee organisations submit proposals of loans to the concerned heads of the department. The concerned departments process the proposals and sanction the loans with the concurrence of the Finance Department. The responsibility of watching the recovery of loan, interest and penal interest leviable rests with the concerned heads of the departments. The position of outstanding loans of the departments is monitored by the Finance Department.

¹ The figures are as per the Finance Accounts.

² This amount includes adjustment of Rs. 2,749.36 crore which was given as interest free loan by the Government to Madhya Pradesh State Electricity Board (MPSEB) in 2004-05 and subsequently converted into equity in the year 2005-06.

7.2.3 Audit scope and methodology

The review covered the period from 2001-02 to 2005-06 and was conducted during June to December 2006. Four departments viz. Energy, Local Self Government, Housing & Environment and Co-operation which account for 86 *per cent* of the total loans sanctioned during the period 2001-02 to 2005-06 were selected for audit.

7.2.4 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Finance, Energy, Local Self Government, Housing & Environment and Co-operation Department in providing the necessary information and records for audit. The audit findings of the review were reported to the Government/department in April 2007 and discussed in the Audit Review Committee meeting held in August 2007 in which the Secretary, Finance Department represented the Government. The replies of the Government have been incorporated in the review.

Audit findings

7.2.5 Trend of revenue

The trend of interest receipts for the last five years ending 31 March 2006 is mentioned below:

(Rupees in crore)

Year	Budget estimates	Actual	Variation (+) increase (-) decrease	Percentage increase/ decrease
2001-02	271.68	246.59	(-) 25.09	(-) 9.24
2002-03	89.79	32.05	(-) 57.74	(-) 64.31
2003-04	82.09	19.22	(-) 62.87	(-) 76.59
2004-05	43.49	25.90	(-) 17.59	(-) 40.45
2005-06	526.70	527.20	(+) 0.50	(+) 0.09

The reason for sharp increase in interest receipts during 2005-06 was stated by the department to be due to adjustment of interest of Rs. 464.60 crore against the financial assistance payable by the State Government to MPSEB. The department did not intimate (November 2007) the reasons for the substantial variations between budget estimates and actuals for 2002-03 to 2004-05, despite being requested (May 2007). The deviations between the estimated and actual receipts from 2002-03 to 2004-05 indicates the need for a closer look at the budgeting process.

System deficiencies

7.2.6 Lack of control over recoveries of the principal, interest and penal interest

The Finance Department issued instructions to the administrative departments in May 1978, January 1990 and July 1993 for maintaining the records in the prescribed format so that the recovery of instalments of principal, interest and penal interest could be monitored. The departments were also required to submit annual returns in the prescribed form to the Finance Department indicating the position of outstanding principal and interest. **Audit noticed that neither were the records maintained/return submitted by the administrative departments nor was any system instituted by the Finance Department to monitor the maintenance of records and submission of return by these departments.**

Test check of the records of the Energy, Urban Administration & Development, Housing & Environment and Co-operation departments revealed that the records were not maintained in any of the departments in the prescribed formats. None of the departments had maintained the loan ledgers or demand, collection and balance registers containing the relevant loan wise information such as the date of payment of loan, period of loan, details of repayment of loan and interest/penal interest thereon, and the amount of interest/penal interest due. Besides, the departments did not submit the prescribed annual returns to the Finance Department indicating the position of outstanding principal and interest. **Thus, due to the failure of the Finance Department to monitor maintenance of the records and ensure regular submission of returns by the loan disbursing departments, complete information regarding the position of overdue principal and interest was not available either with the administrative or the Finance Department.**

After the cases were pointed out, the Government stated (August 2007) that the concerned departments would be instructed to maintain the relevant records in the prescribed formats.

The Government may consider measures for enforcing accountability to ensure maintenance of records and submission of returns by the loan disbursing departments so that the repayment of loans and interest thereon could be monitored.

7.2.7 Loss of interest and penal interest due to failure in prescribing the terms and conditions of loan

The sanctions 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 224 of the Madhya Pradesh Financial Code Volume-I, the rate of interest on loans shall be fixed every year keeping in view the rate at which the Government borrows

from the open market or the rate at which the loan is received from the Government of India or other financial institutions. **Audit noticed that there was no monitoring on the part of the Finance Department to ensure that the loans were disbursed by the administrative departments only after specifying the terms and conditions.**

Test check of the records of three departments³ revealed that in 55 (47 per cent) out of 126 cases, loans aggregating Rs. 678.66 crore were sanctioned to the loanees during the period 2001-02 to 2005-06 without prescribing the terms and conditions for repayment of loan and interest/penal interest thereon. Thus, lack of monitoring on the part of the Finance Department resulted in non-assessment/recovery of interest including penal interest of Rs. 263.81 crore⁴.

After the cases were pointed out, the Government intimated in October 2007 that instructions for prescribing the terms & conditions in respect of the above mentioned loans were being issued. It was further stated that the guidelines for framing terms and conditions of loans were also being prepared.

The Government may consider instituting a mechanism for monitoring by the Finance Department to ensure that loans are not disbursed without specifying the terms and conditions of the loan.

7.2.8 Non-assessment and non-raising of demand for interest and penal interest

As per the MP Financial Code, the departments are responsible for prompt assessment and recovery of the revenues payable to the Government. The departments are also required to maintain the relevant records for watching the progress of recovery and take prompt action for recovery of any outstanding amount. **Audit noticed that the administrative departments did not maintain the relevant records required to watch the recovery of principal and interest thereon. Also, no system existed in the Finance Department to monitor disbursement and recovery of loans by these departments.**

7.2.8.1 Audit of the records of two departments⁵ revealed that the interest and penal interest leviable on 56 out of 116 loan cases test checked was not assessed. In these 56 cases, Rs. 37.36 crore was disbursed to the loanees during the period 2001-02 to 2005-06. The relevant records required to watch the recovery of principal and interest thereon were not maintained by the departments. Thus, due to non-maintenance of the records by the administrative departments and lack of monitoring on the part of the Finance Department, interest of Rs. 14.07 crore and penal interest of Rs. 56 lakh was neither demanded nor recovered from the loanees as mentioned below:

³ Co-operation, Housing & Environment and Urban Administration & Development Department.

⁴ The interest/penal interest has been calculated at the rates on which the loans were obtained from the Central Government/other institutions or the rates on which loans were being granted by the State Government to other similar loanees such as urban local bodies and co-operative sectors.

⁵ Co-operation and Urban Administration & Development Department.

(Rupees in crore)

Sl. No.	Name of the Department	Amount of loan	No. of cases	Period of loan	Amount of interest	Amount of penal interest
1.	Co-operation	34.44	24	3/2002 to 1/2005	13.15 (upto August 2006)	0.51
2.	Urban Administration & Development	2.92	32	5/2001 to 6/2005	0.92 (upto September 2006)	0.05
Total		37.36	56		14.07	0.56

7.2.8.2 During the audit of the Energy Department, it was noticed from the annual accounts of the MPSEB that interest of Rs. 100.32 crore was outstanding as on 31 March 2006. The department, however, did not have the sanction and year wise details of the loans on which interest of Rs.100.32 crore was leviable. As a result, the department failed to raise the demand for the recovery of this amount. Further, the State Government adjusted Rs. 464.60 crore as interest receipts against financial assistance payable to the MPSEB during the year 2005-06. The Energy Department did not have the details of this adjusted amount as well which indicates lack of monitoring of the repayment of loans and interest thereon.

After the case was pointed out, the Government stated (August 2007) that the records were being prepared by the electrical inspectorate, which was the drawing and disbursing authority of the department. However, it was noticed during audit that no such records were being maintained by the electrical inspectorate.

The Energy Department may consider ensuring timely issue of demand notices for the repayment of loan and interest thereon. While processing and sanctioning second and subsequent loans, the position of previous outstanding loans alongwith interest/penal interest should be ascertained and reviewed. Further, the Government may consider strengthening internal control mechanism by way of periodic review of loan cases to ensure prompt realisation of dues.

Compliance deficiencies

7.2.9 Loss of interest due to the delay in disbursement of loan

The loans sanctioned by the Government and drawn by the concerned department should be paid to the loanees immediately without undue delay so as to avoid loss of interest to the Government.

Test check of the records of three departments⁶ revealed that in five cases, loans aggregating Rs. 26.39 crore were drawn by the heads of the department during the years 2001-02 and 2002-03 and were kept under the head 'Civil Deposit' for periods

⁶ Co-operation, Housing & Environment and Urban Administration & Development Department.

ranging from two to 12 months before being disbursed to the loanees. The delay in the disbursement of loans resulted in the loss of interest of Rs. 96.42 lakh⁷.

After the cases were pointed out in audit, the Government stated (August 2007) that the amount could not be made available to the loanees immediately because the financial position of the State was not good. The reply is not tenable as most of this amount was received as loan from the Government of India/other institutions under specific schemes on which the State Government itself was paying interest. The amounts were drawn in the month of March and kept in civil deposits instead of being disbursed to the loanees.

7.2.10 Non-reconciliation of figures of departmental receipts with those of treasury

The Madhya Pradesh Financial Code requires the drawing and disbursing officers to prepare at the end of each month a statement of amounts credited into treasury on account of revenue of the State Government and to get it verified by the treasury officer concerned. Reconciliation is essential to ensure correct accounting of receipts and check leakage of revenue through fraudulent challans.

Test check of the records revealed that in none of the cases the above mentioned statements in respect of interest receipts were prepared and got verified from the treasury records by any of the four heads of the department. Non-reconciliation left the receipts of public money vulnerable to fraud and misappropriation.

After the case was pointed out, the Co-operation Department stated in September 2007 that the instructions in this regard had been issued to the concerned units. The remaining three departments did not give any reply.

7.2.11 Conclusion

Interest receipts from loans is one of the sources of non-tax revenues of the State Government. To have effective control over the sanction and recovery of loan and interest thereon, it is essential that the prescribed records are maintained properly by the departments. Audit scrutiny revealed that these were not maintained. Lack of monitoring by the Finance Department led to sanctioning of loans by the loan disbursing departments without prescribing the terms and conditions for repayment. There was no monitoring by the loan sanctioning departments of the overdue loan and interest. It is necessary for the Government to have a detailed look at the system and procedure for prompt recovery of loans and interest.

⁷ The interest has been calculated at the rates specified in the respective sanction orders or the rates on which the loans were obtained from Government of India/other institutions (in case of those loans where terms and conditions were not specified in the sanction orders).

7.2.12 Summary of recommendations

The Government may consider implementation of the following recommendations for rectifying the system and compliance issues:

- prescribing measures for enforcing accountability for proper maintenance of records and submission of returns by the loan disbursing departments to facilitate monitoring of the repayment of loans and interest;
- instituting a mechanism for monitoring by the Finance Department to ensure that loans are not disbursed without specifying the terms and conditions of the loan; and
- ensuring timely issue of demand notices by the Energy Department for the repayment of loan and interest thereon. While processing and sanctioning second and subsequent loans, the position of previous outstanding loans alongwith interest/penal interest should be ascertained and reviewed. Further, it may consider strengthening the internal control mechanism by way of periodic review of loan cases to ensure prompt realisation of dues.

B. PUBLIC WORKS DEPARTMENT

7.3 Non-realisation of contract money

The Madhya Pradesh Works Department Manual, 1983 provides for collection of toll tax on bridges being given out on lease. As per the terms and conditions of the lease deed for the collection of toll tax, the lessee is required to pay the instalment of lease money on the dates mentioned in the lease deed, failing which the lease may be terminated and the unexpired portion of the lease reauctioned at the risk and cost of the original lessee or the collection of toll tax may be made departmentally. The amount of security deposited by the contractor with the department shall be forfeited in case of violation of the terms of the contract agreement. The defaulter shall be liable to pay the loss sustained by the Government and the amount shall be recovered as arrears of land revenue.

Test check of the records of the Executive Engineers, PWD (B&R) divisions, Sidhi and Satna between April and July 2006 revealed that two contractors were given the right to collect toll tax in March 2003 and March 2005 for Rs. 21.78 lakh for the year 2003-04 and 2005-06. The contractors were required to deposit the contract money into the Government account in seven instalments and the last instalment was due in February 2004 and February 2006 respectively. The contractors paid amounts

totalling Rs. 10.23 lakh between April 2003 and January 2006 and defaulted in the payment of the balance amount. The department did not cancel the contract for reauctioning the unexpired portion of the lease. Security deposit of Rs. 2.91 lakh was also not forfeited. This resulted in short realisation of revenue of Rs. 14.46 lakh.

After the cases were pointed out, the Executive Engineer, Satna stated in April 2006 that security deposit was being forfeited. The Executive Engineer, Sidhi stated in July 2006 that action would be taken for recovery.

The matter was reported to the department and the Government between July 2006 and April 2007. Further progress in the matter was called for from Engineer-in-Chief, PWD Bhopal in August 2007; their reply has not been received (January 2008).

C. ELECTRICITY DUTY & SAFETY

7.4 Loss due to non-inspection of the electric installations

According to the provision of Indian Electricity Act, 1910 and Indian Electricity Rules, 1956, fees at the prescribed rates are leviable for carrying out inspection of the electrical installations according to their categories. The periodicity for conducting inspections of electrical installations of medium voltage is triennial and in other cases, it is annual.

Test check of the records of the Divisional Engineer (Electric and Safety), Sehore and Chhindwara revealed between September and December 2006 that inspections of 45,469 high voltage electric installations and 1,65,810 medium voltage electric installations were not carried out as per the prescribed norms during the period from 2003-04 to 2005-06. This resulted in loss of Rs. 92.93 lakh on account of inspection fee.

After the cases were pointed out, the Divisional Engineer (Electric and Safety), Sehore and Chhindwara stated between September and December 2006 that the inspection could not be carried out due to shortage of staff.

The matter was reported to the Chief Engineer (E&S) and the Government between January and April 2007; their reply has not been received (January 2008).

D. FOREST RECEIPTS

7.5 Non-recovery of lease rent resulting in undue benefit to MPSFDC

The State Government decided in November 1979 that the net revenue earned every year from the sale of bamboo and teak from Project I⁸ areas by the Madhya Pradesh State Forest Development Corporation (MPSFDC) would be paid to the State Government as lease rent after deducting a commission of two *per cent*. The State Government order, however, did not prescribe the due date for depositing the yearly lease rent by the corporation. The order also did not provide for the levy of penalty on delayed payments by the corporation which could act as a deterrent.

Test check of the records in the office of the Additional Principal Chief Conservator of Forests, in September 2006, revealed that Rs. 38.50 crore was outstanding against the MPSFDC on account of lease rent payable to the State Government at the end of 2004-05. Out of this, Rs. 2 crore was paid by the MPSFDC during the year 2005-06 leaving a balance of Rs. 36.50 crore. It was noticed during audit that the Forest Department did not monitor and demand the lease rent due from the MPSFDC. Lack of monitoring and failure to demand lease rent from the MPSFDC, therefore, led to non-realisation of Rs. 36.50 crore by the State Government. Further, lack of action by the Forest Department in recovering the dues led to undue benefit to the Corporation as it had earned Rs. 1.61 crore as interest during 2004-05 from the term deposits of Rs. 32.68 crore with the scheduled banks.

After the case was pointed out in audit (September 2006), the MPSFDC deposited lease rent of Rs. 12.59 crore in November 2006 and Rs. 15 crore in April 2007 into the State Government account.

⁸ Project I or crop I areas are the forest lands with standing crop of bamboo and timber that are transferred by the Forest Department to MPSFDC for exploitation.

The State Government may consider prescribing the due date by which MPSFDC should deposit the yearly lease rent and may consider providing for levy of interest on delayed payments by the Corporation as in other states such as Himachal Pradesh and Karnataka.

The matter was reported to the Principal Chief Conservator of Forests and the Government (March 2007); their reply has not been received (January 2008).

**Bhopal,
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