

CHAPTER VII NON-TAX RECEIPTS

7.1 Results of audit

Test check of records of 27 offices of the District Geologists and Director of Petroleum in the State during the year 2009-10 revealed short realisation of tax and other irregularities involving ₹ 1,638.42 crore in 156 cases, which fall under the following categories :

Sr. No.	Category	No. of cases	Amount (₹ in crore)
1.	Interest Receipts (A review)	1	20.99
2.	Receipts from Oil and Natural gas	3	1536.16
3.	Mining receipts	152	81.27
	Total	156	1,638.42

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 14.78 crore in 25 cases, of which three cases involving ₹ 6.70 lakh were pointed out in audit during the year 2009-10 and the rest in earlier years. An amount of ₹ 1.71 crore was realised in 20 cases during the year 2009-10.

A review on the “**Interest Receipts**” involving ₹ 20.99 crore and few illustrative cases involving ₹ 19.15 crore are mentioned in the following paragraphs.

INTEREST RECEIPTS

7.2 Interest receipts

Highlights

- At the end of 2008-09, recovery of principal of ₹ 840.65 crore of loans advanced by the Government and interest of ₹ 84.03 crore were over due from municipalities, *panchayati raj* institutions, other local bodies and public sector undertakings. Of these, principal of ₹ 586.80 crore and interest of ₹ 58.68 crore were outstanding for over five years.

(Paragraph 7.2.7)

- State Government has not evolved any effective mechanism to watch debits/credits as reported by the Banks. State Bank of India debited ₹ 483.68 crore in Government account against actual payment of ₹ 111.19 crore which was corrected after a delay of 43 days. The state Bank of India and Bank of Baroda had retained Government money beyond the authorised time limit due to weak internal controls.

(Paragraph 7.2.9)

- The Gujarat State Disaster Management Authority had belatedly transferred the interest of ₹ 28.03 crore earned on Government funds to the Government account. Further, in violation of the Financial Rules and Government instructions, the Authority had not credited interest aggregating to ₹ 2.98 crore into the Government account. Resultantly, the State Government lost an opportunity to earn interest of ₹ 3.70 crore.

(Paragraph 7.2.10)

- The Internal control system for watching the recovery of loans and interest was found weak. In seven administrative Departments, we found that no internal control mechanism (except in Energy and Petrochemicals Department) was evolved by them to keep an effective watch over the recovery of loans/interest. No loan register was maintained by them. The Finance Department also did not ensure compliance of the instructions issued by the Government from time to time by the administrative Departments. The lack of internal controls resulted in non-recovery of overdue interest of ₹ 512.45 crore from nine loanees.

(Paragraph 7.2.11)

- The terms and conditions of loans aggregating to ₹ 315.90 crore granted to four loanees were not finalised by three administrative Departments, *i.e.* Narmada, Water Resources, Water Supply and Kalpsar Department, Ports and Transport Department, Industries and Mines Departments. This resulted in non-recovery of interest from the loanees.

(Paragraph 7.2.13)

- Three cooperatives did not open escrow account in violation of the terms and conditions of the loan. Besides, the Government also failed to follow up with the cooperatives after release of the liquidity support loan for achieving its projected goals. This resulted in non-realisation of interest of ₹ 30.17 crore on NCDC and liquidity support loans.

(Paragraph 7.2.15.1)

7.2.1 Introduction

Interest receipts is an important component of non-tax revenue of the State Government. Important resources of interest receipts are as under:

- interest earned on Cash Balance Investment Account (CBIA⁸¹) maintained with the Reserve Bank of India (RBI).
- interest on loans paid to Departmental commercial undertakings, public sector undertakings (PSUs), local bodies, co-operative societies *etc.*, and
- interest on House Building Advance (HBA), Motor Car/Cycle Advance (MCA) *etc.*, given to Government employees.

Interest on CBIA depends on the net surplus cash balance of the State Government available for discounting/purchase of treasury bills of Government of India by RBI. The rate of interest on such investment is fixed by RBI as applicable to Government securities. The State Government provides loans to the Departmental commercial undertakings, public sector undertakings (PSUs), local bodies, co-operative societies, cultivators and advances to Government employees as part of their policies to achieve various objectives. The rate of interest on such loans and advances is fixed by the State Government from time to time.

7.2.2 Organisational set up

The Finance Department (FD), as the manager of the State revenues, is responsible for overall supervision and control of all interest receipts.

RBI maintains a cash account of the State Government. Its agency banks (which are authorised in this regard by the State Government) collect revenue on behalf of State Government and honour their payment cheques. These banks send a daily report to RBI indicating day to day position of gross receipts and payments of the State Government for the day. RBI after adjusting other debits/credits in respect of transactions of State Government with Central Government and other states invests the surplus balance in Government securities and pays interest on such balance. CBIA is watched by FD and RBI on day to day basis.

Requests for loans and advances from the Departmental commercial undertakings, PSUs, local bodies, co-operative societies and Government servants are processed by the concerned heads of the Departments, which are then referred to the administrative Department. After obtaining consent

⁸¹ CBIA is the net cash balance in the accounts of the State maintained by the RBI on day-to-day basis.

of the FD, administrative Departments sanction the loans and advances. The administrative Departments are responsible for maintaining loans and advances accounts and keeping a watch over recovery of the same with interest thereon.

7.2.3 Audit objectives

The review was conducted with a view to ascertain:

- whether adequate system was in place and was observed for proper collection of interest;
- whether the provisions of Gujarat Financial Rules and Departmental instructions issued thereon were properly observed;
- whether adequate internal control measures were in place to monitor collection of interest receipts; and
- whether internal audit system had been set up and functioned effectively.

7.2.4 Scope and methodology of Audit

Audit test checked records related to interest receipts for the period 2004-09, maintained by FD and eight administrative Departments *viz.*, (i) Energy and Petrochemicals, (ii) Industries and Mines, (iii) Urban Development and Urban Housing, (iv) Narmada, Water Resources, Water Supply and Kalpsar, (v) *Panchayat* and Rural Housing, (vi) Ports and Transport (vii) Agriculture and Co-operation and (viii) Revenue during July 2009 to March 2010.

The Departments were selected based on amount of loan sanctioned to the PSUs/Autonomous bodies during the five year period up to 2008-09, outstanding loan and interest at the end of March 2009 as depicted in their accounts, in absence of Department-wise data.

7.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of all the nine Departments for providing information and records to audit. An entry conference to discuss the objectives and scope of audit was held in October 2009 with FD, which was attended by the Principal Secretary (Economic Affairs). The findings of review were communicated to the FD and the administrative Departments covered in review in August 2010 for their response. An exit conference meeting was held in October 2010 which was attended by Additional Chief Secretary (Finance) and representatives of the other administrative Departments. The audit findings and recommendations were discussed in the meeting and their response in the meeting and replies furnished have been appropriately incorporated in the respective paragraphs of the review.

7.2.6 Financial performance

The total revenue raised by the State Government comprises of tax revenue and non-tax revenue. The comparison of interest receipts *vis-a-vis* total revenue raised by the State and non-tax revenue for the ten year period 2000-2010 are given in the following table.

Interest receipts *vis-a-vis* State's own receipts and non-tax revenue

(₹ in crore)

Period	Total revenue raised by the State	Non-tax revenue	Interest receipts	Percentage of interest receipts to total revenue raised by the State	Percentage of interest receipts to non-tax receipts
2000-01	12,395.97	3,349.14	1,929.82	15.57	57.62
2001-02	13,895.12	3,760.94	1,594.30	11.47	42.39
2002-03	13,516.24	3,995.58	1,684.88	12.47	42.17
2003-04	14,445.39	3,271.96	897.12	6.21	27.42
2004-05	16,048.20	3,090.50	469.72	2.93	15.20
2005-06	19,051.48	3,353.37	130.91	0.69	3.90
2006-07	23,413.41	4,948.78	283.07	1.21	5.72
2007-08	26,494.88	4,609.31	329.88	1.24	7.16
2008-09	28,656.35	5,099.32	567.81	1.98	11.13
2009-10	32,191.94	5,451.71	419.44	1.30	7.69

Source: Finance Accounts, Government of Gujarat

It could be noticed from the above that the component of interest receipts ranged between 3.90 per cent to 57.62 per cent of non-tax revenue and 0.69 per cent to 15.57 per cent of total revenue raised by the State. The decline of interest receipts in 2005-06 and onwards was due to moratorium on repayment allowed to Gujarat Urja Vikas Nigam Limited (GUVNL) on the loans given to erstwhile Gujarat Electricity Board (GEB).

7.2.7 Arrears of interest receipts

At the end of 2008-09, recovery of principal of ₹ 840.65 crore on loans advanced by Government and interest of 84.03 crore were over due from municipalities, *panchayati raj* institutions, other local bodies and public sector undertakings. Of these, principal of ₹ 586.80 crore and interest of ₹ 58.68 crore were outstanding for over five years. The year-wise break up of amount over due is tabulated below:

Arrears of loan principal and interest

(₹ in crore)

Year in which due	Amount over due as on 31 March 2009	
	Principal	Interest
Upto 2004-05	586.80	58.68
2005-06	74.21	7.40
2006-07	51.87	5.18
2007-08	67.80	6.78
2008-09	59.97	5.99
Total	840.65	84.03

Source: Finance Accounts, Government of Gujarat (Statement No.5 of FA for the year 2008-09)

The above status reveals that the Government had not initiated effective corrective action due to which the overdue amount has accumulated further.

Audit findings

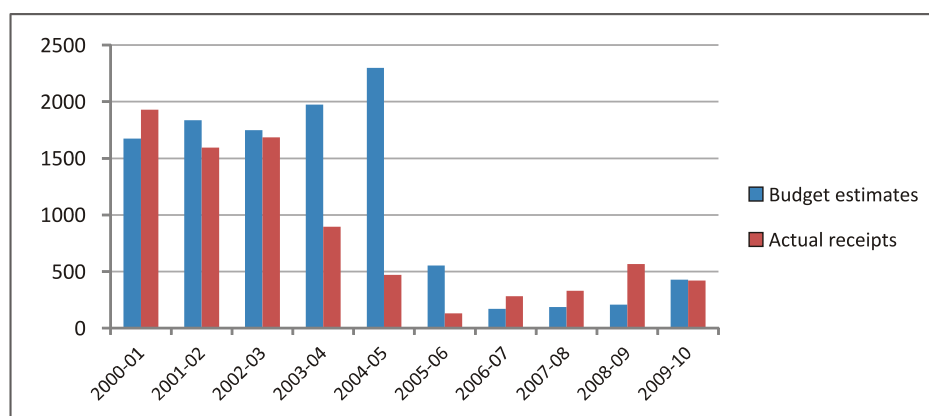
7.2.8 Trend of revenue

For proper fiscal planning, it is essential that budget estimates are made on realistic basis. Table below shows budget estimates and actual receipts in respect of interest receipts over the last ten years time series up to 2009-10.

(₹ in crore)

Period	Budget estimates	Actual receipts	Variation (+) excess / (-) shortfall	Percentage variation (+) excess / (-) shortfall
2000-01	1,674.49	1,929.82	(+) 255.33	(+) 15.25
2001-02	1,837.45	1,594.30	(-) 243.15	(-) 13.23
2002-03	1,750.00	1,684.88	(-) 65.12	(-) 3.72
2003-04	1,973.84	897.12	(-) 1076.72	(-) 54.55
2004-05	2,299.90	469.72	(-) 1,830.18	(-) 79.58
2005-06	552.50	130.91	(-) 421.59	(-) 76.30
2006-07	169.95	283.07	(+) 113.12	(+) 66.56
2007-08	186.95	329.88	(+) 142.93	(+) 76.45
2008-09	207.00	567.81	(+) 360.81	(+) 174.30
2009-10	429.55	419.44	(-) 10.11	(-) 2.35

Source: Budget estimates and Finance Accounts



The above table and chart shows that there was a wide variation between budget estimates and actual realisation in respect of interest receipts every year except in the years 2002-03 and 2009-10. The respective administrative Departments did not determine budget estimates with regard to past trends and future potential. There was not much evidence of constructive interventions from the FD to ensure that the budgeting of interest receipts was done in a scientific manner.

We recommend that the Government to get the budget estimates on interest receipts prepared in a more realistic method.

System Deficiencies

7.2.9 Absence of an effective mechanism for watching the credits/debits given by Banks to State Government Account

As per the existing mechanism, the banks which are authorised to carry out Government transactions directly are reporting total Government receipts and payments figures at the end of the day to the Treasury Officers and RBI. On the basis of these figures, the Central Accounts Section (CAS) of RBI, Nagpur intimates daily position to the State Government for the previous day.

During scrutiny of records of Director of Accounts and Treasury (DAT), Gandhinagar we noticed that the Government had not developed a mechanism for verification of correctness of daily receipts and payment

figures reported by banks with the daily statement of CAS, Nagpur as mentioned in the following paragraph.

We noticed that on 4 April 2008, SBI cleared Government payments of ₹ 111.19 crore. The daily scroll for that day and Verified Date wise Monthly Statement for April 2008 sent by SBI to Treasury Officer, Gandhinagar also showed Government payments of ₹ 111.19 crore only. However, SBI debited Government account by ₹ 483.68 crore against the actual payments of ₹ 111.19 crore. The rectification credit entry of ₹ 372.49 crore was carried out by SBI after a period of 43 days *i.e.* on 17 May 2008. It was only after RBI noticed these facts and reported to State Government on 21 May 2008, that the State Government could charge and recover interest of ₹ 3.43 crore from SBI for unauthorised retention of the money.

In response to query by DAT, RBI furnished (July 2008) details of 207 such other cases pertaining to the period July 2007 to June 2008, where incorrect payment figures were reported by the banks. We noticed that this involved unauthorised retention of Government revenue of ₹ 145.71 crore during different periods by the two banks – SBI and Bank of Baroda. Interest of ₹ 3.63 crore accrued thereon as shown in the Table below was recoverable from the defaulting banks in 206 cases.

(₹ in crore)

Name of the defaulting bank	Number of Districts	Number of cases	Government receipts held by incorrect reporting and subsequently adjusted	No of days for which the amount was held by the banks	Interest chargeable
State Bank of India	17	147	100.95	12 to 618 days	1.55
Bank of Baroda	9	59	44.76	10 to 1808 days	2.08
Total		206	145.71		3.63

The Government stated (November 2010) that on receipt of information from RBI, they recovered ₹ 90.90 lakh from Bank of Baroda and SBI. Out of the balance amount of ₹ 2.75 crore, penal interest of ₹ 1.19 crore was not recoverable from Bank of Baroda as per RBI letter dated 31 August 2010. Report of recovery of ₹ 1.56 crore has not been received (December 2010).

The Government also stated that considering the gravity and magnitude of the issue; it was proposed to constitute a special team comprising officials from GASAB, RBI, State Government and Accountant General to study and review the existing accounting system/procedure and to look into the nature of the consequence of transaction so as to devise a proper mechanism. Further report is awaited (December 2010).

We recommend the Government to consider development of a system for day to day cross checking of daily receipts and payment figures as collected from the treasury offices with the daily cash position as reported by the CAS, Nagpur.

7.2.10 Lack of monitoring over remittance of Government money by Government Board/Authority

As per Rule 4 of the Gujarat Financial Rules (GFR) 1971, all moneys received by or on behalf of Government, either as dues of Government or for deposits, remittance or otherwise shall be brought into Government Account without delay.

For implementation of projects and schemes, State Government provides grants to various Boards/Authorities. The State Government specifically issued instructions (December 2004) to Gujarat State Disaster Management Authority (GSDMA) to credit interest earned from such investments to Government account.

During scrutiny of records of GSDMA under Revenue Department, we noticed that during 2004-09, they received funds from the State Government as well as from Asian Development Bank (ADB) through the State Government. These funds were kept in banks/financial institutions and GSDMA earned

interest of ₹ 31.01 crore thereon during 2005-08. However, they did not credit the above interest immediately into Government account. Instead, GSDMA credited interest of ₹ 28.03 crore in lump sum on 31 March 2009 into Government account *i.e.* after a period of delay ranging between one and four years. Further, in violation of GFR and Government instructions, GSDMA had not credited balance interest amount of ₹ 2.98 crore. The notional loss of interest⁸² due to delay/non-crediting of the said sum into Government account worked out to ₹ 3.70 crore up to March 2010, which otherwise could have been earned from CBIA by the State Government.

82 Notional loss of interest worked out at the rate of 5.5 per cent.

After this was pointed out, the Director (Finance), GSDMA stated (April 2010) that the loan instalments and interest are credited to Government account after its reconciliation with Project Implementing Agencies, which took some time. It was further stated that as per Section 33 (4) (c) of the Gujarat State Disaster Management Act 2003, interest income can be transferred to Disaster Management Fund. Hence remaining amount was retained by GSDMA.

Reply of the Director is not acceptable, as GSDMA took one to four years to transfer the funds into Government account. Further, Section 33(4) (c) authorises transfer of interest income earned on all moneys belonging to the Authority to Disaster Management Fund, whereas, in the instant case, the interest was earned by GSDMA from Government funds.

Reply from the Government has not been received (December 2010).

We recommend the Government to consider issuing instructions to all the administrative Departments to undertake a periodical review of the accounts of the Authority/Boards under them in order to ensure that Government money is not retained by them without justification.

7.2.11 Internal control

The loans and advances for different purposes are given by State Government to the various organisations, Boards, PSUs, individuals *etc.* As per the standard terms and conditions of loan sanction orders, the head of the concerned Departments are responsible for watching recovery of principal and interest from the borrowers. The State Government directed (October 2001) all the administrative Departments to ensure timely recovery of loan instalments and interest before sanctioning a new loan. A certificate to that effect was required to be sent by the administrative Departments to FD. Administrative Departments were also instructed to maintain a loan register.

7.2.11.1 During test check of records of the seven Departments⁸³ for 2004-09, we noticed that:

- In respect of loans given by these administrative Departments, control mechanism (except in Energy and Petrochemicals Department) was not evolved to

keep an effective watch over the recovery of loans/interest. A loan register showing details of loans given was not maintained by any of the Departments except Energy and Petrochemicals Department. The Departments did not have even the minimum details regarding outstanding amount of loan and interest.

- Periodical returns were not prescribed in respect of outstanding loan and interest, recovery made and closing balance at the end of the period/year by the administrative Departments from the loanees.
- A certificate for recovery of loan installments and interest, required to be sent to the FD was not sent by any administrative Department.

⁸³ Agriculture and Co-operation Department, Industries and Mines Department, Narmada Water Resources, Water supply and Kalpasar Department, Ports and Transport Department, Energy and Petro chemical Department, Urban Development and Urban Housing Department and Panchayat and Rural Housing Department.

- Finance Department did not exercise any control mechanism over the administrative Departments. While according the approval to the loans sanctioned after October 2001, FD did not ensure compliance of these instructions.
- Audit raised (July 2010) specific query regarding extent of internal audit in respect of disbursement of recovery of loan prevailing in the FD as a controlling Department and other administrative Departments. Reply from FD has not been received (December 2010).

7.2.11.2 For the purpose of the implementation of various social schemes, State Government has provided loans to various Boards, Corporations etc. on the terms and conditions as mentioned in the sanction order.

During test check of records related to loans of the concerned administrative Departments, Boards, Corporations etc. for the period 2004-09, we noticed that these Departments have not monitored the recovery of loans and interest. The position of overdue interest in respect of the Departments is shown in the table below :

(₹ in crore)

Name of the loanee	Administrative Department	Amount of loan sanctioned	Sanctioned during	Amount of interest overdue as on 31 March 2009
Gujarat Water Supply and Sewerage Board	Narmada, Water Resources, Water Supply and Kalpsar	143.19	1985-86 to 2005-06	121.22
Ahmedabad Urban Development Authority	Urban Development and Urban Housing Development	1.47* (IDSMT Loan)	1980 to 1990	2.50
Gujarat Rural Industrial Marketing Company	Industries and Mines	3.64	1979 to 2001	6.05
Gujarat State Khadi Gramodhyog Board	Industries and Mines	2.29*	1990 to 2009	0.65
Gujarat State Land Development Corporation	Agriculture and Co-operation	17.16*	1980 to 2002	33.44
Agriculture Produce Market Committee (APMC) of 13 districts	Agriculture and Co-operation	3.30	1973 to 2009	0.84
Gujarat State Handloom and Handicraft Corporation	Industries and Mines	15.88*	1976 to 2006	14.12
Gujarat State Financial Corporation	Industries and Mines	592.81	2003-04 to 2008-09	326.70
Gujarat Agro Industries Corporation Ltd.	Agriculture and Co-operation	7.00	1999-2000	6.93 ⁸⁴
Total				512.45

* This amount represents outstanding balance of Government loans.

In respect of GAICL, the Agriculture and Co-operation Department stated (May 2010) that Government decided (April 2003) to transfer the Juhapura property

⁸⁴ Worked out at prime lending rate of 11 per cent vide GR dated 30 January 2002.

of GAICL valued ₹ 7.40 crore to Home Department and to adjust the same against outstanding loans of ₹ 7 crore. Further, Government vide Agriculture and Co-operation Department Resolution dated 12 March 2004 proposed to convert the loan into equity and to waive the outstanding interest accumulated thereon. Consequently, the Government vide Finance Department Resolution dated 13 August 2010 decided to waive loan of ₹ 7 crore alongwith interest.

IMD stated (May 2010) that Gujarat State Handloom and Handicraft Corporation was incurring loss since inception. Gujarat State Financial Corporation could neither pay principal nor interest owing to other liabilities.

Narmada, Water Resources, Water Supply and Kalpsar Department stated (October 2010) that matter of conversion of outstanding loan of GWSSB into grant would be taken up.

Reply in respect of remaining loanees has not been received from concerned administrative Departments (December 2010).

The FD stated (June 2010) that administrative Departments are keeping the records of loans and interest. As such, there is no special mechanism in Finance Department for watching recovery. FD further stated that it was decided to create the electronic mechanism with reference to interest on loans and investments. Further report has not been received (December 2010).

We recommend the Government to develop a control mechanism for prompt recovery of loans and interest. Government may also review the performances of the loanees with reference to the achievement of goals set out for the Boards, Corporations.

Compliance Deficiencies

7.2.12 Short payment of interest on loans by the GUVNL

The erstwhile Gujarat Electricity Board was unbundled into seven companies on functional basis with effect from 1 April 2005. The State Government sanctioned (January 2006) a Financial Restructure Plan (FRP) to the *Gujarat Urja Vikas Nigam Limited* (GUVNL), holding company of unbundled successor companies, with the prime objective of operationalising these companies. Under the FRP, the Government gave a moratorium for interest payment liabilities on outstanding loans of ₹ 842 crore for a period of six years from 2005-06 to 2010-11. Also, under FRP, the Government converted outstanding loan balance as on 31 March 2005 into equity *vide* their order of November 2008. Thus, interest was payable on these loans from the deemed date of release till 31 March 2005.

During test check of records of GUVNL for 2004-09, we noticed (December 2009) that State Government released ADB Loan No. 1803 and 1804 of ₹ 381.61 crore. The interest liability of these loans accrued from the deemed date of release *i.e.* 1 October of the block year in which loan was paid. Under FRP, the moratorium period of these loans started from 1 April 2005. Hence, GUVNL was required to pay interest from the deemed date

of release up to 31 March 2005. However, we noticed that GUVNL had not paid interest on these loans from 1 October 2004 to 31 March 2005. Non-levy of interest worked out to ₹ 20.99 crore.

The administrative Department as well as FD failed to detect the omission and recover the short payment.

The Government stated (September 2010) that in view of the payment modality and Government Resolution dated 7 November 2008, the company has not paid interest for the period from October 2004 to March 2005 as the interest on loan outstanding as on 31 March 2005 was not to be paid for the period of six years. The company will be required to pay interest for the period from 1 October 2010 to 31 March 2011 after availing the interest free period of six years commencing from 1 October 2004 to 30 September 2010.

The reply is not convincing as a interest liability of these loans accrued from the deemed date of release *i.e.* 1 October of the block year in which loan was paid and the moratorium period did not cover the period from October 2004 to March 2005. This defers interest liability for six months which was not covered by FRP scheme. Besides, the loans were converted into equity in November 2008 *i.e.* after a delay of two years and 11 months. The Department should have recovered the interest from the loanee.

7.2.13 Non-finalisation of terms and conditions of loans

As per the provisions laid down under Rule 71(i) of the GFR, an authority competent to sanction grant of a loan shall while sanctioning a loan, specify the terms and conditions of loan including the terms and conditions of repayment, rate of interest *etc.* in the loan sanctioning order.

7.2.13.1 A mention was made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts) Government of

Gujarat, regarding non-finalisation of terms and conditions of loans granted to Gujarat Water Supply and Sewerage Board (GWSSB) for creation of revolving fund for repayment of LIC loans and interest.

During scrutiny of the records of the GWSSB, we noticed that the terms and conditions of these loans have not yet been finalised by the administrative Department, *i.e.* Narmada, Water Resources, Water Supply and Kalpsar Department. Further, loan of ₹ 91.40 crore was paid to the Board during the period between 2003-04 and 2005-06. The terms and conditions of these loans were also not finalised.

The FD replied (December 2010) that the administrative Department has issued resolution in April 2010 deciding the terms and conditions for loan of ₹ 1.75 crore sanctioned from 1998-99 to 2004-05. However, terms and conditions for the loan of ₹ 90.90 crore sanctioned in 2005-06 has not been finalised yet (December 2010).

7.2.13.2 During scrutiny of records of the Ports and Transport Department, we noticed that rate of interest in respect of loan of ₹ 170 crore provided to the Gujarat State Road Transport Corporation (GSRTC) during 2003-04 has not yet been finalised by the Department.

The Ports and Transport Department stated (June 2010) that the Government has decided to grant loan to GSRTC at 'Nil' rate of interest as financial position of the Corporation was critical. It was further stated that conversion of loan into subsidy is under consideration of the Government.

However, the fact remained that the Government did not finalise the matter even after lapse of more than six years (December 2010).

7.2.13.3 The Industries and Mines Department (IMD) sanctioned and disbursed (December 2008) a loan of ₹ 50 crore to Alcock Ashdown (Gujarat) Limited, a public sector undertaking of the State Government. We noticed (May 2010) that the terms and conditions of the said loan were not finalised. This resulted in non-recovery of interest of ₹ 2.10 crore calculated at the rate of 15 *per cent per annum*⁸⁵ for the period between 19 December 2008 and 31 March 2009.

⁸⁵ Rate of interest applicable to the State Government loans extended to manufacturing PSUs.

7.2.13.4 The IMD extended loan of ₹ 4.50 crore to Gujarat State Handloom and Handicraft Development Corporation Limited, for implementing voluntary retirement scheme, of which ₹ 3.50 crore was released in August 2003 and ₹ 1 crore in March 2004. We noticed that the Government did not fix the terms and conditions of the loan even after lapse of more than five years. The rate of interest for such types of loan provided from State Renewal Fund was fixed at 11 per cent vide Government Resolution of January 2002. Considering this rate, the notional loss of interest worked out to ₹ 2.71 crore.

While accepting the audit finding, IMD stated (May 2010) that proposal for fixing terms and conditions to the loan is initiated now. Further report has not been received (December 2010)

When the matter was brought to notice, the Finance Department stated (May 2010) that in majority of cases, terms and conditions are finalised by FD at the time of sanctioning the loan and in few cases, it was delayed. The Department added that instructions are issued to the administrative Departments to review each case and fix the terms and conditions immediately.

We recommend the Government to consider establishing a system for ensuring the fixation of terms and conditions of the loans before sanctioning of loans.

7.2.14 Non-recovery of loans and interest from PSUs under winding up

The Gujarat State Financial Services Limited (GSFS) is a State Government company, engaged in financial management. The Company through their two schemes, viz., liquid deposit scheme (LDS) and inter corporate deposit (ICD) scheme, collects surplus funds from other PSUs and pays interest at a prescribed rate.

Gujarat State Fisheries Development Corporation Limited (GSFDC) and Gujarat State Construction Corporation Limited (GSCC) are under process of winding up/closure since July

1998. During test check of records of GSFS, we noticed that these PSUs had maintained substantial balance in ICDs kept with GSFS as detailed below:

(₹ in crore)

Sl. No.	Name of the PSU	Amount in credit with GSFS as on 31 March 2009	Outstanding of loan received from State Government by the PSU	Interest accrued on the loans received from the State Government (as per available final accounts of the PSU)	
				Accounts available	Amount of accrued interest outstanding
1	GSFDC Ltd.	2.03	2.29	1998-99	1.00
2	GSCC Ltd.	1.28	9.63	2007-08	14.72
	Total	3.31	11.92		15.72

We observed that the State could have adjusted the ICDs against loan and interest liabilities of these companies, which could have realised ₹ 3.31 crore,

as management of these companies as well as that of GSFS are with the State Government.

The FD stated (May 2010) that the companies under winding up process are governed by the Companies Act and other laws. FD also stated that though cross holding of assets and liabilities may be with the Government, there cannot be any settlement out of legal process.

The reply is not tenable. In the cases of voluntary winding up under the Companies Act, the PSU could approach the legal authorities or Registrar of Companies for cancelling their name only after finalisation of their pending annual accounts. In the instant case, the PSUs are in arrears for finalisation of their accounts; hence, legal process under Companies Act and other laws is not applicable. Also, as per their last available Annual Accounts, these PSUs were considered as going concerns only.

7.2.15 Non-recovery of loan and interest due to irregular sanction

Agriculture and Co-operation Department recommended (July 2003) to the National Co-operative Development Corporation (NCDC) sanction of a working capital loan of ₹ 50 crore for three sugar co-operative societies⁸⁶ in the State. The NCDC sanctioned and released (September 2003) a loan of ₹ 50 crore carrying interest rate of nine *per cent*. The loan was passed on (October 2003) to the societies by the State Government. The loan was to be repaid in three equal instalments commencing from the completion of the first year after release of the loan without any moratorium period. All the three societies could not pay the principal of ₹ 47.60 crore and interest of ₹ 6.45 crore up to December 2006. A mention was made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2007 (Civil) Government of Gujarat, regarding non-recovery of loan from the above societies.

7.2.15.1 During scrutiny of records (October 2009) of Director of Sugar for the period 2004-09, we noticed that for the purpose of strengthening the financial position of these sugar cooperatives, the State Government prepared a financial package and sanctioned (October 2005) liquidity support loan of ₹ 30.11 crore to them. The conditions to the said loan *inter alia* provided that the loan shall be repaid in five equal instalments after a moratorium of

two years and the rate of interest shall be four *per cent*. It was also stipulated that an escrow account⁸⁷ shall be opened wherein the amount of recoveries shall be deposited regularly by the cooperatives. The societies shall furnish the details of this account to the Director of Sugar every month and the Director of Sugar in turn shall send a monthly report in this regard to State Government.

⁸⁶ Maroli Sugar Co-operative Society, Sardar Sugar Co-operative Society and Vadodara Sugar Co-operative Society.

⁸⁷ Escrow account is an account in which funds are deposited for specific disbursements.

We further noticed that with respect to NCDC loan, principal of ₹ 42.67 crore and interest of ₹ 26.30 crore was outstanding. With respect to liquidity support loan, out of total ₹ 9.89 crore due, principal of ₹ 3.60 crore and interest of ₹ 3.87 crore was outstanding as on 31 March 2009. Also, all the three co-operatives did not open escrow account in violation of the terms and conditions of the loan.

We observed that the Government failed to follow up with the cooperatives after release of the liquidity support loan for achieving its projected goals. This resulted in non-realisation of interest of ₹ 30.17 crore on NCDC and liquidity support loans.

After this was brought to notice, the Director replied (November 2009) that a State level committee under the chairmanship of the Principal Secretary, Agriculture and Co-operation Department is reviewing the working of all these cooperative societies. However, outcome of the review has not been received (December 2010).

NCDC sanctioned (August 1995) a loan of ₹ 2.15 crore to a co-operative society for establishment of a rapeseed/mustard crushing mill and vegetable oil refinery at village Veda, Taluka Gandhinagar. The loan was to be routed through the State Government after State Government furnished the bank guarantee to the NCDC. NCDC released the amount during September 1997 to November 1998 to the co-operative society. The repayment of the loan was to be made in nine equal annual instalments starting from 1999-2000. The loan agreement provided for levy of interest at the rate of 17.75 per cent.

7.2.15.2 During test check of the records of the District Registrar, Co-operative Societies (Rural) Ahmedabad for 2004-09, we noticed that the society paid ₹ 71.49 lakh up to February 2005 leaving a balance of ₹ 1.43 crore towards principal and ₹ 1.06 crore towards interest. No further amount was recovered from

the society, which had gone into liquidation in September 2009. This resulted in non-realisation of Government dues of ₹ 2.49 crore.

Reply of the Government has not been received (December 2010).

7.2.16 Conclusion

For a sound financial planning and efficient execution of Government policies, it is essential that their revenues are realised promptly. Review on interest receipts revealed that Government has not developed a mechanism for ascertaining actual receipts and payments realised/paid by them. Further Government receipts are not realised immediately. Besides, for delay in crediting of Government revenue by banks, interest is not charged in accordance with the guidelines of RBI. In respect of Government revenue collected/recovered by Boards, the administrative Departments did not ensure the credit thereof in Government account immediately. In seven administrative Departments, we found that no internal control mechanism (except in Energy

and Petrochemicals Department) was evolved by them to keep an effective watch over the recovery of loans/interest. No loan register was maintained by them. The Finance Department also did not ensure compliance of the instructions issued by the Government from time to time by the administrative Departments. In case of Government Companies/Corporations under winding up or closure, the Government did not ensure the settlement of their loans and interest dues. The Government suffered loss of interest due to all of the above.

7.2.17 Summary of recommendations

The Government may consider implementing the recommendations as mentioned below:

- *development of a system for day to day cross checking of daily receipts and payment figures as collected from the treasury offices with the daily cash position as reported by the CAS, Nagpur;*
- *issuing instructions to all the administrative Departments to undertake a periodical review of the accounts of the Authority/Boards under them in order to ensure that Government money is not retained by them without justification; and*
- *develop a control mechanism for prompt recovery of loans and interest. Government may also review the performances of the loanees with reference to the achievement of goals set out for the Boards, Corporations.*

MINING RECEIPTS

7.3 Other audit observations

During the scrutiny of the records of various District Geologists offices and office of the Commissioner of Geology and Mining we noticed in several cases non-compliance of the provisions of the Mines and Minerals (Development and Regulation) (MMD&R) Act, 1957, the Mineral Concession (MC) Rules, 1960, the Mineral Conservation and Development Rules, 1988, the Gujarat Minor Mineral (GMM) Rules, 1966 framed by the State Government in exercise of the powers derived under the MMD&R Act and the Government notifications and other rules as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of the Departmental officials are pointed out in audit each year; however, not only do the irregularities persist, these remain undetected till an audit is conducted in the next year. There is need for the Government to improve the internal control system and internal audit so that such omissions can be detected and prevented in future.

7.4 Recommendations

- District Geologists should calculate the royalty payable as per rules and take appropriate actions for its recovery.
- District Geologists should ensure that full dead rent is received whenever the royalty payable is less than dead rent.
- Department should take strict action to stop illegal manufacturing of bricks.

7.5 Non/short levy of royalty and non-realisation of arrears of royalty

The MMD&R Act, the MC Rules and the GMM Rules provide that a lessee is liable to pay royalty in respect of any mineral removed or consumed from the leased area at the prescribed rates in respect of each lease for major/minor mineral. The procedure prescribed by the Department in December 2000 requires the lessee to pay royalty in advance. Government has introduced a system of issue of triplicate passbook on advance payment of royalty. Default in payment attracts simple interest at the rate⁸⁸ prescribed. Further, the rent, royalty, tax, fee or other sum due to Government under the Act, on certificate issued by an authorised officer is recoverable as arrears of land revenue as per the provisions of BLR Code, 1879 and shall be the first charge on the assets of the lease/licence holder.

7.5.1 During test check of the records of four District Geologists⁸⁹ for the period 2003-04 to 2008-09, between January 2008 and July 2009, we noticed that in 41 cases, the Departmental officials either did not levy or levied less royalty on minerals removed from leased area even after receipt of monthly returns from lease holders. Out of these cases, in case of two leases, the passbook was issued without payment of advance

royalty in contravention of instruction issued. In other four cases, Departmental officials failed to demand interest on delayed payment of royalty. In remaining 35 cases, the Departmental officials did not levy and recover royalty alongwith interest. This resulted in non/short levy of royalty and interest of ₹ 1.66 crore.

After we pointed this out between June 2008 and January 2010; the Department accepted the audit observations involving ₹ 1.65 crore in 39 cases and recovered ₹ 1.18 crore in 25 cases. A report on the recovery of the balance amount and replies in the remaining cases had not been received (December 2010).

The matter was reported to the Government in May 2010; their reply has not been received (December 2010).

7.5.2 During test check of the records of three District Geologists⁹⁰ between November 2007 and July 2009, we noticed that in 1069 cases, the lease holders

⁸⁸ 24 per cent per annum upto 7.10.2007 and 18 per cent per annum thereafter.

⁸⁹ Jamnagar, Mehsana, Surat and Vadodara.

⁹⁰ Jamnagar, Junagadh and Surat.

did not pay royalty/dead rent and surface rent etc. in respect of lease of major and minor minerals granted to them. The Departmental officials failed to initiate action to enforce the recovery by way of cancellation of lease, confiscation of minerals, machineries *etc.* as provided in the Act/Rules or by issue of recovery certificates as arrears of land revenue under the BLR code. This resulted in non-realisation of Government dues of ₹ 13.16 crore.

After we pointed this out in July 2008 and January 2010; the Department accepted the audit observations involving ₹ 13.16 crore in 1069 cases and recovered ₹ 3.33 crore in 248 cases. A report on the recovery of the balance amount has not been received (December 2010).

The matter was reported to the Government in May 2010; their reply has not been received (December 2010).

7.6 Loss of revenue due to non-adherence of conditions of lease sanction order

The MMD&R Act and Rules made thereunder empowers the State Government to sanction the lease of major minerals with prior approval of the Central Government. The Bombay Land Revenue (BLR) Code, 1879, and Rules made thereunder provide that any agricultural land can be used for any other purpose after obtaining a permission of the Collector for such non-agricultural (NA) use and on payment of conversion tax at prescribed rate in advance. Non-agricultural assessment at the applicable rate for use of land for non-agricultural use is also recoverable every year. The owner of the land is liable for penalty at prescribed rate for use of agricultural land for non-agricultural purpose without obtaining the permission of the Collector.

Test check of the records of District Geologist, Bharuch for the period 2007-08 in February 2009 revealed that Government of Gujarat granted a lease in respect of land admeasuring 384.96.18 hectares of various survey numbers of Village Amod, Taluka Amod to Gujarat Mineral Development Corporation Limited (lessee) for mining of lignite for a period of

30 years. The area of 384.96.18 hectares consisted of 126.40.71 hectares and 258.55.47 hectares of private land and Government land respectively. As per condition of the sanction order, the lessee was required to obtain NA permission from the competent authority under the provisions of the BLR Code. Scrutiny of records however revealed that the lessee had not obtained NA permission but started mining activity from December 2007 and extracted 3,90,641.65 MT of lignite during 2007-08. Collector also failed to observe the provisions of Act/Rules/Government instructions to keep watch on non-agriculture use of land without obtaining the permission of the competent authorities. Thus, non-compliance of the condition of the sanction order of the lease resulted in loss of revenue in the form of conversion tax of ₹ 75.84 lakh and non-agricultural assessment of ₹ 1.90 lakh; aggregating to ₹ 77.74 lakh.

After we pointed this out in September 2009, the Department stated (June 2010) that the lessee was not required to obtain NA permission in view of Department circular dated 25 March 1981. However, in that case, the lessee was liable to pay the conversion tax and NA assessment immediately on handing over possession of the lease. The report of recovery of conversion tax and NA assessment has not been received (December 2010).

The matter was reported to the Government in May 2010; their reply has not been received (December 2010).

7.7 Non/short levy of dead rent

The MMD&R Act, the MC Rules and the GMM Rules provide that a lessee is liable to pay dead rent at the specified rates annually in respect of area covered by the lease for major/minor mineral. Where the lease holder is liable to pay royalty for any mineral removed or consumed from the leased area, the lessee is liable to pay dead rent or royalty, whichever is higher, in respect of that lease. Default in payment attracts simple interest at the rate⁹¹ prescribed.

During test check of the records of office of 11 District Geologists⁹² for the period 2003-04 to 2008-09, between February 2008 and July 2009, we noticed that in 371 cases, the Departmental officials either did not levy or levied less dead rent resulting in non/short levy of dead rent of

₹ 1.37 crore.

After we pointed this out between June 2008 and January 2010, the Department accepted the audit observations involving ₹ 1.06 crore in 252 cases and recovered ₹ 80.51 lakh in 182 cases. A report on the recovery of the balance amount and replies in the remaining cases had not been received (December 2010).

The matter was reported to the Government in May 2010; their reply has not been received (December 2010).

⁹¹ 24 per cent per annum upto 7.10.2007 and 18 per cent per annum thereafter.

⁹² Bharuch, Gandhinagar, Himatnagar, Jamnagar, Junagadh, Mehsana, Navsari, Surat, Surendranagar, Vadodara and Valsad

7.8 Non-realisation of royalty due to non-observance of provisions of Act/Rules

The MMD&R Act and Rules made thereunder empowers the State Government to grant lease in respect of any major mineral with the prior approval of the Central Government. The Act also empowers the State Government to terminate the mining lease on request of the Central Government. The lease holder is required to execute a lease deed in prescribed form within six months of sanction of lease. The conditions of lease deed provide that any mineral not removed by the leaseholder within stipulated period shall become property of the State and such mineral can be sold or disposed off after notice of one month for its removal from leased area.

During test check of records of the District Geologist, Bharuch for the period 2007-08 in February 2009, we noticed that Gujarat Mineral Development Corporation (GMDC) executed (April 2002) an agreement with Bhavani Minerals (a lease holder of silica sand) to lift and sell silica sand excavated as a part of overburden of mining on work

permit (July 2002) issued to the GMDC. Work permit was issued to GMDC in anticipation of sanction of mining lease of lignite. Agreement with Bhavani Minerals included payment of royalty at prescribed rate on removal of silica sand. GMDC however, did not obtain simultaneous permit for removal of silica sand and consequently Bhavani Minerals could not remove 3,30,189 MT silica sand lying in adjoining area of lignite lease from July 2002 to June 2007. In other three cases, 2,06,463.442 MT silica sand was lying with the lease holders after lapse of six months from the cancellation of leases. The Department did not initiate action to obtain possession of the mineral and dispose of the mineral. This resulted in non-realisation of royalty of ₹ 1.07 crore.

After we pointed this out in September 2009, the Department stated (June 2010) that notices have been issued to concerned lease holders. Further report has not been received (December 2010).

The matter was reported to the Government in May 2010; their reply has not been received (December 2010).

7.9 Non-levy of royalty on illegal mining and manufacturing of bricks due to lack of co-ordination

The MMD&R Act, the MC Rules and the GMM Rules provides that brick manufacturers shall quarry, remove or carry away any minor mineral on payment of lump sum royalty as prescribed by the Government from time to time. Under the provisions of the BLR Code, permission is required from the Collector for using agricultural land for brick manufacturing, even for temporary period. Also, registration with the Geologist is required for payment of royalty on production of bricks. Failure to obtain permission would make the person liable for payment of royalty at applicable rate and penalty of ₹ 10,000 for the illegal mining and manufacturing of bricks.

During cross check of the records of three District Geologists⁹³ with records of respective District Development Officers (DDOs) for the period 2006-07 to 2007-08, between December 2008 and February 2009 we noticed that the DDOs had detected 208 cases of illegal mining and manufacturing of bricks in the area under their jurisdiction.

However, these cases were not transmitted to concerned District Geologists for further necessary action. There was no system in place for communication of such illegal mining activities to the mineral administration in the State. Lack of system for co-ordination between the Revenue Authorities and concerned District Geologists resulted in non-levy of royalty of ₹ 53.44 lakh including penalty of ₹ 20.80 lakh.

After we pointed this out in September 2009, the Department stated (June 2010) that action would be initiated to recover outstanding amount from the defaulters when they come in new season for registration. Further report has not been received (December 2010).

The matter was reported to the Government in May 2010; their reply has not been received (December 2010).

⁹³ Jamnagar, Surat and Vadodara.

7.10 Loss of revenue due to inoperative mining leases

The MMD&R Act, the MC Rules and the GMM Rules provides that where a lease holder fails to undertake mining operations for a period of two years after the date of execution of the lease or discontinued the operation of mining for a period of two years, the lease shall lapse on the expiry of the period of two years after execution of lease deed or discontinuance of mining. As per the instructions issued (July 1986) by the Commissioner of Geology and Mining, the District Geologists are required to inspect every mine and quarry at least once in a year. Further, the Act provides that a lessee is liable to pay dead rent at the specified rates for major/minor mineral annually in respect of area covered by the lease.

During test check of the records of District Geologists, Junagadh and Mehsana for the period 2006-07 to 2007-08 in November 2007 and June 2008, we noticed that in 106 cases, the leases of major and minor minerals were *i n - o p e r a t i v e* continuously for two years. District Geologists did not initiate action to

regularise the non-operation or discontinuation of the mining operation. This indicated weak internal control mechanism in respect of inspection of leases leading to non-detection of inoperative leases and consequent shortfall in Government revenue, and resulted not only in blockage of Government land admeasuring 339.89 hectares for mining but also non-realisation of dead rent of ₹ 40.40 lakh.

After we pointed this out in July and October 2008, the Department accepted and recovered the audit observations involving ₹ 9.23 lakh in 35 cases. A report on the recovery and replies in the remaining cases had not been received (December 2010).

The matter was reported to the Government in May 2010; their reply has not been received (December 2010).

7.11 Non/short levy of surface rent

The MMD&R Act, the MC Rules and the GMM Rules provide that a lessee is liable to pay surface rent on the area of land leased to him for mining activities, at such rate not exceeding the land revenue assessable on the land as may be specified by the State Government. Default in payment attracts simple interest at the rate⁹⁴ prescribed.

During test check of the records of four District Geologists⁹⁵ for the period 2006-07 to 2008-09 between February 2008 and July 2009, we noticed that in 39 cases, the Departmental officials

had either not levied or levied short surface rent of ₹ 17.20 lakh.

After we pointed this out between June 2008 and January 2010, the Department accepted the audit observations involving ₹ 4.92 lakh in 16 cases and recovered ₹ 3.50 lakh in 10 cases. A report on the recovery and replies in the remaining cases had not been received (December 2010).

The matter was reported to the Government in May 2010; their reply has not been received (December 2010).

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⁹⁴ 24 per cent per annum upto 7.10.2007 and 18 per cent per annum thereafter.

⁹⁵ Bharuch, Himatnagar, Mehsana and Vadodara.