

## CHAPTER VII NON-TAX RECEIPTS

### 7.1 Results of audit

Test check of the records of 117 offices of the following Departments during the year 2009-10 revealed under assessment of tax and other irregularities involving ₹ 1,094.89 crore in 157 cases which fall under the following categories:

(₹ in crore)			
Sl. No.	Category	No. of cases	Amount
<b>I</b>	<b>FINANCE DEPARTMENT</b>		
1.	Interest receipts on loans sanctioned by the State Government (A review)	1	976.82
<b>II</b>	<b>REVENUE AND TRANSPORT, ROADS AND BUILDINGS DEPARTMENTS</b>		
1.	Non-levy and collection of profession tax	54	30.37
<b>III</b>	<b>REVENUE DEPARTMENT (Commercial Taxes)</b>		
	<b>A. Entertainment tax and Betting tax</b>		
1.	Short collection of security deposit	4	0.06
2.	Non/short levy of entertainment tax	7	0.01
	<b>B. Land Revenue</b>		
1.	Non/short levy of water tax	9	1.85
2.	Incorrect grant of remission of water tax	12	1.50
3.	Non-levy of interest on arrears of land revenue	26	0.83
<b>IV</b>	<b>INDUSTRIES AND COMMERCE DEPARTMENT Mines and Minerals</b>		
1.	Short levy of royalty	11	68.83
2.	Non-levy of interest	6	3.74
3.	Non-levy of dead rent/seigniorage fee	10	2.07
4.	Short levy of annual licence fee	1	2.03
5.	Short recovery of seigniorage fee	4	1.60
6.	Other irregularities	11	3.36
<b>V</b>	<b>FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT</b>		
1.	Non-remittance of sale proceeds	1	1.82
<b>Total</b>		<b>157</b>	<b>1094.89</b>

During the course of the year 2009-10, the Department accepted underassessments and other deficiencies of ₹ 1,020.81 crore in 44 cases of which, eight cases involving ₹ 1,017.67 crore were pointed out during the year 2009-10 and the rest in the earlier years. An amount of ₹ 8.32 lakh was realised in nine cases.

A few illustrative cases involving ₹ 72.20 crore and a performance audit review on “**Interest Receipts on loans sanctioned by the State Government**” involving ₹ 976.82 crore are mentioned in the succeeding paragraphs.

## 7.2 INTEREST RECEIPTS ON LOANS SANCTIONED BY THE STATE GOVERNMENT

### Highlights

- Sanctioning of loans by Government without specifying the terms of repayment and interest resulted in non-realisation of interest of ₹ 76.29 crore.

(Paragraph 7.2.7.1)

- Due to lack of internal controls and monitoring, interest of ₹ 306.06 crore cannot be recovered from many units which were reeling under sickness.

(Paragraph 7.2.7.2 (i))

- Lack of internal control and monitoring mechanism to record and watch the recovery of loans outstanding and interest due from AP State Housing Corporation resulted in non-levy of interest of ₹ 586.98 crore.

(Paragraph 7.2.7.2 (ii))

- Interest of ₹ 6.56 crore was not levied on unutilised loans, sanctioned to two State Corporations.

{Paragraph 7.2.7.3 (i & ii)}

- Provisions of the AP State Financial Code are not adequate enough to safeguard the interest receipts of the Government.

(Paragraph 7.2.8)

### 7.2.1 Introduction

Interest Receipts constituted 36 *per cent* of the non-tax revenue of the State Government in 2008-09. This comprises interest recovered on loans and advances granted to various public sector undertakings, local bodies, Co-operative Societies etc., and individuals, including state government employees. Loans sanctioned carry different rates of interest and are required to be recovered within the stipulated periods along with interest. This review covers the loans sanctioned to organisations other than private individuals.

As per the system in place loanee organisations submit their proposals for grant of loans and advances to the concerned Head of the Department who process them with the concurrence of the budget wing and recommend the cases to the Finance Department for release of funds.

The Assistant Secretary to the Government, Finance Department is the Drawing and Disbursing Officer for all loans sanctioned by the Government to various companies/corporations/organisations. He is also in charge of the Debt

Monitoring Cell (DMC), which maintains the records related to sanction and recovery of loan amounts.

### **7.2.2 Audit Scope and Methodology**

Audit scrutiny undertaken between October 2009 and March 2010 involved examination of records of Finance Department and loanee organisations in respect of the loans sanctioned between 2004-05 and 2008-09. The loans pertained to 24 units (covering 11 Departments<sup>1</sup> which sanctioned loans to 14 loanee organisations<sup>2</sup>) selected out of a total population of 64 Account Heads units through 'stratified random sampling' using IDEA package. Details are as under:

(₹ in crore)

Total loan heads	Selected sample size	Total No. of organisations	Sample size	Total value of loans	Value of sample size
64	24 (37.5%)	40	14 (35%)	9404.39	5849.81 (62.17%)

### **7.2.3 Audit criteria**

The audit objectives were bench marked against the following criteria.

- Provisions of Andhra Pradesh Financial Code.
- Instructions contained in the loan/sanction orders.

### **7.2.4 Acknowledgement**

We acknowledge the assistance extended by Finance Department in providing the necessary instructions and records to Audit. An 'Entry conference' was held in December 2009 with the Special Chief Secretary to the Government, Finance Department and other Departmental officers in which the objectives of the review and audit methodology were explained. The review report was forwarded to the Finance Department in June 2010. The review was discussed in the Exit conference held in November 2010. The Special Chief Secretary to Government and Secretary to Government represented the Finance Department. The Finance Department accepted all the audit recommendations.

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<sup>1</sup> Agriculture & Co-operation, Animal Husbandry Dairy Development & Fisheries, Education, Sports Art & Culture, Energy, Home Department, Housing, Industries & Commerce, Irrigation & Command Area Development, Medical & Public Health and Road Transport & Buildings.

<sup>2</sup> AP State Housing Corporation, AP Transo, AP State Dairy Development Corporation, AP State Industrial Infrastructure Corporation, AP Oil Federation, AP State Marketing Federation, AP State Seeds Development Corporation, A.P. State Road Transport Corporation, AP State Road Development Corporation, AP State Police Housing Corporation, AP State Medical & Health Housing Corporation, AP State Irrigation Development Corporation, Commissioner for Handlooms and Textiles and Sports Authority of Andhra Pradesh.

### 7.2.5 Audit Objectives

We conducted the review with a view to examine:

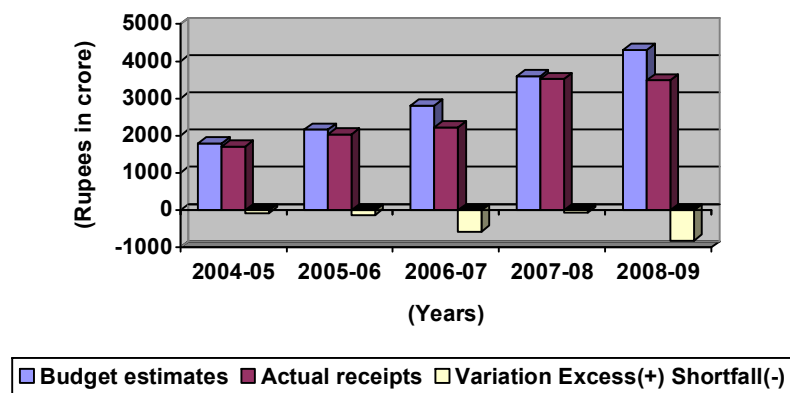
- whether loans were sanctioned after following the due procedures and the sanction orders specified the terms of payment and interest provision;
- whether the system and procedures for levy, collection and monitoring of interest receipts was adequate;
- extent of compliance with rules/orders issued from time to time; and
- efficiency and effectiveness of the internal controls in monitoring of loan outstandings and interest receipts due.

### 7.2.6 Trend of revenue

Andhra Pradesh Budget Manual stipulates that the estimates should take into account only such receipts including arrears expected to be actually realised during the budget year. The interest receipts increased from ₹ 1,710.44 crore in 2004-05 to ₹ 3,487.40 crore in 2008-09. The budget estimates, actual receipts, variations in actual receipts over budget estimates and percentage of variation for the years 2004-05 to 2008-09 in respect of interest receipts on loans sanctioned by State Government to various organisations/corporations are mentioned in the following table:

(₹ in crore)				
Year	Budget estimates	Actual receipts	Variation excess (+) shortfall (-)	Percentage of variation
2004-05	1,793.45	1,710.44	(-) 83.01	(-) 4.63
2005-06	2,166.65	2,039.52	(-) 127.13	(-) 5.87
2006-07	2,810.81	2,231.17	(-) 579.64	(-) 20.62
2007-08	3,598.51	3,525.34	(-) 73.17	(-) 2.03
2008-09	4,305.29	3,487.40	(-) 817.89	(-) 19.00

The position is graphically depicted below:



Interest receipts due are known well in advance at the time of preparation of budget estimates as they are based on the loans sanctioned and outstanding at that time. There should, therefore, be no negative variation between the estimates and the actuals. The high degree of differences between budget estimates and the actual receipts during the years 2006-07 and 2008-09 indicate a need for streamlining the budgeting process to make it realistic.

While giving the reasons for the differences between the estimates and the actuals the Department stated, among others, that care will be taken to fix the estimates a realistic way in future.

**The Government should streamline the budgeting process.**

### **System Deficiencies**

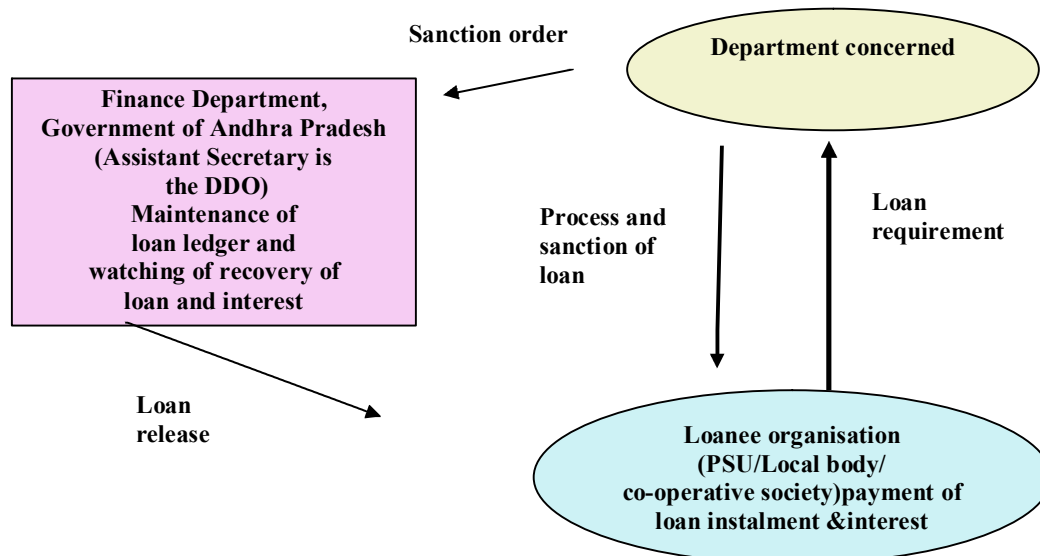
#### **Audit findings**

Scrutiny of the records maintained by the loanee organisations and the Finance Department for the review period revealed several deficiencies, which are discussed below:

#### **7.2.7 Inadequacies in loan sanction and monitoring process**

As per the procedure, all loans are sanctioned by the concerned Departments after due vetting/concurrence of the expenditure and budget section of the Finance Department. Subsequent to obtaining the concurrence, the concerned Department issues sanction orders to the Organisation/body as it deems fit. The drawal and disbursement of this loan amount is then done through the Debt Monitoring Cell (DMC). The following chart depicts the loan sanctioning process.

**Flow chart - Loan process**



This bifurcation of functions between two authorities for sanctioning and releasing of loan amounts has led to various loopholes at various places

resulting in leakage of revenue. These aspects have been elucidated in the following paragraphs.

### 7.2.7.1 Sanction of loans without finalising terms of payment

Sanction orders issued by the concerned Departments were not being vetted by the DMC which is vested with the responsibility of watching the collection, repayments of principal and interest. Further, there was no standard proforma (as followed by Karnataka a neighbouring State) adherence to which is binding on the sanctioning authorities. Audit scrutiny revealed that in 38.64 per cent of loans sanctioned, there was no provision about chargeability of interest/penal interest in the sanction orders. Absence of a system to monitor fixation of interest, terms and conditions resulted in non-realisation of interest of ₹ 76.29 crore between 2003-04 and 2008-09 as detailed under:

Sl. No.	Sanctioning Authority	Loanee organisation	Disbursing authority	Period of interest	No. of loans	Remarks
1.	Youth Advancement Tourism and Culture (Sports)	Sports Authority of Andhra Pradesh (SAAP)	Assistant Secretary to Government (Finance & Planning) wing	2003-04 to 2004-05	7	Loan orders did not contain the terms and conditions such as rate of interest, period of repayment, moratorium if any and penal interest for default of repayment. <b>Neither the sanctioning authority nor the Finance Dept., which vetted and concurred with the loan proposals had ensured that the terms of repayment and interest provisions were incorporated in the sanction orders.</b> This resulted in non-realisation of loan amount of ₹ 149.88 crore and interest of ₹ 51.42 crore <sup>3</sup> for the period from 27.4.2003 to 31.3.2009.
2.	Health, Medical & Family Welfare Department	AP Health and Medical Housing Infrastructure Development Corporation	-do-	2005-06 to 2008-09	9	The loan orders did not contain terms and conditions such as repayment schedule, rate of interest etc., for grant of loan. Consequently, the demand for interest of ₹ 24.87 crore was neither worked out nor raised by the Government.

In reply, the Vice Chairman and Managing Director of SAAP in January 2010 stated that the loans sanctioned by the Government were interest free loans

<sup>3</sup> Calculation based on the borrowing rate of interest fixed by the Government from time to time.

and no conditions regarding repayment of the principal and interest were stipulated in the relevant sanction orders. It was further stated that no demand was received from the Finance Department either in this regard. The reply of the SAAP thus supports our observation that absence of terms and conditions led to non-realisation of principal and interest amounting to ₹ 149.88 crore and ₹ 51.42 crore respectively. Further, if the loans were 'interest free' as is being contended now by the SAAP, the sanction orders should have clearly mentioned so.

The Finance Department had stated in November 2010 that a review is being taken up to sort out these issues and steps were being taken to recover the amount.

The AP Health Medical Housing Infrastructure Development Corporation in their reply stated that they did not avail any loan from the Government, but received grants for repayment of loans to HUDCO taken by the Government for construction of medical buildings. The Finance Department stated in November 2010 that the Government had sanctioned loans for creation of capital assets and the loans would be converted as capital asset soon after transfer of the same to Government. The reply is not acceptable as the funds sanctioned were booked under Loan Head of Account and as such the sanction orders should have clearly specified the modalities of repayment and interest liability. Further, the Government in Finance Department has not clarified the reasons for routing the repayment of loans taken by them from HUDCO, through the Corporation.

**For better management of repayment of loans and interest due thereon, the sanction orders should cover all the terms and conditions for repayment of principal and interest. This may be ensured by:**

- i) issuing a proforma for sanction of loans which covers the details like repayment schedule with dates, rate of interest, period of loan, penal interest etc; and**
- ii) release of loan amount by the disbursing authority only when all the terms and conditions regarding principal and interest are clearly laid down in the sanction order.**

#### **7.2.7.2 Lack of internal control and monitoring mechanism**

As per the Government order issued in February 1996<sup>4</sup>, in order to have better control and monitoring of Loans and Guarantees, the Assistant Secretary to the Government, Finance and Planning (Finance Wing-BG.II) Department shall for all loans sanctioned by the Government maintain a suitable loan and recovery ledger to watch the dues.

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<sup>4</sup> G.O.Ms.No.22, Finance & Planning (Finance wing BG-II) Department dated 01.02.1996.



With a view to ascertain whether all dues on account of interest and loan repayment are being watched by the Government Audit cross-checked the details recorded by the loanee organisations/corporations for the period 2004-05 to 2008-09 with the particulars recorded in the ledgers maintained by the DMC. Results of the scrutiny revealed the following:

- i) Out of the loans sanctioned which had clear terms and conditions, only 50 per cent were being repaid (principal and interest) as per the terms and conditions. In the remaining cases, interest was not being remitted to the Government account. Interest and penal interest dues amounting to ₹ 306.06 crore is leviable in respect of 27 loans as on March 2009. These organisations had also defaulted on the repayment schedule of principal amount to a tune of ₹ 1,356.23 crore as detailed in the following table:

(₹ in crore)

Sl. No.	Name of loanee organisation/corporation	Rate of interest	Period of loans	No. of loans	Amount	
					Principal	Interest
1	AP Dairy Development Co-operative (APDDC) Federation Ltd.	15 %	15.03.07 to 1.03.09	3	16.80	4.83
2	AP State Housing Corporation (APSHC)	Penal interest of one & half times of 10%	24.07.07 to 31.03.09	7	1301.67	261.70
3	AP OILFED	15%	02.09.03 to 31.03.09	3	2.99	2.50
4	AP State Irrigation Development Corporation (APSIDC)	15%	08.09.04 to 31.03.09	14	34.77	37.03
<b>Total</b>				<b>27</b>	<b>1356.23</b>	<b>306.06</b>

The Debt Monitoring Cell (DMC), however, did not have any record of these dues in their loan ledgers and therefore they were not aware of these outstanding dues already stated.

Thus, due to inadequate and unreliable loan and interest records, the reliability of their internal control and recovery mechanism stands compromised and is thus unreliable.

The Finance Department stated in November 2010 that loan was provided mainly towards VRS payments, promotions of dairy activities to APDDC and creation of capital assets to APSIDC and other purposes. It was further stated that the recovery of loan would be very difficult from these sick units.

- ii) The Government sanctioned a loan amounting to ₹ 1,312.37 crore to APSHC for the period from 1994-95 to 2000-01, for execution of various housing programmes and for repayment of loan/interest to financial institutions such as HUDCO, Banks etc. These sanction orders contained all terms and conditions such as rate of interest, repayment schedule of loans etc.

APSHC had made the following provision, as shown in the following table, under the head 'liabilities' in their annual accounts as interest dues on the loans sanctioned by the Government prior to 2004-05.

Year	Interest provided for
2004-05	173.33
2005-06	198.52
2006-07	215.13
<b>Total</b>	<b>586.98</b>

However, the Corporation did not remit the interest into the Government Account and the DMC also was ignorant about the dues and did not demand the same leading to default by the APSHC.

Thus, due to absence of a system to watch the dues, the interest of ₹ 586.98 crore was neither demanded by the Government nor paid by the Corporation till the end of March 2009. Further, the Government had also not prescribed any return from the loanee organisation regarding the details of repayment of instalments and interest thereon.

The Finance Department replied (November 2010) that the Corporation would be asked to remit the interest amount.

iii) The Government had sanctioned loans to Andhra Pradesh Transmission Corporation (APTRANSCO) through a series of orders specifying the terms and conditions such as rate of interest, period of repayment, rate of instalments, etc., during the years 2004-05 and 2005-06. It was noticed from the ledger and annual accounts maintained by APTRANSCO that the loanee organisation had paid interest at lower rates than the rates specified in the sanction orders which resulted in short payment of interest of ₹ 53.19 lakh in respect of six loans as under:

Sl. No.	G.O.Ms.No. & date	Amount outstanding	Rate of interest	Period	Interest to be paid	Interest paid	Short payment
1	G.O.Ms.No.122, Energy (Power. III) Department, dt.23.10.2003	893.46	12%	01.04.04 to 30.09.04	53.75	49.27	4.48
2	G.O.Ms.No.131, Energy (Power. III) Department, dt.22.11.2003	682.47	12%	01.04.04 to 30.09.04	41.06	37.64	3.42
3	G.O.Ms.No.137, Energy (Power. III) Department, dt.08.12.2003	2,500.00	12%	01.04.04 to 30.09.04	150.41	137.88	12.53
4	G.O.Ms.No.03, Energy (Power. III) Department, dt.03.11.2004	9.90	12%	01.04.04 to 30.09.04	0.60	0.55	0.05

(₹ in lakh)

Sl. No.	G.O.Ms.No. & date	Amount outstanding	Rate of interest	Period	Interest to be paid	Interest paid	Short payment
5	G.O.Ms.No.24, Energy (Power. III) Department, dt.03.02.2004	5,000.00	12%	01.04.04 to 30.09.04	300.82	276.75	24.07
6	G.O.Ms.No.9, Energy (Power. III) Department, dt.01.02.2005	910.89	11%	01.04.05 to 22.12.05	63.36	54.72	8.64
<b>Total</b>		<b>9,996.72</b>			<b>610.00</b>	<b>556.81</b>	<b>53.19</b>

Thus absence of procedure to watch the dues and actual interest amount paid by the loanee, resulted in loss of interest of ₹ 53.19 lakh.

The observation was communicated to Government in March 2010 and the Finance Department stated in November 2010 that short levy of interest would be recovered from the power subsidy to be released to AP Transco.

**The Government may ensure proper maintenance of records to monitor recoveries and balances due from loanee organisations.**

### 7.2.7.3 Non-levy of interest on unutilised loans

The Government sanctioned loans to two corporations, which remained unutilised and repaid subsequently but interest at prescribed rates leviable on the same was not levied. The details are as under:

- i) A loan of ₹ 598.83 lakh carrying interest at the rate of 15 *per cent* was sanctioned to M/s Andhra Pradesh State Irrigation Development Corporation (APSIDC) in three loan orders between 16.03.2003 and 18.03.2004 towards implementation of Voluntary Retirement Scheme (VRS) of their employees. The amount, however, remained unutilised and surrendered to the Government after a lapse of considerable time. No interest was levied for the period for which the amount remained unutilised with the Department. This resulted in non-levy of interest of ₹ 102.77 lakh as shown in the following table:

(₹ in lakh)

Sl. No.	G.O No. & Date	Amount of loan sanctioned	Rate of interest	Date of repayment	Period for which interest to be levied	Non-levy of interest
1	G.O.Ms.No.36, Public Enterprise-II Dept., dt.16.06.2003	12.75 (out of which ₹ 0.98 already paid)	15%	25.01.06	17.06.2003 to 24.01.2006	0.38
2	G.O.Ms.No.1, Public Enterprise-II Dept., dt.20.01.2004	583.76	15%	11.03.05	21.01.2004 to 10.03.2005	98.60
3	G.O.Ms.No.10, Public Enterprise-II Dept., dt.18.03.2004	11.08	15%	18.03.06	19.03.2004 to 17.03.2006	3.79
<b>Total</b>		<b>598.83</b>				<b>102.77</b>

When the observation was communicated to the Government (March 2010), the Finance Department stated (November 2010) that the loan was sanctioned with indication that the first charge in the assets are vested with Government. It was further stated that even after disposing the assets, the loan could not be recovered due to various factors. The reply is not acceptable since the loan was sanctioned and disbursed without proper assessment of the requirement on part of the Corporation and the sanction order did not specify the terms of repayment/interest.

ii) The Government<sup>5</sup> accorded sanction of loan for ₹ 100 crore as interest free loan to M/s Andhra Pradesh Industrial Infrastructure Corporation (APIIC) (March 2005) towards compensation against acquisition of land for establishment of special economic zone between Rambilli and Atchutapuram Mandals of Visakhapatnam District, subject to the condition that the loan should be refunded to the Government within 25 days positively. The Government released (March 2005) the loan of ₹ 100 crore by crediting (March 2005) the same to the current account of APIIC.

The APIIC paid an amount of ₹ 30.27 crore to Duncan and Mc Neil Group (DMG) during 1998, which had to be paid by the Government. After adjusting this, the balance amount of ₹ 69.73 crore was to be refunded to the Government.

It was observed from the loan records of M/s APIIC that the balance amount of ₹ 69.73 crore was not repaid to the Government within the specified time period of 25 days but paid subsequently with a delay ranging between 17 days and 278 days as detailed below:

(₹ in crore)

Date on which loan amount falls due	Amount payable	Amount paid	Date of payment	Period of delay	No. of days delayed	Amount of interest to be levied
30.05.2005	69.73	25.00	04.01.2006	30.05.2005 to 03.01.2006	278	5.05
	44.73	25.00	21.01.2006	04.01.2006 to 20.01.2006	17	0.20
	19.73	19.73	18.03.2006	21.01.2006 to 17.03.2006	55	0.28
<b>Total</b>		<b>69.73</b>				<b>5.53</b>

The terms and conditions in case of non-repayment of the loan amount within 25 days were not specified in the G.O. The APIIC would have been liable to pay interest on loan beyond 25 days from the date of sanction to the date of final repayment of the loan. The interest calculated at the borrowing rate of 9.50 per cent<sup>6</sup> per annum works out to ₹ 5.53 crore.

The Finance Department did not, however, demand and collect the penal interest leviable on APIIC. Thus, the Government had foregone an amount of ₹ 5.53 crore towards interest on loan given to APIIC.

<sup>5</sup> G.O.Ms.No.69, Industries and Commerce (INF) Department dated 05.03.2005.

<sup>6</sup> G.O.Ms.No.273 Finance (W&M) Department, dated 20.09.2006.

The observation was communicated to the Government in March 2010 and the Finance Department stated in November 2010 that the position would be reviewed with the Corporation and necessary steps initiated to recover the amount.

**Government may ensure specific provision in all sanction orders for levy of penal interest on over due instalments of principal and interest which may act as deterrent for delayed payment of dues.**

### 7.2.8 Inadequate provisions

Adequate provisions safeguard the financial interest of the State through appropriate terms and conditions and maintenance of records. A scrutiny of the provisions contained in the AP Financial Code (APFC) with regard to management of interest receipts reveal that they are inadequate to safeguard all the stages of revenue collection. Further, comparison of these provisions with those followed by Karnataka, a neighbouring state, indicates a need for supplementing APFC provisions. The details are as under:

Sl. No.	Key area	Risk associated with the key area	Provision in the	
			Karnataka Financial Code	Andhra Pradesh Financial Code
1	Existence of Terms and Conditions	1. Loanee postponing the repayment or not repaying it at all. 2. Variation between the estimates and actuals. 3. Failure to raise the demand for repayment and interest accrued thereon.	Provision regarding schedule for repayment of instalments and a proforma has been prescribed for sanction orders (Art.187).	No proforma was prescribed for sanction orders
2	Provision for Penal interest	1. No deterrence in case of default. 2. Unable to recover the penal interest incase of default.	Interest @ 4% per annum above the ordinary rate of interest applicable shall be leviable on over due instalment of principal and interest (Art.193).	Rate of penal interest not prescribed
3	Stipulation regarding Maintenance of Records	1. Lack of information regarding the dues on account of principal and interest. 2. Misappropriation of loan amount or purposes other than for which it was sanctioned. 3. Short payment of Principal/ interest/penal interest, if any. 4. Failure to raise demand for interest.	Each sanctioning authority is responsible for maintaining the detailed accounts of registers and to watch the receipt and dispatch the utilisation certificate {Art.187 (A) (ii to iv)}.	Not stipulated
4	Provision for reconciliation of balances with the books of Accountant General (AG)	1. Flaws in budgeting process. 2. Lack of clarity on financial position.	The Departmental authority will be solely responsible for reconciliation with the balances in books of the AG. (Art.199)	Not stipulated. However, a Government order was issued to this effect.

The Finance Department stated in November 2010 that a review is being undertaken separately on feasibility to incorporate the said provisions in APFC.

**In view of the above, it is recommended that the APFC provisions are revisited for a review and supplementing them suitably to safeguard the interest of the State.**

## **Internal Control**

### **7.2.9. Internal audit**

Government constituted (November 2003) state level Audit Committee and Internal Audit Wing at Secretariat level in Finance Department with one Joint Secretary/Deputy Secretary, three Deputy Directors/Asst. Directors from Treasuries/PAO(PW)/State Audit. The Internal Audit Wing at Secretariat comprises a section consisting of one Section Officer, two Assistant Section Officers (ASO), and four Data Processing Officers. A Chartered Accountant was also appointed by CGG<sup>7</sup> on tenure basis for strengthening the Internal Audit as a mechanism for monitoring and evaluation of internal controls. Secretary (FP) is the Head of Internal Audit Wing, Government ordered (July 2004) for renaming the Central Checking Cells functioning in District Treasuries as Internal Audit Cells.

Except the checking of pay fixation in the revised pay scales, 2005, the Internal Audit Wing of the Finance Department did not conduct the internal audit of either any wing within the Finance Department or any Directorate of the Finance Department. In the Directorates also Internal Audit Wings were not existing. In absence of internal audit, the reliability of the records maintained by the DMC stood jeopardized as already pointed out by audit in the preceding paragraphs.

The Finance Department stated in November 2010 that the internal audit would be strengthened to comply with the rules/Government orders.

### **7.2.10 Non-maintenance of loan figures**

Government issued orders<sup>8</sup> in June 1969 making mandatory for the Departmental officers to maintain a detailed account of loans and advances sanctioned by the Government irrespective of whether the Accountant General is maintaining the accounts of loans. The compilation of Departmental loan accounts as well as the reconciliation of the Departmental figures with those of the Accountant General in respect of the loans and advances sanctioned by the Government would be the responsibility of the Departmental officers.

In order to have better control and monitoring of loans, Government in February 1996 ordered<sup>9</sup> that the Assistant Secretary to Government (Finance wing) shall be the Drawing and Disbursing Officer for all loans sanctioned by

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<sup>7</sup> Centre for Good Governance.

<sup>8</sup> G.O.Ms.No.164, Finance & Planning (Finance wing BG-II) Department dt. June 1969.

<sup>9</sup> G.O.Ms.No.22 Finance & Planning (Finance wing BG-II) Department dt. 1.2.1996.

the Government to various companies/organisations. He should, therefore, maintain suitable loan and recovery ledger (DCB) for watching the loan amount as well as interest.

Audit, however, noticed in March 2010 that the Finance Department is only maintaining the loan ledgers in respect of loans sanctioned by the Government but not Demand Collection and Balance (DCB) register for watching the principal as well as interest accrued thereon. Due to not maintenance of DCB, the Government is not in a position to know the exact amount of principal and interest due from various corporations/organisations.

The Finance Department stated in November 2010 that an attempt would be made to build the records as ordered in the above Government orders.

As seen from the Finance Accounts for the year 2008-09, ₹ 18,513.25 crore (Principal – ₹ 13,891.11 crore and interest ₹ 4,622.13 crore) is outstanding at the end of March 2009 under various heads of accounts as detailed in the following table:

(₹ in lakh)		
Head of Account	Principal	Interest
6215- Loans for Water Supply and Sanitation	374.14	98.49
6216- Loans for Housing	8,093.81	1,035.44
6217- Loans for Urban Development	80.78	37.45
3220- Loans for Information and Publicity	45.10	10.08
3225- Loans for Welfare of SCs, STs and OBCs	857.44	2,031.22
6245- Loans for Relief on Account of Natural Calamities	27.01	18.29
6404- Loans for Dairy Development	50.73	10.77
6405- Loans for Fisheries	25.50	4.66
6801- Loans for Power Projects	3,641.77	1,056.05
6851- Loans for Village and Small Industries	82.25	21.42
6855- Loans for Fertilizer Industries	6.20	3.66
6858- Loans for Engineering Industries	146.90	175.92
6859- Loans for Telecommunications & Electronic Industries	0.03	0.07
6860- Loans for Consumer Industries	201.64	50.21
6875- Loans for Other Industries	223.31	63.03
6885- Other Loans for Industries and Minerals	34.16	4.74
7465- Loans for General Financial and Trading Institutions	0.35	0.63
<b>Total</b>	<b>13,891.11</b>	<b>4,622.13</b>

Non-maintenance of basic records such as broad sheets/DCB registers and non-reconciliation of loan amounts and interest accrued thereon with those of figures booked in the records of the Accountant General rendered internal control and monitoring mechanisms ineffective.

The Finance Department accepted (November 2010) that due to lack of co-operation of other Head of Departments and various other reasons, the reconciliation work was held up. It was further stated that the corporations concerned would be addressed afresh again in the matter to rectify the defects in ledgers.

**The Government may ensure proper maintenance of required records and enforce monthly reconciliation of figures with the Accountant General so as to ensure accurate depiction of amounts due on account of principal and interest thereon.**

### **Compliance deficiencies**

#### **7.2.11 Short adjustment of interest**

The Government in October 2005<sup>10</sup> sanctioned of ₹ 2 crore for advancing loan to M/s AP Dairy Development Co-operative Federation Ltd subject to the condition that the loan should be repaid/refunded to the Government Account by 31.03.2006.

The Government further sanctioned a loan of ₹ 13.28 crore (July 2007) to the Corporation. The loan amount of ₹ two crore and interest of ₹ 13.88 lakh accrued upto 31.03.2006 only was adjusted in July 2007<sup>11</sup> and the balance amount of loan was paid to the loanee organisation.

It was noticed that the accrued interest on the loan amount worked out to ₹ 53.41 lakh for the period from 15.10.2006 to 25.07.2007 calculated at the rate of 15 *per cent* per annum. This resulted in loss of interest due to short adjustment of interest of ₹ 39.54 lakh.

When the observation was communicated to Government in March 2010 and the Finance Department in November 2010 it was stated that the matter would be examined with APDDC for payment of balance amount of interest.

#### **7.2.12 Conclusion**

There was no system in place to ensure that loans were sanctioned with terms of repayment and interest provisions. Demand for repayment of principal and recovery of interest accrued thereon was not raised in a number of cases due to lack of monitoring/non-maintenance of proper records by Debt Monitoring Cell (DMC). Moreover, issue of defective sanctions resulted in loss of interest to the Government. The provisions of the APFC were inadequate and fraught with the risk of leakage of revenue if not revised immediately. Lack of internal control in the Department led to deficiencies like non-realisation of interest on loans.

#### **7.2.13 Recommendations**

The Government may consider implementation of the following recommendations to rectify the system and compliance issues:

- ***streamline the budgeting process to make it more realistic;***

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<sup>10</sup> G.O.Ms.No.485, Animal Husbandry Dairy Development & Fisheries (Dairy-I) Department dated 08.10.2005.

<sup>11</sup> G.O.Rt.No.344, Animal Husbandry Dairy Development & Fisheries (Dairy-I) Department dated 25.07.2007.



- *review the provisions of APFC for identifying the inadequacies and supplementing the same to safeguard all the stages of interest levy and collection;*
- *in respect of the loans taken by the Government the repayment of principal and interest may be done directly to the lenders and not through the Government Corporations;*
- *ensure maintenance of records to monitor recoveries and balances due from loanees;*
- *make loan management better through*
  - i. issuing a proforma for sanction of loans, which covers the details like repayment schedule with dates, rate of interest, period of loan, penal interest etc.;*
  - ii. releasing loan amount only when all the terms and conditions regarding principal and interest are clearly laid down; and*
- *include a specific provision in all sanction orders for levy of penal interest in case of default.*

### **7.3 Other audit observations**

*During scrutiny of the records in the offices of Revenue, Transport, Roads and Buildings, Industries and Commerce, Energy and Food, Civil Supplies and Consumer Affairs Departments relating to revenue received from professions tax, royalty and cess, seigniorage fee, water tax we observed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty and other cases as mentioned in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on a test check carried out by us. We pointed out such omissions in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is a need for the Government to consider directing the Departments to improve the internal control system including strengthening the internal audit so that such omissions can be avoided, detected and corrected.*

**INDUSTRIES AND COMMERCE DEPARTMENT**

**Mines and Minerals**

**7.4 Short realisation of royalty due to incorrect depiction of receipts**

Article 8 of Andhra Pradesh (AP) Financial Code Vol. I, stipulates that every Departmental controlling officer should watch closely the progress of realisation of the revenues under his control and check the recoveries made against the demand. Further, as per paragraph 16.9 of the manual of the Department of Mines and Geology, the Assistant Director of Mines and Geology (ADMG) has to enter the assessment finalised in a register called "Demand, Collection and Balance (DCB) Register" in the proforma given in Appendices 104 and 105. According to Rule 64-A of the Mineral Concession (MC) Rules, 1960 interest is payable at the rate of 24 per cent per annum for the royalty due to the Government.

We noticed (August 2009) in test check of the records of the office of the Director of Mines and Geology (DMG), Hyderabad that the Department had finalised the mineral revenue assessment of a company<sup>12</sup> for the year 2001-02 and raised demand of ₹ 335.09 crore. The company had paid ₹ 258.10 crore against the demand. But, while preparing the DCB statement, the collection of ₹ 258.10 crore was shown as ₹ 282.65 crore.

With the result the balance of royalty payable by the company was depicted in the accounts as ₹ 52.44 crore instead of ₹ 76.99 crore. This resulted in short realisation of royalty of ₹ 24.55 crore and interest of ₹ 35.35 crore for the years 2002-03 to 2007-08.

After we pointed out the case (July 2010), the Government accepted (October 2010) the audit observation and stated that the mineral revenue assessment was revised and correct demand raised against the company.

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<sup>12</sup> M/s Singareni Collieries Company (SCC) Limited.

**7.5 Loss of revenue due to adoption of incorrect rate of interest**

The Mines Department of the State Government is authorised to collect royalty, interest etc., on the major minerals. Levy of royalty or any charges including interest on major minerals is governed by the Union Act of Mines and Minerals (Regulation and Development) Act, 1957 and MC Rules. Any change to the provisions of the Act is to be empowered through Union legislation. The State Government has no jurisdiction to relax the rate of interest under the head 'charges' of the Act. Further, according to Rule 64-A of the MC Rules, interest is payable at the rate of 24 *per cent* per annum for the royalty due to the Government from the 60<sup>th</sup> day of the expiry of the date fixed by the Government for payment.

We noticed (August 2009) in test check of the records of the office of the DMG, Hyderabad that interest of ₹ 5.13 crore was levied and demanded on the royalty of ₹ 42.72 crore payable by M/s SCC Limited for the year 2007-08 at the rate of 12 *per cent* instead of 24 *per cent* per annum prescribed in the rules. The lesser

rate of 12 *per cent* was adopted as per a memo<sup>13</sup> issued by the State Government wherein it was ordered to charge interest at 12 *per cent* on belated payment of royalty payable by M/s SCC Limited. The State Government has no jurisdiction to reduce the rate prescribed under the head charges of the Act. Incorrect adoption of rate of interest has resulted in loss of revenue of ₹ 5.13 crore towards interest.

After we pointed out the case, the DDMG, Warangal stated (December 2009) that the assessment has been revised and forwarded to the DMG office for approval. Further report on action taken has not been received from the DMG, Hyderabad.

We referred the matter to the Department in October 2009 and to the Government in July 2010; their reply has not been received (January 2011).

<sup>13</sup> Memo No. 26894/M1(2)/01-1 of Industries and Commerce (MI) Department dated 1 July 2002.

### **7.6 Non-levy of penalty on delayed payment of royalty**

Under Petroleum and Natural Gas (PNG) Rules, 1959, no person shall prospect for petroleum except in pursuance of a petroleum exploration licence granted and no person shall mine petroleum except in pursuance of a petroleum mining lease granted. As per Rule 14 of PNG Rules, a Petroleum mining lease in respect of any land vested in a State Government, shall be granted by the State Government. The lessee shall pay royalty to the State Government in respect of the mineral oil mined, quarried, excavated or collected by him. The royalty shall be payable on monthly basis, as may be provided for in the lease and shall be paid by the last day of the month succeeding the period in respect of which it is payable. Further, according to Rule 23 (1) of PNG Rules, all royalties under these rules shall, if not paid within the time specified for such payment, be increased by a penal rate of 200 basis points over the prime lending rate of State Bank of India for the delayed period.

We noticed (January and February 2009) in test check of the records of DDMG, Kakinada and ADMG, Rajahmundry that the lessee M/s Oil and Natural Gas Corporation (ONGC) Limited had paid royalty on crude oil with delay ranging from one month to seven months. However, penalty was not levied for belated payment of royalty during the years 2004-05 to 2008-09. This resulted in non-levy of penalty of ₹ 1.68 crore.

After we pointed out the cases (May 2010), the Government accepted (October 2010) the audit observation and stated that the penalty was included in the mineral revenue assessments of the lessee for the years 2008-09 and 2009-10 and demand raised against the company.

### **7.7 Short levy of annual licence fee**

As per Rule 11(2) of PNG Rules, every licensee shall pay yearly in advance by way of licence fee in respect of his Petroleum exploration licence a sum calculated for each square kilometer or part thereof covered by the licence. Licence fee is ₹ 1,000 per square kilometer {vide GSR 295(E) dated 1 April 2003} for each subsequent year of renewal after fourth year of licence.

We noticed (August 2009) in test check of the records of DMG, Hyderabad that M/s ONGC Limited obtained petroleum exploration licence for Block IA and IB during 1991 and 1992 which were

subsequently being re-granted/renewed/extended without break. The licences of Block IA and IB were renewed for a period of four years from 28.12.2003 and 14.1.2004 respectively by collecting the licence fee at lesser rates instead of ₹ 1,000 per sq. kilometer. This resulted in short levy of annual licence fee of ₹ 1.35 crore.

After we pointed out the case (May 2010), the Government stated (October 2010) that M/s ONGC authorities accepted the audit observation and they referred the matter to the Ministry of Petroleum, New Delhi. The Government however promised to collect the amount soon after the company got clarification from the Ministry.

### 7.8 Short levy of royalty and cess

As per Section 9 of the Mines and Minerals (Regulation and Development) Act the holder of a mining lease shall pay royalty in respect of laterite removed or consumed by him or by his agent, manager, employee, contractor or sub-lessee from the leased area at the rates specified.

**7.8.1** According to circular dated 8<sup>th</sup> July 2003 issued by the Government of Andhra Pradesh royalty is payable at 20 *per cent* of sale price on ad valorem basis on the quantity of laterite

consumed or despatched for use by the lessee for which lessee shall furnish the sale price while submitting the permit application to the Department.

We noticed (between January and March 2009) in test check of the records of three<sup>14</sup> offices of the ADMG that 12 lessees did not furnish the sale price of laterite while submitting the permit application for assessing the royalty payable. The Department also did not compute the royalty on ad valorem basis as prescribed by the Government. This resulted in short levy of royalty on laterite of ₹ 76.16 lakh.

After we pointed out the cases (July 2010), the Government accepted (October 2010) the audit observation and stated that the mineral revenue assessments of the lessees have been revised.

**7.8.2** The rates of royalty and cess to be levied on limestone, other than LD grade (limestone containing less than one and half *per cent* silica) are ₹ 45 per MT and ₹ 3 per MT respectively.

We noticed (February 2009) in test check of the records of office of the ADMG, Nandigama, Krishna District that during 2007-08 a company<sup>15</sup> produced

1,92,539 MTs of clinker<sup>16</sup>. Based on the clinker limestone factor<sup>17</sup>, 2,69,093 MTs of limestone was required to be consumed in production. The royalty was leviable on 2,67,104 MTs of limestone after deducting the opening balance of limestone at factory site. However, the royalty was levied on 1,97,711.30 MTs. This resulted in short levy of royalty and cess of ₹ 33.31 lakh.

<sup>14</sup> Nellore, Rajahmundry and Tandur.

<sup>15</sup> M/s Hemadri Cements Limited.

<sup>16</sup> Residue of burnt limestone.

<sup>17</sup> In the process of production of clinker 1.3976 MTs of limestone yield one MT of clinker (1,92,539 x 1.3976 = 2,69,093).

After we pointed out the case (March 2010), the Government accepted (October 2010) the audit observation and stated that the mineral revenue assessment of the company for the year 2007-08 was revised and short levied amount had been taken to demand collection and balance statement to watch the progress of the collection.

### **7.8.3 Non-levy of interest on arrears of royalty**

According to Rule 19 of the AP Minor Mineral Concession Rules, 1966, interest is to be levied at 24 *per cent* per annum for the royalty due to the Government from the 16<sup>th</sup> day of the expiry of the date fixed by the Government for payment of such royalty.

We noticed (July 2009) in test check of the records of office of ADMG, Hyderabad that in two cases, interest on royalty payable by the mining lease holders was either not levied or short

levied during the period 2006-07 and 2007-08 amounting to ₹ 22.82 lakh.

After we pointed out the case (July 2010), the Government accepted (October 2010) the audit observation and stated that the mineral revenue assessments were revised duly levying the interest on royalty.

**7.8.4** We noticed (March 2009) in test check of the records of ADMG, Yerraguntla that a lessee removed and despatched 16,08,000 MTs of limestone during the year 2007-08 and became liable for payment of royalty and cess of ₹ 7.72 crore. However, while making mineral revenue assessment, the Department adopted the quantity as 15,94,500 MTs instead of 16,08,000 MTs and levied royalty and cess of ₹ 7.65 crore. This resulted in short levy of royalty and cess of ₹ 6.48 lakh.

After we pointed out the case (July 2010), the Government accepted (October 2010) the audit observation and stated that the assessment was revised and demand raised against the lessee company after taking the same to DCB register.

### **7.9 Short recovery of seigniorage fee**

As per Rule 10 of AP Minor Mineral Concession Rules, seigniorage fee shall be charged on all minor minerals despatched or consumed from the land at the rates specified in the schedules to the rules. The Government vide G.O.Ms.No.217, Industries and Commerce Department dated 29 September 2004, revised the rates of seigniorage fee on minor minerals.

We noticed (October 2009) in test check of the records of the ADMG, Chittoor that seigniorage fee was collected at pre-revised rates in respect of the 'ballast' consumed in works executed during the period from December 2007 to

January 2009. This resulted in short recovery of seigniorage fee of ₹ 36.27 lakh.

After we pointed out the case, ADMG, Chittoor stated (October 2009) that the short recovery of seigniorage fee would be brought to the notice of the consuming Department.

We referred the matter to the Department in December 2009 and to the Government in May 2010; their reply has not been received (January 2011).

## REVENUE DEPARTMENT

### Water Tax

#### 7.10 Non/short levy of water tax

As per the Andhra Pradesh (AP) Water Tax Act, 1988 all lands receiving water for irrigation from a Government notified source of irrigation shall be subjected to water tax. For this purpose, all major and medium irrigation sources shall be regarded as category-I and all other sources, which are capable of supplying water for not less than four months in a year shall be regarded as category-II. Based on this categorisation water tax is levied according to the source of irrigation in the locality. As per the instructions issued by the CCLA, A.P, Hyderabad read with instructions issued in BSO, *jamabandi* is required to be conducted immediately after the close of the *fasli* year, so as to finalise the settled demand in respect of water tax, NALA (Non-Agricultural Land Assessment), road cess and other revenue including penalties. However, no return has been prescribed by the Department for watching the progress in completion of *jamabandi* by each mandal.

We noticed in the test check of the records of the offices of five tahsildars<sup>18</sup> (between December 2008 and July 2009) that water tax amounting to ₹ 1.67 crore was either not levied or levied short by the Tahsildars during the period 1 July 2000 to 30 June 2007 (*fasli*<sup>19</sup> years 1410 to 1416). We also noticed that the *Jamabandi*<sup>20</sup> of these fasli years was conducted in 2008-09 only inspite of the instructions to complete *Jamabandi* and fix demands immediately after the closure of the *fasli* year.

After we pointed out the above cases, the Tahsildar, Santabommali stated (June 2009) that the demand would be raised. Tahsildar, Renjal stated (July 2009) that action would be taken in consultation with the AP State Irrigation Development Corporation. Other tahsildars stated (between December 2008 and June 2009) that the matter would be examined. Further report has not been received.

<sup>18</sup> Kolluru, Mutharam, Nandipet, Renjal and Santabommali.

<sup>19</sup> *Fasli* year means period of 12 months from July to June.

<sup>20</sup> *Jamabandi* means finalisation of village accounts and demand.

We referred the matter to the Department between May and September 2009 and to the Government in June 2010; their reply has not been received (January 2011).

**The Government may consider incorporating a provision for raising of demands to avoid delay in levy and collection of water tax.**

#### **7.11 Incorrect grant of remission of water tax**

As per the provisions of AP Water Tax Act, water tax is leviable on all types of land receiving water from the Government sources. Further, as per integrated village accounts, only the Government is competent to remit water tax and the Collectors are required to obtain orders from the Government whenever such cases of remission arise. Remission granted by the Government has to be noted in Account 4-B of the village accounts.

We noticed in the test check of the *jamabandi* records (Account 4-B) of four offices of the tahsildars<sup>21</sup> (between February and September 2009) that the remission of water tax amounting to ₹ 55.10 lakh was granted by the

*jamabandi* officers for the years 1 July 2001 to 30 June 2004 (*fasli years* 1411 to 1413) without sanction of the Government. This was incorrect and resulted in short realisation of Government revenue to that extent.

After we pointed out the above cases, the Tahsildar, Gurajala stated (February 2009) that the remission was granted due to drought and non-release of Nagarjunasagar project water under intimation to the District Collector. The reply is not acceptable as the order for remission of water tax was neither issued by the Government nor obtained by the concerned District Collector. Other Tahsildars stated (between February and September 2009) that the matter would be examined.

We referred the matter to the Department between April and December 2009 and to the Government in April 2010; their reply has not been received (January 2011).

#### **7.12 Non-levy of interest**

As per Section 8 of AP Water Tax Act, water tax payable by a owner in respect of any land shall be deemed to be public revenue due upon the land, and the provisions of the AP Revenue Recovery (APRR) Act, 1864 shall apply. Further, under Section 7 of APRR Act, arrears of revenue shall bear interest at the rate of six *per cent* per annum.

We noticed in the test check of the records of the six<sup>22</sup> offices of the Tahsildars (between June and September 2009) that during the period from 1 July 2000 to 30 June 2007 i.e., *fasli years* 1410 to

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<sup>21</sup> Atchutapuram, Gurajala, Mandavalli and Rambilli.

<sup>22</sup> Allavaram, Burja, Katrenikona, Regidi Amadalavalasa, Santhakavity and Srikakulam mandal.



1416, arrears of land revenue towards water tax amounting to ₹ 2.82 crore was collected. However interest of ₹ 16.90 lakh was not levied and collected. This resulted in short realisation of Government revenue.

After we pointed out the above cases, the Tahsildar, Srikakulam in respect of four<sup>23</sup> offices stated (October 2009) that the interest on water tax is not justified without specific orders. The reply is not acceptable as interest is leviable under the provisions of the Act. Tahsildar, Katrenikona stated (September 2009) that interest would be collected. Reply in the remaining case has not been received

We referred the matter to the Department between September and December 2009 and to the Government in June 2010; their reply has not been received (January 2011).

**Hyderabad  
The**

**(Sadu Israel)  
Accountant General  
(Commercial & Receipt Audit)  
Andhra Pradesh**

**Countersigned**

**New Delhi  
The**

**(Vinod Rai)  
Comptroller and Auditor General of India**

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<sup>23</sup> Burja, Regidi Amadalavalasa, Santhakavity and Srikakulam mandal.