

## CHAPTER-VIII : OTHER DEPARTMENTAL RECEIPTS

### EXECUTIVE SUMMARY

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<b>Results of audit conducted by us in 2010-11</b>	<p>In 2010-11 we conducted a performance audit on “Interest Receipts on Loans and Advances” and test checked the records of 25 units relating to departmental tax / non-tax receipts in the departments of Finance, Energy, General Administration (Rent) and Steel and Mines and found non / short levy of tax and non-tax revenue and other irregularities etc. involving ₹ 855.40 crore in 380 cases.</p> <p>The Departments accepted non / short levy and loss of revenue of ₹ 517.37 crore relating to the review and ₹ 164.15 crore in 363 cases which were pointed out by us during the year 2010-11. An amount of ₹ 9.11 crore was recovered in 273 cases during the year 2010-11.</p>
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter we present a performance audit on “Interest Receipts on Loans and Advances” involving ₹ 629.27 crore in respect of seven Departments and a few illustrative cases of ₹ 23.39 crore selected from the observations noticed during our test check of records relating to departmental tax and non-tax receipts of the Energy Department where we found that the provisions of the Acts / Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Reports of the CAG for the past several years, but the Departments have not taken adequate corrective actions. We are also concerned that though these omissions were apparent from the records which were made available to us, the Assessing Authorities (AAs) were unable to detect these mistakes.</p>
<b>Our conclusion</b>	<p>The Departments need to improve their internal control system including strengthening of internal audit to avoid recurrence of such omissions.</p> <p>It also needs to initiate immediate action to recover the non-realisation of tax / non-tax revenues pointed out by us, more so in those cases where they have accepted our contentions.</p>

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## **8.1 Results of Audit**

We test checked the records of 25 units relating to departmental receipts in the Departments of Energy, General Administration (Rent) and Steel and Mines, and the records of Finance and six<sup>1</sup> other Departments for a performance audit on “Interest receipts on loans and advances” during 2010-11 and noticed non-realisation of revenue, non / short levy of revenue and other irregularities of ₹ 855.40 crore in 380 cases which fall under the following categories.

			(Rupees in crore)
Sl. No.	Categories	No. of cases	Amount
<b>FINANC DEPARTMENT</b>			
1.	<b>Interest Receipts on Loans and Advances (A Performance Audit)</b>	<b>1</b>	<b>629.27</b>
<b>ENERGY DEPARTMENT</b>			
1.	Non-realisation of revenue	332	110.78
2.	Non / short levy of revenue	21	82.53
3.	Other irregularities	9	24.01
<b>Total</b>		<b>362</b>	<b>217.32</b>
<b>GENERAL ADMINISTRATION (RENT) DEPARTMENT</b>			
1.	Non-realisation of revenue	14	8.72
2.	Non / short levy of revenue	-	-
3.	Other irregularities	-	-
<b>Total</b>		<b>14</b>	<b>8.72</b>
<b>STEEL AND MINES DEPARTMENT</b>			
1.	Non-realisation of revenue	2	0.08
2.	Non / short levy of revenue	1	0.01
3.	Other irregularities	-	-
<b>Total</b>		<b>3</b>	<b>0.09</b>
<b>Grand Total</b>		<b>380</b>	<b>855.40</b>

During the year the Finance Department accepted non / short raising of demand of interest of ₹ 517.37 crore against the performance audit. Further, the concerned departments accepted non / short levy, loss of revenue, etc., of ₹ 164.15 crore in 363 cases pointed out in 2010-11. The Energy Department recovered ₹ 9.11 crore in 273 cases during the year.

A performance audit on “**Interest receipts on loans and advances**” involving ₹ 629.27 crore and a few illustrative audit observations involving ₹ 23.39 crore are discussed in the following paragraphs.

1 Co-operation, Energy, Housing & Urban Development (H & UD), Higher Education, Textile & Handloom and Transport.

## 8.2 A Performance Audit Report on “Interest Receipts on Loans and Advances.”

### HIGHLIGHTS

- **Internal Control Mechanisms (ICMs) of Loan Sanctioning Departments (LSDs) were weak.**  
(Paragraph 8.2.10)
- **Demands towards interest of ₹ 611.11 crore on loans granted to different loanees / organisations were not raised by three LSDs.**  
(Paragraph 8.2.11 & 8.2.12.1)
- **There was loss of interest of ₹ 17.37 crore due to incorrect adjustment of repayments.**  
(Paragraph 8.2.12.3)

### 8.2.1 Introduction

‘Interest Receipts’ are one of the major sources of non-tax revenue of the State. Government, in pursuance of its policies for achievement of various objectives sanctions loans and advances to Local Bodies (LBs), Public Sector Undertakings (PSUs), Co-operative Institutions (CIs) and individuals including the Government employees carrying different rates of interest fixed by the sanctioning authorities keeping in view the very purpose of loan / advance. The terms and conditions as to the periodicity of instalments, rate of interest, moratorium, if any, the mode and manner of repayment of principal and interest are specified in the sanction order of the loan keeping in view the provisions of the Orissa General Financial Rule (OGFR) and the Finance Department (FD) circulars issued from time to time. In case of default in repayment, penal interest is leviable at the prescribed rates. Besides detailed guidelines were also issued by the FD regarding the standard formats for sanction of loans, maintenance of loan ledgers, monitoring of loans and advances, timely repayment of principal and interest thereon and watching the recovery and reporting of outstanding loan position at the levels of the Loan Sanctioning Authority (LSA) as well as the FD.

### 8.2.2 Organisational setup

Loans are sanctioned by the Administrative Departments (ADs) with the approval / concurrence of the Finance Department and Ways and Means<sup>1</sup> advances are sanctioned by the FD on the recommendation of the ADs. The Drawing and Disbursing Officers (DDOs) / Controlling Officers (COs) Directorates / ADs sanctioning loans and advances are responsible for keeping the detailed accounts of such loans and advances as well as watching their recoveries under the overall supervision of the FD.

1 Ways and means advances are advances for short term to be repaid in the same financial year.

### **8.2.3 Audit objectives**

The review was conducted with a view to:

- evaluate the position of raising demand and collection of dues;
- examine the extent of revenue loss due to non / short levy of interest on loans;
- assess the effectiveness of internal control mechanism and maintenance of records.

### **8.2.4 Scope of Audit and methodology**

In para 8.2 of the Report (Revenue Receipts) of the CAG for the year ended March 2005, we mentioned about the non-compliance of the provisions of the OGFR and FD circulars issued from time to time on the loan policy for realisation of interest in respect of loans and advances sanctioned by the Government.

A review on “Interest Receipts on Loans and Advances” covering the periods from 2005-06 to 2009-10 was conducted between November 2010 and June 2011 to ascertain the extent of compliance with the provisions of the OGFR and the guidelines and procedures prescribed by the Government for recovery of interest on loans / advances. We selected seven<sup>2</sup> out of 20 Loan Sanctioning Departments (LSDs) of the Government through “Stratified Sampling” by using IDEA package. The important records maintained for sanction of loans and realisation of principal with interest thereon were reviewed with reference to the terms and conditions of the relevant sanction orders of loans / advances.

### **8.2.5 Audit criteria**

The provisions of the following Rules and Circulars of FD on loan policy were used as audit criteria.

- OGFR Vol.-I (Chapter -13)
- Orissa Budget Manual
- OM of the Government dated October 1975, June 1992, September 1993, January 1995, August 1997, November 2000 and July 2005 reflecting the guidelines for sanction and recovery of loans and advances.
- Detailed instructions and conditions stipulated in the sanction orders of loans / advances.
- Other circulars of Government related to the interest receipts of the Government issued from time to time.

### **8.2.6 Acknowledgment**

We acknowledge the co-operation and assistance extended by the FD and six selected ADs in providing necessary information and records to us. The objectives of the performance audit, criteria and audit methodology were discussed with the Principal Secretary to Government, FD and other officers

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2 Co-operation, Energy, Finance, Housing & Urban Development (H & UD), Higher Education, Textile & Handloom and Transport.

of the Finance Department in an “Entry Conference” held on 01 February 2011. An “Exit Conference” was also held on 21 July 2011 with the above mentioned officers wherein the outcome of the performance audit was discussed. The replies of the Government / LSDs received during the Exit Conference and at other points of time have been appropriately included in the PA.

## AUDIT FINDINGS

### 8.2.7 Budget estimate and trend of revenue

As per the Orissa Budget Manual, the COs of the ADs are required to submit the Departmental estimates of revenue to the FD for the budgeted year well in advance. The Budget Estimate (BE) of Revenue Receipts is prepared by the FD showing the amount expected to be realised based on the Actual Receipts (ARs) including any arrears for past years and the probability of such receipts during the budgeted year as reported by the COs.

The BEs and ARs of interest receipt, total non-tax receipt and percentage of interest receipt to the total non-tax revenue of the State for the past five years i.e., 2005-06 to 2009-10 are given below as per the Budget Estimates (Revenue Receipts) and Finance Accounts.

(Rupees in crore)							
Year	Budget estimate	Interest receipts			Variation Excess (+), Deficit (-)/ Percentage of variation (BE vrs Total receipts)	Total non-tax receipts of the State	Percentage of interest receipt to total non-tax receipts
		Total receipts	Receipts from cash balance investment	Receipts from loans and advances etc.			
2005-06	10.00	298.02	90.49	207.53	(+) 288.02/ 2880.20	1531.90	19.45
2006-07	60.00	398.43	229.97	168.46	(+) 338.43/ 564.05	2588.12	15.39
2007-08	69.96	570.39	378.37	192.02	(+) 500.43/ 715.31	2653.58	21.50
2008-09	260.00	654.67	516.57	138.10	(+) 394.67/ 151.80	3176.15	20.61
2009-10	211.33	379.23	335.49	43.74	(+) 167.90/ 79.45	3212.20	11.81

As seen from the above table, there was wide variations between the BE and total receipts which ranged from 79.45 to 2880.20 *per cent*.

After we pointed this out (November 2010 and March 2011) the Government, while accepting the need to prepare the BE realistically by obtaining the required details from ADs / COs, stated (July 2011) that variations were on account of uneven receipts of interest on the investment of fluctuating surplus cash balances available in the Government account, default in payment of interest by loanees such as Grid Corporation of Orissa Ltd (GRIDCO), preparation of conservative budgets, and several other factors. They further added that prior to finalising the outlay of the State’s Annual Plan, revenue from own resources is firmed up. The guidelines of the Planning Commission and past trend of receipts and current year’s performance formed the basis for forecast of revenue. This indicated that the BEs were not streamlined as per the provisions of the Budget Manual.

### **8.2.8 Outstanding loans**

As per the OM of the Government (August 1997) the LSDs are required to maintain loan ledgers in the prescribed format and the FD is to monitor the loans to ensure timely recovery of principal and interest.

As per the Finance Accounts of the Government, outstanding loan position of the State during the last five years was as under.

(Rupees in crore)						
Year	Opening balance	Loans and advances sanctioned	Total	Amount repaid	Percentage of repayment	Closing Balance
2005-06	3619.52	67.20	3686.72	347.59	9.43	3339.13
2006-07	3339.13	271.77	3610.90	285.82	7.92	3325.08
2007-08	3325.08	432.68	3757.76	355.30	9.46	3402.46
2008-09	3402.46	210.97	3613.43	236.21	6.54	3377.22
2009-10	3377.22	112.48	3489.70	356.36	10.21	3133.34
<b>Total</b>		<b>1095.10</b>		<b>1851.28</b>		

As seen from the above table, the total arrear of loan under different heads pertaining to all the ADs stood at ₹ 3,133.34 crore as on 31 March 2010. However, the position of outstanding loan with year-wise / department-wise details were not available with the FD.

After we pointed this out (June 2011) the Government replied (July 2011) that in the absence of maintenance of basic records like loan ledger by the ADs such information could not be furnished by the FD.

### **8.2.9 Outstanding interest**

As per the FD OM of July 2005, each individual Department should periodically cross check their loan ledger with that of FD, from which it is evident that FD is required to maintain the information of outstanding loans and interest in respect of all LSDs. However as pointed out by us in the previous paragraph, the consolidated outstanding position of loans in respect of all the LSDs was not available with the FD. Hence, the basic loan ledgers required to be maintained at the selected LSDs were taken up for scrutiny. Out of seven departments test checked by us, Finance and Co-operation Departments updated the interest outstanding from time to time in their loan records whereas Transport Department did not maintain any record as interest free loans have been sanctioned. Three departments<sup>3</sup> could not furnish the outstanding position of interest as on 31 March 2010. From the information / reports and returns etc., the outstanding position of interest in respect of four departments, as made available to us, are mentioned in the table given below:

3 Higher Education, Housing & Urban Development and Energy.

(Rupees in crore)							
Name of the Department	Outstanding interest						
	Up to 31.03.2005	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Co-operation	5.10	1.24	1.25	1.25	3.44	3.51	15.79
Textile and Handloom	17.59	1.30	1.04	3.06	1.60	1.87	26.46
Transport <sup>4</sup>	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Finance	134.37	16.15	16.16	16.20	16.11	16.15	215.14
<b>Total</b>	<b>157.06</b>	<b>18.69</b>	<b>18.45</b>	<b>20.51</b>	<b>21.15</b>	<b>21.53</b>	<b>257.39</b>

Thus, the interest dues of the above LSDs increased by ₹ 100.33 crore during the last five years which emphasises the need for detailed record keeping by the FD as well as LSDs.

After we pointed this out, the Government stated (July 2011) that without flow of information from ADs, FD was not in a position to furnish the outstanding position of interest.

### 8.2.10 Internal Control Mechanism (ICM)

The OM of the Government issued in October 1975, June 1992, August 1997 and July 2005 stipulate that the LSAs/ ADs shall maintain and update the loan ledger in the prescribed format and take timely action for recovery of loans and interest by way of issue of periodical demand notices. The Secretary of the AD should personally review the progress and recovery of loan and interest every quarter and periodically cross check the facts and figures of the loan ledger with that of the records of FD to ensure the Demand Collection and Balance (DCB) position of loans and interest. The LSD shall furnish head-wise annual statement of the position of loan and interest in respect of loans sanctioned/ recovered and the balance outstanding as of 31 March every year to the FD by 31 May of the following year. The FD shall monitor the recovery of loans and advances. The ADs should reconcile the loan account and furnish the reconciled accounts to the FD for vetting of the same with respect to the records maintained by the FD. No loan shall be sanctioned without reconciling and updating of the loan ledger. In case of default in repayment of loan and interest, the amount due to the ADs and FD will be realised as arrears of land revenue under the Orissa Public Demand Recovery (OPDR) Act 1962.

During scrutiny of records of the test checked seven LSDs, we noticed some deficiencies in the ICM as discussed in the following sub-paragraphs.

#### 8.2.10.1 Absence of Internal audit

Internal audit is one of the most vital tools of the ICM. The management through internal audit evaluates the efficiency and effectiveness of the mechanism. However, we noticed (March and April 2011) that no IAW existed either in the FD or in any of the ADs test checked. In the absence of an IAW, the ADs were not able to detect the deficiencies in maintenance of loan ledgers and monitor the timely issue of demand notices for repayment of

4 All the loans sanctioned by the Transport Department were interest free loans.

overdue principal and interest and submission of reports and returns in time to the FD.

After we pointed this out, Government noted (July 2011) our observations for future guidance.

#### **8.2.10.2 Non-maintenance of loan ledger**

During scrutiny of the records of seven LSDs, we noticed that the Co-operation and Finance Departments maintained and updated the loan ledgers in the prescribed formats whereas the remaining five<sup>5</sup> departments had not maintained / updated the loan ledgers. In absence of the details of sanction order, amount of loan sanctioned, rate of interest / penal rate of interest, period of repayment, moratorium period, amount due, recovery etc., the demand and collection of instalments of repayments towards principal and interest could not be monitored by the above LSDs.

After we pointed this out, the Government while accepting our observations, stated (July 2011) that lack of manpower and coordination between the ADs and FD had made the maintenance of ledgers and reconciliation thereof unworkable. A computerised database is required to keep track of the figures on loans and advances and recovery of interest receipts by capturing the treasury portals on drawal / recovery of loans and advances made and validating the legacy data available with the LSDs.

#### **8.2.10.3 Non-conduct of quarterly review and periodical cross checking of the loan ledger**

Our scrutiny of the records of six LSDs (except FD) indicated that the Secretaries of the LSDs were neither reviewing the quarterly progress and recovery of loans and interest due to the State nor periodically cross checking their loan ledgers with that of the records of FD as required under the provisions of the FD circular of July 2005.

After we pointed this out the Government, while accepting our observations, agreed (July 2011) to have a computerised database to keep a watch on the figures on loans and advances and recovery of interest receipts.

#### **8.2.10.4 Non-submission of annual statements**

During scrutiny of the records of the six LSDs we noticed that none of them furnished the annual statement in respect of the position of outstanding loan and interest to the Finance Department by 31 May each year during the period covered in the review, except the Textile and Handloom Department which also submitted these statements belatedly. As a result, the FD was not able to consolidate the department / year-wise position of outstanding loans and interest as on 31 March 2010 and keep a watch over the repayment of principal as well as payment of interest. Thus an important internal control was not in place.

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5 Commerce & Transport (Transport), Energy, Higher Education, H & U.D. and Textile & Handloom.



After we pointed this out, the Government while accepting the observations of audit, stated (July 2011) that this was due to failure of manual system which needed automation.

The above points showed that the ICM of LSDs including FD was weak.

### **8.2.11 Non-raising of demands of interest**

As per the OM of the Government (August 1997), the LSA shall take timely action for recovery of loan and interest by issue of demand notice. In case the loanee fails to discharge the liability in time, suitable legal action should be initiated immediately. A responsible official shall be entrusted with the monitoring of recovery. The OGFR read with the FD circular (September 1993), prescribe that in the event of default in repayment of principal or interest, a penal rate of interest is applicable as specified in the sanction order.

During scrutiny of the records, we noticed cases of non-raising of demands of interest in respect of three Departments as discussed in the following sub-paragraphs.

### **Energy Department**

#### **8.2.11.1 Non-raising of demand of interest on the Accelerated Power Development and Reform Programme (APDRP) loan to the Distribution Companies (DISTCOs)**

During scrutiny of the records of the Energy Department, we noticed that the Department sanctioned 10 loans amounting to ₹ 64.19 crore to four DISTCOs<sup>6</sup> during the period from 2003-04 to 2005-06 for strengthening and improving the distribution system under the APDRP. Out of these, in respect of five loans 50 *per cent* of the loan amount was to be recovered in 20 annual instalments with interest at the rate of 12 *per cent* per annum and in the event of default, at the rate of 15.5 *per cent* as penal interest, while the balance 50 *per cent* of the loan which would not carry any interest were to be written off on completion of the project. The rest five loans would also carry normal rate of interest of 12 *per cent* per annum and penal rate of 15.5 *per cent* in case of default, but the same were also divided into two parts of 50 *per cent* each. The first part of the loan was to be recovered in 20 annual instalments and the second part in 15 annual instalments after a moratorium period of five years. We calculated the interest accrual at ₹ 50.53 crore as of 31 March 2010, out of which ₹ 42.83 crore was related for the period 2005-06 to 2009-10.

After we pointed this out (June 2011) the Government stated (July 2011) that demand of ₹ 9.49 crore towards interest on APDRP loan to DISTCOs was raised up to 30 September 2006 which was not verifiable by us since the detailed loan-wise / year-wise calculation sheet of such demand was not

6 CESCO (now CESU) NESCO, SOUTHCO and WESCO.

enclosed with the reply, and the loan figures totalling to ₹ 74.02 crore also do not tally with the total figure of ₹ 64.19 crore pointed out by us.

### **8.2.11.2 Non- raising of demand of interest on loan to the Orissa Hydro Power Corporation (OHPC)**

Consequent upon re-organisation of power sector in the State, the Government in their notification (April 1996) transferred the assets and liabilities of the generation wing of the erstwhile Orissa State Electricity Board (OSEB) to the OHPC which included ₹ 683.50 crore as loan from the Government. Out of the above loans, ₹ 39.20 crore was to be repaid in 15 years after a moratorium of five years with interest at the rate of 9.8 *per cent*, ₹ 500 crore along with interest accrued thereon to be converted to equity after commissioning of the Upper Indravati (UI) Hydro Electric Project (HEP) and the Potteru HEP and the balance loan of ₹ 144.30 crore was to be recovered over a period of 15 years after moratorium of five years along with interest at the rate of 13 *per cent per annum*.

In para 8.2.9 of the Report (Revenue Receipts) of the CAG of India for the year ended 31 March 2005, we mentioned about the short levy of interest in respect of loans of ₹ 570.36 crore (which included a loan of ₹ 19.00 crore) sanctioned to the OHPC due to incorrect computation of interest. However, on further scrutiny of records made available to us in March 2011, we noticed the following additional points.

OHPC repaid (March 2008) ₹ 39.20 crore along with interest out of the loan of ₹ 683.50 crore from the Government. Although UIHEP was commissioned during September 1999 to April 2001, loan of ₹ 500 crore along with interest thereon was not converted into equity as per the terms of transfer of the loan. For the balance loan of ₹ 144.30 crore we calculated the interest accrual for the period April 1996 to March 2010 (14 years) to be ₹ 262.63 crore. Out of this ₹ 93.80 crore related to the period covered under the PA. Moreover, we noticed that OHPC had neither paid the above interest nor provided such interest liability in their accounts (2009-10). No demand had also been raised by the LSD.

After we pointed this out (June 2011) Government stated (July 2011) that since the upvaluation of assets of erstwhile OSEB was kept in abeyance from the year 2001-2002 to 2010-11 and also the interest on the loan has not been considered for calculation of tariff by Orissa Electricity Regulatory Commission (OERC), non-raising of demand for interest as pointed out by us needed reconsideration. The reply is not tenable since we have calculated the interest on the balance amount of loans of ₹144.30 crore as there is no provision of moratorium for payment of interest on any loan in the FD circular of September 1993. Further, demand of interest does not depend on the fixation of tariff by OERC rather it would be regulated by the terms and conditions of the loan sanctioned in favour of OSEB and Government notification thereon made in April 1996.

### 8.2.11.3 Non-raising of demand for interest on loans of GRIDCO transferred to the DISTCOs

In para-8.2.10 of the Report (Revenue Receipts) of CAG of India for the year ended 31 March 2005, we mentioned about the non-realisation of interest of ₹ 215.53 crore on loan of ₹ 915.05 crore to the DISTCOs. However, from further scrutiny of records available to us in March 2011 we noticed the following additional deficiency.

During scrutiny (March 2011) of the records of the Energy Department, we noticed that the Department sanctioned 36 loans amounting to ₹ 632.07 crore to GRIDCO to be repaid in 15 years including moratorium of five years during the period from 1996-97 to 2004-05 for upgradation of the Transmission and Distribution (T&D) system. The loans carried interest at the rate of 13 *per cent* per annum and in the event of default in repayment, penal interest at the rate of 16.5 *per cent* was demandable.

As per the Subsidiary Loan and Project Implementation Agreement (SL&PIA) executed (March 2000) between DISTCOs and the Government read with the joint reconciliation (November 2005) figures as of 31 March 2005, the DISTCOs were required to repay the loans (₹ 161.73 crore) and interest (₹ 78.36 crore) directly to the Government in respect of the entire reconciled outstanding loan amount transferred to them. However, the Government intimated (May 2006) GRIDCO that they may continue to service the loans so transferred and make appropriate recoveries from the DISTCOs; but neither the GRIDCO nor the DISTCOs repaid any amount towards principal and interest. We recalculated the interest accruals at ₹ 211.79 crore as of 31 March 2010, out of which ₹ 133.43 crore related to the period covered under the PA. No demand had, however, been raised by the LSD for realisation of interest on the loans as re-cast by us.

After we pointed this out, the Government stated (July 2011) that GRIDCO was asked in August 2006 to reconcile the principal and interest on World Bank loan of ₹ 161.73 crore and take the responsibility of discharging the liability.

### Housing and Urban Development (H&UD) Department

#### 8.2.11.4 Non-raising of demand of interest on the loans to Orissa Rural Housing and Development Corporation Ltd (ORHDC)

As per the OGFR read with the guidelines of FD issued from time to time the loan sanctioned to the PSUs and LBs should be recovered along with interest as per the terms and conditions of the relevant sanction order from the date of drawal of such loan by raising periodical demands.

During scrutiny of records of the H&UD Department, we noticed (November 2010) that 14 loans aggregating to ₹ 307.25 crore were sanctioned by the FD / H&UD Department in favour of the ORHDC during the period March 2007 to February 2010 for repayment of HUDCO loans availed of by the ORHDC under the Government's guarantee coverage carrying interest at the rate of eight *per cent* per annum.

However, the ORHDC has not repaid any amount towards principal or interest. We calculated the interest accrual up to 31 March 2010 at ₹ 53.07 crore. No demand had, however, been raised by the LSD.

After we pointed this out, the Government agreed (July 2011) to our observation.

#### **8.2.11.5 Non-raising of demand of interest on Loan for One Time Settlement (OTS)**

During scrutiny of records of the H&UD Department (Water Supply Section) we noticed (November 2010) that an amount of ₹ 6.69 crore was sanctioned (March 2009) by the FD as loan in favour of 22 Urban Local Bodies (ULBs) towards full and final payment of Government guaranteed loan to the Life Insurance Corporation (LIC) of India under the OTS scheme. The loan was to be repaid within a period of five years with simple interest at the rate of 9.5 *per cent* per annum. The LSD, however, did not raise any demand. We calculated the interest dues of ₹ 67.53 lakh on the above loan as of March 2010.

After we pointed this out, the Government agreed (July 2011) to our observation.

### **Higher Education Department**

#### **8.2.11.6 Non-raising of demand of interest on Orissa Loan Stipend Fund (OLSF) Loans to Students**

As per the OLSF Rules, 1976, recovery of loans, sanctioned to meritorious students for prosecuting higher studies, shall commence after one month from the date of employment or one year after the date of successful completion of the study, whichever is earlier. Further, the bond executed by the loanee provides that irrespective of successful completion of the study or otherwise, the loanee and sureties are liable to refund the loan along with interest thereon. The amounts due to Government, if not paid in time, shall be recoverable as arrears of land revenue under the OPDR Act, 1962 with interest at the rate of 10 *per cent* per annum.

During scrutiny of the loan ledger and sanction orders of the Higher Education Department made available to us, we noticed (March 2011) in test check that loans amounting to ₹ 20.25 lakh were sanctioned and paid to 67 students during the period from 1997-98 to 2003-04. Although the students defaulted in repayment of above loans so far after completion of their studies, the LSD neither worked out the interest liability nor issued any demand notice for

repayment of loans and interest thereon in terms of the agreements made with them at the time of sanction of loans. In the absence of detailed records, the LSD was not in a position to furnish the total outstanding liability of loanees in above cases. We, however, calculated the interest liability at ₹ 9.45 lakh as on 31 March 2010 including interest of ₹ 8.47 lakh related to the period covered under the PA which has not been demanded against the loanees.

After we pointed this out, the Government stated (July 2011) that steps were being taken by the LSD to recover interest in respect of all the cases pointed out by us.

### 8.2.11.7 Inadequate action for realisation of outstanding interest

FD, OM of October 1975, June 1992, August 1997 and July 2005 envisage that the LSAs/ADs shall maintain and update the loan ledger in the prescribed format and take timely action for recovery of loans and interest by way of issue of periodical demand notices. In case the loanee fails to discharge the liability in time, suitable legal action should be initiated immediately for recovery of loan and interest under the Orissa Public Demand Recovery (OPDR) Act 1962.

During scrutiny of the records of the selected LSDs, we noticed (May 2011) that 53 loanee organisations under three LSDs<sup>7</sup> defaulted in payment of interest amounting to ₹ 66.54 crore up to 31 March 2010 against sanction of loans amounting to ₹ 392.26 crore during the period of review. However, only a single demand notice was issued by the Co-operation Department for

realisation of ₹ 4.41 crore leaving 52 demand notices yet to be issued for realisation of interest dues of ₹ 62.13 crore. The LSDs have neither raised demand notices nor had legal action been initiated for recovery of the above loans and interest from the loanees under the OPDR Act. This showed inadequate action on the part of the LSDs in recovery of the interest dues.

After we pointed this out, the Government replied (July 2011) that creation of an automated monitoring system can help in generating the demand notices in time and identify the cases in which legal action is to be taken.

### 8.2.12.1 Short demand of interest on loans to the DISTCOs

As per the Notification (January 2003) of Energy Department, World Bank loans would be passed on by the Government to the DISTCOs in shape of 70 per cent as loan and 30 per cent as grant. Further, the said notification specified that taking into account the distribution loss of 42.21 per cent in the financial year 2001-02 as the benchmark, there shall be five per cent overall reduction of distribution losses every year from the financial year 2002-03 up to 2005-06. The Government of India (GoI) however, stipulated (June 2004) that any cash subsidy i.e., 30 per cent grant to the DISTCOs must relate to achievement of additional milestone such as targeted reduction of the annual T&D loss.

During scrutiny of records of the Energy Department, we noticed (March 2011) that the Department sanctioned ₹ 406.82 crore as loans (67 cases) during the period from 2000-01 to 2004-05 to four DISTCOs<sup>8</sup> for power sector restructuring project to be repaid in 10 equal instalments with moratorium of five years. The loan carried interest at the rate of 13 per cent

7 Co-operation (1), Energy (3), H&UD (49).

8 CESCO, NESCO, SOUTHCO and WESCO

per annum and in the event of default in repayment it was 16.5 *per cent*. However, we noticed that the DISTCOs have not fulfilled the condition for targeted reduction of annual T&D losses as revealed from the loss level of 37.94 *per cent* recorded during the financial year 2010-11. Hence, the DISTCOs were not entitled for any cash subsidy i.e., conversion of any portion of loan to grant. Further, the Government sanctioned the whole amount of ₹ 406.82 crore as loan and no portion thereof has yet been converted to grant. We recalculated the outstanding interest at ₹ 444.39 crore as on 31 March 2010 considering the total amount as loan which was due to the Department.

After we pointed this out, the Government while agreeing (July 2011) to the observation, stated that demand of ₹ 157.17 crore towards interest calculated up to 30 September 2006 has been raised (December 2006) by the LSD. Thus, there was short demand of ₹ 287.22 crore towards interest against the LSDs as of 31 March 2010.

### **8.2.12.2 Short demand of interest**

As per the FD circular (August 1997), the LSA is required to maintain loan register in a prescribed format and take timely action for recovery of loans and interest by way of issue of demand notices on the basis of the terms and conditions specified in the sanction orders.

During scrutiny of the records of Co-operation Department, we noticed (February 2011) that the Department released ₹ 3.57 crore by the end of 1999-2000 for revival of the Bargarh Co-operative Sugar Mills Ltd. As per our calculation, against the outstanding interest dues of ₹ 5.93 crore as of 31 March 2010,

demand was raised for ₹ 5.87 crore only which resulted in short demand of ₹ 5.36 lakh towards interest.

After we pointed this out this (June 2011), the Government agreed (July 2011) to our observation.

### **8.2.12.3 Loss of interest due to incorrect adjustment of repayments**

As per the FD circular of October 1975, ways and means advances are to be sanctioned for a temporary period to be recovered within the same financial year in which it is sanctioned. In case of default, such amount along with interest thereon shall be recovered under the OPDR Act, 1962. The OGFR also provide that, unless otherwise specifically stipulated, interest shall be the first charge on the repayment made by the loanee.

In para 8.2.12 of the Report (Revenue Receipts) of CAG of India for the year ended 31 March 2005 we mentioned about the loss of revenue of ₹ 2.74 crore due to irregular adjustment of principal amounts against the repayments of ₹ 20 crore made by two implementing agencies during April 1999 and January 2000 towards ways and means advance. However, from a detailed scrutiny of records (March 2011) of the FD we noticed that the ways and means advances of ₹ 69.04 crore was sanctioned by the FD to 10

organisations<sup>9</sup> between April 1980 and March 2002. The above advances were to carry interest at the rate of three *per cent* above the normal bank rate of interest with a penal rate of 15 *per cent* per annum for the advances sanctioned up to 10 June 1992. Thereafter a rate of 18 *per cent* per annum including penal interest of 3 *per cent* in the event of default in repayment was to be charged. We, however, observed that the above organisations repaid ₹ 63.72 crore during March 1981 to February 2004 against the above advances disbursed to them although they were required to repay the advances within the same financial year in which the advances were released. Out of the above repayment, ₹ 59.89 crore was adjusted towards principal while ₹ 3.83 crore only was adjusted towards interest in contravention of the OGFR. Consequently, the outstanding interest and principal were incorrectly determined at ₹ 29.52 crore and ₹ 9.15 crore as on 31 March 2010 instead of ₹ 44.94 crore and ₹ 20.97 crore respectively and the same were carried forward in the relevant records to the next year. This resulted in loss of interest. The FD did not detect the above loss of interest of ₹ 44.94 crore which included ₹ 17.37 crore relating to the last five years (2005-06 to 2009-10).

After we pointed this out, the Government replied (July 2011) that considering the weak financial position of the organisations the amount paid by them had not been adjusted towards interest first. The reply is not tenable as adjustment of repayments towards principal before adjustment of interest was against the codal provisions.

#### **8.2.12.4 Loss of interest due to incorrect calculation.**

As per OM of the Government (August 1997), the LSA is required to maintain the loan ledger in the prescribed format and take timely action for recovery of loans and interest by way of issue of demand notices on the terms and conditions specified in the sanction orders.

During scrutiny of the records of the Energy Department, we noticed (March 2011) that loan of ₹ 19 crore was sanctioned (June 2001) and disbursed on 20 July 2001 to OHPC for renovation, modernisation and upgradation of Unit III and IV of Burla Power House under the 'Accelerated Power Development Programme' (APDP) Scheme. The loan carried interest at the rate of 13.5 *per cent* per annum and in the event of default in repayment penal interest at the rate of 16.5 *per cent* per annum was leviable. The first 50 *per cent* of the loan was to be recovered in 20 equal instalments along with interest without any moratorium. The second 50 *per cent* of the loan was to be recovered in 15 equal instalments along with interest after moratorium of five years. OHPC repaid ₹ 30.41 crore on 31 December 2005 towards repayment of loan and interest. The company did not repay the principal and interest for the first part of the loan in time. Therefore, as per the terms and conditions of the sanction order, penal interest of ₹ 6.97 crore was to be realised and adjusted for this part of the loan. The Department, however,

9 OSCARD Bank, IDCOL Cement, IDC, OSFC, OHPC, TDCC, Konark TV, OSRTC, CSI Nayagarh and Kalico Spin.

adjusted an amount of ₹ 5.70 crore towards interest at normal rate. This led to short realisation of interest of ₹ 1.27 crore which was erroneously adjusted towards the principal of the second part of the loan on that date. Had the penal rate of interest been adjusted, the principal amount of the second part of the loan to the extent of ₹ 1.27 crore would have remained outstanding against the loanee which would have earned interest of ₹ 72.80 lakh for the period from 1 January 2006 to 31 March 2010 at the normal rate of interest. Thus, there was loss of interest of ₹ 0.73 crore. Moreover, the erroneous adjustment of interest resulted in forgoing the scope for recovery of the above principal of ₹ 1.27 crore and interest thereon in future also.

After we pointed this out, the Government stated (July 2011) that interest has been calculated by audit at penal rate on the first part of the loan for the entire period instead of calculating the same for the defaulted amount for the defaulted period. The reply is not tenable, since the loanee defaulted in repayment of principal and / or payment of interest, penal rate of interest was to be charged on the loan amount as per the OM of the Government (September 1993). Accordingly penal interest has been calculated by us on the first part of the loan up to the defaulted period only.

### **8.2.13 Conclusion**

We noticed a number of deficiencies in implementation of provisions of OGFR and different circulars of FD on loan policy of the Government involving non / short raising of demand and loss of interest of ₹ 629.27 crore as discussed in the foregoing sub-paragraphs. The basic records i.e. loan ledgers were not maintained by the LSDs. The LSDs were neither reviewing the progress of recovery of loan and interest nor cross checking the figures periodically with that of the records of FD. The annual statements on the position of loans and interest were not submitted to the FD as a result of which the FD was not able to monitor the loans and advance position of each Department. Thus the position of outstanding loans and interest due was not being assessed, demands raised or corrective action taken on time to safeguard Government revenue.

### **8.2.14 Recommendation**

As interest receipts contribute substantially to the non-tax revenue of the State, Government should initiate action in order to improve the system deficiencies noticed by us to ensure prompt recovery of the dues. The Government may consider the following suggestions to improve the effectiveness of the system.

- Streamline the mechanism for keeping a watch over the outstanding position of loans and interest receipts and to ensure recovery thereof.
- Maintain and update essential records especially loan ledgers;
- Issues demand notices for all outstanding interest receipts due to the Government;
- Insist on submission of annual statements by the LSDs to FD to facilitate monitoring by FD; and
- Initiate enforcement measures to recover the interest dues.



### 8.3 Other audit observations

We conducted test check of assessment records and other related documents of the Energy Department and found non / short levy and realisation of revenue towards electricity duty as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test checks carried out by us. Such omissions are pointed out by us repeatedly; but not only do the irregularities persist, these remain undetected till an audit is conducted. The Government may consider issuing instructions for effective internal control mechanisms to avoid recurrence of such omissions.

### 8.4 Non-compliance of provisions of Act / Rules, notifications and decisions

*The Orissa Electricity Duty (OED) Act, 1961 and Rules made thereunder read with notifications and clarifications of the Government issued from time to time provide for:-*

- *Self assessment / payment of electricity duty (ED) due at the prescribed rates on auxilliary<sup>10</sup> / captive consumption of energy within the prescribed period unless specifically exempted by the competent authority under the Industrial Policy Resolution(IPR) of the State.*
- *levy of interest on belated payment of ED.*

*We noticed non-compliance of some of the above provisions as mentioned in paragraphs 8.4.1 to 8.5 which resulted in non / short-levy / realisation of revenue of ₹ 23.39 crore.*

#### 8.4.1 Non / short levy of electricity duty on auxiliary consumption of electricity

As per the OED Act, 1961 and rules made thereunder read with clarification of the Government dated 6 November 1999 and notification dated 1 January 2006, ED at the rate of 20 paise per unit is leviable on the auxiliary consumption of energy and it shall be paid to the Government account within the prescribed time. In case of default, interest at the rate of 18 per cent per annum is also leviable.

During test check of records of the Superintending Engineer (Project)-cum-Electrical Inspector (Generation), Circle-II, Jeypore during September and October 2010, we noticed that IB Thermal Power Station, an Industrial Unit (IU) of Orissa Power Generation Corporation (OPGC) Ltd. generated 18780.162 MU of energy and exported 16691.167 MU of energy to GRIDCO during April 2004 to March 2010 leaving a balance of 2088.995 MU of energy for consumption in its factory, colony / township and auxiliary consumption etc. However, annual certified account of OPGC exhibited auxiliary consumption of 1927.570 MU<sup>11</sup> which was lower than the reported monthly return figures 2088.995 MU as discussed above. We also

10 Energy consumed in the process of generation by the power plants.

11 As per the certified annual accounts for the period from 2004-05 to 2009-10 net consumption is 1927.570 MU derived by deducting sale of 16819.120 MU from the Gross generation of 18746.690 MU.

noticed that OPGC returned payment of ₹ 36.96 crore towards ED on 1847.753 MU only against correct liability of ₹ 38.55 crore for auxiliary consumption of 1927.570 MU as reflected in the certified annual accounts. This led to short levy of ₹ 1.60 crore besides interest leviable as per the provisions of the law.

After we pointed out the case, the Chief Engineer (Project)-cum-Chief Electrical Inspector (Generation), Odisha stated (May 2011) that the discrepancy in energy consumed and ED paid was due to ageing of equipments, cables and non-calibration of old and unspecified class of accurate energy meter. Further he concluded that such type of loss was unavoidable in the electrical systems and the OPGC was supposed to deposit ED as per the meter readings, which they were doing. The reply is not acceptable because ED is payable as per the auxiliary consumption reflected in the certified annual accounts.

We brought the matter to the notice of the the Government (May 2011) whose reply is yet to be received (January 2012).

#### **8.4.2 Non-levy / non-realisation of ED**

As per the OED Act, 1961 and Rules made thereunder read with Government notification dated 1 January 2006, ED at the rate of 20 paise per unit is payable to the Government by the IUs having CPPs for their captive consumption within the prescribed period, unless exempted by the EI concerned under any IPRs of the Government. In case of default, interest at the rate of 18 *per cent per annum* is leviable.

**8.4.2.1 (a)** During scrutiny of the records of the SE (P) cum EI (G), Circle II, Jeypore in February 2009, we noticed that M/s Shyam DRI Power Ltd. generated and consumed 12.75 crore units of energy from its CPP of 30 MW capacity during the period May 2007 to March 2008; but it did not pay the ED of ₹ 2.68 crore including interest of ₹ 12.51 lakh

calculated by us as of March 2008. The EI did not detect the above non-payment although he accepted the monthly returns without mention of the details of payment made towards ED. After we pointed this out, the SE (P) cum EI (G) Circle II Jeypore, the Assessing Authority (AA) stated (August 2009 and January 2011) that demand for ED of ₹ 5.62 crore as of November 2008 including interest of ₹ 67.09 lakh had been demanded against the IU in March 2009 which had not been realised. However, from the further data made available to us in January 2011 by the AA in respect of generation / consumption of energy during the period April 2008 to March 2010, we calculated the total ED liability of ₹ 10.53 crore including interest of ₹ 2.03 crore for the period May 2007 to March 2010. This was also not detected by the EI while accepting the monthly returns and the amount has not been realised from the IU. The AA, however, clarified (February 2009, August 2009 and January 2011) that the IU was not depositing ED in anticipation of getting exemption under IPR 2001 for which the IU stated to have applied (September 2007) to the Director of Industries (DI), Orissa. However, the application had not been recommended by the DI, Orissa to the concerned authority for exemption of ED as of July 2011.

**8.4.2.1(b)** Further, we noticed (February 2009) that another IU, M/s Bhasker Steel Ferro Alloys Ltd generated 4.61 crore units of energy during the period January 2007 to March 2008 from its Diesel Generator (DG) and Turbo Generator (TG) sets as seen from its letter dated 18 April 2008 addressed to the AA. However, the IU neither submitted monthly returns nor deposited the ED of ₹ 1.01 crore including interest of ₹ 8.88 lakh, calculated by us as of March 2008. After we pointed out this (February 2009) the AA stated (August 2009 and January 2011) that the demand towards ED of ₹ 1.57 crore for the period July 2006 up to September 2008 for the DG sets and up to January 2009 for the TG sets including interest of ₹ 33.25 lakh had been raised against the IU in March 2009 which was not realised. However, from the further information made available to us in January 2011 by the AA in respect of generation and consumption of energy during the period April 2008 to February 2010, we calculated the ED liability of ₹ 3.11 crore including interest of ₹ 65.29 lakh for the period January 2007 to February 2010. Against this the IU had deposited ₹ 3.50 lakh only in March 2010 and ₹ 9.25 lakh between January 2011 and March 2011. Hence, ED of ₹ 2.98 crore is yet to be realised from the IU. The AA, however, stated (February 2009, August 2009 and January 2011) that the IU was not depositing ED in anticipation of getting exemption order under IPR. However, the application was not recommended by the DI to the concerned authority for exemption of ED as of July 2011.

The above positions at (a) and (b) showed that AA did not take appropriate steps for raising the monthly demands of ED against the IUs despite our observation made in February 2009 for timely collection and deposit of the same into the Government Account. Moreover, after raising of such demands the Department could have initiated certificate proceedings for recovery of Government dues as arrear of land revenue under the Orissa Public Demand Recovery (OPDR) Act, 1962.

We reported the matter to the CEI (G) Orissa, (March 2011) who stated (May 2011) that the IUs were not depositing the periodical ED in anticipation of getting exemption under the IPR 2001 like others. However, the fact remains that the DI, Orissa has not yet recommended the application for exemption of ED and hence ED of ₹ 7.19 crore was demanded (March 2009) after we pointed out the lapses (February 2009) in respect of both the IUs; no demands were made for the balance amount of ₹ 6.45 crore and an amount of ₹ 13.51 crore is yet to be realised from both the IUs.

We reported the matter to the Government (May 2011); whose reply is yet to be received (January 2012).

**8.4.2.2** Similarly, during test check of records (July 2010) of SE (P) cum EI (G), Circle-I, Keonjhar, we found that M/s Bindal Sponge Ltd., Angul commissioned (December 2005) a CPP of 12.5 MW (11 KVA capacity) for generating power. The IU did not file its monthly returns with the EI up to March 2008 and the EI did not call for the same every month. Moreover, we noticed that although the claim of the IU for exemption of ED under IPR 2001 was disallowed by the Government in November 2007, it did not pay any ED. The Annual Inspection Reports of the IU conducted at different intervals revealed that during the period from 13 December 2005 to 20 March 2010, 171.02 MU of power was generated by the CPP on which ED of ₹ 3.42 crore

was payable. The SE demanded (December 2007) ED of ₹ 1.28 crore in respect of 64.266 MU units covering the period 13 December 2005 to 3 September 2007 (which was also not realised till the date of audit in July 2010) but thereafter no demands were made on the captive consumption of 106.754 MU of energy generated during the period from 4 September 2007 to March 2010. This led to non-levy of ED ₹ 2.14 crore and interest of ₹ 1.11 crore<sup>12</sup> calculated up to 31 March 2010. Thus, total ED of ₹ 4.53 crore including interest has not yet been realised and no action has been taken by the Department against the IU for non-submission of returns up to March 2008.

Further, from test check of records (July 2010), we noticed that the IU had commissioned four DG sets each having 500 KVA capacity. These DG sets generated 4936674 units of power during the period 12 January 2005 to 31 March 2010 on which ED of ₹ 9.87 lakh was realisable as of 31 March 2010. However, the IU had deposited ₹ 5.10 lakh only (₹ 5.00 lakh on 19 June 2009 and ₹ 0.10 lakh 1 July 2010) with ₹ 4.77 lakh yet to be demanded and realised. In absence of monthly returns, the interest on ED could not be ascertained by us.

After we pointed this out, the Government stated (July 2011) that ED of ₹ 5.61 crore including interest calculated up to March 2011 had been demanded (May 2011). The details of realisation is yet to be received (January 2012).

### **8.5 Non-levy / non-realisation of ED**

As per the OED Act, 1961 and Rules made thereunder ED at the rate of 20 paise per unit is payable to the State Government by captive power plants (CPPs) for their captive consumption within the prescribed period. In case of default, interest at the rate of 18 per cent per annum is also leviable.

We mentioned about the non-levy of ED of ₹ 3.36 crore on M/s Aarati Steel Ltd for the period 2008-09 in sub-paragraph 8.3.2 of the Report (Revenue Receipts) of CAG of India for the year ending 31 March 2010. During test check of records of (SE) (P)-cum-E I (EI) (G), Circle-I, Keonjhar in July 2010, we also noticed that the said IU utilised 169.06 MU of energy generated from its own CPPs for captive consumption during the subsequent period April 2009 to March 2010, but it did not make voluntary payment of ED of ₹ 3.38 crore anticipating exemption certificate from the competent authority under IPR 2001. Though, the application of the IU for exemption was rejected by the Government in the Department of Energy in January 2007, the Department did not raise the demands every month despite non-payment of the Government dues by the IU. This resulted in non-levy of ED of ₹ 3.57 crore including interest liability of ₹ 19 lakh up to March 2010.

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12 Minimum interest of ₹ 89.48 lakh has been calculated for non-deposit of ED for the period 13 December 2005 to 31 March 2008 in absence of monthly returns for that Period. However, interest of ₹ 21.68 lakh has been calculated for non-deposit of ED during the period April 2008 to March 2010 based on monthly returns available to audit.

After we pointed out the case, the Government stated (July 2011) that a demand of ₹ 23.27 crore along with arrears calculated up to March 2011 has been raised (May 2011) which included the amount pointed out by us. The details of realisation is yet to be received (January 2012).

**Bhubaneswar**  
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**Accountant General (CW & RA)**  
**Odisha**

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**The**

**(VINOD RAI)**  
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