

CHAPTER-VII: OTHER NON-TAX RECEIPTS

EXECUTIVE SUMMARY

What we have highlighted in this Chapter

In this Chapter, we present illustrative cases of loss due to shrinkage in forest produce, short receipt of timber in depot, delay in transportation of forest produce etc. amounting to ₹ 72.04 lakh detected during our audit of forest receipts.

We also present the results of audit of Interest Receipts involving an amount of ₹ 253.58 crore detected during our test check of records of seven Departments.

Results of audit conducted by us in 2011-12

We conducted test check of the records of 12 units relating to Forest Department during the year 2011-12 and found cases of non/short realisation of revenue due to non-exploitation of bamboo/timber, low yield of timber/bamboo, shortage of forest produce, loss of revenue etc., amounting to ₹ 23.38 crore in 335 cases. During the year 2011-12, the Department accepted the loss of revenue of ₹ 18 lakh in 14 cases and recovered ₹ 12,640 in one case.

For the audit of interest receipts we conducted test check of the records of Finance Department (FD) and seven loan sanctioning Departments (LSDs) viz., Agriculture, Commerce & Industries, Co-operation, Food and Civil Supplies, Public Health & Engineering, Transport and Urban Administration and Development during the year 2011-12 to ascertain whether the loans sanctioned to the various loanees and recovered in time and adequate mechanism have been put in place to monitor the sanction and repayment of these loans. We found non/short realisation of interest, non-levy of penal interest and other irregularities amounting to ₹ 253.58 crore. We are concerned that though these omissions were apparent from the records which were made available to us, the loan sanctioning Departments did not raise demands for recovery of the loans. The Government accepted observations amounting to ₹ 217.51 crore and an amount of ₹ 92.47 lakh was recovered (December 2012).

Our conclusion

The Departments need to improve their internal control systems including strengthening internal audit to avoid recurrence of such omissions.

They also need to initiate immediate action to recover the non-realisation of interest and principal pointed out by us, more so in those cases where they have accepted our contention.

A : FOREST RECEIPTS

7.1 Tax administration

The Forest Department generates revenue mainly through sale of timber, bamboo and sale of minor forest produce which are the major sources of revenue for the Government. The forest produce is disposed through auction, invitation of tenders etc. The protection, conservation, development and regeneration, exploitation of timber and sustained growth of the forests are the major classes of items of expenditure in the Department.

The Forest Department functions under the Principal Secretary (Forests). The Principal Chief Conservator of Forests (PCCF), Chhattisgarh at Raipur is responsible for overall administration of the Department. PCCF is assisted by Additional PCCFs (APCCF) and CCFs at Headquarters.

The forest area in the State is supervised by six Conservators of Forests (CF) stationed at Raipur, Bilaspur, Surguja, Jagdalpur, Kanker and Durg. The forest area of the State is divided into 32 divisions. The administration of forest divisions, sale of forest produce, realisation of revenue as well as expenditure on protection, conservation, exploitation of timber and sustained growth of the forest is the responsibility of Divisional Forest Officer (DFO). The DFO is assisted by Sub Divisional Forest Officers (SDO). Besides protection of forest, the Range Officers (RO) are responsible for carrying out the work of plantation, marking and felling of trees, transportation of timber and fuel wood from coupes¹ to depots, etc. The Working Plan (WP) Circle (Bilaspur) and divisions are responsible for timely preparation of the WPs. The Department follows the under mentioned Acts, Rules and orders:

- The Indian Forest Act (IF) Act, 1927 and rules made thereunder;
- The Forest Conservation (FC) Act, 1980 and rules made thereunder;
- Chhattisgarh *Van upaj (Vyapar Viniyaman) Adhiniyam*, 1960 and rules made thereunder;
- Forest Financial Rules;
- National Working Plan Code (NWPC) 2004;
- Forest Manual; and
- Instructions/Orders issued by the Government/Department from time to time regarding assessment and collection of revenue.

7.2 Trend of receipts from Forestry and Wild life

Actual receipts from Forestry and Wild life during the years 2007-08 to 2011-12 along with the non-tax revenue of the State was as shown in the following table:

¹ The Working Plan divides the forest area into various Working Circles (WC), WC into compartments and compartments into coupes.

(₹ in crore)

Year	Budget Estimates (BEs)	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non-tax receipts
2007-08	250.00	258.07	8.07	3.23	2,020.45	12.77
2008-09	280.00	322.29	42.29	15.10	2,202.21	14.63
2009-10	365.00	345.85	(-) 19.15	(-) 5.25	3,043.00	11.36
2010-11	400.00	305.17	(-) 94.83	(-) 23.71	3,835.32	7.95
2011-12	400.00	341.64	(-) 58.36	(-) 14.59	4,058.48	8.42

(Source: Finance Accounts of the Government of Chhattisgarh)

The above table indicates that while the actual receipts were more than the budget estimates in 2007-08 and 2008-09, the same was less than the budget estimates during 2009-10 to 2011-12 and the percentage of shortfall was between five and 24. The reasons for shortfall were not furnished by the Department despite our request (November 2012). Similarly, the share of Forest receipts in non-tax receipts of the State, which was 12.77 per cent in 2007-08, increased to 14.63 per cent in 2008-09 and thereafter started declining from 2009-10 onwards.

7.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2012 amounted to ₹ 1.62 crore of which ₹ 24 lakh were outstanding for more than five years. The table below depicts the position of arrears of revenue during the period 2007-08 to 2011-12:

(₹ in crore)

Year	Opening balance of arrears	Closing balance of arrears
2007-08	0.24	0.30
2008-09	0.30	0.45
2009-10	0.45	2.39
2010-11	2.39	2.45
2011-12	2.45	1.62

(Source: Information furnished by the Department)

7.4 Internal audit

Internal Audit is a vital component of the internal control mechanism and enables an organisation to assure itself that the prescribed systems are functioning reasonably well.

The Internal Audit Wing (IAW) of the Department audited six units in 2011-12. Of the six units audited in 2011-12, inspection reports of only two units were issued till November 2012.

7.5 Impact of audit

7.5.1 Position of Inspection Reports (IR):

During the period 2006-07 to 2010-11, through our IRs we had pointed out non/short realisation of revenue due to non-exploitation of bamboo/timber, low yield of timber/bamboo, shortage of forest produce, loss of revenue etc. with revenue implication of ₹ 245.03 crore in 1702 cases. Of these, the Department/Government had accepted audit observations in 1386 cases involving ₹ 136.19 crore. The details are shown in the following table:

(₹ in crore)

Year of IR	No. of units audited	Amount objected		Amount accepted	
		Cases	Amount	Cases	Amount
2006-07	7	58	104.48	58	104.48
2007-08	1	5	5.17	5	5.17
2008-09	11	285	19.60	256	9.79
2009-10	11	1,002	95.29	998	15.58
2010-11	9	352	20.49	69	1.17
Total		1,702	245.03	1386	136.19

7.5.2 Position of Audit Reports:

During the years 2006-07, 2009-10 and 2010-11, we had pointed out through our Audit Reports cases of non/short realisation of revenue, shortages of forest produce etc. involving ₹ 104.52 crore as mentioned below:

(₹ in crore)

Year of Audit Report	Total Money Value	Amount Accepted
2006-07	2.43	-
2009-10	87.19	9.02
2010-11	14.90	1.64
Total	104.52	10.66

7.6 Results of audit

We conducted test check of the records of 12 units relating to Forest Department during the year 2011-12 and found cases of non/short realisation of revenue due to non-exploitation of bamboo/timber, low yield of timber/bamboo, shortage of forest produce, loss of revenue etc., amounting to ₹ 23.38 crore in 335 cases which can be categorised as under:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1	Short realisation due to sale below the upset price	97	0.53
2	Non-realisation due to deterioration/shortage of forest produce	23	0.35
3	Loss of revenue due to low yield of timber	39	1.75
4	Other irregularities	176	20.75
	Total	335	23.38

During the year 2011-12, the Department accepted the loss of revenue of ₹ 18 lakh in 14 cases and recovered ₹ 12,640 in one case.

A few illustrative cases of shrinkage in forest produce, short receipt of timber in depot, delay in transportation and loss due to shortage of forest produce amounting to ₹ 72.04 lakh are mentioned in the succeeding paragraphs.

7.7 Audit observations

We scrutinised the records of various Divisional Forest Offices (DFOs) and found several cases of non-observance of the provisions of the Acts/Rules/Government notifications/ instructions leading to loss of revenue due to excess allowance of shrinkage on fuelwood, short receipt of forest produce, non-transportation of forest produce etc. as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of the DFOs are pointed out by us each year, but not only do the irregularities persist, these remain undetected till audit is conducted. There is need for the Government to improve the internal control system so that such omissions can be avoided.

7.8 Wrong allowance of shrinkage on fuel wood kept for sale in nistar² depots

According to the Government order dated 11.06.1990, shrinkage of 15 per cent for medium density of fuelwood will be allowed in the first year on the quantity of fuel wood kept for sale in depots. Also, shrinkage shall be allowed on the fuel wood which will be prepared and kept in that particular year in the depot for sale. The unsold fuel wood shall be sent to sale depot for auction. As per Rule 22 (1) of Chhattisgarh Financial Code, any loss should be immediately reported to the Head of the Department and after enquiry, action for recovery should be initiated.

During test check of nistar records of DFO, Raigarh (February 2011), we found that in six nistar depots, 11,483.20 quintal fuel wood was received on 10 occasions between 2008 and 2010. Accordingly, shrinkage of 1,722.48 quintals (15 per cent) was allowable.

² Nistar means supply of bamboo, poles and fuel stacks at subsidised rates to needy villagers residing within five kilometers of the forests.

However, the physical verification reports of these depots revealed that shrinkage of 2,938.53 quintals was allowed by the division. Thus, excess shrinkage of 1,216.05 quintals was wrongly allowed by the division which resulted in loss of revenue amounting to ₹ 2.84 lakh to the Government (as shown in **Appendix-7.1**). No action was taken by the Department regarding investigating into the matter and fixing responsibility against the officials concerned.

After this was pointed out in audit (June 2012), the Government stated (August 2012) that process of recovery of the amount from the concerned officials is in progress. Further report has not been received (December 2012).

7.9 Non-transportation of forest produce from coupes

As per para 114 (A) of the Forest manual, the useful life i.e. quality of cut timber is five years and hence the value of cut timber depreciates by 20 *per cent* annually. Keeping this in view, the Forest Department engages transport contractors for transportation of cut timber from the coupes to the depots on the condition that the whole quantity shall be transported up to the month of May i.e. before the rainy season so that the produce can be saved from depreciation due to rains and made available for sale at the earliest. The terms and conditions for transport provide for recovery of the cost of transportation from the contractor in case of breach of conditions. Besides this, the contractor shall also be liable to make good the loss or damage to the cut timber during the course of transportation.

During test check of records of transportation of timber from coupes to depots of three divisions³ (June 2009 to January 2011), we found that during 2005-06 to 2009-10, forest produce valuing ₹ 2.98 crore was lying in 51 coupes⁴ after 30 June of the respective year and had not been transported from the coupes to the depots even one to two years after harvesting. On further scrutiny, we found that the reasons

for non-transportation were non-execution of contracts by the Department⁵, non-compliance of conditions of the agreement by the contractors and the Department's inability to enforce the conditions of agreement over the contractors. This not only resulted in delayed availability of produce for auction but also led to deterioration in the quality thereby reducing the value of the produce. Further, produce relating to 2009-10 had still not been transported (January 2011). Thus, non-transportation of the forest produce within the prescribed time limit resulted in loss of ₹ 59.83 lakh due to depreciation (as shown in **Appendix-7.2**).

After this was pointed out in audit (June 2012), the Government stated (October 2012) that the reasons for non-transportation of forest produce within the prescribed time limit were Naxal activities in Koriya and Udanti Divisions,

³ Bilaspur, Koriya and Udanti

⁴ Bilaspur – 5 coupes; Koriya – 8 coupes and Udanti – 38 coupes

⁵ Koriya Division for the year 2006-07

untimely rains in Bilaspur and Koriya Divisions and delay in approval of WP of Bilaspur Division. It was further stated that while it was true that the quality of timber depreciates due to non-transportation within the prescribed time, but transportation in time was not possible due to natural causes and unprecedented reasons.

We do not agree with the Department's reply because before transportation of timber from the coupes to the depots, the work of marking the trees was carried out and all marked trees were felled in 46 coupes⁶ of Koriya and Udanti division. Had Naxal problems been there these works could not have been carried out. According to Indian Meteorological Department data there was no rain in the months of April and May during the years 2007 to 2010 in Koriya division and there was very light rain⁷ in the months of April and May in the year 2007 in Bilaspur division. Further, as mentioned in the WPs and the haulage contracts, transportation of timber from the coupe should have been completed by the end of May, well before the start of the rainy season so that the transportation could have been done from the deep forest and hilly areas and the timber could have reached the depots as early as possible before the rains.

7.10 Shortage of forest produce in depots

As per the provisions of the Forest Financial Rules and departmental instructions issued from time to time, physical verification of each *Nistar/* Consumer depot should be done annually and the position of forest produce at the end of the month of June should be reported to DFO and CF. Further, as per Rule 22 (1) of Chhattisgarh Financial Code, any loss should be immediately reported to the Head of the Department and after enquiry, action for recovery should be initiated.

During test check of physical verification reports of DFO, Kanker (September 2011), we found that as per the Physical Verification Report as on 30 June 2008, 780 bamboo and 504 fuel stacks were found short in eight *Nistar/* Consumer depots. This resulted in loss of revenue amounting to ₹ 3.94 lakh (as shown in *Appendix-7.3*). Further, there was no evidence of reporting the loss to the Head of the Department.

After this was pointed out in audit (June 2012), the Government replied (September 2012) that recovery from the concerned officials is in progress.

⁶ Koriya Division – 8 coupes and Udanti division – 38 coupes

⁷ Very light rain – Rainfall amount realized in a day is between 0.1 to 2.4mm

7.11 Loss of timber

As per the instructions in the Working Plan, after felling, timber logs shall be measured at the middle point after removing the bark. After transportation, timber shall be measured in the depots again. Decrease of 2 to 3 cm in the girth of the log shall be allowed considering the shrinkage due to drying of timber. As per the ready reckoner used by the Department for the calculation of volume of logs, at the conversion point of log into pole, maximum change in volume (for maximum length of 8 meters for logs) is as follows:

Reduction in volume due to change in girth from 42 to 40 cm (for Teak)	0.008 cmt
Reduction in volume due to change in girth from 52 to 50 cm (for Others)	0.010 cmt

During cross check of the timber production statements and transportation records of DFO, East Sarguja (March 2011) with depot records, we found that there was huge difference in the quantities sent to the depot from four coupes during 2007-08 and one coupe during 2008-09. It was observed in the Reconciliation statement of timber sent from coupes to depots that 3,446 logs had been converted into 2,521 poles and

905 Railway Tram Lines. As per the above norms regarding allowed shrinkage and maximum change in volume due to shrinkage, the maximum allowable reduction in volume was 29.984 cmt⁸. However, the actual reduction in volume was 85.995 cmt. Hence, there was loss in timber logs by 56.011 cmt in excess of the allowed shrinkage which included 43.547 cmt teak and 12.464 cmt of other species. This resulted in loss of ₹ 5.43 lakh to the Government (as shown in *Appendix-7.4*).

After this was pointed out in audit (June 2012), the Government stated (August 2012) that due to uneven terrain in the division and less educated labourers, the measurement in the coupes was prone to mistakes. Hence, the measurement in the depots is considered final. There is no shortage in the number of items sent from the coupe and shortage in the quantity of timber is due to re-measurement in the depot only.

We do not agree as the shortages in the volume of logs were much more than the maximum shortage that could be allowed during transportation. Further, according to CCF (Production)'s circular dated October 1997 a maximum of two to three cm. decrease in girth between the measurement taken in the coupe and that taken in the depot is allowed. If the difference is beyond the permissible limit it would be presumed that the Coupe in-charge or the responsible official has not taken due care at the time of measurement in the coupe. The excess expenditure incurred on felling and collection shall be recovered from the Coupe in-charge or the responsible official. Further the

⁸

cmt – Cubic meter

norms regarding shrinkage were fixed by the Department after taking into consideration all factors, including terrain.

B: FINANCE DEPARTMENT

7.12 Interest Receipts

7.12.1 Introduction

Interest receipts constitute a significant part of the non-tax revenue of the State Government. These receipts include in addition to the interest on cash balance investments, interest charged by the Government on loans disbursed by it through its Departments to the public sector undertakings, non-Government organisations, corporations, autonomous bodies, local bodies, co-operative societies and other organisations and individuals including Government employees, carrying different rates of interest fixed by the sanctioning authorities keeping in view the purpose of loan /advance. Interest receipts of ₹ 63.41 crore constituted 1.6 *per cent* of the non-tax revenue of the State Government in 2011-12.

Intending loanee organisations submit proposals for sanction of loans to the loan sanctioning departments (LSDs). LSDs process the proposals and sanction the loans subject to specific terms and conditions for repayment of loans with the concurrence of Finance Department (FD). The Drawing and Disbursing Officers (DDOs)/Controlling Officers (COs)/Directorates/LSDs sanctioning loans and advances are responsible for keeping the detailed accounts of such loans and advances as well as watching their recovery.

The provision for sanction of loans, determination of interest, recovery of the principal as well as the interest and the control mechanism for watching timely repayment of loans have been prescribed under the Chhattisgarh Financial Code (CGFC), Volume-I (Chapter-13). Besides, the Government has issued circulars related to interest receipts from time to time.

We conducted an audit on the interest receipts from loans and advances in order to ascertain (a) whether terms and conditions for repayment of loans and rate of interest recoverable were spelt out clearly in the sanction orders, (b) examine the extent of compliance of rules/codal provisions/terms and conditions of the loans, (c) evaluate the position of raising demand and collection of dues and (d) assess the effectiveness of the internal control mechanism including maintenance of essential records. The audit revealed a number of deficiencies including procedural deficiencies like inadequate monitoring of loans both by the LSDs and FD, inaction against defaulters, inadequate control systems including improper maintenance of basic records, etc. These deficiencies have been discussed in the succeeding paragraphs.

For the purpose of the audit we reviewed the loans disbursed by seven⁹ Departments during the period 2007-08 to 2011-12. These loans constituted 99.83 per cent of the total loans disbursed by the Government during 2007-08 to 2011-12.

7.12.2 Results of audit

We conducted test check of the records of seven Departments relating to Agriculture, Commerce and Industries, Co-operation, Food and Civil Supplies, Public Health and Engineering, Transport and Urban Administration and Development Departments during the year 2011-12. We found cases of non/short realisation of interest and other irregularities amounting to ₹ 253.58 crore which fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	Non-raising of demand for payment of interest	76	249.29
2	Short recovery of interest	6	4.29
Total		82	253.58

The Food and Civil Supplies Department recovered an amount of ₹ 92.47 lakh in two cases in 2012-13.

A few illustrative cases involving financial effect of ₹ 253.58 crore are mentioned in the following paragraphs.

7.12.3 Outstanding loans

The position of outstanding loans to various Departments of the State Government and Government employees and repayment thereof during the last five years was as under:

(₹ in crore)

Year	Opening Balance	Loans sanctioned during the year	Total	Repayment of loans	Percentage of repayment [(5) over (2)]	Closing Balance
2007-08	1,604.61	500.28	2,104.89	437.52	27.27	1,667.37
2008-09	1,667.37	490.75	2,158.12	533.41	31.99	1,624.71
2009-10	1,625.53*	896.79	2,522.32	992.43	61.05	1,529.89
2010-11	1,529.89	566.55	2,096.44	561.16	36.68	1,535.28
2011-12	1,535.64*	1,268.73	2,804.37	1,282.52	83.52	1,521.85

Source: Finance Accounts of the Government of Chhattisgarh

* Increased by ₹ 82.07 lakh and ₹ 35.94 lakh in 2009-10 and 2011-12 respectively due to receipt of proforma adjustment from Accountant General, Madhya Pradesh

⁹ Agriculture, Commerce and Industries, Co-operation, Food and Civil Supplies, Public Health and Engineering, Transport and Urban Administration and Development Departments

It can be seen from the above table that repayment of the loans ranged between 27 to 84 per cent.

7.12.4 Budget estimates and trend of Interest Receipts from loans and advances

The budget estimates and interest receipts from loans and advances during the period 2007-08 to 2011-12 are mentioned in the table below:

(₹ in crore)

Year	Budget Estimates (BEs)	Actual Receipts (ARs)	Variation excess(+) or shortfall (-) [(4)=(2)-(3)]	Percentage of variation [(4) over (2)]
2007-08	93.90	70.27	(-) 23.63	(-) 25.17
2008-09	88.02	121.89	(+) 33.87	38.48
2009-10	112.19	71.63	(-) 40.56	(-) 36.15
2010-11	82.63	81.22	(-) 1.41	(-) 1.71
2011-12	102.40	63.41	(-) 38.99	(-) 38.08

Source: Budget estimates (Revenue Receipts) and Finance Accounts

It may be seen from the above table that there were huge variations between the BEs and actual receipts in respect of loans and advances. The actual receipts were less than the BEs except in 2008-09 and the percentage of shortfall ranged between 1.71 and 38.08. The actual receipts however exceeded the BEs in 2008-09 by more than 38 per cent.

Further, the total non-tax receipts and receipts from interest on loans and advances of the State are mentioned in the table below:

(₹ in crore)

Year	Non-tax receipts of the Government	Actual receipts from interest on Loans and advances
2007-08	2,020.45	70.27
2008-09	2,202.21	121.89
2009-10	3,043.00	71.63
2010-11	3,835.32	81.22
2011-12	4,058.48	63.41
Total:	15,159.46	408.42

Source: Finance Accounts of the Government of Chhattisgarh

Interest receipts from loans and advances constituted 2.69 per cent of the total non-tax receipts of the Government during the period 2007-08 to 2011-12.

Audit Findings

7.12.5 Non-maintenance of records

After the creation of State of Chhattisgarh in November 2000, the Chhattisgarh Government adopted the Acts/Rules, format and process for sanction orders of loans as was done in the combined State of Madhya Pradesh.

The Finance Department had issued instructions to the administrative departments in December 2003 for maintaining records in the prescribed format so that the recovery of installments of principal, interest and penal interest could be monitored.

Loans and advances Register should contain details of amount of loan sanctioned, date of sanction, period, rate of interest, number of installments of the principal, loans repaid, interest remitted, conditions (if any) to ensure timely recovery of loan, interest and penal interest etc.

Further, as per note 2 under Rule 229 of Chapter-13 of Chhattisgarh Financial Code (Volume-I), Loan Sanctioning Departments are required to submit a return in Form MPFC-10A regarding status of the loans taken by them to the Accountant General (A&E) by 31 July each year with a copy to the Finance Department.

During scrutiny of the records of the test checked seven LSDs, we noticed that while the Cooperation and Urban Administration and Development Departments maintained the loans and advances registers in the prescribed formats and updated them regularly, the remaining five¹⁰ Departments had not maintained / updated the loan registers. No system was put in place by the Finance Department to ensure the maintenance of basic records and submission of returns by these Departments. In the absence of details such as sanction order, amount of loan sanctioned, rate of interest / penal rate of interest, period of repayment, moratorium period,

amount due, recovery etc. in the loans and advances registers, the demand and collection of installments of repayments towards principal and interest could not be monitored by the above LSDs. Besides, all seven test-checked LSDs had not submitted the prescribed annual returns to the Accountant General (A&E) indicating the position of outstanding principal and interest in the prescribed form MPFC-10A during the period 2007-08 to 2011-12.

The Government informed (September 2012) that instructions have since been issued (September 2012) to all the LSDs regarding maintenance of the records.

¹⁰ Agriculture, Commerce and Industries, Food and Civil Supplies, Public Health and Engineering and Transport

The Government may consider taking appropriate measures to ensure maintenance of records and submission of returns by the LSDs so that the repayment of loans and interest thereon could be monitored effectively.

7.12.6 Internal Audit Wing

Internal audit is one of the most vital tools of the internal control mechanism. However, we noticed between March and June 2012 that no internal audit wing (IAW) existed either in the Finance Department or in any of the LSDs test checked. In the absence of an IAW, LSDs were not able to detect the deficiencies in maintenance of loan registers and monitor the timely issue of demand notices for repayment of outstanding principal and interest and submission of reports and returns in time to the FD.

The Government informed (September 2012) that a separate loan cell will be constituted to monitor the sanctions and repayment of the loans. Else, the work of monitoring of loans and advances will be assigned to the Director of Institutional Finances.

7.12.7 Absence of provisions in the terms and conditions of loans

According to Rule 220 of the Chhattisgarh Financial Code, Volume-I (Chapter-13), the sanctions for payment of loans issued by the Government should contain the terms and conditions for repayment of loan such as number of installments, amount of installment, period of loan, rate of interest, penal interest chargeable in case of non-recovery of loan, date of commencement of the first installment, period of moratorium etc.

During scrutiny of the sanction orders of loans, we noticed cases of absence of terms and conditions or incorrect provision thereof in the sanction orders issued by the test checked Departments as discussed in the succeeding paragraphs:

Food and Civil Supplies Department

7.12.7.1 Failure to prescribe the terms and conditions for payment of interest on loans led to non-recovery of penal interest

During scrutiny of the sanction orders of loans sanctioned by the Food and Civil Supplies Department, we noticed (June 2012) that a loan of ₹ 500 crore was disbursed during 2009-10 to the Civil Supplies Corporation (CSC) with the approval of FD. As per the sanction order, the loan was to be repaid on or before 31 March 2010 with interest at the rate of eight *per cent* per annum. However, the CSC deposited the loan amount within the financial year (i.e. 27 March 2010) and paid (March 2011) interest aggregating to ₹ 12.76 crore after 353 days. Since no time frame was prescribed in the sanction order for repayment of interest, the Department could not raise any demand for payment of interest. Had this been included along with the repayment of principal, penal interest amounting to ₹ 37 lakh at the rate of three *per cent* could have been recovered.

The Government informed (September 2012) that a sample/model format of sanction orders will be prescribed and issued to all LSDs.

Public Health and Engineering Department

7.12.7.2 Discrepancies in terms and conditions of sanction of loan

During scrutiny of the sanction orders of loans issued during 2007-08 to 2011-12 by the Public Health and Engineering (PHE) Department with the approval of the FD, we noticed (May 2012) that in 11 sanction orders there was ambiguity in the terms and conditions prescribed. The Department did not indicate the moratorium period for repayment of loans clearly in each case which would provide undue benefit to the loanees. Further, the period of repayment of the loan and period of moratorium were the same. In addition, though the sanction order mentioned the number of installments, it did not indicate the amount to be paid in each installment. Thus, due to absence of specific and unambiguous terms and conditions in the sanction orders, the Department could not recover the loan till the date of audit (May 2012).

The Public Health and Engineering (PHE) Department did not adopt a standard format for sanction of loans and this had resulted in issue of sanction orders with differing terms and conditions. We further observed that the remaining six LSDs had also issued sanction orders in different formats.

After we pointed this out, the Department replied (May 2012) that the format for sanction orders of loans was adopted as was being followed in the combined State of Madhya Pradesh.

The Government informed (September 2012) that a sample/model format for sanction orders will be prescribed and issued to all LSDs.

7.12.8 Non-raising of demand for payment of interest

According to Rule 226(2) of Chapter-13 of the Chhattisgarh Financial Code (Volume-I), the LSD should 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, penal interest is applicable *suo moto* as specified in the sanction order.

As per the terms and conditions mentioned in the sanction order, the repayment of the loan is required to be made in equal annual installments after one year along with interest accrued thereon at the rate of nine to 14.5 *per cent*. Further, in case of failure to make repayment of loan and payment of interest by the due dates, penal interest at

the rate of three *per cent* per annum on overdue installment is recoverable.

During scrutiny of sanction orders of loans we noticed that five Departments¹¹ had sanctioned loans amounting to ₹ 275.59 crore during the period 2003 to 2010. The loanees were required to re-pay the loans after one to four years, but

¹¹ Commerce and Industries, Co-operation, Public Health and Engineering, Transport and Urban Administration and Development

not a single installment of loan was repaid by them till the date of audit (March –June 2012). The Department failed to raise the demand and realise the principal amount of ₹ 151.35 crore, interest of ₹ 91.80 crore and penal interest of ₹ 6.14 crore (as shown in **Appendix-7.5**).

The Government intimated (October 2012) that a letter had been issued on 27 September 2012 to recover the dues from the loanees pertaining to Commerce and Industries, Public Health & Engineering and Urban Administration & Development Departments. Further, in respect of a loatee related to Transport Department, the Government intimated that steps would be taken to adjust the outstanding dues against the fixed assets of the loatee.

The Government also intimated regarding a loatee pertaining to Co-operation Department that repayment of the sanctioned loans had been rescheduled till 2011-12. The reply is not correct because the Government rescheduled in one case of ₹ 5 crore only. Thus, principal, interest and penal interest were recoverable from the loatee organisation. Further, in the case of the other loatee, the Government intimated that the loan was sanctioned in 2007-08 and the terms and conditions were finalised in 2010-11. As per the terms and conditions, principal and interest due in the year 2011-12 were paid in time. The reply is not correct because as per the terms and conditions (October 2010), repayment was to be made after one year from the date of sanction of loan i.e., January 2009.

7.12.9 Short recovery of interest

Repayment of the amount of loan is required to be made as per the terms and conditions mentioned in the sanction order. Further, in case of failure to make repayment of loan and payment of interest by the due dates, penal interest at the rate of three *per cent* per annum on overdue installment is recoverable.

During scrutiny of sanction orders of loans we noticed that two Departments¹² had sanctioned loans amounting to ₹ 1112.74 crore between 2002-03 and 2010-11. The loanees were required to pay interest from the actual date of payment of loan and not from the date of credit of loan in the bank/treasury. The Department failed to raise demand for

payment of interest of ₹ 4.17 crore accrued thereon. For non-payment of interest, penal interest of ₹ 12 lakh upto March 2012 though leviable was not levied by the Departments (as shown in **Appendix-7.6**).

The Food and Civil Supplies Department replied (August 2012) that recovery of ₹ 92.47 lakh had since been made in two cases.

¹² Co-operation and Food and Civil Supplies