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**CHAPTER-7: NON-TAX RECEIPTS****7.1 RECEIPTS OF INTEREST ON LOANS AND ADVANCES**

A review on “Receipts of Interest on loans and advances” was conducted during April to August 2000; the findings of the review involving Rs.446.96 crore are mentioned in the succeeding paragraphs.

**7.1.1 Introduction**

“Interest Receipts” constitute a significant part of the Non-Tax Revenue of State Government, which comprises interest chargeable on loans and advances to various Public Sector Undertakings, Local Bodies, Co-operative Societies etc. and individuals (including its employees). The loans granted usually carry interest, the rate of which is fixed by the sanctioning authority keeping in view the instructions issued by Government from time to time and the purpose for which loan is provided. The Punjab Financial Rules contain inter-alia provisions governing grant of loan, levy and recovery of interest and penal interest etc. Responsibility for recovery of loan and interest vests with the sanctioning authority. The terms and conditions as specified in the sanction indicate the manner of repayment of principal and payment of interest. Penal interest is chargeable on instalments of principal not paid as per the terms and conditions of the sanction; however, recovery thereof may be waived by Government.

**7.1.2 Organisational Set-up**

The proposals for grant of loans and advances are processed by the Heads of departments and then recommended to Administrative departments, which issue sanctions with the concurrence of Finance department. Recoveries of loans alongwith interest are watched by the Administrative Heads of the departments under overall check of Finance department.

**7.1.3 Scope of Audit**

Mention was last made in paragraph 7.1 of the Report of Comptroller and Auditor General of India for the year 1997-98 (Revenue Receipts), highlighting the shortcomings during the years 1992-93 to 1996-97 in respect of receipts of interest on loans and advances, advanced by Co-operation, Housing, Industries and Power departments. With a view to further evaluate the efficiency of the department in ensuring the levy and collection of interest in accordance with the prescribed procedure, a test check of records relating to recoveries of interest on outstanding balances of loans stood as on 31 March 1995 and on loans and advances sanctioned by Agriculture, Animal Husbandry, Food & Supplies and Transport departments for the years 1995-96 to 1999-2000, was conducted between April and August 2000.

#### 7.1.4 Highlights

Position of re-payment of principal loans/advances and interest thereon was not available with the Finance department. Interest and penal interest of Rs.425.21 crore accrued and recoverable as of March 2000 besides unpaid principal of Rs.131.64 crore was neither worked out nor demanded by the departments.

{Paragraph 7.1.6(a)}

Interest and penal interest of Rs.4.22 crore recoverable were neither worked out nor demanded by Agriculture department.

{Paragraph 7.1.6(b)}

Agriculture and Animal Husbandry departments had not maintained any records regarding 13 loans of Rs.25.61 crore.

{Paragraph 7.1.7(a)}

Agriculture department had neither maintained any records regarding outstanding loans of Rs.1.25 crore and Rs.3.29 crore prior to 1962-63 and 1980-81 respectively nor any effective steps were taken to follow up the recoveries.

{Paragraph 7.1.7(b)}

No control was being exercised by the Administrative departments over the maintenance of records regarding re-payment of principal loans/advances, recovery of interest etc. by field offices which attributed to wrongful and unrealistic preparation of budget estimates.

{Paragraph 7.1.8(a to c)}

#### 7.1.5 Trend of Revenue

The Budget estimated collection of interest receipts, actual and total Non-tax revenue of the State during the years 1995-96 to 1999-2000 was as under:-

| Year      | Budget estimate | Actuals | ( In crore of rupees )                   |                            |                             |  |
|-----------|-----------------|---------|--|----------------------------|-----------------------------|--|
|           |                 |         | Variation<br>(+) Excess<br>(-) Shortfall | Percentage of<br>variation | Total<br>Non-tax<br>revenue | Percentage of<br>interest<br>receipts to<br>total non-tax<br>revenue |
| 1995-96   | 88.67           | 87.05   | (-)1.62                                  | (-)1.83                    | 1777.41                     | 4.90   |
| 1996-97   | 104.76          | 1464.14 | (+)1359.38                               | (+)1297.61                 | 1944.80                     | 75.28  |
| 1997-98   | 89.00           | 982.84  | (+)893.84                                | (+)1004.31                 | 2356.53                     | 41.71  |
| 1998-99   | 493.25          | 104.86  | (-)388.39                                | (-)78.74                   | 1507.35                     | 6.96   |
| 1999-2000 | 510.04          | 535.02  | (+)24.98                                 | (+)4.90                    | 2361.46                     | 22.66  |

Reasons for variation between budget estimates and actuals during 1995-96 to 1999-2000 though called for from the Finance department (August 2000) have

not been received (October 2000). Government, however, attributed reasons for variation mainly due to less receipts on account of interest payments during 1995-96 & 1998-99 and more receipts of interest payments during 1996-97 to 1997-98 and 1999-2000 under interest from Public Sector and other undertakings as per Finance Accounts of the respective year.

It was, however, noticed in audit that budget estimates and actuals during 1996-97 to 1998-99 were not complementary to each other as the variation ranged between 78.74 and 1297.61 *per cent*. This was attributed to wrong and unrealistic preparation of budget estimates as the budget proposal of re-payment of interest on loans is made by the loanees instead of by the departments due to non-maintenance of proper records as discussed in the succeeding paragraphs.

### 7.1.6 Recoverable amount of interest and penal interest

(a) The Food and Supplies, Agriculture and Transport departments were granted nine short term loans, to be re-paid within 3 to 15 years along with interest failing which penal interest to be charged as detailed below:-

| Sr No        | Name of department<br>Loanee | Purpose of loan  | (In crore of rupees)                |                                    |                                  |              |   |
|--------------|------------------------------|--|-------------------------------------|------------------------------------|----------------------------------|--------------|---|
|              |                              |  | Amount of loan/<br>Month of payment | Rate of interest<br>Penal interest | Mode of re-payment               | Loan repaid  | Amount of interest and penal interest recoverable |
| 1            | Food & Supplies<br>PUNSUP    | To repay the loan taken by PUNSUP from SBI for procurement of food grains  | (i) 80<br>March 1988                | 14%<br>2%                          | 20 quarterly equal instalments   | 45.65        | 198.36  |
|              |                              |  | (ii) 45<br>March 1989               | -do-                               | -do-                             | Nil          | 181.13  |
| 2            | Agriculture<br>PAIC          | Assistance to PAIC   | (i) 3<br>August 1996                | 16%<br>3.5%                        | Five annual equal instalments    | Nil          | 1.83  |
|              |                              |  | (ii) 3<br>March 1998                | 15%<br>3.5%                        | Six annual equal instalments     | Nil          | 0.95  |
| 3            | Transport<br>PRTC            | For repayment of outstanding loan/interest accrued there on and non payment of passenger/ token tax realised by PRTC to Government | (i) 10<br>March 1989                | 15%<br>3.5%                        | 16 half yearly equal instalments | 1.25         | 11.59   |
|              |                              |  | (ii) 19.80<br>March 1990            | 12%<br>3.5%                        | 30 half yearly equal instalments | 0.66         | 17.19   |
|              |                              |  | (iii) 8.80<br>February 1991         | -do-                               | 16 half yearly equal instalments | Nil          | 6.95  |
|              |                              |  | (iv) 3.11<br>November 1991          | 13%<br>3.5%                        | 6 half yearly equal instalments  | Nil          | 2.55  |
|              |                              |  | (v) 6.49<br>March 1992              | -do-                               | -do-                             | Nil          | 4.66  |
| <b>Total</b> |                              |  | <b>179.20</b>                       |                                    |                                  | <b>47.56</b> | <b>425.21</b>                                     |

Test check of the records revealed that these loans were not repaid as per plan and were outstanding. The departments have neither worked out nor

demanded the interest and penal interest amounting to Rs.425.21 crore as on 31 March 2000.

(b) The Agriculture department also granted two short-term loans of Rs.3.53 crore during January-March 1993 to Punjab Land Development Corporation to clear the outstanding loans and interest paid in March - August 1991. The loans were to be repaid in lump sum within six months alongwith interest at the rate of 6.5 per cent per annum failing which penal interest at the rate of 15 per cent for the defaulted period was to be charged. The corporation repaid loans of Rs.1.71 crore between March 1996-September 1997. The interest and penal interest of Rs.4.22 crore as of March 2000 was neither worked out nor demanded by the department. In addition principal amount of Rs.1.82 crore was also recoverable.

**7.1.7 Inadequate follow up action to recover principal and interest**

(a) Plan scheme, for supporting to ordinary/special Development Debentures of the Punjab Agriculture Development Co-operative Bank (PADB) and to accomplish the loaning programme under Ordinary Loaning Programme of Punjab State, was operational in the State since 1967-68.

Under the scheme, 13 loans aggregating Rs.25.61 crore were drawn by the departments of Agriculture (Rs.24.11 crore) and Animal Husbandry (Rs.1.50 crore) between 1992-93 and 1998-99 to purchase debentures floated by PADB with rate of interest ranging from 12.30 to 14 per cent, payable half yearly, as shown under:-

| (In crore of rupees) |                           |  |                                 |                  |                          |                  |                                     |
|----------------------|---------------------------|--|---------------------------------|------------------|--------------------------|------------------|-------------------------------------|
| Sr No                | Name of department Loanee | Purpose of loan                                  | Amount of loan Month of payment | Rate of interest | Mode of payment interest | Date of maturity | Amount of interest up to March 2000 |
| 1                    | Agriculture PADB          | Purchase of ordinary/special debenture           | 1.18<br>December 1995           | 14%              | Half yearly              | Not known        | 0.71                                |
| 2                    | Agriculture PADB          | -do-   | 1.18<br>October 1997            | 12.30%           | -do-                     | -do-             | 0.36                                |
| 3                    | Agriculture PADB          | -do-   | 1.18<br>September 1998          | 12.50%           | -do-                     | -do-             | 0.23                                |
| 4                    | Agriculture PADB          | Purchase of debenture under tractors scheme      | 4.41<br>April 1995              | 12.50%           | -do-                     | -do-             | 2.75                                |
| 5                    | Agriculture PADB          | -do-   | 5.62<br>January 1996            | 14%              | -do-                     | -do-             | 3.29                                |
| 6                    | Agriculture PADB          | -do-   | 0.05<br>April 1996              | 14%              | -do-                     | -do-             | 0.02                                |
| 7                    | Agriculture PADB          | -do-   | 6.00<br>December 1997           | 12.30%           | -do-                     | -do-             | 1.71                                |
| 8                    | Agriculture PADB          | -do-   | 4.50<br>March 1999              | 12.50%           | -do-                     | -do-             | 0.56                                |
| 9                    | Animal Husbandry PADB     | Purchase of debentures under camel carts schemes | 0.30<br>March 1993              | 13%              | -do-                     | -do-             | 0.28                                |

|    |                       |  |                    |        |      |      |              |
|----|-----------------------|--|--------------------|--------|------|------|--------------|
| 10 | Animal Husbandry PADB | Purchase of debentures under poultry, piggery and sheep breeding | 0.40<br>March 1994 | 13.50% | -do- | -do- | 0.29         |
| 11 | Animal Husbandry PADB | -do-   | 0.22<br>March 1995 | 12.50% | -do- | -do- | 0.14         |
| 12 | Animal Husbandry PADB | -do- Camel carts   | 0.27<br>March 1996 | 14%    | -do- | -do- | 0.15         |
| 13 | Animal Husbandry PADB | -do-   | 0.30<br>March 1998 | 12.30% | -do- | -do- | 0.07         |
|    |                       | <b>Total</b>   | <b>25.61</b>       |        |      |      | <b>10.56</b> |

During test check of records relating to the grant of loans to PADB for purchase of debentures in the office of Director of Agriculture and Animal Husbandry revealed that no record regarding grant of loans to PADB, accrual and recovery of interest had been maintained by both the departments although an interest of Rs.10.56 crore had accrued as on March, 2000 but the departments have neither worked out nor demanded the interest.

(b) As per Finance Accounts, outstanding balances of loans of Rs.1.25 crore against two schemes and Rs.3.29 crore against other scheme of Agriculture department had been awaiting recovery prior to 1962-63 and 1980-81 respectively. The department further granted loans aggregating Rs.7.26 crore during the years 1962-63 to 1994-95. Repayment of principal of Rs.8.44 crore and payment of interest of Rs.0.80 crore was only made between April 1962 and March 2000 as indicated below:

| Name of the Scheme                  | Previous Balance period | Loan advanced during the year             | Repayment of principal up to 1999-2000 | Interest ( In crore of rupees) |             |
|-------------------------------------|-------------------------|---|--|--------------------------------|-------------|
|                                     |                         |   |  | Paid                           | Balance     |
| Loan under intensive cultivation    | 1.08<br>(1962-63)       | -   | 0.09                                   | 0.03                           | 1.57        |
| Loan under Package Programme        | 0.17<br>(1962-63)       | (i) 1.00 (1962-67)<br>(ii) 0.01 (1973-95) | 0.71                                   | 0.07                           | 1.50        |
| Loan under Aerial Spraying of crops | 3.29<br>(1980-81)       | 5.16 (1980-87)                            | 7.57                                   | 0.70                           | 2.07        |
| Loan under Ground Spraying of crops | (1982-83)               | 1.09 (1982-87)                            | 0.07                                   | -                              | 1.83        |
| <b>Total</b>                        | <b>4.54</b>             | <b>7.26</b>                               | <b>8.44</b>                            | <b>0.80</b>                    | <b>6.97</b> |

The department had no record to show the detail of loans granted, terms and conditions of the loans and the name of the beneficiaries etc. In the absence of requisite records, the department took no action for the recovery of balance principal amount of Rs.3.36 crore and interest of Rs.6.97 crore, worked out at the prevalent borrowing rates.

**7.1.8 Lack of internal control**

**(a) Non/improper maintenance of records**

As per Finance Accounts the total arrears of loan and advances under different heads pertaining to whole of the State increased from Rs.4347.52 to Rs.4795.01 crore during 1995-96 to 1999-2000. Complete information regarding the position of overdue principal and interest accrued thereon was not available with the Finance department which monitors the debt and loan position of the State. Moreover, loan ledgers for watching recovery of loan and interest either were not maintained or were incomplete. Reminders for recovery were also not being issued one month in advance of due date as required in the guidelines. No detailed accounts indicating year-wise details of arrears of interest, pending collection at the beginning of each year, interest realisable and demanded during the year, amount of interest waived or written off during the year, amount actually collected during the year and the balance recoverable at the end of the year, were being maintained by any of the four departments test checked.

**(b) Non submission of Returns**

Twenty departmental officers were required to submit 151 returns concerning loan accounts maintained by them during each of the year 1995-96 to 1999-2000 to the Accountant General (A&E), but none of them furnished any return during these years.

(c) The State Government have laid down (December 1961) the procedure and prescribed the form in which the ledgers of loans are required to be maintained to keep watch over prompt assessment and recovery of interest. It was further emphasized (June 1982) that the ledgers be brought upto date and reminders to the loanees for repayment of loan and payment of interest be issued one month in advance of the due date. Field officers are required to submit a monthly return by 10th of each month, showing the receipts from interest, to their controlling officers, who in turn, are required to send a consolidated return, each month, to the Accountant General (A&E). The departmental figures of receipts on account of repayment of loans and interest thereon are required to be regularly reconciled with receipts exhibited in books of the treasury and the records of the Accountant General (A&E).

During test check of the records maintained by the Agriculture, Animal Husbandry, Food & Supply and Transport departments, it was noticed that there was a general lack of control by the Administrative departments over the maintenance of the complete records by Recovery Officers, the furnishing of requisite returns to prescribed authorities and reconciliation of figures of receipts with those of treasuries and Accountant General (A&E).

The matter was brought to the notice of Finance department in October 2000 to which reply was awaited.

### **7.1.9 Conclusion**

During test check of records of Agriculture, Animal Husbandry, Food and Supply and Transport departments, it has been observed that the departments have failed to ensure timely repayment of loan and advances thereby affecting the ways and means position of state exchequer. There has been system failure with regard to monitoring of overdue loans and advances and recovery of interest/penal interest, even though clear guidelines in this regard have been issued by the Finance department. As the interest receipts constitute a major part of the Non-tax revenue, it was necessary for the Government to have a detailed look at the system and procedure with a view to ensure prompt assessment and recovery of loans and advances and interest thereon. The Government should also introduce a stringent reporting system to monitor the position of overdue principal and interest.

The above matter was referred to the Principal/Administrative Secretaries of respective departments in October 2000. The matter was followed up with reminders issued demi-officially to the Principal/Administrative Secretaries of respective departments in March and June 2001. However, inspite of such efforts, no reply was received (July 2001).

**A: Lottery Department**

**7.2 Results of audit**

Test check of records in the office of Director State Lotteries, conducted during the year 2000-2001 revealed loss of revenue and other irregularities amounting to Rs.559.84 lakh in 22 cases, which broadly fall under the following categories:

| (In lakh of rupees) |  |                 |               |
|---------------------|--|-----------------|---------------|
| Sr. No.             | Category   | Number of cases | Amount        |
| 1                   | Short lifting of lottery tickets                           | 4               | 371.57        |
| 2                   | Undue benefit to agents of Bumper draws                    | 10              | 51.77         |
| 3                   | Irregular provision of prizes to Agents/sub-agents/sellers | 4               | 90.83         |
| 4                   | Undue financial aid to agents                              | 4               | 45.67         |
|                     | <b>Total</b>   | <b>22</b>       | <b>559.84</b> |

A few illustrative cases highlighting important irregularities involving Rs.2.40 crore are given in the following paragraphs:



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### **7.3 Receipts from Punjab State Lotteries**

#### **7.3.1 Introduction**

With a view to raise resources for financing the development programmes undertaken by the State Government and to curb the illegal activities and social evils like satta and gambling in the State, the Director of Lotteries was set up during the year 1968. The income from lottery is credited to the Consolidated Fund of the State.

The Director of Lotteries (Director) framed 'Punjab State Lotteries Rules, 1998'. Prior to which the Director had been running its different lottery schemes on the basis of instructions issued by Punjab Government from time to time. Director held draws of different bumper lottery schemes (two during 1995-96, three during 1996-97 to 1998-99 and four during 1999-2000).

With a view to ascertain the effectiveness and adequacy of preparation/implementation of lottery schemes and receipts therefrom, relevant records of Director relating to bumper draws for the period 1995-96 to 1999-2000 were test checked during July to October 2000. The irregularities noticed are given in the succeeding paragraphs.

#### **(i) Irregular payment of incentive prizes**

Prior to the framing of Punjab State Lotteries Rules, 1998, agents/sub-agents/sellers were eligible for incentive (incentive against sale of tickets and incentive against prize winning tickets). After framing of said Rules in 1998 incentive is payable only to the agents with whom an agreement is executed by the Director.

The notifications issued by the Government regarding bumper draws inter-alia lays down that in the case of agents, sub-agents and sellers, incentive against prize winning tickets should be claimed from the Director within 30 days from the date of publication of the result in the Punjab State Government Gazette. It was clarified (June 2000) that the prize amount offered to the agents/sub-agents and sellers is the incentive.

Test check of the records of Director State Lotteries revealed that the agents/sub-agents and sellers submitted their claims for incentive against sale of tickets and prize winning tickets to the Director after the prescribed period and delay ranged between 6 and 143 days. The claims were irregularly accepted and paid by the department in violation of the instructions and resulted in irregular payment of Rs.2.06 crore.

The matter was brought to the notice of the Director and reported to Government (January 2001). The Government stated (March and July 2001) that the agents could settle their accounts within 120 days and the limit of 30 days was not mandatory in the case of claims of agents. The reply was not tenable as the incentive claims were to be preferred within 30 days from the

date of publication of result of draw as per schemes notified whereas the limit of 120/135 days was available for the settlement of accounts by agents.

**(ii) *Undue payment of Incentive Prizes to Sub-Agents/Sellers***

Under the rules, incentive means an amount to be paid to an agent for promoting the sale of tickets and for the purpose, agent means a person appointed as such by the State Government with whom an agreement for sale of tickets has been executed and it includes Sole Selling Agent, Distributor or Selling Agent.

Agreements for the sale of tickets of bumper draws are executed by the Director with agents only. No agreement is, however, executed with any sub-agent or seller whose names submitted by the agents to the Directorate for claiming their incentives.

Test check of records revealed that payment of incentive claims against prize winning tickets during the period from January 1999 to March 2000 to the tune of Rs.34.87 lakh was made to the sub-agents and sellers through agents without any provision in the Rules. Non-adherence to rules resulted in irregular payment of Rs.34.87 lakh to the sub-agents and sellers.

On this being pointed out (April and May 2001), the department stated (May 2001) that 'incentive' is different from 'incentive prize' as in the relevant rule only term 'incentive' has been defined. This provision is relevant before the draw is held whereas provision of 'incentive prize' comes into play only after draw is held and linked with the prize winning tickets. The reply of the department was not tenable as incentive is paid against sale of tickets and against prize winning tickets. Both these incentives are paid for promoting sale of tickets and cannot be termed as different. The department in June 2000 had itself clarified that prize amount offered to the agent/sub-agent and seller is the incentive.

Matter was brought to the notice of the Government (May 2001) to which the Government in reply stated (July 2001) that under Punjab State Lotteries Rules, 1998, the State Government was empowered to frame different lottery schemes from time to time. The reply was not tenable as the Government could frame new schemes but within the purview of Lotteries Rules, 1998. Since the Rules did not contain any provision regarding payment of incentive to sub-agent/seller, the payment thus made was not due.

## B: Forest Department

### 7.4 Results of audit

Test check of records relating to non-tax receipts of Forest department conducted in audit during the year 2000-2001 revealed irregularities amounting to Rs.1178.15 lakh in 151 cases which broadly fall under the following categories:

| (In lakh of rupees) |  |                 |                |
|---------------------|--|-----------------|----------------|
| Sr. No.             | Category   | Number of cases | Amount         |
| 1                   | Loss due to non selling of wood in auction                       | 3               | 25.11          |
| 2                   | Less recovery of royalty due to non raising of demand of royalty | 4               | 129.84         |
| 3                   | Loss due to fire   | 1               | 5.78           |
| 4                   | Loss due to illicit felling of trees                             | 3               | 19.77          |
| 5                   | Other irregularities   | 140             | 997.65         |
|                     | <b>Total</b>   | <b>151</b>      | <b>1178.15</b> |

During the course of the year 2000-2001, the department accepted audit observations involving Rs.56.69 lakh in 12 cases. The department recovered Rs.10.40 lakh in one case pointed out in earlier years. Two illustrative cases highlighting important irregularities involving financial effect of Rs.58.82 lakh are given in the following paragraphs.

### **7.5 Receipts and disposal of bank drafts**

Under the Punjab Financial Rules, departmental receipts collected on behalf of Government should be credited into the treasury or bank without undue delay. The bank drafts received are remitted to the banks accompanied by challans with the instructions to credit the money into Government account. In order to ensure that the amount of bank draft has actually been credited to Government account, monthly reconciliation of remittances made as per departmental record with those of the treasury record is obligatory.

During test check of records in the office of Divisional Forest Officer (DFO) Ropar, it was noticed (July 2000) that a bank draft amounting to Rs.3.30 lakh received in July 1999 from Punjab State Financial Development Corporation (PSFDC) on account of forest produce had not been deposited into Government account as the same was not traceable with the department. This resulted in non-collection of revenue amounting to Rs.3.30 lakh.

On this being pointed out in audit (July 2000) it was stated (November 2000) that efforts were being made to locate the missing bank draft.

The above matter was referred to the department (July 2000) and Government in February 2001. The matter was followed up with reminders to Financial Commissioner and Secretary to Government Punjab Forest and Wild Life department in April and June 2001. However, inspite of such efforts, no reply was received (July 2001).

### **7.6 Non realisation of royalty**

The standing trees are transferred to the State Forest Development Corporation as per approved working plans and quarterly demands for volume of wood transferred are raised. The Corporation is required to pay royalty at the rates fixed from time to time.

During the course of audit, it was noticed (May and June 2000) that three Forest Divisions (Fatehgarh Sahib, Mansa and Patiala) transferred 1,01,112.85 cubic metres of timber of different species from block forests to the Corporation during the year 1999-2000 but the Forest department had not raised the demand of royalty. This resulted in non realisation of royalty amounting to Rs.55.52 lakh from the Corporation.

The above matter was referred to the department (June and July 2000) and Government in April 2001. The matter was followed up with

reminders to Financial Commissioner and Secretary to Government Punjab Forest and Wild Life department in May and June 2001. However, inspite of such efforts, no reply was received (July 2001).

Chandigarh:  
The

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