

**CHAPTER 9**  
**NON-TAX RECEIPTS**  
**A - MINES AND MINERALS**

**9.1 Results of Audit**

Test check of records of departmental offices conducted during the period from April 2000 to March 2001 revealed non levy/short levy of royalty, dead rent and seigniorage fee, other items amounting to Rs.384.09 lakh in 48 cases which broadly fall under the following categories.

<b>Sl No</b>	<b>Categories</b>	<b>No. of cases</b>	<b>Amount (Rs. in lakh)</b>
1	Non levy/short levy of royalty, Dead rent and Seigniorage fee	30	358.37
2	Other items	18	25.72
	<b>Total</b>	<b>48</b>	<b>384.09</b>

During the course of the year 2000-2001, the concerned department accepted under-assessments etc. of Rs.18.40 lakh in 20 cases out of which an amount of Rs.17.65 lakh in 17 cases had been recovered. The status of recovery in other cases is still awaited.

Two illustrative cases involving a financial effect of Rs.266.56 lakh are mentioned below.

## **9.2 Loss of Revenue due to incorrect grant of exemption**

According to Rule 7 of the Tamil Nadu Minor Mineral Concession Rules, 1959, quarrying from unreserved waste lands including poramboke other than bunds of drinking water ponds or tanks may be allowed free of charge in the case of Department of Government of India and the State Government, Panchayat Union Councils, Panchayats and Municipalities, or contractors in their employ, provided that the products removed are required and used solely for bona fide public purposes and not for sale or commercial profits. In all other cases seigniorage fee at the rates specified in the rules shall be charged. The seigniorage fee thus collected is allocated to the local body to which the place of quarry is located.

The Government of Tamil Nadu permitted (February 1994) the Chennai Port Trust for quarrying stones over an extent of 44.50 acres in Karikal Village, Arakonam Taluk, Vellore District for construction of Satellite Port at Ennore with the condition that the Chennai Port Trust should pay seigniorage fee at the rate prescribed in the Minor Mineral Concession Rules. The District Administration issued (August 1994) orders, for quarrying stones by the Chennai Port Trust and also for the payment of seigniorage fee at the prescribed rates. The Chennai Port Trust also agreed to pay the seigniorage fee by executing (October 1994) a lease agreement subject to waiver of the above fee by the Government of Tamil Nadu stating that Chennai Port Trust is an Autonomous Local authority under the control of Ministry of Surface Transport, Government of India.

Based on the representation (June 1995) by Chennai Port Trust, the Government of Tamil Nadu exempted (September 1995) Chennai Port Trust from payment of seigniorage fee under Rule 7 of Minor Mineral Concession Rules, treating the Port Trust as bonafide public service organisation and stones removed were not for sale or commercial profit. In the instant case, the Chennai Port Trust being an autonomous trust with commercial activity is not covered under any of the categories prescribed under Rule 7. Hence, the stones used by them is not eligible for exemption. The incorrect exemption granted to Chennai Port Trust had resulted in loss of seigniorage fee amounting to Rs.2.54 crore on 507.27 lakh cubic feet of stones removed.

On this being pointed out (June 2001), the Government stated (July 2001) that Chennai Port Trust was exempted from payment of seigniorage fee as it was a Government of India organisation and the stones were removed for a bonafide public purpose and not for sale or commercial profits.

The reply of the Government is not acceptable as the Chennai Port Trust being only an autonomous body, is not covered under any departments/institutions mentioned in Rule 7 of the Tamil Nadu Minor Mineral Concession Rules, 1959, to qualify for exemption. Incidentally the Ennore Port for which the quarried stones were used has been subsequently incorporated as a limited company under the Companies Act (October 2001). Hence it cannot also be construed that the stones were removed for bonafide public purpose. Hence the exemption granted is not in order.

By this incorrect exemption, the Arakkonam Panchayat has lost the seigniorage fee to be remitted back in lieu of the stones quarried. Further report from the Government has not been received so far (October 2001).

The matter was reported (July 2001) to the Government and followed up with reminder (September 2001). However in spite of such efforts no reply was received (October 2001).

### **9.3 Non-levy of interest on belated payment**

In terms of Rule 36(B)(1) introduced in the amended Tamil Nadu Minor Mineral Concession Rules, 1959, simple interest at twenty four per cent per annum is chargeable with effect from 22 June 1994 on any rent, fee, royalty or other sums due to Government under the quarrying permit or lease from the sixtieth day of the expiry of such payment becoming due.

In the office of the Assistant Director (Geology and Mining), Vellore, it was noticed (May 1996) that a sum of Rs.39.09 lakh being the arrears of area assessment and dead rent due from Tamil Nadu Minerals Limited (TAMIN) pertaining to the period from 1 April 1993 to 31 March 1994, was paid on 7 November 1995. Interest on Rs.39.09 lakh paid belatedly for the period from 22 June 1994 to 6 November 1995 works out to Rs.12.93 lakh. However, no demand for interest was raised.

On this being pointed out (July 1996), the department raised (August 1999) demand for interest from TAMIN and collected (November 1999) the entire interest of Rs.12.93 lakh after a delay of 4 years.

When the matter was reported to Government (November/December 2000 and January 2001) the Government replied (October 2001) that the entire amount has been collected.

**B – FINANCE DEPARTMENT**

**9.4 Review on Interest Receipts**

*Highlights*

Interest amounting to Rs.96.36 crore remained uncollected as on 31 March 2000 even after conversion of earlier loans into single loan.

*[Paragraph 9.4.5(i)]*

Non-realisation of interest of Rs.42.60 crore on loans sanctioned to Urban local bodies for water supply schemes.

*[Paragraph 9.4.5(ii)]*

Due to non maintenance of loan ledger by the Agriculture department a sum of Rs.4.57 crore towards principal and Rs.9.39 crore towards interest and penal interest remained uncollected.

*[Paragraph 9.4.6(i)]*

Non-recovery of interest of Rs.4.56 crore on un-utilised loan refunded belatedly by M/s.Tamil Nadu Small industries Development Corporation (SIDCO).

*[Paragraph 9.4.6(ii)(a)]*

Non-realisation of interest of Rs.79.48 crore in respect of loans sanctioned to State Commercial Undertakings and Co-operative societies due to non raising of demand.

*[Paragraph 9.4.7 (a) & (b)]*

Outstanding Loans and Advances and interest amounting to Rs.147.84 crore was converted as equity share capital of respective State Transport Undertakings despite they have not paid any dividend to Government so far.

*[Paragraph 9.4.9]*

#### **9.4.1 Introduction**

Government in pursuance of its policies for achievement of various objectives, granted loans and advances to its local bodies, public sector undertakings, commercial undertakings, co-operative societies and individuals including Government employees. The loans and advances sanctioned usually carry different rates of interest fixed by the sanctioning authority keeping in view the purpose for which the loans and advances are sanctioned. Loans and advances are required to be repaid within the stipulated period, in periodical instalments along with the interest. The terms and conditions which are specified in the orders sanctioning the loans are to indicate the periodicity of instalments, the rates of interest, the mode and the manner of repayment of the principal and interest. In case of default in repayment, penal interest is also charged.

#### **9.4.2 Organisational Setup**

Loans and advances are sanctioned by the administrative departments, with the concurrence of the Finance department. Recoveries of loans and advances along with interest are to be watched by the heads of the departments concerned according to the instructions of the Government.

#### **9.4.3 Scope of Audit**

A review on 'Interest Receipts' of Government from 1995-96 to 1999-2000 was conducted during December 2000 to March 2001 by a test check of records of Departments of Agriculture, Industries, Transport, Rural and Urban Development and Co-operation, Food and Consumer protection which are the major departments from which most of the Interest Receipts were realised from loans and advances granted.

Important points noticed in the course of review are brought out in the succeeding paragraphs.

#### 9.4.4 Trend of Interest Receipts

The budget estimated, actual and non-tax revenue of the State during the years 1995-96 to 1999-2000 was as under:

(Rupees in Crore)

Year	Interest Receipts		Variations (+) Excess (-) Shortfall	Percentage of variation	Total Non- Tax revenue	Percen- tage of interest receipts to Non- tax revenue
	Budget Estimates	Actuals				
1995-1996	166.03	342.83	(+)176.80	(+)106.80	858.45	39.94
1996-1997	208.68	371.21	(+) 162.53	(+) 77.51	885.44	41.90
1997-1998	393.75	504.70	(+) 110.95	(+) 28.18	1121.87	44.98
1998-1999	349.17	409.24	(+) 60.07	(+) 17.20	1156.70	35.37
1999-2000	367.67	388.74	(+) 21.07	(+) 5.73	1357.00	28.65

From the above it is clear that the budget estimates framed by the Government were not realistic as the actual receipts was much more than the budget estimates which ranged from 106.80 per cent during 1995-96 to 17.20 per cent during 1998-99. Even the actual realisation of interest of the previous year was not taken as indicator for preparation of budget estimate for the next year.

#### 9.4.5 (i) Non-realisation of interest on loans sanctioned to Rural Local Bodies (RLB) for water supply schemes

Municipal and Water Supply Department sanctioned loans from the year 1974-75 onwards to the Municipalities and Municipal Corporations for executing various developmental schemes. The loans were required to be repaid in annual instalment with varying rate of interest from 10.5 per cent to 17 per cent and to levy penal interest at 2 per cent per annum in case of default in repayment.

On a perusal of the records of the department it was noticed that Principal amount of Rs.369.56 crore and interest amounting to Rs.195.67 crore were in arrears as on 31 March 1998 in respect of 102 Municipalities and 5 Municipal Corporations. As the principal and interest could not be realised due to paucity of funds in the local bodies, the principal and interest outstanding as on 31 March 1998 was, however, converted (July 1998) by the

department into single loan against each Municipality/Corporation. As per the terms and conditions, the converted loan of Rs.565.23 crore was required to be repaid in 20 years along with interest at the rate of 13.5 per cent at half-yearly instalment by each Municipality/Corporation.

Consequently the Municipalities/Corporations were required to repay a sum of Rs.203.28 crore upto 31 March 2000. A verification of the records, however, revealed that out of the amount due for repayment, a sum of Rs.70.64 crore only was collected leaving a balance of Rs.132.64 crore which consisted of principal amount of Rs.36.28 crore and interest amount of Rs.96.36 crore.

**(ii) *Non-realisation of interest on loans sanctioned to Urban Local Body (ULB) for water supply schemes***

The Government granted loans amounting to Rs.61.14 crore between the years 1974-75 and 1993-94 to Chennai Municipal Corporation which was to be repaid alongwith interest at prescribed rates. Out of the loans sanctioned, a sum of Rs.45.04 crore towards principal and an amount of Rs.42.60 crore towards interest due upto 1997-98 were remained outstanding as on 31 March 2000. The proposals for waiver of the outstanding loans and interest were forwarded by the Chennai Corporation during August 1995 to Government of Tamil Nadu were rejected in January 1996. No further action has been taken to recover the interest along with principal.

**9.4.6 (i) *Non-realisation of interest due to non-maintenance of loan ledger***

Agriculture Department sanctioned four loans of Rs.6.18 crore from the year 1983-84 to 1995-96 to M/s Tamil Nadu Agro Industries Development Corporation (TAI) and Tamil Nadu Agro Engineering and Services Co-operative Federation Limited (AGROFED) for the purchase of plant, working capital advance etc. The loans alongwith interest were required to be repaid within a period ranging between four months and four years with rate of interest ranging between 15 per cent and 19.5 per cent. On a scrutiny of the records it was noticed that principal amount of Rs.4.57 crore and interest amounting to Rs.9.39 crore were still outstanding as on 31 March 2000.



Agriculture Department being the controlling authority for the above agricultural organisations, did not maintain any ledgers and registers to watch the repayment of principal and interest and also not monitoring the repayment of interest through Demand, Collection and Balance statements as a result thereof no demand was raised for the repayment of principal along with the accrued interest so far. Consequently interest amounting to Rs.9.39 crore alongwith principal of Rs.4.57 crore remained uncollected.

**(ii) Short recovery of interest.**

(a) The Industries department sanctioned (August 1993) Ways and Means advance of Rs.8 crore to a State Government undertaking viz., M/s. Tamil Nadu Small Industries Development Corporation Ltd. (SIDCO) for purchase of land for Industrial Estate repayable within a year in 10 instalments after the moratorium period of one year. The advance is repayable alongwith interest at the rate of 14 per cent per annum. In case of default penal interest at 2 per cent was also to be levied. The interest was to be paid quarterly. As the purchase of land did not materialize, SIDCO was directed in February 1994 to refund the loan. The loan was repaid in two instalments, in July 1994 and July 1999. The SIDCO was required to pay interest of Rs.4.26 crore and penal interest of Rs.0.86 crore for the retention of the loan from September 1993 to July 1999 against which the SIDCO, remitted Rs.0.56 crore only towards interest resulting in short realisation amounting to Rs.4.56 crore as on 31.3.2000. This amount has not so far been demanded from the SIDCO.

(b) The Industries Department granted two loans to a State Government commercial undertaking viz. M/s. Tamil Nadu Cements Corporation Limited (TANCEM) to a tune of Rs.2.50 crore at an interest rate of 14 per cent per annum in February 1986 to be repaid in eight equal monthly instalments from April 1986 and Rs.2 crore at an interest rate of 17 per cent per annum in February 1991 to be repaid upto June 1991. In case of default penal interest at two per cent was to be charged. As the company did not repay the advance, the repayment period of advance was extended from time to time, but the advances were not repaid by TANCEM. In the year 1995, TANCEM was directed to repay the advances with interest accrued thereon in twenty equal monthly instalments with effect from 1 June 1995 but the repayment Schedule, was, however, not adhered to by the TANCEM as a result thereof interest amounting to Rs.6.82 crore was due on 31 March 2000 against which the Department could collect Rs.5.75 crore only and no action was taken to collect the balance interest of Rs.1.07 crore on which penal interest amounting to Rs.0.24 crore was also leviable.

#### **9.4.7 Non-issue of demand notices**

(a) Government of Tamil Nadu granted loans during the period from 1968-69 to 1998-99 to eleven<sup>16</sup> State Commercial Undertakings for various commercial activities. The loans were required to be repaid within a period of 3 year to 10 years along with interest ranging between 10.75 per cent and 17 per cent. Penal interest is also leviable at 2 per cent in case of default in payment of interest.

On a scrutiny of the records of the Industries Department it was noticed that principal amount of Rs.203.82 crore and interest amount of Rs.51.20 crore were outstanding as on 31 March 2000. It was observed that eventhough no interest was paid by the commercial undertakings, no action was taken by the department to issue demand notices to collect the outstanding principal amount of Rs.203.82 crore and interest amount of Rs.51.20 crore.

(b) Co-operation, Food and Consumer Protection Department sanctioned loans amounting to Rs.49.04 crore to 7762 Co-operative societies/organisations for developmental activities during the period from 1992-93 to 1997-98. It was noticed (January 2001) from the Demand, Collection and Balance Statement and other records that principal amount of Rs.37.28 crore and interest amounting to Rs.28.28 crore (Interest Rs.27.58 crore + Penal Interest Rs.0.70 crore) were outstanding as on 31 March 2000 for which the department had not even issued notices to the concerned Co-operative societies till date.

Thus the interest amount of Rs.28.28 crore was outstanding as on 31 March 2000 even after the lapse of repayment period (March 1999).

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16 Tamil Nadu Industrial Investment Corporation (TIIC), Tamil Nadu Industrial Development Corporation (TIDCO), Southern Structurals Limited (SSL), Tamil Nadu Cements Corporation Limited (TANCEM), Tamil Nadu Explosives Limited, Tamil Nadu Small Industries Development Corporation (SIDCO), Tamil Nadu Handicrafts and Handloom Development Corporation Limited (THHDC), Tamil Nadu Small Industries Development Corporation (TANSI), State Engineering and Servicing Company of Tamil Nadu (SESCOT), Tamil Nadu Steels Limited (TNSL) and Tamil Nadu Leather Development Corporation Limited (TALCO).

#### **9.4.8 Non-levy of penal interest**

The Industries Department sanctioned three loans amounting to Rs.13.03 crore to M/s.Tamil Nadu Industrial Development Corporation (TIDCO) during 1994-95 which were to be repaid in six annual instalments with rate of interest of 14 per cent. In case of default the penal interest at 2.75 per cent was to be levied

It was noticed that the corporation did not adhere to the repayment schedule. Consequently for the default, penal interest of Rs.18.50 lakh as on 31 March 2000 was leviable, but the Government did not demand the penal interest.

#### **9.4.9 Conversion of Loans into equity share capital**

Government of Tamil Nadu granted loans and advances aggregating to Rs.624.04 crore for 21 State Transport Undertakings from the year 1974-75 to 1999-2000. Interest and penal interest thereon worked out to Rs.104.31 crore remaining unpaid as on 31 March 2000, was pointed out by audit in May 2000.

This huge arrears were pointed out in audit and subsequently the Government issued orders (March 2001) for conversion of all outstanding loans and advances and interest thereon upto 31 October 2000 amounting to Rs.147.84 crore as equity share capital of the respective State Transport Undertakings despite the State Transport Undertakings have not paid any dividends so far on the capital investment by the Government.

The above observation have been reported to Government (May 2001) and their reply has not been received (October 2001).

## **9.5 Review on Receipts from State raffles**

### **Highlights**

Sole selling agents were appointed without following the tender procedure. The lottery schemes designed by the Sole selling agents are adopted by the Department.

**[ Paragraph 9.5.6 ]**

Total payout of prize money to the public was less than the prescribed limit of 50 *per cent* and there was an unauthorised deduction of Rs.8.43 crore from I and II prize winning tickets during the period from September 1998 to October 2000. Delay of more than 6 months in the disbursement of prize money to the public resulted in mounting arrears to the extent of Rs.20.30 crore as of January 2001.

**[ Paragraph 9.5.7 ]**

Undue financial aid was given to agents by way of payment of excess bonus to the tune of Rs.23.18 crore. Government lost interest to the extent of Rs.2.56 crore by allowing unauthorised credit period of 21 days to Agents for payment of value of tickets issued to them.

**[ Paragraph 9.5.8 ]**

The Department failed to deduct tax at source (Rs.12.75 crore) from the payments made towards bonus etc., to agents during the period from October 1998 to December 2000. The department was thus liable to pay the tax due and penal interest at 18 *per cent* on the tax.

**[ Paragraph 9.5.9 ]**

There was shortfall of Rs.7.81 crore in transfer of funds to the Tamil Nadu Special Welfare fund. There was under-utilisation to the tune of Rs.30.45 crore from the fund.

**[ Paragraph 9.5.10 ]**

No account was rendered for prize amounts upto Rs 5000 paid by agents to the tune of Rs.66.27 crore.

**[ Paragraph 9.5.11 ]**

Improper assessment of requirement of raffle tickets resulted in an avoidable expenditure of Rs 1.10 crore on printing.

**[ Paragraph 9.5.12 ]**

### **9.5.1 Introduction**

Government of India permitted the State Governments to organise Lotteries to augment resources for welfare programmes and accordingly Government of Tamil Nadu introduced Raffle scheme in July 1968. It was in existence till 15 September 1975 and again revived in August 1976. The Tamil Nadu Raffle Rules, 1976 (TNRR) framed by the Government of Tamil Nadu remain in the nature of executive instructions by way Government Orders and were never placed before the Legislature for its approval.

In April 1994, the Supreme Court of India prescribed certain essential characteristics for a Government-organised Lottery which inter-alia include

- (i) the draws for selecting the Prize Winning Tickets must be conducted by the State itself irrespective of the size of the prize money: and
- (ii) if any prize money is unclaimed or is otherwise not distributed by way of prize, it must revert to and become the property of the State Government.

The Government of India enacted the Lotteries (Regulation) Act 1998 in July 1998, as a sequel to the Supreme Court's ruling, which specifies how the Lottery Schemes are to be run. The guidelines issued by Government of India in June 1984 govern the procedures to be observed by the State Governments. The Lotteries (Regulation) Act also provides that separate rules may be framed by the State Government with the approval of the State Legislature. Government of Tamil Nadu is in the process of framing such rules.

### **9.5.2 Organisational set-up**

The Commissioner of Tamil Nadu Raffles, under the overall control of the Secretary to Government, Finance Department, implements the Raffle Scheme in Tamil Nadu.

### **9.5.3 Scope of Audit**

A review of the implementation of the scheme of State lotteries in Tamil Nadu was conducted between February and March 2001 and the records in the Commissionerate of Tamil Nadu Raffle for the period from 1996-97 to 2000-2001 (up to December 2000) were test-checked. The results of the test-check are given in the succeeding paragraphs.

#### 9.5.4 Financial results

(i) The number of draws and the number of tickets in each draw has increased over a period of time but the earnings out of it to Government is not commensurate with the volume of increase in the turnover. On the other hand, the discount allowed and the payments made to the agents showed a steep increase. A review of the details of gross value of tickets sold for the period from 1995-96 to 1999-2000 revealed that after the introduction of the system of 100 per cent sale to a single agent in October 1998, there was a steady increase in the number of draws and the quantum of tickets sold. But the percentage of the net proceeds to face value of tickets declined from 26.5 per cent during 1998-99 to 18.1 per cent during 1999-2000 (Appendix-I).

During the period October 1998 to December 2000, the public received prizes ranging from 41 to 46 per cent of the gross value of tickets against the prescribed minimum of 50 per cent. The agents received by way of discount and bonus 32 to 41 per cent whereas their share should have been only 32 per cent. The Government's net proceeds ranged from 17 to 22 per cent.

#### (ii) Trend of revenue

In each financial year, Revenue Receipts are estimated in the Budget based on the projection of number of draws to be conducted during that year. But scrutiny of records revealed that there was underestimation of receipts under lotteries as given below:

(Rupees in crore)

Year	Budgeted Receipt	Actuals Gross Receipts*	Excess	Percentage excess
1996-97	21.83	22.37	0.54	2.5
1997-98	22.40	27.98	5.58	24.9
1998-99	50.50	53.62	3.12	6.2
1999-2000	80.04	124.41	44.37	55.4

\*Gross receipts = Face value of tickets less commission allowed to agents

The increase in the Gross Receipts during 1999-2000 is mainly due to the increase in the number of draws and the quantum of tickets per draw.

#### 9.5.5 Failure to follow the guidelines of Government of India

Lotteries/Raffles organised by the Government are covered by item 40 of the Union List in the Seventh Schedule to the Constitution of India. Section 10 of the Lotteries (Regulation) Act 1998 makes it obligatory on the part of the State to follow the guidelines issued by the State Governments in conducting the Lotteries.

The guidelines given by the Central Government in 1984 cover:

- The maximum price per ticket
- Ceiling on the First Prize
- Minimum intervals between two draws
- Minimum percentage of outgo of prizes
- Minimum percentage of Net Profit to Government

Lotteries organised by the Department have deviated from the directions/guidelines given by the Central Government as given below.

	<b>Government of India guidelines read with Lotteries Regulation Act</b>	<b>The existing system in Tamil Nadu</b>
1	There may be no Lotteries with Draws at intervals less than a week.	Draws are conducted daily
2	The Maximum price per ticket can be Re.1 for weekly Lotteries and Rs.3 for Bumper Draws	Prices of tickets vary from Rs.2 to Rs.50
3	The ceiling for First Prize Weekly Draws : Rs.1 lakh Bumper Draws : Rs.25 lakh	The amount of First Prize given ranges from Rs.5 lakh to Rs.7 lakh for weekly Draws. For Bumper Draws it goes upto Rs.7 crore
4	the total prize payout should not be less than 50 per cent of the Gross value of the tickets printed	It varies from 41 to 46 per cent (the Department deducts 10 per cent from the I and II Prize declared).

When pointed out, the Government replied(July 2001) that the guidelines issued by Government of India have no legal backing but the executive instructions by the State Government over ride the guidelines issued by Government of India The reply is not tenable as the Section 10 of the Lotteries Regulation Act 1998 provides that it is obligatory on the part of the State Government to follow the directions given by the Central Government and Government of India has not withdrawn the guidelines issued earlier in 1984.

#### **9.5.6 Appointment of sole selling agents for selling raffle tickets**

Initially the sale of raffle tickets was through the Treasuries (upto 1987) and the agents appointed by the Department of Raffle or the District Collectors used to lift the tickets after remittance of the value of tickets as reduced by the fixed percentage of discount allowed. Tamil Nadu Raffle Rules 1976 governed the appointment of agents, sale of tickets, allowance of discount to agents, prize structure, conduct of draws and distribution of prize money. The sale of tickets was on “cash and carry” basis and on many occasions, there were unsold tickets with the Department resulting in loss to Government. To overcome this situation, in 1985, Government decided to appoint Sole selling agents for the sale of Raffle

Tickets for which tenders were also floated; but the plan was dropped, the reasons for which were not on record. Again in 1997, the Commissioner of Tamil Nadu Raffles(CTNR) submitted a proposal to appoint agents by open tender system for each draw for lifting of tickets on “all-sold” basis (100 *per cent* lifting) but Government directed (April 1998) the CTNR to continue the existing system.

However, the CTNR introduced the system of sale of tickets to particular agents on 100 *per cent* liftment basis with effect from September 1998. After the introduction of this system, the number of agents in operation are only three, as against thousands of agents engaged by the Government in the past. The selection of the three Sole Selling Agents was not done according to any approved tender procedure.

Even though the relevant sections of the Rules provide restrictions on the face value of the ticket, prize structure, agent’s discount etc., in practice, from September 1998, the agent prepares schemes with the prize structure, the face value of the ticket including the Agent’s Selling Price, the number of tickets to be printed, the design, colour of the tickets to be printed, the artwork for the tickets, the periodicity of the draw and the place where the draw is to be conducted etc., for the formal approval of CTNR.

The turnover of the business under raffle runs to crores of rupees per annum and the Financial Rules and more particularly Section II(d) of the Tamil Nadu Transparency in Tenders Act 1998 prescribes that procurement of supplies and services in such cases should invariably be made by following Open Tender system. But the Commissioner selected only three agents without calling for tenders. When the non- appointment of Sole selling Agent through open tender was pointed out, the Government replied (July 2001) that in the present system more than one agent can participate in a draw. The reply is not tenable as there had not been even a single occasion where more than one agent participated in a draw. The scheme for a particular draw is designed by a particular agent and print order is given only after entering into an agreement with him on 100 *per cent* liftment.

#### ***9.5.7 Payment of prize money to public***

##### ***(a) Payout below the prescribed limit of 50 per cent on the gross value of tickets sold***

The scheme of lotteries, as per Government of India guidelines 1984, clearly envisages that not less than 50 *per cent* of the gross value of the tickets should be paid as prize money to the public.

Government of Tamil Nadu also specified (October 1999) that the prize payout should not be less than 63 *per cent* of the face value of the tickets and agents commission should not be more than 22 *per cent* in respect



of ordinary draws and in respect of bumper draws they should be 60 and 25 *per cent* respectively.

However, test check of records made available to Audit revealed that the public got only 41 to 46 *per cent* of the gross value of tickets. The reasons are

- (i) deduction of 10 *per cent* of the prize money from first and second prizes and giving it to the agent who sold the prize winning ticket;
- (ii) acceptance of the scheme designed by the agents which provides for payment of bonus to agents for each prize given.

On this being pointed out, the Government replied (July 2001) that the Government of India guidelines 1984 have no legal validity as on date. Under Lotteries (Regulation) Act 1998 it is mandatory that State Government should follow the instructions given by the Government of India and hence the reply is not acceptable

**(b) *Irregular deduction from the prize money***

Based on the proposal (January 1990) of the Department, Government ordered (February 1992) deduction of 10 *per cent* from the I and II prizes payable to the public for the purpose of meeting the expenditure towards payment of Bonus to Agents till the sales pick up, as Government had to distribute prizes irrespective of the quantum of sale of tickets. The Tamil Nadu Raffle Rules, however do not provide for such a deduction. After the introduction of the “100 *per cent* Liftment” scheme in September 1998, all the tickets were sold and there was no case of unsold tickets with the Department. Hence, deduction of 10 *per cent* of the prize money from the I & II prizes for the period from September 1998 onwards is unjustified. The amount thus deducted from September 1998 to October 2000 which worked out to Rs.8.43 crore is an unauthorised deduction from the prize money due to the winners. Government replied (July 2001) that as the deduction is based on the order of the Government, it is not unauthorised. The reply is not acceptable as the orders given by the Government is meant for a specific period when the percentage of sale of tickets was low and the situation after the introduction of 100 percent liftment does not warrant the deduction.

**(c) *Arrears in payment of prize to Public***

The statement furnished by the Commissioner on the payment of prize money to the public revealed that as much as Rs 20.30 crore of the declared prize money remained undisbursed as of January 2001.

Though Government has permitted the Department to operate the Personal Deposit Account for quick disbursal of the prizes, there was delay

of more than 6 months in payment to the prize winners. Such delays are likely to lead to loss of credibility in the minds of public. On this being pointed out, the Government replied (July 2001) that the allocation of funds to various departments were being made based on the availability of funds and cash management and that care will be taken to ensure that the prize amount are paid to public without delay in future. This explanation does not meet the point as it is the foremost responsibility of the department to pay the prize money promptly out of the receipt from sale of tickets.

**9.5.8 *Undue financial aid given to the agent***

**(a) *Excess payment of bonus***

As per Rule 20 of TNRR 1976, only 10 *per cent* of the prize amount is payable as bonus to the agents for having sold the prize winning tickets. Scrutiny of the prize structures approved by Department for the period from October 1998 to March 2001 revealed that the bonus amount in the name of CST (Certificate of Sale of Tickets) Bonus and Bulk Ticket Bonus payable/paid to the agents ranged from 13 to 41 *per cent* of the prize money. When it was pointed out, the Government replied (July 2001) that the payment of bonus is made as an incentive to the agent who has to take up aggressive marketing strategies and to bear the risk of unsold tickets in the unhealthy competition posed by other State Lotteries. The reply is not tenable as the question of payment of incentive will arise only when there is more than one agent for a particular draw, for which there is no scope in the present system. The amount paid as bonus in excess of the prescribed limit during the period from October 1998 to December 2000 worked out to Rs 23.18 crore.

**(b) *Non levy of penal interest on the credit sale of raffle tickets***

According to Rule 19 of TNRR, 1976, the face value of the tickets, reduced by the discount, has to be paid in advance by the agents. However, to improve the sale of raffle tickets, Government permitted (February 1988) the sale of tickets to the agents on credit basis, after obtaining a 'Bank Guarantee' subject to the condition that the amount due should be paid to the Department within 30 days from the date of sale or before the date of draw, whichever is earlier. However, test-check revealed that the agents settled their dues after a minimum delay of 21 days from the date of draw. When the matter was brought to the notice of the Government it was replied (July 2001) that in other State lotteries a maximum of 120 days is allowed and the allowance of 21 days in Tamil Nadu is minimum when compared to other States and that the credit period is allowed to enable the agent to reimburse the prize amount disbursed by him upto Rs. 5000 in each case. The reply is not tenable as it violates the provisions of the agreement entered into by the agent with the Department prescribing the period before which the sale value has to be remitted. This resulted in unauthorised financial aid to the agents, resulting

in loss of interest to Government to the tune of Rs.2.56<sup>17</sup> crore for the period from October 1998 to December 2000.

**(c) Payment of bonus on tickets not sold.**

The prize structure of each draw provides for payment of bonus to agents/sellers who sold the prize winning ticket (PWT). The bonus is equal to 10 *per cent* of the prize which the PWT carries. The agent is entitled for the bonus, only if the PWT has been sold by him. When the agent himself claims the prize, it goes to prove that the ticket remained with him as unsold. However, it is observed that the agent has claimed prize as the holder of the ticket and in addition to the prize, the agent was paid bonus also to the tune of Rs 20,000 in respect of 4 draws checked in audit. On this being pointed out, the Government agreed (July 2001) to take care and it will be seen that no bonus is paid to the agent on the unsold tickets in future.

**9.5.9 Omission to deduct tax at source**

Under the provisions of Section 194G of the Income Tax Act, where any payment is made by way of commission, remuneration or prize to a person, who is or has been stocking, distributing, purchasing or selling lottery tickets, income-tax at the rate of ten *per cent* has to be deducted. But on payment of bonus, prize money on unsold tickets etc., made to agents, no income tax was deducted consistently by the Commissioner. When the omission to deduct tax at source in a few cases was pointed out, the Government replied (July 2001) that as per the legal opinion obtained from a senior Advocate the deduction was not called for, as the agent disburses the bonus down the line he is only a vehicle of disbursement. The reply is not tenable, as Section 194G has been clearly worded so as to avoid any such loopholes. Payments in whatever name offered to a person who acts as an agent selling lottery tickets, has to suffer TDS (Tax Deducted at Source) if it exceeds Rs.1000. To avoid hardship to the genuine person the Income Tax Act provides for exemption from TDS or deduction at a lower rate, if the respective Income Tax officer is satisfied and gives orders for the purpose. For this purpose the agent who claims exemption has to approach the ITO and file full particulars of receipts and disbursements with proper acquittance. The TDS is to be taken as payment of Advance Tax by the agent at the time of arriving at the actual tax payable.

For the omission to deduct tax at source, in addition to the liability of payment of tax due in these cases, the Commissioner will be liable to pay penalty and also interest at the rate of eighteen *per cent* per annum on the amount of such tax from the date on which such tax was deductible to the

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<sup>17</sup> Rs 216.78 Crore X 20.5 *per cent* X 21/365= Rs 255.68 lakh

date on which such tax is actually paid. It will become the ultimate liability of the Commissioner to pay these amounts, as there is no binding clause in the agreement entered into with the agent. For the period from October 1998 to December 2000, the payment made to the agents as bonus etc. worked out to Rs 127.54 crore. The Commissioner had not deducted the tax due thereon, which was Rs 12.75 crore.

**9.5.10 Shortfall in transfer of funds**

**(a) Shortfall in transfer of funds to the Tamil Nadu Special Welfare Fund and poor utilisation of the fund for welfare schemes**

The primary objective of the raffle scheme is to augment resources for the welfare schemes and, accordingly, every year 75 per cent of the annual net proceeds from the lotteries has to be transferred to the Tamil Nadu Special Welfare Fund for the implementation of various welfare schemes, as stated in Government order of February 1971. Test-check revealed that instead of a sum of Rs.50.64 crore, being 75 per cent of the net proceeds under the scheme for the period from 1995-96 to 1999-2000, which was to be transferred to the Fund, a sum of Rs.42.83 crore only had been transferred leaving a shortfall of Rs.7.81 crore. The balance amount of Rs.7.81 crore stands included in the Consolidated Fund of the State which is contrary to the objective of the scheme. Yearwise data is at Appendix-I.

Moreover, out of the amount of Rs.42.83 crore transferred to the Fund during 1995-96 to 1999-2000, only an amount of Rs.12.38 crore was utilised for welfare schemes (29 per cent). The balance amount of Rs.30.45 crore remained unutilised as on 31 March 2000.

As per the Government Order on the administration of the Tamil Nadu Welfare Fund, a committee has to be constituted for reviewing the requirement of funds for the Welfare Schemes and take decision on the transfer to the Fund. But no committee was formed and no such meetings were convened during the period 1996-97 to 2000-01.

When the matter was reported to Government, it was stated that the exact proceeds from lottery receipts could not be anticipated and therefore transfer of funds was restricted to the budget provision. The reply of the Government is not tenable as the main objective of the lottery scheme is to transfer 75 per cent of the net proceeds of the scheme towards welfare schemes.

**(b) Shortfall in transfer of funds to Tamil Nadu Ex-servicemen Personnel Benevolent Fund**

The entire net sale proceeds of the first draw to be held in the month of December every year should be transferred to the Tamil Nadu

Ex-servicemen Personnel Benevolent Fund as per the Government orders of March 1981.

Test-check revealed that the Department had effected the transfer based on the budget estimate, resulting in short transfer of money to the Fund. As against the actual net proceeds of Rs.18.74 lakh, a sum of Rs.5.25 lakh only was transferred to Ex-Servicemen Welfare Fund (for the period from 1996-97 to 2000-2001) leaving a shortfall of Rs.13.49 lakh. When this was pointed out the Government agreed (July 2001) to evolve necessary mechanism to ensure proper transfer of proceeds to the Special Welfare fund.

#### ***9.5.11 Failure to account for the disbursement of prizes by the agents***

The agents are permitted to make payment of prize amount upto Rs.5,000 and render accounts for such transactions duly supported by relevant prize winning tickets for verification of the correctness of the payments made and to claim reimbursement.

However, in respect of prize amounts claimed to have been paid by the agents to the public, no details of the claimants were furnished by the agents. Neither the department had ever insisted, nor the agents submitted any accounts in this regard. The agents simply surrendered the prize winning tickets and the value thereon amounting to Rs.66.27 crore was adjusted from the payments due from them towards the lifting of tickets. The prize winners are supposed to affix their signature and write their name and address in the space provided therefor on the reverse of PWT, in token of their claim for the prize. In all the claims of reimbursement preferred by the agents, the tickets did not bear any signature, nor did the agents file any statement showing the persons to whom the prize amounts were disbursed. In the absence of any proof that the prize winning public had been paid by the agent, it may be possible that the agent has claimed the prize as if the ticket was unsold. It would attract the provisions of Income Tax Act also. When the omission was pointed out, the Government replied (July 2001) that necessary instructions would be issued in this regard.

#### ***9.5.12 Irregularities in printing of raffle tickets***

##### ***(a) Printing by Government Press***

As per the provisions of Rule 11 of Tamil Nadu Raffle Rules 1976, the printing of raffle tickets had to be done by the Government press.

Scrutiny of records at Government press revealed that in respect of the following draws, the tickets were printed in excess and the excess tickets had been delivered to the agents. The Commissioner did not

have any knowledge about the excess supply, till the time the agents brought it to his notice.

Name of the draw	Series	Tickets printed in excess	Number of tickets
136 <sup>th</sup> Vaigai	XO	303500-303549	50
76 <sup>th</sup> Karnan	NO	306810-306847	38
76 <sup>th</sup> Karnan	NP	306810-306845	36

Test-check at the Government Press revealed that about 26,000 tickets are printed in excess for every draw due to some technical reasons and those excess tickets did not have numbers. It was also ascertained that some of those dummy tickets were used for replacement of defective tickets noticed at the time of checking and the remaining tickets were destroyed in the presence of the Assistant Works Manager of the Government Press. Until the matter of excess issue of tickets was taken up with the Government Press by the Agents, the Commissioner was not even aware of the fact that for each draw 26000 tickets are printed in excess of the quantity ordered. There is no mechanism available with the department to ensure that the Press printed and released only the quantity ordered for printing and the tickets printed in excess of the requirement are destroyed under proper supervision. When this was pointed out, the Government replied that necessary instructions have been given to ensure cent *per cent* check on the tickets printed and issued.

**(b) Printing by Private Security Press**

(i) As the capacity of the Government press was limited, Government permitted the Raffle Department to entrust the work to approved private security press subject to certain conditions. One of the conditions was that a senior officer from the Department should supervise the work to ensure 100 *per cent* perfection and security. But no officer was appointed to supervise the printing done in private security press.

(ii) On one occasion, the work of printing was entrusted to M/s K.L. Hitech Security Press Limited for the period from November 1998 to July 1999. The firm had to pay a sum of Rs.16.20 lakh as Security Deposit as per the tender conditions and agreement, but paid only a sum of Rs.2.00 lakh and no action was taken by the Commissioner for collection of the balance security deposit due.

(iii) For the period from August 1999 to October 1999, Commissioner placed orders with M/s. Manipal Press Limited., Karnataka, without following the open tender procedure. The firm paid the security deposit of Rs 12.00 lakh due in October 1999 belatedly in January 2000.

When the irregularities were pointed out, the Government agreed (July 2001) to examine the issue.

(c) ***Omission to make proper assessment of requirement of tickets to be printed.***

Scrutiny of records relating to the printing of raffle tickets revealed that the percentage of tickets printed but not sold varied from 20 to 39 for the years 1996-97 to 1998-99

Had proper assessment of requirement of tickets to be printed been made by way of market survey or by comparison of sales during the previous quarter, the department could have avoided the expenditure of Rs.109.71 lakh incurred on printing of tickets which remained unsold. Government accepted (July 2001) the point and has stated that there has been no recurrence of this nature now.

***9.5.13 Non-maintenance of Draw Result Registers***

As per Rule 31 of TNRR 1976, the Register of Prize Winning Numbers has to be kept under the personal custody of the Commissioner. As soon as a particular number is drawn, the prize winning numbers shall be entered in the register by the Chairman of the Committee in whose presence the draws are conducted, and all the members of the Committee are required to sign the register on completion of the draw. However, no such register was being maintained and all the members and the Chairman signed in loose sheets. When the omission was pointed out, the Government agreed to take necessary action.

***9.5.14 Conclusion***

The Government should formulate a system to appoint sole selling agents through open competitive tenders. Stop the deductions from the prize money due to winners and its subsequent payment to agents as it has resulted in undue benefit to them. Quick disbursal of prizes to the public should be ensured so that the credibility of the Government is not lost. The percentage (75 per cent) of annual net proceed should be transferred to the Funds instead of retaining it in the consolidated fund and its full utilisation is ensured to achieve the objective of the scheme.

**C - ENVIRONMENT AND FOREST  
DEPARTMENT**

**9.6 Non-realisation of interest**

Government transferred (April 1974) 77010.71 hectares of Forest land in Tiruchirappalli, Pudukkottai, Karaikudi and Cuddalore regions to Tamil Nadu Forest Plantation Corporation (TAFCON), Tiruchirappalli on lease basis for thirty two years. The lease rent initially fixed in February 1978 was Rs 20 per hectare per annum for existing plantation and Rs 10 per hectare per annum for unplanted area, which was revised periodically from time to time. A part of the lease rent was paid by TAFCON and the balance amount of lease rent payable as on 31 March 1995 worked out to Rs 952.96 lakh.

Based on the request (April 1996) of TAFCON to convert a part of the arrears (Rs 3.50 crore) into equity shares, Government ordered (October 1997) that Rs 100 lakh be converted as equity share capital and the balance amount of Rs 852.96 lakh as on 31 March 1995 to be refunded to the Government along with interest in five equal annual instalments from 1997-98 onwards. The interest at 15 *per cent* was to be paid from the date from which lease rent had fallen due.

TAFCON paid Rs 854.30 lakh in six instalments between January 1998 and October 1999 towards the lease rent due only. Even though Government ordered in October 1997 that the arrears of lease rent had to be paid along with interest at the rate of 15 *per cent*, the matter was not pursued by the District Forest Officer vigorously. In November 1999, the Corporation requested for waiver of interest on the arrears of lease rent due. But Government ordered (March 2001) to remit the interest on the outstanding lease rent due from 1974-75 amounting to Rs 1566.45 lakh within the current financial year, considering the sound financial position of the Corporation. But, inspite of Government order, no interest was paid by the Corporation as of September 2001.

The matter was reported to Government in April 2001; no reply has been received (September 2001).



**D -HOME DEPARTMENT**

**9.7 Non-collection of recurring and non-recurring expenditure from Tamil Nadu Electricity Board**

Government accorded sanction between January 1974 and February 1995 for establishment of fire stations inside the premises of Ennore Thermal Power Station, Tuticorin Thermal Power Station, Mettur Thermal Power Station and North Chennai Thermal Power Station with the required staff to man them and for the purchase of appliances. The recurring expenditure towards staff and maintenance of appliances was to be shared equally between Government and Tamil Nadu Electricity Board (TNEB) in respect of the fire stations at Ennore Thermal Power Station and Tuticorin Thermal Power Station. The entire recurring expenditure was to be recovered from Tamil Nadu Electricity Board in respect of fire stations at Mettur Thermal Power Station and North Chennai Thermal Power Station. The non-recurring expenditure was to be recovered in full from TNEB.

The Divisional Fire Officers worked out the recurring and non-recurring expenditure incurred in respect of the fire stations situated in the 4 thermal power stations and furnished an expenditure statement to the Director of Fire Services, who after verifying the accuracy of the expenditure statements, raised demand on Tamil Nadu Electricity Board between February 1999 and December 2000. Test-check of records in the Director of Fire Services revealed (March 2001) that there was delay in submission of expenditure statements by Divisional Fire Officers and delay of upto 3 years in raising demand by Director of Fire Services on TNEB. As of March 2001, Rs.358.22 lakh demanded (February 1999 to February 2001) by Director of Fire Services for the period from 1996 to 2000 (Appendix II) had not been paid by TNEB in respect of the four Thermal Power Stations. The matter was not effectively pursued by the Director of Fire Services.

The matter was reported to Government in May 2001; reply had not been received (September 2001).

**E - REVENUE AND HOUSING AND URBAN  
DEVELOPMENT DEPARTMENT**

**9.8 Non-payment of Government dues**

Government instructed (March 1988) the District Revenue Officer, Chengalpattu to hand over 126 acres (50.99 hectares) of Government poramboke land in Paruthipattu Village, Sriperumbudur to Tamil Nadu Housing Board (TNHB) for the Avadi Sites and Services Scheme pending fixation of land cost. The land was taken over by the Board in October 1988.

Government in November 1990 issued orders fixing the land cost at a concessional rate of Rs 62,000 per hectare in respect of Government lands alienated to TNHB for implementing various Sites and Services schemes under Tamil Nadu Urban Development Programme (TNUDP). The respective District Collectors with the approval of the Special Commissioner and Commissioner of Land Administration, Chennai were required to fix the market value of lands alienated to TNHB and the difference between the market value so fixed and the concessional rate was to be treated as cash support of Government to TNHB for the scheme. Government further instructed (December 1994) to charge interest at the rate of 10 *per cent* per annum upto March 1992 and at 12 *per cent* per annum thereafter on the cost of land and remit to Government.

Audit scrutiny (July 1999) revealed that under the Avadi Scheme, 48.07 hectares of land was transferred to TNHB, on which flats were built and allotted to the public. Tamil Nadu Housing Board worked out the market value of land as Rs 29.80 lakh and interest of Rs 7.42 lakh at the rate of 10 *per cent* per annum upto January 1991 and paid (January 1991) an amount of Rs 25 lakh leaving a balance of Rs 12.23 lakh. The District Revenue Officer, Thiruvallur failed to raise the demand for payment of the balance amount. The interest for the unpaid balance from February 1991 to

March 2001 worked out to Rs 25.68 lakh. Thus inaction on the part of the Revenue Department resulted in non-collection of Government revenue to the tune of Rs 37.91 lakh.

The matter was reported to Government in May 2001; reply had not yet been received (September 2001).

Chennai,  
The

**(T.THEETHAN)**  
**Accountant General (Audit) II**  
**Tamil Nadu**

**Countersigned**

New Delhi,  
The

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**Comptroller and Auditor General**  
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