

## CHAPTER IX OTHER NON-TAX RECEIPTS

### 9.1 Result of audit

Test check of the records relating to receipts from Forests, Police, Irrigation and Waterways and other departments conducted during the year 2006-07, revealed non/short realisation, short assessment etc. of revenue amounting to Rs. 1,721.15 crore in 64 cases as mentioned below:

<i>(Rupees in crore)</i>			
Sl. No.	Nature of receipts	No. of cases	Amount
1.	<b>'Interest Receipts from Loans' (A review)</b>	1	1,302.36
2.	Interest receipts	11	393.03
3.	Forest receipts	26	2.60
4.	Police receipts	8	16.70
5.	Receipts from Irrigation and Waterways	18	6.46
<b>Total</b>		<b>64</b>	<b>1,721.15</b>

During the course of the year 2006-07, the departments concerned accepted audit observations of Rs. 397.01 crore involved in 53 cases of which 19 cases involving Rs. 388.98 crore were pointed out in audit during the year 2006-07 and the rest in earlier years. An amount of Rs. 8.03 crore was realised in 33 cases at the instance of audit.

A few illustrative cases involving Rs. 1.08 crore highlighting important observations and a review of **'Interest receipts from loans'** having financial effect of Rs. 1,302.36 crore are mentioned in the following paragraphs.

**A. INTEREST RECIEPTS**

**9.2 Interest Receipts from Loans**

**Highlights**

Lack of monitoring by the Finance Department led to disbursement of loans by the loan sanctioning departments without fixing of the terms and conditions for their repayment. This resulted in non-levy of interest of Rs. 91.97 crore.

[Paragraph 9.2.9]

Failure of the loan sanctioning departments to monitor payment of stipulated instalments by the loanees and redetermine interest payable led to short realisation of interest of Rs. 571.26 crore.

[Paragraph 9.2.10]

Failure of the Government to specify a time limit for initiation of certificate proceedings led to non-realisation of interest of Rs. 89.14 crore as well as principal of Rs. 112.21 crore.

[Paragraph 9.2.11]

Failure of the loans sanctioning departments to recover the instalments from defaulting loanees in case of current loans led to non-recovery of interest of Rs. 1,962.70 crore.

[Paragraph 9.2.15]

The loan sanctioning departments failed to include/recover outstanding interest of Rs. 602.57 crore while converting loans into equity share capital/interest free loans.

[Paragraph 9.2.16]

### 9.2.1 Introduction

Interest receipts from loans is one of the major sources of non-tax revenue of the State Government. This comprises interest charged by the Government on the 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.

The provisions 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 West Bengal Financial Rules (WBFR).

The Government, from time to time, fixes the rates of interest to be charged on different categories of loans. During the period from April 2001 to March 2006, the rates of interest fixed by the Government varied from 8 to 17 *per cent* per annum. Besides, the State Government also provided a rebate of 2.5 *per cent* per annum on the rate of interest for timely payment of principal and interest on a loan.

**A review of the interest receipts from loans was conducted which revealed system deficiencies and procedural lapses like inadequate monitoring of loans, inaction against defaulters, abnormal delays in recovery of arrears, inadequate control systems and improper maintenance of basic records, etc. These system and compliance deficiencies have been discussed in the subsequent paragraphs.**

### 9.2.2 Audit objectives

The review was conducted with a view to ascertain the following:

- existence of an adequate system for sanctioning and disbursing of loans;
- proper maintenance of records relating to sanction and disbursement of loans;
- existence of an adequate and effective system for realisation of principal and interest on loans;
- adequacy of remedial measures against the defaulters for safeguarding the interest of the Government; and
- whether an internal control mechanism was in place and was working effectively for monitoring compliance with the terms and conditions of loans.

### **9.2.3 Organisational set up**

Intending loanee organisations submit proposals for sanction of loans to the departments. The departments process the proposals and sanction the loans with the concurrence of the Finance Department. The fixation of terms and conditions for repayment of a loan by the concerned department is a precondition for the sanction of a loan.

### **9.2.4 Scope of audit**

The Government disburses loans mainly through six departments viz. Commerce and Industries, Co-operation, Industrial Reconstruction, Power, Public Enterprises and Urban Development. The records of the loans sanctioned by these departments during the years from 2001-02 to 2005-06 were test checked during the period from December 2006 to April 2007.

### **9.2.5 Acknowledgement**

Indian Audit and Accounts Department acknowledges the co-operation of the Finance, Commerce and Industries, Co-operation, Industrial Reconstruction, Power, Public Enterprises and Urban Development departments in providing necessary information and records for audit. The audit findings of the review were reported to the Government in June 2007 and discussed in the Audit Review Committee meeting held in July 2007 in which deputy/joint/special secretaries of respective ministries represented the West Bengal Government. The responses of the Government to the audit observations have been appropriately incorporated in the review.

### **Audit findings**

#### **9.2.6 Trend of revenue**

As per the WBFR, the actual receipts of the previous year and revised estimates of the current year guide the framing of the estimate of the ensuing year. The budget estimates (BE) and interest receipts from loans during 2001-02 to 2005-06 are as mentioned below:

*(Rupees in crore)*

Year	BE	Receipts	Variations excess (+)/shortfall (-)	Percentage of variation
2001-02	630.94	122.90	(-)508.04	(-) 80.52
2002-03	887.00	103.00	(-)784.00	(-) 88.38
2003-04	224.00	110.11	(-)113.89	(-) 50.84
2004-05	180.00	589.31	(+)409.31	(+) 227.22
2005-06	152.00	378.08	(+)226.08	(+) 148.74

Over the period between 2002-03 and 2005-06, the BE gradually decreased from Rs. 887 crore to Rs. 152 crore whereas the actual receipts varied between Rs. 103 crore and Rs. 589.31 crore. The receipts during 2001-02 to 2002-03 were far below the BE whereas during 2004-05 and 2005-06, the receipts were much more than the BE. The Government did not explain (September 2007) the reasons for such wide variations between the BE and receipts despite being requested (May 2007).

### 9.2.7 Arrears of repayment

Finance, Commerce and Industries, Co-operation, Industrial Reconstruction, Power, Public Enterprises and Urban Development departments did not furnish the figures of unpaid loans and interests for the period from 2001-02 to 2005-06, despite being requested (May 2007). As per the Finance Accounts, the total outstanding loans under the different heads had increased by over 45 per cent from Rs. 11,530.08 crore to Rs. 16,792.83 crore over the period from 2001-02 to 2005-06, as mentioned below:

*(Rupees in crore)*

Year	Opening balance of outstanding loans	Loans disbursed during the year	Repayment of loans during the year	Closing balance of outstanding loans
2001-02	9,847.64	1,850.39	167.95	11,530.08
2002-03	11,530.08	1,362.78	213.35	12,679.51
2003-04	12,679.51	3,056.33	91.02	15,644.82
2004-05	15,644.82	1,337.36	746.61	16,235.57
2005-06	16,235.57	1,188.59	631.33	16,792.83

### 9.2.8 Shortfall in realisation of accrued interest

The position of arrears of interest for the period from 2001-02 to 2005-06, as per the Finance Accounts is mentioned below:

*(Rupees in crore)*

Year	Opening balance of interest payable	Interest accrued during the year	Interest realised during the year	Closing balance of arrear interest	Percentage of interest realised vis-à-vis interest accrued
2001-02	2,553.38	1,359.29	122.90	3,789.77	9.04
2002-03	3,789.77	1,383.73	103.00	5,070.50	7.44
2003-04	5,070.50	1,343.23	110.11	6,303.62	8.20
2004-05	6,303.62	1,353.44	589.31	7,067.75	43.54
2005-06	7,067.75	2,769.68	378.08	9,459.35	13.65

While the recovery of interest has improved compared to the levels obtaining upto 2003-04, the position is far from satisfactory and requires to be addressed by the concerned departments.

## System deficiencies

### 9.2.9 Sanction of loans without fixing terms and conditions for repayments

Under the provisions of the WBFR, before sanctioning and disbursing a loan, the sanctioning authority is required to specify the terms and conditions which, *inter alia*, include the date of commencement of payment of instalments, its periodicity and the term within which the loan has to be fully repaid. **The loan sanctioning departments are required to record all these details in various registers like the loan/sanction and demand, collection and balance register for monitoring the repayment of the loans. Audit noticed that there was no monitoring on the part of the Finance Department to ensure that loans were disbursed by the departments only after specifying the terms and conditions.**

Scrutiny of the records of loans disbursed by three departments revealed that, in 35 cases, loans aggregating Rs. 242.06 crore were sanctioned and disbursed by the departments between November 1994 and March 2005 without fixing the terms and conditions of the loans. Consequently, instalments for payment of principal and interest of the loans could not be determined even after the lapse of periods ranging between 21 and 155 months from the date of disbursement of loan till the date of audit. This resulted in non-levy of interest<sup>1</sup> of Rs. 91.97 crore between 2001-02 and 2005-06 as mentioned below:

*(Rupees in crore)*

Sl. No.	Name of the department	No. of cases	Lapse of time after disbursement of loan		Amount of loan	Non-levy of interest	Reply of the department
			from	to			
			(months)				
1.	Commerce and Industries	17	82	120	3.77	3.21	The department accepted (July 2007) the audit observation and stated that they would fix the terms and conditions in all cases as per the prevailing norms and follow up action would be taken shortly.
2.	Power	16	21	155	238.07	88.60	Not received.
3.	Public Enterprises	2	73	83	0.22	0.16	The department admitted (August 2007) the audit observation.
<b>Total</b>		<b>35</b>			<b>242.06</b>	<b>91.97</b>	

The departments, however, failed to explain the reasons for sanction and disbursement of loans without drawing up of the terms and conditions which was a prerequisite as per the WBFR.

<sup>1</sup> Calculated at the rates of interest fixed by the Government on these categories of loans at the time of their disbursement.

**The Government may consider specifying a procedure for monitoring by the Finance Department to ensure that loans are not disbursed without specifying the terms and conditions for repayment.**

### **9.2.10 Monitoring and recovery of loans**

Under the WBFR, every loanee is required to adhere strictly to the terms and conditions settled for a loan which, *inter alia*, stipulates payment of instalment(s) of the loan within the stipulated due date(s). In case of default in payment of instalment(s) of loans, the department is required to take prompt remedial measures.

**As per the standing guidelines of the State Government, the loan sanctioning authorities are required to closely watch the repayment of loans and recovery of interest through various registers like loan and demand, collection and balance register.**

#### **9.2.10.1 Short determination of interest**

A loanee has to pay the principal and interest on loan in periodical instalments on or before the due dates of payment. The interest payable is determined on the balance of the loan remaining outstanding on the due date of payment. Scrutiny of the records of loans disbursed by four departments, repayment terms of which expired between 2001-02 and 2005-06, revealed that in 66 cases the loanees defaulted in repayment of all the instalments of loans. **Audit noticed that interest was predetermined notionally on the diminishing balance of loans presuming timely payment of instalments by the loanees. Hence, in case of failure in payment of instalments, the sanctioning authorities were required to redetermine interest on the actual outstanding balance of loans. The departments, however, failed to monitor the repayment of stipulated instalments by the loanees and redetermine the interest payable even after the lapse of time ranging from 7 to 68 months from the date of expiry of the loan repayment terms. This resulted in short determination and non-realisation of interest of Rs. 52.64 crore as mentioned below:**

*(Rupees in crore)*

Sl. no.	Name of the department	No. of cases	Lapse of time after expiry of term		Short determination of interest	Reply of the department
			from	to		
			(months)			
1.	Industrial Reconstruction	6	7	55	2.94	The department admitted (August 2007) the audit observation and stated that interest would be recast and demand would be issued on the debtors.
2.	Power	5	56	68	8.77	The department admitted (July 2007) the audit observation and stated that fresh demand would be issued after recalculation of interest.
3.	Public Enterprises	27	22	45	3.96	The department admitted (August 2007) the audit observation and stated that interest would be recast and demand notice would be issued to the debtors.
4.	Urban Development	28	11	58	36.97	The department agreed (July 2007) to redetermine interest on loans of the defaulting loanees and raise demand accordingly.
<b>Total</b>		<b>66</b>			<b>52.64</b>	

### **9.2.10.2 Irregular allowance of rebate to defaulting loanees in case of expired loans**

The Government grants rebate at a specified rate of interest for timely payment of instalments. The instalments are determined after allowing the rebate presuming regular payment of principal and interest. However, in cases of default in payment of instalments on due dates, the instalments are liable to be redetermined without rebate.

Scrutiny of the records of loans disbursed by four departments between April 1981 and March 1995 revealed that in 59 cases instalments were determined after allowing rebate on interest ranging between 2 and 2.5 *per cent*. Since the loanees defaulted in payment of instalments till the expiry of repayment terms falling between 2001-02 and 2005-06, interest payable should have been redetermined by disallowing the rebate. **As there was no system of monitoring the repayment of loans by the loanees and redetermine the interest payable after disallowing the rebate, the loan sanctioning departments failed to withdraw the rebate granted.** This resulted in irregular allowance of rebate of Rs. 40.47 crore as mentioned below:



(Rupees in crore)

Sl. No.	Name of the department	No. of cases	Lapse of time after expiry of term		Amount of loan	Irregular allowance of rebate	Reply of the department
			from	to			
			(months)				
1.	<b>Industrial Reconstruction</b> (loans were disbursed between January 1992 and March 1995)	5	7	43	12.11	2.66	The department admitted (August 2007) the audit observation and stated that interest would be recast and demand would be issued to the debtors.
2.	<b>Power</b> (loans were disbursed between October 1984 and December 1986)	5	56	68	19.89	5.97	The department admitted (July 2007) the audit observation and stated that fresh demand would be issued after recalculation of interest.
3.	<b>Public Enterprises</b> (loans were disbursed between March 1986 and March 1990)	24	22	45	9.09	3.41	The department admitted (August 2007) the audit observation and stated that interest would be recast and demand notice would be issued to the debtors.
4.	<b>Urban Development</b> (loans were disbursed between April 1981 and March 1985)	25	11	58	56.85	28.43	The department agreed (July 2007) to redetermine the interest by disallowing rebate and raise demand accordingly.
<b>Total</b>		<b>59</b>			<b>97.94</b>	<b>40.47</b>	

### 9.2.10.3 Irregular allowance of rebate to defaulting loanees in case of current loans

Scrutiny of the records of loans disbursed by five departments between August 1984 and December 2004 revealed that in 442 cases the loanees defaulted in payment of instalments which fell due between 2001-02 and 2005-06. **Audit noticed further that the loan sanctioning authorities did not take any step for redetermination of instalments disallowing rebate even after the lapse of time ranging between 9 and 72 months from the due date of payment of instalments till the date of audit.** This resulted in irregular allowance of rebate of Rs. 478.15 crore as mentioned below:

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*(Rupees in crore)*

Sl. No.	Name of the department	No. of cases	Lapse of time after expiry of term		Amount of loan	Irregular allowance of rebate	Reply of the department
			from	to			
			(months)				
1.	<b>Commerce and Industries</b> (loans were disbursed between September 1991 and September 2003)	126	25	67	153.19	17.08	The department accepted (July 2007) the audit observation and stated that action would be taken.
2.	<b>Industrial Reconstruction</b> (loans were disbursed between March 1996 and February 2003)	13	32	67	56.95	5.30	The department admitted (August 2007) the audit observation and stated that interest would be recast and demand would be issued to the debtors.
3.	<b>Power</b> (loans were disbursed between March 1995 and December 2004)	99	9	69	4,678.84	421.20	The department admitted (July 2007) the audit observation and stated that fresh demand would be issued after recalculation of interest.
4.	<b>Public Enterprises</b> (loans were disbursed between August 1984 and December 2002)	133	31	69	49.98	5.62	The department admitted (August 2007) the audit observation and stated that interest would be recast and demand notice would be issued to the debtors.
5.	<b>Urban Development</b> (loans were disbursed between June 1986 and March 2002)	71	44	72	234.73	28.95	The department agreed (July 2007) to redetermine the interest by disallowing rebate and raise demand accordingly.
<b>Total</b>		<b>442</b>			<b>5,173.69</b>	<b>478.15</b>	

**The Government may make it mandatory for the loan sanctioning authorities to review the loans at a fixed periodicity and redetermine the interest payable by the loanees by disallowing rebate granted, if any, and proceed to recover the same along with principal due.**

**9.2.11 Non-initiation of certificate proceedings against the defaulting loanees after expiry of loan repayment terms**

Under the provisions of the Public Demands Recovery Act, 1913, Government dues are recoverable by initiating certificate proceedings against the defaulter. The certificate proceedings, *inter alia*, include attachment and sale of the defaulter's moveable and immovable property etc. **There is no time limit specified for initiation of certificate proceedings.**

Scrutiny of the records of loans disbursed by four departments, repayment terms of which had expired between 2001-02 and 2005-06, revealed that in 79 cases the loanees defaulted in payment of all the instalments of principal of Rs. 112.21 crore as well as interest of Rs. 89.14 crore which remained outstanding after expiry of the loan repayment term. **As there was no system of monitoring the loans and no specified time limit had been prescribed**

for initiating certificate proceedings, the departments failed to take any steps to initiate proceedings for recovery against the defaulting loanees even after the lapse of 11 to 68 months from the expiry of the respective loan repayment terms. This resulted in non-realisation of interest of Rs. 89.14 crore as well as principal of Rs. 112.21 crore as mentioned below:

*(Rupees in crore)*

Sl. No.	Name of the department	No. of cases	Lapse of time after expiry of term		Non-realisation of principal	Non-realisation of interest	Reply of the department
			from	to			
			<i>(months)</i>				
1.	Industrial Reconstruction	6	19	55	12.56	6.33	Reminders are being issued by the department regularly. In case of failure, recovery proceedings would be started.
2.	Power	5	56	68	19.89	20.46	The department admitted (July 2007) the audit observation.
3.	Public Enterprises	27	22	45	9.69	9.42	The department admitted (August 2007) the audit observation.
4.	Urban Development	41	11	65	70.07	52.93	The department stated (July 2007) that remedial action would be taken shortly.
<b>Total</b>		<b>79</b>			<b>112.21</b>	<b>89.14</b>	

**The Government may consider prescribing a system for monitoring of the loan register. A time limit may also be specified for filing certificate cases in case of default in repayment of loans. Further, recovery proceedings should be initiated immediately in the cases pointed out by audit as further delay may result in the amounts becoming irrecoverable.**

### **9.2.12 Non-levy of interest**

Under the WBFR, interest is to be determined on the balance of loan remaining outstanding till the dues are fully paid. Further, for ensuring timely repayment of loans, the loan sanctioning authorities may enforce a penal rate of interest not less than eight *per cent* per annum upon all overdue instalments. **No instructions have been issued for judicious exercise of this discretionary power with the result that the provision failed to have the intended deterrent effect.**

Scrutiny of the records of loans disbursed by five departments, repayment terms of which expired between 2001-02 and 2005-06, revealed that in 71 cases the loanees defaulted in payment of all the instalments of loans. Consequently, interest was also leviable for the period beyond the loan repayment term on the outstanding balance of loan. The authorities, however, did not determine the interest which accrued after the expiry of the loan repayment term even after the lapse of 12 to 68 months from the expiry of the loan repayment term. In addition, in none of the cases the loan sanctioning

*Audit Report (Revenue Receipts) for the year ended 31 March 2007*

departments exercised the available discretion to levy penal interest on the unpaid loans. Failure of the loan sanctioning authorities to maintain the registers and impose penal interest resulted in non-levy of accrued interest of Rs. 31.71 crore as well as penal interest of Rs. 79.58 crore as mentioned below:

*(Rupees in crore)*

Sl. No.	Name of the department	No. of cases	Lapse of time after expiry of term		Amount of loan	Non-levy of interest	Penal interest not levied	Reply of the department
			from	to				
			(months)					
1.	Commerce and Industries	7	44	68	1.98	1.01	1.48	The department stated (July 2007) that it will calculate and charge interest on the overdue instalments from the loanees.
2.	Industrial Reconstruction	5	19	55	7.31	1.28	4.39	The department admitted (August 2007) the audit observation and stated that attempt would be made to determine the interest.
3.	Power	5	56	68	19.89	12.37	20.02	The department admitted (July 2007) the audit observation and stated that fresh demand would be issued after recalculation of interest.
4.	Public Enterprises	27	19	68	9.69	1.93	7.30	The department accepted the audit observation.
5.	Urban Development	27	12	58	57.35	15.12	46.39	The department stated (July 2007) that interest would be determined at the rate specified in the terms and conditions of loan and demand of interest would be raised accordingly.
<b>Total</b>		<b>71</b>			<b>96.22</b>	<b>31.71</b>	<b>79.58</b>	

**The Government may consider amending the WBFR to provide for mandatory levy of penal interest on overdue instalments of principal or interest or both for default in repayment of a loan.**

### **9.2.13 Weak internal controls**

Internal controls are processes by which an organisation directs its activities to effectively achieve its objectives.

**Audit scrutiny revealed that basic registers/records like loan register, sanction register, demand collection and balance register etc. were either not maintained at all or maintained improperly by the departments. Due to this the department failed to have effective control over the issue and recovery of loans and interest thereon.**

Further, periodical review of case records of loans are required to be done for prompt and effective recovery of arrears of loans and interest. However, no such periodical review was done by the departments.

After this was pointed out by audit, the departments responded as mentioned below:

Name of the department	Reply of the department
Commerce and Industries	The department stated (July 2007) that internal control system would be strengthened. It further stated that a departmental committee had been formed to review the performance of the department at different stages so that the defects/irregularities pointed out by audit did not recur.
Co-operation	The department stated (July 2007) that it will strengthen the internal control system. It further stated that it was contemplating setting up of a debt recovery tribunal for recovery of government dues.
Industrial Reconstruction	The departments accepted (July-August 2007) that no internal control system existed.
Power	
Public Enterprises	The department stated (August 2007) that it reviewed the functioning of the department every quarter and took corrective measures.
Urban Development	The department stated (July 2007) that it will take steps to improve its internal control system.

The reply of the Public Enterprises Department is not tenable since it could not furnish any record of either such review on quarterly basis or of corrective measures taken subsequently.

#### **9.2.14 Internal audit**

The internal audit wing of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed systems are functioning reasonably well.

None of the departments covered in this review had an internal audit wing and thus did not have an effective tool to ascertain whether its various wings were functioning reasonably well to ensure prompt and timely recovery of loan along with interest thereon.

**The Government should consider setting up of departmental internal audit wing in order to strengthen the internal control mechanism.**

**Compliance deficiencies**

**9.2.15 Non-recovery of interest from defaulting loanees in case of current loans**

Scrutiny of the records of loans disbursed by four departments revealed that in 50 cases the loanees defaulted in payment of instalments of loans which fell due between 2001-02 and 2005-06. However, no steps to recover the instalments were initiated by the departments against them even after the lapse of time ranging from 14 to 72 months from the due date of payment of instalments till the date of audit. This resulted in non-realisation of interest of Rs. 1,962.70 crore as mentioned below:

*(Rupees in crore)*

Sl. No.	Name of the department	No. of cases	Lapse of time after due dates of payment of instalments		Non-realisation of interest	Reply of the department
			from	to		
			(months)			
1.	Commerce and Industries	3	41	61	29.81	The department has agreed (July 2007) to take appropriate follow up action including certificate proceedings.
2.	Industrial Reconstruction	3	37	71	17.20	The department stated (August 2007) that reminders were being issued regularly. In case of failure, recovery proceedings would be started.
3.	Power	31	14	71	1,845.88	The department admitted (July 2007) the audit observation and stated that fresh demand would be issued after recalculation of interest.
4.	Urban Development	13	48	72	69.81	The department stated (July 2007) that remedial action would be taken shortly.
<b>Total</b>		<b>50</b>			<b>1,962.70</b>	

**9.2.16 Conversion of loans into equity share capital/interest free loans**

Under the provisions of the WBFR, the Government converts, from time to time, the outstanding loans granted to Government companies/corporations into equity share capital by issuing orders. Further, the State Government can, by issuing special orders with the concurrence of the Finance Department, grant remission or concession with regard to levy of interest.

### 9.2.16.1 Non-recovery of outstanding interest at the time of conversion of loans into equity share capital

Scrutiny of the records of loans disbursed by two departments revealed that in 76 cases the State Government converted outstanding loans of Rs. 1,076.14 crore into equity share capital between March 2002 and March 2006. Further scrutiny disclosed that the loanees had defaulted in payment of all the instalments which fell due before the dates of conversion. The authorities, however, did not either realise the outstanding interest of Rs. 357.11 crore before the conversion of the loans into equity or convert the outstanding interest into equity along with the outstanding loan amount, even after the lapse of time ranging between 9 and 56 months from the dates of conversion of loans into equity. This resulted in non-realisation of interest of Rs. 357.11 crore as mentioned below:

*(Rupees in crore)*

Sl. no.	Name of the department	No. of cases	Lapse of time after conversion of loan		Amount of loan	Non-realisation of interest	Reply of the department
			from	to			
			(months)				
1.	Commerce and Industries	17	56	--	13.94	16.87	The department stated (July 2007) that they would realise the interest from the loanees and in case of failure, action would be taken to waive the demand for interest with the concurrence of the Government.
2.	Power	59	9	45	1,062.20	340.24	The department stated (July 2007) that the cases required detailed scrutiny and outcome would be intimated shortly.
<b>Total</b>		<b>76</b>			<b>1,076.14</b>	<b>357.11</b>	

The reply of the department(s) did not clarify the reasons for the omission to recover the amount of outstanding interest at the time of the conversion of the unpaid loan into equity. Also, waiver of interest cited as an option by the Department of Commerce and Industries not only does not serve the interest of revenue, but would encourage others to demand the same treatment.

### 9.2.16.2 Non-realisation of outstanding interest on conversion of loans into interest free loans

Scrutiny of the records of loans disbursed by the Power Department revealed that the department disbursed loans of Rs. 1,850.62 crore to the West Bengal State Electricity Board (WBSEB) and Rs. 113.16 crore to the West Bengal Power Development Corporation Limited (WBPDC) in March 2004 at the rate of interest of 12.5 per cent per annum. In January 2006, both the loans were converted into interest free loans with effect from April 2005. Further scrutiny revealed that the department while converting the interest bearing

loans into interest free loans, did not realise interest of Rs. 245.46 crore payable for the period upto April 2005.

### **9.2.17 Failure to enforce the terms and condition of loans**

The State Government disburses loans for various purposes to diverse loanees including manufacturer dealers for payment of arrear sales tax.

Scrutiny of the records of loans disbursed by the Industrial Reconstruction Department revealed that during the period from March 2000 to March 2002 the department disbursed loans to three manufacturer dealers for payment of arrear sales tax. Further scrutiny revealed that the loans were disbursed after the execution of indenture of security between the Governor of West Bengal and the dealers which, *inter alia*, stipulated that if the borrowing dealers defaulted in the payment of any instalment within the due dates, the entire outstanding loans would fall due at once and they would be required to pay the entire loan alongwith interest. In the instant cases, the borrowers defaulted in payment of instalments within the due dates which commenced between April 2001 and April 2003. However, the department did not take any action for recovery of the overdue instalments of loans even after the lapse of time ranging between 44 and 68 months from the dates of default till the date of audit.

The failure of the department to enforce the agreed terms resulted in non-realisation of principal of Rs. 8.67 crore and interest of Rs. 4.54 crore as mentioned below:

*(Rupees in crore)*

<b>Name of the loanee and Government order no. and date of disbursement of the loan</b>	<b>Amount of loan</b>	<b>Date from which the loanee defaulted</b>	<b>Lapse of time (in months)</b>	<b>Outstanding interest</b>	<b>Rate of interest (in per cent)</b>	<b>Reply of the department</b>
M/s. Burn Standard Co. Ltd. 1603 – IR dated 3 March 2000	4.11	April 2001	68	2.16	8.75	The department admitted (August 2007) the audit observation and stated that legal action was being contemplated for recovery.
M/s. National Instruments Ltd. 20263–IR dated 10 December 2000	4.46	January 2002	60	2.34	8.75	
M/s. Adhesives and Chemicals 1563 – IR dated 19 March 2002	0.10	April 2003	44	0.04	8.75	
<b>Total</b>	<b>8.67</b>			<b>4.54</b>		



### **9.2.18 Undue benefit of further loans to a defaulting co-operative society**

Scrutiny of the records of the Assistant Registrar of Cooperative Societies (ARCS), Murshidabad, revealed that a loan of Rs. 50 lakh was disbursed to a society in February 2001. The society defaulted in the payment of instalments of the loan. Further scrutiny revealed that instead of taking remedial steps to recover the defaulted loan, five loans totaling Rs. 1.43 crore were further disbursed to the defaulting society between March 2002 and February 2005. However, the society did not pay any instalment in respect of any loan till the date of audit. Thus, undue benefit of further loans to the defaulting co-operative society resulted in non-realisation of principal of Rs. 1.93 crore as well as interest of Rs. 31.39 lakh

After the case was pointed out, the Co-operation Department stated (July 2007) that the Registrar of Co-operative Societies, West Bengal had been instructed to look into the matter and take necessary follow up action. Further reply has not been received (September 2007).

### **9.2.19 Conclusion**

Interest receipts from loans is one of the major sources of non-tax revenue of the State Government. To have effective control over the issue and recovery of loans and interest thereon, it is essential that basic registers/records like loan register, sanction register, demand collection and balance register are maintained properly by the departments. Audit scrutiny revealed that these were either not maintained or improperly maintained. Lack of monitoring by the Finance Department led to sanctioning of loans by the loan disbursing departments without prescribing/fixing the terms and conditions for repayment in violation of the provisions of the WBFR. There was no monitoring by the loan sanctioning departments of overdue loans and recovery of interest. Under the WBFR, the provision for levy of penal interest is discretionary. No instructions have been issued for judicious exercise of this discretionary power with the result that the provision failed to have the intended deterrent effect. The internal control mechanisms of the departments covered in this review were observed to be very weak as is evidenced by the lack of maintenance of basic registers. In addition, none of the departments had an internal audit wing and thus did not have an effective tool to ascertain whether its various wings were functioning reasonably well to ensure prompt and timely recovery of loan along with interest thereon. It is thus necessary for the Government to have a detailed look at the system and procedure for prompt recovery of loans and interest.

### **9.2.20 Summary of recommendations**

The Government may consider

- specifying a procedure for monitoring by the Finance Department to ensure that loans are not disbursed without specifying the terms and conditions for repayment;
- making it mandatory for the loan sanctioning authorities to review the loans periodically and redetermine the interest payable by the loanees by disallowing the rebate granted, if any, and proceed to recover the same along with the principal due;
- prescribing a system for monitoring of loan register. A time limit may also be specified for filing certificate cases in case of default in repayment of loans;
- amending the WBFR to provide for mandatory levy of penal interest on overdue instalments of principal or interest or both for default in repayment of a loan; and
- setting up of departmental internal audit wing in order to strengthen the internal control mechanism.

## **B. FOREST RECEIPTS**

### **9.3 Short remittance of revenue due to irregular deduction of service charge**

A project on infrastructure development and joint forest management (JFM) support in North Bengal was approved by the Forest Department on 28 January 2004 and the work pertaining to timber operation in the above project started from the financial year 2004-05. According to the approved working procedure of the project, the West Bengal Forest Development Corporation Ltd (Wbfdcl) will entirely finance timber and firewood operation costs at the prescribed rate and recover these along with service charge at the rate of 17 *per cent* of the net sale proceeds after deducting operational cost. In case of work prior to implementation of the project, the admissible deduction towards service charge was 10 *per cent* of the net proceeds of timber.

Scrutiny of the records of DFO, Jalpaiguri division in March 2006 revealed that Divisional Manager, Saw Milling division, a unit of Wbfdcl, deducted service charge of Rs. 30.85 lakh at the rate of 17 *per cent* on the sale proceeds of Rs. 1.81 crore pertaining to the period from January to March 2004. Since the period of operation was prior to the implementation of the project, service charge was recoverable at the rate of 10 *per cent* instead of 17 *per cent*. Deduction of service charges at higher rate resulted in short remittance of revenue of Rs. 12.70 lakh into the Government account.

The Government to whom the case was reported in May 2006 stated in July 2007 that the concerned divisional manager had been advised to deposit the due amount. A report on realisation has not been received (September 2007).

#### **9.4 Short realisation of revenue due to sale of timber below the schedule of rates**

The State Directorate of Forests, the Government of West Bengal prepares schedule of rates (SOR) from time to time for disposal of forest produce. The reserve price of timber for sale, either through auction or by calling tender, is required to be fixed on the basis of the SOR barring exceptional circumstances. If the reserve price is fixed below the SOR, approval of the Conservator of Forests (CF) is necessary to keep control over the fixation of price of timber.

Scrutiny of the records of three<sup>2</sup> offices of the divisional forest officers (DFO) between July and August 2006 revealed that the Wbfdcl, Alipurduar fixed the reserve price of certain fresh lots of A and B class timber measuring 107.869 cum and sold the lots at Rs. 7.94 lakh instead of Rs. 9.82 lakh as per the SOR in the auction held in March 2006. Similarly, while conducting auction between July 2004 and September 2005, the concerned forest divisions<sup>3</sup> sold 115.076 cum of timber, 4,143 poles and 46.21 cum of firewood at Rs. 5.88 lakh instead of Rs. 11.11 lakh as per the SOR. Since the forest produce sold in auction consisted of fresh lots only and did not suffer from any defects as apparent from the auction records, fixation of reserve price below the SOR and sale thereof was irregular and resulted in short realisation of Rs. 7.11 lakh.

The Government to whom the cases were reported between May and September 2006 stated in July 2007 that the reserve price was drawn on, apart from the broad guidelines, a number of parameters which include the quality of timber (girth, bend, bifurcation, hollow, rotten, borer etc). The reply is not tenable as the forest produce sold by auction were fresh lots as mentioned in the auction records and as such reserve price should have been fixed in accordance with the SOR. Further any deviation in fixation of reserve price below the SOR required prior sanction of the CF.

### **C. POLICE RECEIPTS**

#### **9.5 Non-realisation due to inordinate delay in preferring claim**

Under the provisions of the Police Act 1861, police escorts are supplied to different government and non-government institutions and members of public. Charges for police escorts are realisable under the provision of the Police

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<sup>2</sup> Buxa Tiger Reserve (East and West) and Medinipur West division.

<sup>3</sup> Buxa Tiger Reserve (East) and Medinipur West division.

Regulation of Bengal, 1943 and various Government orders issued from time to time.

Scrutiny of the records of the Superintendent of Police (SP), Darjeeling in May 2006 revealed that police personnel were deployed at Bagdogra Airport on anti-hijacking duties for which Rs. 48.72 lakh was realisable from Airport Authority of India (AAI), Bagdogra Airport for the period from 1981-82 to 1996-97. The SP, Darjeeling, however, preferred the claim only in August 2005 after lapse of time ranging between 9 and 24 years. The claim was turned down by the AAI in September 2005 as it was raised after inordinate delay. Thereafter the SP, Darjeeling did not initiate any action either to institute certificate proceeding under the PDR Act or to take up the matter with the competent authorities for early recovery of dues. Thus, inordinate delay in preferring claim and lack of follow up action resulted in non-realisation of Rs. 48.72 lakh.

The Government to whom the case was reported in April 2007 stated in July 2007 that the matter was viewed seriously and the DG and IGP, West Bengal had been asked to take up the matter with the district officer concerned for realisation of the dues as well as fixing of responsibility for not preferring the claim in time. It was also stated that the department would move the Finance Department, the Government of West Bengal for taking up the matter with their counterparts in the Government of India for realisation of dues from the AAI. A report on further development has not been received (September 2007).

## **D. RECEIPTS FROM IRRIGATION AND WATERWAYS**

### **9.6 Non/short assessment and non-realisation of water rate**

Under the provision of the West Bengal Irrigation (Imposition of Water Rate) for Damodar Valley Corporation Water Act, 1958, occupiers of land receiving the benefit of irrigation from Damodar Valley Corporation canals in different crop seasons are required to pay water rates as prescribed by the Government from time to time. Assessment of water rates is made by the respective revenue division on receipt of test notes from the engineering divisions of the Irrigation and Waterways (I and W) Department. According to the instruction issued by the department in June 1977, any difference between the areas irrigated as shown by the engineering divisions and assessment figure as shown by the revenue divisions should be reconciled by both the offices within a period of one month.

Scrutiny of the records of the Revenue Officer (RO), Damodar Irrigation Division I at Burdwan and RO II at Durgapur between June and September 2006 revealed that test notes from concerned engineering divisions were received in these two revenue divisions indicating actual area irrigated as

13.41 lakh acres during the assessment periods between 2001-02 and 2005-06 for *kharif*, *rabi* and *boro* crop seasons. It was, however, seen that the RO, I, Burdwan division did not make any assessment of water rate on test notes of 1.86 lakh acres whereas RO II, Durgapur division made assessment on 9.18 lakh acres only though test notes for 11.55 lakh acres was received from the engineering divisions. No attempt was also made by the ROs to ascertain the reason and reconcile the difference between the area assessed and area shown in the test notes by the engineering divisions within the stipulated period of one month. Thus, non-assessment/erroneous assessment of water rates by the revenue divisions ignoring the information furnished by the engineering divisions led to non/short assessment of water rates of Rs. 88 lakh.

The Government to whom the cases were reported between July and November 2006 stated in July 2007 that there was communication gap between the I and W department and L and LR department over the actual area irrigated. It was further stated that greater emphasis would be given to co-ordinate the offices of Engineering/Revenue division and the L and LR offices to reconcile the discrepancy. The reply is, however, silent on the action taken to realise the amount of non/short assessment pointed out in audit. Further reply has not been received (September 2007).

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