CHAPTER –III
INTEGRATED AUDIT OF A GOVERNMENT DEPARTMENT

COMMERCE AND INDUSTRIES DEPARTMENT

3 Integrated Audit of Commerce and Industries Department

Highlights

The Department of Commerce and Industries is responsible for creation of adequate infrastructure for promotion of large and medium industrial enterprises in the State. Integrated audit of the department revealed absence of adequate planning, poor programme management and lack of internal control. A review of the functioning of the department brought out the following major points:

Annual Action Plans were not prepared and no targets were fixed for implementation of the various programmes under the industrial policy.

(Paragraph 3.6.1)

Persistent savings ranged between eight and 61 *per cent* during 2005-06 to 2009-10.

(Paragraphs 3.6.2)

Advances totalling ₹ 56.52 crore paid to Chhattisgarh State Industrial Development Corporation and Land Acquisition Officer, Raipur for various development works and acquisition of land for a Textile Park respectively remained unutilized.

(Paragraph 3.6.2.2)

The number of Micro, Small and Medium Enterprises and Large and Medium Enterprises set up in the backward districts was only 27 and six *per cent* of the total MSMEs & LMEs set up in the State during 2005-06 to 2009-10, indicating wide regional imbalances in setting up new industries

(Paragraph 3.6.3)

Ineligible beneficiaries were provided with subsidies totalling ₹ 7.12 crore under various schemes of the Industrial Policy 2004-09. Similarly, stamp duty exemptions of ₹ 67.13 lakh were extended to ineligible industries.

(Paragraphs 3.7.1, 3.7.2 and 3.7.3)

Projects/activities not covered under the Prime Minister's Employment Generation Programme were extended financial benefits totalling ₹ 1.63 crore as margin money.

(Paragraph 3.8.2.1)

3.1 Introduction

The State of Chhattisgarh is endowed with abundant natural resources such as rich forests and huge mineral deposits. Due to easy availability of these resources, the State has immense potential for industrial development.

Chhattisgarh, with 13 *per cent* of the all India production, is the second largest mineral producing State in the country. It accounts for 20 *per cent* of India's iron ore, 17 *per cent* of coal reserves, 12 *per cent* of dolomite and 100 *per cent* of tin. Eighty *per cent* of its population is engaged in agriculture, which contributes to 40 *per cent* of the State's Gross Domestic Product (GDP). The presence of public sector undertakings in the areas of steel and mineral development and a host of private units manufacturing heavy engineering products, cement, chemicals, textiles and processed food in the State have further added to its strength.

Towards the achievement of rapid industrial growth and balanced development of various regions, the State has been formulating industrial policies since 2001. In the Industrial Policy 2004-09, the State Government announced various incentive schemes such as infrastructure subsidy, interest subsidy, stamp duty exemption, entry tax exemption, etc. to attract entrepreneurs to invest in the State. In the recently announced Industrial Policy 2009-14, the State has formulated various schemes such as interest subsidy, permanent capital investment subsidy, electricity charges exemption, land premium subsidy/concessions, stamp duty exemption, etc. for the development of industries in the State and the notification of the schemes are in the process.

The main objective of the Department of Commerce and Industries (DCI) is to create a favourable environment for increasing industrial investment and creating employment opportunities in the State by implementing various programmes of the Central and State government through its field offices and other agencies.

3.2 Organisational set up

The Department of Commerce and Industries is headed by a Secretary and Commissioner to the Government of Chhattisgarh. For implementation of the programmes and activities, he is assisted by three Additional Directors, 12 Joint Directors, 40 Deputy Directors and 107 Assistant Directors. District Trade and Industries Centres (DTIC) are the implementing agencies at the district level and are headed by Chief General Managers (CGM) or General Managers (GM).

3.3 Audit objectives

The audit objectives were to assess the performance of the department by examining whether:

- planning of programmes of both State as well as Central was done properly;

- adequate measures were taken for effective budgetary control and financial management;
- adequate measures were taken for effective implementation of Central schemes;
- the various programmes such as development of basic infrastructure like water supply, electricity, roads, etc. undertaken by the State Government for promotion of industries in the State were adequate;
- adequate measures were taken by the department to ensure balanced regional development by attracting industries in the economically backward areas and also to ensure participation of Scheduled Castes, Scheduled Tribes and other weaker sections in the development process; and
- monitoring and evaluation of the various schemes implemented by the department were adequate and effective.

3.4 Audit criteria

The audit findings were benchmarked against the following criteria:

- Industrial Policy 2004-09 of the State.
- Guidelines issued for implementation of Central schemes.
- Instructions issued from time to time by the State Government.

3.5 Scope of Audit and Audit methodology

The functioning of the department for the period 2005-06 to 2009-10 was reviewed during April-July 2010, through a test check of the records of the Commissioner, DCI and seven[1] out of 18 DTICs. Selection of DTICs was done on the basis of the Simple Random Sampling method. Besides, the expenditure incurred during last three years, geographical location, backwardness of districts, etc. were also considered for the selection.

An entry conference was held with the Secretary-cum-Commissioner and departmental officers on 9 June 2010 wherein audit objectives, criteria and methodology were discussed. An exit conference was held with the Officer on Special Duty, deputed by the Additional Chief Secretary, Commerce and Industry Department on 8 October 2010 to discuss the audit findings. The minutes of the meeting were countersigned (25 November 2010) by the Additional Chief Secretary, Government of Chhattisgarh, Commerce and Industry Department.

3.6 Audit findings

The important points noticed during audit are discussed in the succeeding paragraphs.

[1] Bilaspur, Dhamtari, Durg, Raigarh, Raipur, Rajnandgaon and Sarguja.

3.6.1 Planning

Annual Action Plans were neither prepared nor were surveys of the districts conducted

Annual Action Plans indicating utilization of resources and implementation of programmes as per the Industrial Policy 2004-09 and other Central sector schemes were not prepared by the department. No survey of the districts was conducted for assessing the potential for industrialization, including availability of human resources, raw materials, marketing avenues, etc. As described in subsequent paragraphs, the department, apart from implementation of the regular programmes, did not undertake any significant measures for development of infrastructure for large and medium scale industries and also for balanced regional growth of the State as a whole. Further, no targets were fixed for implementation of various programmes under the industrial policy in order to achieve its objectives.

Government stated (October 2010) in the exit conference that the various activities of the department were carried out as per the strategy envisaged in the Industrial Policy 2004-09.

The Government's reply is not acceptable as although the Industrial Policy 2004-09 envisaged the strategy for carrying out the departmental activities, Annual Plans were not prepared in order to earmark targets to carry out those activities year-wise.

3.6.2 Financial Management

3.6.2.1 Budget outlay and expenditure

The position of allotment, expenditure and savings incurred during 2005-06 to 2009-10 is shown below:

Table-1: Table showing position of allotment, expenditure and savings

(₹ in crore)

Year	Allotment			Expenditure			Savings	Percentage of savings
	Plan	Non-Plan	Total	Plan	Non-Plan	Total		
2005-06	82.59	8.38	**90.97**	73.1	6.72	**79.82**	**11.15**	12
2006-07	93.13	8.38	**101.51**	86.39	6.86	**93.25**	**8.26**	8
2007-08	139.47	9.5	**148.97**	123.95	7.82	**131.77**	**17.2**	12
2008-09	132.22	10.75	**142.97**	47.17	8.54	**55.71**	**87.26**	61
2009-10	123.64	13.4	**137.04**	78.66	11.95	**90.61**	**46.43**	34
Total	**571.05**	**50.41**	**621.46**	**409.27**	**41.89**	**451.16**		

(Source: Data furnished by the department and compiled by Audit)

Percentage of savings ranged between eight and 61 *per cent*

As may be seen from the above, there were persistent savings in all the years and the percentage of savings ranged between 12 and 61 *per cent* except in 2006-07, where the saving was less than 10 *per cent*. Excessive savings in each year reflects inadequate financial management and monitoring of the implementation of various schemes.

On this being pointed out, the Government attributed (October 2010) the savings to delays in sanction of administrative and financial approvals and also due to declaration of the code of conduct before the General Elections of 2008-09. Government also stated that 10 *per cent* of the total budget had been withheld by the Finance Department and subsequently released at the fag end of the financial year when no plans were ready. Government however, agreed to prepare proposals in advance to ensure full utilization.

The Government's contention of excessive savings of 61 *per cent* during 2008-09 due to the declaration of code of conduct before the general elections was not acceptable since the election scheduled for the year 2008-09 could have easily been foreseen and planning should have been done accordingly to avoid savings.

3.6.2.2 Blocking of funds

Blocking of funds with CSIDC and Land Acquisition Officers

While the implementation of various schemes for promotion of industries is the responsibility of DCI through DTICs, the work relating to creation of infrastructure for setting up of industrial units is mostly executed by DCI through the Chhattisgarh State Industrial Development Corporation (CSIDC), a corporation constituted to establish industrial growth centres and parks, develop infrastructural facilities and promote the various activities of the department. Accordingly, funds for infrastructural development are released to CSIDC.

During scrutiny of records, it was revealed that huge amounts of funds released by the department were lying with CSIDC and other agencies. Some of the instances of blocking of departmental funds are discussed below:

(a) Funds aggregating ₹ 51.18 crore ***(Appendix-3.1)*** (₹ 17.17 crore in 2008-09 and ₹ 34.01 crore in 2009-10) were paid to CSIDC for various works viz. International Trade Fair, establishment of new industrial areas, grant for industrial park, construction of road, drains in industrial areas etc. However, neither was the information regarding completion of the works received nor were the utilization certificates (UCs) in respect of utilization of the above funds submitted by CSIDC.

On this being pointed out, the department replied (October 2010) that a letter had been sent to CSIDC calling for the UCs. Thus neither the progress of the work nor the creation of infrastructure could be ascertained. This clearly reflects lack of proper monitoring and supervision as the letter to CSIDC was issued only after being pointed out by Audit.

(b) Government of Chhattisgarh decided (March 2005) to establish an industrial area at Shyamtarai Village in District-Dhamtari in 81.69 acres land, of which 59.62 acres was private land and was to be acquired for the above purpose. Financial sanction of ₹ 3.59 crore (₹ one crore in March 2005 and ₹ 2.59 crore in March 2007) was accorded by the State Government for payment of compensation to landowners. CSIDC was made the executing agency.

Scrutiny (January 2006 and February 2009) of the records of the Director, Commerce and Industries revealed that ₹ 3.59 crore[2] was released to CSIDC for acquisition of the private land. Out of this, ₹ one crore was released by CSIDC to the Land Acquisition Officer (LAO), Dhamtari in September 2006 and the balance amount of ₹ 2.59 crore was retained with CSIDC since March 2007 till date (September 2010). However, DCI ordered (October 2008) the LAO, Dhamtari to denotify the acquisition of the private land. Accordingly, establishment of the industrial area at Shyamtrai was cancelled but ₹ 3.59 crore (₹ one crore with Collector, Dhamtari and ₹ 2.59 crore with CSIDC) was not refunded to the Government (March 2010).

On this being pointed out in audit, the Commissioner, Commerce and Industries stated (February 2009) that due to denotification, the industrial area could not be developed and a letter had been written to CSIDC for refund of the same. Further, the GM, DTIC, Dhamtari, stated (July 2010) that ₹ one crore had since been returned (June 2010) to CSIDC by the LAO.

The Government, in its reply, stated (July 2010) that the de-notification was done as the land selected for industrial development was an irrigated land.

Thus, selection of land for development of the industrial area without verifying the status of the land and also without conducting any feasibility study led to blocking of government funds of ₹ 3.59 crore besides keeping it out of the Government account with CSIDC and LAO, Dhamtari for more than three years.

(c) For setting up an agro-park at village Kurandi in Bastar district, ₹ 10 lakh (₹ five lakh in March 2002 and ₹ five lakh in 2002-03) was paid to CSIDC. Scrutiny revealed that the work for the park had not commenced even after the lapse of nearly eight years and the amount was lying idle with CSIDC. In reply, the department accepted (June 2010) the fact.

(d) For setting up of a textile park in villages Shakri and Dhansuli in Raipur district, funds amounting to ₹ 1.65 crore were paid (February 2008) to the LAO, Raipur. Scrutiny of records revealed that the site of the textile park was shifted to Abhanpur block of Raipur district where Government land was available. However, the amount paid to LAO, Raipur for payment of compensation to the landowners was not refunded to DTIC, Raipur and was lying idle with LAO, Raipur. This resulted in blocking of Government funds of ₹ 1.65 crore for more than 32 months.

On this being pointed out in audit, GM, DTIC, Raipur replied (May 2010) that efforts for refund of the money were being made and a letter had already been issued (February 2010) to the Collector, Raipur for refund of the above amount.

During the exit conference, the Government stated (October 2010) that a high level meeting would be held with CSIDC in this regard.

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[2] ₹ One crore in March 2005 and ₹ 2.59 crore in March 2007.

3.6.2.3 Non-recovery of loans amounting to ₹ 22.95 crore and penal interest amounting to ₹ 2.41 crore

Non-recovery of loan advanced to CSIDC

After the bifurcation of the State of Madhya Pradesh and formation of Chhattisgarh State, liabilities of the erstwhile Madhya Pradesh Finance Corporation (Chhattisgarh portion) were to be paid by CSIDC for which DCI sanctioned interest-free loans totalling ₹ 22.95 crore (₹ 11 crore during 2005-06, ₹ five crore each in 2006-07 and 2007-08 and ₹ 1.95 crore in 2008-09) to CSIDC. These, loans were to be recovered within eight years in equal instalments. In cases of delay, penal interest at the rate of three *per cent* per annum was to be imposed.

Scrutiny of records revealed that repayment of the loan had not commenced even after the lapse of more than 54 months since the sanctioning of the first instalment. Meanwhile, CSIDC had requested (April 2010) for waiver of the said loans and treatment of the loan as a grant. Thus, loans totalling ₹ 22.95 crore along with penal interest of ₹ 2.41[3] crore (September 2010) remained unrecovered from CSIDC.

On this being pointed out, the department stated (August 2010) that a letter to CSIDC had been issued calling for the details and also stated that CSIDC's request for waiver of the loan by converting it to grant was awaiting a decision at the Government level.

Government, while agreeing to the audit observation, stated (October 2010) during the exit conference, that a high level meeting would be held with CSIDC in this regard. The fact, however, remains that, neither the loan nor the penal interest on the loan amount was recovered (September 2010), which indicated poor financial management.

3.6.3 Position of growth of industries in the State

The Industrial Policy 2004-09 envisages increasing the rate of industrial growth substantially, creating maximum employment opportunities by setting up industries in all the districts across the State and ensuring balanced regional development by attracting industries in the economically backward areas of the State.

Scrutiny of the records revealed that the number of micro, small and medium enterprises (MSME) and large and medium enterprises (LME) set up in the backward districts of the State during the period 2005-06 to 2009-10 was 817 and four respectively, which constituted only 27 and six *per cent* respectively

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[3] Penal interest calculated on ₹ 11 crore @ three *per cent* for 54 months (2006-07 to September 2010)= ₹ 1,48,50,000 plus
₹ five crore @ three *per cent* for 42 months (2007-08 to September 2010)= ₹ 52,50,000 plus
₹ five crore @ three *per cent* for 30 months (2008-09 to September 2010)= ₹ 37,50,000 plus
₹ 1.95 crore @ three *per cent* for six months (April 2010 to September 2010)= ₹ 2,92,500 totalling ₹ 2,41,42,500

of the total units (3051 MSMEs and 66 LMEs) established in the entire State as detailed in ***Appendix-3.2***.

Thus, there were regional imbalances in the establishment of new MSME/LME units in the State, which indicated non-achievement of the objective of balanced regional development of the State.

The Government stated (October 2010) in the exit conference that no targets were set for establishment of MSMEs and LMEs and that the number of units established may increase as the figures highlighted by Audit included only those units which had received any subsidy/exemption or registered with the department. The actual number of units established in any particular year could increase when all the units apply for registration. However, the department assured that it would set specific targets for establishment of units in each district.

3.7 Programme implementation

Under the Industrial Policy 2004-09, 12 subsidy/exemption/concession schemes[4] were taken up in the State during 2005-10 along with Central schemes such as the Prime Minister's *Rozgar Yojana* (PMRY) and the Prime Minister's Employment Generation Programme (PMEGP). Some of the irregularities observed in implementation of the various schemes are detailed in the subsequent paragraphs:

State Schemes

3.7.1 Infrastructure subsidy and interest subsidy to ineligible firms

Ineligible industries were provided interest subsidy.

Under Rule 5 (i) of the Chhattisgarh State Infrastructure Subsidy Rule 2004, infrastructure subsidy is paid to new and existing small and medium-large industries on the total cost of their investment on factory buildings, sheds, plant and machinery (P&M) and Railway sidings. Further, Government of Chhattisgarh notified (August 2005) the Interest Subsidy Rule 2004 to be effective from 1 November, 2004. Under para 5 of the Rule, all new and existing small and medium-large industries were eligible for interest subsidy on the interest paid by these firms on term loans and working capital loans taken from the banks/financial institutions for establishing/running the businesses/enterprises. Under both the rules mentioned above, neither was there any provision for subsidy to the micro/tiny[5] sector industry nor was the item mentioned/conceptualized in the Rule.

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4 Interest subsidy, Infrastructure subsidy , Electricity duty exemption, Exemption from stamp duty, Exemption from entry tax, Exemption/ Concession in the premium of land allotted in industrial areas, Project report subsidy, Interest subsidy to technology upgradation, Exemption from land revenue on land diversion, Service charges for allotment of land outside industrial areas, Quality certification subsidy, Technical patent subsidy.

5 Industries whose investment in P&M is not more than ₹ 25 lakh is categorized under Tiny sector.

The Government of Chhattisgarh had implemented (October 2006) the Micro Small and Medium Enterprises Development (MSMED) Act which categorised the micro/tiny, small and medium category of industries on the basis of their investment in P&M. The industries having investment in P&M below ₹ 25 lakh were categorized as micro/tiny industry as per the MSMED Act. The State Government had not separately issued any guidelines for extending the benefits to such micro/tiny sector industries after the implementation of the MSMED Act.

Scrutiny of records in Durg and Sarguja districts, however, revealed that a total of 15 industries ***(Appendix-3.3)*** were irregularly provided infrastructure subsidy of ₹ 82.26 lakh[6] and 78 industries ***(Appendix-3.4)*** were provided interest subsidy totalling ₹ 2.16 crore[7] after the implementation of the MSMED Act in the State.

On this being pointed out, the Government stated (October 2010) at the exit conference, that the Industrial Policy 2004-09 had commenced w.e.f. 1 November 2004 and the MSMED Act was implemented w.e.f. 2 October 2006 only. As per the Industrial Policy 2004-09, industries having investment of ₹ one crore in P&M were categorised under small scale industries and included industries whose investment in P&M was below ₹ 25 lakh. As such, there was no loss in extending benefits to industries whose investment in P&M were below ₹ 25 lakh. The Government, however, agreed that the ambiguity would be corrected in the 2009-14 policy.

The reply is not acceptable as in the MSMED Act, industries having investments in P&M below ₹ 25 lakh were categorized as micro/tiny sector.

3.7.2 Non-recovery of Stamp duty of ₹ 4.01 crore despite non-submission of registration certificate/certificate of production and loss of ₹ 67.13 lakh due to issue of stamp duty exemption certificates to ineligible industries

Non-recovery of stamp duty and loss due to issue of stamp duty exemption to ineligible industries

Under the Industrial Policy 2004-09, exemption from payment of stamp duty is given to industries on the deeds executed for purchase/lease of land, sheds and buildings for setting up industrial units as well as on execution of deeds relating to loans and advances taken by the industrial units. As per a notification (June 2005) of the Department of Finance and Planning, Small Scale Industries (SSI)/ Non-Small Scale Industries (Non-SSI) were to start production within two years/five years respectively from the dates of issue of certificates of exemption. Violation of these conditions would cause recovery of stamp duty with 12.5 *per cent* interest per annum from the exemption date. If the parties failed to pay the above stamp duty with interest, recoveries would be effected through Revenue Recovery Certificates (RRC). Further, under the Industrial Policy 2004-09, subsidy/exemption was provided to all industries except those mentioned in Appendix-I of the notification and Annexure-II of the Industrial Policy 2004-09. The ineligible list included

6 Durg ₹ 37.11 lakh and Sarguja ₹ 45.15 lakh.

7 Bilaspur ₹ 30.69 lakh, Durg ₹ 28.57 lakh, Dhamtari ₹ 44.64 lakh, Rajnandgaon ₹ 31.71 lakh, and Sarguja ₹ 80.83 lakh.

industries which did not produce branded products like bakery items, mineral water, spices, bread and biscuits etc.

Stamp duty exemption to ineligible industries

Test check of records of selected DTICs revealed that during 2005-06 to 2009-10, a total of 239 SSI units[8] ***(Appendix-3.5)*** did not submit proof of commencement of production within the stipulated time as required under the scheme and recovery of stamp duty along with interest at the rate of 12.5 *per cent* per annum was leviable from these beneficiaries from the exemption date. Despite this, the department neither levied stamp duty amounting to ₹ 4.01 crore[9] nor took any action for recovery of the stamp duty through RRC. Further, it was also observed that 50 industries[10] were given stamp duty exemption totalling ₹ 67.13 lakh ***(Appendix-3.6)*** on mortgage loan/land purchase. The activities/products of these 50 industrial units were categorized under the ineligible list under the scheme as they were not producing branded products/items which resulted in inadmissible grant of exemption of ₹ 67.13 lakh[11] on stamp duty.

On these being pointed out, in respect of non-submission of production certificates, the Government stated (October 2010) in the exit conference that verification of the industries had since been commenced and recoveries would be made from those industries which had not started their production. Regarding grant of exemption to ineligible industries, Government stated (October 2010) that the industries mentioned by Audit were producing branded products and hence, were eligible to take stamp duty exemptions.

The Government's reply is not acceptable as no action was initiated by the department prior to the audit objections against non-submission of production certificates which further substantiates the fact that there was lack of proper monitoring in the implementation of the policy. Government also could not furnish proof in support of the department's contention viz. certificate from Government of India, Trade Marks Registry in respect of grant of stamp duty exemption to ineligible industries but assured to furnish the proof of brands after collecting the same from them.

3.7.3 Subsidies of ₹ 12.48 lakh given to ineligible industries

Interest subsidy given irregularly to industries not eligible for subsidy

Under the Industrial Policy 2004-09, subsidy/exemption is provided to all industries except the ineligible list of industries mentioned in Appendix-I of the notification and Annexure-II of the Industrial Policy 2004-09. The ineligible list includes industries which produce unbranded bakery items, mineral water, spices, bread and biscuits etc., as well as those industries whose produce are categorized under ineligible list.

Under the Industrial Policy 2004-09, infrastructure subsidy and interest subsidy are given to eligible new and existing small and medium-large

8 Dhamtari 19, Durg 112, Raipur 88, Rajnandgaon 6. and Sarguja 14

9 Dhamtari ₹ 10.40 lakh, Durg ₹ 36.52 lakh, Raipur ₹ 340.36 lakh, Rajnandgaon ₹ 7.97 lakh and Sarguja ₹ 6.12 lakh.

10 Dhamtari 4, Durg 3, Raipur 28, Rajnandgaon 8 and Sarguja 7.

11 Dhamtari ₹ 5.05 lakh, Durg ₹ 2.75 lakh, Raipur ₹ 38.76 lakh, Rajnandgaon ₹ 6.82 lakh and Sarguja ₹ 13.75 lakh.

industries on the total cost of their investment in infrastructure and on the interest paid on term and capital loans respectively. The said policy enlists 31 types of industries which are not eligible for subsidy. Scrutiny of records revealed that the following industries were paid interest subsidy of ₹ 12.48 lakh although the firms were not eligible to receive subsidy under Industrial Policy 2004-09 due to the type of their industry/productivity:

Table-2: List of ineligible industries sanctioned infrastructure/interest subsidy

(₹ in lakh)

Sl. No.	Name of Industry (M/s)	Type of product	Name of subsidy	Amount paid
1	Om Shakti om Industries, Raipur	Exercise Notebook	Interest subsidy	2.23
2	Shri Krishna paper products, Raipur	Exercise Notebook	Interest subsidy	2.29
3	S.S.D Soap Industries, Raipur	Toilet soap (Non-branded)	Interest subsidy	1.32
4	G.S. Industries, Raipur	Toilet soap/ Washing soap (Non-branded)	Interest subsidy	1.47
5	Vidya Medical, Raigarh	Diagnostic centre	Infrastructure subsidy	1.03
6	Abis Aqua,Godri Rajnandgaon	Mineral water (Non-branded)	Interest subsidy	1.93
7	Vandana Flackers, Rajnandgaon	Macca Chips (Non-branded)	Interest subsidy	2.21
Total				**12.48**

(Source: Departmental records relating to interest subsidy)

On this being pointed out, Government stated (October 2010) in the exit conference that interest subsidy had been provided to industries producing branded products. Government assured to furnish proof of the brands after collecting the same from the industries.

The reply is not acceptable as the proof of brand names was not provided to Audit nor was it available with the department.

3.7.4 Non-recovery of penalty of ₹ 48.43 lakh from land allottees due to non- commencement of production

Non- recovery of penalty from land allottees

Para 14 of the Madhya Pradesh Industries (Shed, Plot and Land Allotment) Rules 1974, (amended till 1 April 1999) as adopted by the Government of Chhattisgarh states that every land allottee should start work on his project/activity from the date of allotment of land. Land allottees, in the case of small industries, should start production within a year and in the case of medium and large industries, should start production within three years. The above time limit may be extended up to six months subject to submission of valid reasons for extension and on payment of penalty equivalent to 50 *per cent* of the premium.

Test check of records of DTIC, Durg revealed that 76 industrial units ***(Appendix-3.7)*** did not start their production within the prescribed time limit. However, GM, DTIC neither cancelled their land allotment nor collected the penalty amount of ₹ 48.43 lakh even after expiry of the time limit.

On this being pointed out, the Government stated (October 2010) in the exit conference that out of 76 industries, 27 industries had commenced their production within prescribed time limit and 25 industries had deposited penalty amounts while notices had been issued to remaining 24 industries. However, details of commencement of production and recoveries made had not been produced to Audit.

3.7.5 Non-recovery of infrastructure subsidy amounting to ₹ 14.93 crore due to non-submission of Audited Annual Accounts

Non- recovery of infrastructure subsidy from firms owing to non- submission of audited Annual Accounts

Rule 10(1) of the State Infrastructure Subsidy Rules requires all industries receiving infrastructure subsidy of more than ₹ one lakh to submit their Audited Annual Accounts for five years from the year of sanction of subsidy. Similarly, industries receiving infrastructure subsidy of less than ₹ one lakh are required to furnish details of production and sales. The Annual Accounts should be furnished within three months after the end of each financial year. Para 9(6) of the said Rule further states that if any company fails to submit its Annual Accounts within the stipulated period, it is the duty of the department to recover the amount paid to the company.

Scrutiny of records revealed that though an amount of ₹ 14.93 crore[12] was paid to 108 firms ***(Appendix-3.8)*** as infrastructure subsidy, the firms failed to submit their Audited Annual Accounts as of September 2010 as was required under the scheme. The period of delays ranged between three and 75 months. No follow up action was initiated by the department against these defaulting firms.

On this being pointed out, the Government agreed (October 2010) during the exit conference to the audit observation and stated that 50 units had since submitted their Annual Accounts. The Annual Accounts had been called for in respect of the remaining units. Recoveries of subsidies would be made in the event of non-submission of Annual Accounts and would be intimated to Audit.

3.7.6 Irregular condonation of delay led to undue benefit of ₹ 55.08 lakh to entrepreneurs

Condonation of delays without valid reasons led to undue benefit to entrepreneurs

As per Para 5.4 of the Chhattisgarh Interest Subsidy Rules 2004, the first claim for subsidy should be submitted within one year from the date of notification of the Rules or from the payment of the first instalment of the loan or from the date of commencement of production, whichever is later. The next quarterly claim should be submitted within one quarter/two quarters. Otherwise, the claim would be cancelled and a cancellation order should be passed by the GM, DTIC. The applicant can appeal to the next higher authority which can, on the basis of the circumstances/reasons, condone the delayed submission.

[12] Bastar ₹ 0.90 crore; Bilaspur ₹ 0.65 crore; Durg ₹ 0.67 crore; Jashpur ₹ 0.99 crore Kanker ₹ 0.39 crore; Kabirdham ₹ 0.15 crore; Raigarh ₹ 5.17 crore; Raipur ₹ 1.79 crore; Rajnandgaon ₹ 0.25 crore and Sarguja ₹ 3.97 crore.

Test check of records relating to interest subsidy cases revealed that despite delays ranging between two and 30 months in submission of claims, excluding the admissible period for submission, the appeal cases of 29 entrepreneurs totalling ₹ 55.08 lakh ***(Appendix-3.9)*** were condoned by the Commissioner, DCI, whereas appeals of 17 entrepreneurs ***(Appendix-3.10)*** who had cited similar reasons for delay, were not condoned. Thus, there were inconsistencies in dealing with the appeal cases.

Further, the reasons for delayed submission as stated in the appeals by all the entrepreneurs were ignorance of the provisions of the scheme. Since the entrepreneurs, who availed of the benefit of interest subsidy were aware of the time limit for submission of claims under the scheme, the condonation of the delay on this ground was not valid. This led to extension of undue benefits totalling ₹ 55.08 lakh to 29 entrepreneurs.

On this being pointed out, the Government stated (October 2010) in the exit conference that the matter would be reviewed and intimated to Audit accordingly.

3.8 Centrally Sponsored Schemes

3.8.1 Prime Minister Rozgar Yojana (PMRY)

The Prime Minister *Rozgar Yojana*, a Centrally sponsored scheme for providing self-employment to educated unemployed youths was launched in 1993 and discontinued after March 2008. The scheme aimed at assisting eligible youths in setting up self-employment ventures in industry, service and business sectors through financial assistance and requisite training.

Test check of the records revealed the following irregularities:

3.8.1.1 Non-adjustment of expenditure of ₹ 26.02 lakh on training

Non-adjustment of expenditure before closure of scheme

Training funds under PMRY were admissible up to a ceiling of ₹ 2500 per trainee for the industry sector and ₹ 1250 per trainee for the service and business sectors. Funds for a year were released by Government of India, Ministry of Micro Small Medium Enterprises to the State Government which were worked out on the estimated number of trainees of the previous years. The State Government was required to furnish utilization certificates in this regard.

Scrutiny of records of Directorate, DCI revealed that ₹ 48.64 lakh was released by GOI during 2007-08 for training. Moreover, there was a closing balance of ₹ 0.72 lakh at the end of the year 2006-07. As against the available funds totalling ₹ 49.36 lakh (₹ 0.72 lakh + ₹ 48.64 lakh) during 2007-08, the department had incurred ₹ 75.38 lakh on training of 6,813 youths of the State, out of which 618 beneficiaries were for the industry sector and 5,415 beneficiaries were for the service sector. However, the excess amount of ₹ 26.02 lakh incurred under training could not be adjusted prior to the closure of the scheme. Since this scheme had already been closed (March 2008), there was a remote possibility of reimbursement of ₹ 26.02 lakh and the above liability might have to be borne by the State Government.

On this being pointed out, the Government stated (October 2010) in the exit conference that since the scheme had been discontinued, the excess expenditure incurred might have to be borne by the State Government. The exact amount would be assessed after collecting data from the districts and would be taken up with GOI.

3.8.2 Prime Minister's Employment Generation Programme (PMEGP)

Government of India launched the Prime Minister's Employment Generation Programme (PMEGP) with effect from 15 August, 2008 with the objective of generating employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures/projects/micro enterprises.

3.8.2.1 Inadmisible payment of margin money of ₹ 1.63 crore for projects/activities not covered under PMEGP

Inadmissible payment of margin money

Under PMEGP, beneficiaries were entitled to get subsidy in the form of margin money on the total cost of their projects as per applicable rates. Para 29 of the PMEGP guidelines refers to the negative list of activities i.e. those activities which are not permitted for consideration of Government subsidy in the form of margin money.

Further, as per a clarification of GOI dated March 2009 issued by the Khadi and Village Industries Commission, activities of the agriculture/farm sector and projects which did not involve manufacturing processes, value addition and per capita investment criteria were not to be considered under PMEGP. Only the manufacturing sector, intended primarily for promoting industrialization, was to be considered.

Test check of records relating to PMEGP in the selected districts revealed that during 2008-09 and 2009-10, margin money totalling ₹ 1.63 crore was released in respect of 160 projects ***(Appendix-3.11)*** which were neither involved in manufacturing activities nor had any value addition capacity such as running of photo studios, TV repair shops, tailoring shops etc., and hence, were not eligible. Margin money released in these cases was in contravention of the provisions of the programme and resulted in inadmissible payment of subsidy of ₹ 1.63 crore.

On this being pointed out, the GMs of two[13] DTICs stated (July 2010) that the activities/cases were approved by the Task Force Committee[14] (TFC) while two[15] other GMs stated that activities/cases involving the service sector were

[13] Dhamtari and Rajnandgaon.

[14] Task Force Committee is constituted in each district and is responsible for scrutiny of application forms of beneficiaries. This committee is chaired by the District Collector and the lead bank's Manager and representatives of Khadi & Village Industries Commission/Khadi & Village Industries Board are members. The GM, DTIC/representative of KVIB/KVIC are Member Convenors .

[15] Durg and Sarguja.

provided with margin money. Contentions of the GMs are not acceptable because they are Member Convenors of the TFC which is responsible for selection of beneficiaries. Also, service sector activities were not eligible under this programme as they did not involve any manufacturing process.

The Government stated (October 2010) in the exit conference that the matter would be reviewed in view of the clarification of March 2009.

3.9 Manpower management

3.9.1 Lack of manpower management

After the bifurcation of Chhattisgarh State from Madhya Pradesh, the organizational set up of the department was finalised by the Government. The set up indicated total posts sanctioned for the directorate and field offices. However, it did not indicate the details of posts to be distributed for the field organisations for functioning of district/field offices. Details of posts for field offices had not been finalised (September 2010). In the absence of this, the justification for the number of persons posted in the DTICs could not be commented upon. Also, the salaries and allowances of district units were drawn without having any specific sanction and thus were irregular. In the absence of any specified criteria for field posts, there was no justification for the men-in-position in the district offices. This indicated inadequate manpower management in the department.

Government agreed (October 2010) to the audit observation in the exit conference and stated that necessary action would be taken for distribution of the sanctioned strength as per the new organizational set up.

3.9.2 Shortage of staff and irregular attachment of staff in other departments

The position of sanctioned strength, men-in-position and vacancies is detailed in ***Appendix-3.12.*** Out of a total of 789 sanctioned posts (208 posts for the directorate and 581 posts for the field offices), 469 posts were lying vacant. The vacancies were more than 50 *per cent* in respect of the clerical cadre. Despite this, five officials were sent on deputation to other departments and two[16] more officials were attached to other departments.

Government stated (October 2010) in the exit conference that steps were being taken to fill up the vacant posts early.

3.10 Internal Control

Internal audit is an important instrument to examine and evaluate compliance with the department's rules and procedures. The department had neither prepared any working manual or code nor adopted any methodology for the effective implementation of its various policies, subsidy schemes, etc. It was

[16] One Asst. Manager in Directorate attached to a Minister and one Manager in DTIC Sarguja attached to Zilla Panchayat office.

observed that the internal audit wing was not functional and the directorate staff had not conducted any internal audit of the field offices during the period of review. Thus due to non-functioning of the internal audit wing, there was lack of proper financial and manpower management as well as deficiencies in the implementation of the various schemes.

3.11 Conclusion

The objective of the department to ensure overall development of industries and maintain balanced regional development in the State could not be fully achieved in the absence of proper planning and targets. The quality of budgetary and financial management was deficient. Manpower management was inefficient and deployment of staff was improper. Programme management was inefficient as the number of industries set up during the period declined from 846 (2005-06) to 543 (2009-10). Moreover, there was no institutional mechanism for assessing the effectiveness of various subsidy/exemption schemes implemented by the department. As a result, the department's objective of ensuring balanced regional development by attracting industries in the economically backward areas of the State remained unfulfilled.

3.12 Recommendations

- Annual Action Plans should be prepared by the department to ensure industrial growth and balanced development of the State.
- The quality of budgetary control and financial management should be strengthened to avoid repeated savings and blocking of funds.
- Concerted efforts should be made by the department in the implementation of various State and Central Government schemes so as to remove the deficiencies in implementation of the schemes.
- Effective monitoring in implementation of the schemes should be ensured so that the benefits of the schemes are derived only by the eligible beneficiaries.
- Adequate measures should be taken to recover the loans, subsidies and penal interest from defaulting/ineligible beneficiaries.
- Immediate steps should be taken to fill up the large number of vacancies and to finalise staff set up for the field offices early.
- Internal audit should be strengthened in the department with adequate manpower to review the implementation of the various schemes.