

CHAPTER III : MINISTRY OF COMMERCE & INDUSTRY

Payment of Claims under Transport Subsidy Scheme

Transport Subsidy Scheme

The Government of India introduced the Transport Subsidy Scheme in 1971, with a view to promoting industrialization of hilly, remote and inaccessible areas. Under the scheme, transport subsidy on movement of raw materials and finished goods to and from designated railheads is allowed to industrial units located in the North Eastern Region (including Sikkim), Jammu & Kashmir, Himachal Pradesh, Andaman & Nicobar Islands, Lakshadweep, and selected districts of Uttarakhand and West Bengal. The scheme is administered by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry.

The performance audit of this Scheme was taken up at the request of the Secretary to Government of India, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry. Our findings are discussed below:

Highlight of the major observations

- **The stipulated procedures for pre registration of units intending to claim transport subsidy with the Directorate of Industries of the States; monitoring and inspection of units and receipt of regular information regarding movement of finished goods and raw material were not effectively implemented, significantly weakening the controls associated with the scheme and increasing the potential risk of fictitious and ineligible claims.**

(Paragraph 3.4.1)

- **Cross check by Audit of the details recorded in the subsidy claims with reference to the corresponding records with other agencies viz. Vehicle Licensing Department, State Excise and Taxation Department, Sales Tax and Central Excise Department revealed several cases of payment of suspected fictitious and doubtful claims for transport subsidy amounting to Rs. 6.32 crore.**

(Paragraph 3.4.2)

- **Audit noticed numerous instances of deviation from the guidelines, which stipulated submission of claims for transport subsidy by the industrial unit on a quarterly basis and within one year of the date of incurring expenditure on transportation, with admissibility restricted to a period of five years from the date of commencement of commercial production.**

(Paragraph 3.4.3)

- **Audit noticed numerous instances of insufficient documentation in support of subsidy claims e.g. Sales Tax/ VAT assessment not available; no proof of adjustment of outstanding dues of Government/ Financial Institutions; claims not submitted in prescribed proforma; vehicle numbers not indicated. Audit scrutiny also revealed several cases of payment of subsidy claims, which were not in compliance with the scheme guidelines and instructions e.g. payment in respect of non-manufacturing activities, illegal wood-based activities, inadmissible raw materials, by-products and intermediaries; incorrect determination of freight rates; payment without checking of claims etc.**

(Paragraph 3.4.4)

- **Audit scrutiny revealed numerous instances of delay in payment of transport subsidy in almost all the selected States.**

(Paragraph 3.4.5)

- **Follow-up action on the earlier audit findings reported in paragraph 1.1 of the CAG's Audit Report No. 2 of 2001 (Civil) had not been completed, even after eight years of submission of the Report to the Parliament.**

(Paragraph 3.5)

Summary of important recommendations

- **To minimize the potential risk of fictitious and ineligible claims DIPP must initiate concrete action immediately to ensure that the State Governments fully implement procedures for regular inflow of information regarding actual movement of raw materials and finished goods and periodic inspection of units, and take punitive action in appropriate cases.**

- **The delegation of power to grant waiver in cases of lack of pre-registration may be reviewed immediately. Such powers may be exercised by the DIPP rather than being delegated to SLCs.**
- **To ensure the authenticity and genuineness of claims, DIPP may put in place a system to provide for conduct of cross verification of subsidy claims by State Level Committees with records of other Departments (Sales Tax, Vehicle Licensing, and State Excise and Taxation Departments) before approving claims for reimbursement.**
- **DIPP needs to ensure that the nodal agencies actually conduct scrutiny of 10 *per cent* of the claims, not only with reference to documents but also with reports of physical inspection of units and checking of movement of raw materials and finished goods, and take necessary action against defaulting nodal agencies in cases of non-compliance. Also, the method of selection of 10 *per cent* of claims for physical inspection and checking needs to be laid down, to minimize arbitrariness and excessive discretion in excluding/ including units.**
- **DIPP should develop a web-based MIS, which would make details of unit-wise subsidy releases transparently available to the public at large, and also ensure that all nodal agencies promptly upload details of subsidy released by them onto this web-based MIS. In the absence of such an MIS with public access, reporting of release data by nodal agencies would only serve a limited purpose.**
- **Delayed payment of transport subsidy by several years adversely affects the achievement of the main objective of the scheme of promoting industrialization in hilly, remote and inaccessible areas. DIPP must ensure that adequate funds are made available on a timely basis to the nodal agencies. It should also be ensured that claims are paid by the nodal agencies promptly.**
- **DIPP may prepare a time-bound action plan to address deficiencies in the Transport Subsidy Scheme, including those pointed out by Audit for effective promotion of industrialization in hilly, remote and inaccessible areas of the country covered under this Scheme.**

3.1 Transport Subsidy Scheme

The Government of India (GoI) introduced the Transport Subsidy Scheme in July 1971¹, with a view to promoting industrialization of hilly, remote and inaccessible areas. Under the scheme, transport subsidy is allowed to industrial units in selected areas, on movement of raw materials and finished goods to and from the designated railheads. The scheme was extended beyond 31 March 2008, till completion of the evaluation of the scheme.

The scheme is applicable to all industrial units (excluding plantations, refineries and power generating units) located in the North Eastern Region (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Sikkim), Jammu & Kashmir, Himachal Pradesh, eight hilly districts² of Uttarakhand, one district³ of West Bengal, Andaman & Nicobar Islands, and Lakshadweep.

Currently, transport subsidy is payable at 90 *per cent* of the expenditure incurred on transportation of raw materials and finished goods from the designated rail heads/ ports to the industrial units and vice versa. The subsidy is also payable, under certain conditions, for transport cost on inter-State movement of raw materials and finished goods within the North Eastern Region, as well as for air freight for movement of electronic products/ components to and from Kolkata, and from Delhi to Srinagar/ Shimla and vice versa.

The subsidy is payable for a period of five years from the date of commencement of commercial production. Subsidy is also available for transportation cost of additional raw materials and finished goods as a result of substantial expansion or diversification⁴ of an existing industrial unit, but is restricted to 50 *per cent* of the additional transport cost.

The scheme is administered by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry. Each State Government/ UT Administration is required to set up a State Level Committee (SLC), to scrutinize and settle all claims of transport subsidy arising within the

¹ Although the scheme was introduced in 1971, States/ UTs started claiming transport subsidy only from 1976 onwards.

² Almora, Chamoli, Dehradun, Nainital, Pauri Garhwal, Pithoragarh, Tehri Garhwal and Uttarkashi

³ Darjeeling

⁴ Substantial expansion refers to an increase in production by 25 *per cent* or more, while diversification refers to new articles constituting 25 *per cent* or more of the value of the approved licensed capacity.

State/ UT. The SLC consists of representatives of the State Industries and Finance Departments, as well as a nominee of the DIPP.

Funds are released to the nodal agency nominated by the State Government⁵, which makes final payment of subsidy to the industrial units, after approval by the SLC. In the case of North Eastern Region, the North Eastern Development Finance Corporation (NEDFi) is the nodal agency for all eight States.

3.2 Expenditure on Transport Subsidy

During the period from 2002-03 to 2007-08, the Government of India (GoI) released Rs. 949.81 crore under the scheme to NEDFi and other nodal agencies; an amount of Rs. 996.95 crore was shown as disbursed to industrial units during the same period in the records of the Ministry/implementing agencies. The position of the year-wise release and reported disbursements was as follows:

Table 1 – Release and Disbursement of Transport Subsidy

(Rupees in crore)

Year	Opening Balance	Funds released	Funds disbursed	Closing Balance
2002-03	37.25	109.01	66.13	80.13
2003-04	80.13	17.2	63.58	33.75
2004-05	33.75	70.19 ⁶	75.32	28.62
2005-06	28.62	97.1	71.70	54.02
2006-07	54.02	37.02	97.18	-6.14
2007-08	-6.14	619.29	58.43	554.72
2008-09	554.72	-	564.61	-9.89
Total		949.81	996.95	

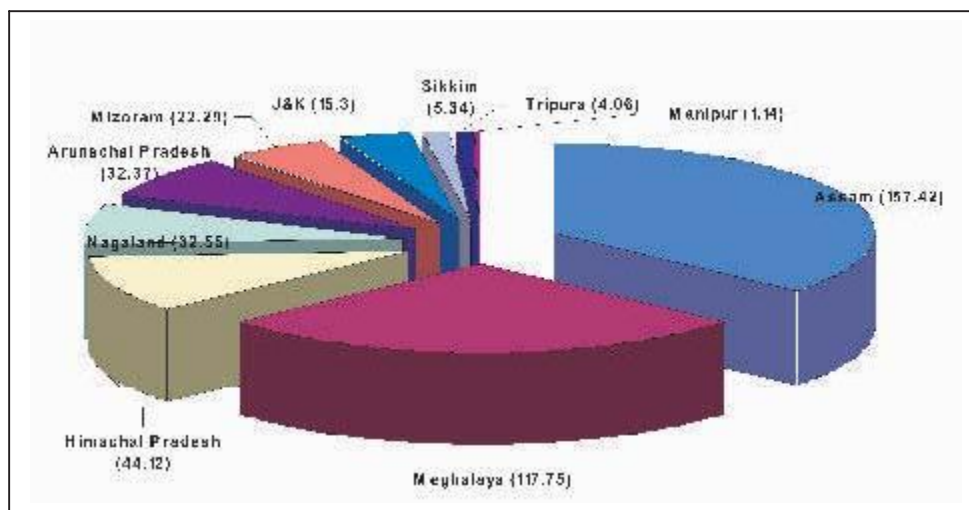
During 2008-09, the Ministry made no releases, but the nodal agencies reportedly made disbursements of Rs. 564.61 crore out of the closing balance of funds of 2007-08, which was only Rs. 554.72 crore. The difference of Rs. 9.89 crore between the disbursements during 2008-09 and the closing balance as of March 2008 was due to lack of reconciliation between the Ministry and the nodal agencies.

⁵ In respect of units located in A&N Islands, Lakshadweep and Darjeeling, no nodal agency is involved, and funds are released directly by the Ministry to the Directorate of Industries.

⁶ Rs. 4.42 crore pertaining to Uttarakhand was refunded to GoI.

A State-wise profile of reported disbursements during 2002-08 is given below:

State-wise Disbursements during 2002-08
(Rupees in crore)



Details of State-wise releases and disbursements are given in **Annexure-V**.

3.3 Objectives, Scope and Methodology of Current Audit

3.3.1 Request for Audit

An audit of the transport subsidy scheme was carried out earlier and reported in paragraph 1.1 of the CAG's Audit Report No. 2 of 2001 (Civil). In September 2008, the GoI requested the CAG of India to conduct a performance audit of the Transport Subsidy Scheme, in the light of a suggestion made by the Planning Commission in this regard.

Consequent to this request, a limited scope audit of the scheme, which was already being undertaken by the CAG to verify the accuracy and genuineness of transport subsidy claims, was expanded to include a review of the processes and testing of adequacy of internal controls to check possible leakages, and misuse of subsidy disbursed. The scope of Performance Audit did not, however, include an assessment of the ultimate impact of the Transport Subsidy Scheme in terms of increased industrialization in the hilly, remote and inaccessible areas targeted under the Scheme, due to the multiplicity of tax and non-tax incentives for industrial development in such regions and the difficulty involved in identifying separately the impact of transport subsidy.

The performance audit, which was carried out between July and November 2008, covered the implementation of the scheme in six selected States (Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Meghalaya, and Nagaland) through test check of 118 cases of payment between 2002-03 and 2007-08.⁷

3.3.2 Audit Objectives and Criteria

The objectives of the Performance Audit were to verify whether there were adequate and effective controls for:

- Ensuring pre-registration of the industrial units and for verifying the authenticity of existence of the units claiming disbursement of transport subsidy;
- Periodic monitoring/ inspection of the claiming units, and for the receipt of information regarding movement of raw materials and finished goods from the units;
- Ensuring the authenticity and genuineness of the transport subsidy claims; and Ensuring that the claims were properly scrutinized and accurately paid in compliance with the provisions of the scheme;

The criteria for the performance audit were derived from the notifications of the scheme and amendments thereto, and instructions/ communications from the GoI to State Governments/ UTs for administering the scheme.

3.4 Audit Methodology

An entry conference was held with the DIPP in November 2008, where the broad audit scope and objectives were explained by Audit, and the Department made a presentation on the salient features of the scheme.

Field audit of the implementation of the scheme in the six selected States through examination of records in the State Government Departments, District Industries Centers (DICs), nodal agencies etc. and cross verification with records of the Sales Tax, Central Excise and Vehicle Licensing Departments was carried out between July and November 2008.

⁷ Although the test checked payments were made between 2002-03 and 2007-08, many of the claims pertain to periods prior to 2002-03; the delay in payment of claims has been highlighted in paragraph.

An exit conference was held with the DIPP in February 2009, where the main audit findings were presented and discussed.

The audit findings were reported to the Ministry in March 2009; the Ministry's responses on these findings were received between May 2009 and October 2009, which have been incorporated, as appropriate, in this report.

Audit acknowledges the co-operation and assistance extended by the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry as well as the State Governments and their agencies during the conduct of the audit.

3.4 Audit Findings

3.4.1 Pre-registration and periodic monitoring & inspection

3.4.1.1 Scheme Guidelines

According to the scheme guidelines of 1971, the Directorates of Industries of the States and UTs concerned were to lay down a system of pre-registration of industrial units which were eligible for transport subsidy. At the time of registration, the Directors of Industries would fix and indicate the capacity of such units. They would also lay down procedures to ensure regular inflow of information regarding the movement of raw material and finished goods to and from the industrial units. They should also lay down that statistics of production and utilization of raw materials should be maintained and kept open for inspection on request by the Directorate of Industries.

Further, in order to check any misuse of transport subsidy, the Directorates would carry out periodical checks to ensure that the raw materials and finished goods in respect of which transport subsidy had been given were actually used for the purpose by a system of scrutinising the raw materials and the output of the finished goods.

In November 1991, DIPP further clarified that before an intending entrepreneur applied for transport subsidy, he should be asked to apply for a registration under the Scheme. It was to be ensured that only claims relating to the period after the date of registration were to be entertained. However, if there were sufficient reasons for entertaining a claim relating to the pre-registration period, the matter could be placed before the SLC for granting waiver of the requirement of registration. Further, the States/UTs were advised to give wide publicity to the requirement of pre-registration so that the entrepreneur became aware of this requirement. Audit examination disclosed

that the above provisions of the scheme guidelines were not adhered to in many cases as discussed below:

3.4.1.2 Pre-registration

Audit scrutiny revealed that in the case of Arunachal Pradesh, the SLC had granted waiver of the requirement of pre-registration in 12 cases (amounting to Rs. 9.86 crore of subsidy) on general grounds like procedural lapse, lack of awareness about the procedure of the Scheme, pending court cases, backwardness of the States and illiteracy of the entrepreneur etc. Similarly in Meghalaya, after being pointed out in Audit, SLC granted (August 2009) ex-post facto waiver of the requirement of pre-registration to four units on the grounds that the units were not aware of the pre-requisite of registration and paid subsidy of Rs. 1.75 crore between January 2003 and May 2006.

In audit's view, the exercise of discretion by the SLC has to be based on clear, transparent, and laid-down norms, and not an ad hoc basis.

3.4.1.3 Monitoring and Inspection

Audit scrutiny also revealed significant deficiencies in the processes for periodic monitoring and inspection of units by the Directorate of Industries of States/UTs and receipt of regular information regarding movement of raw materials/ finished goods etc., as summarized below:

Procedures for ensuring regular inflow of information regarding movement of raw materials and finished goods had not been laid down by the Directorate of Industries in the States of Arunachal Pradesh and Meghalaya.

In Assam, Jammu & Kashmir, Himachal Pradesh and Nagaland, there was no system of periodic inspection of the units and checking of raw materials and finished goods, which would have provided additional assurance on authenticity.

In audit's opinion, lack of pre-registration of units and ineffective monitoring and inspection of units, and non-receipt of regular information regarding movement of finished goods and raw materials significantly weakened the controls associated with the scheme, and increased the potential risk of fictitious and ineligible claims.

3.4.1.4 Ministry's Response

In response to audit's recommendation that DIPP should ensure that the State Governments immediately stipulate procedures for regular inflow of

information regarding movement of raw materials and finished goods, and also institute a system of periodic inspection of units, with periodic reports to DIPP, the Ministry stated that the State Governments had been asked to stipulate such procedures and institute a system of periodical inspections, failing which the payment of transport subsidy in respect of the units in the respective States was liable to be withheld.

Recommendations :

- **To minimize the potential risk of fictitious and ineligible claims DIPP must initiate concrete action immediately to ensure that the State Governments fully implement procedures for regular inflow of information regarding actual movement of raw materials and finished goods and periodic inspection of units, and take punitive action in appropriate cases.**
- **The delegation of power to grant waiver in cases of lack of pre-registration may be reviewed immediately. Such powers may be exercised by the DIPP rather than being delegated to SLCs.**

3.4.2 Cross-verification of subsidy claims with records of other Departments

In the absence of effective procedures for pre-registration of units, periodic monitoring and inspection, and regular inflow of information regarding movement of raw materials and finished goods, audit conducted cross-check of the details recorded in the subsidy claims with reference to corresponding records with other agencies such as:

Vehicle Licensing Department (to verify the authenticity of the vehicle numbers quoted in the claim);

State Excise and Taxation Department barriers/ check gates (to verify records of movement of trucks through the barriers); and

Sales Tax and Central Excise Departmental records (to verify records of import/ export of raw materials and finished goods reported by the units to these Departments)

Our cross-verification revealed several cases of payment of suspected fictitious and doubtful claims for transport subsidy amounting to Rs. 6.32 crore, as summarized below.

3.4.2.1 Nagaland

Audit scrutiny revealed that Rs. 5.56 crore was paid between 2002-07 to nine industrial units, though no raw material/finished goods were imported or exported as per the records of the Sales Tax Department.

3.4.2.2 Himachal Pradesh

Audit scrutiny revealed the following:

In the case of five industrial units, payment of Rs. 21.09 lakh was claimed for transportation of material by trucks at Nahan, Kullu and Mandi. However, on verification by Audit with the Vehicle Licencing Authority, the vehicle numbers were found to be registered as two-wheeler and light motor vehicles. Further, in one case, the ST-XXVI-A form numbers⁸, indicated on record as proof of transportation of goods through the barriers, were found issued to another firm, as per the records of the Assistant Excise & Taxation Commissioner (AETC), Nahan, and in three other cases, the form numbers indicated on the claim documents were not available in the concerned AETC Offices. Thus, the subsidy payment was evidently allowed on fictitious claims.

The Ministry stated (July 2009) that the General Managers (GMs) of the concerned District Industries Centres were cross checking the documents with the licensing authority to arrive at the amount involved in each case so as to work out interest on the amount @ 15 per cent before initiating recovery of the amount. An amount of Rs. 3.26 lakh had already been recovered from one unit, and a recovery notice for an amount of Rs. 22.39 lakh had also been served on the unit.

Transport subsidy of Rs. 16.57 lakh was irregularly paid to two units in Kullu and Mandi, without obtaining the ST-XXVI-A forms; these forms were also not available in the office of AETC, Kullu, for the purpose of Sales Tax assessment. In another case, transport subsidy of Rs. 29.56 lakh was paid to a unit in Paonta Saheb on the basis of ST-XXVI-A forms, which did not tally with the records of barriers maintained in the office of AETC, Nahan.

The Ministry stated (July 2009) that documents were being cross-checked for working out interest on the amount to be recovered.

⁸ ST-XXVI-A forms are issued at the barriers by the Excise & Taxation Department as proof of transportation of material by the units concerned.

3.4.2.3 Meghalaya

Audit scrutiny revealed that transport subsidy of Rs. 9.06 lakh paid in December, 2003 to a unit for the period March-September 2002 was doubtful, as an enquiry conducted by Central Excise Department revealed that 80 *per cent* of transportation of finished products for the period May 2002 – June 2004 was not found genuine and a case had been registered against the industrial unit for evasion of central excise duty. However, no enquiry was conducted by the State Industries Department, and the records thereof were also not produced to Audit.

Recommendation :

- **To ensure the authenticity and genuineness of claims, DIPP may put in place a system to provide for conduct of cross verification of subsidy claims by State Level Committees with records of other Departments (Sales Tax, Vehicle Licensing, and State Excise and Taxation Departments) before approving claims for reimbursement.**

3.4.3 Submission and Validity of Claims

3.4.3.1 Guidelines

As per DIPP's circular of 4 May, 1993, claims for transport subsidy are to be submitted quarterly, and no claims should be entertained beyond one year of the date of incurring expenditure on transportation. Further, as per DIPP's notification of 28 July 1993, subsidy is admissible only for five years from the date of commencement of commercial production by an industrial unit. Following cases of deviation from the above guidelines were noticed.

3.4.3.2 Payment for claims submitted after one year

Audit scrutiny revealed the following cases of payment for claims which were submitted after the stipulated period of one year:

In Arunachal Pradesh, subsidy of Rs. 1.86 crore was paid by NEDFi between December 2003 and May 2006 to eight industrial units who submitted their claim after expiry of the stipulated period of one year.

In Nagaland, test check of records revealed that no industrial unit submitted its claims quarterly and the Government accepted claims from five industrial units, more than two to five years old after the date of incurring expenditure.

3.4.3.3 Payment for periods beyond five years of commencement of commercial production

Audit scrutiny also revealed cases of payment beyond five years of commencement of commercial production⁹, which are discussed below:

In Arunachal Pradesh, the date of commencement of commercial production of a unit was 22 January, 1991, and the unit was thus eligible for subsidy up to 21 January, 1996. However, out of the total payment of Rs. 1.26 crore for the period from October 1992 to October 1996, subsidy amounting to Rs. 15.86 lakh for the period after 21 January 1996 was not admissible.

In Nagaland, in case of a unit at Dimapur, the date of commercial production was 18 February 1993, and hence the subsidy was admissible only up to 17 February 1998. Out of the claim for the period from 1 April 1993 to 31 March 1998, subsidy of Rs. 2.98 lakh paid in October 2006 for the period from 18 February 98 to 31 March 1998 was not admissible.

3.4.3.4 Payment for period prior to date of commencement of commercial production

Audit scrutiny revealed that in Nagaland, out of a payment of Rs. 76.25 lakh to a unit, Rs. 61.96 lakh released between June 2001 to August 2007 pertained to the period from April 2000 to April 2001, which was prior to the date of commencement of commercial production of 1 May 2001 indicated in the registration certificate, and was evidently an inadmissible payment.

3.4.4 Improper documentation, inadmissible and irregular payments

3.4.4.1 Guidelines

According to the 1971 scheme guidelines,

The Directorate of Industries of the State/ UT was required to draw up procedures and arrangements for scrutiny and prompt payment of claims. Further, DIPP would continuously review the arrangements made by the Directorate of Industries and suggest modifications, if necessary, in the procedure for scrutinizing the claims, payment of transport subsidy etc.

The State Government/ UT Administration would set up a State Level Committee (SLC) consisting of the Director of Industries, a representative

⁹ Although the claims pertained to periods upto 1998, they were paid only during the period 2002-03 to 2007-08.

each of the State Industries Department and the State Finance Department, and a representative of DIPP. The SLC would scrutinize and settle all claims of transport subsidy arising in the State/ UT.

The claimants were to be asked to provide proof of raw materials imported into, and finished goods exported out of the State/UT from registered Chartered Accountants. From February 1974, this requirement was waived where the capital investment was Rs. 1 lakh or less and verification may be done by the appropriate State Government authorities.

The SLC may also lay down the production of any other document, which, in their opinion, was necessary to decide the eligibility of the claimant for transport subsidy.

As regards the admissibility of claims, in addition to payment of 90 *per cent* of the transport costs on raw materials and finished goods to the industrial units and vice versa, subsidy would also be available under the following conditions:

90 *per cent* and 50 *per cent* of the transport cost for inter-State movement of raw materials and finished goods respectively within the North Eastern Region (NER);

- 75 *per cent* of the air freight for movement of electronic components / products by air to and from Kolkata, and thereafter 90 *per cent* for movement by rail/road upto the location of industrial unit and vice versa;
- 75 *per cent* of the air freight for movement of electronic components / products by air to and from Delhi to Srinagar and vice versa, and thereafter 90 *per cent* for movement by rail/road upto the location of industrial unit and vice versa; and
- 75 *per cent* of the air freight for movement of electronic components / products by air to and from Delhi to Shimla and vice versa; in case of movement of goods moving partly by air and partly by rail/road, transport subsidy would be admissible @ 75 *per cent* on the air freight from Delhi to Shimla and thereafter also 75 *per cent* for movement by road/ train, upto the location of Industrial unit.

3.4.4.2 Insufficient documentation in support of subsidy claims

In order to ascertain the extent of checks exercised at different levels by the implementing and monitoring agencies regarding the correctness and genuineness of the subsidy claims; compliance to some of the aspects regarding documentation, collateral evidence, timeliness of the claims, and transportation by other modes etc. were checked on sample basis in the States. The main findings of the sample check are summarised in Table 2 below.

Table 2: Insufficient Documentation in Support of Subsidy Claims

Deficiencies in documentation	Brief Description
Sales Tax/ VAT assessment not available	Out of 120 test-checked cases, the SLC had passed claims worth Rs. 61.78 crore without availability of State Sales Tax/ VAT assessments (which would have provided corroborating evidence of the size of the operations of the unit) in 67 cases (55 per cent) (Arunachal Pradesh – 10, Assam – 27, Himachal Pradesh – 2, Jammu & Kashmir – 6, Meghalaya – 13, and Nagaland – 9).
Other supporting documents not available	Out of 79 test-checked cases, claims for Rs. 147.86 crore were passed without other supporting documents (Bank certificates, indemnity bonds, NOC from State Sales Tax Department) in 77 cases (97 per cent) (Arunachal Pradesh – 10, Assam – 45, Meghalaya – 15, and Nagaland – 7). Further, transport subsidy of Rs. 17.08 crore was paid to 25 units in Himachal Pradesh, in respect of which annual accounts had not been obtained.
No proof of adjustment of outstanding dues of Government/ Financial Institutions	Out of 95 test-checked cases, no proof of adjustment of outstanding dues of Government/ Financial Institutions was available in 64 cases (66 per cent) (Arunachal Pradesh – 3, Assam – 37, Jammu & Kashmir – 11, Meghalaya – 7, and Nagaland – 6), wherein transport subsidy of Rs. 135.27 crore was paid.
Claims not submitted in prescribed proforma	Out of 86 test-checked cases, 26 claims (31 per cent) for Rs. 17.92 crore were not submitted in the proforma prescribed by DIPP (Assam – 9, Himachal Pradesh -1, and Jammu & Kashmir – 16).
Vehicle numbers not indicated	Out of 54 test-checked cases, the registration number of vehicles through which material was transported was not available in 11 cases (20 per cent) (Assam – 5 and Nagaland - 6). A subsidy of Rs. 5.33 crore was paid in these 11 cases.
Cost of Loading/ Unloading and Handling Charges not excluded	Out of 69 test-checked cases, the guidelines regarding exclusion of the cost of loading/ unloading and other handling charges were not adhered to in 17 cases (25 cent) (Assam – 3, Meghalaya – 5, and Nagaland – 9).

3.4.4.3 Non-compliance with Scheme Guidelines and Inadmissible Payments

Audit scrutiny revealed several cases of payment of subsidy claims, which were not in compliance with the scheme guidelines and instructions. Such cases of irregular/ inadmissible payment of transport subsidy have been summarized below under different categories.

3.4.4.3. Payment in respect of non-manufacturing activities, illegal wood-based activities, inadmissible raw materials, by-products, intermediates etc.

Other major conditions governing eligibility for subsidy are as follows:

Subsidy is payable only in respect of manufacturing activities, and not for by-products;

Subsidy is not payable to flour mills, if they have procured wheat from the Food Corporation of India;

Subsidy is payable only to those wood based units, which fulfill the conditions laid down in the Supreme Court's order of December 1996, according to which non-forest activities (e.g. running of saw mills) in forest areas without the prior approval of GoI is prohibited.

Subsidy is not payable for movement of finished goods within the State (except for inter-State movement of finished goods within the North Eastern Region);

Subsidy is not payable for transportation of raw material and finished goods in the industrial unit's own vehicles; and

Cost of loading/ unloading and other handling charges would not be taken into consideration for determining transport costs.

Freight charges for movement by road would be determined on the basis of transport rates fixed by the Government of the State/ UT concerned or actual freight paid, whichever was lower.

Audit scrutiny revealed several instances, where payment of transport subsidy was made for non-manufacturing activities, wood-based units acting in violation of the Forest Conservation Act and the Supreme Court's order; as

well as transportation of raw materials, by-products and intermediates not falling within the purview of the scheme guidelines, as summarized below:

In Arunachal Pradesh, two saw mills at Chowkham and Miao were engaged in illegal wood based industries within the forest land and were penalized for violation of the Forest Conservation Act, 1980 by the High Powered Committee set up by the Hon. Supreme court. These were ineligible for transport subsidy; nevertheless, subsidy of Rs. 1.50 crore between February 2004 and February 2008 was paid to these industries by NEDFi, on approval of the SLC.

As per DIPP's orders of March 1988, transport subsidy was not be admissible on Calcined Petroleum Coke (CPC), which was a product of refineries. However, two industrial units in Assam were given subsidy of Rs. 7.38 crore during 2002 to 2009 for transportation of CPC from the factories of the units to outside the NER, which was not admissible.

An amount of Rs. 34 lakh was released to an industrial unit in Assam for transportation of alcohol, spirit etc., as raw material and India Made Foreign Liquor (IMFL) as finished products between June 2005 and April 2008. The subsidy for the items was not permissible, as there were no specific orders of Government of India regarding admissibility for this activity.

3.4.4.3.2 Inadmissible Payments

Audit scrutiny revealed several cases of inadmissible payments, as summarized below:

In Arunachal Pradesh, transport subsidy of Rs. 44.56 lakh for the period September 1993 to March 1995 was paid in June 2006 to an industrial unit for transportation of finished products from the industrial unit to different destinations outside NER. Scrutiny revealed that the cost of transportation was based on the agreement between the unit and the consigner/ purchaser that initially the consigner would pay the cost of transportation, which would be finally borne by the industrial unit. However, the transport subsidy claim was allowed without any documentary evidence like records of book adjustment or refund of freights paid by the unit. Similarly, in another case, transport subsidy of Rs. 29.88 lakh for the period September 1992 to January 1995 was paid during January 2006 for transportation of sawn timber from the factory site to the nearest railway station for onward transportation by rail to 227 firms/ individuals outside the NER. However, the railway receipts (RRs) submitted along with the claim indicated that the goods were transported

through rail on “freight to pay basis”, and the freight charges were paid by the consignee and not by the industrial unit. Hence, as no expenditure was incurred by the industrial unit, the reimbursement was not admissible.

As per the manufacturing capacity recorded in the registration certificates of two¹⁰ industrial units in Arunachal Pradesh, only 1193.20 MT of raw materials could have been utilized during the period April 2001 to March 2003, with eligible transport subsidy of Rs. 8.12 lakh. However, subsidy of Rs. 17.62 lakh for import of 2226.616 MT of raw material was paid between April 2006 and August 2007, resulting in inadmissible subsidy of Rs. 9.50 lakh.

As per DIPP’s circulars of March 1987 and May 1988, transport subsidy would be available for inter-State movement of finished goods within the NER, but subsidy would be admissible only at 50 *per cent* of the transport cost on movement of goods from the location of the industrial unit to the nearest railway station by road & thereafter by rail and vice versa. However, the claims submitted by two¹¹ industrial units in Assam between 2002-03 and 2007-08 revealed that subsidy on movement of finished goods within the NER was allowed between June 2004 and April 2008, without limiting the same to 50 *per cent* of transport cost; this resulted in excess payment of subsidy of Rs. 97.67 lakh.

Transport Subsidy was not permissible on transportation of raw material/finished goods by vehicles owned by an industrial unit. However, in Jammu & Kashmir audit revealed that a quantity of 109670.50 quintals of raw material was transported between April 1998 and September 2002 by private vehicles. The Directorate of Industries and Commerce deducted only 9068.70 quintals from the claim, resulting in inadmissible payment of Rs. 14.08 lakh on 15 June 2004.

Transport subsidy would cover only inter-State movement of finished goods within the NER. However, transport subsidy of Rs. 3.51 lakh was irregularly paid to two industrial units in Nagaland for movement of finished goods within the State.

In Nagaland, a unit at Dimapur submitted a subsidy claim for transportation costs of Rs. 29. 40 lakh for 51110 quintals of raw materials during 1990-91 to 1994-95. The eligible transport subsidy @ 90 *per cent* of the transportation

¹⁰ M/s Lida Steel Fabrication, Daporji and M/s Taba Engineering, Naharlagun.

¹¹ M/s Barak Valley Cements Ltd., Badarpur and M/s Balaji Cement, Jorhat

cost was Rs. 25.63 lakh. However, the amount of subsidy paid in October 2006 was Rs. 27.26 lakh, resulting in excess payment of Rs. 1.63 lakh.

A Chartered Accountant's Certificate is required as proof of raw material/finished goods transported, if the capital investment is more than Rs. 1.00 lakh. However, transport subsidy of Rs. 86.68 lakh was paid in August 2006 to three units in Nagaland, which submitted neither a Chartered Accountant's Certificate nor Balance Sheet and manufacturing accounts, although their capital investment were more than Rs. 1 lakh.

The above cases indicate that the admissibility of subsidy payments were not properly verified by the paying authorities in states indicating weak payment controls.

3.4.4.4 Incorrect determination of freight rates

Audit scrutiny revealed several cases of incorrect determination of freight rates, leading to excess payments, as summarized below:

In Himachal Pradesh, as per guidelines of the scheme, the freight charges for transportation of material by road were to be determined on the basis of rates fixed by the State Government from time to time, or the actual freight paid, whichever was less. However, excess subsidy payment of Rs. 2.15 lakh was made to a unit to Kala Amb, by not limiting the same to the actual freight paid. Similarly, excess subsidy of Rs. 1.82 lakh was paid in to a unit in Shamsi (Kullu), by allowing rates higher than those fixed by the State Transport Department. Excess payment of Rs. 2.15 lakh was recovered, after being pointed out by Audit.

The SLC in Jammu & Kashmir had approved rates of Rs. 73.45 and Rs. 81 per quintal of raw material & finished goods transported by truck from designated rail head to the location of an Industrial unit in Budgam and vice versa. However, the industrial unit was allowed transportation charges at the rate of Rs. 218.18 per quintal on 19337.15 quintals of finished goods, resulting in excess payment of subsidy of Rs. 24.35 lakh in June 2004 for the period from July 2000 to March 2003.

Transport subsidy of Rs. 72.74 lakh was paid to four units for transportation of raw material from outside Jammu & Kashmir, without restricting the fare to rail freight up to the designated rail heads (Kathua and Jammu). The Department allowed transportation at varying rates of Rs. 15.15 per quintal and Rs. 25 per quintal between Pathankot and Kathua (26.5 kms) and Jammu

to Udampur (66 Kms) respectively, which were not fixed by the State Transport Authority of the Government. The criteria for allowing the claims at rates allowed were not intimated/ on record. In response, the DIC stated (December 2008) that the rates were fixed by the State Level Committee (SLC). However, the SLC was not authorized to fix these rates, which should have been fixed by the State Transport Authority.

3.4.4.5 Payment of transport subsidy without checking of claims

Transport Subsidy of Rs. 1.40 lakh was paid during 2006-07 to an industrial unit¹² in Assam for transportation of wheat to a flour mill on the basis of fictitious vehicle numbers pertaining to two wheeler and light motor vehicles.

After being pointed out in Audit (January 2009), the Directorate of Industries¹³, Assam stated that there was a mistake in recording correct vehicle numbers. However, the facts remains that claims were processed and passed for payment on the basis of fictitious vehicle numbers which indicates that adequate checks were not being exercised by the competent authority.

3.4.4.6 Ministry's Response

In response to audit's recommendation that DIPP should ensure that NEDFi, being the nodal agency for NER, actually conducts scrutiny of 10 *per cent* of the claims, not only with reference to documents but also with reports of physical inspection of units and checking of movement of raw materials and finished goods (to ascertain the genuineness of the claims) and provide periodic reports to DIPP with regard to the results of such inspections and examination, the Ministry stated that the concerned nodal agencies had been requested to carry out such scrutiny of claims and provide periodic reports to DIPP.

In response to audit's recommendation to DIPP for examination and recovery of overpayment and irregular payment in the cases highlighted by audit, the Ministry stated that State Governments had been directed, as advised, to enquire thoroughly into the reasons for irregular approval of claims and also to initiate criminal/legal action against the erring units, besides effecting immediate recovery of subsidy from such units, and fix responsibility and take appropriate action against the officials concerned.

¹² Shri Vinayak Flour Mills

¹³ Additional Director of the Directorate of Industries

The Ministry, further, stated that NEDFi had been asked to withhold payment of subsidy in respect of all cases where irregularities had been detected by the CAG, and subsidy in these cases would be released only after the audit objections were dropped by CAG. Audit notes that the Ministry was complying with this assurance.

In response to audit's recommendation that DIPP may consider initiating action for developing a web-based Management Information System for ensuring transparency by providing full unit-wise details of all payments of transport subsidy and make the nodal agencies for ensuring prompt uploading of payment data, the Ministry stated that all nodal agencies would be requested to upload details of subsidy released by them within 30 days of release.

Recommendations:

- **DIPP needs to ensure that the nodal agencies actually conduct scrutiny of 10 per cent of the claims, not only with reference to documents but also with reports of physical inspection of units and checking of movement of raw materials and finished goods, and take necessary action against defaulting nodal agencies in cases of non-compliance. Also, the method of selection of 10 per cent of claims for physical inspection and checking needs to be laid down, to minimize arbitrariness and excessive discretion in excluding/ including units.**
- **DIPP should develop a web-based MIS, which would make details of unit-wise subsidy releases transparently available to the public at large, and also ensure that all nodal agencies promptly upload details of subsidy released by them onto this web-based MIS. In the absence of such an MIS with public access, reporting of release data by nodal agencies would only serve a limited purpose.**

3.4.5 Delay in Payment of Claims

According to the 1971 scheme guidelines, the Directorate of Industries of the State and Union Territory concerned had to draw up procedures and arrangements not only for scrutinizing the claims but also arrange for prompt payment of the claims. The claims were to be settled by the concerned nodal agencies within three months of receipt of the claims/recommendations from SLC/DLC. Audit scrutiny revealed numerous instances of delay in payment of transport subsidy in almost all the selected States:

In Arunachal Pradesh, 15 units received transport subsidy of Rs. 10.79 crore after a delay of 8 to 12 years.

In Assam, transport subsidy of Rs. 17.96 crore in 108 cases was paid after a delay of 5 to 12 years.

In Jammu & Kashmir, there were delays in scrutiny of claims at the District Industries Centers and Directorate of Industries ranging from 49 to 69 months and 2 to 17 months, respectively, resulting in delay of 83 months and 19 months in disbursement of funds.

In Meghalaya, transport subsidy of Rs. 32.58 lakh was paid to three units after a delay of four to five years.

In Nagaland, in nine cases, payment of subsidy was delayed by three to twelve years.

In most cases, the delay was attributed by the States to delayed receipt of GoI funds. However, the position of release and disbursement of GoI funds indicated in Table - 1 under paragraph 2 reveals that, except for 2006-07, the closing balance of unutilized funds with the concerned nodal agencies between 2002-03 and 2007-08 ranged from Rs. 28.62 crore to Rs. 554.72 crore. Clearly, the nodal agencies could have, at least partially, minimized the delay in payment of outstanding claims by utilizing available funds.

Recommendation:

- **Delayed payment of transport subsidy by several years adversely affects the achievement of the main objective of the scheme of promoting industrialization in hilly, remote and inaccessible areas. DIPP must ensure that adequate funds are made available on a timely basis to the nodal agencies. It should also be ensured that claims are paid by the nodal agencies promptly.**

3.5 Follow-up on Previous Audit Findings

An audit of the scheme was earlier carried out and reported in paragraph 1.1 of the CAG's Audit Report No. 2 of 2001 (Civil). Audit had found cases of questionable payment of transport subsidy of Rs. 177.68 crore; in States like Assam and Arunachal Pradesh, these questionable claims constituted 73 to 83 *per cent* of the total expenditure. Further, the claims of industrial units were admitted without verifying the relevant documents and District/ State Level Committee meetings were held at unduly long intervals, leading to numerous legal cases. Consequently, audit had recommended that there was a strong case for immediate review and closure of the scheme.

The follow-up action reported by the Ministry on the previous audit findings is summarized below:

Nature of irregularity reported	Action taken by the Department
Payment of Rs. 31.05 crore beyond prescribed period of five years from date of commercial production	<p>The Department stated (July 2009) that:</p> <p>The case of M/s Associated Cement Manufacturing Company for recovery of Rs. 30.22 crore was pending with the Supreme Court.</p> <p>Recoveries were not made from M/s JR Brother Offset Printer and Paper Works, Mizoram (0.09 crore) and M/s Mullum Saw Mills, Meghalaya (0.01 crore).</p> <p>Subsidy of Rs. 1.01 lakh paid to M/s J R Brothers prior to 17 March 1993 was recovered from him. Also, an amount of Rs. 1 lakh was rightly paid to M/s Mullum Saw Mills, Meghalaya and intimated to the monitoring cell on 23 December 2002, and no further directions were received.</p>
Payment of Rs. 11.70 crore to 60 industrial units in violation of the Forest Conservation Act	The Department stated (July 2009) that out of 60 units, four units of Nagaland were under consideration for remedial action, for violating the Forest Conservation Act.
Irregular, inadmissible and excess payment cases amounting to Rs. 8.21 crore	<p>The Department stated (July 2009) that:</p> <ul style="list-style-type: none"> • Recovery of Rs. 3.25 crore was still pending from the industrial units pertaining to the States of Tripura, Assam, Meghalaya and Mizoram. • For irregular payment of Rs.3.47 crores to an industrial unit in Mizoram, the PAC was requested for condoning the same, but the case was still pending, and the issue had not yet been finalized.
Direct payment of Rs. 85.13 crore by Ministry to industrial units and disbursing authorities without any scrutiny.	Outstanding Utilisation Certificates (UCs) amounting to Rs. 49.28 crore had been received, and reconciliation statement in respect of the advance payment of Rs. 35.40 crore had been furnished by Assam Industrial Development Corporation.
Advance payment of subsidy of Rs. 37.35 crore	UCs for Rs. 3.08 crore were still pending from the Governments of Assam and Arunachal Pradesh.
Payment of Rs. 2.03 crore without approval of competent authority	The Department stated that the payment was made with the approval of AS&FA; there was a procedural lapse, as the competent authority was Secretary (DIPP).
Payment of time-barred claims of Rs. 2.21 crore	The Department stated (July 2009) that the Government of Mizoram and Arunachal Pradesh were asked to recover the amount. However, no replies had been received from the State Governments.

As can be seen from the above, follow up action on the previous Audit Report had still not been completed, even after eight years of submission of the Report to the Parliament.

3.6 Ministry's Response to Audit Recommendations

The findings of the audit were pointed out to the Ministry in March 2009. In its general response (May 2009), the Ministry accepted most of the recommendations made by Audit; their responses to the individual audit findings have been incorporated, as appropriate, under the relevant sections.

The Ministry also indicated that the scheme was also proposed to be evaluated by an independent consultant to suggest necessary safeguards to prevent possible leakages and misuse, if any. Some of the suggestions in the Performance Audit Report were proposed to be implemented, along with the recommendations/ suggestions to be made in the evaluation report, based on which a revised scheme would be placed before the Cabinet Committee on Economic Affairs for approval.

Recommendation :

- **DIPP may prepare a time-bound action plan to address deficiencies in the Transport Subsidy Scheme, including those pointed out by Audit for effective promotion of industrialization in hilly, remote and inaccessible areas of the country covered under this Scheme.**

3.7 Conclusion

The Government of India introduced the Transport Subsidy Scheme almost four decades ago to promote industrialization of hilly, remote and inaccessible areas. Despite issue of detailed guidelines and instructions from time to time by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, the performance audit revealed significant irregularities and systemic deficiencies in the implementation of the scheme. Procedures for pre-registration of units (before claiming transport subsidy) and periodic monitoring and physical inspection of units as well as movement of raw materials and finished goods were highly deficient, and failed to provide adequate assurance as to the authenticity and correctness of subsidy claims which had been paid. Such lack of assurance was evidenced by the numerous cases of irregular payments detected by audit, which covered payments for time-barred claims, inadequate documentation in support of the claims, and

inadmissible/ irregular payments. Such systemic deficiencies and irregularities were also confirmed during cross-verification of details of subsidy claims with the records of other Departments (Vehicle Licensing, State Excise and Taxation, Sales Tax and Central Excise Departments).

While the Ministry has accepted most of the recommendations made by audit and indicated that necessary directions had been issued to the State Governments and nodal agencies, it is the Ministry's responsibility to ensure and verify actual compliance by the implementing agencies with these directions. This is particularly in view of the inadequate follow up action on the previous Audit Report on this scheme, even after eight years. The Ministry's active monitoring to ensure compliance is necessary to minimize leakages and irregularities in payment of transport subsidy and ensure the scheme's larger objective of promoting industrialization in hilly, remote and inaccessible areas.

New Delhi

Dated:



(A.K. PATNAIK)

**Director General of Audit
Central Expenditure**

Countersigned



New Delhi

Dated:

(VINOD RAI)

Comptroller and Auditor General of India

Annexure-V

(Refers to paragraph 3.2)

Statement showing State-wise release and disbursement of funds

(Rupees in crore)

Name of the State	Year	Fund released	Fund disbursed
Arunachal Pradesh	2002-07	*	26.79
	2007-08	37.01	5.58
Assam	2002-07	*	122.87
	2007-08	298.86	34.55
Manipur	2006-07	*	1.14
	2007-08	2.93	NIL
Meghalaya	2002-07	*	105.81
	2007-08	166.84	11.94
Mizoram	2002-07	*	22.29
	2007-08	25.95	NIL
Nagaland	2002-07	*	30.37
	2007-08	55.45	2.18
Sikkim	2005-07	*	3.22
	2007-08	2	2.12
Tripura	2002-07	*	3.66
	2007-08	6.6	0.40
Jammu & Kashmir	2002-08	25.01	15.3

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Name of the State	Year	Fund released	Fund disbursed
Himachal Pradesh	2002-08	58.22	44.12
Andaman & Nicobar Islands	2002-08	1.02	NA
West Bengal, Darjeeling district	2002-08	0.72	NA

Note:

** State-wise release of fund is not available for 2002-07, since funds were released in lump sum to North East Development Finance Corporation (NEDFi), which has been designated as the nodal agency for disbursement of subsidy in entire NER. The funds released to NEDFi for the NER (including Sikkim) during 2002-07 are given below:*

(Rupees in crore)

2002-03	94.98
2003-04	2.24
2004-05	54.00
2005-06	92.46
2006-07	25.52

However, during 2007-08, funds were released to NEDFi with specific State-wise allocation, which has been suitably reflected.