CHAPTER-III

INDUSTRIAL DEVELOPMENT DEPARTMENT

3.1 CHIEF CONTROLLING OFFICER (CCO) BASED PERFORMANCE AUDIT OF INDUSTRIAL DEVELOPMENT DEPARTMENT

Highlights

The Industrial Development Department (IDD) of the Government is responsible for overall sustainable growth of the State industrial sector and implementation of laid-down Industrial Policies as well as various departmental schemes. The aim of the IDD is to generate additional employment opportunities to bring a significant increase in the Gross State Domestic Product (GSDP) and eventual widening of resource base of the State.

A department centric/CCO based performance audit of the IDD against its mandate and goals revealed that the number of industries, investment and employment in the State had grown significantly during 2001-02 to 2009-10 but there were a number of deficiencies noticed in infrastructural development, implementation of various departmental schemes, management of industrial estates, finances, revenues and contracts etc. Performance audit of the functioning of the Department for the period 2005-06 to 2009-10 brought out the following major points:

- ***Central Capital Investment Subsidy (CCIS) amounting to ₹ 79.23 lakh was provided by the IDD to four ineligible industrial units and no recovery was made from four other industrial units which got the CCIS amounting to ₹ 50.40 lakh but closed their units before completing minimum five years period as required under the scheme guidelines.***

[Paragraph: 3.1.8.6(ii)]

- ***₹ 17.64 crore was paid in excess against three agreements of infrastructural development, out of which overpayment of ₹ 15.08 crore was accepted by State Industrial Development Corporation Uttarakhand Ltd. (SIDCUL).***

[Paragraph: 3.1.12.2(iv)]

- ***Authorised corporations (GMVN, UVVN & KMVN) for mining of minor minerals were unable to pay even minimum dead-rent to the Government. The outstanding revenues against them was ₹ 115.95 crore.***

[Paragraph: 3.1.8.8(ii)]

- ***No recovery, was made by the Geology and Mining Unit against two firms which were involved in illegal mining of minor minerals amounting to ₹ 19.74 crore.***

[Paragraph: 3.1.8.9(i)&(ii)]

- ***₹ 9.34 crore as industrial loans and ₹ 3.17 crore as Khadi Evam Gramodyog loans were outstanding for recovery since 1995-96.***

[Paragraph: 3.1.7.4]

- ***Construction of Doon Cyber Tower at IT Park, Dehradun was stopped in July 2007 due to financial constraints of joint venture (JV) partner. Value of construction work carried out by the JV was estimated at ₹ 7.95 crore whereas an amount of ₹ 16.30 crore had been provided to the JV for the purpose.***

[Paragraph: 3.1.8.3(i)]

- ***Sixteen industrial estates measuring 1,120.31 acres of industrial land remained in possession of Uttar Pradesh (UPSIDC) depriving Uttarakhand of its land premium and lease rent.***

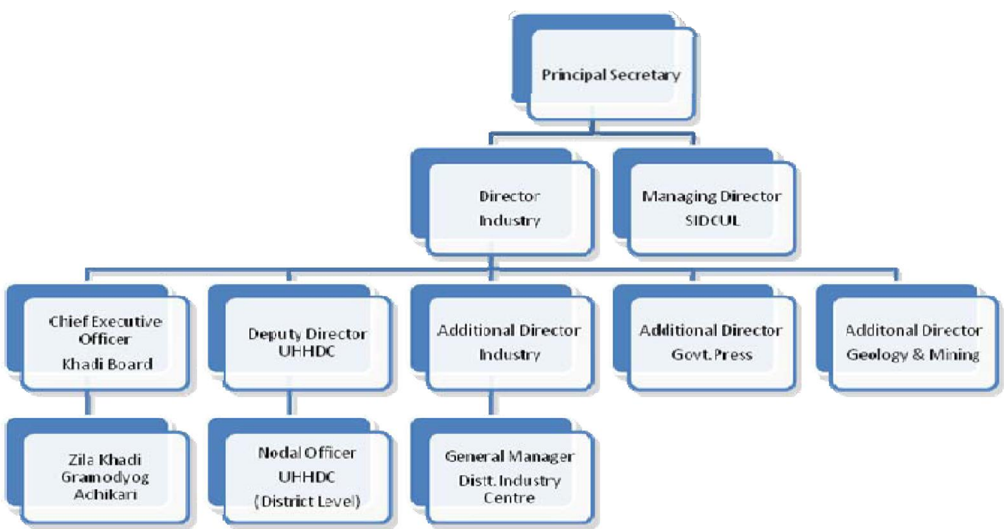
[Paragraph: 3.1.8.4]

- ***The Special Integrated Industrial Incentive Policy 2008 for Hilly Regions suffered as the IDD could spend only ₹ 2.57 crore during 2008-09 to 2009-10.***

[Paragraph: 3.1.8.1(iii)]

3.1.1 Introduction

The IDD comprises: (i) Micro, Small & Medium Industries (ii) Khadi & Handloom (iii) State Industrial Development Corporation of Uttarakhand Limited (SIDCUL) (iv) Mining & Geology and (v) Government Printing Press, Roorkee. The organizational structure of the IDD is as under:



The brief description of duties and responsibilities of these offices are as follows:

3.1.1.1 Directorate of Industries (DI)

Main functions of the Directorate of Industries are:

- Preparation and implementation of Industrial Policies.
- Registration of Micro, Small & Medium Entrepreneurs (MSME); and providing various information/assistance to entrepreneurs.
- Work on removal of various problems faced during industrial development.
- Arrangement for various integrated development programmes of Handloom, Handicrafts & Village Industries and Small Scale Industries (SSIs).
- Promotion and marketing of local product through Trade Fairs, Exhibitions and Publicity and encourage export of industrial, handloom, handicraft products.
- Identification and rehabilitation of sick industrial units.
- Compilation and preparation of budget estimates, monthly progress reports etc.

3.1.1.2 Khadi Evam Gramodyog Board

The functions of Uttarakhand Khadi Evam Gramodyog Board (UKGB), Dehradun are:

- Implementation of various welfare/Government schemes relating to Khadi and Gramodyog.
- Encourage local youths and provide training for establishing more *kuteer* and village industries and generating employment opportunities.
- Making arrangement for improving the financial position of local sheep breeders by purchasing wool from them and making the wool available to local weavers at cheaper rates through wool bank.

The Board has its district level offices (one in each district) known as District Village Industries Offices (DVIOs).

3.1.1.3 UHHDC

The Uttarakhand Handloom and Handicraft Development Council (UHHDC) was established for integrated development of handloom and handicraft industries in the State. The council is also responsible for sorting out the problems arising in this industry.

Presently, various Central and State schemes are being implemented through UHHDC to provide incentives to weavers of the State.

3.1.1.4 SIDCUL

The State Government, after bifurcation of the State from Uttar Pradesh, had realised that the availability of land in the industrial estates developed by the Uttar Pradesh State Industrial Department Corporation (UPSIDC) was not sufficient.

Consequently, the Government has established a separate nodal agency 'State Industrial Development Corporation Uttarakhand Ltd. (SIDCUL), for the development of infrastructural facilities in the State.

3.1.1.5 Geology and Mining Unit

There is a separate unit of Geology & Mining under the administrative control of the DI for scientific extraction, exploration & evaluation of minerals and to provide technical guidance to mining oriented industries. The unit also conducts studies of landslide and earthquake prone areas of the state and gives suggestions and recommendations to the Government and provides technical guidance relating to Geo-scientific suitability and stability of land for construction of buildings, bridges and roads of various departments.

3.1.1.6 Government Printing Press, Roorkee

It is the only Government Printing Press in the State under administrative control of the DI. The main functions of the press are publication and printing of Government Gazettes, books, forms and stationery.

3.1.1.7 District Industry Centre (DIC)

The DICs at district level are responsible for execution and monitoring of the departmental policies for Micro, Small and Medium Enterprises (MSMEs), heavy industries, handloom and handicraft industries and encourages the youth for self employment. Apart from this, the DICs perform the following:

- Wide publicity and implementation of State industrial policy.
- Temporary/permanent registration of industries and data collection.
- Selection of land and preparation of proposals for industrial estates.
- Execution of schemes of Development Commissioner, handloom and handicraft, small industries and Government of India (GOI) at district level.
- Marketing and publicity of local products through fairs and exhibitions.
- Work for problem redressal relating to industrial development.
- Identification and rehabilitation of sick units.

3.1.2 Funding pattern

The DI is responsible for overall financial control of the IDD and liaison with the Government. Budget approved by the Government is released directly by the Finance Department to the DI who further releases it to the concerned Drawing and Disbursing Officers (DDOs) of UKGB, UHHDC, SIDCUL, Geology & Mining and the DICs. Funds released by the Central Government for centrally sponsored schemes are routed through State Government to the DI.

3.1.3 Audit objectives

The audit objectives were to assess whether:

- Industrial growth of State was sustainable and its impacts upon GSDP and employment generation were positive.

- The programme/policies were planned properly and implemented timely, efficiently and effectively by the IDD.
- The IDD was able to provide infrastructural facilities and industry friendly environment to the entrepreneurs.
- Industrial estates developed by the IDD were utilised optimally.
- Proper budgetary and expenditure controls were in place and internal control system of IDD was effective.

3.1.4 Audit criteria

The performance audit of the IDD was evaluated with reference to the following criteria:

- The laid-down policies of the IDD.
- Guidelines of various schemes and Government Orders.
- Departmental Rule, Regulations, Manuals and Bye-laws.
- Provisions of the General Financial Rules and Budget Manual.

3.1.5 Audit methodology and coverage

Before commencing audit, the audit objectives, criteria and scope were discussed (March 2010) with the DI and other departmental authorities in an entry conference. The performance audit of the IDD was conducted during March 2010 to August 2010 through test check of records for the period 2005-06 to 2009-10 of the DI, UKGB, UHHDC, SIDCUL, Geology and Mining Unit, Government Design Centre-Kashipur and four district level offices of DI and UKGB (Dehradun, Haridwar, Nainital and Udhamsingh Nagar) out of 13 districts of the State. The district units were selected on the basis of Probability Proportional to Size with Replacement (PPSWR) technique. However, the Government Press, Roorkee was not covered due to variance of its objective and nature of work. The audit was carried out through issuance of audit memos, filling of questionnaires and collection of data[1] from the sampled units. Audit findings were also discussed (January 2011) with the Principal Secretary and other officers of IDD in an exit conference who assured that due attention would be given to the audit findings/recommendations and appropriate corrective action/enquiries will be taken wherever required.

3.1.6 Trend of State's industrial growth

The industrial sector represents an important part in the State's economy and rapid economic development depends on sustainable industrial growth. Uttarakhand, which was virtually known as "zero industry region" at the time of its bifurcation from Uttar Pradesh (November 2000) has succeeded in attracting huge investment in industrial sector and emerged as one of the fastest growing industrial States of northern India. This inference is based on the following facts:

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[1] Data relating to industrial growth was collected for whole period after bifurcation of State (November 2000 to March 2010) to make it comparative.

There were 35,955 Micro, Small and Medium Enterprises (MSMEs) and 203 Large Scale Industries (LSIs) registered in the State up to the end of March 2010 involving investment of ₹ 28,602.71 crore and providing employment to 2,22,478 persons. Out of these, 20,673 MSMEs and 163 LSIs were setup after creation of the Uttarakhand involving investment of ₹ 4,148.29 crore and ₹ 18,902.62 crore respectively and 1,52,794 employment (MSMEs: 1,01,935 and LSIs: 50,859) were generated by these industries (***Appendix-3.1***). As per policy of the State Government 70 *per cent* employment was being ensured to the local residents of Uttarakhand. Thus, the number of industries, investment and employment in the State during 2001-02 to 2009-10 had grown significantly with an average of 26.22 *per cent*, 46.13 *per cent* and 24.36 *per cent* respectively per year as compared to 2000-01, making a healthy impact on the State's economy as evident from the following assessments:

(i) As per report of the Thirteenth Finance Commission (TFC), the GSDP growth of Uttarakhand for the period 1999-2000 to 2006-07 was 9 *per cent* per annum, in which the growth rate of industrial sector was registered at 17.2 *per cent*. The growth performance of the State was not only better than the overall growth performance of the other Special Category States (SCS), but also better than the national average (GDP: seven *per cent* and Industrial Sector: 7.8 *per cent*). However, growth performance of the State prior to the year 2000 was much below the national average as well as the average of the SCSs.

(ii) A report of the CII[2] on GSDP covering data up to the year 2007-08 at constant rates of year 1999-2000 disclosed that Uttarakhand had witnessed highest growth rate amongst the northern States in manufacturing and construction sectors which brings the State amongst three fastest growing economies (Chandigarh, Uttarakhand and Haryana) in the northern region ***(Appendix-3.2)***.

Audit findings

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

3.1.7 Financial management

Proper financial management in an organisation is required to provide reliable financial data, safeguard assets and ensure adherence to prescribed policies, rules and norms. It is essential to prevent frauds, errors and mismanagement of funds and other resources.

Audit analysed the records of sampled financial controlling officers of the IDD to check the efficacy and effectiveness of their financial management. The findings are discussed below:

2 Confederation of Indian Industry.

3.1.7.1 Financial position

The allotment of funds vis-à-vis expenditure for the period 2005-06 to 2009-10 was as under:

Table- 3.1.1

(₹ in lakh)

Name of the Unit	2005-06		2006-07		2007-08		2008-09		2009-10	
	Allotment	Exp.	Allotment	Exp.	Allotment	Exp.	Allotment	Exp.	Allotment	Exp.
DI	742.40	722.18	1,216.35	1,035.95	1,664.21	1,033.49	1,239.95	856.19	911.12	886.14
Khadi Board	318.25	318.25	389.80	389.80	493.13	493.13	580.10	580.10	322.85	322.64
UHHDC	582.40	582.40	690.35	690.35	230.05	230.05	439.82	344.49	143.19	143.19
SIDCUL	10,600.00	10,600.0	500.00	500.00	20.00	16.40	-	-	-	-
Govt. Press	114.17	114.17	67.56	67.56	52.33	52.33	-	-	22.60	22.60
Geology & Mining Unit	35.13	32.58	21.84	21.34	63.00	25.27	161.00	47.97	125.00	105.50
Total	**12,392.35**	**12,369.58**	**2,885.90**	**2,705.00**	**2,522.72**	**1,850.67**	**2,420.87**	**1,828.75**	**1,524.76**	**1,480.07**

Note: *Blanks in the table are indicative of no budget provisions and corresponding expenditure during the years.*

Broadly, the above details shows that there was persistent low utilisation of allotted funds by the DI during 2006-07 to 2008-09 (85.16 *per cent,* 62.10 *per cent* and 69.05 *per cent*) and by the Geology & Mining Unit during the period 2007-08 to 2009-10 (40.11 *per cent,* 29.79 *per cent* & 84.40 *per cent* respectively) which was indicative of poor budgetary management by the Department. Audit scrutiny further revealed that:

- The DI could utilise only ₹ 96.17 lakh (48 *per cent*) under interest subsidy scheme to SSI units against demand/allocated funds of ₹ two crore in the year 2006-07.
- Funds amounting to ₹ 9.50 crore apportioned to the DI for industrial promotion of hilly region of the State during 2007-08 (₹ 6.25 crore) and 2008-09 (₹ 3.25 crore) lapsed without utilisation at the end of financial years which showed that due attention was not paid by the Department for industrial development of hill region of the State in these years.
- Funds amounting to ₹ 37.73 lakh in 2007-08, ₹ 1.13 crore in 2008-09 and ₹ 19.50 lakh in 2009-10 pertaining to Geology and Mining Unit and ₹ 95.33 lakh in 2008-09 pertaining to UHHDC also lapsed without utilisation, which indicated that the funds could not be utilised as estimated and planned.

3.1.7.2 Pending apportionment of revenue

Land in the industrial estates at Pantnagar, Haridwar, Selaqui, IT Park Dehradun, Kotdwar and Sitarganj was provided by the State Government free of cost to the SIDCUL for development and allotment to entrepreneurs.

Audit scrutiny revealed that no modalities were worked-out/finalized between the Government and SIDCUL for apportionment of revenue realised by SIDCUL from allotment of plots in these industrial estates (on account of land premium and lease rent). However, an amount of ₹ 740 crore had already been paid (in 8 installments) by SIDCUL as and when demanded by the State Government (between March 2007 and January 2010). SIDCUL had a balance of ₹ 279.62

crore on account of land premium and ₹ 70.93 crore on account of lease rent in its bank accounts at the end of 2009-10. Scrutiny further revealed that revenue receipts from the ESIP, Sitarganj which had a balance of ₹ 68.15 crore at the end of year 2009-10 were being kept outside of these accounts by SIDCUL.

Thus, the above revenue receipts from Government properties remained outside the Government accounts due to non-finalization of apportionment modalities, which would require to be finalized expeditiously.

3.1.7.3 Unauthorised retention of lease rent of Government Spinning Mills

Two spinning mills of Uttar Pradesh State Textile Corporation (UPSTC) are located in Uttarakhand at Kashipur and Jaspur of district Udhamsingh Nagar (US Nagar). Consequent upon bifurcation of the State, these units had to be taken over by the Department. These units were lying sick and were on the verge of closure since 1998. The State Government had authorised SIDCUL to take over the possession of both units from UPSTC and to make arrangements for revival of these mills. The possession was taken by SIDCUL in August 2004 and ₹ 53.32 crore (approximately) were spent towards payment of outstanding salary/VRS to employees and other dues of the Mills which was borne by the State Government.

Audit scrutiny of the records of SIDCUL revealed that the mills were being operated on lease basis through a Ghaziabad based firm[3] since September 2005 (Kashipur Mill) and January 2006 (Jaspur Mill) respectively. An amount of ₹ 9.65 crore had been received by SIDCUL up to August 2010 on account of lease rent but this had not been credited to Government account.

3.1.7.4 Pending recovery of loans

Audit scrutiny revealed that loans amounting to ₹ 9.34 crore which pertained to the period prior to 1994-95 was pending recovery in the DICs (***Appendix-3.3***).

It was stated by the DI (August 2010) that several review meetings were conducted and the DICs were being instructed regularly for recovery of the outstanding loans. The department had also implemented one time settlement scheme in this connection (2005 to 2007), but results were not encouraging. The IDD should take some concrete and effective measures in this regard, to effect the recoveries.

Similarly, loans amounting to ₹ 3.17 crore were also pending for recovery in DVIOs under UKGB since 1995-96. These loans basically pertained to the KVIC, Mumbai which were granted to erstwhile UP Khadi Evam Gramodyog Board, (UPKGB), Lucknow for further distribution to the beneficiaries. Apart from this, it was also noticed during audit that an amount of ₹ 1.64 crore (Headquarters' office: ₹ 1.15 crore, Dehradun: ₹ 1.42 lakh, Haridwar: ₹ 40.63 lakh, Nainital: ₹ 3.75 lakh, and US Nagar: ₹ 3.07 lakh) of recovered loans were kept blocked in bank accounts. This amount was supposed to be sent to the KVIC, Mumbai as and

[3] M/s Alps Industry Ltd.

when these were realised. In reply, it was stated by the UKGB that the loans were taken by the UPKGB and settlement of many liabilities were pending with them. The reply was not acceptable as the loans were distributed through the district offices and their recoveries were required to be accounted for accordingly. Thus, the UKGB was responsible to recover the loans from beneficiaries and to repay the recovered amount to KVIC in time, but it failed in both respects.

3.1.7.5 Pending recovery of rent

A portion of UKGB's Regional Training Institute, Kaladhungi (Nainital) was rented out to a firm (M/s Prag Oil Mills Ltd, New Delhi) for seven years with effect from April 2003 to March 2010 on monthly rent basis at the rate of ₹ 9,990. A lease agreement to this effect was also executed (March 2003) between both the parties.

Audit scrutiny revealed that rent amounting to ₹ 6.89 lakh (up the May 2010) was not paid by the firm for the last 69 months. Even though the lease period has expired, neither the premises was vacated by the firm nor any legal action initiated by the Board against the firm. In reply, the Additional Chief Executive Officer (ACEO) Khadi Board assured that efforts were being made for recovery of outstanding rent along with compound interest from the firm through district administration.

3.1.7.6 Irregular handling of GOI funds

A centrally sponsored scheme Pradhan Mantri Rojgar Yojna (PMRY) was in operation by the end of 2007-08 and a new scheme Pradhan Mantri Employment Generation Programme (PMEGP) was launched from the year 2008-09. It is clearly mentioned in the PMEGP guidelines that new funds for 'forward and backward linkage' programme to be conducted by the DICs will be provided after obtaining an undertaking that the funds already provided under erstwhile PMRY were fully utilized or any unspent balances would be utilized for relevant expenditure under PMEGP.

Scrutiny of records of the DI revealed that funds amounting to ₹ one crore were provided by the GOI (February 2008) to the State Government for ongoing forward and backward linkage programme under the PMRY. However, the fund was released by the State to IDD in May 2008 which was not appropriated by the IDD as the scheme had already been closed in March 2008. Subsequently, the scheme funds were re-allocated by the State Government (between December 2008 and March 2009) for two other centrally sponsored schemes of the IDD out of which ₹ 69.10 lakh were utilised and remaining amount of ₹ 30.90 lakh lapsed as unspent balance at the end of the financial year. The same fund (₹ 30.90 lakh) had neither been allocated by the State Government to IDD nor refunded to the GOI. Besides this, audit also noticed that the scheme fund amounting to ₹ 63.41 lakh were also available with the DI (being kept in bank account) which was returned by the DICs as unspent balance after the closure of the scheme. Thus, the scheme funds were not being utilized as was required by the GOI guidelines and retained injudiciously by the DI/State Government.

On being pointed out in audit, the DI replied that diversion was made only for those centrally sponsored scheme under which the available allocation fell short and the GOI had already been requested (February 2009) to grant the permission for utilisation of unspent balance under PMEGP. The reply was misleading due to the fact that treatment of unspent balances was mentioned in the scheme guidelines and categorically clarified in December 2008. Moreover, the funds were partially diverted without permission/ intimation to the GOI.

3.1.7.7 Short realization of land premium and transfer levy by DICs

There are some standard terms and conditions (T&C) for allotment of industrial plots to the entrepreneurs which are mainly governed by a Government order issued in February 1994. According to the T&C, the allottee has to establish his declared industrial unit within stipulated time frame as mentioned in the allotment order failing which the allotment is deemed to be cancelled. Thereafter, the allottee has to pay 50 *per cent* cost[4] of the land as premium for revival of the plot in case of self-use and 75 *per cent* premium cum. transfer levy in case of transfer to other entrepreneurs. However, there was no record available in the test checked DICs regarding actual date of establishment of those units which were under production but audit scrutiny revealed that the above provisions were not adhered to in transfer cases of the plots which resulted into loss to the Government amounting to ₹ 64.99 lakh (***Appendix-3.4***).

3.1.7.8 Blockade of funds

UHHDC decided (May 2005) to establish a Craft Design Centre at the Kashipur Design Centre for planning and implementing product development as per requirement of the market. A proposal to this effect was submitted to the Government along with demand of funds. Audit scrutiny however, revealed that a grant of ₹ 20 lakh was provided by the Government to UHHDC in the year 2004-05 and 2005-06 for providing design support and marketing led design support but no investment was made by the UHHDC in this regard and the entire sanctioned fund was lying unspent in the bank account of UHHDC. In reply, the Chief Executive Officer (CEO), UHHDC stated (August 2010) that the funds could not be utilized due to non-sanctioning of technical staff for the Craft Design Centre by the Government. As such, the fund remained blocked for over four years.

Similarly, the Government sanctioned and provided a grant of ₹ 43.83 lakh in another proposal of Khadi Board (September 2003) for revival and strengthening of *Lok Vastra Ekai*, Jaspur (US Nagar) during the year 2004-05 and 2005-06. Audit found that no investment was made by the Khadi Board for revival and strengthening of the Jaspur *Ekai* till the date of audit (June 2010). However, the

[4] As per applicable rate of the IE.

sanctioned fund was lying unspent in the Board accounts but an administrative and financial sanction of ₹ 18.83 lakh had been granted by the Board for maintenance of building situated at Chamba, Tehri Garhwal by diversion of the fund for which no approval was obtained from the Government.

It was mentioned by the ACEO, Khadi Board in reply (June 2010) that the sanction for maintenance expenditure was made after approval of the Khadi Board. The reply was not acceptable as the intended objectives of the sanctioned fund remained unachieved and the partial diversion of funds was without approval of the Government.

3.1.8 Planning and Programme Management

As already mentioned, the IDD is responsible for overall sustainable growth of the State's industrial sector and implementation of laid-down Industrial Policies/various departmental schemes and to create high quality world class infrastructure facilities to attract national and international entrepreneurs to the State.

Audit scrutiny of overall activities of the Department against laid-down policies, schemes and programmes framed with reference to its objectives and goals are discussed in the following paragraphs:

3.1.8.1 Government/departmental policies

Since creation of Uttarakhand, the State Government had made following policies for the IDD:

(i) With an aim to reduce monopoly in the mining sector, the State Government had introduced (April 2001) a policy for mining of minerals known as Uttarakhand Rajya Khanij Niti (URKN), 2001 which was duly amended in October 2002. The policy envisaged that mining of minor minerals[5] available in riverbed areas of the State would be carried out only by three Government Corporations on lease basis, as per details given below:

Table- 3.1.2

Sl.	Name of the Corporation	Specified Area
1.	Uttaranchal Van Vikas Nigam (UVVN), Dehradun.	In all forest area of the State.
2.	Garhwal Mandal Vikas Nigam (GMVN), Dehradun.	In civil area of Garhwal Mandal.
3.	Kumaon Mandal Vikas Nigam (KMVN), Nainital.	In civil area of Kumaon Mandal.

Besides, in case of personal land or any other special circumstances, only short term permit or lease would be issued from district level with prior permission of the Government.

(ii) The State Government had introduced its new Industrial Policy, 2003 in the light of industrial promotional package granted by the GOI and in view of the interest already evinced by potential entrepreneurs, drawing lessons from the past

[5] Minor mineral means: building stones, gravel, ordinary clay, ordinary sand etc.

and experiences of other States. This policy and the package of the GOI had setup many milestones in industrialization of the State as discussed in the succeeding paragraphs.

(iii) The Government, after a lapse of four-five years realised that advantages of the special industrial package and the Industrial Policy 2003 were confined only to the plain areas of the State (Districts US Nagar, Haridwar and Dehradun) and remote/hilly areas of the State remained devoid of industrial development. Therefore, a Special Integrated Industrial Incentive Policy 2008 for hilly region was introduced (February 2008) by the Government. However, audit scrutiny revealed that a proper focus to the policy instruments and programmes was still not given by the IDD because only ₹ 2.57 crore[6] were spent during last two years as evident from the following details:

Table-3.1.3

Sl. No.	Name of scheme	Year 2008-09		Year 2009-10	
		No. units	Amount (₹)	No. units	Amount (₹)
1.	Capital investment subsidy	18	19,72,833	46	2,06,17,265
2.	Interest subsidy	-	-	57	24,39,855
3.	Electricity subsidy	01	464	03	5,67,108
4.	ISO registration subsidy	-	-	01	1,00,000
Total		**19**	**19,73,297**	**107**	**2,37,24,228**

Source: *Data provided by the DI.*

3.1.8.2 Availability of industrial infrastructure

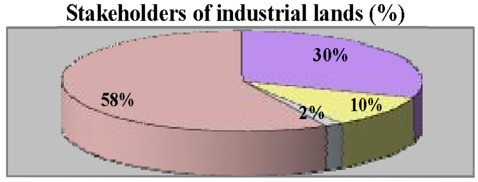
The vision of the State Industrial Policy, 2003 was to create high quality and world class infrastructure facilities in the State by setting/development of new/ existing Industrial Estates (IEs), Integrated Industrial Estate (IIE), Integrated Industrial Development Centers (IIDCs), Growth Centers, Special Economic & Commodity Zones & Parks and promote/encourage private sector participation in these sectors. To achieve these objectives, SIDCUL was made responsible for new infrastructural development of the State whereas management of old existing IEs remained the responsibility of DICs.

In combined State of Uttar Pradesh, 47 IEs covering 1,286.08 acres of land were setup in Uttarakhand region; out of which 1,120.31 acres land of 16 IEs was still (July 2010) being managed by the Uttar Pradesh State Industrial Development Corporation (UPSIDC) and rest 165.77 acres land of 31 IEs was being managed by the DICs (Paragraphs 3.1.8.4 & 3.1.8.5 respectively). No addition of land and infrastructural development were noticed in audit under these two sectors since bifurcation of the State from Uttar Pradesh. However, 9,461.61 acres of new industrial land was earmarked/notified by the Government for setting up new 54 IEs through SIDCUL and Private Developers[7]. The proportion of these stakeholders could be seen from the following chart:

6 ₹ 19.73 lakh in 2008-09 and ₹ 237.24 lakh in 2009-10.

7 Comprises 48 industrial estates over 3263.38 acres of land.

Chart 3.1.1
Stakeholders of industrial lands (%)



3.1.8.3 Infrastructure development by SIDCUL

The State Government had provided 6,198.23 acres of land free of cost to SIDCUL for development and allotment to the entrepreneurs. The SIDCUL undertook six mega projects thereon as per details given below:

Table- 3.1.4

(Area in Acres/position as on 15 June 2010)

Particulars	IIE, Haridwar	IIE, Pant Nagar	Pharma City, Selaqui	Growth Centre, Kotdwar	IT Park, Dehradun	ESIP, Sitarganj	Total
Total Area	1,695.00	3,193.23	50.00	100.00	67.00	1093.00	6,198.23
Allotable Area	1,146.00	2,604.79	37.00	60.87	50.00	631.00	4,529.66
Allotted Area	1,022.73	2,529.71	33.89	32.93	12.58	524.00	4,155.84
Area Vacant	123.27	75.08	3.11	27.94	37.42	107.00	373.82
No. of units	600	473	32	37	19	330	1,491
Units under const.	114	23	12	17	07	46	219
Units under prod.	482	433	20	11	05	94	1,045
Total investment[8] (₹ in crore)	168.50	269.78	8.97	19.14	21.91	47.31	535.61

Source: *Data provided by the SIDCUL.*

- The project of Information Technology (IT) Park, Dehradun comprised of an IT SEZ, Doon Cyber Tower and plots area for allotment to the interested entrepreneurs of IT sector.
- ESIP (Eldeco-Sidcul Industrial Project) is a joint venture project of SIDCUL and M/s Eldeco Infrastructure & Properties Ltd. situated at Sitarganj in district US Nagar.
- The IIEs Haridwar and Pant Nagar are known as world class Industrial Estates today which had industrial units of most prestigious national and international brands like Ashok Leyland, Nestle, Tata Motors, Wipro, Bajaj, Dabur, Parle, Green Ply, Hero Honda, Sterlite, Hindustan Unilever, ITC, Mahindra & Mahindra, Alps, Pfizer, Reckitt-Beinckzer, La-opala etc. Some photographs of these units are exhibited as under:

8 Up to date investment by the SIDCUL in the projects.

		
Hindustan Unilever Ltd.	Mahindra &Mahindra Ltd.	Hero Honda Ltd.
		
Bajaj Auto Ltd.	Tata Motors Ltd.	Wipro Ltd.

- The Pharma City, Selaqui and ESIP, Sitarganj are more or less established projects but lot of development activities were yet to be done in the IT Park, Dehradun and Growth Centre, Kotdwar. In fact, the development activities in these two projects were found hampered over last three years as discussed in the succeeding sub-paragraphs along with other shortcomings of these projects:

(i) Incomplete Doon Cyber Tower

Doon Cyber Tower (DCT) in IT Park, Dehradun is one of the most prestigious projects of SIDCUL which was planned and designed as an intelligent building for "plug and play" facility with all modern amenities like health club, food courts, power back-up, service apartments and ample parking spaces. Floor spaces of the DCT were to be leased out to IT/ITES/BPO/Call Center companies. This would be the first 24x7 building of the Uttarakhand.

The project was to be constructed through a Joint Venture Company (JVC) of the SIDCUL and a private developer (M/s IDEB Construction Project Ltd, Bangalore) who was selected (February 2006) through inviting (June 2005) of 'expression of interest (EOI)'. A memorandum of agreement (MOA) was signed (March 2006) by both the partners and an amount of ₹ 16.30 crore (₹ 8.15 crore each) was provided for the JVC[9]. As per terms and conditions of the MOA, the IDEB was responsible for arrangement of at least 60 *per cent* of the total project cost as 'non-recourse debt (NRD)' from the financial institutions

[9] The SIDCUL and M/s IDEB respectively had to hold the 49 *per cent* and 51 *per cent* equity of the JVC.

which were to be increased upto 75 *per cent* by joint efforts of both the partners. M/s IDEB Ltd. was also appointed as a contractor for the project by the JVC.

The contractor M/s IDEB Ltd. started (June 2006) the construction work of DCT but could not continue due to paucity of funds. The work was lying held up since July 2007 till date of the audit (July 2010) as would be evident from the photograph alongside and an amount of ₹ 5.20 crore[10] of the JVC was lying unadjusted with the contractor. The SIDCUL had carried out an independent valuation (August 2009) of work done by the contractor in DCT from a State Government's construction agency who estimated its value at ₹ 7.95 crore.

Scrutiny of records of SIDCUL revealed that the selection of JV partner (M/s IDEB Ltd.) was partial and unjustified because the firm had no experience of raising NRD and work as JV with Government entities. Moreover, its net worth as per audited balance sheet and average turnover for last three years was also very low. The firm had got only 25 points out of 100 in technical qualification whereas there was a better performing company (M/s Larson and Tourbo Ltd.) who secured 80 points in the bidding process. No justification was found recorded for selection of such a low technically qualified firm but it was accepted by the MD, SIDCUL through a statement given (August 2010) to a news paper that selection of JV was wrong to whom so many relaxations were given during selection.

Thus, the facts showed that the selection of JV partner was unjustified which led to the DCT remaining incomplete, thereby defeating the very objective of the project.

(ii) Non-establishment of SEZs

Setting up Special Economic Zones (SEZs) in the country is a centrally sponsored scheme. The State Government had nominated (June 2006) the SIDCUL as nodal agency for setting up SEZs in the State and to avail the benefits as per policy of the GOI.

Audit scrutiny revealed that only two proposals were sent by the SIDCUL to the GOI for setting up the SEZs in the State which were accepted in principle by the GOI but the same were not setup due to lackadaisical approach of the nodal agency. The status of both the SEZs as on date of audit (July 2010) was as under:

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[10] ₹ 4.20 crore as mobilization advance and ₹ one crore as advance for material.

Table- 3.1.5

Sl. No	Selected Place	Area (in hec.)	Type of SEZ	Status of GOI approval	Overall status of the project
1-	In IT Park, Dehradun	14.2	IT-ITES	Notified in June 2008.	No further initiatives were taken due to recession in IT Sector.
2-	Sitarganj, US Nagar	440	Multi Product	Only formal approval was granted (September 2007).	Steps are yet to be taken.

Thus, the nodal agency not only failed to set up and avail the intended benefits of the SEZs, but its 454.2 hectares of valuable industrial land earmarked for these projects was also lying unutilized over the years.

(iii) Establishment of IIDC against GOI Guidelines

Integrated Industrial Development Centre (IIDC) is a central sector scheme meant for promotion of the small scale and tiny industries. Under this scheme a project costing of ₹ 5.82 crore was approved by the GOI (August 2004)[11] for setting up an IIDC in IIE, Pant Nagar.

According to the GOI approval and scheme guidelines, only tiny and small scale industries having project cost between ₹ three lakh and ₹ 30 lakh were to be established in the IIDC by developing the plots measuring between 250-1,000 sqm. However, total 98 plots measuring 27.71 acres were developed by SIDCUL for allotment to entrepreneurs. Out of these 21.82 acres of land was allotted to 62 industrial units (75 plots) during the year 2005-06 to 2006-07 and rest of 23 plots measuring 5.89 acres were still lying vacant till July 2010.

Audit scrutiny revealed that only 62 plots were created as per norms (ranging between 747 to 1,000 sqm and area of remaining 36 plots was beyond the GOI norms ranging up to 2,400 sqm leaving no scope for small plots having area ranging between 250 and 746 sqm. It was also found that only 10 industrial units had their project cost between ₹ three lakh to ₹ 30 lakh and project cost of the remaining units (52) was above the norms (ranging between ₹ 30 lakh and ₹ 631 lakh). Thus, the GOI guidelines were overlooked by the SIDCUL both in terms of the size of plots and investments of most of the units were not as per norms which denied the probability of more small scale and tiny units in the IIDC.

(iv) Non-achievements of objectives of Growth Centre

The GOI introduced a scheme (1988) to encourage industrialization in backward areas by setting up Growth Centres. Under this scheme, a Growth Centre at Sigaddi, Kotdwar (Pauri) was sanctioned in December 2003. Total 100 acres of land was acquired by SIDCUL for the Growth Centre out of which 60.87 acres were developed for allotment to the entrepreneurs.

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[11] The cost of project was to be borne by the GOI ₹ four crore and SIDCUL ₹ 1.82 crore respectively.

Records of SIDCUL showed that only 32.93 acres of land had been allotted to 37 industrial units and rest of 27.94 acres were lying vacant till August 2010. Out of the above allotments, 29.42 acres of land to 31 units was allotted by SIDCUL during the years 2005-06 to 2006-07 at fixed rate of ₹ 450 per sqm and only 3.51 acres of land to six units was allotted during last three financial years. Audit observed that the slow rate of allotment of plots in the Growth Centre was due to adoption of a faulty policy of bidding by the SIDCUL from the year 2007-08, which stipulates that the plots will be allotted only to the highest bidder and to those bidders who will quote their rate within the range of 30 *per cent* from highest bidder. By adoption of this allotment policy only two allotments (at the rate ₹ 2,800 per sqm and ₹ 2,200 per sqm) were finalized (July 2007) through bidding process out of 27 applicants as there was huge variation between the rates quoted by the bidders. Subsequently, the State Government in July 2008 also issued an order that further allotment of plots will be made at the rate of 125 *per cent* of the last allotment of industrial estate, according to which, plots for only four units were allotted at the rate of ₹ 3,500 per sqm up to August 2010.

Thus, the priorities were given to making more money by way of allotment at higher rates instead of encouragement of industrialization in backward area as per policy of GOI, which resulted in 45.90 *per cent* of industrial land remaining vacant in Growth Centre.

3.1.8.4 Industrial Estates remained in possession of Uttar Pradesh

In erstwhile State of Uttar Pradesh, 16 IEs measuring 1,120.31 acres of industrial land were set up by the Uttar Pradesh State Industrial Development Corporation (UPSIDC) in Uttarakhand region which had to be handed over to Uttarakhand after the bifurcation. The SIDCUL was made responsible by the Government (December 2004) to take over the possession of these IEs from the UPSIDC. Audit scrutiny revealed that all these IEs remained in possession of the Uttar Pradesh/UPSIDC as the SIDCUL had still (July 2010) not been succeeded to take over the possession. Moreover, the allotment of vacant plots of these IEs to the entrepreneurs was being made by the UPSIDC and this deprived Uttarakhand of revenue from land premium and lease rent.

Although, the details of allotments and realization of revenue by the UPSIDC could not be obtained in audit[12], but this being an established fact that huge industrialization took place in Uttarakhand during last six-seven years and the demand of industrial land was at its peak.

3.1.8.5 Management of Industrial Estates by DICs

Total 31 notified IEs measuring 165.77 acres of land were under the administrative control of the DICs in all over Uttarakhand at the time of

[12] The UPSIDC does not fall under purview of audit.

bifurcation. Out of this, 21 are mini industrial estates (MIE) measuring 47.43 acres of land and 10 are full-fledged IEs measuring land of 118.34 acres.

Although, no addition was found in the total area and number of industrial estates since bifurcation of the State but test check of records of the four sampled DICs and scrutiny of data available in DI revealed following deficiencies in management of these IEs/MIEs:

- Five MIEs[13] measuring 11.22 acres of land were totally undeveloped. Hence, no allotment took place in these MIEs.
- Five MIEs[14] and one IE (Syalidhar, Almora) measuring 27.79 acres of land were partially developed and allotted to industrial units but the units could not be established due to improper infrastructural facilities.
- Although, the IDD fixed allotment rates for 25 IEs/MIEs, yet the same were very nominal and remained unrevised since long. After creation of Uttarakhand, only one revision of allotment rates was made by the IDD for eight IEs in the year 2004-05 which were also not in consonance with circle rates of the area (issued by the concerned district authorities), resulting in loss of revenue to the Government.
- Allotments were not being cancelled regularly for those units which failed to establish their units within stipulated time as per the conditions of allotment.
- Two plots at IE Bhimtal which were initially allotted to M/s Kumaon Television Ltd. had been transferred to Kumaon University un-authorisedly by the allottee for non-industrial purposes in contravention of the provisions in the lease agreements.
- Possession of MIE Ragwar, Dehradun (3.22 acres) was yet to be taken over by the DIC, Dehradun as there was a dispute between the DIC and development agency UPSIDC since July 1996 regarding quality of development works done by UPSIDC.

Physical verification by audit team: Four MIEs/IEs of three sampled districts were inspected by audit team jointly with representative of respective DICs, which revealed the following deficiencies:

(i) Rural IE Vikasnagar (Dehradun) The maintenance of infrastructural facilities like internal roads, street lights and drainage system was very poor. Proper complaints in these regards were made available to audit by some of the occupant units.

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13 (i)Ragwar, Dehradun (ii) Buwakhal, Pauri (iii) Saroth (Chham), Tehri; (iv) Mori, Uttarkashi and (v) Purola, Uttarkashi.

14 (i) Kaleshwar, Chamoli (ii) Tarikhet, Almora (iii) Bhikiyasain, Almora (iv) Munsiyari, Pithoragrah and (v) Lachhamoli, Tehri.

(ii) MIE Chhharba (Dehradun): There was no infrastructural facility available in the MIE. The MIE was in dilapidated condition and only one workshop was found built up by an allottee.

(iii) IE Rudrapur (US Nagar): It is one of the best IE out of those which were in administrative control of the DICs but it also requires maintenance which was found lacking. Moreover, a common approach road was found unauthorisedly occupied by some allottee and stall owner as could be seen from the photograph.

(iv) MIE Laksar (Haridwar): Only two industrial units have been established in the MIE whereas no construction activities were carried out by five other industrial units who had been allotted 47 industrial plots out of total 55 plots.

Hence, the overall management of these IEs could be stated as poor in the light of above deficiencies. However, it was mentioned by the DI in reply (August 2010) that no further development of existing IEs was carried out as per decision taken (January 1993) by the erstwhile State Government but recently the duty was assigned to SIDCUL by the Government (May 2008) and plans for the same were being chalked-out jointly by the SIDCUL and DICs.

3.1.8.6 Departmental schemes and facilities to entrepreneurs

The schemes and facilities which were being mainly provided by the IDD to the entrepreneurs along with audit comments thereon are discussed below:

(i) Single window system (SWS)

The Single window contact, information, facilitation, and clearance system was operative in the DICs at District level as per provisions of the industrial policy 2003. These Centers have to provide all information, application form relating to sanctions of various departments and its disposal in time bound manner to the entrepreneurs at single place. A committee of nodal officers of various departments headed by the District Magistrate was a forum meant for facilitating single window clearances. The nodal officers were required to meet once a week at DIC for the purpose, which was to be monitored by the District Magistrate once a month.

Audit scrutiny revealed that although the single window system was functional in all the sampled DICs, yet the required meetings held were fewer than mandated and facilities were provided to very nominal number of cases. This was indicative that other required clearances of the various departments were obtained by the entrepreneurs through their personal efforts. The details for the year 2005-06 to 2009-10 are given below:

Table- 3.1.6

Sl. No	**Major nodal departments**	**No. of industries registered during the period**			
		Dehradun	**Nainital**	**Haridwar**	**US Nagar**
	Total number of cases	**1,333**	**874**	**1,878**	**1,683**
1	Fire Department	229	-	24	-
2	Development Authority	48	-	-	-
3	SIDA	188	-	-	-
4	Power Corporation	39	109	654	364
5	Pollution Board (consent)	96	13	-	-
6	Pollution Board (NOC)	-	09	7	-
7	Food Control	-	-	-	-
8	Excise Department	-	-	-	-
9	Trade Tax Department	-	-	03	-
10	Factory Act	-	-	-	-
No. of meetings held against required 260[15] meetings		**80**	**142**	**144**	**91**

Source: *Data collected from the concerned DICs.*

The State industrial policy, 2003 also envisaged that deemed clearances would be put in place through SWS wherein time bound limits in respect of various concerned departments had expired. However, audit observed that not even a single deemed clearance was granted by any of the four test checked DICs. To sum up, no change in the working of these departments was noticed towards providing facilities to the entrepreneurs, which resulted in non fulfillment of intended objectives of the SWS.

(ii) Central Capital Investment Subsidy (CCIS)

This is most popular incentive/scheme of the package granted by the GOI. All new industrial units established after 7 January 2003 and located in the notified area were eligible for CCIS at the rate of 15 *per cent* on their fixed capital investment in plant and machinery (P&M) subject to a ceiling of ₹ 30 lakh. The existing units located in the notified area (established prior to introduction of the scheme) on their substantial expansion in installed capacity by more than 25 *per cent* and thrust sector[16] industries were also entitled for the CCIS. The scheme was operative through State/district level committee(s) setup in the DI/DICs and SIDCUL was made State's designated agency for disbursement of the subsidy duly approved by the committee(s).

Audit scrutiny revealed that CCIS claims for 523 units were approved and recommended for disbursement by the committee(s) up to the end of year 2009-10. Out of these, CCIS amounting to ₹ 75.22 crore to 416 units had been disbursed and 107 cases involving ₹ 23.41 crore were pending with SIDCUL for want of funds from the GOI as of June 2010. The following discrepancies were noticed in test check of records relating to CCIS of the sampled DICs:

15 Number of weeks in five years.
16 Listed in Annexure-II of the Concessional industrial Package granted by the GOI (vide OM No.1(10)/2001 -NER dated 07-01-2003).

- None of the DICs was obtaining statement of production form CCIS benefited units though it was mandatory as per the scheme guidelines.
- Four industrial units[17] of district US Nagar for which CCIS amounting to ₹ 50.40 lakh was provided, had closed their production/unit before completing minimum time of five years and no recovery was made by the IDD though required under the scheme.
- CCIS amounting to ₹ 30 lakh was provided (May 2006) by the IDD to a unit (Hotel Himalayan Heights, Ramnagar, Nainital) on total investment in P&M of ₹ 2.05 crore. Audit found that the unit was not entitled to receive the subsidy as land of the Hotel was purchased by the owners in 1996 at a cost of ₹ 86.32 lakh[18] which indicated that effective steps (as defined in the scheme guidelines) to establish the Hotel were taken prior to effectiveness of the scheme. Similarly, CCIS amounting to ₹ 10.62 lakh was provided (August 2006) to another ineligible unit (Hotel Monarch, Mussoorie) as a new unit whereas this was a prebuilt hotel, purchased in July 2001 by the applicant and some investment was made on its renovation after January 2003.
- CCIS amounting to ₹ 30 lakh was provided (January 2008) to a hotel (Country Inn and Suits, Motichur, Dehradun) for its substantial expansion of three floors and 18 rooms from existing capacity of three floors and 12 rooms. Audit scrutiny revealed that all the floors and rooms of the hotel were prebuilt since 1989 as was clearly mentioned in purchase agreement (August 2003) and sale deed (February 2004) of the hotel. Thus, there was no enhancement in hotel's installed capacity and the expansion was shown only for obtaining the subsidy.
- CCIS amounting to ₹ 8.61 lakh was provided to two sister units (September 2007 and March 2010) of a firm (M/s Pooja Packaging Industry, Nainital) as a thrust sector industries for production of Corrugated Boxes only. Audit found that units were also producing Printing, Coating and Lamination works which were among the listed items of negative list of the scheme and these facts were ignored during sanction of the CCIS. As such the unit was not eligible for the subsidy under the scheme.

All these issues were raised during audit of the DI who mentioned (August 2010) that necessary directives were being issued to the DICs for obtaining the statement of production and recovery of the CCIS in case of closed units. It was also mentioned by the DI in respect of hotels and other cases that the CCIS were allowed on the basis of investment declared by the units and valuation reports furnished by Chartered Engineers. The reply was not acceptable as the CCIS in these cases was allowed against the provisions of the scheme guidelines.

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[17] (i)M/s Jindal Agro Product Ltd, Kashipur (ii) M/s B&S Clothing Co., Kashipur (iii) M/s Uttaranchal Agrovet, Kashipur and (iv) M/s Sunshine Ind. Ltd. Bajpur.

[18] Valued by applicant itself amounting to ₹ 32 lakh in the scheme application.

(iii) State Capital Investment Subsidy (SCIS)

State Government vide hill industrial policy 2008 had also launched (February 2008) a SCIS scheme with similar conditions as prescribed for CCIS but at the rate of 25 *per cent* on their fixed capital investment in P&M for A-Category regions[19] and 20 *per cent* for B-Category regions[20] but same as per Category-A in case of State domicile subject to maximum ceiling of ₹ 30 lakh. Total ₹ 2.26 crore were sanctioned and provided to 64 industrial units under the scheme by the end of financial year 2009-10.

However, it was observed in audit that SCIS amounting to ₹ 1.13 crore was provided to six industrial units which had already got the CCIS amounting to ₹ 54.33 lakh on the same items of investments (P&M), hence, the subsidy under both the schemes exceeded their maximum ceilings as per details given below:

Table- 3.1.7

Sl. No	Name of units	Investment in P&M (₹)	SCIS (₹)	CCIS (₹)	Total Subsidy (₹)	%
1.	M/s Vinayak Packaging, Growth Centre, Kotdwar	56,91,350	11,38,270	4,10,935	15,49,205	27.22
2.	Hotel Surya Plaza, Kotdwar, Pauri	1,09,61,362	27,40,245	16,44,207	43,84,452	40.00
3.	M/s Vardhman Indusry, Dhalwala, Tehri	35,05,919	8,76,479	5,25,887	14,02,366	39.99
4.	Hotel Daya Palace, Chamba, Tehri	93,49,321	23,37,330	14,02,493	37,39,823	40.00
5.	M/s Pooja Print Pack, Kotabag, Nainital	1,33,31,509	30,00,000	7,04,191	37,04,191	27.78
6.	Hotel Shiv Palace, Baurari, New Tehri	49,70,582	12,42,645	7,45,587	19,88,232	39.90
Total			**1,13,34,969**	**54,33,300**	**1,67,68,269**	

Source: *Records of the DI.*

In reply, it was mentioned by the DI that the subsidy was allowed as per provisions of the industrial policy 2008 which permits the subsidy up to ₹ 60 lakh or 60 *per cent* in a case of investment. The reply was not satisfactory as the related provisions of the policy were for all financial incentives admissible to a unit from the IDD, which *inter-alia* comprises Capital Investment Subsidy, Interest Subsidy, Transport Subsidy, Electric Subsidy, ISO Registration Subsidy etc. Therefore, the interpretation of IDD was un-acceptable as none of Government schemes would be allowing such duplicity of subsidy beyond maximum ceiling. Moreover, all these units had submitted an affidavit[21] to this effect that they had not taken any subsidy on these items of investment from any Central or State Government funds.

19 Total area of District Pithoragarh Uttarkashi, Chamoli, Champawat, and Rudraprayag.

20 Total area of District Pauri, Tehri, Bageshwar, Dehradun except area of Vikasnagar, Doiwala, Raipur and Sahaspur Blocks, Nainital except area of Haldwani and Ramnagar Blocks.

21 To IDD at the time of filing CCIS application.

(iv) Interest subsidy

As per provisions of the industrial Policy 2003, interest subsidy is being provided by the IDD to encourage SSI units. Under this scheme, newly established SSI units as well as those units which had taken loan from bank/financial institution for establishment/modernization/expansion of their units were entitled to interest subsidy at the rate of three *per cent* subject to maximum of ₹ two lakh per year whereas units which were located in remote and hilly areas were entitled for subsidy at the rate of five *per cent* subject to maximum of ₹ three lakh per year. The scheme was operative through the DICs and DVIOs under district sector.

The following deficiencies were noticed during test check of records for the period 2005-06 to 2009-10 of the four sampled DICs and DVIOs:

- Total 506 cases amounting to ₹ 7.74 crore were sanctioned by the DICs but the subsidy could be provided in 326 cases amounting to ₹ 4.31 crore due to short allocation of funds under the scheme. Thus, rest of 180 cases amounting to ₹ 3.39 crore[22] were pending for grant of subsidy as of July 2010.
- ₹ 95.85 lakh were provided to the DVIOs who could utilize only ₹ 65.78 lakh (866 cases). However, funds were withdrawn from the treasury and unspent amounts were kept in bank accounts of the DVIOs.
- Total ₹ 47.55 lakh[23] were blocked in bank accounts of these DVIOs as of date of audit (between May and July 2010). They neither tried to make full use of the allotted funds under the scheme nor surrendered the unspent amount at the end of the financial year and instead, kept the funds blocked at their end.
- An industrial unit (M/s B&S Clothing Company, Kashipur) to which interest subsidy amounting to ₹ 5.56 lakh was provided by DIC, US Nagar had closed its production (December 2008) within three years from receipt of last claim of the subsidy. The whole amount of subsidy was to be recovered from the unit as per provisions of the scheme, but no recovery was made by the DIC as of April 2010.

It would thus be evident that the distribution of scheme funds was imbalanced for these two wings of IDD as sufficient funds were not provided to the DICs whereas the DVIOs had excess funds over requirement.

3.1.8.7 Mineral exploration and Geo-technical works

The Geology and Mining Unit of IDD is responsible to explore and evaluate the available minerals in State and to provide guidance for scientific extraction of

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22 Difference of ₹ four lakh is due to undisbursed amount of interest subsidy with DIC US Nagar.

23 Dehradun: ₹ 12.41 lakh, Haridwar: ₹ 11.89 lakh, Nainital: ₹ 6.30 lakh, and US Nagar: ₹ 16.95 lakh.

these mineral ores. The Unit is also responsible to carry out various geo-technical works assigned by construction agencies.

Audit scrutiny of records for the period 2005-06 to 2009-10 revealed that:

- No such exploration work of mineral was carried out by the Unit against physical targets set by the Government for traversing (620 square km) and mapping (10.60 square km).
- Overall performance of the Unit for Geo-technical works was more or less satisfactory as survey reports were submitted against all assigned 1,747 works, though the targets set by the Government were 2,000 for the period.

On being pointed out, the Unit replied that physical targets for mineral exploration were set in anticipation of sanction of proposed departmental structure but the same was still pending with the Government for approval. Reply was not convincing as against 20 sanctioned posts of technical staff (Geologists/Assistant Geologists, Chemist/Assistant Chemist and Survey officer) 11 officials were available with the Unit and even they were not utilized for the purpose.

3.1.8.8 Mining through State Corporations

Royalty from mineral ores is an important source of revenue for State which mostly comes from minor minerals in Uttarakhand. All mining activities of minor minerals are governed by the State Minor Minerals (Concession) Rules-1963; hence, the working of Mining Unit of IDD was evaluated in the light of these rules and provisions of the Uttarakhand Rajkiya Khanij Nitti (URKN), 2001 which revealed the following:

(i) Non-execution of lease deeds

Rule-3(1) provides that no person should undertake any mining operations in any area within the State of any minor mineral to which these rules were applicable except under and in accordance with the terms and conditions of a mining lease or mining permit granted under these rules. Further, paragraph-2 of the Government policy (URKN 2001, as amended in October 2002) also provides that river-wise leases would be provided to three Government Corporations [UVVN, GMVN and KMVN as mentioned in the paragraph 3.1.8.1 (i)for extraction of minor minerals. Audit scrutiny revealed that no lease deed was executed by the IDD (Mining Unit) with three Government Corporations for which State-wide mining consent were provided by the Government in the policy. However, the mining of minor minerals were being carried out by all these three corporations since 2001-02, which were contrary to the above provisions. As such, the terms and conditions of these mining rights were still undefined and were based on only the policy consent of the Government. It was also observed in audit that no permanent records were being maintained by the respective wing of the IDD in respect of the mining quantities, revenue realised and deposited to Government accounts by these corporations. The department was totally depending upon these corporations for management of the state of affairs. Thus, in the absence of proper management a reasonable assurance about the working of these corporations and accountability to the Government could not be ensured.

(ii) Outstanding revenues

Provision of Rule-21 provides that lessee shall pay 'royalty' in respect of any mineral removed by them from the lease area at the rates specified by the Government from time to time. Rule-22 further provides that the holder of a mining lease shall, during the terms of the lease, pay in advance, annual installments of the lease, such amount as 'dead rent' at the rate specified by the State Government from time to time, provided that the lessee shall pay the 'royalty' or the 'dead rent' whichever is higher in amount and not the both. Audit scrutiny revealed that revenues as per provisions of the above rules were not being deposited by these three corporations to the Government accounts. They were depositing only royalty amounts realized, which were much lower than dead rent for most of the river lots. A calculation, prepared by the Mining Unit for such revenue as per provisions of aforesaid rules, on the basis of river-wise actual royalty paid[24] by these corporations disclosed that an amount of ₹ 115.95 crore was outstanding up to the year 2008-09[25] against these corporations as per details given below:

Table-3.1.8

(₹ in crore)

Year	Dead-rent/royalty due			Royalty Paid			Outstanding revenue			
	UVVN	GMVN	KMVN	UVVN	GMVN	KMVN	UVVN	GMVN	KMVN	Total
2001-02	8.74	10.61	0.19	3.87	7.07	0.16	4.87	3.54	0.03	8.44
2002-03	13.69	11.20	0.23	7.96	6.86	0.17	5.73	4.34	0.06	10.13
2003-04	16.35	12.23	0.24	9.71	7.16	0.11	6.64	5.07	0.13	11.84
2004-05	18.92	12.71	0.15	12.61	7.38	0.05	6.31	5.33	0.10	11.75
2005-06	28.20	12.44	0.42	21.73	5.77	0.31	6.47	6.67	0.11	13.24
2006-07	36.57	12.42	0.56	27.68	7.24	0.40	8.89	5.18	0.16	14.23
2007-08	38.78	12.31	0.80	24.54	8.26	0.60	14.24	4.05	0.20	18.49
2008-09	43.11	12.49	1.05	21.33	6.97	0.52	21.78	5.52	0.53	27.83
Total	**204.36**	**96.41**	**3.64**	**129.43**	**56.71**	**2.32**	**74.93**	**39.70**	**1.32**	**115.95**

Source: *The calculation was made by the unit in concerned files.*

Above details also indicate that these corporations were unable to generate minimum amount of revenue equivalent to dead rent as required under the rules and specified by the Government. Further, there were no incremental growths in royalty realization by the GMVN and KMVN over the years and despite the fact that the IDD did not take any concrete action against these corporations either for recovery of revenue as per rules or debarring them from authorization of mining works. Hence, the Government had been deprived of such heavy amounts of revenue due to inadequate monitoring by the Mining Unit of IDD.

[24] However, there was no own records in the Mining Unit for such payable amounts of dead rent or royalty.

[25] Detail for the year 2009-10 was not available in the files.

In reply, it was mentioned (August 2010) by the Senior Mines Officer, Geology and Mining Unit that the issue of outstanding revenue against these Corporations was under consideration by a committee set by the State Government under the chairmanship of Principal Secretary, Finance.

(iii) Unauthorised realisation of charges by Corporations

Provisions of the URKN, 2001 clearly provide that the authorised corporations shall have the rights for realization of service charge at the rate of 10 *per cent* on royalty only. Except this, neither any other fund would be provided by the Government nor will any liabilities be created by them. Audit scrutiny of records available in the Mining Units relating to revenue realisation by these three corporations revealed that in contravention of these provisions, the corporations were realizing extra charges in the name of "corporation's expenses" in addition to the Royalty, Service charges, Income tax, VAT and Stamp duty, as per details given below:

Table- 3.1.9

(Rates in ₹ for per cum. quantity)

Minor minerals	Prescribed rate of royalty	Service charge admissible	Corporation's expenses		
			UVVN	GMVN	KMVN
Boulders	24.00	2.40	14.61	24.78	14.50
Bajari	30.00	3.00	10.14	29.50	14.50
Reta	18.00	1.80	11.17	28.28	14.50

Source: *Rate lists of respective corporation, available in the concerned files of the Mining Units.*

Audit did not find any objection raised by the IDD against these three corporations for the above extra realisation of corporations' expenses. This issue was raised in audit with the Senior Mines Officer who replied (August 2010) that there was no provision for price control in the Government policy. However, the reply was contrary to the facts as it was clearly mentioned in the URKN 2001 that these corporations had no authorization for realisation of such expenses other than admissible service charges. Thus, this was another case of non-discharging of duties/responsibility by the Mining Unit of IDD.

3.1.8.9 Illegal mining

Illegal mining of minor mineral had always been a problem for the Government. The problem was not only due to outsiders or unknown persons but it was also, to some extent, due to possible connivance of responsible authorities of Government.

Provisions of existing rules provide that only district administration is responsible to deal with such cases of illegal mining but the IDD had also made some departmental authorities responsible for better administrative controls by setting up district-wise task forces. Audit found that there was increasing trend in number of registered cases of illegal mining in the State as would be evident from the table given below:

Table- 3.1.10

Year	Number of cases	Penalties recovered (₹ in crore)
2006-07	250	1.26
2007-08	370	1.49
2008-09	550	1.58
2009-10	1,086	5.00

Source: *Data provided by the Mining Unit.*

Test check of cases relating to illegal mining revealed that minor cases were being penalized timely by these district and departmental authorities but there was unnecessary delay and lackadaisical approach towards following two major cases of illegal mining:

(i) A case of illegal mining was reported (July, 2007) by the Task Force, Dehradun to the State Mining Unit that 10,76,479 cum. minor minerals (valued at ₹ 3.16 crore as per applicable rate of royalty) were extracted from 31.89 hectares area by a firm[26] which was involved in construction activities of runway for Jollygrant Airport, Dehradun. The report was based on a detailed survey carried out (June 2007) by senior level authorities of the Mining Unit which disclosed that there was 90 *per cent* of *Bajri* (968831cum.) in ratio and rest 10 *per cent* of Boulders (1,07,648 cum.) in the total quantities of the illegal mining. It was also mentioned in the report that four to five lakh cum. mineral was further required for the work because construction of 400-500 metre runway remained to be done by the firm.

The matter was evaluated in the State Mining Unit which found it as illegal mining of 16,14,719 cum. of minor minerals (*Bajri* and Boulders) by adding of 1.5 time soil factor in quantities and compounding cost of ₹ 17.81 crore. Accordingly, the firm was directed (August 2007) to deposit the requisite amount of revenue along with a copy of letter to the concerned District Magistrate (DM) for taking necessary action and to the Government as well. The Principal Secretary (PS), IDD also agreed with the initiative taken by the unit and directed (April 2008) the DM, Dehradun for necessary action because the DM was the competent authority in the matter. Accordingly, a recovery order (May 2008) was issued by the DM, but the firm filed an appeal with the State Government against this recovery order. After hearing the appeal, the Director of Geology and Mining Unit who is also the PS, IDD issued (October 2008) a revised letter to the DM, Dehradun that 90 *per cent* component of the mineral i.e. *Bajri* can be treated as ordinary soil as it is a basic material required for any such construction activity and revenue may be recovered accordingly to the tune of ₹ 1.08 crore[27].

Audit scrutiny revealed that:

- There was no progress regarding recovery of any amount from the firm;

[26] M/s PNC Construction Ltd, Agra, Uttar Pradesh.
[27] The calculation was made by excluding compounding rates of royalty.

- Conversion of minor mineral into ordinary soil from *Bajri* was arbitrary because neither any further survey was carried out nor the available facts of survey report denied;
- How could it be denied that there was no use of *Bajri* or riverbed material in the Airport runway with the fact it would be an essential and the most consumable material for preparation of crust and runway of the work and
- Nothing was mentioned about remaining requirement of material for the work.

Thus, the above facts indicate that there was undue favoritism extended to the firm and interest of Government revenue was set-aside.

(ii) The Mining Unit also found (December 2008) that another agency[28] involved in construction of terminal building of the same Airport had used 11,62,92 cum. (soil factor 1,74,438 cum.) minor mineral without prior permission and payment of royalty, for which the agency was liable for compounding payment of ₹ 1.93 crore. This calculation was also based on a departmental survey (November 2008) which disclosed that the illegal mining was carried out in 4.581 hectares of land having 80 *per cent Bajri* and 20 *per cent* Soil. The fact was accepted by the agency itself which moved into appeal (March 2009) with Government by citing the first case relating to the runway. Once again the PS, IDD passed a similar order (June 2009) for conversion of whole quantity into soil and fixed the revenue to ₹ 10.71 lakh without compounding rate of royalty which still (August 2010) was not deposited by the agency. Hence, this was another case of paying undue advantage to the agency resulting in loss of revenue to the Government.

On being pointed out in audit, no specific reply was given by the Mining Unit. However, it was mentioned that the recoveries were to be made by the DM, Dehradun.

3.1.9 Human resource management

Proper management of manpower (staff) necessitates that staff requirements are assessed and reviewed at regular intervals by giving due considerations to the departmental activities and appropriate/transparent policies are framed/adhered to, for recruitment and capacity enhancements to achieve goals of organisation.

It was observed in audit that overall management of human resource in DI and its field offices (DICs) was quite satisfactory than that of other wings of the IDD. The shortcomings of other wings are discussed below:

- In UKGB, 100 sanctioned posts were lying vacant (40.32 *per cent*) against total sanctioned strength of 248 which was putting adverse effect on the Board's activities. The situation was due to continuous retirement of old

[28] M/s Consolidated Construction Consortium Ltd, Varapani, Chennai.

staff and non-recruitment of new staff which could not be recruited due to non-finalization of recruitment rules of the Board.

- There was no sanctioned posts of Group-'B' and 'C' for SIDCUL despite lapse of eight years of its formation. The work of these posts was being carried out on contractual basis which could not be considered as reliable in comparison to permanent staff for specialized work like accounting, dealing with contracts and supervision of construction activities.
- There was overall shortage of 27.68 *per cent* in the Geology and Mining Unit. The position was worst in case of technical staff of the unit as only 36 posts were filled up against 68 sanctioned posts which badly affected the survey and exploration work of minerals in the State.
- There was no regular schedule in existence for capacity building of staff within the IDD.

3.1.10 Internal controls

Internal audit is an effective tool for internal controls which helps an organisation to examine, monitor and evaluate the level of compliance to the departmental rules, manuals and procedures. The system of internal audit also provides assurance to senior executives on the adequacy of risk management at various levels in the organisation.

Audit scrutiny revealed that no periodic internal audits were being carried out within IDD despite the fact that staff of internal audit was available with DI as well as with UKGB. Eight Senior Auditors/Auditors were available with DI but they were posted in different DICs and at headquarters' office for routine works. Similarly, three Accounts Inspectors were available with UKGB who were also performing routine work of the Board. Thus, the internal audit system in the IDD was found non-functional and thus, steps would require to be taken up to strengthen the internal control system.

3.1.11 Accounting controls

The adequacy of accounting controls by the department was examined with reference to laid-down accounting procedures for recording transactions and maintenance of records. The deficiencies noticed during audit are discussed below:

3.1.11.1 Non-maintenance of vital records for budget and expenditure

As already mentioned in paragraph 3.1.2, the DI was responsible for overall financial control of the IDD and to keep liaison between the Government and DDOs of the Department. Audit found that the following records, which are very vital for each departmental controlling authority as per provisions of the State Budget Manual (BM), were not being maintained in the Directorate:

- Receipts Broadsheet in Form BM-6.

- Controlling officer's Broadsheet for watching of accounts return from DDOs in Form BM-10.
- Controlling officer's register of expenditure in Form BM-11.
- Controlling officer's register of monthly expenditure and liability in Form BM-12, and
- Budget control register in Form BM-17.

Thus, immediate action to maintain the records as per provisions would require to be taken under intimation to audit.

3.1.11.2 Non-preparation of annual accounts by UKGB

Section 30, of the UKGB Act, 2002 provides that the Board shall maintain such books of accounts and other records in relation to its functioning in such form and in such manner as may be prescribed. An annual statement of accounts will be prepared immediately after the closing of its annual accounts. The account of the Board shall be audited by the Accountant General or any officer authorized by him on his behalf. The annual statement of accounts of the Board together with the audit report thereon shall be submitted by the Board to the State Government which shall be laid before the State Legislature. However, it was found in audit that even after a lapse of eight financial years from formation of the Board in the State of Uttarakhand, neither any structure for books of accounts was prescribed nor any annual accounts were prepared by the Board as of June 2010.

3.1.11.3 Irregular operation of Bank Accounts

Section 26, of the UKGB Act, 2002 provides that there shall be a fund of the Board to which shall be credited all money received by or on behalf of the Board. The money shall be deposited in Government treasury under two separate personal ledger accounts (PLAs) to be called the 'Khadi Account' and the 'Village Industries Accounts' and also in any other similar accounts to be opened by the Board as and when necessary in respect of its different schemes.

In contravention to the above, the Board was operating all its transactions through number of bank accounts and huge balances were being kept therein, outside the Government accounts. The closing balance of such bank accounts only for headquarters' office of the Board as on 31 March 2010 was ₹ 10.55 crore. On this being pointed out in audit, the ACEO replied (June 2010) that process for opening of PLA accounts had been started.

Similarly, audit scrutiny of records of the UHHDC revealed that all funds were being kept in bank accounts despite specific instructions of the Finance Department, Government of Uttarakhand for opening of PLA in treasury.

3.1.12 Vulnerability to fraud and corruption

3.1.12.1 Inaccurate maintenance of cash accounts

As per provisions of the Financial Rules, it is a duty of every DDO to make physical verification of cash/balances with its relevant records and record the certificate for every month to the effect that cash balances as per cash book and pass books/cash in hand have been checked/verified and found correct. Any discrepancy in this regard requires immediate inquiry of the matter.

Scrutiny of records of the UKGB revealed that the prescribed procedure had never been followed by headquarters' office of the Board. So many cash books were being maintained in the office and no certificate of balances was recorded in the cash books by the DDO. Moreover, there was huge difference in the balances as per cash books and as per bank pass books of the Board as per details given below:

Table-3.1.11

(Position as on 31 March 2010)

Head of accounts	Balance as per Pass book (₹)	Balance as per Cash book (₹)	Difference (₹)
Non-plan funds	2,8690,967.91	1,34,19,377.01	1,52,71,590.90
Plan funds	2,64,74,646.21	1,31,30,741.71	1,33,43,904.50
Zonal exhibitions	88,06,949.50	86,13,539.00	1,93,410.50
Loan's recoveries	1,02,82,784.50	94,49,319.00	8,33,465.50
Board's fund	2,12,29,290.99	2,05,24,013.99	7,05,277.00
Wool-bank	1,00,00,000.00	1,00,00,000.00	-
Total	**10,54,84,639.11**	**7,51,36,990.71**	**3,03,47,648.40**

Source: *Concerned records of UKGB.*

It would be evident that closing balance as per cash books as compared to pass books was short by ₹ 3.03 crore which was termed as a very serious and highly objectionable issue, because, any unaccounted withdrawal from bank accounts (either may be duly authorised or fraudulent) would not be traceable until the checking of each and every entry of the bank transactions.

Although, detailed checking of all transactions was not possible in audit, but it was found in test check of cash book (Non-plan) that a receipt side entry for ₹ 40 lakh was recorded (dated 10 November 2009) as only ₹ four lakh and a balance was noted as ₹ 1,20,98,774 (dated 10 November 2009) after deduction of an expenditure of ₹ 13,595 from opening balance of ₹ 1,24,12,369; hence, an amount of ₹ 39 lakh (₹ 36 lakh and ₹ three lakh respectively) was noted short in the cash book.

Therefore, the correctness of the accounts could not be ensured in audit. It warrants an immediate action to reconcile the balances in order to satisfy both sets of accounts to obviate the possibilities of fraud/misappropriation of funds.

3.1.12.2 Poor management of contracts by SIDCUL

Test check of records relating to various infrastructural development activities carried out by SIDCUL through contracts revealed serious irregularities as per details given below:

(i) An agreement was signed (September 2005) between SIDCUL and a Delhi based architect (M/s Morphogenesis Architecture Studio Pvt. Ltd.) for providing designs and architectural support for the proposed Doon Cyber Tower at IT Park, Dehradun. The agreed cost of professional fee payable to the architect was ₹ 30 per square feet for built up area and ₹ 15 per square feet for basement area which was estimated at approximately 3,52,165 and 2,15,280 square feet respectively. Audit scrutiny revealed that the selection of architect was not transparent as per prevailing system of tendering because selection was made by obtaining quotations from few firms without calling for any public notice. Moreover, a member out of four member committee constituted for finalization of these bids recorded his statement in the concerned file that *'I was shocked to note that I was member of said committee because I was never consulted nor any paper relating to this case was shown to me. The bids were opened and signed by only one member and none other else as evident from enclosed documents'*. Audit noted that no action was found initiated in this regard. However, construction of the Tower was held up since July 2007 and this contract was alive with payment of ₹ 53.49 lakh as July 2010.

Thus, such state of affairs led to an impression that bidding process for selection of architect was predetermined with some vested interests of the authorities.

(ii) SIDCUL entered into a contract (February 2005) with M/s Gangotri Enterprises Ltd. for construction of Roads, Public Health Engineering (PHE) and allied works of the IT Park, Sahastradhara Road, Dehradun. The estimated cost of the works was ₹ 7.09 crore whereas tendered/agreed cost was ₹ 5.30 crore (25.25 *per cent* below). The works were scheduled to be completed by the end of November 2005, but were delayed and could be completed by July 2006 at a cost of ₹ 7.30 crore, which was 37.74 *per cent* higher than the agreed cost. The hike was mainly attributed to extra earth work amounting to ₹ 1.40 crore, water drain works amounting to ₹ 45.37 lakh, road work and other extra items amounting to ₹ 1.12 crore despite the fact that quantities of PHE works amounting to ₹ 95.57 lakh were leftover.

Audit scrutiny of these excess expenditures revealed that:

- The extra earth work amounting to ₹ 1.40 crore was executed outside the scope of agreement by the contractor, for which neither any formal work order was given by the SIDCUL or by Engineer-in-charge. No prior survey was conducted to ascertain and estimate the quantities. The work was executed during October-November 2005 whereas it's administrative and expenditure approval was granted in March 2006. Moreover, a report of experts of the SIDCUL (June 2006) available in the concerned file disclosed that *'Ex-facto verification of the quantities could not be possible as level of the original ground was neither recorded (in MBs) jointly by the contractor and the consultant of the work nor verified by the SIDCUL Engineers'*. Thus, payment of earth work without details of measurement was not only irregular, but execution of this item of work was also doubtful;
- There was more than three times variation of quantities between agreed and actually executed for storm water drain works as total 8,822.80 running

metre (RM) RCC pipes (200 mm to 500 mm *dia*) were laid against agreed quantity of 2,870 RM. Hence, laying of such large size of RCC pipes in 8.82 km length was unjustified/doubtful as the scope/area of work remained the same;

- The excess expenditure in road work was due to change in crust design of the roads. SIDCUL had to revise (January 2006) the original crust design of roads because no bituminous macadam (BM) layer was provided between water bound macadam (WBM) and semi dense bituminous carpet (SDBC) which was essential as per the Indian Road Congress (IRC) specifications. Resultantly, the provision for 50mm thick layer of BM was added along with replacement of 225 mm thick layer of WBM by 225 mm thick layer of wet mixed macadam (WMM). Audit observed that although the addition of the BM layer was required for the work, yet the replacement of WBM layer (at the rate of ₹ 503.90 per cum.) by WMM layer (at the rate of ₹ 1,475 per cum.) was only for revision of agreed rate of this item of work because bearing capacity of both the layers were same as per specification of the IRC. Thus, an undue benefit amounting to ₹ 59.57 lakh was provided to the contractor which indicates towards collusion of both the parties.

On these being pointed out in audit, no satisfactory justification was given by the management of SIDCUL, but it was mentioned that the payments were made after due approval of competent authorities.

(iii) A floriculture park was to be developed at Chaffi, Nainital jointly by SIDCUL and Horticulture Department under ASIDE scheme of Government of India over 0.99 hectare of land. The land belongs to the Horticulture Department whereas management rights for development and construction of the Park was with SIDCUL. A contract (January 2007) amounting to ₹ 8.09 crore was executed by SIDCUL with M/s Indo-Dutch Horticulture & Technologies Pvt. Ltd. for development activities of the Park. As per terms and conditions of the contract, the development activities were to be completed by October 2007 and any delay in this regard would attract penalty at the rate 0.05 *per cent* per day subject to a maximum of 5 *per cent* of the total agreed cost. However, it was found in audit that development work was completed after a delay of 470 days (February 2009) but the liable penalty amounting to ₹ 40.45 lakh was not imposed by SIDCUL upon the contractor. Thus, undue favouritism to the contractor against the spirit of the contract resulted in a loss of ₹ 40.45 lakh to the Government.

(iv) SIDCUL awarded (November 2005) three contracts amounting to ₹ 62.20 crore in respect of Phase-II works[29] of the IIE, Pant Nagar by dividing the scope of work into three identical packages. First two contracts were awarded to M/s SAB Industries Ltd. each at a cost of ₹ 19.81 crore and third was awarded to

[29] All three works was schedule to be started in December 2006 and completed by October 2006.

M/s. Gangoteri Enterprises Ltd. at a cost of ₹ 22.58 crore[30]. The works under these agreements were continued beyond the schedule date of completion (October 2006) upto July 2007 with payment up to ₹ 45.98 crore. While passing the next running bills amounting to ₹ 6.96 crore of the contractors, SIDCUL felt that there was abnormal enhancement of quantities executed on earthworks against agreed quantities, for which the payment of ₹ 11.96 crore had already been made to the contractors. Therefore, SIDCUL stopped the payment of next running bills and issued show cause notices to the contractors as well as the Project Management Consultant (PMC)[31] who was responsible for the supervision of the works and certification of the bills raised by the contractors. Consequently, a dispute arose between both the parties and since then the works were held up and the matter was pending under arbitration as on date of audit.

However, these quantities of earth work were shown as completed for embankment of internal roads of the IIE, but no record (length, width and height) was available with SIDCUL in support of these executed quantities such as details of burrow area from where soil was carted and the area in which the embankment was done. Audit scrutiny of the related records (BOQ, agreement and quantities executed as per contractors' bills) revealed that actual amount of over payment made to the contractors was ₹ 17.64 crore instead of ₹ 11.96 crore vide details as under:

Table-3.1.12

Agreement No.	Agreed quantities	Quantities executed	Excess quantities	Rate (₹ /unit)	Amount (₹)
15/2005-06	91,248 cum.	1,08,223 cum.	16,975 cum.	160	27,16,000
16/2005-06	91,248 cum.	4,83,092 cum.	3,91,844 cum.	160	6,26,95,040
17/2005-06	91,248 cum.	8,56,996 cum.	7,65,748 cum.	145	11,10,33,460
Total excess payment					**17,64,44,500**

Source: *Concerned agreement and bills available in SIDCUL.*

A calculation made by audit on the basis of other items of work done (WBM/WMM) for the road works under these agreements found that the height of these roads would have been up to 13 metres, had the quantities shown executed, actually been laid.

It was also noticed that few left over works of above agreements were being carried out by SIDCUL through another contractor[32] of the project under extra items of works amounting to ₹ 4.08 crore without inviting any tender which involved an excess provision of ₹ 39.30 lakh as compared to the old agreed rates.

On this being pointed out, SIDCUL accepted that initial calculation of over payment was wrong and mentioned that a detailed survey in this regard was

30 Awarding contract at higher rate (₹ 2.77 crore) than first two contracts has already been pointed out vide Para-7.3 of the CAG's Audit Report for year 2006-07.
31 M/s Gherzi Eastern Ltd.
32 Agreement No. 03/SIDCUL/PTN /2009-10 with M/s Shyama Construction Pvt. Ltd.

conducted by them recently, which established the over payment of ₹ 15.08 crore. This fact would be brought to the notice of the arbitrator as mentioned by SIDCUL. It was also mentioned that the over payment took place through connivance of the contractor with the PMC for which an FIR was lodged with Police. The reply was not acceptable since over payment was only possible with involvement of departmental authorities, who were responsible for overall monitoring of the work and payment of running bills to the contractors; hence, SIDCUL could not escape from its responsibility.

To sum up, the contract management of SIDCUL lacked on various fronts such as granting of contracts, execution of works and making payments to contractors indicating towards non-vulnerability of the organisation against fraud and corruption.

3.1.13 Other miscellaneous points

3.1.13.1 Irregular functioning of Khadi Board

UKGB, Act 2002 stipulates (section 17) that main functions of the Board are to plan, develop, formulate schemes for khadi and village industries and submit it to the Government for approval. An annual financial statement (AFS) containing the financial layout of these programmes and schemes is also required to be prepared and submitted to the Government for approval in respect of every financial year.

Audit scrutiny revealed that no annual plans were prepared and submitted by the Board to the Government. However, lump sum annual grants were provided by the Government as per provisions of the budget approved by the Legislature. It was also observed that Board meetings were not being held regularly. Only nine meeting were held by the Board since its inception and no meeting was held during the years 2007, 2008 and 2009.

3.1.13.2 Inquiry Commission for SIDCUL

It was realized by the State Government itself that some serious irregularities had taken place in SIDCUL relating to execution of works, allotment of industrial lands to entrepreneurs, award and management of contracts. Therefore, a single member 'Inquiry Commission' was setup by the Government in May 2007, expecting its report within three months but the same was still awaited despite several extensions granted from time to time and incurring expenditure of ₹ 53.05 lakh as of August 2010.

3.1.14 Conclusion and recommendations

3.1.14.1 Conclusion

Although the IDD succeeded in attracting huge investment and large number of industries in the State as well as providing infrastructural facilities to entrepreneurs, but these industrial developments were confined only to three districts of plain area and remaining parts of the State remained deprived despite specific policy of the Government. Financial management of different wings of the IDD lacked on various fronts such as long pending recoveries of loans, unauthorized retention/blockage of funds and improper management of Government revenues. The implementation of various departmental schemes was not in consonance with their guidelines as there were instances of irregular disbursement of subsidies and non-recovery of scheme funds from the defaulters.

Poor management of contracts in SIDCUL, inaccurate maintenance of cash accounts in UKGB, inadequate management of leases/revenue in Mining Unit and sanctioning of scheme funds to ineligible entrepreneurs by the DI were the areas of concern and requires immediate attention by the Government.

3.1.14.2 Recommendations

- ***The instruments of hill policy 2008 need more attention and commitments by the DI for implementation of its schemes/programmes.***
- ***All funds of the UKGB and UHHDC should be kept in PLAs with Government Treasury only.***
- ***Assessment of the requirement of manpower by the SIDCUL and Geology & Mining Unit should be realistically done so as to achieve their optimal utilisation in the field of effective monitoring/programme implementation.***
- ***Internal audit wings of DI and UKGB need to be made functional and accountable for their designated responsibilities at the earliest.***