CHAPTER - II

2. Review relating to Government company

Gujarat State Land Development Corporation Limited

Highlights

Gujarat State Land Development Corporation Limited was incorporated in March 1978, with the main objective of executing land reclamation and soil conservation schemes in the State. These schemes aimed at improvement and maintenance of quality of land through land and water management.

(Paragraph 2.1)

The Company had diverted grants of Rs.33.43 crore (89 *per cent*) from soil conservation schemes towards meeting expenditure on pay and allowances and other administrative expenditure during 1999-2003.

(Paragraph 2.10)

Under village pond scheme the Company, in violation of terms of sanction of grants, exceeded the financial limit of rupees two lakh *per* pond. The actual expenditure *per* pond ranged from Rs.2.02 lakh to Rs.96.38 lakh on 1,047 ponds during 1999-2003, which resulted in irregular expenditure of Rs.14.91 crore.

(Paragraph 2.14)

Bulldozer utilisation charges were fixed at higher rate, which resulted in excess appropriation of grants under village pond scheme by Rs.10.11 crore.

(Paragraph 2.19)

In violation of State Government directives, the Company kept its surplus fund in current accounts instead of placing in liquid deposit schemes of Gujarat State Financial Services Limited. As a result, it suffered loss of interest of Rs.88.67 lakh during April 2000 to August 2003.

(Paragraph 2.20)

The Company neither had consolidated position of the work done and amount recoverable from farmers nor developed any recovery mechanism, for effecting the recovery. During 1990-2000 an amount of Rs. 11.67 crore became due for recovery from farmers against which the Company could recover only Rs.24.50 lakh.

(Paragraph 2.21)

Despite directives of the State Government (February 1998) for easing out surplus employees, the Company incurred extra expenditure of Rs.3.15 crore on surplus manpower during 1998-2003.

(Paragraph 2.24)

Introduction

2.1 Gujarat State Land Development Corporation Limited (the Company) was incorporated on 28 March 1978, as a wholly owned Government company with the main objective of executing land reclamation and soil conservation schemes in the State. The soil conservation schemes aimed at improvement and maintenance of quality of land through land and water management.

Objectives

2.2 The main objectives as envisaged in Memorandum of Association of the Company, *inter alia* were to undertake:

- systematic assessment of land in the State (including *kotar*[ξ] and *khar*[∂] land), which can be reclaimed for cultivation by treatment;
- land reclamation and soil conservation activities, such as contour *bunding*, *nala* plugging, terracing, land levelling and land shaping;
- ravine reclamation programme;
- reclamation programme for water logging and coastal areas and other *khar* land; and
- farm development works in irrigation commands areas, such as, construction of field channels, field drains, land levelling and *kyari* making.

The Company confined its activities mainly to the soil conservation and failed to undertake other objectives *viz.*, assessment of land in the State, prevention of water logging and farm development works in command area.

[ξ] Kotar means, conversion of barren land into cultivable land.
[∂] Saline land.

Organisational set up

2.3 The management of the Company is vested in a Board of Directors (BOD) consisting of not less than three and not more than 15 directors. As on 31 March 2004, BOD consisted of seven official directors, including a Chairman and a Managing Director appointed by the State Government. The Managing Director is the Chief Executive of the Company and is assisted in day to day functioning by Executive Director (Administration), Company Secretary, Manager (Finance) and Additional Agriculture Director.

The Company has nine[#] divisions (eight soil conservation and one mechanical division) each headed by a Deputy Director. There are 27 sub-division offices (25 soil conservation and two mechanical sub-division) at district level each headed by an Assistant Director under the control of divisions and is responsible for implementation of various schemes. Besides, the Company has 126 charge offices[*] at taluka level and two training centres at Morbi and Thasara.

Scope of Audit

2.4 The implementation of the National Watershed[Ω] Development Project for Rainfed Areas by the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1996, No.3 (Civil), Government of Gujarat. The review was yet to be taken up for discussion by Public Accounts Committee (July 2004).

The present review conducted during November 2003 to February 2004 covers the execution of various schemes. The audit findings as a result of test check of records of five[Δ] out of nine division offices, 11 out of 27 sub-division offices and head office are discussed in the succeeding paragraphs.

The audit findings as a result of test check of records were reported to Government/Company in April 2004 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that viewpoints of Government/Company was taken into account before finalising the review. The response from the Government/Company for holding the meeting was awaited (September 2004) in spite of pursuance.

[#] Soil Conservation divisions at Ahmedabad, Amreli, Bhuj, Godhra, Palanpur, Rajkot, Surat, Vadodara and Mechanical division at Vadodara.

[*] Under each sub-division there are four to five charge offices headed by field supervisors. These offices are responsible for implementation of the scheme undertaken in the area by the sub-division.

[Ω] Watershed is a geographical area that drains at a common point. This natural unit is evolved through the interaction of rain water with land mass and typically comprised arable land, non-arable land and natural drainage lines in rainfed area.

[Δ] Soil conservation divisions at Vadodara, Godhra, Rajkot, Ahmedabad and Mechanical division at Vadodara.

Sources of fund

2.5 The authorised share capital was Rs.10 crore and the paid-up capital of the Company as on 31 March 2003 was Rs.5.86 crore fully subscribed by the State Government. The Company received grants aggregating Rs.241.86 crore[ϕ] from State/Central Government for implementation of various schemes during 1999-2003. In addition, it had also received loans from State Government for implementing schemes. The loan outstanding as on 31 March 2003 was Rs. 40 crore.

Unspent grants

There were unspent grants of Rs.187.74 crore as on 31 March 2003.

2.6 For execution of soil conservation works, the State and Central Government had sanctioned and disbursed grants to the Company from time to time. The State Government prescribed return for utilisation of fund to ascertain whether the funds were utilised for the works for which they were sanctioned. At the close of the year, Utilisation Certificates (UTC) duly signed by Managing Director, Manager (Finance) and a firm of Chartered Accountants were furnished based on information collected from technical/accounts section. The accounts of the Company as on 31 March 2003 showed accumulation of unspent grants of Rs.187.74 crore.

Neither accounting manual required, nor the State Government directed for maintaining separate accounts for various grants received. In the absence of specific instructions, the Company was recording receipt of grants expenditure from grants and consolidated opening and closing balances of various schemes under a common head of accounts. As the accounts of the Company are in arrears, management has shown inability (February 2004) to segregate scheme wise balance of grants. Hence, the chances of adjustment/refund of unspent grants were remote. Audit observed that instead of utilising the grants for specified purpose, these were diverted for meeting other expenses such as pay and allowances of employees, village pond scheme *etc*. without seeking the approval of the State Government. The Company did not have any effective mechanism to ascertain expenditure incurred for various schemes implemented by it.

The management/Government stated (September/October 2004) that the unspent grants were utilised mainly for pay and allowances of the staff and excess expenditure incurred on village pond scheme due to demand raised by Members of Parliament/Members of Legislative Assembly and political leaders.

The reply was not tenable as the Company was expected to keep pay and allowances of the staff and other establishment expenditure within the norms prescribed by the State Government. The Company also should have restricted the expenditure of village pond scheme within the grants released by the State Government for the purpose.

[ϕ] Provisional as the Company finalised accounts up to 2001-02.

Financial position and working results

2.7 The Company finalised its accounts up to 2001-02 and prepared accounts for 2002-03 on provisional basis. The financial position and working results of the Company for 1999-2003 are given in ***Annexure-9***.

The Company incurred aggregate loss of Rs.2.18 crore even though it recovered inadmissible establishment charges of Rs.13.35 crore under farm pond (Rs.2.92 crore), water harvesting structure (Rs.5.18 crore) and village pond (Rs.5.25 crore) schemes during 1999-2002. The Company was incurring losses mainly due to excessive staff cost and lack of avenues for revenue generation other than budgetary resources.

Implementation of the schemes

2.8 With a view to boost agricultural productivity in the State through development of soil by adopting appropriate techniques of soil conservation, schemes formulated by the State/Central Government were entrusted to the Company. These schemes provided for conservation of rain water, thereby supplementing water supply for irrigation as well as drinking purpose and stabilising ground water resources.

For implementation of the schemes, the Company made allocation of funds to its division offices. The division offices allocate the fund to sub-division office, which in turn allocates to its charge offices. Charge offices allocate the fund to the field assistants. Field assistants execute soil conservation works by engaging labours. The Company did not have effective monitoring system and proper control over field offices, which lead to malpractice and misappropriation, as discussed in paragraph 2.22 *infra.*

2.9 The State Government transferred (July 1982) existing schemes of soil conservation to the Company along with the staff. The major schemes implemented by the Company and grants received during 1999-2003 are tabulated below:

Name of the scheme	**Amount (Rs. in crore)**
Soil conservation scheme in normal area	51.53
Soil conservation scheme in tribal area	24.02
Farm pond scheme	19.52
Village pond scheme	50.27
Marco management scheme	66.63
Flood relief scheme	6.67
Water harvesting structure scheme	17.56
Other schemes	5.66
Total	**241.86**

Audit findings on implementation of these schemes are discussed in the succeeding paragraphs.

Land related schemes

Soil conservation scheme (normal)

2.10 The soil conservation scheme (normal) was transferred from the State Government in July 1982. Under the scheme, activities of soil and water conservation such as land levelling, terracing, land shaping, contour *bunding*, *nala* plugging along with survey and maintenance thereof in the areas other than tribal areas were undertaken. Neither the State Government nor the Company has laid down norms for the implementation of the schemes. The Company did not carry out vegetative measures[∞] for the optimal benefits of soil conservation activities.

The Company had diverted grants of Rs.33.43 crore.

The scheme provided for 33.33 *per cent* administrative charges on soil conservation works executed by the Company. The Company received grants of Rs.37.42 crore for soil conservation scheme, in addition to separate grants of Rs.14.11 crore for pay and allowance and other establishment expenses during 1999-2003. The Company fixed target for treatment of 36,207 hectares of land, but it treated 3,490 hectare at a cost of Rs.2.99 crore (8 *per cent*) for which it was entitled to adjust administrative charges of rupees one crore. The balance grants of Rs.33.43 crore (89 *per cent*) was utilised for pay and allowances and other administrative expenditure of the Company.

The *Paramarsh* Committee appointed by the Company (April 2000) to streamline its working observed (August 2000) that the administrative expenditure of the Company was higher than admissible due to which grants earmarked for soil works were diverted towards administrative charges and soil works were curtailed accordingly. The Company did not take any action to streamline its working based on the recommendation of the Committee.

The management/Government stated (September/October 2004) that the soil and water conservation schemes were transferred to the Company alongwith the staff. The budget provision was made considering establishment expenditure.

The reply is not tenable as the State Government separately granted fund for establishment expenditure. The Company was expected to incur establishment expenditure within the norms prescribed by the State Government.

Soil conservation scheme (tribal)

2.11 Under the soil conservation scheme (tribal) transferred from the State Government in July 1982, soil conservation activities in tribal areas were undertaken. Neither the State Government nor the Company has laid down norms for the implementation of the scheme. Under the scheme, the Company did not carry out vegetation measures to sustain the soil works executed. The Company was recovering 33.33 *per cent* towards administrative charges on soil conservation work. Out of grants of Rs.18.25 crore received during 1999-2003, the Company was required to execute works of Rs.13.69 crore.

[∞] Vegetative measures means plantation of trees, pasture development and vegetation on contour for sustaining soil works and checking run off of water.

The Company fixed target for treatment of 20,093 hectare of land, however, it treated 8,824 hectare at a cost of Rs.10.71 crore and utilised the balance amount of Rs.2.98 crore towards pay and allowances and other administrative expenditure of the Company. This was in addition to the grants of Rs.5.77 crore separately provided by the State Government for pay and allowances.

The management/Government stated (September/October 2004) that the soil and water conservative schemes were transferred to the Company alongwith the staff. The budget provision was made considering establishment expenditure.

The reply was not tenable as the State Government separately granted funds for establishment. The Company was expected to incur establishment expenditure within the norms prescribed by the State Government.

National watershed development project for rainfed areas

2.12 The National watershed development project for rainfed areas (the project), launched as Centrally Sponsored Scheme by Government of India in 1986-87, was confined to treatment[#] of arable[ϒ] and non-arable land for stabilisation of agricultural production through conservation of rain water and soil. During ninth five year plan (1997-2002), 164 watersheds were selected in the State covering 3.15 lakh hectare land at a cost of Rs.99.31 crore.

Audit scrutiny revealed the following:

Against target of 3.15 lakh hectare, the Company developed only 1.93 lakh hectare land.

- Against targeted development of 3.15 lakh hectare land at a cost of Rs.99.31 crore, the Company reported development of 2.50 lakh hectare land at a cost of Rs.59.62 crore during ninth five year plan (1997-2002). The main reason for short achievement despite adequate release of fund was low priority towards adoption of vegetative measures by the Company. Audit observed during January 2004 that in 31 out of 164 cases test checked, the actual area treated worked out to be 1.93 lakh hectare (61 *per cent*) against 2.50 lakh hectare reported.

The management stated (February 2004) that the progress could not be achieved due to insufficient rain and lack of co-operation from farmers. The Company further stated (September 2004) that as the project provided vegetative treatment up to 50 *per cent*, 100 *per cent* achievement was not possible.

The reply was not tenable as the project was formulated for rainfed areas having irregular and insufficient rain. The Company, despite implementing the project for more than a decade, failed to educate farmers and gain their confidence. Besides, the project report envisaged 100 *per cent* vegetative treatment.

[#] Treatment includes soil conservation works such as contour bunding, nala plugging, vegetative measures such as pasture development, vegetation on contour, afforastation, establishment of nursery, distribution of seeds and fertilizers to farmers, training of farmers, castration of scrub bulls *etc*.
[ϒ] Cultivable land.

- The Government of India while reviewing the progress of the project for 1999-2000 directed (August 2001) saturation≈ of all watersheds selected under ninth five year plan. Out of 164 watersheds identified, only 30 watersheds (18 *per cent*) were saturated and remaining 134 watersheds, for which expenditure of Rs.50.21 crore was incurred, were not saturated.

In reply to Audit enquiry, the management stated (February 2004) that the watersheds were saturated where it was administratively convenient and received good co-operation from farmers.

Audit observed that the Company was required to appoint apprentices to educate the farmers about the salient features of the project. As the company did not appoint the apprentices, it failed to receive co-operation from farmers to saturate watersheds.

- During 1997-2002 the actual expenditure (as per audited accounts) on the project was Rs.50.12 crore. The Company was entitled to Rs.55.13 crore (including 10 *per cent* administrative charge of Rs.5.01 crore), against which it appropriated grants of Rs.59.62 crore through furnishing of utilisation certificates. Thereby grants of Rs.4.49 crore was appropriated in excess.

The management/Government stated (September/October 2004) that the necessary adjustment would be made after verification.

The Company appropriated excess grants of Rs.1.81 crore by charging inadmissible expenses.

- The project provided for training to farmers for educating them about the benefits of the project and to book expenditure under 'Training' head of the project. It also provided survey of the area and purchase of equipments *etc.* and to book the expenditure under 'Survey & Projection' head of the project. In order to book the expenditure and show the grants as utilised, the Company directed (October 2001) its field offices to book 'travelling expenses' to 'training' and 'vehicles maintenance' to 'survey and projection' head of the project respectively, irrespective of the purpose for which it was spent during 2001-02. Thus, the Company, unauthorisedly charged Rs.63.11 lakh to 'training' and Rs.1.18 crore to 'survey and projection' and appropriated excess grants of Rs.1.81 crore. The Company withdrew (May 2002) this direction on completion of the ninth five-year plan.

- Under Tenth five-year plan commencing from 2002-03, the Company was required to educate the beneficiaries about the benefits of the programme and formulate watershed committees to execute the work. As the Company did not effectively educate the farmers about the expected benefits, the beneficiaries did not volunteer for implementation of the scheme. Consequently, the Company did not execute any work against the target of treatment of 16,395 hectare area during 2002-03. The State Government released rupees nine crore, out of allocation of Rs.17.69 crore to the Company during 2002-03. As the Company could utilise only Rs.41.81 lakh during the year, the balance allocated funds of Rs.8.69 crore

≈ Seventy five *per cent* or more treatment has been completed.

The Company had cumulative unutilised balance of Rs.17.57 crore due to non-execution of the work.

was not released to the Company due to slow progress of the work. The Company had cumulative unutilised balance of Rs.17.57 crore as on 31 March 2003.

The management/Government stated (September/October 2004) that the project envisaged people participation and being first year it was not possible to implement the programme without completion of training at all levels. The reply was not tenable as the Company had failed to educate the beneficiaries about the benefits of the programme.

- The Company did not evolve any system for monitoring and evaluation of the project as envisaged in the project scheme.

Integrated watershed development project

2.13 Integrated Watershed Development (Plains) Project (IWDP), financed by World Bank, was launched in 1990-91 with stipulated date of completion by 31 March 1997. The Company was responsible for implementation of the IWDP in Gujarat. The IWDP was extended up to 31 March 1999 for attaining saturation of watershed taken up by completing left over work and development of new areas contiguous to the watershed. The grants for IWDP was released through the State Government from time to time. The State Government, while releasing grants, prescribed that the expenditure incurred by the Company should not exceed the grants released. The State Government also directed (December 1998) the Company to complete the works and book the expenditure before 31 March 1999, as the IWDP was to be completed by 31 March 1999. It further clarified that under no circumstance budget provision in this regard would be made under any plan scheme of the State Government during 1999-2000.

In violation of the Government's directives, the Company incurred expenditure of Rs.93.06 lakh in excess of the grants.

Despite above instructions of the State Government, the Company incurred an expenditure of Rs.67.85 crore on the project up to 1998-99 against release of Rs.66.92 crore leaving Rs.93.06 lakh recoverable from the State Government. The Company, therefore, approached the State Government (February 2000) to make provision towards reimbursement of expenditure. The State Government (March 2001) enquired reasons for the excess expenditure, the reply, if any, furnished to the State Government was not made available to audit.

Audit further noticed that two[*] divisions of the Company paid Rs.73.30 lakh between April- June 1999 towards soil conservation work during December 1998 to March 1999. The Company, without authorisation of State Government, booked (March 2000) this expenditure (Rs.73.30 lakh) along with Rs.24.43 lakh towards 33.33 *per cent* administrative charges to grants receivable from the State Government. The Company however, did not make any proposal towards reimbursement of Rs.97.73 lakh from the State Government.

Thus, the Company in violation of terms of sanction of the project incurred

[*] Ahmedabad: Rs.33.20 lakh and Rajkot: Rs.40.10 lakh.

unauthorised expenditure of Rs.1.91 crore (Rs.93.06 lakh *plus* Rs.97.73 lakh) which affected the financial position of the Company.

The management/Government stated (September/October 2004) that while making claim for reimbursement in July 1999, expenditure of Rs.73.30 lakh was included. The reply was not tenable because the outcome of the claim is still (September 2004) not known even after expiry of more than five years.

Water related schemes

Village pond scheme

2.14 The State Government directed (June 1996) the Company to deepen village ponds for providing drinking water to the villagers by removing silt therein, to enhance its storage capacity, to check the depletion of ground water and stabilising water supply system of the village. The State Government further directed (July 1996) the Company to take up the activity of deepening of village ponds for providing irrigation under the scheme in consultation with and as per the priority fixed by district collectors.

Audit Scrutiny revealed the following:

Works were undertaken on the recommendation of political leaders.

- The Company directed its field offices to undertake the work on the recommendation of the Member of Parliament / Member of Legislative Assembly / Minister of Agriculture or other political leaders for which there was no justification on record.

- The Company did not carry out any survey to identify village ponds for deepening nor conducted technical scrutiny and cost benefit analysis before taking up the work.

The Company spent Rs.2.63 crore on excess deepening of 166 village ponds.

- The scheme envisaged deepening of one pond in a village. The Company deepened two to seven ponds in 135[◊] villages resulting in excess deepening of 166 ponds during 1999-2002 at a cost of Rs.2.63 crore. The Company has booked expenditure of Rs.19.39 lakh for deepening three to seven ponds in three villages[∈] of Rajkot district but no documentary evidence was made available in support of the works.

- The head office of the Company did not allocate the entire fund to the division office as released by the State Government for the scheme. During 1999-2003 against release of Rs.50.27 crore by the State Government, the head office made allocation of Rs.29.89 crore only to the division offices, which in turn incurred expenditure of Rs.41.45 crore by diversion of fund from other schemes. No justification was available on record for the diversion. This indicated that the head office of the Company did not have effective control over its field offices.

[◊] Two ponds: 113 villages, three ponds: 17 villages, four ponds: three villages, five ponds: one village and seven ponds: one village.
[∈] Malia, Morbi and Chachapar.

The Company diverted grants from other schemes for excessive deepening of ponds in three divisions.

- The Company fixed financial limit of rupees two lakh *per* pond as prescribed by the State Government for deepening the village ponds. The division wise target fixed and physical and financial achievement in respect of village pond scheme during 1999-2003 is given in ***Annexure-10***. As against the target of deepening of 1,869 ponds at Rs.37.39 crore, the Company deepened 2,396 ponds at a cost of Rs.54.81 crore during 1999-2003. Audit noticed that in Ahmedabad, Amreli and Rajkot divisions, the target of deepening ponds was exceeded by 45, 82 and 61 *per cent* respectively by diverting fund from other schemes.

The management/Government stated (September/October 2004) that the excess work was done particularly in Amreli and Rajkot divisions due to scarce condition prevailing and grants were utilised in excess mainly as per recommendation of Member of Parliament/Member of Legislative Assembly and other political leaders.

The reply was not tenable as the Company accepted the recommendations of the political leaders in favour of two divisions at the cost of other water scarce areas like Bhuj and Palanpur divisions. Moreover, the Company was expected to undertake activities within the fund sanctioned for the purpose.

The Company incurred irregular expenditure of Rs.14.91 crore on 1,047 ponds.

- The Company in violation of terms for sanction of grants directed (March 1999) its field offices not to adhere to the prescribed financial limit of rupees two lakh *per* pond but to complete the work in order to increase the ground water level. The Company, however, did not prescribe any norms for completing the works. This direction provided freedom to field offices to work merely on the recommendations of political leaders. This resulted in irregular expenditure of Rs.14.91 crore on 1,047 ponds ranging between Rs.2.02 lakh and Rs.96.38 lakh *per* pond during 1999-2003 and which required sanction of the State Government. The Government has sought (June 2001) justification for incurring excess expenditure. The justification furnished to Government for excess expenditure was not made available to audit.

- The figures of utilisation certificates (UTCs) were casual and lacked supporting evidence. During 1999-2002 against the receipt of grants of Rs.45.17 crore, UTCs were furnished for Rs.56.44 crore. The accounts of Company, however, reflected expenditure of Rs.44.15 crore.

Audit noticed that expenditure shown in UTC was worked out at the rate of Rs.800 per hour on hiring of earthmoving machinery during 1999-2001 against actual rate paid between Rs.450 and Rs.500 *per* hour. This resulted in excess reporting of expenditure in the UTCs to the extent of Rs.10.63 crore.

- During 2001-02, against budgetary provision of Rs.5.10 crore, the Company reported expenditure of Rs.15.79 crore as per UTCs resulting in excess expenditure of Rs.10.69 crore. The State Government stated (July 2002) that the excess expenditure was irregular, which was to be met out of Company's own resources. The Company failed to maintain financial discipline by keeping expenditure within the grants released.

- Under the scheme, no establishment expenditure was admissible. The Company in violation of terms of sanction, debited in its accounts for the year 2001-02, the grants by Rs.5.25 crore towards establishment charges resulting in excess appropriation of grants to that extent.

- The State Government directed the Company from time to time (July 2000 to September 2001) to evaluate the scheme. The Company did not evaluate the benefits derived, even after release of Rs.50.27 crore for deepening of ponds during 1999-2003 by the State Government.

- For deepening of pond, the Company used its bulldozers. The grants received for the scheme were appropriated in excess by Rs.10.11 crore by fixing utilisation charges of bulldozers at higher rates as discussed in paragraph 2.19 *infra.*

Water harvesting structure

2.15 In order to protect rainfed agriculture from erratic and insufficient rainfall, the State Government entrusted (August 1997) a scheme of water harvesting structure (WHS) to the Company. The scheme envisaged creation of structures in arable and non-arable land in the State, to check run off of soil and water.

Audit scrutiny revealed the following:

- The Company incurred expenditure of Rs.62.94 lakh during 1997-2002 in four[o] districts which were not identified in the scheme.

The management/Government stated (September/October 2004) that these districts were taken up because of low rainfall. The reply was not tenable as the Company violated its own guidelines for executing the scheme.

The Company exceeded prescribed limit of rupees two lakh per water harvesting structure in 93 cases.

- The financial limit of rupees two lakh *per* WHS prescribed by the Company was exceeded in 93 cases. This resulted in excess expenditure of Rs.1.28 crore during 1998-2000. The Company observed (September 2001) that due to improper selection of sites, besides excess expenditure there was less storage of rainwater, defeating the very purpose of the scheme.

The management/Government stated (September/October 2004) that the statement of WHS furnished to audit was incomplete. The Company, however, had not furnished complete statement to Audit.

- The scheme envisaged collection of 20 *per cent* of estimated cost as beneficiary's contribution and remaining 80 *per cent* expenditure was to be incurred from the grants. During 1997-2002, the Company executed works of Rs.4.55 crore in arable land of which beneficiary's contribution of Rs.1.14 crore, in the form of cash/labour was recoverable at the prescribed rate of 20 *per cent*. The Company did not maintain separate account for

[o] Porbandar, Kheda, Vadodara and Dahod.

cost contributed by the beneficiaries. In the absence of such records, it could not be ascertained as to whether the Company effected the recovery.

- In case of works executed in non-arable land, 20 *per cent* of estimated cost of works was to be recovered as contribution from beneficiary farmers and was to be deposited in a separate bank account for maintenance of WHS. The Company did not collect and keep any amount although expenditure of Rs.14.92 crore was incurred during 1997-2002. Non-collection of beneficiaries' contribution at the prescribed rate had deprived the Company of Rs.2.98 crore spent on the scheme.

- During 1997-2002, against release of Rs.20.52 crore from the State Government, the Company furnished UTCs for Rs.20.69 crore, whereas accounts reflected expenditure of Rs.19.22 crore.

- The State Government entrusted implementation of the scheme to the Company alongwith existing staff, for which no separate administrative charges were admissible. In violation of terms of sanction, the Company had appropriated grants of Rs.6.41 crore towards administrative charges on works of Rs.19.22 crore undertaken during 1997-2002.

Farm pond scheme

2.16 The rainfed agriculture in the State was protected through collection of rain water in small ponds from erratic and insufficient rain. The ponds so excavated were named Farm pond / *Khet Talavadi*. The State Government directed (September 1995) the Company to take up the scheme.

Audit scrutiny revealed the following:

For optimising benefits of rain water storage, the scheme provided plantation of tree and pasture development on banks of farm pond besides stone pinching at the inlet and outlet of the farm ponds. The Company did not carry out such works resulting in rapid silting of the ponds.

The scheme envisaged collection of 15 *per cent* of cost of farm ponds as beneficiary farmers' contribution in form of cash or labour work and remaining 85 *per cent* expenditure was to be met out of grants. On the works expenditure of Rs.31.59 crore incurred by the Company during 1997-2003, beneficiary farmers' contribution of Rs.5.57 crore was recoverable. The Company did not maintain proper records to indicate that the recovery was effected from the farmers under the scheme.

The Company unauthorisedly appropriated administrative charges of Rs.8.23 crore.

The scheme does not provide for recovery of administrative charges. The Company, in violation of terms of sanction, appropriated administrative charges of Rs.8.23 crore at 33.33 *per cent* on the soil works of Rs.24.70 crore incurred during 1997-2002. The unauthorised inclusion of administrative charges of Rs.8.23 crore had resulted in excess drawal of grants to that extent.

The management/Government while accepting the fact of irregular appropriation of grants stated (September/October 2004) that it was done for meeting establishment expenditure. The reply was not acceptable, as the Company should have utilised the fund for the purpose for which it was sanctioned.

Flood relief scheme

2.17 The State Government released (March 2001) Rs.6.67 crore to the Company for providing compensation to farmers of Mehsana district for reclamation of land affected due to flood in 1997. As certain portion of Mehsana district was included in newly restructured Patan, Mehsana and Gandhinagar districts, the Company released (April 2001) Rs.3.49 crore, Rs.2.99 crore and Rs.19 lakh to the respective District Collectors, based on their requests.

Audit noticed that based on the financial limit of Rs.1,500 *per* hectare prescribed by State Government for claim of compensation for reclamation of 15,111 hectare land by Collector of Patan, the release of fund should have been restricted to Rs.2.27 crore. The District Agricultural Officer, Patan who was responsible to recommend claim stated (January 2002) that the actual compensation was given for 9,361 hectares. Thus, for 9,361 hectares land, the compensation works out to Rs.1.40 crore.

The Company's failure to exercise proper financial control resulted in excess payment of grants of Rs.2.09 crore (Rs.3.49 crore *minus* Rs.1.40 crore). The Company did not have details for compensation of Rs.3.18 crore paid to Mehsana (Rs.2.99 crore) and Gandhinagar (Rs.19 lakh) district collectors even after lapse of more than three years (April 2004).

Evaluation of schemes

2.18 The Company did not evolve a system for periodical evaluation of schemes for analysing the bottlenecks, if any, experienced during the execution for suggesting mid course corrections. Though the State Government released (March 1998) Rs.10 lakh for evaluation of all the schemes, the Company did not conduct evaluation except farm ponds, national watershed development project for rainfed area and k*yari* scheme. In the absence of evaluation, it could not be ascertained whether the achievement confirmed to the targets/objectives set forth and was commensurate with the expenditure. The evaluation report in respect of farm ponds and *kyari* scheme was not made available to audit.

Fixation of higher rates for utilisation of bulldozers

2.19 The bulldozers were utilised for soil conservation activity entrusted by the State Government, farmers and other agencies on deposit works basis. The Company had 76 bulldozers as on 31 March 2003 (including five procured from Ministry of Defence in 2000).

The State Government issued (October 1980) direction for fixation of rate of machinery to be hired departmentally and by the contractors. Depreciation, repairs charges, actual charges of petrol, oil, lubricants (POL) and pay and allowances including travelling allowances of personnel operating were to be included as an element of cost, when machinery were hired departmentally. The State Government also directed that the elements of interest, supervision charges and any unforeseen items should not be considered as an element of cost.

The Company fixed rates for hiring of bulldozers from time to time. The State Government while approving the rate proposed by the Company had not compared with the elements of cost as per its instructions of October 1980, which resulted in fixation of higher rate.

Rates for bulldozers having capacity up to 90 HP were fixed in October 1997 at Rs.600, Rs.750 and Rs.800 *per* hour for agriculture, non-agriculture and chemical usage respectively. The same were revised (December 2001) to Rs.800, Rs.950 and Rs.1,050 *per* hour respectively. The Company charged in village pond scheme at Rs.800 per hour up to March 2002 and Rs.1,050 *per* hour thereafter. The details of elements considered by the Company *vis-a-vis* worked out in Audit are given in ***Annexure*-11**.

The scrutiny of elements of cost considered by the Company while fixing the rate revealed that the rate *per* hour could have been fixed at Rs.400 and Rs.550 against Rs.800 and Rs.1,050 fixed by the Company in October 1997 and December 2001 respectively. This can be further evident from the fact that during 1999-2001, the Company hired earthmoving machinery from private agencies at the rate between Rs.450 and Rs.500 per hour. The arbitrary and higher fixation of rates of bulldozers resulted in excess appropriation of grants of Rs.10 crore under village pond scheme as mentioned in paragraph 2.14 *supra* for 2.40 lakh hours operated during April 1999 to June 2003.

Similarly, the Company fixed (December 2001) rates for bulldozer having 165/180 HP capacity at Rs.1,600, Rs.1,900 and Rs.2,100 *per* hour respectively for agriculture, non-agriculture and chemical usage. The revised rates were made applicable by the Company from 1 April 2002. The scrutiny of records revealed that the rate *per* hour could have been fixed at Rs.1,100 against Rs.2,100 *per* hour fixed by the Company as detailed in ***Annexure*-11**. The rate fixed by Irrigation Department of the State for such bulldozer was Rs.1,066 *per* hour during 2001-2002. This shows that the Company had arbitrarily fixed higher rate for bulldozer. This has resulted in excess appropriation of grants under village pond scheme as mentioned in Paragraph 2.14 *supra* by Rs.10.64 lakh during April 2002 to June 2003.

Thus, the fixation of rates of bulldozers on higher side resulted in excess appropriation of grants under village pond scheme to the extent of Rs.10.11 crore.

The management/Government stated (September/October 2004) that administrative cost of Rs.347/ Rs.514 per hour was worked out considering pay and allowance of staff indirectly associated with machinery. The reply was not tenable as norms fixed by the State Government were specific and only allowed cost of staff directly associated with bulldozers.

Surplus fund

Loss due to violation of Government's directives

2.20 The State Government issued (December 1999) instructions to all State Public Sector Undertakings (PSUs) to place surplus fund available with them for a period of less than 15 days in liquid deposit scheme of Gujarat State Financial Services Limited (GSFS). It was also clarified by the State Government that the surplus fund would mean any operating surplus with PSUs in the form of cash in current accounts with bank or otherwise and would be required by PSUs in future date even after one day. Underlying objective of the instructions was to enable PSUs to get some return on surplus fund, which would otherwise be kept in current account. Fund placed with GSFS under the scheme was withdrawable on one day notice.

A test check of records in audit revealed that during April 2000 to August 2003, the Company kept fund ranging from Rs.47.90 lakh to Rs.23.90 crore in five current accounts with four[⊗] nationalised banks in Gandhinagar. As the Company could assess the liability in advance for making payments, retention of such fund in current accounts lacked justification.

Failure to invest surplus fund as per Government's directives resulted in interest loss of Rs. 88.67 lakh.

The Company could have invested surplus fund ranging from Rs.22.90 lakh to Rs.23.65 crore, even after retaining a minimum balance of Rs.25 lakh daily in current accounts for meeting urgent requirements. Had the Company invested the surplus fund in the scheme of GSFS, it could have earned an interest of Rs.88.67 lakh (calculated at the rate of 1.96 to 11 *per cent* on daily balance offered by GSFS for the scheme) during the period.

The management/Government stated (September/October 2004) that it would take due care to keep minimum balance with bank and deposit surplus fund with GSFS.

Recovery of dues from farmers

2.21 Soil conservation schemes of State Government, undertaken by the Company in arable land, provided recovery of 25 to 50 *per cent* of cost of soil conservation work from beneficiary farmers. This was to be treated as loan and recoverable in eight annual instalments after moratorium period of two years along with interest at the rate of four to eight *per cent*.

The concerned charge office after completion of the work was required to prepare a completion report stating therein cost of soil conservation work undertaken, survey number, amount recoverable, period, name of farmer, etc. After obtaining approval of sub-division office of the Company, the same was to be included in recovery statement showing amount recoverable from beneficiary farmers.

Audit observed that there was inordinate delay in preparation of completion report by the Company. As on August 2003, there were 26,880 completion reports pending for preparation since January 1990, reasons for which were

[⊗] State Bank of India, State Bank of Saurashtra, Union Bank of India and Punjab National Bank.

The Company could recover only Rs.24.50 lakh, out of Rs.11.67 crore due for recovery.

not available on record. The Company had neither consolidated position of work done and amount recoverable from farmers nor established any recovery mechanism for enforcing recovery from the beneficiary farmers. Out of Rs.11.67 crore due for recovery for 1990-2000, the Company recovered (December 2003) Rs.24.50 lakh, which is only two *per cent* of the dues.

The *Paramarsh* Committee appointed by the Company (April 2000) to streamline the working observed that there was inordinate delay in preparation of completion report. The Committee observed that the duties of recovery of loan from farmers solely rested with field assistants without proper monitoring and supervision. The Committee expressed concern about wilful and malafied inaction of the employees.

The management/Government stated (September/October 2004) that the farmers did not pay loan due to their poor economic condition and waiver of loan by State Government in past.

The reply was not tenable as the dues were recoverable as per agreements and the Company had not made concerted efforts to recover the dues.

Audit further noticed that the Company did not take effective steps for recovery of Rs.14.62 lakh from Collector, Mehsana towards village ponds desilted during October 1997 even after a period of more than six years.

Internal control system and internal audit

Internal control system

2.22 The Company fixed scheme wise target for its divisions based on the allocation of grants by State Government/ Central Government. At the close of the year, the Company prepared a statement showing shortfall/excess in achievement. However, the Company did not analyse the reasons for variance to take corrective action. The Company did not have effective internal control system for enforcement of its decision by subordinate offices mainly due to absence of well defined responsibility areas.

For execution of soil conservation works, fund was released to field offices by head office of the Company. Field assistant in the charge office carried out the works by engaging labours. Muster rolls were required to be maintained for the labourers engaged and the payments to them were to be made by field assistant in the presence of the field supervisor, who is also required to measure 25 *per cent* of soil conservation work executed. However, due to ineffective control of the Company, there were 152 cases of serious irregularities during 1999-2004 which included recording of measurements and making payments without actual execution of works, recording measurements and making payments in excess of actual quantity executed, execution of works without having approval of the competent authority and execution of works without preparation of the estimates, misappropriation through tampering with vouchers and other records, production and recording of fictitious vouchers, making payment before receipt of fund, *etc*. Test check of 18 out of 152 cases mentioned above revealed that:

- Charge sheets were issued after delay ranging between 15 and 84 months.

- The inquiries against defaulting employees were completed after delay of 16 to 56 months against prescribed time limit of eight months.

- Recoveries were ordered after delay of six to 13 months of receipt of inquiry report.

- Recoveries of Rs.24.49 lakh were ordered during February 2001 to February 2004 of which Rs.0.40 lakh only was recovered (May 2004).

- Recovery of Rs.1.55 lakh (three cases) could not be effected (May 2004) as one erring employee had retired and two employees were repatriated to the parent department.

- In violation of the direction of the State Government, two defaulting employees were posted (June 1997 and October 2003) at sensitive posts involving financial transactions.

Audit further noticed that there were 11 cases of alleged corruption, malpractice, misappropriation and misuse of Government property, against erring employees of the Company (March 2004) wherein preliminary inquiry was pending for four to 62 months after considering grace period of four months prescribed under Gujarat State Service Rules. Inordinate delay in inquiry would provide erring employees further chance of corruption or help them in tampering with records. The reasons for the delay were not on record.

Internal audit

2.23 The Company does not have its own internal audit wing. However, the Company has been appointing Chartered Accountants as internal auditors for checking of financial records at head office and field offices. Despite instructions (October 1994) of the State Government, internal auditors' reports were not placed before the Board of Directors during 1999-2003. Up to 1998-99, soil conservation work, the core activity of the Company was not covered by internal audit. Though the internal auditors reported deficiency in the system of granting advance to staff, custody of cash, ascertainment of obsolete stores, the Company did not take corrective measures. The following major irregularities were pointed out, for which no recovery/action was taken against the concerned employee by the Company (May 2004).

- In Surendranagar sub-division, the farm pond works (Rs.11.51 lakh) included excavation of three to six feet deep pit. The execution was shown as done by engaging tractors, which was not practical.

- Beneficiary’s contribution was not collected.

- Payment was made for checking 62,000 to 84,000 running meters soil work in a day by field supervisor. Such checking was not feasible in a day.

The Statutory Auditors during finalisation of accounts for 1999-2002 observed, that the internal audit was not commensurate with the nature and size of the Company. The system of working out the amount of loan due from farmers and its recovery was very poor.

The management/Government stated (September/October 2004) that pending internal audit objections for the years 2001-03 would be placed in Audit Committee meeting in short time.

Surplus manpower

2.24 With curtailment of certain soil conservation schemes, the Company restructured its establishment and identified (February 1998) 727 surplus employees. Considering future growth of the Company, it was decided (February 1998) to repatriate 532 surplus employees to their parent department. The State Government reiterated (April 1999) earlier direction of February 1998 for easing out surplus employees. The Company decided (December 2001) to introduce Voluntary Retirement Scheme (VRS) but it did not implement the same. Despite direction of State Government, the Company did not make concerted efforts (January 2004) to downsize its establishment.

The Company incurred extra expenditure of Rs.3.15 crore on surplus manpower.

The Company had 297 employees on deputation (December 2003) and as such it could have eased out them merely by non-renewal of their tenure of deputation. The Company's inaction resulted in avoidable payment of Rs.3.15 crore towards pay and allowances for surplus employees in six cadres ranging from 66 to 95 during 1998-2003.

The management/Government stated (September/October 2004) that due to financial crunch, VRS could not be implemented. After completion of repatriation of employees, actual requirement would be ascertained. The reply was not tenable as delayed repatriation/VRS would further aggravate the problem of higher administration cost.

Conclusion

The Company engaged in soil conservation activity in the State since March 1978, deviated from the terms of sanction of the grants received from State Government for various schemes, resulting in excess appropriation of grants towards pay and allowances and administrative charges and curtailment of soil conservation activity. Also, absence of a recovery mechanism from beneficiary farmers resulted in accumulation of dues. Lack of internal control in execution of soil conservation works led to serious irregularities. Direction of the State Government to ease out surplus staff had not been implemented.

The Company should adhere to the terms and conditions of the grants, develop system of monitoring and evaluation of the schemes and bring down its establishment expenditure. The Company should evolve a

recovery mechanism and make concerted efforts for recovery of loan from farmers. The internal control mechanism in the Company needs to be improved and internal audit needs to be strengthened for prevention of irregularities.