

## CHAPTER VIII: OTHER NON-TAX RECEIPTS

### 8.1 Results of audit

Test check of the records relating to Water Resources Department and Electricity Duty during the year 2008-09 revealed non/short realisation and loss of revenue of Rs. 936.34 crore in 2,27,988 cases which can be categorised as under:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
<b>A : WATER RESOURCES DEPARTMENT</b>			
1	Assessment and collection of water rates (A Review)	1	927.98
<b>Total</b>		<b>1</b>	<b>927.98</b>
<b>B : ELECTRICITY DUTY</b>			
1.	Loss of revenue due to non-inspection of electrical installations	1,87,598	0.35
2.	Others	40,389	8.01
<b>Total</b>		<b>2,27,987</b>	<b>8.36</b>
<b>Grand total (A+B)</b>		<b>2,27,988</b>	<b>936.34</b>

During the year 2008-09, the departments accepted underassessment of tax of Rs. 58.88 crore involved in 15,675 cases. An amount of Rs. 2 lakh had been recovered in 48 cases.

A performance review of “Assessment and collection of water rates” involving money value of Rs. 927.98 crore and few illustrative cases involving Rs. 1.80 crore are mentioned in the following paragraphs.

## **A – Water Resources Department**

### **8.2 Review on assessment and collection of water rates**

#### **Highlights**

- Failure of the department to ensure execution of agreement before drawal of water, resulted in drawal of water without payment of water rates of Rs 586.64 crore.  
**(Paragraph 8.2.7.2)**
- Failure of the department to optimally utilise the created irrigation potential resulted in loss of revenue of Rs. 160.85 crore.  
**(Paragraph 8.2.8)**
- Incorrect application of water rates led to non/short realisation of revenue of Rs. 24.29 crore.  
**(Paragraph 8.2.11)**
- Five users of water did not deposit security money of Rs. 2.21 crore.  
**(Paragraph 8.2.13)**
- Loss of revenue of Rs. 10.14 crore due to non-levy of betterment contribution.  
**(Paragraph 8.2.14)**

#### **8.2.1 Introduction**

One of the major issues affecting water utilities in the developing world is the considerable difference between the amount of water put into the distribution system and the amount of water billed to consumers {also called “non revenue water” (NRW)}. High levels of NRW reflect huge volumes of water loss. It seriously affects the financial viability of water utilities through lost revenues and increased operational costs. A high NRW level normally reflects for poorly run water utility that lacks the governance, the accountability and the technical and managerial skills necessary to provide reliable service to their population.

The following map shows water supply by Water Resources Department for irrigation and non-irrigation purposes in Madhya Pradesh.



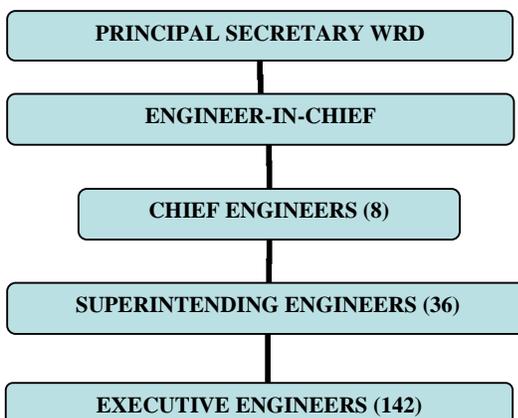
As per section 37 of the Madhya Pradesh Irrigation Act, 1931 (Irrigation Act), water may be supplied from a canal for irrigation under an irrigation agreement, on demand for the irrigation of specified areas, to supplement a village tank, irrigation of a compulsorily assessed area and industrial, urban or other purposes not connected with agriculture. The Water Resources Department (WRD) in Madhya Pradesh is entrusted with the responsibility of assessment and collection of water rates for irrigation and non-irrigation purposes. The Canal *Amins*<sup>1</sup> prepare *khasra*<sup>2</sup> which forms the basis for assessment of water rates. In addition to water rates, irrigation cess at the rate of Rs. 10 per acre is payable by every permanent holder of land in the irrigable command of the canal. As per Rule 193 of Madhya Pradesh Irrigation Rules (Rules), if any water rate (canal revenue) or any part thereof is not paid, the Canal Deputy Collector may impose penalty on such defaulters at prescribed rates i.e. at the rate of 10 per cent where payment is made within one year and 13 per cent where payment is made after one year. Revision in the rates is issued through Government notifications from time to time.

**A review of “assessment and collection of water rates” by WRD for irrigation and non-irrigation purposes was conducted which revealed a number of deficiencies that are mentioned in the subsequent paragraphs.**

<sup>1</sup> *Amins* are departmental officers responsible for maintaining land records.  
<sup>2</sup> Field measurement books.

### 8.2.2 Organisational set up

The WRD is headed by the Principal Secretary and Secretary at the Government level and the Engineer in Chief (E-in-C) at the departmental level. The organisational set up upto the district level is mentioned below:



### 8.2.3 Audit objectives

The review was conducted to ascertain whether:

- systems existed for optimum utilisation of created irrigation potential and water resources;
- the system of assessment and collection of water rates in respect of irrigation potential and water resources was efficient and effective; and
- there was an efficient and effective internal control mechanism within the department to check non/short levy and evasion of Government revenue.

### 8.2.4 Scope of audit

The records of five years from 2004-05 to 2008-09 in the office of the E-in-C and 11<sup>3</sup> out of 69 WR divisions dealing with revenue receipts were audited between October 2008 to April 2009. Besides, information was collected from nine WR divisions<sup>4</sup> and two offices of Chief Engineers<sup>5</sup> between January and April 2009. For selection of units, the WR divisions were first stratified into four categories of users of water (cultivators, power projects, local bodies and private industries) and thereafter, the divisions were selected randomly for audit.

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<sup>3</sup> Executive Engineer, WR Division Anuppur, Bhopal, Chhindwara, Deosar, Ujjain, Vidisha, Dam safety Division. Gwalior, Gandhisagar Dam Division Gandhisagar, PBC Division Sohagpur, Tawa Project Division Itarsi, Wainganga Division Balaghat.

<sup>4</sup> Executive Engineer, WR Division Bhind, Dewas, Khandwa, Ratlam, Satna, Kanhargaon Division Chhindwara, Masonary Dam Division Deoland, Survey Division Balaghat, TLBC Division Keolari.

<sup>5</sup> Chief Engineer, Chambal Betwa Bhopal and CE, O&M Bhopal.

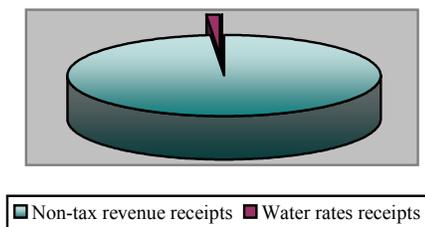
### 8.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Water Resources Department for providing information and records to audit. An entry conference to discuss the audit objectives and scope of audit was held in February 2009 in which the Secretary and other officials of the Department participated. The review was sent to the department/Government in June 2009. The exit conference was held in August 2009 in which the E-in-C, WRD and Deputy Secretary, Finance and other officers of the department participated. Reply of the department/Government has not been received (October 2009).

### Audit findings

#### 8.2.6 Trend of revenue

The average contribution of receipts from water rates (irrigation and non- irrigation purposes) to the non-tax receipts of the state during the last five years has been 1.36 per cent.



The Budget Manual provides that the estimates should take into account only such receipts and payments as the estimating officer expects to be actually realised or made during the budget year. The Budget Manual clearly states that if the test of accuracy is to be satisfied, not merely should all items that could have been foreseen be provided for, but also only so much, and no more should be provided for as is necessary. Budget estimates and actual revenue collected during the year from 2004-05 to 2008-09 as furnished by the department were as mentioned below:

(Rupees in crore)

Year	Budget estimates	Actual receipts	Shortfall (-) excess (+)	Percentage of shortfall
2004-05	181.97	42.94	(-) 139.03	76
2005-06	302.92	35.02	(-) 267.90	88
2006-07	420.00	36.15	(-) 383.85	91
2007-08	321.85	47.62	(-) 274.23	85
2008-09	42.94	39.65	(-) 3.29	08

Thus, the actual receipts of the previous year were not taken into consideration except for the year 2008-09 while framing the estimates in the subsequent years. The percentage of shortfall in actual receipts against the budget estimates for the year 2004-05 to 2007-08 ranged from 76 to 91 per cent. During 2008-09, the budget estimate was drastically reduced and

fixed at Rs. 42.94 crore. Reasons for such reduction has not been furnished (October 2009), though called for (August 2009).

After this was pointed out, the E-in-C stated (May 2009) that the budget estimates for revenue recovery were prepared on the basis of 90 *per cent* of current demand and 50 *per cent* of outstanding balances of revenue recovery. He also stated that there was no relation between actual receipts and the budget estimates. The reasons provided by the E-in-C for heavy shortfall between budget estimates and actual receipts were non-utilisation of water in *Kharif* crop, illegal water lifting, non-supply in tail reaches due to poor maintenance, shortage of *Amins*, change in cropping pattern and lack of co-ordination between the department and water user associations.

The reply of the E-in-C relating to preparation of budget estimates is factually incorrect. The figures of budget estimates for the last four years do not correspond to 90 *per cent* of current demand and 50 *per cent* of outstanding balance. If the above formula is applied, the budget estimates would have been Rs. 255.57 crore, Rs. 351.97 crore, Rs. 483.58 crore and Rs. 633.32 crore (2004-05 to 2007-08 respectively). It is reiterated that during preparation of budget estimates, the aim is to achieve as close an approximation to the probable actual, as possible.

**Thus, it can be inferred that the department kept on fixing budget estimates in an arbitrary manner without considering the factors highlighted by the E-in-C.**

**The Government may consider framing the budget more realistically by considering the amount recovered during the preceding year and also adhering to the principles of budget manual.**

## **System deficiencies**

### **8.2.7 Management and recovery of water rates**

#### **8.2.7.1 Irrigation purpose**

For effective management and recovery of arrears of canal revenue it is imperative that the department should have credible figures. In the absence of reliable and valid data, the department would be constrained to streamline and prioritise its efforts for recovery of arrears from various categories of users. Moreover, the receipts during the year should be more than the demand raised during the year to stem the mounting arrears. Section 60 of the Irrigation Act states that any sum payable as canal revenue, which remained unpaid on the day following the date in which it is due, is an arrear of canal revenue. Further, clause 61 provides that arrears of canal revenue shall be recoverable as arrears of land revenue.

The opening balance, demand raised during the year, total revenue realised during the year and outstanding revenue at the end of the year relating to

irrigation purpose as furnished by the department are as mentioned below:

(Rupees in crore)

Year	Opening balance	Demand raised	Total demand	Receipts during the year	Outstanding balance	Percentage of (5) to (3)	Percentage of (5) to (4)
1.	2.	3.	3.	4.	5.	6.	7.
2004-05	92.32	73.00	165.32	16.31	149.01	22.34	9.87
2005-06	101.53	59.35	160.88	17.05	143.83	28.72	10.60
2006-07	110.47	51.38	161.85	18.02	143.83	35.07	11.13
2007-08	117.30	50.85	168.15	18.53	149.62	36.44	11.02
2008-09	Not furnished by the department						

Thus, the balance outstanding at the end of each year was never taken as the opening balance in the subsequent years. The percentage of recovery against the total demand during the last four years has been dismal ranging between 9.87 to 11.13 *per cent* leading to accumulation in the arrears every year. Besides, the receipts during the years ranged between 22.34 to 36.44 *per cent* of the demand raised during the year.

Further, the trend of low recovery of receipts was similar in the test checked divisions. The percentage of receipts to the total demand ranged between 9.7 and 15 *per cent*. It was observed in all the test checked divisions that though the Assistant Engineers and Canal Dy. Collectors were empowered to function as additional *Tahsildars*, no effort was made to recover the outstanding balance of canal revenue as arrears of land revenue.

After this was pointed out, the E-in-C replied (May 2009) that as per practice of districts, the interest on dues was calculated after the financial year, hence there was a difference in opening and closing balance. The reply is not borne out by the facts. If interest is added after the close of the financial year, the opening balance should be greater than the closing balance. However, it was observed that the opening balance of the subsequent year was always less than the closing balance of the previous year.

### 8.2.7.2 Non-Irrigation purpose

The opening balance, demand raised during the year, total revenue realised during the year and outstanding revenue at the end of the year relating to non-irrigation purposes<sup>6</sup> as furnished by the department are mentioned below:

(Rupees in crore)

Year	Opening balance	Demand raised	Total demand	Receipts during the year	Outstanding balance	Percentage of (5) to (4)
1.	2.	3.	4.	5.	6.	7.
2004-05	261.17	14.58	275.75	14.84	260.91	5.38
2005-06	462.64	18.11	480.75	12.80	467.95	2.66
2006-07	710.06	30.08	740.14	12.49	727.65	1.69
2007-08	946.58	61.79	1,008.37	20.29	988.08	2.01
2008-09	Not furnished by the department					

<sup>6</sup> Revenue from non-irrigation purposes consists of recovery of water rates from MPSEB, PHED, Local Bodies and Industries.

In these cases too, there is no correlation between the outstanding balance and the opening balance figures. It would be seen from the above that the receipts as compared to the total demand has been decreasing over the years 2004-05 to 2006-07 which reflects that the gap between the total demand and actual receipts kept increasing during these years. The percentage of receipts to the total demand has been abysmal, ranging from 1.69 to 5.38 *per cent*. This is far lower than the percentage of receipts to total demand from the cultivators as shown in table under paragraph 8.2.7.1. Due to such low recovery of demand during the above years, the arrears had steeply increased from Rs. 260.91 crore in 2004-05 to Rs. 988.08 crore in 2007-08.

After this was pointed out, the E-in-C stated (May 2009) that the outstanding dues pertaining to various departments were not deposited by them despite continuous pursuance by the department. He further stated that some industries and local bodies had filed petitions in different courts resulting in non-realisation of revenue. The reply was silent regarding non-initiation of action to collect the dues as arrears of land revenue. Besides, no reply was furnished to explain the difference in closing and opening balance.

**Information furnished by the E-in-C relating to outstanding demand from various categories of users for non-irrigation purposes i.e. Madhya Pradesh State Electricity Board (MPSEB), Public Health Engineering Department (PHED), Local Bodies and Industries revealed similar discrepancy in figures and the trend of low recovery against the demand raised during the year as mentioned in the following paragraphs.**

#### **Madhya Pradesh State Electricity Board (MPSEB)**

Madhya Pradesh State Electricity Board draws water from WRD sources for generation of electricity<sup>7</sup> (hydro and thermal power). The rate for recovery of water charges from Government sources (hydel power project) is 10 paise per unit which is to be increased by escalation charge at 0.50 paise per unit of electricity generated per year. Prior to November 2003, rates of water supply for thermal power projects was 30 paise per cum which had been revised five times since then and the present rate is 50 paise per cum.

The figures of opening balance, demand raised, receipt and outstanding balance of water rates against MPSEB as furnished by the department revealed that no payment was made by MPSEB during the last four years. **Audit scrutiny revealed that though MPSEB had not made any payment during the year 2004-05 to 2007-08, it was allowed to draw water despite non-recovery of water rates. Consequently, the outstanding dues kept spiraling.** It was also observed that against an opening balance of Rs. 185.08 crore in 2004-05, the outstanding balance at the end of 2007-08 was Rs. 744.98 crore (almost five times the amount outstanding from the cultivators of the entire State).

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<sup>7</sup> Bansagar dam on Sone river since October 2000 for hydroelectricity; Gandhisagar dam on Chambal river since 1961 for hydroelectricity; Chachai (Anuppur) drawing water from Sone river since 1965 for thermal power.

After this was pointed out, the E-in-C stated (May 2009) that reasons under which fresh demands were not raised against MPSEB were being called for from the field staff. Further reply has not been received (October 2009).

Section 40 of the MP Irrigation Act and Rule 71 of the MP Irrigation Rules, 1974 read along with notification issued by the Government of MP, WRD in April 1998 provide for execution of agreement in Form 7-A with the agencies before drawal of water. Further, note below clause 2 of the agreement also provides that 50 *per cent* additional rates are leviable in case of unauthorised drawal of water and clause 12 of the agreement provides 25 *per cent* interest for non-payment of water rates to WRD.

**Audit scrutiny, however, revealed that MPSEB had been drawing water from Gandhi Sagar Dam (since 1961) and from Bansagar Dam for generation of hydro electricity and from Sone river at Chachai (Anuppur) for generating thermal power (since 1965) without executing any agreement and without any payment of water charges. This led to non-realisation of revenue of Rs. 586.64 crore<sup>8</sup> including 50 *per cent* additional charges and 25 *per cent* interest till December 2008.**

After this was pointed out, the Executive Engineer (EE) stated (December 2008 and February 2009) that the matter was under consideration at Government level and action would be taken as per instructions. Further development has not been reported (October 2009).

### **Public Health Engineering Department (PHED)**

Public Health Engineering divisions draw water from WRD sources to provide drinking water to the residents of the area under their jurisdiction. The Government of MP fixed the rates for supply of water for domestic purpose at 20 paise per cum with escalation of 2 paise per year with effect from 1 April 2000.

The details of opening balance, demand raised, receipt and outstanding balance of water rates against PHED as furnished by the department are mentioned below.

(Rupees in crore)

Year	Opening Balance	Demand raised	Total demand	Receipt during the year	Outstanding balance	Percentage of receipt
2004-05	0.00	0.00	0.00	0.11	0.00	-
2005-06	0.00	0.00	0.00	0.85	0.00	-
2006-07	2.98	0.12	3.10	0.17	2.93	5.48
2007-08	2.07	0.14	2.21	0.05	2.16	2.26
2008-09	Not furnished by the department					

The veracity of figures is doubtful. There is no correlation between the opening balance and the outstanding balance while the percentage of receipts to total demand which also shows wide variation, could only be worked out

<sup>8</sup> Bansagar Dam Rs. 270.75 crore, Gandhi Sagar Dam Rs. 221.17 crore and Sone river Rs. 94.72 crore

for 2006-07 and 2007-08 as no reliable figures were furnished for the year 2004-05 and 2005-06. Though there was no opening balance or demand raised during 2004-05 and 2005-06, the department accepted receipts from the PHED. **This shows that PHED is paying as per its own whims while the department has no information about the amount to be recovered. The percentage of receipts has gone down from 5.48 per cent (2006-07) to 2.26 per cent (2007-08).**

No specific reply was furnished by the E-in-C for discrepancy in figures.

### **Local Bodies**

- As per section 26 of the Irrigation Act, the Government has all rights in the water of any river, natural stream or natural drainage channel, natural lake or other natural collection of water. As per information furnished by the department, 39 local bodies are drawing water from sources of the WRD in the State to provide drinking water to the residents of the area under their jurisdiction.

The details of opening balance, demand raised, receipt and outstanding balance of water rates against local bodies as furnished by the department are mentioned below:

(Rupees in crore)

Year	Opening balance	Demand raised	Total demand	Receipt during the year	Outstanding balance	Percentage of receipt
2004-05	12.88	3.64	16.52	0.61	15.91	3.69
2005-06	20.21	4.32	24.53	0.54	23.99	2.20
2006-07	22.92	4.26	27.18	0.47	26.71	1.73
2007-08	26.00	2.81	28.81	0.60	28.21	2.08
2008-09	Not furnished by the department					

Akin to above figures, here also the outstanding balance is not the opening balance for the subsequent year. The percentage of receipts to the total demand has been the lowest for all category of users (both irrigation and non-irrigation) and also shows that there is no correlation between these two and the gap has been increasing year after year. The department could not even collect the amount of current demand during any of the years under review. It ranged from a meagre 1.73 per cent to 3.69 per cent.

After this was pointed out, no specific reply was given by the E-in-C (September 2009).

**Audit scrutiny in test checked WR divisions revealed that though the local bodies have been charging water tariff from their consumers, yet these have been drawing water from WRD sources without executing any agreement and payment of water charges.**

- In Wainganga division, Balaghat it was noticed that the *Nagar Palika*, Balaghat has been drawing water from the river by constructing an intake well since 1970, without executing any agreement and without any payment

of water charges to the WRD. The division was not aware of the fact that the *Nagar Palika* was drawing water unauthorisedly (photograph below).

**INTAKE WELL ON WAINGANGA RIVER AT BALAGHAT**



Information collected from PHE Division, Balaghat revealed that 3.375 million litre per day water has been drawn by the *Nagar Nigam* since 1970. On this basis, the loss of revenue works out to Rs. 1.50 crore.

After this was pointed out, the EE stated (January 2009) that reasons under which agreement could not be executed and water charges were not recovered would be investigated and matter would now be brought to the notice of higher authorities for necessary instructions. Further progress has not been reported (October 2009).

- In WRD, Ujjain it was noticed that Municipal Corporation, Ujjain has been drawing water from Gambhir river by constructing a dam and intake well since 1991 without executing any agreement. Neither did the department insisted on execution of an agreement nor was any demand raised for such unauthorised drawal of water. On the basis of information collected from PHE division (responsible for maintenance of the dam) 21,265.804 mcft of water had been supplied to the Corporation up to August 2008, which resulted in loss of revenue of Rs. 28.60 crore.

After this was pointed out, the EE stated (March 2009) that action would be taken to ascertain the facts and figures of the case and further action to execute the agreement with Municipal corporation/PHE would be taken. Further progress has not been reported (October 2009).

- *Nagar Palika*, Junnardeo (WR division, Chhindwara) was drawing water regularly without any agreement and without any payment to WRD. The Sub Divisional officer (WRD), Junnardeo raised a demand of Rs. 1.31 lakh (November 2007) at the rate of 0.04 paise per cum against recoverable amount of Rs. 10.54 lakh (calculated at prevalent rate of 0.34 paise per cum). This led to short raising of demand of Rs. 9.23 lakh. It was also noticed that WRD was neither aware of the time since which water was being drawn by the *Nagar Palika*, nor the quantity of water drawn.

After this was pointed out, the EE stated (January 2009) that the Sub-divisional officer had been instructed to submit the report as per rules and regulation. Further progress has not been reported (October 2009).

### Industries

Various industries draw water from the sources of WRD for their activities. Presently, the rates for supply of water for industrial purposes and thermal power projects are Rs. 2 per cum (Government sources) and Rs. 0.50 (natural/own created source) respectively.

The details of opening balance, demand raised, receipt and outstanding balance of water rates against industries as furnished by the department are mentioned below:

(Rupees in crore)

Year	Opening Balance	Demand raised	Total demand	Receipt during the year	Outstanding balance	Percentage of receipt
2004-05	63.21	10.94	74.15	14.24	59.91	19.20
2005-06	68.47	13.79	82.26	11.42	70.84	13.88
2006-07	69.98	25.69	95.67	11.85	83.82	12.39
2007-08	173.53	58.84	232.37	19.63	212.74	8.44
2008-09	Not furnished by the department.					

The percentage of receipts against the total demand ranged between 8.44 to 19.20 *per cent* during the last four years. Though the total demand has been increasing over the last four years, the percentage of receipts has been declining steadily from 19.20 to 8.44 *per cent*. It was also observed that the receipts during the years 2005-06, 2006-07 and 2007-08 were less than the demand raised during these years. In these figures also, there is no correlation between the outstanding balance and the opening balance of subsequent years. This requires to be reconciled by the department.

After this was pointed out, no specific reply was given by the E-in-C.

Section 40 of the Irrigation Act and Rule 71 of the Irrigation Rules, 1974 read with the notification issued by the Government of MP, WRD on 29 April 1998 provide for execution of agreement in Form 7-A with the agencies before drawal of water. Further, note below clause 2 of the agreement also provides that 50 *per cent* additional rates are leviable in case of unauthorised drawal of water and clause 12 of the agreement provides 25 *per cent* interest for non-payment of water rates to WRD. It was, however, observed that **no records/registers were prescribed by the department to monitor whether water was being drawn only after execution of valid agreements. In the absence of such monitoring mechanism, the department was constrained to detect cases of drawal of water without agreement and prevent loss of revenue, as brought out in the subsequent paragraphs.**

- To meet its industrial requirements, Grasim Industries (WRD, Ujjain) constructed five dams/weirs on Chambal and Chamla rivers during the period 1953 to 1994. The industry continued to draw water from the rivers

till May 2006 without signing any agreement with the division in contravention of the provisions of the MP Irrigation Rules.

The Government of MP vide notification of April 1998 fixed the rates for supply of water for industrial purposes at 30 paise per cum. Accordingly, bills were raised along with 50 *per cent* additional rates and 25 *per cent* interest till January 2006. Against Rs. 17.58 crore payable, the company paid Rs. 94 lakh till January 2006.

The rates were further revised through notification of July 2003, as below:

With effect from	01.11.2003	01.11.2004	01.11.2005	01.11.2006	01.11.2007
Rate (Rs. per cum)	0.37	0.40	0.43	0.47	0.50

It was clearly mentioned in this notification that an agreement would be executed in form 7-A prior to making use of water.

There was further revision in rates through notification of February 2006. However, these rates were subject to the condition that the cost of construction should exceed Rs. 1 crore as per schedule of rates and specification of September 2003 of WRD. It also states that the rates of July 2003 would be applicable for those units drawing water from Government and natural sources.

Audit scrutiny, however, revealed that based on the notification of February 2006 the department issued a substantially lower revised demand notice for the period May 1998 to March 2006 to the company in June 2006. This order of the department was not in conformity with the condition stated in the notification of February 2006, which stated that the cost of construction should exceed Rs. 1 crore as per the SOR and specification of September 2003, while the dams were constructed between 1953 to 1994 when those specifications were not in vogue. Moreover, the notification also stated that the rates of July 2003 would be applicable for those units drawing water from natural sources. Grasim Industries was drawing water from a natural source (Chambal river). Thus, the rates of July 2003 should have been applied.

Further, it was observed that Government vide an executive order dated 29 February 2006 waived the imposition of 50 *per cent* additional rates and 25 *per cent* interest in contravention of the terms of agreement mentioned in Form 7-A under Rule 71 of the MP Irrigation Rules. The order of the Government was unauthorised as any remission/reduction in the rates contained in the Act or Rules can only be done by the authority of the legislature.

Thus, application of incorrect rates coupled with unauthorised waiver of penalty and interest not only extended undue financial benefit to the company but also led to loss of revenue of Rs. 9.62 crore.

- Test check of records of WR division, Chhindwara revealed that Raymond Industries and Bhansali Engineering were drawing water from Kanhan river since 1991 and 1990 respectively without executing any agreement (till date) and without making any payment on account of water charges.

It was observed that the division raised a demand of Rs. 4 lakh (till December 2008) against Bhansali Engineering without including 50 per cent additional rates and 25 per cent interest. Similarly, demand of Rs. 60 lakh was raised against Raymond Industries (December 2008) without including 50 per cent additional rates and 25 per cent interest. This led to short assessment of demand of Rs. 2.17 crore.

After this was pointed out, the EE stated (January 2009) that action to recover the amount would be taken. However, the reply was silent on the reasons for omission to include additional water rate and interest in the demand notice. Further reply has not been received (October 2009).

- Test check of records of WR division, Deosar revealed that National Thermal Power Corporation was drawing water from Rihand Dam since 1988 but the agreement was executed in December 2008. It was observed that the division had raised a demand of Rs. 130.51 crore (October 2008) against the recoverable amount of Rs. 224.72 crore including 50 per cent additional rates and 25 per cent interest. This led to short assessment of water charges of Rs. 94.21 crore. No reply was furnished by the division.

- Test check of records of WR division, Dhar revealed that *Audyogik Kendra Vikas Nigam* (AKVN) was drawing water from *Jamuniya* tank (constructed by WRD under deposit work) since 1998 without executing any agreement. The WRD, Dhar had raised (December 2001) a bill for only two years (1999-2000 and 2000-01) for Rs. 8.50 lakh against which AKVN had paid Rs. 5 lakh. Non-assessment of demand of the remaining years led to non-realisation of revenue of Rs. 5.27 crore including 50 per cent additional rates and 25 per cent interest (based on the rates prescribed in Government notification of July 2003).

After this was pointed out, the EE stated (June 2009) that the agreement form was sent to AKVN several times but these were returned without signing. He further stated that the bill was being raised now as per Government circular. A report on recovery has not been received (October 2009).

**The Government may install a proper system of monitoring the amount of arrear, current dues, dues recovered and dues remaining unrealised by prescribing reports/returns to be submitted by the divisions to the WRD. Besides, execution of agreements may be made mandatory in case of drawal of water for commercial use. Besides, stringent penal measures may also be prescribed for unauthorised drawal of water.**

#### **8.2.8 Loss of revenue due to shortfall in irrigation potential created and utilised**

In view of the scarcity of water resources and to motivate economic use of water, a detailed water account is required to be prepared at the divisional level. After providing for transit loss of water, balance quantity of water is utilised for the purpose of irrigation or for commercial use. **The department, however, had not prescribed any monitoring mechanism for optimum utilisation of irrigation potential created. Nor was any system prescribed for maintenance of water account in the divisions.**

The figures of irrigation potential created and utilised as furnished by the department are mentioned below:

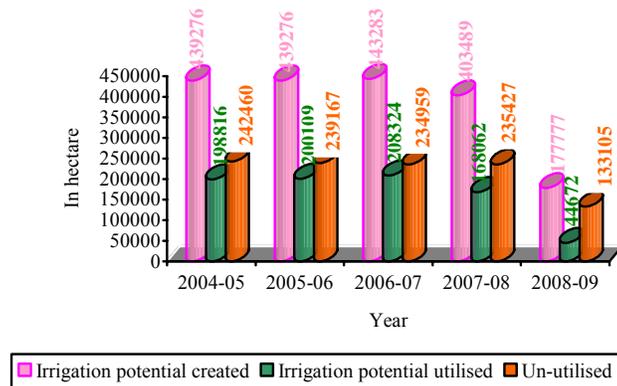
(In lakh hectare)

Year	Irrigation potential created	Actual potential utilised	Un-utilised potential	Per cent of utilised potential	Loss of Revenue <sup>9</sup> (Rs. in crore)
2004-05	22.58	10.34	12.24	46	23.84
2005-06	23.41	10.13	13.28	43	25.87
2006-07	26.64	09.37	15.27	35	34.33
2007-08	25.90	09.16	16.74	35	37.63
2008-09	26.82	09.39	17.43	35	39.18
<b>Total</b>	<b>125.35</b>	<b>48.39</b>	<b>74.96</b>	<b>39</b>	<b>160.85</b>

During 2004-05 to 2008-09, out of total 125.35 lakh hectares of available irrigation potential, only 48.39 lakh hectares (39 per cent) of the potential was utilised and the remaining 74.96 lakh hectare remained unutilised, which resulted in loss of revenue of Rs. 160.85 crore.

The position of irrigation potential created and utilised as collected by audit from 20<sup>10</sup> divisions is as below.

Position of irrigation potential created and utilisation



Thus, during 2004-05 to 2008-09, out of total 19,03,101 hectares of available irrigation potential (20 divisions), only 8,19,983 hectares (43 per cent) of the potential was utilised and the remaining 10,83,118 hectare remained unutilised, which resulted in loss of revenue of Rs. 22.94 crore. The irrigation potential has been showing decreasing trend since 2007-08. The maximum utilisation of irrigation potential was much below 50 per cent during the last five years. Further scrutiny revealed that in Anuppur, Gwalior

<sup>9</sup> During the year 2004-05 to 2005-06 at Rs. 194.80 per hectare. During the year 2006-07 to 2008-09 at Rs. 224.80 per hectare.

<sup>10</sup> WR Dn. Anuppur, Bhopal, Bhind, Chhindwara, Dewas, Deosar, Khandwa, Ratlam, Satna, Ujjain, Vidisha, Dam Safety Dn. Gwalior, Gandhi Sagar Dam Dn. Gandhisagar, Kanhargaoon Dn. Chhindwara, Masanory Dam Dn. Deolond,, PBC Dn. Sohagpur, Tawa Project Dn. Itarsi, , TLBC Dn. Keolari, Survey Dn. Balaghat and Wainganga Dn. Balaghat

and Bhind districts, the percentage of utilised potential was very minimal i.e. 1 to 23 *per cent* during the last five years.

After this was pointed out, the department attributed (between October 2008 and April 2009) various reasons for shortfall in utilisation of the created potential. These were non-cultivation of *kharif* crops/no demand for water in *kharif* seasons, water lifting by farmers of non-command area, unlined canal system, wastage of water, change in cropping pattern, lack of awareness in farmers, poor maintenance and low provision of funds, lack of coordination between irrigation and other departments and change in land use pattern.

The Agriculture Department of MP, however, affirmed that *kharif* crops were being cultivated by the farmers in the State. The other reasons cited above were not beyond the control of the department.

**The Government may consider preparing a division wise water account for effective monitoring of irrigation potential created and utilised, water used by various agencies and revenue realised from them.**

### **8.2.9 Loss of revenue due to lack of any system to monitor the viability of lift irrigation schemes**

Test check of records relating to lift irrigation schemes (LIS) in 11<sup>11</sup> divisions revealed that against 1,00,701 hectares of irrigation potential created, the utilised potential was 12,844 hectares (12.75 *per cent*) during the period under review. Non-utilisation of the created potential led to loss of Rs. 1.87 crore. Moreover, an amount of Rs. 11.57 crore (electricity bills Rs. 5.96 crore and expenditure on O&M Rs. 5.61 crore) was incurred on electricity bills and maintenance of these schemes while irrigation receipts were only Rs.13 lakh (1.12 *per cent* of the expenditure).

In reply, the EEs stated (October 2008 to March 2009) that irrigation potential could not be fully utilised due to interrupted or short supply of electricity and deficient rain.

**The Government may consider assessing the viability of LIS in view of the low utilisation of potential and the skewed ratio between expenditure on these schemes vis-à-vis the irrigation receipts.**

### **8.2.10 Lack of any system to monitor measuring devices**

Clause 10 of the agreement for supply of water to industrial/power plants (Form 7A) clearly lays down that the automatic measuring device shall be installed and maintained by the Company which draws water, at its own cost. Further, clause 17 of the agreement lays down that the Company shall allow at all times, an officer of the Irrigation Department to inspect the measuring device. **It was, however, observed that no records were maintained in any of the test checked divisions to monitor the installations of the measuring devices, whether these were working properly, readings were taken at the prescribed intervals, any inspection conducted by the staff etc.**

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<sup>11</sup> Water Resources Division- Anuppur, Bhopal, Bhind, Chhindwara, Deosar, Dewas, Khandwa, Ratlam, Satna, Ujjain and Vidisha.

**Due to this, the department was unaware of the water drawn by various agencies from various sources.**

Scrutiny of records revealed that in WR division, Chhindwara, two industries, Bhansali and Raymond were drawing water from Kanhan river since 1990 and 1991 respectively. Similarly, National Thermal Power Corporation was drawing water from Rihand Dam under WR division, Deosar since 1988. When enquired by audit (January to March 2009) regarding installation of any measuring device either at the source or premises of the companies, the divisions did not give any reply. **Thus, it is clear from the above that there was no control of the divisions on the water drawn by the industries.**

**The Government may launch a verification drive to check all the measuring devices and also ensure that these are monitored as per the provisions from time to time in the interest of revenue.**

### **Compliance deficiencies**

#### **8.2.11 Loss of revenue due to incorrect application of water rates/penalty/interest**

Note below clause 2 of the agreement form for supply of water (Rule 71-A) provides that the company shall in any event pay water charges for at least 90 *per cent* of the total quantity of water allowed to be drawn by it even though the actual quantity of water drawn by the company is less than 90 *per cent* of the quantum of water allowed to be drawn. Further, this note also provides that 50 *per cent* additional rates are leviable in case of unauthorised drawal of water and clause 12 of the agreement provides 25 *per cent* interest for non-payment of water rates to WRD.

**8.2.11.1** Test check of records of Kolar Canal division, Nasrullaganj revealed that Municipal Corporation, Bhopal has been drawing water from the Kolar dam since November 1995 by executing agreement every year for supply of drinking water to the residents of Bhopal. It was observed that the Corporation had drawn 589.81 mcum of water on which water rate of Rs. 43.18 crore (including 50 *per cent* additional rate and 25 *per cent* interest) was leviable. Against this, the division had raised a demand of Rs. 24.58 crore (Upto March 2009). This resulted in short raising of demand of Rs. 18.60 crore.

After this was pointed out, the EE stated (June 2009) that regular correspondence was made with the Municipal Corporation, Bhopal for recovery of water charges. Reply of the EE was silent regarding the reasons as to why the matter was not brought to the notice of the higher authorities of the department so far.

**8.2.11.2** The WR division, Ujjain is providing water to two *Nagar Palikas* (Ghatia and Tarana) for drinking purpose and PHE, Ujjain for industrial purpose. In contravention of provisions of the agreements, the division had charged for actual water utilised instead of 90 *per cent* of the agreed quantity (where water was utilised less than 90 *per cent* of agreed quantity). Moreover, 50 *per cent* additional rates (where water was utilised

more than agreed quantity) for unauthorised utilisation of water were not charged which led to non-realisation of revenue of Rs. 2.04 crore<sup>12</sup>.

In reply, the EE stated (March 2009) that supplementary bill would be issued to recover the required amount as per rates applicable. A report on recovery has not been received (October 2009).

**8.2.11.3** Rates for water supplied from natural/Government sources are higher than those applicable in cases where these are developed by the user itself. Scrutiny of records in WR division, Deosar revealed that an agreement was executed between Jai Prakash Associates and the division in July 2007 for supply of water from Gopad river (natural/Government source) at Rs. 0.14 per cum. As the water was to be supplied from a natural/Government source, the rates prescribed by the Government (July 2003 at Rs. 0.47 per cum) were applicable in this case. Application of incorrect rates resulted in non-realisation of water rate of Rs. 3.65 crore.

In reply, the EE stated (March 2009) that action for recovery was in progress. The report on recovery has not been received (October 2009).

### **8.2.12 Loss of revenue due to defects in the distribution system**

Scrutiny of records of Pipriya Branch Canal Division, Sohagpur, revealed that three Sub Divisions<sup>13</sup> were unable to deliver water from left bank canal (LBC) of Tawa dam on 36,023 hectares during 2004-05 to 2007-08 due to unauthorised supply in non-command area and non-maintenance of canal.

This not only resulted in loss of revenue of Rs. 42 lakh, but also deprived the farmers of water in the command area.

This fact was also confirmed by the report submitted by the Chief Engineer while submitting proposal for modernisation of Left Bank Canal of Tawa dam to the higher authorities.

After this was pointed out, the EE did not give any specific reply.

### **8.2.13 Non-deposit of security money**

Clause 13 of Form 7-A of the agreement executed between the users of water and the divisions provides that the user shall always keep deposited with the EE, a sum equal to three times of the contracted monthly bill of the contracted quantity of water as security for due and proper payment of the water rates. In the event of failure by the company to pay the dues, the outstanding dues from the company shall be adjusted against the said deposit.

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<sup>12</sup> Ghatia Nagar Palika Rs. 60 lakh, Tarana Nagar Palika Rs. 85 lakh and PHE, Ujjain Rs. 59 lakh.

<sup>13</sup> Babai, Pipariya and Shobhapur.

Scrutiny of records revealed that in five WR divisions, five users had not deposited security money of Rs. 2.21 crore with the respective divisions, as mentioned below.

(Rupees in crore)

Name of Division	Name of unit	Year	Amount due	Amount deposited by unit	Amount outstanding
Kolar Canal division, Nasrullaganj	Nagar Nigam, Bhopal	2008-09	0.65	Nil	0.65
Tawa project division, Itarsi	Ordnance Factory, Itarsi	2008-09	0.61	Nil	0.61
WR division, Deosar	JP Associates	2008-09	0.68	0.20	0.48
WR division, Ujjain	Nagar Nigam, Ujjain	2008-09	0.18	Nil	0.18
Dam Safety division, Gwalior	Nagar Nigam, Gwalior	2008-09	0.29	Nil	0.29
<b>Total</b>			<b>2.41</b>	<b>0.20</b>	<b>2.21</b>

After this was pointed out, no specific reply was given by the divisions for non-deposit of security money.

#### **8.2.14 Non-levy of betterment contribution**

Section 58-C of the Irrigation Act lays down that the Government may, by notification, appoint such date being not earlier than three years from the commencement of the operation of a new canal, for levy on every permanent holder of land, whose land is situated in the command area, betterment contribution at the rate of Rs. 140 per acre. The Government accordingly issued notification in March 1983 levying the betterment contribution at the above rates.

Scrutiny of records in 17 WR divisions<sup>14</sup> revealed that the department had neither notified the dates nor specified the area on which betterment contribution became leviable. This resulted in non-realisation of revenue of Rs. 10.14 crore.

After this was pointed out, the EEs in their reply stated (between October 2008 and March 2009) that action for levy of betterment contribution would now be taken. A report on recovery has not been received (October 2009).

<sup>14</sup> Anuppur, Bhopal, Bhind, Chhindwara, Dewas, Deosar, Khandwa, Ratlam, Satna, Ujjain, Vidisha, Gandhi Sagar Dam, Kanhargaoon (Chhindwara), Sohagpur (Pipariya Branch Canal), Itarsi (Tawa Project), Balaghat (Survey division) and Balaghat (Wainganga)

### **8.2.15 Short levy of penalty on delayed payment**

According to Rule 193 of the MP Irrigation Rules, if any water rate (canal revenue) or any part thereof is not paid within one month of the prescribed date, the Canal Deputy Collector may impose penalty on such defaulters at prescribed rates.

Scrutiny of record of two divisions<sup>15</sup> revealed that while recovering arrear of Rs. 2.98 crore, the divisions recovered penalty of Rs. 20.42 lakh instead of Rs. 29.74 lakh, which led to short recovery of penalty of Rs. 9.32 lakh.

After this was pointed out, the EEs stated (January-February 2009) that necessary action would be taken to recover balance amount of penalty. A report on recovery has not been received (October 2009).

### **8.2.16 Lack of any system to monitor entry of outstanding revenue in debt books of farmers**

Revenue Department's orders of August 1983 stated that the outstanding amount of irrigation revenue should be entered in the *Rin Pustika*<sup>16</sup> of the farmer in the command area. It also directed that banks should not advance any loan to the farmer without 'no due certificate' from the Irrigation Department.

Information collected from two divisions<sup>17</sup> and three banks<sup>18</sup> revealed that though the system was in place but these were not being followed.

After this was pointed out, the divisions replied (between October 2008 and April 2009) that farmers did not submit their *Rin Pustika* to the *Amins* and there were no requests for issue of 'no dues certificates' from the farmers. The banks replied that such orders were not available.

### **8.2.17 Conclusion**

Water supply and distribution for irrigation, power, industry and domestic purposes require a huge amount of capital investment in infrastructure. Once the infrastructure is in place, operating water supply and distribution entails significant ongoing cost of maintenance. The funds for these capital and operational costs are essentially met from user charges and public funds. Review of the system for assessment and collection of water rates in the state, however, revealed that the process of framing of budgetary estimates had been *ad hoc*. There was no correlation between the actual receipts and the budget estimates for the subsequent year. The department did not have reliable figures of arrears of revenue for various categories of users of water. Besides, there was huge shortfall in utilisation of potential leading to loss of substantial revenue. No systems were instituted to monitor the installation and proper working of measuring devices while various agencies were drawing water without executing any agreement leading to substantial loss of revenue.

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<sup>15</sup> PBC Division, Sohagpur (Rs. 7 lakh) & Tawa project division, Itrasi (Rs. 2 lakh).

<sup>16</sup> Debt book.

<sup>17</sup> Wain Ganga division, Balaghat and WR division, Chhindwara.

<sup>18</sup> Jila Sahakari Bank, Land Development Bank and Satpura Narmada Kshetriya Gramin Bank, Chhindwara.

The department suffered loss of revenue on account of application of incorrect rates, defects in the distribution system, short utilisation of water, non-deposit of security money and non-levy of betterment contribution.

### **8.2.18 Summary of recommendations**

The Government may consider implementation of the following recommendations to rectify the deficiencies.

- Consider framing more realistic budget estimates based on the actual receipts;
- expedite action to impose penalty on cases of unauthorised drawals and recovery thereof;
- consider preparing division wise detailed water account;
- consider preparing time bound action plan to verify and reconcile the arrears figures;
- consider launching a verification drive to check the measuring devices and monitor the measuring devices strictly as per norms; and
- consider ensuring that agreement in prescribed form is executed before drawal of water for commercial use.

## **B – ELECTRICITY DUTY**

### **8.3 Other audit observations**

*Scrutiny of records of various offices of Superintending Engineer, Divisional Electrical Inspectors etc., revealed several cases of non-compliance of the provisions of the Indian Electricity Duty Rules/Madhya Pradesh Electricity Rules and Government orders as mentioned in the succeeding paragraphs. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of the departmental officers are pointed out in audit each year but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for Government to improve the internal control system.*

### **8.4 Non-imposition of penalty**

Under Rule 141 of the Indian Electricity Rules, 1956, if the owner of an electrical installation commits breach of any provision of the rules, he shall be liable to pay penalty upto Rs. 300 for each breach and if the breach continues, he shall be further liable to a penalty upto Rs. 50 per day till the breach persists.

Test check of records of Superintending Engineer, Electricity Safety (SE, ES) Indore and two Divisional Electrical Inspectors, Electricity Safety (DEI, ES), Chhindwara and Ujjain between January and February 2009 revealed that while carrying out inspection of 32,467 electrical installations

during 2006-2007 and 2007-2008, though the inspectors detected breach of provisions of the rules, no efforts were made to impose penalty on the defaulters for the breach. This resulted in non-levy of penalty of Rs. 97.40 lakh.

After the cases were pointed out, the SE, ES Indore and DEI, ES Chhindwara stated between January and February 2009, that penalty was imposed by the court. The DEI, ES, Ujjain stated (January 2009) that the department had no right to impose penalty and the expenditure on process of penalty was more than the revenue earned through penalty. The replies are not in consonance with the provisions of rules and also were silent regarding the reasons for non-initiation of penal proceedings by the SE, ES Indore and DEI, ES Chhindwara and Ujjain. Further replies have not been received (October 2009).

The matter was reported to the Chief Engineer (CE) and Chief Electrical Inspector (CEI) and the Government in March 2009; their reply has not been received (October 2009).

### **8.5 Non-realisation of revenue due to inaction of the department**

As per the provision of section 5 (2) of the Madhya Pradesh Electricity Duty Act, 1949, without prejudice to any other mode of recovery available to the State Government, any duty which falls due for payment and interest thereon, if any, may be recovered in the same manner as an arrear of land revenue.

Test check of records of SE, ES Indore in January 2009 revealed that M/s Rama Phosphate Limited, Indore, an owner of generator, whose time limit for exemption from payment of electricity duty expired on 9 September 2005, had generated 163.63 lakh units of electrical energy during 10 September 2005 to March 2008. An amount of Rs. 50.69 lakh on account of electricity duty was receivable from the consumer. Besides, an amount of Rs. 32.31 lakh was also receivable as interest on the unpaid amount. But the department had not initiated any action for recovery of duty and interest through issue of revenue recovery certificate (RRC). As a result, the process of recovery could not be started even after a lapse of 78 months. This resulted in non-realisation of revenue of Rs. 83 lakh.

After this was pointed out, CE, ES and CEI, MP intimated (May 2009) that RRC for Rs. 75.80 lakh (including interest) for period upto July 2007 had been issued. A report on recovery in this case and status of recovery for the remaining period from August 2007 to March 2008 has not been received (October 2009).

The matter was reported to the Government (March 2009); their reply has not been received (October 2009).

**Bhopal,  
The**

**(M. RAY BHATTACHARYYA)  
Accountant General  
(Works & Receipt Audit)  
Madhya Pradesh**

**Countersigned**

**New Delhi,  
The**

**(VINOD RAI)  
Comptroller and Auditor General of India**