

CHAPTER-V

INTERNAL CONTROL SYSTEM

Industries Department

5.1 Internal Control System

Highlights

Internal control system is an integral process by which an organisation governs its activities to effectively achieve its objectives. Such a system consists of methods and policies designed to prevent fraud, minimise errors, promote operating efficiency and achieve compliance with established policies and helps to protect resources against loss due to waste, abuse and mismanagement. An evaluation of internal control system in Industries Department during 2002-07 revealed significant weaknesses in financial management system and operational controls as evidenced by non-compliance with rules, manuals and codes in the areas of budget preparation, expenditure control, recovery of loans and implementation of various schemes. Some significant audit findings are as under:

- *Scheme funds of Rs 25.04 crore and departmental receipts amounting to Rs 9.44 crore received (2002-07) by six DDOs were remitted directly into the bank/treasuries without entering in the cash book.*

(Paragraph 5.1.8.1)

- *Wrong utilisation certificate for Rs 4 crore sanctioned for infrastructure development works at Sansarpur Terrace was furnished by the Superintending Engineer, HPSIDC though infact the amount had been diverted and used on other works by the State Government.*

(Paragraph 5.1.8.8)

- *Allotment of land for developing industrial areas/estates to prospective entrepreneurs had not been monitored at the Government level. Only 42 bighas (three per cent) land had been allotted by GMs DICs Lahaul and Spiti, Shimla and Solan as of March 2007 out of 1415.03 bighas transferred to the Industries Department.*

(Paragraphs 5.1.9.7)

➤ *Infrastructure created at a cost of Rs 77.10 lakh for setting up of an industrial estate at Keylong (Lahaul and Spiti district) in August 2002 remained unutilised due to improper planning of the department for selection and development of industrial area.*

(Paragraph 5.1.9.7 (ii))

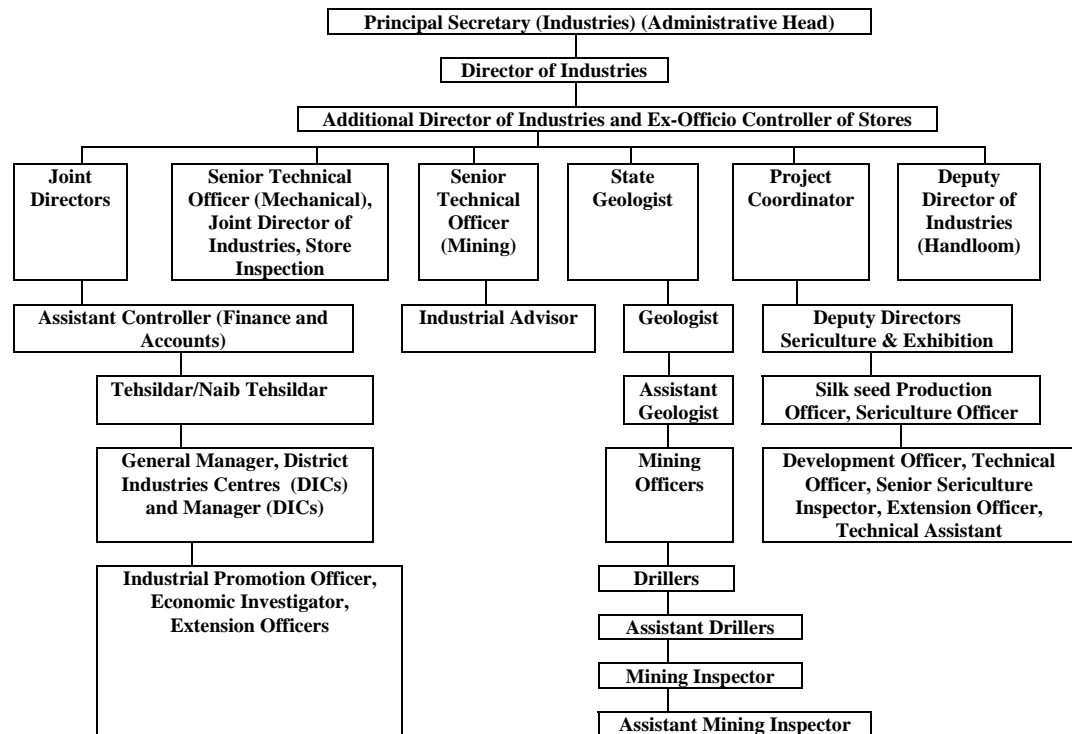
5.1.1 Introduction

Internal controls provide reasonable assurance that an organisation's objectives are achieved, assets are safeguarded and operations are carried out in an effective manner in compliance with the applicable laws, rules and regulations.

The functions of the Department of Industries include disbursement of loans to individuals, firms, cooperative societies or companies under the Himachal Pradesh State Aid to Industries Act, 1971. Seed/margin money loans are also given to small entrepreneurs under the State sector schemes for providing assistance to Small Scale Industries (cottage/village industries). In addition, sericulture activities for production of silk seed, industrial promotion and training, development of industrial estates, implementation of schemes such as Deen Dayal Hathkargha Protsahan Yojna, workshed to weavers, Prime Minister Rojgar Yojna and regulation and development of mines, etc., is carried out by the Department.

5.1.2 Organisational set up

The organisational set up of the department is given below:



5.1.3 Audit objectives

The review of internal controls of the Industries Department was conducted to assess whether these helped the Department in:

- fulfilling accountability obligations;
- ensuring orderly, ethical, economical, efficient and effective operations;
- identifying and minimising the risks faced by the organisation in achieving its objectives; and
- safeguarding resources against loss.

5.1.4 Audit criteria

The audit criteria used for assessing the internal controls were:

- provisions of the Himachal Pradesh Financial Rules;
- provisions of Subsidiary Treasury Rules;
- departmental Policies/Rules and regulations;
- Government notifications issued from time to time;
- procedure prescribed for monitoring and evaluation.

5.1.5 Scope of Audit

The Internal control system of the Department was reviewed in audit (February-April 2007) by a test-check of the records of 12 units/DDO's¹ out of 36 DDOs in the State including Directorate for the period 2002-07.

5.1.6 Audit methodology

Before commencing audit, an entry conference was held (February 2007) with the officers of the Department wherein audit objectives and scope were discussed. Units/DDOs were selected for audit on the basis of simple random

¹ State Geologist (Headquarters); 2. Assistant Controller (F&A) Directorate of Industries, Shimla; 3. The Deputy Director of Industries (Exhibition) Directorate of Industries, Shimla; 4. Project Coordinator, Directorate of Industries, Shimla; 5. General Manager (GM), DIC, Shimla; 6. GM, DIC, Solan; 7. GM, DIC, Dharamsala; 8. GM, DIC, Una; 9. Mining Officer, Dharamsala; 10. Mining Officer, Una; 11. Deputy Director of Industries (Sericulture), Palampur (Kangra district) and 12. Silk Seed Production Officer, Nadaun (Hamirpur district).

sampling method. Audit sample was drawn keeping in view the number² of industrial areas/estates in the respective districts and other activities being carried out by different units. The audit findings were discussed with the Director in exit conference (July 2007) and the views of the Department have been incorporated in the review at appropriate places.

5.1.7 Budgetary control

5.1.7.1 Unrealistic budget estimates

As of March 2007, the Industries Department was implementing 13 schemes. Of these, nine State Plan Schemes³ were being implemented with 100 per cent State budget. Two schemes⁴ were 100 per cent funded by GOI. One⁵ scheme was funded on 50:50 basis by the GOI and the State Government upto 2004-05. From 2005-2006 the funding pattern was 90:10 between GOI and the State Government. One scheme⁶ was funded in the ratio of 78:11:11 by GOI, State Government and the beneficiary handloom weavers respectively.

Original budget allotment, supplementary grants⁷ obtained and actual expenditure incurred thereagainst between 2002-07 was as under:

Table: 5.1

(Rupees in crore)

Year	Original budget	Supplementary grants	Total	Expenditure	Excess (+) Savings (-)
2002-2003	34.50	16.83	51.33	43.92	(-) 7.41
2003-2004	27.05	4.58	31.63	29.56	(-) 2.07
2004-2005	55.52	1.25	56.77	55.72	(-) 1.05
2005-2006	22.80	6.95	29.75	29.40	(-) 0.35
2006-2007	45.16	1.84	47.00	48.21	(+) 1.21
Total	185.03	31.45	216.48	206.81	

Source: Departmental figures

² Kangra: eight industrial areas and three estates; Shimla: four industrial areas and three estates; Solan: 10 industrial areas and three estates and Una: five industrial areas.

³ 1. Industrial Promotion and Training; 2. Industrial Estate; 3. District Industries Centre; 4. Sericulture; 5. Himachali Utpad Scheme; 6. Industrial Area Development and Promotion; 7. Subsidy to SSI units; 8. Arts and Exhibition; 9. Mineral Development.

⁴ Prime Minister's Rojgar Yojna and Transport/Freight subsidy.

⁵ Deen Dayal Hathkargha Protshan Yojna.

⁶ Workshed-cum-Housing for Handloom Weavers.

⁷ Grant 18: Industries, Minerals and supplies; Grant 31: Tribal Development.

5.1.8 Financial control

5.1.8.1 Non-accountal of Government receipts in the cash book

Himachal Pradesh Financial Rules, 1971 provide that all monetary transactions should be entered in the cash book as soon as they occur and attested by the head of office in token of check.

It was noticed in audit that four DDOs⁸ of test-checked units, who had received funds of Rs 25.04 crore from Director of Industries for execution of various works/schemes between 2002-07 through demand drafts remitted the DDs in banks without entering these in the cash books. The delay in remittance ranged between 10 and 37 days. Similarly, two DDOs⁹ who had collected receipts aggregating Rs 9.44 crore during 2002-07 on account of short term permits, mining lease and royalties, etc., remitted the same directly into the treasury without entering these in the cash book. It was further noticed that three DDOs (out of 12 test-checked units) had not conducted any physical verification of cash during 2002-07. This was indicative of lack of control by head of office besides non-observance of prescribed rules. The Director stated (July 2007) that instructions had been issued (June 2007) to all the field offices to comply with the financial control procedures as prescribed under the rules.

5.1.8.2 Late deposit of departmental receipts

State Financial Rules provide that at the close of the day while signing the cash book, the head of office should see that the departmental receipts collected during the day are deposited into the treasury on the same day or on the morning of the next day at the latest.

It was noticed in audit that in six¹⁰ test-checked units an amount of Rs 5.23 lakh realised in cash on account of miscellaneous departmental receipts during 2002-07 was deposited in the treasuries after a delay ranging between two and 52 days. The test-check thus revealed that the DDOs failed to exercise their control over prompt deposit of departmental receipts and in such cases, the possibility of temporary misappropriation of funds cannot be ruled out.

⁸ GMs, DICs, Kangra: Rs 1.43 crore; Solan: Rs 23.46 crore; Shimla: Rs 0.06 crore and Una: Rs 0.09 crore.

⁹ Mining Officers, Kangra: Rs 7.06 crore and Una: Rs 2.38 crore.

¹⁰ GM, DIC, Shimla: Rs 0.99 lakh; GM, DIC, Solan: Rs 0.12 lakh; GM, DIC, Kangra at Dharamsala: Rs 2.49 lakh; Mining Officer, Kangra at Dharamsala: Rs 0.49 lakh; Mining Officer, Una: Rs 0.37 lakh and Deputy Director, Sericulture, Palampur: 0.77 lakh.

5.1.8.3 Expenditure not incurred in controlled and phased manner

The State Financial Rules provide that to regulate the expenditure in a controlled and phased manner, the administrative department shall ensure that the budget allocation is spent in a phased manner during the year.

It was noticed in audit that the percentage of expenditure incurred in the last quarter of the respective financial years during 2002-07 ranged between 40 and 72 as detailed below:

Table: 5.2

(Rupees in crore)

Year	Total expenditure	Expenditure incurred in the last quarter	Percentage of expenditure incurred in the last quarter
2002-2003	43.92	17.57	40
2003-2004	29.56	12.42	42
2004-2005	55.72	40.22	72
2005-2006	29.41	12.05	41
2006-2007	48.21	20.73	43

Source: Departmental figures

The Director stated (July 2007) that due to receipt of sanctions in the last quarter of the financial year from the GOI and State Government, expenditure in excess over prescribed norms had to be incurred. The Department needs to pursue with the Government to ensure that funds are released in time so that its activities are carried out smoothly.

5.1.8.4 Irregular release of Grant-in-aid

To promote growth of handloom and handicrafts industries and to promote, encourage and assist in the development of Khadi and Village industries to carry on trade or business in the products, the State Government releases grants to two grantee institutions.

The State Budget Manual provides that the orders/sanctions for grant-in-aid should not be issued between 1st and 31st March in any financial year. It was, however, noticed that the State Government released grants of Rs 2.31 crore during 2002-07 to Himachal Pradesh State Handicrafts and Handloom Corporation Limited, Shimla (Rs 2 crore) and Himachal Pradesh Khadi and Village Industries Board, Shimla (Rs 0.31 crore) between 1st and 31st March every year for meeting administrative costs and implementation of two¹¹ schemes. Of these, grants of Rs 1.60 crore (69 per cent) were released between 15th and 31st March each year. The grants were to be utilised within one year.

¹¹ Promotion of Handloom activities 2. Development of Khadi and Village Industries.

The Director stated (April 2007) that the grants were released late due to late receipt of sanctions from the State Government. The fact, however, remains that the prescribed rules and procedures for releasing grants were not followed.

5.1.8.5 Non-recovery of rental charges of industrial sheds and plots

The State Financial Rules provide that departmental controlling officers should see that all sums due to Government are regularly and properly assessed, realised and duly deposited into the treasury.

Test-check of records of two GMs, DICs (Kangra and Una) who were responsible for effecting the recovery revealed that rental charges aggregating Rs 1.42 crore¹² on account of industrial sheds and plots rented/leased out to industrialists were not realised from 1979-80 to 2006-07.

The Department was required to intimate the fact of non-payment of dues by the concerned persons to the Collector of the area concerned for initiating action to effect recovery of Government dues as provided under State Finance Department order of May 1994. But no such action was taken in these cases. This indicated that the Department had not taken any concrete steps to liquidate the Government dues and also failed to ensure compliance with the orders of the State Finance Department.

5.1.8.6 Irregular drawal against proforma bills of supplier

As per Rules, the Treasury Officer should not allow drawal of funds on proforma bills in anticipation of receipt of goods unless the approval of the Finance Department has been obtained.

Test-check of records of the State Geologist revealed that during 2002-06, Rs 32.61 lakh¹³ were drawn against proforma bills of the suppliers and charged as expenditure to the final head of account. It was also noticed that the material was supplied after a delay of about 57 to 144 days from the stipulated date. For belated supply, penalty as required in terms of the supply order, had also not been imposed.

¹² More than five years; 736 cases : Rs 102.46 lakh.
More than ten years; 424 cases : Rs 18.68 lakh
More than fifteen years; 229 cases : Rs 12.34 lakh
More than twenty years; 184 cases : Rs 8.32 lakh
Total : Rs 141.80 lakh rounded to Rs 1.42 crore

¹³ 2002-03: Rs 8.25 lakh; 2003-04: Rs 10.99 lakh; 2004-05: Rs 7.28 lakh and 2005-06: Rs 6.09 lakh.

The Director stated (March 2007) that efforts were made to procure the material at the earliest but the supplies were not made in time by the concerned suppliers. The reply is not acceptable, as the Department should have imposed penalty on the supplier for delayed supply.

5.1.8.7 Loss of royalty due to tampering of documents and transportation of materials on fictitious form (Form 'M')

The State Government rules provide that no person shall carry within the State a minor mineral by a vehicle, animal or any other mode of transport without carrying a pass in Form 'M'. The rules also provide that the holder of a mining lease or mining permit or a person authorised by him in this behalf shall issue a pass in Form 'M' duly countersigned by the concerned Mining Officer/General Manager, DIC or any other officer authorised in this behalf to every person carrying a consignment of minor mineral by a vehicle, animal or any other mode of transport.

Test-check (March 2007) of records of Mining Officer, Kangra revealed that 155 Nos. Form 'M' were received (October 2004) from National Highway sub-division, Nurpur for verification as to whether these were issued by Mining Officer, Kangra or not. The Mining Officer intimated (November 2004) that out of 155 'M' forms, 39 were not issued by his office. Against these forms, 13860 MT minerals (stones) were transported (December 1999 to December 2000) for which royalty amounting to Rs 1,38,600 (at the rate of Rs 10 per MT) was not deposited with the Mining Officer.

Of the remaining 116 'M' forms issued by the Mining Officer for lifting 432 MT minerals, royalty of Rs 4,320 was deposited (August 1998-March 2001) by the contractor. Against this quantity, 34,605 MT minerals were lifted by the contractor after tampering by interpolating the quantity in these 'M' forms. The royalty amount of Rs 3,41,730 on 34,173 MT of minor minerals was recoverable from the contractor which has not been recovered as of April 2007. The Mining Officer while confirming with facts stated (March 2007) that the contractor was responsible for tampering with Form 'M'. He, however, did not initiate any action against the contractor as prescribed in the rules *ibid*.

Further, it was also observed that the Department had not printed its own form 'M' serially machine numbered for issuance to the mineral user agency specifying in it clearly, the quantity to be mentioned both in figures and words to exercise effective control over mineral exploitation and misuse of the form.

5.1.8.8 Diversion of funds earmarked for ‘Growth Centre’ at Sansarpur Terrace

GOI approved (February 1997) a project for the development of Industrial Growth Centre (IGC) at Sansarpur Terrace (Kangra district) for Rs 22.76 crore. Land measuring 464 hectares was proposed to be acquired for the project at three¹⁴ different locations.

Test-check of the records (March 2007) of GMDIC, Kangra revealed that the Divisional Forest Officer, Nurpur requested (January 2004) the Director of Industries to prepare a case under Forest Conservation Act, 1980 for transfer of land for development of industrial growth centre at Sansarpur Terrace in Kangra district. Administrative approval and expenditure sanction for the work was granted (March 1997) by the State Government. The GOI released (March 1997) Rs 4 crore for the purpose which was released (January 1998) to Himachal Pradesh State Industrial Development Corporation (HPSIDC). No such case was, however, prepared by the Department and the entire funds were diverted by the State Government for development of Raja-ka-bagh Phase-III, Gwalthai Phase-IV and Banalgai-Phase-V without approval of the GOI.

GM, DIC, Kangra stated (March 2007) that the diversion of funds has been done at Government level. The reply is not acceptable, as the Department should have obtained sanction from GOI before diverting the funds. Audit scrutiny further revealed that the SE, HPSIDC (executing agency) furnished (September 2007) wrong utilisation certificate (UC) that the amount of Rs 4 crore has been utilised for infrastructure development works at Sansarpur Terrace in Kangra district. The diversion of funds was thus irregular and unauthorised.

5.1.9 Operational Control

5.1.9.1 Non-recovery of loans granted under State Aid to Industries Act, 1971

The Department’s functions include implementation of schemes for industrial promotion and entrepreneurial development viz. disbursement of loans to person(s), firms, co-operative societies or companies for establishing industrial concerns and financial assistance in the form of seed/margin money loans to small entrepreneurs for establishing small industries. The period of complete repayment of loan with interest thereon is eight years which can be extended by the Director upto a maximum of 11 years. One post each of Tehsildar and

Sl. No.	Name of village	Area (In hectares)
1.	Village Muhal, Sansarpur Terrace Tehsil Jaswan, District Kangra	66.00
2.	Village Muhal, Sansarpur Terrace Tehsil Jaswan, District Kangra	130.70
3.	Village Muhal Badhal, Tehsil Dehra, District Kangra	267.03
		463.73

Naib Tehsildar (Recovery) had also been sanctioned to assist the Department for recovery of overdue loans where the same had become impossible through normal process.

Test-check of records relating to disbursement and recovery of loans in four¹⁵ selected units revealed that loans amounting to Rs 61.84 lakh (principal: Rs 14.53 lakh and interest: Rs 47.31 lakh) were lying un-recovered as of March 2007. It was further noticed that of the 687 cases, revenue recovery process in only 474 cases for recovery as arrears of land revenue was initiated whereas 22 loanees (DICs Shimla: 21; Una: 1) involving recovery of Rs 4.20 lakh had since died.

The Director stated (July 2007) that where the loanee has either died or his whereabouts are not known or the legal heirs are not available and recovery has become impossible, a proposal for waiving off recovery is being collected from the field offices. He also stated (August 2007) that the post of Tehsildar was lying vacant since October 2005 due to which pace of recovery was low. The reply is not acceptable as Naib Tehsildar was also posted in addition to Tehsildar for this purpose. Thus, the control mechanism established for ensuring timely realisation of Government dues was weak and ineffective as there was no regular system of periodical monitoring through reporting and analysis.

5.1.9.2 Non-recovery of margin money loan

Under the State sector scheme of margin/seed money loans financial assistance in the form of margin money loan is provided to small entrepreneurs for establishing small scale industries at 10 *per cent* of the investment (not exceeding Rs two lakh) on plant and machinery subject to a limit of Rs 20,000. For entrepreneurs belonging to scheduled castes and scheduled tribes the loan assistance was admissible at 15 *per cent* of investment subject to a limit of Rs 30,000. The recovery of margin money loan was to be made in six monthly installments and required to be commenced after the entrepreneurs obligations to discharge the debts and interest thereon to the financial institutions had been fully met or eight years whichever is earlier.

Test-check of records of four¹⁶ out of 12 selected units revealed that loans of Rs 85.17 lakh granted to 499 entrepreneurs remained unrecovered as of March 2007. The GMs of DICs concerned stated (February 2007) that notices were being served to the defaulters. The replies are not tenable as apart from sending notices to defaulters, further action including initiation of recovery as

¹⁵ GMs, DICs, Kangra, Shimla, Solan and Una.

¹⁶ GMs DICs, Kangra: Rs 21.03 lakh; Shimla: Rs 10.20 lakh; Solan: Rs 48.21 lakh and Una: Rs 5.73 lakh.

arrears of land revenue had not been taken. Moreover, GMs of DICs are also vested with the power of Assistant Collector grade-I for effecting recoveries of such loans. The GMs concerned thus failed to exercise effective control over recovery of loans in the above cases.

5.1.9.3 Slackness in industrialisation process

The State Government had formulated Industrial policy in December 2004 for speeding up the process of industrialisation with the following objectives:

- promotion of Industry based on local raw material;
- establishment of new industries in industrially backward areas;
- provision of employment to the people of the State; and
- to address environmental issues.

Upto Ninth Five Year Plan period (1997-02), 35 Industrial areas and 15 Industrial Estates were established.

- During the Tenth Five Year Plan (2002-07) the Department had not established any industrial estate in the State. However, six industrial areas were established in Solan and Una districts. The Department informed (August 2007) that no specific surveys are conducted before the declaration of an industrial estate/area and that potential of the proposed industrial estate/industrial area is examined by a district level committee headed by Additional Deputy Commissioner during the spot inspection of the area. On the recommendations of this committee, a final decision regarding the setting up of new industrial area is taken by a Standing Committee constituted under the Chairmanship of the Financial Commissioner-cum-Secretary (Industries) to the State Government. However, despite instituting the required mechanism, the State Government could not ensure speedy industrialisation in the State.

5.1.9.4 Non-preparation of Annual Action Plans

The office Manual of the State Government requires every Directorate/Department to prepare an Annual Action Plan (AAP) for all departmental programmes/schemes in advance in the month of January every year with month-wise or quarter-wise breakup of such targets in respect of each activity to be performed during the ensuing financial year.

It was noticed in audit that physical targets were prepared only in respect of three¹⁷ out of ten schemes. The Director stated (February 2007) that the

¹⁷ Sericulture Production of cocoons; Prime Minister Rojgar Yojna; District Industries Centre (Rural Industries Programme/Rural Artisan Programme).

Department had prepared annual plans which reflected Departmental proposals and schemes to be executed during a particular year. The reply is not tenable, as the execution of the schemes was left to the implementing agencies without prescribing any physical targets/goals, to gauge the level of implementation of schemes/programmes and take appropriate remedial measures where necessary in a timely manner.

5.1.9.5 Lack of control over implementation of Centrally Sponsored and State Plan Schemes

The Department had been implementing four¹⁸ Centrally sponsored schemes and nine¹⁹ State Plan schemes for development of industries and employment generation in the State.

Out of 13 schemes, physical targets were fixed only in respect of three²⁰ schemes by the Department. Audit noticed that the Directorate of Industries did not fix annual physical targets for 2002-07 in respect of ten (three Centrally sponsored and seven State plan schemes) though the Department incurred an expenditure of Rs 114.07 crore during 2002-07 on these schemes:

Table: 5.3

(Rupees in crore)

Sl. No.	Name of Scheme	Budget allocation	Expenditure incurred	Excess (+) Savings (-)
A Centrally Sponsored				
1	Deen Dayal Hathkargha Protsahan Yojna	4.90	4.47	(-) 0.43
2	Workshed to weavers	1.17	0.22	(-) 0.95
3	Transport/Freight Subsidy	34.43	47.43	(+) 13.00
B State Plan				
4	Industrial Area Development and promotion	41.12	42.58	(+) 1.46
5	Arts and Exhibition	1.81	1.77	(-) 0.04
6	Subsidy to SSI Units	2.65	2.24	(-) 0.41
7	Mineral Development	1.24	1.41	(+) 0.17
8	Himachal Utpad	0.13	0.06	(-) 0.07
9	Industrial Estate	11.84	13.55	(+) 1.71
10	Industrial promotion and Training	0.36	0.34	(-) 0.02
	Total	99.65	114.07	

Source: Departmental figures.

¹⁸ 1. Deen Dayal Hathkargha Protshan Yojna; 2. Workshed-cum-Housing for Handloom Weavers; 3. Transport/Freight Subsidy; 4. Prime Minister Rojgar Yojna.

¹⁹ 1. Industrial Promotion and Training; 2. Industrial Area Development and Promotion; 3. Arts and Exhibition; 4. Subsidy to SSI Units; 5. Mineral Development; 6. District Industries Centres; 7. Sericulture; 8. Himachali Utpad Scheme and 9. Industrial Estate.

²⁰ Sericulture Production of cocoons; Prime Minister Rojgar Yojna; District Industries Centre (Rural Industries Programme/Rural Artisan Programme).

The Director stated (September 2007) that owing to different activities under these schemes, it was not possible to fix/pre-determine the targets. The reply is not tenable, as the internal control required to be exercised through AAPs as discussed in the preceding paragraph was not ensured for achieving economical, efficient and effective implementation of schemes in these cases.

5.1.9.6 Shortfall in achievement of targets under Centrally sponsored and State schemes

Audit scrutiny revealed that there were shortfalls in achievement in two (Prime Minister Rojgar Yojna and Sericulture Production of cocoons) out of three²¹ schemes (one Centrally sponsored and one State scheme) in respect of which targets were fixed.

In both the schemes, the shortfall in achievement of physical targets during 2002-07 ranged between 10 and 44 *per cent*.

The Director attributed (April 2007) low achievement of targets under sericulture to non-sustainability of autumn crop. As regards the PMRY scheme, the Director stated that the disbursement of loans was made to less number of beneficiaries by the banks during 2002-04 and 2006-07 and unrealistic targets fixed under PMRY.

The Department should have investigated the reasons for non-sustainability of autumn crop for production of cocoons under sericulture and taken appropriate remedial measures. Regarding less disbursement of loans under PMRY, the Department should have analysed the reasons.

5.1.9.7 Establishment of Industrial areas not monitored

As per the State Government Industrial Policy guidelines, the industrial areas/estates developed/acquired and transferred to the Department were to be allotted by the Department on leasehold/rental basis for industrial units. In the guidelines *ibid*, time schedule was not prescribed for development and allotment of land in industrial areas/estates.

(i) Test-check of records in the office of the Director revealed that the GM, DIC Solan had developed 1,134.53 *bighas* land out of 1,243.53 *bighas* transferred by Revenue Department at a cost of Rs 30.23 lakh as of April 2007 and allotted (August 2004 and August 2006) only 42 *bighas* to 17 entrepreneurs. The remaining 1,092.53 *bighas* had not been allotted to the prospective industrialists/entrepreneurs as of March 2007. On this being pointed out (January 2007) in audit, the Director called for the reasons for

²¹ Sericulture Production of cocoons; Prime Minister Rojgar Yojna; District Industries Centre (Rural Industries Programme/Rural Artisan Programme).

non-allotment of acquired land to the entrepreneurs from the GMs of DICs concerned. The GM, DIC, Solan intimated (April 2007) that entrepreneurs were not coming up for establishment of industries. The reply is not tenable, as the GM should have made efforts to persuade the entrepreneurs to establish small units.

(ii) The Department constructed 10 sheds at Industrial Complex, Keylong in April 2002 by incurring an expenditure of Rs 77.10 lakh. Register of works maintained at the Directorate revealed that the sheds had not been allotted to the prospective beneficiaries as of April 2007. On this being pointed out (January 2007) in audit, the Director of Industries called for (January 2007) the reasons for non-allotment of sheds from the GM, DIC, Keylong who intimated (February 2007) that initially nine sheds had been allotted on provisional basis to the entrepreneurs but none of them was able to establish the units in the industrial estate. Subsequently, all the provisional allotments were cancelled (August 2006). He further stated that the working season being very short, very few entrepreneurs are interested in establishing their units in the industrial area and the Department was facing problem for allotment of these sheds. It is clear that the industrial infrastructure had been created without actual demand. Further, the above facts also confirm that there was no control mechanism in the Department to safeguard the resources against idling or loss.

The Department should have planned the development of industrial areas after proper survey and investigations so as to achieve the objective of providing employment opportunities in the area.

(iii) It was noticed in audit that administrative approval and technical sanction for the construction of five sheds alongwith approach road was accorded (September 2004) for Rs 22 lakh on 165.8 *bighas* land transferred by DC Shimla. The Director of Industries released (October 2004) the whole amount to GM, DIC Shimla. The construction of sheds was taken up in April 2005 through HPSIDC Shimla. Out of Rs 22 lakh the GM, DIC Shimla released Rs 20 lakh (March 2005 and August 2006) to HPSIDC and kept Rs 2 lakh with him in a bank account. It was, however, noticed that the sheds were still incomplete as of April 2007 though the work was stipulated to be completed in eight months by HPSIDC.

GM, DIC, Shimla stated (February 2007) that works could not be completed due to paucity of funds. The reply is not tenable as out of Rs 22 lakh he had released only Rs 20 lakh to the HPSIDC and retained Rs two lakh unutilised with him in a bank account. The Director stated (July 2007) that the construction of industrial area Jais has since been completed except electric connectivity and of the five sheds, two had been allotted and efforts are being made to allot the remaining three sheds to prospective entrepreneurs.

The reply of the Director was evasive as the two sheds allotted were without electric connectivity and three sheds were yet to be allotted. This is indicative of laxity and absence of monitoring by the Department to ensure fulfillment of the aims of industrial policy to spread and speed up the process of industrialisation.

5.1.9.8 Non-monitoring of impact of training imparted to educated youth for self employment

To provide self employment opportunities by setting up their own industries, the Department provides training under Entrepreneurship Development Programme (EDP), Industrial Awareness Programme (IAP) and Short Term Entrepreneurship Development Programme (STEDP) through the GMs of the respective districts.

Test-check of records of three²² selected DICs, revealed that during 2002-2007, 2,350 youths were imparted training under the above mentioned programmes at a cost of Rs 21.84 lakh but subsequent follow up for monitoring the establishment of industries/ventures set up by the trained youths was not ensured to ascertain the impact of operation and implementation of these programmes. Neither any reporting system existed nor any MIS/data base of trained youth had been maintained for the purpose.

5.1.10 Manpower control

5.1.10.1 Manpower management

Against 1,227 sanctioned posts of different categories of staff in the Department as of March 2007, there were 854 men in position leaving 373 posts of various categories vacant. These posts (177 functional and 196 non-functional) were lying vacant for five years or more as of March 2007 as given below:

Table: 5.4

Category	Sanctioned staff			Staff in position			Shortage		
	Functional posts	Non-functional posts	Total	Functional posts	Non-functional posts	Total	Functional posts	Non-functional posts	Total
Class-I	22	25	47	14	19	33	08	06	14
Class-II	87	34	121	64	30	94	23	04	27
Class-III	271	348	619	169	215	384	102	133	235
Class-IV	250	190	440	206	137	343	44	53	97
Total	630	597	1,227	453	401	854	177	196	373

Source: Departmental figures

²² GM, DIC, Kangra at Dharamsala; GM, DIC, Shimla and GM, DIC, Una.

The Director stated (May 2007) that the matter for filling up the posts was taken up with the Government during October 2005-December 2006 and only four posts of Managers were got filled up upto January 2007. The State Government thus failed to fill up vacant posts of critical functionaries like Managers, Silk Seed Production Officer, Assistant Geologists and Extension Officers, etc., which has a significant bearing on the functioning of the Department.

5.1.10.2 Office inspections not conducted

According to the Office Manual of the State Government, the Head of the Department was to draw up a calendar and either inspect the offices himself or depute an officer to inspect the office as per the time frame prescribed in the calendar.

It was noticed in audit that the Director had conducted inspection of only two out of 36 units during the period 2002-04 and 2006-07. The Director stated (February 2007) that required number of inspections could not be conducted due to non-filling up of vacant posts of inspecting officers. The reply is not acceptable, as more efforts should have been made by the Director to get the posts of inspecting officers filled up.

5.1.11 Inventory control

5.1.11.1 Non-preparation of store accounts

Finance Department issued instructions in July 1973 that the department/offices where the total value of stores had not fallen below Rs 5 lakh, should prepare accounts of such stores and submit the same by the end of June every year to the Accountant General.

It was noticed that the State Geologist procured computers (alongwith accessories), machinery and equipments, tents, etc., valued at Rs 32.62 lakh during 2002-06 but the requisite store accounts had not been prepared. He, however, stated (March 2007) that only two items above Rs 5 lakh were purchased during 2002-06. The reply is not tenable as item-wise value was not the consideration for preparation of store account but total value of all items of store was to be considered for this purpose.

5.1.11.2 Physical verification of stores

Financial Rules provide that physical verification of all stores should be done at least once every year by the Head of the Department.

It was noticed that out of 12 selected units, physical verification of stores such as office furniture and fixtures, LPG heaters, office equipments and miscellaneous consumable items in two units (GM, DIC, Una and Mining Officer, Una) was never done whereas, in six²³ units, annual verification of stores was found partially done during 2002-07. In the remaining four units, the physical verification had been carried out regularly. The value of stores where physical verification has either not been done or partially done worked out to Rs 40.58 lakh.

Non-conducting of proper physical verification of stores by the units at regular intervals as prescribed, reflected on the poor inventory management in the Department besides being fraught with the risk of pilferage of stores remaining undetected.

5.1.12 Internal audit arrangement

5.1.12.1 Non-establishment of internal audit wing

Internal audit system had not been introduced in the Department as of March 2007. The Director stated (February 2007) that this was due to imposition of ban on direct recruitment by the Government. The reply is not tenable, as it is for the management to ensure institution of requisite control mechanism by deployment of staff.

5.1.12.2 Pendency of Inspection reports

Audit observations by the Accountant General are required to be attended to by the Department within one month from the receipt of the Inspection Reports (IRs). It was, however, noticed that 70 IRs and 159 Paragraphs were

²³ Directorate of Industries, Shimla; GM, DIC, Kangra; GM, DIC, Shimla; GM, DIC, Solan; Mining Officer, Kangra; and SSPO, Nadaun.

pending for settlement as of March 2007 as detailed below:

Table: 5.5

Year	Opening balance		Addition		Settlement		Balance	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
Upto 2002-2003	87	232	12	100	25	131	74	201
2003-2004	74	201	05	31	18	90	61	142
2004-2005	61	142	19	105	11	89	69	158
2005-2006	69	158	05	26	09	44	65	140
2006-2007	65	140	27	114	22	95	70	159

Source: Departmental figures

The outstanding 70 IRs and 159 paras pertained to the period 1978-79 to 2006-07 and involved financial irregularities/implications of Rs 105.88 crore.

5.1.13 Conclusion

As brought out in the foregoing paragraphs, existence and enforcement of internal controls with regard to ensuring accountability obligations in respect of budgetary, financial and accounting functions were weak. There was inadequate control in implementation of schemes to ensure economical, efficient and effective operations and safeguarding resources against loss as also the recovery of loans and departmental revenue receipts. Besides, internal audit arrangements were also not instituted.

5.1.14 Recommendations

- ***Internal control system should be strengthened to make the working of the Department more effective and efficient.***

- *Proper system needs to be evolved and enforced to monitor various operational activities of the Department.*
- *Monitoring of recovery of overdue loans needs to be made more effective so as to eliminate the chances of bad debts.*
- *Internal audit should be introduced in the Department so as to cover all the units at prescribed intervals. Timely corrective action on the Inspection Reports issued by the AG should also be ensured.*

The Principal Secretary accepted (June 2007) the recommendations and assured that compliance would be reported soon.

Shimla
The

(Suman Saxena)
Accountant General (Audit)
Himachal Pradesh

Countersigned

New Delhi
The

(Vijayendra N. Kaul)
Comptroller and Auditor General of India