

CHAPTER-VII OTHER DEPARTMENTAL RECEIPTS

7.1 Results of audit

Test check of the assessment records and other connected documents pertaining to the departmental receipts in the departments of Co-operation, Energy, General Administration, Steel & Mines, Health & Family Welfare and Home during 2006-07 revealed non-realisation of revenue, non/short levy of revenue, etc., of Rs. 365.90 crore in 6,020 cases which broadly fall under the following categories:

(Rupees in crore)			
Sl. No.	Categories	No. of cases	Amount
1.	“Levy and collection of electricity duty” (A review)	1	129.82
2.	Non-realisation of revenue	5,278	40.93
3.	Non/short levy of revenue	173	153.00
4.	Other irregularities	568	42.15
Total		6,020	365.90

During the year 2006-07, the departments accepted non/short levy/loss of revenue etc., of Rs. 6.77 crore in 938 cases pointed out in 2006-07. Out of these the department realised Rs. 18 lakh in 10 cases.

A few illustrative cases highlighting important audit observations involving Rs. 129.82 crore including a review of “**Levy and collection of electricity duty**” are discussed in the following paragraphs.

7.2 Review of “Levy and collection of electricity duty”

Highlights

Failure of the Superintending Engineers to effectively scrutinise the returns submitted by the licensees led to non- levy of ED of Rs. 79.81 crore.

(Para 7.2.7)

Failure of the department to cross verify the records of Industries Department prior to allowing exemption under the Industrial Policy Resolution led to irregular exemption of ED of Rs. 22.82 crore.

(Para 7.2.8)

There was short levy of ED amounting to Rs. 11.06 crore in respect of domestic and commercial consumers.

(Para 7.2.13)

7.2.1 Introduction

The Orissa Electricity (Duty) Act, 1961, (OED Act) and Orissa Electricity (Duty) Rules, 1961 (OED Rules) regulate the levy and collection of duty on consumption of electrical energy in Orissa. Under the OED Act, every licensee who distributes power has the statutory obligation to collect electricity duty (ED) from the consumers at the prescribed rate for the energy supplied and deposit it into the Government account. Those who generate electricity for their own consumption are also required to make such deposit directly into the Government account on the basis of actual consumption.

The power sector in Orissa was restructured with the introduction of the Orissa Electricity Reforms Act, 1995 which came into force from 1 April 1996. The Orissa State Electricity Board (OSEB) which looked after the generation, transmission and distribution of power was unbundled and Grid Corporation of Orissa (GRIDCO), a Government owned company, was entrusted with the responsibility of transmission and distribution system. Subsequently, in April 1999 the distribution business of GRIDCO was privatised and transferred to four private distribution companies (DISTCOs)⁴⁶. The DISTCOs sell electrical energy to the consumers, realise ED along with energy charge and inspection fees (IF) for subsequent remittance to the Government account.

46 NESCO- North Eastern Electricity Supply Company, WESCO- Western Electricity Supply Company, SOUTHCO- Southern Electricity Supply Company, CESCO/CESU- Central Electricity Supply Company/Central Electricity Supply Utility

A review of the assessment and collection of ED was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000. The current review of levy and collection of electricity duty has revealed a number of system and compliance deficiencies which have been discussed in the subsequent paragraphs.

7.2.2 Organisational set up

The machinery for monitoring the revenue generation from ED and IF, rests with the Department of Energy headed by the Commissioner-cum-Secretary. He is assisted by one Engineer-in-Chief (Electrical) and two Chief Electrical Inspectors (CEIs), one each for generation and transmission and distribution (T&D) sector.

The Chief Engineer (Projects) cum CEI (Generation) is assisted by two Superintending Engineers (EIs) and six Executive Engineers (Dy. EIs) whereas the CEI (T&D) is assisted by six EIs and 13 Dy. EIs stationed at the head office, circles and divisions. The CEI, (T&D) and Chief Engineer (Project)-cum-CEI (Generation) are responsible for the levy and collection of ED and IF in respect of non-captive and captive electricity consumption and installations respectively.

7.2.3 Audit objectives

The review was conducted with a view to assess:

- the efficiency and effectiveness of the system of levy, exemption and collection of ED; and
- whether an adequate internal control mechanism existed to ensure proper realisation of ED.

7.2.4 Scope of audit

The review of “Levy and collection of ED” by the Department of Energy for the period 2001-02 to 2005-06 was conducted between September 2006 and March 2007. All the six inspectorates, four DISTCOs and 20 out of 62 distribution divisions of the DISTCOs were selected on the basis of collection of revenue for detailed check.

7.2.5 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Energy Department in providing necessary information and records for audit. The audit findings as a result of test check of the records were reported to the Government in May 2007 and discussed in the Audit Review Committee meeting held in July 2007. Responses of the Government to the audit observations have been appropriately incorporated in the review.

Audit findings

7.2.6 Trend of revenue

The Orissa Budget Manual stipulates that estimates of revenue receipts should show the amount expected to be realised during the year. Calculation of the amount expected to be realised should be based upon the actual demand including any arrear for the past years and the probability of their realisation during the year. The controlling officers of the administrative departments are required to submit departmental estimates of revenue to the Finance Department for preparing the budget estimate (BE).

The BE and the actual receipts under the head “Taxes and Duties on Electricity” during 2001-02 to 2005-06 were as under:

(Rupees in crore)

Year	BE	Actual realisation	Variation with reference to BE	
			Amount	Percentage
2001-02	150.00	136.96	(-) 13.04	(-) 8.69
2002-03	200.00	172.17	(-) 27.83	(-) 13.92
2003-04	220.00	200.43	(-) 19.57	(-) 8.90
2004-05	216.80	261.89	(+) 45.09	(+) 20.80
2005-06	280.00	353.13	(+) 73.13	(+) 26.12
Total	1,066.80	1,124.58	(+) 57.78	(+) 5.42

Thus, the actual realisation has been showing substantial annual growth during the above period. It was noticed in audit that while framing the BE, the department had taken into consideration only the IF realisable from cinema halls whereas IF relating to electrical installations of DISTCOs, generating companies, industrial and other category of consumers were not considered. Besides, the probability of recovery of arrears of past years was also not assessed which led to variation between BE and actual realisation.

The department attributed the reasons for substantial increase in actual realisation during 2004-05 and 2005-06 to increase in recovery of arrear dues of earlier years. It was further stated that as they failed to estimate additional collection of arrears, there was variation of BE with actual realisation during 2004-05 and 2005-06.

System deficiencies

7.2.7 Levy of ED

Under the provision of the OED Act and the Rules made thereunder, ED shall be levied at the prescribed rate on the consumption of electricity. The owners of the generating units have to pay the ED to the Government as per their actual monthly consumption and the licensees engaged in the distribution of electricity (DISTCOs) have to collect it from the consumers in their monthly bills and deposit it into the Government account. The licensees are required to submit monthly, half-yearly and annual returns in the prescribed manner to the EI concerned for scrutiny and verification with the books of accounts of the licensees. In case of any variation detected by the EIs after verification of returns, additional demand is to be raised on the DISTCOs which would be paid along with interest at the prescribed rates.

Audit scrutiny revealed that the department had failed to effectively scrutinise the receipt of the prescribed returns and the correctness of ED payable as per the returns. The omissions are discussed below:

7.2.7.1 Levy of ED on auxiliary consumption

The Government of Orissa issued instructions in November 1999 and January 2001 levying duty on auxiliary consumption⁴⁷ for captive generation units with effect from 6 November 1999. Interest at 18 *per cent* per annum is leviable in the event of delay in payment of the dues. The CEI (T&D) in September 2004 issued instruction to the EI (Generation), Keonjhar to raise demand for auxiliary consumption of NALCO alongwith interest at the prescribed rates.

Test check of the records of the EI (Generation), Keonjhar revealed that between November 2000 and March 2006, NALCO, Angul, a captive generation plant, utilised 2,779.666 MU of electricity towards auxiliary consumption on which ED of Rs. 52.68 crore was payable. Though the unit submitted regular returns mentioning the details of electricity utilised for auxiliary consumption, payment of ED was not made by NALCO along with the returns. **Failure of the EI to effectively scrutinise the return resulted in non-raising of demand.** This resulted in non-levy of ED of Rs. 73.56 crore including interest of Rs. 20.88 crore for delayed payment of ED, of which, Rs. 69.83 crore pertained to the last five years.

After the case was pointed out, the Government stated in September 2007 that action had been initiated to file certificate case for realisation of the dues. The reply, however, did not mention the reason for the inaction of the department to raise regular demands on the basis of returns filed by NALCO before this was pointed out in audit.

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Energy consumed in the process of generation by the power plants.

7.2.7.2 Levy of ED for internal consumption

As per section 3 of the OED Act, ED is leviable on self consumption of the generated electricity including internal consumption, whereas no ED is leviable on transformation loss. As per the Government of India (GOI) notification of March 1992 circulated by the EI, Berhampur in July 2003, the maximum transformation loss was limited to 0.5 *per cent* of the gross generation for hydro electricity projects.

Scrutiny of the annual accounts of Orissa Hydro Power Corporation Ltd (OHPCL) revealed that between April 2001 and March 2006, OHPCL generated 27,430.61 MU of electricity and exhibited 506.67 MU as transformation loss including internal consumption which was 1.8 *per cent* of gross energy generated as mentioned below:

(Quantity in MU)

Year	Gross generation	Transformation loss including internal consumption	Maximum admissible transformation loss	Internal consumption computed by audit
2001-02	6,448.02	110.18	32.24	77.94
2002-03	3,132.71	88.12	15.66	72.46
2003-04	5,951.37	129.25	29.76	99.49
2004-05	6,868.30	112.96	34.34	78.62
2005-06	5,030.21	66.16	25.15	41.01
Total	27,430.61	506.67	137.15	369.52

Though OHPCL submitted the aforesaid information in its monthly return to the department, yet the concerned EI failed to detect excess claim of transformation loss which was much higher than the maximum allowable percentage of transformation loss as notified by the GOI. **Thus, failure of the EI to review the returns/information in the light of the Act and the relevant notification led to non-detection of excess claim of transformation loss and consequent non-levy of ED of Rs. 7.03 crore.**

After the case was pointed out, the Government stated that transformation loss should not be treated as consumption for the purpose of ED. The reply is not tenable as the licensee showed transformation loss inclusive of internal consumption and the internal consumption was calculated by audit after deducting the maximum admissible transformation loss prescribed by the GOI.

7.2.7.3 Levy of ED on captive consumption

Under the provision of the OED Act, ED is to be paid to the State Government by those who generate electricity for their own consumption. In the event of delay in paying ED beyond 30 days, interest at the rate of 18 *per cent* per annum is leviable for the period of such delay. The captive generating stations are required to assess their own monthly consumption and submit information to the department and deposit the ED into the Government account.

Test check revealed that two industrial units consumed 76.448 MU of self-generated power during December 2004 to March 2006. The units submitted information every month to the EI regarding consumption of power but did not pay any ED on such consumption. **The EI failed to notice this and consequently did not raise any demand for payment of ED on consumption of electricity generated by the aforesaid units.** This resulted in non-levy of ED of Rs. 1.53 crore including interest payable for delayed payment of ED as mentioned below:

Sl. No.	Name of the industrial unit	ED not levied			Government reply	Rebuttal
		Period	Energy consumed (in MU)	Amount (Rs. in lakh)		
1.	Bijayananda Co-operative Sugar Mill Ltd., Bolangir	January 2005 to February 2006	2.7200	Principal - 5.44 Interest - 0.33	The firm is paying ED regularly whose records are available with EI (G), Jeypore	The reply is not tenable, because the EI (G), Jeypore could not produce any record in support of payment of ED and he further stated (November 2006) that necessary steps would be taken for realisation of ED.
2.	SMC Power Ltd.	December 2004 to March 2006	73.728	Principal 147.46	The basis of calculation made by audit is not based on technical principle. The EI (G), Jeypore has been asked to raise upto date demand.	The reply is not tenable because audit has calculated non-levy of ED based on 80 per cent power factor adopted for determination of security deposit for grid connection.
Total			76,448	153.23		

7.2.7.4 Levy of ED on consumption by Railways

Section 13 of the OED Act provides for exemption from levy of ED for energy consumed on the maintenance and operation of Railways. The department by issuing a notification in April 1992 limited the scope of exemption on railway traction⁴⁸ only. Thus, ED was leviable on the energy consumed by the Railways for any other purpose except railway traction from April 1992. Electricity consumed by the Railways for traction purpose is metered separately and classified as traction whereas for other purposes, Indian Railways is treated as a general purpose consumer.

Test check of the records revealed that in respect of seven connections, though two DISTCOs (WESCO and CESCO) supplied 49.35 MU of energy to the Railways for purposes not related to traction, yet ED on the said supply of energy was not collected by these DISTCOs. The DISTCOs exhibited the supply of energy to Railways in their monthly returns and also furnished the copies of consumer bills raised during the month. **The EI, however, failed to notice non-realisation of ED by the DISTCOs on energy consumed by the Railways for purposes other than traction.** As a result, ED of Rs. 1.23 crore on the energy consumed by the Railways was not levied and realised.

48 Drawing of engines and wagons

After the cases were pointed out, the Government stated that the EI (T&D) was directed (May and August 2007) to raise demand for collection of ED from Railways. The reply is silent regarding failure on the part of the EI to review the returns furnished by the DISTCOs and levy ED on energy consumed by Railways.

7.2.7.5 Levy of ED for consumption by sub-stations

As per the OED Act, duty on consumption of electricity is levied by the State Government at the prescribed rates from time to time. GRIDCO purchases energy from various generating units and sells it to the DISTCOs through its transmission system for consumption. In the process of transmission, besides the transmission loss, a part of energy is consumed in the grid stations and attracts ED at the prescribed rates.

Scrutiny of the records revealed that during 2001-02 to 2005-06, GRIDCO, Bhubaneswar purchased 75,194.727 MU of electricity, of which 30.851MU of electricity was consumed by its own sub-stations on which ED of Rs. 18.51 lakh was leviable. GRIDCO did not furnish returns regularly or in cases where returns were submitted, these were not supported by the payment particulars. **The EI also did not insist on regular submission of returns along with payment of ED and accepted the returns without the verification of the books of accounts of the licensee.** This led to non-levy of ED of Rs. 18.51 lakh.

After the case was pointed out, the Government stated in September 2007 that EI (T&D) was being requested to obtain the information and levy ED. The reply is silent regarding omission on the part of the EI to ensure regular submission of returns by the licensee along with payment particulars and non-verification of returns with the books of accounts

The Government may consider issuing instructions to the EIs making it mandatory to review the returns furnished by the licensees and verify these with the books of accounts, on the lines prescribed under the OED Act and Rules made thereunder.

7.2.8 Exemption from ED granted to captive power plants

Under the Industrial Policy Resolution (IPR), promulgated from time to time by the Government of Orissa, industrial units are granted exemption from payment of ED on fulfilment of certain terms and conditions. Besides, such incentives are payable upto a specified period and any unit is eligible for receipt of incentives under a particular IPR according to its date of investment of the fixed capital. The applications of the captive power plant owners are recommended by the Director of Industries (DI) and on the basis of such recommendations, the Department of Energy grants the exemption. As per IPR 1992 and IPR 2001, captive power plants in respect of which fixed capital investment commenced within the effective period of the IPRs were entitled to exemption of the ED payable. Under IPR 2001, an industrial unit opting to be treated as a new industrial unit was required to surrender and/or refund the

incentives availed, if any, under any earlier IPR. **There was no mechanism in the Energy Department to verify from the records of the Industries Department that the recommendation made by the DI was as per the provisions of the IPR.**

Test check of the records of EIs Jeypore and Keonjhar revealed that exemption from payment of ED claimed by three captive power plants was granted by the Energy Department. Cross verification of these claims with the records of the Industries Department revealed that these units were not entitled for exemption. **Failure of the department to install a mechanism for verification of these claims of exemption from the records of the Industries Department resulted in irregular exemption of ED of Rs. 22.82 crore as mentioned below:-**

Sl. No.	Name of the company/ industry	Reference of IPR	Date of commissioning	Inadmissible exemption period	Self generated units consumed (in MU)	Amount of ED leviable (Rs. in crore)	Reply of the Government	Comments of audit
1.	M/s Hindalco, Ltd. Hirakud	IPR 2001	31.03.05	April 05 to March 06	825.49	16.51	The industry was granted exemption on the basis of the recommendation of the DI.	The reply is not tenable as the industry did not refund the earlier benefits availed under IPR 1992 for its 67.5 MW generating units.
2.	M/s Nilachal Ispat Nigam Ltd. Duburi	IPR 2001	15.04.02	April 04 to February 06	311.49	6.23	It is under consideration of the Government	The reply is not tenable as no sanction was accorded for exemption from payment of ED.
3.	M/s Ispat Alloys Ltd. Balasore/ Balasore Alloys Ltd.	IPR 1992	07.06.96	November 01 to February 06	4.23	0.08	The unit has paid the arrears partly and committed to deposit the balance arrear.	The capital investment was made before the commencement of the IPR 1992 and hence was not eligible for any exemption of ED.
Total						22.82		

The Government may install a mechanism making it compulsory for the EIs to verify the records of the Industry Department before allowing any exemption under the IPRs.

7.2.9 Recovery and remittance of ED

As per the OED Act and Rules made thereunder, ED collected should be credited to the Government account within 30 days of the expiry of the month in which the duty was realised. Interest at the rate of 18 *per cent* per annum is to be levied in the event of delay in payment of ED. Any sum due on account of ED and interest if not paid within the prescribed time limit, is recoverable

as an arrear of land revenue. **Further, the EIs are required to review the returns submitted by the licensees and any difference of ED payable by them are to be promptly demanded, recovered and remitted to the Government account.**

7.2.9.1 Non-recovery of dues

It was observed that four DISTCOs did not collect ED of Rs. 6.82 crore from the consumers as of 31 March 2006. The year-wise break-up of the amount was not available. The EIs have not initiated tax recovery proceedings to collect the amounts as arrears of land revenue as mentioned below:

(Rupees in lakh)

Name of the company	Outstanding ED against permanently disconnected consumers
NESCO	265.64
WESCO	41.94
SOUTHCO	238.92
CESCO/CESU	135.23
Total	681.73

After the cases were pointed out, the Government stated in September 2007 that the outstanding dues were against large number of consumers located in different places under the supply area. So, there were practical difficulties in initiating certificate proceedings. The reply is not tenable because the department is required to initiate tax recovery proceedings as per the provisions of the Act. **Besides, this is also indicative of failure of the EIs to review the returns of the licensees and initiate prompt action for recovery of outstanding dues from the consumers.**

7.2.9.2 Non-remittance of ED

Scrutiny of the records of the four DISTCOs⁴⁹ in 20 electrical divisions revealed that between April 1999 and March 2006, three DISTCOs⁵⁰ in seven electrical divisions collected ED of Rs. 31.12 crore but remitted only Rs. 28.61 crore to the Government account. Balance of Rs. 2.51 crore was retained by three DISTCOs till the date of audit. The EIs also did not review the returns furnished by the licensees and the balance Government revenue of Rs. 2.51 crore remained with the licensees instead of being remitted to the Government account as mentioned below:

49 NESCO, WESCO, CESCO and SOUTHCO.

50 CESCO, WESCO and SOUTHCO.

(Rupees in lakh)

Sl. No.	Name of the DISTCO	Number of divisions	Period	ED collected	ED remitted	ED not remitted	Interest at 18 per cent leviable
1.	CESCO	3	April 2001 to March 2006	64.45	29.32	35.13	6.13
2.	WESCO	1	April 2001 to March 2006	2,843.60	2,831.26	12.34	2.22
3.	SOUTHCO	3	August 1999 to November 2003	203.81	Nil	203.81	85.60
Total		7		3,111.86	2,860.58	251.28	93.95

As the above DISTCOs did not deposit the collected amount in time, interest of Rs. 93.95 lakh was also leviable on them. The department, however, did not initiate any action against the defaulting DISTCOs for realisation of the unremitted revenues along with interest.

After the cases were pointed out, the Government stated that due to want of manpower the records of the DISTCOs could not be verified. Necessary steps were being taken to realise the unremitted amount. This shows apathy on the part of the Government/department to monitor the functioning of the licensees and recover Government revenue from them timely. Further development has not been reported (November 2007).

In order to streamline the system of monitoring the recovery of arrears of revenue, the Government may consider introducing reports and returns to be furnished by the EIs showing the upto date position of arrear of revenue, amount recovered during the period under report/return, amount which could not be recovered during the period under report/return and closing balance of arrears of revenue to be recovered at the end of the return period.

7.2.10 Arrears of revenue

Mention was made in the Report of the Comptroller & Auditor General of India (Revenue Receipts), Government of Orissa for the year ended 31 March 2003 regarding failure of the department to maintain ED accounts and to reconcile these with the DISTCOs from April 1999 resulting in adhoc depiction of arrears. Arrears of ED (both captive and non-captive) upto 31 March 1999 realisable from GRIDCO and other licensees was Rs. 114.67 crore. The department did not furnish information on arrears, for the subsequent four years upto 2002-03 consequent upon the privatisation of the DISTCOs, to audit. Arrears for the years 2003-04 and 2004-05 as reported by the department stood at Rs. 346.21 crore and Rs. 471.78 crore respectively. The position of 2005-06 could not be furnished by the department. The reported arrears as of 2006-07 were Rs. 533.12 crore.

The department stated that the position of arrears exhibited in the books of accounts of the DISTCOs were not reconciled with that of the CEI (T&D). **As the department had no other mean of ascertaining the position of arrears of revenue, these could not be included in the BE as well.** In the absence of realisable arrear position, the BE was prepared by the Finance Department on the basis of the trend of actual receipts of the preceding years. This is indicative of the fact that the department neither had any established system of gathering information on arrears of revenue nor had it taken effective steps to ascertain the position of the arrears of revenue.

7.2.11 Weak internal controls

7.2.11.1 Under the OED Act, the licensees are required to furnish periodical returns to the EIs within the stipulated time along with the ED payment particulars failing which they shall be guilty of an offence attracting punishment of imprisonment upto six months or fine upto Rs. 1,000. The returns furnished by the licensees form the basis for levy and collection of ED.

Test check of 47 out of 62 distribution divisions of the four DISTCOs revealed that 15 divisions did not submit the returns and 32 divisions submitted the returns irregularly with delays ranging from 1 to 18 months. The department did not initiate any penal proceedings and only issued formal letters for submission of the returns. Since the returns were the only means of ascertaining the amounts due, the department had no other mechanism to work out the arrears and assess the correctness of the amount of ED deposited by the licensees, due to non-submission/delayed submission of returns.

7.2.11.2 Register of demand, collection and balance of ED was not maintained by the EIs. **In the periodical returns submitted by the EIs to their higher officers, only the amount collected was reported without showing the year-wise break-up of the demand against which such collection was made. Therefore, the department is not aware of the position of arrears of revenue at any point of time.**

7.2.12 Internal audit

The internal audit wing (IAW) of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed systems are functioning reasonably well.

The department did not have any internal audit wing (IAW) and thus did not have an effective tool to ascertain whether its various wings were functioning reasonably well to ensure optimum realisation of revenue.

The Government may consider setting up of an IAW to monitor the levy and correctness of ED paid.

Compliance deficiencies**7.2.13 Short levy of ED on domestic and commercial consumption**

As per Rule 3 of the OED Rules, the licensee shall include the ED leviable under the Act as a separate item in the bill of charges at the prescribed rate and recover it along with the energy charges (EC). ED was leviable at the rate of 5 paisa and 15 paisa per unit in respect of domestic and commercial consumers respectively between April 2001 and December 2005.

Test check of the records revealed that between April 2001 and December 2005, four DISTCOs in 15 electrical divisions sold 3,728.692 MU of energy (domestic 2,937.51 MU and commercial 791.182 MU) to the consumers for which ED of Rs. 26.56 crore was leviable. As against this, the DISTCOs raised demand of Rs. 15.50 crore. This resulted in short levy of ED amounting to Rs. 11.06 crore.

After the cases were pointed out, the Government replied in September 2007 that the matter would be intimated to EIs (T&D) for their compliance. Further development has not been intimated (November 2007).

7.2.14 Non-levy of interest on belated payment of ED

Section 5 of the OED Act envisages that if duty is not paid to the Government within the prescribed period of 30 days, interest at 18 *per cent* per annum is leviable.

Scrutiny of the records revealed that though two companies⁵¹ paid/remitted ED to the Government account after delays ranging between 1 and 201 months, the department did not levy interest of Rs. 4.81 crore on the companies as mentioned below :

(Rupees in lakh)					
Sl. No.	Name of the industry/ licensee	Period of generation/ collection	Amount of ED paid	Date of payment	Interest leviable
1.	M/s Indal Hirakud Power	07/2003 to 08/2004	488.98	30.10.2004	55.14
		05/2005 to 07/2005	82.72	09.09.2005	3.81
2.	M/s GRIDCO, BBSR	1988-89 to 2005-06	836.99	12.01.2006	422.24
			5.14	03.04.2006	
Total					481.19

After the cases were pointed out, the Government stated in September 2007 that no authentic record was available with them. However, the matter had already been intimated to the appropriate authority for realisation of the dues.

51 M/s. Indal Hirakud Power & M/s. GRIDCO.

7.2.15 Non-adjustment of proportionate duty

Provisions under sub-section 2 of section 5 of the OED Act read with para 94 of Orissa Electricity Regulatory Commission Distribution (Condition of Supply) Code 2004, stipulate that the ED and interest thereon shall be the first charge on the amount recoverable by the licensee from the consumers, provided that in case of part payment by the consumers, the proportionate share of duty from the total allocation shall be adjusted first.

Scrutiny of the records revealed that in seven cases pertaining to three DISTCOs lump sum payments made by the industrial consumers and security deposits adjusted against outstanding dues were not apportioned towards EC and ED as mentioned below:

(Rupees in lakh)

Sl. No.	Name of the DISTCOs	Name of the consumer	Period involved	Total amount realised	Amount allocated towards ED	Amount to be allocated towards ED	Shortfall in realisation
1.	NESCO	Orissa Sponge Iron Ltd., Pallasponga	Adjustment of security deposit ⁵²	23.38	NIL	0.73	0.73
2.	-do-	Orissa Sponge Iron Works		76.41	NIL	2.39	2.39
3.	-do-	M/s Pankaj Industries Keonjhar	Jan. 2006 to Oct. 2006	300.57	1.39	14.50	13.11
4.	-do-	Ferro Chrome Plant J.K. Road (JRED, J.K. Road)	Nov. 1999 to Aug. 2005	8,430.53	402.42	463.84	61.42
5.	CESCO	NEELCHAL, Refractories (DED Dhenkanal)	Nov. 2003 to Sept. 2005	10.22	NIL	0.40	0.40
6.	-do-	IPI Steel (DED Dhenkanal)	June 2003 to July 2005	100.00	NIL	5.38	5.38
7.	SOUTHCO	M/s VBC Ferro Alloys Ltd. Rayagada (RED Rayagada)	June 2005 to Aug. 2005	124.42	NIL	4.42	4.42
Total				9,065.53	403.81	491.66	87.85

52 Period is not available.

The EIs, however, did not initiate any action to realise the ED dues from the DISTCOs. This led to non-adjustment of Government dues of Rs. 87.85 lakh.

After the case was pointed out, the Government stated in September 2007 that instruction was being issued to the concerned EIs (T&D) for verification of the cases and take necessary steps to realise the ED outstanding with the DISTCOs.

7.2.16 Exemption of ED for non-captive consumption

New industries availing of exemptions under IPR 1996 are exempted from payment of ED for five years on the basis of their contract demand (CD). As resolved in the review meeting held in the inspectorate on 21 September 2004, in the event of variation of the CD, the EI (T&D) would cancel the exemption benefit unless such variation is sanctioned by the Department of Energy on the basis of fresh recommendation from DI/District Industries Centre (DIC).

Test check revealed that M/s Shree Salasar Castings (P) Ltd which was enjoying exemption benefit under IPR 1996, enhanced its CD in April 2002. The EI (T&D), Rourkela subsequently withheld the exemption benefit in May 2006 for want of revised recommendation by the DI. In spite of withholding the exemption benefit, the company did not pay the ED for the period from April 2002 to May 2007. The department failed to review the return of the company and raise demand for payment of ED. This resulted in short raising of demand of Rs. 17.05 lakh.

After the case was pointed out, the Government stated in September 2007 that necessary instructions had been issued for recovery of ED from the company. The reply does not explain the reasons for the failure of the department to detect non-payment of ED by the company after the exemption benefit was withheld by it.

7.2.17 Conclusion

The Act provides for filing of returns by the licensees which are an important internal control measure to monitor the payment of ED and its correctness. The department had failed to effectively scrutinise the receipt of the prescribed returns and the correctness of ED payable as per the returns which led to leakage of revenue. The Government in extending exemption decides to forego revenue in pursuance of certain defined objectives. Exemption of ED was granted without verification of records in the Industries Department which resulted in grant of irregular exemption. There was no mechanism for proper monitoring of arrears of revenue and collection thereof. The internal control mechanism of the department was weak as is evidenced by the absence of an IAW which is a management tool for plugging leakages of revenue and non-maintenance of the prescribed registers.

7.2.18 Summary of recommendations

The Government may consider

- issuing instructions to the EIs making it mandatory to review the returns furnished by the licensees and verify these with the books of accounts, on the lines prescribed under the OED Act and Rules made thereunder;
- installing a mechanism making it compulsory for the EIs to verify the records of the Industry Department before allowing any exemption under the IPRs;
- introducing reports and returns to be furnished by the EIs showing the upto date position of arrears of revenue, amount recovered during the period under report/return, amount which could not be recovered during the period under report/return and closing balance of arrears of revenue to be recovered at the end of the return period; and
- setting up of an IAW to monitor the levy and correctness of ED paid.

7.3 Non-realisation of dues relating to the State Guest House

The State Guest House (SGH) offers boarding and lodging facilities including telephone and vehicles to visiting officials and dignitaries on payment at the approved rates. Such payments are made by the guests at the time of their check out on the basis of the bills prepared by the SGH. These payments are treated as departmental receipts and credited to the Government revenue. As per the provisions of the Orissa Treasury Code (OTC), these receipts, except in specific cases, are to be deposited in the treasury within three days and are not to be appropriated to meet the day-to-day expenditure. Further, retention of money in the shape of paid vouchers is strictly prohibited and advances paid for specific purposes to the Government servants and suppliers are to be adjusted within one month from the date of payment.

Scrutiny of the records of the SGH in May 2006 revealed that dues of Rs. 76.84 lakh were outstanding (as on November 2006) against guests on account room rent, food served, vehicle hire charges and telephone facilities availed of by them. As the SGH authorities did not take timely action for collection of dues, these have been outstanding in the books of accounts against various occupants. Out of the above dues, Rs. 65.75 lakh relate to the period prior to 2004-05 (Rs. 26.10 lakh has been outstanding for more than 10 years, Rs. 14.66 lakh for five to 10 years and Rs. 24.99 lakh for two to five years) and the chances of their realisation seem to be remote.

Further, the SGH receipts of Rs. 15.79 lakh collected between March 2005 and April 2006 from the guests were not remitted into the treasury but irregularly appropriated towards running expenditure of the guest house by depicting them in the cash book as outstanding advances and paid vouchers.

After the case was pointed out, the Manager, SGH cum Under Secretary to the Government stated in March 2007 that steps were being taken to debar the defaulters from availing of further accommodation in the SGH and to realise the outstanding dues by initiating action under Public Demand Recovery Act. The reply is not tenable as legal action for realisation of outstanding dues was yet to be taken. The reply is silent about the irregular appropriation of departmental receipts for meeting expenditure of the SGH.

The matter was referred to the Government in May 2007; their reply has not been received (November 2007).

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The

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The

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Annexure-I

(Reference Para 2.2.10.1)

Observations	Cuttack-I Range No. of cases	Sundargarh Range No. of cases	Puri Range No. of cases	Total cases
Main business place address is not available	3,051	3,455	5,485	11,991
Name of the owner of the business is not available	4,399	2,570	9,279	16,248
Business types (whether proprietorship, partnership, company etc.) are not available and shown as zero	1,017	768	1,530	3,315
Date of commencement of business is not available	4,716	1,146	6,260	12,122
Date of commencement of liability is not available	5,571	4,118	14,778	24,467
Partners details not available, though business type was stated as partnership	5,68	381	619	1,568