5.2 Department of Heavy Industry (Ministry of Heavy Industry and Public Enterprises)

5.2.1 Organisational set up

The Department of Heavy Industry under the Ministry of Heavy Industry and Public Enterprises is concerned with the development of heavy engineering industry, industrial machinery and auto-industry. It administers 48[9] Central Public Sector Enterprises (PSEs), a national level laboratory (Fluid Control Research Institute) and two non-operating holding companies. The industries covered by this department meet the requirements of equipments for basic industries such as steel, non-ferrous metal, fertilizers, refineries, petrochemicals, shipping, paper, cement, sugar, etc. The Department is also responsible for development of a wide range of intermediate engineering products like castings, forging, diesel, industrial gears and gear boxes. They cater to the need of goods and services for almost all sectors of the economy including power, rail, road transport etc.

The Department consults various industry Associations and evolves plans for the growth of industry and assists industry through policy initiatives, resolution of problems relating to tariffs and trade, promotion of technological collaboration, upgradation, research and development, etc.

The Department of Heavy Industry is headed by a Secretary who is assisted by an Economic Adviser, an Additional Secretary and three Joint Secretaries.

5.2.2 Financial Controls

Ministries/Departments are responsible for exercising effective control over the funds made available to them by the Parliament, through Budget Provisions and Supplementary provisions. Financial Rules require that every officer incurring or authorizing expenditure from public money should be guided by high standards of financial propriety. Every officer should also enforce financial orders and strict economy at every step and see that all relevant financial rules and regulation are observed by his own office and by Subordinate Disbursing officers.

[9] Of which 9 PSEs are closed and 5 PSEs are not in operation

5.2.3 Budgetary Control

The details of allocation of funds and expenditure incurred by the Department of Heavy Industry during the year 2003-04 to 2005-06 are given below: -

Table11: Expenditure incurred vis-à-vis funds allocated

(Rupees in crore)

Year	Budget Estimates (BE)		Revised Estimates (RE)		Expenditure		Percentage of Expenditure to Budget Estimates	
	Plan	Non plan	Plan	Non Plan	Plan	Non Plan	Plan	Non Plan
2003-04	100.00	500.65	85.00	790.81	84.91	753.57	84.91	150.52
2004-05	131.00	688.65	100.00	688.41	67.83	647.15	51.78	129.43
2005-06	406.00	463.10	500.00	710.76	382.53	1170.01	94.22	252.65

From the above it may be seen that while there was a saving of 48.22 *per cent* of the plan budget in the year 2004-05, the extent of excess expenditure in Non Plan over the Budget Estimates during the years 2003-04 to 2005-06 ranged between 29 and 153 *per cent*, which indicated poor budgetary control.

5.2.3.1 Persistent saving indicated inadequate pre-budget scrutiny

Scrutiny of Head/Scheme wise expenditure of 2003-04, 2004-05 and 2005-06 revealed that the total provision under various sub head/scheme had not been utilised, with the savings ranging between 44 and 100 *per cent* in the three years as detailed in **Annex III**.

This was indicative of inadequate pre-budget scrutiny of schemes/funds.

5.2.3.2 Rush of Expenditure

Rule 56(3) of the General Financial Rules (GFR), 2005[10] provides that rush of expenditure, particularly in the closing months of the financial year, shall be regarded as a breach of financial propriety. The Ministry of Finance has also emphasized every year that under an effective cash management system, not more that 33 *per cent* of the budget should be utilized during the last quarter. Rush of expenditure during the closing months of the financial years as shown below, reflects poorly on overall financial management implying lack of effective monitoring to ensure regular flow for expenditure.

[10] (Previously Rule 69 of GFR 1963) as amended upto 2002

Table 12: Rush of expenditure in the last quarter of the financial year

(Rupees in crore)

Year	Total expenditure	Expenditure from April to December	Expenditure in the last quarter i.e. January to March	Expenditure in March	Percentage of the expenditure in the last quarter/March
2003-04	838.48	590.54	247.94	176.25	30/21
2004-05	714.98	417.91	297.07	138.06	42/19
2005-06	1552.54	647.61	904.93	752.30	58/48

The Department in their reply with regard to the year 2005-06 stated (June 2006) that additional funds were required to meet the urgent expenditure under revival/restructuring schemes for PSEs and approval of Parliament was obtained through Supplementary Demands. However, it was observed that the major portion of supplementary demand was surrendered as it appears to have been taken without properly anticipating the fund requirement. No reply concerning the years 2003-04 and 2004-05 was given.

5.2.4 Administrative Controls

5.2.4.1 Control mechanism for watching utilisation of loans and grants

i) As per rule 226 (2) (v & vii) of GFR, 2005[11] the utilisation certificate should be furnished within a 'reasonable time' after the loan is paid to the institutions. The target date should, as far as possible, be not later than eighteen months from the date of sanction of the loan. The due dates for submission of the Utilisation Certificates should be specified in the letter of sanction for loan. The target date as specified should be rigidly enforced and extension should only be allowed in very exceptional circumstances in consultation with the Ministry of Finance under intimation to the Audit Officer. No further loans should be sanctioned unless the sanctioning authorities are satisfied about the proper utilisation of earlier loan sanctioned to an Institution.

It was observed that utilisation certificate amounting to Rs. 75.62 crore were outstanding as on 24.4.2006 from 14 PSUs.; details are given in **Annex IV**.

It may also be seen that the utilisation certificates were outstanding since 2000-01 and so it could not be ascertained if principal loans had been actually utilized for the purpose for which these were intended. No records were shown to audit from where it could be ascertained whether any correspondence was made with the PSUs to obtain U.Cs. Besides, no register was shown from where progress of pending U.Cs. could be

[11] (Previous Rule 151 of GFR 1963 as amended upto 2002)

examined/checked. This shows that the Ministry did not have a system to watch timely receipt of UCs and further release of loans. This is indicative of the weak controls in monitoring of grants.

ii) As per rule 212(1) of GFR, of 2005[12] in respect of non-recurring grants to an Institution or Organisation, a certificate of actual utilisation of grants received for the purpose for which it was sanctioned in Form GFR 19-A, should be insisted upon in the order sanctioning the grants-in aid. The Institution or Organization concerned should submit the Utilisation Certificate within twelve months of the closure of the financial year. The Ministry or Department concerned should scrutinize receipt of such certificate. Where such certificate is not received from the grantee within the prescribed time, the Ministry or Department will be at liberty to blacklist such Institution or Organisation from any future grant, subsidy or other type of financial support from the Government. Besides, as per instruction (May 2003) of Ministry of Finance, Department of Expenditure following a judgment of the High Court of Delhi, no fresh grant is to be released unless utilisation certificates for the previous grants were furnished.

An examination of the pending utilisation certificates revealed that in respect of the following public sector enterprises, the department released further financial support during the years 2002-03 to 2005-06 without verifying the receipt of utilisation certificate of previous years. This shows that there was no control in the department through which it could be ensured that grants were released only in those cases where outstanding utilisation certificates had been received.

Table 13: Financial support to PSEs without getting previous UCs

(Rupees in crore)

Name of Public Sector Enterprises	Year for which UC wanting	Value of U.C. Wanting	Year during which further grant given	Amount for which further grants given
Andrew Yule & Co. Ltd. Kolkata	2004-05	4.02	2005-06	6.00
Bharat Yantra Nigam Ltd., Allahabad	2003-05	1.29	2005-06	3.00
Heavy Engineering Corporation Ltd., Ranchi:	2003-05	0.43	2005-06	1.67
Hindustan Machine Tools Ltd, Secundrabad:	2003-05	8.00	2005-06	28.54

[12] (Previous Rule 151 of GFR 1963 as amended upto 2002)

Name of Public Sector Enterprises	Year for which UC wanting	Value of U.C. Wanting	Year during which further grant given	Amount for which further grants given
Tyre Corporation of India Ltd., Kolkata;	2000-02	2.90	2002-03 2003-04	8.78 3.02
Hindustan Salt Limited, Jaipur:	2004-05	6.15	2005-06	9.03

5.2.4.2 Outstanding guarantee fees

As per rule 248 (1) and (2) of GFR, 2005 all Government guarantees in respect of internal borrowings by Public Sector Undertakings would be subject to a guarantee fee of one *per cent* per annum on the outstanding amount at the beginning of the year and is payable in advance. Such guarantee fee should be levied before the guarantee is given and thereafter on the first of April every year. In case of non-payment of guarantee fee on the due date, the guarantee fee should be charged at double the normal rates for the period of default.

Scrutiny of records relating to guarantees given by the Department to HMT Limited revealed that guarantee fee amounting to Rs. 40.40 lakh being one *per cent* on Govt. of India working capital Bond of Rs. 40.40 crores for the year 2004-05 was still (March 2006) outstanding. For non-payment of guarantee fee, on due date, a penalty of Rs. 40.40 lakh was also leviable.

5.2.4.3 Huge outstanding loans and advances against Public Sector Enterprises

Loans are given to PSUs from time to time in accordance with approved Government policy and with specific terms and conditions. The repayment of loans should be effected by installment, which should ordinarily be fixed on annual basis. For default in repayment of loan, notice can be issued by the PAO who shall annually submit to Ministry a statement in Form GFR 20 showing details of outstanding loans. As per Rule 233 of the GFR, 2005[13] the Administrative Ministries should keep watch over the receipt of the annual statements in Form GFR 20 regularly from the Accounts Officer and conduct a close review of the cases of defaults in repayment of the installments of principal and/or interest due, as revealed from these annual statements and to take suitable measures for enforcing repayments of the principal and interest due.

[13] Previously Rule 164 of GFR 1963

i) A perusal of the status of outstanding loans given upto 2005-06 to 33 Public Sector Undertakings revealed that out of total loans of Rs. 5438.86 crore upto 31 March 2006, principal of Rs. 3354.12 crore was still outstanding. Besides, interest amounting to Rs. 13,761.40 crore was also recoverable from these 33 PSUs. Loans were outstanding since 1978-79. Year-wise breakup was, however, neither available with the PAO nor with the Department. Records revealed that the Department had not taken any steps so far to enforce repayments of the principal and interest due. Further, GFR 220 (3) (v)[14] provides that the Government should lay down a procedure for periodical review of the old loans so that prompt action can be taken, if necessary, for enforcing regular payments. It was, however, seen that no such procedure had been laid down for speedy recovery of loans.

ii) During audit it was noticed that the figures of outstanding loans in the records of the Ministry were not being reconciled with the records of the PSUs. A cross-check of figures of outstanding loans relating to Heavy Engineering Corporation Ltd. (HEC Ltd.) conducted by audit revealed that against the total loans of Rs. 1,24,874 lakh (Principal: Rs. 89,954 lakh plus interest: Rs. 34,920 lakh) depicted by the Ministry, HEC Ltd. was showing in its books loans of Rs. 9785.50 lakh only. Not only does this show lack of reconciliation between the records of the Ministry and the PSUs, it is also clear that there are no systems or procedures for such reconciliation.

5.2.4.4 Bill Register

As per Note 1 below Rule 34 of Receipts and Payments Rules, a Bill Register is required to be maintained in form GAR-9 by all the Heads of Offices, who are authorized to draw money on bills signed by them. The register should be reviewed monthly by a gazetted officer and the result of the review recorded therein to prevent presentation of fraudulent bills for payment.

Scrutiny of records for the years 2003-04 to 2005-06, however, revealed that the Bill Register was not maintained by the department in the specified form. Besides, the register had never been reviewed during the last three years, which carried a risk of non-detection of possible presentation of fraudulent bills.

[14] Previous Rule was GoI Decision (3) (d) below Rule 155

5.2.4.5 Acquitance of Pay and allowances and other payment

As per Rule 92 of CGA (R&P) Rules, 1983, the legal quittance in support of payment made is required to be obtained in an Acquitance Roll in Form GAR 24 for pay & allowances and on the office copies of bills for other payments. Besides, acquitance rolls and office copies of bills on which acquitance is obtained should be stamped as 'PAID'.

It was, however, noticed from the records for the years 2003-04 to 2005-06 that in respect of payments other than pay and allowances viz. TA/LTC, Medical Reimbursement, etc., acquittance was being obtained in acquitance rolls, instead of on the office copies of the bills as prescribed under the Rules. Moreover, neither acquitance rolls nor office copies of bills were stamped 'PAID'. Further, in respect of the payments made through acquitance rolls on pay day, the disbursement certificate at the foot thereof should invariably be signed by the Drawing the Disbursing Officer and stamped 'PAID' in token of the total amount disbursed. Scrutiny of records, however, revealed that total disbursed amount of the acquitance rolls were neither attested nor stamped 'PAID' in the Department of Heavy Industry.

5.2.4.6 Register of undisbursed pay and allowances

As per Note 2 below Rule 92(3) of CGA (R&P) Rules, 1983, an account of undisbursed pay and allowances should be kept in a Register in Form GAR 25. Entries of the total and particular amount undisbursed need to be made against each bill serially and subsequent payments thereof entered in the appropriate columns of the Register and the Cash Book. Each such entry is required to be attested by a Gazetted Officer.

It was, however, observed that the Register of undisbursed pay and allowance for the year 2003-04 to 2005-06 had not been maintained by the Department in the prescribed form and entries made therein had not been attested.

5.2.4.7 Contingent Advances

Contingent advances are required to be adjusted within one month from the date of payment/draws. Scrutiny of the Contingent Advances Register, however, revealed that contingent advances amounting to Rs. 9.90 lakh (2002-03: Rs. 0.27 lakh, 2003-04: Rs. 0.11 lakh and 2004-05: Rs. 9.52 lakh) paid by the department to its officials/private parties had not been adjusted so far (August 2006).

5.2.4.8 Functioning of Parliament Unit

This section was to function as a central coordinating point for all parliamentary work by transmitting all information received from the Lok Sabha or the Rajya Sabha to the concerned officers/sections without delay, ensuring timely disposal of all papers and monitoring that the assurances given to the Lok Sabha and the Rajya Sabha are fulfilled within a period of three months.

It was noticed that there was no monitoring to ensure the timely settlement of pending cases and no practice of submission of calendar of return. As many as 30 assurances detailed below were pending with the Department as on 31.5.2006.

Table 14: Details of pending assurances

Year	Lok Sabha	Rajya Sabha
2000-01	3	
2001-02	1	
2002-03	2	2
2003-04	3	
2004-05	3	2
2005-06	11	3
Total	**23**	**7**

5.2.5 Accounting Controls

5.2.5.1 Reconciliation of figures of expenditure/receipt

Para No. 1.9 of the Civil Accounts Manual (CAM) provides that the Principal Accounts Officer (PAO), wherever payments relating to a grant are handled wholly by a PAO of each Ministry is required to send in the prescribed proforma, a monthly statement showing the expenditure vis-à-vis the Budget provision under the various heads of accounts, to the Heads of Department responsible for overall control of expenditure against the grant of the Ministry as a whole. The figures so communicated by the PAO should be compared by the Heads of Department with those consolidated in Form GFR 12 and differences, if any, should be taken up by the Heads of Department with the PAO. The Head of the Department should furnish a quarterly certificate to the PAO certifying the correctness of the figures for the quarter. Besides, Para No. 1.10 of the Manual ibid provides for the reconciliation of the figures of receipts of a department by the DDO with the accredited bank and the PAO and the PAO with the bank.

It was observed that the reconciliation of figures of expenditure booked by DDOs and PAOs during 2003-04 had not been carried out by the

Department. Besides, no reconciliation of figures of receipt has been done by the DDOs during the year 2003-04 to 2005-06, in the absence of which it could not be ascertained whether all the receipts were remitted into bank and finally credited to Government account or not.

5.2.5.2 Maintenance of cashbook

As per Rule 13 of the Receipts & Payments Rules, the totals of the cash book are required to be verified by the Head of the office or by some responsible subordinate other than the writer of the cash book and initial it as correct.

However, it was observed that the Department was not following this practice as only the cashier was totaling the cashbook. Frequent surprise checks of the cash balance, which is an effective internal control to minimize the possibility of embezzlement had not been exercised by the Department during the years 2003-04 to 2005-06.

5.2.6 Internal Audit

Internal Audit is commonly described as the control of all controls. It not only checks whether control systems had been prescribed for different aspects of the functioning of an organization but also ascertains as to whether the controls were effective. The Internal Audit of the Department of Heavy Industry is conducted by the Internal Audit Wing of the Ministry of Heavy Industry and Public Enterprises and functions directly under the control of the Chief Controller of Accounts, Ministry of Industry.

Internal Audit Wing of Ministry of Industry exercises the checks on the initial accounts maintained in the subordinate offices to ascertain how far the rules and regulations, systems and procedure in accounting and financial matters have been followed including the scrutiny of the records relating to fund accounts, loans & advances and physical verification of stores etc.

5.2.6.1 Audit Planning

Audit planning done by the Internal Audit Wing during the year 2003-04 to 2005-06 was as under: -

Table 15: Arrear against units targeted for audit

Year	Target	Achievement	Arrear	Percentage of Arrears
2003-04	116	64	52	44
2004-05	134	63	71	53
2005-06	134	48	86	64

From the above table, it may be seen that more than 50 *per cent* of units planned for audit remained in arrears in the years 2004-06. The department attributed the shortfall to the shortage of staff.

5.2.6.2 Position of paras issued by the Internal Audit wing

The sanctioned strength of the Internal Audit Wing consisted of one AAO, one Sr. Accountant and one LDC. Audit of the Department of Heavy Industry is conducted annually and position of paras issued was as under:-

Table 16: Year wise breakup of paras added and settled

Year	Old Paras	Para added	Para settled	Closing Balance
2003-04	15	11	2	24
2004-05	24	17	12	29
2005-06	29	15	13	31

From the above, it may be seen that the number of old paras as well as the closing balance of number of para is increasing year after year, which is indicative of inadequate attention being paid to the findings of internal audit.

5.2.7 Response of the Ministry

The above findings were communicated to the Ministry in September 2006, its response has not been received (February 2007).

Recommendations

- **Budgetary control should be strengthened so that excess expenditure over Budget estimates and rush of expenditure in the last month of the year is avoided.**
- **Pre-budget scrutiny of schemes/activities should be done with great care so that funds may not have to be surrendered at the end of the year.**
- **The Ministry should monitor timely receipt of utilisation certificates from various bodies and further grants to them should not be issued in the absence of previous utilisation certificates.**
- **Ministry should follow laid down procedures for maintenance of records which are essential for internal control in the Department.**