

## CHAPTER III

### Transaction Audit Observations

Important audit findings arising out of test check of transactions carried out by the State Government companies and Statutory corporations are included in this Chapter.

#### Government companies

#### Madhya Pradesh State Mining Corporation Limited

##### 3.1 Loss of revenue due to non-invitation of tenders

**Non- invitation of tender for extraction and selling the Diaspore Crude and Pyrophyllite minerals resulted in potential revenue forgone to the extent of Rs. 23.06 lakh.**

Madhya Pradesh State Mining Corporation Limited (Company), invited (January 2005) limited offers for extraction and selling of minerals namely Diaspore crude<sup>12</sup> and Pyrophyllite<sup>13</sup> on experimental basis from mines at Kari in Tikamgarh District since Company was incurring losses when the minerals were extracted and sold on its own. In response to an offer received from Katni Bauxite Private Limited (firm), orders were initially issued (January 2005) for one year effective from January 2005 at the rate of Rs. 755 per MT for Diaspore crude and Rs. 840 per MT for Pyrophyllite with a clause that contract would be continued with six *per cent* increase in price every year.

On expiry of the existing contract the Company decided (December 2005) to call for limited tenders but legal advisor of the Company advised to delay the tendering process to avoid complications, as a Court case, initiated (2004) by one erstwhile agency, was pending. The tender notice was, however, issued (August 2006) but the same was deferred on the verbal orders of the Minister of Mineral Resources of the State on purported grounds of heavy rains. There was no necessity to approach the Government for seeking permission for inviting the tenders, yet the Company continued approaching on two to three

<sup>12</sup> A mineral form of a mixed aluminium oxide and hydroxide,  $AlO.OH$ .

<sup>13</sup> Pyrophyllite is a phyllosilicate mineral composed of aluminium silicate hydroxide;  $AlSi_2O_5OH$ .

occasions to obtain approval for inviting tender. This caused delay and the Company finally invited tenders on its own without any clearance from the Government.

The Contract with Katni Bauxite Private Limited was, thus, continued till February 2008. The Company, finally, called for (February 2008) tenders and the prices offered by Bundelkhand Associates at the rate of Rs. 3,500 per MT for Diaspore crude and Rs. 1,721 per MT for Pyrophyllite, were accepted in March 2008.

It was observed that before renewing the contract (January 2006) with Katni Bauxite Private Limited, one of listed contractor of the Company i.e. Devendra Minerals offered (December 2005) the rate of 10 *per cent* more than the existing rate and also offered 25 *per cent* more extraction than the quantity being extracted by the firm on the same terms and conditions. The offer of Devendra Minerals (December 2005) was not considered as the same was received through ordinary post and not against the tender. The Company, thus, comprehensively failed to notice the upward movement in price and remained tied in its relationship with the tenderer whose terms were not remunerative in Company's own interest though it had full freedom to terminate this non-lucrative arrangement in favour of better offer from others.

Thus, the existing contract was allowed to continue despite the fact that the rates were much lower, which was further corroborated by the fact that high rates were fetched in 2008. The Company could have earned additional revenue of Rs. 23.06 lakh if fresh tenders were invited after expiry of one year contract.

The Management stated (May 2009) that delay in invitation of tenders were caused due to some judicial and administrative reasons.

The reply is not convincing as the Company had the opportunity for augmenting the revenue which it did not avail.

The audit suggested that proper tendering procedure should be adopted for obtaining the best price advantage and transparency in selection of contractors.

The matter was reported (June 2009) to the Government; the reply is awaited (November 2009).

**3.2 Loss due to acquisition of commercially unviable quarries**

**Acquisition of commercially unviable quarries resulted in avoidable loss of Rs. 0.58 crore thereon.**

The Company is engaged in acquiring mining leases, raising and selling minerals and acting as intermediary for trading of minerals. As per State Government Minor Mineral Rules, 1996 the State Government entrusted the sand quarries to the Company on lease as well as on advance payment of royalty. Further, the Company also participates in open tender alongwith private parties and obtains mines/sand quarries from the District Collectors, on payment of auction value fixed in auction.

The State Government notification clearly stipulates that before participation in auction the status of mines/quarries, availability and quality of minerals etc is to be ensured by lessee. The Company, without analysing quality of sand in quarries, obtained 14 sand quarries (seven each in Hoshangabad and Raisen districts) through auction between 2005-06 and 2007-08 from the State Government. As per terms and conditions of auction, the Company paid Rs. 1.30 crore between 2005-06 and 2007-08 towards advance royalty for lifting of sand of 3.99 lakh cubic meters as estimated by the Company. As per prescribed procedure, if the quantity lifted is less than the estimated quantity, the unadjusted amount of royalty would lapse and be treated as expenditure.

Scrutiny of the records relating to these quarries revealed that during above period, the Company actually lifted only 0.74 lakh cubic meter sand which was sold at Rs. 0.72 crore. Thus, due to non-lifting of estimated quantity of sand for which royalty was paid, the Company was put to loss of Rs. 0.58 crore. The reasons for short lifting, as analysed (2007) by the Company, were non-assessment of quantity as well as quality of sand available in quarries and delay in taking up of possession of the quarries.

The Management stated (April/June 2009) that there was no demand for sand as the quality of sand from these quarries was poor leading to low sale of sand. Hence seven quarries of Hosangabad district were surrendered to State Government in 2008-09 and seven quarries of Raisen were allotted by the Company to a private contractor on 14 September 2008 for operation.

The reply is not convincing as the Company failed to evaluate the quality of sand before participation in auction and also failed to extract the estimated quantity.

Thus, due to poor judgment in selection and acquisition of quarries the Company suffered avoidable loss of Rs. 0.58 crore. It is recommended that technical assessment of quality and quantity of sand should be carried out before selection and acquisition of quarries.

The matter was reported (July 2009) to Government; the reply is still awaited (November 2009).

### **Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited**

#### **3.3 Loss due to short levy of premium and other charges**

**Acceptance of invalid application and non- application of relevant provision of rules caused a loss of Rs. 1.44 crore due to short-levy of premium and other charges and annual loss of Rs. 3.60 lakh by way of reduced lease rent.**

The Company has been engaged in the development of industrial infrastructure and allotment of plots for industrial use within its jurisdiction. As per orders (1981) of formation, the Company enjoys the same rights for allotment of land for industrial use as are vested with the State Government under Madhya Pradesh Industrial (Shed, Plot and Land allotment) Rules, 1974. As per Rules, the applicant is required to submit the application for allotment of land in the prescribed format containing all the details of proposed project alongwith 25 *per cent* of the prevalent premium.

The Board of Directors in their meeting (24 February 2007) enhanced the rates of premium from Rs. 120 per sq mtrs to Rs. 280 per sq mtrs effective from 24 February 2007 and reduced the advance premium amount from 25 *per cent* to 10 *per cent* to be accompanied with the application.

The Company received an application on plain paper through fax on 23 February 2007 from Force Motors Limited (firm) for allotment of 81,657 square meter land. On 24 February 2007, another application with a fee of Rs. 9.80 lakh being the 10 *per cent* advance premium was also received from the firm. On the basis of the application, the Company allotted (March 2007) 81,657 sq mtrs land on lease for 30 year to the firm. In regard to above, the audit observed the following:

- The application for allotment of land was received on 24 February 2007, i.e. on the date when the rates were enhanced from Rs. 120 per sq mtrs to 280 per sq mtrs, the land was allotted at the old rates i.e. on Rs. 120 per sq mtr. As such an undue benefit of Rs. 1.44 crore<sup>14</sup> was extended to the firm.
- The land allotted to the firm was actually not in the possession of the Company on 24 February 2007. Rather it was held by Kinetic Motors Limited who was allotted 7,21,360 sq mtr. of land earlier. Kinetic Motors Limited was actually permitted to surrender some portion of land (81,657 sq mtrs) during March 2007 and the land was finally

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<sup>14</sup> (Rs. 280- Rs. 120) \*81657 + 10 Per cent additional premium as per policy of the Company.

surrendered in January 2008. Thus, the Company actually did not possess the land on the date when the land was allotted to Force Motors Limited.

- The annual lease rent was also fixed at the old rates causing an annual loss of Rs. 3.60 lakh for a period of 30 years.

The Management stated (January and May 2009) that the firm had submitted a letter on 16 August 2005 showing interest in taking land proposed to be surrendered by Kinetic Motors and the matter was under correspondence with both the firms and the application received on 23 February 2007 was entered in inward diary on the same day. Government endorsed (July 2009) the views of the management. The reply is not convincing as the correspondence cannot be treated as application and the actual application in prescribed format was submitted only on 24 February 2007. Further, since the Company actually did not possess the land, it should have waited for the allotment till it got actual possession.

Thus, the Company was in great hurry to allot the land to the firm, which it actually did not possess. As a result undue benefit was extended to the extent of Rs. 1.44 crore with further loss of annual lease rent by Rs. 3.60 lakh per annum over the lease period of 30 years.

It is recommended that the allotment of land should be made only on receipt of application in prescribed format with necessary advance premium strictly as per Rules and responsibility of the concerned official should be fixed for above lapse.

### **Madhya Pradesh Audyogik Kendra Vikas Nigam (Ujjain) Limited**

#### **3.4 Short levy of transfer fee**

#### **Loss of Rs. 42.79 lakh due to non-adherence with Government directives while charging transfer fee.**

Madhya Pradesh Audyogik Kendra Vikas Nigam (Ujjain) Limited (Company) was incorporated (September 2008) as subsidiary of Madhya Pradesh Trade and Investment Facilitation Corporation Limited, Bhopal, as per State Government order dated 14 July 2008. The Company was engaged in the development of industrial infrastructure. As per orders of the State Government, the Company enjoys the same rights for allotment of land for industrial use within the Ujjain commissionerary area as are vested with the State Government in 1981. Further, all basic terms and conditions as amended from time to time, laid down by the State Government in this behalf are applicable to the allotment made by the Company. The plots and sheds allotted by the Company could also be transferred to another party on payment of transfer fee, as fixed by the State Government from time to time.

According to the Madhya Pradesh Industrial (Shed, Plot and Land allotment) Rules, 1974 amended on 1 April 1999, the transfer fee should be 100 *per cent* of the premium. The Company, however, did not take cognizance of the Government orders and charged transfer fee at 20 *per cent* of the premium from new industrial units to whom the land was transferred by old industrial units.

Thus, non-compliance of Government directives resulted in short collection of premium of Rs. 42.79 lakh in two<sup>15</sup> transfer cases finalised during November 2008 and January 2009.

The Management stated (April 2009) that the Company followed the procedure of Madhya Pradesh Audhyogik Kendra Vikas Nigam (Indore) Limited regarding allotment of land. The reply is not convincing, as the Rules of State Government regarding transfer of lands were required to be observed.

Thus, non-compliance of Government orders led to undue benefit to the transferees to the extent of Rs. 42.79 lakh. It is recommended that the compliance of Government orders should be scrupulously followed by the Company for collecting necessary fees.

The matter was reported to Government (May 2009); the reply has not been received (November 2009).

### **Madhya Pradesh State Civil Supplies Corporation Limited**

#### **3.5 Avoidable loss**

**Company did not dispose off old trucks and their uneconomic operation led to loss of Rs. 4.16 crore besides expenditure of Rs. 3.53 crore on idle staff towards salary.**

Under the centrally sponsored scheme of providing assistance for purchase of vehicles for running mobile shops<sup>16</sup>, the Madhya Pradesh State Civil Supplies Corporation Limited (Company) purchased (1986-1999) 58 trucks of various capacity to serve as mobile shops in tribal areas and also recruited drivers and cleaners/tulavaties<sup>17</sup> to operate these trucks. The said scheme was closed in July 2004 but the Company did not take any action to dispose of these trucks and to re-deploy services of drivers and cleaners/tulavaties to other jobs. Instead these old trucks were utilised by the Company for the transportation of foodgrains in small quantities to remote places in some districts, where

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<sup>15</sup> *VE Commercial Vehicles Limited (Rs. 27.18 lakh ) and Keshav Industries Private Limited (Rs. 15.61 lakh).*

<sup>16</sup> *Trucks functioning as Shops for distribution of food grain in Public Distribution Schemes (PDS).*

<sup>17</sup> *Weighers (who weigh)*

transport contractor discontinued their services. The Company, thus, on the operation of these trucks during July 2004 to March 2009 suffered loss of Rs. 4.16 crore as shown under: -

(Amount: Rupees in lakh)

Particulars	Years					Grand Total
	2004-05	2005-06	2006-07	2007-08	2008-09	
Vehicle running exp.	85.74	100.76	107.64	83.58	82.35	460.07
Repairs and Maintenance	25.82	19.79	19.77	17.54	17.95	100.87
Insurance	4.08	3.65	3.69	4.52	3.32	19.26
Total cost	115.64	124.20	131.10	105.64	103.62	580.20
Income apportioned by the Company*	55.12	25.65	23.90	23.00	36.48	164.15
Loss from operation	60.52	106.59	107.20	82.64	67.14	416.05

\* On the basis of rates applicable to transport contractors

It was observed that during the year 2005-06 to 2008-09, though the expenditure of Rs. 95.32 lakh was incurred as vehicle running expenses in Bhopal, Mandla, Sagar, Sidhi and Vidisha Districts yet no income was rationally apportioned against these District offices.

The Company, further, incurred Rs. 3.53 crore towards salary of 33 drivers and 28 cleaners/tulavaties deployed exclusively for operating these trucks during these years.

On being pointed out by audit (March 2009) the Company stated (April 2009) that after closure of the scheme these trucks were used wherever transport contractor could not ply their trucks, and that due to non-availability of sufficient load and running of empty trucks during return journey the trucks were running in losses. Further the services of the idle drivers /other staff would be utilised for other works. It was also stated that overall profitability of public distribution system should be seen instead of commenting on isolated aspects/Schemes.

The reply does not take into account avoidable nature of loss. For emergency requirement of transportation, the Company could have hired the trucks or retained only few trucks instead of retaining all 58 trucks and incurring sizeable operational and maintenance cost as well as expenses on idle staff. Further, the Company has not analysed the reasons for expenditure over the income for these trucks. Use of a small number of new trucks would have reduced the operation and maintenance as well as fuel costs.

The matter was reported to the Government (May 2009); the reply has not been received (November 2009).

### 3.6 Excess expenditure due to acceptance of higher rates for local transportation of foodgrains

**By accepting abnormally high rates for local transportation in Indore, the Company incurred excess expenditure of Rs. 64.73 lakh.**

The Company invites open tender for finalisation of annual transportation rates at district level and on the basis of offers, the Company finalises /approves annual transportation rate per MT/Km for various leads for transportation outside city area and per MT without consideration of distance involved for transportation within city area i.e. for local transportation.

Scrutiny of local transportation contracts for Indore revealed that during 2006-09, the rates finalised were abnormally high as compared to the rates approved in neighboring Dewas district, which is in close proximity with the Indore. Acceptance of higher rates by the Company, thus, led to excess expenditure of Rs. 64.73 lakh as under: -

Year	Local Transport rates per MT in Indore (Rupees )	Local Transport rates per MT in Dewas (Rupees )	Difference per MT (Rupees )	Transportation of foodgrains in Indore local with in the radius of maximum 8 kms (in MTs)	Excess expenditure on local transportation in Indore (Rs. in lakh )
1	2	3	4=2-3	5	6= 4x5
2006-07	166	73	93	34102.65	31.72
2007-08	171	87	84	30410.50	25.54
2008-09	195	111	84	8890.90	7.47
<b>Total</b>					<b>64.73</b>

It was further observed that rates of local transportation in Indore were also higher than those in other big cities like Bhopal, Jabalpur and Gwalior. The rates of same contractor for local transport in Indore district, however, was repeatedly found to be lowest for last ten years (i.e. 1997-98) as per received offers. This indicates that the Company failed to take any decisive action to bring down the high rates and continued to suffer financial loss in the Indore segment.

The Company stated (April 2009) that in Indore city, there was restriction on movement of trucks within the city during certain hours and further cartel formation by transporters kept the rate artificially high. The Company also accepted the lapses/ lacunae in existing tendering process.

The reply is not convincing as the Company acquiesced in the exploitation caused to it due to cartel formation by the contractor and did not try out innovative methods like transportation bidding on lead based rates along notified routes to serve destinations within the locality. Further, there was restriction on movement of trucks in Dewas city also.

The matter was reported to the Government (August 2009); the reply is awaited (November 2009).

### **Madhya Pradesh Power Generating Company Limited**

#### **3.7 Idle Inventory**

**Procurement of CTs costing Rs. 3.94 crore and without any confirmation from the generating station regarding probable dates of use has resulted in blockage of funds and resultant interest loss of Rs. 1.05 crore.**

Based on Company's decision ( March 2005) for complete replacement of top zone of Condensor Tubes ( CTs) for Unit IV of Sanjay Gandhi Thermal Power Station, Birsinghpur during Annual Overhauling (2006-07), orders were placed (April 2006) on two firms for supply of 10,000 numbers of Cupro Nickel Condensor Tubes at a cost of Rs. 2.19 crore. Subsequently, the Company found more tubes of Unit IV leaky/ damaged in the middle and lower portion of the condenser and it was not possible to replace them without disturbing the healthy ones as such all tubes were to be replaced. To obtain optimum condenser performance in bottom zone also, the Company decided (March 2006) to procure an additional 10,000 CTs. Accordingly extension orders were placed ( May 2006) on the same firms, without inviting fresh tenders, to supply the CTs at a cost of Rs. 2.19 crore on same terms and conditions as in original order.

Audit noticed (October 2008) that the Company replaced (September 2006) only 2000 tubes towards plugging, replacement of leaking tubes etc. Thus, the contention of the Company that it was not possible to replace CTs without disturbing the healthy ones and required replacement of all the tubes was incorrect and resulted in excess procurement than the requirement. As a result,18,000 CTs were lying idle in stock (January 2009) as the annual overhauling / capital overhauling of Unit IV was not carried out during 2006-07 to 2008-09 .

As per 'Performance Guarantee' clause included in Purchase Order, the Condenser Tubes shall be guaranteed for 18 months from the date of supply or 12 months from the date of commissioning whichever is earlier. The guarantee period is over, any defect due to poor workmanship if discovered later will not render the procured material liable for replacement at supplier's cost. Thus, procurement of CTs in excess of the requirement resulted in blocking up of funds on idle inventory to the extent of Rs. 3.94 crore and resultant loss of interest of Rs. 1.05<sup>18</sup> crore on blocked fund.

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<sup>18</sup> *Calculated at the existing borrowing rate (10 per cent ) of the Company from September 2006 to May 2009.*

The Management replied (July 2009) that the idle CTs were not utilised as annual overhauling /capital overhauling was not permitted on the Unit IV during 2006-07 to 2008-09 due to prevailing power position in the State and it shall be utilised whenever the long duration overhaul was carried out during 2009-10 or else utilised in other units of the generating station.

The reply is not convincing as the procurement of the CTs was not need based leading to idle inventory and the Company could have waited for firm confirmation from the generation station before initiating procurement action.

The matter was reported to Government (May 2009); the reply has not been received (November 2009).

### **Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited**

#### **3.8 Undue benefit to a defaulted consumer**

**Undue benefit extended to an HT Consumer in Morena by allowing payment of outstanding dues of Rs. 12.32 crore in monthly instalments of Rupees six lakh each spread over 17 years, resulted in loss to the Company.**

An HT consumer in Morena, was found (September 1999) involved in the theft of energy. The service connection was disconnected (October 1999) and the Board issued (March 2000) supplementary demand for Rs. 12.32 crore. Consumer requested the Board for resumption of supply and permission to pay supplementary bill in instalments. The Board directed the consumer to make down payment of Rs. 50 lakh which was paid by the consumer in September 2000 out of which, Rs. 25 lakh was adjusted against his supplementary bill. The Board then decided (January 2001) the payment plan according to which the consumer could pay 20 per cent of the dues as down payment and balance amount in 18 monthly instalments.

The consumer did not accept the above conditions and accordingly the service was not restored. The consumer filed (23 January 2003) a petition in Honourable High Court of Gwalior for reconnection. The Court dismissed the petition and decided (September 2003) the case in favour of the Company. The consumer again applied (September 2004) for reconnection and the same was provided in October 2004 by the Madhya Pradesh State Electricity Board without receipt of any down payment. A new power supply agreement was executed according to which outstanding dues of Rs. 12.32 crore were to be paid in instalments of Rupees six lakh per month along with monthly energy bill. The Company had recovered Rs. 3.61 crore including down payment Rs. 25 lakh from the consumer against the supplementary demand up to June 2009 and balance Rs. 8.71 crore was outstanding at the end of June 2009.

The decision of the Company / Board in restoring power supply to the defaulting consumer without receipt of down payment and permitting unusually long period of more than 17 years for payment of arrears violated Company / Board's own decision (January 2001) and resulted in undue benefit to a consumer who was found involved in power theft. In the process the Company also had to sustain a loss of Rs. 3.07 crore since net present value of Rs. 12.32 crore due for recovery over a span of 17 years and one month would amount to Rs. 9.25 crore discounted at Bank saving rate of interest of 3.5 per cent per annum.

Executive Engineer (O&M) Division, Morena, stated (January 2009) that the decision for recovery of outstanding in monthly instalment was taken in the meeting of Board of the Company (August 2004). The Company further replied (August 2009) that the demand made on the customer for theft of power was based on assessed units and not on the basis of actual units supplied to the consumer and therefore the consumer had shown inability to make the payment in the schedule (18 monthly instalments) permitted by the Board and finally it was decided by the Board to allow the consumer to pay in monthly instalments. It was also stated that there was no loss to the Company as there was no practice of charging interest in the permitted instalments for payment as monthly instalments was treated as demand itself.

The reply is not convincing as dues on theft of power were outstanding from March 2000 and as per Tariff Schedule for LT and HT consumers approved by MPERC, interest of one per cent per month or part thereof on the amount outstanding including arrears will be payable if the bills were not paid up to the due date. As the supplementary demand for Rs. 12.32 crore was raised on the consumer in March 2000, interest should have been charged on the dues while extending facility of payments in instalments to avoid loss to the Company. Besides non-receipt of electricity dues in time put burden on the Company to arrange working capital with considerable cost. Also with the Honourable Court's verdict in its favour the Company was free to reiterate its own decision made earlier which were more favorable.

The matter was referred to the Government (June 2009) and the reply had not been received (November 2009).

### **Madhya Pradesh Power Transmission Company Limited**

#### **3.9 Non-recovery of cost of unused material**

**Non-recovery of cost of material from contractor resulted in loss of Rs. 24.05 lakh.**

The Chief Engineer (EHT-O&M), MPSEB, Jabalpur placed an order (July 2005) with a firm in Indore, for erection of 132 KV Meghanagar-Jhabua-Rajgarh (Dhar) double circuit single stringing line for a total value of Rs. 1.70

crore. As per the work order, the Board will supply line material to the firm and the work should have been completed by September 2006 and on completion of work, the balance material shall be returned by the contractor.

During the period November 2005 to September 2007, the Company issued material valued Rs. 7.37 crore to the contractor. Reportedly as the area was unsafe from law and order point of view and miscreants create nuisance, the firm abandoned the work in December 2007 after executing (August 2007) the work of 132 KV Meghnagar- Jhabua portion of the line work and out of 166 locations of Jhabua-Rajgarh line work, the contractor completed stub setting of 54 locations and tower erection of three locations. The value of work completed was Rs. 62.93 lakh i.e. 37 per cent and the Company also paid (January 2006 to December 2007) the full amount of Rs. 62.93 lakh to the firm. The liability of the firm at the time of abandonment of the work was Rs. 24.05 lakh, including Rs. 22.83 lakh pertaining to the value of the material issued to the firm which remained unutilised.

The management stated (November 2009) that the financial interests of the Company were protected by way of the permanent security deposit of Rupees three lakh and the insurance policy taken by the firm for the line material issued was hypothecated in favour of the Company. Legal action against the firm will be taken if the contractor fails to clear the liability.

The reply is not convincing as the security deposit of the firm available with the Company was Rupees three lakh only which was inadequate as compared to the value of the line material issued to the firm and even the same was not forfeited. Further the insurance coverage is no longer available as policy has expired in January 2008. Under the circumstances the recovery is possible only through legal action. Though the contractor abandoned the work in December 2007, the Company had not initiated any legal action against the firm so far ( November 2009).

To safeguard its financial interest, the Company should have taken adequate security deposit /bank guarantee equivalent to the value of material supplied to the contractor before commencement of the work.

The matter was reported to the Government (July2009); the reply had not been received (November 2009).

### **Madhya Pradesh Power Trading Company Limited**

#### **3.10 Avoidable expenditure**

**Non-adherence to time schedule for payment to suppliers of electricity led to avoidable payment of surcharge for Rs. 1.33 crore.**

The Company purchases short term power from various private parties to bridge the gap between demand and supply. The Company issues Letter of

Intent (LOI) for purchase of power which *interalia* provide weekly payment to the suppliers in their designated account within seven days from the date of receipt of the bills. Such payments are further secured by a letter of credit (LOC) for 18 days of energy billing furnished by the Company. As per LOI, the Company is also eligible for a rebate of two *per cent* for prompt payment within seven days from the date of receipt of the bill and liable to pay surcharge at the rate 15 *per cent* per annum on payments outstanding after 30 days from the date of receipt of the bill. The cash flow mechanism, 2006 notified (June 2006) by the Government of Madhya Pradesh *interalia* stipulated that cash management function of all the six Companies (three discoms, generating, transmission and power trading company) will be carried out by Madhya Pradesh State Electricity Board and their letter of credit, escrow comforts, working capital will be maintained by it and has a first charge on entire revenue of DISCOMs on sale of power. However, it was the responsibility of the Company to open LOC and escrow and the Board will ensure honouring timely payments through them. But the LOC was not opened by the Company.

Scrutiny of records relating to Madhya Pradesh Power Trading Company Limited for the period March 2007 to May 2008 revealed that in 152 cases there were delays in payment ranging from 1 to 146 days (beyond 30 days allowed for payment of power suppliers bills) and thereby the Company paid surcharge amounting to Rs. 1.33 crore. Thus non opening of LOC in favour of the suppliers as per the terms of agreement and under Cash Flow Mechanism, coupled with non prioritisation of payment of interest bearing suppliers bills, led to the avoidable payment of surcharge to the suppliers.

Had the Company taken due care in opening of LOC as per terms of agreement in favour of short term power suppliers, it would have not only avoided payment of surcharge but also earned rebate of two *per cent* on timely payment of bills within seven days.

The matter was reported (September 2009) to the Government and Company; their reply is awaited (November 2009).

### **Statutory corporation**

### **Madhya Pradesh Financial Corporation**

#### **3.11 Loss due to non-recovery of dues**

**Release of loan without fulfillment of condition of agreement; and sanction of further loan despite default in repayment of first loan resulted in non-recovery of dues of Rs. 2.25 crore.**

The Corporation sanctioned a loan of Rs. 35 lakh to Sumit Foods, Guna in June 1995 for setting up a cold storage and ice plant with the condition that the entrepreneur will employ suitable qualified and experienced staff to the

satisfaction of the Corporation. Though the above requirement was not met by the applicant, the loan was disbursed in December 1998 (Rs. 30.38 lakh) and March 1999 (Rs. 4.62 lakh), with commencement of repayment from December 1999.

The firm did not pay even the first instalment of repayment of loan. Notwithstanding the above lapse on the part of the firm, the Corporation further disbursed a loan of Rs. 10 lakh to it in February 2000 with repayment due from March 2001. The Corporation served (May 2000) a legal notice under section 29 of the State Financial Corporations Act, 1951 to take over the assets of the firm but withdrew the same (March 2002) in consideration of continuous drought condition and further disbursed Rs. 2.25 lakh in April 2002 and Rs. 2.75 lakh in May 2002. Funded Interest Term Loan of Rs. 19.09 lakh was also sanctioned in March 2002 by transferring accumulated interest from first two loans. The firm paid only Rs. 3.34 lakh (Rs. 3.00 lakh in March 2001 and Rs. 0.34 lakh in October 2002) and the unrealised amount rose to Rs. 2.25 crore including interest upto 31 March 2009.

The Deputy General Manager, Gwalior of the Corporation, meanwhile, visited the plant (January 2007) and found that it was lying closed. The Corporation issued a legal notice in January 2007 to the borrower and the guarantors but took no further action despite clear provision under section 29 and /or section 31 of the State Financial Corporations Act, 1951 for issuance of Revenue Recovery Certificates proceedings.

The Corporation stated (June 2009) that the firm had no experience of running a cold storage and ice plant and it had submitted a rehabilitation proposal to the Directorate of Industries, under M. P. Small Scale Industries Revival Scheme and taking over of the assets without finalisation of the scheme would not be proper. The fact, however, remained that the unit did not evince any interest for rehabilitation as evident from its non-participation in meetings held in this regard on 24 March 2007, 18 September 2007 and 21 October 2008. The Corporation further stated (October 2009) that the amount shall be realised once the Department of Commerce and Industries informs that Rehabilitation proposal has been rejected.

The reply of the management is not convincing, as the Corporation had not initiated any concrete action to recover the dues while the loanee is not concerned about finalisation of rehabilitation package as well as repayment of loan.

The Corporation should immediately start recovery proceedings against the defaulting firm and also consider taking action against the defaulting officers for granting loan without observing principle of financial prudence and for failure to take timely action for recovery.

Thus, release of loan despite non-availability of qualified and experienced staff and sanction of further loan to the defaulter firm and absence of concrete action for recovery of dues led to non-recovery of dues of Rs.2.25 crore.

The matter was reported to Government (September 2009); the reply is awaited (November 2009).

### Outstanding paras of Companies/Corporations

#### 3.12 Opportunity to recover money ignored

**Seventeen PSUs did not either seize the opportunity to recover their money or pursue the matter to the logical end. As a result, recovery of money amounting to Rs. 118.84 crore remains doubtful.**

A review of unsettled paras from Inspection Report (IRs) pertaining to periods upto 2003-04 showed that there were 72 paras in respect of 17 companies/corporation involving a recovery of Rs. 118.84 crore. As per the instructions issued to all the Heads of the Departments by the Finance Department, Government of Madhya Pradesh, all inspection reports shall be replied alongwith note on remedial action taken/proposed to be taken within a period of four weeks after receipt of Inspection Reports. However inspite of these instructions no effective action has been taken by concerned PSU to take the matters to their logical end i.e. to recover money from the concerned parties. PSUs have, thus, lost the opportunity to recover the money, which could have augmented their finances.

PSU wise details of paras and recovery amount are given below:

*(Amount: Rupees in crore)*

Sl. No.	Companies/Corporation Name	No. of paras	Amount for recovery
1	Madhya Pradesh Leather Development Corporation Limited	1	0.90
2	Madhya Pradesh State Industrial Development Corporation Limited	1	0.64
3	M.P. Audyogik Kendra Vikas Nigam (Bhopal) Limited	4	0.78
4	M.P. Audyogik Kendra Vikas Nigam (Jabalpur) Limited	1	0.82
5	M.P. Audyogik Kendra Vikas Nigam (Indore) Limited	4	0.92
6	Madhya Pradesh Urja Vikas Nigam Limited	1	0.38
7	Madhya Pradesh State Civil Supplies Corporation Limited	6	11.69
8	Madhya Pradesh Police Housing Corporation Limited	6	0.27
9	The Madhya Pradesh State Agro Industries Development Corporation Limited	1	1.40
10	Madhya Pradesh Financial Corporation	6	19.47
11	Madhya Pradesh State Textile Corporation Limited	4	1.87
12	Madhya Pradesh State Tourism Development Corporation Limited	3	0.69
13	Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited	6	6.37
14	Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited	12	4.97
15	Madhya Pradesh Power Transmission Company Limited	3	0.22
16	Madhya Pradesh Poorva Kshetra Vidyut Vitaran Company Limited	2	6.68
17	Madhya Pradesh Power Generating Company Limited	11	60.77
	<b>Total</b>	<b>72</b>	<b>118.84</b>

The list of individual paras is given in **Annexure-10** for respective companies/corporation.

The paras mainly pertain to outstanding recovery on account of excess payment to employees and contractor, non-recovery of other dues/ loan etc. The cumulative effect of above lapses amounts to Rs. 118.84 crore as reflected in 72 individual paras issued after conducting audit.

Above cases pointed out the failure on the part of authorities of respective PSU to safeguard their financial interests. Audit observations and their repeated follow up action by Audit, include bringing to the notice of the Administrative/Finance Department and the management of respective PSU the pendency situation periodically, but without any improvement and change in the status as reported earlier. The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

The matter was reported to PSUs in October 2009, their replies are awaited (November 2009).

### **3.13 Lack of remedial action on audit observations**

**Eighteen PSUs did not either take remedial action or pursue the matter to logical end in respect of Inspection Reports paras, which led to foregoing the opportunity for improving their performance.**

A review of unsettled paras from Inspection Report (IRs.) pertaining to periods upto 2003-04 showed that there were 117 paras in respect of 18 PSUs which pointed out deficiencies in the functioning of these PSUs. As per the instructions issued to all the Heads of the Departments by Finance and Planning Department, Government of Madhya Pradesh, all the Inspection Reports shall be replied alongwith remedial action taken/proposed to be taken within period of four weeks after receipt of Inspection Reports. However, inspite of these instructions no effective action has been taken by concerned PSU to take the matters to their logical end i.e., to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU wise details of paras are given below:

<b>Sl. No.</b>	<b>PSUs Name</b>	<b>No. of paras</b>
1.	Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited	4
2.	Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited	5
3	Madhya Pradesh Power Transmission Company Limited	1
4	Madhya Pradesh Poorva Kshetra Vidyut Vitaran Company Limited	2
5	Madhya Pradesh Leather Development Corporation Limited	2
6	Madhya Pradesh State Industrial Development Corporation Limited	5

Sl. No.	PSUs Name	No. of paras
7	Madhya Pradesh Audyogik Kendra Vikas Nigam (Bhopal ) Limited	2
8	Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited	11
9	Madhya Pradesh State Mining Corporation Limited	3
10	Madhya Pradesh Urja Vikas Nigam Limited	1
11	Madhya Pradesh State Civil Supplies Corporation Limited	14
12	Madhya Pradesh Police Housing Corporation Limited	9
13	The Madhya Pradesh State Agro Industries Development Corporation Limited	7
14	Madhya Pradesh Financial Corporation Limited	2
15	Madhya Pradesh State Textile Corporation Limited	25
16	Madhya Pradesh State Tourism Development Corporation Limited	7
17	Madhya Pradesh Adivasi Vitta Evam Vikas Nigam Limited	3
18	Madhya Pradesh Power Generating Company Limited	14
	<b>Total</b>	<b>117</b>

The list of individual paras is given in *Annexure-11* for respective PSUs.

The paras mainly pertain to losses sustained by the PSUs on non disposal of assets, damage of stock, misappropriation of budget grants, blocking of funds and infructuous expenditure, excess payment and non enhancement of premium, non payment of royalties, loss on sale of materials and non recovery of differential rates, excess expenditure on construction of quarters, under utilisation of subsidy and sale of poor quality seeds, missing assets, non utilisation of grants, closures of emporia, loss on sale and disposal of stocks, loss due to fire, infructuous investment and excess expenditure on tourist centers etc. With regard to power sector companies the nature of audit observation mainly pertain to delay in completion of substations, blocking of funds, non collection of supervision charges etc. In financial terms Rs. 132.36 crore is involved in 117 audit observations which require action/attention of Government/ Management.

Above cases pointed out the failure on part of respective PSU to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow up by Audit, including the pendency position was brought to the notice of the Administrative/ Finance Department and PSU periodically. The situation however has remained unchanged.

The PSU should initiate immediate steps to recover the money and complete the exercise for improvement in a time bound manner.

The matter was reported to PSUs in October 2009, their replies are awaited (November 2009).

## General

### Follow-up action on Audit Reports

#### *Explanatory notes outstanding*

**3.14.1** Report of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices of Public Sector Undertakings and Departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Chief Secretary, Government of Madhya Pradesh had issued instructions (November 1994) to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on the paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertaking (COPU).

Though, the Audit Report for the year 2006-07 was presented to the State Legislature on 18 March 2008, four departments which were commented upon, did not submit explanatory notes on seven out of 21 paragraphs /reviews as on 31 September 2009. Department-wise analysis is given in the *Annexure-12*.

#### *Compliance to the Reports of Committee on Public Undertakings*

**3.14.2** The replies to recommendations of the COPU, as contained in its Reports, are required to be furnished within six months from the date of presentation of the Report by the COPU to the State Legislature. On the basis of recommendations of the COPU, no Action Taken Notes (ATNs) were received during 2008-09.

#### *Response to Inspection Reports, Draft Paragraphs and Reviews*

**3.14.3** Audit observations noticed during audit and not settled on the spot are communicated to the heads of the PSUs and the administrative departments concerned of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of administrative departments within a period of four weeks. Inspection reports issued up to March 2009 pertaining to 37 PSUs showed that 4,277 paragraphs relating to 1,856 inspection reports remained outstanding at the end of September 2009. Of these, 1,845 inspection reports containing 4,211 paragraphs had not been replied to for one to 23 years. Department-wise breakup of inspection reports and audit observations outstanding as on 30 September 2009 is given in *Annexure-13*.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of four weeks. It was, however, noticed that

replies to one review and 12 draft paragraphs forwarded to various departments between May 2009 to October 2009 as detailed in **Annexure-14**, had not been received (November 2009).

It is recommended that the Government should ensure that: (a) procedure exists for action against the officials who fail to send replies to Inspection Reports/ draft paragraphs/reviews as per the prescribed time schedule; (b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule; and (c) the system of responding to audit observations is revamped.

**Gwalior**  
**The**

**(Sanat Kumar Mishra)**  
**Principal Accountant General**  
**(Civil and Commercial Audit)**  
**Madhya Pradesh**

**Countersigned**

**New Delhi**  
**The**

**(Vinod Rai)**  
**Comptroller and Auditor General of India**