

## Overview

### 1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Madhya Pradesh had 40 working PSUs (36 companies and 4 Statutory corporations) and 10 non-working PSUs (all companies), which employed 0.36 lakh employees. The working PSUs registered a turnover of Rs. 20,735.68 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 12.76 *per cent* of State GDP indicating an important role played by State PSUs in the economy.

#### Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 50 PSUs was Rs 17,447.93 crore. It grew by 239.81 *per cent* from Rs. 5,134.61 crore in 2003-04. Power Sector accounted for 83.85 *per cent* of total investment in 2008-09. The State Government contributed Rs 2,940.55 crore towards equity, loans and grants/subsidies during 2008-09.

#### Performance of PSUs

During the year 2008-09, out of 40 working PSUs, 26 PSUs earned profit of Rs 113.70 crore and 10 PSUs incurred loss of Rs 3,233.83 crore for remaining four companies first accounts were not received. Working PSUs had accumulated losses of Rs. 6,497.80 crore.

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of

CAG shows that the State PSUs' losses of Rs. 365.76 crore and infructuous investments of Rs. 22.41 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

#### Quality of accounts

The quality of accounts of PSUs needs improvement. All 27 accounts finalised during October 2008 to September 2009 received qualified certificates from Statutory Auditors. There were 32 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

#### Arrears in accounts and winding up

29 working PSUs had arrears of 63 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts, if required. There were 10 non-working companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

#### Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 2004-05 onwards are yet to be discussed fully by COPU. These four audit reports contained 15 reviews and 69 paragraphs of which three reviews and 22 paragraphs have been discussed.

*(Chapter I)*

## Performance review relating to Government company

### Madhya Pradesh State Agro Industries Development Corporation Limited

The Madhya Pradesh State Agro Industries Development Corporation Limited (Company) was incorporated in March 1969 for establishment and promotion of agro based industries and allied activities. The performance audit of the Company for the period 2004-09 was conducted to assess efficiency and economy of the activities of trading fertilisers, pesticides, promotion and supply of Ready to Eat food (RTE), Bio fertilisers, cultivation activities at Mechanised Agriculture Farm, Babai (MAF) and implementation of National Biogas Programme. Ability of the Company to meet its financial commitments alongwith increase in the profitability by realigning the activities were studied besides the management and monitoring aspects.

#### Finance and Performance

The accumulated loss of the Company stood at Rs 9.90 crore against the paid up capital of Rs 3.30 crore as on 31 March 2007. The Company did not prepare perspective plan and their annual operational plans were delayed upto seven months. These annual action plans were not compared with actual achievements and thus lacked focus in setting up priorities.

#### Performance of RTE plant and Joint Ventures (JVs)

The Company failed to approach the State Government for procurement of sugar at Public Distribution System (PDS) rates, which had resulted in avoidable expenditure of Rs. 1.40 crore.

The Woman and Child Development Department of the State Government fixed the sale price of RTE on the basis of inflated cost data supplied by

the Company. Since uniform pricing was applicable to the Company as well as JVs, undue favour was extended to Rs. 16.83 crore to JVs and 1.88 crore to the Company. Further, undue favour of Rs. 1.49 crore passed on to JVs due to consideration of same transportation component for the Company as well as JVs though the Company's own plant was farther than the JVs plant.

#### Performance of Bio-Fertiliser Plant and Organic Manure Plant

The production by Bio-Fertiliser plant exceeded the demand leading to unsold stock. As the self life of Bio-fertiliser is of six months only, the Company incurred expenditure of Rs. 63.52 lakh for retrieval of lignite of Rs. 13.94 lakh only. Thus, expenditure of Rs. 49.58 lakh remained infructuous.

The Company established Organic Manure Plant of 22 MTs of waste per day at Bhopal out of city wastage /garbage. The production of manure was drastically reduced from 1,472 MTs to 263 MTs as sales did not pick up. Efforts were not made to increase sales.

#### Performance of Mechanised Agriculture Farm (MAF), Babai

The Company had 3,251 acres of land at Babai for cultivation since inception of which 2,444 acres land was levelled and made fit for cultivation. 231 acres land was used for building and roads. Despite passage of 38 years, 576 acres was still left as barren land. As a result, there was encroachment on 203 acres land valuing Rs 2.59 crore by Jhuggi dwellers/villagers. The Company did not achieve the norms in respect of cultivation of wheat and

tuar. Harvested crop of wheat & paddy were sold in open market at less than the minimum support price fixed by Government of India/State Government and thereby a loss of Rs.0.46 crore was incurred. The Company also failed in seed cultivation in 2005-06 and incurred loss of Rs. 0.77 crore on sale of sub-standard seeds. The by-product (Husk) produced from wheat cultivation during 2004-09 was not sold and hence revenue worth Rs.0.24 crore was forgone.

#### **Implementation of National Project on Biogas Development**

National Project on biogas development through setting up of biogas plants and distribution of financial assistance to the beneficiaries was implemented by the company.

Due to non receipt of completion certificates since 1991-92 to 2008-09, the Company could not render assistance of Rs 2.64 crore to the beneficiaries

#### **Conclusion and Recommendations**

The performance of the Company with regard to establishment and promotion of agro based industry was dismal as it failed to achieve the targets during 2004-08 and it did not venture into diversification in Agro based industries rather confined only to supply of RTE and farming at Babai. The review contained three recommendations which included reduction in operation cost , increase in efficiency and establishing system for realistic cost determination for RTE.

*(Chapter 2)*

### **3. Transaction audit observations**

Transaction audit observations included in the Report highlight deficiencies in the management of PSUs which had serious financial implications. The irregularities pointed out are broadly of the following nature.

*Infructuous, avoidable loss and extra expenditure of Rs 6.96 crore in five cases.*

*(Paragraphs 3.2, 3.5, 3.6, 3.9 and 3.10)*

*Undue benefit of Rs 11.12 crore to entrepreneurs/contractors in three cases.*

*(Paragraphs 3.3, 3.4 and 3.8)*

*Loss of interest due to blockage of funds and non-recovery of dues of Rs. 3.30 crore in two cases.*

*(Paragraphs 3.7 and 3.11)*

*Irregular expenditure of Rs 3.53 crore on excess/idle staff.*

*(Paragraph 3.5)*

Some important observations are below:

**Madhya Pradesh State Mining Corporation Limited** has forgone revenue of Rs.23.06 lakh due to non invitation of tenders.

*(Paragraph 3.1)*

Procurement of Condensor tubes by **Madhya Pradesh Power Generating Company Limited** without any confirmation from Generating Station resulted in blockage of funds of Rs.3.94 crore and resulted interest loss of Rs.1.05 crore.

*(Paragraph 3.7)*

Non-recovery of cost of material from contractor by **Madhya Pradesh Power Transmission Company Limited** resulted in loss of Rs.24.05 lakh.

*(Paragraph 3.9)*

Release of loan by the **Madhya Pradesh Financial Corporation** to a firm 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.

*(Paragraph 3.11)*