CHAPTER - IV

4. Transaction Audit Observations

Important audit findings arising out of test check of transactions of the State Government Companies are included in this Chapter.

Government Companies

Special Economic Zone Limited (Indore)

4.1 Avoidable Payment of Surcharge

Failure of the Company to make timely payment of energy bills resulted in extra expenditure of ₹ 31.74 lakh.

The Special Economic Zone (SEZ) Limited, Indore (Company) entered (October 2010) into an agreement with Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (MPPKVVCL) for supply of electricity required for industrial units located in SEZ. MPPKVVCL raises demand for energy supplied every month giving 13 days for payment by cheque and 15 days for Demand Draft (DD) from the date of bill. The payment made by cheques drawn/ DDs issued by State Bank of India, Industrial Estate (IE), Marimata Branch, are only treated as cash. Any instrument of other banks should be deposited three days earlier to the due date, failing which surcharge is leviable in terms of clause 2 of the agreement entered between the Company and MPPKVVCL. As the Company is subsidiary of Madhya Pradesh Audyogik Kendra Vikas Nigam (MPAKVN) (Indore) Limited, all the transactions are being carried out through the bank account of its parent Company MPAKVN (Indore) Limited.

On review (August 2012) of the payment of energy bills to MPPKVVCL, we observed that the Company remitted the energy bills during the years 2010-11 and 2011-12 after 15 to 17 days from the due dates, even though the Company was having surplus funds. Due to delayed payment, MPPKVVCL levied surcharge[1] of ₹ 31.74 lakh on energy bills. Besides, the payment was made through cheques of banks other than State Bank of India's, IE, Marimata Branch, as a result of which surcharge for three additional days was levied.

Though MPPKVVCL introduced payment of High Tension bill through Real Time Gross Settlement (RTGS) facility in December 2007, the Company made payment through cheques up to May 2011, leading to payment of surcharge till the date of clearance of the cheques. The RTGS facility was utilised from June 2011 only. Thus, failure of the Company to pay the energy bills on time, even when it had adequate funds, resulted in payment of surcharge of ₹ 31.74 lakh which was avoidable.

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[1] Penal charges at the rate of 1.25 *per cent* per month levied for delay in making payment of electricity charges.

The matter was reported to the Company/Government in May 2013, their replies are awaited (January 2014)

4.2 Avoidable Payment of Income Tax

Non-availing of Income Tax exemption resulted in avoidable payment of Income Tax and interest of ₹ 13.25 crore.

The Special Economic Zone (SEZ) Limited (Indore) was incorporated under the Companies Act, 1956 on 20 February 2003 for the purpose of development of land in SEZ with basic infrastructure such as construction of roads, drainage system, street light, water supply etc, and carrying out maintenance works in the SEZ. As per Section 80-IA (1) of the Income Tax (IT) Act, 1961, where the gross total income of an assessee includes any profits and gains derived by an undertaking of an enterprise from any business such as developing or operating or maintaining any infrastructure facility, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to hundred *per cent* of the profits and gains derived from such business for ten consecutive assessment years and as per Section 80-IA (2) of the IT Act, 1961, the above deduction, at the option of assessee, be claimed by him for any ten consecutive assessment years out of fifteen years beginning from the year in which the undertaking or the enterprise develops and begin to operate any infrastructure facility.

On scrutiny of records of SEZ Indore, we noticed (August 2012) that the Company was exempted from payment of income tax under Section 80-IA (4) (iii) of the Income Tax (IT) Act 1961. We further noticed that the Company paid an amount of ₹ 11.93 crore for the period from 2006-07 to 2011-12 towards income tax and interest of ₹ 1.32 crore for non-compliance of provisions of IT Act under section 234 (A,B,C)[2]. SEZ, however, did not avail the benefit under section 80-IA of the IT Act, 1961. This has resulted in avoidable payment of Income Tax of ₹ 13.25 crore.

The Management stated (August 2012) that there was no provision in the SEZ Act, 2005 for change in developer and as per provisions of SEZ Act, 2005 and Income Tax Act, 1961 and various rules made thereunder, tax exemption benefits is available only to the notified developer i.e. Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited.

The reply is not acceptable as the above provisions of Income Tax Act, 1961, provide that if an enterprise that develops a Special Economic Zone on or after the 1 day of April 2001, transfers the operation and maintenance of such Special Economic Zone to another Developer, transferee developer was eligible for exemption from payment of Income Tax.

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[2] In case the return of income for any assessment year is furnished after the due date or where the Advance Tax paid by assessee is less than 90 *per cent* of the assessed tax or if an assessee fails to pay Advance Tax.

The matter was reported to the Government in June 2013, their reply is awaited (December 2013).

4.3 Avoidable Expenditure due to improper planning

Improper planning in assessment of demand for purchase of power resulted in avoidable expenditure of ₹ 1.23 crore.

The Special Economic Zone (SEZ) Limited (Indore) was established as a special purpose vehicle as approved by the Government of Madhya Pradesh with the objective of promoting export based industries. In order to arrange supply of electricity to the industrial units in the Zone, the Company entered in to an agreement (November 2009) with Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (MPPKVVCL), for a contracted demand of 5000 kVA. In December 2009, the Company applied further additional load of 3000 kVA and an agreement was entered on January 2010. In May 2010, application for further additional load of 3000 kVA was made. The contracted demand of 8000 kVA was however increased to 10000 kVA (i.e. by 2000 kVA) and agreement was signed in July 2010, though the actual power drawn was more than 13000 kVA in the month of June 2010 itself. The Company made another application (August 2010) for further increase of load of 4000 kVA which was sanctioned (September 2010) with the approval of Madhya Pradesh Electricity Regulatory Commission (August 2010), subject to conditions[3].

We observed (August 2012) that the actual demand drawn by the company ranged between 11600 kVA and 14000 kVA during the period from April 2010 to September 2010, while the contracted demand for the above period was only 8000 kVA to 10000 kVA. Though the actual demand drawn by the Company was more than the sanctioned demand, the Company did not take immediate steps to increase the demand to match its requirement and as a result MPPKVVCL levied excess demand charges at the rate of 1.5 times for the first 15 *per cent* excess and for the remaining at the rate of 2 times of the normal demand charges, which amounts to ₹ 1.30 crore. Had the Company applied for the load of 14000 kVA in the month of April 2010 itself, it would not have to pay excess demand charges and only additional charge would have been levied at the rate of 3 *per cent* on the total amount of fixed charges and energy charges, which amounts to ₹ 7.00 lakh, for the period of April 2010 to September 2010. Hence by assessing the demand earlier, the Company could avoid the payment of extra expenditure of ₹ 1.23 crore[4]. The Company also failed to recover excess demand charge so paid, from the entrepreneurs or restrict them to keep actual load till enhanced load is sanctioned by MPPKVVCL so as to avoid levy and payment of excess demand charges. Thus, the Company bore the total excess demand charges itself.

The matter was reported to the Company/Government in August 2013, their replies are awaited (January 2014).

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[3] The supply of additional 4000 kVA is allowed till 31st March 2011.
The supply will be made at 33 KV line using multiple feeders.
The consumer has to pay additional charge at 3 per cent on the total amount of fixed charges and energy charges.

[4] ₹ 1.30 crore - ₹ 0.07 crore

Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited

4.4 Failure of undertaking a due diligence check in allotment of land

Failure of undertaking a due diligence check resulted in allotment of entire land at a concessional rate leading to loss of ₹ 30 lakh.

Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited (Company) a subsidiary of Madhya Pradesh State Industrial Development Corporation Limited is responsible for development of Industrial infrastructure in the area of Indore. The Company leases developed land to entrepreneur.

As per Government of Madhya Pradesh Industries Promotion Policy 2010 (November 2010) and working plan 2010, mega projects would be those industries having proposed fixed capital investment[5] of ₹ 25 crore or more and such projects would be provided land at 25 *per cent* of the prescribed premium rates, if the capital investment was made within a period of three years. Further, if the project cost was between ₹ 25 crore and ₹ 50 crore, maximum of five acre could be offered at concessional rate and if the project cost was between ₹ 50 crore and ₹ 100 crore, maximum of 10 acre could be offered at concessional rate.

The Company received (September 2010) an application for allotment of 36000 square meters (Sq Mtrs) plot in the Pithampur Industrial area of the Company, from M/s. Badve Engineering Private Limited (BEPL) for setting up a project for manufacture of automobile components. The prescribed premium rate for land in the industrial area (December 2010) was ₹ 400 per Square Metre (Sq Mtr). The Company allotted (January 2011) 30000 Sq Mtrs (7.5 acres) of land for the project, treating it as a mega industry.

We observed that the Company collected a premium of ₹ 30 lakh for 30000 Sq Mtrs of land computed at a concessional rate of ₹ 100 per Sq Mtrs. It was further observed that the total project cost was ₹ 53.70 crore inclusive of cost of land and site development of ₹ 6.20 crore. As the Company leases only developed land, inclusion of ₹ 6.20 crore as development cost by the industry viz. BEPL was not justifiable and had resulted in inflating the project cost. Had this amount not been considered, the project cost would work out to only ₹ 47.50 crore and as such the industry would have been eligible for allotment at concessional rate for only five acres[6] viz 20,000 Sq Mtrs (approx) of land. Hence for the balance 10000 Sq Mtrs land, normal premium of ₹ 400 per Sq Mtrs was chargeable.

The Management stated (June 2013) that the allotment of land has been made as per the provisions of Industrial Policy 2010 and the project cost shown by the BEPL was ₹ 53.70 crore and ₹ 6.20 crore which was shown as land and development cost was included in ₹ 53.70 core.

The reply of the management is not tenable as the Company leases only developed land. Besides, inclusion of ₹ 6.20 crore as land and development cost is not

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[5] Exclusive of working capital

[6] 1 acre = 4046 Sq Mtrs. (Rounded at 4000 sq meters)

justifiable as in the other cases of allotment, audit did not find inclusion of development cost to the overall project cost. By including the land development cost in the project cost, BEPL became entitled for additional 10000 Sq. Mtrs land at concessional rate. Thus the decision of the management to accept the project cost details as furnished by the industry without undertaking a due diligence check resulted in allotment of entire land at a concessional rate leading to loss of ₹ 30 lakh[7].

The matter was reported to the Government in May 2013, their reply is awaited (January 2014).

4.5 Loss of interest due to poor fund management

Absence of proper fund management system resulted in loss of interest income of ₹ 79.17 lakh, due to parking of huge cash balances in the savings accounts.

Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited (Company) a subsidiary of Madhya Pradesh State Industrial Development Corporation Limited is responsible for development of Industrial infrastructure in the area of Indore.

Scrutiny of records for the period of April 2011 to March 2013 of the Company indicated that the Company operates three saving accounts with Kotak Mahindra Bank (Indore) and the accounts are operated only for day to day transactions. A balance of ₹ 3.23 crore stood at the credit of the above three accounts at the end of April 2011 which accumulated to ₹ 22.89 crore at the end of March 2013. Besides, the Company had 11 other current accounts with various banks for day to day requirements.

It was seen in audit that the Company did not have any mechanism to periodically identify the availability of surplus fund to invest in term deposits. Had the Company followed fund management system for investing of surplus funds and parked it in term deposits, it would have fetched an additional interest of ₹ 79.17 lakh during the period April 2011 to March 2013. In order to safe guard its financial interest, the Company has to devise a suitable fund management mechanism for maximisation of returns on its funds.

The Management stated (September 2013) that it had earned interest of ₹ 43.97 lakh during the period from April 2011 to June 2012 and added that the notional rate of interest shown in audit para was not in conformity with the prevailing rate of interest.

The reply is not acceptable as the Company had parked its fund in the saving bank account of Kotak Mahindra Bank instead of depositing in term deposits at higher rate of interest[8] of the same Bank. Thus absence of suitable investment mechanism resulted in maintenance of surplus funds in savings accounts leading to additional interest loss of ₹ 79.17 lakh.

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[7] ₹ 400 – ₹ 100 = ₹ 300 * 10000 Sq Mtrs.

[8] @ 9 *per cent* per annum

The matter was reported to the Government in August 2013, their reply is awaited (January 2014).

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited

4.6 Loss of Revenue

Delay in issue of Supply availability notice and billing for the enhanced demand resulted in loss of revenue of ₹ 84.84 lakh.

According to clause 4.74 of the Madhya Pradesh Electricity Supply Code, 2004 (Code), issued (June 2004) by the Electricity Regulatory Commission, the prescribed time limit for serving of power availability notice for commencement of supply is 90 days if extension work[9] is involved and within 30 days if no extension work is involved from the date of entering into supply agreement with the consumer. According to clause 2.1 (n) of the Code, the date of commencement of supply means the day immediately following the day of expiry of the period of one month in case of Low Tension (LT) consumers and three months in case of High Tension (HT) consumers from the date of intimation to an intending consumer of the availability of power or the date of actual availing of supply by the consumer. Accordingly, billing for energy charges is to be done from the date of intimation of the availability of power or the date of actual availing of supply, whichever is earlier.

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (Company) was incorporated with the objective of distribution of power. M/s. Security Paper Mills (SPM), Hoshangabad an existing consumer applied (June 2009) for enhancement of its contracted load from 5000 kVA to 10000 kVA. The Company, however sanctioned (October 2009) an additional load of 3000 kVA and a supplementary agreement for enhanced load of 8000 kVA was entered into in January 2010. The General Manager (Operation and Maintenance) instructed (February 2010) the Deputy General Manager (O&M) to issue supply availability notice to the consumer so as to commence billing for the enhanced load (8000 kVA). The notice was however issued to the consumer only in June 2010. The consumer requested (June 2010) for commencement of billing from September 2010 due to delay in installation work of its new pulp mill and further requested (September 2010) for commencement of billing from 1 November 2010 due to non-completion of electrical work. Accordingly, the Company commenced billing for the enhanced load from 1 November 2010.

We observed (January 2012) that in terms of clause 4.74 of the Code, the Company should have issued supply availability notice for the enhanced load in February 2010 itself i.e. on completion of 30 days from the date of entering into the agreement in January 2010 and commenced billing from May 2010 onwards. As it was the responsibility of the Company to issue the notice as stipulated in code, delayed issue of notice by four months and further according permission for delayed billing, was irregular. This has resulted in loss of revenue of ₹ 84.84 lakh.

[9] Laying of new lines and establishment of feeder.

The Government stated (August 2013) that it had to augment its line for supply of enhanced load of 8000 kVA and on completion of the work in July 2010, supply availability notice was issued and the consumer was billed for the enhanced load from November 2010. Audit scrutiny however indicated that the work undertaken by the Company during this period was not related to the augmentation work of the Company for release of enhanced load but augmentation of conductor and replacement of deteriorated support of 33 KV lines falling within SPM premises as deposit work, which was the responsibility of the consumer in terms of clause 4.68[10] of the Code. Therefore, the Company should not have delayed the billing for enhanced load at the request of the consumer.

Thus, failure of the Company to issue the supply availability notice on time resulted in foregoing of revenue of ₹ 84.84 lakh.

4.7 Undue favour to the consumer by enhancing the load

Loss of revenue of ₹ 3.89 crore due to giving undue benefits to the consumer on account of extending additional load before non fulfilment of sanctioned letter conditions as per Electricity Supply Code, 2004 and non levy of additional charges on the excess load as per the MPERC Tariff.

According to clause 4.3 of Madhya Pradesh Electricity Supply Code 2004 (Code) "The cost of extension of distribution mains and extension or up gradation of the point of supply for meeting demand of new consumers shall be payable by the consumer". According to clause 4.12 of the Code the consumer shall get the work done within the time frame as provided in the Code, failing which the licensee may, on giving 15 days notice treat the requisition for supply or enhanced supply as cancelled. The time frame prescribed in the code for the completion of work was 90 days if extension work was involved and within 30 days if no extension work is required.

M/s Kakada rolling mill, Govindpura, an existing High Tension consumer with a contracted load of 2350 kVA made an application (December 2009) for enhancement of load by 1250 kVA. The Company intimated (January 2010) the sanction for additional power of 1250 kVA over the existing contract demand of 2350 kVA on 33 KV line subject to successful completion of laying new 33 KV feeder for a route length of 1.67 KMs of 33 KV line from the switching substation by the consumer.

The consumer requested (January 2010) for immediate release of the enhanced load and sought 12 months time for the enhancement work. Considering the additional revenue that can be generated through enhancement in load, the Company decided to release the additional load before completion of

[10] The clause 4.68 provides that consumer may take up the work of extension on his own and shall furnish to the licensee the test report and the permission from the Electrical Inspector to energise the installation.

enhancement work by providing power through the stand by feeder for Govindura. Though the maximum period for completion of the work of extension is 90 days in terms of the Code, the Company permitted a period of six months for executing the work of new 33 KV feeder and entered (April 2010) into an agreement for enhanced load of 3600 kVA effective from April 2010. Thus, the agreement was *ab initio* against the provision of the Code. Besides, no enabling provision was kept in the agreement to enforce billing as per existing load till the consumer complete the extension work and to terminate agreement in case of failure of the consumer to complete the work of extension within the period of six months.

We noticed (March 2012) that the consumer from time to time sought extension of time for carrying out the extension work beyond the period of the six months allowed in the agreement. The Management however did not initiate any action to discontinue supply at enhanced load on failure of the consumer to complete the work within the specified period nor did it bill on the basis of existing load, evidently because of absence of any enabling provision in the agreement. The work was actually completed in September 2013. Billing on the basis of regular enhancement of load instead of existing load resulted in the consumer drawing more power than that would be possible in terms of the code without paying penalty of ₹ 3.89 crore from April 2010 to March 2013 for such excess drawl.

Thus, agreement for giving additional load before fulfilling terms and conditions of the sanction (January 2010) and absence of suitable provision to secure interest of the Company resulted in undue benefit to the consumer. Besides, the standby feeder erected by the Company at its own cost remained unavailable for the purpose for which the investment was made.

The Government stated (September 2013) that the consumer was given time to complete the work of separate feeder, taking into consideration the best interest of the Company as it was giving regular revenue. They further stated that it could not discontinue the enhanced supply as the consumer was regular in payment of dues.

The reply is not acceptable as agreement was against the provision of the Code and the Company failed to secure its interest as it did not include provision in the agreement enabling it to bill the consumer on the basis of existing load and thereby lost additional revenue.

Madhya Pradesh Power Transmission Company Limited

4.8 Loss of Interest

Foregone revenue of ₹ 23.13 crore through tariff and consequential interest loss of ₹ 1.27 crore.

Madhya Pradesh Power Transmission Company Limited (Company), Jabalpur is engaged in transmission of electricity to the Distribution companies in the State of Madhya Pradesh. Till 2008-09, the Company treated the income earned on fixed deposits as non-tariff income as per the regulations of Madhya Pradesh Electricity Regulatory Commission (MPERC).

Due to change in its accounting policy in line with Accounting Standard (AS) -16, the Company in its annual accounts for the year 2009-10 accounted the interest earned during construction as a deduction from the interest paid against loans obtained for creation of capital assets.

The Company filed an application in October 2010 for True up[11] of Transmission tariff for the financial year (F.Y.) 2009-10 with MPERC, wherein it claimed the interest of ₹ 8.61 crore earned on deposits as a deduction from capital work in progress.

The MPERC added the interest of ₹ 8.61 crore earned by the Company to the non-tariff income and accordingly determined a net true up amount of ₹ 53.99 crore.

The Company filed a review petition in August 2012 with MPERC against the true up order requesting the Commission to revise the true up amount from ₹ 53.99 crore to ₹ 62.60 crore on the plea that the interest was deducted twice i.e. from capital work in progress and also by reckoning it as income. The claim of the Company was however rejected (September 2012) as MPERC was following a consistent approach by treating the interest earned as revenue income. On reduction of capital work in progress, MPERC directed the Company to provide asset wise interest income to be restored in its forthcoming tariff petition. The same methodology was adopted in the true-up petition for 2010-11 filed in February 2012. Even though the public hearing and clarification in regard to true-up of FY 2010-11 tariff was continuing till January 2013, i.e. till four months after the review petition on true-up order for FY 2009-10 was disposed of, the Company did not revise its true-up claim for 2010-11 by suitably increasing the value of assets corresponding to the asset wise interest income. As a result, in the true-up order of 2010-11, MPERC in February 2013 added back interest income of ₹ 14.52 crore to other non-tariff income without considering the effect on the capital work in progress.

Thus, the Company lost the opportunity for realisation of ₹ 23.13 crore[12] on the interest earned on deposits during 2009-10 and 2010-11. Consequently, the Company suffered loss of interest amounting to ₹ 1.27[13] crore till April 2013.

The Government replied (July 2013) that the amount would be restored in the assets value in the forthcoming tariff petition as ordered by MPERC in September 2012 and thus there would be no loss to the Company.

The reply of the Government is not acceptable as the Company filed its Multiyear tariff petition for the period 2013-14 to 2015-16 in February 2013, where also the asset value has not been proposed for restoration. The Company has so far (December 2013) not been able to determine the asset wise interest income to determine the extent of increase in the assets. As the Company has not filed any appeal against the MPERC order, it may not be able to claim deduction from non-tariff income. It may also not be able to succeed in restoration of asset value in

[11] True up petition is a tariff petition filed against the multiyear/yearly tariff issued by the Electricity Regulatory Commission after the actual expenditure incurred by the Company becomes known.

[12] ₹ 8.61 crore + ₹ 14.52 crore

[13] ₹ 1.27 crore (₹ 0.82 crore + ₹ 0.45 crore) @ 13 *per cent* per annum

the absence details on asset wise interest to be recapitalised and therefore, entire interest earned amounting to ₹ 23.13 crore may have to be foregone.

Madhya Pradesh State Mining Corporation Limited

4.9 Loss of revenue due to failure in enforcing the terms and conditions of agreement

The Corporation failed to enforce the terms and conditions of agreement for production of A grade rock phosphate resulting in loss of revenue of ₹ 14.71 crore and failed to levy penalty of ₹ 73.55 lakh for unexecuted quantity.

Madhya Pradesh State Mining Corporation Limited (Company) operates quarries and raises, sells and disposes the minerals namely rock phosphate, bauxite, dolomite, pyrophyllite, flag stone and sand. It excavates rock phosphate from its Mines at Hirapur and Meghnagar and sells through its sub offices at Sagar and Meghnagar. The Company entered (January 2010) into an agreement with M/s.Pappu Construction (Contractor), Mumbai for mining and crushing of rock Phosphate from its mines in Sagar and Chhatarpur. According to the terms and conditions of the agreement, the contractor has to mine and crush 7,80,000 cubic meters (M^3) of rock phosphate of approved grade viz. 'A' grade of 29 *per cent* phosphate and low grade of 18-20 *per cent* phosphate over a period of 10 years from June 2010.

The agreement inter alia provided that the contractor shall excavate mines according to the monthly schedule stipulated by the Company and failure to achieve the monthly schedule attracted penalty at the rate of five *per cent* of the value of unexecuted quantity. To obtain the approved quality of rock phosphate, the scope of work included hand picking or sorting of rock phosphate obtained from mine through blasting.

On the basis of monthly schedule, the contractor was required to mine 30,000 MT, 36000 MT and 36000 MT of 'A' grade rock phosphate during 2010-11, 2011-12 and 2012-13 respectively. The contractor however mined only 3028.51 MT and 559.14 MT of 'A' grade rock phosphate during 2010-11 and 2011-12 respectively. There was no production of 'A' grade rock phosphate in the year 2012-13. As per the agreement, for the shortfall in production of 'A' grade rock phosphate by 26971.49 MT, 35,440.86 MT and 36000 MT during 2010-11, 2011-12 and 2012-13 respectively, the contractor was liable for penalty of ₹ 73.55 lakh at the rate of five *per cent* of the value of unexecuted quantity. The Company is yet to recover penalty from the contractor (August 2013).

We further observed that due to shortfall in production by the contractor, the Company could not sell rock phosphate as planned resulting in foregone revenue of ₹ 14.71 crore during 2010-11, 2011-12 and 2012-13. The Company could have terminated the contract in case of violation of any clause of agreement by issuing 15 days' notice and forfeited the security deposit. Instead, the Company, in November 2011 i.e. one and a half years after commencement of production issued only a notice to the contractor for shortfall in production. No further action was taken against the contractor till December 2013.

The Management stated (August 2013) that the production of 'A' grade Rock Phosphate was not undertaken as there was no demand of Rock Phosphate and it would block the capital of the Corporation.

The reply of Management is not acceptable as demand in the market for 'A' grade Rock Phosphate should have been assessed by the Company before entering into agreement for production. Besides, non-production of 'A' grade Rock Phosphate was not as a result of Company's request to reduce production and the Company had issued notice against shortfall in production. Further, in reply to another audit paragraph on mining of phosphate in Hirapur mines during 2011-12 and 2012-13, the Company assured that it would maximise the production from Rock Phosphate mines.

Thus, the Company had foregone revenue of ₹ 14.71 crore due to failure to enforce the production schedule of different grade rock phosphate and also failed to levy penalty of ₹ 73.55 lakh at the rate of five *per cent* of the value of unexecuted quantity.

The matter was reported to the Government in June 2013, their reply is awaited (January 2014).

4.10 Avoidable Expenditure in award of contract

Undue benefit extended to the contractor in awarding of contract for mining of Rock Phosphate resulted in avoidable extra expenditure of ₹ 4.82 crore.

The Madhya Pradesh State Mining Corporation Limited (Company) decided to undertake mining and crushing of rock phosphate from its Kachaldara mines in Meghnagar through engagement of a contractor and invited tenders (July 2009) for mining and crushing of one lakh Cubic Meter (M^3) of rock phosphate per annum for a period of ten years. The conditions of tender inter alia included that the tenderer must have an annual experience in excavation of 75,000 M^3 in *major* minerals during the preceding three years. The Company received five tenders. The lowest tenderer was, M/s. Katni Bauxite Private Limited, Satna a Joint Venture (JV) of the Company, who quoted the rate of ₹ 272 per M^3 (₹ 216 for mining and ₹ 56 for crushing). The second lowest rate was from M/s. Pappu Construction who quoted ₹ 344 per M^3. The Company, while considering the lowest tender, imposed a condition that any loss suffered from the operation of Kachaldara mines would not be set off against the profits of the JV as the Company had a stake holding of 11 *per cent* in the JV. Aggrieved by the condition, M/s. Katni Bauxite filed a writ petition, in the High court. The court directed (May 2010) the Company to invite fresh tender with directions to allow M/s. Katni Bauxite to participate in re-tender.

Accordingly, the Company floated (October 2010) re-tender in which it included a new condition that the tenderer must have previous experience in excavation of one lakh M^3 of *rock-phosphate* in last three years. Reason for introduction of the new condition was not on records made available to audit. In response to above, three tenderers including M/s Pappu Construction participated and the rate of ₹ 272 per M^3 by Katni Bauxite was the lowest. The Company however again invited tender in December 2010 on the ground that opening the price bid of M/s. Katni

Bauxite in second tender was not correct, as it did not technically qualify in regard to experience in the mining of rock phosphate. In response to the tender, the Company received two bids, in which rates of M/s. Pappu Construction at ₹ 573 per M^3 was the lowest. The Company accepted the offer of M/s. Pappu Construction and accordingly entered into an agreement in March 2011 to undertake the work of mining and crushing of rock phosphate from Kachaldara and Gwali group of Mines, Meghnagar.

In this connection the following are the audit observations:

- In the first tender, the Company was not inclined to accept the lowest offer quoted by M/s. Katni Bauxite on the ground that any loss incurred in the contract would affect the profitability of the JV Company which would in turn have impact on dividend receipt in respect of 11 *per cent* shareholding of the Company. The condition imposed by the Company was against the provisions of the Companies Act on declaration of dividend. Besides, rejection of offer on this ground lacked justification as the Company received only a nominal dividend of ₹ 80850 during 2008-09 and 2009-10.

- In the second tender, the Company was well aware of the production activities of Katni Bauxite and incorporation of a condition on experience in rock phosphate amounted to disqualifying the firm and against the judgement of the High Court, which gave directions to allow Katni Phosphate to participate in the re-tender.

- M/s. Pappu Construction quoted ₹ 344 per M^3 in first tender and ₹ 573 in the third tender. The Company, however did not conduct price negotiations though there was difference of ₹ 229 between first and third tender. The Company even ignored the fact that the contractor was awarded similar work in January 2010 at ₹ 403 per M^3 for mining and crushing the same grade product at Hirapur mines.

During the year 2011-12 and 2012-13, a quantity of 1,06,326 M.T. and 1,33,875 MT of Rock Phosphate respectively was excavated. By not accepting the L1 rate in the first tender, the Company incurred avoidable extra expenditure of ₹ 4.82 crore[14] during the year 2011-12 and 2012-13 along with committed recurring additional expenditure of ₹ 24.08 crore[15] for the remaining period of the contract.

The Management stated (August 2013) that the rates offered by M/s Katni Bauxite Private Limited were not practical and the rates of Hirapur mines cannot be compared as the nature and condition of the minerals of both the mines are different.

The reply is not acceptable as Katni Bauxite is engaged in the business of mining and dismissing the rates of its own joint venture Company which had experience in mining of major minerals as unworkable was not in the financial interest of the Company. The reply did not also explain the difference of ₹ 229 per MT in rates offered between first and third tenders by M/s. Pappu Construction within a period

[14] (106326 MT + 133875 MT)* ₹ 200.67
[15] 150000 M.T. * ₹ 200.67 * 8

of 18 months, though it represented an increase of 67 *per cent*. Thus failure of the Company to consider the rates obtained in the first tender for this mine and the rates quoted for other mines by M/s Pappu Constructions had resulted in extra expenditure to the Company.

The matter was reported to the Government in June 2013, their reply is awaited (January 2014).

4.11 Development and Mining of coal blocks in the state of Madhya Pradesh

4.11.1 Introduction

Ministry of Coal, Government of India (GoI) has the overall responsibility of framing policies and strategies for exploration and development of coal reserves. Considering the increasing gap between demand and supply and to reduce dependence on imports, Government of India framed guidelines (1993) for allocation of coal blocks to private players and Public Sector Enterprises (PSEs). According to the GoI guidelines as amended from time to time, allocation of blocks to the PSEs were to be made either for captive use or for commercial mining on an application received from the State Government.

In the State of Madhya Pradesh, on the basis of applications made by the State Government between 2002 and 2006, the Madhya Pradesh State Mining Corporation Limited (MPSMCL) was allotted 10 coal blocks by the Ministry of Coal, GoI (MOC) during 2006-2007. As per the conditions of letter of allocation, the prospecting/detailed exploration and coal mining shall be carried out by MPSMCL or a separate company to be created with participation of MPSMCL provided that separately created company is a Government company eligible to do coal mining as per the provisions of the Coal Mines (Nationalisation) Act, 1973. MPSMCL selected (between June 2005 and June 2009) Joint Venture partners namely Sainik Mining and Allied Services Limited, Jaiprakash Associates Limited, ACC Limited and Monnet Ispat Limited for development of these blocks. The status showing date of allotment by MOC, end use, name of Joint Venture (JV) partner, date of invitation of expression of interest by MPSMCL, facilitation fee, geological/ mineable reserve etc. of the allotted 10 coal blocks is given in ***Annexure-4.1.***

Shortcomings noticed in selection of JV partners by MPSMCL, exploitation of mines by JV Company and other activities have been discussed in succeeding paragraphs.

4.11.2 Selection of Joint Venture partner for Amelia coal block

Allotment of the Amelia coal block to ineligible bidder on the basis of single tender resulted in loss of opportunity to get higher facilitation fee.

The Government of Madhya Pradesh (GoMP) applied (December 2002) to MOC for allotment of Mahan coal block. MOC in March 2005 intimated that it would not be possible to allot the Mahan coal block and in lieu of Mahan coal block, offered to consider allotment of Amelia/Amelia North coal block. MPSMCL on behalf of the State Government accordingly requested (May 2005) for allotment of the two coal blocks, which were allotted by MOC in January 2006.

The MPSMCL in anticipation of allotment, invited (July 2003) expression of interest for selecting a joint venture (JV) partner for Mahan coal block. Only one company, viz. Sainik Mining and Allied Services Limited (SMASL), submitted (1 September 2003) their bid within the scheduled date of bid submission. The Letter of Intent (LOI) was awarded to SMASL on 23 September 2003. The MPSMCL entered in to a JV agreement (June 2005) with SMASL for mining at Amelia coal block which was likely to be allotted to MPSMCL in lieu of the Mahan block.

GoI reiterated in the allotment letter (January 2006) that MPSMCL would do coal mining in accordance with the provisions of Coal Mines (Nationalisation) Act, 1973. According to the Act, the Central Government, a Government Company including a State Government Company and a Corporation owned, managed and controlled by the Central Government is eligible to do coal mining without restriction of captive mining. Audit scrutiny of the allotment indicated the following:

Acceptance of single offer for the coal block

At the time of invitation of bids for Mahan block in July 2003, 11 firms purchased tender documents and six[16] of the firms requested for extension of the bid submission date to enable submission of a comprehensive proposal. The request of the firms was rejected by the Company. On the date of opening of bid, the Company had received only one bid from SMASL. As per CVC guidelines, single bid/tender could be accepted only in case of exigency with detailed justification. At the time of finalisation of bid, the Company was still awaiting allotment of coal block and thus there was no exigency for finalisation on the basis of single bid. MPSMCL however accepted the single bid submitted by the SMASL for Mahan coal block and the same bid was considered for entering into JV agreement for mining in Amelia coal block without any justification.

Failure to invite fresh tender

LOI awarded on SMASL (September 2003) was for Mahan coal block and there was no condition in tender document/LOI to offer another block in case of non-allotment of Mahan coal block by the MOC. The Board of Directors of the Company (Board) resolved in April 2005 to return the EMD of SMASL as the validity of its offer had already expired (31 March 2005) and invite fresh EOI to select JV partner for Amelia coal block. The legal advisor of the Company also expressed the same views. The Board however decided in June 2005 to offer Amelia coal block to MPSMCL. As Mahan coal block was not allotted and instead Amelia coal block was allotted by the MOC, MPSMCL should have started fresh tender procedure for awarding the coal block, especially keeping in view superior mineable grade of coal[17] viz. grade A and B and higher reserve at Amelia coal block. The financial implication of awarding Amelia Coal Block instead of Mahan coal block without tendering has been discussed in the following paragraph.

[16] HD enterprises, Tata Steel, Guru Mahar Construction, Atlanta Infrastructure, Thiess-Komast–Minecs and Ardeshir B. Cursetjee & Sons Ltd.

[17] The Amelia is having grade of coals from A to G while Mahan had reserves of grade C to G.

MPSMCL had invited separate tenders for Amelia (North) coal block (August 2005) and Dongri Tal-II coal block (December 2006) and received higher offer of facilitation fee [18] than that offered in the case of Mahan coal block. Had MPSMCL invited fresh tenders for Amelia coal block instead of entering into JV agreement for Amelia coal block on the same rates of facilitation fees offered for Mahan coal block, it would have had opportunity to obtain higher offers of facilitation fees. Failure to invite fresh tender for Amelia coal block and arbitrary selection of SMASL has resulted in loss of opportunity to earn higher facilitation fee by ₹ 7328.89 crore (***Annexure-4.2***) to MPSMCL.

Allotment of the coal block to ineligible bidder

The bid document (Part-I) of Mahan coal block stipulated that the bidder should furnish experience in coal mining and coal beneficiation[19] for preceding five years. Against this condition, SMASL submitted strata and surface mining[20] work experience for four years and beneficiation experience for two years only.

We noticed that the Company in August 2005, invited expression of interest for Amelia (North) coal block which was similar[21] to the Mahan coal block in terms of the mineable reserves. The tender document for Amelia (North) coal block prescribed a mining experience of extracting at least three million tonne of coal/major mineral during the preceding three years. The SMASL also applied for Amelia (North) coal block, which was rejected (September 2005) by tender evaluation committee as SMASL had experience of strata and surface mining only which could not be considered as mining/ production of coal/ major minerals. As mineable reserves of Amelia block[22] was at least two and half times bigger than the Mahan/Amelia /North) coal blocks, entering into JV agreement (June 2005) amounted to award of contract to a firm not having requisite experience.

4.11.3 Delay in commencement of mining

MPSMCL entered into nine JV agreements between 2005-06 and 2009-10 for development of the nine[23] coal blocks out of the 10 coal blocks allocated by the MOC. As per the guidelines of MOC, the JV Companies were required to commence production in the allocated coal blocks within 36 months (42 months if forest land is involved) in case of open cast mines and 48 months (54 months when mining is in forest land) in case of underground mines from the date of issue of letter of allotment. Besides, additional two years was allowable for commencement of production for unexplored and regionally explored captive coal blocks. In terms of the letters of allotment and MOC guidelines, production from these blocks should commence from June 2009 to April 2014 (details in ***Annexure-4.3***). Production however has not commenced in any of the blocks so

[18] The fees payable by the Joint Venture Company to MPSMCL exclusive of all charges, levies, taxes, penalties, including but not limited to service charges for each tonne of ROM (Run of Mine) coal sold through JV Company.
[19] In Mining, beneficiation is a process whereby extracted ore from mine is separated into mineral and gangue, the former suitable for further processing or direct use.
[20] Surface mining is a broad category of mining in which soil and rock overlying the mineral deposit (the overburden) are removed.
[21] Mineable reserve of Amelia(North) Coal Block was 83.94 MT and Mahan Coal Block 86.52 MT
[22] Mineable reserve of Amelia Coal Block was 287.96 MT.
[23] No JV agreement was entered into for Morga-I Coal Block which was reserved for power project.

far (December 2013). We noticed that in five blocks, the delay in commencement of production till December 2013 ranged between 13 and 56 months. The progress in the remaining four blocks, which are due to commence production in April 2014 has also been slow for which show cause notices had been issued by the MOC (January 2014).

As provided in JV agreements, the JV Companies were responsible for purchase of Geological Report (GR[24]), forest clearance, Environment Management Plan (EMP) clearance, mining permission and undertaking production. MPSMCL's role was limited to provide assistance in obtaining environment and forest clearance, preparation and approval of mining plan, approvals from different statutory bodies for operating and maintaining the mine. In all the allotted coal blocks where normative production was due between July 2009 and April 2014[25], there was time overrun as stated above mainly due to delay in land acquisition, forest clearance, preparation and approval of mining plan, EMP clearance, etc.

De-allocation of Semeria/ Piparia coal block

The Inter Ministerial Group (IMG) of Government of India (GoI) recommended (November 2012) for de-allocation of Semariya/ Pipariya coal block for violation of the conditions of purchase of GR within specified time and failure in achievement of milestones for development of coal block as laid down in the letter of allocation (July 2007). Accordingly, the GoI de-allocated (January 2013) the Semariya/ Pipariya block and intimated that MPSMCL would not be eligible for allocation of another coal block in lieu of de-allocated coal block. MOC also decided to invoke bank guarantee (BG) to the extent of ₹ 1.14 crore (5

urt of Madhya Pradesh, Jabalpur against forfeiture of bank guarantee and for restoration of allotment of the coal block. The Company was granted stay against encashment of bank guarantee by the Court on 7 February 2013.

Till the time of de-allocation, expenditure to the extent of ₹ 5.74 crore[26] had been incurred by the JV Company towards development of the coal block including security deposit and BG, which would become infructuous, if the allotment was not restored.

We further noticed (January 2014) that show cause notices to explain why the coal block should not be de-allocated due to slow progress, had been issued by MOC for four[27] other blocks allocated for commercial purpose. Delay in production as per schedule by JV Companies could result in de-allocation of these blocks also and result in further losses to MPSMCL.

[24] The GR is a detailed report of estimated geological and mineable reserve of a particular coal block.

[25] Normative production dates have been calculated with reference to the period specified in the allotment letters for preparation of detailed GR, obtaining forest clearance, preparation of mining plan and achieving the production.

[26] Total investment ₹ 6.88 crore-50% of ₹ 2.28 crore (BG amount to be returned by MOC)

[27] Marki Barka, Bicharpur, Morga-III and IV coal blocks

Shortfall in achieving production milestones in South Mandla coal block

MPSMCL has provided bank guarantee (BG) to MOC of varying amounts for the ten coal blocks allotted by MOC as per terms of allotment. Fifty *per cent* BG given by MPSMCL to MOC was linked to the achievement of production milestones and proportionate deduction was to be made in case of slippage as per the letter of allotment. No such corresponding condition was introduced by MPSMCL in the JV agreement in order to safeguard its financial interest.

Production was scheduled to start at South Mandla coal block by January 2012 as per the letter of allotment of 25 July 2007. IMG reviewed (November 2012) the said coal block and found that substantial progress had been made. IMG however recommended levy of penalty for shortfall in achieving production milestones. The Government of India accepted (April 2013) the recommendation of IMG and deducted ₹ 0.36 crore from the BG.

We further noticed (January 2014) that show cause notices for slow progress had been issued by MOC for seven[28] other coal blocks. In the absence of an enabling provision in the JV agreement, the MPSMCL will not be in position to pass on the loss due to encashment of BG by MOC to the JV partner.

4.11.4 Non levy of Liquidated Damages

The MPSMCL failed to, invoke liquidated damages clause for delay in commencement of production in Amelia and Amelia (North) coal blocks and also failed to include clause for liquidated damages in other JV agreements.

As per the terms of agreements, the JV Companies for the Amelia and Amelia (North) coal blocks shall be liable to pay MPSMCL liquidated damages at the rate of 0.20 *per cent* of the quoted project cost for each month of delay in production of coal.

We observed in scrutiny of records that coal production in the blocks could not be started (as of 30 June 2013) as per the milestones prescribed in the agreement. MPSMCL, however, did not invoke the condition of the agreement for levy of liquidated damages of ₹ 153.29 crore (***Annexure-4.4***).

We further observed in scrutiny of JV agreements that MPSMCL failed to include the condition for levy of liquidated damages in JV agreements in respect of six coal blocks[29], of which in three blocks[30] (as of June 2013), production should already have commenced as per the JV agreement. Due to failure in incorporation of a clause in the JV agreement, corresponding to the conditions in the letter of allotment, the Company could not levy liquidated damages for delay in production.

[28] Amelia, Amelia (North), Dongri Tal-II, Marki Barka, Bicharpur, Morga-III and IV coal blocks
[29] Marki Barka, Simariya/Pipariya, South Mandla, Bicharpur, Morga-IV and Morga-III
[30] Dongri Tal-II, Simariya/Pipariya and South Mandla

4.11.5 Extra expenditure due to delay in purchasing geological report

The JV Companies had to pay extra amount of ₹ 3.19 crore due to delay in purchase of Geological Report from CMPDIL in respect of South Mandla and Marki Barka coal blocks.

The MOC allotted (25 July 2007) South Mandla coal block to MPSMCL. The letter of allotment[31] stipulated that "the Company shall buy the Geological Report (GR) from Central Mine Planning and Design Institute Limited (CMPDIL) within six weeks from the date of the letter (i.e., 7 September 2007)" The MPSMCL selected Jaiprakash Associates Limited (JAL) as joint venture partner and issued offer to JAL on 13 October 2008. The CMPDIL, on the request of MPSMCL, intimated (10 November 2008) the cost (₹ 9.29 crore) of GR which was valid till March 2009. MPSMCL intimated (30 January 2009) JAL to deposit the cost to get GR for preparation of Mining Plan.

We observed that JAL did not remit the cost of GR till March 2009. The CMPDIL, on further request from MPSMCL, intimated (1 October 2009) the revised purchase cost (₹ 11.92 crore) of GR which was valid up to March 2010. JAL finally deposited the amount on 7 November 2009 for GR. Thus, by delaying the purchase of GR, the JV Company incurred an avoidable extra expenditure of ₹ 2.63 crore[32].

Similarly, in the case of Marki Barka coal block, the CMPDIL intimated (10 September 2007) the cost (₹ 0.89 crore) of geological data. The JV Company, however purchased it only in October 2012 at a higher cost of ₹ 1.45 crore after a delay of 60 months, thereby incurring avoidable extra expenditure of ₹ 0.56 crore. Increase in cost would affect the profitability of the JV companies and consequentially MPSMCL as it holds equity of 51 *per cent* in the JV companies.

4.11.6 Avoidable liability for payment of penal interest

The JV Company incurred liability of penal interest of ₹ 11.89 crore due to delay in payment of award money for acquisition of tenancy land in respect of Amelia coal block.

For development and mining of Amelia coal block, the JV Company (M.P. Sainik Mining Pvt. Ltd.) requested (25 May 2006) the Collector, Sidhi for acquisition of 380.93 ha of tenancy land and deposited (25 April 2007) an amount of ₹ 3.00 crore towards 10 *per cent* of the estimated cost of the land. The Land Acquisition Officer (LAO) passed the award (13 November 2009) in favour of the JV Company and assessed an amount of ₹ 31.00 crore towards cost of land.

The balance amount of ₹ 28.00 crore was to be paid by the JV Company within three months from the date of award by the LAO. The Collector, at the request of the JV Company, agreed (4 February 2010) for extension of time limit for payment towards cost of land subject to payment of interest after 90 days from the date of award. As the JV Company did not remit the amount, the Collector raised (7 November 2012) a demand for ₹ 40.20 crore including interest of ₹ 11.89 crore[33], which was yet (December 2013) to be paid by the JV Company. Thus, due to non depositing the cost of land within 90 days of the date of award, the JV Company had incurred liability for payment of additional amount of ₹ 11.89 crore on account of interest. The increase in capital cost of JV Company would result in lower profitability to MPSMCL which holds a majority stake in the JV Company.

[31] Clause 2 (viii) of the letter of allotment
[32] ₹ 11.92 minus ₹ 9.29 crore
[33] Calculated at the rate of 12 *per cent* for one year delay and at the rate of 15 *per cent* beyond one year

4.11.7 Avoidable expenditure toward penal interest

Delay in creation of security in favour of lender by the JV Company resulted in payment of additional interest of ₹ 0.81 crore in respect of Amelia (North) coal block.

For development of land, construction of buildings and railway sidings at Amelia (North) coal block, the M.P. Jaypee Minerals Limited, the JV Company, applied for loan of ₹ 150 crore from ICICI Bank. The Bank sanctioned (23 March 2012) loan for financing the project with the condition that the borrower shall create and perfect the securities within 90 days of first draw down date. In the event of failure, the borrower was liable to pay additional interest on the outstanding amount of the facility at the rate of one *per cent* per annum plus interest tax or other statutory levy, if any, till creation of such security. The company withdrew ₹ 105 crore in three instalments[34]. As per joint venture agreement, hypothecation/ mortgage/ pledge of immovable properties of the JV Company required prior permission of MPSMCL. MPSMCL granted permission for mortgage in April 2013, that is, after a delay of nine months from the date of first disbursement. As a result, the JV Company could not create and perfect security within the stipulated period of 90 days, resulting in payment of avoidable penal interest of ₹ 81.29 lakh[35] and increase in capital cost of the JV Company.

4.11.8 Avoidable expenditure toward penalty

The JV Company had to pay penalty of ₹ 49.79 lakh due to use of agricultural land without getting prior permission for constructing building, boundary wall and use of explosive magazine.

The total land requirement for exploration of Amelia (North) coal block was 905.65 ha consisting of private land (137.46 ha), Government land (39.44 ha) and forest land (728.75 ha). As per the M P Land Revenue Code, 1959, the JV Company had to obtain prior permission from the Department of Revenue before using agricultural land for commercial purpose. But the Company started using agricultural land (27.66 ha) without getting prior permission. Taking cognizance of the violation of the Code, the Sub Divisional Magistrate (Devsar Tashil, District Singrauli) levied (26 September 2012) Premium of ₹ 4.15 Lakh and dead rent of ₹ 2.38 Lakh per year for change of land use along with penalty of ₹ 49.79 lakh on the JV Company, which was paid (November 2012) by the company Thus, failure to observe the provisions of Revenue Code led to avoidable extra expenditure of ₹ 49.79 lakh.

The matters were referred (November 2013) to the Government; their reply is awaited (January 2014).

[34] First disbursement of Rs. 50.00 crore on 13.06.2012
Second disbursement of Rs. 50.00 crore on 13.02.2013
Third disbursement of Rs. 5 crore on 22.03.2013

[35] Up to March 2013

GENERAL

4.12 Follow-up action on Audit Reports

Explanatory notes outstanding

4.12.1 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 Undertakings (COPU).

Though, the Audit Report for the year 2010-11 was presented to the State Legislature on 12 December 2012. Three departments which were commented upon did not submit explanatory notes on 03 Paragraphs/reviews as on 30 September 2013. The Audit Report for the year 2011-12 was presented to the State Legislature on 11 January 2014. Department-wise analysis is given in the ***Annexure 4.5.***

Compliance with the Reports of Committee on Public Undertakings

4.12.2 The replies to recommendations of the COPU, as contained in its Reports, are required to be furnished in the form of Action Taken Notes (ATNs) 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, fifteen Action Taken Notes (ATNs) were received during 2012-13.

Response to Inspection Reports, Draft Paragraphs and Reviews

4.12.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the PSUs through Inspection Reports (IRs). The heads of PSUs are required to furnish replies to the inspection reports within a period of four weeks.

Inspection reports issued up to March 2013 pertaining to 46 PSUs showed that 1514 paragraphs relating to 564 IRs remained outstanding at the end of September 2013 which had not been replied for one to eight years. Department-wise breakup of IRs and audit observations outstanding as on 30 September 2013 is given in ***Annexure-4.6.***

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 six weeks. Five Reviews and eleven Draft Paragraphs were forwarded to various departments between May 2013 to August 2013, but reply to eight Draft paragraphs have not been received so far (January 2014) as detailed in ***Annexure-4.7.***

We recommend 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.

Bhopal **(D. K. SEKAR)**
The **Accountant General**
(Economic and Revenue Sector Audit)
Madhya Pradesh

Countersigned

New Delhi **(SHASHI KANT SHARMA)**
The **Comptroller and Auditor General of India**