

## CHAPTER-III

### 3. TRANSACTION AUDIT OBSERVATIONS

Important audit findings noticed as a result of test check of transactions made by the State Government Companies/Statutory Corporations are included in this chapter.

#### GOVERNMENT COMPANIES

##### Assam Gas Company Limited

#### *Avoidable extra expenditure*

***Procurement of 8" and 12" valves at higher rates resulted in avoidable extra expenditure of Rs.12.48 lakh.***

**3.1** Notice inviting tender (NIT) for procurement of different types of valves including 8" and 12" gear operated Carbon—Steel lubricated full valve (CSLFB) with flanged end as per specification was issued in August 1997. In response to the NIT, quotations of Larsen & Tubro (L&T) and Virgo Engineers Limited (VEL) were found technically acceptable. L&T did not quote their rate for 8" and 12" valve as they did not manufacture these items. On being requested by the Management of Assam Gas Company Limited, the firm offered the rates for these two items of Audco make. The FOR Duliajan rates inclusive of taxes and duties quoted by the two firms and accepted by Company were as under:

Name of items	Rates quoted (Rupees in lakh)		Difference of rates (Rupees in lakh)
	M/s L&T	M/s VEL	
8" CSLFB	3.27	1.47	1.80
12" CSLFB	5.26	3.52	1.74

Scrutiny of records revealed (August 2002) that the Company, without negotiating with L&T to supply the above materials at the lowest accepted

rates, procured (June 1998 to December 1998) five numbers of 8” and two numbers of 12” valves from L&T and two numbers each of 8” and 12” from VEL at their respective quoted price. Such procurement was made on the ground that the latter had never supplied valves to the Company and as such performance of its products were yet to be tested. Audit, however, observed that the Company was aware of the fact that VEL was a regular supplier of valves to several organisations in petroleum sector.

Thus, for procurement of valves at a higher rate, the Company incurred an avoidable extra expenditure of Rs.12.48 lakh (5 x Rs.1.80 lakh + 2 x Rs.1.74 lakh).

The matter was reported to the Management/Government in December 2002 and February 2004; their replies are awaited (September 2004).

**Assam State Development Corporation for Other Backward Classes Limited**

***Diversion of fund***

***Fund meant for specific scheme was unauthorisedly diverted for payment of salaries and 1,147 beneficiaries were deprived of the benefit of the scheme.***

**3.2** The Assam State Development Corporation for Other Backward Classes (ASDC for OBC) Limited was incorporated in August 1975 with the primary objective of implementing various State sponsored schemes relating to welfare and upliftment of Other Backward Classes (OBC). The Corporation had been implementing the Family Oriented Income Generating Scheme (FOIGS) of the Government of Assam since 1984-85, primarily among the people of OBC living below the poverty line.

Test check of records revealed (May 2003) that during the period from 1996-1997 to 2002-2003, the Company had received grants-in-aid (Plan) to the tune of Rs.3.48 crore for implementation of FOIGS against which utilisation certificate for Rs.3.09 crore had been furnished while actual utilisation/disbursement among the beneficiaries till the date of audit (May 2003) was Rs.2.79 crore only. The Company, out of undisbursed amount of Rs.68.82 lakh, held an amount of Rs.38.71 lakh in Saving Bank accounts and unauthorisedly diverted Rs.30.11 lakh towards payment of salaries and other purposes not envisaged in the scheme/sanction order. Hence, by furnishing misleading utilisation certificate, the very purpose of the grants-in-aid remained defeated. Further, 1,147 beneficiaries were deprived of the benefit of the scheme.

The matter was reported to the Management/Government in June 2004; their replies are awaited (September 2004).

## STATUTORY CORPORATIONS

### Assam State Electricity Board

#### Fund Management

*The working capital of the Assam State electricity Board (Board) decreased from (-) Rs.705.80 crore at the beginning of 1998-99 to (-) Rs.1,898.44 crore at the end of 2002-03. Major factors responsible for poor fund position were loss of interest of Rs.160.07 crore on sundry debtors, non-receipt of subsidy of Rs.1,181.59 crore for rural electrification from State Government. The Board was repaying loans out of fresh borrowings due to continuous cash losses year after year.*

**3.3** The paragraph covers various aspects relating to collection administration and utilisation of Board's fund during the period from 1998-99 to 2002-03. Audit findings as a result of review of Fund Management were reported to the Government/Management in June 2004 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Undertakings (ARCPSE) so that view points of Government/Management were taken into account before finalising the paragraph. The meeting of ARCPSE was held on 30 August 2004, attended by the Secretary (Power), Government of Assam, Chairman, and Member (Finance) of the Board. The views expressed by the members have been taken into consideration during finalisation of the paragraph.

#### Sources and utilisation of fund

**3.3.1** The details of working capital and sources and utilisation of fund of the Board during 1998-99 to 2002-03\* are tabulated below:

Working Capital						
	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	Total
	(Rupees in crore)					
At the beginning of the year	(-) 705.80	(-) 1,314.73	(-) 1,686.93	(-) 2,252.15	(-) 2,754.33	
At the end of the year	(-) 1,314.73	(-) 1,686.93	(-) 2,252.15	(-) 2,754.33	(-) 1,898.44	

\* Accounts for the year 2003-2004 have not been compiled by the Board so far.

*Audit Report (Commercial) for the year ended 31 March 2004*

		1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	Total
		(Rupees in crore)					
<b>(A) Sources of fund (Increase /Decrease (-))</b>							
(i)	Borrowings	83.64	120.41	58.24	54.69	19.15	336.13
(ii)	Reserve Fund	(-) 8.70	29.90	39.65	25.00	20.72	106.57
(iii)	Consumers' contribution	2.89	3.94	4.23	6.25	4.10	21.41
(iv)	Grants and subsidies towards capital assets	0.80	16.08	1.80	76.08	96.52	191.28
(v)	Funds from operation	-	-	-	-	753.66	753.66
<b>Total (A)</b>		<b>78.63</b>	<b>170.33</b>	<b>103.92</b>	<b>162.02</b>	<b>894.15</b>	<b>1,409.05</b>
<b>(B) Utilisation of fund (Increase /Decrease (-))</b>							
(i)	Fixed assets including works in progress	244.15	(-) 92.94	72.82	42.42	54.40	320.85
(ii)	Deferred costs	(-) 5.70	-	0.03	0.01	0.03	(-) 5.63
(iii)	Investments	(-) 25.22	33.17	(-) 0.63	62.64	(-) 16.17	53.79
(iv)	Funds lost in operation	474.33	602.30	596.92	559.13	-	2,232.68
<b>Total (B)</b>		<b>687.56</b>	<b>542.53</b>	<b>669.14</b>	<b>664.20</b>	<b>38.26</b>	<b>2,601.69</b>
(C)	Increase /Decrease (-) in working capital (A-B)	(-) 608.93	(-) 372.20	(-) 565.22	(-) 502.18	855.89	(-) 1,192.64
<b>Total (B) + (C)</b>		<b>78.63</b>	<b>170.33</b>	<b>103.92</b>	<b>162.02</b>	<b>894.15</b>	<b>1,409.05</b>

**During 1998-99 to 2002-03, the Board incurred an additional expenditure of Rs.132.39 crore and Rs.384.97 crore towards penal interest and delayed payment surcharge.**

It would be seen from the table that during 1998-2003, the Board could raise a total fund of Rs.1,414.68 crore<sup>\*\*</sup> from different sources including Rs.753.66 crore being fund from operation during 2002-03 which arose due to a credit of Rs.1,096.59 crore against liabilities taken over by the State Government. As against this, the Board had utilised Rs.320.85 crore towards creation of fixed assets, Rs.53.79 crore towards investments and Rs.2,232.68 crore towards financing revenue deficits.

<sup>\*\*</sup> Total of (A) Sources of fund (Rs.1409.05 crore) plus (B-ii) decrease in Deferred costs (Rs.5.63 crore).

The gap of Rs.1,192.64 crore between fund raised and fund utilised was funded through increase in current liabilities and decrease in current assets. This had the effect of decreasing the working capital of the Board from (-) Rs.705.80 crore at the beginning of 1998-99 to (-) Rs.1,898.44 crore at the end of 2002-03. The main factor responsible for the negative working capital was revenue losses being incurred by the Board. Due to failure on the part of the Board to generate working capital, the Board could not repay its power purchase liabilities and interest liabilities in time. As a result, the Board had to incur additional expenditure of Rs.132.39 crore towards penal interest on loans and Rs.384.97 crore towards delayed payment surcharge on power purchase bills during 1998-99 to 2002-03.

### **Size of working capital requirement and causes of its continuous decline**

**3.3.2** The Board had not assessed its requirement of working capital on any periodical basis. Normally one-sixth of total annual revenue expenditure excluding depreciation is taken as working capital requirement corresponding to an operating cycle of two months.

**Board had a negative working capital.**

It was observed that against working capital requirement ranging from Rs.165.68 crore to Rs.213.49 crore during 1998-99 to 2002-03, the Board had a negative working capital ranging from Rs.1,314.73 crore to Rs.2,754.33 crore.

### **Failure to generate fund from operations**

**Revenue loss incurred ranged from Rs.549.76 crore in 1998-99 to Rs.695.51 crore in 2002-03.**

**3.3.3** The working results of the Board for the period from 1998-99 to 2002-03 are given in a summarised form in *Annexure 13*. It would be seen from the *Annexure* that the Board incurred revenue losses in all the five years. The revenue loss increased from Rs.549.76 crore in 1998-99 to Rs.695.51 crore in 2002-03. The total revenue loss during 1998-99 to 2002-03 amounted to Rs.3,255.42 crore. This loss would have been Rs.3,545.13 crore if subsidies were not taken into consideration. The cumulative loss as at 31 March 2003 amounted to Rs.4,037.93 crore against equity capital of Rs.1,350 crore only.

The major factors responsible for poor fund position have been discussed in the succeeding paragraphs:

### **Management of current assets**

#### ***Sundry debtors for sale of power***

**3.3.4** The Board had not assessed the optimum level of investment in Sundry debtors for exercising control over the same. As per the terms and

conditions of supply, the consumers are required to pay energy bills within 15 days of the billing. Further, the Board had agreed (March 2001) to reduce its debtors to two months (60 days) billing by March 2002 as part of its reform process.

It was observed in audit that during five years ending 2002-03, the Board realised only 42.76 to 56.18 *per cent* of its total dues from sundry debtors, and at the end of the year 9.30 to 13.81 months' billing remained outstanding. Thus, it would be seen that in spite of the commitment, the debtors in terms of months' billing decreased marginally from 11.41 in 2000-01 to 9.30 in 2002-03. Investment in excess of two months billing on Sundry debtors involved loss of interest to the Board amounting to Rs.160.07 crore during 2001-02 to 2002-03 computed on the basis of 1.50 *per cent* per month (18 *per cent* per annum) at which delayed payment surcharge was being charged by Central/State Public Sector Undertakings against supply of power to the Board.

In this regard, following deserve mention:

### ***Doubtful debts***

**Lack of initiative in timely realisation of Board's dues.**

Scrutiny of records in respect of seven electrical circles and five Industrial Revenue Collection Areas (IRCAs) revealed that, 7,607 consumers with outstanding dues of Rs.9.83 crore were permanently disconnected during April 2002 to March 2004. Board is yet to initiate any action to recover the same.

### ***Inadequate Security deposits***

In order to secure the Board's interest, the Board amended (July 2000) Clause 7 (C) of the Terms and Conditions of Supply (TCS), 1998. As per the amended clause, all the existing consumers of the Board whose security deposit fell short by three times of the average monthly billed amount during the preceding calendar year, were required to pay the differential amount as security deposit within 30 days from the date of notice/bill, failing which the consumer's connection was liable to be disconnected without further notice.

**Revised load security bill in respect of 70 *per cent* of consumers not served.**

Test check of records of 78 Sub-Divisions revealed that against 4,68,219 consumers as on August 2000, only 1,42,483 consumers were actually billed for differential security deposit up to March 2004. Thus, even after a lapse of around four years of Board's decision, only 30 *per cent* of the consumers were actually billed. Audit observed that against an estimated realisable revised load security bill of Rs.26.35 crore, only Rs.11.81 crore was actually billed and remaining Rs.14.54 crore was yet (March 2004) to be billed. Further, as per data furnished by 29 sub-divisions, against a total billed amount of Rs.4.62 crore, only Rs.2.52 crore was actually realised. No action was initiated against the consumers for non-payment of such bills.

Management stated that suits filed by many consumers prevented the Board from realising the revised load security charges.

Scrutiny, however, revealed that Board had suspended billing for a temporary period (June – August 2001) and issued instructions (25 August 2001) to all the field revenue authorities to start billing the consumers, which in most cases were not complied with.

### ***Delayed settlement of appeal cases***

In order to prevent malpractice by the consumers, Terms and Conditions of Supply (TCS), 1988 and 1998 provide that, in the event of detection of malpractice, the consumers would be liable to pay compensation bill to be preferred by the Board. TCS also provides that the aggrieved consumers may make an appeal with Board's Appellate authority who would decide the cases expeditiously.

**Realisation of fund of Rs.2.26 crore remained uncertain due to delay in settlement of appeal cases.**

Scrutiny revealed that as on 31 March 2004, 33 appeal cases pertaining to two electrical circles and two IRCAs involving a total compensation claim of Rs.2.26 crore preferred by the Board were pending with Appellate authority awaiting disposal for a period ranging from one to eight and half years. Thus, in the absence of expeditious finalisation of appeals (by the Board's own authority), fate of fund amounting to Rs.2.26 crore remained uncertain.

### ***Inadmissible rebates***

As per Board's rules, energy bills are payable within 15 days from the billing date. Consumers are entitled to a rebate of one *per cent* on the energy charges if payment is made within due date, while for payment after due date, a surcharge of two *per cent* per month or part thereof on the energy charges was leviable from the consumers for such delay. Further, Clause 18 (D) of TCS 1998 provides that the payments made by cheque shall be considered as payments only when the collection against the cheque has been made by the bank concerned.

Scrutiny in audit of eight revenue units revealed that in respect of two units, during April 2001 to March 2004, though, collection/clearance of cheques were delayed up to 61 days from the due dates for payment, the consumers were allowed rebate, and surcharge was also not recovered from them for delayed payment. As computed in audit, due to such irregularities by the concerned revenue units, Board lost revenue to the tune of Rs.30.55 lakh on account of inadmissible rebate allowed to the consumers and non-charging of surcharges which should have otherwise been charged to the consumers.

In reply, Management stated (August 2004) that Terms and Conditions of Supply, 1998 did not provide for levying surcharge and disallowing rebate even if collection of local cheques was delayed beyond due date.

**Anomalous provision in TCS.**

Audit observed that while consumers paying in cash beyond due date were not entitled to rebate and were liable to pay surcharge for delayed payment, the consumers making payment by cheque were treated differently to the disadvantage of the Board due to anomalous provisions in the TCS 1998.

***Subsidy Receivable***

**3.3.5** The Board was taking credit for Rural Electrification (R.E) subsidy from State Government in its accounts. The total subsidy claimed up to 2002-03 amounted to Rs.1,181.59 crore. The State Government, however, neither accorded sanction nor made any payment to the Board against the same. Non-receipt of subsidy from the State Government adversely affected the fund position of the Board.

***Loss on settlement of railway claims***

**3.3.6** As per annual accounts for 2002-03, sundry receivables included Rs.7.24 crore being claim lodged by Bongaigaon Thermal Power Station (BTPS) with N.F. Railway against short/non-delivery of coal by railways.

During the period 1990-91 to 2001-02, 288 claims were lodged with the Railways. Out of these claims, 45 claims lodged during the period 1998-99 to 2001-02 were examined in audit. Details of settlement of all the claims are given in the following table.

Sl. No.	Particulars	No. of claims	Amount (Rupees in lakh)
1.	Settled by actual delivery of coal	56	86.42
2.	Time-barred claims	39	35.33
3.	Claims settled at a loss	52	87.61
4.	Claims remaining unsettled	141	319.12
<b>Total</b>		<b>288</b>	<b>522.48</b>

Thus, Board incurred loss of Rs.1.23 crore due to short receipt/time-barred claim during the period from 1990-91 to 2001-02. Further, non-pursuance of 141 claim cases with Railway authorities resulted in blocking of Rs.3.19 crore.

### **Cash management**

**3.3.7** Cash management is concerned with managing of (i) cash inflow and outflow and (ii) best possible use of surplus cash at any point of time. These aspects are further discussed below:

The Board did not prepare any cash flow statements. The cash from operations of the Board for the period from 1998-99 to 2002-03 as calculated in Audit are given at **Annexure 14**. It would be seen from the **Annexure** that the Board could not generate any cash surplus from operations during 1999-2000 to 2002-03. The Board had to utilise cash amounting to Rs.295.52 crore received from borrowings and other internal accruals towards financing cash deficits.

<b>Avoidable extra expenditure towards interest on overdraft Rs.80 lakh.</b>
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**3.3.8** In order to facilitate timely disbursement of monthly wages to the Board's employees, the Board entered (31 January 2002) into an arrangement with State Bank of India, New Guwahati Branch for an overdraft (OD) of Rs.25 crore. This OD facility was availed of against security of term deposit receipts (TDR) of Rs.24.93 crore (with accrued interest thereon), at 2 per cent above the interest applicable on TDRs pledged with the bank.

Board's concurrence for availing of the facility was obtained on the premise that the facility should be viewed as a purely temporary ways and means measure and efforts would have to be made to gradually reduce the level of OD.

As the OD limit of Rs.25 crore was insufficient for the Board to disburse salary to its employees, the limit was later increased to Rs.42 crore from August 2002 by pledging TDRs of equivalent amount. Since then, barring three occasions (Rs.28.04 lakh on 31 January 2002 and Rs.90.94 lakh for 29 and 30 March 2004), the Board had been availing of the facility with accommodations ranging from Rs.16.77 crore to Rs.44.07 crore with interest rates ranging from 6.25 to 8.75 per cent charged by bank for such accommodations.

The Board earned a maximum interest of seven per cent during the period from 31 January 2002 to March 2004, on the TDRs pledged with the bank as security for availing of the facility.

Audit observed that the Board earned a maximum interest of Rs.5.54 crore on TDRs while it incurred interest expenditure of Rs.6.34 crore on the ODs availed of during the period from 31 January 2002 to March 2004. Thus, had the Board encashed the TDRs, it could have avoided an extra expenditure of Rs.80 lakh, being difference between interest paid (Rs.6.34 crore) on

**Avoidable  
extra  
expenditure of  
Rs.80 lakh.**

overdraft by the Board and the maximum interest (Rs.5.54 crore) earned by the Board on the TDRs pledged.

Management, in reply, stated (August 2004) overdraft was obtained to meet working capital gap.

Reply is not acceptable, as overdraft obtained did not exceed the TDRs pledged at any point of time during the period.

***Absence of proper reconciliation between cash book and bank accounts***

**Non-  
preparation/in  
correct  
preparation of  
Bank  
reconciliation  
statement.**

**3.3.9** Bank reconciliation statement (BRS) is a vital document, which is prepared to show the causes of differences between the bank balances as per cash book and as per bank statement/pass book. 156 drawing and disbursing units and 158 revenue Sub-Divisions are required to prepare such BRS. The concerned officials operating the bank accounts are responsible for preparation of proper BRS.

Scrutiny of 104 field accounts for June 2003 submitted to Headquarters revealed that

- In 24 cases only, BRSs were properly prepared,
- In 22 cases, BRS were not prepared at all
- In the remaining 58 cases, difference of Rs.3.03 crore between balance as per bank accounts and balance as per cash books remained un-reconciled for want of details.

This is indicative of lack of control by local as well as Headquarters authorities over cash management of their respective units.

In reply Management stated (August 2004) that reconciliation was a continuous process and differences were rectified/adjusted in subsequent stages.

The reply is not acceptable in view of the fact that reconciliation would be meaningful only if the same is done in time. Board's headquarters office should not have accepted accounts of 80 units, which had either not submitted BRS or had not furnished reasons for the difference between bank balance as per cash book and bank balance as per bank statement/pass book.

## Management of capital fund

### *Delayed release of Central fund by State Government*

**Delay in release of fund by State Government received from Government of India.**

**3.3.10** For execution of various Centrally Sponsored Schemes, Government of India released fund to the Board through the State Government. As per the guidelines of the GOI, the State Government was to release the fund so provided under various schemes to the State Power Utility within a week of the said amount being credited to the State Government account. Accordingly, during the period from 15 February 1999 to 31 March 2004, GOI released Rs.393.60crore (*grant:Rs.349.40 crore; loan: Rs.44.20 crore*) to the State Government; out of this, the State Government released Rs.387.72 crore (*grant:Rs.344.11 crore; loan Rs.43.61 crore*) after a delay of 46 to 558 days and retained the balance Rs.5.88 crore (*grant Rs.5.29 crore; loan: Rs.0.59 crore*) as on 31 March 2004.

Audit observed that due to delay in release and retention of funds by the State Government, the Board had to incur an extra and avoidable expenditure of Rs.3.56 crore towards interest on the loan components of such fund.

### *Diversion of fund*

**Diversion of fund of Rs.311.88 crore.**

**3.3.11** In order to undertake execution of various projects/schemes, the Board, during the period from April 1999 to March 2004, received a total fund of Rs.643.35 crore under Government Plan Schemes (Rs.133.32 crore), Centrally Sponsored Schemes (Rs.389.80 crore), financial institutions (Rs.88.45 crore) and other loans and grants (Rs.31.78 crore).

It was observed from the Board's records that against a total capital receipt of Rs.643.35 crore during the period, Board actually utilised Rs.201.23 crore in execution of different schemes and held a cash and bank balance of Rs.130.24 crore as on 31 March 2004. Thus, balance of Rs.311.88 crore was diverted for working capital purposes of the Board.

As the Board has been incurring cash losses year after year, the chances of recoupment of the diverted fund of Rs.311.88 crore appear to be remote.

## Debt Servicing out of loan fund

**3.3.12** It was observed during audit that *percentage* of debt servicing (repayment of loan as *percentage* of loan receipt) varied from 46.86 to 414.11 during 1998-99 to 2002-03. Further, as the Board was incurring cash losses year after year, the loans were obviously repaid out of fresh loans only. This is indicative of the fact that the Board is in a debt trap and the increasing interest burden is adversely affecting the profitability of the Board.

**Submission of false utilisation certificates**

**3.3.13** In respect of funds received from the Government for execution of various schemes, the Board was required to submit utilisation certificates to the Government. The details of receipt of fund, amount utilised up to March 2004 and amount for which utilisation certificates were furnished to Government in respect of some of the schemes are detailed below:

Sl. No.	Name of the scheme	Amount received up to March 2004	Amount utilised up to March 2004	Utilisation certificate submitted for	Amount for which false utilisation certificate submitted
		(Rupees in crore)			
1.	Non-lapsable Central Pool of resources	78.02	25.36	49.25	23.89
2.	RE (MNP <sup>#</sup> ) 2000-2001	13.26	2.91	13.26	10.35
3.	RE (MNP) 2001-2002	26.52	13.77	25.73	11.96
4.	RE (MNP) 2002-2003	60.00	Nil	48.28	48.28
5.	RE (PMGY <sup>@</sup> ) 2001-2002 (Phase-I)	30.05	2.24	22.50	20.26
6.	RE (PMGY) 2001-2002 (Phase-II)	30.05	23.82	30.05	6.23
7.	RE (PMGY) 2002-2003	27.82	0.01	25.74	25.73
<b>Total:</b>		<b>265.72</b>	<b>68.11</b>	<b>214.81</b>	<b>146.70</b>

**Against actual utilisation of Rs.68.11 crore, Board furnished utilisation certificate for Rs.214.81 crore.**

It would be seen from the above table that against actual utilisation of Rs.68.11 crore, the Board submitted utilisation certificates for Rs.214.81 crore to the Government. The Board diverted the fund (Rs.146.70 crore) meant for the schemes, for working capital purposes, which ultimately adversely affected completion of these schemes as well as the revenue earning capacity of the Board.

Management in reply stated (August 2004) that issuance of order for work/supply of materials were considered synonymous to expenditure committed and was accordingly projected in the utilisation certificate.

Management's contention is not acceptable as expenditure incurred and expenditure likely to be incurred cannot be synonymous especially when utilisation certificates for two schemes viz., RE (MNP) and RE (PMGY) for

<sup>#</sup> Rural Electrification (Minimum Need Programme).

<sup>@</sup> Rural Electrification (Prime Minister's Gramin Yojna).

2002-03 were issued at the time when only tenders for contracts were under process.

The Board was incurring sizeable revenue losses every year. This resulted not only in negative working capital but also further decrease in working capital from (-) Rs.705.80 crore at the beginning of 1998-99 to (-) Rs.1,898.44 crore at the end of 2002-03. The Board did not manage its Current Assets and Capital funds properly. The funds received for capital projects were not fully utilised for the projects; instead the same were diverted for working capital purposes. There was absence of proper reconciliation between cash book and bank accounts; avoidable extra expenditure was incurred towards interest on overdrafts. The Board also failed to bring down the level of Sundry Debtors.

### **Assam Financial Corporation**

#### **Recovery performance**

*The Corporation incurred a loss of Rs.11.26 crore due to inordinate delay in taking over the assets under State Financial Corporation Act, as well as disposal of taken over assets. The Corporation also suffered a loss of Rs.2.96 crore in the One Time Settlement Scheme (OTS) of the defaulted units.*

**3.4** The paragraph covers the recovery performance relating to assets taken over under Section 29 of State Financial Corporation Act (SFC) and One Time Settlement Scheme (OTS). Audit findings, were reported to the Government/Management in May 2004 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government/Management was taken into account before finalizing the review. The meeting of ARCPSE was held on 6 August 2004. The meeting was attended by the Secretary (Finance)-Government of Assam and the Managing Director of the Corporation.

**3.4.1** The details of year-wise total outstanding dues, targeted recovery and actual recovery position for the five years ending 2002-03 are given in next page:

*Audit Report (Commercial) for the year ended 31 March 2004*

Sl. No.	Particulars	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
		(Rupees in crore)				
1.	Total amount due for collection at the end of the year (principal plus interest)	153.66	166.41	180.06	170.12	197.24
2.	Target for recovery	10.13	10.50	10.00	9.00	12.00
3.	Targeted recovery as percentage of total dues	6.59	6.31	5.55	5.29	6.08
4.	Actual loan recovery (including interest)	8.31	10.11	9.59	4.74	4.56
5.	Actual recovery as percentage of total dues	5.41	6.08	5.33	2.79	2.31

As could be seen from the table that against a targeted recovery of 5.29 to 6.59 *per cent* of the total dues during the five years ending 2002-03 only 2.31 to 6.08 *per cent* of the total dues could actually be recovered during the period. The audit analysis showed that faulty pre-sanction project evaluation, absence of post-disbursement inspection and monitoring were the reasons for low recovery performance. These are discussed in succeeding paragraphs.

### **Disposal of assets taken over under Section 29 of SFC Act**

#### *Assets of very few defaulting units taken over*

**3.4.2** Section 29 of the SFC Act, 1951 provides that “ where any industrial concern, which is under a liability to the Financial Corporation under an agreement makes any default in repayment of any loan or advance or any instalments thereof, the Financial Corporation shall have the right to take over the management or possession or both of the Industrial concerns as well as the right to transfer by way of lease or sale and realise the property pledged, mortgaged, hypothecated or assigned to the Financial Corporation”.

The Corporation, in exercise of the power under Section 29 of the SFC Act, 1951, took over the assets of 103 industrial units during 1998-99 to 2002-03. The details of the number of defaulting units, dues outstanding against them, number of units taken over, units sold, amount realised out of such sale are detailed in *Annexure-15*.

The statement indicates that:

- the number of units taken over during the five years period comprised 0.06 to 0.85 percent of the defaulting units.
- out of 103 units taken over, assets of 63 units, having outstanding dues of Rs.22.32 crore, were sold at a meagre price of Rs.2.52 crore.

***Delay in taking over resulted in huge loss***

**3.4.3** Scrutiny of 18 cases as detailed in **Annexure-16** revealed the following:

- In relaxation of the terms of loan agreement, additional loans (Rs.4.65 lakh) were sanctioned in two cases\* to meet the escalated cost of the project.
- In one case\*\* loan (Rs.22 lakh) was sanctioned though credit-worthiness of the loanee was not clear.
- In two cases# additional loans (Rs.27.50 lakh) were granted without ensuring utilisation of earlier disbursed loan amount for implementation of the project.
- In two cases\* despite request from the loanees to take over the assets, Management took four to six years to take over the assets.
- In five cases\*\* personal guarantees were not invoked to make good the loss (Rs.6.24 crore) on take over, purportedly due to non-identification of personal assets of guarantors.
- In four cases,\*\*\* the Corporation took over the assets of the units after four to 12 years of their determination as sick/non-operational/closed.
- Before allowing various concessions/relaxations, the Corporation did not insist on submission of annual accounts to ascertain the state of affairs of the units.
- No action was taken for recovery of the mortgaged assets removed by the loanees before take over.

The Corporation took over (June 1998—July 2002) the assets of 15 industrial units when the units had already defaulted in repayment of their dues by six

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\* Sl. No. 2 & 10,

\*\* Sl. No. (6),

# (1 & 3),

\* (Sl. No. 4 and 6)

\*\* (Sl. No. 3, 4, 7, 9 and 11)

\*\*\* (Sl. No. 3, 8, 11 and 14)

to 15 years; of these, five units were assisted by re-phasing/extending their repayment schedules or by sanctioning additional loans to them.

Delay on the part of the Management in taking over the units resulted in accumulation of huge dues amounting to Rs.13.05 crore (principal: Rs.3.32 crore, interest: Rs.9.73 crore) and also deterioration in the value of assets taken over due to wear and tear, obsolescence, *etc*; out of these 18 units, the Management could sell 15 units at a price of Rs.1.23 crore, two units (assessed value: Rs.0.56 crore) could not be sold for want of buyer, while the chances of disposal of remaining one unit were bleak as the title of the land mortgaged with the Corporation was defective.

Considering sales price already realised (Rs.1.23 crore) and unrealised/assessed value of the two unsold units (Rs.0.56 crore), the Corporation incurred a loss of Rs.11.26 crore [accumulated dues: Rs.13.05 crore *less* (Rs.1.23 crore *plus* Rs.0.56 crore)]. The reasons for the losses are detailed below:

During pendency of recovery of loans, the Corporation never analysed security margin of the loans *vis-a-vis* viability of the units.

Loan applications were appraised, in several cases, without considering availability of raw materials, power, marketability of the proposed products.

Commercial and technical viability of the proposals/projects furnished with loan applications by the applicants were accepted by the Corporation without any critical analysis and verification of these data/information or the title of the loanee on the mortgaged property was not clear in absence of any authentic documents.

During ARCPSE meeting, the Management accepted the fact that there were improper pre-sanction appraisals in the absence of authenticated/reliable information/data bank based on which viability of the unit/project, availability of raw materials were to be studied/analysed.

The ARCPSE also advised the Corporation to take corrective measures and initiate action to take over the assets in appropriate time in order to get the matching return on disposal of taken-over assets.

Thus, lack of proper pre-sanction analysis, post disbursement monitoring and lack of appropriate timely action led to a loss of Rs.11.26 crore.

### ***System lapses and managerial indecision***

**3.4.4** The Company did not have proper system of monitoring the loans sanctioned. No watch was being kept as to the repayment of the loans by the loanees. Management failed to take a note of the development taking place in the loanee units even though many of the loanees were defaulting in repayment since beginning. Margins of securities were allowed to fall

substantially. Prior to take over of the assets of the defaulting units, these units were given the undue favour of rephasing/rescheduling of repayment of loans.

Instances noticed in audit are discussed in succeeding paragraphs:

### ***Guwahati Cotton Mills (P) Limited***

**3.4.5** Guwahati Cotton Mills (P) Limited<sup>\*\*</sup> was taken over in January 1999 after nine years of sanction of loan (Rs.60 lakh). Prior to take over, two spells of extension/rephasing of repayment period were allowed to the borrower. The rephasing had failed to improve the repayment position. Management's efforts to dispose-off the assets at a reasonable price met with failure. The maximum offered price of Rs.11.15 lakh was rejected by the Management. Other sale notifications failed to elicit any response.

Management assessed (April, 2002) the realisable value of the assets (Land, Building and Machinery) at Rs.20 lakh. Considering the assessed value of the assets; the Corporation incurred a loss of Rs.1.47 crore (accumulated dues: Rs.167.33 lakh less assessed value of assets: Rs.20 lakh) being unrealisable dues of the unit.

Audit observed that acceptance of the rephasing proposals without examining the future viability of the unit and delayed take-over resulted in loss to the Corporation.

Management in its reply (October 2003), stated that delay in land development works of the project caused the delay in implementation of the project and also that the Corporation extended the repayment period in anticipation that once the commercial operation started, repayment of dues would be forthcoming.

The fact, however, remains that the unit defaulted even after commencement of commercial operation and therefore, delay in taking over the unit was not judicious. Further, the Management belatedly (February 2000) observed that initial appraisal of the project was faulty.

### ***Royal Resin India***

**3.4.6** The Corporation took over the assets of Royal Resin India<sup>\*\*\*</sup> in February 1999 when borrower's dues accumulated to Rs.60.61 lakh over a period of nine years against sanctioned loan of Rs.16.99 lakh. The assets were sold (July 1999—February 2001) at Rs.6.05 lakh. Board of Directors of the Corporation decided (27 February 2001) to invoke personal guarantee of the promoters to make good the losses. Board's directives, however, were not complied with purportedly due to failure of the Management to identify the

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<sup>\*\*</sup> Sl. No. 13 of *Annexure-16*.

<sup>\*\*\*</sup> Sl. No. 9 of *Annexure-16*.

personal property of the promoters of the borrowing unit. Scrutiny revealed that:

- though the unit had become defunct and had been lying closed for the last 13 years due to its failure to market its products, the Management took eight years to initiate the take-over bid;
- the Corporation did not hold any collateral security and as such the chances of recovery of the balance dues of Rs.54.56 lakh from the loanee unit appear to be remote;

Management stated (October 2003) that the take over move was resorted to as a last measure and a settlement proposal for the loanee was currently under consideration.

The fact, however, remains that Management made no effort for eight years either to revive or take over the unit though the unit remained defunct and closed for the last 13 years; it also failed to invoke personal guarantee after take over due to non-identification of personal property of the promoter before sanction of the loan.

### ***Udayan Cement (P) Limited***

**3.4.7** The assets of Udayan Cement (P) Limited\* were taken over in dilapidated condition in July 2002 for default in payment over a period of 15 years since the date of sanction of the loan. At that time loanee's dues to AFC accumulated to Rs.3.05 crore (principal: Rs.45.35 lakh, interest: Rs.255.55 lakh, interest tax: Rs.4.30 lakh).

Audit scrutiny revealed that during a tripartite meeting (August 1993) of AFC Management, the borrower and the Chief Manager (Adv), Region-II, State Bank of India, the borrower was advised to furnish source of fund to clear the dues of ASEB (Rs.4.50 lakh), audited Balance Sheet, revised profitability statement, *etc.* No follow-up was taken by the Management. Further, it was observed that:

- the unit lost its commercial viability in 1993 itself. Despite this, allowing the defaulter unit indefinite time for revival of the unit over a period of nine years allowed the promoters to remove the assets and siphon off fund out of the business;
- the Management is yet (August 2004) to identify/locate personal assets of the promoters, the chances of recovery of the outstanding dues of Rs.3.05 crore appear to be remote.

In reply, Management stated (October 2003) that the Corporation always envisaged proper implementation and operation of the unit from social

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\* Sl. No. 11 of *Annexure-16*.

obligation point of view and avoided all coercive measures until all options were exhausted. It is, however, not clear to audit as to how, in absence of either any feed back from field office or follow up action by the unit to revive the unit, the Management continued for over a period of 11 years to repose its hope for revival of the unit.

Further, as regards social obligation, it is to point out that the Corporation was set up with a commercial objective and no social obligation would be fulfilled if the loanee was allowed not to pay amount due from it. So, when the financial viability of the Corporation was in jeopardy due to large-scale default by the loanees and mismanagement of the Corporation, it is not clear how the Corporation would have fulfilled its so-called "Social obligation".

**Unjustified settlement of loan accounts under One Time Settlement (OTS) Scheme resulted in loss of Rs.2.96 crore**

**3.4.8** The Board of Directors of the Corporation, in order to streamline the procedure so as to maximise internal generation of fund and reduce liabilities on borrowings by the Corporation, laid down (March 1995) guidelines for settlement of loan accounts under One Time Settlement (OTS) Scheme as follows:

The Managing Director, on receipt of a proposal (OTS) from the borrowing concern was to take immediate decision as per the following guidelines:

One-third of the principal outstanding as on the date of the application shall be paid by the concern within one month from the date of acceptance of the application, the balance two-third to be paid within six months from the date of payment of first instalment.

Fifty *per cent* of interest outstanding as on the date of final principal payment, together with interest tax, will be paid within six months from the date of payment of principal amount in full and the balance interest shall be waived by the Managing Director on payment of principal amount in full.

Interest shall be charged till the date of liquidation of principal amount.

On failure to comply with the above terms, the benefits offered under this package shall stand withdrawn and payment tendered so far was to be adjusted only against interest outstanding.

***OTS guidelines not followed***

**3.4.9** The review of loan cases settled under OTS during 2001-03 revealed that generally the guidelines were not followed. Test check of 12 cases as detailed in ***Annexure-17***, revealed that following deviations were made in settling the cases under OTS.

- In 11 cases, interest accrued up to the effective date of OTS was frozen, 48 to 91 *per cent* of interest accrued up to the effective date was waived and one case \* remained unsettled.
- In 10 cases \*\*, repayment of balance principal and interest were rescheduled in a manner, which in effect deferred the repayment for a further period of 17 to 166 months.
- In eight cases \*\*\*, although, the loanees failed to honour the OTS package, Management did not initiate any action either by withdrawing the OTS package or to recall the loan in any other manner.

### ***Improper settlement of loan cases under OTS***

**3.4.10** In most of the cases, though the borrowers defaulted in repayment of loan from the beginning, the Management, except for issuance of demand notices from time to time, did not initiate any action to recall the loan. OTS proposals were accepted either towards the fag end of the repayment period of the original loan or after the expiry of five to 50 months from the close of the repayment period. In order to ascertain the financial position or the state of affairs of the borrowers seeking OTS, submission of audited annual accounts by the loanees, as pre-requisite for acceptance of OTS, was not insisted upon. In fact, proposals were accepted on the basis of pleas/appeals made by the borrowers and not on the merit of individual cases.

Due to such improper settlement of loan accounts, the Corporation incurred a loss of Rs.2.96 crore. Further, even after waiver, the loanees failed to honour the OTS package and total default for these cases as on 30 September 2003 amounted to Rs.1.59 crore.

Three illustrative cases are discussed below:

#### ***Hotel Brindaban***

**3.4.11** The Corporation accepted (February 1999) OTS proposal of the Hotel Brindaban \* after eight years of sanction of the loan.

In its offer, the loanee requested (February 1999) the Management to adjust Rs.24 lakh (Rs.15.56 lakh as interest, Rs.8.44 lakh as principal) paid by him so far against principal dues and waive the entire interest dues (Rs.46.48 lakh) on the ground that the unit was not running well due to backing out of one of its major client (ONGC) and also due to prevailing law and order situation *etc.* Viability of the hotel project, as per original project proposal, was not dependent on a single client.

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\* Sl. No.7

\*\* Excluding Sl. No. 3 and 12

\*\*\* Sl. No. 1, 2, 4, 6, 8, 9, 11 and 12

\* Sl. No. 7 of ***Annexure-17***.

It was noticed that as on 31 March 1999, the loanee's dues to AFC stood at Rs.54.92 lakh (principal: Rs.24 lakh, interest: Rs.30.92 lakh). Therefore, as per existing OTS norm, the loanee was required to pay Rs.39.46 lakh (principal *plus 50 per cent* of interest Rs.30.92 lakh).

Board, however, in order to extend maximum relief to the loanee, deviated from the established norms and limited loanee's liability to Rs.11.62 lakh only, in interest free instalments, in full and final settlement of the loan account. While settling the loan case, only Rs.6.44 lakh was demanded from the loanee and the same was paid also. On detection of the error, the Corporation raised (July 2002) a claim of Rs.5.18 lakh against the borrower for the shortfall, the latter refused to pay the same. The matter did not proceed further.

Audit observed that acceptance of OTS proposal by the Corporation long after the expiry of original repayment period without taking any effective action, waiver of dues of Rs.43.30 lakh (Rs.54.92 lakh *minus* Rs.11.62 lakh) and deferment of repayment period by a further period of two years in relaxation of the approved OTS norms was detrimental to the financial interest of the Corporation.

In reply (October 2003), the Management stated that the unit was doing good business during initial years, which declined during later years due to law and order situation. It was, however, noticed in audit that the unit's repayment position was poor during the initial years while it improved substantially during the later years indicating that the settlement package was an undue privilege granted to the loanee at the cost of AFC.

### ***Video Cast Inc., Guwahati***

**3.4.12** The Video Cast Inc<sup>\*</sup>, in deviation from the established norms of OTS was allowed (1998) to sell the machinery at a meagre price of Rupees three lakh and the loan account was closed by waiver of Rs.44.91 lakh (principal overdue: Rs.13.11 lakh, interest dues: Rs.31.80 lakh).

Audit observed that settlement of loan account after the expiry of scheduled repayment period by sale of assets by the unit itself without associating the Corporation was an undue privilege granted to the loanee unit for which the Corporation lost dues amounting to Rs.44.91 lakh (principal dues: Rs.13.11 lakh, interest dues: Rs.31.80 lakh).

Management, in reply (October 2003), stated that change of technology affected the performance of the unit and that permission for sale of assets was accorded to the promoter fearing no recovery out of such obsolete machinery.

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\* Sl. No. 12 of *Annexure-17*.

Reply of the Management is not acceptable in view of the fact that the Management neither inspected the unit nor could assess the actual performance of the unit due to failure on the part of the unit to submit its audited annual accounts. Further, allowing the promoter to dispose off the assets involving substantial interest of the Corporation was not a prudent step towards securing such interest.

### ***Parijat Enterprise (P) Limited***

**3.4.13** Board accepted (February 2001) the OTS proposal of Parijat Enterprises (P) Limited\*\* when the unit's dues to AFC mounted to Rs.64.31 lakh (principal: Rs.26 lakh, interest: Rs.38.31 lakh) for non-payment over a period of eight years. The loanee, though failed to clear the dues as per the OTS package yet Management failed to withdraw the package as directed by the Board. Despite the fact that the loanee drew only Rupees nine lakh against sanctioned project cost of Rs.36 lakh and failed to implement the hotel project, Management disbursed a further loan of Rs.17 lakh for Nursing Home project without judging the technical and commercial viability of the project. Management did not also take any action to recall the loan when it was reported that the loanee was using the unit set up as a marriage hall.

Audit observed that due to incorrect appraisal of the project as regards credit-worthiness of the loanee, viability of the projects and lack of follow-up by the Management, the Corporation stands to lose its dues of Rs.39.16 lakh (Rs.26 lakh *plus* interest: Rs.38.31 lakh *less* Rs.6 lakh already paid with OTS proposal and waiver of interest dues of Rs.19.15 lakh).

During discussion (6 August 2004) on the audit observation in ARCPSE meeting, Management stated that adverse law and order situation was responsible for abandonment of the hotel project and as the "Nursing Home project" also could not be implemented after sanction of additional loan, settlement proposal was accepted by the Corporation. Management's contention is not acceptable as the similar law and order situation prevailed even during sanction of loan and decision of switching over to the Nursing Home project is not based on any commercial viability appraisal by the Management. As regards failure of the unit to comply with the settlement package and non-withdrawal of package for the said failure, Management remained silent.

Thus, there was inordinate delay in taking over the assets under SFC Act as well as disposal of taken over assets resulting in loss of Rs.11.26 crore. Besides, the Corporation settled the loan accounts of defaulted units under OTS in unjustified manner leading to further loss of Rs.2.96 crore.

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\*\* Sl. No. 9 of *Annexure-17*.

## **Assam State Electricity Board**

### ***Loss of revenue***

***Absence of specific provision in the TCS for levy of 13 per cent additional charges resulted in loss of revenue of Rs.21.83 lakh.***

**3.5** Clause 6 (D) of the Terms and Conditions of Supply (TCS), 1998 of Assam State Electricity Board provided that such consumers who had LT connection of more than 25 KVA connected load prior to 1 January 1988 for which supply was given from the Common distribution Transformer (CDT) of the Board, shall be billed as per the tariff applicable with the following additional charges:

- a) 10 *per cent* additional charge over the energy consumption;
- b) Three *per cent* LT metering charge over the energy consumption.

Audit observed that for same category of consumers who got the connection after 1 January 1988, no additional charges were leviable. To rectify the omission, the Board belatedly issued notice in August 2002 to all the consumers having connected load of 25 KVA and above that installation of matching transformer by the consumer was compulsory. Till such time of installation of transformer, 10 *per cent* additional charge on energy consumption and three *per cent* LT metering charge was to be levied.

The TCS, 1998 was issued in September 1998. The flaw in the TCS, 1998 resulted in undue benefit to consumers who got the connection during the period 1 January 1988 to August 2002 as additional charge of 13 *per cent* could not be levied on such consumers after the issuance of TCS, 1998. The undue benefit was, thus, extended to such consumers for the period from September 1998 to August 2002. Audit scrutiny of 117 consumers revealed that the Board suffered revenue loss of Rs.21.83 lakh on this account.

The matter was reported to the Management/Government in February 2004; their replies are awaited (September 2004).

### ***Non-realisation of meter security***

***Due to failure to ensure compliance to Board's directives as well as failure to realise meter security in advance, revenue amounting to Rs.10.36 lakh remained unrealised.***

**3.6** Since 1998 the Board, as a policy, had been replacing Conventional Electro Mechanical Meter by Electronic Static Meter. One of the conditions was that meter security was required to be realised from the consumer in advance.

Test check of records of the Guwahati Electrical Division (Central) revealed (December 2003) that during the period from January 1998 to March 2003, the Division issued 159 electronic meters without realising the meter security in advance which was a pre-requisite for the purpose. Against these 159 meters, meter security bills amounting to Rs.7.64 lakh in respect of 84 meters, were served in June 2000 (11 cases) and October 2003 (73 cases) but remained unrealised till December 2003. Bills for remaining 75 cases amounting to Rs.2.72 lakh could not be preferred till date (August 2004).

Thus, failure on the part of the authority to ensure Board's directive as well as to realise meter security before issue of the electronic meters led to unrealised revenue to the extent of Rs.10.36 lakh (August 2004).

The matter was reported to the Management/Government in February 2004; their replies are awaited (September 2004).

### ***Non-realisation of revised load security***

***Revised load security bill for Rs.1.75 crore could only be raised against billable demand of Rs.5.07 crore, which resulted in non-billing of revised load security for Rs.3.32 crore.***

**3.7** Clause 7 (C) of the Terms and Conditions (TCS), 1988 and 1998 of Assam State Electricity Board (ASEB) stipulates that before releasing power supply to a consumer, he/she shall deposit a load security against the connected load to ensure payment of monthly energy bills as per Schedule of Tariff (SOT) applicable from time to time. The ASEB amended the provision of Clause 7 (C) and enhanced (July 2000) the rate of load security to the extent of three\* or two\* times, as the case may be, of the average monthly billed amount during the previous calendar year in respect of existing consumers and three or two times of estimated monthly energy charge in respect of new consumers. This was also circulated (August 2000) to all field offices for implementation with immediate effect.

Amended provision further provided that in the case of existing consumers whose previous security deposit was less than the new security deposit, the difference would become payable by the consumer, within 30 days from the date of notice. In case of failure to deposit the same, the connection of the consumer would be liable to be disconnected without further notice.

Test check (December 2003) of records of the Executive Engineer, Electrical Division (Central), Guwahati revealed that as against 33,364 number of consumers as on August 2000, the Division could serve bill for revised load security in respect of 3,685 consumers only so far (August 2004).

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\* Three times for low tension consumers and two times for high tension consumers.

Thus, against a billable demand of Rs.5.07 crore, revised load security bill for an amount of Rs.1.75 crore could be raised by the Division which resulted in non-billing and non-realisation of revised load security to the tune of Rs.3.32 crore even after a lapse of more than three years of Board's decision.

The matter was reported to the Management/Government in February 2004; their replies are awaited (September 2004).

### ***Unrealised revenue***

***Revenue of Rs.17.48 lakh remained unrealised due to non-compliance of Court Order as well as non-adherence to the provision of TCS.***

**3.8** The Government of Assam *vide* Notification dated 23 August 1995 brought the Industrial area of Bongaigaon within the Municipal area. Consequently, all industries located in that industrial area were categorised as urban industrial consumers from the date of Government Notification. But the consumers obtained an interim order in August 2000 from the Hon'ble High Court, Guwahati, restricting the Division/Board to serve the bill as per revised categorisation.

While vacating the aforesaid interim order, the Hon'ble High Court held (February 2002) that the petitioners were liable to pay energy charges/bills as per tariff applicable for urban area.

Test check (May 2003) of records of Sub-Division-I under the Bongaigaon Electrical Division of the ASEB revealed that despite having Court verdict and instructions from higher authorities, no action was taken by the Division to serve and realise revised bills amounting to Rs.10.41 lakh for the period from August 1995 to February 2002 in respect of eight consumers.

Further, Clause 15 (e) of the TCS, 1998 *provides* that in the event of any meter being found incorrect (which includes a stopped, slow or fast meter) and where actual reading could not be ascertained, the correct quantity of energy consumed was to be determined by taking the average consumption for the previous three months preceding the meter going wrong or the next three months after correction whichever was higher and bill be prepared and preferred accordingly. The revised bill was to be prepared from a date not exceeding six months prior to the date of detection.

Scrutiny of records revealed (May 2003) that in respect of three commercial consumers, though defective meters were replaced between July 1999 and February 2000, but revised bills amounting to Rs.7.07 lakh as per Clause 15 (e) *ibid* were not served till the date of audit (May 2003).

Thus, due to failure of the Division to act upon the Court Order as well as to comply with the instruction of the concerned authority and non-adherence to

the provision of TCS, Board's revenue to the extent of Rs.17.48 lakh remained unrealised (May 2003).

The matter was brought to the notice of the Management/Government in March 2004; their replies are awaited (September 2004).

### ***Loss of revenue***

***Board suffered revenue loss of Rs.4.74 crore due to non-conversion of unmetered consumers into metered consumers.***

**3.9** Memorandum of Understanding (MoU) signed in March 2001 between the Ministry of Power, Government of India and the Department of Power, Government of Assam set out the milestone for 100 *per cent* metering of all consumers by 31 December 2001. Board, however, failed to convert the unmetered consumers into metered one.

As per existing tariff (effective from September 1998), the unmetered consumers were to be billed as below:

Domestic: Rs. 12/- per point,

Commercial: Rs.25/- per point.

Consequent upon such conversion these consumers (unmetered) would have come under a minimum tariff rate of Rs.1.20 and Rs.2.60 per unit as per tariff in force from September 1998. In addition to that, these consumers would have become liable to pay fixed charge *at the rate of* Rs.10 and Rs.30 respectively. From April 2000 these consumers would have also become liable to pay Fuel-cum-Purchase Adjustment Charge (FPAC) at the rate of 45 paise per unit. Conversion of unmetered consumers into metered consumers within the given time schedule, would have thus, helped the Board to generate substantial revenue.

Scrutiny of records of Barpeta Electrical Division, Sibsagar Electrical Circle, Dhubri Electrical Division and Pathsala Electrical Division revealed (September 2000 to September 2003) that there were 28,670 unmetered consumers in four divisions and the Board continued to supply power to those consumers under unmetered category.

Thus, due to failure of the Board to convert the unmetered consumers into metered consumers even after lapse of more than two years of the target date (December 2001) set out in the MoU (March 2001), the Board was deprived of revenue to the tune of Rs.4.74 crore during the period from January 2002 to March 2004. The Board could have generated substantial revenue and avoided such loss if active initiatives had been taken, in the interest of its own exchequer, to achieve the milestone set out in the MoU.

The matter was brought to the notice of the Management/Government in April 2004; their replies are awaited (September 2004).

### ***Unrealised revenue***

***Revenue of Rs.29.57 lakh remained unrealised due to failure to initiate timely action in compliance with Board's directives and existing provision of the TCS.***

**3.10** Clause 22 of the Terms and Conditions of Supply (TCS), 1998 of the Assam State Electricity Board (ASEB), *inter-alia*, mentions that where a consumer is found to be indulging in malpractice with regard to use of unauthorised electricity load exceeding authorized connected load, the Board may without prejudice to any other action that may be taken against the consumers, ask them to pay compensation charges, at a rate of one/two or three times (depending upon the category of consumers) of minimum charges per month on the excess load detected, for a period of six months.

In June 2001, the Board decided to offer an opportunity to the consumers to regularise their unauthorised excess load (without penalty), through voluntary disclosure of excess load during the period from 15 June 2001 to 1 July 2001, which was subsequently extended up to 30 June 2002. The Board also directed that excess connected load detected on expiry of the specified period would attract penalty and disconnection of power supply as per Clause 22 of the TCS *ibid*. Further, officers found negligent in discharge of their duties in this regard would be made responsible for any pecuniary loss caused to the Board.

To expedite the process of regularisation of excess load, the Board had also directed (April 2002) all Meter Testing and Investigation (MTI) Divisions to seek assistance from the respective Area Managers, Industrial Revenue Collection Area (IRCA) in load survey of consumers so as to complete the work within target date (June 2002).

Test check of records of the Area Manager, IRCA, Ulubari, Guwahati revealed (November 2003) that Inspection Squads/MTI Divisions of the Board detected unauthorised excess load of 2,657.365 KW in respect of 32 consumers during the period between April 2002 and July 2002 but till May 2003, none of the consumers had come forward to regularise the excess load even after expiry of almost 11 months of the specified date (30 June 2002) for voluntary declaration of excess load. It was also observed that neither the compensation charges nor disconnection notices in terms of Clause 22 (a) of the TCS were preferred/issued by the Board.

Thus, failure to initiate timely action in compliance with Board's directives and existing provision of the TCS resulted in non-realisation of revenue of

Rs.29.57 lakh. No action was taken against the officials responsible for such inaction/negligence.

The matter was brought to the notice of the Government/Management in November 2003; their replies are awaited (September 2004).

***Avoidable payment of interest***

***Lack of appropriate timely action for making final payment of GPF on the date of retirement led to avoidable extra expenditure of Rs.15.26 lakh.***

**3.11** General Provident Fund (Assam Service) Rules as amended from time to time also are followed by the Assam State Electricity Board (ASEB). Rule 31 of the GPF Rules, *inter alia*, provides that in order to enable a subscriber to submit an application for withdrawal of the amount in the fund at the time of retirement, the Head of Office shall send to every subscriber necessary forms one year in advance of the date of superannuation. These forms were to be returned to the Head of Office duly completed within a period of one month from the date of receipt of the form by the subscriber. On receipt of the written application, the Accounts Officer was to (after verification with the ledger account), issue an authority for final payment at least one month before the superannuation/retirement.

Rule 13 (4) as amended from time to time stipulates that if the final payment could not be made within one month after the date of retirement due to administrative difficulties/lapses, the subscriber was entitled to interest up to the maximum period of six months from the second month onward after the date of retirement.

In the interest of the exchequer, it was, therefore, desirable that every Drawing and Disbursing Officer/Head of the Office should observe the prescribed procedures to ensure final payment of GPF on the date of retirement itself and to avoid payment of interest beyond the date of retirement.

Test check of 223 cases of final payment out of 4,411 cases settled during 1998-99 to 2003-04 revealed (February 2004) that the Board, as a matter of routine had been paying interest up to six month beyond one month after retirement. In the instant cases, there were inordinate delays in settlement of the final payment of GPF, which ranged from six to 43 months.

While admitting the fact during the course of audit, the Board attributed (February 2004) the reasons for delay in finalisation of cases to late submission of application by the concerned office, non-quoting of GPF Account No. or date of retirement in the application, application either not signed by the applicant or countersigned by the concerned authority, non-

receipt of statement or certificate about withdrawal of GPF during entire service period of the applicant from the concerned office *etc.*

Thus, non-observance of the codal provision to initiate action in advance for making final payment of GPF on the date of retirement resulted in avoidable extra expenditure of Rs.15.26 lakh during 1998-99 to 2003-04 in respect of 223 cases, test checked in audit. The Board, however, did not investigate the cause for delays or fixed responsibilities for the lapses.

The matter was brought to the notice of the Government/Management in April 2004; their replies are awaited (September 2004).

### ***Excess expenditure***

#### ***Excess expenditure of Rs.32 lakh on purchase of AAA conductors***

**3.12** Conductor is a reserved item under Schedule II of the Assam Preferential Stores Purchase (APSP) Act, 1989 and the same is required to be procured from local manufacturers registered under the Act at a price to be fixed by Technical Committee-4 (TC-4) constituted by the Assam State Stores Purchase (ASSP) Board.

The TC-4 appointed by the ASSP Board (February 1999) fixed the ex-work rate of conductors at Rs.1.44 lakh per MT including 10 *per cent* profit on cost. The various cost components, *inter alia*, included cost of power and fuel at Rs.4,672.35 and interest on working capital at Rs.10,124.23. The Board procured 493.59 MT of AAA (Zebra) conductors during March 1999 to May 2000. Further scrutiny of records in the Office of the Chief Engineer (T&T) revealed (June 2002) the following:

#### ***Power and Fuel cost***

**3.12.1** The power and fuel cost of Rs.4,672.35 included fixed charge of Rs.1,755 which was worked out on the basis of a connected load of 195 KW (229.41 KVA) for production of 150 MT of conductors per annum instead of load consumed in production process. While working out the estimated consumption of power, the connected load was taken as 74.46 KW (Furnace: 48 KW, Other loads: 26.46 KW). Hence, fixed charge (Rs.840.96) on 74.46 KW (87.60 KVA) should have been allocated to production. Allocation of fixed charge on 195 KW resulted in inflation of cost by Rs.914.04 (Rs.1,755—Rs.840.96) per MT of conductors.

#### ***Interest on working capital***

**3.12.2** For the purpose of cost estimation, interest cost of Rs.10,124.23 was taken for a full year at 15 *per cent* of estimated working capital of Rs.67,495 per MT although working capital was required for four months only. Scrutiny, however, revealed that working capital requirement on

the basis of production cycle of four months was Rs.39,515.59 per MT (Rs.1,18,546.77/12x4). So, interest cost per MT worked out to Rs.5,927.34 only. In view of this, excess interest cost of Rs.4,196.89 (Rs.10,124.23—5,927.34) per MT was considered while fixing ex-factory price of conductors.

In reply to audit observation, the Chief Engineer stated (March 2003) that purchase was made at the price fixed by the TC-4 and also furnished the criteria adopted for fixation of prices of AAA conductors. The Chief Engineer, however, did not contest the calculation as worked out in audit.

Thus, due to allocation of excess cost towards power and fuel (Rs.914.04) and interest on working capital (Rs.4,196.89) per MT of conductor, the Board had incurred an excess expenditure of Rs.32.19 lakh including 10 *per cent* profit on cost and 16 *per cent* excise duty on procurement of 493.59 MT of AAA (Zebra) conductors during March 1999 to May 2000.

The matter was reported to the Management/Government in May 2004; their replies are awaited (September 2004).

### ***Loss of revenue***

<b><i>Incorrect billing and consequent loss of revenue: Rs.11.03 lakh</i></b>
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**3.13** As per Clause 14 (D) of the Terms and Conditions of Supply (TCS), 1988 and 1998, an additional 10 *per cent* of total monthly consumption was to be billed in case a consumer (having motors rated 7.5 HP above) fails to install power capacitors of suitable rating.

As per Board's circular dated 7 January 1993 and clause 15 (e) (i) of the TCS, in case a meter is found stopped from the inception of supply, billing should be done as per assessed consumption. It was seen that the meter of a consumer (Consumer No. BS/I) with a connected load of 425 KW under Samaguri Electrical Sub-Division was not working since inception of supply in October 1991 and hence was required to be billed at assessed consumption of 48,960 units per month. The Sub-Division, however, raised bills for 42,200 units per month from inception to January 1999 after which the consumer was transferred to Industrial Revenue Collection Area (IRCA), Tezpur. Thus, the consumer was short billed for 5,94,880 units (6760 units x 88 months) up to January 1999 which resulted into loss of revenue of Rs.11.03 lakh.

Thus, due to incorrect billing, the Board incurred revenue loss of Rs.11.03 lakh.

The matter was brought to the notice of the Government/Management in November 2002; their replies are awaited (September 2004).

### ***Extra expenditure***

***The Board incurred an extra liability of Rs.25.60 lakh due to acceptance of a special clause based on erroneous calculation.***

**3.14** The Board issued (April 2000) a work order in favour of Gammon India Limited (GIL) for construction of concrete dam on Borpani at Hatidubi for 2x50 MW Karbi Langpi (Lower Borpani) Hydroelectric project. Para-7 of the Special Clauses of the work order provided that “Power for all construction activities shall be supplied to the contractor by the Board at Rupees three per KWH (unit). In case of failure to supply power by the Board, the contractor was to generate power required for construction work and the Board was to pay for the same at Rs.4.50 per unit”.

The reimbursement of Rs.4.50 per unit claimed by the contractor was based on the estimation that the cost of generation per unit (Rs.12.40) would be higher than the cost of purchase of power from ASEB (Rupees three per unit) by Rs.9.40 per unit.

The cost of generation of Rs.12.40 per unit as estimated by the contractor was derived, on the basis of an estimated generation of 960 units per month/DG set of 55 KVA capacity.

It was observed that, during November 2001 to October 2003, M/s GIL generated 5,68,904.20 units of power and incurred an expenditure of Rs.15.96 lakh. Thus, cost of generation per unit worked out to Rs.2.80.

In view of the above, the Board, in its own financial interest, should not have accepted the term to reimburse the cost of generation at the rate of Rs.4.50 per unit, which was based on an erroneous calculation. Instead, it would have been prudent in terms of financial propriety, had they accepted a term to reimburse the difference between the actual cost of generation and the rate at which ASEB had agreed to supply power.

During the course of audit, Management stated (August 2004) that GIL submitted an analysis of rates for generation of power of their own by taking on 55 MVA (40 KW) D.G. set as sample in support of their offered rate of Rs.4.50/unit. The GIL actually utilised 13 D.G. sets out of which 11 were above 55 KVA and considering utilisation of 11 D.G. sets, cost of generation worked out to Rs.6.85/Kwh. As such, accepting rate of Rs.4.50/unit was quite reasonable.

Management’s reply is not acceptable because as per data furnished by them, one D.G. set of 55 KVA was sufficient to meet the requirement.

Thus, acceptance of a special condition based on wrong calculations was detrimental to the Board's financial interest and, consequently, the Board had to incur an extra liability of Rs.25.60\*\* lakh.

The matter was reported to the Government in June 2004; their replies are awaited (September 2004).

### ***Loss of revenue***

***Board sustained revenue loss of Rs.15.02 lakh due to irregular waiver/reduction of compensation charges.***

**3.15** Clause 22 (e) of Terms and Conditions of Supply (TCS), 1998, Assam State Electricity Board (ASEB) stipulates that if at any time, the energy supply was misused for the purpose other than for which supply was contracted for and for the purpose for which higher tariff was applicable then the consumer was liable to pay the compensation bill at twice the normal tariff applicable to the purpose for which the energy was misused for the entire consumption for a period of six months prior to the date of detection with adjustment already paid at lower tariff. Further Clause 22 (b) stipulates that in case of detection of resale of electricity by a consumer, assessment bill was to be raised at twice the rate of normal tariff for consumption by the said consumer for preceding six months from the date of detection. This will be over and above the normal energy bill.

A scrutiny of records in the Office of the Area Manager (AM), Industrial Revenue Collection Area, Ulubari, Guwahati revealed (November 2003) the following:

In pursuance of the Technical Inspection Squad report of the Board (18 November 1999), a compensation bill for Rs.10.28 lakh was served (27 November 1999) to an industrial High Tension consumer, as per Clause 22 (b) for resale of power/extension of line to other commercial unit. Though, the consumer also admitted the fact that the part load was connected to other units owned by him, the Appellate authority on receipt of appeal (December 1999) from the consumer, waived (December 2000) the compensation charges on the ground that unit to which line was extended was owned by the consumer and there was no provision in the TCS, 1998 for raising the compensation bill. The contention of the Appellate authority was not acceptable in view of the fact that the TCS did not authorise the consumer to extend connection from one industrial unit to another commercial unit (even though both the units were owned by the same consumer) and such unauthorised extension was tantamount to malpractice.

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\*\* 5,68,904.20 units @ Rs.4.50 per unit.

Audit, therefore, observed that as the industrial line was connected to commercial unit, compensation bill at least for Rs.8.59 lakh\* should have been raised as the malpractices attract Clause 22 (e) (i) of TCS, 1998.

In another case, a compensation bill for Rs.7.32 lakh was served (November 1997) on the basis of the report (October 1997) of Inspection Squad of the Board to a consumer for resale of power in terms of Clause 22 (b) of the TCS for a period of six month. Consumer, thereafter filed an appeal petition (November 1997) with Appellate authority (Additional Chief Engineer, Commercial, Guwahati).

The Appellate authority (February 1998), though accepted the fact of resale of electricity, however, restricted the period of compensation bill to one month which contravened the provision for raising compensation bill for six months as laid down under Clause 22 (b) of the TCS, 1998. As the stipulation in the TCS for assesment/recovery of penalty for six month period was a deterrent to curb malpractices, therefore, limiting the period of assessment to one month instead of six month was injudicious and tantamount to extension of undue privilege of Rs.6.43 lakh to the consumer. Though this was brought to the notice of the Management in November 2001, Board did not review the action of the Appellate authority which was detrimental to its own financial interest.

While accepting the audit observation, Management stated (August 2004) that as none of the decisions of the Appellate authority were relevant as per clauses of the TCS, the matters were being looked into for review.

Thus, the Board suffered a loss of revenue amounting to Rs.15.02 lakh in the above two cases.

The matter was reported to the Government in June 2004; their replies are awaited (September 2004).

## **GENERAL**

### ***Delay in finalisation of accounts by State Public Sector Undertakings***

**3.16** The annual accounts of Public Sector Undertakings (PSUs) are required to be finalised within six months from the end of financial year under Section 166, 210, 230, 619 and 619 B of the Companies Act, 1956 (Act) read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service), Act, 1971.

The State Government is also required to cause an annual report on the working and affairs of each Company, together with audit report and any

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\* Consumption bill at twice the normal tariff *i.e.* Rs.14.68 lakh *less* already billed Rs.6.09 lakh.

comments upon or supplement to the audit report, made by the Comptroller and Auditor General of India, to be laid before the State Legislature within nine months from the end of each financial year in terms of Section 619 A (3) (b) of the Act. Similarly, in the case of Statutory Corporations, their accounts are to be prepared, audited and presented to the State Legislature as per provisions of the respective Act. Section 168 and 210 of the Act also stipulate stringent measures like punishment and penalty for non-compliance to any of the provision relating to finalisation of accounts in time.

Keeping of annual accounts is of *prima facie* importance in order to give a true and fair view of the affairs of the PSUs. Arrears in accounts do not permit the Government either to assess the exact financial health or to take any concrete steps towards improving of functioning of the PSUs. Besides, delay in finalisation of accounts also opens the system to risk of fraud and leakage of public money.

As on 30 June 2004, there were 38 Government Companies (28 working companies and 10 non-working companies) and four Statutory Corporations (all working). Out of 10 non-working Companies, offices of two companies (Assam Tanneries Limited and Assam Meghalaya Mineral Development Corporation Limited) could not be located. The accounts of 28 working Government companies and 10 non-working Government Companies were in arrear for a period ranging from 1 year to 21 years and that of Statutory Corporations from 1 to 7 years as would be seen from **Annexure-18**.

Reasons for delay in finalisation/arrears in accounts, as identified by audit, as well as by the Public Enterprises Department (PED) of the Government of Assam were as under:

- Companies inherited arrears due to initial delay in taking up the matter for appointment of Statutory Auditors (Sl. No. 26 of **Annexure**).
- Delay in preparation of accounts due to non-availability of qualified accounts personnel in some PSUs.
- Delay in taking up of audit by the Statutory Auditors (Sl. No. 11,18 & 20 of **Annexure**).
- Dispute regarding audit fees/meagre audit fee (Sl. No. 5 & 20 of **Annexure**).
- Delay in adoption of previous year's accounts in the Annual General Meeting (AGM) (Sl. No. 5 of **Annexure**).
- Non-attendance of staff for non-payment of salaries for long periods.

To expedite the process of finalisation of accounts and updation of accounts, there has been regular interaction/correspondences with the State Government including at the highest level. In April 2002, when the matter was taken up

with the State Government again, the Government decided that the Public Enterprises Department (PED) would move a proposal to the Finance Department of the State for creating a provision of special fund for the enterprises, which were not operational and/or where finalisation of accounts has fallen in arrears due to non-payment of salaries to the employees, in consultation with the administrative departments concerned, The Finance Department would consider such proposal for payment to the employees to be engaged specifically for clearance of arrears in accounts within a targeted period and such fund should, in no case, be diverted for other purposes.

Despite all the efforts, neither the administrative departments of the Government nor the Management of the PSUs have chalked out any action plan to pull up the arrears in accounts within the targeted period and as a result the arrears in accounts continues to accumulate to an alarming proportion as would be evident from **Annexure-18**. The table below indicates the position of arrears and accounts finalised during the five years period ending 31 March 2004.

Particulars	Total		No. of accounts finalised		No. of accounts in arrear at the end of the year	
	No. of Company/ Corporation	No. of accounts	No. of Company/ Corporation	No. of accounts	No. of Company/ Corporation	No. of accounts
<b>GOVERNMENT COMPANIES:</b>						
1999-2000	38	393	18	23	35	370
2000-2001	38	408	25	40	35	368
2001-2002	38	406	17	20	34	386
2002-2003	38	424	19	22	36	402
2003-2004	38	440	21	27	38	413
<b>STATUTORY CORPORATIONS:</b>						
1999-2000	04	12	02	02	04	10
2000-2001	04	14	02	02	04	12
2001-2002	04	16	01	02	03	14
2002-2003	04	18	03	03	03	15
2003-2004	04	19	03	04	04	15

It would be seen from the table that though follow up action was taken in reviewing the arrears of accounts at the highest level of the Government, there was no improvement in finalisation of accounts.

Given such a situation in non-finalisation of accounts, the Government remain completely in dark about the financial health of the PSUs in which Government had invested Rs.2,454 crore as of 31 March 2004. Arrears in accounts also did not permit the Government to take any effective measures for revival or closure of the PSUs but only forced the Government to make more unfruitful investment.

The State Government (Public Enterprises Department) had, however, proposed (August 2004) for simplifying the procedure of finalisation of accounts by allowing acceptance of internal auditor's report as report of the statutory auditors and also to allow statutory auditor to submit their reports for several years at a time without waiting for adoption of earlier year's accounts in the Annual General Meeting (AGM). The department's proposal is contrary to the provisions of the Companies Act, 1956.

It is, desirable that the Government should evolve a mechanism to pull up the arrears in accounts within a specific time schedule by timely finalisation of accounts and avoiding delays in adoption of previous year's accounts in the AGM.

### **Follow up action on Audit Reports**

**3.17** Audit Reports of the Comptroller and Auditor General of India's represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive.

Finance (Audit & Fund) Department, Government of Assam issued (May 1994) instructions to all administrative departments that immediately on receipt of Audit Reports, the concerned departments would prepare an explanatory note on the paragraphs and reviews included in the Audit Reports indicating the action taken or proposed to be taken and submit this 'Action Taken Note' (ATN) to the Assam Legislative Assembly with copy to Principal Accountant General/Accountant General within 20 days from the date of receipt of the Reports. Besides this ATN, the department would ensure submission of the written Memorandum as called for on the para(s) concerning the department within the time limit prescribed by the Assam Legislative Assembly from time to time.

Audit Reports for the year's 1999-2000, 2000-2001, 2001-2002 and 2002-2003 were placed in the State Legislature in May 2001, March 2002, March 2003 and July 2004 respectively. 65 paras/reviews involving 10 departments featured in the Audit Report (Commercial) for the years from 1999-2000 to 2002-03. No replies, however, have been received upto 31 March 2004 as indicated in next page:

Year of Audit Report	Total Paragraphs/reviews in Audit Report	No. of departments involved	No. of Paragraphs/reviews for which replies was not received
1999-2000	20	9	20
2000-2001	13	6	13
2001-2002	16	4	16
2002-2003	16	3	16
<b>Total</b>	<b>65</b>	<b>22</b>	<b>65</b>

Department wise analysis is given in **Annexure-19**. Power and Industries Department were largely responsible for non-submission of reply.

### ***Outstanding compliance to Reports of Committee on Public Undertakings (COPU)***

**3.18** The purpose of placing Comptroller and Auditor General of India's Audit Report each year before the State Legislature could be best served if the COPU examine these reports within a time bound programme and issue recommendations to the departments/PSUs for effecting corrective measures. This would not only ensure timely accountability of the concerned departmental authorities to the Legislature but would also set in motion much needed remedial action on the various points brought out in the Reports.

Against 147 paras and 32 reviews featured in the Audit Reports (Commercial) for the years 1991-92 to 2002-03, 69 paragraphs and 12 reviews were discussed by the COPU upto 31 March 2004. Recommendations of the COPU in respect of three paragraphs and one review featured in the Audit Reports for the year 1991-1992 (one paragraph) and 1995-1996 (two paragraphs and one review) have been received. Replies of the departments/follow up action on these recommendations are awaited (September 2004).

### ***Action taken on persistent irregularities in Audit Reports***

**3.19** To provide assistance and facilitate discussion of paras of persistent nature by the State COPU, an exercise has been carried out to identify the extent of persistent irregularities pertaining to Government Companies and Statutory Corporations. Details are indicated in **Annexure-20** and **21** respectively.

### **Government companies**

**3.19.1** Irregularities contained financial implication of Rs.4.96 crore due to avoidable loss/expenditure, poor cash management for holding excess load over requirement (Assam Petrochemicals Limited), awarding works contract at higher rates and borrowing of funds at higher rates of interest having sufficient fund in the account. (Assam Gas Company Limited). These irregularities are included in the Comptroller and Auditor General of India's Audit Report for the years 1998-1999 to 2002-2003 (Commercial), Government of Assam.

### **Statutory corporations**

**3.19.2** Irregularities contained financial implication of Rs.20.14 crore due to undue benefit to consumers, non-levy of compensation charges and unrealised revenue for irregular reduction of quantum of penalty, non-levy of compensation charges for malpractice, accumulation of Government revenue, which remained unrealised, and non-recovery of load security. These irregularities are included in the C&AG of India's Audit Report for the years 1998-1999 to 2002-2003.

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

**3.20** Audit observations noticed during audit and not settled on the spot are communicated to the Heads of PSUs and concerned departments of State Government through Inspection Reports. The Heads of PSUs are required to furnish replies to the Inspection Reports through respective Heads of Departments within a period of six weeks. Inspection Reports issued up to March 2004 pertaining to 38 PSUs disclosed that 4313 paragraphs relating to 790 Inspection Reports remained outstanding at the end of March 2004; of these, 201 Inspection Reports containing 1522 paragraphs had not been replied for more than one year. Department-wise break-up of Inspection Reports and Audit observations outstanding as on 31 August 2004 are given in **Annexure 22**.

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. It was, however, observed that 18 draft paragraphs, three long draft paragraphs and two reviews were forwarded to the various departments during April and July 2004. Replies to 18 draft paragraphs, two long draft paragraphs and one review as detailed in **Annexure-23** were awaited (September 2004). Review, and two long paragraphs, however, were discussed in the ARCPSE meeting.

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

GUWAHATI

**(SWORD VASHUM)**

THE

**Principal Accountant General (Audit)**

**Countersigned**

NEW DELHI

**(VIJAYENDRA N. KAUL)**

THE

**Comptroller and Auditor General of India)**