CHAPTER-VI

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

6.1. Overview of Government companies and Statutory corporations

Introduction

6.1.1 As on 31 March 2006, there were ten[1] Government companies, one Electricity Regulatory Commission and two Statutory corporations (all working) under the control of the State Government, as against nine Government companies, one Electricity Regulatory Commission and two Statutory corporations (all working) as on 31 March 2005. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of Section 619 (4) of the Companies Act, 1956. The audit arrangements of the Statutory corporations are as shown below:

Sl. No.	Name of the Corporation	Authority for audit by the Comptroller and Auditor General of India	Audit arrangement
1.	Chhattisgarh State Electricity Board (CSEB)	Under Rule 14 of the Electricity Supply (Annual Accounts) Rules, 1985 read with Section 185(2) (d) of the Electricity Act, 2003.	Sole audit by the CAG
2.	Chhattisgarh State Warehousing Corporation	Section 31(8) of the State Warehousing Corporation Act, 1962	audit by Chartered Accountants and supplementary audit by the CAG

The State Government had constituted the Chhattisgarh State Electricity Regulatory Commission (CSERC) (October 2001) under the erstwhile Electricity Regulatory Commission Act 1998. Its audit is entrusted to the CAG under section 104 (2) of the Electricity Act, 2003.

The details of all the Government companies and Statutory Corporations are given in ***Appendices 6.1, 6.2, and 6.3***.

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[1] *Three companies have not yet commenced commercial activities.*

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

6.1.2 The total investment in 11 working PSUs (nine Government companies and two Statutory corporations) at the end of March 2005 and 12 working PSUs (ten Government companies and two Statutory corporations) at the end of March 2006 respectively was as follows:

(Amount: Rupees in crore)

Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loans	Total
2004-05	11	35.66	3.00	1,021.81	1,060.46
2005-06	12	39.16[2]	-	958.71	997.87[3]

As on 31 March 2006, the total investment in working Government companies and Statutory corporations comprised 3.92 *per cent* of equity capital and 96.08 *per cent* of loans, as compared to 3.64 *per cent* and 96.36 *per cent* respectively as on 31 March 2005.

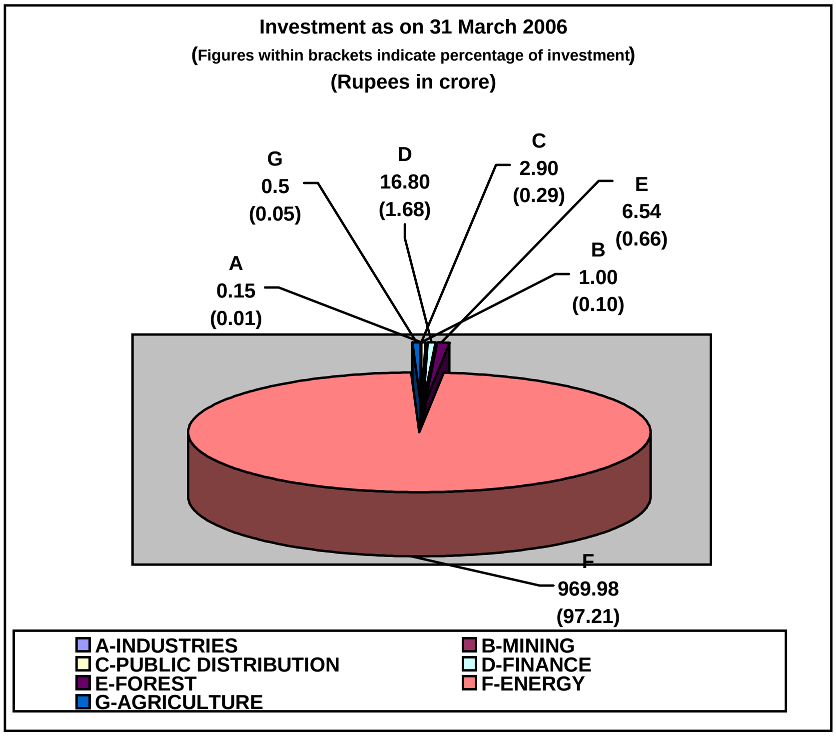
An analysis of investment in PSUs is given in the following paragraphs:

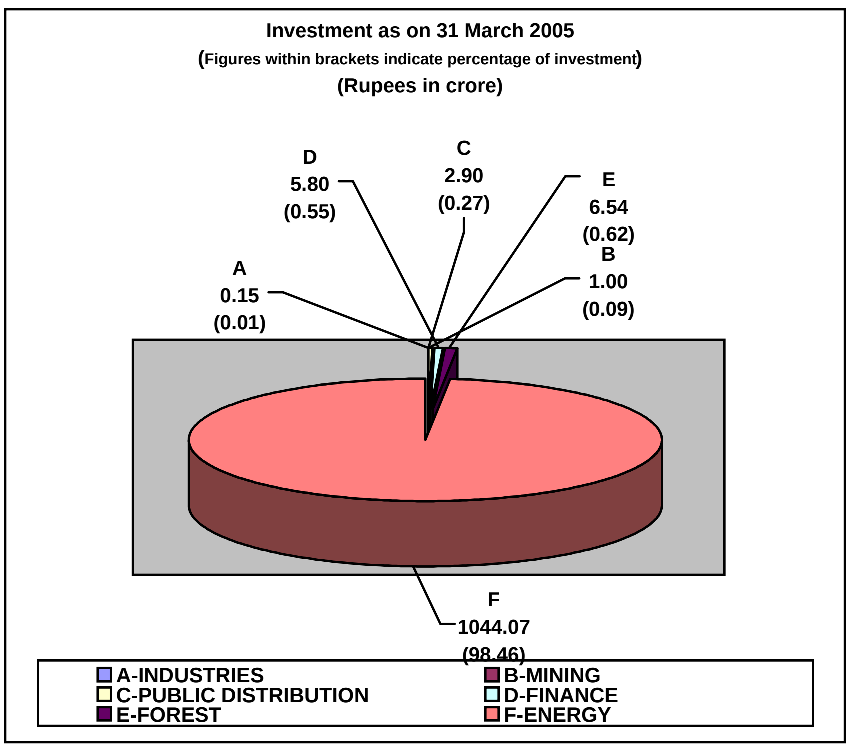
Sector-wise investment in working Government companies and Statutory corporations

The investment (equity and long term loans) in various sectors and percentage thereof at the end of March 2006 and March 2005 are indicated in the following pie charts:

[2] *State Government's investment towards share capital in all PSUs was Rs.37.58 crore as per information furnished by PSUs. The figure as per Finance accounts is Rs.33.16 crore. The difference is under reconciliation.*

[3] *State Government's investment in working PSUs was Rs.866.78 crore (loans plus share capital)*


Investment as on 31 March 2006
(Figures within brackets indicate percentage of investment)
(Rupees in crore)
G 0.5 (0.05)
D 16.80 (1.68)
C 2.90 (0.29)
E 6.54 (0.66)
B 1.00 (0.10)
A 0.15 (0.01)
F 969.98 (97.21)
A-INDUSTRIES
B-MINING
C-PUBLIC DISTRIBUTION
D-FINANCE
E-FOREST
F-ENERGY
G-AGRICULTURE


Investment as on 31 March 2005
(Figures within brackets indicate percentage of investment)
(Rupees in crore)
D 5.80 (0.55)
C 2.90 (0.27)
E 6.54 (0.62)
B 1.00 (0.09)
A 0.15 (0.01)
F 1044.07 (98.46)
A-INDUSTRIES
B-MINING
C-PUBLIC DISTRIBUTION
D-FINANCE
E-FOREST
F-ENERGY

Working Government companies

6.1.3 Total investment in the working Government companies at the end of March 2005 and March 2006 respectively was as follows:

(Amount: Rupees in crore)

Year	Number of companies	Investment in working Government companies			
		Equity	Share application money	Loans	Total
2004-05	9	11.54	3.00	1.00	15.54
2005-06	10	15.04	-	12.00	27.04

The summarised position of Government investment in these Government companies in the form of equity and loans is detailed in ***Appendix 6.1***.

As on 31 March 2006, the total investment in working Government companies comprised 55.62 *per cent* of equity capital and 44.38 *per cent* of loans as compared to 93.56 and 6.44 *per cent* respectively as on 31 March 2005.

Working Statutory corporations

6.1.4 The total investment in the two working Statutory corporations at the end of March 2005 and 2006 respectively was as follows:

(Amount: Rupees in crore)

Name of corporation	2004-05		2005-06	
	Capital	Loans	Capital	Loans
Chhattisgarh State Electricity Board	23.12[4]	1020.81	23.12	946.71
Chhattisgarh State Warehousing Corporation	1.00	Nil	1.00	Nil
Total	**24.12**	**1020.81**	**24.12**	**946.71**

As on 31 March 2006, the total investment in working Statutory corporations comprised 2.48 *per cent* of equity capital and 97.52 *per cent* of loans as compared to 2.30 and 97.70 *per cent* respectively as on 31 March 2005.

The summarised position of investment in working Statutory corporations in the form of equity and loans is detailed in ***Appendix 6.1***.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

6.1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of Government companies and Statutory Corporations are given in ***Appendices 6.1 and 6.3***.

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to Government companies and Statutory corporations for the three years up to 2005-06 are given below:

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[4] *As per Ministry of Power, Government of India order dated 4.11.04, the share capital of MPEB as on 14.4.01 of Rs.2,311.50 lakh had remained undistributed, which had been provisionally apportioned to CSEB as its share capital on Asset Ratio.*

(Amount: Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Equity capital outgo from budget	2	2.45	--	--	1	1.00	--	--	1	0.50	-	-
Loans given from budget	--	--	1	0.85	--	--	1	47.28	1	11.00	-	-
Other grants/ subsidy	2	153.66	2	78.11	2	40.84	1	75.46	5	59.72	1	129.79
Total outgo	**4**[5]	**156.11**	**2**[5]	**78.96**	**3**[5]	**41.84**	**1**[5]	**122.74**	5[5]	**71.22**	**1**[5]	**129.79**

During the year 2005-06, the Government had guaranteed loans aggregating Rs.354.07 crore obtained by one working Statutory Corporation. At the end of the year, guarantees aggregating Rs. 325.16 crore were outstanding.

Finalisation of accounts by PSUs

6.1.6 The accounts of the Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under sections 166, 210, 230 and 619 of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also required to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

As can be seen from ***Appendix 6.2***, out of ten Government companies and two Statutory corporations, none of the Government companies or Statutory corporations had finalised their accounts for 2005-06. During the period October 2005 to September 2006, four working Government companies and one corporation finalised accounts of previous years.

The accounts of all the working Government companies and Statutory corporations were in arrears for periods ranging from one to four years as on September 2006 as detailed below:

Sl. No	Number of working companies/ corporations		Period for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial No. of Appendix 6.2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*
1.	1	1	2002-03 to 2005-06	4	A-6	B-1
2.	2	1	2003-04 to 2005-06	3	A-3, 4	B-2
3.	2	Nil	2004-05 to 2005-06	2	A-1,5	Nil
4.	5	Nil	2005-06	1	A-2,7,8,9,10	Nil
	10	**2**				

5 *These are the actual number of companies/corporations which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during the year.*

Financial position and working results of working PSUs

6.1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in ***Appendix 6.2***.

According to the latest finalised accounts, four working Government companies had incurred an aggregate loss of Rs.41.85 crore and two Government companies and two Statutory corporations had earned an aggregate profit of Rs.370.75 crore.

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

6.1.8 During the period from October 2005 to September 2006, the accounts of four companies and one corporation were selected for review. As a result of the observations made by the CAG, CSEB[*] (2001-02) revised its accounts. The net impact of the important audit observations as a result of the review of the PSUs was as follows:

Details	**Government companies**	
	Number of accounts	**Amount (Rs in lakh)**
Increase in Profit	1	111.89
Increase in Loss	1	4.49
Non disclosure of material facts	1	31.92

Some of the major errors and omissions noticed in the course of review of annual accounts are mentioned below.

(i) **Chhattisgarh Rajya Van Vikas Nigam Limited (2004-05)**

Non accounting of interest accrued but not due as on 31 March 2005 resulted in understatement of profit for the year by Rs 1.12 crore.

(ii) **Chhattisgarh Infrastructure Development Corporation Limited (2003-04)**

Capitalisation of expenditure incurred on India Infrastructure Show resulted in understatement of loss to the extent of Rs. 4.49 lakh.

Position of discussion of Commercial Chapter by the Committee on Public Undertakings (COPU)

6.1.9 The status of Audit Reports (Commercial Chapter) and their reviews/paragraphs discussed as at the end of July 2006 is as under:

Period of Audit Report	**Number of reviews and paragraphs featured in Audit Report**	**Number of paragraphs discussed**
1999-2000	5[6]	3
2000-01	7[7]	--
2001-02	2	--
2002-03	7	--
2003-04	8	--

[*] *Chhattisgarh State Electricity Board*

6 *Pertain to 2 reviews of Audit Report (Commercial)-Government of Madhya Pradesh*

7 *Pertain to 1 review of Audit Report (Commercial)-Government of Madhya Pradesh*

2004-05	3	--

619 - B companies

6.1.10 *There was no company covered under section 619-B of the Companies Act 1956.*

Response to Inspection Reports, draft paragraphs and reviews

6.1.11 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the 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. In respect of Inspection Reports issued up to March 2006 pertaining to eleven PSUs, 1,288 paragraphs in 516 Inspection Reports remained outstanding at the end of March 2006. Of these, 506 Inspection Reports containing 1,246 paragraphs had not been replied to for more than one year. Department-wise break-up of Inspection Reports and audit observations outstanding as on 31 March 2006 is given in ***Appendix 6.4***.

Similarly, draft paragraphs 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. Out of the five draft paragraphs and one review forwarded to three departments viz. Food (One review), Energy Department (One paragraph) and Commerce and Industries (Four paragraphs) between January and August 2006, reply to none of the review/paragraph(s) has been received (September 2006).

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

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6.2 Performance Review on Construction, Operation and Maintenance of Warehouses in Chhattisgarh State Warehousing Corporation.

Highlights

Before construction of godowns under the seven year guarantee scheme, the Corporation failed to undertake techno-economic feasibility studies and to coordinate with Food Corporation of India in selection of locations. Consequently, the godowns constructed at a cost of Rs 5.40 crore remained grossly under utilised.

(Paragraph 6.2.9)

The Corporation's failure to obtain title deed of land in its' favour before construction of godowns led to non-receipt of subsidy of Rs 43.50 lakh from National Bank for Agriculture and Rural Development.

(Paragraph 6.2.10)

The depositors deducted/ withheld Rs 6.62 crore from the Corporation's dues due its failure to fix the norm for storage loss that was acceptable to the depositors.

(Paragraph 6.2.13)

Introduction

6.2.1 Chhattisgarh State Warehousing Corporation (Corporation) was formed (May 2002) under the State Warehousing Corporations Act, 1962 (Act) after bifurcation of Madhya Pradesh State Warehousing Corporation (MPSWC). The Board of Directors of the Corporation, in their first meeting held (9 May 2002), resolved to carry out business in pursuance of provisions contained in the Act, *ibid*. The primary activities of the Corporation are to:

- acquire and build godowns and warehouses at such places within the State with the previous approval of Central Warehousing Corporation (CWC);
- run warehouses in the State for the storage of and arrange facilities for the transportation of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities;
- act as an agent of the CWC or of the Government for the purposes of purchase, sale, storage and distribution of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities.

6.2.2 The Corporation is managed by a Board of Directors (BOD). As on 31 March 2006, the BOD consisted of 10 Directors including a full time Managing Director (MD). The day-to-day activities are managed by the MD who is assisted by four Managers in-charge of Finance, Commercial, Personnel and Technical divisions. As of March 2006, the Corporation had 102 warehousing Centres consisting of 614 godowns with a capacity of 6.76 lakh MT across Chhattisgarh. The centres are managed by Branch-in-charge who is assisted by Technical Assistants *etc*.

Scope of Audit

6.2.3 The present performance review on construction, operation and maintenance of warehouses, conducted during March to June 2006, covers the activities of the Corporation for the period from May 2002 to March 2006. Audit examined records at the Headquarters of the Corporation and 11[*] warehousing centres representing 40 *per cent* of the total capacity of 102 warehousing centres.

Audit objectives

6.2.4 The performance review was carried out to assess whether:

- A well-rounded planning mechanism was in place and was being followed effectively;
- the godowns were constructed at locations and as per specifications based on FCI requirements/demand;
- the procedures for award and execution of the work were laid down and were followed;
- the warehousing capacity available was optimally utilised;
- an effective Internal Control System exists to safeguard against shortages, storage losses and misappropriation *etc*; and
- maintenance of godowns was carried out periodically to avoid idling of capacity and consequent loss of revenue.

Audit criteria

6.2.5 The performance of the Corporation with regard to the construction, operation and maintenance of warehouses was assessed with reference to the:

- Guidelines and instructions/directions issued by the Government/Board of Directors for purchase of land and construction of godowns;
- Policies and norms for construction of warehouses, capacity utilisation, hiring and de-hiring of warehouses, repair and maintenance; and
- Statutes, rules, procedures and regulations applicable to the Corporation.

Audit methodology

6.2.6. A mix of the following methodologies was used

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[*] *Durg, Rajnandgaon, Kawardha, Dhamtari, Jairamnagar, Bilaspur, Kharsia, Kanker, Jagdalpur, Gudiyari, and Mandir Hasaud (Nine branches having capacity above 10,000 MT and two branches between 5,000- 10,000 MT)*

- examination of records;
- documenting and analysing evidence collected from the Headquarters office and field offices of the Corporation; and
- examination of agenda and minutes of BOD, guidelines, instructions issued by the Government *etc.*

Audit findings

The audit findings are discussed in the succeeding paragraphs.

Financing Pattern

6.2.7. The Corporation constructed 34 godowns in 14 locations at a cost of Rs.9.54 crore. This amount consisted of Rs 4.60 crore (48.25 *per cent*) from the Corporation's own sources, loans of Rs 2.81 crore from the Government (Rs 82.91 lakh) and commercial banks (Rs 1.98 crore) and subsidy of Rs. 2.13 crore (State Government: Rs 79.89 lakh, NABARD: Rs 1.33 crore).

Warehousing Operations

6.2.8 A summarised position of the activities of the Corporation for the last four years ended 31 March 2006 is shown below:

Sl. No.	Particulars	2002-03	2003-04	2004-05	2005-06
1	**No. of warehousing centres**	**99**	**96**	**103**	**102**
2	**Annual capacity available (in lakh MT)**				
	(a) Own warehouses	46.67	55.22	58.14	58.29
	(b) Hired warehouses	27.09	24.23	15.96	13.83
	(c) Total	**73.76**	**79.45**	**74.10**	**72.12**
	(d) Percentage of hired capacity to the total capacity	37	30	22	19
3	**Annual capacity utilised (in lakh MT)**				
	(a) Own warehouse	35.05	33.62	34.88	30.67
	(b) Hired warehouse	20.51	17.21	11.59	09.96
	(c) Total	**55.56**	**50.83**	**46.47**	**40.63**
4	**Percentage of utilisation of available capacity**				
	(a) Own warehouses	75	61	60	53
	(b) Hired warehouses	76	71	73	72
	(c) Total	**75**	**64**	**63**	**56**
5	**Decline in capacity utilisation as compared to 2002-03 (in lakh MT)**	**-**	**4.73**	**9.09**	**14.93**
6	Godowns constructed : In nos. Capacity addition in MT	 06 10800	 28 50000	-	-

Sl. No.	Particulars	2002-03	2003-04	2004-05	2005-06
7	Income (warehousing charges) (Amount: rupees in lakh)	2067.97	2029.00	2191.63	NA
8	Income per MT per year (Amount: in rupees)	28.04	25.54	29.58	NA
9	Expenditure (Amount: rupees in lakh)	895.12	972.00	1188.59	NA
10	Expenditure per MT per year (Amount: in rupees.)	12.14	12.23	16.04	NA
11	Profit (Amount: rupees in lakh)	1172.85	1057.00	1003.04	NA
12	Profit per MT per year (Amount: in rupees)	15.90	13.31	13.54	NA

(Figure for the years 2003-04 to 2004-05 shown in row nos.7 to 12 are unaudited)

It would be seen from the above table that:

- While the income from warehousing charges increased from Rs.20.68 crore in 2002-03 to Rs.21.92 crore during 2004-05, the capacity utilisation declined from 55.56 lakh MT (75 *per cent*) in 2002-03 to 46.47 lakh MT (63 *per cent*) in 2004-05. This decline, as analysed in audit, was attributable to poor marketing efforts, lack of coordination with Food Corporation of India (FCI) and CWC in construction of new godowns, poor quality control measures, etc.
- The expenditure increased from Rs.8.95 crore in 2002-03 to Rs.11.88 crore in 2004-05 due to high incidence of establishment cost. Consequently, the profit declined from Rs.11.72 crore in 2002-03 to Rs.10.03 crore in 2004-05.

Construction of godowns

Improper planning

6.2.9 Warehouses are usually constructed after preparation of project reports, assessing feasibility and viability of godowns based on projected capacity utilisation, estimated income and expenditure, rate of return and market potential in any projected area. Such a practice is also followed by CWC.

The State Government had directed (September 2002) the Corporation to construct godowns with capacity of 50,000 MT under seven year guarantee scheme of FCI, at eight locations. Audit observed that in respect of godowns constructed under the scheme, the Corporation neither prepared any Project Report nor conducted any feasibility study. It did not also coordinate with FCI before selecting locations to ensure capacity utilisation by FCI as well as to ascertain the quality parameters required by FCI for godowns. It selected the locations arbitrarily. No firm commitment from FCI for utilisation of projected godowns was also obtained. The Corporation placed the work orders at a cost of Rs.9.54 crore during 2003-04 for construction of godowns without proper planning or need assessment. Consequently, the capacity utilisation of godowns constructed at four[1] locations with aggregate capacity of 34,200 MT (cost: Rs.5.40 crore) was poor as shown below:

SN	Location	Capacity in MT	Percentage of utilisation		
			2003-04	2004-05	2005-06
1.	Jairam Nagar	10,000	81	40	10
2.	Raigarh	9,000	77	25	29
3.	Lingiyadih	6,200	32	64	11
4.	Mandir Hasoud	9,000	62	58	17

It would be seen from the above table that in the absence of proper planning, 83 *per cent* of the average capacity of the newly constructed godowns was not utilised as on 31 March 2006.

Non-realisation of capital subsidy of Rs.43.50 lakh

6.2.10 As per the *Gramin Bhandaran Yojana*, the Corporation was entitled to capital subsidy from National Bank for Agriculture and Rural Development (NABARD) equal to 25 *per cent* of the cost of the godowns constructed in rural areas subject to submission of land allotment/ acquisition letter issued by the competent authority to NABARD. It was, however, noticed in audit that though the Corporation had constructed (2003) godowns with capacity of 10,000 MT at Jairamnagar at a cost of Rs.1.74 crore, it failed to initiate timely action to get the title deed in its favour. As a result, its claim towards subsidy amounting to Rs 43.50 lakh was not allowed by NABARD. The title deed had not so far been transferred in favour of the Corporation (June 2006).

Irregular payment of advance to the contractor

6.2.11 The Corporation awarded (November 2002) the work for construction of godowns with capacity of 9,000 MT at Raigarh. The work was completed in February 2004 against the scheduled date of completion by July 2003. The final bill was submitted by the contractor (May 2004), but was not paid for the following reasons:

- the approach road to the godown was not as per the approved design and drawing;
- cracks had developed in the compound wall due to improper foundation;
- sub standard bricks had been used; and
- and delay in completion of work.

The contractor requested (November 2004) the Corporation to release 90 *per cent* of the final bill. Despite deficiencies, rupees ten lakh were released to the contractor on the direction of the MD as an advance against the final bill. Subsequently the Corporation passed (January 2006) the final bill only for Rs.4.06 lakh, which resulted in excess payment of Rs.5.94 lakh. The case was presently under arbitration (September 2006).

[1] *Jairam Nagar, Raigarh, Lingiyadih and Mandir Hasoud*

Operation and Maintenance of godowns

Storage loss

6.2.12 The Corporation was catering to the warehousing requirements of FCI, Chhattisgarh State Civil Supplies Corporation (CGSCSC) and Marketing Federation. The goods were being accepted by the Corporation after weighing 10 *per cent* of every lot selected on random basis. Goods were, however, delivered to the depositors after weighment of the entire quantity and the difference was classified as storage loss.

The Corporation did not carry out any empirical studies independently or jointly with the depositors to fix norms for the storage losses, though it had adopted the storage loss norms of one to five *per cent* fixed by MPSWC, the depositors viz; FCI, CGSCSC and the Marketing Federation permitted lesser storage losses at half, half and one *per cent* respectively. Due to application of different norms of storage losses by the Corporation and the depositors, the depositors deducted/withheld Rs.6.62 crore from the warehousing charges claimed by the Corporation. The Corporation however, had not made any efforts either to recover the amounts deducted/withheld nor had it taken action for fixation of mutually agreed rates for storage losses. Further, it had also not analysed the reasons for the storage loss, which substantially increased from 4.43 *per cent* in 2002-03 to 20.4 *percent* in 2004-05.

Loss due to non-maintenance of godowns

6.2.13 The Corporation did not lay down any norms for routine/regular maintenance of its godowns. During audit it was noticed that godowns located at Sunderganj in Dhamtari centre (capacity: 640 MT) were lying vacant since March 2004 for want of routine maintenance. As the other godowns in Dhamtari centre were showing 100 *per cent* utilisation, non-maintenance of these godowns resulted in foregone revenue of Rs.3.46 lakh.[*]

Inflation in issue of stock to cover up shortages

6.2.14 The Corporation maintains Warehouse Receipt (WHR) Forms for all stocks received in the godowns showing details such as name of the depositor, date of deposit, quantity deposited, date of delivery, quantity delivered and shortage etc. The quantity received and quantity delivered should tally after adjusting shortage. While delivering stock from godowns all bags are weighed.

Audit scrutiny of records relating to stock kept in Kanker centre revealed that at the time of delivery, the weight of grain in standard 50 kg bags as recorded showed wide variations and was up to 186.25 kg. Such capacity was impossible in these standard sized bags. The direct effect of these artificially inflated readings was that the quantity of grains delivered was overstated leading to shortage of stock of 1,074.04 quintals valued at Rs.9.83 lakh. The management had neither investigated the matter nor had it taken any action to fix responsibility for the shortages.

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[*] *@ Rs.1.5 per 50 Kg. bag for 75 per cent of total capacity for 24 months*

Lack of Governance

6.2.15 The Corporation had held eight meetings of the BOD in the four years since inception against the required number of 16 meetings. It was observed in audit that important issues such as progress of construction, capacity utilsation, strategic plans for improvement of capacity utilization, norms for storage losses, reasons for excessive storage losses, etc. were not discussed at these meetings. Though an amount of Rs.6.62 crore was withheld by different depositors of the Corporation, the matter was never put up to the Board.

Internal Audit

6.2.16 The Corporation had not prepared any internal audit manual. The internal audit of the corporation was conducted by a firm of Chartered Accountant upto the year 2005-06. The Internal Audit Reports (IARs) did not cover physical verification of commodities, assessment of viability of branches, performance of godowns and augmentation of capacity. These reports mainly covered routine areas like cash and bank book, storage bills, maintenance of books of accounts, sundry debtors etc. IARs were not placed before the Board of Directors for review and issuance of direction.

Procurement of Computers

6.2.17 The Corporation decided (April 2004) to inter connect 53 centres with the Headquarters and accordingly placed (May 2004) order for purchase of 60 computers (53 for centres and 7 for headquarters) at a total cost of Rs. 38.29 lakh. It also decided to develop/ procure requisite software simultaneously.

It was seen during audit that though these computers were received in July 2004, the centres could not be interconnected with the headquarters as the Corporation failed to obtain the required telephone connections and develop the software even after two years (June 2006), reasons for which were not on record. Consequently, even after expenditure of Rs.38.29 lakh the intended benefit of linking field offices with Headquarters did not accrue to the Corporation.

Manpower

6.2.18 The Corporation determines the staffing norm of each centre based on the storage capacity. According to the staffing norm, two to 28 employees were required to be posted at various centers depending upon their storage capacity. Audit scrutiny revealed that in deviation of the staffing norm there was excess deployment of staff ranging from two to twelve in 18 centres, while in ten centres there was shortage of staff ranging from one to 23 which indicates imbalances in the deployment of staff.

Conclusion

The performance of the Corporation with regard to construction, operation and maintenance of warehouse was found to be deficient due to absence of proper planning based on need assessment for construction and maintenance of godown leading to substantial decline in capacity utilisation, high storage losses and improper maintenance. Storage losses were found to be as high as 20.4 *per cent*. Due to absence of any mutually acceptable norm for storage loss, substantial amount of funds remained blocked. Internal controls in receipt and delivery of stock from godowns were also deficient.

Recommendations

The Corporation needs to:

- **devise a proper planning mechanism for construction of new godowns;**
- **fix norms for storage loss based on empirical studies;**
- **periodically review its capacity utilisation and initiate measures for improving the same;**
- **improve its monitoring and MIS system; and**
- **strengthen the internal control mechanism.**

The matter was reported to the Government/Management (August 2006), their replies had not been received (September 2006).

6.3 TRANSACTION AUDIT OBSERVATIONS

CHHATTISGARH STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

6.3.1 Loss due to deficient contract management

Chhattisgarh State Industrial Development Corporation Limited failed to recover Rs. 2.42 crore towards loan and interest from a defaulting borrower due to deficient contract management.

The erstwhile Raipur branch of the Madhya Pradesh Financial Corporation, subsequently merged with Chhattisgarh State Industrial Development Corporation Limited (Company), sanctioned and disbursed (March 1999) loan of rupees two crore to Kailash Engineering Company Limited (KECL), Rajnandgaon, for construction of a barrage (estimated cost: Rs. 8.52 crore) for Radius Water Limited (RWL), Rajnandgaon.

According to the loan agreement executed (March 1999) with KECL the entire loan amount along with interest thereon was to be repaid by July 2001. The loan was secured by way of (i) mortgage on the immovable/movable properties of the promoters of KECL, (ii) corporate guarantee of RWL, (iii) personal guarantee of the promoters of KECL, and (iv) tripartite escrow agreement executed between the Company, KECL and RWL under which RWL had undertaken to repay amounts due to the Company directly out of the construction bills raised by KECL. The escrow agreement was valid till 16 July 2001.

The repayments by KECL were unsatisfactory from the very beginning. The Company took over the assets of the promoters of KECL in September 2001. The Company, however, released (November 2001) the assets against commitment by KECL and RWL to pay Rs. 12 lakh per month from September 2001. The Company discontinued (February 2002) the arrangement and rescheduled the loan, now payable in 18 monthly instalments of Rs. 10 lakh each from April 2002 to September 2003. The reasons for rescheduling were not on record. Again, KECL defaulted (June 2002) and the Company rescheduled (March 2003) the loan for second time with 24 monthly instalments of Rs. 7.42 lakh from April 2003 to March 2005. The Company allowed (April 2003) a year’s moratorium with the condition that if KECL failed to abide by the revised repayment schedule, the reliefs and concessions would stand cancelled. KECL, however, stopped repaying the loan from April 2004.

After lapse of more than a year, the Company issued (July 2005) notice to RWL asking them to operate the escrow agreement and clear the unpaid instalments. RWL refused (28 July 2005) to make payment since the escrow agreement had expired in July 2001. Moreover, they had already released the final payment to KECL and that RWL was no longer a guarantor. Thereafter the Company initiated legal proceedings against KECL for recovery of its dues.

It was noticed in audit that-

- Though the tripartite escrow agreement had been executed against a specified repayment schedule that ended on 1 July 2001, with default to be referred to RWL within a fortnight, the Company failed to notify RWL in time or get the escrow agreement extended in view of default by KECL.
- The Company rescheduled the loan twice without the consent of RWL.
- Although the agreements for rescheduling had provided that KECL should furnish consent of RWL to continue as guarantor, the Company failed to obtain the requisite consent.

Despite being aware of KECL's poor repayment record, the Company repeatedly granted concessions and reliefs to KECL without ensuring the continued involvement of RWL as guarantor.

Thus, the Company's failure to enforce contractual provisions and take action for continuance of RWL as guarantor resulted in loss of dues aggregating Rs. 2.42 crore (March 2006).

The Management stated (June 2006) that the outstanding amount was recoverable from the personal property mortgaged by the promoters/ directors of KECL as collateral security. The reply is not tenable as the Company had not taken any action to recover the dues through acquisition and sale of the mortgaged property. Moreover, the availability of mortgaged property did not justify the Company's action of not invoking the escrow agreement.

The matter was reported to the Government (May 2006); their reply has not been received (September 2006).

6.3.2 Loss due to failure to annually revise the land premia

Chhattisgarh State Industrial Development Corporation Limited sustained loss of Rs. 2.08 crore due to non-revision of land premia annually on 109.1304 hectares land allotted during 2003-05.

The Chhattisgarh State Industrial Development Corporation Limited (Company) leases land allotted to it by the State Government, to entrepreneurs for setting up industries, against land premium and lease rent. The Company periodically fixes the premium to be collected for the land in addition to lease rents payable by the allottees. The Government of Madhya Pradesh had instructed (January 1989) and the Government of Chhattisgarh had reiterated (September 2003) that land premium was to be annually enhanced by 7.5 *per cent* during the interval between any two successive revisions of rates. The Company last revised the rates in September 2000.

Audit scrutiny revealed that during 2003-04 and 2004-05, the Company had allotted 49.2745[1] and 59.8559[2] hectares of land respectively to

[1] *32.4813 hectares to 56 SSI units and 16.7932 hectares to seven medium and large scale units*

[2] *55.8545 hectares to 71 SSI units and 4.0014 hectares to one large scale units*

135 entrepreneurs at six industrial growth centres[3] at land premium rates (ranging from rupees four lakh to rupees ten lakh per hectare) fixed in September 2000 without enhancing the rates by 7.5 *per cent* per annum for subsequent years 2001-04 (Rs. 4.97 lakh to Rs. 13.36 lakh). Thus, due to non-compliance with the Government instructions, the Company had to forego Rs.2.08 crore.

The Management stated (August 2005) that since the rates fixed by the Company were above the rates fixed by the Government, the rates had not been escalated by 7.5 *per cent* annually. The reply is not tenable, since the existing Government directives provide for escalation of land premium independent of the rates fixed, to ensure that the premia are always at an appropriate level during the interim period between two revisions

The matter was reported to Government (February 2006); their reply had not been received (May 2006).

6.3.3 Undue favour to a co-promoter

Chhattisgarh State Industrial Development Corporation Limited incurred unfruitful expenditure of Rs. 1.59 crore on an incomplete food park and facilitated embezzlement of Rs. 31 lakh by releasing fund to the co-promoter in contravention of Government's and Board of Directors' orders.

The Chhattisgarh State Industrial Development Corporation Limited, (Company), invited (March 2002) offers to setup a Food Park at Borai/ Tedesara, Rajnandgaon district. Based on fulfillment of the tender conditions, the Tender Committee of the Company selected (July 2002) Western Foods and Vegetables Ltd., Bangalore (Western Foods) as co-promoter. On selection, the Chief Executive Officer (CEO) of Western Foods requested (July 2002) that the Memorandum of Understanding (MOU) be signed with another Company, Chmoku Agro & Spices Ltd. (CASL) Bangalore, of which also he was the CEO. Although CASL did not fulfill the tender conditions, being a newly registered Company with a total share capital of only Rs. 700[4], had no experience, had not furnished certificate of credit worthiness and had not participated in the tender, the request was acceded to by the Government and Memorandum of Understanding (MOU) for Rs. 50 crore signed (August 2002) with CASL.

The MOU provided that CASL would invest Rs. 40 crore while the Government of Chhattisgarh would contribute Rs. 10 crore (inclusive of subsidy of rupees four crore from Government of India). CASL had to invest Rs. 11 crore in the first year, Rs. 15 crore and Rs. 24 crore in the second and third years respectively. The food park was to be made operational within 36 months i.e. by August 2005.

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3 *Siltara, Urla, Sirgitti,Ttifra, Borai and Bhanpuri/Rwanbhata.*

4 *Since 13 December 2000, every new private limited company and new public limited company would have a minimum paid up capital of rupees one lakh and rupees five lakh respectively. Existing companies would have two years to comply.*

The Company released (September 2002) the first instalment of Rs. 50 lakh of subsidy to CASL. Though the Government had instructed (November 2002) the Company to ensure CASL's financial commitment before releasing further subsidy, the Company released Rs. 30 lakh in December 2002 without verifying whether CASL had invested its' share. The Government again directed (January/February 2003) the Company to ensure CASL's financial commitment and obtain prior permission of the Government before releasing further funds. The Board of Directors' also instructed (February 2003) to ensure CASL's financial commitment. In disregard of these instructions, the Company again released (March/April 2003) Rs. 1.10 crore without obtaining prior permission of the Government or ensuring CASL's financial commitment. The progress reports submitted by CASL clearly revealed that it was undertaking construction of the food park using Government fund only and had not invested any money of its own. An aggregate of Rs. 1.90 crore was paid out of the subsidy of rupees two crore released by Government of India.

After taking Rs. 1.90 crore from the Company, the CEO of CASL absconded and the project came to a standstill after execution of work valuing around Rs. 1.59 crore since, in the absence of the CEO, there was no employee of CASL left to discharge the commitments. Moreover, most of the construction works were incomplete. An F.I.R was lodged (July 2005) against the CEO of CASL stating that an amount of Rs. 31 lakh had been embezzled.

The Management stated (March 2006) that it had released the money based on the status/progress reports furnished by CASL and with a view to ensuring speedy implementation of the project within the stipulated time. The reply is not tenable as it was abundantly clear from the progress reports that CASL had not brought in its contribution to the on-going works and had only made investment claims which were never verified. Management also failed to elucidate as to why it repeatedly violated the instructions of the Government and of the Board about not releasing the funds without verifying CASL's financial commitments.

Thus, selection of CASL as co-promoter, in total violation of tender conditions by the Government and release of money to it by the Company in contravention of Government's and Board's orders, not only resulted in unfruitful expenditure of Rs. 1.59 crore but also facilitated embezzlement of approximately Rs. 31 lakh[1]. The matter needs to be investigated and for fixing of responsibility.

The matter was reported to the Government (May 2006); their reply had not been received (September 2006).

[1] *Rs.190 lakh advanced less Rs.159 lakh used for construction as per assessment by the company.*

6.3.4 Short recovery of lease premium on Government land

Chhattisgarh State Industrial Development Corporation Limited failed to recover *solatium* of Rs. 12.20 lakh on 21.453 hectares of Government land leased out for industrial projects, in contravention of Government directives.

The Chhattisgarh State Industrial Development Corporation Limited, (Company), leased (May 2005) 179.654 hectares of land (Government land: 21.453 hectare, private land: 158.201 hectare) for 99 years to Monnet Ispat Limited, New Delhi. The land in the villages of Saliabhata, Singhanpur and Naharpalli in Raigarh district was to be utilised for setting up steel, sponge iron, ferro alloys and power projects. In terms of Government notification of April 1982, the Government lands alloted to entrepreneurs were to be valued at par with private land.

In contravention of the above notification, the Company did not recover the *solatium* component of Rs. 12.20 lakh on Government land while it was realised in the case of private land at the rate of Rs. 0.57 lakh per hectare. Moreover, due to non-inclusion of *solatium*, the Company was not able to recover lease rent of Rs. 0.27 lakh per annum in 2005-06, which would accumulate to Rs. 26.46 lakh over the remaining lease period of 98 years.

The Management stated (January 2006) that valuation of the Government land was in accordance with the rates notified by the Collector, Raigarh. The reply is not tenable because the same rates were used for valuation of private land and additional 30 *per cent solatium* was also recovered. Thus price parity was not maintained as directed by the Government.

The matter was reported to Government (January 2006); their reply had not been received (September 2006).

CHHATTISGARH STATE ELECTRICITY BOARD

6.3.5 Extra expenditure on procurement of feeder and transformer panels

Chhattisgarh State Electricity Board incurred extra expenditure of Rs. 27.29 lakh on purchase of feeder and transformer panels at higher rates against a subsequent tender by rejecting the lower rates received against first call.

The Chhattisgarh State Electricity Board (Board) invited (January 2004) tenders, for procurement of 220 KV Feeder C&R Panels and 220 KV Transformer C&R Panels. The Board rejected the offers received on the ground that the rates were high in comparison with rates of the previous tender (April 2002). The Board re-invited (September 2004) bids and received higher minimum rates both for feeder and transformer panels. The Board placed (April 2005) orders at higher rates than those received in the earlier tender of January 2004.

It was noticed in audit that while rejecting the lowest offer of the earlier tender, the Board made no attempt to ascertain the prevailing market rates. Instead a comparison was made with the rates obtained two years earlier. The rates obtained on re-tendering were higher than those of the first call but were accepted by the Board on the plea that the materials were required for the on going works and that the rates were found to be reasonable on the basis of prevailing market rates. Had the Board made a realistic assessment based on market prices and acted on the earlier offers, it could have avoided extra expenditure of Rs. 27.29 lakh on the procurement of feeder and transformer panels at higher rates.

The Board stated (May 2006) that the lowest offer in the re-tender was accepted as the same was found in line with the rates obtained in the original tender keeping in view that there was unexpected hike in the prices of raw materials like copper. Further, the reasonability of the rates was established from the current market trends by comparing with the procurement rates of other Electricity Boards.

The reply is not acceptable, as the first and subsequent tenders were assessed using different criteria. If the re-tender was reasonable as per the prevailing market rates, then the first tender which was lower priced, was even more reasonable by the same criteria. It was, however, rejected without assessing the market rates and consequently, the Board had to incur extra expenditure.

The matter was reported to the Government (July 2006); their reply had not been received (September 2006).

RAIPUR **(SUBIR MALLICK)**
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Chhattisgarh

Countersigned

NEW DELHI **(VIJAYENDRA N. KAUL)**
The **Comptroller and Auditor General of India**