CHAPTER III

3 TRANSACTION AUDIT OBSERVATIONS

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

GOVERNMENT COMPANIES

The Kerala State Civil Supplies Corporation Limited

3.1 Avoidable loss of interest

The persistent system deficiency in reconciliation and follow-up of remittances to Central Collection Account resulted in avoidable interest loss of Rs. 1.22 crore.

The Company had established depots, sub-depots and retail outlets throughout the State for distribution of essential commodities. The collection from sale of commodities made by various centres were being remitted to designated branches of commercial banks and in turn transferred periodically to the Central Collection Account. The funds so collected were being transferred to cash credit account of the Company. Early transfer of the amounts facilitated reduction of interest in cash credit account.

Mention was made under paragraph 2E.3.4 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1991, No.1 (Commercial) about the failure of the Company to detect the discrepancies in bank accounts like the delay in transfer of funds from collection accounts to cash credit accounts and absence of effective follow-up in tracing out missing credits.

Audit further observed that the Company had not been taking timely action either to reconcile the accounts or to follow-up the missing credits so as to avoid huge interest loss arising from delay in transfer of funds to cash credit account. Due to system deficiency in follow-up of transfer of funds, the remittances amounting to Rs.1.69 crore made by the Company's sales depots in the designated banks during the period 1992-93 to 1999-2000 were actually accounted in the Central Collection Account only on 30 March 2002. The Company, however, did not claim any interest on the delayed transfers. The loss by way of interest paid on cash credit account due to the delayed transfer worked out to Rs. 1.22 crore.

Thus, the persistent system deficiency in reconciliation and follow-up of remittances to Central Collection Account resulted in avoidable interest loss of Rs. 1.22 crore.

Government stated (September 2004) that the claim for interest loss would be taken up with State Bank of Travancore immediately on settling the major portion of the unlinked/missing transfers. The fact, however, remained that the Company failed to detect discrepancies in bank accounts persisting since 1991 and the interest loss also remained to be made good.

Kerala State Horticultural Products Development Corporation Limited

3.2 Non-productive investment

The failure of the Company to conduct proper feasibility study of the project for installation of cold storages resulted in non-productive investment of Rs. 61.22 lakh.

The Company, engaged in the marketing of horticultural products, decided (April 1999) to instal cold storage facility of 100 MT capacity each at Munnar and Eruthiampathy to facilitate storage of vegetables during peak seasons so as to make it available throughout the year at stable prices.

The works of both the cold storages entrusted (August 1999/January 2000) to Kerala Agricultural University on deposit basis, were completed (January 2001) at a cost of Rs 61.22 lakh. Audit observed that the storage facilities were not utilised either by the farmers or the Company. While the cold storage at Eruthiampathy had been idling ever since its commissioning, the facility at Munnar could be utilised only for short spells during the Onam season of the year 2001 and 2002. Thereafter this facility had also been idling. The reasons attributed to the non-utilisation were high cost of procurement of produce, cost of operation of plant and exorbitant cost of transportation arising from locational disadvantage. Though the Company decided to dispose of the cold storage at Eruthiampathy and lease out the facility at Munnar, no offers were received (May 2004).

Audit further noticed that the Company did not conduct proper cost benefit analysis prior to the implementation of the project. In the absence of feasibility study and the location of the cold storages being at places far off from the procurement centres, the capital investment of Rs. 61.22 lakh could not be productively utilised.

Thus, the failure of the Company to conduct proper feasibility study prior to commencement of the project for installation of cold storages resulted in non-productive investment of Rs. 61.22 lakh.

The matter was referred to the Company and Government in July 2004; their reply had not been received (September 2004).

Kerala Clays and Ceramic Products Limited

3.3 Idle investment

The decision of the Company to acquire additional mining land despite Government of India ban on consumer industries and decline in the demand for clay resulted in unproductive investment of Rs.30.59 lakh.

The Company which acts as supplier of clay for manufacture of pesticides and insecticides, had 34 acres of mining land at Nileshwar. In order to augment the resources of clay in connection with its expansion-cum-diversification programme, the Company decided (May 1994) to acquire 7.13 hectares of land adjacent to the above mentioned land and obtained (August 1994) sanction from Government.

The Company proposed the land acquisition on the ground that the clay reserve in the mines at the then existing production rate of 11,371 MT per annum would last for only two to four years. The land acquisition proceedings were, however, delayed due to non-finalisation of compensation payable and lapsed in April 1999. The Company, thereupon, initiated (May 1999) fresh acquisition proceedings through the District Collector, Kasaragod and acquired (December 2000) 1.46 hectares (3.65 acres) of land at a cost of Rs.30.59 lakh.

Audit noticed that the Company was aware (1996) of the decline in demand for clay due to ban imposed by Government of India on certain pesticides which, in turn, affected the production from the Nileshwar mine. The production from this mine came down from 5,049 MT in 1995-96 to 1,010 MT in 1998-99 when the initial land acquisition proceedings fell through. Ignoring the ban on pesticides and resultant closing down of consumer industries, the Company initiated (May 1999) fresh proceedings and acquired (December 2000) additional land. This was also despite the fact that there was no need for augmenting mining resources in view of the low market demand.

In the absence of off take of clay, the production from the Nileshwar mine was only 253 MT during 2003-04 and the additional mining area acquired (December 2000) could not be utilised till date (September 2004). The Company had also not applied for mining licence in the newly acquired land so far (September 2004).

Thus, the decision of the Company to acquire additional 1.46 hectares of mining land when there was Government of India ban on consumer industries and consequent decline in the demand for clay resulted in unproductive investment of Rs.30.59 lakh.

Government stated (August 2004) that considering the decline in demand for clay the area proposed for acquisition was reduced from 7.13 hectares to 1.46 hectares and the sale of clay during 1999-2000, 2000-01 and 2001-02 were 2,284 MT, 1,910 MT and 1,005 MT respectively which showed that there was no major decline in the demand for clay. The reply is not acceptable since the decline in market demand is evident from the fact that Company's sale of clay came down from 5,551 MT in 1995-96 to 1,082 MT in 2002-03. Moreover, the Company had neither obtained mining license nor started mining from the 1.46 hectares of land acquired in December 2000 indicating that the acquisition of land was not justified.

Kerala Tourism Development Corporation Limited

3.4 Loss of interest

Decision of the Company to deposit funds without ensuring the viability of the project and financial tie-up resulted in locking of funds amounting to Rs.49 lakh and interest loss of Rs.29.40 lakh.

The Company, engaged in tourism promotion activities, participated (February 1999) in the tenders for construction of a four star hotel on the land to be provided by Cochin International Airports Limited (CIAL). The offer of the Company was accepted (February 1999) and land measuring 20000 sq.m was allotted. The Company made (May 1999) an interest free deposit of Rs. 49 lakh towards whole time lease of the land.

The Company did not go ahead with the implementation of the project due to financial constraints and also considering the project being unviable. Instead, it decided (June 2001) to hand over the land to Tourist Resorts Kerala Limited (TRKL), a subsidiary of the Company, for implementation as a joint venture project with private participation. CIAL, however, had not granted permission for this arrangement so far (June 2004). The Company has also not taken possession of the land. The liability for the amount of Rs. 49 lakh paid (May 1999) towards interest free deposit to CIAL was transferred to TRKL and the amount received (June 2004) from them.

Audit observed that the Company did not make a proper study on the feasibility of the project and tie up finance before making financial commitment by way of interest free deposit towards whole time lease. Even before depositing (May 1999) the amount, the Company was also aware of the fact that the rates prescribed in the offer document by CIAL were quite high and the deposit amount was a deciding factor in the viability of the project. Ignoring this the Company deposited the amount and ultimately decided (July 2001) not to implement the project further, due to financial constraints.

Thus, the decision of the Company to deposit funds towards whole time lease without ensuring the viability of the project and financial tie-up resulted in locking of funds amounting to Rs. 49 lakh for the period from June 1999 to May 2004 and interest loss of Rs.29.40 lakh.

Government while endorsing the views of the Management stated (July 2004) that TRKL had initiated action for implementing the project under a joint venture company and payment of the deposit amount was essential at that point of time to get the land reserved in their favour. The fact, however, remained that the Company unnecessarily deposited borrowed funds for a project that could not be implemented, leading to interest loss.

The State Farming Corporation of Kerala Limited

3.5 Wasteful expenditure

The decision of the Company to procure poor quality centrifuging machine from a local firm ignoring the advice of the Consultant and failure to invoke replacement provisions within the warranty period resulted in wasteful expenditure of Rs.16.39 lakh.

The Company had been producing centrifuged latex in its factory at Chithalvetty estate by conversion of field latex using two centrifuging machines. In order to increase its own production capacity and avoid additional expenditure involved in processing the latex in outside factories, the Company decided (August 1997) to purchase one more centrifuging machine.

The Company received (January 1998) three offers against tenders invited (September 1997) for procurement of one centrifuging machine. Rubber Board (Board), the Consultant, recommended (March 1998) the highest offer of Westfalia Latex Separator, Germany since the then existing two machines in the Company's factory procured from this firm, were performing well. Further, the reliability of the machine offered by Indian Centrifuges (P) Limited (ICL), Ettumanoor, the lowest tenderer, could not be established. The Company decided (March 1998) to verify the reliability of the machine offered by ICL, since they were new to the field. Ignoring the recommendations of the Board and relying on the results of local enquiries, the Company placed (May 1998) orders on ICL for procurement of one machine at a cost of Rs.16.39 lakh. The machine was installed in October 1998.

Audit noticed that the machine frequently broke down since installation. The Company, however, did not demand the supplier to take back the machine at his risk and cost within the warranty period of one year in terms of the provisions of Clause 10 of the agreement (July 1998). Instead, relying on the incorrect report of satisfactory performance received from the Factory Manager, the Company released (January 1999) the balance payment of Rs.5.36 lakh to the supplier. The poor performance of the machine was reported to ICL only in November 1999 after the expiry (October 1999) of warranty period.

The machine was finally declared as beyond repairs and the Company decided (May 2003) to replace it with a new centrifuging machine at a cost of Rs.21.53 lakh.

Thus, the decision to procure the centrifuging machine from ICL ignoring the advice of the Board and failure to invoke the replacement provisions in the agreement within the warranty period resulted in wasteful expenditure of Rs.16.39 lakh.

The Management stated (February 2004) that there was marked price difference between the Westfalia Latex Separator and the Indian made machine manufactured by ICL and replacement could not be enforced as the warranty period was over.

The reply is not tenable since advice of the Board on the quality of the local machine was ignored by the Company. Price difference was Rs.2.53 lakh only after reducing the cost of spare bowl and other tools of existing machines that could be utilised. Besides, the local firm was not informed of the defects in the machine within the warranty period (October 1999) depriving the Company of the benefit of replacement.

The matter was reported to Government (April 2004); their reply had not been received (September 2004).

Kerala Transport Development Finance Corporation Limited

3.6 Avoidable payment of interest

Failure to estimate income correctly for purpose of income tax resulted in avoidable payment of interest of Rs.15.18 lakh.

As per Section 208 of the Income Tax Act, 1961, companies having taxable income had to pay advance tax every quarter (15^{th} of June, September, December and March) @ 15, 45, 75 and 100 *per cent* on the estimated income failing which penal interest was payable under Section 234 C on the short paid amount. If the total advance tax so paid is less than 90 *per cent* of the assessed tax, penal interest is also payable under Section 234 B on the amount by which the advance tax paid fell short of the assessed tax.

The Company had a taxable income of Rs.3.22 crore for the assessment year 2001-02 and the income tax payable thereon was Rs.1.27 crore. The Company, however, did not reckon the entire interest accrued on loans to Kerala State Road Transport Corporation as income for purpose of payment of advance tax. Consequently the advance tax paid for all the quarters for the previous year 2000-01 fell short of the requirement by Rs.61.83 lakh. The Company as such had to pay interest of Rs.15.18 lakh under Section 234 B & C.

Thus, the failure of the Company to estimate the income for the year 2000-01 correctly, resulted in avoidable payment of interest of Rs. 15.18 lakh despite availability of surplus funds for payment of advance tax.

Government stated (July 2004) that there was uncertainty in realisation of income from Kerala State Road Transport Corporation due to which minimum advance tax was paid and revised return filed subsequently with penalty for deferment of tax.

The reply is not tenable since the short-fall of advance tax and resultant payment of penal interest was due to the hybrid system of accounting followed by the Company by recognising the interest income alone on cash basis.

STATUTORY CORPORATIONS

Kerala State Electricity Board

3.7 Avoidable expenditure

Failure of the Board to obtain consumable spares and tools free of cost as provided in the contract resulted in avoidable expenditure of Rs.76.28 lakh besides idle investment of Rs.1.57 crore in spares involving interest loss of Rs.40.90 lakh.

Board entered (March 1998) into a turnkey contract with Bharat Heavy Electricals Limited (BHEL) for setting up a 128 MW diesel power plant at Kozhikode. Wartsila NSD India Limited, Mumbai (Wartsila) was the main sub-contractor of BHEL for supply of equipment.

As per Article 2.2 of the agreement with BHEL, the scope of supply included special tools and spares for 12,000 hours of operation of the plant and also such items which were not specifically mentioned in the contract documents but were needed for the successful operation of the plant. Based on this provision, BHEL had to supply to Board all spares and tools required for operation of the plant. While the Board had to deal with BHEL only, as per contract, they directly approached (March 2000) Wartsila, (the original equipment manufacturer) for procurement of consumable spares and tools during the period of 12,000 hours of operation of the plant, when supply was to be made free of cost. Board procured (July 2001 to May 2002) spares and tools valued at Rs.2.33 crore.

On noticing the omission after placing the orders, the Board approached (January 2001) BHEL and Wartsila to procure the spares free of cost. They, however, refused to bear the cost of consumable spares. BHEL agreed (February 2001) to replenish only special tools utilised during the period of 12,000 hours of operation of the plant. Accordingly, against Rs.1.11 crore worth spares consumed during the period July 2001 to March 2004, replenishment was made for spares valued at Rs.34.81 lakh only. The expenditure on consumable spares valued at Rs.76.28 lakh had to be borne by the Board though the same were also to be supplied free of cost by BHEL as per contract. Further, materials worth Rs. 1.57 crore (including stores worth Rs. 0.35 crore replenished by BHEL) were idling in stock from July 2001.

Thus, the failure of the Board to obtain spares and tools free of cost as per contract resulted in avoidable expenditure of Rs.76.28 lakh on consumable stores not replenished. Further, idle investment of Rs.1.57 crore for the period from July 2001 led to interest loss of Rs.40.90 lakh for the period from May 2002 (date on which payment was made for last batch of spares) to May 2004.

Government stated (July 2004) that BHEL had agreed to replenish the balance consumable spares of Rs. 76.28 lakh and items worth Rs. 102.68 lakh were retained as spares for break down maintenance. It was also stated that the Board had 5 *per cent* retention money as well as bank guarantee given by BHEL and on final settlement of disputes spares pending replenishment could be taken care of.

The reply is not correct since on verification Audit noticed that BHEL had not agreed to replenish the balance consumable spares of Rs. 76.28 lakh. Moreover, the fact remained that the Board failed to procure the spares free of cost as per contract resulting in locking of funds and avoidable interest loss.

3.8 Avoidable loss

Failure of the Board to maintain the LC limit as prescribed by Government of India for payment of dues to NTPC resulted in avoidable loss of Rs.1.60 crore.

As a part of the tripartite agreement between Government of India, the State Government and the Reserve Bank of India for securitisation of dues of State Electricity Boards to Central Public Sector Units, Government of India notified (May 2002) a one time settlement scheme. Under this scheme, for the purpose of settlement of current dues of the National Thermal Power Corporation Limited (NTPC) the Kerala State Electricity Board (Board) was to open an irrevocable letter of credit (LC) for an amount equal to 105 *per cent* of the average monthly billing for the preceding 12 months and the LC limit was to be revised every six months.

As per terms agreed to with NTPC, the Board was eligible for a rebate of 2.5 *per cent* on full settlement of monthly bills against LC within one month of presentation of bills. For weekly payment the rebate of 2.5 *per cent* was allowed for the first week and for the remaining weeks the rebate was only 1.5 *per cent*. For delay in payment beyond last day of the month following the month in which the bill was raised, surcharge at 2 *per cent* per month was to be levied by NTPC till November 2002 and @ 1.25 *per cent* thereafter.

In line with the above terms and conditions NTPC fixed (May 2002) an LC limit of Rs. 85 crore for the Board, taking into account the average monthly billing for the year 2001-02. At the request (June 2002) of the Board the LC limit was, however, lowered and revolving irrevocable LC was opened with Canara Bank for Rs.60 crore only.

Audit observed that the actual average monthly net payment to NTPC during the period from July 2002 to June 2003 was Rs.89.53 crore. This indicated that the decision to maintain a lower LC limit in deviation from the statutory obligations prescribed by Government of India deprived the Board of the benefit of rebate on the payment of Rs.25 crore made outside the LC limit. Subsequently the LC limit was raised to Rs.81 crore with effect from June 2003. Actual loss of benefit during the period from July 2002 to June 2003 worked out to Rs.4.49 crore. The delayed payment of Rs.25 crore also attracted levy of surcharge to the extent of Rs.4.03 crore. After adjusting the overdraft interest (Rs.6.43 crore) and LC charge (Rs.0.49 crore) payable for enhancing the LC limit, the net loss due to Board's failure to maintain adequate LC limit worked out to Rs.1.60 crore.

Thus, the failure of the Board to maintain the LC limit for payment of dues as prescribed by Government of India resulted in avoidable loss of Rs.1.60 crore.

Government stated (September 2004) that in view of the critical financial position and incapacity of the Board to borrow freely from open market in the first half of 2002-03, it was necessary that the LC was kept at optimum level. It was also stated that though the LC could be revised once in six months, it was not enhanced subsequently due to liquidity problems. The reply is not correct since the Board limited the LC amount to Rs.60 crore on the ground that the drawal of power from NTPC would be limited to that extent. In June 2003 when there was severe liquidity problems the Board enhanced the limit from Rs.60 crore to Rs.81 crore indicating that the same prudent measure would have been possible in June 2002 also.

3.9 Avoidable payment of penal interest

Injudicious management of funds by the Board resulted in avoidable payment of penal interest of Rs.1.49 crore

The Rural Electrification Corporation Limited (REC) had been financing transmission and distribution system improvement schemes undertaken by the Board for conservation of energy. During the period from 1997-98 to 1999-2000 REC sanctioned loans aggregating Rs.163.62 crore for 10 such schemes at 13.5 to 14.5 *per cent* interest per annum against which the first instalment of Rs.31.15 crore was disbursed up to March 2000.

As per terms and conditions prescribed by REC, the Kerala State Electricity Board (Board) had to complete the work within a period of two years from the release of first instalment of loan failing which no further amount would be disbursed. Due to inordinate delay in identifying sites for the schemes, the Board, could not utilise the amounts disbursed, within the stipulated period of two years. REC, there upon, declared the schemes as 'non-starter/slow progress' and directed (June 2001) the Board to remit the outstanding loan balance of Rs.30.82 crore in lump sum within one month, failing which the refundable amount would attract penal interest of 2.75 *per cent* per annum on compounding basis. The Board did not pay back the amount and REC recovered (September 2001 to January 2002) Rs.30.82 crore together with Rs.1.49 crore towards penal interest, by way of adjustment from other loans released to the Board.

Thus, failure to utilise the funds in time resulted in avoidable payment of penal interest of Rs.1.49 crore.

Government stated (May 2004) that the Board had to utilise the REC loan temporarily to meet inevitable expenditure of very urgent nature and the Board could not avail of overdraft facility to repay the REC loans recalled. The reply is not acceptable since the Board did not make any effort to avail of overdraft facility from banks at lower rate of interest on recall of the loan by REC in June 2001 on the assumption that the demand would be withdrawn. The fact, however, remains that the OD facility of Rs.50 crore granted (August 2001) by Canara bank could have been availed of in June 2001 itself to pay off the dues of REC and payment of penal interest of Rs.1.49 crore avoided.

3.10 Under realisation of revenue

Omission on the part of the Board in applying the correct revised tariff in assessing the energy consumption of an HT consumer resulted in under realisation of revenue of Rs.1.16 crore and consequent interest loss of Rs.24.17 lakh.

As per the general tariff revision notified (May 1999) by Government and applicable from May 1999, the High Tension consumers falling under the category of cold storage and freezing units were to be classified under ‘HT IV–Commercial’. The tariff prescribed for such consumers consisted of demand charges @ Rs.230 /KVA per month plus energy charges of 215 paise per unit. The tariff was revised (August 2001) to Rs.290/KVA and 265 paise per unit and further (October 2002) to Rs.350/KVA and 320 paise per unit respectively.

Based on the above revision orders, Kerala Co-operative Milk Marketing Federation Limited (MILMA), an HT consumer of the Board, should have been re-classified from ‘HT I industrial category’ to ‘HT IV – Commercial’ and assessed at the revised tariffs since it was having cold storage and freezing facility in its 14 dairy units. The Board, however, while issuing the invoices for the period from May 1999 to December 2002 omitted to apply the revised tariffs and the billing was done on the basis of the pre-revised tariff of Rs.133/KVA per month for demand charges and 122 paise per unit for energy charges. Due to this there was short realisation of revenue aggregating Rs.1.16 crore.

On being pointed out (September 2003) by Audit, the Board raised (October 2003 to June 2004) bills on MILMA for the differential tariff totalling Rs.1.16 crore pertaining to the period from May 1999 to December 2002. MILMA, however, filed (November 2003) writ petition before the Hon’ble High Court and the final verdict was awaited (August 2004). The Board has not fixed any responsibility for the negligence in raising the bills in time under the new category.

The interest loss due to delay in realisation of the arrears of Rs.1.16 crore for the period from January 2003 to August 2004 worked out to Rs.24.17 lakh at the cash credit rate of Rs.12.5 *per cent* per annum.

Thus, the omission on the part of the Board in applying the correct revised tariff in assessing the energy consumption of the HT consumer resulted in short realisation of revenue of Rs.1.16 crore and consequent interest loss of Rs.24.17 lakh.

Government stated (September 2004) that on receipt of audit observation revised demands were raised on MILMA units and they have challenged the revision in the High Court of Kerala which was pending before the Court.

3.11 Revenue loss

Failure of the Board to raise additional bill for unauthorised energy consumption resulted in revenue loss of Rs. 35.99 lakh

The Board provided (December 1983) power supply facility with a connected load of 64 Kw to Alleppey Prince Hotel, Alappuzha (APH), a consumer falling under LT VIIA tariff category. The connected load of APH was enhanced (July 1993) to 83 Kw and the Board had been billing the consumer by reckoning the energy charges based on a multiplication factor* of 40. The meter installed in the premises of the consumer was again changed in November 1998.

The Anti Power Theft Squad of the Board inspected (December 2002) the installation in the premises of the consumer and detected a total connected load of 120 Kw against 83 Kw allowed. There was unauthorised additional power load of 37 Kw against which the energy was being consumed by the APH and necessary penalty was also levied by the Board. The outdoor Meter Testing Unit of the Board inspected the installation of APH and the actual multiplication factor to be applied for computing energy charges was confirmed (March 2003) as 60 instead of 40 reckoned earlier.

Since the new meter was installed in November 1998 and consumer had been availing of unauthorised additional load from that date, the billing should have been done from December 1998 itself. The Board, however, raised additional bill only from March 2003, the date of receipt of test report on the meter from its meter testing unit. Energy charges short billed for the period from December 1998 to March 2003 worked out to Rs. 35.99 lakh (including Electricity Duty Rs. 3.27 lakh).

Thus, the failure of the Board to raise additional bill for unauthorised energy consumption from the date of installation of the new meter resulted in revenue loss of Rs. 35.99 lakh.

Government stated (September 2004) that invoice for Rs.35.99 lakh was raised (July 2004) on the consumer and the amount has not been remitted by the consumer so far.

* A factor determined on the basis of rating of the meter and meter reading is multiplied with this factor to arrive at the actual energy consumed.

3.12 Undue benefit

The failure of the Board to adjust price variation as provided in the contract conferred undue benefit of Rs.10.18 lakh on the supplier

In order to meet the requirement of energy meters used in the distribution of power, the Board placed (March 2003) an order on Elymer International (P) Limited, Delhi (EIL) for purchase of 1.25 lakh numbers of single phase static meters at the per unit rate of Rs.348.28 (all inclusive). The entire quantity was delivered in June 2003. The terms of purchase provided (Clause 9) for procurement of additional 25 *per cent* quantity at the same rate, terms and conditions.

Based on the request (May 2003) from EIL, the Board invoked the above provision in the purchase order and placed (June 2003) order on EIL for a further quantity of 31,250 meters at the same price of Rs. 348.28 per meter. The date fixed for completion of delivery was 30 July 2003. The delivery of the meters was actually completed only on 18 August 2003.

As per Clause 28 of the purchase order, the price of materials supplied after the scheduled delivery period was to be adjusted taking in to account the market price on the date of actual supply or the order price whichever was lower. Audit observed that there was a delay of 18 days in delivering 10,250 meters and the price quoted (August 2003) by EIL itself in response to a subsequent tender was only Rs. 248.97 per meter. The Board, however, did not invoke the above provisions to adjust Rs.10.18 lakh towards price variation [(Rs.348.28 – 248.97) 10,250 meters].

Thus, the failure of the Board to adjust price variation as provided in the contract conferred undue benefit of Rs.10.18 lakh on the supplier.

Government stated (June 2004) that the price bid for fresh tender was opened on 21 August 2003 and hence the lower rate of Rs.248.97 per meter could not be applied for meters (10,250) supplied by the firm on 18 August 2003. The reply is not tenable since the rate of Rs.248.97 per meter was quoted by EIL on 01 August 2003 and hence this rate prevailing on 18 August 2003 should have been applied for recovery of penalties.

3.13 Kuttiyadi Extension Scheme

Implementation of Kuttiyadi Extension Scheme at exorbitant cost without giving due regard to actual inflow of water rendered the investment of Rs. 201.40 crore unfruitful

3.13.1 Kuttiyadi Extension Scheme (KES) of 50 MW power generating capacity was intended to utilise the spillage of water from the Kuttiyadi reservoir and produce a firm additional generation of 75.5 million units (MU) of energy per annum. The Scheme was commissioned by the Kerala State Electricity Board (Board) in February 2001 at a total cost of Rs.201.40 crore against the estimated cost of Rs.46.14 crore. The Scheme, though proposed in 1989 for implementation within a period of three years, for utilising the estimated inflow of 266 MCM* of water into the Kuttiyadi reservoir, was delayed for over 9 years. The Board, however, ignored the subsequent reduction in inflow of water from 266 to 236 MCM and implemented the Scheme.

3.13.2 The KES (50 MW) started commercial operation in February 2001. On commissioning of the project, the total installed capacity of Kuttiyadi Hydro Electric Project as a whole increased from 75 to 125 MW, with a gross average capacity to generate 1,095 MU per annum. The details of inflow of water into the reservoir, installed capacity in MW, installed capacity in MU, firm generation capability and capacity utilisation in respect of Kuttiyadi Hydro Electric Project (KHEP) during the seven years 1997-2004 are given in **Annexure 19**.

The details in the Annexure indicated that prior to commissioning (February 2001) of 50 MW generating unit of KES, generation by the then existing three generators (3x25 MW) of KHEP ranged between 242.61 MU and 320.33 MU during 1997-2001 as against the inflow of water available to produce energy ranging from 244.04 MU to 382.57 MU. There was spillage of water equivalent to 90.12 MU in 1999-2000 and 12.67 MU in 2000-01. This led to alternate purchase of equivalent units of other thermal power from NTPC Kayamkulam at higher cost of Rs.20.86 crore. After the commissioning of the fourth generator under KES, generation during 2001-2004 (March 2004) ranged between 258 MU and 329.90 MU. The performance of KHEP declined to 30 *per cent* in 2001-02, 28 *per cent* in 2002-03 and 24 *per cent* in 2003-04, due to decrease in inflow.

Thus, the implementation of the extension scheme at a huge capital cost of Rs.201.40 crore, without reckoning the reduction in in-flow of water at the time of techno economic study, lacked justification.

3.13.3 During the review of the execution of the extension scheme, deficiencies in the funding of the scheme and procurement of plant and equipment were also noticed which are discussed in the succeeding paragraphs:

3.13.4 As per the approved financing pattern the project was to be financed out of Canadian funding of 43.05 million Canadian Dollars (CAD) which comprised a loan of 28.05 million CAD by Export Development Corporation (EDC) Canada and grant of 15 million CAD from Canadian International Development Agency (CIDA).

The loan of 28.05 million CAD was agreed (February 1996) to be financed at a fixed interest rate of 7.01 *per cent* per annum. It was, however, observed in Audit that the loan was not properly negotiated and the actual financing cost was 15.85 *per cent* per annum indicating avoidable payment of financing charges of Rs.4.99 crore as discussed in paragraphs 3.13.6 and 3.13.7 *infra*.

* million cubic metre

Non-receipt of grant

3.13.5 The funding of the scheme envisaged a grant of 15 million CAD by the Canadian International Development Agency (CIDA) as a package for procurement of equipment from the Canadian firm SNC Lavalin. The Board did not take any follow up action till 31 March 2004 to obtain the interest free grant for which no reasons were found on record.

Failure to avail of the grant deprived the Board of the benefit of reduction in financing cost by Rs.39 crore. The grant amount would have offset the aggregate interest charge (Rs.34.45 crore) on the loan under repayment from April 2000 to March 2008.

Undue benefit to EDC in payment of Exposure fee

3.13.6 The loan agreement executed (February 1996) with EDC included provision of one time payment of exposure fee at 6.26 *per cent* of amount of loan drawn. Audit observed that this was intended to secure against default in repayment of future instalment and interest on the loan. The loan was guaranteed by the Board's bankers at a guarantee commission of 2 *per cent* per annum and also further counter guaranteed by State Government. Hence the inclusion of a condition for payment of exposure fee on an already secured loan was unnecessary. Consequently, the Board made avoidable payment of exposure fee of Rs.4.53 crore during the period from August 1997 to May 2001.

Avoidable payment of commitment fee

3.13.7 As per the agreement the loan amount was tied up against the payment for supply of machinery by SNC Lavalin, Canada despatched over a period of 27 months from August 1997 to October 1999. It was, however, noticed in audit that the loan agreement specified payment of commitment fee of 0.375 *per cent* of unavailed loan amount from the date of agreement (February 1996), eventhough the funds were actually committed from August 1997 only. Due to the above deficiency the Board had to make avoidable payment of commitment fee of Rs. 46.33 lakh till October 2003.

Excessive cost of procurement of generator and equipment

3.13.8 The techno economic feasibility report prepared (November 1993) by the Board, estimated the cost of equipment for KES at Rs.16 crore (at the rate of Rs.0.32 crore per MW) based on the offer (September 1990) received from BHEL. Subsequently, as a pre-condition for obtaining Canadian assistance the Board agreed (May 1995) to purchase machinery from SNC Lavalin at a cost of Rs.81.40 crore (Rs.1.63 crore per MW), without inviting global bids and verifying the reasonableness of the prices of SNC Lavalin. It was noticed in Audit that in the case of Kuttiyadi Additional Extension Scheme (KAES) involving 100 MW, taken up by the Board in August 2003, the firm price agreed to with BHEL – L&T Consortium, on turn key basis was Rs.66.05 crore (Rs.0.66 crore per MW). This indicated that the prices agreed to with SNC Lavalin in 1995 were excessive by 2.47 times (excluding financing cost) and resulted in extra cost of Rs.48.50 crore.

The above matters were reported to the Government and Board in June 2004; their reply is awaited (September 2004).

Kerala State Road Transport Corporation

3.14 Avoidable expenditure

Injudicious decision to continue with the transfer of collections by demand draft and system deficiency in monitoring financial transactions resulted in avoidable expenditure of Rs.60.17 lakh.

As per the procedure prescribed by the Government under Rule 11 (2) of Kerala State Road Transport Corporation Rules 1965, the daily collections of the Corporation were to be deposited in the Treasury account and withdrawal therefrom allowed every week. In conformity with the instructions issued (March 1965) by Government, the Corporation had been following the system of remittance of daily collections by various units into the Treasury account. In February 2002, considering the strike by State Government employees and teachers, the remittances were directed (February 2002) to be made into the bank. In case the banks refused to accept the remittances on behalf of the Treasuries, the amounts were to be sent to the Chief Office of the Corporation as demand draft.

On withdrawal (March 2002) of the strike by the State Government employees, the Corporation, instead of cancelling the earlier instructions and directing all the unit offices to make remittance into treasuries, issued (March 2002) directions to 17 unit offices to remit the daily collections by way of demand draft drawn on banks. The directions were issued without considering the huge financial implications involved by way of payment of demand draft commission to the banks. The expenditure incurred on commission by 16 units (excluding one unit which continued remittance into the treasury) in connection with purchase of demand drafts for daily collection amounts during the period from April 2002 to December 2003 was Rs.50.28 lakh.

Audit also noticed that 22 units which were directed to remit the collections into the treasury account from April 2002 onwards, continued with the system of forwarding the amounts by demand draft drawn on banks entailing unnecessary payment of commission amounting to Rs.9.89 lakh for the period from April 2002 to December 2003. The Corporation, however, did not monitor the transactions and take corrective action in time to avoid the loss.

Thus, the injudicious decision to continue with the transfer of daily collection amounts by demand draft and system deficiency in monitoring financial transactions resulted in avoidable expenditure of Rs.60.17 lakh.

The Management stated (May 2004) that the Government had accorded (July 2001) sanction to remit one-third of the daily collection to Kerala State Road Transport Corporation’s account with State Bank of India, Trivandrum and hence collection was being transferred by demand drafts from various units.

The reply is not acceptable since forwarding of daily collections by demand draft by unit offices was not envisaged in the Government order. Alternatively the unit offices could have transferred their collection to Central Account of the Corporations' Bank through its respective branches at the unit locations. It was also noticed that the unit offices of the Corporation were not following the system of sending collections by demand draft till February 2002.

The matter was reported to Government in July 2004; their reply had not been received (September 2004).

3.15 Non-absorption of cost of labour

Corporation's decision to procure fully built buses from outside sources resulted in non-absorption of cost of labour amounting to Rs.56 lakh.

The Corporation had been meeting its requirement of buses by procuring chassis from vehicle manufacturers and building the bus body at its own five workshops. The workshops had an average monthly capacity for building 107 bus bodies and the actual average monthly performance during the year 2000-01 was 64 numbers. Ignoring the own capacity available for bus body building, the Corporation placed orders (March 2002) on Tata Engineering and Locomotive Company Limited, Bombay (TELCO) for the purchase of 40 numbers of completely built Tata FP 709 mini buses at a cost of Rs.8.12 lakh per bus. The vehicles were delivered (December 2002 to March 2003) at a total cost of Rs.3.26 crore.

Audit noticed that the fixed cost on labour incurred by the Corporation per bus was Rs.1.71 lakh. By building 40 bus bodies in its own workshops using the available capacity, the Corporation could have utilised a total amount of Rs.56 lakh (40 x Rs.1.40 lakh being the element of labour cost on vehicle purchased from TELCO) to reduce the cost.

Thus, the decision to procure fully built buses from outside sources when adequate facilities were available for building bus bodies in its own workshops resulted in non-absorption of cost of labour amounting to Rs.56 lakh.

The matter was reported to the Corporation/Government in May 2004; their reply had not been received (September 2004).

3.16 Avoidable expenditure

Injudicious decision to procure bus body kits at higher rate when open tenders were under process resulted in avoidable extra expenditure of Rs.24.60 lakh

In the construction of body for their buses, the Corporation decided (January 2001) to switch over from composite (metal and wood) body to all metal bodies. Accordingly, the Corporation invited (January 2002) tenders for the purchase of readymade metal body kits and placed (March to June 2002) orders on Harsha Wheel Movers (P) Limited, Bangalore (HWM) for 30 kits at per unit cost of Rs.4.62 lakh (all inclusive).

The Corporation in the meanwhile decided (August 2002) to invite tenders for additional 100 bus body kits. Despite the fact that tender was under process (November 2002), the Corporation, on the basis of a recommendation (October 2002) from Ashok Leyland Limited (supplier of bus chassis) placed (November 2002) purchase order on IRIZAR TVS Private Limited, Trichy (ITL) for 20 kits at Rs.6.36 lakh per unit. The bus body kits were delivered (December 2002 to January 2003) at the actual per unit cost of Rs.7.19 lakh including transportation cost and taxes.

In the meantime the tenders invited (August 2002) were processed (November/ December 2002) and order for 100 kits was placed on ITL itself at a lower rate of Rs.5.96 lakh (all inclusive). The additional expenditure on purchase of 20 bus body kits from ITL at a higher rate of Rs.7.19 lakh worked out to Rs.24.60 lakh [(Rs.7.19 lakh – Rs.5.96 lakh) x 20 nos.].

Thus, the injudicious decision of the Corporation to purchase bus body kits at higher rates, when open tenders were under process, resulted in avoidable extra expenditure of Rs.24.60 lakh.

The Government stated (June 2004) that the production of new bodies in the Corporation's workshop was very low and to overcome acute shortage of new vehicles for the Sabarimala Special Services, 20 bus bodies were got constructed by ITL.

The reply is not tenable since the urgency attributed in over coming the shortage of buses during festival season does not appear to be convincing. The decision to call for tenders for 100 kits of bus bodies was taken by the Corporation in August 2002 whereas tenders were invited only in October 2002 and the bus bodies were also delivered only during December/January 2003.

Kerala Financial Corporation

3.17 Cash loss due to unauthorised waiver

Unauthorised waiver of principal amount of loan and expenses under the One Time Settlement Scheme resulted in cash loss of Rs.3.33 crore.

The Corporation introduced (August 1994) One Time Settlement scheme (OTS) for realisation of Non-Performing Assets classified as 'Doubtful II'*. The scheme was being reviewed from time to time and as per the latest modification (September 2002), the scheme was applicable only in respect of accounts classified as Doubtful II as on 1 April 2002 where loan amount sanctioned was up to Rs.5 lakh and did not have any kind of securities/assets. Remittance of principal amount and miscellaneous expenses like suit expenses, insurance, security expenses, etc., was a pre-requisite for closure of account.

A test check of 760 cases of loans settled (June 1999 to December 2003) under the OTS scheme in the four branches of the Corporation at Kollam, Kottayam, Ernakulam and Trivandurm revealed that in 126 cases waiver of principal amount of loans (Rs.3.18 crore) and expenses (Rs.14.81 lakh) was allowed deviating from the specific guidelines under the OTS.

Thus, the unauthorised waiver of principal amount of loan and expenses under the One Time Settlement Scheme resulted in cash loss of Rs.3.33 crore. Failure to take remedial action on the above lapses despite provisions in the guidelines for subsequent verification of the settled cases by internal audit indicated deficiency in the internal control system on loan transactions.

The Management stated (March 2004) that in some cases the Corporation was not in a position to recover even the principal amount outstanding and in such cases the OTS amount was fixed below the outstanding principal resulting in waiver of principal and other expenses. The reply is not acceptable since the scheme itself as approved by the Board, was non – discretionary and the purpose of the scheme was defeated by allowing unauthorised waiver of principal amount and expenses leading to cash loss.
The matter was reported to Government (April 2004); their reply had not been received (September 2004).

3.18 Unjustified payment of brokerage and underwriting commission

Corporation made unjustified payment of brokerage and underwriting commission amounting to Rs.52.42 lakh to direct subscribers.

The Corporation is empowered under Section (1) of the State Financial Corporations Act, 1951 to borrow money for working capital by issue of

* cases where the loans have been identified as non-recoverable for want of sufficient securities

bonds. As a part of resource mobilisation during the three years up to 31 March 2003, the Corporation floated notice for public issue of Statutory Liquidity Ratio (SLR) bonds at interest rates ranging from 6.75 to 11.33 *per cent* per annum; against which subscription was received for a total amount of Rs.109.80 crore. Audit noticed that the subscription was received directly from the nationalised banks, co-operative banks, etc., and no agent, broker or underwriter was involved.

Despite being aware of the impropriety in paying brokerage and underwriting commission directly to subscribers, the Corporation paid brokerage and commission aggregating Rs.52.42 lakh to 53 out of 63 direct subscribers during the three years up to 31 March 2003.

Thus, the payment of brokerage and underwriting commission amounting to Rs.52.42 lakh to the direct subscribers of bonds was not jusitified.

Government/Management stated (June/July 2004) that the brokerage and commission was paid to get the full subscription or maximum subscription for bonds. The reply is not acceptable since at the time of deciding issue of the bonds the Corporation was aware of the impropriety in paying brokerage and commission for direct issue of bonds. In fact the management of issue of bonds was taken over by the Corporation from State Bank of Travancore with a view to save the expenses on brokerage, commission, etc.

GENERAL

3.19 Avoidable administrative cost

Incorporation of too many companies with similar objectives resulted in avoidable administrative cost of Rs.9.71 crore.

3.19.1 As on 31 March 2004 there were 108 Government companies in the State out of which 87 companies were working. An analysis of the objective of these companies by Audit, as laid down in the respective Memorandum and Articles of Association, revealed that three to four companies were functioning in the same sector with similar objectives. Particulars of 20 such companies functioning in six different sectors are detailed in **Annexure 20**.

Details in the Annexure revealed the following:

3.19.2 In the tourism sector, while Kerala Tourism Development Corporation Limited was the major Company established in 1965, two more companies viz., Tourist Resorts (Kerala) Limited and Bekal Resorts Development Corporation Limited were incorporated in 1989 and 1995 respectively with limited functions pertaining to tourism.

3.19.3 In the sector for development of economically weaker sections there were three companies viz., Kerala State Development Corporation for Scheduled Castes and Scheduled Tribes Limited, The Kerala State Backward

Classes Development Corporation Limited, Kerala State Development Corporation for Christian Converts from Scheduled Castes and the Recommended Communities Limited, with similar objectives.

3.19.4 While Handicrafts Development Corporation of Kerala Limited existed to cater to the development of craftsmen and artisans, there were two other companies viz., Kerala Artisans' Development Corporation Limited and Kerala State Palmyrah Products Development and Workers' Welfare Corporation Limited engaged in similar activities.

3.19.5 In the plantation sector there were four companies viz., The Plantation Corporation of Kerala Limited, The State Farming Corporation of Kerala Limited, The Rehabilitation Plantation Limited, Oil Palm India Limited, all engaged in plantation activities with estates spread all over Kerala.

3.19.6 Similarly in the construction sector there were four companies viz., Kerala State Construction Corporation Limited, Kerala Police Housing and Construction Corporation Limited, Roads and Bridges Development Corporation of Kerala Limited, Kerala Irrigation Infrastructure Development Corporation Limited undertaking construction of buildings, roads, bridges, etc.

3.19.7 In the textile sector there were three companies viz., Kerala State Textile Corporation Limited, Kerala Garments Limited, Sitaram Textiles Limited engaged in the manufacture of yarns and garments.

3.19.8 Audit noticed that proliferation of companies with similar objectives involved very huge avoidable expenditure towards salaries, wages and remuneration of Chairman, Directors, Managing Director and other executives as well as administrative staff besides expenditure on infrastructure for separate office buildings, etc. The details of actual expenditure incurred on administration of these companies based on the latest finalised accounts were as given in **Annexure 20**.

3.19.9 Excluding the administrative expenditure pertaining to each of the major companies in the six sectors (sl. nos. 1,4,7,10,14 and 18 in the **Annexure 20**) the avoidable expenditure on 14 companies worked out to Rs.9.71 crore.

Thus, the incorporation of too many companies with similar objective resulted in avoidable administrative cost of Rs.9.71 crore.

It is recommended that Government may examine the nature of activities of all working Government companies and explore the possibility of merging companies with similar objectives so as to reduce the administrative cost as well as to have better co-ordination in the implementation of various schemes.

The matter was reported to Government in August 2004; their reply had not been received (September 2004).

3.20 Delay in finalisation of Accounts by State PSUs

Statutory provisions for finalisation of accounts

3.20.1 According to the provisions of Section 210 (3) read with Section 166 of Companies Act, 1956 audited accounts of a company should be approved and adopted in the Annual General Meeting (AGM) of the shareholders within six months of the close of its financial year. Further, as per provisions of Section 619A (3) of the Act, ibid, the State Government should place an Annual Report on the working and affairs of each State Government company together with a copy of the Audit Report and comments there on made by the Comptroller and Auditor General of India (CAG) before the State Legislature within three months of its AGM. In case of Statutory Corporations, their accounts are to be finalised, audited and presented to the State Legislature as per the provisions of the respective Acts.

Management's/Government's responsibility for preparation of accounts

3.20.2 Under the provisions of Section 210 (1) read with Section 216 and 218 of the Companies Act, 1956, the Board of Directors of a company is required to lay in every AGM an audited copy of the annual accounts i.e., balance sheet and profit and loss account for the financial year along with the Auditors' Report and other specified Annexures.

In case of Statutory corporations the accounts are to be prepared as per provisions of the respective Acts. The Administrative Departments concerned were also required to oversee and ensure that the accounts were finalised and adopted by the PSUs within the prescribed period.

Procedure for finalisation of accounts

3.20.3 The annual accounts prepared by the Companies are approved by its Board of Directors and are then audited by the Statutory Auditors appointed by the CAG. As per provisions of Section 619 (4) of the Companies Act, 1956, the CAG conducts supplementary audit of the accounts of the Company on selective basis and such accounts along with the comments of the CAG are placed before the AGM of the Company for adoption.

Risk involved due to delay in finalisation of accounts

3.20.4 The finalised accounts of companies/corporations reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remain outside the scrutiny of the Audit/State Legislature. Consequently corrective measures, if any, required cannot be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

Extent of arrears

3.20.5 As on 31 March 2004, there were 108 Government companies (87 working and 21 non-working companies) and five Statutory corporations (all working). Out of 87 working Government companies in the State only 19 companies had finalised their accounts up to 2003-04 as on 30 September 2004. Similarly, out of five Statutory Corporations only two had finalised their accounts up to 2003-04 as on 30 September 2004. The accounts of the remaining 68 working Government companies and three Statutory corporations were in arrears for periods ranging from one to eleven years as on 30 September 2004. The accounts of 21 non-working companies were in arrears for periods ranging from one to 20 years; the position of arrears in accounts of these companies was not reviewed in Audit as they were defunct/under closure or liquidation.

Comparative position of clearance of arrears

3.20.6 The table below indicates the position of number of accounts in arrears and clearance thereof during the last five years ending 2003-04.

Year	**Total Number of Accounts Due**		**Number of Accounts cleared**		**Closing balance of Accounts in arrear**		**Percentage of Accounts Cleared to Accounts due**	
	GC*	SC*	GC	SC	GC	SC	GC	SC
1999-2000	286	9	96	3	190	6	34	45
2000-01	281	11	77	5	204	6	27	45
2001-02	295	11	79	5	216	6	28	45
2002-03	307	11	122	5	185	6	40	45
2003-04	272	11	106	5	166	6	39	45

3.20.7 The above table revealed that the percentage of clearance of arrears of accounts of Government companies increased from 27 in 2000-01 to 39 in 2003-04. The percentage of clearance in respect of Statutory corporations remained the same. The overall position in clearance of arrears of accounts of Government companies did not show significant improvement.

The reasons for delay as stated by some of the companies were:

- Absence of qualified professionals in the Accounts Department.
- Manual system of maintaining accounts.
- Delay in availability of accounting information due to lack of co-ordination between different departments of the Company.
- Failure on the part of Managing Directors/Chief Executives and other concerned employees to keep proper Books of Accounts, vouchers, etc.

Steps taken by the State Government

3.20.8 State Government had been exercising control over the company through the concerned Administrative/Finance Departments. As early as February 1992 Government had directed the Public Sector Enterprises that in the event of delay in finalisation of accounts and prosecution under the

* GC: Government companies, SC: Statutory Corporations

Companies Act, the State Government would not be intervening and the delinquent officers would be liable to pay the fine and suffer the punishment themselves. The Chief Secretrary had also prescribed (November 1996) monthly progress reports to be sent to the Bureau of Public Enterprises by the Chief Executives of Public Sector Enterprises having arrears of annual accounts.

3.20.9 The Government had also granted permission (November 1997) to the Chief Executives to appoint on contract basis firms of Chartered Accountants to write up the accounts. But the response from the PSUs was not satisfactory and the Government issued (February 2004) fresh directives indicating the disciplinary action of major penalty against the Managing Directors/Chief Executives/Managers/Executives/other officers dealing with the finance and accounts, the Internal Audit Officer, if any, and also other employees of the defaulting Public Sector Undertaking dealing with finance and accounts. Further progress based on these directives is awaited (September 2004).

Discussion in COPU

3.20.10 The matter of clearance in arrears of accounts was also being pursued at the COPU meeting while discussing paragraphs of respective companies, when specific directions were issued to companies.

Recommendations

3.20.11 As updating of accounts is necessary not only for meeting the compliance of law in the case of going concerns but also for winding up in case of defunct/closed PSUs, the following measures are recommended to update the accounts :

- Responsibility on Managing Directors/ Chief Executives and Chief Finance Officers of the defaulted Companies should be fixed
- State Government should take up with Registrar of Companies for imposing penal provisions of the Act in appropriate cases to act as a deterrent
- The State Government should pursue for suitable modification/relaxation in the Simplified Exit Scheme for closed/defunct Companies as well as extension of benefits of the scheme to non-working PSUs.

The matter was reported to Government in August 2004; their reply is awaited (September 2004).

3.21 Follow-up action on Audit Reports

Outstanding Action Taken Notes

3.21.1 The Audit Reports of The Comptroller and Auditor General of India represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various Government Companies and

Statutory Corporations. It is, therefore, necessary that they elicit appropriate and timely response from the executive.

Though the Audit Reports for the years up to 2002-03 were presented to the State Legislature, six out of ten departments did not furnish explanatory notes on 27 out of 98 paragraphs/reviews as on September 2004 as shown below:

Year of the Audit Report	Date of presentation to State Legislature	Total paragraphs/reviews in Audit Report	No.of paragraphs/reviews for which explanatory notes were not received
1999-2000	July 2001	29	1
2000-01	March 2002	25	1
2001-02	June 2003	24	5
2002-03	June 2004	20	20
Total		**98**	**27**

Outstanding Compliance to Reports of Committee on Public Undertakings (COPU)

3.21.2 As per the Handbook of Instructions for Speedy Settlement of Audit Objections, the replies to paragraphs were required to be furnished within one month from the presentation of the Reports by COPU to the State Legislature. Replies to 286 paragraphs pertaining to 46 Reports of the COPU presented to the State Legislature between July 2000 and September 2004 had not been received as on September 2004 as shown below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
1998-2000	9	43
2001	2	7
2001-2004	25	198
2004-2006	10	38
Total	**46**	**286**

Response to inspection reports, draft paragraphs and reviews

3.21.3 Audit observations made during audit and not settled on the spot are communicated to the head 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 96 PSUs disclosed that 7,523 paragraphs relating to 1,374 inspection reports remained outstanding at the end of September 2004; of these, 184 inspection reports containing 1,697 paragraphs had not been replied to for one to eight years. Department-wise break-up of inspection reports and paragraphs outstanding as on 30 September 2004 is given in **Annexure 21**.

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 seven draft paragraphs and three draft reviews forwarded to the various departments during April to August 2004, as detailed in **Annexure 22**, had not been replied to so far (September 2004).

It is recommended that (a) the Government should ensure that the 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 within prescribed time, and (c) the system of responding to Audit observations is revamped.

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