

CHAPTER IV

Transaction Audit Observations

Introduction

Important audit findings noticed as a result of test check of transactions by the State Government companies and Statutory corporations are included in this Chapter.

Government companies

Madhya Pradesh State Civil Supplies Corporation Limited

Over payment made to transport contractors

Payment for element of work not done by transport contractors resulted in extra expenditure of Rs.7.49 crore.

4.1 Madhya Pradesh State Civil Supplies Corporation Limited (Company) undertakes supply of foodgrains for distribution in the State through Public Distribution System, *Sampoorna Gramin Rozgar Yojana*, Mid-day meal scheme etc. The foodgrains are lifted from the Food Corporation of India (FCI) base-depots and transported to warehouses of various storage agencies for storage till supplied through the above schemes.

Scrutiny of tenders floated during 2000-03 revealed that while inviting tenders for transportation of the foodgrains, the Company included the element of *Hammali*[▲] with complete items of work to be undertaken by the contractors and the rates quoted by the contractors were inclusive of the cost of this item of work at FCI base depot. The rates, inclusive of *Hammali* (at the rate of Rs. two per quintal) were accordingly received and accepted by the Company.

It was noticed in audit that the *Hammali* work was done by the FCI at its own cost. Despite being aware of this, the Company paid *Hammali* charges at rupees two per quintal towards the transportation of 374.47 lakh quintals foodgrains during 2000-03 for eventual distribution through the above schemes. This has resulted in over payment of Rs.7.49 crore.

The Management stated (December 2004) that necessary changes are carried out in the tender forms from time to time on the basis of suggestions/

[▲] *Hammali-Handling expenses incurred in destacking, weighing and loading of foodgrains at loading points.*

complaints of transporters and arbitration awards. The reply is not tenable since the FCI had already made it clear on 22 July 2002 that it undertakes operation of destacking of food grain bags from the stacks, loading of foodgrains into the trucks and arranging 100 per cent weightment within the depot premises. The tenders should have been invited accordingly. Moreover, in respect of tenders invited for transportation during 2003-04, the Company expressly incorporated a condition that contractors should quote their rates net of *hammali* because the FCI undertakes these items of work at its own cost.

Thus, during 2002-03, the Company's failure to exclude this element of cost, which was being borne by the FCI, resulted in over payment of Rs.7.49 crore* to the transport contractors.

The matter was reported to the Government (May 2005); its reply had not been received (September 2005).

Loss due to procurement of non-fair average quality wheat

Procurement of non-fair average quality wheat resulted in a loss of Rs.1.37 crore.

4.2 Madhya Pradesh State Civil Supplies Corporation Limited (Company) had been procuring wheat under the de-centralised procurement scheme for distribution through Public Distribution System at the rates fixed by Government of India (GOI). The Company was entitled to a price differential on wheat so distributed equal to the difference between the economic cost of procurement and the actual rates realised from the various categories of consumers. This was subject to the condition that the wheat procured under the scheme should be of Fair Average Quality (FAQ).

The Satna District unit of the Company procured 24375 MT wheat, against an estimated quantity of 5360 MT during the Rabi marketing season 2003-04, out of which 3948 MT was found to be non-FAQ. The Company was not entitled to price differentials on this non-FAQ wheat. The Company, however, submitted (December 2003) its provisional price differential claim to the State Government for Rs.70.23 crore including Rs.1.37 crore for the price differential on 3948 MT non-FAQ wheat. The State Government, directed (February 2004) the Company to withdraw the claim for non-FAQ wheat. Accordingly, it submitted (February 2004) a revised claim after deducting Rs.1.37 crore.

Thus, the Company's procurement of non-FAQ wheat, despite being aware of the guidelines of GOI, had resulted in a loss of Rs.1.37 crore.

* *Quantity lifted (374.47 lakh quintal) X Hammali charges (Rs.2 per quintal)
Rs.748.94 lakh.*

Management stated (October 2004) that no subsidy on non-FAQ wheat had so far been claimed from GOI and that the claim would be made after clearance from the State Government.

The reply is not relevant, as the Company's claim for price differential on the non-FAQ wheat is unfounded as it is not eligible for the subsidy on the same.

The matter was reported to the Government (May 2005); its reply had not been received (September 2005).

Madhya Pradesh Laghu Udyog Nigam Limited

Avoidable loss on sales

Company's abrupt withdrawal of incentives on sale of wire rod and delayed restoration thereof resulted in a loss of revenue of Rs.19.66 lakh.

4.3 Madhya Pradesh Laghu Udyog Nigam Limited (Company) Depot at Indore was procuring steel from the Vizag steel plant (VSP) availing concession of Rs.550 per MT and turnover discount of Rs.125 per MT for lifting agreed quantity and supplying the same to the SSI units. To achieve higher sales, the Company passed on a part^f of this concession to SSI units for lifting more than 100 MT and 500 MT per month respectively. Though the incentive contributed towards increase in the turnover from 94.64 MT (Rs.16.99 lakh) during 2002-03 to 2863.12 MT (Rs.six crore) in 2003-04, the Company withdrew it, with effect from April 2004 without any notice.

In the meantime, two Indore based SSI units* communicated their requirement of high carbon wire of 8125 MT and 3600 MT respectively for 2004-05. The Depot also received (June and July 2004) offers from the VSP for the supply of 7892 MT high carbon wire rods with validity period of seven days. The General Manager immediately approached (June 2004) its Head office at Bhopal stating that these SSI units were having long term contract with VSP which entitled them to the concession of Rs.200 per MT, if procured directly from them. The Depot, therefore, recommended (June 2004) to revive and even increase the incentive to Rs.450 per MT to make the Company's price more attractive. The Head office delayed the approval of incentive of Rs.250 per MT by three months, by which time the validity of seven days for the offers had already expired. Consequently, no material could be procured

^f Rs.200 per MT (Up to February 2002) and Rs.300 and Rs.350 per MT (from March 2002).

* (i) Vora wires industries (India) Limited and (ii) Saurabh Tubes Private Limited.

and sold. It was noticed in audit that consequent upon the Company's revival of incentive, the sale of high carbon rod picked up in September 2004 as the Depot sold 293.75 MT steel up to 15 September 2004, which proves that the decision of withdrawing the incentive was not in the best interest of the Company.

Thus, the abrupt withdrawal of incentive on the carbon wire rods by the Company and delayed decision for restoration thereof resulted in a loss of Rs.19.66 lakh* during April to August 2004.

The matter was reported to the Government/Company (May 2005); their reply had not been received. (September 2005).

Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited

Irregular expenditure

Execution of upgradation/improvement work not authorised to be done by the Company resulted in avoidable expenditure of Rs.1.84 crore.

4.4 Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited (Company) got technical sanction (November 2002) for an estimate of upgradation/ improvement of riding quality of Rau-Pithampur road for Rs.1.34 crore and immediately invited tenders and submitted them to its holding Company[§] for approval. The holding Company, however, directed (January 2003) the Company to cancel tenders for the work stating that as per orders (September 2002) of the State Government the work was to be executed only in the private sector on BOOT[@] basis. Accordingly, the Company cancelled (January 2003) the tenders.

Instead of inviting bids on BOOT basis, the Company prepared fresh estimate again for the same work for a value of Rs.2.15 crore. The holding Company reiterating (May 2003) the orders of Government directed the Company to float tenders for pre qualifying the bidders and not for the work. But the Company awarded (August 2003) the work to the lowest tenderer at 22.22 per cent below SOR*. The work was completed and the contractor was paid for Rs.1.84 crore. Thus, the Company's taking up and executing a work not

* Requirement during the period multiplied by loss of revenue per MT (425 per MT) = Rs.19,65,625 without any incentive (4625 MT)

§ Madhya Pradesh State Industrial Development Corporation Limited.

@ Build, Own, Operate and Transfer.

* Scheduled of rate.

intended to be done by it was against the direction of State Government. This had resulted in an irregular expenditure of Rs.1.84 crore.

Management stated (February 2005) that the estimate was revised to Rs.2.15 crore as the condition of the road had deteriorated due to rains.

The reply is not relevant as there was no justification for the Company to incur expenditure on this work.

The matter was reported to Government (July 2005); the reply had not been received.

Madhya Pradesh State Industrial Development Corporation Limited

Inter-corporate Loans

4.5 Madhya Pradesh State Industrial Development Corporation Limited (Company) decided (April 1995) to park its funds with companies as Inter corporate Deposits (ICD) at interest rates higher than the market rates to earn more income and also to recall the funds when required. During 2000-04, the Company parked Rs.339.98 crore in 33 industrial units which were in default of Rs.702.39 crore including interest of Rs.410.71 crore as on 31 March 2004.

Audit selected ten i.e. 50 per cent out of these 33 industrial units which were in default of repayment of principal and interest for detailed scrutiny.

Acceptance and placement of Inter corporate loans

The scheme considered for ICDs was being managed as inter-corporate loan (ICL). The table below indicates the ICLs accepted and placed by the Company at the end of six years upto 31 March 2004.

(Amount: Rupees in crore)

Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-05	Total
ICLs accepted	115	272.08	56.52	63.84	1.56	Nil	509
No. of Companies/ banks from whom accepted	3	10	5	4	4	Nil	12*
ICLs placed	101.35	182.20	50.53	5.90	Nil	Nil	339.98
Number of companies with which placed	13	27	10	3	Nil	Nil	33*

* **These are the actual numbers of companies from which the funds were obtained/in which the loans were placed.**

Placement of inter corporate loans without obtaining approval from Government, security from the borrower and verifying the financial position.

As per clause 110 (10) of the Memorandum and Articles of Association of the Company, grant of loan or giving of a guarantee or any other financial assistance to any one particular concern in excess of Rs.15 crore requires the prior approval of the State Government. While placing ICLs, the Company, in order to safeguard its interest, was required to verify the financial position of the industrial unit and also to obtain sufficient security from the unit concerned.

In violation of its Articles, without obtaining approval from the Government and/or obtaining tangible security and also without verifying the financial soundness of the units, the Company placed Rs.151.50 crore on six* industrial units from whom Rs.290.31 crore (Principal Rs.148.25 crore interest Rs.116.11 crore) was outstanding as on September 2004.

Induj Eneritech Limited (formerly Kumar power corporation)

4.5.1 The Company placed Rs.44.75 crore as six ICLs on the Induj Eneritech Limited (borrower) between January 1999 and January 2000 at interest rates varying between 18 and 17 per cent per annum repayable after three to five years, as against the accepted practice of one year. The borrower utilised these funds as investment in its subsidiary-Maheswar Hydel Power Corporation for setting up of a hydel power project of 400 MW.

It was observed in audit that though the unit had paid only Rs.3.60 crore out of Rs.24.35 crore due by September 2001, the Company did not take any action for recovery.

The Company was aware that (a) it was not holding any tangible security for recovery of dues from the borrower and (b) the borrower's asset base as well as income generating capacity was not enough to repay the dues. The Company's Board, however, approved (August 2004) a one time settlement (OTS) of repayment in monthly instalments after sacrificing Rs.25.95 crore.

Even after acceptance of OTS, against the monthly payment of Rs.3.87 crore, the borrower remitted Rs.25 lakh only. The Company requested (August 2004) the Tahsildar, Indore District not to proceed against the borrower under RRC# and at the same time failed to take any action for monthly shortfall of Rs.3.62 crore.

* *Induj Eneritech Limited, Surya Agro Oils Limited, Geekay Exim Limited, Snowcem India Limited, Progressive Extractions and exports (P) Limited and Killicks Nixon Limited.*

Revenue Recovery Certificate.

- The Company was aware that the borrower had already proposed for the repayment of loan from the profits, as and when earned from their power project and that the project would not be able to earn profit in the next eight to ten years. Nevertheless, it did not obtain security, personal guarantee or collateral security from the borrower for the ICLs.
- The Company, before releasing the funds, did not ascertain the sources from which the borrowed funds would be repaid along with interest.

Placement of ICLs without obtaining security and assessing financial position of the borrower led to a loss of Rs.25.95 crore.

Thus, the Company's irregular placement of ICLs without obtaining sufficient security, grant of OTS facility to the borrower to make repayment in instalments without assessing the financial position or repaying capacity, resulted in a loss of Rs.25.95 crore, besides a recurring monthly shortfall of Rs.3.62 crore in repayment and locking up of Rs.68.38 crore with an interest loss of Rs.9.5 crore per annum. This had defeated the objective of grant of OTS facility and the chances of recovery of the loan along with the interest were remote.

Management stated (July 2005) that though the repayment as per OTS was to be made in equal instalments, due to cash flow problems of the borrower, the Company accepted irregular repayments. It was also stated that the borrower agreed to pay interest on the shortfall for the delayed period and would pay the dues of Rs.80.04 crore.

The reply is not acceptable, as the borrower never honoured the payment schedule even after OTS and the Company has no security to ensure recovery.

Surya Agro Oils Limited.

4.5.2 The Company placed ICL of Rs.29.75 crore on Surya Agro Oil Limited (Borrower) between June 1999 and June 2000 (repayable between March 2001 and October 2004) at interest rates varying between 18.5 and 17.5 per cent.

It was observed that :

- The SBI* and SBT*, which advanced loans to the borrower had already (1998) filed suits for recovery in the Debt Recovery Tribunal.
- Out of the ICLs received, the borrower repaid rupees seven crore to the promoters.

* SBI State Bank of India; SBT State Bank of Travancore;

- Despite dishonour of the borrower's eight cheques for Rs.11.47 crore issued between February and May 2001, the Company did not take action under section 138 of the Negotiable Instruments Act.

The Company failed to assess the financial position of the borrower before placing the ICL, which led to locking up Rs.29.75 crore and consequent loss of interest of Rs.32.45 crore.

Thus, the Company's failure to ascertain the financial position of the borrower before placing ICLs and in taking effective steps for recovery resulted in locking up of Rs.29.75 crore and consequent loss of interest of Rs.32.45 crore.

The management stated (July 2005) that its action under Revenue Recovery Certificate (RRC) was quashed by the Board of Revenue and its appeal was pending in the High Court, Jabalpur.

Geekay Exim Limited

4.5.3 The Company placed (between August 1999 and January 2000) three ICLs aggregating Rs.24 crore on Geekay Exim Limited (Borrower) repayable after three years (between August 2002 and October 2004) at interest rates varying between 18.5 and 17 per cent per annum.

It was observed that :

- The Company failed to verify the credibility and financial position of the borrower, as the borrower had outstanding debts of Rs.242.48 crore in 1999. Further, a number of petitions for its winding up were pending in May 1997.
- It did not take effective follow-up action on dishonoured cheques or for recovery.
- The deed of hypothecation of the assets given by the borrower's sister concern (Thirumala Impex Limited) in favour of the Company was found defective and remained un-rectified.

Placement of the ICLs without security coupled with failure to take action for recovery resulted in a loss of Rs.51.21 crore.

Thus, the Company's placement of ICLs without adequate security coupled with its failure to take action for recovery resulted in loss of Rs.51.21 crore.

While confirming (January 2005) the non-rectification of the defective deed, the Management stated that no action was possible as Kolkata High Court had appointed a liquidator.

Snowcem India Limited

4.5.4 The Company placed (between May 1999 and January 2000) ICLs of Rs.28 crore on the Snowcem India Limited (Borrower) at interest rates varying between 19 and 17 per cent per annum repayable between May 2001 and October 2004.

It was observed that :

- Though the notice of RRC sent by the Company was returned (April 2003) undelivered, it neither took any action thereafter nor did it obtain any legal opinion for recovery of dues.
- The Company also failed to get revalidated the transfer deed in respect of shares which had lapsed.
- The Company failed to obtain personal guarantee of the promoters for the loans.

Release of ICL loan without obtaining any security and failure to take follow up action resulted in a loss of Rs.61.04 crore.

Thus, the Company's irregular release of loan without obtaining any tangible security, repeated placement of ICLs on the borrower for long periods and its ineffective follow-up for recovery resulted in loss of Rs.61.04 crore as the chances of recovery are bleak.

The Company stated (January 2005) that a notice under RRC had been issued in April 2003 but no coercive action was possible as the borrower had been referred to the BIFR. The reply is not tenable, as the Company did not take steps for recovery of dues between 2001 and 2004 (the borrower had already stopped payments in November 2001 itself) and it was referred to the BIFR only in February 2004.

Progressive Extractions and Escorts (P) Limited

4.5.5 The Company placed (June to November 1999) four ICLs aggregating Rs.6.75 crore on Progressive Extractions and Exports (P) Limited (Borrower) repayable in March 2001 at an interest rate of 18.5 per cent per annum.

It was observed that though the post-dated cheques issued by the borrower were dishonoured, the Company did not take action under section 138 of the Negotiable Instruments Act. After delay of one year, it issued Notice under RRC in April 2002, which was also set aside by the Board of Revenue for having been filed under incorrect provisions of law.

Meanwhile, Madhya Pradesh Financial Corporation (MPFC) which had also financed the borrower, took over (September 2004) the unit and disposed it for Rs.9.10 crore. The Company, thereafter, requested (November 2004) for passing on the surplus amount to it. MPFC has not, however, released any amount to the Company so far (March 2005).

Placement of the ICLs without obtaining security led to a loss of Rs.14.47 crore

Thus, the Company's placement of ICLs without obtaining adequate tangible security coupled with its delay in taking action for recovery of dues, resulted in a loss of Rs.14.47 crore.

While agreeing with the audit observation, the management stated that it had filed an appeal against the order of the Board of Revenue and that the same

was pending with the High Court, Jabalpur. Further, it had approached the High Court for a direction to MPFC to release the funds, which had not materialised.

Killicks Nixon Limited

4.5.6 The Company placed (March 1998 to January 2000) three ICLs aggregating Rs.15 crore at interest rates varying between 18 and 17 per cent per annum with Killicks Nixon Limited, Mumbai (borrower) repayable between November 2001 and October 2004.

Release of the ICLs without security and failure to take follow-up action led to a loss of Rs.33.01 crore

It was observed in audit that the borrower defaulted but the Company did not take any action for the recovery of dues till April 2004 when it issued notice under RRC. The borrower, however, continued to default and did not submit any proposal for repayment. The borrower was registered with BIFR in May 2004. The dues as of 31 December 2004 aggregated to Rs.33.01 crore (Principal Rs.15.00 crore; interest Rs.18.01 crore).

Thus, release of the ICLs by the Company without obtaining security and its failure to initiate timely action for recovery resulted in a loss of Rs.33.01 crore.

The Company stated (January 2005) that (a) security by way of shares and demand promissory note was obtained (b) action under RRC had been taken in April 2004 and (c) no action was possible now.

The reply is not tenable as (a) the shares pledged were not revalidated (b) the demand promissory notes were not valid and (c) No action was taken for three years from 2001 to 2004, when the borrower defaulted in the payment of principal and interest.

In addition, the Company placed ICLs in violation of its Articles, without obtaining approval from Government and/or obtaining tangible security and also without verifying the financial soundness of the units.

Failure to discharge high- cost loan of Government

4.5.7 The Company obtained loans of Rs.10.28 crore from the State Government during 1992-93 (Rs.5.72 crore) and 1993-94 (Rs.4.56 crore) carrying interest at the rate of 18.5 percent and penal interest at the rate of three percent per annum. Except for Rs.11.41 lakh adjusted by the State Government, the Company did not repay the loan or interest and the dues to the Government as on 31 March 2004 worked out to Rs.21.75 crore (Principal Rs.10.16 crore, interest Rs.11.59 crore).

The Company's failure to discharge high cost loan resulted in extra interest liability of Rs.4.06 crore

It was observed in audit that the Company raised Rs.24.88 crore (Rs.14.38 crore in April 1999 at interest rate 13 per cent; Rs.10.50 crore in August 1999 at an interest rate of 14 per cent per annum) as ICLs from the Audyogik Kendra Viaks Nigam, Gwalior and the MP Text Book Corporation respectively. Had these funds been utilised for repayment of the Government loan, the Company could have avoided extra interest liability of Rs.4.06 crore. Moreover, the funds placed as ICLs with other companies had been virtually lost as most of the borrowers turned defaulters.

While confirming the facts, the Company admitted (July 2005) that its decision to invest in Surya Oils Limited and Progressive Extractions Limited at higher rate of interest proved wrong, as no payment was forthcoming from these companies.

Diversion of funds received for term lending activity to working capital

4.5.8 With a view to commence term loan activity and meeting contingent liability thereon, the Company requested (June 2000) Syndicate Bank for financial assistance of Rs.15 crore. After completion of formalities and hypothecation deed (June 2001), it received a demand loan of Rs.12 crore and secured overdraft of rupees three crore at the prime lending rate of 12.5 per cent plus three per cent extra (July 2001) which was revised to 13.5 per cent per annum plus three per cent from October 2001.

It was observed in audit that the Company used these high-cost borrowings for :

- Redeeming low-cost ICDs of the MP Text Book Corporation (rupees one crore carrying interest rate of 14 per cent per annum) and AKVN[#], Indore (Rs.65 lakh carrying interest rate 13 per cent per annum)
- Adjusting the minus balance in bank account (rupees nine crore)
- Payment of interest on the ICLs to the three^{*} cooperative banks, MP Text Book Corporation

[#] Audyogik Kendra Vikas Nigam.

^{*} Mumbai District Cooperative Bank; Apex Cooperative Bank of Goa and UP State Agri Cooperative Bank.

The Company's use of high cost funds to redeem the low cost loan led to a loss of interest of Rs.14.89 lakh

Thus, utilising of the high cost funds for redeeming low cost ICDs resulted in a loss of Rs.14.89 lakh[§] Further, the Company did not invest the high cost funds in any income- generating activity. The funds meant for the term lending were utilised for the payment of interest, which should have been paid from the income received from the investments. The diversion of the demand loan of Rs.12 crore resulted in recurring annual expenditure of Rs.1.86 core towards interest on this loan.

The Company stated (January 2003) that it had placed Rs.50 lakh on Embee Industries Limited as ICD and some amounts were used for payment to the borrowers and administrative expenses.

The reply is not tenable as the Company had already over drawn Rs.9.02 crore from banks by the time the demand loans were credited (July 2001). Further, Embee Industries limited had already become defaulter and no interest could be received from that company.

Failure to take action for recovery despite holding first charge on the assets

4.5.9 The Company released (September 1991) a term loan of Rs.90 lakh and equity contribution of Rs.7.50 lakh to Malanpur Leather Limited, Gwalior (Borrower) for their proposed new leather manufacturing unit on the following conditions:

- The term loan would be secured by first charge on the entire fixed assets, machinery, tools, and accessories present and future, of the borrower company.
- Equitable mortgage for 25 per cent of the term loan
- A floating charge on the remaining assets
- Personal guarantee of the promoters and directors.

The loan was to be repaid in 12 half- yearly instalments of Rs.7.50 lakh each with interest at the rate of 19.5 per cent per annum with initial moratorium period of two years.

The borrower sought permission for creation of second charge in favour of the SBI for increased working capital facilities and also *pari passu* charge in favour of the SBI's loan to the borrower. Though the borrower was in default for second instalment due in November 1994, the Company acceded to the

[§] Rs. 100 lakh multiplied by 2.5 per cent	(16.5-14.0) for three years	=7.50 Lakh
Rs. 65 lakh multiplied by 3.5 per cent	(16.5-13.0) for three years three months	= <u>7.39 Lakh</u>
		Total <u>14.89 Lakh</u>

request and granted permission (November 1994) for creation of the second charge.

The borrower continued to default despite repeated extensions of time. It was noticed in audit that despite holding first charge on the assets and guarantees of the borrower, the Company failed to invoke the charge for recovery of dues. Meanwhile, the borrower was referred (January 1999) to the BIFR and the SBI which had advanced Rs.2.40 crore to the borrower obtained (February 1999) favourable orders from the BIFR for recovery of their dues of Rs.4.98 crore with interest and the SBI also became entitled to dispose of the property of the borrower. The BIFR decided (August 2000) to wind up the borrower Company as there was no rehabilitation proposal despite several opportunities having been given. The Company after obtaining (October 2000) legal opinion decided to issue a notice to the borrower under section 29 of the State Financial Corporation Act.

Despite holding first charge, Company failed to invoke the same which led to a loss of Rs.1.76 crore

Thus, the Company's failure to invoke the charge on the assets and also the guarantees resulted in a loss of Rs.1.76 crore (Principal Rs.75.00 lakh; interest Rs.93.93 lakh and equity Rs.7.50 lakh)

While accepting the facts, the Company stated (July 2005) that no legal action under the SFC Act could be taken and it had issued notice of RRC against the promoters, which was in process.

The reply is indicative of the casual approach of the Company towards recovery of the dues.

The matters were referred to Government (May 2005); reply had not been received (September 2005).

Summary

The scheme formulated for Inter Corporate Deposits was being managed as Inter Corporate Loans. In violation of its Article of Association, prior approval of the State Government was not obtained in the cases of financial assistance of more than Rs.15 crores to a single industrial concern. The financial position, credit worthiness and repaying capacity of the industrial units were not ascertained before placing the funds. Though ICLs were placed for medium term, no tangible security was obtained to protect the financial interest of the Company. The ICLs, initially placed as short term deposits, continued for periods of three to five years at firm rates of interest. Follow-up action for recovery of dues was either lacking or ineffective particularly when the borrower's cheques were dishonoured

Concerted efforts should, therefore, be made by the Company to put in place a system in which inter corporate loans are placed only after ensuring security for the loans, monitoring the repayments of the borrowers and taking effective and immediate follow up for recovery of the loans.

The above matters were reported to Government (May 2005); reply had not been received (September 2005).

Delay in closure of companies under liquidation

Statutory Provisions for winding up of companies

4.6 The companies which stop functioning either due to orders of closure or for other reasons are required to be wound up. The Companies Act, 1956, under various sections* stipulates the procedure to be followed for winding up i.e.

- Preparing declaration of solvency
- Passing Special Resolution for winding up
- Publication of the resolution
- Appointment of Liquidator and Publication thereof
- Preparing accounts of winding up and submitting a copy thereof to the official Liquidator.

As on 31 March 2005, there were nine non-working Government companies in Madhya Pradesh, awaiting winding up as mentioned below:

- Three Companies closed prior to 1992 and one company closed in 1994 had not yet completed final winding up process.
- Four Companies ordered for closure between 1992 and 2002, had not yet commenced the process of liquidation
- The remaining one company had neither revived its activities nor got any order for its closure.

Details of the eight companies under closure/liquidation and one Company which were neither revived nor closed are given in ***Annexure-20***.

As any delay in completion of liquidation results in unproductive expenditure on establishment and related activities, an attempt was made in audit to analyse the reasons for the delay in closure of these companies under liquidation. The results of the audit findings are discussed in the succeeding paragraphs.

* Sections 484 to 486, 488, 492, 493, 496 497, 516 and 553.

Delay in preparing declaration of solvency

Delay in declaration of solvency led to delay in winding up

4.6.1 Section 488 (1) of the Companies Act, 1956 (Act) requires the majority of the Directors of a company to declare that the company had no debts or that it would be able to pay its debts within a maximum of three years from the commencement of the winding up process. Sub-section 488 (2)(a) and (b) also requires that the declaration is to be made within five weeks of its resolution for voluntary winding up. The declaration should be sent to the Registrar of Companies along with a copy of the Auditors' Report on the accounts of the company up to the date immediately before the declaration including the Balance Sheet and Statement of Assets and Liabilities as on that date.

It was, however, observed that such declaration was either not prepared or delayed by the companies as detailed in ***Annexure-21*** leading to delay in their winding up.

Delay in finalisation of accounts

Delay in finalisation of accounts led to delay in commencing/completing process of liquidation

4.6.2 The accounts of eight companies shown in ***Annexure-22*** were in arrears, which led to delay in filing declaration and consequently their winding up.

It can be seen from the annexure that the arrears in finalisation of the accounts at the time of declaration of solvency took 9 to 87 months for completion resulting in further accounts becoming due for finalisation. The delays in finalisation of the latest accounts by the four companies (Sl.No.5 to 8) ranged between 8 and 104 months. As on 31 March 2005, the seven companies had arrears in finalisation of the accounts ranging from 1 to 15 years. Any delay in their finalisation would further delay the commencement/completion of the liquidation process. The delays in finalisation of accounts were due to lack of adequate trained staff and funds, casual approach, delay in previous years accounts etc.

Delay in passing resolution for winding up

Companies failed to pass resolution for winding up in time

4.6.3 Section 484 (I)(b) of the Act requires passing of a special resolution by the companies for voluntary winding up. There were, however, delays ranging from 11 to 156 months in passing the resolution by the companies leading to delay in commencing the process of winding up. The details indicating delay in passing of the resolution is given in ***Annexure-23***.

Delay in publication of resolution of winding up

There were delays in publishing winding up resolution

4.6.4 According to Section 485 (1) of the Act, the resolution for voluntary winding up should be published in the Official Gazette and also in newspapers circulated in the district within 14 days of passing such resolution. It was, however, noticed in respect of MP Panchayati Raj that the resolution for winding up was taken on 26 August 1991 but the same was yet to be published

in the Official Gazette. Further, the resolution for closure in respect of the MP Dairy was taken on 20 March 1984 but the same was published only on 2 September 1988 i.e. after four years of delay.

Delay in filling the vacancy of liquidator

Delay in appointment of liquidator led to delay in winding up

4.6.5 As per Section 492 (1) of the Act, any vacancy caused in the office of the Liquidator, by whatever reason, should be filled in by the company in the annual general meeting. Two* companies did not fill in the vacancy of liquidator when there was a change in the incumbency on 1 October 1985 and 19 January 1999 respectively.

Though the chief executives of the companies have been changed, Liquidators were not appointed in the general meetings of the companies.

Inconsistent stand taken by the Government/management of the companies

4.6.6 Due to inconsistent stand taken by the Management and the Government, two** companies could not complete the process of liquidation and thereby their winding up.

Company's inconsistent decision affected the process of winding up

The MP Panchayati Raj had already been under liquidation since August 1991. Instead of initiating the process for its winding up, the Company passed a resolution in August 1996 for its revival and requested the State Government for further action. Pending receipt of orders from the Government, it again passed a resolution in the general meeting on 23 February 2004 for winding up. The State Government, thereafter, ordered (April 2004) liquidation of the Company. Though a liquidator was appointed (February 2004), the Company was yet to be wound up (April 2005).

State Government's decision led to uncertainty of the status of the company

The State Government ordered the closure of the MP Rajya Setu Nirman Nigam Limited with effect from March 1992. Though the Company did not take steps to initiate the liquidation process, the State Government again ordered (July 2004) the transfer of all agreements and works executed by the Company to a new Company – Madhya Pradesh Road Development Corporation Limited – as its successor, and assignee, without indicating the status of the company after transfer.

Uncertainty in deciding the status

4.6.7 Optel Telecommunication Limited (OPTEL) stopped its production activities from June 2000 due to huge losses; the accumulated loss as at 31 March 2004 stood at Rs.107.70 crore (provisional accounts).

* *MP Dairy Development Corporation Limited and MP Film Development Corporation Limited.*

** *MP Panchayati Raj Vitta Evam Gramin Vikas Nigam Limited, MP Rajya Setu Nirman Nigam Limited.*

The Madhya Pradesh State Electronics Development Corporation Limited, (Holding Company) approved (January 2001) the disinvestment of its stake in the OPTEL and appointed SBI Cap[@] as advisors for disinvestment and 'Little and Company' as legal advisors to the process. The Holding Company paid Rs.25 lakh to SBI Cap. As per the terms of appointment of SBI Cap, the disinvestment process was to be completed by August 2001. As on 31 March 2005, however, the Company had neither revived its operations nor had been disinvested. It was observed (March 2005) that though OPTEL stopped its operations in June 2000, the Holding Company invited bids for expression of interest only in January 2002 and the final bids in August 2003. A single bid received was not opened and approval for disinvestment of the Holding Company's stake (65.45 per cent) of Rs.15 crore was granted by the State Government only in May 2002.

There was uncertainty on the part of Government/ Holding company in deciding the future of the company.

The advisors to disinvestment proposed that if the State Government loan of Rs.17.12 crore to the subsidiary was converted into grant and the sales tax liability was waived, more offers would come. The core group* initially rejected (May 2003) this proposal, and later (July 2004) recommended the proposal to be finally decided by the Cabinet Committee on Economic Affairs.

Thus, the failure of Holding Company and Government in finalising the disinvestment process led to uncertainty of its continuance.

Impact of the delay in winding up of the closed Companies

Delay in winding up of companies led to avoidable expenditure of Rs.43.20 crore towards establishment cost.

4.6.8 As these companies have not been wound up, the salary and administrative expenses proved to be additional burden on the State Government. The delay in winding up of these companies resulted in avoidable expenditure of Rs.43.20 crore. **Annexure-24** shows the details of establishment expenditure incurred by these companies and sources of funds etc.

In addition to the avoidable establishment cost, the delay in winding up of MP Lift also resulted in non recovery of Rs.5.96 lakh on account of dues outstanding from employees (one of whom had expired) and Rs.10.91 lakh recoverable from the contractors/suppliers.

Failure to implement decision to expedite process

4.6.9 A meeting under the Chairmanship of Chief Secretary, Government of Madhya Pradesh held on 29 March 2004 to expedite the process of liquidation of MPLDCL, MPSICL and MPSTCL, decided :

[@] State Bank of India Capital Market Limited

^{*} Core Group – committee consisting of Secretary Finance, Commerce and Industries Department and Managing Director MPSEDC and OPTEL.

Committee's decision to expedite the process was not implemented

- to draw a road map within 15 days for closure and completion of the process within six months
- to disband the services of core staff in each company by 15 June 2004
- to furnish the details of the Assets and Liabilities to the respective Administrative department for onward transmission to the Finance department to hand over the responsibility of closure and disposal of assets/management of MP Leather, MPSIC and MP Textile to MP Khadi and Village Industries Board, MP Laghu Udyog Nigam Limited and MP Hastashilp Evam Hathkargha Vikas Nigam Limited respectively.

It was noticed in audit that the decisions had not been implemented by the above companies so far (September 2005).

Summary

Inspite of orders for the closure by Government and also stoppage of activities, nine companies were not wound up. While there was inordinate delay by four companies in completing the process of winding up even after the lapse of 10 years, four companies had not even started the process. The delays in their winding up resulted in avoidable unproductive expenditure towards salary and other expenses, besides defeating the purpose of their closure.

Concerted efforts are required to be made by these companies and the State Government to expedite the process of winding up in a time bound manner with a view to avoiding further unproductive expenditure.

Corporate Governance in Public Sector Undertakings in Madhya Pradesh

Introduction

4.7 Corporate Governance is the system by which the companies are directed and controlled in the best interest of the shareholders, to ensure greater transparency and better and timely financial reporting. The four elements of good governance are accountability, participation, predictability and transparency. The Board of Directors is responsible for the governance of companies. The Companies Act, 1956, (Act) was amended in December 2000 by inserting sub section 2AA to section 217 which requires that the Board's report shall include Directors' Responsibility Statement (DRS). The DRS should, *inter alia*, indicate that the Board of Directors have taken proper and sufficient care for the maintenance of accounting records, for safeguarding the assets of the company and for preventing and detecting frauds and other irregularities.

According to Section 292-A of the Companies Act, 1956 notified in December 2000, every public company having paid up capital of not less than Rs. five crore shall constitute an Audit Committee, at the Board level. Section 292 A of the Act, *ibid*, also requires that:

- Every Audit Committee shall act in accordance with the terms of reference specified by the Board.
- The Audit Committee should have a minimum of three directors of which two-third of the total number of such directors shall be directors other than Managing Directors or whole time directors.
- The members of the Audit Committee shall elect the Chairman from amongst themselves.
- The Statutory Auditors, Internal Auditors, if any, and the Director in charge of finance should attend and participate in the meetings of the Audit Committee without voting rights.

Audit covered 10 PSUs as detailed in ***Annexure-25***, with the objective of assessing the level of compliance by these companies of various provisions that affect Corporate Governance and matters relating thereto. None of these PSUs is listed with any stock exchange.

Audit has covered, *inter alia*, two main components that constitute the mechanism of Corporate Governance viz. :

- Matters relating to the Board of Directors
- Constitution of the Audit Committees

Although the primary objective of audit analysis was to focus on compliance with regulatory requirement under the Companies Act, 1956, impact analysis wherever possible, of such compliance/non-compliance has also been attempted.

Matters relating to the Board of Directors

Delay in appointment of Directors

4.7.1 In terms of Section 252 (1) of the Companies Act, 1956, every public company shall have at least three Directors in its Board. It was noticed in audit that there were delays in appointment of directors by the State Government after retirement of earlier Directors and at times when there was no full Board

in certain Companies. In half of these companies¹ upto six posts of directors / Government directors remained unfilled for periods ranging from one to four years during the period of four years ended 31 March 2005

It indicates non seriousness of the State Government towards adherence to the provisions to Section 252 of the Companies Act, 1956. The strength of Board of Directors was reduced to two in 2001-02. The meeting held on 22 October 2001 was attended by these two directors, violating the provision 252 (I) of the Companies Act, 1956.

Adequacy of Board Meetings

4.7.2 It was observed that in eight out of the ten companies² audited only one to three meetings of the Board of Directors were held during certain years. Thus, these companies failed to comply with the provisions of Section 285 of the Act which prescribes a minimum of four such meetings in a year thereby indicating non-serious approach of the top executives towards adherence to the statutory provisions of the Act. The adverse impact on the functioning of the companies as a result of less association of the management cannot be ruled out.

Attendance of the Directors in the Board meetings:

4.7.3 The Board has two types of directors i.e. Executive and Non-Executive Directors. The Non-Executive Directors are independent for the judgment on the issues of strategies, performance and standards of conduct. The Chairman of the Board is required to ensure effective participation of all the Directors to make an effective contribution in guidance and control over the affairs of the company.

The attendance of Directors in the Board meetings of six companies was not regular as is evident from the table given in ***Annexure-26***.

Thus, the Directors who remained absent in the meetings failed in their fiduciary duty and the companies were deprived of their independent views on important issues.

¹ In MPSMC- 1 post since 2001-02; MPLUN – 4 to 5 in 2004-05; MPRVVN-3 in 2004-05;
MPSTDC – 4 in 2001-02, 3 in 2002-03 and 2 in 2003-04; MPSAIDC- 5 in 2001-02, 6 in 2002-03 and 2003-04 and 6 to 9 in 2004-05.

² One meeting each- MPSEDC and MPSAIDC (2001-02) and MPSTDC and MPHVVN (2003-04);
Two each – MPLUN (2001-02 and 2004-05), MPSIDC (2003-04), MPSEDC and MPSTDC (2004-05),
Three each – MPSIDC, MPUVN and MPHVVN (2001-02), MPSEDC, MPSAIDC and MPLUN (2003-04) and MPRVVN (2004-05)

As the Board of Directors influences and enacts policies and decisions concerning public life and social development, absence of the directors defeated the purpose of their appointment in the Board.

Attendance in the Annual General Meetings

4.7.4 The attendance of the Directors in the Annual General of Meetings (AGMs) of the companies was also not satisfactory. Out of the total numbers of directors on the Board, attendance varied from below 50 per cent to nil in AGMs of certain years in as many as seven companies³.

Directors' Report:

4.7.5 The Directors' report annexed to the annual accounts of MPSEDC and MPSTDC did not contain DRS in all the four years ended 31 March 2005 though required under Section 217-(2AA) of the Companies Act, 1956. The fact that the DRS were not included in the Directors' reports indicates the Management's attitude to governance issues.

Audit Committees

Constitution of the Audit Committees

4.7.6 The amendment in the Companies Act with regard to the constitution and functions of the Audit Committee was made with effect from 13 December 2000. Out of the 10 companies, only one company (MPSIDC) was statutorily required to constitute an Audit committee. It constituted the committee after delay of three months on 27 March 2001, in spite of the clear legal provision.

Composition of the Audit Committee:

4.7.7 In contravention of the provisions for election of the Chairman by the members of the committee itself, only first meeting out of a total of six was held under the Chairmanship of an independent director (Non-Government) and the remaining five meetings were held under the Chairmanship of Managing Director in MPSIDC. This compromised the independence of the Audit Committee showing lack of accountability and transparency.

Meetings of the Audit Committee:

4.7.8 As per the terms of reference, the Audit Committee of MPSIDC was to meet three times in a year. Contrary to this, the Committee met only twice during the years 2002-03, 2003-04 and 2004-05.

³ Below 50 per cent –MPSMC (four AGMs) and MPLUN (three); Below 30 per cent – MPSIDC (one), MPSEDC, MPSAIDC and MPUVN (three each); Nil-MPSIDC (one), MPHUN (three).

Attendance of the Auditors in the meetings.

4.7.9 As per section 292A(5) of the Act, *ibid* the external auditor and internal auditor, if any, shall attend and participate in every Audit Committee meeting.

It was, however, observed in audit that the external auditor and internal auditor of MPSIDC did not attend one third of the total of six meetings held. The absence of the auditors defeated the very purpose of discussing and improving the audit performance of the company.

Summing up

As is evident from the above findings, the ‘spirit’ of governance is largely missing in these companies. Hence, there is a need to evolve Corporate Governance principles in areas like Independent Auditors, Auditing and developing effective internal controls.

Statutory Corporations

Madhya Pradesh State Electricity Board

Avoidable expenditure on the procurement of steel support

Insistence of the Board on negotiating the rates, ignoring the reasonability of the offers and the market trend resulted in avoidable expenditure of Rs.4.34 crore.

4.8 The Madhya Pradesh Electricity Board (Board) invited tenders (December 2002) for procurement of steel for support and sections in two packages for its Madhya Pradesh Power Sector Development Project, financed by Asian Development Bank (ADB).

The tenders were opened (15 February 2003) and the Steel Authority of India Limited and Unique Structures Towers Limited were found lowest for package I (Rs.28.58 crore for 15117 MT) and for package II (Rs.7.23 crore for 4435 MT) respectively. Though the lowest offers were reasonable as compared to the estimated cost (Rs.35.19 crore) and in view of the upward trend of the price of steel in the market, the Board, compared the rates with the rates received in September 2002, and concluded that the bid prices were high. The Board sought (April 2003) permission of the ADB for negotiation with the lowest bidders.

The ADB rejected the request for negotiation suggesting that the orders should be placed on the lowest bidders. In the meantime, validity of the offer for package II had already expired and the bidders refused to extend the same.

The Board invited fresh tenders (January 2004) by splitting the quantity of material in two newly formed packages of 2089 MT and 2346 MT and lowest rates received were Rs.5.66 crore for package I and Rs.6.39 crore for package II which were higher than the earlier quoted price of Rs.7.23 crore for both the packages. The Board, after reducing the procurement to 90 percent of the tendered quantity, placed orders (September 2004) on the lowest bidders, for supply of 3991.5 MT valued at Rs.10.85 crore. Thus, the insistence of the Board on negotiating the rates ignoring the reasonability of the offers coupled with increasing market trend, delay in evaluation of the tenders and poor follow up of the case with the ADB resulted in avoidable extra expenditure of Rs.4.34* crore.

The Board stated (July 2005) that the rates received were higher when compared to the rates received in September 2002 due to which it took up the case with the ADB.

The reply is not tenable since the Board was aware of the increasing trend in steel prices, hence order should have been placed on the firm instead of negotiating with it specially in view of the fact that the rates received were lower than its own estimates.

The matter was reported to Government (April 2005); replies had not been received (September 2005).

Loss due to inadequate compensation for the line loss in wheeling of the wind energy

Wheeling of the power generated by private wind energy generators through the transmission and distribution lines of the Board with a provision of mere four per cent compensation for line loss resulted in loss of Rs.2.47 crore.

4.9 Government of Madhya Pradesh announced (September 1994) a scheme of incentives for setting up new power generating units in the State for generating energy from non conventional sources. The private parties had the option of selling the power to the Madhya Pradesh State Electricity Board (Board) at the rate of Rs.2.25 per kwh, on payment of two per cent wheeling charges to the Board irrespective of the distance involved. As per the scheme,

* Rs.10.85 crore – Rs.6.51 crore (90 per cent of Rs.7.23 crore).

the State Government would compensate the Board for the line losses at the rate of four per cent of the power wheeled by the Board.

Under the scheme, five firms installed (1995-96 onwards) 98 wind energy generators (WEGs) in Dewas District with an installed capacity of 27.33 MW and the power generated was fed into the Board's grid, after entering into separate agreements with the Board for wheeling of power.

The actual transmission loss to the Board in its HT system ranged between 17.26 and 19.73 per cent during 2001-04. The State Government had adopted (February 2001) different yardsticks for calculation of the wheeling charges for energy generated through conventional sources. It was seven to 13 per cent (average 10 per cent) for wheeling power up to 15 MW and 10 to 17 per cent beyond 15 MW (average 13.5 per cent), depending upon the distance to be covered. Thus, the Board had been incurring loss by wheeling the energy generated by WEG from 1995 onwards.

During the period from 2001 to 2005 (up to January 2005), the Board wheeled 1154.99 lakh units of power fed into its grid from the WEGs, and sustained a loss of Rs.2.47 crore due to extra transmission loss (13.5 – 4 per cent).

It was observed in audit that in absence of enabling provisions in the agreement, the Board could neither get the actual line loss compensated by the wind energy generating firms nor did it take up the matter with Government, for full compensation of loss of energy in transmission. Besides, the Board's claim for compensation amounting to Rs.1.73 crore for the period from 1995 to 2004 (up to November 2004) as agreed in the incentive scheme, had not yet been settled (January 2005).

The matter was reported to Government/Board (June 2005); their replies had not been received (September 2005).

Irregular revision of rates

Extra payment to the contractor due to irregular revision of rates Rs.1.66 crore

4.10 The Board awarded (November 1994) the work of construction of foundation and superstructure for power house II (2x15 MW) of Tons Hydro Electric Project at Silpara to a private contractor for a contract price of Rs.8.54 crore excluding the cost of steel and cement. The work was scheduled to be completed by 29 March 1998.

The site was handed over to the contractor on 30 November 1994 but due to slow progress, the contractor completed only 29.2 per cent of the work (valued Rs.2.49 crore) during the stipulated period of completion.

Attributing the delay in completion of the work to the Board due to non issuance of the drawings, inadequate supply of steel and cement and delay in payment of bills, the contractor claimed (September 1998) a compensation of Rs.4.24 crore from the Board and also requested for revision of rates for completing the remaining work.

The Board rejected (October 1998) the claim for compensation, but allowed an increase of 29 per cent in the rates for the remaining work, from April 1998, over and above the payment of escalation, though such increase in rates was not covered by any contractual provisions.

The contractor completed the work on 31 December 2002 and the total value of work paid for was Rs.9.89 crore (excluding escalation) which included a sum of Rs.1.66* crore towards increase in rates.

Though the work was delayed due to the reasons not attributable to the contractor he was compensated in terms of the price escalation clause in the agreement. The increase in rates over and above the price escalation during the extended period was unwarranted and resulted in avoidable extra payment of Rs.1.66 crore to the contractor.

The matter was reported to Government/Board (May 2005), their replies had not been received (September 2005).

Irregular waiver of dues

Dues of Rs.94.88 lakh from a consumer were waived irregularly thereby bestowing an undue favour, besides being a loss to the Board.

4.11 Sourabh Metals (P) Limited, Mandideep, an HT consumer of Madhya Pradesh State Electricity Board (Board) had been defaulting in payment despite the directives of the Court and a number of concessions given by the Board. The Board had been insisting that no relief could be given unless the State Government agreed to compensate the loss as the Board had already given several concessions to the consumer. The consumer was subsequently registered with the Board of Industrial and Financial Reconstruction (BIFR), which sanctioned (21 August 1996) a scheme indicating waiver of the outstanding dues against the consumer amounting to Rs.94.88 lakh as on 31 March 1995 and directed (31 May 2000) the Board to allow the said relief/concession to the consumer.

The Board challenging the arbitrary decision of BIFR, filed an appeal before the Appellate Authority, for Industrial and Financial Reconstruction (AAIFR)

* $Rs.989.39 \text{ lakh} - Rs.249.47 \text{ lakh} = Rs.739.92 \text{ lakh} \times Rs.29 \text{ divided by } 129 = Rs.166.34 \text{ lakh}$.

against the orders of BIFR. The AAIFR setting aside the orders of BIFR stated (19 February 2001) that BIFR had acted inappropriately by giving directions to MPSEB to waive the penal charges. The BIFR had not obtained any consent from the MPSEB in this regard under the Sick Industrial Companies Act. The consumer, however, filed a writ petition in the High Court of Madhya Pradesh at Jabalpur against the decision of AAIFR.

The Board, however, in its meeting (10 July 2003) without waiting for orders of the Court on the writ petition filed by the consumer, decided to waive the outstanding dues recoverable from the consumer on the pretext that the consumer had regularly been paying current bills and would be paying in future also on running of the industry. The Board stated (July 2005) that the decision for waiver of dues was taken by the Board according to the commitment of Government to BIFR that decision of waiver was taken by the committee of financial matters of MP, and that the decision was taken by the Board by passing a resolution.

The reply is not tenable since despite the State government's direction for waiver of dues, the Board had been insisting on compensation by Government. The Board should have convinced the Cabinet Sub Committee that the Board had received a favourable award from the AAIFR and that any waiver of dues to the consumer would have an effect of over-reaching and negating the favourable award.

Thus, disregarding the decision received in its favour from the AAIFR, the action of the Board to waive the outstanding dues without getting any assurance from Government regarding compensation and even without waiting for the court decision, had resulted in an undue favour to the consumer and loss to the Board amounting to Rs.94.88 lakh.

The matter was reported to Government (December 2004); its reply had not been received so far (September 2005).

Imprudent cash management

Retention of cash balance in excess of requirements resulted in loss of interest revenue of Rs.50.97 lakh to the Board

4.12 The funds required for making various payments are requisitioned monthly by the Regional Accounts Officers (RAOs) of Madhya Pradesh State Electricity Board (Board). Based on such requisitions, funds are allotted to RAOs by the Board. The RAOs keep these funds in their current accounts and withdraws therefrom as per requirement. The Board instructed the RAOs to maintain a bare minimum cash balance and remit excess balance back to Head Office promptly as it was facing a severe cash crunch.

In total disregard of these instructions, the RAO, Gwalior requisitioned funds much in excess of requirements and kept the same in the current account. The

RAO retained average monthly balance of Rs.87 lakh in 2002-03, Rs.1.90 crore in 2003-04 and Rs.1.46 crore in 2004-05 against rupees two to five lakh required at the close of each month. Due to excess requisition of funds and non return of surplus funds to the Head Office, the Board had to forgo interest revenue of Rs.50.97 lakh.

RAO Gwalior stated (February 2005) that the balance amount was either remitted to head office or cheques were issued in the next month. The reply is not tenable, as only small amounts were remitted to the head office while large balances were retained. Neither were monthly requirements prepared on a realistic basis, nor was any cognizance taken of the warning issued by the Chief Engineer, Gwalior in June 2001 and the Joint Director (B&CM) Jabalpur in July 2002.

The matter was reported to Government/Board (July 2005); their reply had not been received (September 2005).

Undue benefit to a consumer

Undue benefit of Rs.40.89 lakh was extended to a consumer due to inaction by the Board officials.

4.13 A special team of the Board officials detected (11 September 2000) a theft of electrical energy during a raid in the premises of a Low Tension industrial consumer with a load of 100 HP in the District of Morena. The power supply was disconnected and after assessing consumption of 256952 units for the period from September 1999 to August 2000 (Average 21416 units per month) a demand for Rs.23.26 lakh towards theft of energy of 206647 units was raised on 18 September 2000.

The consumer made a representation to the Superintending Engineer (O & M) Morena circle (SE) for arbitration of the dispute. The consumer remitted Rs.5.25 lakh (19 September 2000) and Rs.2.32 lakh (21 December 2000) as part payment against the demand. The SE did not respond and the consumer filed a writ petition (8 January 2001) in the Gwalior Bench of the Jabalpur High court. The court ordered (11 January 2001) that :

- the power supply to the petitioner shall not be disconnected
- The petitioner shall furnish solvent surety for an amount of Rs.20 lakh to the Board.
- The petitioner shall continue to pay further bills for consumption of electricity.

The Court also directed (15 January 2001) the SE to submit a return personally on or before 19 February 2001, failing which the petition would be heard and

decided *ex parte*. The consumer furnished solvent surety for Rs.20 lakh, but the return, as directed by the Court, had not been filed by the SE, so far.

Thus, due to inaction by the officials on the representation of the consumer and failure to comply with the Court order, an amount of Rs.15.68 lakh had remained unrecovered since September 2000 resulting in loss of interest to the Board.

It was further noticed in audit that on restoration of electric supply after part payment on 19 September 2000, the actual consumption in October 2000 was recorded at 20217 units. The consumption drastically reduced from the next month^v The total consumption from October 2000 to July 2004 was billed for 307585 units. (Average consumption of 6687 units per month). Based on average monthly consumption of 21416 units, it worked out to 985136 units (21416x46) resulting in short billing and undue benefit to the consumer for Rs.25.20 lakh* towards 677534 units (985136 minus 307585) by the Board officials. The Board officials did not check and find out the cause for such reduction in consumption immediately though the monthly reading was taken by an official of Assistant Engineer level. The Board officials conducted a check in April 2003 and detected a theft of electricity and an amount of Rs.2.54 lakh was demanded by the Board which was paid by the consumer without any protest.

Thus due to inaction on the part of the Board officials not only did a sum of Rs.15.69 lakh remain un-recovered for such a long time but also failure to take note of sudden reduction in monthly reading immediately after the month following the month of restoration resulted in undue benefit of Rs.25.20 lakh to the consumer due to short billing.

The Board stated (June 2005) that the Superintending Engineer had reconnected the supply in response to the representation of the consumer, and that the court case could not be followed up properly due to the fact that the High Court had initiated contempt proceedings against the Board officials for insisting on bank guarantee against solvent surety.

The reply is not tenable. When the contempt case was on, the Board did not pursue the case filed by the consumer for getting the stay vacated. Thus, there was inaction on the part of the Board officials at various levels leading to undue benefit to the consumer and loss to the Board.

The matter was reported to Government (March 2005); its reply had not been received (September 2005).

^v November 2000 –7536 unit , December 2000 –4400 units, January 2001 -4605 units and so on.

* Calculated at the rate of Rs.3.72 per unit (on average basis)

Avoidable expenditure

Non-availing of free remittance facility by the Board resulted in avoidable expenditure of Rs.29.16 lakh.

4.14 The Madhya Pradesh State Electricity Board (Board) had an arrangement with the State Bank of India (SBI) and Central Bank of India (CBI) for availing 'at par'^u facility (free remittance) of its collections by the Distribution Centres to the Regional Accounts Offices (RAO) for onward transmission to the Board's main account at Jabalpur. The Additional Chief Engineer (B&CM) had also issued instructions (May 1999) that field Offices should avail 'at par' facility and bank charges paid, if any, should be got refunded from the bank.

RAO Birsinghpur, however, did not avail the facility during 2002-04 and incurred an expenditure of Rs.24.96 lakh, by way of bank charges. Similarly distribution centres at Datia urban, Datia rural, Morar, Dabara urban and Dabara rural under RAO Gwalior spent Rs.4.20 lakh during 2002-04 towards bank charges.

On this being pointed out in audit (March 2005) RAO Birsinghpur stated (March 2005) that the bank had charged only 50 percent of the commission chargeable and that the RAOs were not aware of the 'at par' facility available from the bank. RAO Gwalior stated that instructions were being issued to the Distribution Centres to draw Demand Drafts on the branches of SBI only.

Thus, non-compliance of the instructions of the Board by the field offices resulted in avoidable expenditure of Rs.29.16 lakh*.

The matter was reported to Government/Board (May 2005); their replies had not been received (September 2005).

Payment of overrun charges

Avoidable payment of overrun charges to a contractor Rs.26.08 lakh

4.15 The Board placed (February 1999) orders on Bharat Heavy Electricals Limited (BHEL), Nagpur (Contractor) for transportation, assembly, erection, testing and commissioning of Hydro generating equipment for 3x20 MW power house III of Bansagar Hydro Electric Project, at Deoland in Shahdol District, at a cost of Rs.3.75 crore. The work order, *inter alia*, stipulated that in

^u 'at par' facility means that the banks provide service free of charge.

* Rs.24.96 lakh+Rs.4.20 lakh = Rs.29.16 lakh.

case completion of work was held beyond the period of 25 months including three months grace period from the date of start of the work due to any reasons not attributable to the contractor, overrun charges at the rate of Rs.3.50 lakh per month would be payable to the contractor.

The Contractor commenced (10 December 1999) the erection work. Phase-I was to be completed by 9 October 2001. For reconditioning of stator and supply of certain materials required for assembly, erection and commissioning of the Hydro generating equipments, the Board placed three different orders on BHEL, Bhopal (Supplier) between March and July 2001, for a total value of Rs.2.27 crore to be completed within four months, with a request to advance the date of supply to the maximum extent possible. But due to delay (nine months) in supply of the material and reconditioning of stator, the mechanical erection of unit III of the power house was delayed and the equipments could be commissioned (2 September 2002) only on availability of water in the canal from 16 August 2002.

Thus the failure of the Board in assessing the time requirement of materials/ reconditioning of stator, delay in placing the supply order and not pursuing with the supplier for urgent supply resulted in delay in commissioning of the equipments, and avoidable payment of overrun charges amounting to Rs.26.08 lakh.

The Board stated (May 2005) that the unit III could not be synchronized in monsoon season of 2001, because by the time the unit was ready, the monsoon was over and water level in the reservoir had depleted below the minimum draw down level.

The reply is not tenable as the delay in reconditioning was due to delay in assessment of requirements and delay in placing order which, resulted in overall delay in commissioning of unit III and avoidable payment of overrun charges to the contractor.

The matter was reported to Government (May 2005); its replies had not been received (September 2005).

Non-recovery of charges

The Board lost Rs.16.52 lakh due to its failure to collect system strengthening charges and part of supervision charges from two colonizers
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4.16 Mahavir Housing Co-operative Society Limited, Katni with a connected load of 558 KW applied (31 March 2001) for external electrification of their society comprising 190 plots and deposited Rs.1.42 lakh (31 March 2001) towards supervision charges, with the Board.

The Chief Engineer, Jabalpur Region (JR) accorded (July 2003) Administrative Approval and Technical Sanction to the estimate of the work for Rs.13.94 lakh. The work was to be carried out by the colonizer through 'A' class electrical contractor after depositing supervision charges with the Board amounting to Rs.1.82 lakh in advance and payment of system strengthening charges at the rate of Rs.2300 per KW.

The work order was issued (October 2003) by the Additional Superintending Engineer (O&M) Katni, without recovering system strengthening charges amounting to Rs.12.83 lakh (Rs.2300X558 KW) and balance amount of supervision charges of Rs.0.40 lakh (Rs.1.82 lakh – Rs.1.42 lakh).

Similarly, in another case (Bargawon colony at Katni), an estimate for the connected load of 143 KW was sanctioned (November 2003), but the system strengthening charges amounting to Rs.3.29 lakh (143 KWXR.2300) were not recovered from the colonizer.

Thus, non recovery of system strengthening and supervision charges resulted in a loss of Rs.16.52 lakh*.

The matter was reported to Government/Board (March 2005); their replies had not been received (September 2005).

Environmental Management System in Madhya Pradesh State Electricity Board

Introduction

4.17.1 Developmental activities and economic growth are known to cause stress on the environment. The increasing dependence on sophisticated manufacturing processes, especially with the aid of chemicals creates pollution and associated problems, causing damage to the basic elements of the environment such as water, air and land. The damage to these essential elements of the environment has affected the ecological balance and resulted in loss of natural resources which are not quantifiable.

The Management of each organisation should develop an Environment Management System to take care of the environment surrounding the organisation and the duties and liabilities associated with it. Responsibility of adopting environment friendly policies and initiating action plans to comply with the environmental regulations should form an integral part of the system.

* *Rs.12.83 lakh + Rs.0.40 lakh + Rs.3.29 lakh.*

Legal framework

4.17.2 As a first step towards pollution control, Government of India introduced the Water (Prevention and Control of Pollution) Act, 1974, followed by the Air (Prevention and Control of Pollution) Act, 1981. With the introduction of Environment (Protection) Act, 1986, increased thrust was given to environment protection activities.

The Central Pollution Control Board (CPCB) and Madhya Pradesh Pollution Control Board (MPPCB) are the agencies to oversee enforcement of the legal provisions relating to pollution and environment protection in Madhya Pradesh.

Audit Findings

Expenditure on the Pollution Control without assessing the usefulness

4.17.3 The Madhya Pradesh State Electricity Board (MPSEB) has three thermal power stations (TPSs) viz Satpura Thermal Power Stations (STPS), Amarkantak Thermal Power Station (ATPS) and Sanjay Gandhi Thermal Power Station (SGTPS).

The TPSs had incurred expenditure for Rs.1.24 crore[♥] during 2000-05 outside the action plan to bring down the level of environmental pollution to the norms prescribed. The benefits actually accrued in the areas of pollution control were, however, not reviewed by the plant authorities/Board.

Working of Electro Static Precipitators

4.17.4 Electro Static Precipitators (ESP) reduce the Suspended Particulate Matter (SPM) in flue gases of coal fired boilers in TPSs. Excessive SPM not only increases atmospheric pollution, but also causes erosion of Induced Draft (ID) fans' impeller, which in turn necessitates operation of the TPS at reduced load leading to loss of generation. The Board installed 15 ESPs in the TPSs[♣] as of March 2005. Further, four bag filters^{*} (two each in two units) were also installed in ATPS. The designed norms of stock emission level of SPM, the Pollution control Board's norms as well as actual emission levels during the five years ended March 2005 are given in **Annexures-27, 28 and 29**.

The actual emission levels at the STPS Sarni and ATPS Chachai were higher than the PCB norms of 150 Nm³ as well as the design norms. The maximum

[♥] ATPS, Chachai Rs.68 lakh, STPS, Sarni Rs.56 lakh, SGTPS, Birsingpur Nil.

[♣] (STPS-9, ATPS-2 and SGTPS-4)

^{*} Bag filter is a technology used in ATPS I for reducing SPM in the flue gases emitting from ash contents of coal fired Boilers in Thermal Power Stations.

level of stack emission was 911 Nm³ in the STPS during 2004-05 (unit 7), 1250 Nm³ in the ATPS during 2003-04 (unit 2) and 252 Nm³ in the SGTSPS during 2004-05 (unit I). Central Pollution control Board (CPCB) had declared Satpura TPS Sarni and Amarkantak TPS Chachai as non-complying power stations. The Board did not, however, take any action (except STPS) to meet the statutory requirements. Even in four units of STPS, where the work of augmentation was taken up, it could not achieve the desired improvement.

Status of Electro Static Precipitators

4.17.5 During February 2001, officials of CPCB and the MP Pollution Control Board (MPPCB) inspected the STPS and identified the station as defaulting since 1998. As per the directives of the CPCB, the MPSEB prepared (September 2001) an action plan for augmentation of ESPs in unit 6 to 9 of STPS to achieve the emission norms of 150mg/ Nm³. The total work of augmentation of ESPs was to be completed in three phases.

As per the action plan, the Board placed (November 2001) orders on BHEL for a total cost of Rs.4.51 crore for supply and erection of various equipments and accessories for modification and improvement of the ESPs to bring down the emission level to 150mg/ Nm³.

The work was, however, not completed within the stipulated period of eight to ten months. The Board, after incurring an expenditure of Rs.4.75 crore completed the work relating to ESP 6 and 8 (2002-03) and ESP 9 (2003-04) only. The work relating to ESP 7 remained pending (March 2005).

Further, even after modification/improvement work, the stack emission level of unit 6, 8 and 9 at STPS Sarni did not improve. Though, BHEL had guaranteed reduction of emission level up to 20 per cent of the existing level, it had remained much higher than the CPCB norms as well as the designed norms as given below:

Level of stack emission

Unit Number	<i>Minimum level</i>		<i>Maximum level</i>	
	Before modification	After modification	Before modification	After modification
	<i>(In Mg/Nm³)</i>			
Unit 6	320	330	860	691
Unit 8	360	384	780	906
Unit 9	362	515	810	817

The Board stated (May 2005) that the modification works taken up by BHEL had improved the stack emission to a certain extent and the tests carried out by them had indicated an improvement to the extent of 38 per cent in unit 8.

The reply is not tenable as the emission level of unit 8 had increased from 780 mg / Nm³ in 2001-02 to 906 mg / Nm³ in 2004-05. The Board, however, did not invoke the guarantee clause against BHEL and did not insist on the performance guarantee tests by them in respect of unit 6 and 9 so far (May 2005).

As phase I of the action plan had remained incomplete, the subsequent phases of the plan were not taken up by the Board (May 2005). An expenditure of Rs.7.01 crore was, however, incurred on regular maintenance of ESPs in STPS during the five years ended March 2005. In spite of this, no improvement was noticed in the emission level which had remained above the designed norms in TPS.

Loss of generation due to non operation of ID Fan

4.17.6 The ESPs are used to reduce the emission level of SPM in the flue gases from the coal fired in the boilers of Thermal Power stations. Each boiler is provided with two induced draft (ID) fans and if any of the ID fans is non-operative due to heavy dust emission, the power generation gets automatically reduced by 50 per cent. During the period 2001-02 to 2003-04, the heavy dust emission from boilers of the three power stations resulted in non-operation of the ID fans periodically, leading to automatic reduction of power generation and as a result, the Board suffered a loss of generation of 520.4 million units, valued Rs.104 crore.

The Board replied (May 2005) that the details were awaited from the power station concerned. The details of loss of generation for the subsequent period under review were also awaited.

Pollution Monitoring Equipment

4.17.7 The Charter on Corporate Responsibility for Environmental Protection (CREP) prescribes installation/activation of opacity meters/ continuous monitoring with proper calibration system in all the three TPSs by 31 December 2004. It was noticed in audit that online equipment installed in the SGTPS and STPS valuing Rs.42.90 lakh and Rs.40 lakh respectively had remained inoperative for a long time and no monitoring of emission was conducted.

The Chief Engineer (P&R) replied (March 2005) that a scheme for installation of online stack monitoring system for all units of the STPS Sarni, two units of the SGTPS Birsinghpur and two units of the ATPS Chachai was submitted to the Board for approval, against which a loan of Rs.63.50 lakh was also made

available by the Power Finance Corporation. The scheme had, however, not been approved by the Board (April 2005).

Corporate Social Responsibility

Tree plantation.

4.17.8 MPPCB prescribed that thick green belt should be developed along the periphery of the TPSs and maximum open area should be utilised for the purpose. It was observed that 58,000 trees were planted at a cost of Rs.23.65 lakh[∅] during 2000-05 but there was nothing on record about survival of these trees.

In the absence of any periodical physical verification of the plants survived, the number of trees actually survived and the extent of environmental pollution reduction, could not be ascertained.

Establishment of Environmental Monitoring Laboratory

4.17.9 In a meeting of the CPCB, MPPCB, MP Power Generating Company and the Board, it was suggested that Environment cell/ Division may be constituted at MPSEB Head Office and adequate laboratory facilities should be developed at TPSs so that the work of monitoring and pollution control could get the desired impetus. It was also decided that the Board should stop awarding monitoring tasks to private firms. The CPCB supplied a list of instruments/ equipments required for the laboratory facilities. Though separate environment monitoring cells were formed in each TPS, the laboratory facilities had not been established so far (May 2005) and as a result proper monitoring of pollution control in the TPSs was not being carried out by the Board. The Board had been getting the pollution monitoring work done through the private parties. During the period under review, the Board had spent Rs.19.82 lakh^ξ on the pollution monitoring work.

Analysis of Air Pollution and water waste.

4.17.10 The emission and effluent standards mandatory for TPSs, were evolved by CPCB and notified under the Environment Protection Act by Government of India. State PCB circulated these standards to be followed by

[∅] STPS: 42000; Rs.16.63 lakh; ATPS: 2000: Rs.1.11lakh and SGTPS 14000: Rs5.91 lakh.

^ξ SGTPS: Rs.7.71 lakh during 2003-05, ATPS: Rs.3.23 lakh in 2003-04 and STPS: Rs.8.88 lakh in 2003-04

all TPPs. Besides, the pollution control Authorities and National Task Force were constituted to ensure compliance of standards and visited the TPSs from time to time.

The MPPCB had inspected STPS, ATPS and SGTPS between January and December 2004, analysed the air pollution and waste water supplies of during 2004-05 and found that the suspended particulate matter (SPM) was above the prescribed limit. There were no proper arrangements for air pollution control and the equipments installed were not operated properly. The analysis of waste water samples had also revealed suspended solids above the prescribed limits. The Pollution Control Board reported that the arrangements provided in the power stations for treatment of effluents were also found either not appropriate or not operated properly. The management was directed to improve the treatment efficiency of the effluent treatment plants.

Thus, the Power houses were not complying with the pollution control standards fixed by the pollution control board.

Summary

The State Pollution Control Board after inspection of the TPSs reported that all the units of the three TPSs, except one unit of STPS were defaulting in the emission norms. The Board is required to take steps for achieving augmentation of the ESPs, for bringing down the emission level of SPM, for increasing the benefits of the various pollution control expenditure, and to improve the efficiency of effluent treatment plants and for strengthening the Pollution Monitoring System.

Madhya Pradesh Warehousing and Logistics Corporation

Avoidable expenditure on the financially unviable project

Injudicious decision to take up a double storey project without assessing viability of such construction resulted in avoidable expenditure of Rs.76.08 lakh.

4.18 With a view to create additional storage capacity of 3600 MT by conversion of existing godowns at Chhindwara into a double storey godown, the work of design, fabrication, painting, supply and creation of the pre-engineering system was awarded (25 June 2002) by Madhya Pradesh Warehousing and Logistics Corporation (Corporation) to Vardhaman Precision Profiles and tubes (P) Limited (contractor) for Rs.2.50 crore. The work was to be carried out on turnkey basis, without dismantling the existing

structure and without shifting the stock kept in the godown. The Corporation, however, did not assess the viability of such constructions before award of work.

When the work was under progress, the management examined (January 2003) the financial viability of the project and considering the high cost, the Contractor was asked (July 2003) to stop the work, when work worth Rs.19.08 lakh had been completed and iron structures valued at Rs.60 lakh brought to the site. The contractor demanded a payment of Rs.3.99 crore towards the cost of pre-engineered materials, establishment expenses, interest for delay in payment and loss of profit etc. In view of adverse legal opinion (July 2004), the Corporation decided (September 2004) to continue the work, but entered in to an addendum to the original agreement for construction of a new double storied godown at the adjoining site.

The Corporation assessed the value of additional work (excluding the work to be executed by the contractor) at the new site at Rs.36.83 lakh and the revised cost of the work at Rs.3.07 crore. The work was, however, not completed. It was observed in audit that (i) the Corporation did not assess its requirement of storage capacity on a realistic basis, (ii) before awarding the work, it failed to make any cost-benefit analysis for such type of construction, (iii) the agreement with the Contractor did not include an exit clause to enable the Corporation to take recourse in such a situation, (iv) though the original work was stopped in view of huge expenditure involved, the Corporation's addendum to the agreement resulted in further increase in the cost to Rs.3.07 crore and (v) as per Indian standard IS: 607, the normative cost of construction of the godown above 1000 MT capacity was Rs.1500/ MT, against which, the Corporation would be incurring Rs.5164 /MT excluding the cost of land, which lacked justification.

Thus, the Corporation's decision to take up a double storey project without any cost benefit analysis resulted in unfruitful expenditure of Rs.19.08 lakh incurred on the previous site. Further, the Corporation would incur an additional expenditure of Rs.57 lakh on enhanced cost of the project.

The matter was reported to Government/Corporation (June 2005); their replies had not been received (September 2005).

Failure to implement decision regarding insuring stock

Failure to implement the decision of the Board resulted in avoidable expenditure of Rs.61.97 lakh towards insurance premium.

4.19 To safeguard the interest of depositors, Madhya Pradesh Warehousing and Logistics Corporation (Corporation) insures goods stocked in its warehouses. For this purpose, it set apart (2000-01) 25 per cent of its profits

towards a self-indemnity fund. The Executive committee of the Board of Directors decided (November 2001) that with effect from 2002-03, stock with less risk shall be covered under self indemnity fund and high risk stock by a floater policy, as was being followed by the Central Warehousing Corporation.

The Management, however, during 2002-04, kept the stock without segregating the same in the godowns. Moreover, despite setting apart a portion of the profit for meeting any loss of property on account of fire etc. and also without considering the number of fire accidents in the past, the Corporation took insurance cover and paid premium. It was observed in audit (December 2004) that during the last four years (2000-04), there were only five fire incidents causing loss of Rs.1.05 crore, against which the Corporation received claims of Rs.23.10 lakh only from the insurance company and the balance of Rs.81.93 lakh was borne by the Corporation.

Had the management segregated stock risk-wise and utilised its own funds for non-hazardous goods and insured only hazardous goods, the expenditure could have been minimised. Its failure to implement the decision resulted in avoidable expenditure of Rs.61.97 lakh^v on insurance of non-hazardous goods.

The Management stated (December 2004) that the amount in self indemnity fund was only Rs.10-11 crore which was negligible compared to stock of depositors valuing Rs.500-600 crore.

The reply is not acceptable as the Executive committee had considered these facts before taking the decision.

The matter was reported to Government (May 2005); its reply had not been received (September 2005)

Madhya Pradesh Road Transport Corporation

Loss of revenue

Failure of the Corporation to honour its payment obligation to the financiers resulted in foregoing net potential revenue of Rs1.46 crore.

4.20 Madhya Pradesh Road Transport Corporation (Corporation) entered (July 1996 to February 2002) into agreements with financing companies for procuring 837 buses valuing Rs.78.64 crore on hire purchase/lease basis, details of which are given in *Annexure-30*. The terms of agreements, *inter*

^v Worked out on the basis of stock of hazardous and non-hazardous goods stored by the Corporation during 2002-04.

alia, stipulated that in case of default in payment of monthly dues, the financier was entitled to charge interest at the rate of three per cent per month compounded monthly on the amount of arrears.

The Corporation, however, did not pay the dues regularly to the financiers. It was noticed in audit (February 2005) that Arihant Hire Purchase Company, Guwahati, one of the financiers – seized 11 buses (10 in August 2003 and one in August 2004) for default in payment of monthly dues amounting to Rs.1.32 crore as of 31 December 2004. The total dues not paid by the Corporation to all the 15 financiers as on 31 March 2005 worked out to Rs.50.24 crore.

Thus, the failure of the Corporation in honouring its payment obligations resulted in losing the option to own the vehicles besides foregoing net potential revenue of Rs.1.46 crore from 11 seized buses during August 2003 to March 2005. Further, the Corporation has also to pay the dues along with the penal interest at three per cent per month.

The Management stated (March 2005) that due to financial crisis, the repayment could not be made. The reply is not acceptable because the Corporation was aware that the default would entail seizure of vehicles and should have, therefore, arranged to meet its financial commitments necessary for operation of the fleet.

The matter was reported to Government (June 2005); its reply had not been received (September 2005).

Avoidable payment of penalty and extra demand charges.

The Corporation's failure to regulate contract demand as per actual requirement and to maintain power factor as per tariff schedule resulted in avoidable expenditure of Rs.22.12 lakh

4.21 The Divisional office, Jabalpur of the Madhya Pradesh Road Transport Corporation, (Corporation) was availing high tension power supply since April 1999 for its workshop at Karmeta with a contract demand of 235 KVA from the Madhya Pradesh State Electricity Board (Board). The tariff schedule of the Board required maintenance of average monthly power factor of at least 90 per cent failing which penal provisions were attracted.

It was noticed in audit (March 2004 to July 2004) that the Division maintained (April to May 2004) a power factor ranging from 39 to 73 percent only and consequently paid penalty of Rs.16.23 lakh for low power factor. Further, the actual demand during the aforesaid period ranged from 44 to 98 KVA and, as

a result, the Division paid minimum demand charges (higher than actual) amounting to Rs.5.89 lakh.

Thus, the failure of the Corporation to regulate its contract demand as per the actual requirement resulted in avoidable expenditure of Rs.22.12 lakh. The division stated (March and July 2004) that action was being taken to reduce the contract demand to 50 KVA. The reply is not acceptable as the Corporation did not take any action even after this being pointed out in audit in March 2004.

The matter was reported to Government/Corporation (June 2005); their replies had not been received (September 2005).

General

Response to Inspection Reports, Draft Paragraphs and Reviews

4.22 Audit observations not settled on the spot are communicated to the heads of the PSUs and the administrative departments concerned of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective Heads of administrative Departments within a period of six weeks. Inspection Reports issued up to March 2005 pertaining to 28 PSUs showed that 5492 paragraphs relating to 2040 Inspection Reports remained outstanding at the end of September 2005. Of these, 1893 Inspection Reports containing 4711 paragraphs had not been replied to for one year to 19 years (*Annexure-31*).

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 replies to all the 21 draft paragraphs and three draft reviews forwarded to the various departments between December 2004 and July 2005 as per details in Annexure, were awaited (September 2005).

It is recommended that the Government should ensure that : (a) procedure exists for action against the officials who fail to send replies to inspection reports / draft paragraphs / reviews as per the prescribed time schedule;

(b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule; and (c) the system of responding to audit observations is revamped.

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