

CHAPTER IV

Transaction Audit Observations

Introduction

Important audit findings arising out 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

Loss due to failure to monitor movement of stocks.

Intermediary storage of stocks resulted in avoidable expenditure of Rs.1.01 crore on local transportation and storage and Rs.1.06 crore towards interest on the cost of wheat locked up.

4.1 During the Rabi Marketing Season 2005-06 Madhya Pradesh State Civil Supplies Corporation (Company) directed (February/March 2005) its wheat procuring districts to retain wheat stocks required for six months supply under the Public Distribution System (BP⁴² and AAY⁴³ Schemes) and to transport the balance quantity to other needy districts after ascertaining their requirement. The districts were further directed to reserve the required storage space in godowns of the State/Central Warehousing Corporations, to transport the surplus wheat directly (i.e. without intermediary storage), and to hand over any stocks in excess of requirement to the Food Corporation of India (FCI).

In May 2005, when substantial quantity of wheat had already been procured, the head office of the company noticed that even after setting aside eight months' requirement at Sehore, Harda, Hoshangabad, Raisen, Ujjain and Satna Districts, the centres were holding excess stock to the extent of 48,266 Metric Tonne (MT). Though instructions were issued (June 2005) to transport these surplus stocks to other needy districts, their immediate movement was not monitored and there was no movement till October 2005.

⁴² Below Poverty Line.

⁴³ Annadhan Antyodaya Yojana.

In November 2005, when the Regional Office, Bhopal informed the head office that Sehore district was holding 18,695 MT of wheat in excess of their requirements the overall surplus stock position was reviewed and instructions were issued (November 2005) for transportation of 18,610 MT from Sehore to Shajapur, Bhopal, Dewas and Rajgarh districts, 13,200 MT from Ujjain to Dewas, Shajapur and Indore districts and 2000 MT from Satna to Sidhi and Rewa districts. Consequently, between November 2005 to January 2006, 30,809 MT of wheat was transported to other districts (viz 16,708 MT from Sehore, 8,714 MT from Ujjain and 5,387 MT from Satna).

It was noticed during audit that non monitoring of the movement of surplus stocks of the above 30,809 MT resulted in an avoidable expenditure of Rs.1.01 crore (Rs.44 lakh on local transportation and Rs.57 lakh on storage for six months). Besides, the Company also incurred avoidable expenditure of Rs.1.06⁴⁴ crore towards interest on the cost of wheat locked up for six months.

The Government stated (July 2006) that:

- The stock of 41,809 MT at Ujjain was sufficient for the requirement (41,440 MT) of that district for eight months.
- The stocks could not be transferred to other districts due to non availability of storage space in those districts and due to shortage of storage space 1,533 MT were handed over to FCI in Hoshangabad. Surplus was due to non lifting of allotment by the beneficiaries.
- Government of India had reimbursed the transportation cost.
- The company got benefit of storage gain⁴⁵ and there was no loss.

The reply is not acceptable as :

- Eight month's requirement furnished by the company in respect of Ujjain was only 36,608 MT and not 41,440 MT.
- The proposal (November 2005) for shifting surplus stocks did not mention that accumulation of surplus stock was due to want of storage space and non-lifting of allotment by the beneficiaries (Ujjain). Further, storage space could have been reserved in advance or the stocks could have been handed over to FCI as done in Hoshangabad.
- Transportation cost in excess of that allowed in the Provisional Economic Cost was not reimbursable by Government of India.

⁴⁴ 30,809 MT at provisional economic cost of Rs.7,540 per MT=Rs.23.23 crore x 9.1 per cent per annum for six months.

⁴⁵ Gain means increase in weight of wheat due to absorption of moisture on account of storage.

- The reply is silent on the basic audit observation as to why the status of surplus stocks was not monitored by the head office till October 2005.

Thus failure of the district offices to transport the surplus stocks at the time of procurement itself coupled with inaction on the part of the head office in enforcing/monitoring movement of stocks from procurement districts to other needy districts resulted in avoidable expenditure of Rs.2.07 crore.

Loss due to non-compliance with the despatch plan

Non-compliance with the specified despatch schedule of wheat by the district offices resulted in loss of Rs.30.27 lakh on local transportation and storage, locking up of Rs.6.64 crore and consequent loss of interest of Rs.30.19 lakh.

4.2 During Rabi Marketing season 2004-05, the company head office directed (March 2004) Harda, Hoshangabad and Indore district offices to transport 18,400 Metric Tonne(MT) of wheat to Khandwa, Betul, Barwani and Dhar districts direct from the procurement centres/railway rake points during March 2004 to July 2004. The district offices, however, transported only 4,948 MT wheat and stored the remaining quantity of 13,452 MT within the districts till August 2004.

In September 2004 the head office noticed that Harda, Hoshangabad and Indore district offices were holding more than four months' requirements and directed them to transport 7,150 MT to Khandwa, Dhar, Barwani, Betul and Ratlam districts. The district offices, however, transported 9,077 MT to the specified districts during October to December 2004.

It was noticed in audit that the non-compliance with the specified despatch schedule by the district offices resulted in avoidable expenditure of Rs.13.50 lakh on handling and Rs.16.77 lakh on intermediary storage of 9,077 MT of wheat. Further, while 9,077 MT of wheat was stored in Harda, Hoshangabad and Indore districts between July and December 2004, the needy districts were drawing their requirement from Food Corporation of India. This resulted in locking up of Rs.6.64 crore⁴⁶ for six months and consequent payment of Rs.30.19 lakh towards interest on cash credit.

The Company thus incurred a total avoidable expenditure of Rs.60.46 lakh.

The Government stated (July 2006) that the stocks at Harda and Hoshangabad were only sufficient for their own requirement and that the surplus at Harda was due to non lifting of the entire allotment made by the State Government for various schemes. It was further stated that the surplus stock at Indore could

⁴⁶ 9077 MT at provisional economic cost of Rs.7310 per MT=6.64 crore.

not be sent to Dhar and Barwani due to shortage of storage space and lifting of Food For Work (FFW) stocks on priority.

The reply is not acceptable as:

- The requirement of six months as furnished by the Company for all the three districts was not correct compared to the allotment made by the State Government in March 2004 on the basis of which transport instructions were initially given. If the allotment was not lifted, the fact should have been brought to the notice of the Head office by the district offices. This was not done till August 2004.
- There was no allotment / lifting under FFW during April to November 2004. Further, suitable storage space could have been reserved in advance as per the instructions of the head office.

Thus non-compliance with the specified despatch schedule by the districts office coupled with slack monitoring by the head office resulted in avoidable expenditure of Rs.60.46 lakh.

Avoidable expenditure on bank commission

Payment of the cost of wheat to Food Corporation of India by Demand Drafts instead of by Cheques resulted in avoidable expenditure of 48.56 lakh on bank commission.

4.3 The Company had been lifting stocks of foodgrains from Food Corporation of India for distribution to consumers under various welfare schemes of the Government of India. FCI directed (December 1993) all its Zonal/Regional and district offices to accept payment of the cost of foodgrains from Civil Supplies Corporation by cheque at places where FCI was maintaining a bank account. These orders were reiterated in July 2003 and January 2004 for compliance.

It was noticed during audit that only seven⁴⁷ out of 45 district offices of the Company had been making payment to FCI by cheque, while the remaining 38 district offices of the company had been depositing the cost of foodgrains by Demand Drafts. During 2003-04 to 2005-06 (upto December 2005) the Company spent Rs.48.56 lakh towards bank commission on demand drafts obtained for payment to FCI. Thus, payment of the cost of foodgrains to FCI by demand drafts instead of by cheques resulted in avoidable expenditure of Rs.48.56 lakh.

⁴⁷ *Bhopal, Indore, Ujjain, Sagar, Satma, Gwalior and Jabalpur.*

The Government stated (July 2006) that FCI maintained its bank account only in seven districts in the State where the company made payments by cheque. The reply is incorrect as FCI maintained bank accounts in all the districts of the State and the Company could have made payments by cheque thereby saving Rs.48.56 lakh on bank commission.

Avoidable expenditure on freight due to uneconomic movement of rakes over longer distances

Contrary to its own instructions, the head office of the company finalised rake movement plan that involved movement over longer distances. This resulted in avoidable expenditure of Rs.25.20 lakh towards freight on transportation.

4.4 During Rabi Marketing Season 2005-06 (March 2005 to June 2005), Hoshangabad and Raisen district offices of the Madhya Pradesh State Civil Supplies Corporation (Company) procured 1,17,454 and 86,632 MT of wheat respectively. The Company issued (March 2005) instructions to these districts to retain wheat stocks equivalent to six months requirement for distribution and despatch the remaining quantity to other needy districts as per rake movement plan duly observing the concept of minimum distance. The company finalised (March 2005) the rake movement plan for these districts duly observing this concept. This plan was, however, revised (April/May 2005) by the head office ignoring the above concept. Accordingly Hoshangabad and Raisen district office followed the revised rake movement plan given by the head office.

Audit scrutiny of the actual despatches revealed that Hoshangabad district office despatched 11 rakes of wheat (26,328 MT) during 22 April 2005 to 13 May 2005 to Guna, Ujjain, Bina, Biora, Sagar, Morena and Meghnagar from Itarsi rake point. In fact, movement of rakes to these destinations could have been made economically by Raisen district office from Mandideep rake point involving shorter distance to the destinations by 69 kilometers (km) compared to Itarsi rake point.

Similarly, during the period from 19 April 2005 to 25 May 2005 Raisen district office despatched 10 rakes of wheat (23,923 MT) to Satna, Katni, Gondia, Chhindwara and Shahdol from Mandideep rake point. Movement of rakes to these destinations could have been made by the Hoshangabad district office from Itarsi rake point which is shorter in distance by 69 kms compared to Mandideep rake point.

Audit scrutiny revealed that while the original rake movement plan given by the head office stipulated despatches by shorter routes involving lesser expenditure, the revised rake movement plan was drawn up contrary to its own instructions. As a result of wrong rake movement plan the Company incurred

avoidable expenditure of Rs.25.20 lakh towards freight on transportation of 20⁴⁸ rakes of wheat by longer route.

The Government stated (September 2006) that though initially the rake movement plan was given to move rakes in the right direction only, it was revised subsequently due to certain factors like quantum of procurement, availability of rakes, promptness of transport contractor and unloading arrangements etc.

The reply is not acceptable, as the proposals for revision in the rake movement plan did not mention any of the above mentioned factors. Further, transport contractor had to transport wheat as per the requirement of the company and not according to his convenience.

Avoidable expenditure due to under utilisation of storage space

Mismatch between actual despatch of stocks and the rake movement plan resulted in avoidable expenditure of Rs.24.32 lakh towards storage charges on unutilised reserved storage space.

4.5 As per the rake movement plan finalised (March 2005) for Rabi Marketing Season 2005-06, for procurement of wheat under Decentralised Procurement Scheme (DCP), four rake loads (9,200 MT) of wheat were to be transported from Hoshangabad district to Ujjain for onward transportation by road to Indore and other issue-centres in neighbouring districts of Khargone, Dhar, Jhabua and Barwani. The plan was revised and seven rakes (16,032 MT) were despatched (April 2005) to Ujjain during 9 to 24 April 2005. Ujjain district, however, despatched only 8,288 MT to Indore and other districts and stored the remaining quantity at Ujjain itself. Similarly, as against nine rakes of wheat (26,700 MT) to be sent to Gwalior to meet the requirement of Bhind and Morena districts, only four rakes were sent.

In anticipation of arrival of wheat stocks, Indore, Bhind, Morena and Shivpuri district offices, in consultation with their respective regional offices and the head office, reserved storage capacities for 45,000 MT (Mahow, Depalpur, Sanawar, Indore and Rau Centres of Indore district) and 88,980 MT (Bhind, Morena and Shivpuri centers of Gwalior district) respectively for 3 months in the godowns of the State/ Central Warehousing Corporations.

Audit scrutiny revealed that due to mismatch in the actual receipt of stocks compared to the rake movement plan, Indore and Gwalior district offices could utilise only 10,200 MT and 54,800 MT storage capacity (including that for their own procurement) leaving storage capacity for 34,950 MT and 34,120 MT respectively unutilised. As a result the company incurred

⁴⁸ *Avoidable expenditure restricted upto 10 rakes each from Mandideep and Itarsi rake points.*

avoidable expenditure of Rs.24.32 lakh towards storage charges on unutilised reserved storage capacity.

The Government stated (August 2006) that maximum space was utilised.

The reply is not acceptable, as the respective district offices had already confirmed the short utilisation of reserved storage space.

Avoidable expenditure due to transportation of wheat by longer route

Transportation of 7,022 MT of wheat by longer route resulted in avoidable expenditure of Rs.10.53 lakh.

4.6 Hoshangabad district office of Madhya Pradesh State Civil Supplies Corporation Limited procures large quantities of wheat in each Rabi marketing season. After retaining the quantity required for six months distribution within the district, it transports the surplus by road/railways to other districts for their utilisation under the Public Distribution System.

In April 2003, Hoshangabad district office sent one rake of 2,344 MT of wheat from Itarsi to Shajapur via the Itarsi-Bhopal-Bina-Guna-Biora-Shajapur route (536 Kms) incurring expenditure on freight of Rs.6,86,558. Similarly, it also sent two rakes of wheat (4,678 MT) in May 2004 to Shajapur via this route by incurring an expenditure of Rs.13,70,538 towards freight.

Audit scrutiny revealed that there was a shorter route to Shajapur via Itarsi-Bhopal-Maksi-Shajapur (262 Kms) through which the rakes could have been despatched at lesser cost.

Thus, transportation of 7,022 MT of wheat during 2003-04 and 2004-05 by longer route resulted in avoidable expenditure of Rs.10.53 lakh.

The Government stated (July 2006) that the shorter route was not available for movement of such type of heavy traffic during the period April 2003 to May 2004 and that had the shorter route been available the Railways would have despatched the rakes by this route.

The reply is not acceptable as shorter route was available and Raisen district office had sent rakes to Biora via this shorter route in April 2004 itself.

Madhya Pradesh State Industrial Development Corporation Limited

Investment in Inter Corporate loan without obtaining adequate security

Placement of Inter-corporate loan without obtaining security coupled with various deficiencies in sanction and pre/post disbursement procedures resulted in locking up of loan of Rs.14.50 crore besides non-realisation of interest of Rs.20.28 crore.

4.7 Madhya Pradesh State Industrial Development Corporation Limited (the Company) placed (January 2000) Inter Company Loan (ICL) on Siddharth Tubes Limited (STL), Indore between December 1999 and January 2000 at an interest rate of 17 *per cent* per annum, repayable after three to five years, as against the accepted practice of one year. As STL did not repay the ICL's the Company initiated (May 2002) Revenue Recovery Certificate (RRC) proceedings under Rule 3 of MP Public Debt Recovery Act, 1987 and issued RRC notice in June 2004. As on 31 March 2005, Rs.34.78 crore representing Rs.14.50 crore of principal (including Rs.50 lakh ICL placed in October 1996) and Rs.20.28 crore towards interest were outstanding. The RRC proceedings were quashed (June 2005) by the Revenue Board as the recovery of ICL did not fall under the scope of the Public Debt Recovery Act and directed the Company to file the case in the appropriate Court. Meanwhile STL registered themselves with the Board for Industrial and Financial Restructuring (BIFR) besides submitting OTS proposal to the company. The OTS proposal was not approved (May 2006) as it was not in consonance with the OTS policy of the Company.

Audit scrutiny of placement of ICL with STL revealed the following deficiencies:

- The Company had placed an ICL of Rs.one crore with STL in October 1996 for a period of 90 days, which was not repaid till December 1999. In spite of STL's default in repayment, the Company placed Rs.14 crore with the Company between December 1999 and January 2000.
- Out of Rs.14 crore, STL had paid only Rs.50 lakh in July 2000 and did not pay any amount thereafter.
- Financial performance of STL was on a decline right from 1996-97 to 1998-99 in spite of which, proper appraisal of its financial health was not done before placing ICLs of Rs.14 crore.
- The ICLs of Rs.15 crore (including Rs.one crore placed in October 1996) were not secured through *pari passu* first charge by mortgage of assets of STL as per the terms of the sanction.
- The Corporate guarantee bond/indemnity-cum-power of attorney was not registered.

- The ICLs were placed for three to five years while, demand promissory note obtained was legally valid for three years only.
- While the promoter had obtained ICLs for commissioning Cold Rolled Mill, he used the major portion of the ICLs to raise his equity. The company neither monitored post-disbursement use of ICLs nor obtained utilisation certificates.

The Government stated (June 2006) that the firm was advised to submit OTS proposal as per the company's OTS policy, which is yet to be received from them.

The reply is not tenable as placement of ICL without security coupled with non compliance with the conditions / deficiencies in sanction and pre/post disbursement procedures resulted in blockage up of Rs.14.50 crore besides non-realisation of interest of Rs.20.28 crore up to March 2005.

Loss due to extending undue favour to a firm

Failure to take timely effective legal action for takeover of assets and initiate Revenue Recovery proceedings resulted in non-recovery of both principal and interest of Rs.12.39 crore.

4.8 Madhya Pradesh State Industrial Development Corporation Limited (Company) sanctioned (December 1991) a term loan of Rs. 90 lakh to Bagh Cement Limited (Firm), Rampura in Dhar district for setting up a mini-cement plant, with a repaying term of 13 half yearly instalments, at an interest rate of 19.50 *per cent* per annum. The Firm approached the company (October 2001) for One Time Settlement (OTS) when Rs.3.87 crore (Rs.90 lakh towards principal and Rs.2.97 crore towards interest) were outstanding (March 2001). The Company did not consider the request of the Firm as its case did not fall within the scope of the OTS policy and a period of three years had not elapsed after closure (May 2001) of their business (Mini Cement Plant) for which they had obtained loan from the Company.

The Firm again requested (September 2004) for settlement of dues under OTS and the company approved OTS (December 2004) for Rs.67.50 lakh after waiving off entire interest of Rs.8.05 crore (up to September 2004) and the principal amount of Rs.22.50 lakh (25 *per cent*). As the Firm failed to honour the commitments under OTS the same was cancelled (January 2006). Till December 2005, the Company had received a total amount of Rs.34.40 lakh toward interest.

Audit scrutiny revealed that the Firm had not paid any amount against the loan disbursed between September 1993 to July 1994. The interest payable at 19.5 *per cent* per annum from September 1995 to September 2001 was also not paid by the firm. Despite such chronic default and availability of pledged securities, the Company did not initiate legal action to take over the assets but

only issued legal notices at long intervals viz in December 1996, December 1997 and November 2000 and allowed “the time to be at large”.

Thus, failure of the company to take timely effective legal action for takeover of assets and initiating Revenue Recovery Certificate(RRC) proceedings resulted in non-recovery of Rs.11.49 crore towards interest up to March 2006 (Rs.11.83 crore - Rs.0.34 crore) and Rs.90 lakh towards principal amount of loan.

The Company stated (February 2006) that as takeover and disposal of assets of cement plants in the past did not give adequate realisation and RRC was also not effective, the dues were settled under OTS scheme. The Company further stated (April 2006) that legal action was being contemplated against the firm and its promoter/guarantors.

The reply is not tenable as the Company, in spite of availability of adequate fixed assets and collateral security, did not take immediate legal action but waited till the case qualified for OTS scheme.

The matter was reported to the Government (April 2006); the reply is awaited (September 2006).

Madhya Pradesh Audyogik Kendra Vikas Nigams (AKVNs)

Loss due to deficient implementation of State Government scheme

Failure of AKVNs to strictly follow the guidelines of the scheme resulted in non-recovery of Rs.14.75 crore from industrial units, non payment of already recovered amount of Rs. 26 lakh to the Government, loss of Rs. 95 lakh on stamp duty and non collection of interest of Rs.9.70 crore besides rendering the entire loan liability of Rs.95.45 crore unsecured.

4.9 The State Government had introduced (1988) “Madhya Pradesh Conversion of amount of Deferred Tax into Loan Liability Scheme 1989” (Scheme) to extend the benefit of payment of Sales Tax on deferment basis, to the industrial units which had gone into commercial production on or after 1 April 1981. While Madhya Pradesh Audyogik Vikas Nigam, Bhopal (now Madhya Pradesh State Industrial Development Corporation Limited) was the implementing agency for medium and large scale industries, the Audyogik Kendra Vikas Nigams at Gwalior, Indore, Bhopal, Jabalpur and Rewa were the implementing agencies for small scale industries within their jurisdiction. Under the provisions of the Scheme, an industrial unit, after obtaining a certificate from the sales tax authorities, makes an application to the competent authority (Managing Director of the respective AKVN) and gets the deferred Sales Tax converted into provisional loan liability. On completion of

the assessment, the provisional liability is converted into final loan liability by entering into an agreement with the industrial unit to that effect after hypothecation of movable assets and joint mortgage of immovable assets of the unit in favour of AKVNs. The loan liability of each year shall subsist up to 5/ 10 years and becomes payable in one instalment within 30 days after the expiry of each year covered by the period of deferment. Failure to repay the dues attracts interest at two *per cent* per month.

The AKVNs at Bhopal, Gwalior, Indore and Jabalpur had converted Rs.95.45 crore of sales tax which had become convertible between 1985-86 and 2003-04 by 124 industrial units into loan liability out of which Rs.47.96 crore had become due for discharge up to 31 March 2005.

Audit scrutiny revealed as under:

- AKVNs failed to convert provisional loan liability of Rs.94.83 crore into final liability through execution of mortgage or hypothecation of immovable/movable assets of the industrial units in their favour. This rendered the loan amounts payable to the government unsecured, besides entailing loss of revenue of Rs.95 lakh on account of stamp duty.
- Out of Rs.47.96 crore which became due for payment up to 31 March 2005, the industries directly deposited Rs.33.21 crore with the sales tax authorities under intimation to AKVNs. The AKVNs failed to pursue with the industries the payment of the remaining dues of Rs.14.75 crore or to revoke the conversion granted. On the other hand the facility of conversion of loan liability was extended for subsequent years also.
- Even though there were delays by the units in remittance of dues, interest of Rs.9.70 crore upto July 2006 was not collected.
- AKVN, Rewa collected Rs.3.57 crore but invested the same in its holding company (Madhya Pradesh State Industrial Development Corporation Limited). It later remitted only Rs.3.31 crore to the Government. The balance amount of Rs.26 lakh was not paid (August 2006).
- AKVN Bhopal converted provisional liability of Rs.62.20 lakh into final liability in respect of four units without execution of agreements and mortgage / hypothecation deeds resulting in the liability remaining unsecured. Out of this, Rs.40.50 lakh against three units were recovered leaving a balance of Rs.21.70 lakh and interest of Rs.35.83 lakh (up to July 2006) against one unit, which was reported to have been closed.
- AKVNs did not evolve any monitoring system to identify the status of working of the units, their repaying capacity, existence of movable and

immovable assets, their value after depreciation and the possibility of recovery of dues from them.

Thus, failure of AKVNs to follow the guidelines of the scheme resulted in non-recovery of Rs.14.75 crore payable to the State Government, non-remittance of Rs.26 lakh to the State Government, loss of Rs.95.44 lakh on account of stamp duty and non collection of interest of Rs.9.70 crore besides rendering the entire amount of loan liability of Rs.95.45 crore payable to the State Government unsecured.

In reply, AKVN Bhopal stated that action was being taken on observations made by Audit. AKVN Gwalior stated that Rs.6.64 lakh had been collected and RRC issued for recovery of Rs.2.73 crore. AKVN Jabalpur stated that Rs.73.54 lakh had been converted into final loan liability and Rs.56.84 lakh were paid by the industries. AKVN Indore stated that out of Rs.9.22 crore shown as recovered, Rs.8.20 crore were paid by the units direct to the sales tax department.

Audit scrutiny of records of AKVN Indore revealed that out of Rs.33.89 crore, Rs.7.32 crore towards principal and Rs.3.62 crore towards interest were outstanding for payment to the Government (July 2006).

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

Unjustified rejection of lowest offer.

Unjustified rejection of the lowest offer and re-invitation of tender resulted in extra expenditure of Rs.34.24 lakh.

4.10 Audyogik Kendra Vikas Nigam (Indore) Ltd. invited (May 2002) tenders for the work of “Asphalting the road from Indore Airport to Pitampur”. The estimated cost of the work was Rs.2.63 crore. The conditions of Notice Inviting Tender (NIT), *interalia*, stipulated that after completion of the work, the contractor would maintain the road surface for three years at his cost. The company received six offers, which were opened on 4 June 2002. The lowest three offers were Khurana Construction (L1)⁴⁹, Deep Enterprises (L2)⁵⁰ and Prakash Asphalting Toll Highways Limited (PATHL)(L3)⁵¹.

The Tender Committee did not consider (June 2002) the offers of the first and the second lowest tenderers on the ground that copy of NIT was not attached to the tenders, and the other tenderers present at the time of opening of tenders

⁴⁹ 24.39 percent below the schedule of rates (SOR)

⁵⁰ 17.10 percent below the SOR

⁵¹ 10 percent below the SOR

had opined that if the NIT was not attached the contractor would not be bound to maintain the road for three years. The third lowest offer of PATHL was considered to be on the higher side compared to the then prevailing rates of the Public Works Department (National Highways) in the area. Hence the offer was not accepted and it was decided to re-tender. The tenders were again invited (July 2002) against which four offers were received. The lowest offer of PATHL at 10.10 *per cent* below SOR (third lowest in the NIT issued in June 2002) was accepted (August 2002), as the rates quoted by him were considered reasonable and the work was awarded to him in September 2002. The work was completed at a cost of Rs.2.40 crore.

Audit scrutiny revealed as under:

- As per clause 8 (page 3) of the Tender Schedule, submission of a tender by a contractor implies that he has read the notice, conditions of the tender and all other contract documents and made himself aware of the standard and procedure laid down in this respect and scope and specification of work to be done. In case of doubt, the tender committee could have called for the necessary clarification from the tenderers or their representatives present at the time of opening of tenders. This was not done.
- While in June 2002, the tender committee felt that the offer of PATHL (third lowest) at 10 *per cent* below SOR was high compared to the rates of Public Works Department (NH), the same committee considered (August 2002) the offer of PATHL at 10.10 *per cent* below SOR as reasonable.

Thus, the improper decision of the tender committee in not considering the lowest offers resulted in an avoidable extra expenditure of Rs.34.24 lakh.

The Management stated (February 2005) that, as the lowest tenderer against the first call in June 2002, did not enclose a copy of NIT with the tender, the tender committee decided to invite fresh tenders. The reply is not acceptable as the tenderers quote the rates keeping in view the conditions in the NIT. Moreover the tenderer had not denied in the offer that they would not maintain the road for three years as mentioned in the NIT.

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

Statutory corporations

Madhya Pradesh State Electricity Board

Payment of excess freight

Failure to scrutinise freight bills and delay in raising refund claims resulted in payment of excess transportation charges of Rs.2.86 crore.

4.11 For generation of power at SGTPS⁵², Birsingpur, Madhya Pradesh State Electricity Board (Board) was using coal received from various mines of South Eastern Coalfields Limited. Coal was being transported from the mines to SGTPS by rail wagons and the Board paid freight charges on the basis of distance from the mines to SGTPS as worked out by Railways. It was noticed during audit that the Board paid the railway freight bills without verifying the correctness of the distance involved, resulting in payment of excess freight.

The Board took up the matter of excess freight paid with the Railways during 2003-04 to 2005-06 but Railways rejected the claims in respect of ten cases amounting to Rs.2.86 crore stating that the claims were submitted after six months from the dates of delivery of the consignments and were, therefore, not admissible under the Indian Railway Act.

Thus, lack of proper scrutiny of the distances and the freight claimed by Railway and late submission of refund claims resulted in loss of Rs.2.86 crore to the Board.

The Board stated (June 2006) that the freight charges as levied by Railways and mentioned in Railway Receipts (RR) were verified in respect of quantity of coal and the distances mentioned in the RR were accepted without any further authentication, totally trusting Indian Railways.

The reply is not tenable as the Board, in its own financial interest, should have ensured the correctness of the freight bills before making payment. Besides, it should have ensured making a claim within the permissible period of six months.

The matter was reported to the Government (April 2006); the reply had not been received so far (August 2006).

⁵² Sanjay Gandhi Thermal Power Station (SGTPS).

Blocking up of funds

Non commissioning of fire protection system and consequent blockage of funds.

4.12 Madhya Pradesh State Electricity Board (Board) placed (October 1999) orders on Technofab Engineering Limited (TEL), for design, engineering, manufacture and delivery of complete package of fire protection system (FPS) with accessories and one set of spares and special tools, to be installed at unit III and IV of Sanjay Gandhi Thermal Power Station, Birsingpur, for Rs.3.76 crore (Stage - II). Another order for erection, testing and commissioning of the FPS was also placed (December 1999) on the same contractor for an estimated cost of Rs.52.67 lakh.

As per the terms of the orders, supply and erection of the FPS was to be completed within 15 months from the date of letter of intent (10 August 1999) i.e. before 11 November 2000. The contractor not only delayed the supply of material but also failed to erect and commission FPS after supply of 90 *per cent* of the materials valued Rs.3.36 crore (up to January 2003).

Audit scrutiny revealed that an order had been placed by the Board earlier in July and August 1993 on TEL for supply and erection of FPS at unit I and II of SGTPS (Stage-I) for a total cost of Rs.8.83 crore with schedule dates of completion of supply and erection as April 1994 and October 1994 respectively. The supplier had failed to erect the FPS but extension of time was granted up to April 1998. The commissioning of the entire FPS system was not completed.

Despite the firm's failure to complete the work under the earlier contract, the Board had again placed the order on the same supplier for the same work.

Thus, injudicious decision of the Board to place order for supply and erection of FPS on the same contractor resulted in blockage of funds to the extent of Rs.3.36 crore and consequent loss of interest of Rs.1.28 crore (up to March 2006) to the Board.

The Board stated (September 2005) that orders for FPS were placed on this qualified/experienced bidders who had completed projects of such magnitude, as at the time of finalisation of the order there were no such report of delay in work.

The reply is not tenable as the contractor had already defaulted in timely completion of supply against the contract placed in July/August 1993, and the Board had placed the subsequent order on the same firm ignoring their earlier failure.

The matter was reported to the Government/Board in April 2006; their replies have not been received (August 2006).

Short billing of revenue

Non adherence to the tariff order resulted in under billing of electricity charges and consequent revenue loss of Rs.1.10 crore.

4.13 In order to encourage the consumers for availing of metered connection, the Madhya Pradesh Electricity Regulatory Commission (MPERC) approved revision in tariff for billing effective from 30 December 2004. As per the revised tariff a lumpsum charge of Rs.170 per month in urban areas and Rs.160 per month in rural areas was to be recovered from each domestic unmetered consumer, using electricity for domestic purpose only against the existing rate of Rs.100 per month. These charges were to be further increased by Rs.10 for every quarter.

It was noticed during audit (March 2006) in Damoh (O&M) division that unmetered domestic consumers were billed in January and February 2005 at the rate of Rs.100 per month only as against the applicable rate of Rs.170/Rs.160 per month. It was also noticed in nine⁵³ divisions that unmetered domestic consumers were not billed during January to March 2005 as per the tariff order. This had resulted in short billing by Rs.1.10 crore as detailed in ***Annexure-22***.

The Executive Engineer Damoh (South) admitted (March 2006) the short billing and stated that recovery would be made by raising demand against the consumers.

It was noticed in audit that the demand was not raised and recovery had not been effected in any of the divisions so far (August 2006). Thus, due to short billing by the various divisions the Board had suffered loss of revenue of Rs.1.10 crore.

The matter was reported to the Government/Board (May 2006); their replies have not been received so far (August 2006).

⁵³ *Dhar(O&M), Jhabua (O&M), Rajgarh, Alirajpur (O&M), Barwaha, Khargone, Mandleshwar, Sendhwa, Barwani.*

Not invoking of the risk and cost purchase clause

Not invoking of the risk and cost purchase clause against the defaulting supplier resulted in extra payment of Rs.70.06 lakh.

4.14 Madhya Pradesh State Electricity Board (Board) invited tenders (11 November 2003) for supply of TOR/Mild Steel bars for civil work of Madikheda hydro electric project. The Board placed (January 2004) order on the lowest offer of Vimal Industries, at a cost of Rs.2.93 crore. The order provided that the supply would commence immediately on placement of the order and shall be completed within 60 days thereof. In the event of any breach of the terms of the order, the Board had the right to purchase the unsupplied quantity of material at the risk and cost of the supplier.

The contractor, on receipt of the order, expressed his unwillingness to supply the material. The Board served a notice to the supplier and proceeded with procurement from other source incurring extra expenditure of Rs.70.56 lakh. Though the Board's advocate had advised (April 2004) filing of a suit for recovery of the additional expenditure from the defaulting contractor, the Board cancelled the contract and decided (August 2004) not to file a case for recovery. The Board only forfeited (May 2005) the EMD of Rs.50,000 and black listed the firm for five years.

Thus, failure of the Board to enforce the contract clause with regard to purchase at the risk and cost of the defaulting supplier resulted in extra expenditure of Rs.70.06 lakh to the Board.

The Board stated (June 2006) that it acted on the basis of legal advice given by its counsel and it was taking all necessary action for realisation of the amount.

The reply is not correct as the Board did not file a Civil Suit for recovery of the additional expenditure, though the legal counsel had advised it to do so.

The matter was reported to the Government (May 2006); the reply has not been received so far (August 2006).

Acceptance of improper security deposit

Acceptance of Fixed Deposit Receipts (FDR) not discharged by the contractor in favour of the Board resulted in non-recovery of dues amounting to Rs.38.67 lakh from the contractor.

4.15 The work of liaisoning of quality and quantity including supervision of loading and movement of coal through rail for SGTPS⁵⁴, Birsingpur was awarded by Madhya Pradesh State Electricity Board (Jan 2000) to B.S.N. Joshi & Sons Vishakhapatnam (Contractor), for a period of three years at Rs.42.68 lakh.

The scope of the work included collection of demand drafts towards Railway freight charges from the respective offices of the Power Station and handing them over to the concerned railway authorities for collection of Railway Receipt (RRs). It was the responsibility of the contractor to ensure that the RRs were prepared on freight paid basis and no penal charge was levied by Railways. If any penalty was charged such penal charges were recoverable from the contractor.

On completion of the contract (15 March 2003) the Board found (August 2004) that the Railway had recovered surcharge amounting to Rs.97.01 lakh from the Board due to delayed payment of freight charges at the loading end by the contractor and that an amount of Rs.93.41 lakh was recoverable from the contractor after adjustment of the firm's security deposit and running bills. The Board, therefore, decided (August 2004) to liquidate the Security Deposit and EMD amounting to Rs.53.17 lakh collected from the contractor in respect of other works and also decided to file a case in the court of law. When the Board took up the matter of encashment of Fixed Deposit Receipts (FDR) collected as Security Deposit, with the contractor's bank, they released Rs.14.31 lakh (after deduction of bank commission and Income Tax) only and returned (October 2004) the FDRs to the Board stating that the documents could not be liquidated as the same were not discharged by the contractor in favour of the Board. The Bank asked the Board to get the FDRs discharged by the contractor or to furnish irrevocable letter of authority issued by the contractor for their liquidation. The Board, however, could not furnish either the discharged certificate or the irrevocable letter of authority from the contractor, resulting in non-liquidation of documents by the Bank.

Thus, due to acceptance of insufficient and improper documents as security, the Board could not realise Rs.38.67⁵⁵ lakh from the contractor.

⁵⁴ Sanjay Gandhi Thermal Power Station

⁵⁵ (i) Total FDRs available for encashment Rs.53.17 lakh.(ii) Amount received by encashing 2 FDRs after deduction of Income Tax and Bank charges Rs.14.31 lakh (iii) FDRs not encashed Rs. 38.67 lakh.

Had the Board verified the FDRs at the time of their acceptance, the loss could have been avoided.

The matter was reported to the Government/Board (May 2006); their reply had not been received so far (August 2006).

Avoidable expenditure due to payment of Commercial Tax at higher rate

Non availing of concessional rate of commercial tax resulted in avoidable expenditure of Rs.15.81 lakh.

4.16 Government of Madhya Pradesh extended (September 1998) concessional rate of commercial tax on raw materials and incidental goods procured for use in generation and distribution of electrical energy in the State. Cement also qualified as a raw material for availing the concessional rate, from 1 April 2000.

It was noticed in audit that the Chief Engineer (Civil) P&D Project had not availed of the concessional rate of commercial tax at 4.6 *per cent* and had instead paid a higher rate of 13.8 *per cent* on 8222 MT of cement purchased between April 2000 and June 2004 for its various projects, resulting in avoidable expenditure of Rs.15.81 lakh.

Accepting the audit observations, the Board stated, (June 2006) that in consultation with its legal counsel, action had been initiated for realisation of Rs.15.81 lakh from the supplier. Report regarding actual recovery is however, awaited (September 2006).

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

Purchases made without requirement

Blocking of funds amounting to Rs.1.20 crore and consequential loss of interest of Rs.17.16 lakh.

4.17 Madhya Pradesh State Electricity Board (Board) decided (June 1992) to procure two Diesel Generator (DG) sets for meeting any emergency situation arising due to grid failure, in running the auxiliaries required for starting the four units of Sanjay Gandhi Thermal Power Station, Birsingpur. The Board placed (July 2001) an order on Powerica Limited, Mumbai for supply of two 1000 KVA DG sets and accessories for a total cost of Rs.1.70 crore⁵⁶. Another order (July 2001) was placed for unloading, erection, testing and commissioning of the two DG sets, including accessories and

⁵⁶ DG sets & Accessories -Rs.1.31crore and Duties, Spares & Others -Rs.0.39crore.

consumables for a cost of Rs.3 lakh on the same supplier. The works were to be completed by 31 January 2003 and 31 March 2003 respectively.

The contractor supplied (November 2002) DG sets valuing Rs.1.32 crore. As per the supply order, the Board was required to release 90 *per cent* of the invoice amount within 30 days after receipt of the material at site, but the Board did not make the payments.

The contractor approached the Board and the Government for getting the payment released. Instead of releasing payment the Board asked (July 2003) the contractor to lift the DG sets from the site at their risk and cost and without any financial liability on either side. Though the contractor agreed, the DG sets were not lifted by them.

Later, the Board decided (August 2004) to release the payment in instalments and to carry out erection, testing and commissioning of the DG sets as per the order. The Board paid Rs.1.20 crore to the contractor between September 2004 and April 2005 but the DG sets have not been commissioned so far (May 2006). Thus, procurement of DG sets without requirement, resulted in blockage of funds amounting to Rs.1.20 crore and consequent loss of interest of Rs.17.16 lakh.

The Board stated (May 2006) that due to paucity of funds it could not make payment and take delivery of DG sets when supplied.

The reply is not tenable as the Board should have ensured availability of funds before placing the order.

The matter was reported to the Government (April 2006); the reply has not been received so far (August 2006).

Extra expenditure due to delay in release of payment

Non enforcement on the ordered supplies of 11 KV VCBs resulting in extra expenditure of Rs.16.18 lakh.

4.18 Madhya Pradesh State Electricity Board (Board) placed (November 2002) orders for procurement of 700 Nos.11 KV Vacuum Circuit Breakers (VCBs) for Rs.1,15,500 each, on different suppliers. Due to delay in payment to the suppliers by the Board the firms did not supply the full quantities and a balance of 287 VCBs remained to be supplied. The Board floated (December 2003) another tender for procurement of 500 VCBs (including 287 VCBs not supplied by the earlier suppliers) on 100 *per cent* assured payment within 45 days of receipt of material, on the pretext that the supply takes long time in delivery as considerable time is taken in manufacturing. The lowest offer received in response to the later tender at Rs.1,47,855 per VCB was higher by Rs.32,355 each as compared to the earlier rate. Though the Board, on the intervention of the Chairman, approached the original suppliers to supply the

balance quantity of VCBs with modified terms of payment and the suppliers also agreed to supply the same, the Board placed orders for supply of 178 Nos VCBs at the higher rate (in July and August 2004) against the subsequent tender assuming that only 172, as against 287 VCBs pending supply, would be supplied by the original suppliers.

Audit scrutiny revealed that the suppliers could supply only 117 VCBs out of the expected quantity of 172. One more supplier (Crompton Greaves) also supplied 120 VCBs at the earlier rate. Thus total supply of 237 VCBs could be arranged at the earlier rate resulting in non supply of 50 VCBs which were procured at the higher rate incurring extra avoidable expenditure of Rs.16.18 lakh.

The Chief Engineer (S&P) stated (January 2006) that they had procured only 390 VCBs against the total requirement of 607 VCBs out of which 237 were purchased at the lower rate. Hence there was no question of extra payment; instead there was a saving of 217 VCBs (607-390) due to non-procurement. The reply is not tenable as the unsupplied quantity of 50 VCBs covered in earlier order (November 2002) was procured at a higher price, against the subsequent tender (December 2003) resulting in extra expenditure of Rs.16.18 lakh.

The matter was referred to the Government/Board (May 2006); their replies have not been received so far (August 2006).

Extra expenditure

Extra expenditure of Rs.12.60 lakh due to delay in making advance payment as required.

4.19 For urgent renovation of Ghoradongri Sarni Broad Gauge siding, Madhya Pradesh State Electricity Board (Board) placed (December 2004) orders for supply of 608.80 MT rails on Steel Authority of India Limited (SAIL) for a total cost of Rs.1.88 crore (inclusive of excise duty and cess prevailing at that time).

As per the terms and conditions of the order, any increase in excise duty (ED) after issue of the order was payable by the Board and total value of material was to be released in advance in two instalments against the proforma invoice submitted by SAIL and supplies were to be completed by 31 March 2005.

SAIL submitted (January 2005) proforma invoice for a quantity of 308 MT amounting to Rs.98.47 lakh which was inclusive of 16 *per cent* ED as against 12 *per cent* mentioned in the purchase order and thus the revised price for 608.80 MT worked out to Rs.1.94 crore. The supplier reminded (February and March 2005) the Board for arranging immediate advance payment. The Board, however, did not make advance payment before 31 March 2005 despite

availability of funds, which led to cancellation of orders by SAIL on 4 April 2005.

As the material was urgently required, the Board invited fresh tenders (June 2005), against which the only valid bid received was from SAIL at Rs.2.07 crore. The Board accepted the tender and placed order (September 2005) for the original quantity of 608.80 MT against which a quantity of 598.50 MT was supplied and payment was made between September and December 2005. Thus, due to injudicious delay in releasing payment against the first order the Board had to incur extra expenditure of Rs.12.60 lakh.

The Board stated (May 2006) that 'since SAIL had submitted the proforma invoice without any supporting document, any change in Excise Duty required modifications in the order'. SAIL supplied a copy of the notification only on 2 March 2005 which resulted in delay in revision of order and releasing of advance.

The reply is not tenable as SAIL had supplied the notification of change in ED on 2 March 2005, well within the due date for completion of supply.

The matter was reported to the Government (April 2006); the reply has not been received so far (August 2006).

General

Response to Inspection Reports, Draft Paragraphs and Reviews

4.20 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 2006 pertaining to 28 PSUs showed that 5,573 paragraphs relating to 2,088 Inspection Reports remained outstanding at the end of September 2006 (*Annexure-23*). Of these, 1,912 Inspection Reports containing 4803 paragraphs had not been replied to for one to 20 years.

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, noticed that out of 19 draft paragraphs and five draft reviews forwarded to the various departments between April 2006 and August 2006, replies to all the reviews and 12 draft paragraphs were awaited (September 2006) as per details given in *Annexure-24*.

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 strengthened.

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