CHAPTER 4

Miscellaneous Topics of Interest Relating to Government companies and Statutory corporations

SECTION 4A

Government companies

4A.1 Optel Telecommunictions Limited

Optel Telecommunications Limited (Company) was incorporated in December 1988 as a wholly owned subsidiary of M.P. State Electronic Development Corporation Limited (MPSEDC), a Government company, to take over the opto-electronics communication system (OECS) project commissioned by MPSEDC. The Company has since established optical fibre project with two plants namely Optical Fibre and Optical Fibre Cable at Mandideep (district Raisen) in technical collaboration with M/s. Furukawa Electric Company and M/s. Fujitsu Limited, both Japanese firms, for the manufacture of optical fibre, optical fibre cables and communication systems.

The Company was earning profits up to 1996-97, due to its monopoly in the field of optical fibre. However, after liberalisation and delicensing, several new companies with latest technology had entered the market and the Company started incurring losses from 1997-98; its accumulated loss as at March 2001 amounted to Rs.70.07 crore. The production activities of the Company's two plants were stopped since June 2000 for want of working capital and high product costs.

The Company attributed the losses to stiff competition, decline in selling price and funds constraints. Audit analysis, however, revealed that the Company's failure to implement new projects, improper financial management and ineffective inventory management also contributed to losses, as discussed in the succeeding paragraphs.

4A.1.1 Abnormal delay in finalising Business Alliance Agreement

As production activities of two plants were stopped since June 2000, the Company, with a view to reducing the losses and reviving the plants invited (October 2000) bids for a management contract. In response, it received only three offers which were found valid. The holding company, MPSEDC, appointed (February 2001) SBI Capital Market Limited (SBI Caps) as advisor to finalise the offers. The advisor proposed (March 2001) the offer of Prima Telecom Limited as most favourable which was approved by the Board as well as Cabinet Committee of State Government in April 2001.

Prima Telecom requested the Company in August 2001 to furnish the draft Business Alliance Agreement in line with Term Sheets. The draft agreement was finalised by the Company only in October 2001.

As per Article 10 of the draft Business Alliance Agreement between the Company and Prima Telecom Limited, (a) the Prima Telecom was to pay the Company an upfront amount of Rs.21 crore; (b) the profit earned was to be shared between the Company and Prime Telecom in the ratio of 52:48; (c) in the event of loss, Prima Telecom were to pay minimum operating charges of Rs.3 crore for each financial year; and (d) the Prima Telecom had expressly agreed to pay the upfront amount and minimum charges aggregating Rs.24 crore before or on the execution of the Agreement. Besides, as per the common term sheets issued to the bidder, 250 (out of 460) employees of the Company's two plants were to be taken over by the business alliance partner.

The State Government directed (April 2002) the Company not to finalise the Business Alliance Agreement with Prima Telecom Limited without assigning any reasons. Further progress was awaited (September 2002).

4A.1.2 Non-implementation of opto-electronic technology project

In January 1995, Department of Electronics (DOE), Government of India, sanctioned opto-electronic technology project (Project), with the main objective of developing products and production technology for opto-electronic devices, modules and packaging required for optic fibre industry, at a project cost of Rs.8.15 crore (capital equipment: Rs.4.61 crore and operational expenses:Rs.3.54 crore), to be shared equally between DOE and the Company. The project was to be implemented during 1995-98 (extended to 1998-99). DOE released Rs.1.95 crore (January-March 1995) being part of their share with the specific condition that unspent amount was to be refunded.

Failure to implement Opto-electronic technology project resulted in expenditure of Rs.0.98 crore becoming infructuous

It was noticed (January 2001) that up to 1998-99, the Company spent Rs.0.98 crore on the project (revenue expenditure:Rs.0.69 crore; capital expenditure: Rs..28.74 lakh) and utilised the unspent amount of Rs.2.04 crore (including Company's own share and interest at 8 per cent per annum up to March 1999) as working capital. No expenditure was incurred after March 1999.

As the project was not implemented, DOE directed (August 1999) the Company not to incur further expenditure, send the completion report and refund the unspent amount. Though the Company stopped incurring expenditure on the project from April 1999, yet it had neither sent the completion report nor refunded the unspent balance, which worked out to Rs.2.57[*] crore including interest of Rs.0.62 crore as of March 2002. The non-implementation of the project rendered the expenditure of Rs.0.98 crore already incurred unfruitful.

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[*] *Amount received Rs.195 lakh plus interest up to March 2002 (Rs.110.66 lakh) = Rs.305.66 lakh less 50 per cent of Rs.98 lakh borne by the Company i.e. Rs.48.98 lakh = Rs.256.68 lakh.*

Management stated (February 2001) that a senior manager to whom the project was entrusted, first proceeded on long leave and then resigned on medical grounds and hence the project could not be completed. The reply of the Company was a bad reflection of its functioning as it was totally dependent on a single person and it failed to groom and train other technocrats to take over and complete the project.

4A.1.3 Issue of shares at low premium without justification

As per the MoU entered into (March 1994) by the Company with M/s. Furukawa Electric Company Limited of Japan (Collaborator), the Company was to allot its equity shares to Furukawa at a premium to be determined on the basis of intrinsic value to be assessed by an internationally recognised accounting firm. However, violating the condition of getting the intrinsic value so assessed, the Company executed the subscription and shareholders' agreement with collaborator and allotted 25 lakh shares of Rs.10 each at a premium of Rs.30 per share. The justification for arriving at the quantum of the premium was not available on record.

It was, however, observed in audit that the Company had fixed share premium at Rs.60 and Rs.75 per share for Indian public and financial institutions / non-resident Indians respectively while going public. The premium of Rs.60 per share was based on existing earnings per share.

Undue benefit of Rs.7.50 crore to collaborator due to issue of shares at low premium

Thus, allotment of 25 lakh shares at a low premium resulted in undue benefit of Rs.7.50 crore to its Japanese collaborator depriving the Company of the additional capital to that extent.

Management stated (February 2001) that price negotiation with collaborator was done by a high level committee of the Company consisting of the then Managing Director, Chief of Finance and Head of the Corporate Affairs Department. Minutes of the price negotiations of the shares were not, however, kept and as such it was very difficult to offer any further justification. The reply was not tenable as mode of valuation for allotment of shares as agreed to in the MoU was bid a good bye for no reasons on records causing substantial loss to the Company. Further, the premium charged was 50 to 60 per cent lower than that charged from Indian public and financial institutions / NRIs, respectively.

4A.1.4 Indecision and delay in finalisation of sale of forfeited shares

The Company had Rs.10.24 crore as dues outstanding since November 1995 towards allotment call moneys in respect of 2065800 shares issued to 6406 shareholders. After a delay of nearly four years, it forfeited (January 2000) these shares. As per Article 29 of its Articles of Association, the forfeited shares were to be deemed to be the property of the Company and the Board could sell/reallot or otherwise dispose them of, annul the forfeiture thereof upon such conditions as it deemed fit.

The Company placed an agenda item before its Board (May 2000) for re-issue of the forfeited shares indicating that the then ruling prices ranged between Rs.60 and Rs.70 per share. The Board while approving the re-issue of forfeited shares, directed that for price fixation, opinion of a merchant banker should be obtained. Accordingly, ICICI Securities Limited (ICICI) was appointed (June 2000) as advisor. Though ICICI recommended various offers -- like offer of Rs.31 per share (July 2000) from Renka and Co.; Rs.24 per share (October 2000) from FCC Technologies and Products Limited, and Rs.31 per share (January 2001) from Prima Telecommunications; the Company failed to take any action.

Thus, the forfeited shares remained undisposed of even after two years (March 2002). The value of shares as per latest (22 March 2002) quotations in Bombay Stock Exchange was Rs.3.55 per share (total value: Rs.0.73 crore).

Failure to dispose of forfeited shares led to loss of revenue of Rs.4.10 crore and consequential interest loss of Rs.1.23 crore

Thus, the indecision in finalising the offers received for disposal of forfeited shares despite being within the competence of the Board, resulted in loss of revenue of Rs.4.10 crore at Rs.20.50 per share (Rs.24 - Rs.3.50 the market value of a share) and also interest loss of Rs.1.23 crore, from April 2000 to September 2002 at 12 per cent per annum.

The Company, while confirming the facts, attributed (January 2002) the delays to non-receipt of approval from the State Government for finalising the deal.

The reply was not tenable as the Board was competent to take decision for sale of forfeited shares as per the Company's Articles of Association. Further, the Company should have taken expeditious steps for their disposal considering stoppage of activities (June 2000) at its two plants.

4A.1.5 Incorrect assessment of contract demand resulting in avoidable payment of electricity charges

In October 1989, the Company obtained a high tension connection from Madhya Pradesh Electricity Board (Board) with a contract demand of 1920 KVA and, without a proper assessment got it, raised (May 1996) to 2920 KVA to meet the requirements of its expansion programme. In terms of Board's tariff conditions, 75 per cent of contracted demand or actual consumption whichever was higher, was payable as demand charges. As the contracted demand was found to be in excess, it was got reduced (February 1998) to 2600 KVA on being pointed out by Audit.

Further scrutiny of the bills from February 1998 to June 2002 revealed that except in April and May 1998, the actual demand ranged between 360 KVA and 1688 KVA only, though the Company continued to pay for 1950 KVA (75 per cent of reduced contracted demand of 2600 KVA). This resulted in avoidable payment of Rs.0.77 crore.

Failure to properly assess contracted demand resulted in avoidable expenditure of Rs.0.77 crore towards electricity charges

Thus, Company's failure to properly assess the contracted demand prior to enhancement and even after being pointed out by Audit of its being in excess of requirement, resulted in an avoidable extra expenditure of Rs.0.77 crore.

Management stated (February 2001) that Board had turned down its request for reduction in load. The fact remains that due to its failure to properly assess the contract demand, the Company continued to pay demand charges for 1950 KVA.

4A.1.6 Inventory management

(a) Injudicious procurement of Aramid yarn

The Company placed purchase orders (April 2000) on Du Pont DC Namoures & Co. (USA) for supply of 10000 kg. of Aramid yarn for production of cables of different categories and sizes with the schedule of delivery as 3300 kg, 3700 kg and 3000 kg before 20 May, 20 June and 25 October 2000, respectively. The schedule of delivery was, however, revised (May 2000) by the Company to 1000 kg each before July and August 2000 and remaining 8000 kg to be decided upon later.

Due to un-warranted retention of stock worth Rs.29.04 lakh Company suffered loss of interest of Rs.5.22 lakh.

The supplier did not supply the material within the delivery schedule. The Company, instead of foreclosing the purchase orders, accepted (September 2000) the supply of 2000 kg (cost: Rs.29.04 lakh) which remained in stock (March 2002). Though it received an offer (March 2001) from Srinivas Synthetic Packers (P) Limited, Gwalior, to purchase this material at a rate to be quoted by the Company, yet the Company rejected the offer stating that the material would be required by it. This resulted in unwarranted retention of the material worth Rs.29.04 lakh with consequent loss of interest of Rs.5.22 lakh (@ 12 per cent from October 2000 to March 2002).

Management stated (January 2002) that the yarn was retained in anticipation of orders from DOT which did not materialise. Further, the cost of material would be recovered from the proposed business alliance partner. The reply is not tenable as the plant operations had already stopped since June 2000 and the proposed business alliance had failed to materialise.

(b) Acceptance of sub-standard material

The Company placed orders (May 2000) on Sterlite Industries (India) Limited, Aurangabad for purchase of 5000 km. of optical fibre and received the supply in June 2000. A quantity of 1018.50 km. valued at Rs.28.87 lakh was rejected (August 2000) on technical grounds.

The Material Department of the Company informed (August 2000) the supplier of the rejection and the supplier agreed (October 2000) to reimburse the value of material. The Managing Director, however, rejected (February 2001) the proposal and ordered retention of the material for further use in non-DOT orders.

Failure to accept refund of sub-standard material resulted in loss of Rs.28.87 lakh with consequential loss of interest of Rs.7.79 lakh.

Audit scrutiny (December 2001) revealed that there were no orders from non-DOT customers and material remained unused and the decision to retain the rejected material was not in the Company's interests. The Company's failure to take the refund as offered by the supplier resulted in the loss of Rs.28.87 lakh with further consequential loss of interest of Rs.7.79 lakh. (Interest @ 12 per cent per annum for 27 month from July 2000 to September 2002)

The Management stated (January 2002) that the cost of material would be recovered from the proposed business alliance partner. The reply was not tenable as (i) the proposal for business alliance had not materialised, and (ii) the expectation that a potential ally will reimburse the cost of sub-standard material did not speak very high of the Company's business ethics.

4A.1.7(a) Failure to supply optical cables within the delivery schedules

The Company obtained two purchase orders (August 1999 and October 1999) from MTNL Delhi/Mumbai and DOT for supply of PIJF cables valued at Rs.16.59 crore and Rs.7.73 crore, respectively. The agreed delivery schedules were up to February 2000 and April 2000, respectively.

Audit scrutiny revealed (January 2002) that the Company did not complete the supplies even during the extended delivery period due to acute financial crisis, and the customers, therefore, short-closed the orders. Consequently, material valuing Rs.5.10 crore had been lying in stock (March 2002).

Locking up of material worth Rs.5.10 crore due to short-closure of purchase orders resulted in interest loss of Rs.1.17 crore.

Thus, the failure of the Company to adhere to the delivery schedules resulted in locking up of Rs.5.10 crore with further consequent loss of interest of Rs.1.17 crore (@ 12 per cent from May 2000 to March 2002).

4A.1.7(b) Avoidable payment of liquidated damages due to non-adherence to delivery schedule

Mention was made in paragraph 4.A.1.2 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial) of loss due to payment of liquidated damages of Rs.3.04 crore.

It was further noticed in audit (December 2001) that in respect of seven supply orders for Rs.13.97 crore received during last two years, the Company supplied material valuing Rs.2.97 crore with delays ranging from one month to 13 months.

Improper production planning coupled with delay in supply resulted in avoidable payment of Rs.40.09 lakh as liquidated damages.

The delay was mainly due to working capital constraints and lack of production planning. The customers (DOT) consequently recovered Rs.40.09 lakh as liquidated damages for belated supplies.

It was interesting to note that an aggregate amount of Rs.8.57 crore was outstanding as at 31 March 2001 against DOT for various periods from 1990-91 to 2000-01. Had effective steps been taken by the Company to recover its dues, its problems of working capital could have been solved; and it would have been in a better position to complete the supplies in time avoiding thereby the payment of liquidated damages.

The above matters were reported to the Company/Government (December 2001); their replies had not been received (September 2002).

4A.2 Madhya Pradesh State Civil Supplies Corporation Limited

4A.2.1 Loss due to failure to furnish documents and delay in preferring claims

Failure to furnish documents/details of lifting of lustre lost wheat resulted in a loss of Rs.2.01 crore

To avoid distress selling by farmers of wheat crop (of Rabi Season 1995) which had lost its lustre due to rains, the State Government requested (March 1995) Government of India (GOI), Ministry of Food, to issue instructions to Food Corporation of India (FCI) to accept foodgrains under the price support scheme and it (State Government) would in turn accept the foodgrains in such form, from all the base depots of FCI. GOI accepted (April 1995) the request on the following conditions:

(i) Rain-affected lustre lost wheat with no damage to kernel could be purchased up to 40 or 30 per cent depending upon the districts without any price cut for Central pool,

(ii) the stock so procured under relaxed specifications should be identified as 'Z' marked wheat and lifted for distribution through Public Distribution System (PDS), Jawhar Rojgar Yojana (JRY) against Central allocation on priority basis, and

(iii) the stock procured under relaxed specifications should be stacked and accounted for separately.

Madhya Pradesh State Civil Supplies Corporation which was appointed (April 1995) by the State Government as the procurement and distribution agency, procured 25961.90 MT of lustre lost wheat during 1995-96 and distributed the entire quantity under PDS/Revamped Public Distribution System schemes. The Company incurred expenditure of Rs.12.86 crore on the activity against which it received Rs.10.88 crore which resulted in a loss of Rs.1.98 crore. The Company assessed the total loss at Rs.2.01 crore after including storage charges (Rs.0.54 lakh) and interest (Rs.2.14 lakh).

Loss of Rs 2.01 crore due to delay in preferring claims for lustre lost wheat

After a delay of more than two years, the Company claimed (October 1998) the loss from FCI which rejected (November 1998) the claim on the ground that the quantity of wheat stated to have been procured and distributed was neither delivered to them nor was any payment made by them as no bill was preferred. The Company's subsequent claims (February 1999) were again rejected (March 1999) as the details of lustre lost wheat procured and contributed to Central pool were not furnished to FCI.

Thus, the Company's failure to adhere to GOI's directives in maintaining separate stock of lustre lost wheat, and furnish full details to FCI, coupled with delay of more than two years in preferring the claims to the FCI resulted in avoidable loss of Rs.2.01 crore.

The matter was reported to the Government / Company (May 2002); their replies had not been received (September 2002).

4A.2.2 Loss due to improper planning for disposal of coarse grains

Procurement of coarse grains without planning for their disposal resulted in a loss of Rs.1.25 crore

With the objective of ensuring that the coarse grains (*maize, jowar and bajra*) should be utilised to the fullest extent possible for issue to consumers through PDS, the Company was appointed as sole agency (as a sub-agent of Food Corporation of India (FCI) by the State Government for procurement of coarse grains. In pursuance of this objective, Government of India (GOI) sanctioned provisional incidentals based on notified economic cost. The difference between the procurement cost and economic cost was to be reimbursed to the Company as subsidy by FCI.

GOI, while communicating the economic cost every year, directed, *inter alia*, that the State Government would make efforts to distribute the coarse grains through PDS within a period of three months of their procurement keeping in view the short shelf life (three months) of these grains, and interest at prescribed rates would be included for three months in the economic cost.

It was also decided by the GOI that the responsibility for disposal of coarse grains would rest solely with the agency / State Government, and FCI would not be associated in the sale process.

As the Company was the sole agency for procurement and the responsibility for disposal thereof rested only with the Company, it should have evolved a strategy for their disposal well before the procurement considering the short shelf life of these grains. However, without any such strategy, the Company started the procurement of coarse grains during 2000-01 and procured 264146.15 quintals of coarse grains during December 2000 and January 2001, but only 9566 quintals could be distributed during April-June 2001, through PDS.

Failure to plan disposal of coarse grains resulted in a loss of Rs 1.25 crore.

Accordingly, the State Government offered (February 2001) to GOI, the surrender of the entire balance quantity to FCI for disposal through other means and further requested for issue of suitable instructions to FCI to take over and dispose of the balance stock of these grains. Government of India, Ministry of Consumer Affairs, Food and Public Distribution, decided (February 2001) that FCI would be entrusted with the task of calling tenders and fixing rates but without taking over physical delivery of stock from the Company. After finalising (April 2001) modalities for disposal, the details of rates and parties, to whom the coarse grains were to be allotted etc., were intimated to the Company by FCI. The Company disposed of only 2,30,751.26 quintals of coarse grains through FCI during June-August 2001 and the balance quantity of 23828.89 quintals remained undisposed of (February 2002). This resulted in loss of Rs.1.25 crore (23828.89 quintals at economic cost of Rs.523.53 per quintal) keeping in view their short shelf life. The objective of proper utilisation and distribution of coarse grains to the consumers was also defeated.

Government stated (June 2002) that as the Central Issue Price (CIP) from the GOI was not received, it was not aware of the price at which the coarse grains could be supplied. Despite reminders, FCI had not taken steps to finalise the procedure for disposal of stock. Thus, it was the responsibility of the FCI, and not of the Company, to arrange for disposal of these grains and the Company had no role in the disposal of stock.

The reply is not tenable as (i) the State Government's proposal to surrender was not due to non-receipt of CIP from GOI, (ii) The Company, as the agency for procurement of coarse grains, should have protected its interests before commencing procurement and should have planned the strategy for disposal of the grains considering the limited shelf-life, (iii) the Government proposed to surrender the stock only in February 2001, and (iv) the GOI's earlier directions clearly stipulated that State Government would have to make its own efforts to distribute the coarse grains and the responsibility would solely rest with the agency/ State Government.

4A.2.3 Loss due to delay in procurement of soyabean and its disposal at lower rates

Failure to ensure timely procurement and speedy disposal of soyabean resulted in avoidable loss of Rs.1.12 crore

The Company entered (November 1997) into an agreement with Marvel Agrex Limited (MAL), Indore, for the supply of 10,000 MT of soyabean at a predetermined price of Rs.1035 per quintal. The terms and conditions of the agreement *inter alia*, stipulated, the following :

— The quantity of 10,000 MT was to be lifted by MAL in four lots, @ 2500 MT per lot and completed by 31 March 1998.

— In the event of delayed lifting by MAL, interest at the rate of 18 per cent per annum on the value of the quantity short lifted along with 10 per cent extra security and one per cent penal interest was to be paid to the Company.

— The Company could sell the soyabean procured for MAL but not lifted after three months, if MAL defaulted in lifting it.

— Cash equivalent to 15 per cent of the cost was to be deposited by MAL with the Company as caution money to honour their commitment to lift the contracted quantity of soyabean.

— The validity of the agreement was for six months i.e. up to 19 May 1998.

The agreement, however did not provide for recovery of loss, if any, suffered by the Company from MAL in the event of sale of soyabean by the Company at a price lower than the contractual price.

It was noticed in audit (February 2002) that the Company procured first lot of 2500 MT of soyabean during December 1997 (11054.22 quintal) and January 1998 (15621.12 quintal) after obtaining the security deposit of Rs.38.81 lakh.

The Company proceeded to procure its second lot in January 1998 but without obtaining any further security deposit from MAL and purchased 167 quintal of soyabean. MAL informed (January 1998) the Company that as against 10,000 MT to be procured in one-and-a-half month, the Company had procured only 2667 MT in two months. This slow procurement resulted in MAL losing substantial share in the market. MAL further intimated the Company that they (MAL) had suspended further operations at their plant in December 1997 itself instead of April-May 1998 and thus were unable to lift the soyabean. The Company, despite being aware of decrease in price of soyabean, did not take speedy action to dispose of the stock early to reduce the losses. Only after a delay of four months, the Company started (June 1998) selling the unlifted soyabean which could be completed by October 1998. The sale of 26.675 quintal at a low price (Rs 965 per quintal) and for a total value of Rs.2.58 crore (cost: Rs.3.70 crore) resulted in a loss of Rs 1.12 crore and the Company claimed Rs.1.69 crore (including interest, penal interest, service charges etc) from MAL. As the amount was not paid, the Company appealed (July 2000) to Arbitration Tribunal and its award was awaited (July 2002).

Delay in procurement of soyabean and its disposal at lower rates resulted in a loss of Rs 1.12 crore

Thus, the failure of the Company to (i) include suitable clause in agreement for recovery of the loss in the event of sale of soyabean at lower rates than the procurement cost due to non-lifting of contracted quantity by MAL, (ii) procure soyabean in time, (iii) ensure supply of even the procured quantity to MAL as per the contractual provisions, (iv) dispose of soyabean quickly particularly when the sale prices were showing a decreasing trend and (v) obtain adequate security deposit before procurement of fresh quantity to safeguard its interest, resulted in an avoidable loss of Rs.1.12 crore.

The Company stated (April 2002) that the soyabean was procured with the consent of the contractor and there was no delay in procurement. Soyabean was to be taken delivery of by the contractor before May 1998, which was not done. It was also stated that necessary clause to recover loss was included in the subsequent agreements.

The reply was not tenable as the contractor had blamed the Company for the slow procurement. Due to availability of soyabean when its prices ruled low, the contractor failed to lift the soyabean. Taking into account the decreasing trend in prices, the Company should have taken immediate steps to dispose of the soyabean and also ensured the adequacy of security deposit to guard itself against possible losses. Thus, Company’s failure to ensure timely procurement and supply of soyabean and to include necessary enabling clause in the agreement for recovery of loss led to the loss of Rs.1.12 crore which was avoidable.

The matter was reported to Government (May 2002); its reply had not been received (September 2002).

4A.2.4 Failure to monitor collection and timely crediting of proceeds resulted in extra expenditure

Ineffective monitoring led to belated crediting of proceeds of Government treasury bills by banks resulting in extra expenditure of Rs.0.56 crore towards interest

The Company was having two cash credit (CC) accounts with SBI, T.T. Nagar, Bhopal (CC Account-Sugar) and SBI, Food Nagar, Bhopal (CC Account Foodgrains) in addition to two current accounts*.

The Company received claims from the Government in the form of treasury bills. These bills were to be submitted along with relevant details to the treasury which would issue cheques on the bill amount and the cheques were to be presented to bank by the Company for collection of proceeds. The Company, instead of submitting bills to the treasury, presented them at bank for collection in its current account. The funds were withdrawn subsequently.

Audit scrutiny (February 2002) of records relating to treasury bills received and deposited by the Company and crediting of proceeds by the banks during 1999-2001 revealed that more than the usual time of three days was taken by the banks for affording credits therefor, for reasons not on record. The time taken ranged from one day to 79 days (***Annexure 17),*** after allowing five days' grace period which indicates absence of timely and effective follow-up by the Company.

The Company suffered interest loss of Rs.0.56 crore on the excess time taken (even after allowing five days' time for crediting of the proceeds in respect of local clearance). Had the procedures for submitting the bills been followed and crediting of proceeds been effectively monitored, the Company could have avoided extra expenditure of Rs.0.56 crore towards interest.

Failure to adhere to procedures and monitor crediting of proceeds resulted in extra expenditure of Rs.0.56 crore.

Management stated (April 2002) that crediting of proceeds by banks would normally take three to five days including Government holidays and efforts were made to reduce this time. At times objections were raised by the treasury offices after rectification of which the bills had to be resubmitted to the bank. Further, restrictions were often imposed by the Government at the year-end for submission of bills/drawal of sanctioned amounts; thus, the delays were due to procedural and practical difficulties.

The reply was not tenable as besides the abnormal delays ranging from one day to 79 days excluding the five days' grace period allowed, the procedural requirements for crediting of funds were very well known to the Company. It was also noticed that the objections raised by treasury related to omissions such as non-filling up of certain column(s), not writing the amount in words and/or figures, non-compliance with conditions in the sanction orders of the Government etc. which could have been avoided had the Company itself submitted the bills direct to the treasury. Even in respect of transfers at the year-end pointed out in audit, there were no substantial delays and thus it was the Company's failure to follow procedures and monitor the crediting of

* Current account with State Bank of Indore, Bhopal, and State Bank of India, Vindhyachal Bhawan, Bhopal.

proceeds that led to avoidable delays which ultimately resulted in avoidable extra expenditure towards interest.

The matter was reported to the Government (May 2002); its reply had not been received (September 2002).

4A.3 Madhya Pradesh State Industrial Development Corporation Limited

4A.3.1 Irregular decision led to loss of investment / interest

Injudicious decision to invest in a Trust and that too, beyond the competence of the Company, resulted in loss of investment of Rs.0.75 crore, besides an interest loss.

The Company decided (17 August 1995) to invest Rs.9.50 crore in Indian Sectoral Equity Funds (Trust) established by American International Group (AIG) in association with IL & FS* Trust to make equity and equity related investments. It, accordingly, entered (26 February 1997) into an agreement with IL & FS Trust, expecting that the investment would yield a return of 20 to 25 per cent per annum during the lock-in period of ten years, extendable by another three years at the Company's request.

As per the Company's Memorandum and Articles of Association, it was empowered to invest in a particular company up to a maximum of Rs.3 crore and any investment in excess thereof required approval of State Government. Without obtaining such approval, however, the Company went ahead and released Rs.3.83 crore during March 1997 to March 2000 to the Trust against the commitment for Rs.9.50 crore.

Only when the Company received (March 2000) a further demand from the Trust for Rs.1.17 crore towards a portion of Company's share in the Trust, that it realised that it needed to amend its Memorandum and Articles of Association so as to enable it to make further investment. As the approval of Government was not available and due to long lock-in period of investment in the Trust, the Company sought (May 2000) legal opinion from the State Advocate General to discontinue further contribution. It was opined (September 2000) by the State Advocate General that the Company should avoid further contribution and go in for arbitration to realise its investment. By the time the Company decided (November 2000) not to make further investment in the Trust, it was declared (October 2000) a defaulter by the Trust and thereby (i) became ineligible to receive any income while continuing to be liable to bear its share of costs, and (ii) its entitlement at the end of the lock-in period got reduced to lesser of the investment or the net asset value (NAV).

Audit scrutiny revealed (February 2002) that the Company's investment of Rs.3.83 crore (up to March 2000) got scaled down to Rs.3.08 crore based on

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* *Infrastructure Leasing and Financial Services*

NAV of the Trust, leading to reduction of Rs.0.75 crore in its value. As the Company while not eligible for profit sharing continued to be liable to bear its share of costs and therefore further reduction in the value was not ruled out.

It was further noticed that the Company had not taken any action to realise the investment through arbitration, despite obtaining advice from the State Advocate General in September 2000. Thus, the investment of Rs.3.83 crore had remained locked up without any return, since March 1997.

There was erosion in investment by Rs.0.75 crore and loss of interest of Rs.0.58 crore.

The Company's irregular and imprudent decision to invest in the Trust without proper planning and beyond its delegated powers as well as longer gestation period of the investment resulted in capital loss of Rs.0.75 crore along with interest loss of Rs.0.58 crore (at 12 per cent for cash credit).

The matter was reported to the Company / Government in April 2002; their replies had not been received (September 2002).

4A.3.2 Irregular waiver of interest

Irregular waiver of interest on buy-back of shares resulted in undue benefit of Rs.27.85 lakh to the promoters.

The Company decided (December 1989) to subscribe Rs 50 lakh to the equity share capital of Ruchi Strips and Alloys Limited (Promoters) for their proposed cold rolled mill to be set up at Ghatabillod, district Dhar. The terms and conditions of equity participation, *inter alia*, stipulated that the promoters shall buy back all the equity shares held by the Company within five years from the date of commercial production or seven years from the date of sanction, whichever being earlier. The Company shall offer one month's notice to the promoters who shall purchase the shares on the highest of the following:

(a) Average market value of the shares,

(b) Face value of the shares plus cumulative interest at 15.5 per cent per annum from the date of investment less dividend, up to the date of sale,

(c) Break-up value of the shares as per the latest audited balance sheet.

In pursuance of the above decision, the Company released (June-July 1990) Rs 50 lakh and got allotted five lakh equity shares of Rs 10 each. The promoters commenced commercial production in March 1991.

The promoters offered (February 1997) to buy back all the five lakh shares in ten monthly instalments at a rate worked out as per item (b) above i.e as face value plus interest at 15.5 per cent per annum. The Company, instead of accepting the offer which would have ensured the payment of entire sale consideration within ten months i.e by December 1997, rejected the proposal and counter proposed (March 1997) as follows :

-- Monthly installment of one lakh equity shares along with minimum return of 15.5 per cent till due date and 19.5 per cent per annum on the defaulted amount / period.

-- Shares to be transferred in part on receipt of payment.

-- Payment of first instalment to be made immediately.

The promoters accepted (April 1997) the Company's counter-offer according to which the Company was to get Rs 1.12 crore (including interest) on the buy back of shares spread over the period April-August 1997. The promoters paid Rs 21.83 lakh (April 1997) and Rs 23.27 lakh (May 1997) as first and second instalments against which the Company transferred one lakh shares only due to short receipt of second installment by Rs 0.16 lakh.

Company suffered loss of Rs.27.85 lakh due to irregular waiver of interest

It was noticed in audit (January 2001) that though the promoters did not pay the remaining instalments due from June 1997 to August 1997, no action was taken by the management. In June 1999, the promoters in their revised proposal offered to buy back the balance four lakh shares subject to the Company agreeing to waive 50 per cent of interest amounting to Rs.27.85 lakh. The Managing Director of the Company accepted the request without even approval of the Board, which was not justified and also violated the terms and conditions of equity participation.

Irregular waiver of interest resulted in an undue benefit of Rs 27.85 lakh to promoters. The Company received the balance payments in July 1999 (Rs.22.50 lakh) and August 1999 (Rs.22.07 lakh) and the shares were accordingly transferred.

The matter was reported to the Company / Government (March 2002); their replies had not been received (September 2002).

4A.4 Madhya Pradesh State Mining Corporation Limited

4A.4.1 Undue benefit to contractor due to change in basis of contract and loss of revenue

Improper change in the basis of tender conditions and failure to accept the highest offer resulted in undue benefit to a contractor and loss of revenue of Rs.1.01 crore to the Company

(a) Sand extraction work and its sale were undertaken by the Company on contract basis. Accordingly, tenders were invited annually specifying the minimum guaranteed quantity of sand to be extracted as one lakh cubic metre (cu.m) and the tenderers were asked to quote rates per cubic metre. The highest offer received and accepted in August 1999 under this procedure was Rs.126.96 per cu.m.

During the succeeding year ending August 2000, the Company without assigning any valid reasons revised the conditions of the tender to invite offers for lifting of sand at a fixed rate of Rs 50 per cu.m; the bidder offering the maximum quantity would be the successful bidder. The highest bidder was M/S Chhattisgarh Minerals, Durg, and was awarded the contract for lifting 1,11,000 cu.m of sand during September 1999 to August 2000 for a total consideration of Rs. 0.56 crore. The bidder duly completed the contract.

Loss of revenue of Rs. 0.77 crore and undue benefit to contractor due to change in the basis of tender conditions.

Thus, change in the basis of tendering process resulted in a revenue loss of at least Rs 0.77 crore (Rs.126.96-50.00/cum X 1,00,000cum) as compared with the contract for the earlier year, with a corresponding undue benefit to the contractor.

The Company reverted (September 2000) to the earlier system of specifying the guaranteed quantity and asking the tenderers to quote rates for lifting of sand per cubic metre, the succeeding year. This elicited the highest rate of Rs 181 per cu.m which was accepted by the Company for the period September 2000 onwards, confirming the loss of Rs 0.77 crore suffered by it during the earlier period.

The Company stated (March 2002) that as there were complaints from the public that sand was being sold at a very high rate and hence with a view to keeping its price under control, the sand was allowed to be lifted at Rs.50 per cu.m but the Company reverted to the earlier system due to complaints about this system also. The rates of Rs.126.96 and Rs.181 per cubic metre in 1998-99 and 2000-01 respectively were highly competitive and therefore, the rate of Rs.50 per cubic metre in 1999-2000 was considered reasonable.

The contention that the price of sand was fixed at Rs.50 per cu.m to keep the prices under control, was not convincing as the Company did not bind the successful bidder to effect sales of sand at a fixed reasonable rate. Thus it denied itself of the benefit of higher rates without in any way benefiting the common consumer.

(b) At its Durg quarries (Group-II) too, the Company invited (May 1999) tenders for sale of sand at the fixed rate of Rs.50 per cu.m for a minimum guaranteed quantity of 20,000 cu.m during the period June 1999 to May 2000. Out of the six firms which responded, Firm "A" quoted (31 May 1999) the highest quantity of 90,000 cu.m for a total contract value of Rs.45 lakh.

Instead of accepting the offer of Firm "A" which had deposited the earnest money and also agreed to deposit the security deposit in accordance with the terms and conditions of NIT, the Company decided (June 1999) to enter into negotiations on 19 July 1999 with all the tenderers and directed them to remit security deposit equivalent to one-third of the value of the contract failing which they would not be allowed to participate in the negotiations. None of the tenderers attended the meeting excepting Firm "F" (6th lowest) which had offered the lowest quantity of 42000 cu.m.

The remaining tenderers refused to enter into negotiations on the plea that they would deposit security only after the contract was awarded as per terms stipulated in the NIT. Their plea was not accepted and the contract was awarded (July 1999) to Firm "F" for lifting of 42000 cu.m of sand during

August 1999 to July 2000, at a total value of Rs.21 lakh which the firm accepted, executed and paid for.

Failure to accept highest offer resulted in revenue loss of Rs 24 lakh.

Thus the failure of the Company to accept the highest offer of Firm "A" resulted in revenue loss of Rs.24 lakh (90,000-42,000 cu.m @Rs.50/cu.m). The justification of the Company to negotiate for ascertaining the genuineness of tenderers was not tenable, as the highest tenderer had duly agreed to remit security deposit for the total value of contract as per NIT after award of work order. However, his offer was not accepted in spite of being the highest one in accordance with NIT and instead the sixth lowest bidder was shown an undue favour.

The Company stated (June 2002) that some of the tenderers had either withdrawn or revised their offers with reduced quantity of sand. Further the offers even with reduced quantity were not supported by demand drafts (DD) for one-third value of their respective offers and the tenderers also did not participate in the negotiation meeting.

The reply was not tenable as the delay of two months in peak season in finalising the tender by the Company, particularly when the monsoon season was approaching, would have forced the tenderers to revise their offers with reduced quantity. Further, as per terms and conditions of NIT, the DD for one-third value of the offer was to be tendered only when the offer was accepted.

The matter was reported to Government (May 2002); its reply had not been received (September 2002).

4A.5 Madhya Pradesh State Industries Corporation Limited

4A.5.1 Belated supply of material resulted in avoidable payment of penalty

Non-adherence to delivery schedule resulted in avoidable payment of penalty of Rs.14.45 lakh.

The Company entered (22 September 1998) into an agreement with Director General of Police (DGP), Government of Madhya Pradesh, for supply of 57004 pairs of shoes by 20 December 1998, 58582 pairs by 13 October 1999 and further 51971 pairs by 3 August 2002. The agreement also provided for penalty ranging from two to ten per cent in case supply was delayed beyond the scheduled delivery period. The Company allotted supply orders between its two production centres at Bhopal (143800 pairs) and Gwalior (23757 pairs).

Avoidable payment of penalty of Rs.14.45 lakh due to non-adherence to delivery schedule.

The production unit at Gwalior completed the supply of shoes within the delivery schedule. However, the Bhopal unit supplied only 81308 pairs out of the 1,43,800 within the delivery schedule and the balance 62492 pairs were supplied after delays of nine to 167 days. Consequently, the DGP levied and recovered a penalty of Rs.14.45 lakh. Thus, failure of the Company to adhere to the delivery schedule resulted in an avoidable loss of Rs.14.45 lakh.

Management attributed (September 2001) the delay in supply to the rigid time schedule.

The reply is not acceptable as the delay was due to improper planning as evidenced by the fact that the raw material required for the supply orders was procured belatedly i.e. between September 1998 and March 1999 (for delivery by 20 December 1998), September 1999 and January 2000 (for delivery by 13 October 1999) and May 2000 and January 2001 (for delivery by 3 August 2000). Moreover, the Company was well aware of the rigid delivery schedule and should have been cautious to adhere to the delivery schedule.

The matter was reported to the Government in March 2002; their replies had not been received (September 2002).

SECTION 4B

Statutory corporations

4B.1 Madhya Pradesh State Road Transport Corporation

4B.1.1 Avoidable expenditure on purchase of high speed diesel oil

Delay in availing concessional rate of sales tax resulted in avoidable extra expenditure of Rs.43.69 lakh on purchase of HSD oil.

Madhya Pradesh State Road Transport Corporation (Corporation) has a depot in Jhansi, Uttar Pradesh. To operate the fleet, the Depot Manager had been purchasing high speed diesel (HSD) from Indian Oil Corporation Limited, Jhansi depot. As per Section 3-G of Uttar Pradesh Sales Tax Act (Act), the Corporation was entitled to avail concessional rate of sales tax at five per cent by submitting Form 3-D required under that Section ibid of the Act, on purchase of HSD for operation of its fleet.

Failure to avail concessional tax led to avoidable expenditure of Rs.43.69 lakh

It was noticed in audit (September 2001) that Jhansi depot purchased 30,05,798 litres of HSD oil by paying sales tax at rates ranging from 16 to 20 per cent during the period August 1995 to August 2001. The failure of the depot in not availing the concessional rate of sales tax resulted in an avoidable extra expenditure of Rs.43.69 lakh on HSD purchased during this period.

The Depot Manager attributed (September 2001) the non-availing of concessional rate of sales tax to the lack of awareness of the provisions of the U.P. Sales Tax Act.

Management stated (July 2002) that under Section 3G of the Act, the departments and undertaking of only Uttar Pradesh State and the Central governments were entitled to avail themselves of concessional rate of Sales Tax. The reply was not acceptable as by virtue of its having been established under Section 3 of Road Transport Corporations Act (Central Act), the

Corporation was very much entitled to the concessional rate of sales tax under that very Section of the Act. Thus, its failure in availing the concessional rate had resulted in the avoidable extra expenditure.

The matter was reported to Government (May 2002); its reply had not been received (September 2002).

4B.1.2 Loss of revenue due to improper assessment of bus fleet

Failure to make proper assessment of the bus fleet in the advertising contract resulted in loss of revenue of Rs.21.20 lakh.

The Corporation earns revenue by appointing sole advertising agent to secure advertisements for display in its operational bus fleet. Tenders were invited (December 1998) for appointment of a sole advertising concessionaire for a period of three years (December 1998 to November 2001) at a reserve price of Rs 10,000 per bus, specifying therein the availability of 1500 buses against a fleet of 2150 buses for display of advertisements, with a condition that the number of buses may be increased/decreased depending upon external/internal factors.

Loss of revenue of Rs.21.20 lakh due to improper assessment of bus fleet for display advertisement.

It was observed in audit (May 2001) that the Corporation had 1848 buses in operation at the time of initiating the tendering process (November 1998) and the Deputy General Manager (W) of the Corporation also had opined that 1700 buses could be mentioned in NIT for securing advertisements, with a view to avoiding any problems that could arise in future. Despite this, the Corporation awarded (February 1999) the contract to the highest offerer* at Rs 10,600 per bus for a period of three years (February 1999 to January 2002) for a total value of Rs 1.59 crore and accordingly received Rs 1.33 crore up to May 2001. As the Corporation had not expected any problems in mentioning the fleet as 1700, this fact should have been considered. Indication of availability of only 1500 buses resulted in a loss of revenue of Rs.21.20 lakh on 200 buses (200xRs.10,600).

The Corporation stated (May 2001) that it was a conscious decision to allow display of advertisements only on 1500 buses to avoid complaints from sole advertising agency about availability of lesser number of buses as compared to the contracted number and at no point of time the agency was allowed to display the advertisements in more than 1500 buses.

The reply was not tenable as it did not specify how the Corporation could exercise this type of control all through a period of three years. Further clause 2 of the agreement provided for increase /decrease in the number of buses. The average number of buses in operation were more than 1700 during last three years - 1998-99 : 1758, 1999-2000 : 1810 and 2000-01 : 1966. Had the management taken advantage of the clause, at least 1700 buses could have been offered for display of advertisements and the loss incurring Corporation would have earned an additional revenue of Rs 21.20 lakh.

* *Prithvi Associates, Ahemedabad*

The matter was reported to Government (May 2002); the reply had not been received (September 2002).

4B.2 Madhya Pradesh State Electricity Board

4B.2.1 Undue concession to HT consumers

Incorrect reduction in bills resulted in undue benefit of Rs.8.59 crore to HT consumers.

On the night of 30 September 1999, a team of the Board officers organised a raid on an HT consumer 'I' of Banmore, district Morena, and found that the unit was unauthorisedly using electrical energy by tapping 33 KV line. Moreover, this unit had further extended the illegal extention to a neighbouring unit 'B'. A Panchnama was prepared, FIR was lodged and power supply to both the units was disconnected from 1 October 1999. The circle level committee raised a supplementary bill against ‘B’ and ‘I’ for Rs.8.23 crore and Rs.15.72 crore respectively. In case of 'B' the billing was done for 3 years and in case of 'I' from the date of connection to the date of theft i.e. 12 June 1998 to 30 September 1999.

The billing was done as per Board's prevailing practice/circular. The billing system as approved by Board/Government for theft of energy required preparation of a provisional bill covering the period from the date of connection to the date of detection of theft or total period of three years whichever was less at the earliest possible and sent to the consumer for payment.

However, the central level committee, deciding over the appeal of the consumer, reduced the aforesaid period to one year only on the basis of circular issued by the Board on 20 December 1999. Accordingly, RAO, Morena, issued the supplementary demands of Rs.3.05 crore and Rs.12.31 crore to 'B' and 'I', respectively. Since the theft was detected in September 1999 well before the issue of circular, the provisions of the circular were not applicable.

Undue benefit to HT customers resulted in loss of Rs.8.59 crore.

Thus, the decision of the central level committee to bill for one year only was based on a circular issued after 3 months of the theft and was not, therefore, justified. This had resulted in undue benefit of Rs.8.59 crore to the consumers by way of incorrect reduction in demands raised earlier. Further, the Board had also failed to realise dues so far (January 2002) even against the demand of Rs.15.36 crore.

The Board stated (July 2002) that the consumers had made payment of Rs.50 lakh against the aforementioned demand of Rs.15.36 crore. The action to recover the balance amount of Rs.14.86 crore, however, could not be taken due to the pendency of the cases in the Hon'ble High Court. The decision of the court was awaited.

The matter was reported to Government (April 2002); its reply had not been received (September 2002).

4B.2.2 Extra liability due to failure to avail of loan at lower rate of interest

Procurement of metering equipment by availing of cash credit facility instead of loan from PFC resulted in extra annual burden of interest of Rs.1.84 crore.

The Board proposed (May 2000) a scheme for loan assistance of Rs.49.30 crore from the Power Finance Corporation (PFC), New Delhi, for procurement of trivector meters and other metering equipments, for their installation on extra high tension line feeders. The PFC sanctioned (August 2000) a loan of Rs.39.40 crore @ 10.5 per cent per annum against the estimated cost of Rs.49.30 crore. The Board conveyed its formal acceptance of loan to PFC in September 2000.

The Board was required to execute the complete documents including a memorandum of agreement within a period of six months from the date of sanction (28 August 2000). The Board failed to comply with the formalities within this period and hence PFC did not release the loan.

The Board in anticipation of loan assistance from PFC had placed orders during January - March 2001 for procurement of 7529 HT static trivector meters for Rs.10.74 crore and 7107 CTPT (current transformer/potential transformer) units for Rs.14.54 crore. Against the orders, the Board had already released payments amounting to Rs.30.67 crore (including excise duty and central sales tax) to be supplied during April to August 2001. These payments were made to suppliers through the cash credit account of the Board carrying interest at 16.5 per cent per annum as against the rate of 10.5 per cent per annum on loan from PFC.

Board's failure to avail loan from PFC resulted in additional interest burden of Rs 1.84 crore.

Thus, due to non-fulfillment of requisite formalities in time, the loan of Rs.39.40 crore available from PFC at cheaper rate of interest could not be availed of by the Board. This resulted in extra burden of interest of Rs.1.84 crore per annum.

The matter was reported to Board/Government (April 2002); their replies had not been received (September 2002).

4B.2.3 Construction of line far in advance

Construction of line for installation of sub-station without ascertaining the availability of land for civil work resulted in locking up of funds of Rs.33.83 lakh with consequent loss of interest.

The Board sanctioned (July 1998) an estimate of Rs.0.51 crore for installation of 1 x 5 MVA 33/11 KV sub-station at Boregaon under Chhindwara division, including civil work and erection of 33 KV line to connect proposed 33/11 KV sub-station with 132/33 KV sub-station. The construction of sub-station was necessary to improve the low voltage problem in the industrial area of Boregaon. The work was to be completed by September 1999.

The ST:RE* construction division, Chhindwara, completed the work of erection of 33 KV line at an expenditure of Rs.33.83 lakh by 10 February 1999. However, the civil work for construction of sub-station had been in limbo due to non-availability of land for installation of sub-station.

The Superintending Engineer (ST:RE) Chhindwara, confirmed (November 2001) that the construction work of sub-station could not be started due to non-acquisition of land.

Construction of line far in advance of installation of sub-station resulted in extra burden of interest of Rs 15.65 lakh.

Thus, non-acquisition of land for the construction of 33/11 KV sub-station resulted in blocking of Board's funds of Rs.33.83 lakh with consequential loss of interest of Rs.15.65 lakh up to March 2002 with uncertainty about the availability of land and completion of the work.

The Board stated (August 2002) that expenditure of only Rs.4.50 lakh was incurred on line construction work and the balance Rs.46.49 lakh was diverted to other works.

* *ST: RE = Sub-transmission and Rural Electrification*

The reply was not tenable as the Board had actually incurred expenditure of Rs.33.83 lakh as per the progress report as at 31 March 2001 made available to Audit by Executive Engineer, ST:RE division, Chhindwara.

The matter was reported to Government (April 2002); its reply had not been received (September 2002).

Gwalior **(Surinder Pal)**
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The **Comptroller and Auditor General of India**