

## CHAPTER IV

### Miscellaneous Topics of Interest Relating to Government companies and Statutory corporations

#### Government Companies

##### **Implementation of voluntary retirement scheme by State public sector undertakings**

**4.1** The State Government formulated (July 1998) the Voluntary Retirement Scheme, 1998, (VRS/scheme) with a view to achieving permanent reduction in the staff level of State public sector undertakings (PSUs). For the purpose, Asian Development Bank (ADB) too extended loan assistance for VRS, re-deployment of staff in other organisations, restructuring of PSUs, etc. Government allocated this assistance as State Renewal Fund (SRF) to the PSUs. Finance Department is the nodal agency for management of SRF. After assessing the viability, performance and operational efficiency, Government issued orders for closure of activities of Madhya Pradesh Leather Development Corporation, Limited (MPLDC--August 2000), Madhya Pradesh State Textile Corporation Limited (MPSTC - October 2000), Madhya Pradesh State Industries Corporation Limited (MPSIC--December 2000), and Madhya Pradesh Export Corporation Limited (MP Export--December 2000).

As per the Scheme, the employees are generally entitled, in addition to certain benefits depending on the length of service put in by them, three/one month's notice or notice pay, as applicable according to the service rules applicable to the employee.

Audit scrutiny (March 2003) of the records of PSUs implementing VRS revealed diversion of funds to purposes other than VRS, unwarranted drawal of funds, payment of idle wages even after closure of activities of PSUs, delay in receipt of funds leading to avoidable payment of idle salary, etc, as discussed in the succeeding paragraphs.

#### **Madhya Pradesh State Textile Corporation Limited**

##### ***Avoidable payment of notice pay***

**4.1.2** According to the provisions of the scheme, an employee could be relieved from service after giving three months' notice or notice period pay as per the service conditions and rules applicable thereto; temporary employees can be relieved by one month's notice or notice pay in lieu thereof.

On a decision to implement the scheme, the management issued (1 November 2000) three months' notices to 300 employees with VRS benefits to be paid for the period up to January 2001. However, it did not simultaneously approach Government for release of funds.

**Failure to take action for release of funds resulted in avoidable payment of idle wages of Rs.34.33 lakh.**

It received requisite funds only on 31 March 2001, and paid three months' notice pay of Rs.52 lakh besides salary of Rs.34.33 lakh for February and March 2001 without getting any work from the employees. Had the Company taken early action to receive funds, it could have avoided at least the payment of salary for two months. Thus, the Company's failure resulted in avoidable payment of Rs.34.33 lakh as idle wages for two months.

The reply of the management was awaited (September 2003).

### **Madhya Pradesh Export Corporation Limited**

#### ***Avoidable expenditure on deputationists***

**4.1.3** Under the scheme, the Company offered (May 2001) voluntary retirement to 48 of its 73 employees. The activities of the Company had already been stopped (December 2000)

**Undue retention of deputationists even after closure of Company's activities led to avoidable expenditure of Rs.21.79 lakh.**

It was, however, noticed in audit (February 2003) that two officials of State Government remained on deputation with the Company during 1997-2003. Instead of repatriating them to their respective parent departments, the Company continued to employ them even after closure of its activities and incurred expenditure of Rs.18.89 lakh towards their pay and allowances, and Rs.2.90 lakh as vehicle and telephone expenses.

Undue retention of deputationists by the Company even after closure of its activities resulted in avoidable expenditure of Rs.21.79 lakh.

Management's reply was awaited (September 2003).

### **Madhya Pradesh Leather Development Corporation Limited**

#### ***Payment of idle salaries due to failure to receive funds and issue notices***

**4.1.4** With the closure of its activities (August 2000) and retirement of 51 employees on implementation of scheme in its first phase, the Company sought (December 2000) SRF funds for 100 employees for their retirement by 31 January 2001. It neither followed up the matter with Government for receipt of funds, nor did it issue notices to the employees in this regard. After a delay of nearly three months, it received Rs.23.05 lakh in March 2001 and paid (March 2001) the VRS benefits including Rs.5.91 lakh towards salaries for February and March 2001, in addition to Rs.8.40 lakh towards three months' notice pay to 53 employees.

Despite being aware that continuance of the remaining employees would only entail idle wages, the Company again did not make concerted efforts for arranging funds under SRF. Only belatedly did it seek (January 2002) additional funds from Government, received Rs.41.75 lakh in August 2002, and paid VRS benefits including three months' notice pay and salaries for February 2001 to July 2002 aggregating Rs.10.18 lakh.

Surprisingly, the Company continued to retain six persons employed on contract basis at a total salary of Rs.20,755 per month (May 2003).

**Non-synchronising of issue of notices with arranging funds resulted in avoidable payment of idle salaries of Rs.16.09 lakh.**

Thus the Company's failure to take adequate action for arranging funds in time and issue notices, resulted in avoidable payment of idle salaries of Rs.16.09 lakh (Rs.5.91 lakh plus Rs.10.18 lakh). Continuance of contract employees even after closure of its activities resulted in further avoidable expenditure of Rs.6.85 lakh (33xRs.20755 -- January 2001 to September 2003).

The reply of the management was awaited (September 2003).

### ***Diversion of VRS funds***

**Rupees 1.33 crore drawn for VRS were diverted for other purposes.**

**4.1.5** The procedure framed by the Government stipulated, *inter alia*, that the SRF provided to PSUs for VRS should, under no circumstances, be utilised for other purposes. However, it was noticed (March 2003) that the following PSUs diverted Rs.1.33 crore from SRF for other purposes:

Name of PSU	Funds utilised/diverted for other purposes	Amount (Rupees in lakh)
MPSTC	1. Administrative expenses	41.73
	2. Payment of penal interest on EPF	23.51
MPSIC	Office administrative and security expenses	63.61
MPLDC	Payment of EPF contribution due to non-recovery from employees.	4.01
<b>Total</b>		<b>132.86</b>

MPSIC replied (August 2003) that no amount was drawn without sanction. The reply was not acceptable as the funds drawn from SRF were not to be diverted for the purpose mentioned above. Replies of MPSTC and MPLDC were awaited (September 2003).

### ***Continued retention of employees not opting for VRS***

**Employees not opting for VRS were retained, despite Government orders to the contrary.**

**4.1.6** According to the Ordinance promulgated (August 2000) followed by notification issued (October 2000) by Government, the PSU employees who did not opt for VRS, were to be retrenched under the Industrial Disputes Act, 1947, and not to be absorbed in any Government department/PSU. It was, however, noticed (March 2003) that employees not opting for VRS were not retrenched, despite orders for closure of activities of following PSUs:

Name of PSU	Date of order for closure	Number of employees not opting for VRS
MPSTC	31 October 2000	158
MPLDC	August 2000	19
MPSIC	December 2000	49
MP Export	December 2000	23

Continued retention of these employees in PSUs, besides entailing idle wages, defeated the objective of the scheme to achieve staff reduction on permanent basis and resulted in recurring avoidable expenditure of Rs.11.91 lakh per month.

MPSIC replied (August 2003) that employees not opting for VRS were retained as per administrative requirements and would be relieved as and when their services were not required. The reply was not tenable as continued retention of employees even after issue of orders for closure of the Company was unjustified and entailed avoidable recurring extra expenditure. Replies of MPSTC, MPLDC and MP Export were awaited (September 2003).

#### ***Excess payment of notice pay***

**Payment of three months' instead of one month's notice pay led to extra expenditure of Rs.31.84 lakh.**

**4.1.7** Three months' notice pay instead of one month's was paid by the following PSUs in respect of temporary employees /daily wagers which resulted in excess payment of Rs.31.84 lakh:

Name of PSU	Status of employees	Number of employees retired on VRS	Excess payment (Rs. in lakh)
MPLDC	Daily wagers	18	0.75
	Temporary	17	1.31
MPSIC	Daily wagers	33	1.37
	Temporary	178	3.32
MPSTC	1. Temporary	59	3.47
	2. Non-regular	374	20.56
	3. Contingent employees/daily wagers	30	1.06
<b>Total:</b>			<b>31.84</b>

MPSIC replied (August 2003) that as per Section 25 B of Industrial Disputes Act, 1947, any employee who completed 240 days would be treated as permanent employee; hence there was no excess payment.

The reply was not tenable in view of the fact that as per service rules of the Company, daily wagers/temporary employees could not be treated as permanent employees and were therefore not entitled to three months' notice or notice pay in lieu thereof.

Replies from MPLDC and MPSTC were awaited (September 2003).

***Unwarranted drawal of funds***

**4.1.8** According to the VRS guidelines, VR options were not to be accepted in respect of officials against whom disciplinary proceedings/court cases were pending. Further, as per provisions of the scheme, acceptance of an application would be decided on the basis of the need with respect to such employee. In other words, the date of acceptance of VR of employees whose services were required to implement the scheme or effect winding-up of the PSU or for finalisation of accounts, security arrangements, etc. should only be prospective.

**Funds of Rs.1.80 crore were drawn in violation of guidelines.**

In violation of these guidelines, the following PSUs accepted options from such employees against whom disciplinary cases were pending and also from core staff (i.e. employees required to implement the scheme) and drew Rs.1.80 crore out of SRF as their terminal benefits:

Name of PSU	Status of employees	Number of employees	Amount drawn and retained (Rupees in lakh)
MPSTC	Cases pending in Economic Offences Wing (EOW)	07	34.73
MPSIC	Cases pending in EOW	07	11.58
	Core staff	49	133.75
<b>Total</b>		<b>63</b>	<b>180.06</b>

The amount remained unutilised. Instead of refunding it to Government, MPSIC invested Rs.1.45 crore in term deposits at 8.5 *per cent per annum*. The unwarranted drawal of funds and investment thereof in term deposits unnecessarily blocked the scarce funds which could have profitably been used elsewhere like in cases referred to in paragraphs 4.1.2 and 4.1.4 *supra*.

MPSIC replied (August 2003) that no amount was drawn from SRF without sanction.

The reply was not tenable as even a proposal for drawal of the funds for this purpose should not have been put up to the competent authority.

The reply from MPSTC was awaited (September 2003).

**Madhya Pradesh Road Transport Corporation*****Diversion of funds***

**4.1.9** According to the procedure prescribed by Government, the scheme funds drawn from SRF should be safe from creditors at all times and under no circumstances be transferred to any account under full control of the PSU.

However, the Corporation utilised the funds drawn from SRF for other purposes as noted below:

Funds of Rs.2.29 crore drawn from SRF were diverted to other purposes.

(Rupees in lakh)	
Repayment of loan	200.00
Payment of EPF dues including penal interest	28.99

The management attributed (July 2002) the diversion to shortage of funds. The reply was not tenable as shortage of funds is not a valid ground for non-payment of statutory dues, which should have been accorded priority.

The matters mentioned above were reported to Government in Finance, Transport and Commerce & Industries Departments (July 2003); their replies have not been received (September 2003).

### **Madhya Pradesh State Industrial Development Corporation Limited**

#### ***Loss due to investment in inter corporate deposits without tangible security***

**Release of inter-corporate deposits, without safeguarding its interest and lack of follow-up action for recovery, resulted in locking up of Rs.30 crore with consequential interest loss of Rs.12.27 crore.**

Company placed Rs.30 crore as ICDs without assessing financial position of the borrower.

**4.2** Madhya Pradesh State Industrial Development Corporation Limited placed (during September 2000 to January 2002) Rs.30 crore as inter-corporate deposits (ICD) with Enbee Industrial Limited, Bhopal (borrower), with a capital base of Rs.95 lakh. The Company neither analysed the financial position/soundness of the borrower nor did it obtain any security by way of charge on the properties to safeguard its financial interest before disbursing the ICDs which were released against post-dated cheques, corporate guarantee and demand promissory notes. The Company did not even ensure that the loans were authorised by the appropriate authority of the borrowing company.

The borrower paid (March 2001) interest of Rs.1.11 crore only and did not make any payments thereafter. Further, though all the post-dated cheques given by the borrower were dishonoured on presentation in bank, the Company did not initiate any action for recovery of its dues by invoking penal provisions of Section 138 of Negotiable Instruments Act. The borrower requested (June 2002) the Company to fund its interest overdues by way of another loan and reschedule the repayment of principal in half-yearly instalments commencing from January 2004. The proposal has still not been finalised (April 2003).

Lack of follow-up action for recovery led to loss of interest of Rs.12.27 crore.

Thus, the Company's failure to safeguard its financial interest by obtaining tangible security and initiate action for recovery of dues, resulted in locking up of Rs.30 crore with loss of interest of Rs.12.27 crore (up to March 2003).

Management's reply (September 2002) was silent about audit observation relating to lack of follow-up action.

The matter was reported to the Government (May 2003); their reply had not been received (September 2003).

***Loss due to failure to initiate steps for recovery of loan***

**Company suffered loss of interest of Rs.1.85 crore (with repayment of principal of Rs.70 lakh yet to commence) due to undue one-time settlements and rescheduling of loan, despite the borrower being a continuous defaulter.**

**4.3** Madhya Pradesh State Industrial Development Corporation Limited (Company) granted a term loan of Rs.82 lakh (releasing Rs.66 lakh in March 1989 and Rs.16 lakh in April 1991) at 18 *per cent per annum* to Abhimanyu Hotels Private Limited, Chhindwara, for their hotel project at Chhindwara. The borrower did not repay even first instalment except an amount of Rs.12 lakh adjusted against interest out of the loan instalment released in April 1991.

To recover its dues aggregating Rs.1.76 crore (inclusive of interest), the Board of Directors of the Company approved (December 1995) a one-time settlement (OTS) with the borrower for Rs.1.20 crore, to be paid before September 1996, waiving interest amounting to Rs.56 lakh. In spite of the borrower's further default to repay the loan, the Company did not initiate any action for recovery and instead, granted (February 1998) reschedulement of loan (minus the interest already waived), now to be repaid in ten half-yearly instalments. The borrower, however, continued to default and sought further extension of time. Acceding to the request, the Company granted (May 1999) another reschedulement for Rs.1.85 crore (principal: Rs.1.20 crore and interest: Rs.65 lakh) again to be paid in ten half-yearly instalments commencing from June 1999.

Audit scrutiny revealed (June 2002) that the borrower still did not repay any amount and the Company too did not initiate any action under the Revenue Recovery Act or other legal proceedings for recovery. The Company's continued favour to the borrower and failure to initiate action for recovery resulted in further loss of interest of Rs.1.66 crore (up to June 2002) and non-recovery of the principal.

Management stated (July 2002) that no undue favour was extended to the borrower and only such facilities/accommodation were extended as felt necessary by the Board, taking into account the borrower's problems and financial status.

The reply was not tenable as the Company itself felt (September 2002) after site inspection that there was no scope for a large hotel there and the recovery of loan was also difficult. This should have been known to the Company earlier too, had the project been properly appraised, which apparently was not done. Nevertheless, the Company further approved (September 2002) another

OTS granting relief to the borrower from entire interest while simultaneously adjusting the interest of Rs.12 lakh recovered as repayment of principal as far back as in April 1989. The borrower still did not reciprocate the Company's generosity and failed to make even the down payment of Rs.4.10 lakh required to be made within 15 days of approval of the latest OTS. The hotel project works were also not completed (February 2003) and the accumulated loss of the borrower as on 31 March 2002 aggregated Rs.30.76 lakh.

**Lack of follow-up action for recovery of loan led to loss of interest of Rs.1.85 crore.**

Thus, grant of loan without proper appraisal of the project to be financed, coupled with repeated undue favours shown to the borrower by way of OTS and reschedulements of loan coupled with failure of the Company to take steps for recovery of its dues led to an interest loss of Rs.1.85 crore as of December 2002 with repayment of principal yet to commence.

The matter was reported to the Government (April 2003); their reply had not been received (September 2003).

**Madhya Pradesh Pichhada Varg Tatha Alpasankhyak Vitta Evam Vikas Nigam**

***Loss due to release of loan not backed by guarantee***

**The Company suffered loss of Rs. 2.12 crore due to disbursement of loan not backed by government guarantee, in spite of a decision to this effect by the Company's Board of Directors.**

**4.4** Madhya Pradesh Pichhada Varg Tatha Alpasankhyak Vitta Evam Vikas Nigam (Company) received (November 1995) a proposal from Madhya Pradesh State Textile Corporation Limited (MPSTC, another Government company), seeking loan assistance for providing assistance to weavers belonging to backward classes. The Company, in turn sought (March 1996) loan assistance of Rs.1.25 crore from National Backward Classes Finance and Development Corporation, New Delhi (NBCFDC), which was sanctioned in September 1996 with interest at 4.5 *per cent per annum*.

The terms of loan assistance by NBCFDC provided, *inter alia*, that if the amount was not disbursed to the ultimate beneficiaries within three months of its receipt, the Company would have to pay higher interest at 18 *per cent per annum* on the undisbursed portion for such period it remained undisbursed. To safeguard its interests, the Board of Directors of the Company decided (September 1996) to obtain State Government guarantee from MPSTC for the loan.

**Company released loan without obtaining Government guarantee.**

Government approved (March 1997) the loan assistance to the weavers of backward classes through MPSTC. In disregard to its Board's decision the Company released (March 1997) Rs.1.05 crore received (December 1996) by it from NBCFDC to MPSTC, without obtaining Government guarantee from MPSTC.

It was noticed (August 2002) in audit that out of Rs.1.05 crore, MPSTC disbursed only Rs.35.82 lakh to the beneficiaries, up to December 1997. MPSTC was also not regular in making repayments and repaid only Rs.10.34 lakh (principal: Rs.8.73 lakh and interest: Rs.1.61 lakh). The Company neither devised any mechanism to ensure disbursement of loans to the beneficiaries nor took steps to collect its dues from MPSTC. When the matter was belatedly taken up by it with MPSTC in June 1999, the latter requested the Company to waive the balance loan of Rs.96 lakh (Rs.105 lakh minus Rs.8.73 lakh) and interest thereon, as it (MPSTC) had utilised Rs.69 lakh on its establishment expenses.

**The company suffered loss of Rs.2.12 crore due to repayment of loan from its own fund without any recovery from the loanee.**

As the loan amount was not disbursed in full to the intended beneficiaries within three months, the Company had to pay interest of Rs.1.18 crore (@ 18 per cent on Rs.1.05 crore from January 1997 to March 2003 for 75 months). The total amount payable to NBCFDC worked out to Rs.2.23 crore (Rs.1.05 crore plus Rs.1.18 crore). Since MPSTC had made it clear that it was not in a position to repay any amount, the Company had to repay the loan from its own sources, incurring thereby a loss of Rs.2.12 crore.

Thus, the Company's action to finance MPSTC in spite of the latter's failure to furnish Government guarantee, as required by the Company's Board of Directors to safeguard its interests, resulted in an avoidable loss of Rs.2.12 crore.

The reply (August 2002) of the management that efforts were being made to recover the amount from MPSTC carried no conviction as no repayment had been received till March 2003; besides, MPSTC had already become non-functional since November 2000, as per a directive (October 2000) of State Government.

The matter was reported to Government (April 2003); their reply had not been received (September 2003).

#### ***Loss of interest on idle funds***

**Drawal of loans much in excess of capacity to utilise them led to loss of interest of Rs.1.90 crore.**

**4.5** Madhya Pradesh Pichhada Varg Tatha Alpasankhyak Vitta Evam Vikas Nigam (Company) was obtaining, as a channelising agency of State

Government, loans from NBCFDC<sup>1</sup> and NMDFC<sup>2</sup> for further disbursement of loans to identified beneficiaries of backward classes/minorities in the State through district Collectors/District Industries Centres (DICs). The loans from these institutions were interest-free to the Company for first 90 days and attracted interest varying from 4.5 to 8 *per cent* thereafter depending on the periodicity.

**Of Rs.37.24 crore released to DICs, Rs.12.69 crore could not be utilised by them.**

It was noticed (June 2001 and March 2003) that of the funds received, the Company released Rs.37.24 crore during 1995-2003 to the DICs for disbursement of loans to beneficiaries. DICs, however, disbursed only Rs.24.55 crore, refunded Rs.4.95 crore to the Company and retained the balance Rs.7.74 crore as detailed in ***Annexure 19***. Obviously, the Company was obtaining funds from NBCFDC and NMDFC indiscriminately, without any realistic assessment of the capacity of DICs to utilise them fruitfully, evidenced by the fact that over one-third of the funds released could not be utilised by the DICs.

**Unfruitful investment led to loss of interest of Rs.1.90 crore**

The overdrawal of loans by the Company coupled with its failure to ensure disbursement of loans by DICs or to obtain prompt refund and fruitful investment of the unutilised amounts resulted in loss of interest of Rs.1.90 crore during the last five years alone, ending March 2003.

Management stated (April 2002) that funds were released by the Company only after receipt of select lists of beneficiaries from the DICs, and non-disbursement of loans was due to non-completion of formalities by the beneficiaries. The Management further contended that as the Company was registered as a non-profit earning Company under Section 25 of the Companies Act, 1956, it should not be found fault with for having incurred a loss of interest.

The reply was hardly tenable as the Company could have (i) restricted availing of loans to the DICs' capacity to disburse them, (ii) having overdrawn, restricted the releases to DICs, and (iii) at least to cut down its losses promptly got unutilised funds refunded by DICs and invested them in long term deposits, etc. As to its status under Section 25 of the Companies Act, it merely absolved the Company of the responsibility of declaring any dividend and in no way constituted an authority for it not to manage its affairs properly.

The matter was reported to Government (April 2003); their reply had not been received (September 2003).

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<sup>1</sup> *National Backward Classes Finance and Development Corporation*

<sup>2</sup> *National Minorities Development and Finance Corporation*

**Madhya Pradesh State Electronics Development Corporation Limited**

***Loss due to failure to enforce contractual provisions***

**Failure to enforce provisions of a contract agreement about buy-back of Company's investment in a unit resulted in loss of Rs.1.87 crore in disinvestment.**

**4.6** Madhya Pradesh State Electronics Development Corporation Limited (Company) invested (1994) Rs.2 crore (20 lakh shares of Rs.10 each) in Hotline Glass Works Limited, New Delhi (HGL, promoters). As per buy-back agreement and indemnity bond executed (January 1994), the Company had the option to offer the shares for buy-back by the promoters anytime within five years of investment at the highest price arrived at under the following computations:

**Repurchase value calculation**

- The average market value of shares for the preceding six months of such offer of disinvestment; or
- the market value prevailing on the date of offer of disinvestment; or
- the face value of the shares plus compound interest at the rate of 16.5 *per cent per annum*; or
- the break-up value of the shares as per the latest audited balance sheet.

In case of failure of promoters to repurchase the shares, the Company had the right to sell them in open market or to any other party and any loss suffered by it in the process was to be compensated by the promoters.

As the performance of HGL was not encouraging and no dividend was being received on its investment, the Board of Directors of the Company asked (November 1998) the promoters to repurchase the shares held by the Company. The promoters offered (April 1999) to pay rupees two crore along with interest at 16.5 *per cent* up to March 1999, aggregating Rs.3.75 crore, in quarterly instalments over a period of three years. The Board, however, directed (May 1999) the management to negotiate with the promoters to obtain a better price. Management informed the Board in September 1999 that the promoters had not agreed to pay interest beyond March 1999 and would only pay the total repurchase consideration of Rs.3.75 crore in 12 quarterly instalments. No record of the minutes/correspondence with promoters in support of the negotiations, if any, held for getting a better price was, however, made available to Audit for scrutiny.

The Company determined the repurchase consideration payable as per buy-back agreement as Rs.4.41 crore as on 31 March 1999 and Rs.4.84 crore on

30 September 1999 against the offered price of Rs.3.75 crore. Moreover, the offered consideration was proposed to be paid in instalments, without any interest. The discounted value of Rs.3.75 crore worked out to Rs.2.97 crore, even at a low interest rate of 10 *per cent*. The Board, however, accepted (September 1999) the offer of Rs.3.75 crore and the promoters paid the amount between October 1999 and April 2002.

It was noticed (September 2002) that

**Failure to enforce contractual provisions led to loss of Rs.1.87 crore.**

- Despite Board's direction to hold negotiations with promoters to obtain a better price, the Company did not have anything on record to substantiate that negotiations were indeed held. In the absence of records to support compliance with Board's directions, acceptance of offer of Rs.3.75 crore lacked justification as well as transparency,
- Against Rs.4.84 crore receivable as on 30 September 1999, the Company received only Rs.3.75 crore, and that too, over a period of three years. Based on the discounted value of Rs.2.97 crore worked out by itself, the Company incurred a loss of Rs.1.87 crore, and
- As per buy-back agreement and indemnity bond executed with the Company, the promoters were to compensate the Company for any loss suffered by it. However, the indemnity bond was not invoked by the Company.

Management stated (September 2002) that had the Company taken recourse to legal means, that would have resulted in unnecessary expenditure on stamp duty and loss of interest. Hence, it discussed and opted for a mutually acceptable price.

The fact, however, remains that the Company failed to conduct its business, at least in this case, in a business-like manner and suffered an avoidable loss of Rs.1.87 crore. If it were to be scared of enforcing its contract agreements, etc. there was no point in their very execution. Such un-business-like deals can only send wrong signals to others dealing with the Company.

The matter was reported to the Government (April 2003); their reply had not been received (September 2003).

## **Madhya Pradesh Rajya Van Vikas Nigam Limited**

### ***Avoidable extra payment of interest***

**Failure to swap a high-cost loan by market-driven cheaper loan(s) resulted in avoidable interest payment of Rs.1.74 crore, with further recurring liability of Rs.88.27 lakh per annum.**

**4.7** Madhya Pradesh Rajya Van Vikas Nigam Limited, Bhopal (Company), executed (1993) an agreement with a consortium of five nationalised banks for a long-term loan of Rs.54.34 crore to finance its Wasteland Development Project covering priority sector activity to achieve socio-economic upliftment of people living below the poverty line. Repayment of loan and interest thereon was guaranteed by State Government.

According to the terms of agreement, the Company was to pay interest at the specified rate of 15.50 *per cent per annum* calculated on daily debit balance with half-yearly rests. Each of the banks was, however, also entitled to change the rate and terms of interest by giving notice to the Company to this effect and the agreement should be construed as if such revised rate and terms were incorporated in the agreement itself.

Thus, banks could recover interest at higher rate in case of any increase in bank rate but not effect any reduction in case of a fall in the bank rate. The Company paid Rs.17.86 crore as interest to the bank up to 31 March 2002 on the loan of Rs.25.22 crore availed and outstanding as on that date.

It was observed (July 2001 and February 2002) that

- Though the market rate of interest had fallen thereafter, the Company did not try to substitute this high-cost loan with low-cost loan(s) from other sources and continued to pay interest at 15.5. *per cent*.
- The consortium banks in a meeting held on 10 April 2000 agreed to reduce the interest to 13.5 *per cent* with effect from April 2000. The Company did not however, effectively follow it up with the banks, and the interest remained unchanged at 15.5 *per cent*. It was noticed that the long-term lending rate had fallen to 12 *per cent* with effect from April 2001.

**Failure to take steps to switch over to cheaper loan(s) led to extra expenditure of Rs.1.74 crore.**

Thus, Company's failure, to (a) swap the high-cost loan by taking advantage of market-driven cheaper loan(s), and (b) pursue the issue at higher level to get rate of interest reduced to 13.5 and 12 *per cent* respectively, at least after the agreement with the banks in April 2000-meeting, resulted in avoidable expenditure of Rs.1.74 crore (**Annexure 20**) during 2000-03 with further

likely avoidable recurring expenditure of Rs.88.27 lakh *per annum* (at differential rate of 3.5 *per cent* on Rs.25.22 crore).

Company stated (July 2001 and June 2002) that (a) the conditions of agreement executed with banks were as per the prevailing banking practices, (b) while granting credit, banks would ensure that their interests were safeguarded, and (c) repayment of loan and interest was guaranteed by the State Government.

The reply was not acceptable as (a) the Company too was duty bound to safeguard its own as well as Government's interests, (b) it made no attempts, even after entering into an agreement, to replace the high cost loan by cheaper one(s), and (c) even if the extra cost is reimbursed by Government, the expenditure would not cease to be avoidable, irrespective of whether the liability is borne by Company or the Government.

The matter was reported to the Government (July 2003); their reply had not been received (September 2003).

***Loss of interest due to taking up deposit works without receiving advance payments***

**The Company locked up its own funds of Rs.1.31 crore and suffered loss of interest of Rs.59.85 lakh by taking up deposit works on behalf of other organisations without realising the cost thereof in advance.**

**4.8** Madhya Pradesh Rajya Van Vikas Nigam Limited (Company) undertakes plantations on behalf of various other organisations as deposit works. According to the norms for deposit works, the Company was to receive the cost of plantations in advance so that its own funds were not blocked. Without, however, obtaining advances in full, it took up deposit works for five organisations during 1995-2001 as detailed in the *Annexure 21*. Against the aggregate expenditure of Rs.9.89 crore on these works, the Company received during 1998-2003 only Rs.8.58 crore, locking up its own funds of Rs.1.31 crore.

It was noticed (April 2002) that the Company had not included any clause in the agreements for deposit works for levy of interest on the amounts remaining unpaid to it nor did it take effective action to recover its dues.

Thus, due to its failure to realise the full cost of deposit works in advance, before taking up/continuing with the works and to take effective follow-up action to recover its dues, it had already suffered an interest loss of Rs.59.85 lakh as of 31 March 2003 (at 9 *per cent per annum*), in addition to non-recovery of excess expenditure of Rs.1.31 crore incurred on the deposit works.

While admitting (May 2002) its inability to collect its dues, the Company stated that the organisations concerned had assured to repay as and when the

**Taking up deposit works without receiving advances led to interest loss of Rs.59.85 lakh.**

funds are allotted to them by the Government. The reply was not tenable since the Company landed itself in this situation by violating the very concept of deposit works of not commencing/continuing with a work unless paid for in advance.

The matter was reported to Government (April 2003); their reply had not been received (September 2003).

***Loss due to non-recovery of EPF contributions***

**The Company suffered an avoidable loss of Rs.10.27 lakh due to non-recovery of employees' provident fund contributions from daily wage workers.**

**4.9** Madhya Pradesh Rajya Van Vikas Nigam Limited, Bhopal (Company), was engaging daily wage workers for its plantation and nursery activities. Section 6 of Employees Provident Fund and Miscellaneous Provisions Act, 1952 (Act), read with paragraphs 30 and 38 (i) of Employees Provident Fund (EPF) Scheme, 1952, framed under the Act, requires each employer to deposit with the EPF authorities, employees' contributions together with his own share within 15 days of the close of each month. It was noticed (April 2002) that the Katni division of the Company neither recovered the EPF contributions from its daily wage workers nor deposited the Company's own contributions with EPF authorities during 1990 to 1998. The Regional Provident Fund Commissioner, Jabalpur (RPFC) attached (April 1999) the bank accounts of the division and recovered Rs.57 lakh including employees' and employer's contributions of Rs.27.27 lakh each and Rs.2.88 lakh towards other charges.

**Non-recovery of EPF contributions from daily wage workers led to avoidable loss of Rs.10.27 lakh.**

Company's various pleas were finally rejected (May 2002) by the RPFC, after waiving subscriptions amounting to Rs.17 lakh for the period November 1990 to April 1995. Thus, failure of the Company resulted in an avoidable loss of Rs.10.27 lakh being the employees' contributions not recovered and met from Company's own resources. The Company had also not fixed responsibility for the lapse and the consequent loss to it.

The matter was reported to Company/Government (April 2003); their replies had not been received (September 2003).

**Madhya Pradesh Audyogik Kendra Vikas Nigam (Gwalior) Limited**

***Non-collection and irregular waiver of additional premium***

**Loss of Rs.1.43 crore due to grant of rebate on premium and irregular waiver of additional premium.**

**4.10** According to directives of the State Government and decision (September 1987) of the Board of Directors of Madhya Pradesh Audyogik Kendra Vikas Nigam (Gwalior) Limited (Company), the Company was required to collect, in full and in advance, premium including additional premium for plots of land on prime locations from the proposed industrial units. Refunds, if any, of premium, were to be allowed without interest and that too, when conditions relating to investment and employment were complied with by the units.

**Company allotted land after collecting only 50 per cent premium.**

The Company proposed (July 1995) to allot land admeasuring 395769 sq. metres to Flex Chemical Limited, New Delhi (presently a unit of FCL Technologies and Products Limited) *ab-initio* offering it a rebate of Rs.1.19 crore, equivalent to 50 *per cent* of the premium subject to the unit investing Rs.500 crore and providing employment to 800 persons within a period of six years. In case of its failure to fulfil these conditions, the concession provided was to be recovered with interest at 15 *per cent* in one instalment as arrears of land revenue.

On the unit accepting (September 1995) the offer, the Company on its own waived (December 1995) the 10 *per cent* additional premium (Rs.23.77 lakh) on the plea that development of land would involve extra expenditure as it was allotted in small pieces plots.

The lease deed was executed in December 1995. It was noticed (August 2000 and August 2002) in audit that the unit had not fulfilled the agreed stipulations relating to investment and employment; it had invested only Rs.158.03 crore and provided employment to only 155 persons and also did not pay the arrears of rent, etc. of Rs.16.80 lakh, as of 31 March 2003. Company had not initiated action to recover either the rebate of Rs.1.19 crore earlier allowed or the arrears of rent, etc.

**Failure to collect entire premium and waiver of additional premium led to loss of Rs.1.43 crore.**

The Company's failure to recover the rebate on premium (Rs.1.19 crore) despite non-fulfilment of obligations by the unit, coupled with irregular waiver of additional premium (Rs.23.77 lakh) resulted in an avoidable loss of Rs.1.43 crore which together with interest of Rs.1.50 crore at 15 *per cent* for seven years amounted to Rs.2.92 crore as of December 2002. Besides, the Company did not take steps to recover the arrears of rent etc amounting to Rs.16.80 lakh.

The reply of the management (August 2002) that final decision of the Chairman was pending was not acceptable as the delay in decision-making

was tantamount to extending further the undue financial aid to the unit. The fact also remained that instead of getting first the entire premium deposited, the Company realised only 50 *per cent*, while the balance too should have been realised in advance, which was not done.

The matter was reported to Government (July 2003); their reply had not been received (September 2003).

***Avoidable payment of interest***

**Investment of borrowed funds in inter-corporate deposits at lower rate of interest resulted in avoidable payment of interest.**

**Financing the Scheme from loan funds, despite having surplus funds led to avoidable payment of interest of Rs.33.75 lakh.**

**4.11** Madhya Pradesh Audyogik Kendra Vikas Nigam (Gwalior) Limited (Company) invested its surplus funds of Rs.21.39 crore during December 1994 to March 2002 with its holding Company as inter-corporate deposits (ICDs) at interest ranging from 13 to 17 *per cent*. It received a loan of Rs.1.50 crore in September 1995 from Housing and Urban Development Corporation Limited (HUDCO) for implementation of its Kotwal Water Supply Scheme at industrial area, Ghirange (Bhind district) and repaid it along with interest of Rs.62 lakh at 17.5 *per cent* during March 1996 to March 2001. Had it financed the scheme from its own resources, it could have saved Rs.33.75 lakh.

Company stated (August 2002) that it had invested in ICDs only those funds that were received by it for setting up various industrial development centres and were not immediately required for utilisation.

The reply only underlined the absence of prudent financial management in the Company. Even the elementary cash flow statements would have pointed out that instead of parking its surplus funds in ICDs at lower rates of interest, their utilisation on implementation of its own schemes was a much better financial proposition than to go in for borrowings at higher cost.

The matter was reported to the Government (May 2003); their reply had not been received (September 2003).

***Avoidable expenditure on rent***

**Delay in construction of building led to avoidable payment of rent of Rs.18.08 lakh and diminution of the utility value of plot of land acquired in 1992.**

**4.12** To effect a saving of rupees one lakh *per annum* on payment of office rent and meet the infrastructure requirements of industrial units at Gwalior, the Board of Directors of Madhya Pradesh Audyogik Kendra Vikas Nigam (Gwalior) Limited (Company) approved (December 1988) the purchase on leasehold basis of a plot in the city centre complex, Gwalior. Accordingly, a

plot admeasuring 921.38 square metres was acquired (November 1992) by the Company against payment of a premium of Rs.5,06,759 (at Rs.550 per sq. m.) plus annual lease rent of Rs.10,135 for 30 years.

**Due to delay in construction of building, the Company incurred avoidable expenditure of Rs.18.08 lakh on rent.**

It was, however, noticed that the Company had not started construction on the aforesaid plot, even as of August 2002 i.e. when nearly one-third of the lease period had already expired. The Company continued to pay rent (Rs.16,739 per month) for its office located in hired building. Thus, the delay in construction on the plot not only defeated the purpose of its acquisition but also resulted in avoidable payment of rent Rs.18.08 lakh (at Rs.16,739 per month for nine years after allowing for one year for the construction work) apart from the lease rent of Rs.0.91 lakh and diminution of the utility value of the plot by one third.

The Company stated (August 2002) that the construction could not be taken up for want of funds. The reply was not tenable as it had been keeping substantial surplus funds during the period as inter-corporate deposits with its holding company. Even assuming, though not conceding, its contention to be correct, the Company should not have gone in for acquisition of the plot in the first instance.

The matter was reported to Government (July 2003); their reply had not been received (September 2003)

### **Madhya Pradesh State Mining Corporation Limited**

#### ***Loss due to failure to monitor actual transportation of bauxite***

**The Company suffered a loss of Rs.19.52 lakh due to its failure to adhere to the terms and conditions of orders for supply of bauxite.**

**4.13** Madhya Pradesh State Mining Corporation Limited (Company) received (May 1999 and May 2000) supply orders from Bharat Aluminium Company Limited, Korba (BALCO), for supply of 99,000 metric tonnes (MT) (during 16 April 1999 to 15 April 2000) and 1,80,000 MT (16 April 2000 to 15 April 2001) of bauxite at basic price, ex-mines, of Rs.219 and Rs.252 per MT, respectively. The terms and conditions of supply orders stipulated, *inter alia*, that payments shall be regulated only on the basis of actual weight recorded at BALCO's weighbridge but limited to 10.2 MT or carrying capacity of the vehicles, whichever being higher, as per the provisions of Motor Vehicles Act on the date of despatch.

The Company, in turn, entered into an agreement with a contractor of Durg for transportation of the ore, incorporating therein the aforementioned conditions too.

It was noticed (December 2001) that 8239.192 MT of bauxite (value: Rs.64 lakh) were reported as carried by the contractor in excess of the carrying capacity of vehicles during April 1999 to July 2001 and supplied to BALCO.

When the Company preferred (September 2001) claims for Rs.64 lakh for excess quantity carried, BALCO did not entertain the same on the ground that the quantity reported as supplied was in excess of the carrying capacity of the vehicles and was, thus, in violation of terms and conditions of supply orders. The Company, therefore, effected recovery of Rs.44.72 lakh from the contractor's bills to the extent these were pending with it.

The Company did not conduct investigation to ascertain whether the said quantity was indeed transported and supplied to BALCO, as no transporter would normally carry more than the carrying capacity of the vehicles in violation of the law without any benefit to him.

**Company suffered a loss of Rs.19.52 lakh due to its failure to monitor the quantity transported.**

Thus, the Company's failure to carry out the transaction in a business-like manner by ensuring that the quantity transported was according to the limits laid down in the Motor Vehicles Act, and to take steps for recovery of balance amount from the contractor, resulted in a loss of Rs.19.52 lakh.

Management, while admitting the over-carriage of the mineral by the contractor stated (December 2001) that efforts were being made to realise the amount from BALCO as the bauxite was used in their plant.

The reply was not tenable as BALCO was not legally bound to pay for any quantity supplied in excess of the carrying capacity of vehicles.

The matter was reported to Government (July 2003); their reply had not been received (September 2003).

### **Madhya Pradesh Adivasi Vitta Evam Vikas Nigam Limited**

#### ***Locking up of funds and loss of interest***

**Failure to dispose of seized vehicles led to locking up of Rs.59.03 lakh with consequential loss of interest of Rs.12.77 lakh.**

**4.14** Madhya Pradesh Adivasi Vitta Evam Vikas Nigam Limited, Bhopal (Company) formulated ( November 1995) a self-employment scheme for scheduled tribes and also framed rules called Niyamavali, 1995. Under the scheme, loan assistance was granted to beneficiaries to enable them to establish industrial units or acquire vehicles. The scheme was financed by loan assistance from financial institutions like National Scheduled Castes and Schedule Tribes Finance and Development Corporation. The beneficiaries were to repay the loan along with interest at seven *per cent per annum* in

agreed monthly instalments commencing three months after the commencement of business/acquisition of vehicles.

The Niyamavali empowered the Company to seize the vehicles in case of delay or default in repayment of loans. The vehicles so seized were either to be reallocated to other beneficiaries or sold in auction for recovery/adjustment of dues in arrears. The Company also entered into agreements to this effect with the beneficiaries; the agreements, however, did not provide for recovery of loss suffered by the Company in case the sale proceeds were insufficient to meet its dues.

Test-check in four (Betul, Chhindwara, Seoni and Shahdol) out of 42 branches of the Company revealed (February 2002) that the Company:

- seized 28 vehicles during April 1998 to December 2001 for non-payment of dues of Rs.67.06 lakh (including interest). Though three vehicles (amounts due : Rs.2.91 lakh) were reallocated to other beneficiaries, the balance dues of 25 vehicles amounting to Rs.64.15 lakh were not recovered;
- auctioned off (December 2001) five vehicles (dues : Rs.5.12 lakh) for Rs.2.17 lakh. It could not, however, recover the balance dues from the beneficiaries which led to a loss of Rs.2.95 lakh; and
- failed to dispose of the remaining 20 vehicles (amounts realisable: Rs.59.03 lakh). This resulted in a locking up of funds with consequent loss of interest of Rs.12.77 lakh as of March 2003 computed at seven *per cent per annum*.

**Failure to dispose of seized vehicles led to locking up of Rs.59.03 lakh and interest loss of Rs.12.77 lakh.**

The Company stated (June 2002 and March 2003) that though the agreements did not provide for recovery of the balance amounts, instructions were issued to recover the balance dues from the defaulter beneficiaries. The delay in disposing of the seized vehicles was attributed to the complicated procedures like reallocation to another beneficiary, persuading the defaulter to pay and take back the vehicles. Further, instructions had been issued (April 2002) for recovery of the balance amount through revenue recovery certificates.

The reply was not tenable as (a) the procedures were prescribed/approved by the Company itself; (b) absence of provision for recovery of balance amounts too was due to Company's own failure; and (c) the Company should have been aware of urgency to dispose of the vehicles, and it was its own failure to take prompt action for disposal thereof that the purpose of seizure of vehicles was defeated.

The matter was reported to Government (April 2003); their reply had not been received (September 2003).

### Madhya Pradesh Police Housing Corporation Limited

*Avoidable expenditure due to drawal of loans far in advance of requirement*

**Drawal of loans in excess of requirement resulted in loss of interest of Rs.20.03 lakh.**

**4.15** Madhya Pradesh Police Housing Corporation Limited (Company) carried out its construction activities with loan assistance (to the extent of 70 *per cent*) from Housing and Urban Development Corporation (HUDCO) and seed money (30 *per cent*) from Government. Prudent financial management requires that loans are drawn keeping in view the schedule and progress of construction works so that the funds drawn do not remain idle or do not have to be invested at lower rates of interest, unnecessarily burdening the Government with avoidable extra interest liability, as ultimately it is the Government which has to discharge the liabilities towards loan and interest.

**Drawal of loans far in advance led to loss of interest of Rs.20.03 lakh.**

Audit analysis (May 2002) revealed that the Company had drawn loans of Rs.13.64 crore during 1996-2002 from HUDCO (at interest ranging between 17.5 and 12.75 *per cent*) far in advance of requirement and invested the surplus funds in low interest- yielding (between 14 and 4.25 *per cent*) deposits. This resulted in loss of interest of Rs.20.03 lakh as per the following details:

(Amounts in lakh of rupees)

Year	Loans received	Rate of interest (per cent)	Interest paid	Amount invested	Period (days)	Rate of interest (per cent)	Interest earned (Amount)	Extra expenditure (Col. 4- col. 8)
1996-97	343.45	17.5	12.33	338.50	35 to 117	10 to 14	9.03	3.30
1998-99	290.17	15.5	8.63	230.11	15 to 213	5 to 8	4.32	4.31
1999-2000	71.65	14.0	2.37	40.00	18 to 180	6.5	1.09	1.28
2000-01	50.30	12.75	0.66	25.00	16 to 90	5 to 6.5	0.35	0.31
2001-02	608.75	12.75	27.89	542.00	7 to 219	4.25 to 8.25	17.06	10.83
<b>Total</b>	<b>1364.32</b>		<b>51.88</b>				<b>31.85</b>	<b>20.03</b>

The management's reply (May 2002) that where repayment was adjusted against loan releases, the funds were replenished by the Government, was not relevant to the issue of imprudent financial management raised by Audit. Government, however, stated (September 2002) that the Company was to draw funds as per schedule.

The reply of Government too was not tenable as the Company should have drawn funds in accordance with the progress of works and wherever necessary should have deferred the drawal of funds, or got the loans re-scheduled.

***Avoidable payment of penal interest due to delayed remittances***

**Failure to monitor timely credit of remittances resulted in avoidable payment of penal interest of Rs.12.74 lakh.**

**4.16** Madhya Pradesh Police Housing Corporation Limited (Company) has been availing of loan assistance from Housing and Urban Development Corporation (HUDCO). According to the terms of agreement entered into by it with HUDCO, repayment of loan instalments along with interest due thereon was required to be credited to HUDCO's account every quarter. Any delay attracted penal interest of 2.5 *per cent* over and above normal rate of interest.

**Failure to monitor remittances resulted in avoidable expenditure towards penal interest.**

It was noticed (June 2002) in audit that repayment of instalments by the Company during 1995-2000 even though remitted before the close of a quarter could not be credited to HUDCO's account by the close of the relevant quarter. Consequently, the Company paid Rs.12.74 lakh as penal interest on delayed credits to HUDCO's account. Had the Company properly monitored the credit of its remittances to HUDCO's account, payment of penal interest could have been avoided.

Government stated (September 2002) that as the remittances had to be made to HUDCO's office at New Delhi, there were some delays.

The reply was not tenable as the Company was aware of the terms of repayment and should, therefore, have adhered to them strictly.

***Delay in handing over of residential quarters***

**Government was put to an avoidable expenditure of Rs.12.55 lakh on payment of HRA due to delays in handing over of completed quarters by the Company.**

**4.17** Madhya Pradesh Police Housing Corporation Limited (Company) constructs residential quarters which apart from fulfilling a much-felt need of police personnel would also result in saving to Government of house rent allowance (HRA).

Audit scrutiny (June 2002) revealed that out of 2,777 quarters constructed by the Company during 1996-2001, there were delays of up to 30 months in handing over of 2284 quarters to Police Department as shown below:

Name of Scheme	Quarters constructed		Delayed handing over			Avoidable payment of HRA (Rupees in lakh)
	Number	Cost (Rupees in lakh)	No. of quarters	Proportionate cost (Rupees in lakh)	Extent of delay (months)	
727 quarters	685	917.22	536	717.71	1 to 15	2.74
1634 quarters	1273	1649.23	1029	1333.12	1 to 7	2.84
911 quarters	819	1133.72	719	995.29	1 to 30	6.97
<b>Total</b>	<b>2777</b>	<b>3700.17</b>	<b>2284</b>	<b>3046.12</b>		<b>12.55</b>

**Extra expenditure of Rs.12.55 lakh was incurred due to Company's delay in handing over the completed quarters.**

The delays in handing over the completed quarters had resulted in an avoidable expenditure of Rs.12.55 lakh on payment of HRA to the police personnel apart from the investment of Rs.30.46 crore in construction remaining idle for considerable length of time. The reasons for delays in handing over have not been analysed by the Company.

While the Company stated (June 2002) that the delays were being investigated, Government stated (September 2002) that though there were indeed delays in handing over of the quarters, there was no correlation between handing over of quarters and payment of HRA .

The reply was not tenable since because of non-allotment of quarters to police personnel due to delay in handing over, Government had to pay HRA.

## Statutory Corporations

### Madhya Pradesh State Electricity Board

#### *Payment of penal interest due to belated remittances of electricity duty*

**The Board had to make an avoidable payment of penal interest of Rs.206.45 crore due to delay in remittance of electricity duty into Government account during 1999-2002.**

**4.18** According to the Madhya Pradesh Electricity Duty Rules, 1949, every distributor of electrical energy and every producer shall pay into a Government treasury, electricity duty (ED) in respect of each month before the expiry of the following month. Delayed payment attracts interest at rates varying from 12 to 24 *per cent per annum* depending upon the duration of delay.

It was noticed (February 2003) in audit that Madhya Pradesh State Electricity Board had collected Rs.972.37 crore as ED during 1999-2002 from consumers. Instead of remitting the collections by the due dates, it utilised the collections as working capital and remitted them to Government account with delays ranging from one to 13 months. Consequently, Government recovered penal interest of Rs.206.45 crore by adjustment from the subsidy released to the Board as follows:

Delay in remittance of duty led to avoidable payment of penal interest of Rs.206.45 crore.	(Rupees in crore)			
	Year	ED collected and remitted	Delay (in months)	Rate of penal interest (per cent)
	1999-2000	365.54	1 to 9	12 to 20
	2000-01	330.03	1 to 11	12 to 20
	2001-02	276.80	6 to 13	15 to 24
		<b>972.37</b>		
				<b>206.45</b>

Thus Board's failure to adhere to the prescribed time schedule in remittance of duty resulted in avoidable payment of penalty of Rs.206.45 crore.

The Board attributed (February 2003) the delayed remittances to its critical financial position. The reply was not tenable as the ED was collected regularly by the Board and should have been remitted into government account in time.

The matter was reported to Government (July 2003); their reply had not been received (September 2003).

#### ***Installation of capacitor banks without proper planning and prioritisation***

**The Board incurred avoidable expenditure on shifting of capacitor banks to Sabalgarh from Guna where these were earlier installed just a year back.**

**4.19** To improve the voltage at 132 KV sub-station, Guna, three series compensation scheme (capacitor banks) was sanctioned (May 1998) for installation there at a cost of Rs.2.83 crore. The equipment worth Rs.1.69 crore procured from Bharat Heavy Electricals Limited and others were erected by a private firm of Gwalior and the capacitor banks were charged in November 1999.

Just an year later, the Chief Engineer (Transmission), Jabalpur, directed (December 2000) shifting of these capacitor banks, at an estimated cost of Rs.87 lakh from Guna sub-station, to Sabalgarh sub-station on the plea that voltage problems in the area covered by the latter were more acute. The shifting involved dismantling, collection and transportation from Guna and re-erection of the equipments at Sabalgarh. This work too, was assigned to the same Gwalior firm, which commissioned and charged it at Sabalgarh in November 2002. As per information collected (February 2003) from the Superintending Engineer, EHT (Construction and Maintenance) Division, Gwalior, the expenditure so far charged against this work amounted to

Rs.17.61 lakh; details of further expenditure to be booked were awaited (June 2003).

**Failure of Board to prioritise the area before installing capacitor banks led to avoidable expenditure of Rs.17.61 lakh.**

Thus, due to lack of proper planning and failure to prioritise the area where voltage was to be improved, the capacitor banks installed at Guna had to be shifted within one year, resulting in avoidable expenditure of at least Rs.17.61 lakh to the Board.

The matter was reported to the Board/Government (July 2003); their replies had not been received (September 2003).

### **Madhya Pradesh State Electricity Regulatory Commission**

#### ***Overpayment due to non-deduction of pension***

**Failure to deduct pension from salaries and allowances of two Members of the Commission resulted in overpayment of Rs.11.95 lakh.**

**4.20** State Government appointed (February 1999) Member (Power) and Member (Economics) in the Madhya Pradesh State Electricity Regulatory Commission for a period of five years from the date of assumption of charge, or till they attained the age of 62 years, whichever being earlier. The salaries and allowances payable to and other terms and conditions of service of the Members of the Commission were to be governed by the rules framed (to be communicated separately) by the Government.

Member (Power) assumed charge in the Commission on 9 March 1999 and the Member (Economics) on 1 April 1999 after retirement from Government service. Their pay was provisionally fixed (January 2000) at Rs.24,050 per month in the time scale of Rs.24,050-650-26,000. As the rules were still to be finalised, an undertaking was obtained (March 2000) from the two Members that any overpayment of salary would be refunded by/recovered from them as arrears of land revenue.

Government notified (February 2001) the *Madhya Pradesh Vidyut Niyamak Aayog (Adhyaksha aur Sadasyon ke Vetan, Bhatte aur Anya Seva Sharten) Niyam, 2000* (Rules) to come into force from the date of notification (19 February 2001) in the State gazette. The Rules stipulated, *inter alia*, that if a Member was in receipt of any pension, the same was to be deducted from his salary.

**Non-deduction of pension resulted in overpayment of Rs.11.95 lakh.**

Though the two Members had been drawing pension, it was noticed (May 2003) that they were being paid salaries and allowances without deduction of gross pension. The failure to do so resulted in overpayment of Rs.11.95 lakh, up to the date(s) of their retirement in September and November 2002.

The Commission stated (April 2003) that the payment to the Members was being made in compliance with directions of Government in Energy

Department that at the time of their appointment, the Members were in Government service and hence the Rules framed subsequently were not applicable to them.

The reply was not tenable as appointment was subject to a clear understanding that their salaries and allowances would be determined in accordance with the Rules to be framed by the Government subsequently and that they would refund the overpayments of salary, if any. Energy Department's reported interpretation was defective as under normal rules of Government also pension was to be deducted and thus, the non-deduction was tantamount to extending an undue benefit to the Members.

The matter was reported to the Government (July 2003); their reply had not been received (September 2003).

Gwalior  
The

**(B. R. Khairnar)**  
**Accountant General (Audit)-I**  
**Madhya Pradesh**

*Countersigned*

New Delhi  
The

**(Vijayendra N. Kaul)**  
**Comptroller and Auditor General of India**