

CHAPTER IV

Transaction Audit Observations

Introduction

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

Government companies

Madhya Pradesh Police Housing Corporation Limited

Avoidable interest liability

Non-repayment of loans, despite availability of funds resulted in avoidable interest liability of Rs.1.50 crore

4.1 Madhya Pradesh Police Housing Corporation Limited (Company) had been availing loans from Housing and Urban Development Corporation (HUDCO) for construction of quarters for police personnel at interest rates ranging from 12 to 13 *per cent* subject to penal interest of two *per cent* for delayed repayments. The loans to the Company were guaranteed by the State Government.

Consequent on formation (November 2000) of Chhattisgarh State, the Company divided its assets and liabilities and accordingly assessed the liabilities of Chhattisgarh Government to HUDCO. The Chhattisgarh Government, however, stated (May 2001) that as there would not be any similar company in that state, it would not be liable for any construction activity after 1 June 2001. It also requested the Company to liquidate the liability out of funds available with it.

Despite the Chhattisgarh Government's request, the Company was not repaying the loan relating to Chhattisgarh and continued to pay loan instalments of Madhya Pradesh only. Audit observed that the Company has invested surplus loan funds in term deposits. Consequently, as on 31 December 2002, the loans to be repaid to HUDCO (Chhattisgarh portion) accumulated to Rs.9.08 crore³¹ (due to interest, penal interest and loss of rebate). HUDCO informed (May 2001) the Company that unless the Chhattisgarh Government took over the responsibility for dues, the liability for

³¹ *Principal outstanding : Rs.6.37 crore plus accumulated interest : Rs.2.71 crore.*

that loan also rested with the Company. When the matter was taken up (July 2002) with Chhattisgarh Government, it refused (March 2003) to accept the liability on the ground that division of assets and liabilities was not yet over.

Non-repayment of dues, despite availability of funds, led to avoidable interest liability of Rs.1.50 crore.

Since the liability of repayments rested with the Company, it should have repaid the entire dues with the surplus funds to avoid the additional interest/penal interest liability. Thus, its failure to repay its dues resulted in avoidable interest liability of Rs.1.50³² crore up to 31 December 2002 (even after taking into account the interest earned on term deposits) to the State Government.

The Company stated (September 2003) that due to bifurcation of the State, the loan had become the liability of Chhattisgarh Government; hence it did not repay the loan. Government stated (August 2004) that it was impossible for the Company with slender resources to clear off the loan liability. Further, the assumption that the liability for repayment of loan rested with the company is not correct.

The reply of the Company was not tenable as the division of assets and liabilities was not completed and the Chhattisgarh Government, had requested the Company to liquidate the liabilities with the funds available. Therefore the Company should have repaid the loan instalments and adjusted/transferred the liability subsequently.

The reply of the Government was also not tenable as the Company was having surplus funds invested in term deposits fetching lower rate of interest which could have been utilised for repayment of loan carrying higher interest burden. Further, HUDCO had already clarified (May 2001) that until and unless Chhattisgarh Government took the responsibility of entire dues and indicated the payment of dues in future, the entire liability remained with the Company.

Injudicious use of funds drawn for specific purpose

Failure to utilise funds drawn for the purpose judiciously resulted in loss of interest of Rs.13.80 lakh

4.2 Madhya Pradesh Police Housing Corporation Limited (Company) had drawn (March 2000) Rs.1.20 crore as grant from Government of India (GOI) for construction of residential buildings and two fire stations, one each at Dewas and Urla under a scheme of Tenth Finance Commission. The amount was to be utilised by 31 March 2000 failing which the same would be refunded to the GOI.

³² Rs.2.71 crore (Accumulated interest on loan) minus Rs.1.21 crore (interest earned on Rs.6.38 crore at 8.75 per cent from November 2000 to December 2002).

Investment of funds at lower rate, instead of repaying high-cost loan led to avoidable interest liability of Rs.13.80 lakh.

Audit observed (September 2003) that the Company completed construction work at Dewas but it could not start work at Urla, as suitable land was not identified till October 2000. Meanwhile, State was bifurcated and Chhattisgarh State was formed in November 2000. As the place (Urla) was situated in Chhattisgarh, the Company did not set up fire station. Instead of refunding / transferring the amount, it had invested the same in term deposits with 8.75 *per cent* rate of interest. The Company was availing loan assistance at interest rate of 12.5 *per cent* (excluding penal interest of two *per cent*) from HUDCO. Had the Company utilised the invested fund for repayment of loan to HUDCO, it could have avoided interest loss of Rs.13.80 lakh³³.

The Company stated (September 2003) that the funds would be made over to Chhattisgarh State after consensus on division of its assets and liabilities between two states.

The reply was not convincing as in view of uncertainty in completion of work, repayment of loan would have been a better option.

Government stated (August 2004) that deploying surplus funds towards short term deposits instead of keeping them idle, was also a sound financial decision. Further, as the funds were meant for fire station, using it for repayment would have been irregular.

The reply of Government was not acceptable because investment in term deposits fetching lower rate of interest on the one hand and meeting loan obligation with higher interest rate on the other was not a prudent financial decision.

Madhya Pradesh Laghu Udyog Nigam Limited

Avoidable loss on disposal of building

Irregular disposal of building at below market value resulted in loss of Rs.53.09 lakh

4.3 Madhya Pradesh Laghu Udyog Nigam Limited (Company) decided (October 2000) to dispose of its power loom complex (building constructed on a land taken on lease from State Government in 1974) at Industrial Area Makshi, Ujjain by giving wide publicity, at the highest offer and preference to Anand Packaging Industries (tenant), who was in occupation of part of the building. The Company got the building valued (January 2002) by chartered engineer for Rs.19.51 lakh. However, the value of the building as per municipal valuation was Rs.60.70 lakh (land: Rs.41.81 lakh and building: Rs.18.89 lakh).

³³

Interest at 5.75 per cent (14.50 – 8.75) on Rs.60 lakh for four years

The Company invited (July 2002) tenders for the sale of building but received only one offer for rupees six lakh from its tenant. The Company went for retendering (August 2002) to which there were only three offers including one from the tenant at Rs.6.50 lakh. Instead of advertising in newspaper again, the Company invited (October 2002) quotations from potential parties including the three parties who have earlier quoted. The highest rate of Rs.6.50 lakh was offered by the tenant again. The Company, after negotiations, sold (January 2003) the building to the tenant for Rs.7.61 lakh including the leasehold land.

Audit observed (October 2003) that

- As the land belonged to the Government, its disposal without Government's approval and ignoring its market value was not regular.
- The disposal of the building for mere Rs.7.61 lakh (market value Rs.18.89 lakh) without fully exploring the possibility of getting better price, was not in the interest of the Company and was tantamount to an undue favour to its tenant and
- Interestingly, the Company sold its residential flats to its employees only at market value.

Sale of building to tenant at a price below its market value led to a loss of Rs.53.09 lakh.

Thus, the irregular disposal of building ignoring market value resulted in a loss of Rs.53.09 lakh.

The Company stated (October 2003) that the decision to dispose of the property was to avoid encroachment by anti-social elements and also due to poor response to its tenders.

The reply was not tenable as (a) the Company failed to explore avenue to obtain better price and (b) it sold its residential flats to its employees only at market value.

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

Madhya Pradesh State Tourism Development Corporation Limited

Avoidable payment of penalty and extra demand charges

Failure to maintain power factor and reduce the higher contracted demand resulted in avoidable expenditure of Rs.17.64 lakh

4.4 Madhya Pradesh State Tourism Development Corporation (Company) was availing power supply from Madhya Pradesh State Electricity Board (Board) for its hotels and sound & light show units.

As per tariff schedule of the Board (a) if the average monthly power factor of the consumer falls below 90 *per cent*, he should, for each one *per cent*, in

addition, pay one *per cent* on total amount of the bill as penalty; (b) if the power factor falls below 85 *per cent*, he should, for every one *per cent*, pay two *per cent* as penalty.

Similarly, the billing demand of a consumer shall be the highest of actual maximum demand recorded during the month, 75 *per cent* of the contract demand, and 60 KVA.

Failure to maintain power factor led to extra expenditure of Rs.9.33 lakh.

Audit observed (December 2003 to February 2004) that the Company maintained (April 1999-July 2003) power factor ranging from 55 to 90 *per cent* in its hotels at Bhopal, Jabalpur and Ujjain and sound & light show units at Gwalior and Khajuraho. It consequently paid penalty of Rs.9.33 lakh for low power factor. Moreover, its hotel at Ujjain and sound & light show units at Gwalior and Khajuraho were having contract demand of 75, 117 and 123 KVA respectively. The actual demand availed of during the aforesaid period ranged from seven to 11 KVA (Gwalior), 25 to 78 KVA (Khajuraho) and 36 to 89 KVA (Ujjain). Consequently, the units paid minimum demand charges (higher than actual) which resulted in avoidable payment of Rs.8.31 lakh.

Thus, failure of the units to (i) maintain the power factor at 90 *per cent* (ii) assess the energy requirements before availing power supply and/or (iii) reduce the contract demand even after incurring extra charges, resulted in avoidable expenditure of Rs.17.64 lakh.

While the unit at Jabalpur stated (December 2003) that the matter of load reduction had already been taken up with MPSEB, the units at Gwalior and Khajuraho stated (January 2004) that issue of low power factor was under consideration for improvement.

The replies were indicative of inaction of the Company to assess properly the demand for power and maintain power factor at the required level despite recurring monthly extra expenditure.

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

Madhya Pradesh State Industrial Development Corporation Limited

Irregular issue of bonds

4.5.1 The Company, without prior approval of its Board/State Government and RBI, issued (October 1999 to January 2000) non-convertible redeemable bonds with face value of rupees one lakh each carrying interest at 14.4 *per cent* for aggregate nominal value of Rs.100 crore through private placement. The interest was payable half yearly on first May and first November every year and the maturity date of principal amount was 31 January 2005.

The statement in lieu of prospectus issued by the Company, *inter alia*, provided that the bonds, interest thereon and all money relating thereto

shall be secured by: (a) first mortgage, a charge on the Company's properties, and (b) first charge on all the money in the 'Designated Account'³⁴ and all money to be received by the Company from the financing activities from the resources raised from this bond issue. Further, the Company would also create aforesaid security in favour of bondholders within three months from the allotment of bonds.

The issue was subscribed for Rs.81.61 crore and the Company incurred Rs.61.21 lakh as stamp duty and Rs.3.59 lakh as consultancy charges. After subscription of bonds, the Company submitted (August 2001) the proposal to the Board for approval. The Board granted *ex-post-facto* approval subject to re-submission of the matter along with basis of issuing prospectus for floating bonds, appointment of consultants/lead arranger of funds/Registrar of bonds.

Audit observed (August 2003) that :

Bonds were issued without prior approval of Government.

- Raising of funds through bonds at a higher rate of 14.4 *per cent*, when there had been downward trend in interest rates in open market (15.5 *per cent* in 1998 and 12 *per cent* from April 2000 and during the currency of maturity period of bonds), was not judicious. Further, though the bonds could have been redeemed earlier, the Company did not even explore the possibility of discharging the same through cheaper loans from other sources.
- Despite Board's direction to that effect, management did not re-submit the matter to the Board. The Company had neither opened designated account nor created any security in favour of bondholders.
- Since interest payments of Rs.27.12 crore due from May 2002 were not released (September 2004), three³⁵ bondholders approached the State Government for payment of interest. The Company, however, informed (August 2003) the State Government that due to funds constraints, the interest could not be paid.

Thus, issue of bonds by the Company at higher rate of interest, that too, without approval of the Board/State Government, its non-compliance with terms and conditions, coupled with its failure to monitor funds after disbursement, resulted in default in payment of interest of Rs.27.12 crore. The redemption of these bonds would result in additional expenditure of Rs.8.32 crore³⁶ towards interest.

The Company stated (September 2003) that its Board had already (April 1995) authorised Managing Director to accept deposits from State/Central

³⁴ An escrow and no lien account to which all receipts from utilisation of these funds would be transferred from various collection accounts.

³⁵ United Bank of India, Staff Provident Fund and Kothari Provident Fund, Calcutta.

³⁶ Rs.81.61 crore multiplied by 2.4 *per cent* (14.4 – 12.0 *per cent* for 51 months from January 2000 to March 2004).

Governments and other companies on suitable terms and conditions and that after issue of bonds, the matter was placed before the Board. Further, due to acute financial crisis, the Company found it difficult even to meet its day-to-day expenditure; hence the designated account was not opened as it would not serve any purpose.

The reply was not tenable as (i) Board's authorisation (April 1995) to Managing Director was only for acceptance of inter-corporate deposits and fixed deposits and not for raising loans through bonds, and (ii) the Company failed to assess how such high-cost-loans could be deployed to earn interest at more than 14.4 *per cent* and to evolve any financial strategy to pay interest due and/or redeem the bonds earlier.

Avoidable extra interest liability due to failure in repayment

4.5.2 The Company accepted deposits of Rs.181 crore with interest ranging from 12 to 16.5 *per cent* from four co-operative banks³⁷ and Madhya Pradesh Text Book Corporation during March 1998 to May 2000, by issuing post-dated cheques as guarantee.

Audit observed (March 2003) that:

- The Company did not ensure availability of funds, though it issued post-dated cheques. Consequently all the cheques issued for repayment of principal and interest thereon were dishonoured and all the banks initiated action under Section 138 of Negotiable Instruments Act against the Company. The cases were not finalised (September 2004). This led to a loss of Rs.4.51 lakh being the legal charges so far incurred by it.
- The rate of interest had been declining since 1999-2000. The primary lending rate effective from 1 April 2000 stood at 12 *per cent*. In view of this, the Company should have repaid these high-cost deposits on maturity to avoid extra interest burden on them atleast beyond maturity date. Its failure to do so resulted in avoidable additional liability of Rs.14.54 crore³⁸ (***Annexure 15***).

The Company stated (August 2003) that due to paucity of funds, the deposits could not be repaid and that all the lenders were requested to reduce future rate of interest to 10-11 *per cent* and reschedule their deposits.

Acceptance of deposits at higher rates of interest and failure to repay within maturity led to avoidable additional interest liability of Rs.14.54 crore.

³⁷ *Mumbai District Co-operative Bank Limited, Mumbai, 2. Bombay Mercantile Co-operative Bank Limited, Mumbai, 3. Apex Co-operative Bank of Maharashtra & Goa Limited, Mumbai, 4. UP Rajya Krishi Evam Gram Vikas Nigam, EPF Trust, Lucknow*

³⁸ *Interest on these Inter Corporate Loans (ICLs) from the maturity date to 31 March 2004 at rates in excess of 12 per cent.*

The reply was not acceptable because during July 1999 to May 2003, Company placed Rs.221.53 crore on 24 companies as inter corporate loans which could have been used for repayment of these deposits. Further, some of these companies have defaulted the repayment of deposits as discussed in subsequent paragraphs.

Loss of interest due to injudicious placement of inter-corporate loans

4.5.3 As per Clause 110 (ii) of Company's Memorandum and Articles of Association, grant of loan or giving of a guarantee or any other financial assistance to any one particular concern in excess of rupees three crore requires prior approval of the State Government. The clause was amended (August 1998) by increasing the limit to Rs.15 crore. Meanwhile, the Company without approval of State Government, decided (March 1998) to give financial guarantee for Rs.15 crore to Steel Tubes of India Limited (borrower) to raise funds for their proposed power plant at Guna. The terms and conditions of guarantee stipulated, *inter alia*, payment of guarantee commission at three *per cent* and also commitment charges.

Out of guarantee for Rs.15 crore given (September 1998) by the Company, the borrower availed of only rupees five crore in favour of HDFC Bank (formerly Times Bank) for five years in September 1998 and obtained loans.

No action was initiated against the borrower despite his cheques having been dishonoured.

As the borrower defaulted in repayment of loan to the bank, it demanded (July 2000) further payment of Rs.3.83 crore from the Company. The borrower requested the Company to treat the same as short term inter corporate loan (ICL) which would be repaid over a period of eight months in monthly instalment of Rs.50 lakh each. The Company acceded to the request without obtaining any security except post-dated cheques and paid (July and October 2000) borrower's dues. Out of Rs.25.17 crore, the borrower paid only rupees one crore, and did not make any payment thereafter and his post-dated cheques were dishonoured.

Further, the Company, without obtaining any security and approval of Government and only on the strength of corporate and personal guarantees, placed Rs.22.95 crore as ICLs on the borrower without assessing their financial position.

Audit observed (September 2003) that:

- While the Company issued bank guarantee to the borrower in respect of latter's loan from the bank, it did not insist either for bank guarantee or security from the borrower when placing long term and short term ICLs.
- Though the borrower's post-dated cheques were dishonoured, the Company did not initiate action for recovery by invoking Section 138 of Negotiable Instruments Act.

Placement of deposits with known defaulter and failure to take steps for recovery thereof led to locking up of Rs.25.78 crore and loss of interest of Rs.32 crore.

- Guarantee commission (Rs.15 lakh) and commitment charges (Rs.7.50 lakh) for the period 1998 to 2000 have not been claimed by the Company.
- The approval of the Government for the guarantee and also placement of ICLs was not received (March 2004).

Thus, injudicious giving of guarantee, irregular placement of inter corporate loans on the borrower, despite its being continuous defaulter, and the Company's failure to initiate steps for recovery, led to locking up of Rs.25.78 crore and consequent loss of interest of Rs.32 crore.

Extension of undue favour

4.5.4 The Company placed (20 October 1999) rupees four crore as inter corporate loan (ICL) on Bhanu Iron and Steel Company Limited, Indore (borrower), at rate of interest of 18.5 *per cent* without obtaining any security/bank guarantee or appraising its financial position. The amount was to be repaid in October 2000 with quarterly payment of interest from 20 January 2000. Before this date, the Company again placed Rs.6 crore (December 1999) with the borrower at 18.5 and 17.5 *per cent* on same terms. The borrower did not pay interest even for first quarter ending January 2000 and also for all subsequent periods in respect of all these ICLs up to April 2000. Despite this, the Company placed another Rs.3 crore (Rs.2 crore in May 2000; rupees one crore in June 2000) on the borrower at interest of 15.5 *per cent* both to be repaid in May 2001.

The borrower continued to default payment of interest and principals. Still, the Company placed further ICLs of Rs.1.40 crore (Rs.50 lakh in September 2000 at 18.5 *per cent*; Rs.90 lakh in June 2001 at 17 *per cent*) to be repaid in September 2001 and March 2002.

Audit observed (August 2003) that:

- As the borrower had been in default in repayment of Rs.16.36 crore (principal: Rs.13 crore and interest: Rs.3.36 crore) up to May 2001, Company's placement of further ICL of Rs.90 lakh in June 2001 led to locking up of additional funds with consequent loss of Rs.34.05 lakh towards interest.
- Parking of ICL of Rs.3 crore in May and June 2000 on defaulting borrower at a lower rate of 15.5 *per cent* was tantamount to undue favour.

Though notice under Revenue Recovery Certificate had been issued (April 2002) by Collector, Indore, the borrower repaid only Rs.1.50 lakh (July 2002) and had sought rescheduling of ICL payment. However, as the borrower failed to pay down payment of Rs.50 lakh, rescheduling was not done.

Despite the borrower being a known defaulter, the placement of ICLs therewith resulted in locking up Rs.14.40 crore with consequent loss of interest of Rs.14.54 crore.

Thus, placement of ICLs repeatedly on a firm, despite the firm being a defaulter and Company's failure to recover the same, resulted in locking up of Rs.14.40 crore and loss of interest of Rs.14.54 crore.

The Company stated (September 2003) that fresh ICL of Rs.90 lakh was placed in anticipation of sanction of loan to the borrower from their bank. It also stated that the amount could not be recovered because of recession in steel industry and notice for winding up of the borrower company was issued.

The reply was not tenable as the fact remains that the Company continued to favour the borrower ignoring the default in repayment of principal and interest.

The above matters were reported to the Government (July 2004); their reply had not been received (September 2004).

4.6 Delay in finalisation of accounts by PSUs

Statutory provisions for finalisation of accounts

4.6.1 According to provisions of Section 210 (3) read with Section 166 of the Companies Act, 1956, audited accounts of a company should be approved and adopted in the Annual General Meeting (AGM) of the shareholders within six months of the close of its financial year. Further, as per provision of Section 619A (3) of the Act, *ibid*, the State Government should place an annual report on the working and affairs of each State Government company together with a copy of the Audit Report and comments thereon made by the Comptroller and Auditor General of India (CAG) before the Legislature within three months on receipt of such report.

Procedure of finalisation of accounts

4.6.2 The annual accounts prepared by the companies are approved by the Board of Directors and the approved accounts are audited by the statutory auditors appointed by the CAG. As per provision of Section 619 (4) of the Companies Act, 1956, the CAG conducts supplementary audit of the accounts of the companies. Such accounts along with the comments of the CAG and report of the statutory auditors are placed before the AGM of the Company for adoption. Thereafter, in terms of Section 619A (3) of the Act, *ibid*, annual accounts are placed before the State Legislature.

Risks involved due to delay in finalisation of accounts

4.6.3 The finalised accounts of the PSUs reflect their overall financial health and efficiency to conduct their business. If PSUs fail to finalise the accounts in time, the CAG cannot conduct the supplementary audit of the accounts and then Government investment remain outside the scrutiny of the State Legislature. Besides, delay also opens the system to risk of fraud and leakage of public money.

Extent of arrears

4.6.4 As on 30 September 2004, out of 35 Government companies (working-25, non-working-9, and one Section 619(B) company) and four Statutory corporations in the State, only five companies finalised accounts for the year 2003-04. Accounts of the 30 companies and four Statutory corporations were in arrears for the periods ranging from one year to 14 years, as detailed in ***Annexure-16***. Out of the eight (five working Government companies and three non-working companies), six³⁹ companies selected for study were chronically in arrears and had not finalised their accounts for three or more years as detailed in ***Annexure-17***. Audit findings on review of system of finalisation of accounts of these companies and corporations are discussed in succeeding paragraphs.

Delay in preparation of accounts

4.6.5 Due to shortage of competent and trained manpower in the Accounts Department, there has been delay in preparation of accounts and audit thereof.

Audit noticed that social service sector companies like MP Pichhada Varg Tatha Alpsankhyak Vitta Evam Vikas Nigam Limited, MP Adivasi Vitta Evam Vikas Nigam Limited, etc. are engaged in disbursement/recovery of loans to /from beneficiaries through the State Government departments. Lack of co-ordination between PSUs and these agencies, coupled with companies' failure to exercise any administrative control led to delay in compilation of data and consequential finalisation of accounts.

Madhya Pradesh State Agro Industries Development Corporation Limited stated that as its operations extend over 45 districts in the State and nine production units at different places, it took considerable time for compilation/finalisation of accounts at Head office level. The contention of the Company was not acceptable, as it could, considering its operations and past experience, have planned the process of compilation and finalisation of the accounts.

MP Pichhada Varg Tatha Alpsankhyak Vitta Evam Vikas Nigam Limited attributed the arrears in accounts to lack of professionally qualified and/ or trained personnel and grant of voluntary retirement to staff deployed on deputation from MP State Textile Corporation Limited. The work of implementation of various schemes and disbursement /recovery of loans were got done from District Industries Centre through the State Government staff, on whom the Company had no control; hence the accounts could not be prepared in time. The contention of the Company was not acceptable, as the Company should have got the accounts prepared/finalised through professionally qualified persons. Further, the nature of activities being known to it, management should have got these issues settled through Chartered

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Madhya Pradesh State Agro Industries Development Corporation Limited, Madhya Pradesh Adivasi Vitta Evam Vikas Nigam Limited, Madhya Pradesh Hastashilp Evam Hathkargha Vikas Nigam Limited, Madhya Pradesh Pichhda Varga Tatha Alpsankhyak Vitta Evam Vikas Nigam Limited, Madhya Pradesh State Leather Development Corporation Limited and Madhya Pradesh Lift Irrigation Corporation Limited

Accountants and finalised the accounts on the basis of methodology that suited it best.

Delay in certification of accounts by the statutory auditors

4.6.6 Statutory auditors are expected to complete their audit within two months of the closure of the accounts by the companies so that supplementary audit under Section 619 (4) of the Companies Act, 1956 could be completed by the CAG and audited accounts together with statutory auditors' report be placed in the AGM within the prescribed time limit of six months. The time taken by the statutory auditors in certification of accounts of six companies from the dates of approval, is given in ***Annexure 18***.

It would be seen from the annexure that the time taken in certification of accounts by the Statutory Auditors from date of approval by the Board ranged from two to 24 months. The reason for such delay was the delay in adoption of previous years' accounts in the AGM and consequent delayed certification of accounts for the current year.

Delay in approval of accounts by the Board

4.6.7 The accounts should be approved by the Board immediately after the closing of the financial year or after the approval of accounts of the previous year where accounts are in arrears. During test check, Audit observed that there were delays ranging from six to 52 months between the approval of accounts of two consecutive years as detailed in ***Annexure 19***.

Delay in holding the AGM

4.6.8 Under section 171 of the Companies Act, 1956, an AGM of a company may be called by giving notice, in writing, of not less than 21 days or a even shorter period, if so consented to by all the members entitled to vote. Thus, a Government company could hold its AGM within a maximum period of 30 days of receipt of comments of the CAG.

The dates of issue of comments / non-review certificate and those of holding AGM for the last five years' finalised accounts are given in the ***Annexure-20***. It would be seen from the annexure that all the companies failed to hold their AGMs within 30 days. The delay in holding AGMs ranged from 32 to 505 days. This adversely affected the clearance of arrears of accounts.

4.6.9 The State Government exercises control over the Companies through the concerned administrative departments and the Finance Department.

In terms of Memorandum and Articles of Association of these companies, the State Government can issue directives in the interest of the company. To fulfil these obligations, the State Government was expected to take concrete steps to ensure that the accounts of the companies were finalised in time. Similarly, the administrative departments have to ensure that the accounts are finalised and adopted by the companies in the Annual General Meeting within the period

prescribed in the Companies Act, 1956; but no time bound programme/action plan was framed by the State Government to liquidate the arrears of accounts.

4.6.10 The position of arrears of accounts has been highlighted continuously in Chapter I of the Audit Report (Commercial) of Government of Madhya Pradesh. On the basis of the lists of defaulting companies furnished quarterly by the Principal Accountant General (Civil and Commercial Audit), to the Chief Secretary, directions were issued by the Government for expediting the finalisation of accounts, but the position of arrears of accounts did not improve due to follow up action not being taken by the management of the companies.

In order to help the companies in liquidating the arrears of accounts, statutory auditors were appointed as a special case for two or more years on the advice of the CAG. This advance action had not made any impact on the position of arrears and none of the companies had been able to liquidate the arrears.

Besides, in order to expedite the clearance of pending accounts, audit suggested (July 2004) the State Government to take the help of professional bodies and also offered to conduct the audit of provisional accounts besides other required assistance. No such assistance was sought for by the companies till date.

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

Statutory corporations

Madhya Pradesh State Electricity Board

Loss due to delay in disconnection of power supply

Failure to take timely action for disconnection of power supply resulted in loss of Rs.1.44 crore.

4.7 The Board entered (August 1997) into an agreement with Central India Steels (P) Limited, Bhopal for high tension supply of power for their unit at Jabera in Damoh district. Clause 32 of the agreement, *inter alia*, stipulated that, in the event of non-payment of bills, the Board was empowered to disconnect the power connection after serving seven days notice to the consumer.

Audit observed that as the consumer did not pay the bills from January 1998 onwards, the Board disconnected the power supply and as a result, energy charges of Rs.1.44 crore, (inclusive of penalty) became due for recovery at the end of September 1999.

After a delay of two years, when the Board took (June 2001) action under Revenue Recovery Act for realisation of the dues, Madhya Pradesh Financial

Failure to timely disconnect power supply led to accumulation of arrears and loss of Rs.1.44 crore.

Corporation had taken over the property of the consumer as the firm failed to repay the loan availed from the Corporation.

Had the Board invoked the relevant clause of the agreement, in January 1998 itself, the loss of Rs.1.44 crore on account of arrears could have been avoided.

The matter was referred to the Government/Board (July 2004); their replies had not been received (September 2004).

Non-commissioning of fire protection system

Failure to commission fire protection system resulted in the expenditure of Rs.36.11 lakh becoming unproductive.

4.8 The Board placed (July 1997) an order on an Ahmedabad based firm for the supply of fire protection system (FPS) for its hydel power station at Totaladoh at a total cost of Rs.44.36 lakh with erection and commissioning charges (May 1998) for Rs.8.20 lakh. The orders were amended to Rs.44.76 lakh (May 1998) and Rs.10.61 lakh (January 2003) respectively.

The work of construction of water tank and pump house required for the FPS, was also awarded (April 1999) to a civil contractor for Rs.11.05 lakh. As this work was not completed by him, the Board terminated the contract and awarded the same (January 2003) to another contractor.

Meanwhile, the fire protection equipments worth Rs.36.95 lakh were received (February 1999), against which Board paid Rs.25.74 lakh. Civil work was also completed (June 2002) at a total cost of Rs.10.36 lakh. But the FPS has not been commissioned so far (June 2004).

Thus, the expenditure of Rs.36.11 lakh incurred on FPS remained unproductive.

The Board stated (June 2004) that the delay was due to non-release of pending payments (Rs.5.22 lakh with interest for delay) and non-refund of penalty (Rs.2.96 lakh) by Chhattisgarh State Electricity Board.

The reply was not tenable, since the Board did not arrange for releasing the pending payments even though the equipments had been lying idle for five years and the civil works were completed two years back.

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

Non commissioning of the fire protection system rendered the expenditure of Rs.36.11 lakh unproductive.

Loss due to non-repair/non-return of transformers

Failure to get defective transformers repaired led to a loss of Rs.1.49 crore.

4.9 As per the provisions of contract for its supply, transformers found to be defective during the course of 24 months from the date of despatch or which develop defects in service will be repaired/replaced by the supplier/contractor free of all charges within 90 days from the date of intimation. Further, the repaired transformers would be guaranteed for 24 months.

Audit observed that 115 transformers valuing Rs.60.12 lakh which failed within warranty period during November 1994 to April 2002, stored in Area Store Bhopal, were not repaired by the suppliers, out of which 62 transformers lifted by the suppliers had not been repaired/returned so far.

Further, 349 failed transformers valuing Rs.88.86 lakh (314 numbers valuing Rs.75.13 lakh in Area Store, Bhopal and 35 numbers valuing Rs.13.73 lakh in Area Store Jabalpur) which failed after guarantee period during June 1998 to February 2002 and given for repairs have not been returned by the contractors. The Board has not taken any action to get the transformers repaired and returned by the contractors.

Thus, the failure of the Board to monitor the repair and return of the defective transformers resulted in loss of Rs.1.49 crore (Rs.60.12 lakh + Rs.88.86 lakh).

Additional Superintending Engineer, Area Store, Jabalpur stated (April 2004) that legal action against the contractors was under the consideration of the Board. The reply was not tenable, since no action was taken by the Board in this respect so far.

The matter was referred to the Board/Government (August 2004); their replies had not been received (September 2004).

Deficiencies in internal audit / internal control system

4.10.1 Internal audit is recognised as an independent appraisal activity within an organisation to examine and evaluate the activities of the organisation. Besides assisting in financial control, it is expected to help in the achievement of organisational objectives by improving the effectiveness of control and governance process within the organisation. On the other hand, internal control is a management tool used to promote reasonable assurance that the organisation fulfils accountability obligations, promotes orderly and efficient operations, safeguards assets against fraud, waste and losses to applicable laws and management policies and discloses realisable financial tasks by means of timely reporting.

Non-repair of transformers within guarantee period and non-return thereof after repairs resulted in loss of Rs.1.49 crore.

The Madhya Pradesh State Electricity Board (Board) was constituted under Section 5 of the Electricity (Supply) Act, 1948. The Board has been entrusted with the responsibility of promoting a co-ordinated development of generation, transmission and distribution of electricity in the State of Madhya Pradesh in an efficient manner.

The expenditure and income of the Board for the last five years ended 31 March 2003 were as under:

(Rupee in crore)

| Year | Expenditure | Income |
|-----------|-------------|----------|
| 1998-99 | 6,109.17 | 6,545.31 |
| 1999-2000 | 7,104.47 | 5,763.83 |
| 2000-01 | 7,382.33 | 5,993.02 |
| 2001-02 | 6,551.27 | 5,179.96 |
| 2002-03 | 5,616.80 | 5,462.50 |

- Notes:- 1 The figures for 2000-01 was upto 14 April 2001.
2. The figures for 2001-02 and 2002-03 are provisional.

The huge expenditure and income involved in the Board's operations called for effective and efficient internal audit and internal control so as to pinpoint serious system deficiencies and weaknesses in control environment, for suitable corrective action.

Internal audit

4.10.2 Section 69 (i) of the Electricity (Supply) Act, 1948 makes it obligatory for State Electricity Boards to organise a proper system of internal audit. Till March 1995, the internal audit was conducted based on the circulars and orders issued by the Board from time to time. Realising the necessity of an internal audit manual, the Board, in consultation with management consultants, prepared an internal audit manual, which was approved by the Member (Finance) and was made effective from April 1995. The internal audit manual was not, however, placed before the Board for approval. After being pointed out in Audit, the Board adopted (May 2004) the manual for implementation in carrying out internal audit work.

Auditable units and their coverage

4.10.3 The year-wise position of number of units audited, audit parties deputed, expenditure incurred on the wing for the period 1999-2004 is given in **Annexure-21**. Audit analysis of the data given in the Annexure revealed following deficiencies.

Arrears in audit

4.10.4 The wing has to prepare by the end of January each year an annual audit programme showing units to be audited in the following year, to watch the implementation of the annual audit programme during the course of the year and also to analyse the reasons for the shortfall, if any, in achievement. The preparation of annual audit programme had not been implemented so far,

Absence of annual audit programme resulted in lack of control over the arrears in audit.

with the result the wing had no control over the arrears in audit which worked out to 79 per cent of auditable units at the end of March 2004.

COPU recommended (November 1999) that annual audit programme should be drawn up and followed each year. The Board did not, however, comply with this recommendation.

The Board stated (February and September 2004) that shortage of audit parties combined with insufficient staff had badly affected the coverage and conduct of audit at the desired levels and that the process of annual audit programme had been implemented from July 2004. The reply was not acceptable because the available parties were not proportionately utilised by the Board. While the wing had 43 per cent of the sanctioned posts in its working strength during 2002-03, the arrears had accumulated to 77.41 per cent. Arrears in audit resulted in reduction of effectiveness of the internal audit due to passage of time.

Non-association of technical staff and shortage of supervision

4.10.5 As per section A 7.2 of the internal audit manual, an internal audit party should include a Junior Engineer. Audit observed that no engineer was, however, posted to the internal audit parties (March 2004).

Internal audit parties did not include any technical personnel.

According to performance report of the wing for March 2003, there was shortage of 54 per cent, in different cadres of the parties. As a result, 14 out of 18 audit parties were working without Section Officers and 16 audit parties without supervision of Audit Officers. With stoppage of recruitment since 1990 combined with retirements and transfers, shortage of staff in the wing was on the increase. Non-inclusion of technical personnel, lack of suitable and sufficient training in audit, and lack of supervision have affected the quality of Test Audit Reports (TAR).

Non-coverage of controlling / central offices

Central and controlling offices of the Board were not covered in internal audit.

4.10.6 Despite the COPU's recommendation (May 1988) to bring the controlling and central offices within the ambit of internal audit, and one audit party having been sanctioned (April 1988) specifically for the audit of these offices, transactions of central/controlling offices related to purchase, projects and capital works continued to remain outside the ambit of internal audit. The Board, however, stated (February 2004) that no special audit party had been formed separately to audit controlling offices and with the existing audit parties it was difficult to cover the field offices and due to this constraint, controlling offices could not be covered.

Non-implementation of concurrent audit in HT billing

Concurrent audit of HT billing not implemented and arrears of audit increased steadily.

4.10.7 In order to avoid arrears in audit of high tension billing, the Board decided (June 1987) to conduct concurrent audit of HT billing, centrally at Jabalpur. The internal audit manual had also prescribed concurrent audit of HT billing in Regional Accounts Offices (RAOs) by internal audit parties stationed at the respective regions. Audit noticed that these decisions were not

implemented, and as a result, audit of high tension billing in five RAOs was in arrears for 2001-02 which increased to eight in 2002-03 and to thirteen in 2003-04.

Inadequate coverage of expenditure audit

4.10.8 The number of units due for expenditure audit, units audited, and the percentage of coverage during 1999-2004 were as under:

| Year | Number of units due for audit | Number of units audited | Coverage (in percent) |
|---------|-------------------------------|-------------------------|-----------------------|
| 1999-00 | 400 | 152 | 38 |
| 2000-01 | 400 | 94 | 24 |
| 2001-02 | 376 | 71 | 19 |
| 2002-03 | 455 | 59 | 13 |
| 2003-04 | 455 | 27 | 6 |

Coverage of expenditure audit declined steadily.

Even though the periodicity of expenditure audit was once in four years, the coverage of units declined from 38 percent in 1999-2000 to 24 percent in 2000-01, to 19 percent in 2001-02 to 13 percent in 2002-03 and to 6 per cent in 2003-04. This was due to under utilisation of audit staff.

The Board accepted the observation of the Audit and stated (September 2004) that the existing system would be reviewed to increase the coverage of audit.

Non-coverage of works/technical area

Audit coverage of works/technical area was inadequate.

4.10.9 A test check of objections raised in expenditure audit of 10 units revealed that more than 50 per cent of the objections related to establishment matters. Out of 158 objections raised, only six related to works/technical matters. Poor quality of expenditure audit reports was attributed to reduction in audit staff, lack of supervision, absence of technical staff and lack of desired technical knowledge of the staff.

Delay in issue of test audit reports

4.10.10 The Test Audit Reports (TARs) containing observations having financial implications exceeding Rs.500 are forwarded by the audit parties to the head office of the wing, which are vetted and issued by Joint Director (Audit) to the respective offices.

Board had prescribed seven days for receipt of Test Audit Reports from the internal audit parties and one month for issuing them.

Delay in issue of inspection reports correspondingly delayed recoveries resulting in loss of interest.

Out of 3,483 TARs issued during 1998-2003, the wing issued 807 reports (23.17 per cent) within the prescribed period of one month, 1915 reports (54.98 per cent) after a delay of three to six months, 533 reports (15.30 per cent) after a delay of six to 12 months and 228 reports (6.55 per cent) after a lapse of one year.

The delay in issuance of reports correspondingly delayed the action on the reports including recoveries, wherever required, causing loss of interest to the Board.

Internal control system

4.10.11 The internal control system in the Board was exercised through the revised and updated handbook of 'Delegation of powers' relating to financial and establishment matters, issued in March 1985. The observance of the provisions of Delegation of Powers was enforced through periodical administrative inspections and audit conducted by the wing. The role of the internal audit wing to ensure the compliance of these regulations was stipulated in Internal Audit Manual.

For exercising financial control over the activities, in different departments, the Board was preparing the annual budgets and the actual expenditure in these areas were compared with the budgets.

Preparation of annual accounts of the Board was not up to date. Accounts for 2001-02 and 2002-03 were yet to be adopted by the Board (October 2004).

An analysis of the test audit reports indicated that objections relating to works/technical areas were negligible. No observations on violation of delegation of powers, or lapses in administrative inspections were noticed. Thus, the effectiveness of internal control system had not been properly evaluated by the internal audit wing.

Effectiveness of the internal control system was not properly evaluated by the wing.

Madhya Pradesh Road Transport Corporation

Irregular issue of free passes

Irregular issue of free passes resulted in loss of Rs.3.05 crore.

4.11 Madhya Pradesh Road Transport Corporation (Corporation) was issuing free passes to freedom fighters with their escorts covering entire area of composite Madhya Pradesh. The value of these passes was to be got reimbursed from the State Government. The State was bifurcated and Chhattisgarh State was formed in November 2000. Without obtaining approval from the Government of Chhattisgarh (GOC), the Corporation continued to issue the free passes to freedom fighters and their widows in that State.

Audit observed (January 2004) that the Board of Directors was already aware of a decision (July 2002) of Ministerial sub-committee that free passes could be issued only on receipt of pending claims from the GOC. Despite this, the Corporation continued the concession up to December 2002 i.e. up to stoppage of operation of its services in that State. The value of free passes to freedom fighters (459) and their widows (123) worked out to Rs.3.17 crore. Against this, the Corporation got (March 2002) reimbursed only Rs.12 lakh from GOC

and the balance claims (Rs.3.05 crore) have not been paid without assigning any reasons. As GOC had not released balance amount, the Managing Director ordered (February 2003) confiscation of passes. The Corporation could not, however, confiscate any passes.

Issue of passes without consent of Government resulted in loss of Rs.3.05 crore.

Thus, continuance of free passes by the Corporation to freedom fighters and their widows of Chhattisgarh State, without approval from that Government, resulted in loss of Rs.3.05 crore.

Management stated (February and July 2004) that it had got Rs.12 lakh reimbursed from Chhattisgarh Government and the free passes issued to the freedom fighters and their widows have been cancelled.

The reply was not acceptable as the Corporation could not insist on reimbursement of its claims, as these were extended without consent of that Government, which was not proper.

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

Avoidable payment of tax

Failure in claiming exemption of tax for off-road buses led to avoidable expenditure of Rs.35.26 lakh.

4.12 Madhya Pradesh Road Transport Corporation (Corporation) was to pay road tax to the Regional Transport Office in respect of buses on road. As per sub-rule (1) of Rule 11 of Madhya Pradesh Motor Yan Karadhan Niyam, 1991, the Corporation could claim exemption from payment of road tax for each off-road bus by filing a declaration in Form -A.

Non-claiming of exemption of tax for off-road buses resulted in extra expenditure of Rs.35.26 lakh.

Audit observed (October 2003) that 10 buses at the Corporation's depot, Shahdol were off-road during 2000-01 and the depot, without claiming exemption from tax thereon, had been remitting tax on these buses. Thus, its failure to claim exemption led to an avoidable tax payment of Rs.35.26 lakh up to September 2003.

Depot Manager stated (October 2004) that the matter would be taken care of in future.

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

Procurement and maintenance of tyres, tubes and flaps including performance of tyre retreading plants

4.13 The Corporation operated a fleet of 1269 buses through 42 depots and seven divisions during 2003-04. As on 31 March 2004, the Corporation had

four retreading plants at Bhopal, Jabalpur, Gwalior and Mhow divisions for tyre retreading.

Purchase procedure

4.13.1 A centralised purchase procedure was in existence up to March 1996. As per this procedure, finalisation of tenders, placing of orders and follow-up action were looked into by the Headquarters Tender Committee (HQTC) at the corporate office. Thereafter, the corporate office restricted its activity to identifying the suppliers and fixing the prices based on the lowest cost per kilometre (CPKM) and communicating the same to the divisions for procurement on cash basis from the identified suppliers in smaller quantities. Hence, placing of orders and payments were left to the choice of the divisions.

Non-availing of cash discount

4.13.2 Due to its poor financial position, the Corporation had been placing orders for tyres on the suppliers willing to supply in smaller quantities on demand, ignoring the price preference offered by the suppliers for bulk purchases. Contrary to the practice followed by other state transport undertakings, it could not give preference to the mileage obtained after retreading while placing orders for new tyres. During 1999-2004, the Corporation purchased 50,856 tyres valuing Rs.44.67 crore. Though the divisions procured tyres by handing over a demand draft for the value of purchase, the divisions could not avail cash discount due to procurements in smaller quantities.

Corporation had foregone discount of Rs.89.34 lakh due to purchase of tyres in smaller quantities.

Audit observed that instead of allowing the divisions to place orders and effect payments for their requirements, had the corporate office placed orders for bulk quantity duly giving supply schedule for each division, it could have earned cash discount. Thus, its failure to do so led to forgoing cash discount of Rs.89.34 lakh (two per cent on Rs.44.67 crore).

It could have also avoided expenditure on transportation of tyres from the suppliers' point to the divisional stores as the Corporation had to take delivery from the suppliers' point due to piecemeal procurement. The expenditure so incurred, however, could not be quantified in audit for want of details from Corporation.

While agreeing (February 2004) with the audit observations management was not in agreement for the loss worked out by the Audit. However, fact remains that it could not effect bulk purchases due to its weak financial position.

Breakdowns of buses due to failure of tyres

4.13.3 The standard breakdown rate of the industry is 0.33 per 10,000 kms operations. As against this, the breakdown rate in the Corporation was 1.13, 0.99, 0.67, 0.69 and 0.89 per 10,000 kms respectively during the five years ended March 2003. A comparison of the ratio of breakdown of buses due to

failure of tyres to average fleet in the Corporation with that of APSRTC⁴⁰ during 1999-2003 is given below:

| Years | Total number of break downs | Breakdowns due to tyre failure | | MPRTC | APSRTC |
|-----------|-----------------------------|--------------------------------|------------|--------|--------|
| | | Number | Percentage | | |
| (1) | (2) | (3) | (4) | (5) | (6) |
| 1999-2000 | 16,343 | 1,767 | 10.81 | 0.77:1 | 0.32:1 |
| 2000-01 | 14,296 | 1,667 | 11.66 | 0.70:1 | 0.30:1 |
| 2001-02 | 13,738 | 2,012 | 14.65 | 0.79:1 | 0.31:1 |
| 2002-03 | 11,216 | 1,335 | 11.85 | 0.76:1 | NA |

Higher tyre failure contributed to high incidence of breakdown.

The percentage of breakdowns due to tyre failure to total breakdowns has increased from 10.81 in 1999-2000 to 14.65 during the year 2001-02 which led to increase in cancellation of scheduled kms and reduction in revenues. The loss could not be quantified in audit as the corporate office was not having the cause-wise details of cancelled kms during the period under review.

Consumption of tyres

4.13.4 The Corporation fixed the retreadability factor (RTF) at 1:2, but it could not achieve this in any of the four years during 1999-2003 which resulted in higher usage per lakh kms.

Audit noticed that the consumption of new tyres used per lakh kilometre operation in the Corporation ranged between 5.70 (2003-04) and 6.99 (2001-02) during 1999-2004 compared to 4.77 (APSRTC)⁴¹, 4.85 (KSRTC)⁴¹ and 5.22 (MSRTC)⁴¹ during 1999-2000. The increased tyre failures and consumption of retreaded tyres without completion of the average life were mainly due to the following controllable factors:

Reasons for tyre failures were not identified.

- Negligence of the wheel fitter in checking the tyre properly,
- Non-maintenance of proper air pressure in tyres,
- Failure to change one-side worn tyre in time,
- Improper alignment of wheel,
- Non removal of the tyre immediately on reaching wear and tear up to 0.5 mm of skid depth,
- Improper functioning of breaks, and
- Negligence of the drivers and their bad driving habits, etc.

⁴⁰ Andhra Pradesh State Road Transport Corporation

⁴¹ Andhra Pradesh State Road Transport Corporation; Karnataka State Road Transport Corporation and Maharashtra State Road Transport Corporation

The Corporation, however, did not identify the reasons for tyre failure for taking effective remedial measures and attributed (February 2004) it to the prevailing bad road condition in the state.

Audit, however, observed that the tyre failures were high even on good roads such as Bhopal-Indore, Ujjain-Indore etc. Further, against the sanctioned strength of 62 posts of tyre caretaker, 34 had been kept vacant since 1995.

Usage of more tyres

4.13.5 The Corporation fixed targeted life of a new and retreaded tyre at 45,000 and 28,000 kms (per tyre retreading) respectively. The all India average life of new tyre for the State Road Transport Corporations was 48,556 kms. The usage of new and retreaded tyres, RT factor and the average life during the years 1999-2004 are indicated in *Annexure-22*.

There was usage of more tyres costing Rs.1.21 crore due to less mileage by new tyres.

Audit observed that the Corporation did not achieve the targeted RT factor in any of the years during 1999-2003. The low achievement resulted in obtaining the maximum life of only 42,392 (1999-2000) kms for new and 27,848 kms (2003-04) for retreaded tyres. This has forced the Corporation to use 1,908 extra tyres against the requirement of 32,187 tyres as per norms involving expenditure of Rs.1.21 crore.

Management stated (September 2004) that the average performance of tyres differed from state to state depending upon the prevailing road and vehicle conditions. Further, targets were always set on high side to make the units strive for improved performance.

Scrapping of tyres

4.13.6 The Corporation fixed a norm of 45,000 km for new tyre and 28,000 km for retreaded tyres (per retreading). As per its RTF of 1:2, a tyre should achieve a life of 1,01,000 km (45,000+56,000 (28,000 per retreading)). The Corporation scrapped 4,889 new tyres during 1999-2004 after achieving aggregate mileage of only 2,171.68 lakh kms. This resulted in avoidable expenditure of Rs.1.73 crore⁴² as per *Annexure-23*. Similarly, the Corporation also scrapped 31,965 retreaded tyres during 1999-2004 before achieving their average life of 56,000 (for two retreading). This led to lesser utilisation of 8,678.8 lakh km equivalent to 8,590 tyres valued at Rs.5.43 crore.

Premature scrapping of 4,889 new tyres led to extra expenditure of Rs.1.73 crore.

31,965 retreaded tyres valuing Rs.5.43 crore were scrapped prematurely.

Further, the premature failure of new tyres in the Corporation ranged between 11.19 (2000-01) and 9.09 (2002-03) *per cent* against transport industry norm of five *per cent* for scrap.

⁴²

| | | | |
|-------|--|---|----------------|
| (i) | Shortfall (in lakh kms) | : | 2,766.21 |
| (ii) | Shortfall in terms of tyres ((i) divided by 1,01,000 km) | : | 2,739 numbers |
| (iii) | Average cost per tyre | : | Rs.6,322 |
| (iv) | Avoidable expenditure ((ii) multiplied by (iii)) | : | Rs.173.16 lakh |

The management stated (February 2004) that the overaged vehicles had to ply on bad roads and therefore, tyres were damaged in such a way that they could not be taken up for retreading, hence assessment of loss, was not reasonable.

The reply was not convincing as scrapping of retreaded tyres by the depots across the state, clearly indicated that no efforts were made for maintenance of tyres to minimise the tyre scrap.

Tyre retreading plants

Low capacity utilisation

4.13.7 As on 31 December 2003, the Corporation had four tyre retreading plants, each headed by a works manager under the control of Deputy General Manager (Technical) at the Corporate office. The capacity utilisation of plants ranged between 60 and 71 *per cent* during 1999-2004, as detailed hereunder:

| Particulars | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---------------------------|-----------|---------|---------|----------------------|---------------------------------|
| 1. | 2. | 3. | 4. | 5. | 6. |
| Installed capacity | 34,416 | 32,820 | 32,256 | 29,856 ⁴³ | 29,856 |
| Production | 20,786 | 21,814 | 22,868 | 19,551 | 10,471 (up to November 2003) |
| Shortfall | 13,630 | 11,006 | 9,388 | 10,305 | 19,385 |
| Percentage of utilisation | 60.4 | 66.5 | 70.9 | 65.5 | 35.1 |

The underutilisation of capacity was due to reduction in gross operated kms against the scheduled kms. This was due to increase in maintenance of off road buses i.e. 509 (1998-99), 565 (1999-2000), 559 (2000-01) and 676 (2001-02) and cancellation of 2,422.83 lakh kms for want of buses and breakdown of buses due to overaged fleet, as indicated below.

| Age (Years) | Number of buses |
|--------------|-----------------|
| Above 20 | 24 |
| 16-20 | 313 |
| 11-15 | 333 |
| 6-10 | 603 |
| Up to 5 | 361 |
| Total | 1,634 |

Consequently, the installed capacity of plants could not be put to maximum use for want of tyres for retreading.

⁴³ Reduction in installed capacity was due to bifurcation of the state and closure of Rewa division.

Premature failure of retreaded tyres

4.13.8 The Corporation has not fixed any norms for premature failure of retreaded tyres so far (September 2004). The corporate office could not review the process losses of plants due to non-receipt of information periodically from the plants during 1998-2003.

There was failure of retreaded tyres leading to loss of mileage of 4.06 lakh kms.

Scrutiny of the data compiled at the instance of audit revealed that during 1998-2003 the Corporation removed 725 retreaded tyres after their achieving mileage of only 45,089 km against 4.06 lakh km as per the norm of 28,000 per retreading.

Audit observed that:

- premature failure of retreaded tyre resulted in foregoing mileage of 405.55 lakh km of these tyres,
- the percentage of premature failure ranged between 0.82 and 2.45 compare to norm of 0.25 *per cent* in KSRTC, and
- the percentage was high (1.98, 2.13, 5.03, 3.1 and 5.84) in Jabalpur plant.

Despite the high incidence of premature scrapping at various plants, the Corporation did not take any corrective measures for bringing down failures.

Non-fixation of norms for consumption of material and energy

4.13.9 Despite being in existence for four decades, the Corporation did not conduct any study on consumption of material, energy and manpower required for completion of work and to fix any norms. The plants did not even have the facility of identifying energy consumption for want of separate meter. Instead of fixing norms in quantitative terms, the Corporation fixed cost of retreading at Rs.1,500 per tyre in 1997.

No norms were fixed for consumption of material and energy.

Audit observed that the cost achieved did not match the norm of Rs.1,500 during 1999-2004. In the absence of fixation of quantitative norms and recording the power consumption, the Corporation could not identify excess consumption of raw material, energy and labour utilisation and thus could not take any corrective action.

The Management stated (September 2004) that the retreading cost was fixed at higher side at Rs.1,500 per tyre to ensure timely payment of wages to workers in the plant out of amount received from user depot. It was also stated that steps were being taken to maintain job cards, instal sub-meters for recording power consumption and for fixing norms for consumption of materials for retreading.

Piecemeal purchase of tread rubber at higher cost

4.13.10 Tyre retreading plants were authorised to procure their own requirement of materials. Instead of procuring from the standard manufacturers such as MRF, LG, etc., materials were purchased locally without evaluating their performance and obtaining any guarantee. The following table indicates the average cost of tread rubber per kg procured by each plant.

(Rupees per kg)

| Year | Bhopal | Mhow | Gwalior | Jabalpur |
|-----------|--------|-------|---------|----------|
| 1999-2000 | 79.72 | 85.83 | 70.15 | 85.41 |
| 2000-01 | 80.50 | 81.52 | 70.11 | 80.61 |
| 2001-02 | 73.75 | 71.80 | 89.88 | 81.25 |
| 2002-03 | 72.77 | 76.86 | 74.01 | 79.74 |
| 2003-04 | 75.06 | 81.80 | 79.37 | 73.22 |

Piecemeal purchase of tread rubber led to extra expenditure of Rs.53.85 lakh.

Audit observed that had the Corporate office placed bulk orders to suit the requirement of each plant, it could have avoided extra expenditure of Rs.53.85 lakh, as detailed in **Annexure-24**.

Management stated (September 2004) that due to financial constraints, the divisions were advised to purchase tread rubber from the sources identified by the Head Office depending upon the availability of suppliers. This led to variation in price of tread rubber purchased.

General

Response to Inspection Reports, Draft Paragraphs and Reviews

4.14 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and the administrative departments concerned of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective Heads of Departments within a period of six weeks. Inspection Reports issued up to March 2004 pertaining to 31 PSUs disclosed that 4,519 paragraphs relating to 1,691 Inspection Reports remained outstanding at the end of September 2004. Of these, 1,368 Inspection Reports containing 3,106 paragraphs had not been replied to for one year to 19 years (**Annexure-25**).

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that out of 15 draft paragraphs and two draft reviews forwarded to the various departments between April and August 2004, as per details in Annexure, replies to two reviews and 12 draft paragraphs were awaited (September 2004).

It is recommended that the Government should ensure that: (a) procedure exists for action against the officials who failed to send replies to inspection reports/draft paragraphs/reviews as per the prescribed time schedule; (b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule; and (c) the system of responding to the audit observations is revamped.

Gwalior
The

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The

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