

Overview

1. Overview of Government Companies and Statutory Corporations

Audit of Government Companies is governed by Section 619 of the Companies Act 1956. The accounts of Government Companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2011, the State of Madhya Pradesh had 51 working PSUs (47 Companies and 4 Statutory Corporations) and 10 non-working PSUs (all Companies), which employed 0.47 lakh employees. The working PSUs registered a turnover of ₹ 31637.50 crore in 2010-11 as per their latest finalised accounts as on 30 September 2011. This turnover was equal to 11.65 per cent of State GDP indicating an important role played by State PSUs in the economy.

Investments in PSUs

As on 31 March 2011, the Investment (Capital and Long Term Loans) in 61 PSUs was ₹ 24400.17 crore. It grew by 28.26 per cent from ₹ 19023.31 crore in 2005-06. Power Sector accounted for 87.76 per cent of total investment in 2010-11. The State Government contributed ₹ 4517.79 crore towards Equity, Loans and Grants/Subsidies to State PSUs during 2010-11.

Performance of PSUs

During the year 2010-11, out of 51 working PSUs, 25 PSUs earned profit of ₹ 176.21 crore while two PSUs were in the situation of no profit and no loss and 14 PSUs incurred loss of ₹ 2175.36 crore as per their latest finalised accounts as on 30 September

2011. Five Companies did not submit their first accounts and four Companies had not started their commercial operation while one company capitalized the expenditure in balance sheet. The State PSUs had Accumulated Losses of ₹ 13923.97 crore. The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of ₹ 1173.31 crore and infructuous investments of ₹ 42.83 crore could have been controlled with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. All 59 accounts of working PSUs finalised during October 2010 to September 2011 received qualified certificates from Statutory Auditors. There were 68 instances of non-compliance of Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty six working PSUs had arrears of 58 accounts as of September 2011. The arrears need to be cleared by setting targets for PSUs. There were 10 non-working companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

(Chapter – I)

2.1 Performance Audit relating to Public Sector Undertakings

Performance Audit on the functioning of Madhya Pradesh Financial Corporation

Madhya Pradesh Financial Corporation was established under the State Financial Corporations Act, 1951 (SFC Act) for promoting industrial development in the state of Madhya Pradesh. The objective of the Corporation is to provide assistance for establishment of industries in the small, medium and service sectors and to play a dynamic role in developing the industrial base and socio-economic infrastructure in the state. The Performance Audit of the Corporation was conducted to assess the economy, efficiency and effectiveness in providing financial assistance during the period from 2006-07 to 2010-11.

Industrial promotion policy and assistance to micro and small enterprises

The Industrial Promotion Policy, Action Plan unveiled by the State Government in 2004-05 and the annual Memorandum of Understanding (MoU) signed with the State Government envisaged developing of industrial clusters and providing term loan assistance to micro, small and medium enterprises in backward areas. However, the Corporation could sanction only ₹475.29 crore to backward areas out of total ₹1042.38 crore sanctioned. Assistance to micro and small entrepreneurs declined year after year. The Corporation's market share in lending to Micro, Small and Medium Enterprise (MSME) sector in the state was only 6.48 per cent as compared to 93.52 per cent by commercial banks.

Appraisal of loans

Deficient appraisal of loans resulted in sanctioning of loans to two borrowers

from whom ₹6.96 crore is outstanding with default ₹1.27 crore. Incorrect application of interest rates on seven loans led to loss of income of ₹30.50 lakh. The Corporation extended rebate of ₹20.65 lakh to ineligible borrowers.

Sanction and Disbursement

The Corporation could not disburse all the loans sanctioned every year because of non-availability of adequate funds. It disbursed ₹673.06 crore (65 per cent of loans sanctioned) out of ₹1042.38 crore sanctioned during the five-year period. The Corporation did not dispose of loan applications within the time frame prescribed in its loan policy.

Recovery and follow-up

The annual target fixed for recovery was less than the amount due for recovery. The amount to be recovered at the end of each year increased from ₹66 lakh in 2008-09 to ₹5.22 crore in 2010-11. The total NPA portfolio of the Corporation aggregated to ₹10.20 crore at the end of 2010-11 even after the transfer of entire NPA to the State Government during 2007-08. It indicated the Corporation's weakness to effectively monitor its NPA. It suffered a loss of ₹32.47 crore through One Time Settlement (OTS) of dues. The percentage of loss on OTS increased from 30 in 2007-08 to 78 in 2010-11.

Delay in initiating recovery proceedings resulted in accretion of outstanding dues of ₹16.52 crore and default of ₹1.27 crore in respect of loans of ₹11.89 crore provided to four borrowers. The Corporation could finalize sale and

recover dues amounting ₹ 11.07 crore from 49 out of 120 units taken over during the five year period. The Corporation could not recover ₹ 5.10 crore on sale of 23 units as their sale proceeds did not cover the amount of default.

Financial Management

The profit increased from ₹ 51 lakh in 2008-09 to ₹ 2.01 crore in 2010-11. No dividend was paid on the State Government's investment of ₹ 269 crore. The Corporation mobilized only ₹ 71.42 crore against ₹ 100.00 crore through issue of bonds during 2009-10 and 2010-11.

Conclusion and recommendations

The Corporation did not play its

supportive role effectively to industrialise the backward districts. The loan appraisal system was found to be deficient. Its interest rates were uncompetitive and the loss in One Time Settlement (OTS) was increasing year after year. The loans were rescheduled without any limit on number of re-scheduling.

The performance audit report contains six recommendations, which include evolving a structured policy for providing more assistance to MSME sector and to develop industries in backward areas, evolving a mechanism to make its interest rates competitive and adhere to time limits fixed by the Board for sanctioning of the loans.

(Chapter II)

2.2. Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited

Performance Audit on Power Distribution Utilities

The power distribution in the State of Madhya Pradesh is carried out by three Power Distribution Companies (Discoms) namely Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (Madhya Discom), Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (Poorv Discom) and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (Paschim Discom) which were incorporated on 31 May 2002 under the Companies Act, 1956.

During 2006-07, 19,706 MUs of energy was sold by the three Discoms which increased to 25,468 MUs, i.e. an increase of 29.24 per cent during 2006-11. As on 31 March 2011, the State had distribution network of 5,84,949 CKM, 2,680 sub-stations and 2,55,207 transformers of various categories. The number of consumers was 89.85 lakh. Based on the

data relating to quantum of power sold, length of distribution network, number of consumers and AT&C losses, the Poorv and Paschim Discoms were selected for detailed analysis.

Distribution and network planning

Against the planned additions of 1031 sub-stations over the performance audit period, the three Discoms added only 651 sub-stations.

Implementation of centrally sponsored schemes

Under RGGVY the Poorv and Paschim Discoms had not fixed target for electrification for the year 2006-07 and 2007-08. During the five years from 2006-07 to 2010-11 only 3,375 villages were electrified by the two Discoms,

against a target of 4,379 villages achieving 77.07 per cent.

Operational efficiency

Due to Sub transmission and distribution losses in excess of norms fixed by MPERC, during the five years from 2006-07 to 2010-11, the two Discoms suffered a loss of revenue to the tune of ₹ 1490.86 crore.

Financial Management

Due to release of inadequate funds by MPSEB under Cash Flow Mechanism during the period between 2006-07 and 2009-10, the Poorv Discom had diverted ₹ 102.81 crore from funds earmarked for capital works for salary, repairs & maintenance and administrative & general expenses.

To meet the necessary expenditure the Discoms were compelled to resort to working capital loan and during the performance audit period had borrowed ₹ 800 crore (₹ 250 crore Poorv Discom and ₹ 550 crore Paschim Discom) from Power Finance Corporation and the Paschim Discom had borrowed ₹ 2795.50 crore and Poorv Discom ₹ 996.19 crore from Government of Madhya Pradesh.

Billing and Revenue collection efficiency

The Poorv and Paschim Discoms billed only 73.21 per cent to 76.79 per cent of energy sold. In respect of the three Discoms in the State the balance dues outstanding at the end of the year increased from ₹ 3778.15 crore in 2006-07 to ₹ 6365.05 crore in 2010-11. The arrears in terms of number of months' assessment increased from 6.23 in 2006-07 to 6.63 in 2010-11.

Incorrect estimation of agricultural consumption

Because of non compliance with the directives of the MPERC regarding provision of meters on at least 25 per cent agricultural predominant DTRs, revision of the benchmark consumption could not be achieved, thus the Paschim Discom had to forgo revenue on 286.13 MU during 2010-11.

Conclusion and recommendations

Discoms could not achieve the planned addition of substations. The two Discoms had not included a clause in the agreement for levy of interest on the mobilisation advance to contractors. While the Discoms are paying interest on loans from PFC, they granted interest free advance to contractors. The percentage of metered consumers to total consumers decreased from 75 in 2006-07 to 64 in 2010-11. Due to incorrect estimation of unmetered agricultural consumers, the Paschim Discom had to forgo revenue on short billing of 286.13 MU during 2010-11. Delay in implementation of Bachat Lamp Yojana resulted in depriving the savings in power of 86.21 MU annually in respect of Poorv Discom. The Paschim Discom had not assessed the likely savings in peak load or reduction in power purchase cost that would accrue annually upon implementation of the scheme.

The performance audit report contains five recommendations which include increasing the phase of addition of Sub-Station to the distribution network, avoiding grant of interest free mobilisation advance to contractors, speeding up the pace of rural electrification, regulating the tariff in accordance with the National Tariff Policy.

(Chapter II)

3. Transaction audit observation

Transaction audit observations included in the Report highlight deficiencies in the management of PSUs, which had serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹86.80 crore in six cases due to non-safeguarding the financial interest of organization.

(Paragraphs 3.1, 3.2, 3.5, 3.6, 3.7 & 3.9)

Loss of ₹2.90 crore in two cases due to non-compliance of rules and procedures.

(Paragraphs 3.3 & 3.4)

Blockage of ₹0.47 crore in one case due to deficient planning.

(Paragraph 3.8)

Some important observations are given below:

Madhya Pradesh Power Trading Company Limited failed to obtain required amount of letter of credit of ₹ 65.51 crore from purchaser of power resulting in accumulation of dues of ₹ 78.63 crore

(Paragraph 3.6)

Madhya Pradesh Audhyogik Kendra Vikas Nigam (Rewa) Limited failed to take cognizance of amended Madhya Pradesh Industrial land allotment Rules (April 1999) resulting in loss of revenue of ₹ 4.12 crore in transfer of land to a private firm.

(Paragraph 3.2)

SEZ (INDORE) Limited and Madhya Pradesh Police Housing Corporation Limited made avoidable payment of ₹ 1.37 crore towards Interest, penalty on belated submission of Income tax returns and non-remittance of Advance Income Tax.

(Paragraph 3.4)

Madhya Pradesh Road Transport Corporation suffered a loss of revenue of ₹ 2.08 crore due to discontinuance of operation of inter-state buses by contractors.

(Paragraph 3.9)

Madhya Pradesh Laghu Udyog Nigam Limited failed to invoke price fall clause for revising the price of alumina ferric resulting in loss of ₹ 1.53 crore to the exchequer.

(Paragraph 3.3)