

CHAPTER III

Transaction Audit Observations

Important audit findings arising out of test check of transactions carried out by the State Government companies are included in this Chapter.

Government companies

Madhya Pradesh Road Development Corporation Limited

3.1 Avoidable payment of interest on Income Tax

Company made avoidable payment of ₹ 1.96 crore towards interest/penalty due to delayed submission of Income Tax Returns and non-remittance of Advance Income Tax.

Under section 208 read with sections 209, 210 and 211 of Income Tax Act, 1961 (Act), it was obligatory for the Company to pay the Advance Income Tax (AIT) in four quarterly installments during each financial year (on or before 15 June, 15 September, 15 December and 15 March) in case the amount of Income Tax payable is ₹ 5,000⁶⁸ or more. Further, in terms of sections 234 (A), (B) and (C) if the assessee did not submit Income Tax Return (IT Return) on due date or fails to pay AIT, the assessee was liable to pay simple interest at the rate of one *per cent* per month for every month of belated/ non-submission of IT Return and for shortfall or belated remittance of quarterly AIT.

We observed that the Company with a view to avail the tax exemption on the taxable income applied (March 2008) for registration as a charitable institution under section 12A of the IT Act. The Income Tax (IT) Authorities accordingly fixed the date of hearing the case on 15 September 2008 instructing the Company to provide necessary details/records in support of their claim.

The Company, however, failed to appear before the tax authorities on the date fixed and present its case for claiming the tax exemption. The claim of the Company was, therefore, rejected (18 September 2008) by IT Authorities.

We observed that though the Company applied for tax exemption under section 12A of the IT Act in March 2008, it never deposited the AIT since its incorporation (July 2004) for the financial years 2004-05 to 2007-08 on the assumption that the Company would be granted tax exemption by tax authorities. The Company also

68 Enhanced to ₹ 10,000 w.e.f. 01.04.2009.

failed to submit the IT Returns for the said years within the time limit prescribed under section 139 (1) of the Act. The non-payment of AIT and belated submission of returns attracted interest payment under sections 234 (A), (B) and (C) of the Act. Resultantly, the Company had to pay interest of ₹ 1.96 crore⁶⁹ which could have been avoided by timely paying the quarterly installments of AIT and by filing the IT returns on due dates as per the provisions of the Act.

The Management while admitting the facts stated (February 2010) that the Company submitted an application for registration of the organization under section 12A of the Income Tax Act, 1961 for claiming the Income Tax exemption and when it was rejected by the Commissioner (Income Tax) the Company decided to prefer an appeal before Income Tax Tribunal. Resultantly, the Company had to pay the tax along with interest. The Government endorsed the replies of the management.

The plea of the Company is not valid as the Company applied for tax exemption under section 12A of IT Act only in March 2008 while it failed to submit IT return in time and also did not deposit AIT from the first year of its incorporation viz. from 2004-05 which is not justified.

3.2 Excess release of subsidy

Excess release of subsidy of ₹ 0.73 crore to the concessionaire on the construction of Road under BOT.

The State Government transferred (February 2001) the project of laying 123 Kms Hoshangabad-Piparia-Pachmadi Road to the Company for execution through a concession on Build, Operate and Transfer (BOT) basis. Accordingly, the Company entered (July 2003) into an agreement with Chetak Enterprises Private Limited (Firm C) for execution of the said project at a cost of ₹ 59.88 crore under BOT with a stipulation to complete the work by 28 May 2005. Since the BOT was under Public Private Partnership mode, the Company was to contribute towards the cost of works to the extent of ₹ 35.49 crore, in the form of subsidy (subsidy) to be released in 10 equal installments based on the progress of work. The remaining cost of the project was to be borne by Firm C who was allowed to collect the toll upto 22 October 2018 during the operational period. As per the detailed project report, the work of laying of the road included the construction/expansion of bridge at Denuwa river and widening of the road at estimated cost of ₹ 1.65 crore and ₹ 1.00 crore respectively.

The clause 17 of the agreement envisaged for change of work scope under exceptional circumstances only which stipulated that any increase in the scope of

⁶⁹ ₹ 0.74 crore for delayed submission of IT Return (Sec 234-A) and ₹ 1.22 crore for shortfall/delayed payment of advance tax (Section 234-B & 234-C)

work exceeding ₹ 1.00 crore would be compensated with corresponding increase in concession period⁷⁰. However, any reduction in the scope of work exceeding ₹ 1.00 crore would be adjusted through proportionate reduction in the Company's contribution towards cost of work released by way of subsidy without reducing the concession period. Further, any variation in the work scope upto ₹ 1.00 crore was to be ignored.

Our scrutiny of records revealed that the construction of works of Denuwa river bridge and widening of roads at Satpura Forest area could not be completed due to non clearance of the issue by Forest Department till July 2008 resulting in reduction in scope of work to the extent of ₹ 2.65 crore. Further, additional works relating to widening of bridge and widening/ reconstruction of new culverts valuing ₹ 0.42 crore were also added in the work scope of Firm C. Thus, there was net reduction in the scope of work to the extent of ₹ 2.23crore⁷¹ for which proportionate reduction of ₹ 0.73 crore⁷² was to be made in the subsidy amount to be released by the Company to Firm C.

We observed that the Company failed to reduce the said amount from the subsidy and released the tenth and final installment of subsidy (₹ 3.05 crore) to Firm C (August 2009) in contravention of the terms of the contract.

Thus, the Company extended undue benefit of ₹ 0.73 crore to Firm C by not reducing the subsidy amount to the extent of net reduction in the work scope contrary to the terms of the contract, resulting in loss to the Company to that extent.

In reply of the Company endorsed by the Government, it was stated (August 2010) that after taking into account additions of ₹ 1.27 crore in the value of work on account of revision in Schedule of Rates (SOR) the net reduction in work scope was worked out to ₹ 96.00 lakh, which was below the limit of ₹ 1.00 crore stipulated under the contract for reduction in subsidy amount. It was further stated that the works relating to construction of Denuwa river bridge and widening of roads had to be deleted from the work scope on account of delay in forest clearance by the Forest Department, which was the responsibility of the Company as per the contract terms. Thus, Firm C should not be penalized for not providing the free sites by the Company for execution of work.

The plea of the Management/ Government for considering the escalation of ₹ 1.27 crore in SOR as addition to the work scope is not valid as the said escalation was

70 Represents the period for which the concessionaire (Firm C) was given the rights to collect the toll.

71 Deletion of work of Denuwa river bridge and widening of forest road valuing ₹2.65 crore (-) additional works relating to widening of bridge and widening /reconstruction of new culverts valuing ₹0.42 crore.

72 Proportionate reduction of subsidy as per clause 17 of the agreement = ₹1.23 crore x ₹35.49 crore / ₹59.88 crore = ₹0.73 crore.

meant merely to compensate the Firm C against inflation in the costs without involving actual increase in the work scope. Further, the contention of penalizing Firm C for non-execution of work is also not acceptable as our objection is on irregular extension of Company's contribution by way of subsidy towards cost of the works, which have not been executed by Firm C.

The Company needs to fix responsibility for irregular release of excess subsidy to Firm C and strengthen its internal control mechanism so as to avoid recurrence of similar losses in future.

Madhya Pradesh Power Transmission Company Limited

3.3 Ineffective monitoring

Company suffered loss of ₹ 98.42 lakh due to non-regulation of supply of material with actual progress of work and also ineffective monitoring for ensuring adequate insurance cover for material.

The Company⁷³ placed (March 2005) orders on M/s Simraiya Construction Company, Indore (Contractor) for erection of 132 KV Mehgaon-Porsa double circuit single stringing line (valuing ₹ 1.48 crore), Malanpur–Morar line (valuing ₹ 0.79 crore) and Lahar–Seondha line (valuing ₹ 0.56 crore) with due date of completion of works on 26 April 2006, 21 May 2006 and 18 October 2006 respectively. The conditions of work order *inter alia* stipulated that (i) the Company was to provide the materials for erection of lines to the Contractor and on completion of the work, the Contractor was to return all the unused material, (ii) the Contractor was liable to obtain adequate insurance cover for full value of material against all risks jointly in the name of the Company and the Contractor and hypothecate the same in favour of the Company till final erection and handing over of line to the Company, (iii) the Contractor was required to furnish the security deposit for an amount equal to five *per cent* of the value of order (iv) in case of Contractor's failure in adhering to the time schedule, the Company was entitled to withdraw the work and execute the same departmentally or through other agency at the risk and cost of the Contractor. The Company issued (March 2005) work orders after collection of ₹ three lakh towards security deposit as against the required deposit of ₹ 14.21 lakh by relaxing the requirement of obtaining minimum security deposit based on past performance of the Contractor.

We observed that the Company issued (August 2005) material having huge value of ₹ 8.47 crore to the Contractor at one go for the works commenced between September 2005 to May 2006. As per the principles of prudence, the material for execution of work should have been provided to the Contractor based on the actual

73 *The order was placed by the erstwhile Madhya Pradesh State Electricity Board as the Company came in existence only in June 2005 after unbundling of the Board.*

progress of the work. Thus, action of the Company of issuing huge value of material in advance to Contractor was not a prudent gesture.

The Contractor abandoned the work of 132 KV Mehgaon–Porsa, Malanpur–Morar and Lahar–Seondha lines during February 2008, November 2007 and August 2006 respectively after completing financial progress of 49 *per cent* of Mehgaon–Porsa line (stringing of 17.166 kms left over) 84 *per cent* of Malanpur–Morar line (stringing of 4.082 kms left over), and Nil *per cent* of Lahar–Seondha line (erection 55 towers and stringing of 16.253 kms left over). The Company issued (July 2007 to November 2008) notices to the Contractor for resuming the work but did not initiate any legal action as contemplated in notices even after finding no response to the notices. The Company carried out the left over work of Mehgaon–Porsa line and Malanpur–Morar line departmentally at the risk and cost of the Contractor and lines were charged on 31 March 2008 and 1 November 2007 respectively. The line work of Lahar–Seondha line, however, remained unexecuted (November 2010).

We observed that Contractor was not regular in obtaining adequate insurance cover for the material lying at site and Company also failed to effectively monitor and follow up with the Contractor against this lapse. As a result, the insurance policies obtained by the Contractor intermittently for the materials lying at three work sites were no longer available for realisation of dues as the policies stood expired on 4 May 2008, 1 January 2008 and 25 March 2007 respectively.

The total liability of the Contractor at the time of abandonment of the work was ₹ 98.42 lakh which included cost of material found short (₹ 30.84 lakh) and stolen (₹ 45.68 lakh) from the custody of the Contractor besides extra expenditure of ₹ 21.90 lakh incurred by the Company in execution of the balance work departmentally.

Thus, the Company failed in properly linking the issue of material to Contractor with actual progress of the work leaving full scope for wrong doing and abandoning the work un-executed by the Contractor. Besides, Company also failed to safeguard its financial interest by not ensuring continuity of valid insurance policies of the material issued to the Contractor and lying unused at work site till completion of the works as stipulated in the contract.

The Management stated (April/July 2010) that required time was consumed in assessing the final material related liabilities in respect of three works and in order to recover the total dues of ₹ 98.42 lakh from the Contractor, the Company had initiated (December 2009) the arbitration proceedings and the outcome of the arbitration proceedings against the Contractor would be intimated after it was completed. The Company also stated (July 2010) that as it was holding permanent security deposit of

₹ 3.00 lakh from the Contractor and his past performance was satisfactory, it did not collect 5 per cent value of order as security deposit.

The reply is not convincing as though the Contractor abandoned three works during August 2006 to February 2008, the Company initiated the arbitration proceedings after abnormal delay of around two years in December 2009 only after we raised (14 October 2009) the issue during local audit of the Company. The failure of the Company to regulate supply of material to the extent of work executed by the Contractor and also to ensure the insurance coverage of the material alive till the completion of the works resulted in avoidable loss to the Company.

The matter was referred (June 2010) to the Government; their reply had not been received (November 2010).

Madhya Pradesh Power Trading Company Limited

3.4 Reimbursement of Open Access Charges

Imprudent reimbursement of Open Access Charges to a defaulted purchaser of power resulted in avoidable loss of ₹ 26.39 lakh.

Based on the request made (April 2007) by Adani Enterprises Limited, Gurgaon, (Firm) for purchase of 300 MW round the clock power from the Company, Letter of Intent (LOI) was placed (April 2007) on the Firm for sale of 300 MW for the period from 15 July 2007 to 30 September 2007 at the rate of ₹ 6.89 (15 July 2007 to 31 July 2007) and ₹ 6.82 (1 August 2007 to 30 September 2007) per KWH. The Firm, however, confirmed (April 2007) to accept only 100 MW round the clock power during the above period due to transmission constraints and accordingly the agreement was entered into (September 2007). As per the LOI⁷⁴ and the agreement executed, the Firm was required to apply for Open Access to Nodal Agency i.e., Northern Regional Load Dispatch Center (NRLDC) for transmission of power to be purchased from the Company for the period from 15 July 2007 to 30 September 2007. Further, all the Open Access Charges⁷⁵ applicable up to the delivery point (MP Periphery) were to be borne by the Company and all such charges⁷⁶ applicable beyond the delivery point by the Firm.

Accordingly, the Firm obtained (April to June 2007) Open Access from NRLDC for transmission of contracted power (15 July 2007 to 30 September 2007) up to the delivery point by paying Open Access Charges of ₹26.39 lakh on behalf of the Company. The Firm subsequently claimed (May and June 2007) Open Access

⁷⁴ *Open Access represents booking of the corridor for transmission of power to be purchased by the Firm from the Company.*

⁷⁵ *Include transmission charges of MP State Transmission Unit and operating charges of MP State Load Dispatch Center.*

⁷⁶ *Include transmission /operating charges in respect of Central Transmission Unit and Haryana State Transmission Unit.*

Charges of ₹ 26.39 lakh from the Company which was reimbursed (December 2007) by the Company in full. However, the Firm defaulted in drawing the contracted power of 100 KW and did not draw any power during 15 July – 30 September 2007. Consequently, the Open Access Charges of ₹ 26.39 lakh paid for booking the corridor for transmission of the power during said period also lapsed.

We observed that the said Open Access Charges were lapsed on account of default in drawal of power by the Firm with no fault of the Company. As such, the loss on this account should have been borne by the Firm. Despite knowing all the facts of the issue, the Company imprudently reimbursed the Open Access Charges of ₹ 26.39 lakh to the Firm, which were initially paid by the Firm to NRLDC on behalf of the Company. Subsequently, on realizing the mistake, Company requested (January 2008) the Firm for refund of the Open Access Charges, which was denied (February 2008) by the Firm causing avoidable loss of ₹ 26.39 lakh to the Company.

The Company replied (May and August 2010) that Open Access Charges was refunded to the Firm as per the condition of LOI.

The reply is not convincing as the Company failed to safeguard its financial interest as it imprudently reimbursed the amount of ₹ 26.39 lakh to the Firm despite knowing the fact that the Company would not get the refund of the amount from NRLDC for the rights of Open Access already lapsed due to default of the Firm.

The matter was reported (June 2010) to the Government; their reply had not been received (November 2010).

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited

3.5 Non-recovery of dues

Abnormal delay in termination of an agreement with defaulted Franchisee resulted in non-realisation of dues of ₹ 2.34 crore.

The Company entered (December 2007) into an agreement with Zoom Developers Private Limited, Indore, appointing them as Franchisee for the specified area of Jahangirabad Zone, City Division (South), Bhopal, for a period of five years to bring improvement in metering, billing and collection of revenue, minimize billing arrears and enhance customer satisfaction by improving quality and reliability of service. As per the tender specifications, the Franchisee was required to provide performance security deposit which should be maintained at 1.5 times of average assessment of the monthly revenue bills of previous 12 months. As on May 2009, the Franchisee had maintained a performance security deposit to the tune of ₹ 1.61 crore with the Company as per the requirement.

In terms of the agreement, the Company was to raise monthly bills on the Franchisee based on the units recorded in the interface meter at the input point, which were required to be settled by the Franchisee within ten days from the date of issue of bill.

Further, the Company was also entitled to recover a surcharge of two *per cent* per month on diminishing balance of the unpaid billed amount for every day of delay by the Franchisee. In the event of the billed amount or any part thereof remaining unpaid for a period of 30 days from the due date, the Company was entitled to suspend and/or terminate the agreement.

Our scrutiny of records of Regional Accounts Office, Bhopal, revealed that the Franchisee regularly defaulted in settlement of monthly power bills from August 2008 onwards and continued to make part payments of the bills resulting in huge accumulation of dues during September 2008 to September 2009 ranging from ₹ 0.50 crore to ₹ 3.06 crore per month against the available performance security deposit of ₹ 1.61 crore. Further, the cheque for ₹ 2.44 crore received (July 2009) from the Franchisee against their outstanding dues as on June 2009 was also dishonoured. We observed that the outstanding dues of the Franchisee as on 30 April 2009 stood at ₹ 1.11 crore, which could have been conveniently adjusted against the available security deposit of ₹ 1.61 crore by suspending the contract with the Franchisee at that point of time. However, necessary action for recovery of dues was not taken as per the agreement resulting in accumulation of arrears over the amount of security deposit available with the company. The Company issued (March 2009, April 2009 and June 2009) notices for preliminary termination of agreement and had finally terminated the contract w.e.f. 1 September 2009 only on 22 August 2009. The unpaid dues of the Franchisee accumulated to ₹ 3.95 crore as on 31 August 2009. Resultantly, Company suffered a loss of ₹ 2.34 crore on account of unrecovered dues from the Franchisee even after adjustment (August/September 2009) of the available security deposit of ₹ 1.61 crore. Thus, undue delay in termination of contract when security deposit amount of ₹ 1.61 crore was adequate to realise the dues of ₹ 1.11 crore outstanding as on April 2009 led to accumulation of dues and consequent loss of ₹ 2.34 crore to the Company.

In response to a Factual Statement issued by us, the Company stated (June/ July 2010) that it had initiated arbitration proceedings against the Franchisee and also that in the joint meeting held with the Franchisee on 29 June 2010, it was decided to settle the dispute amicably.

The reply is not acceptable as no dispute existed between the Company and Franchisee warranting arbitration and the Company clearly failed to take timely action to restrict the outstanding dues to the level of security deposit available with it. The Company needs to strengthen the internal control mechanism so as to effectively monitor the accumulated dues of Franchisee with reference to the available security deposit and avoid recurrence of similar losses in future.

The matter was reported (July 2010) to the Government and the Company; their replies had not been received (November 2010).

Madhya Pradesh State Tourism Development Corporation Limited

3.6 Avoidable payment of penalty and fixed demand charges

Persistent Failure of the Company in maintaining the desired level of power factor and non-reduction in the contract demand resulted in avoidable expenditure of ₹ 12.99 lakh.

A reference is invited to Para 4.4 of Chapter-IV of the Audit Report (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March 2004, Government of Madhya Pradesh pointing out the losses incurred by the Company due to its failure in maintaining the desired level of power factor and also due to higher contract demand (117 KVA) with reference to the actual demand (25 KVA to 78 KVA) of power (during December 2003 to February 2004) in several units including the light and sound show unit at Khajuraho. While deposing before the Committee of Public Undertaking (COPU) of Madhya Pradesh Vidhan Sabha, the Managing Director of the Company admitted (November 2006) that the connected load of light and sound programme at Khajuraho was higher than the actual load and the matter was referred to MPSEB for rationalization in November 2006. The Principal Secretary also explained before the Committee that the corrective action in the matter had been taken.

During the transaction audit of the Khajuraho unit for the year 2008-09, we noticed that the Company was not able to maintain the power factor at desired level and also failed to reduce the contract demand of 117 KVA despite existence of actual demand ranging from 23 KVA to 41 KVA which resulted in payment of avoidable fixed charges of ₹ 10.97 lakh (including demand charges of ₹ 2.39 lakh) on higher contract demand for the period from April 2007 to February 2010 besides penalty of ₹ 2.02 lakh for low power factor. After being pointed out (June 2010) by us, the Company applied (August 2010) for reduction in the contract demand from 117 KVA to 60 KVA.

In response to a query raised by us on the issue, the Head Office of the Company confirmed (August 2010) to have applied for reduction in contract demand and also about initiating action for the installation of capacitor to maintain the power factor at desired level.

We observed that the action taken by the Company lacks justification as the corrective measures for reducing the contract demand had been initiated by the Company only in August 2010 after a long time gap of more than three years of admittance of the lapses (November 2006) by its Managing Director before COPU.

The Company needed to review the load status of all its units and give immediate attention for reducing the contract demand in lines with the actual power consumption, whenever necessary. The Company should also take effective measures for maintaining the desired level of power factor so as to avoid recurrence of similar losses on account of excess energy charges/demand charges and penalty towards not maintaining the power factor at desired level.

The matter was reported (June 2010) to the Company and the Government; their replies had not been received (November 2010).

3.7 Unfruitful expenditure on construction of cafeteria

Due to deficient planning of the Company, expenditure of ₹ 64.79 lakh incurred on construction of unviable project remained unfruitful.

The Company had been operating the Hotel Surbahar at Maihar, District Satna (M.P.) for accommodating the tourists coming from all corners of the country to visit Sharda Devi Temple. The Hotel consisted of 11 rooms and 26 bed dormitory along with the facility of a restaurant and conference hall.

With a view to promote tourism, the Company decided to construct a 'cafeteria' in the campus of the Hotel at an estimated cost of ₹ 30.00 lakh. The proposal was submitted (July 2006) to the State Government, which was approved. Accordingly, funds to the extent of estimated cost of the project i.e. ₹ 30.00 lakh were allocated by the State Government out of the grants meant for development of religious tourism. The cafeteria was constructed at final revised cost of ₹ 64.79 lakh and became operational in October 2009.

We observed that the proposal of the Company for construction of 'cafeteria' was not need based. The Company did not carry out any feasibility study and cost benefit analysis in a scientific manner duly taking into account all relevant factors (such as, the prevalent needs of hotel business, market demands in terms of estimated inflow of tourists and number of other hotels in the region, etc.). As a result, during nine months of its operation (i.e. October 2008 to June 2009) the maximum monthly sales of the cafeteria was recorded in October 2008 at considerable low value of ₹ 0.26 lakh. The sales had further decreased to its lowest at ₹ 0.08 lakh in June 2009. Consequently, the Company stopped (July 2009) the operations of the cafeteria and shifted the dining hall and activities of the old restaurant in the 'cafeteria' in July 2009. Consequently, the premises of the old restaurant was lying idle since July 2009.

Further, due to non-preparation of detailed estimates, the cost overrun of ₹ 34.79 lakh for which no Government approval existed had to be met out from the own resources of the Company.

Thus, due to deficient planning of the Company before taking up the project without adequate feasible study on its viability has resulted in the expenditure of ₹ 64.79 lakh incurred on the construction of the cafeteria to be unfruitful.

The Company needed to carry out proper feasibility study in a scientific manner duly taking into account all the relevant factors before taking up such projects in future. The Company should also ensure prior approval of the State Government towards the project cost and also for the cost overrun caused due to unavoidable reasons.

The matter was reported to the Company/Government (July 2010); their replies had not been received (November 2010).

MPAudyogik Kendra Vikas Nigam (Indore) Limited

3.8 Unfruitful Expenditure

The expenditure of ₹ 26.79 crore incurred on execution of Crystal IT Park remained unfruitful due to Company's failure in providing necessary designs/drawings for the work and non-release of payment to the Contractor.

The Company is a premier agency of the Government of Madhya Pradesh engaged in promotion of industries and development of infrastructure in western Madhya Pradesh. The State Government allotted (January 2003) 21 acre land free of cost to the Company for setting up of Crystel IT Park for encouraging development of IT sector in the State. The Crystel IT Park was to comprise of separate buildings for Sorftware Technology Park (STP) and Gems & Jewellery Park (GJP). After following the tendering process, the Company awarded the contract (August 2003) for construction of two buildings for STP and GJP to Nagarjuna Construction Company Limited, Hyderabad (Contractor) for ₹ 43.17 crore with stipulation to complete the work by November 2004.

As per the agreement with the Contractor the due date of the completion of work was November 2004, however, the work could not be completed due to Company's failure in providing necessary designs, drawings relating to several auxiliary and peripheral works such as flooring pattern and shape of paver block to be used in footpath, colour shade and pattern for ceramic tiles in dining hall and toilets etc. to the Contractor even during extended period up to October 2005. On the plea of delay in completion of the work by the Contractor, the Company terminated (December 2006) the contract with stipulation to take action for recovery of penalties, compensation for losses, damages etc. separately. The Company took over possession (March 2007) of the premises and all the consumable material brought to site to execute the remaining incomplete super-structure of building.

As against the contracted work valuing ₹ 43.17 crore, the contractor completed the work valuing ₹ 30.78 crore up to vacation of site (March 2007). The Contractor submitted (October 2003 to December 2006) bills for ₹ 30.78 crore against the value

of the completed works. We observed that though the bills were approved by the Company for payment, bills to the extent of ₹ 3.99 crore were not paid by the Company despite availability of funds. Non-payment of Contractor's bills without any justification adversely affected execution of work. On account of delay caused in execution of work due to non-providing the necessary design and non-release payment against running bills, Contractor submitted further claims for ₹ 29.28 crore towards damages (₹ 6.99 crore), interest for non-payment of bills (₹ 2.00 crore), losses due to delay caused by the Company and interest thereon (₹ 20.29 crore), which were rejected by the Company holding them against the approved policies. Although the Company held several meetings with the Contractor for resolving the issue, no positive result could be obtained. Company's efforts to select a co-developer through tenders and allot the superstructure on 'as is where is' basis for further development also could not work due to non-settlement of dispute with the Contractor.

Thus, on account of Company's failure in providing necessary drawings and designs to the Contractor and non-payment of Contractor's running bills of ₹ 3.99 crore despite availability of funds resulted in non-completion of the project besides blocking of ₹ 26.79 crore incurred on execution of the project.

The matter was referred to the Government/Management in May 2010; their replies had not been received (November 2010).

Madhya Pradesh Leather Development Corporation Limited

3.9 Inadequate arrangements for safeguarding movable and immovable assets

Company suffered a loss of ₹ 1.01 crore in the value of the assets due to inadequate arrangements for their safeguard and maintenance and its land and buildings were illegally encroached due to inadequate safety arrangements.

3.9.1 The Company was incorporated on 25 November 1981 with the objectives of promoting, developing, processing, and selling of raw hides and skins, leather and other related products. The Company was declared (23 April 1998) non functional by State Government in view of persistent losses incurred by the Company during past decade. The accounts of the Company were finalised and audited up to the year 1995-96, which were yet to be adopted in Annual General Meeting. The accounts of the Company were in arrears from the year 1996-97 onwards. Latest certified accounts for the year ended 31 March 1996 depicted that the Company had total assets of ₹ 7.19 crore (including immovable assets ₹ 0.12 crore⁷⁷ and movable assets⁷⁸ ₹ 7.07

⁷⁷ Including Land (₹ 0.02 crore) and Showroom building (₹ 0.10 crore).

⁷⁸ Movable assets include plant and machinery, other fixed assets, stock in trade, other current assets and loans & advances including Cash and Bank balances.

crore). During the years 1993-94 to 1996-97, the Company received ₹ 0.77 crore from State Government for establishment of Narsingarh tannery and incurred expenditure of ₹ one crore till 1997-98. The tannery was not commissioned due to non-installation of Efficient Treatment Plant. The book value of the Plant and Machinery was ₹ 42.37 crore as on 31 March 1996 item wise details of which were not available.

In order to have better control over assets, the Company should maintain complete and up to date records of each assets besides making essential arrangements, such as, periodic physical verification, arrangements for watch and ward of the assets and adequate insurance cover against the risk of fire, flood, earthquake, etc. Besides, in respect of land, the Company needs to construct boundary wall and engage watch and ward on land lying vacant so as to prevent encroachments. In case of illegal encroachments on land, prompt legal measures should be taken up by the Company for making land free from encroachments. The deficiencies noticed in maintenance of proper records and taking adequate measures in safeguarding the movable and immovable properties by the Company are summarised as under:

Inadequate maintenance of assets records

3.9.2 In order to have scientific and effective internal control system in force, the Company needs to maintain “assets records” for each asset with all important particulars of the assets such as, location, original cost, accumulated depreciation, technical and engineering specifications of machineries, identification number, etc. We noticed that the company did not maintain adequate and up to date records depicting all vital information. The 'assets records' maintained by the Company were last updated up to 2004-05 and no updation was made thereafter except Cash and Bank books.

Physical verification of assets

3.9.3 The system of physical verification of assets at regular time intervals is an essential tool of internal control as it helps in ensuring the availability of assets in the possession of the Company at stated location. An effective system of periodical verification of assets minimizes the risks of loss/theft of movable assets and encroachments in case of immovable properties and at the same time enables the management to take timely remedial action against the detected cases of theft/encroachments of assets. As per laid down policy of the Company, all movable and immovable assets of the Company should be physically verified at least once in an year by an officer not below the rank of General Manager and the report for discrepancies in the value of assets submitted to top management for appropriate action in the matter.

We observed that the Company did not carry out the physical verification of the assets since February 2004. As per the latest status report dated 29 February 2004, a

discrepancy in value of assets of ₹ 0.35 crore was reported in plant and machinery and Stock of Raw materials and finished goods. However, the Company did not investigate the discrepancy for taking appropriate action in the matter. Two theft cases were also noticed during 2004-05 for the value of ₹ 4.74 lakh. Thus, the assets of the Company remained exposed to the risks of theft due to inaction on part of the Management.

Encroachment due to inadequate security arrangement

3.9.4 Proper arrangement for security and watch and ward of the immovable properties (viz. Land and Buildings) is very essential as it ensures the encroachment free availability of the land and buildings for Company's own use as well as sale, as and when needed. As per the certified accounts of the Company for 1995-96, it had immovable assets at book value of ₹ 0.12 crore. In 1998, State Government had decided for closure of the Company, accordingly, the assets of the Company were got re-assessed by registered valuer. As per the revaluation report, the value of Company's Land and Building was assessed at ₹ 76.33 lakh. We noticed that the Company did not make adequate arrangements for watch and ward of the Land (valuing ₹ 18 lakh) and Buildings (valuing ₹ 58.33 lakh) situated at Narsingarh.

There was illegal encroachment on the said land and building at Narsingarh since July 2007. The current market value (April 2009) of the Land and Building as assessed by the consultant appointed for winding up of the Company was at ₹ 76.33 lakh. The Company did not take effective legal action to get the land vacated despite the fact that the land was located at prior location and has a significant market value.

Disuse of assets

3.9.5 As the company needs to make adequate arrangement for proper maintenance and upkeep of the assets (e.g. Plant & Machinery etc.) not in use or not in use to their full capacity. As the Company was non-functional since April 1998, periodical review of the position of these assets taking into account the reports of the physical verification was essential so as to avoid the chances of becoming the assets obsolete due to their disuse. The assets not in use for long also need to be considered for sale.

We, however, observed that there were no proper arrangements for maintenance and up keep of the assets not in use. Further, there was no system in the Company for conducting the need-based review of the assets so as to decide on possible utility of these assets in future or for their timely disposal. As a result, assets worth ₹ 1.01 crore⁷⁹ held by the Company have already become obsolete.

⁷⁹ Including Plant and Machinery (₹ 0.24 crore), tool kits (₹ 0.48 crore) and other raw material/leather goods (₹ 0.29 crore).

Insurance Cover

3.9.6 The Insurance of the properties is a cover that guards the assets of the Company against the probable losses due to natural calamities and other reasons such as, fire, floods, riots, theft, etc. We observed that there was no insurance cover to safeguard the assets of the Company leaving them fully exposed to all such risks, which may cause serious losses to the Company.

Thus, the Company suffered a loss of ₹ 1.01 crore in the value of its assets becoming obsolete / not in use on account of inadequate arrangements for their safeguard and maintenance. The Company also failed in maintaining its land and building free from illegal encroachments in the absence of adequate watch and ward. There is also a risk of the remaining assets becoming obsolete due to disuse/lack of maintenance. In view of this, it is recommended that the Company may:

- **maintain complete and up-to-date records giving all vital information of all movable and immovable assets and its periodical reconciliation;**
- **periodically reconcile the discrepancies in the figures of the assets;**
- **conduct physical verification of assets at regular time intervals;**
- **take action for getting the encroached land vacated and make adequate security arrangements for immovable properties so as to prevent possibilities of encroachments in future;**
- **make adequate arrangements for upkeep/maintenance of disused assets and periodically review the position for their future utility; and**
- **obtain regular and adequate insurance cover for all the assets against risks.**

General

Follow-up action on Audit Reports

Explanatory notes outstanding

3.10.1 Report of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices of Public Sector Undertakings and Departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Chief Secretary, Government of Madhya

Pradesh had issued instructions (November 1994) to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on the paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertaking (COPU).

Though, the Audit Report for the year 2008-09 was presented to the State Legislature on 23 March 2010, five departments which were commented upon, did not submit explanatory notes on 15 paragraphs/reviews as on 30 September 2010. Department-wise analysis is given in the *Annexure-21*.

Compliance to the Reports of Committee on Public Undertakings

3.10.2 The replies to recommendations of the COPU, as contained in its Reports, are required to be furnished in the form of Action Taken Notes (ATNs) within six months from the date of presentation of the Report by the COPU to the State Legislature. On the basis of recommendations of the COPU, three Action Taken Notes (ATNs) were received during 2009-10.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.10.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the PSUs and the administrative departments concerned of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of administrative departments within a period of four weeks. Inspection reports issued up to March 2010 pertaining to 37 PSUs showed that 2,414 paragraphs relating to 717 inspection reports remained outstanding at the end of September 2010 which had not been replied for one to six years. Department-wise breakup of inspection reports and audit observations outstanding as on 30 September 2010 is given in *Annexure-22*.

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 four weeks. We, however, noticed that replies to two review and seven draft paragraphs forwarded to various departments between June 2010 to July 2010 as detailed in *Annexure-23* had not been received (November 2010).

It is recommended that the Government should ensure that: (a) procedure exists for action against the officials who fail to send replies to inspection reports/ draft

paragraphs/reviews as per the prescribed time schedule; (b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule; and (c) the system of responding to audit observations is revamped.

**Gwalior
The**

**(B.R. Khairnar)
Principal Accountant General
(Civil and Commercial Audit)
Madhya Pradesh**

Countersigned

**New Delhi
The**

**(Vinod Rai)
Comptroller and Auditor General of India**