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 2010, the State of Madhya Pradesh had 47 working PSUs (43 companies and four Statutory corporations) and 10 non-working PSUs (all companies), which employed 0.47 lakh employees. The working PSUs registered a turnover of ₹ 26,067.37 crore for 2009-10 as per their latest finalised accounts as on 30 September 2010. This turnover was equal to 13.41 per cent of State GDP indicating an important role played by State PSUs in the state economy.

Investments in PSUs

As on 31 March 2010, the investment (Capital and long term loans) in 57 PSUs was ₹ 20,979.65 crore. It grew by 272.14 per cent from ₹ 5,637.59 crore in 2004-05. Power Sector accounted for 86.46 per cent of total investment in 2009-10. The State Government contributed ₹ 4,576.33 crore towards equity, loans and grants/subsidies to State PSUs during 2009-10.

Performance of PSUs

Out of 47 working PSUs, 27 PSUs earned profit of ₹ 147.82 crore and 11 PSUs incurred loss of ₹ 3,633.82 crore as per their latest finalised accounts as on 30 September 2010. Six companies did not submit their first accounts and two companies had not started their commercial operation while one company capitalised the expenditure in balance sheet. The State PSUs had accumulated losses of ₹ 11,492.22 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 ₹ 425.41 crore and infructuous investments of ₹ 44.54 crore were controllable 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. Forty eight out of 49 accounts finalised during October 2009 to September 2010 received qualified certificates. There were 30 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Thirty three working PSUs had arrears of 67 accounts as of September 2010. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts, if required. 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. Performance Audits relating to Government companies

Functioning of Madhya Pradesh State Civil Supplies Corporation Limited

Under Public Distribution System (PDS), Government of India (GOI) was responsible for procurement, storage and bulk allocation of foodgrains to States for distribution and separate allotment under Targeted Public Distribution Schemes (TPDS) and Free Schemes. Food Corporation of India (FCI) was assigned the responsibility of procurement and maintenance of adequate stock for PDS. The State Government was to fix targets of procurement based on the allocation of foodgrains by GOI and was also responsible for distribution of these foodgrains to consumers through a network of Fair Price Shops (FPS). Decentralised Procurement (DCP) was introduced (1999-2000) in the State for procurement and maintenance of stocks at State level in order to provide minimum support price (MSP) to farmers and ensure economy in transportation expenses. The Madhya Pradesh State Civil Supplies Corporation Limited was to work as nodal agency of the State Government by providing logistic support to ensure availability of foodgrains for the schemes. The Memorandum of Understanding executed by the Company with GOI and State Government regulate the procurements and claims for distribution of procured quantity under PDS.

The Performance Audit of the Company was conducted to assess the economy, efficiency and effectiveness in implementation of PDS schemes during the period from 2005-06 to 2009-10.

Financial Management

Sales of the Company increased significantly from ₹ 1,162.47 crore in 2005-06 to ₹ 3,200.96 crore in 2009-10 mainly due to huge procurements. The percentage of profit to sales however, decreased abnormally during 2009-10 (0.61 per cent) as compared to 2005-06 (3.66 per cent) mainly due to increased interest burden on cash credit (CC) on account of prolonged inventory holding. Further, the procurement costs which constituted 93 per cent of total expenses during 2009-10 were also met by availing credit through CC. Delays in submission of claims by the Company for reimbursement of expenses and gaps in realisation of incidentals from the State Government/GOI resulted in availing of CC for longer periods there by causing further increase in the interest burden on the Company. Claims for advance subsidy, provisional subsidy and Mid Day Meal were also submitted with delays against the prescribed period. Delays in submission of audited accounts for DCP delayed the receipt of withheld subsidy of ₹ 138.33 crore due to delay in finalisation of economic cost. During 2008-09, penal interest (₹ 2.91 crore) was imposed by bank due to default by the Company in maintaining the required stock level against outstanding CC. State Government deducted ₹ 33.51 crore during 2009-10 out of claims for Chief Minister's Annapurna Yojna due to improper submission of claims.

Procurement

Procurement of wheat under DCP was in excess of targets fixed by State Government by 0.72 lakh MT in 2008-09 and 0.64 lakh MT in 2009-10. As a result, stock of 1.19 lakh MT and 1.38 lakh MT remained undistributed at the end of respective rabi season.

Inadequate quality assurance system

The three Business Consultants (BCs) hired by the company for preparation of training module, imparting training, ensuring analysis of samples at district/regional laboratories, etc. failed in achieving these objectives. As a result the quality assurance system of the company was ineffective. Samples analysis system laid down for procurement of paddy and acceptance of rice from millers was deficient as the samples records for submission of samples to regional and state laboratories were not maintained as prescribed. Deficient quality assurance system resulted in acceptance of low quality paddy of 3,101.72 MT valuing ₹ 3.41 crore and 13,253.78 MT rice valuing ₹ 22.37 crore and distribution of inferior quality rice during 2009-10 in violation of GOI directions for issue of Fair Average Quality (FAQ) rice under PDS. Delay in movement of rice from excess procuring districts to deficit districts despite State Government directions resulted in avoidable lifting of 87,985 MT rice from FCI and holding of rice stock of 29,331 MT as undistributed as on 31 March 2010.

Transportation

Huge variation was prevailing among the rates of districts and no benchmark for assessing reasonability was available. In absence of provision of recovery for shortage at market rate the Company could not recover ₹ 61.58 lakh from transporters for shortages in transportation of sugar during 2009-10 when market price was abnormally higher than rate of recovery. Transportation of foodgrains was made without assessing the requirement of districts under PDS causing extra expenditure of ₹ 2.97 crore on cross transportation during 2008-09 and 2009-10.

Distribution

Distribution under PDS was in excess of the allotment made by Government under Below Poverty Line (BPL), Antodaya Annapurna Yojna (AAY) and Mid Day Meal (MDM) schemes. In MDM, where foodgrains were to be distributed free of cost out of stock lifted from FCI only, distribution was made out of the stocks of other schemes causing loss of ₹ 1.43 crore during 2008-09. *Foodgrains was not distributed under relief for drought affected to Above Poverty Line (APL) consumers due to lack of pursuance in approval of cost sheet within validity period during March 2010 and May 2010.*

Storage

Creation of storage capacity was not commensurate to the growth in procurement of foodgrains during 2005-10 causing deterioration in quality due to storage in open. The Company did not fix the norms for allowing normal shortages in storage of stocks with warehousing agencies. As a result, claims for shortages of ₹ 2.81 crore and ₹ 1.21 crore relating to Madhya Pradesh Warehousing and Logistics Corporation and other agencies respectively was pending for recovery.

Conclusion and Recommendations

The Company failed in maintaining effective quality control mechanism in procurement and distribution of foodgrains. The distribution of foodgrains under BPL, AAY and MDM schemes exceeded the allotments in violation of GOI directions. The Company also failed in economically planning the movement of excess stocks to deficit districts. Company had to bear high interest burden on availing cash credits for longer periods due to abnormal delays in submission of audited accounts for DCP claims.

The review contains five recommendations which includes evolving structured policy for quality control of foodgrains, strictly adhering to scheme-wise allotment in distribution of stocks and timely movement of stocks as per the approved plan prepared on the basis of actual requirement.

Madhya Pradesh Power Generating Company Limited, Jabalpur

Performance Audit on Power Generation activities

Power is an essential requirement for all facets of life and has been recognised as a basic human need. In Madhya Pradesh, generation upto 31 May 2005 was carried out by the erstwhile Madhya Pradesh State Electricity Board. Consequent to unbundling of the Board into five Companies, the generation of power is carried out by the Madhya Pradesh Power Generating Company Limited (Company).

The performance audit of the Company was conducted to assess economy, efficiency and effectiveness of activities relating to Planning, Project Management, Financial Management, Operational Performance, Renovation and Modernisation, Repairs and Maintenance, Environment issues and Monitoring by top Management during the period 1 April 2005 to 31 March 2010.

Planning and project management

During 2009-10 against the requirement of power of 43,753.15 MU, available power was 35,549.08 MU, whereas the installed capacity was 6,015 MW. There was a growth in demand of 6,675.90 MU during 2005-10, whereas the capacity addition was 1,260 MW. There were delays ranging from nine to 30 months in execution of two thermal power stations completed during the review period resulting in consequential loss of generation.

The Company did not carry out comprehensive R&M of Satpura Thermal Power Station, Sarni during 7th five year plan period and subsequent plan periods which resulted in loss of anticipated generation of 1,659 MU annually. R&M works in Hydel Power stations were not taken up to enhance their efficiency and life span. Delay in award of contract for construction of extension unit 5 at Amarkantak Thermal Power Station led to extra expenditure of ₹ 11.22 crore.

Operational performance

Short receipt of 119.62 lakh MT of coal (15.83 per cent) against the coal linkage fixed/ Annual contract Quantity during 2005-10 resulted in loss of generation of 2,213.47 MU valued at ₹ 379.05 crore. Consumption of coal and fuel oil in excess of MPERC norms resulted in avoidable loss of ₹ 454.76 crore. The Company was not able to achieve the generation target fixed by MPERC in any of the years under review. This resulted in shortfall in generation of 13,883.85 MU against the targets during 2005-10. The PLF of the company ranged from 70.54 to 62.86 per cent in 2005-10 which remained less than national average PLF in the respective years. Scrutiny of overhauling in the test checked thermal station (STPS, Sarni) revealed that outages were noticed within 15 days of overhauling, which indicated that the same was not effective. Auxiliary consumption at STPS, Sarni in excess of MPERC norms resulted in loss of ₹ 42.15 crore.

Financial Management

The Company faced cash deficit during 2007-08 due to delay in recovery of power supply bills, heavy interest commitment on loans and capital expenditure. Delays were noticed under the cash flow mechanism in *realisation of dues from MPSEB and MP Power Trading Company Limited. The MPSEB on behalf of the Company failed to repay certain loan instalments in time leading to avoidable expenditure on payment of penal interest of ₹ 14.36 crore. Non settlement of claims with coal company (WCL) for short receipt of coal during April 2006 to November 2006 resulted in blocking of ₹ 10.03 crore. Due to non achievement of performance targets fixed by MPERC in tariff petition led to absorption of financial loss by the Company amounting to ₹ 305.23 crore during 2005-06 and 2006-07.*

Environment issues

The Company failed to ensure adherence to air pollution levels enshrined in the statutes. The maximum noise level in STPS, Sarni, ranged from 124 to 127 decibels against the level of 75 decibels prescribed under Noise Pollution (Regulation and Control) Rules. The total suspended solids in water discharge from STPS, Sarni exceeded the standards causing non-repairable damage to the water bodies.

Monitoring by top management

The operational performance and status of on going project are presented to the Board of Directors (BoD) in the meetings held in every quarter. However, certain vital information like absorption of losses based on the true up orders, comparison of performance with MPERC target/norms, analysis of reasons for losses etc were not discussed. Abnormal delays were noticed in implementation of integrated computerised management system approved in December 2005 due to non continuity of the project work because of transfer/retirement of officials involved in the same.

Conclusion and Recommendation

The additions planned in the State sector were not sufficient to meet the energy requirement in the State. Liquidated damages imposed were inadequate to cover the loss suffered due to delay in implementation of the projects. Short receipt of coal led to loss of generation. The Company could not achieve the targets/norms fixed by MPERC relating to consumption of coal and fuel oil, quantum of generation and auxiliary consumption. PLF of the Company remained less than national average PLF in all the years under review. The Company did not adhere to provisions of various statutes resulting in adverse impact on environment. The review contains eight recommendations, which include formulation plans for adequate capacity addition, incorporating adequate penalty clause in the contract, improving thermal and fuel efficiencies, ensuring adequate prioritisation of its liabilities in Cash Flow Mechanism (CFM) and ensuring adherence to environ-mental laws etc.

(Chapter 2)

3. Transaction audit observations

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 ₹ 1.96 crore in one case due to non-compliance with rules and procedures.

(Paragraph 3.1)

Loss of ₹ 3.46 crore in four cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 3.2, 3.4, 3.5 and 3.6)

Blockage of ₹ 27.44 crore in two cases due to defective/deficient planning.

(Paragraphs 3.7 and 3.8)

Loss of ₹ 1.99 crore in two cases due to inadequate/deficient monitoring.

(Paragraphs 3.3 and 3.9)

Some important observations are given below:

Madhya Pradesh Road Development Corporation Limited 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.

(Paragraph 3.1)

Madhya Pradesh Power Transmission Company Limited suffered a 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.

(Paragraph 3.3)

Abnormal Delay in termination of an agreement by **Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited** resulted in non-realisation of dues of ₹ 2.34 crore.

(Paragraph 3.5)

Due to Deficient Planning of the **Madhya Pradesh State Tourism Development Corporation Limited,** expenditure of ₹ 64.79 lakh incurred on construction of unviable project remained unfruitful.

(Paragraph 3.7)