

CHAPTER-III

3. Transaction Audit Observation

Important audit findings emerging from test check of transactions made by the State Government companies/Statutory corporations are included in this Chapter.

Government companies

Assam Gas Company Limited

3.1 Non-recovery of dues

Decision to supply gas beyond contractual period had resulted in doubtful recovery of dues of ₹ 18.73 crore besides loss of interest of ₹ 2.40 crore

The Assam Gas Company Limited (Company) entered (19 October 1995) into an agreement with Eastern India Powertech Limited (EIPL), for supply and transportation of 0.10 million standard cubic metre per day (mmscmd) and 0.05 mmscmd of natural gas to EIPL's Baskandi and Adamtila power plants from off-take points of Oil and Natural Gas Corporation Limited (ONGC) for a period of 15 years. The agreement, *inter-alia*, stipulated that EIPL would open and maintain an Irrevocable Revolving Letter of Credit¹ (IRLC) covering the value of one month's booked quantity of gas. Payment of monthly bills raised by the Company would be made against IRLC on presentation of bills at the designated bank. Further, in case of any default or failure on EIPL's part to keep the IRLC operative, the Company should be at liberty to stop supply of gas till clearance of all payments and restoration of IRLC. EIPL would also be liable to pay interest at pre-determined rates on delayed payment amount. For supply of gas to EIPL, the Company also entered (17 October 1995) into a back-to-back gas purchase agreement with ONGC for identical period. However, due to inadequate gas pressure and depletion of gas at ONGC's off-take point, the Company stopped (September 2010) supply of gas to EIPL's Adamtila plant.

Meanwhile, as the agreement with the Company was to expire in October 2010, EIPL requested (December 2009) the Company to make necessary arrangements for extension of existing agreement for Baskandi plant for a further period of 20 years. Accordingly, the Company sought (January 2010) extension of the earlier agreement with ONGC for further 20 years. ONGC, however, expressed (April 2010) its inability to supply required quantity of gas (0.10 mmscmd) for 20 years and offered (November 2010) to supply much lesser quantity of gas (0.04 mmscmd) for three years only. While responding to ONGC's offer, EIPL commented (April 2011) that the offered quantity of gas was insufficient to meet the requirement of its Baskandi plant and the proposed extension of the agreement (*viz.* three years) was also not

¹ IRLC is a bank guarantee for payment for goods and services issued on behalf of one requesting for the same IRLC cannot be cancelled or modified in any way without explicit consent of the affected parties involved. It is for a specified time period and expires at a pre-determined point.

commensurate with its existing parallel power purchase agreement with Assam State Electricity Board (ASEB) to be expired in 2030. Thereafter, EIPL did not take any initiative (February 2012) to renew the agreement despite repeated requests of the Company.

It was, however, noticed that the Company without obtaining firm and written commitment from EIPL continued supply of gas to Baskandi plant of EIPL even after expiry (October 2010) of the existing agreement. The Company also did not get the IRLC re-validated resulting in refusal of payment of EIPL's bills by the Bank on expiry (16 November 2010) of the tenure of IRLC.

EIPL had not shown any interest to renew the agreement or to re-validate the IRLC and also continued to default in payment of bills since October 2010. It was observed that the Company, instead of lawfully binding EIPL to honour the bills by invoking stoppage of supply clause, continued supply of gas to EIPL by merely issuing few 'closure of supply notices'. EIPL had defaulted payment of bills since October 2010 after the expiry of the agreement. The Company also did not report the matter to its Board of Directors (BoD) till December 2011. Finally, BoD in its meeting decided (15 March 2012) to stop gas supply to EIPL after 31 March 2012. It was, however, noticed that despite clear instructions of BoD to stop gas supply, the Company continued to supply gas to EIPL even after March 2012.

Scrutiny of records (February 2012) of the Company revealed that out of the total amount of ₹ 20.48 crore billed during the period November 2010 to September 2012, EIPL had paid a meagre amount of ₹ 1.75 crore and linked payment of balance amount with receipt of arrear payment from ASEB to whom EIPL had supplied power.

Further, out of total interest of ₹ 2.40 crore due on the outstanding amount (from November 2010 to September 2012), the Company claimed (December 2011) interest of ₹ 0.79 crore upto the period September 2011. EIPL, however, had refused (December 2011) to admit the claim in absence of any contractual obligation.

Thus, the decision to continue supply of gas beyond agreement period without informing BoD and not ensuring recovery of dues as well, had not only made realisation of ₹ 18.73 crore (₹ 20.48 crore - ₹ 1.75 crore) uncertain, but the Company had also lost the opportunity to realise interest of ₹ 2.40 crore on unpaid dues.

It is recommended that the Company should ensure that all business transactions are backed by lawfully enforceable agreements so that the financial interests of the Company are not jeopardized. Further, the Company should ensure that transportation of gas are not made without any valid agreement or if required, the same may be resorted to only after making an interim arrangement in line with the earlier agreement for a short period till the agreement is entered into. The Company should also put up all matters of importance to the BoD in time so that the decisions are not delayed. The BoD may also fix responsibility for the injudicious decision leading to loss to the Company.

The Management while accepting the fact, stated (June 2012) that in a meeting convened (April 2012) by the Power Minister, GoA, EIPL was asked to clear the outstanding dues of the Company immediately. The decision of the BoD to discontinue gas supply to EIPL after 31 March 2012 was, however, kept in abeyance considering the grim power scenario of the State. The fact, however, remained that the decision to continue gas supply was against the financial interest of the Company. Also the Company was yet to receive the amount and had also failed to enter into any agreement or re-validate the IRLC to ensure recovery of its dues.

The matter was reported to the Government (April 2012); their replies had not been received (November 2012).

3.2 Loss of revenue

Incorporation of clauses in the agreement in deviation with the existing policy led to loss of revenue of ₹ 3.07 crore

The Assam Gas Company Limited (Company) was engaged in the business of supply and transportation as well as only transportation of gas to its customers. In order to ensure optimum utilisation of its transportation system, it was a standard practice of the Company to recover transportation charges (TC) for actual quantum of gas transported or at least to the extent of 80 *per cent* of monthly committed quantity. The terms and conditions of recovery of TC in the agreements entered into by the Company with its customers* were similar to its standard practice.

The Company, however, entered (5 December 2008) into an agreement with Assam Power Generation Corporation Limited (APGCL) for transportation of 0.5 million standard cubic meters per day (mmscmd) of gas to be supplied by Oil India Limited (OIL) on firm-basis (supply based on committed quantum) to APGCL's Lakwa Thermal Power Station under a separate agreement between OIL and APGCL. The terms and conditions of the agreement *inter-alia* stipulated that:

- (i) The Company would be entitled to claim TC for transportation of gas supplied by OIL;
- (ii) For supply of any quantity of gas by the Company to APGCL from other sources, over and above the quantity of gas supplied by OIL, APGCL should also pay the cost of gas at the rate charged by the producers together with TC.
- (iii) Subject to 'force majeure' clauses, if in a calendar month, the total consumption of gas by APGCL fell below 80 *per cent* of the monthly committed consumption on the basis of daily booked quantum (*i.e.* 0.5 mmscmd), APGCL shall pay TC for the minimum 80 *per cent* of the monthly minimum guaranteed quantum (MMGQ) of gas. APGCL shall not be required to pay any TC for gas consumption between 81 and 100 *per cent* of the booked quantum.

* Assam Petrochemical Limited, DLF and various tea gardens

Scrutiny of records (February 2012) of the Company relating to gas supplied during the period December 2008 to July 2012 revealed that except in October 2010, December 2010 and April 2011, OIL failed to supply MMGQ of gas to APGCL. The Company, however, supplied gas to APGCL from its own sources on regular basis as per the terms of the agreement. Though the supply of gas from combined sources exceeded MMGQ in each month, TC bills were restricted to the extent of MMGQ (*i.e.* 80 *per cent* of 0.5 mmscmd of gas to be supplied by OIL) only since there was no provision in the agreement for TC on gas transported beyond MMGQ (80 *per cent* of 0.5 mmscmd) to 100 *per cent* of the booked quantum from OIL. Departure from the standard clauses of agreement resulted in short recovery of TC of ₹ 3.07 crore.

Thus, due to incorporation of clauses in the agreement which were contrary to existing practice/policy, the Company suffered loss of ₹ 3.07 crore by foregoing TC on supply of gas.

It is recommended that the Company may amend the present agreement to avoid further losses and future agreements may be entered based on its existing policy/practice and any deviation from the existing policy, if required, should be carried out only after safeguarding its own financial interests.

In reply, the Management stated (June 2012) that TC was fixed considering Minimum Demand Charges (MDC) volume as the divisor and hence, the rate of TC fixed was equal to the rate applicable for total booked quantity. The reply is not tenable, as verification of records revealed that TC rate to cover the total operating costs including return on investment for 2008-09 should have been ₹ 695 per 1000 standard cubic meter (scum) from the effective date of agreement. However, the Company charged ₹ 565.70 per 1000 scum as TC from APGCL.

The matter was reported (March 2012) to the Government; their replies had not been received (November 2012).

3.3 Avoidable payment of penal interest

Absence of planning and ensuring proper estimation of income for payment of advance tax led to an avoidable expenditure of ₹ 1.45 crore as penal interest

Section 208 of the Income Tax Act, 1961 (Act), made it obligatory on the part of an assessee to pay in each quarter advance tax at prescribed rates on or before the specified due dates*, where quarterly tax payable amount has been assessed more than ₹ 10,000. Sections 234B & 234C of the Act also stipulate levy of penal interest for delay/shortfall in payment of advance tax amount.

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Due date of payment	Amount of advance tax
On or before 15 June of the financial year	15 <i>per cent</i> of total tax payable
On or before 15 September of the financial year	30 <i>per cent</i> of total tax payable
On or before 15 December of the financial year	30 <i>per cent</i> of total tax payable
On or before 15 March of the financial year	25 <i>per cent</i> of total tax payable

To avoid payment of penal interest, not only timely payment was required but also its realistic estimation of the advance tax was equally important. In this exercise, it is essential to appropriately take into account the trend analysis of the previous years working results as well as the other known factors having direct bearing on the income and expenditure of the Company.

Scrutiny (February 2012) of records of Assam Gas Company Limited (Company) revealed that the Company estimated its taxable income for the financial years 2009-10 and 2010-11 by making 'lump sum' adjustments to its previous years' income and expenditure components. It was, further, observed that while estimating the taxable income for computing the advance tax, the Company did not consider the known factors having direct impact on its income and expenditure, such as, decrease in the interest liability due to repayment of loans, reduction in the quantum of depreciation due to decrease in the net book value of assets and not considering the profits against trading of natural gas. Resultantly, there was a shortfall in payment of quarterly advance tax thereby causing avoidable payment of penal interest of ₹ 1.45* crore by the Company under Sections 234B and 234C of the Act for the period 2009-11.

The shortfall in payment of advance tax was mainly due to the following deficiencies in arriving at estimated taxable income for the period 2009-11:-

a) Trading profit on purchase and sales of natural gas was a regular source of operating income of the Company. During the years 2008-09 to 2010-11, income from this source ranged from ₹ 2.88 crore to ₹ 17.11 crore. The Company, however, did not consider the same while estimating the total income. Based on the immediately preceding year's figures of actual trading profit and percentage increase, it was ascertained in audit that the Company should have considered additional total income of ₹ 2.24 crore and ₹ 15.26 crore by way of trading profit for the years 2009-10 and 2010-11 respectively while determining its advance tax liability.

b) Yearly regular operating income in the form of Transmission charges (TC) of natural gas had registered increase of 14.89 *per cent* (2008-09), 10.12 *per cent* (2009-10) and 9.55 *per cent* (2010-11) over the previous year. It was, however, noticed that while estimating the taxable income, the Company considered marginal increase over last year's actual income on lump sum basis completely ignoring the actual percentage increase over previous year. This had resulted in under estimation of income by ₹ 12.22 crore and ₹ 8.14 crore in the financial years 2009-10 and 2010-11 respectively.

c) During the year 2008-09 and 2009-10 the Company had secured loans of ₹ 71.35 crore and ₹ 44.20 crore respectively as an opening balance and paid an interest at the rate of 7.35 *per cent* amounting to ₹ 5.88 crore and ₹ 1.14 crore respectively. Though the Company repaid loans amounting to ₹ 27.15 crore (2008-09) and ₹ 19.83 crore (2009-10), consequential fall in interest liability by ₹ 3.24 crore[~] during 2009-11 was not considered while estimating the operating expenses for arriving at the taxable income for 2009-10 and

* ₹ 0.72 crore and ₹ 0.73 crore for the year 2009-10 and 2010-11 respectively.

[~] Net fall in interest in two years *i.e.* ₹ 3.33 crore (2009-10) and (-) ₹ 0.09 crore (2010-11)

2010-11. On the contrary, Company considered a lump sum increase of 11.88 *per cent* and 48.79 *per cent* to the total expenses for estimating the taxable income for 2009-10 and 2010-11 respectively.

d) The Company had been charging depreciation on Fixed Assets under written-down value method. As such, there had been constant decrease in the amount of yearly depreciation to be provided. It was ascertained in audit that the estimated amount of depreciation for the years 2009-10 and 2010-11 based on the opening balances of Net Fixed Assets worked out to ₹ 15.09 crore and ₹ 12.78 crore which were less than the actual depreciation of the previous year by ₹ 2.62 crore and ₹ 2.42 crore respectively. However, the decrease in depreciation was not considered while anticipating operating expenses as all actual expenditures of previous year were inflated on a lump sum basis.

It was observed in audit that the estimated income would have been higher by ₹ 20.41 crore and ₹ 25.73 crore in 2009-10 and 2010-11 had the factors stated in the preceding paragraphs were considered and the Company would have to deposit additional tax of ₹ 6.87 crore and ₹ 8.66 crore respectively. This would have enabled the Company to reduce payment of penal interest amount by ₹ 0.72 crore for the year 2009-10 and totally eliminate payment of penal interest amount of ₹ 0.73 crore for the year 2010-11. Thus, the unscientific and unrealistic approach of the Company in estimation of taxable income by ignoring the various known factors, having direct impact on the income, had resulted in avoidable expenditure of ₹ 1.45 crore (₹ 0.72 crore *plus* ₹ 0.73 crore) towards penal interest for short payment of advance income-tax.

It is recommended that the Company should be realistic in its approach while estimating its annual income by adequately analysing the previous trends and other known factors relating to the income and expenditure so as to minimise the possibilities of such avoidable expenditure.

In reply the Management stated (June 2012) that the assessment of advance tax was made on the basis of available records with the Company. The reply is not tenable as available records were not analysed logically considering the past trends and the known factors to estimate the taxable income.

The matter was reported (April 2012) to the Government; their replies had not been received (November 2012).

3.4 Undue allowance of rebate and loss of revenue

Inaction against the consumer for violating the terms and conditions of the agreement resulted in extension of undue benefit and loss of revenue of ₹ 1.06 crore

Assam Gas Company Limited (Company) entered (22 March 2003) into an agreement with Assam State Electricity Board, erstwhile entity of Assam Power Generation Corporation Limited (APGCL) for transportation of gas from Oil India Limited's off-take point at Duliajan to APGCL's Namrup Thermal Power Station, Namrup. The terms and conditions of the agreement

relating to raising of invoices for transmission charges (TC), realisation of dues and allowance of rebate *inter-alia* stipulated the following:

- (i) The Company shall raise invoice for gas TC within 10th day after the end of every month.
- (ii) The APGCL shall directly deposit the amount of invoice in the Company's bank account (SBI, Duliagan) by 14th of each month (or next working day if 14th happens to be holiday).
- (iii) APGCL shall open and maintain at its own cost, a 'standby' Irrevocable Revolving Letter of Credit (IRLC) in favour of the Company for ₹ 64 lakh only.
- (iv) APGCL shall be allowed a rebate of 2.5 *per cent* if payment of the invoiced amount was made within the due date. Further, for non-payment of dues within 30 days from invoice date, APGCL would be liable to pay surcharge at the rate of 1.25 *per cent* per month or part thereof.
- (v) If for any reason, the payment was delayed or any disallowance was made from the invoice, the Company shall have the right to invoke the IRLC for realising the payment on the same day. The Company also reserved the right to suspend transportation of gas, in case payment was not made within 30 days of presentation of invoice.

Scrutiny of records (February 2012) of the Company relating to billing and realisation of TC revealed that during the period 2008-09 to 2011-12 (up to 31 March 2012)[♦], the Company raised 48 monthly invoices aggregating ₹ 38.67 crore against which APGCL paid ₹ 37.81 crore after deducting rebate of ₹ 0.86 crore on all the invoices. Out of those 48 invoices, APGCL made payment within the due dates against 12 invoices only on which a total rebate of ₹ 0.21 crore was admissible. The payment against remaining 36 invoices was, however, made with delays ranging from 1 to 143 days. Thus, against allowable rebate of ₹ 0.21 crore, APGCL inspite of default in payment of the invoices within due dates, unilaterally retained rebate of ₹ 0.65 crore (₹ 0.86 crore *less* ₹ 0.21 crore) in excess. The Company did not take up the matter of irregular retention of rebate with the APGCL for recovery, except making some sporadic supplementary claims amounting to ₹ 0.24 crore for 13 months, which were also not paid by APGCL (October 2012). The Company was also entitled to recover the surcharge of ₹ 0.41 crore from APGCL for delays in making payment (including the surcharge recoverable on excess rebate retained) within 30 days from the invoice date. The Company, however, did not lodge the claim for the same with APGCL.

It was also noticed that though APGCL opened (3 October 2005) an IRLC (valid upto 3 October 2007) the Company did not insist for its revalidation so as to ensure timely realisation of dues.

[♦] For bills after March 2012, APGCL has been depositing the gross amount without deducting the rebate.

Thus, failure to safeguard its financial interest and inaction against APGCL for violation of terms and conditions of the agreement tantamount to extension of undue benefit with resultant loss of revenue of ₹ 1.06 crore (*i.e.* ₹ 0.65 crore plus ₹ 0.41 crore) to the Company.

It is recommended that for allowance of rebate, the Company may consider raising the bill initially for gross amount and may allow rebate for timely payment, if any, by way of credit notes or through adjustment from the next bill. The Company should also insist APGCL for revalidating the IRLC to ensure prompt recovery of its dues.

In reply the Management, while accepting the facts stated (June 2012) that it had sent letter to APGCL for release of undue amount of rebate retained by it. The fact remained that the loss of revenue could have been avoided but for the lapse on the part of the Company in getting the IRLC revalidated in time and ensure recovery of its dues. Fact, further, remained that though Company requested for release of undue rebate amount, no recoveries in this regard were made from APGCL (October 2012).

The matter was reported to the Government (March 2012); their replies had not been received (November 2012).

Assam Petrochemicals Limited

3.5 Loss of revenue

Decision of the Company to defer the procurement process without approval of the Board resulted in loss of production of 16,034 MT of Methanol with consequent loss of revenue of ₹ 3.16 crore.

Production of Methanol by Assam Petrochemicals Limited (Company) required help of Reformer Tubes (RTs) and inlet and outlet Pigtailes. RTs, in ideal conditions, had a life span of one lakh operational hours and nine months of lead-time for procurement. The longevity of RTs gets adversely affected due to frequent thermal shocks caused by erratic supply of power. To ensure un-interrupted production, advanced procurement planning and scheduled annual maintenance were essential to avoid major operational hazards.

Scrutiny of records (February 2012) revealed that damages in 8 out of 42 RTs were noticed (April 2008) by the Company during annual maintenance of the Methanol plant. Abnormalities were also observed (May 2009) by the Company in functioning of these eight RTs as well as six other RTs, due to frequent thermal shocks and ageing*. The damages in these RTs were rectified (June 2009) with some patch works and the plant was operated at a restricted capacity of 90 *per cent* considering the safety of the RTs. Anticipating the requirement of replacement of RTs and Pigtailes, the Company issued (July 2009) tenders for purchase of RTs and Pigtailes. Though on opening (September 2009) of technical bids, offers of four firms were found technically suitable, the offer of Manoir Petro India Limited (MPIL) for RTs was not recommended by the Tender Committee (TC) on the ground that their

* RT were operated for 70,000 hours as on May 2009 against 1,00,000 hours of expected life.

supply points were located in China. In turn, TC requested (September 2009) MPIL to change their supply point from China, which was not accepted by MPIL. TC also did not obtain any approval of the Board before rejecting (September 2009) the offer of MPIL. The decision (November-December 2009) to replace the RTs and Pigtails during health study of the plant and planned shut down was deferred further till July 2010 as procurement of Reformer bricks** was delayed due to delay in finalisation (December 2009) of the deal. The Company, despite noticing deterioration in the health and life of RTs continued to operate the plant without scheduled maintenance and health check-up for two years from its last annual maintenance in April 2008. As a result, all the RTs were damaged and a major breakdown occurred on 22 July 2010 in the plant, thereby, paralyzing the production process completely. On receipt (August 2010) of Reformer bricks and repairing 25 RTs out of 42 damaged RTs, the plant was put into operation from 13 September 2010 at 50 *per cent* of its installed capacity.

As no decision on purchases could be taken, price validity of the first offer expired and as such fresh enquiry letters were issued (July 2010) for purchase of RTs and Pigtails by the Company. On receipt (August 2010) of offers, orders for supply of RTs on MPIL and those for Pigtails on Cronite-Scomark Engineering Limited were placed (September 2010) at a value of ₹ 1.77 crore and ₹ 0.54 crore respectively. It was observed that TC, consisting of the same officials which had earlier rejected (September 2009) the offer of MPIL, recommended the offer of MPIL for approval by the Board. The Board selected (August 2010) MPIL on the ground that neither the tender document nor any law enacted by the Government of India debarred transaction with a firm having its manufacturing unit in China. RTs were supplied in June 2011 and all old/damaged RTs were replaced (July 2011) and the plant was put to operation from August 2011.

It was observed that faulty and injudicious decision of the Company to defer the procurement of RTs and Pigtails without approval of its Board despite noticing incremental deterioration in the health and life of RTs and operating the Plant for two years without health check up had caused major damage to RTs and stoppage/scaling down of production capacity.

It is concluded that the TC should have obtained Board's decision for selection of suppliers at the first instance (September-December 2009) before rejecting (September 2009) the offer of MIPL. The Company could have replaced the damaged RTs and operate the plant at its full capacity from October 2010 considering the delivery period of nine months after issue of supply order. Failure of the Company to ensure timely procurement of RTs resulted in loss in production of 16,034 MT of Methanol with a realisable value of ₹ 21.79 crore* in operating the plant at half of its capacity during the period October 2010 to July 2011.

** An essential proprietary item required during shutdown maintenance works.

* Calculated at ₹ 13590.66 *per* MT being the average realisable value of Methanol during 2010-11.

Thus, the injudicious decision of the Company to defer purchase initiatives, without obtaining Board's approval, even after floating tender and obtaining qualified bids resulted in loss of net revenue of ₹ 3.16 crore* after considering the cost of production.

It is recommended that the Company may assess the health of important equipment at pre-determined intervals and complete the scheduled maintenance of the plant in time so as to avoid adverse consequences including loss of production. Further, requirement of critical store items may be assessed periodically and procurement process planned, initiated and completed keeping in view the requirement and lead-time of delivery. A minimal stock of some critical items may also be kept.

The Management in its reply (August 2012) accepted the audit observations. The matter was reported (April 2012) to the Government, their replies had not been received (November 2012).

3.6 Avoidable expenditure

Non-revision of the gas transportation agreement in consonance with the gas supply agreement resulted in avoidable expenditure of ₹ 0.82 crore.

Assam Petrochemicals Limited (Company) was receiving Natural Gas (NG) from Oil India Limited (OIL) to manufacture Methanol in its Methanol Plant-I and Methanol Plant-II. Though, no formal supply agreement was entered with OIL, the Company had booked quantity of 0.15 million standard cubic meter per day (mmscmd) of NG which was transported to the Company's intake point through the pipelines of Assam Gas Company Limited (AGCL) under a separate agreement of April 1976.

After closure (20 February 1998) of Methanol Plant-I due to ageing, the requirement of NG in the Company went down to maximum 0.11 mmscmd. Accordingly, on the request (November 2002) of the Company, the OIL revised the quantity of NG to be supplied from 0.15 mmscmd to 0.138 mmscmd.

It was observed that despite reduction in quantity of NG to be drawn from OIL, the Company did not take any step for corresponding revision in the quantity of NG to be transported from existing 0.15 mmscmd to 0.138 mmscmd while renewing (May 2003) the transportation agreement with AGCL. Further, as per clause 5.04 of the renewed (May 2003) transportation agreement with AGCL, the Company was also liable to pay Minimum Demand Charges (MDC) with effect from the date of completion (24 May 2005) of new pipeline of AGCL if total consumption in a calendar month falls short of 80 per cent of month's committed quantity (0.15 mmscmd).

Since, maximum requirement of NG was only 0.11 mmscmd and there was a mismatch between the quantities of supply (0.138 mmscmd) and transportation (0.15 mmscmd) of NG, actual consumption in each month fell

* Realisable value (₹ 13590.66) per MT less Cost of sales (₹ 11621.16) per MT multiplied by loss of production of 16034 MT.

short of 80 *per cent* of monthly committed quantity as agreed with AGCL. After more than four years, the Company requested (December 2007) AGCL, for reducing the quantity of transportation of NG from 0.15 mmscmd to 0.138 mmscmd. This request was not acted upon by AGCL and the terms of agreement were yet to be modified (October 2012).

Scrutiny of records (February 2012) of the Company for the period May 2005 to September 2012 revealed that as the actual consumption was less than 80 *per cent* of the monthly committed quantity, AGCL enforced the MDC clause and recovered an amount of ₹ 1.75 crore as transportation charges over and above the actual drawal by the Company.

In the absence of new/modified agreement specifying the quantity of NG in consonance with the supplied quantity (0.138 mmscmd) from OIL, the Company incurred avoidable expenditure of ₹ 0.82 crore* during the period from May 2005 to September 2012.

It is recommended that the Company may take immediate steps to modify the existing agreement to avoid any further loss to the Company on this account. Further, agreements that were inter-related/dependent should be executed/renewed only after safeguarding the interests of the Company.

The Management in its reply (August 2012) stated that the Company had requested (June 2003) the Government of Assam to intervene in the matter for revision in MDC clause based on the reduced quantum. The reply is not tenable as the Management should have identified its requirement of natural gas during conceptual stage of the agreement.

The matter was reported (April 2012) to the Government; their replies had not been received (November 2012).

Assam Trade Promotion Organisation

3.7 Avoidable expenditure

The management did not take required action to reduce the excess connected load of the trade centre which led to avoidable expenditure of ₹ 24.07 lakh to the Company.

A trade promotion centre[∞] (Centre) was constructed (April 2007) by Central Public Works Department (CPWD) at the behest of Indian Trade Promotion Organisation and Ministry of Commerce, Government of India. Sanctioned load of 940 KW and connected load of 870 KW (1024 KVA) were obtained by CPWD in November 2005 to meet requirement of electricity during construction and operational periods. The Centre was initially handed over (April 2007) to Assam Industrial Development corporation Limited (AIDC) for completing the balance works and making the Centre ready for operations. After formation (17 February 2009) of Assam Trade Promotion Organisation

* After netting of ₹ 0.93 crore which was payable as MDC charges even after considering the committed quantity as 0.138 mmscmd.

[∞] Maniram Dewan Trade Centre

(the Company), management of the Centre was transferred (May 2009) to the Company and the Centre started commercial operations with effect from May 2009.

Perusal of records (July 2011) of the Company revealed that on taking over (April 2007) physical possession of the Centre, AIDC had noticed that actual requirement of power for the Centre ranged between 29 KVA and 41 KVA against the connected load of 1024 KVA. AIDC, however, instead of submitting application for load reduction duly supported with the test report prepared on the basis of re-assessment of connected load, approached (May 2007) the Assam State Electricity Board (ASEB) to allow payment of demand charges on the basis of actual connected load. As ASEB had not responded to the request and the matter was not pursued thereafter by AIDC.

Scrutiny of records further revealed that the actual requirement of electricity for the Centre did not improve much even after commencement of its commercial operations. It was noticed that the recorded demand of power during the period from June 2009 to September 2012 ranged from minimum 30 KVA to maximum 105 KVA whereas the payments were made throughout the period at fixed rate applicable for the connected load of 1024 KVA. Alike AIDC, the Company also did not take any initiative to minimise the burden of monthly extra expenditure on electricity charges. After the issue being pointed out (July 2011) and followed up by audit, the Company re-assessed (March 2012) the connected load and found it higher by 278 KW (327 KVA). Accordingly, the Company submitted (June 2012) application for reduction of load to 592 KW, on which the action by Assam Power Distribution Company Limited was pending (October 2012).

As the management of AIDC was aware (April 2007) of the excess load, they should have applied for reduction in connected load as per laid down procedure after assessing the existing connected load. This would have enable the Centre to avoid payment of monthly fixed charges on excess load of 278 KW (327 KVA) from June 2007 onwards, considering one month's period allowed by Assam Electricity Regulatory Commission to distribution companies to finalise application on reduction of connected load. Thus, lack of appropriate action on the part of AIDC as well as the Company to reduce the connected load led to an avoidable expenditure of ₹ 24.07 lakh* towards payment of excess fixed charges during the period from June 2007 to September 2012.

It is recommended that the Company should urgently review all its needs for electricity with reference to test reports so that burden on account of avoidable payment can be avoided.

AIDC, the custodian of the centre upto April 2009, in its reply (06 June 2012) stated that reassessment and reduction of load was not resorted to since the exercise involved huge expenditure towards major alterations of existing electrical system, which was not in their scope. The reply is not tenable in view of the fact that AIDC was not mere caretaker of the property, but was

* 327 KVA @ ₹ 115 per month for 64 months

also vested with the prudent management of the Centre. The AIDC should have taken appropriate action for reducing the connected load considering the long term financial benefits to the Company. As regards the huge expenditure on alteration works, AIDC could have got reimbursement of said expenditure from the Company in the same manner as it had received reimbursement of expenditure (₹ 1.60 crore) incurred during June 2007 to April 2009 towards looking after the affairs of the Company. The Company, presently managing the Centre, though started (March 2012) the process of reduction of load and filed (June 2012) the application, the same is yet (October 2012) to materialise.

The matter was reported (May 2012) to the Government; their replies had not been received (November 2012).

Assam Gas Company Limited
Assam Petrochemicals Limited
Assam Police Housing Corporation Limited
Assam Power Distribution Company Limited

3.8 *Loss of interest*

Loss of aggregate interest income of ₹ 3.15 crore to four State Public Sector Undertakings due to imprudent investment of surplus funds

3.8.1 As an integral part of prudent financial management system of Public Sector Undertakings (PSUs) it is the duty of the officials managing the financial affairs of PSUs to maximise the revenue by prudently investing the surplus funds in low risk profitable ventures with due compliance of the Government's guidelines issued from time to time.

3.8.2 To avoid the situation of surplus funds lying idle or yielding low returns it is essential that:

- the PSUs make a correct assessment of requirement of funds in a scientific manner both for the present and in immediate future, so as to decide the amount and duration of investments.
- a system was in place for constant monitoring of the available cash balances which would help to avoid idling of surplus funds.
- investments in Short-Term Deposits (STDs) were made after due comparison of interest rates offered by various banks so as to maximise the interest income.

3.8.3 STDs in the nationalised commercial banks are among the safe investment options commonly preferred availed by the PSUs as the same assure fixed returns with maximum safety/security and easy liquidity.

3.8.4 To assess the state of soundness of management of surplus funds by PSUs, investment of surplus funds by four* PSUs during the year 2009-10 to 2011-12 in STDs of various Nationalised and Private Commercial banks were test checked (February to March 2012). During the course of audit, certain deficiencies in the system of investment of funds in STDs by these PSUs were noticed while placing the bulk deposits with the bank(s) with whom these PSUs had regular course of business resulting in loss of interest income as detailed below:

3.8.5 Investment without comparison of interest of other bank(s)

Prior to selection of any particular bank for investment in STDs, a thorough comparison of interest rates offered on identical terms for similar durations was essential so as to secure maximum returns. Investment in STDs by APHCL, APL and AGCL were, however, made without comparison of rates offered by other nationalised banks with whom these PSUs already had STDs accounts. This had resulted in loss of interest income as summarised in the following table:

Table 1

Sl. No.	Year	Name of company	Amount invested (₹ in crore)	Period of investment	Interest rates availed (per cent)	Interest rate foregone (per cent)	Loss of interest income (₹ in lakh)
1.	2009-10	APHCL	5.00	1 year	6.5	7	2.50
		APL	6.48	1 year	5.75	6.5	4.86
			0.21	181 days	6	6.5	0.05
		AGCL	14.34	1 year	5 to 7.5	6.5 to 7.5	6.32
2.	2010-11	APL	20.75	1 year	5.5 to 8.75	6 to 9	6.43
			14.44	1 year	6 to 8.75	6.5 to 9	12.16
3.	2011-12	AGCL	13.99	1 year	7.30 to 9.5	9 to 9.5	6.21
Total							38.53

3.8.6 Investments by not splitting the amount to lower values

At the time of taking decision for investing in STDs, interest rates offered by various banks on the amount of single investment need to be considered as the same, at times, varied from bank to bank depending upon the amount of single investment. In such cases, it would be more beneficial for the investors to make multiple investments by splitting the amount to lower values. It was, however, observed that no such mechanism was evolved by the four PSUs and despite higher interest rates on single investment of less than ₹ 1 crore offered either by the same bank or by other banks, single investment in STDs of more than ₹ 1 crore were made at lower interest rates resulting in loss of interest income as discussed below:

3.8.7 Not availing the higher rates of other banks

Following were the instances of interest loss suffered by three PSUs due to investment in higher value STDs at lower interest rates ignoring the higher

* Assam Gas Company Limited (AGCL), Assam Power Distribution Company Limited (APDCL), Assam Petrochemicals Limited (APL) and Assam Police Housing Corporation Limited (APHCL)

interest offered on low value STDs by other banks where these PSUs already had STD accounts:

Table 2

Sl. No.	Year	Name of company	Amount invested (₹ in crore)	Period of investment	Interest rates availed (per cent)	Interest rate foregone (per cent)	Loss of interest income (₹ in lakh)
1	2009-10	APHCL	16.00	1 year	6	6.25	4.00
		APDCL	11.54	1 year	5	6.5	17.31
		AGCL	11.97	1 year	5 to 6	6.5 to 7.25	19.51
2	2010-11	APHCL	15.00	1 year	4.5 to 6	5 to 6.5	7.50
		APDCL	132.21	1 year	5 to 6	6.5 to 7.5	143.66
			15.11	181 days	5	7.5	18.74
		AGCL	21.15	1 year	6	6.5	10.58
3	2011-12	AGCL	1.28	1 year	9	9.25	0.32
Total							221.62

3.8.8 Not availing higher rates of same bank

Following were the instances where investment in higher value STDs were made by three PSUs at low interest rates without comparing the higher interest rates offered by the same banks in low value STDs:

Table 3

Sl. No.	Year	Name of company	Amount invested (₹ in crore)	Period of investment	Interest rates availed (per cent)	Interest rate foregone (per cent)	Loss of interest income (₹ in lakh)
1	2009-10	AGCL	18.44	1 year	5.75 to 6	6.5 to 7.25	19.69
2	2010-11	AGCL	1.06	1 year	8.5	8.75	0.26
		APL	6.68	1 year	6	6.5	3.34
		APDCL	10.68	1 year	6	6.75	8.01
			11.10	181 days	6	7.5	8.26
Total							39.56

3.8.9 Delay in investment in STDs

Lack of close monitoring and proper assessment of requirement of fund, delay ranging between 8 and 29 days in 2009-10 and 5 and 110 days in 2010-11 had occurred in shifting ₹ 48 crore (2009-10) and ₹ 32.5 crore (2010-11) from savings bank account to STD account by APHCL resulted in loss of interest income of ₹ 15.59 lakh in those two years.

3.8.10 Thus, due to systemic deficiencies in investment of surplus funds as discussed in preceding paragraphs, four PSUs sustained loss of interest income aggregating ₹ 3.15 crore during the period 2009-12.

To avoid loss of returns from investments in STDs, it is recommended that before taking investment decisions, the PSUs should make a comparative study of interest rates offered by various banks applicable on identical amount and period of investment. Further, the amount of investment in single STD may be decided only after comparison of interest rates applicable on different slabs of investment. Constant monitoring of deployment of funds would avoid their idling or parking in low income generating investments.

APDCL in its reply (August 2012) stated that it had preferred SBI as premier bank. AGCL had also stated (July 2012) that it preferred the banks where it maintained operational accounts. The replies are not tenable as the audit observation is based on the interest rates offered by the nationalised commercial banks where these PSUs had similar types of accounts. APDCL further stated (August 2012) that splitting of investment would require deployment of additional manpower. The plea, is, however, not sustainable considering the significant financial benefit that would have derived by the PSUs by splitting the investments to low value STDs.

AGCL in its reply (27 July 2012) stated that due to remoteness of branches the rates before investment were not available. The reply is not tenable as the interest rates offered by the banks were available in public domain and the Company needed to be more proactive while taking investment decision.

APHCL had replied (16 July 2012) that loss was due to procedural delays. The reply is not acceptable as the Company failed to follow the decision (September 2008) of its Board of Directors for mandatorily considering interest rates offered by different banks before arriving at investment decisions.

APL in its reply while assuring (July 2012) to consider the audit recommendations for future investments stated that the bank wise comparative evaluation of interest rates could not be done due to non disclosures of rates by banks and other operational constraints. This reply is also not acceptable as our observation is based on the interest rates offered by the banks where the PSUs already had STDs and no such problems had been reported by other state PSUs.

The matter were reported (June 2012) to the Government. While the Government had endorsed the replies of APDCL and APHCL, their replies in respect of other two PSUs (AGCL and APL) had not been received (November 2012).

Statutory Corporation

Assam State Transport Corporation

3.9 Irregular use of Government fund

Non-adherence to the stipulated conditions of the Dharmajyoti scheme resulted in loss of ₹ 25.56 lakh to the State exchequer.

For the benefit of the pilgrims/group of pilgrims for pilgrimage of the prominent religious places/sites of Assam as well as other parts of the Country, a scheme, namely, 'Dharmajyoti' was launched at the initiative of Government of Assam (GoA) in February 2004 under the administrative control of Assam State Transport Corporation (Corporation). The scheme, inter alia, provided that the total cost of journey was to be shared on 50:50 basis by GoA and the Pilgrims.

Scrutiny (August-September 2011) of records for the period April 2007 to March 2011 revealed that during the period, 2,509 pilgrimage parties consisting of 1,08,531 pilgrims availed the services rendered by the

Corporation under 'Dharmajyoti' Scheme. However, in violation of the scheme provisions regarding realization of the pilgrims' share of 50 per cent of journey cost in advance, the Corporation did not realise the same amounting to ₹ 25.56 lakh from 72 pilgrimage parties. It was further observed that the Corporation furnished inflated certificates for utilisation of scheme funds after irregularly adjusting the un-realised amount from the said pilgrimage parties. Thus, non-adherence of the stipulated conditions of the scheme led to loss of ₹ 25.56 lakh to the State exchequer.

The Management stated (December 2012) that waiver was allowed in case of Haj pilgrims of Assam and in case of other special category of pilgrims, who are socially and economically weak. Further, it stated that such waiver has the approval of Honorable Transport Minister, GoA (December 2012) and the Board of Directors has also accorded (March 2012) approval for the same.

Reply of the Management is untenable due to the following reasons:

- (1) The Board has approved the waiver in March 2012 citing the order of Honorable Transport Minister, GoA. However, the approval of the Honorable Minister has been obtained in December 2012.
- (2) The waiver of beneficiaries' share of journey cost by the Board of Directors was irregular as there was no stipulation in the terms and conditions of the scheme in this regard.

It is recommended that the Corporation should abide by the scheme conditions so that there is no loss to the State exchequer.

The matter was reported (March 2012) to the Government. Reply of the Government had not been received (November 2012).

General

Public Enterprises Department

3.10 Follow-up action on Audit Reports

3.10.1 Outstanding Explanatory Notes

The Comptroller and Auditor General of India's Audit Reports represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained by various Public Sector Undertakings (PSUs). It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance (Audit & Fund) Department, Government of Assam issued (May 1994) instructions to all administrative departments that immediately on receipt of Audit Reports, the concerned departments would prepare an explanatory note on the paragraphs and performance audits included in the Audit Reports indicating the corrective/remedial action taken or proposed to be taken and submit the explanatory notes to the Assam Legislative Assembly with a copy to the Principal Accountant General/Accountant General within 20 days from the date of receipt of the Reports. Besides this, the department would ensure

submission of written Memorandum as called for on the para(s) concerning the department within the time limit prescribed by the Assam Legislative Assembly from time to time.

Though the Audit Reports presented to the Legislature for the period from 2006-07 to 2010-11 contained 73 paragraphs/performance audits, explanatory notes on none of these paragraphs/performance audits were received till September 2012 as indicated below:

Year of Audit Report (Commercial)	Date of presentation to the State Legislature	Total paragraphs/performance audits in Audit Report	No. of paragraphs/performance audits for which explanatory notes were not received
2006-2007	March 2008	15	15
2007-2008	March 2009	18	18
2008-2009	March 2010	16	16
2009-2010	February 2011	15	15
2010-2011	March 2012	09	09
Total		73	73

Department wise analysis of paragraphs/performance audits for which explanatory notes are awaited is given in *Annexure 12*. Departments of Power, Industries & Transport were largely responsible for non-submission of explanatory notes.

3.10.2 Action Taken Notes on Reports of Committee on Public Undertakings (COPU)

Action Taken Notes (ATNs) on the recommendations of the COPU are required to be furnished within six weeks from the date of presentation of the Report by the COPU to the State Legislature. Replies to 134 recommendations pertaining to 18 Reports of the COPU, presented to the State Legislature between August 1997 and September 2012 had not been received as on September 2012 as detailed below:

Year of the COPU Report	Total number of Reports involved	Number of recommendations where ATNs replies not received
1997-98	1	01
2002-03	1	09
2003-04	2	18
2004-05	1	10
2007-08	3	06
2008-09	6	65
2009-10	2	10
2010-11	1	09
2011-12	1	06
Total	18	134

3.10.3 Response to inspection reports, draft paragraphs and performance audits

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of four weeks. A review of inspection reports issued up to March 2012 pertaining to 32 PSUs disclosed that 1024 paragraphs relating to 210 inspection reports remained outstanding at the end of September 2012; of these, 153 inspection reports containing 749 paragraphs

had not been replied to for more than one year. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2012 are given in *Annexure 13*.

Similarly, draft paragraphs and performance audits 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 against nine draft paragraphs and one performance audit report forwarded (March to August 2012) to various departments, only two departments (Home and Power) submitted part replies to one draft paragraph and replies to the remaining draft paragraphs and performance audit report has not been furnished till date as detailed in *Annexure 14*. 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 and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayment is taken within the prescribed period and (c) the system of responding to audit observations is revamped.

GUWAHATI
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Countersigned

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