

# OVERVIEW

## 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 2012, the State of Madhya Pradesh had 55 working PSUs (51 Companies and four Statutory corporations) and nine non-working PSUs (all Companies), which employed 0.58 lakh employees. The working PSUs registered a turnover of ₹ 37949.25 crore for 2011-12 as per their latest finalised accounts as on 30 September 2012. This turnover was equal to 12.03 per cent of State GDP indicating an important role played by State PSUs in the economy.*

#### **Investments in PSUs**

*As on 31 March 2012, the Investment (Capital and Long Term Loans) in 64 PSUs was ₹ 33511.25 crore. It grew by 63.17 per cent from ₹ 20537.35 crore in 2006-07. Power Sector accounted for 90.24 per cent of total investment in 2011-12. The State Government contributed ₹ 8874.74 crore towards Equity, Loans and Grants/Subsidies to State PSUs during 2011-12.*

#### **Performance of PSUs**

*During the year 2011-12, out of 55 working PSUs, 32 PSUs earned profit of ₹ 190.08 crore and 18 PSUs incurred loss of ₹ 2487.49 crore as per their latest finalised accounts as on 30 September 2012. Five Companies did not*

*submit their first accounts. The State PSUs had accumulated losses of ₹ 15348.27 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 ₹ 1179.91 crore and infructuous investments of ₹ 218.95 crore could have been controlled with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs*

#### **Quality of accounts**

*The quality of accounts of PSUs needs improvement. All 50 accounts of working PSUs finalised during October 2011 to September 2012 received qualified certificates from Statutory Auditors. There were 68 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**

*Twenty six working PSUs had arrears of 63 accounts as of September 2012. The arrears need to be cleared by setting targets for PSUs. There were nine non-working companies.*

*(Chapter-I)*

### 2. Performance Audit relating to Government Companies

#### 2.1 Performance Audit on Madhya Pradesh Power Transmission Company Limited

A Performance Audit relating to Madhya Pradesh Power Transmission Company Limited was conducted. Executive summary of our audit findings is given below

#### **Introduction**

*The transmission of electricity and grid operation in Madhya Pradesh are managed*

*and controlled by the Madhya Pradesh Power Transmission Company Limited (Company), which is mandated to provide an efficient, adequate and properly*

coordinated grid management and transmission of energy. The Company was incorporated in November 2001 under the Companies Act, 1956.

During 2007-08, 33,710 Million Units (MUs) of energy was transmitted by the Company which increased to 40,692 MUs in 2011-12. As on 31 March 2012, the Company had transmission network of 27,060.67 Circuit kilometres (Ckm) and 247 Extra High Tension sub stations (EHT SSs) with installed capacity of 35,544 Mega Volt Ampere (MVA) capable of transmitting 40,692 MUs annually. It employed 5,365 employees as on 31 March 2012.

### **Planning and Development**

The Central and State Transmission utilities have the key responsibility of network planning and development based on the National Electricity Plan in coordination with all concerned agencies.

Against the targeted construction of 68 EHT SSs, addition/augmentation of 11,036 MVA of transformation capacity and erection of 6,914.88 Ckm of EHT lines, the Company added 49 EHT SSs, installed 10,693.50 MVA of transformation capacity and erected 6,172.54 Ckm of transmission lines.

### **Construction of Sub Stations and Lines**

The Company undertook erection and commissioning of EHT SSs and related transmission lines. A test check of such works completed during the five year period 2007-12 revealed that there were several instances of delay in completion of work ranging from 4 months to 40 months which had a significant impact on the physical and financial objectives of the Company.

Due to inadequate demand the EHT SS at Pawai along with 132 kV lines constructed at a cost of ₹ 15.29 crore remained underutilised. The delay in completion of Satna-Chhattarpur line resulted in idling of EHT SS at Chhattarpur constructed at a cost of ₹ 12.37 crore for more than 11 months.

The completion of associated lines works in advance of construction of EHT SS at Sagar resulted in idling of lines constructed at a cost of ₹ 6.57 crore for a period ranging from 11 months to 17 months.

### **Contract Management**

The Company applied force majeure clause in procurement of 315 MVA power transformer with accessories to the advantage of the supplier which resulted in short recovery of liquidated damages to the extent of ₹ 24.13 lakh.

The Company failed to operate the risk and cost clause of the purchase order in procurement of 70 KN and 90 KN disc insulators, which resulted in non-recovery of extra cost in replacement of failed/rejected insulators to the extent of ₹ 36.46 lakh.

### **Performance of transmission system**

The Company had excess transformation capacity (220 kV) over peak demand which ranged from 318 MVA to 2,985 MVA during the period 2007-08 to 2011-12. Further, while the eight 220 kV EHT SSs had excess installed capacity over the permissible limit valued at ₹ 48.75 crore, 51 EHT SSs had only one power transformer as against the norm of minimum two. The Company is yet to provide Bus Bar Protection Panels in 38 EHT SSs out of 55 EHT SSs of 220 kV. The Company has evolved an innovative concept for reducing transmission losses without any financial commitment.

### **Grid Management**

Remote Terminal Units (RTUs) were installed in only 46 out of 242 EHT SSs of 220 kV and below. The Company issued Backing Down Instructions (BDI) on 211 occasions, all of which were complied with by the generators.

### **Financial Management**

Loss before tax of the Company decreased by 92.24 per cent, from ₹ 39.94 crore in 2007-08 to ₹ 3.10 crore in 2011-12. The Company delayed claiming supply affording charges from DISCOMs resulting in unrealised dues of ₹ 8.17 crore. Delay in repayment of instalment of loan raised from Power Finance Corporation Limited (PFC) resulted in additional expenditure of ₹ 1.91 crore towards penal interest and interest on interest.

**Material Management**

The value of closing stock exhibited in the Accounts did not agree with that shown by the Stores records. In spite of disposal of the obsolete/unserviceable stock on a regular basis the same remained more than 25 per cent of the closing stock.

**Conclusion and Recommendations**

The Company could not achieve the planned addition of construction of new EHT SSs and lines and addition/augmentation of transformation capacity. There were several instances of delay in completion of works ranging from 4 to 40 months. The Company short recovered liquidated damages from the contractor by ₹ 24.13 lakh. The Company has evolved an innovative concept for reducing transmission losses without any financial commitment. RTUs were installed

in only 46 out of 242 EHT SSs of 220 kV and below. The Company was not able to repay the loan along with interest within the scheduled time to PFC. The value of closing stock exhibited in the Accounts did not agree with that shown by the stores records.

We recommend that the Company analyse the reasons for delay in construction of EHT SSs and find alternative ways so that the works are completed within the time schedule, recover liquidated damages as per the provisions of the contract, install RTUs in all the EHT SSs, minimise the number of occasions of violation of Grid Discipline and list out obsolete and non-moving stores and circulate the same among the DISCOMs for possible utilisation by them.

(Chapter-II)

## 2.2 Performance Audit on working of Madhya Pradesh State Tourism Development Corporation Limited

A Performance Audit relating to Madhya Pradesh State Tourism Development Corporation Limited was conducted. Executive summary of our audit findings is given below

**Introduction**

The Madhya Pradesh State Tourism Development Corporation Limited (Company) was incorporated (May 1978) as a wholly owned Company of the Government of Madhya Pradesh (GoMP) for development of tourism in the State. The present Performance Audit was conducted to assess the economy, efficiency and effectiveness in meeting the stated objectives of the State Tourism Policies and Memorandum of Understanding (MoU) with GoMP.

**State Tourism Policies & MoU with GoMP**

The GoMP framed (October 2010) a new Tourism Policy to promote balanced and sustainable tourism and to fulfill the objectives of the Tourism Policy, 1995. The Company had not prepared any plan for development of tourism in the State and also failed to attract any joint venture company to facilitate private sector investment for development of tourism in State. The growth in the tourist inflow

which increased from 141.28 lakh in 2007-08 to 443.89 lakh in 2011-12 (214.19 per cent), was mainly because of addition of new centres for counting of tourists arrival. Further, the Company routinely reported provisional profit to GoMP through the MoU entered into with State Government due to non finalisation of Annual Accounts.

**Operational Performance of the units**

The Company had a mechanism in place for redressal of customers' complaint and a system for maintaining hygiene in its hotels/restaurant. The performance of commercial buses on Bhopal-Indore route was satisfactory. The units could not achieve the operating ratio fixed by the Company and the actual operating ratio ranged between 66 and 73 per cent against the targeted operating ratio of 56 to 65.75 per cent during 2008-09 to 2011-12. The average occupancy of the Company's hotel ranged between 44 and 48 per cent during the period 2007-08 to 2011-12 as against the All India average occupancy range of

59.9 to 69.4 per cent. The Company increased the tariff of nine hotels by 27 to 102 per cent, without considering the low occupancy (ranged between 15 and 44 per cent) of these hotels during 2007-08 to 2011-12, which resulted in further decrease of occupancy in five hotels and nominal increase in the occupancy of remaining four hotels during the period 2008-09 to 2011-12. The 32 units of the Company could not maintain both operating ratio as well as food cost limit and resulted in extra expenditure of ₹ 2.81 crore on food cost. The Company identified 13 units for leasing/privatisation as per the object of tourism policy during 2007-08 to 2011-12 and could lease out only four units so far (December 2012). The Company suffered a loss of ₹ 4.56 crore due to under valuation of land.

#### **Marketing**

The Company received ₹ 76.95 crore from GoMP and Finance Commission during the period between 2007-08 and 2011-12 for publicity and promotion of tourism and spent ₹ 78.07 crore during this period. The Company paid higher rates for advertisement through electronic media as compared to the rates fixed by the Directorate of Audio Visual Publicity (DAVP) and also failed to negotiate with the agency to bring rate on par with DAVP rates.

#### **Financial Management**

The Company earned profit of ₹ 1.67 crore against the turnover of ₹ 58.54 crore which reduced to ₹ 0.65 crore against turnover of ₹ 87.41 crore in 2010-11. The Company treated the income from interest of ₹ 18.80 crore on unspent amount of grant as their own income during the period 2007-08 to 2010-11. The progress made by the Company in collection of dues from sundry debtors was not encouraging. During the period between 2007-08 and 2011-12 the Company received an amount of ₹ 248.94 crore as grant from Government of India (GoI), Finance Commission and GoMP. The utilisation of grants ranged from 42.52 to 56.32 per cent of the available grants during 2007-08 to 2011-12. The Company submitted utilisation certificate without spending the grant of ₹ 3.12 crore in ten projects of the Twelfth Finance Commission, ₹ 4.90 crore in seven projects of GoI and ₹ 0.93 crore in four projects of

GoMP. It had diverted grant of ₹ 1.53 crore in five projects of the Twelfth Finance Commission and ₹ 0.72 crore in three projects of GoI.

The Company violated the terms of sanction of grant by non surrendering the unutilised grant amounting to ₹ 21.36 crore in 13 projects of GoI.

#### **Implementation of Information Technology System**

The Company incurred an expenditure of ₹ 24.59 lakh in piece meal on development of software for project management, transport management, hotel management and financial & pay roll management during the period 2007-08 to 2011-12 but could not implement the same successfully so far (December 2012).

#### **Manpower Management**

As against the requirement of 2287 employees, the Company had only 1909 employees (662 regular and 1247 outsourced employees) leaving a short fall of 378 employees.

#### **Monitoring, Internal Control and Internal Audit**

The Company had not placed annual operating plan, revenue budget, capital budget, MoU with the State Government, quarterly operational results etc. before the Board of Directors. Further, it did not have an efficient internal control system as there was no system for conducting periodical physical verification of fixed assets, inventory, cash, stores etc. The Company also did not have effective internal audit system commensurate with the size and nature of business of the Company.

#### **Conclusion and recommendations**

The Company had not prepared any Plan to fulfill the objectives of Tourism Policies and failed in leasing out newly created, existing and loss making assets/units to private parties. The occupancy rate was much less than the All India average occupancy. It had not prepared any marketing policy for effective publicity and promotion of tourism, it also failed in exercising financial prudence in timely finalisation of accounts and prudential management of sundry debtors. The

*Company had not adhered to terms of sanction of grant received from GoI/GoMP. The Corporate Governance was deficient and internal audit was inadequate.*

*We recommend that the Company should prepare a Corporate plan defining its activities in line with the Tourism Policy, fix the occupancy norms scientifically, improve its financial management by*

*ensuring timely finalisation of accounts, adhere to the terms of sanction of grant and proper utilisation of the same, and strengthen the Corporate Governance by strengthening the internal control and internal auditing system.*

*(Chapter-II)*

### 3. Transaction Audit Observations

Transaction audit observations included in the Report highlight deficiencies in the management of Public Sector Undertakings involving serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 4.18 crore in two cases due to non-compliance with rules and procedures.

*(Paragraphs 3.3 and 3.5)*

Loss of ₹ 3.03 crore was incurred in one case due to deficient planning.

*(Paragraph 3.1)*

Loss of ₹ 8.52 crore in four cases due to non-safeguarding the financial interests of organisation.

*(Paragraphs 3.2, 3.4, 3.6, and 3.7)*

Some important observations are given below:

**Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited** suffered a loss of ₹ 6.99 crore on account of claiming bad debts lower than the admissible limit of one *per cent* of its yearly revenue.

*(Paragraph 3.6)*

**Madhya Pradesh Power Generating Company Limited** suffered a loss of interest of ₹ 3.14 crore due to delay in filing final tariff petition for newly commissioned units.

*(Paragraph 3.3)*

**Madhya Pradesh State Mining Corporation Limited** suffered a loss of ₹ 77.68 lakh due to failure to effect price revision in line with the price of Rajasthan State Mines and Minerals Limited (RSMML).

*(Paragraph 3.7)*

**Madhya Pradesh Power Generating Company Limited** made avoidable payment of ₹ 30.70 lakh due to failure to finalise the tender through international competitive bidding.

*(Paragraph 3.2)  
(Chapter III)*