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 corporation is governed by their respective legislations. As on 31 March 2013, the State of Madhya Pradesh had 55 working PSUs (52 Companies and 3 Statutory corporations) and 9 non-working PSUs (all Companies), which has employed 58459 employees.

Investments in PSUs

As on 31 March 2013, the investment (Capital and Long Term Loans) in 65 PSUs was ₹ 46365.94 crore. It grew by 181.47 per cent from ₹ 16472.66 crore in 2007-08. Power Sector accounted for 93.30 per cent of total investment in 2012-13. The State Government contributed ₹ 12156.08 crore towards Equity, Loans and Grants/Subsidies to State PSUs during 2012-13.

Performance of PSUs

During the year 2012-13, out of 55 working PSUs, 26 PSUs earned profit of ₹275.94 crore Seven PSUs neither earned profit nor incurred losses and 18 PSUs incurred loss of ₹4307.57 crore as per their latest financial accounts as on 30 September 2013. Four PSUs did not submit their first accounts. 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 ₹458.22 crore and in fructuous investments of ₹62.97 crore which could have been controlled with better management.

Comments on accounts

The quality of accounts of PSUs needs improvement. All 49 accounts of working PSUs finalised during October 2012 to September 2013 received qualified certificates from Statutory Auditors. There were 95 instances of non-compliances of Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty five working PSUs had arrears of 64 accounts ranged from one to nine years as of September 2013. The arrears need to be cleared in compliance with the provision of the Companies Act, 1956. Out of the nine non-working PSUs, seven had gone into liquidation. Arrears in respect of the remaining two non working PSUs ranged from three to five years.

(Chapter-I)

2. Review relating to Government Companies

2.1 Review on "Power Purchase Agreements entered into by MP Power Management Company Limited/ Board/ Government of MP with Private Power Producers for purchase of power and its operationalisation" during the period from 2008-09 to 2012-13

A Review relating to Power Purchase Agreements entered into by MP Power Management Company Limited/ Board/ Government of MP with Private Power Producers for purchase of power and its operationalisation was conducted. Executive summary of our audit findings is given below

Introduction

MP Power Management Company Limited (Company) under the administrative control of Department of Energy, Government of Madhya Pradesh (GoMP) is entrusted with the responsibility of assessing the demand of power in the State and make arrangements for meeting the demand by pooling all power purchases from different sources.

The Review conducted during May 2013 to July 2013 covers Power Purchase Agreements (PPAs) entered into by GoMP Company with Independent Power Producers and operationalisation of PPAs during the period from 2008-09 to 2012-13 including planning and procurement of power.

Against the planned procurement of 1009 MW capacity of power through IPPs on long term basis, the Company could procure only 207 MW during the period of review

The Company paid idle capacity charges to the extent of ₹66.77 crore during the period from November 2011 to March 2013 for scheduling lower capacity from a gas based Power Project.

Deviation from terms and conditions of Memorandum of Understanding and Implementation Agreement in respect of PPA with BLA Power Private Limited resulted in additional expenditure of ₹1.53 crore due to purchase of two and half per cent of power at regulated tariff rate instead of concessional tariff rate and committed additional cost of ₹73.83 crore.

The Company was deprived of availing cheap power from Sasan Power Ltd., for a period of 15 months due to postponement of commissioning date (COD) in all the six units of a power project resulting in potential loss of ₹ 1252.46 crore on account of purchase of power from other sources.

The Company did not impose liquidated damages of ₹10.89 crore as per PPA for tariff based power for the delay in commissioning of the Bina Thermal Power Project beyond the extension granted.

Due to removal of capping of fixed charge rate, the Company had to incur an additional expenditure of ₹ 24.51 crore and committed to incur an additional cost of ₹ 145.96 crore towards fixed charges on procurement of power from Torrent.

There is no mechanism to verify landed cost of coal and its gross calorific value.

Due to deficiencies in the billing, payment procedure and deviation from norms, the Company could not avail Rebate amounting to ₹ 53.02 lakh from developers and also incurred avoidable LPS of ₹ 6.97 crore.

(Chapter II)

2.2 Review on the working of Madhya Pradesh Laghu Udyog Nigam Limited, Bhopal

A Review relating to Madhya Pradesh Laghu Udyog Nigam Limited was conducted. Executive summary of our audit findings is given below

Introduction

Madhya Pradesh State Laghu Udyog Nigam Limited (Company) was incorporated in December 1961 as a wholly owned Government Company to promote Small Scale Industries (SSIs) by providing marketing, financial, technical and managerial assistance. The Government of Madhya Pradesh has reserved 149 items, for preferential purchase from SSI sector of the State, through the Company only, under its Store Purchase Rules (SPR). The Company collects Service Charges/Commission from Suppliers on supplies made by the suppliers to the Government Departments, which is a prime source of its income.

Planning

Company had not prepared any promotional plan including financial plan for the development of SSI units in the State. The Company did not assess the impact of the fairs and Reverse Buyer Seller Meets. The actual achievement of business targets ranged between 80.50 and 120.51 per cent during the period 2008-09 to 2012-13. The Company could not achieve the targets fixed in MoU during the years 2009-10, 2011-12 and 2012-13. The percentage of SSIs availing the marketing assistance ranged between 0.28 and 0.49 per cent of total SSI registered with Department of Industries, GoMP.

Marketing Activity

The business of Marketing department decreased from ₹ 667.15 crore in 2008-09 to ₹ 529.60 crore in 2012-13 due to decrease in business of reserved items. The penalty deducted for delay in Government supplies amounting to ₹ 1.68 crore, till March 2012 has not been paid to Government departments. The Company did not evolve a system to verify the eligibility of SSI units with reference to Industrial Development Act for allowing proper price preference of 10 per cent to state based units over all India tender.

The Performance of other departments of the Company

The divisions of Estate and Construction Department (E&C) split up the deposit works in parts and kept the Probable Amount of Contract very proximate to ₹five lakh and avoided publishing in news papers. The E&C Department adopted differential practice for deduction and remittance of royalty to the government exchequer. The Company failed to include an interest clause for delayed payments of bills in respect of construction of Navodaya Vidyalaya buildings

The profitability of the emporia was mainly due to inclusion of commission earned on sales of marketing items to Government Departments, agencies, bodies etc. for which marketing wing of the Company was established. In Delhi and Rewa emporia, the stock holding was more than their turnover. The Company has not framed any policy for disposal of non-moving stock. The agreements entered into for renovation of five of its emporia did not provide for levy of penalty in case of delay in completion.

The Raw Material Depot, Bhopal earned profit and Indore, Jabalpur and Gwalior Depot earned profits due to inclusion of commission from marketing of products manufactured by SSIs. There was shortfall in lifting of iron and steel items against the quantities to be supplied by steel manufacturers, as the number of SSI units procuring iron and steel items reduced from 146 in 2008-09 to 102 in 2012-13. The procurement of coal ranged from 72.45 to 86.26 per cent against the allotment and the Company could assist only 455 coal consuming units as against total 19471 units in the State.

The turnover of the Company increased from ₹ 151.92 crore in 2008-09 to ₹223.05 crore in 2011-12 (46.82 per cent), while the net profit of the Company increased only from ₹13.18 crore in 2008-09 to ₹13.76 crore in 2011-12 (4.40 per cent). The profit is mainly due to income earned through interest on Fixed Deposit Receipts, while its operational activity was decreasing. The Receivables of the Company as at the end of March 2008 was ₹ 5.72 crore, which increased to ₹ 9.44 crore as on March 2012. The Company did not frame any long term investment policy to invest its surplus fund.

Manpower Management

The Company had not done reassessment of its manpower requirement.

Monitoring and Internal Control

There was no mechanism to ensure procurement of reserved items directly by the government departments which were reserved for procurement through the Company. The Company also does not have a system of verifying whether the beneficiary units were SSIs in terms of Micro Small and Medium Enterprises Development Act, 2006. The Company does not have an independent IT Cell/Wing to implement the information technology system. The Company did not have a separate internal audit wing and the internal audit work was assigned to the CA firms. The scope of internal audit is limited to physical verification of stock and preliminary checking of accounts, leaving core area of activities unaudited.

(Chapter II)

2.3 Review on Materials Management of Madhya Pradesh Power Generating Company Limited.

A Review relating to Materials Management of Madhya Pradesh Power Generating Company Limited was conducted. Executive summary of our audit findings is given below

Introduction

The Madhya Pradesh Power Generating Company Limited, in order to operate and maintain its three thermal plants (total capacity of 3687 MW) and seven hydel plants located in the State, through its 21 stores is providing raw materials/inputs such as coal, oil and critical inventory/spares. Hence, effective management of inventory ensures timely availability of essential items for efficient operations with minimum blocking up of capital by ascertaining needs of stores on time and arranging such materials in the most efficient, economical and expeditious manner.

In order to review status of materials management in the Company a review on this subject, covering transactions from 2010-11 to 2012-13 in respect of all stores attached to three thermal plants was conducted in April to July 2013. The main findings, conclusions and recommendations arising out of the review are summarised below.

Planning and scheduling for Procurement of material

In the absence of any norms fixed in terms of days for publication and awarding of tenders from the date of receipt of indent from user department, the Company had taken time ranging from 38 days to 246 days in publishing Notice Inviting Tender (NITs) and a total of 238 days to 510 days for placing purchase orders, thus affecting its annual planned requirement.

Procurement of materials

In 43 cases where the value of Purchase Order (PO) exceeded ₹ five lakh, the requirement was not published in newspapers as required under its established procedures. Further, the Company had not only foregone an opportunity to obtain competitive rates, but also failed to develop a secondary source of supply to overcome possible contingencies due to placement of 66 POs on single tender basis.

Materials/spares valued ₹ 9.75 crore, was procured without assessing the actual requirement and were found to be lying in excess and inactive at various stores, resulting in blocking up of Company's funds.

Coal losses written off in excess of limits permitted by Madhya Pradesh Electricity Regulatory Commission (MPERC) amounted to ₹ 50.14 crore (2010-11), ₹ 35.19 crore (2011-12) and ₹ 40.50 crore (2012-13) respectively.

Due to excess holding of secondary oil beyond 60 days, the additional carring cost amounted to ₹ 1.40 crore to ₹ 2.76 crore during 2010-13.

In 164 purchase orders valued ₹ 102.84 crore, the Company waived the tender condition for collecting10 per cent security deposit of ₹ 6.64 crore from the suppliers. In respect of 52 purchase orders, material was not supplied even after lapse of two to three years.

Irregularities in inspection, receipt and issue of materials

As against Company's clear instructions to issue Material Receipt Certificate (MRCs) within seven days from the date of receipt of material at stores for processing payments to suppliers, in respect of 325 supplies against POs, the management delayed issue of MRCs for periods up to 209 days (Sarni), 918 days (Birsingpur) and 101 days (Chachai) respectively.

(Chapter II)

2.4 Review on Evaluation and Management of Build, Operate and Transfer scheme of Madhya Pradesh Road Development Corporation Limited

A Review relating to Evaluation and Management of Build, Operate and Transfer scheme of Madhya Pradesh Road Development Corporation Limited was conducted. Executive summary of our audit findings is given below

Introduction

Madhya Pradesh Road Development Corporation Limited, incorporated in July 2004 under the Companies Act, 1956, is engaged in strengthening, upgradation and development of the state highways and major district roads (MDR) in the State of Madhya Pradesh. The Company is mandated to provide an efficient, adequate and proper road infrastructure in the state.

During 2009-10 to 2012-13, the Company completed 16 project highways under different models of Build Operate and Transfer (BOT) Scheme under Public Private Partnership (PPP).

Overview of executed road projects

Out of the 16 completed projects, the Company completed 11 projects within the scheduled period of completion. There were delays of 67 days to 564 days in achieving Commercial Date of Operation in remaining five projects. The major reasons for delays were delay in financial closure, delay in handing over of site and problems associated with Right Of Way

Erroneous Treatment of Environmental Mitigation cost

The Company allowed 25 per cent escalation on the environment mitigation cost also treating it as construction cost. This resulted in higher payment to concessionaries amounting to ₹62.71 lakh towards Viability Gap Funding.

Increase in project cost due to adoption of higher specification

Considering the present and projected traffic on the road, two lane standard on the Khimlasa-Malthon section of the Bina–Khimlasa–Malthon project highway was not warranted. Developing this section on two lane standard thus resulted in unwarranted and avoidable expenditure of ₹14.37 crore towards proportionate VGF

Payment of bonus and annuity under BOT (Toll plus Annuity) model

For the development of three project highways the Company formulated a new model of PPP viz. BOT (Toll plus Annuity). Due to not reducing the construction period as recommended by the Consultants payment of bonus for early completion resulted in unintended benefit of ₹16.82 crore to the Concessionaires.

Selection of Public Sector undertaking as partner under PPP

Contrary to the principles of PPP the Company selected a public sector entity for the development of the Bina–Kurwai–Sironj Project highway.

Incorrect fixation of toll

The Company did not formulate and document standard procedure for fixation of toll rates. This resulted in unintended benefit to concessionaire to the tune of ₹ 37.43 lakh towards higher toll rates.

Delayed remittance of premium by the concessionaire

The concessionaire of the Indore-Ujjain project highway did not remit to the Company the premium amounting to ₹7.69 crore as on 30 September 2013.

(Chapter II)

3. Review relating to Statutory Corporation

3. Review on the Working of Madhya Pradesh Warehousing & Logistics Corporation

A Review relating to working of Madhya Pradesh Warehousing & Logistics Corporation was conducted. Executive summary of our audit findings is given below

Introduction

The Madhya Pradesh Warehousing and Logistics Corporation (Corporation) was formed on 31 March 2003. The main functions of Corporation included creation of infrastructure for storage of agricultural products, fertilizers, salt, gunny bales etc., undertaking clearance of goods from the godowns and provide disinfestations services to farmers, private parties etc. The Corporation is the nodal agency to provide warehousing facility to the Madhya Pradesh State Civil Supplies Corporation Limited for storage of food grains procured under Decentralised Procurement (DCP) scheme.

As on 31 March 2013, the Corporation has 2,887 godowns having total storage capacity of 54.73 lakh MT at 275 centres spread all over the State against the total storage capacity of 97.50 lakh MT available in the State. The review of the working of the Corporation revealed following shortcomings

Planning

Memorandum of understandings (MoU) with the Government of Madhya Pradesh (GoMP) for the years 2008-09 to 2012-13, intended to plan well in advance the activities to be carried out in the forthcoming years, were signed at the end of the relevant financial years, as such, the purpose of entering into MoUs was not achieved.

The requirement of land was not included in MoUs with GoMP sufficiently in advance. As a result, the Corporation could not construct godowns at Chhindwada, Khandwa, and Sehore due to non-availability of land.

The Corporation has not prepared any long term plan to increase its share in storage capacity. The Corporation increased its storage capacity from 11.41 lakh MT in 2008-09 to 14.81 lakh MT in 2012-13 but its share in total storage capacity of the State had marginally decreased from 15.83 per cent in 2008-09 to 15.18 per cent in 2012-13.

Construction of godowns

Against the target of storage capacity of 31,70,790 MT during the period 2008-09 to 2012-13, the Corporation despite availability of funds, could construct total storage capacity of 6,53,350 MT.

Failure of the Corporation to execute agreements within the validity period of tenders resulted in award of works in subsequent tenders at the higher cost by ₹ 1.28 crore.

Due to delay in completion of works of convertible CAPs and pre- engineering godowns, the Corporation could claim storage charges at the rate of ₹ 24 only applicable for CAP instead of ₹ 49 applicable for godown which resulted in loss of potential revenue of ₹ 8.86 crore.

Utilisation of godowns

In respect of own godowns and joint venture godowns its utilisation during 2008-09 to 2012-13 was less than the overall targets of utilisation. The Corporation stored foodgrain in JV godowns under four branches despite availability of surplus storage capacity in own/ hired godowns, thereby incurred loss of revenue of ₹25.69 lakh.

Storage of foodgrain

Loss on account of non-achievement of specified storage gain and damaged stock was worked out to ₹ 91.50 crore as on 31 March 2013 but the Corporation did not analyse reasons thereof and take remedial action for that.
The Corporation decided to use new kind of multi layered cross laminated film Covered At Plinth (CAP) covers at large scale without any field trial. The Corporation incurred extra expenditure of ₹ 2.72 crore due to purchase of the new kind of CAP covers at higher cost The Corporation incurred avoidable expenditure of ₹ 44 lakh due to purchase of heavier polythene covers for CAP compared to the standards set by Food Corporation of India.

Financial/budgetary management

Actual executed quantities in respect of 11 works exceeded the estimated quantities and payment for such excess quantities valued at ₹4.57 crore were made to contractor without approval of competent authority. In respect of 10 works, extra items of works values at ₹3.79 crore were executed without approval of the competent authority.

Human Resource Management

There was shortage of staff in all the groups in the Corporation against sanctioned strength.

Monitoring and Internal Control Mechanism

Meetings of Executive Committee to review the functions of the Corporation, were not held as per the prescribed frequency. Computer systems valued at ₹ 5.34 crore could not be utilised by the Corporation since its installation in March 2008 up to September 2013 due to not getting resolved the problems in software. No monitoring system was developed by the Corporation to ensure timely renewal of lease deed for land.

(Chapter III)

4. 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 ₹ 33.44 crore in four cases due to non compliance with rules and procedure.

(Paragraphs 4.2, 4.6, 4.7 and 4.9)

Loss of ₹ 1.55 crore was incurred in two cases due to deficient planning.

(Paragraphs 4.1 and 4.3)

Loss of ₹ 7.18 crore in four cases due to non-safeguarding the financial interests of organization.

(Paragraphs 4.4, 4.5, 4.8 and 4.10)

Loss of ₹ 168.12 crore was incurred in one case due to inadequate and deficient monitoring.

(Paragraph 4.11)

Some important observations are given below:

The Special Economic Zone (SEZ) Limited (Indore) did not avail Income Tax exemption which resulted in avoidable payment of Income Tax and interest of ₹ 13.25 crore.

(Paragraph 4.2)

Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited suffered a loss of revenue of ₹ 84.84 lakh due to delay in issue of Supply availability notice and billing for the enhanced demand

(Paragraph 4.6)

Madhya Pradesh Madhya Kshetra Vidyut Vitran Company Limited suffered a loss of revenue of ₹ 3.89 crore due to giving undue benefits to the consumer on account of extending additional load before non fulfilment of sanctioned letter conditions as per Electricity Supply code, 2004 and non levy of additional charges on the excess load as per the MPERC Tariff

(Paragraph 4.7)

Madhya Pradesh Power Transmission Company Limited foregone revenue of ₹ 23.13 crore through tariff and consequential interest loss of ₹ 1.27 crore

(Paragraph 4.8)

Madhya Pradesh State Mining Corporation Limited failed to enforce the terms and conditions of agreement for production of A grade rock phosphate resulting in loss of revenue of ₹ 14.71 crore and failed to levy penalty of ₹ 73.55 lakh for unexecuted quantity and the Company also extended undue benefit to the contractor in awarding of contract for mining of Rock Phosphate resulted in avoidable extra expenditure of ₹ 4.82 crore

(Paragraphs 4.9 and 4.10)

The Madhya Pradesh State Mining Corporation Limited incurred a loss of ₹ 153.29 crore due to non levy of liquidated damages and it Joint Venture incurred a loss of ₹ 14.83 crore due to delay in purchasing geological report, payment of penal interest and towards penalty.

(Paragraph 4.11)

(Chapter IV)