

# Compliance Audit Observations



## Chapter III - Compliance Audit Observations

Important audit findings emerging from test check during the audit of the State Government Companies/Statutory Corporations are included in this Chapter.

### Government Companies

#### Assam Mineral Development Corporation Limited

##### 3.1 Wasteful expenditure

**Failure to design and execute a proper plan before making an investment decision resulted in wasteful expenditure of ₹ 14.35 crore.**

In response to the offer (November 2006) of Ministry of Coal (MoC) for allocation of 1200 MT of coal blocks available in the State of Odisha to Central/State Public Sector Undertakings through the Government dispensation route, Government of Assam (GoA) directed (19 January 2007) Assam Mineral Development Corporation Limited (Company) to apply for the same for power generation purposes. Simultaneously, based on an offer (19 January 2007) from M/s KVK Energy & Infrastructure Limited, Hyderabad (KVK) for availing supply of coal from the Company for their power plants located in Odisha, GoA directed (January 2007) the Company to enter into a Memorandum of Understanding (MoU) with KVK for the purpose. The MoU was also supposed to ensure first access of the power generated through these plants of KVK to the State of Assam. On signing the MoU, Company on the same day (19 January 2007) applied to MoC for allotment of coal blocks for generation of 1200 MW electrical power so as to bridge the demand-supply gap in the state. The MoU with KVK, which was valid till January 2008, was extendable for one year by mutual agreement.

MoC conveyed (July 2007) its 'in principle' assent for allotment of captive coal reserves of 300 MT as part of an unexplored Mandakini B (1200 MT) Coal Block in Odisha. The remaining 900 MT of coal reserves under the said block was equally allocated to three<sup>83</sup> Public Sector Undertakings (PSUs) of other States. The terms of allotment required that the allottees of the coal blocks should jointly or through a separate company formed for this purpose, apply for Prospecting Licence (PL) and also jointly furnish Bank Guarantee (BG) equivalent to ₹ 97.50 crore within three months of allotment. Milestones<sup>84</sup> for development of the block were also prescribed with the condition that in case of slippage in adherence to the milestones, the

<sup>83</sup> Meghalaya Mineral Development Corporation Limited, Tamil Nadu Electricity Board and Odisha Mining Corporation Limited.

<sup>84</sup> Milestones, *inter alia*, included (i) purchase of Geological report by October 2009, (ii) obtaining approval for mining plan by June 2010, (iii) obtaining forest clearance by April 2011, (iv) obtaining Mining Lease by October 2011 and (v) completion of Land Acquisition by October 2012.

allotment would be cancelled and 50 *per cent* of the BG (₹ 48.75 crore) be invoked and forfeited. All the four PSUs were equally responsible for achieving the prescribed milestones for development of coal block. Though the Company was fully dependent on KVK to actually work on the mines, it did not extend its agreement with KVK when it expired in January 2008.

However, an MoU was entered (March 2008) between the four PSUs who had been allotted this Coal Block for creating a joint venture company (JVC) under the name of Mandakini-B Coal Corporation Limited (MBCCL). The objective of the JVC was to develop the coal blocks allotted by the MoC. All four PSUs had equal stakes in the equity of MBCCL. The PSUs had the option to opt out of the MoU as long as the JVC had not been formed. The JVC was incorporated in February 2009. The Company submitted (July 2009) a BG with one year validity, for ₹ 24.38 crore to MBCCL being its share (1/4<sup>th</sup>) of BG to be furnished to the MoC. The BG was subsequently renewed for another three years (till July 2013).

Audit scrutiny of the progress of exploration of the allotted coal blocks revealed that, although the first step for applying for a PL was formation of a separate company, the JVC was formed only in February 2009, *i.e.* after a lapse of 19 months from the date of receiving (July 2007) ‘in principle’ approval of MoC for allotment of coal block. It was further observed that, the four PSUs also failed in meeting other prescribed milestones set by the MoC, resulting in issue of three show cause notices (October 2009, October 2010 and May 2012) to the allottee PSUs and finally cancellation (December 2012) of the allotment itself. Further, out of the BG of ₹ 97.50 crore furnished by MBCCL on behalf of four PSUs, BG equivalent to ₹ 48.75 crore (50 *per cent*) was duly invoked and forfeited (December 2012) by MoC. The share of the Company in the forfeited BG along with interest worked out to ₹ 12.79<sup>85</sup> crore which was discharged by the GoA. Besides, the Company had also incurred bank interest of ₹ 1.56 crore (₹ 39.00 lakh for each year) on the BG.

Audit observed that:

- The Company’s decision to apply for allocation of the coal block was based on the MoU entered with KVK for securing coal for KVK’s proposed power projects in Odisha and Jharkhand to meet Assam’s demand for power. However, the Company failed to ensure the targeted end utilisation of coal, when it did not extend the MoU beyond 2008.
- The direction from the GoA to apply for Coal blocks, the MoU with KVK and the application to the MoC by the Company were all completed in a single day, without any situational analysis or due diligence regarding the location of the blocks, strategy for exploration and choice of mining partners as the blocks were located in another state.
- Despite admitting (July 2015) to have difficulties in working with the PSUs of other states considering the limitations and restrictions of these PSUs to converge at a singular point, Company continued to persist with the mining project, instead of opting out in

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<sup>85</sup> ₹ 12.19 crore towards invoked BG *plus* ₹ 0.60 crore towards interest charges.

January 2008 itself, when the MoU with KVK had expired and no other alternative plans for end use of the coal were in place.

- In spite of the risk of de-allocation with huge penalty for failure to adhere to the milestones for development of the Coal Block and continued slippages in progress of work, the Company failed to exercise the clause of opt out of the MoU signed (March 2008) with the other allotted PSUs. Had it done so, only proportionate expenditure till termination of the MoU (*i.e.* ₹ 1.81 lakh) would have had to be borne by the Company.

Thus, taking up the mining project without any due diligence and without a proper plan in place for utilisation of the coal block allocation resulted in financial loss of ₹ 14.35 crore<sup>86</sup> to the exchequer towards invoked BG and interest charges.

While concurring with the facts, the Company replied (July 2015) that the development of Coal Block was delayed due to want of Prospecting Licence to be granted by the Government of Odisha, where the allottee partners had no control. Further, regarding the ‘opt out’ clause of the MoU of the JVC, the Company replied that the MoU with other PSUs partners expired as soon as formation (February 2009) of the JVC took place. As such, there was no reason to withdraw from the group before the start of any activity. Further, there was no option to withdraw after formation of the JVC.

The reply is not tenable as the Company after entering (March 2008) into the MOU with other PSU partners, had a period of 11 months to assess the progress of the grant of PL by Government of Odisha and could have exercised the ‘opt-out’ clause of the MOU before formation of JVC till February 2009, which it failed to do.

The matter was reported (May 2015) to the Government; their replies had not been received (October 2015).

### ***3.2 Loss of Revenue***

**The Company suffered loss of revenue of ₹ 49.07 crore due to sale of coal at prices lower than those fixed by Coal India. Further, failure of the company to collect Clean Energy Cess from the buyers of coal resulted in loss of ₹ 1.51 crore to the State exchequer.**

The Assam Mineral Development Corporation Limited (Company) runs coal mining operation<sup>87</sup> at Garampani area in the Dima Hasao district through local Job-Sirders (Contractors) selected by the Company by floating advertisement in local newspapers. The coal extracted by these local contractors was being sold to them at the coal price fixed by the Company after adjusting the

<sup>86</sup> ₹ 12.79 crore plus ₹ 1.56 crore

<sup>87</sup> viz. extraction of coal, carrying of coal to the stockyard and sale of coal

cost of extraction. The coal price fixed from time to time was derived based on various parameters prescribed by the Company on different component of mining cost.

Scrutiny of records of the Company revealed that the coal price fixed by the Company during the period from April 2011 to March 2015 was far below the price of coal fixed<sup>88</sup> by Coal India Limited (CIL) for Assam for similar calorific value of coal. It was noticed that the base price of Assam coal as fixed (February 2011) by CIL, for coal with Gross Calorific Value ranging from 6,200 K.Cal/Kg. but not exceeding 6,299 K.Cal/Kg., was ₹ 4,100 per tonne. The CIL had further revised (May 2013) the sale price of coal with Gross Calorific Value from 6,100 K.Cal/Kg. to 6,400 K.Cal/Kg. to ₹ 3,490 per tonne. It was, however, observed that, during the corresponding periods, the Company had been selling its Garampani coal with calorific value of 6,385 K.Cal/Kg at lower prices ranging from ₹ 1,320 (2011-12) to ₹ 2,200 (2014-15). During the period from April 2011 to March 2015 the Company sold 3.02 lakh tonnes of Coal from its Garampani Coal Extraction project at prices lower than CIL prices and suffered a total revenue loss of ₹ 49.07 crore on this account.

Further, as per Government of India circular (June 2010), a Clean Energy Cess was leviable at the rate of ₹ 50 per tonne on gross quantity of raw coal dispatched from a coal mine. On scrutiny of records relating to sales of coal, it was observed that the Company failed to collect the clean energy cess from the Contractors for the period April 2011 to March 2015, thereby resulting in a loss of ₹ 1.51 crore<sup>89</sup> to the exchequer (excluding interest<sup>90</sup>).

Audit observed that:

- The Company was selling the entire quality of coal without any further grading based on its quality and size and as such, sale price of the coal fixed by the Company had no scientific basis. On the contrary, the Company had been fixing the coal price based on the prevailing price of the coal in local market, which was highly influenced by the availability of smuggled and cheap coal in the local market from neighbouring states (mainly Meghalaya) which had been extracted through irregular means. Thus, fixing of coal price based on prevailing local market condition was not appropriate. It unduly benefited the private Contractors at the cost of the Company.
- While awarding the work of extraction of coal to the Contractors in respect of Garampani Coal Extraction Project the Company had neither prescribed the technical specification nor prepared any financial estimates for the coal to be extracted. It was further noticed that the Company had allowed the Contractors to continue extract coal from Garampani Project since 2002 till date (October 2015), even after a lapse of 13 years without any

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<sup>88</sup> Fixed as per K.Cal/Kg

<sup>89</sup> ₹ 50 x 3.02 tonne = ₹ 1.51 crore

<sup>90</sup> Interest at the rate not below 10 *per cent* and not exceeding 36 *per cent* per annum on the outstanding amount for the period starting from the first date after the due date till the date of actual payment of the outstanding amount in terms of Section 11 AB of the Central Excise Act, 1944

formal agreement in this regard. In absence of any formal agreement the Company was exposed to the risk of financial as well as other liabilities in the event of any damage resulting from any misconduct of these Contractors.

Thus, the Company has suffered a revenue loss of ₹ 49.07 crore during April 2011 to March 2015 due to sale of coal at unjustified lower price to private Contractors. Besides, the Company also failed to collect 'Clean Energy Cess' of ₹ 1.51 crore from the Contractors against the sale of coal during the period from April 2011 to March 2015 leading to loss to state exchequer to that extent.

The Company replied (June 2015), that the quality of Garampani coal differs from the coal of CIL and the calorific value was not uniform. It also stated that, due to a similar comment incorporated in the Report of Comptroller and Auditor General of India for the year 2005-06 (Commercial), the Company had enhanced the sale price for which the sale was adversely affected. As regards collection of Clean Energy cess, the Company stated that collection of cess at prevailing rates had already been started and the measures to clear the outstanding dues of the cess have also been taken.

The reply is not convincing as the North East Institute of Science & Technology (a Government of India Research Institute) report fixed the calorific value of Garampani coal at 6,385 K.Cal/Kg. The Company, however, has failed to ensure that the price is fixed considering the quality of coal extracted. Further, the contention regarding adverse effects of increasing the sales price on the sale volume is not correct. Although, there was initial decline in the sale during two years (2008-09 and 2009-10), the sale of coal appreciated thereafter and recorded an increase of 23,993 MT (86 *per cent*) in sale from 27,774 MT (2009-10) to 51,767 (2013-14) despite continuous increase in the sale price of coal from ₹ 1,575 per MT (2009-10) to ₹ 2,653 per MT (2013-14). Since coal was a scarce natural resource, its extraction and sale had to be carried out under regulated condition and prices had to be benchmarked to those fixed by the market leader who operated in the authorised sector rather than be fixed in competition with unauthorised smuggled commodities.

The matter was reported (May 2015) to the Government; their replies had not been received (October 2015).

## Assam Plains Tribes Development Corporation Limited

### 3.3 Undue benefit to Supplier

**Placement of supply orders by the Company on the supplier despite being aware of his fraudulent activities, has resulted in procurement of unauthenticated equipment at a cost of ₹ 1.44 crore**

Government of Assam (GoA) sanctioned (February 2012), ₹ 4.00 crore to Assam Plains Tribes Development Corporation Limited (Company) during the year 2011-12, as Grants in Aid for implementation of Anti-Poverty Simple Economic Assistance Scheme (Scheme). The Scheme provided for procurement and distribution of 'tractors' (₹ 3.00 crore) and 'power tillers' (₹ 1.00 crore) to the farmers (beneficiaries) selected based on scheme criteria. The Scheme was to be implemented during 2011-12.

With the intention of procuring power tillers, the Company obtained the list of models and rates of the equipment approved by the Agriculture Department. As per the said list, the VST Shakti brand was the lowest priced model for the year costing ₹ 1,80,495 (with trailer<sup>91</sup>). Decision to procure at the Agriculture Department's approved rate was also intimated (July 2011) to the Directorate of Plains Tribes Welfare, Government of Assam. The Purchase Committee constituted by the Company for the purpose, however, decided (November 2011), to procure Khazana Brand of tillers from M/s Khazana Agriculture Equipments (KAE), Kolkata, citing the directions issued (April 2004 and November 2011) by the Hon'ble Gauhati High Court, after a contempt case filed by KAE against the Company. As per the said directions of the Hon'ble High Court, the Company was obliged to complete the supplies from KAE against earlier supply order (2001) of Khazana power tillers, which had been cancelled by the Company.

It was observed that the Khazana brand of tillers was not in the approved list of the Agriculture Department. Further, procurement of said brand of tillers was not cost effective to the Company as compared to the lowest priced model of tillers available as per the said list. Although the orders of the Hon'ble High Court did not intend that the power tillers ought to be procured at price higher than the approved list of Agriculture Department, the Company placed orders for supply of Khazana brand equipment on KAE at higher rates ignoring the L1 price.

The Purchase Committee, further decided (December 2011) to place the supply order directly to the manufacturer, (*i.e.* M/s KAE) citing failure of the dealer (M/s Hira, Mangaldai) to supply equipment against previous order.

Meanwhile the Company, received (December 2011) a letter on the letter head of KAE, protesting the decision of the Purchase Committee and insisted on placing the order through their dealer, M/s Hira. Instead of examining the genuineness of the said letter (December 2011) by

<sup>91</sup> A trailer is a container on wheels used for transporting large or heavy items and is pulled by other vehicle.



taking up the issue with KAE, the Company placed (April 2012) a supply order (April 2012) for supply of 55 Khazana brand power tillers on M/s Hira, at the rate of ₹ 1,98,500 (with trailer) per power tiller.

The terms and conditions for the supply, *inter alia*, were as follows:

- i. Power tillers other than the brand and model approved by the Corporation were not be accepted.
- ii. Supplies were to be made within 30 days from the date of supply order.
- iii. Advance intimation of chassis number and engine number to enable proper verification and receipt of the tillers.
- iv. Dealer must produce Dealership Registration Certificate before signing the Supply Agreement.

The supply of 55 power tillers was completed (November 2012) in different batches and payment of ₹ 1.04 crore was also released (March 2013) to M/s Hira. In this regard, it was observed that:

- i. The authenticity of the letter (30 December 2011) from M/s KAE, for protesting the decision of the Purchase Committee was not verified.
- ii. The requirement for production of Dealership Registration Certificate was not fulfilled by M/s Hira and same was also not insisted upon by the company while signing the Supply Agreement.
- iii. Against the stipulated delivery date of 16 May 2012, supplies were made by M/s Hira during July 2012 to November 2012, thus defeating the objective of utilising the machines during the *khariff* plantation season (March to May)
- iv. In January 2013, KAE, intimated the Company that they had not supplied any Khazana Power Tiller to M/s Hira and insisted that the 55 power tillers supplied by M/s Hira were not of the Khazana brand. The Company, however, instead of withholding payment against supply of 55 tillers and taking legal course of action against M/s Hira had released (March 2013) the entire payment of ₹ 1.04 crore to M/s Hira. In September 2014, KAE, further informed that Khazana power tillers were not in production since 2007. The Company had obviously not checked up on basic facts *i.e.* availability of the brand of tillers that the Court decided had to be procured, or the reliability of the vendor in its apparent haste to comply with the Court judgement.

Meanwhile, the Board of Directors of the Company resolved (August 2013) to file a criminal case against M/s Hira for giving wrong information to the Court in the matter of supply of Khazana Power Tillers to the Company. However, no action was taken for approaching the Court for redressal and instead, in the same meeting, the Board cleared the purchase of another 20 nos. of Khazana power tillers from M/s Hira. The purchase order was issued (February 2014) and supply of 20 power tillers was completed (July 2014) at per tiller cost of ₹ 1,98,500 (without trailer) and payment of ₹ 0.40 crore was also released (August 2014) against this supply.

Thus, placement of supply orders by the Company on the supplier despite being aware of his fraudulent activities, and the equipment not being approved by the Agriculture Department at higher than standard price, has resulted in procurement of untested equipment at a cost of ₹ 1.44 crore besides extending undue favour to the supplier by realising the entire payment.

The Government/Company in their replies (July/October 2015) accepted the observation and stated that the lapses have been noted for future guidance. The Company's Attorney has also opined that the matter was a serious issue which requires investigation and that FIR should be lodged against the dealer.

It was, however, noticed that despite the recommendations of Company's Attorney, no action was found to have been taken on record for investigating the issue and filing of FIR in the matter so far (October 2015).

## **Assam Power Distribution Company Limited**

### ***3.4 Undue favour extended to Franchisee***

#### **Non-compliance of revised order resulted in excess payment of ₹ 1.15 crore to the Franchisee.**

Assam Power Distribution Company Limited (Company) awarded (July 2011) M/s Brahmaputra River Valley Trading (P) Limited (Franchisee), the work for maintenance of 9 nos. of 11 KV High Tension (HT) feeders for a period of five years, covering a distance of 435 KM under Bongaigaon Electrical Circle. The Management Committee of the Company decided (September 2011) that the cost incurred by the Franchisee towards manpower employed and vehicles engaged for maintenance of the feeders would be mutually evaluated and reimbursed by the Company. Accordingly, the contract rate was fixed (October 2011) at ₹ 2,850 per KM<sup>92</sup> per month, which *inter alia* included the maintenance of the HT/LT lines, supply of all the

<sup>92</sup> Total cost envisaged to be incurred for a stretch of 40 KM = ₹ 1,02,500;  
Hence, per KM the cost = ₹ 1,02,500/40 = ₹ 2,563

(A) Per KM Vehicle expenses including driver and fuel per month for the entire length = ₹ 1,25,000/435 = ₹ 287  
(B) Total maintenance cost per KM per month {(A) + (B)} = ₹ 2,850 per KM per Month.

materials/consumables (excepting DTRs) and attending consumer complaints, *etc.* This was notified to the Circle office in March 2012.

Subsequently, considering the different length and terrain of the feeders the Company changed the method of calculating the maintenance charges payable to the Franchisee from 'fixing the charges for all the 11 KV feeders as a whole', to fixing the amounts 'individually for each feeder', based on the actual length and terrain of each individual feeders. Accordingly, the contract rate was revised (April 2013) to ₹ 3.03 lakh per month with effect from 1 May 2013 for the entire length of 435 KM, as against the earlier rate of ₹ 2,850 per KM per month. GM (Com-Rev), being the Nodal Officer in franchisee related matters, communicated (April 2013) the revised rate to Bongaigaon Electrical Circle (Circle) for compliance.

In this regard, it was observed that due to non-receipt of revision order, Bongaigaon Electrical Circle released amount of ₹ 1.57 crore as maintenance charges for the period from May 2013 to June 2014 to the Franchisee, as per the contract rate prevailing prior to 1 May 2013. As a result, an excess amount of ₹ 1.15 crore was paid to the Franchisee, during the above period. It was also observed that for settlement of the franchisee dues, the Circle had sent fund requisition through the CGM (D), despite clear instructions circulated (January 2013) by Corporate office that the requisitions on franchisee related matters should be routed through the Nodal Officer. On this being pointing out (December 2014) in Audit, the Company had terminated (March 2015) the contract with the Franchisee.

Thus, non-compliance of revision order had resulted in an excess payment of ₹ 1.15 crore to the Franchisee.

In reply, the Government/Company stated (May 2015) that the excess payment was detected and necessary steps were being taken for recovery of the same at the earliest. The reply is not tenable as no recoveries in this regard were seen to have been made from the Franchisee till date (October 2015). Since the services of the Franchisee had already been terminated (March 2015), chances of effecting recoveries of ₹ 1.15 crore from the Franchisee were very remote.

### ***3.5 Avoidable expenditure***

**Failure of the Company to finalise the tender within the validity period resulted in avoidable expenditure of ₹ 0.91 crore on procurement of transformers.**

Government of Assam (GoA) sanctioned (January 2011) a loan of ₹ 12.00 crore to Assam Power Distribution Company Limited (Company) for procurement of new transformers in replacement of old/damaged transformers in Legislative Assembly Constituencies (LACs) of Assam under Chief Minister Power Supply Assurance Mission (CMPSAM).

For execution of work the Company invited tenders for supply of transformers under two packages (Package-A for 750 transformers and Package-B for 250 transformers). In response, 10 bidders submitted (January 2012) their bids. A Technical Committee (Committee) constituted for evaluating the tenders examined (March 2012) the technical bids and decided to call for further documents/information from the bidders. On receipt of further information, the Committee evaluated (June 2012) the bids and recommended (4 June 2012) for opening of price bid of only 2 bidders<sup>93</sup>, as the price bids of remaining 7 bidders (excepting one bidder which did not submit the type test report) were not found to be fully compliant with the bid. Subsequently, the Chief General Manager (PP&D) had to allow opening of the price bids of the said 7 firms also (except one firm, which had not submitted the type test report), in view of the representation filed (7 June 2012) by the disqualified bidders.

On opening the price bids (14 June 2012) of disqualified bidders, it was revealed that five<sup>94</sup> out of nine firms had offered the lowest price (L1) for supply of transformers of different specifications (*viz.* 25, 63, 100, 250, 315 & 500 KVA rating), with validity up to 180 days from the date of opening (14 June 2012) the price bid (*i.e.* till 13 December 2012). The Company, however, could not place the supply order to L1 bidders within the validity period (December 2012). No recorded reasons were, however, found for delay, which shows that it was avoidable. Accordingly, the Company requested (January 2013) the bidders to extend the bid validity period. In response, two firms<sup>95</sup> agreed to extend the validity period up to 31 March 2013 and 30 August 2013 respectively. However, no firm commitment was received from these bidders for extension of their bid validity.

Based on further negotiation with bidders, the Company decided (July 2013) to procure 1026 transformers of 25, 63, 100 & 250 KVA rating, at an enhanced rate of 8.5 *per cent* over and above the valid L1 price, with delivery period up to October 2013. Supply orders were placed (August 2013 to February 2014) on all the five L1 bidders, for supply of 1,026 transformers with different delivery schedules, involving an expenditure of ₹ 11.64 crore (including Excise & VAT) against an offered L1 price of ₹ 10.73 crore (including Excise & VAT). Till July 2014, 1,026 transformers had been received.

Audit observed that:

- The Company had received funds (January 2011) for execution of works but it had floated tender only in September 2011 *viz.* after 224 days of receipt of funds. The Technical Committee had also taken an excessive time of 56 days in

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<sup>93</sup> M/s Kamakhya Transformers, Guwahati and M/s Power Maker, Guwahati

<sup>94</sup> M/s Kamakhya Transformers, Guwahati (L-1 for 25/63/100/250 KVA-Aluminum wound for all destinations); M/s Kalita Electricals Pvt. Limited, Guwahati (L-1 for 250 & 315 KVA-Copper wound for Guwahati and Tezpur); M/s Power Maker, Guwahati (L-1 for 250 KVA-Copper wound for Silchar and Jorhat); M/s Kamakhya Transformers, Guwahati (L-1 for 315 KVA-Copper wound for Silchar and Jorhat) and M/s Prag Electrical Pvt. Limited, Guwahati (L-1 for 500 KVA-Copper wound for all destinations).

<sup>95</sup> M/s Kalita Electricals Pvt. Limited and M/s Prag Electrical Pvt. Limited

examining/evaluating (March 2012) the bids received (January 2012) against the tender without any recorded reason.

- After calling for some additional documents/information from bidders, the bids could be opened (June 2012) for evaluation after a lapse of total 135 days from their receipt (January 2012). The L1 prices offered by five L1 bidders against different capacities of transformers were approved only on 29 December 2012 after the validity period (13 December 2012) had expired. Due to inordinate delay at each stage of finalisation of tender, the L1 bidders were unwilling to supply the transformers at the original offered rate. Finally, the Company had to procure the transformers at higher rate, resulting in an avoidable expenditure of ₹ 0.91 crore.
- Further, the Finance Department; Government of Assam had already directed (December 2013) the Power (E) Department to fix the responsibility for delay in procurement of transformers. The said directions of Government of Assam were, however, pending for compliance (September 2015).

Non-finalisation of the tenders within the validity period has resulted in avoidable expenditure of ₹ 0.91 crore (*Annexure 5*).

The matter was reported (July 2015) to the Government/Company; their replies had not been received (October 2015).

### ***3.6 Avoidable payment of surcharge***

**Failure to utilise the specific assistance extended by Government of Assam for discharging the power dues had resulted in avoidable payment of surcharge of ₹ 0.24 crore.**

In order to meet the demand of energy requirement of the State, the Assam Power Distribution Company Limited (Company) had been purchasing power from Loktak Power Station of the National Hydro Power Corporation Limited (NHPCL). Scrutiny of the records revealed that, owing to the revision of tariff by the Central Electricity Regulatory Commission (CERC), the NHPCL had preferred (July 2011) supplementary bills, amounting to ₹ 24.37 crore, on the Company. NHPCL had informed (September 2011) the Company that the dues remaining outstanding for more than 60 days attracted surcharge at the rate of 15 *per cent* per annum compounded quarterly and requested for early clearance of all outstanding dues to avoid payment of surcharge.

It was noticed that the Company had belatedly settled (November 2011 to May 2013) the dues (₹ 24.37 crore) against supplementary bills in 15 equated monthly instalments. Accordingly, the Company had to pay the surcharge amounting to ₹ 3.04 crore on the outstanding bills due to the belated payment.

During examination of records of the Company, it was revealed that with a view to facilitate the Company to settle outstanding power dues of CPSUs, the GoA had provided (August 2012) a one-time financial assistance of ₹ 346.19 crore to the Company in the form of loan bearing simple interest of 10 *per cent* per annum.

It was, however, observed that the Company did not utilise the specific assistance extended by the GoA to discharge NHPCL dues and diverted the said funds on other purposes. As a result, the Company lost the opportunity to save the net surcharge cost of ₹ 0.24 crore<sup>96</sup> pertaining to the period of 10 months after receipt of one time assistance from GoA till final settlement (August 2012 to May 2013) of the dues. This has resulted in an extra and avoidable expenditure of ₹ 0.24 crore.

The matter was reported (November 2015) to the Government/Company; their replies had not been received (November 2015).

## **Assam Police Housing Corporation Limited**

### ***3.7 Avoidable payment of interest***

**Negligence in filing of Annual Income Tax Return and shortfall in remittance of Advance Income Tax resulted in avoidable payment of interest of ₹ 0.67 crore.**

Under the provision of Section 139 and 140 A of the Income Tax Act, 1961 (Act), every company at the close of each financial year, must assess its tax liability for the year, adjust both advance tax paid and tax deducted at source and deposit balance tax payable on self assessment and file the Income Tax Returns (ITR) within 30 September of the assessment year. Further as per Section 208 of the Act, it is obligatory for a company to pay Advance Income Tax (AIT) in four quarterly installments<sup>97</sup> during the financial year. As per Section 234 A of the Act, simple interest at one *per cent* per month is payable in case of default in furnishing of ITR on due date. Further, as per Section 234 B of the Act, simple interest at one *per cent* per month is also payable on the amount of shortfall in assessed tax, if the advance tax paid fall short by more than 10 *per cent* of the assessed tax. In addition, as per Section 234 C, in case of delay in payment of Advance Income Tax on due dates simple interest at one *per cent* per month is payable.

<sup>96</sup> ₹ 0.81 crore (viz. surcharge amount for the period August 2012 to May 2013) *minus* ₹ 0.57 crore (viz. cost of borrowings at the rate of 10 *per cent* for six months (borrowings were to be repaid in six months) on unpaid dues of ₹ 11.40 crore as on 1 August 2012).

<sup>97</sup> On or before 15 June, 15 September, 15 December and 15 March.

We observed (September 2015) that Assam Police Housing Corporation Limited (Company) failed to file the ITR for the Assessment Year 2012-13 on time. Further, there was shortfall in payment of Advance Income Tax (AIT) besides delays in payment of AIT on due dates. Due to the above irregularities, the Company had to pay interest aggregating ₹ 0.67 crore towards non-filing of ITR on time under Section 234 A (₹ 0.14 crore), shortfall in payment of AIT under Section 234 B (₹ 0.35 crore) and non-payment of AIT on due dates under Section 234 C (₹ 0.18 crore). The Company had already remitted (January 2013) Income Tax for the Assessment year 2012-13 along with interest. This resulted in payment of interest of ₹ 0.67 crore, which could have been avoided by paying the quarterly instalments of AIT within the prescribed time and by filing of IT Return on due date as per the provisions of the Act. This also reflected poorly on financial fidelity.

The matter was reported (October 2015) to the Government/Company; their replies had not been received (October 2015).

## **Assam Seeds Corporation Limited**

### **3.8 Cash Management**

#### **3.8.1. Brief profile of the Company**

The Assam Seeds Corporation Limited (Company) was incorporated (January 1967), under the Companies Act, 1956, with the primary objective of production, processing, drying, storing, distribution and transportation of agricultural seeds and to carry on business as a seed merchant. As of March 2014, the Company, with a paid up capital of ₹ 1.45 crore, had cash and cash equivalents amounting to ₹ 6.74 crore<sup>98</sup> which increased to ₹ 9.42 crore<sup>99</sup> (as on March 2015).

#### **3.8.2. Introduction**

Cash Management is central to the Corporate Finance practices and activities in any business or commercial venture. An effective Cash Management system balances the need to have adequate resources of cash and cash equivalents and the necessity to channelise surplus cash into income yielding investments. Apart from concentrating on the core business area, an organisation also needs to make most of the cash resources available as per requirement.

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<sup>98</sup> Include Cash Balance of Branches.

<sup>99</sup> Exclude Cash Balance of Branches as confirmation of balances from all the Branches was pending.

### 3.8.3. Audit objectives

A Thematic Audit of Cash Management of the Company covering two years (2013-14 and 2014-15) was conducted with the objectives of ascertaining whether:

- the Cash Management of the Company was efficient and utilisation of surplus cash was effectively planned to ensure the issues of safety, liquidity and profitability; and
- an effective system was in place for timely recovery of receivables of the Company.

## Audit findings

### 3.8.4. Management of Bank balance

#### 3.8.4.1 Idle funds in current account

The Head Office of the Company had two Current Accounts (SBI, Dispur and UCO, Dispur), which were being operated by the Company for its day-to-day transactions. The Company handled most of its funds through operation of these two current accounts. A review of the bank statements, for the period from April 2013 to March 2015 in respect of these two current accounts, was carried out in Audit. It was observed that, as against the average daily cash outflow of ₹ 17.16 lakh, the minimum daily balances held in these current accounts during the period of two years (2013-14 to 2014-15) covered under Audit ranged from ₹ 4.46 crore (May 2014) to ₹ 19.84 crore (August 2014), as detailed in *Annexure 6*.

The Company was the implementing agency of GoA for implementation of various schemes in Agriculture sector on commission basis. The costs of implementation of the schemes were reimbursed by the GoA on submission of the bills by the contractors and processed through the Company. As such, the Company was not required to keep large cash or cash equivalent to meet its day-to-day operational requirements. The Company could have transferred the above mentioned surplus funds to high interest earning Fixed Deposits or debt funds<sup>100</sup> so as to generate additional interest income with flexibility to liquidate the funds at short notice, instead of keeping the same idle in current accounts without any returns.

It was observed that despite being a cash rich company, the Company did not devise a well thought out investment policy for prudent and fruitful deployment of surplus funds. In absence of a scientifically designed policy for investment of surplus funds as well as lack of Company's foresight led to idling of huge funds in the current accounts without yielding any return, and causing loss of potential interest income of ₹ 75.82 lakh (₹ 4.46 crore at 8.5 per cent over 2 years), as worked out based on the minimum amount lying in current accounts each month.

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<sup>100</sup> As defined by GoI guidelines in the issue.



The Company replied (August 2015) that in accordance with audit observations, as well as the Board's suggestion, a sum of ₹ 9.00 crore had already been kept under fixed deposit.

### **3.8.4.2 Idle fund in non-operational/dormant Bank Accounts**

Scrutiny of books of accounts of the Company revealed that an amount of ₹ 10.65 lakh was lying idle in non-operational/dormant bank accounts of the Company during 2013-14, which included ₹ 8.85 lakh kept idle in one account for 5 years, as detailed under *Annexure 7*. The Company neither obtained the account statements/balance confirmation statements from the banks where these bank balances were maintained, nor took up the matter with the respective banks for transfer of fund to operative bank accounts. Thus, inaction on the part of the Company had not only resulted in locking up of precious assets but also indicated negligence in administering the Accounts and inviting the risk of possible misappropriation of funds in future.

The Company replied (August 2015) that necessary steps have already been taken by corresponding with the concerned Banks and necessary statement/replies of the Banks were expected soon.

### **3.8.5. Slackness in collection procedures**

#### **3.8.5.1 Dues receivables from Government**

The Company acted as a procurement agency for supplies of agricultural seeds under various schemes funded by Government of Assam, as well as Government of India. As per the Accounting Manuals of the Company, the dues against outstanding bills raised by the Company needed to be reconciled periodically with the concerned Government Departments. Scrutiny of the Bills Register maintained by the Company, however, revealed that dues aggregating ₹ 83.50 lakh against 16 bills were pending for recovery from Agriculture Department, GoA against implementation of 4 schemes since September 2013 as detailed in *Table 3.1*.

**Table 3.1**

Sl. No.	Name of Schemes	No. of Bills pending	Amounts involved (₹ in lakh)
1.	Disaster Management	1	0.52
2.	National Food Security Mission	1	4.14
3.	National Agricultural Extension Programme	4	17.11
4.	Rastriya Krishi Vikash Yojana	10	61.73
<b>Total</b>		<b>16</b>	<b>83.50</b>

The Company needed to take up the matter with the departments concerned of GoA for early recovery of its outstanding dues.

The Company replied (August 2015) that necessary steps have been taken with the Department concerned for recovery and reconciliation of outstanding dues.

### 3.8.5.2 Dues receivables from sundry debtors and employees

As on 31 March 2015 the Company had huge balance of funds lying blocked with Sundry Debtors, employees and suppliers in the form of receivables and advances as detailed in **Table 3.2**.

**Table 3.2**

Sl. No.	Receivable from	Amount receivables as on 31 March 2015 (₹ in lakh)
1.	Loans and advances	45.23
2.	Sundry Debtors	26.39
<b>Total</b>		<b>71.62</b>

It was seen that in most of the cases, the detailed records of Receivables/Sundry Debtors as well as the records of correspondence showing pursuance on the part of the Company for recovery of outstanding advances/dues were not available for verification by Audit. Further, the Company had neither carried out any age-wise analysis of dues nor had obtained balance confirmation of balances from Sundry Debtors on regular basis. The extent of apathy of the Company in recovery of its dues was evident from one instant of advance (₹ 41.60 lakh) paid (April 2010) to one employee (Executive Engineer) of the Company. The said advance remained outstanding without any recovery for more than five years (September 2015) till date (October 2015).

The Company replied (August 2015) that necessary steps were being taken to reconcile the outstanding dues. It also stated that the Company had calculated the details of Sundry Debtors by taking 1996-97 as the base year and steps were being taken to adjust the advances against purchases, Misc. Advances, Advance TA *etc.*

### Apathy in pursuing recovery procedures

**3.8.5.3** Study of records relating to civil suits for recovery of misappropriated amount revealed that the Company had adopted a casual approach in pursuing the recovery of its dues. The case study is brought out as under:

#### **(a) Money suit no. – 16/2000**

The Hon'ble Civil Judge of District & Session Judge, Kamrup, allowed the Company to recover a money suit of ₹ 77.37 lakh with interest from Md. Habibur Haraman, ex-employee of the Company, against misappropriated amount. The Court passed the judgment on 25 November 2008.

As per the procedures prescribed under Code of Civil Procedure, 1908, the Company had to apply for execution of decree after taking delivery of the Court's judgment. It was, however, seen that the Company had applied (December 2009) for a copy of the court's judgment after a lapse of more than one year of passing the judgement. The Company took another twenty months for informing (September 2011) its Advocate the decision to execute the decree and take necessary steps accordingly. Further, although the Company prepared (March 2012) an application for execution of decree but no record could be produced for verification by Audit showing that the application was actually filed. No further action was seen to have taken in the matter on record (October 2015).

The Company replied (August 2015) that it had engaged (September 2011) one Advocate from Gauhati High Court to file money execution case and process accordingly. The Company should pursue the matter vigorously with the Advocate to settle the case.

***(b) Money suit no. – 186/98***

In June 2012, the Hon'ble Judge of Districts & Session Courts, Kamrup had awarded decree in favour of the Company for recovery of an amount of ₹ 23.46 lakh in a misappropriation case. The amount was recoverable from three<sup>101</sup> ex-employees of the Company.

After a gap of 10 months, the Company asked (24 April 2013) its pleader for follow up action. Thereafter, the Company again asked (15 July 2013) a different pleader to pursue the case. Although the Company requested (January 2015) its new pleader for an update on the status of the case, the Company was yet to receive any information on the same (September 2015). Further, there was no documentary evidence on record to suggest filing of application for execution of the decree till date (October 2015).

The Company replied (August 2015) that due to change in the original address of the accused persons, the Company failed to communicate with them. Hence, no further action could have been taken against them.

The reply is not tenable as the Company should have lodged FIR with the police authorities to trace the accused, which was not done till date (October 2015).

**3.8.5.4 Internal audit reports regarding outstanding dues**

After requisition by Audit, the Company submitted 10 internal audit reports issued (August 2011 to March 2015) by its Internal Audit Wing, without any indication that these were the exhaustive cases. Gist of important internal audit findings indicating cases of pending recoveries of Company's dues are summarised in **Table 3.3**.

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<sup>101</sup> Shri Gautam Pal (₹ 18.29 lakh), Shri Safiiqur Rahaman (₹ 4.94 lakh) and Shri Mainul Haque Laskar (₹ 0.23 lakh).

**Table 3.3**

Nature of observations	Field unit involved	Amount (₹ in lakh)
Non deposits of sales proceeds, scheme fund and other revenue	Silchar	1.34
	Sibsagar	3.78
	Dhubri	92.33
	Nalbari	7.02
	Karimganj	1.69
	Nagaon	3.80
	<b>Total</b>	<b>109.96</b>
Excess payments over approved rates	Nagaon	0.34
	Nalbari	2.43
	<b>Total</b>	<b>2.77</b>
Expenditure without approval	Sibsagar	1.78
	Nalbari	7.18
	<b>Total</b>	<b>8.96</b>
Shortages	Nalbari	0.27
<b>Grand total</b>		<b>121.96</b>
<b>Less: Recoveries effected in Nalbari Branch</b>		<b>16.90</b>
<b>Pending recoveries as of September 2015</b>		<b>105.06</b>

It was observed that excepting the case of one branch (Nalbari Branch), the Company had not taken any action for departmental inquiry/procedures for settlement/reconciliation/recoveries in respect of any of the cases pointed out above. It was further noticed that, although the Managing Director was the executive head of the Company, 7 out of the 10 reports of Internal Audit examined by Audit were not put up to the Managing Director for necessary directions in the matter, which was indicative of the apathy with regards to streamlining internal control functions.

The Company replied (August 2015) that departmental enquiry of Nalbari Branch was underway and would be settled shortly. Further, the Company also stated that the internal audit report was yet to be finalised/settled and the Company had taken necessary steps to streamline the internal control functions.

The reply establishes the fact of belated action on part of the Company on the findings of the Internal Audit Wing, which could have adverse impact on the functioning and financial position of the Company.

## Conclusion

**The Company did not have a cash management/investment policy. There was lack of standard policies/procedures to deal with efficient and fruitful deployment of the surplus funds. As a result, huge funds were lying idle in current and dormant bank accounts. In the absence of an effective mechanism for periodic review and recovery of dues, substantial dues against debtors/employees remained unrecovered.**

## Recommendations

- A standard and uniform mechanism may be developed to channelise the surplus cash as an income yielding investment.
- A suitable mechanism may be put in place to ensure that Receivables of the Company are periodically reviewed and effective steps taken for recovery of dues.

The matter was reported (July 2015) to the Government; their replies had not been received (October 2015).

**GUWAHATI  
THE**



**(C.H. KHARSHING)**  
Accountant General (Audit), Assam

**Countersigned**

**NEW DELHI  
THE**



**(SHASHI KANT SHARMA)**  
Comptroller and Auditor General of India