

CHAPTER-III

3. TRANSACTION AUDIT OBSERVATIONS

Important audit findings noticed as a result of test check of transactions made by the State Government companies/Statutory corporations are included in this chapter.

GOVERNMENT COMPANIES

Assam Tea Corporation Limited

Loss of revenue

The Company suffered revenue loss of Rs.47.37 lakh due to sale of green tea leaf at rates lower than the agreed firm rates.

3.1 For sale of green leaf of its seven tea gardens for the season 2003 commencing from March 2003, the Company entered into agreements (March 2003) with seven highest bidders on the basis of garden-wise firm rate quoted by the selected bidders. The rates quoted were as per Clause 9 of the agreement and were applicable for specified quantity and were to remain valid upto 31 December 2003. Clause H of the agreement provided that in the event of non-fulfilment of any or all the conditions of the agreement, it could be terminated, by giving one month's notice on either side.

Scrutiny of records of the Company at Corporate office revealed (February 2005) that out of the total quantities of 68.75 lakh kgs of green leaf sold till the end of the season (December 2003), the Company sold 23.48 lakh kgs at rates lower than the agreed rates, even though the agreed/accepted rates were firm and valid for the entire plucking season (March 2003 to December 2003), for reasons not on record in respect of six cases. In one case, (Rajabari Tea Estate) the purchaser, after procurement of 1.53 lakh kgs of leaf (against agreed quantity of three lakh kgs), refused to purchase the balance quantity at agreed rate due to fall in market price. The Company, however, without ascertaining the veracity of the fact, accepted the lower rates offered by the purchaser.

Thus, due to sale of 23.48 lakh kgs of green leaf at lower rates than the agreed firm rates, the Company suffered loss of revenue of Rs.47.37 lakh.

The Management in reply stated (July 2005) that all the decisions taken for lowering the price were taken by Garden Level Management Committee and also that during the period most of the employees and workers did not get their

salaries and wages in full as green leaf prices fell and buyers were reluctant to buy green leaf at agreed price which might have prompted local Management Committee to resort to distress sale to keep the gardens functioning.

The fact, however, remains that before agreeing to the lower price offered by the buyers on the plea of low market price, the Management on its own had not verified the prevailing market price. Moreover, the local Management sold the tea leaves at lower rates without the approval of the authorities at the corporate office.

The matter was reported to the Government in April 2005; reply is awaited (September 2005).

Assam Industrial Development Corporation Limited

Non-recovery of loan

Dues to the extent of Rs.3.43 crore could not be realised due to faulty project appraisal and lack of proper initiative.

3.2 Audit scrutiny (July—September 2004) of records of the Company revealed the following two cases where the Company sanctioned loans to two firms without proper appraisal of viability of the projects as regard to availability of required working capital, raw materials, infrastructure, marketing arrangements of the finished products *etc.* As a result dues amounting to Rs.3.43 crore remained unrealised.

3.2.1 During April 1990 to December 1993, the Company disbursed term loan of Rs.71.50 lakh to Saharia Textiles (Pvt.) Limited (loanee), and also released an amount of Rs.5.50 lakh towards equity participation for setting-up of a Power loom project at Mangaldoi. The loan was to be repaid in 15 half-yearly instalments commencing from April 1993 and to be completed by April 2000. Due to failure of the loanee to repay any instalment, the repayment schedule was subsequently revised to 14 half-yearly instalments commencing from October 1995. Despite rephasing of the repayment schedule, the loanee continuously defaulted in repayment of principal and interest. On being requested (December 1999) by the loanee, the Company sanctioned (June 2000) additional Working Capital Term loan (WCTL) of Rs.22 lakh as well as funded the interest (Rs.73.22 lakh) overdue upto May 2000 for rehabilitating the unit with the following terms and conditions:

- The WCTL would be repayable in five half-yearly equal instalment of Rs.4.40 lakh each, commencing from September 2001.
- Funded interest (Rs.73.22 lakh) would be repayable in three years, commencing from April 2007.

- Repayment of existing term loan of Rs.71.50 lakh was rescheduled from April 2003 and to be completed by March 2007.

Test check of records revealed that inspite of extending WCTL, funding of interest and repeated rephasing of repayment schedule of original term loan, the loanee failed to make the unit viable and repay the loan. Till May 2004, outstanding dues accumulated to Rs.2.16 crore*.

Management stated (August 2005) that the Default Review Committee (DRC) of the Company had already decided to take over the unit of the loanee and initiate legal action against the guarantor. It was also stated that minutes of the DRC were placed in the Board of Director's meeting held in June 2005 for approval and the Company has initiated action for taking over of the unit and the legal notice was being issued shortly.

3.2.2 The Company sanctioned an amount of Rs.71.08 lakh to Brahmaputra Gases (Private) Limited (loanee) in January 1997 to set-up a plant to manufacture Dissolved Acetylene Gases at Jorhat. The loan was to be repaid in 17 half-yearly instalments commencing from April 1999. The loanee, however, defaulted in repayment of overdue instalments of principal (Rs.44 lakh) and paid only interest amounting to Rs.13.22 lakh till May 2004, leaving an overdue outstanding balance of Rs.1.27 crore**.

The Company (May 2004) allowed the loanee time till July 2004 to submit a firm proposal for repayment failing which the Company was to issue legal notice followed by taking over the unit. But, till the date of audit (September 2004) neither the loanee had submitted any firm proposal for repayment nor the Company had taken any concrete steps for realisation of the dues.

The Management stated (August 2005) that the Company has recently carried out an inspection of the project and an appropriate action for recovery of dues would be taken shortly.

The fact, thus, remains that due to faulty projects appraisal and lack of proper and timely follow-up initiative/action, dues to the extent of Rs.3.43 crore accumulated over the years remained unrealised.

* Principal term loan:	Rs.71.50 lakh
Funded interest:	Rs.73.22 lakh
WCTL:	Rs.22.00 lakh
Normal interest:	Rs.47.20 lakh
Addl/Penal interest:	Rs. 2.26 lakh
Total:	Rs.216.18 lakh
** As on 15 May 2004:	
Principal overdue:	Rs.44.00 lakh
Interest overdue:	Rs.76.19 lakh
Addl/Penal Interest:	Rs. 6.83 lakh
Total:	Rs.127.02 lakh

The matter was reported to the Government in June 2005; their reply is awaited (September 2005).

STATUTORY COPORATIONS

Assam State Transport Corporation

Non-recovery of penalty

Failure of the Management to enforce provisions of the agreement on defaulting private bus owners resulted in loss of revenue of Rs.18.68 lakh

3.3 The Corporation introduced (2001) a scheme under the name and style 'Self Employment Scheme'. Under the scheme, the Corporation allowed the private bus owners to operate their own buses under its banner and on their routes. Accordingly, the Corporation entered (2001) into agreements with the private bus owners to operate their buses on approved routes in Assam.

As per Clause 39 and 40 of the agreement, the private bus owners were required to give at least 48 hours notice to the Station authorities when the buses were not likely to be made available on a particular day, failing which the Corporation was at liberty to levy penalty of Rs.500 per day.

On scrutiny of records of Station Superintendent, Machkhowa, it was observed (July 2004) that a number of private buses were off-road for an aggregate of 3,736 bus days during the period from October 2001 to March 2004 for which neither prior intimation was received from the bus owners nor the Corporation initiated any action to invoke penalty clause.

During State Audit Committee meeting held in August 2005, Management stated that the fine was realised from a vehicle owner, after full satisfaction that the vehicle was on-road without giving any information to the Corporation. No fine was realised from an owner, if his vehicle was off-road, for reasons beyond his control.

The reply of the Management is not acceptable in view of the fact that the Management had not ascertained whether the buses were actually on-road without giving any information to the Corporation; further, in respect of the 3,736 cases, the Management did not ascertain the reasons for which the buses were kept off-road.

Thus, non-compliance of the terms and conditions of the agreement by the private bus owners and non-invocation of the penalty clause by the Management resulted in loss of revenue amounting to Rs.18.68 lakh during the period from October 2001 to March 2004.

Thus, due to failure of the station authority to safeguard the financial interest of the Corporation in accordance with the terms and conditions of the scheme and agreement, the Corporation sustained a revenue loss of Rs.18.68 lakh.

The matter was brought to the notice of the Government in (April 2005); their replies are awaited (September 2005).

Assam State Electricity Board

Non-realisation of revised load security

Revised load security of Rs.72.34 lakh raised against an existing consumer remained unrealised for lack of appropriate action under the provision of the TCS.

3.4 The Board amended (July 2000) Clause-7 (C) of the Terms and Conditions of Supply (TCS), 1998 according to which all the existing consumers of the Board whose security deposit fell short of three/two* times of the average monthly billed amount during the preceding calendar-year, were required to pay the differential amount as security deposit within 30 days from the date of notice/bills, failing which the consumer's connection was liable to be disconnected without further notice.

Test check of records of the Area Manager, Industrial Revenue Collection Area (AM, IRCA), Tinsukia revealed (October 2004) that revised load security bill for an amount of Rs.72.34 lakh was served to a bulk category of consumer (Hindustan Fertilizer Corporation Limited) having sanctioned load of 10 MW in September 2002. Audit observed that AM, IRCA neither took any initiative to realise the revised load security bill nor was the consumer's service connection disconnected as required under Clause-7 (C) of the TCS for reasons not on record. Consequently, revised load security bill for Rs.72.34 lakh remained unrealised.

The Management stated (18 August 2005) that the Board has not resorted to the drastic action of disconnection considering it a Central Government Undertaking and one of the oldest bulk-consumer of ASEB and paying monthly bills regularly.

The reply of the Management is not acceptable as the same was contradictory to the provisions of Clause 7 (c) of the Terms and Conditions of the Board.

The matter was reported to the Government in December 2004 and April 2005; their reply is awaited (September 2005).

* Three times for Low Tension Consumers and two times for High Tension Consumers.

Undue benefit to consumers

Acceptance of appeals after expiry of stipulated period as well as non-realisation of amount due contrary to the provision of Terms and Conditions of Supply (TCS) tantamount to extension of undue benefit to consumers.

3.5 Clause 22 of the Terms and Conditions of Supply (TCS), 1998 of ASEB provides that where a consumer is found to be indulging in a malpractice with regard to use of electricity and use of device to commit theft of energy, the authorised officer of the Board, may, without prejudice to any other action that may be taken against such a consumer may ask him to pay compensation to be assessed as per Clause 22 (a) (iii) and 22 (d). Clause 22 (f) (i) also provides that a consumer aggrieved by such assessment may appeal to the appropriate authority within a period of 15 days from the date of receipt of the assessment notice/bill under intimation to the office of issue by depositing 50 per cent of the assessment bill. The Appellate authority shall decide the appeal cases expeditiously.

Scrutiny of records revealed (October 2004) that compensation/assessment bills amounting to Rs.1.64 crore were served to six consumers during the period from February 2000 to December 2002 for alleged malpractices. Being aggrieved of the assessments, consumers appealed to the appropriate authority after a period ranging from 18 to 112 days, from the date of issue of the assessment bills, against 15 days stipulated in the TCS. Moreover, while accepting the appeals filed after expiry of stipulated period, in two cases, consumers had not deposited 50 per cent of assessment bill, which was a pre-requisite for acceptance of appeal, and in four cases, appeals were accepted on realisation of lesser amount. Details are as follows:

Sl. No.	Name of the consumers	Date of issue of compensation bills	Amount of compensation bills	50 per cent of compensation bill	Amount deposited	Short deposit
1.	Singlijan Tea Estate	10.2.2000	1,95,900	97,950	54,895	43,055
2.	Thanai Tea Estate	10.2.2000	6,19,533	3,09,767	1,38,278	1,71,489
3.	Steel Worth Limited	23.3.2000	19,06,345	9,53,172	4,74,673	4,78,499
4.	Srikrishna Tea Estate	19.2.2001	3,58,932	1,79,466	-	1,79,466
5.	Lakshmi Enterprise	12.4.2002	1,96,706	98,353	49,178	49,175
6.	Dirok Tea Estate	23.4.2002	1,31,01,004	65,50,502	-	65,50,502
Total			1,63,78,420	81,89,210	7,17,024	74,72,186

In reply, Management stated (August 2005) that realisation of compensation would be done on receipt of verdict against the appeal.

Reply is, however, silent as to why appeals were accepted in violation of Clause 22 (f) (i) of the TCS.

Thus, acceptance of appeals after expiry of stipulated period of 15 days as well as non-realisation of 50 per cent of the assessment bill or realising lesser amount were not only a violation of the provisions of TCS but also resulted in undue benefit to the consumers to the tune of Rs.74.72 lakh. Moreover, appeal cases have not been disposed of so far (September 2005).

The matter was reported to the Government in December 2004 and April 2005; their replies are awaited (September 2005).

Loss of revenue

The Board sustained loss of revenue of Rs.24.27 lakh due to wrong categorisation of consumers

3.6 As per Schedule of Tariff (SOT), Bulk Supply tariff (Category VIII) was applicable to consumers with connected load not less than 50 KVA provided such consumers were not covered under any other category. On the other hand, commercial tariff (Category-II) was applicable specifically to establishment and installations of commercial nature engaged with trading activities including Railway Stations.

Test check of consumers ledgers and energy bills in the Office of the Area Manager, Industrial Revenue Collection Area (AM, IRCA), Tinsukia, however, revealed (October 2004 and April 2005) that (i) Assam Gas Company Limited (Connected load: 200 KW) and (ii) Naharkatia Railway Station (Connected Load: 160 KW) have been categorised under Bulk Supply instead of Commercial. Due to this incorrect categorisation, there was under billing in respect of these consumers, which resulted in loss of revenue of Rs.24.27 lakh* during the period from April 2000 to March 2005.

Management in reply stated (August 2005) that the consumers were rightly categorised under Bulk supply as their connected loads were of mixed categories.

Reply is not acceptable because categorisation was not in conformity with the Schedule of Tariff.

The matter was reported to the Government in April 2005; their reply is awaited (September 2005).

* Assam Gas Company Limited: Rs.17.93 lakh and N.F. Railway (Naharkatia Station): Rs.6.34 lakh.

Loss of revenue

Calculation of compensation claims in contravention of laid down provision of Terms and Conditions of Supply (TCS) resulted in loss of revenue of Rs.35.67 lakh.

3.7 As per Clause 22 (a) (iii), where a consumer is found to be indulging in malpractice with regard to use of load in excess of authorised connected load, the Board may without any prejudice to any other action that may be taken against the consumer, ask him to pay compensation charges to be assessed at a rate of three times of minimum charges per month on the excess load detected, for a period of six months.

A test check of records of the Area Manager, Industrial Revenue Collection Area (IRCA), Tinsukia in October 2004 revealed the following:

Hindustan Paper Corporation Limited (HPCL) an industrial category consumer had drawn power of 12,960 KVA during May 2002 as per recording in the static meter against sanctioned/authorised load of 11,561.17 KVA (9,827 KW) resulting in excess drawal of 1,398.83 KVA.

As such, the consumer was liable to pay compensation for use of load exceeding authorised load in terms of Clause 22 (a) (iii) of TCS, 1998, which worked out to Rs. 37.77 lakh*. Against this, Rs. 2.10 lakh** calculated at normal tariff rate was realised from the consumer in contravention to Clause 22 (a) (iii) of the TCS 1998 resulting in loss of revenue of Rs.35.67 lakh.

During discussion (April 2005), Area Manager stated that penalty for over drawal of load was levied as per Board's order dated January 2005 according to which billing in such cases was to be made for the quantum of excess load at the rate of three times of demand/fixed charge. Management's contention is not acceptable in view of the fact that over drawal of load by HPCL took place in May 2002 whereas the aforesaid order came into effect from January 2005.

In August 2005, Management stated that the bill served was correct and in conformity with the tariff rate applicable upto March 2003.

Reply is not tenable in view of the fact that the calculation of the bill was not in conformity with the provisions of TCS.

The matter was reported to the Government in June 2005; their replies are awaited (September 2005).

* Rs.37.77 lakh = 3 x 150/KVA x 1,398.83 KVA x 6.

** Rs.2.10 lakh = 1,398.83 KVA x Rs.150/KVA.

Blockage of borrowed funds

Taking up of works without ensuring availability of sufficient funds, failure to get the projects commissioned as per approved time frame, abandonment of the projects etc., resulted in blockage of borrowed funds of Rs.23.84 crore.

3.8 In order to strengthen its transmission line network and transformation and distribution capacity, the Assam State Electricity Board (ASEB/Board), took up various projects for construction of high-tension lines, sub-stations during VI and VII Plan periods. In the absence of any operational surplus, the Board was entirely dependent either on loan from the State Government or borrowing from other financial institutions. Therefore, it was incumbent upon the Management of the Board to ensure sufficient fund flow before taking up the project for smooth progress and timely completion of the works in order to avoid price escalation and other liabilities.

Test check of records revealed (April 2004) that construction work of three transmission lines, nine sub-stations as detailed in **Annexure-12** though taken up during VI and VII plan at an estimated cost of Rs.23.24 crore could not be commissioned/completed even after expiry of seven to 17 years from their scheduled dates of completion. Meanwhile, due to delay in completion, original cost estimates of the above works had been revised to Rs.98.49 crore and completion targets have been revised upto March 2007.

It was further observed in audit that the Board had incurred an expenditure of Rs.23.84 crore upto March 2004 including expenditure of Rs.5.28 crore incurred in two abandoned projects (Sl. No. 5 and 12 of the **Annexure-12**).

In reply, Board stated (August 2004 and August 2005) that projects abandoned/remained incomplete due to State plan fund constraints. It was also stated (August 2005) that some works were proposed under Asian Development Bank funding or North Eastern Council (NEC) funding.

It was observed in audit that the schemes/projects were to be funded from State Government loan. The State Government, however, failed to release the required fund for reasons not on record. Thus, taking up of works without ensuring availability of sufficient fund, failure to get the projects commissioned as per approved time frame, abandonment of the projects, etc, resulted in blockage of borrowed funds of Rs.23.84 crore which remained unproductive so far (September 2005).

Further, the objective of uninterrupted power supply, strengthening of transmission network remained unfulfilled for period ranging from seven to 17 years.

The matter was reported to the Government in July 2004 and May 2005; their replies are awaited (September 2005).

Theft of Board's properties

Non-compliance of Board's directives and lack of appropriate follow-up action in respect of theft cases resulted in loss of properties worth Rs.5.93 crore.

3.9 The Board has prescribed (September 1992) the following course of action in cases of theft of Board's properties so as to prevent theft and retrieval of stolen materials:

- Lodge First Information Report (FIR) with the nearest Police Station within 24 hours without fail and obtain FIR No.;
- The theft cases with all particulars alongwith FIR No. are to be reported to the Chief Security Officer (CSO) and Chief Engineer concerned, indicating the involvement of ASEB employees, if any, for taking further necessary action;
- Pursue with the police department after lodging FIR, so that the materials so lost are retrieved by ASEB.

Test check of records of Board's field offices in audit from time to time as well as information furnished (May 2005) by the CSO revealed that during April 1994 to March 2005, 382 theft cases of Board's properties from charged line, sub-station and stores worth Rs.5.96 crore were reported to the CSO, out of which materials worth Rs.3.18 lakh only could be recovered so far (May 2005) leaving unrecovered materials of Rs.5.93 crore.

In this connection, Audit noticed the following deficiencies in various case of theft of Board properties.

- Theft cases in Sub-station/Stores occurred due to poor/inadequate security arrangement;
- In many cases, FIR was lodged well beyond the stipulated time of 24 hours;
- In some cases, though FIR was lodged no FIR No. was obtained;
- In none of the cases was the matter either pursued with the police department after lodging FIRs or taken up at the appropriate level of the Government;

- Departmental enquiry in order to ascertain the involvement of Board's employees could also not be conducted on the plea that FIR had already been lodged and police investigations were underway.
- Even after lapse of 30 years of its existence, the Board failed to devise any measures to prevent theft of materials from charged lines;

It may be pertinent to mention here that as per "Assam Electricity Reform First Transfer Scheme, 2004" the assets and liabilities of the Board have been provisionally apportioned among the five companies based on the annual accounts for the year ended 31 March 2004. The fixed assets as per the said accounts included Rs.5.93 crore being the value of stolen materials, which were physically not available with the Board. The Board is also charging depreciation on such materials.

Despite being repeatedly pointed out in audit, the Board failed to take appropriate action to prevent the recurrence of theft of its properties. Moreover, due to lack of appropriate follow-up action, recovery of materials worth Rs.5.93 crore appeared to be bleak.

The Management while accepting the audit observation stated (August 2005) that:

- Some field officers could not lodge FIR in time due to untimely detection of theft cases in remote places which were not frequented by ASEB officials regularly;
- The required information regarding FIR numbers were not always received by the ASEB office;
- Due to shortage of manpower, the sub-station/stores could not be adequately manned by security personnel.
- As regards theft of materials from charged line, the Board had proposed to engage VDPs in the vulnerable areas for protection of tower and transmission line.

The matter was reported to the Government in June 2005; their replies are awaited (September 2005).

Deficiencies in internal control /internal audit system of Assam State Electricity Board.

3.10 Internal Control System is a Management tool used to provide reasonable assurance that Management's objectives are being achieved in an efficient, effective and adequate manner. A good system of internal control should comprise, *inter alia*, proper allocation of functional responsibilities

within the organisation, proper operating and accounting procedures to ensure the accuracy and the reliability of accounting data, efficiency in operations and safeguarding of assets, quality of personnel commensurate with their responsibilities and duties, and review the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

The Internal Control system of Assam State Electricity Board covering the period 1999-2004 was examined with the objective of ascertaining whether there existed a proper internal control structure.

Test check of records revealed the following deficiencies:

Budget

3.10.1 Budget is a quantitative financial expression of a programme of measure planned for a given period. The budget is drawn-up with a view to plan future operations and to make ex-post-facto checks on the results obtained. Timely preparation of budget and analysis of variations noticed in actual execution, serves the purpose of internal control.

Audit observed following deficiencies in the preparation of budget and budgetary control.

- As per Section 61 of the Electricity Supply Act, 1948, the Board was required to submit to the State Government in February each year an Annual Financial Statement (AFS) containing estimated capital and revenue receipts and expenditure for the ensuing year. Contrary to the above provision of the Act, the approved AFS was submitted to the State Government in April every year. Due to delay in submission of AFS, State Government finalised the budget without considering the actual position reflected in the AFS.
- There were large budgetary deficits both on Revenue and Capital account between receipts and expenditure. The budget estimates, however, did not indicate the manner in which the gaps between the two would be bridged.
- Contrary to the provisions of the Act *ibid*, Board's revenue expenditure during 1999-2004 exceeded the estimated revenue receipts (excluding depreciation but including interest) by Rs.1,337.13 crore. The Board, however, had not analysed the reasons for such variations.

Maintenance of Books of Accounts

3.10.2 The Board has been preparing its annual accounts as per provision of the Electricity (Supply) Annual Accounts Rules, 1985. Scrutiny of records revealed deficiencies in maintenance of books of accounts as detailed below:

- Fixed assets registers for the assets under the control of each unit of the Board have not been maintained. The assets have not been physically verified.
- Up-to-date register of interest on General Provident Fund (GPF) has not been maintained. Interest on GPF was provided in the accounts on provisional basis.
- Statement-7 of the Accounts of the Board did not disclose project-wise analysis of capital expenditure as required under rules.

Internal control over remittances

3.10.3 Board's revenue from sale of power was collected by 158 Sub-divisions and Industrial Revenue Collection Areas (IRCA) spread through out the State. The Sub-divisions are primarily responsible for collection of revenue from consumers, depositing the same to their respective field bank account and keeping control on their daily remittances by the banks to Board's principal account (revenue) maintained at headquarters (Guwahati).

Test check of records of nine Sub-divisions/IRCA revealed that neither the Sub-divisions nor the field banks have been complying with the instructions. During the year 2003-04, revenue collection upto Rs.2.46 crore remained locked-up with the field banks for a period ranging from two to 31 days. The field authorities, however, never took-up the matter with the banks concerned.

It was also observed that remittances from the field banks were not regularly reconciled with principal bank account (revenue) at headquarters office. As a result, field remittances amounting to Rs.22.41 crore were lying as unreconciled remittances, Rs. 33.87 crore as unreconciled credit and Rs.1.13 crore (after reconciliation of Rs.34.91 crore at the instance of audit) as unreconciled debit as on 31 March 2004. The position has been vitiated further by exhibition of *minus balance* in the accounts, arising out of incorrect adjustment of Board's cash account, which rendered actual remittances in transit undeterminable at any point of time.

Reconciliation between cash book and bank account

3.10.4 Bank Reconciliation Statement (BRS) is a vital document, which is prepared to show the causes of differences between the bank balances as per cash book and as per bank statement/pass book.

In this connection, references may be invited to Paragraph 3.3.9 of the Audit Report (Commercial) for the year ended 31 March 2004, wherein it has been mentioned that out of 104 field accounts for June 2003 which were test checked in audit, in 24 cases only, BRS were prepared properly; in 22 cases, BRS were not prepared at all, and in 58 cases difference of Rs.3.03 crore

between balance as per bank accounts and balance as per cash books remained unreconciled.

This is indicative of lack of control by local as well as headquarters authorities over cash Management of their respective units.

Stores accounting

3.10.5 The Board had not fixed maximum, minimum and re-ordering level and economic order quantity in respect of any stock items so as to have effective control over procurement of materials and avoid blockage of funds in inventory. In this connection it has been noticed that despite having sufficient stock in hand, the Board continued to procure stores/spares and as a result stock balance (O&M) of Rs. 2.47 crore as at 31 March 2000 increased to Rs. 47.28 crore at the end of 2003-04. The increase in stock was due to the fact that while effecting purchases, the stock available at various stores, quantity of materials actually required for procurement, *etc.* were not confirmed. Similar observation was made in Paragraph 3.9 to 3.11 and 3.22 of the Report of the Comptroller and Auditor General of India (Commercial)—Government of Assam for the year ended 31 March 2003 wherein it was, *inter alia*, pointed out that: -

- Purchases were made much in advance of actual requirement and consequently, performance guarantee had expired before utilisation/commissioning.
- Materials were procured without ascertaining the availability of stores in stock.

Inter Unit Transfer

3.10.6 During the course of stores transactions, materials are transferred from one accounting unit (Originating) to another accounting unit (Responding). Such transactions are booked (Debited) under Inter-Unit Transfer Account (IUTA) in the originating unit's account and the suspense head is ultimately cleared/adjusted in the accounts of the responding unit on actual receipt of materials by it. It is therefore, imperative that these suspense accounts should be cleared/adjusted before closing of the Board's annual accounts.

In the annual accounts for the period ending 31 March 2004 a sum of Rs. 52.76 crore was lying unadjusted/unreconciled since 1984-85. No steps were (September 2005) taken to investigate the reasons for delay in adjustment. The exhibition of such a huge balance under the suspense account (IUTA) indicated absence of a internal control system for timely reconciliation and adjustment of Inter-Unit Stores transactions especially in view of the fact

that such non adjustments might involve non receipt of materials by the responding unit due to theft, misappropriation of stores, loss in transit, *etc.*

This was further vitiated by exhibition of net effect (debit and credit) of 10 suspense accounts (Account Code No. 30 to 39), which rendered actual balance under Inter Unit Suspense Account (Material) undeterminable at any point of time. This was due to clubbing of the various transactions (both debit and credit) of the suspense accounts and not shown individually, as required.

Internal audit

3.10.7 Audit function in a large public utility service such as ASEB assumes paramount importance, as it has to ensure sound internal control system in the Board. Further, Section 69 of the Electricity Supply Act, 1948 requires the Board to ensure that there is a proper system of internal check. In order to achieve this objective, a Management Audit Manual was prepared (1989) by the Board. The Manual prescribed, audit of systems and procedures including the evaluation of internal control, physical verification of assets, inventory and cash, propriety audit, *etc.* Audit observed the following:

- Board had not formulated any plan for conducting internal audit of its various units as required in the Management Audit Manual.
- The internal audit wing was inadequately staffed. Against a sanctioned strength of 66, it had only 31 members as on 31 March 2004, of which 11 members only could be deployed on audit, thereby rendering its functioning limited and ineffective.
- Internal audit paras involving a total amount of Rs.41.32 crore pertaining to the period 1982-2000 primarily related to under billing and non-billing of consumers under 14 circles and five Industrial Revenue Collection Areas (IRCAs) remained unsettled as of August 2004 indicating thereby laxity on the part of auditee entities in settlement of objections/realisation of revenue.
- Field units did not comply with Audit Reports, which was not brought to the notice of the Chairman/Board for taking corrective action.

Thus, due to inadequate staffing, the wing failed to cover significant audit areas. Further, due to poor follow-up action by Board authorities, the services of the wing could not be gainfully utilised in the interest of the Board.

Management in reply stated (August 2005) that (a) drawing up of standard norms to conduct audit of all the offices by the meager (staff) strength has virtually become unattainable, (b) in the event of non receipt of replies even after reminders by the Chief Executive Officer, the matter was placed before the Additional Chief Engineers with endorsements to Chairman, Member

(Finance), Member (Technical), Member (Personnel and Administration) and Chief Engineer (Distribution). The Board, however, could not produce any records to substantiate the fact that the competent authorities had issued any instruction for proper follow up action or taking corrective measures.

As regards pursuance of audit objection, the Board was not kept informed about non-compliance of audit objections by field units as a result, no corrective action could be taken.

The matter was reported to Government in June 2005; their replies are awaited (September 2005).

General

Avoidable administrative cost

Incorporation of too many companies with similar objectives resulted in avoidable administrative cost of Rs. 10.22 crore.

3.11 As on March 2005, there were 39 Government companies (29 working and 10 non working). An analysis of the objective of these companies by audit as laid down in the Memorandum and Articles of Association, revealed that two to five Companies were functioning in the same sector with similar/identical objectives. Particulars of 16 such companies functioning in six sectors are detailed in **Annexure-13**.

Details in the Annexure reveal the following:

- In the **Construction sector** there were two companies *viz.*, Assam Government Construction Corporation Limited and Assam Police Housing Corporation Limited undertaking construction of buildings, roads bridges, *etc.*
- In **Textile sector** there were five companies (three non working and two working) *viz.*, Assam State Textile Corporation Limited, Assam Syntex Limited, Assam Power loom Development Corporation limited, Assam State Weaving and Manufacturing Company Limited and Assam Spun Silk Mills Limited established to carry out the business of marketing of polyester, yarn spinners, silk, *etc.*
- In the **Paper sector** there were two companies *viz.*, Ashok Paper Mills (Assam) Limited and Industrial Paper (Assam) Limited established to carry out the business of manufacturing and dealing in all kinds and classes of paper, board, *etc.*, The Industrial Paper (Assam) Limited though

was incorporated in the year 1974, the commercial function was not started even after a lapse of almost 32 years as on March 2005.

- In the **Industries sector**, there were two companies viz., Assam Small Industries Development Corporation Limited and Assam Hills Small Industries Development Corporation Limited incorporated under Companies Act, 1956 in March 1962 and March 1968 with similar/identical objectives and activities.
- In the **Finance Sector**, while Assam Financial Corporation (AFC) was set-up in April 1954 under the provision of State Financial Corporation (SFC) Act, 1951 with the main objective of extending financial support to industrial concern and to promote industrial development in the State of Assam, Assam Industrial Development Corporation Limited was incorporated under the Companies Act, 1956 in April 1965 with similar objectives and activities. In this connection, mention has already been made in Paragraph 1.42 of Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2004 regarding merger of the two organisations.

Audit observed that proliferation of companies with similar objectives involved huge avoidable expenditure towards salaries, wages and remuneration of Chairman, Directors, Managing Directors and other executives besides expenditure on infrastructure. The details of actual expenditure incurred on administration of these companies every year based on latest finalised accounts are given in the **Annexure 13**.

Excluding the administrative expenditure pertaining to each of the major companies in six sectors [Sl. No. A (1), B (1), C (1), D (1) and E (2) in **Annexure 13**] the avoidable expenditure on 8 companies worked out to Rs.10.22 crore.

Thus, incorporation of too many Companies with similar objective resulted in avoidable administrative cost of Rs. 10.22 crore.

It is recommended that Government may examine the nature of activities of all Companies with similar objective and explore the possibility of merging them so as to reduce the administrative cost and ensure better co-ordination and effective implementation.

The matter was reported to Government in June 2005; their reply had not been received (September 2005).

3.12 Follow up action on Audit Reports

Action Taken Notes--outstanding

3.12.1 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 in the various offices and departments of Government. 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 reviews included in the Audit Reports indicating the action taken or proposed to be taken and submit this 'Action Taken Note' (ATN) to the Assam Legislative Assembly with copy to Principal Accountant General/Accountant General within 20 days from the date of receipt of the Reports. Besides this ATN, the department would ensure submission of the 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 for the year's 1999-2000 to 2003-04 were presented to the Legislature, 11 departments which were commented upon did not submit explanatory notes on 82 paragraphs/reviews as on 30 September 2005 as indicated below:

Year of Audit Report	Date of presentation	Total paragraphs/reviews in Audit Report	No. of paragraphs/reviews for which replies were not received
1999-2000	May 2001	20	20
2000-2001	March 2002	13	13
2001-2002	March 2003	16	16
2002-2003	July 2004	16	16
2003-2004	August 2005	17	17
Total		82	82

Department wise analysis is given in **Annexure 14**. Power and Industries Department were largely responsible for non-submission of reply.

Compliance to Reports of Committee on Public Undertakings (COPU)-- outstanding

3.12.2 Replies to 38 recommendations pertaining to five Reports of the COPU presented to the State Legislature between August 1997 and December 2004 had not been received as on September 2005 as indicated in the next page:

Year of the COPU Report	Total number of Reports involved	Number of recommendations where ATNs not received
1997-98	1	1
2002-03	1	9
2003-04	2	18
2004-05	1	10
Total	5	38

Replies to 38 recommendations were required to be furnished within six months from the presentation of the Reports.

Action taken on persistent irregularities in Audit Reports

3.12.3 With a view to assist and facilitate discussion of paras of persistent nature by the State COPU, an exercise has been carried out to identify the extent of persistent irregularities pertaining to Government Companies and Statutory Corporations. Details are indicated in **Annexures 15** and **16** respectively.

Government companies

The irregularities of various nature having financial implication of Rs.1.59 crore (Assam Petrochemicals Limited) and Rs.3.49 crore (Assam Gas Company Limited) were included in the Reports of the Comptroller and Auditor General of India for the years 1998-99 to 2002-03 (Commercial)—Government of Assam.

Statutory corporations

The irregularities of various nature having financial implication of Rs.24.08 crore (Assam State Electricity Board) were included in the Reports of the Comptroller and Auditor General of India for the years 1998-99 to 2002-03 (Commercial)—Government of Assam.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.13 Audit observations noticed during audit and not settled on the spot are communicated to the Heads of PSUs and concerned departments of 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 six weeks. A review of Inspection Reports issued up to March 2005 pertaining to 32 PSUs disclosed that 2,037 paragraphs relating to 373 Inspection Reports remained outstanding at the end of August 2005; of these, 98 Inspection Reports containing 656 paragraphs

had not been replied for more than one year. Department-wise break-up of Inspection Reports and Audit observations outstanding as on 31 August 2005 are given in **Annexure 17**.

Similarly, draft paragraphs and reviews 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 replies to 11 draft paragraphs and two reviews forwarded to the various departments during April and June 2005 as detailed in **Annexure-18** were awaited (September 2005). Reviews and draft paragraphs were, however, discussed in the ARCPSE meeting (July 2005) and State Audit Committee meeting (August 2005).

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/draft paragraphs/reviews and ATNs to recommendations of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule, and (c) system of responding to the audit observations is revamped.

GUWAHATI
THE

(SWORD VASHUM)
Principal Accountant General (Audit)

Countersigned

NEW DELHI
THE

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India)