

CHAPTER VI

Government Commercial and Trading Activities

6.1 Overview of Government companies and Statutory Corporations

6.1.1 Introduction

As on 31 March 2008, there were eight Government companies and two Statutory corporations (all working) as against same number of companies/corporations as on 31 March 2007 under the control of the State Government. In addition, the State had formed (October 2001) the Chhattisgarh State Electricity Regulatory Commission (CSERC) whose audit is also being conducted by the Comptroller and Auditor General of India (CAG). The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory auditors appointed by the CAG as per the provisions of Section 619(2) of the Companies Act, 1956 followed by supplementary audit conducted by the CAG as per the provisions of Section 619 of the Companies Act, 1956. The audit arrangements of the Statutory corporations are as shown below:

Sl. No.	Name of the corporation	Authority for audit by the Comptroller and Auditor General of India	Audit arrangement
1.	Chhattisgarh State Electricity Board (CSEB)	Under Rule 14 of the Electricity Supply (Annual Accounts) Rules, 1985 read with Section 185(2) (d) of the Electricity Act, 2003	Sole audit by the CAG
2.	Chhattisgarh State Warehousing Corporation	Section 31(8) of the State Warehousing Corporation Act, 1962	Audit by Chartered Accountants and supplementary audit by the CAG

Working Public Sector Undertakings (PSUs)

6.1.2 Investment in working PSUs

The total investment¹ in ten working PSUs (eight Government companies and two Statutory corporations) at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Year	Number of working PSUs	Investment in working PSUs			
		Equity	Share application money	Loans	Total
2006-07	10	39.01	4.00	2,277.16	2,320.17
2007-08	10	39.01	5.00	3,108.27	3,152.28 ²

As on 31 March 2008, the total investment in working Government companies and Statutory corporations comprised 1.40 per cent of equity capital and

¹ Reconciliation of figures with the Finance Accounts is pending.

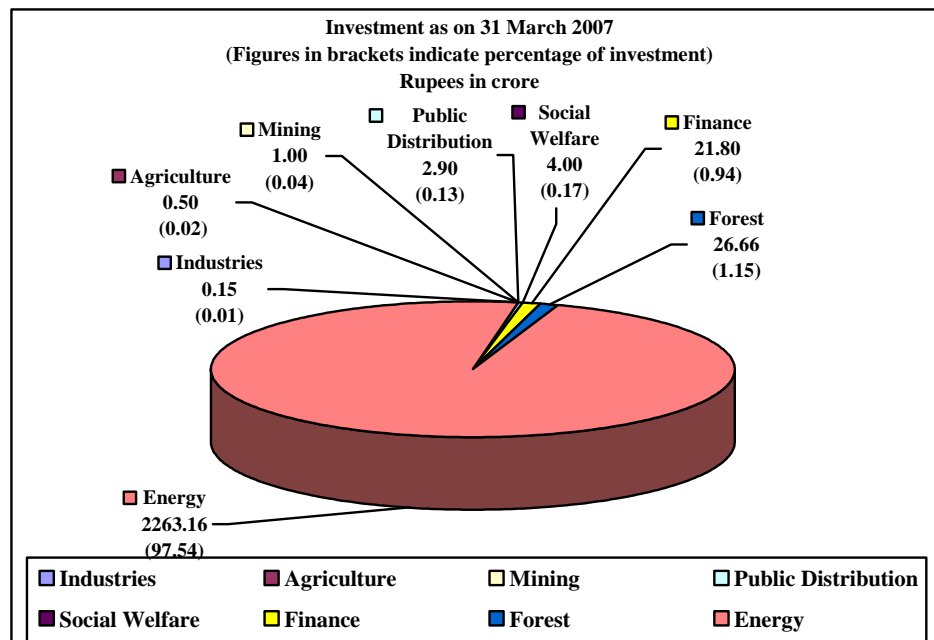
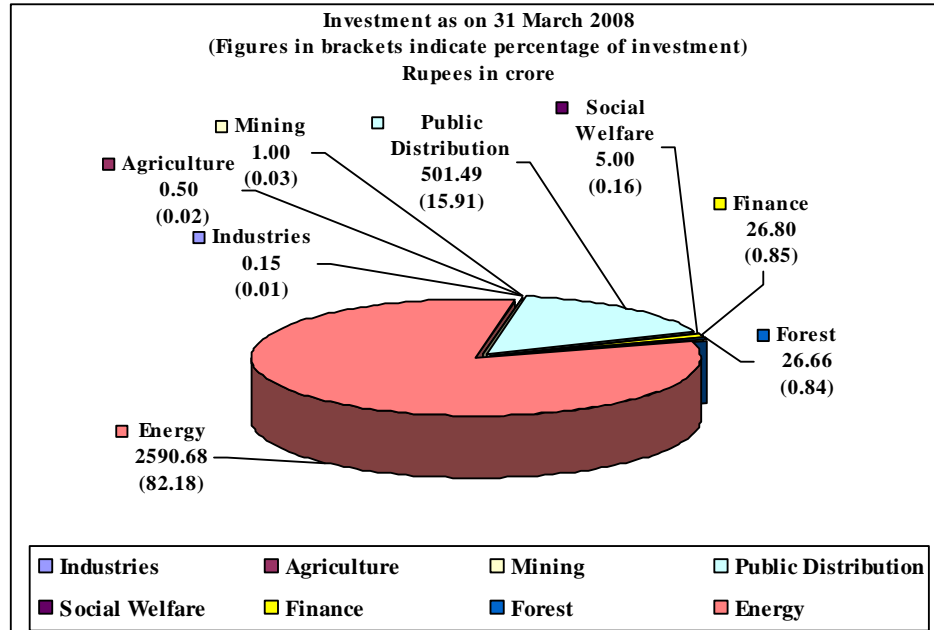
² State Government's investment in working PSUs was Rs 928.74 crore (share capital, share application money and loans).

98.60 per cent of loans, as compared to 1.85 per cent and 98.15 per cent respectively as on 31 March 2007.

An analysis of investment in PSUs is given in the following paragraphs:

Sector-wise investment in working Government companies and Statutory corporations

The investment (equity and long term loans) in various sectors and percentage thereof at the end of March 2008 and March 2007 are indicated in the following pie charts:



6.1.3 Working Government companies

The total investment in the working Government companies at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Year	Number of companies	Investment in working Government companies			
		Equity	Share application money	Loans	Total
2006-07	8	14.89	4.00	37.12	56.01
2007-08	8	14.89	5.00	540.71	560.60

The summarised position of Government investment in these Government companies in the form of equity and loans is detailed in **Appendix 6.1**.

As on 31 March 2008, the total investment in working Government companies comprised 3.55 per cent of equity capital and 96.45 per cent of loans as compared to 33.73 and 66.27 per cent respectively as on 31 March 2007. Due to increase in term loans of Public Distribution Sector, the Debt equity ratio as a whole increased from 1.96:1 to 27.18:1.

6.1.4 Working Statutory corporations

The total investment in the two working Statutory corporations at the end of March 2007 and March 2008 was as follows:

(Amount: Rupees in crore)

Name of corporation	2006-07		2007-08	
	Capital	Loans	Capital	Loans
Chhattisgarh State Electricity Board	23.12	2,240.04	23.12 ³	2,567.56
Chhattisgarh State Warehousing Corporation	1.00	Nil	1.00	Nil
Total	24.12	2,240.04	24.12	2,567.56

As on 31 March 2008, the total investment in working Statutory corporations comprised 0.93 per cent of equity capital and 99.07 per cent of loans as compared to 1.07 and 98.93 per cent respectively as on 31 March 2007.

The summarised position of investment in working Statutory corporations in the form of equity and loans is detailed in **Appendix 6.1**.

6.1.5 Budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of Government companies and Statutory Corporations are given in **Appendices -6.1 and 6.3**.

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to Government companies and Statutory corporations for the three years up to 2007-08 are given below:

³ As per Ministry of Power, Government of India order dated 4 November 2004, the share capital of Madhya Pradesh Electricity Board as on 14 April 2001 amounting to Rs 2,311.50 lakh had remained undistributed, which had been provisionally apportioned to CSEB as its share capital on asset Ratio.

(Amount: Rupees in crore)

Particulars	2005-06				2006-07				2007-08			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Equity capital outgo from budget	1	0.50	--	--	1	1.00	-	-	1	1.00	-	-
Loans given from budget	1	11.00	-	-	1	5.00	-	-	1	5.00	1	3.13
Other grants/ subsidy	5	59.72	1	129.79	5	148.45	1	538.63	6	757.67	1	106.00
Total outgo	5⁴	71.22	1⁴	129.79	5⁴	154.45	1⁴	538.63	6⁴	763.67	1⁴	109.13

During the year 2007-08, the Government had guaranteed loans aggregating Rs 252.53 crore obtained by one working Government company⁵ (Rs 0.73 crore) and one Statutory corporation⁶ (Rs 251.80 crore). At the end of the year, guarantees amounting to Rs 132.36 crore against one working Government company⁷ (Rs 3.81 crore) and one Statutory corporation⁸ (Rs 128.55 crore) were outstanding. None of the Companies/Corporations has paid any guarantee fee/commission to State Government during 2007-08.

6.1.6 Finalisation of accounts by PSUs

The accounts of the Government Companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. These are also to be laid before the Legislature within nine months from the end of relevant financial year. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions under respective Statutes.

Out of eight Government companies and two Statutory corporations, none had finalised their accounts for 2007-08 by 30 September 2008. During the period October 2007 to September 2008, eight working Government companies and two Statutory corporations finalised their accounts of previous years.

The accounts of all the working Government companies and Statutory corporations were in arrears for periods ranging from one to five years as on 30 September 2008 as detailed below:

⁴ These are the actual number of companies/ corporations which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during the year.

⁵ Chhattisgarh Nishakat Jan Vitt Avam Vikas Nigam.

⁶ Chhattisgarh State Electricity Board.

⁷ Chhattisgarh Nishakat Jan Vitt Avam Vikas Nigam.

⁸ Chhattisgarh State Electricity Board.

Sl. No	Number of working companies/ corporations		Period for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial No. of Appendix 6.2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	1	-	2003-04 to 2007-08	5	A-6	Nil
2.	2	2	2004-05 to 2007-08	4	A- 3,7	B-1, 2
3.	1	-	2005-06 to 2007-08	3	A-5	Nil
4.	3	-	2006-07 to 2007-08	2	A-1,4,8	Nil
5.	1	-	2007-08	1	A-2	Nil
Total	8	2				

6.1.7 Investment made by State Government in PSUs whose accounts are in arrears

The State Government had invested Rs 1,867.10 crore (equity: Rs 2.50 crore, loan: Rs 21.00 crore, grants: Rs 489.68 crore and others – subsidy: Rs 1,353.92 crore) in 10 PSUs during the years for which accounts have not been finalised as detailed in *Appendix 6.5*. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed time to time by the Audit, of the arrears in finalisation of accounts, no remedial measures had been taken. As a result of which the net worth of these PSUs could not be assessed in audit.

6.1.8 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in *Appendix 6.2*.

According to the latest finalised accounts, three⁹ working Government companies had incurred an aggregate loss of Rs 1.88 crore and four Government companies¹⁰ and two Statutory corporations¹¹ had earned an aggregate profit of Rs 32.91 crore and Rs 275.50 crore, respectively.

⁹ Sl. No. A-3, 5 and 6 of *Appendix 6.2*.

¹⁰ Sl. No. A-1, 2, 4 and 8 of *Appendix 6.2*.

¹¹ Sl. No. B-1 and 2 of *Appendix 6.2*.

Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited had not finalised its first accounts.

6.1.9 Status of placement of Separate Audit Report on the accounts of Statutory corporations in the Legislature

The Separate Audit Reports (SAR) of Chhattisgarh State Electricity Board for the year 2001-02 and 2002-03 issued (December 2006/April 2008) to management have not been placed before the legislature (June 2008). The SAR for the year 2003-04 is under process.

6.1.10 Chhattisgarh State Electricity Regulatory Commission

The Chhattisgarh State Electricity Regulatory Commission (Commission) was formed (October 2001) under Section 17 of the erstwhile Electricity Regulatory Commission Act, 1998 with the object of determining electricity tariff, advising in the matters relating to electricity generation, transmission, distribution etc. in the State. The Commission is a body corporate and comprises two members including a Chairman, who are appointed by the State Government. The audit of the accounts of the Commission is conducted by the CAG under Section 104(2) of the Electricity Act, 2003. The Commission had finalised its accounts up to 2006-07.

6.1.11 Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

During the period from October 2007 to September 2008, the accounts of five companies and two corporations were selected for audit. The net impact of the important audit observations as a result of the audit of the PSUs was as follows:

Details	Government companies		Statutory corporations	
	Number of accounts	Amount (Rupees in lakh)	Numbers of accounts	Amount (Rupees in lakh)
Increase in Profit	1	645.00	-	-
Decrease in Profit	-	-	1	173.81
Increase in loss	1	91.89	-	-
Non disclosure of material facts	1	757.00	-	-

Some of the major errors and omissions noticed during October 2007 to September 2008 in the course of review of annual accounts of these PSUs are mentioned below:

Errors and Omissions in case of Government companies

6.1.12 Comments by the statutory auditors

Chhattisgarh State Civil Supplies Corporation Limited (2005-06)

- Management has not made disclosure in respect of Stock of 15,100 quintals valuing Rs 159.31 lakh issued on fake permits during the year 2003-04 at State Warehousing Corporation, Antagarh and demand drafts valuing Rs 29.50 lakh issued but not cleared in the bank

accounts of Mahasamund District during the year 2004-05. All cases are being investigated by the police.

- There was misappropriation of stock of rice, wheat and sugar worth Rs 2.50 crore at Jashpur district offices which indicated that the Management failed to comply with its responsibilities for accounting and internal control particularly in respect of inventory control and detection of fraud and error.

Chhattisgarh State Industrial Development Corporation Limited (2002-03)

- Interest of Rs 91.09 lakh earned in 2002-03 on inter corporate deposit of Rs 700.72 lakh with Madhya Pradesh State Industrial Development Corporation Limited has not been accounted for.

6.1.13 Comments during supplementary audit

Chhattisgarh Rajya Van Vikas Nigam Limited (2006-07)

- The Accounting Policy No. 4 (d) of the company permitted netting of Regeneration Surplus of Rs 6.45 crore (representing sale of crops) in respect of two divisions with Regeneration Expenditure of Rs 8.43 crore (representing closing stock of standing crops) in respect of five divisions which was not in order.

Chhattisgarh State Industrial Development Corporation Limited (2002-03)

- The company has not made provision for leave encashment of Rs 89.84 lakh resulting in understatement of loss as well as current liabilities and provisions by the same amount.

Errors and Omissions in case of Statutory corporations

6.1.14 Comments during supplementary audit

Chhattisgarh State Warehousing Corporation (2003-04)

- The Corporation has not made provision for bad debts of Rs 173.81 lakh resulting in overstatement of profit as well as sundry debtors by the same amount.

6.1.15 Position of discussion of Commercial Chapter by the Committee on Public Undertakings (COPU)

The status of Audit Reports (Commercial Chapter) and their reviews/paragraphs discussed as at the end of September 2008 is as under:

Period of Audit Report	Number of reviews and paragraphs featured in Audit Report	Number of paragraphs discussed
2001-02	2	1
2002-03	7	2
2003-04	8	8
2004-05	3	3
2005-06	6 ¹²	-
2006-07	6 ¹³	-

¹² Including one review of Audit Report (Commercial and Civil)- Government of Chhattisgarh.

¹³ Including one review of Audit Report (Commercial and Civil)- Government of Chhattisgarh.

6.1.16 619-B Companies

There were three deemed government companies (all working) coming under section 619-B of the Companies Act, 1956. **Appendix 6.4** gives the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest finalised accounts.

6.1.17 Response to Inspection Reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. In respect of Inspection Reports issued up to March 2008 pertaining to nine PSUs, 483 paragraphs in 183 Inspection Reports remained outstanding at the end of September 2008. Of these, 164 Inspection Reports containing 298 paragraphs had not been replied to for more than one year. Department-wise break-up of Inspection Reports and audit observations outstanding as on September 2008 is given in **Appendix-6.6**.

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. Out of the five draft paragraphs and one review forwarded to three departments viz. Department of Agriculture (one paragraphs), Department of Energy (three paragraphs) and Department of Commerce and Industries (one review) between April to September 2008, replies to four paragraphs (Department of Agriculture two paragraph, Department of Energy two paragraphs) and one review (Department of Commerce and Industries) are awaited (September 2008).

It is recommended that the Government should ensure that: (a) procedure exists for action against officials who fail to send replies to Inspection Reports/draft paragraphs as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayment is taken in a time-bound schedule; and (c) the system of responding to audit observations is revamped.

6.2 Performance review relating to Government company

Chhattisgarh State Industrial Development Corporation Limited

Development of Industrial Infrastructure

Highlights

The State Government stood to lose revenue of Rs 185.71 crore with corresponding undue benefit to the allottees over the lease period due to deficiencies such as allotment of land at reduced rates, at rates prevailing on the date of letter of intent instead of on the date of allotment, at industrial rates in lieu of commercial rates etc.

(Paragraphs 6.2.12 and 6.2.24 to 6.2.27)

The company took up establishment of four Large Industrial Areas and five Industrial Parks during 2003-08. None of the projects were completed as per schedule due to deficient planning.

(Paragraphs 6.2.9, 6.2.15 to 6.2.19 and 6.2.21)

Six mega industrial units availed Rs 2.63 crore concession for investing more than Rs 100 crore and providing employment to more than 800 persons but did not fulfill the conditions. The company also did not recover bank guarantee equivalent to concession amount of Rs 4.92 crore from five mega industrial units.

(Paragraphs 6.2.29 and 6.2.30)

The company caused revenue loss of Rs 22.09 crore to State Government due to supply of water at lesser rates, non-revision of user charges, delay in execution of lease deeds and non/short recovery of penal interest.

(Paragraphs 6.2.14, 6.2.36, 6.2.39 and 6.2.40)

The system of monitoring recovery of lease rent, user charges and penal interest was inadequate. The company did not prepare arrear statements and maintain recovery registers properly and consequently amount pending recovery was not readily ascertainable.

(Paragraphs 6.2.40)

6.2.1 Introduction

The erstwhile Madhya Pradesh Audyogik Kendra Vikas Nigam (Raipur) Limited (MPAKVN) incorporated (16 November 1981) under the Companies Act, 1956 was renamed (17 April 2001) as Chhattisgarh State Industrial Development Corporation Limited (company) consequent to formation of

Chhattisgarh State. One of the main objectives of the company is to develop and maintain industrial growth centres / areas with common facilities like roads, water, power etc. and allot land to potential industrial units.

The State Government announced State Industrial Policy (SIP) for the years 2004-09 replacing the earlier SIP 2001-05. It gave various fiscal concessions and incentives to mega industries, thrust area industries, Scheduled Castes/ Scheduled Tribes (SC/ST) entrepreneurs etc to achieve balanced regional development by attracting industries in the economically backward areas and ensuring participation of SC/ST and other weaker sections in the development process. To achieve these goals, it envisaged the following major initiatives:

- Develop quality industrial infrastructure through private sector participation.
- Establish new industrial areas, expand the existing industrial areas and improve available services therein.
- Set up special industrial parks such as aluminium park, apparel park, food park, herbal park, IT park, gems and jewellery park, metal park, etc.
- Special incentives to small scale and cottage industries to create maximum employment opportunities in the least possible time.

Management of the company is vested in a Board of Directors (BoD) consisting of six Directors including Managing Director (MD) and a part time Chairman appointed by the State Government. The MD is the Chief Executive Officer of the company and looks after day-to-day affairs of the company with the assistance of Executive Director (ED) and functional heads. The company has two branch offices¹⁴ and four site offices¹⁵. It is implementing three¹⁶ schemes of Government of India (GoI) and three¹⁷ State Government schemes for development of industrial infrastructure.

6.2.2 Scope of Audit

The Performance Audit was conducted during May - July 2008. Audit examined the records for the period 2003-08 at the corporate office and both the branch offices to assess the implementation of all the four¹⁸ Growth Centres, four¹⁹ Large Industrial Areas (LIAs) and five²⁰ Industrial Parks.

6.2.3 Audit objectives

The Audit objectives were to ascertain whether the company:

¹⁴ Bilaspur and Durg.

¹⁵ Borai, Siltara, Sirgitti and Urla.

¹⁶ Assistance to State for Developing Export Infrastructure and Other Allied Activities (ASIDE), Industrial Infrastructure Development Centres (IIDC) and Industrial Infrastructure Upgradation Scheme (IIUS).

¹⁷ Growth Centres, Industrial Parks and Large Industrial Areas.

¹⁸ Borai, Siltara, Sirgitti and Urla.

¹⁹ Dagori, Joratarai, Lara and Tilda.

²⁰ Apparel Park, Food Processing Park, Gems & Jewellery Park, Herbal & Medicinal Park and Metal Park.

- started and implemented projects with adequate planning;
- was allotting land in a normative manner;
- monitored the compliance of conditions for grant of concessions; and
- had established mechanisms for revision and collection of land premium, lease rent and user charges.

6.2.4 Audit criteria

The following Audit criteria were adopted:

- targets of land acquisition, infrastructure development, establishment of units, revenue realisation as per Detailed Project Report (DPR);
- Land Acquisition Act, 1894 (LAA), guidelines of GoI / Government of Chhattisgarh and SIP; and
- Land Allotment Rules, 1974 (LAR) and subsequent amendments.

6.2.5 Audit Methodology

The audit process involved interaction with the Management through an entry conference and periodic discussions and scrutiny of files and records relating to SIP, Government orders/ directions, agenda notes and minutes of the BoD meetings, agreements with consultants, acquisition of land, development of infrastructure, allotment of land, fixation / recovery of lease rent / user charges etc.

6.2.6 Audit findings

The Audit findings as a result of performance review were reported (September 2008) to the Management / Government and discussed at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 20 October 2008 where the Government and Management was represented by the Secretary and Special Secretary, Department of Commerce and Industries, Government of Chattisgarh and Managing Director respectively. The review was finalised after considering the views of the Government/Management.

Audit findings are discussed in the succeeding paragraphs.

6.2.7 Fund management

The scheme funds received from GoI and the State Government as well as revenue realised on behalf of State Government are accounted for separately and exhibited under "Government Account" in the Balance Sheet without any impact on the profit and loss account of the company. The company finalised its accounts only up to 2002-03. As per the provisional figures furnished to Audit, the company had funds of Rs 19.97 crore as on 31 March 2003 and during 2003-08 it received Rs 320.30 crore consisting of Central Government (Rs 26.51 crore) and State Government (Rs 203.25 crore) funds and revenue receipts (Rs 90.54 crore). Out of this, the company utilised Rs 127.75 crore

leaving an unspent balance of Rs 212.52 crore (66.35 per cent) including opening balance of Rs 19.97 crore. The details of receipts and expenditure are given in **Appendix 6.7**.

It was observed that the company had surplus funds ranging from Rs 28.91 crore to Rs 212.52 crore in Government Account during 2003-08. The total interest earned on the same was Rs 25.58 crore which was not credited to Government Account. The company did not furnish the details of amount lying under current account and records relating to investments made. Consequently, audit could not examine whether the surplus funds were invested judiciously.

Management stated (August 2008) that interest earned on surplus funds was not credited to Government Account as State Government permitted it to utilise the interest income for meeting its establishment expenses etc. The reply is not consonant with the State Government order (May 2006) which clearly states that the interest earned is to be credited to Government Account. Hence, interest earned should be credited to Government Account first and then drawn to the extent required with approval of State Government for meeting the establishment expenses etc.

6.2.8 Growth centres

The erstwhile MPAKVN established (1984-89) four Growth Centres (GCs) in the Chhattisgarh region of erstwhile Madhya Pradesh State under the Growth Centre scheme announced (June 1988) by GoI. Presently these GCs are maintained and upgraded by the company with funds received from the State Government. The status of GCs as on 31 March 2008 is as below:

Particulars	Growth Centre			
	Urla	Sirgitti	Borai	Siltara
Date of sanction	March 1984	March 1984	October 1989	October 1989
Total cost (Rs in crore)	17.72	13.46	32.77	36.15
Land acquired (in acres)	825.94	1721.6	1113.5	2925.46
Plots developed (Nos)	822	389	329*	207
Plots allotted & utilized (Nos)	822	389	195	207
Vacant plots (Nos)	0	0	134*	0

* Including 108 plots in Duban (submergence) area.

Audit noticed various deficiencies like allotment of land at reduced rates, at rates prevailing on the date of letter of intent (LoI) instead of the date of allotment, at industrial rates in lieu of commercial rates etc in allotment of land in GCs which are discussed in paragraphs 6.2.12, 6.2.24 and 6.2.25.

6.2.9 Large industrial areas

The company took up (February 2005 to February 2006) the proposal for acquisition of 13,344 acres of Government (3,888 acres) and private (9,456 acres) land for setting up of four²¹ LIAs and obtained (December 2005 and February 2007) sanction from the State Government. It received Rs 74.66 crore from State Government up to March 2008. Out of this, Rs 29.60 crore was deposited with Land Acquisition Officer (LAO) for acquisition of land at

²¹ Dagori (Bilaspur), Joratarai (Rajnandgaon), Lara (Raigarh) and Tilda (Raipur).

LIA Dagori and Joratarai. So far (September 2008) neither possession of the Government land was obtained nor private land acquired.

The deficiencies noticed regarding approval of two projects by Finance Department of State Government and absence of Industrial Potential Survey (IPS) are discussed at paragraphs 6.2.16 and 6.2.17.

6.2.10 Industrial parks

As envisaged in the SIP the company took up (January 2003 to August 2007) the proposal for establishment of five industry specific parks to serve as gravity centres for attracting investment by creating adequate infrastructure in these parks for the optimum utilisation of abundant resources available in the State. Out of five parks, three²² parks are taken up under public private partnership. The company took up establishment of the remaining two²³ parks directly as discussed in paragraphs 6.2.18 and 6.2.19.

6.2.11 Industrial parks under public private partnership

The company signed (October 2007) agreement with Ramky Infrastructure Limited for establishment of Food Processing Park, Gems & Jewellery Park and Herbal & Medicinal Park under public private partnership by setting up a Special Purpose Vehicle with 11 *per cent* equity participation by the company and the rest by the private partner. The projects were proposed in 602.099 acres land at an estimated cost of Rs 332 crore which would generate employment opportunities to 55,500 persons. Acquisition of land by the company through LAO for the projects is under process.

6.2.12 Non-enhancement of land premium between two revisions

The company failed to enhance land premium between two revisions which resulted in loss of Rs 53.18 crore.

As per State Government guidelines (January 1989), rate of land premium shall be increased by 7.50 *per cent* per annum between two successive revisions. The company did not comply with these guidelines. The company revised (April 2006) the rates fixed in September 2000. It was observed that though the company revised (April 2006) the rates fixed in September 2000, the same were lower than the rates worked out at 7.50 *per cent* annual increase. This resulted in undue benefit to the allottees of Rs 53.18 crore on land premium (Rs 7.85 crore) and lease rent/ maintenance charges (Rs 45.33 crore) over the 99 year lease period in respect of 840.83 acres land allotted during 2003-08.

Management stated (June 2008) that the guidelines of State Government became ineffective due to the revision of land premium in 1992. Reply is not tenable as State Government reiterated (September 2003) its earlier guidelines and BoD of the company also directed (October 2007) the Management to implement the same.

6.2.13 pricing strategy for allotment of land

The company has not laid down its pricing policy for allotment of land in industrial areas. It was also observed that cost of developed land at Siltara/Urla (Raipur) and Sirgitti (Bilaspur) GCs worked out to Rs 47.15 lakh to Rs 70.45 lakh per hectare during 2005-07 as detailed below:

²² Food Processing Park, Gems & Jewellery Park and Herbal and Medicinal Park.
²³ Apparel Park and Metal Park.

(Rupees in lakh)

Particulars	Sirgitti	Rawabhata	Sakri
Prevailing market rate ²⁴ for acquisition of land	19.00	30.40	24.37
10 per cent service charges to revenue authority	1.90	3.04	2.44
Total	20.90	33.44	26.81
Cost per hectare of land available for allotment leaving 35 per cent ²⁵ area for roads, drains, greenbelt, amenities, parking etc.	32.15	51.45	41.25
Cost of infrastructure development per hectare (approximately) ²⁶	15.00	19.00	19.00
Total cost of developed land available for allotment	47.15	70.45	60.25
Land Premium fixed per hectare:			
Small scale industries	5.00	8.00	8.00
Large & medium industries	10.00	13.00	13.00

As could be seen from the table above, the land premium fixed was Rs five lakh to Rs 13 lakh per hectare. Audit scrutiny revealed that while revising (January 2006) the land premium, the company did not consider the cost of developed land in industrial areas. Instead, land premium was revised considering the prevailing land premium in industrial areas of Madhya Pradesh State. Large disparity between the cost of land developed by the company and the premium fixed by it for allotment to industrial units resulted in a subsidy of Rs 51.50 crore on allotment of 265.32 acres land during 2007-08 at Siltara/ Urla and Sirgitti GCs. In view of this, the pricing strategy adopted by the Management needed a review.

Management stated (September 2008) that the intention of the company is not to make profits by allotting land to industrial units. The reply does not elucidate whether the financial implications had been deliberated upon and the Government was aware of the subsidy involved. The large difference in the cost and offer price needs to be reviewed by the Company and the State Government.

The deficiencies noticed in the fixation of land premium, lease rent and user charges are discussed in succeeding paragraphs.

6.2.14 Non-enhancement of maintenance charges

Non-enhancement of maintenance charges resulted in loss of Rs 3.98 crore.

BoD of the company decided (June 2006) to revise maintenance charges from 2006-07 on per hectare basis at rates ranging from Rs 20,000 to Rs 32,500 depending upon the GC / industry category and enhance the rates annually by five per cent. The revised rates were applicable to existing as well as new allotments. It was observed that the company did not implement this decision and continued to recover the maintenance charges at the prevailing rate of 2.50 per cent of land premium for new allotments and at the rates fixed at the time of allotment for existing (old) allotments. This has resulted in loss to the extent of Rs 3.98 crore during the years 2006-08.

Management stated (July 2008) that the decision of the BoD was not implemented, as the company cannot enhance the maintenance charges during

²⁴ Prevailing market rates at Sirgitti (Bilaspur) and Rawabhata/ Sakri (villages near Siltara/ Urla GCs in Raipur) as per company's records.

²⁵ As per the Directorate of Urban Planning and Development guidelines.

²⁶ As per DPR prepared for industrial area Silpahri estimated cost of development of 157.57 hectare allottable area was Rs. 30 crore (Rs. 19 lakh per hectare).

the lease period of 99 years as per the land allotment documents. The reply is contrary to the provisions of the lease deed (clause 2 A) and LoI (clause 11) which *inter-alia* provide for revision of maintenance charges from time to time, and to the fact that the BoD also directed this revision.

6.2.15 Planning

The company has not drawn up any time bound action plan for acquisition of land and implementing the proposed projects. Lack of adequate planning resulted in non-acquisition of required land and thus none of the projects initiated during 2003-08 were completed. Shortcomings in project planning are detailed in succeeding paragraphs.

6.2.16 Project initiation

Finance Department of the State Government rejected (April 2007) the project proposal of LIA at Lara (Raigarh) and did not communicate its approval for LIA at Tilda (Raipur). The company, however, made no efforts to ascertain the reasons for rejection/delay in approval of the proposals and no correspondence was initiated for obtaining the approval. However, the company incurred Rs 13.37 lakh during April 2007 to March 2008 on survey work for anicut, environmental impact assessment etc. It was evident that there was no coordinated effort to launch the projects.

6.2.17 Industrial Potential Survey (IPS) was not conducted in four LIAs before selection of location. Management stated (May 2008) that IPS would be conducted after getting the land. The reply does not explain why this was done despite the fact that one of the main purposes of IPS is to determine the suitability of location. Therefore the decision to acquire land without conducting IPS shows deficiency in planning.

6.2.18 Site selection

As directed by the State Government (January 2003) the company initiated action for setting up Aluminium Park at Korba to take advantage of BALCO expansion. After considering alternate sites (March 2003 to September 2006) at five locations, it was decided (September 2006) to set up Metal Park in 115 acres land available at Rawabhata (Raipur) along with additional 45 acres private land to be acquired. Due to change of project location five times and decision to set up Metal Park at Raipur instead of Aluminium Park at Korba, the project has not commenced even after a lapse of more than five years and after incurring Rs 19.22 crore towards land acquisition cost deposited with LAO (Rs 19.06 crore) and consultancy charges (Rs 0.16 crore) as against the estimated project cost of Rs 16.75 crore. Due to change of location the original objective of taking advantage of BALCO expansion viz. encouraging ancillary and auxiliary units, providing employment to local population and encouraging local entrepreneurship was defeated.

Management stated (August 2008) that it did not receive any proposal for taking advantage of BALCO expansion and various components of the project were under progress. The reply does not address the fact that the State Government formed (January 2003) a committee headed by the MD of the company to explore the possibility of setting up of Aluminium Park to take

advantage of BALCO expansion and that it was on this basis that the project was initiated by the company.

6.2.19 As directed (April 2003) by the State Government the company took up the project for setting up Apparel Park in 150 acres land at Rawabhata (Raipur). In view of pollution concerns expressed by industrialists it was decided (December 2007) by the company to set up the Park in 8.97 acres land at Bhanpuri Industrial Area. This indicated that the project was initiated without proper feasibility study. Consequently, the company could not achieve any tangible progress for five years even after incurring Rs 1.77 crore towards land (Rs 1.65 crore) and consultancy charges (Rs 0.12 crore).

6.2.20 *No follow up action on stalled project*

The company received (February 2002) Rupees two crore from GoI and signed (August 2002) an MoU with a co-promoter to set up a Food Park at Borai/ Tedesara in Rajnandgaon district under the Food Processing Industrial Park Scheme (2001) of GoI. The co-promoter absconded (December 2004) after executing work to the extent of Rs 1.59 crore. This was reported vide Para No.6.3.3 of the Report of the Comptroller & Auditor General of India for the year 2005-06. The company did not initiate further action for more than three years to complete the project and utilise the created infrastructure. Due to lack of progress, GoI asked (June 2007) the company to refund the entire grant with interest but the same was not refunded (July 2008). The infrastructure created is getting degraded with time, as the project has not been resumed.

6.2.21 *Acquisition of land*

For establishing industrial areas and parks, the company acquires private land through the Land Acquisition Officer (LAO) and Government land through transfer from Revenue Department. During 2003-08 the company did not acquire any land though it deposited Rs 50.31 crore with LAO for acquisition. Audit observed the following deficiencies in acquisition of land:

- For setting up of four LIAs, the company assessed (February 2005 to February 2006) requirement of 13,344 acres of Government (3,888 acres) and private (9,456 acres) land. The company, however, has not drawn up any time bound action plan for acquisition of the land. As a result, the required land could not be acquired for 32 to 42 months delaying the implementation of the projects. Delay in acquisition / transfer of land was never discussed in the BoD meetings to expedite the process for timely acquisition/ transfer of land.
- State Government transferred (March 1998) 434.58 acres land in five villages adjoining Urla Industrial Growth Centre (UIGC) in view of growing demand for land. The company however, could not obtain possession of 151.55 acres Government land at Sondongri even after a decade which indicates lack of effective action to get possession of land transferred to it.

Management stated (August 2008) that efforts were made and would continue to be made to get possession of the land. The reply does not indicate what were the

constraints due to which possession could not be taken for a decade. Moreover, there is no evidence that the company had pursued the matter vigorously.

Allotment of land

6.2.22 Prescribed procedure for allotment

The company follows Land Allotment Rules, 1974, SIP and guidelines issued by State Government for allotment of land. It receives applications from potential entrepreneurs. If land is available and the applications are found in order, the company issues letter of Intent (LoI) indicating the terms of allotment and total amount to be paid towards land premium²⁷, annual lease rent²⁸ and user charges²⁹ viz. maintenance / streetlight charges. Entrepreneurs are allowed 45 days in case of SSI and 90 days in case of LMI for furnishing consent letter and remitting the amount. In case the payment is not remitted within the prescribed time, the LoI is automatically cancelled. On receipt of consent letter and amount, allotment order is issued and possession of land is handed over on execution of lease deed for 99 years. The premium is recovered under three categories viz. SSI, LMI and commercial rates fixed by the BoD from time to time.

During 2003-08, the company allotted 5947.41 acres of land in its industrial areas (902.84 acres) and outside industrial areas (5044.57 acres) and collected land premium of Rs 60.98 crore. Deficiencies noticed in the allotment of land are discussed in the succeeding paragraphs.

6.2.23 Inadequate transparency in allotment

Audit observed that the process of allotment of land could be made more transparent as discussed below:

- The company neither displays the vacant plot position in various industrial areas in its offices nor gives wide circulation through news papers or uploading on its website. Therefore, the details of availability of land are not easily available to potential entrepreneurs.
- Applications received for allotment of land are processed by allotment section. Accepted applications are not routed through finance section for verification of land premium, lease rent and other related matters from financial angles. They were also not routed through technical section to vet whether the area of land applied for is consistent with the technical specifications for size of industry to be set up.
- As per the powers delegated, ED has powers to allot land up to 10 acres. Scrutiny of allotment register in respect of Urla/ Siltara Growth Centres for the period 2003-08 revealed that out of 36 allotments (4836.223 acres) exceeding 10 acres, 33 allotments (4689.733 acres) were made by ED.

²⁷ One time amount towards cost of land.

²⁸ Lease rent is fixed at the rate of 2.50 per cent of land premium which is enhanced by 25 per cent every 30 years.

²⁹ Maintenance charges up to 31 March 2006 fixed at the rate of 2.50 per cent of land premium and w.e.f 1 April 2006 on per hectare basis. Streetlight charges are fixed on per hectare basis.

- During 2003-08 out of 1180 applications received for allotment of land in its industrial growth centres at Siltara (SIGC), Urla (UIGC), Sirgitti and Borai, land was allotted only to 583 applicants. The files relating to rejected applications were not produced to Audit for scrutiny and the company did not intimate the reasons for rejection of 597 applications.

Allotment of land in industrial areas

6.2.24 Allotment of land at lower rates

Allotment of land at lower rates resulted in benefit of Rs 39.52 crore to various industrial units.

The company caused revenue loss of Rs 39.52 crore to the State Government due to allotment of land at lower rates, short recovery of lease rent etc as discussed below:

- Chhattisgarh Electricity Company Limited (CECL) approached (February 2003) the company for allotment of 250 acres land at SIGC for setting up a ferro alloy plant. The company decided (April 2003) to allot 100 acres land immediately and the balance 150 acres was disputed by some of the land owners in Courts and would be allotted after settlement. The company also requested (April 2003) CECL to remit Rs 40.47 lakh towards 10 per cent advance premium for 100 acres land. In response, CECL requested (April 2003) the company to sell the entire area to it at cost of acquisition following which they would go for out of Court settlement for the disputed land. The matter was referred by CECL to State Investment Promotion Board (SIPB) which decided (July 2005) that the disputed land (150 acres) would be denotified to enable direct purchase of the same by CECL. The remaining area (100 acres) was to be allotted to CECL at cost of acquisition plus interest and service charges. Accordingly, 152.73 acres land was denotified (December 2005) by the Government. By this time, the company had also given advance possession (January 2005) of 98.22 acres land. Thus, the company made available 250.95 acres of land as applied by CECL.

As per the SIPB decision, the company should have charged land premium equal to cost of acquisition plus interest and service charges on 98.22 acres land allotted. This land was acquired by the company in March 1994 on payment of Rs 0.30 crore³⁰. The company, however, did not recover interest, which resulted in undue benefit of Rs 2.11 crore towards land premium (Rs 0.49 crore) and lease rent (Rs 1.62 crore) over the lease period. Management stated (September 2008) that there was no basis for charging interest for the period from March 1994 to December 2006, as the land was not allotted up to the year 2006. Reply does not explain why interest was not charged as per SIPB decision i.e. from March 1994.

- As already discussed above, 250.95 acres land applied for by CECL was made available by the company. In addition to this, on the request (February and December 2005) of CECL, the company allotted (December 2006) additional 102.81 acres land at a cost of Rs 0.36 crore. This land was allotted without any justification given by CECL for the additional land. Additional land should have been allotted at the prevailing

³⁰ Proportionate cost. Total cost of 333.98 acres land acquired in March 1994 was Rs 1.02 crore.

rate of land premium of Rs 5.41 crore as per LAR. This resulted in undue benefit of Rs 20.50 crore on land premium (Rs 5.05 crore) and lease rent (Rs 15.45 crore) over the lease period of 99 years.

- The company recovered lease rent and user charges for 172.93 acres land from the date (December 2006) of lease deed instead of from the date (January and December 2005) of advance possession. This resulted in loss of revenue of Rs 37.66 lakh.

Management stated (July 2008) that bill for lease rent and maintenance/streetlight charges from date of advance possession had been issued to CECL. It was, however, observed that claim had not been entered in the recovery register. The progress of recovery was awaited.

- The SIPB also decided (July 2005) that in respect of denotified land the company has to recover user charges as fixed by the BoD. Audit scrutiny revealed that though the company informed (December 2006) CECL that user charges at prevailing rates were payable, it did not claim any user charges from CECL so far, which would have been Rs 0.70 crore up to March 2008.

Management stated (July 2008) that fixation of user charges for the denotified land would be put up to the BoD in future and action would be taken according to its decision. The reply is not tenable. The company did not take any action to recover the user charges at prevailing rates though it was already intimated (December 2006) to CECL.

- As per the procedure in vogue, the company collects land premium prevailing on the date of allotment. The company revised the land premium rates in September 2000 and April 2006. Audit observed that in respect of 52.43 acres land allotted (August 2001/ August 2006) to two³¹ allottees, land premium was collected at pre-revised rates resulting in undue benefit to the allottees to the extent of Rs 4.90 crore on land premium (Rs 0.72 crore) and lease rent/ maintenance charges (Rs 4.18 crore) over the 99 year lease period.
- The erstwhile MP Government transferred (June 1983) 605.95 acres land to the company at Silpahri (Bilaspur) for developing Industrial Area (SIA). The company allotted 97.27 acres (July 2000 to July 2004) to four allottees without demarcation of land into plots. It initiated action for development of SIA by conducting survey and obtained (September 2004) approval from the Town and Country Planning Department (TCPD) for net area of 389.35 acres (64.25 per cent of 605.95 acres) leaving balance area for roads, amenities, plantation etc. The company started (January 2007) development of SIA by upgrading/ constructing roads, drains, water supply etc. at a cost of Rs 30 crore (Rs 0.51 crore was already incurred and work orders issued for Rs 1.83 crore as of June 2008). The company allotted (October 2004 to October 2005) 81.77 acres land to five industrial units at market rates instead of the rates fixed by the company. Allotment of plotted land at lower rates resulted in undue benefit to the allottees to

³¹ *Chhattisgarh Electricity Supply Company Private Limited (37 acres) and Brihaspathi Iron & Steel Company Private Limited (15.43 acres).*

the extent of Rs 8.43 crore towards land premium (Rs 1.96 crore) and lease rent/ user charges (Rs 6.47 crore) over the lease period of 99 years.

Audit scrutiny also revealed that in respect of 42.73 acres land allotted (January to June 2004) to three³² allottees, undue benefit of Rs 1.41 crore was extended towards land premium (Rs 0.33 crore) and lease rent during 99 year lease period (Rs 1.08 crore) due to adoption of lower rate, non-recovery of additional premium and solatium.

Audit further noticed that the company did not incorporate an enabling clause in the lease deed to recover suitable user charges consequent to development of infrastructure. As a result the company may not be in a position to recover the user charges of Rs 36.02 lakh per annum at prevailing rates for 179.04 acres already allotted even after development of infrastructure incurring huge capital outlay.

- The company charges additional premium (10 per cent) on corner / road facing (80-100 feet) plots in view of the locational advantage. Audit noticed that 10 per cent additional premium was not recovered at Bilaspur branch on 8.07 acres corner / road facing plots allotted during March 2005 to January 2007. This resulted in undue benefit to four allottees to the extent of Rs 13.38 lakh towards additional premium (Rs 1.97 lakh) and lease rent/ maintenance charges (Rs 11.41 lakh) over the lease period of 99 years.

Management while accepting the audit observation stated (July 2008) that the differential amount would be recovered.

- The company allotted (September 2006) 32.476 acres land to Brihaspati Iron & Steel Company Private Limited and collected Rs 5.89 lakh towards additional premium on corner/ road facing plot whereas the actual additional premium calculated at 10 per cent was Rs 12.35 lakh. This resulted in undue benefit of Rs 6.46 lakh to the allottee.
- The company revised (October 2007) the land premium in respect of all the four GCs from Rs 8 lakh to Rs 13 lakh per hectare to Rs 8.60 lakh to Rs 14 lakh with effect from 1 October 2007. It was observed that the company continued to recover land premium at pre-revised rates on 58.192 acres land allotted during October 2007 to March 2008 at UIGC/SIGC. This resulted in undue benefit to the allottees to the extent of Rs 89.60 lakh towards land premium (Rs 25.32 lakh) and lease rent/ maintenance charges (Rs 64.28 lakh) over the lease period of 99 years.

Management stated (September 2008) that no decision was taken by the BoD to revise the premium from 1 October 2007. Reply is factually incorrect as the BoD in the 98th meeting held on 4 October 2007 decided to revise the premium with effect from 1 October 2007.

6.2.25 Allotment of land for non-industrial purpose at lower rates

The company allots land for non-industrial purpose at commercial rates as per LAR. Audit observed that the company allotted (December 2002 and

³² Shakun Sponge Iron Pvt Ltd, Airan Steel & Power Pvt Ltd and Gitanjali Ispat & Power Pvt Ltd.

Allotment of land for non-industrial purpose at lower rates resulted in undue benefit of Rs. 4.04 crore to the allottees.

November 2007) 8.70 acres land on National Highway 200 for setting up of two amusement parks at rates applicable to SSI. Allotment of land at reduced rates resulted in undue benefit to the allottees to the extent of Rs 4.04 crore towards land premium (Rs 0.58 crore) and lease rent/ user charges (Rs 3.46 crore) over the lease period of 99 years.

Management stated (June 2008) that land was allotted to amusement parks at SSI rates as per the State Government guidelines (June 1994). The instructions of June 1994 provide for allotment of land for ancillary purposes such as sub-station, dispensary, canteen etc but does not mention amusement parks. Therefore, allotment of land at SSI rates was not justified. Moreover, 0.44 acres additional land allotted (November 2005) to one of the amusement parks was at commercial rate. Further, the company also allotted land to PSUs for non-industrial purpose at commercial rates.

6.2.26 Allotment of land outside industrial area

Allotment of land outside industrial area resulted in undue benefit of Rs. 88.97 crore to the allottees.

The company also acquires and allots land outside industrial area on specific request of entrepreneurs for establishing their own projects. Government land is allotted after collecting land premium at market rates fixed annually as per the guidelines of Central Valuation Board (CVB). The guidelines provide that for land acquired for industrial purpose, the market rate should be reckoned by enhancing the valuation by a prescribed percentage³³. State Government notification (April 1982) provided that Government land allotted to entrepreneurs was to be valued at par with private land and 30 *per cent* solatium should be recovered. Private land is acquired and allotted at the cost of acquisition as per the award of the LAO plus service charges of LAO and the company. During the lease period of 99 years the company also collects annual lease rent. During 2003-08, the company allotted 1423.62 acres (26 cases) Government and 3620.95 acres (16 cases) private land for industrial purpose.

Audit scrutiny revealed that out of 26 cases of allotment of Government land during 2003-08, the company collected land premium without enhancing the market rate in 18 cases. In nine cases the company adopted rates lower than the market rates fixed as per CVB guidelines. In 20 cases solatium was not recovered. This resulted in undue benefit to the allottees to the extent of Rs 71.41 crore towards land premium (Rs 16.44 crore) and lease rent (Rs 54.97 crore) over the lease period of 99 years (**Appendix 6.8**).

Management stated (September 2008) that if additional premium and solatium is added the land cost would increase by 80 *per cent* which will not be as per rules. However, the State Government orders/ guidelines clearly specify recovery of additional premium and solatium. In eight cases out of 26, the company recovered additional premium and in two cases agreed to recover the differential amount of Rs 14.92 lakh. Moreover, in response to an audit para on non-recovery of solatium (Para No.6.3.4 of the Report of the Comptroller & Auditor General of India for the year 2005-06) State Government had directed (April 2007) the company to recover the solatium amount in all the

³³ 60 *per cent* in 2003-04 and 50 *per cent* from 2004-05.

cases where it was not recovered and report compliance within one month. It directed the company to follow the correct procedure in future allotments.

6.2.27 In respect of 16 allotments of private land during 2003-08, the company did not collect service charges of LAO of Rs 3.80 crore in respect of 14 allotments. Further, lease rent has to be fixed on the total cost of the land including service charges of LAO. In all the above 16 cases the company excluded the element of service charges to LAO while calculating lease rent. This would result in undue benefit to the allottees to the extent of Rs 17.56 crore over the 99 year lease period (*Appendix 6.9*).

Post allotment monitoring

6.2.28 Non- fulfillment of conditions of concession

The company was extending various concessions on land premium to encourage SSI / mega industrial units. The concessions were allowed subject to conditions like investment of more than Rs 100 crore and providing employment to 800 persons in case of mega industries. The company, however, did not have any institutionalised monitoring mechanism to ensure that the conditions were being fulfilled after availing concessions. Audit observed that the concessions were misused by some of the allottees as discussed in succeeding paragraphs.

6.2.29 Non-fulfillment of conditions by mega industrial units

As per State Government notifications (January 1989/ September 2003/ May 2005), 50 *per cent* concession on land premium was allowed to mega industrial units investing more than Rs 100 crore and employing more than 800 persons within three years of taking possession of land. If this condition was not fulfilled, concession allowed would be recovered with interest at the rate of 18 *per cent* per annum. Audit observed that the condition of investment of Rs 100 crore within three years was not fulfilled by six³⁴ allottees. The company, however, has not taken action to recover Rs 4.83 crore towards concession amount (Rs 2.63 crore) and interest (Rs 2.20 crore).

6.2.30 State Government clarified (February 2004) that allottees availing the concession have to pay amount equivalent to the concession either in cash or submit bank guarantee as security deposit. It was observed that in respect of six³⁵ allotments made during 2006-08 under mega project category, cash or bank guarantee equivalent to concession amount of Rs 4.92 crore was not obtained.

Management stated (July 2008) that on the basis of Government notification (May 2005) bank guarantee was not obtained. However, the notification of May 2005 gave conditions and rates of concessions and had no relation to the order of February 2004 and had neither withdrawn nor superseded it.

³⁴ Raipur Alloy & Steel Ltd, Chhattisgarh Electricity Supply Co Pvt Ltd, Brihaspati Iron & Steel Co Pvt Ltd, Superior Sponge Iron Pvt Ltd, Pushp Steels & Mining Pvt Ltd and Topworth Steels Pvt Ltd.

³⁵ Brihaspathi Iron & Steel Co Pvt Ltd, Vandana Global Ltd, Corporate Ispat Alloys Ltd (two allotments), Sarda Energy & Minerals and Raipur Power & Steel Ltd.

6.2.31 No system of verifying SSI status

The company allots land at concessional rates (concession ranging from Rupees two lakh to Rupees five lakh per hectare) to SSI units based on the provisional SSI registration certificate issued by District Trade and Industries Centre (DTIC). Audit noticed the following deficiencies in verification of SSI status of the industrial units:

- Though the SSI status was accepted based on the provisional certificate, the company did not have a system of verifying SSI status subsequently with permanent certificate of DTIC after commencement of commercial production. Audit observed that in seven cases the allottees actually set up large/medium industries though allotments were made under SSI category. The company, however, recovered the differential premium (Rs 1.03 crore) only in five cases and the premium (Rs 26.42 lakh) was not recovered in remaining two³⁶ cases. Further, penal interest (Rs 65.95 lakh) was not recovered in any of the cases.
- The company also allotted (March 2005) 2.06 acres land at Sirgitti under SSI category to Writers and Publishers Limited, a unit of Dainik Bhaskar media group which is one of the leading print media companies in India publishing 31 newspaper editions and 125 sub-editions in three languages in nine States. The guidelines issued by the GoI specify that an industry which is subsidiary of or owned or controlled by other industrial undertaking cannot be treated as SSI and thus this unit appeared not to qualify as SSI.

Management stated (July 2008) that it would verify the status from DTIC and if found that the unit is LMI, differential premium would be recovered. It was evident from the reply that it had not monitored the status for three years.

- In the absence of a system to monitor the permanent SSI registration certificates, there was no assurance that more such cases did not exist. The Chairman also observed (July 2006) in his notings that there could be 45-50 such cases. However, there was no evidence that the company had developed a system to monitor SSI status in co-ordination with DTIC and recover the differential premium in all cases where units did not remain under SSI category.

6.2.32 No land ceiling for SSI units

The company had not set any upper ceiling for land allotted to SSI. The company allotted (2003-08) land varying in area from 0.002 to 11.06 acres under SSI category. Audit observed that in one case³⁷ the company allotted 10.62 acres land under SSI category for setting up a sponge iron plant of 9000 MT capacity, but the allottee actually set up LMI with 72000 MT capacity sponge iron plant and also 8 MW captive power plant in the same land. In another case³⁸ the company allotted 8.299 acres land for setting up 6000 MT capacity plant for manufacture of towers

³⁶ *Narmada Drinks (P) Ltd and Spin Packaging Ltd.*

³⁷ *Mahendra Sponge & Power Ltd.*

³⁸ *Aster Teleservices Pvt Ltd (a multinational company as per allottee company's website).*

for cellular network. Against this the allottee set up 72000 MT capacity plant. Audit observed that out of the total allotments made during 2003-08, about 96 *per cent* were to SSI units. These instances showed that there was a requirement to review whether land ceilings and other norms were required to assess reasonableness of land allotment to SSI units to prevent instances of misuse of the concession.

Lease deed conditions

6.2.33 Improper preservation of lease deeds

After allotment, the company hands over the land to allottees on execution of lease deeds for 99 years, which contain the terms and conditions of allotment. Audit observed that lease deeds are kept in the numerous concerned files instead of keeping centrally under safe custody with proper index / directory for easy location. This was a serious internal control risk. If the lease deeds are lost or not traceable, the company cannot enforce the provisions of revision of lease rent/ user charges, penal action on breach of terms and conditions etc.

Management stated (June 2008) that necessary arrangements would be made for the safe custody of lease deeds etc. in future.

6.2.34 Non-monitoring of lease deed conditions

The lease deed prescribes various post allotment conditions to ensure that the infrastructure created by the company was being productively utilised. Audit observed that the company *inter-alia* has not been monitoring the compliance of following lease deed conditions.

- Allottee shall implement the project and go into production within a period of one year for SSI/ three years for others from the date of taking possession of the land.
- Allottee shall not sink well/tube-well without written permission of the company.
- Closure of factory for a continuous period exceeding six months without proper reasons shall be considered as breach of contract and allotment can be cancelled.
- Allottee shall plant at least fifty trees per hectare of land allotted and maintain them.
- Allottee shall rehabilitate and provide employment to one person belonging to each of those families, which have been displaced due to acquisition of their land.

Management accepted the observation and stated (June 2008) that guidelines/ suitable mechanism would be developed in future.

- As per the lease deed (March 1996) in connection with allotment of 1031 acres land at SIGC, Jayaswals Neco Limited had to provide employment to 740 affected landowners within one year of its going into production. Though the allottee commenced production in September 1996, it could provide employment only to 471 affected persons even after a lapse of more than 11 years.

6.2.35 Non-incorporation of safety clause in the lease deed

In respect of 3620.95 acres private land allotted during 2003-08, the company did not incorporate a clause in the lease deed providing that the allotted land was originally a private holding and additional compensation payable, if any, in future due to Court orders etc. would be paid by the allottee. In the absence of this clause, any additional compensation payable in future would have to be borne by the company.

Management while accepting the fact stated (July 2008) that it would incorporate a suitable clause in the lease deed and LoI in future allotments.

6.2.36 Wrong fixation of lease rent and maintenance charges

Audit noticed wrong fixation of lease rent and maintenance charges which resulted in undue benefit of Rs 12.61 crore to allottees as detailed below:

Wrong fixation of lease rent and maintenance charges resulted in undue benefit of Rs. 12.61 crore to allottees.

- As per the procedure in vogue, company collects annual lease rent and maintenance charges at the rate of 2.50 *per cent* of the land premium. Though the company charges additional premium (10 *per cent*) on corner / road facing (80-100 feet) plots in view of the locational advantage, lease rent and maintenance charges were worked out excluding the additional premium. This resulted in undue benefit to allottees in respect of 53 allotments made during February 2004 to March 2008 to the tune of Rs 9.18 crore over the lease period of 99 years.

Management stated (June 2008) that there were no instructions to charge lease rent on the additional premium. Reply is not tenable as additional premium was part of the premium for the corner/ road facing plots and the lease rent was chargeable on the total premium.

- The company allotted (July 2007) 97.99 acres private land to Jindal Power Limited at a premium of Rs 1.01 crore including Rs 9.22 lakh towards its own service charges. However, lease rent was fixed at Rs 23,058 only on the service charges component instead of at Rs 2.54 lakh on the entire premium resulting in loss of revenue of Rs 3.04 crore over the lease period.
- The company allotted (March 2004) 21.25 acres land to Shree Bajrang Power & Ispat Limited at a premium of Rs 14.22 lakh. Lease rent was incorrectly fixed at Rs 6,460 per annum as against Rs 35,564 resulting in loss of revenue of Rs 38.69 lakh over the lease period. It indicated lack of internal checks/controls.

6.2.37 Non-compliance of provisions of rehabilitation policy

The Ideal Rehabilitation Policy of the State (IRP), announced in November 2005 (amended in February 2007), provided for certain additional monetary and welfare measures for the affected farmers / landowners due to the compulsory acquisition of their land. There was no evidence that the company had complied with the provisions of the IRP as discussed below:

- The company did not collect additional amount of Rs 12.50 crore³⁹ (at the rate of Rs 50,000 to Rs 1,00,000 per acre depending upon the number of crops) from allottees for 1666.49 acres private land allotted from November 2005 to March 2008.
- Affected farmers / landowners should be provided permanent employment by the allottees within two years or paid compensation for non-employment. The company did not monitor compliance.
- Allottees should spend one to three *per cent* of yearly net profit for the development of the affected areas as per the local requirements. The company did not monitor compliance.
- Each family affected / dislocated by acquisition of land should be paid Rs 11,000 as a lump sum grant for resettlement. The company, however, did not collect this amount and pass on to the dislocated families.
- Prior to the announcement of IRP also, it was mandatory on industrial units to provide employment to the affected farmers / landowners. The company, however, did not ensure compliance in respect of 1954.46 acres private land allotted to industrial units between April 2003 to October 2005.

6.2.38 Encroachment of land in industrial area

Audit noticed that 37.676 acres of land was encroached in industrial areas as discussed below:

- Jayaswals Neco Limited (JNL), a unit to which 1031.27 acres land was allotted (October 1994) free of cost and at concessional rates, encroached 9.266 acres land at SIGC and constructed railway siding. While the company requested (March 2007) JNL to apply for allotment of encroached land, it made no efforts to realise Rs 1.46 crore on account of land premium (Rs 1.31 crore), security deposit (Rs 9.84 lakh), lease rent (Rs 3.28 lakh) and user charges (Rs 1.53 lakh). Delay in regularisation of the encroached land translates to revenue loss of Rs 6.56 lakh per annum towards lease rent and user charges.

Management stated (August 2008) that the encroached land would be allotted to JNL at industrial rates as per SIP 2004-09. Reply is not tenable as the LAR prescribe commercial rates for allotment of land for railway sidings and further SIP only states that cost of railway siding would be reckoned as part of capital and does not contain anything regarding rate of allotment of land for railway sidings.

- Nine⁴⁰ allottees in SIGC encroached land earmarked for green belt and open space and constructed *pucca* quarters, weigh bridge, gate, railway sidings and dumped industrial waste. The company did not furnish details of area of land under encroachment at SIGC. Besides, land admeasuring

³⁹ 1666.49 acres X average value of Rs. 75000 per acre.

⁴⁰ Sunil Sponge, Shri Shyam Ingot & Power Ltd, Shyam Iron, Subhash Ispat, Shri Bajrang Bali Ingot, Shri Harekrishna Sponge, G.R.Minerals & Industries, Vandana Global Ltd and G. R. Sponge.

28.41 acres valuing Rs 1.49 crore⁴¹ was also encroached by private parties in SIA.

It was observed from the records that the company had not analysed these instances so that steps could be taken to correct them and avoid recurrences at other places.

Operation and maintenance of industrial areas

6.2.39 Subsidised water supply

The company suffered loss of Rs. 3.28 crore due to supply of subsidised water to a private party.

HEG Ltd (HEG), an allottee at Borai Industrial Growth Centre (BIGC) approached the company for 3.6 million litre per day (MLD) water to meet the additional requirement for setting up a power plant. To meet the increase in demand, the company made (October 1998) an arrangement with Radius Water Ltd (RWL) for supply of four MLD water in BIGC. The company initially asked HEG to pay water charges at Rs 15 per KL for a minimum of 3.6 MLD. However, as requested by HEG, the company reduced the minimum demand to 3.24 MLD (up to March 2006) and 2.43 MLD (from April 2006) and also charged reduced rates of Rs 10 to Rs 13.80 per KL. However, during the same period the company purchased water from RWL at rates ranging from Rs 13.20 to Rs 15.76 per KL with minimum charge for four MLD. Consequently, it suffered a loss of Rs 3.28 crore by subsidising water supply to HEG during December 2000 to March 2008.

Management stated (July 2008) that from October 2007 onwards water charges had been increased to Rs 13.80 per KL against which the corresponding rate paid to RWL was at Rs 13.76 which puts the company in an advantageous position. Reply is not tenable. As per the payment details furnished by the company, during 2003-08 cost of water purchased from RWL was ranging from Rs 17.10 to Rs 79.52 per KL. Therefore the company continued to lose in this arrangement.

6.2.40 Deficiencies in revenue realisation

Deficiencies in revenue realisation resulted in loss of revenue of Rs 2.22 crore.

Realisation of lease rent and user charges is one of the main responsibilities of the company after allotment. It was observed that the company did not maintain bills register, prepare arrear statements and recovery registers were not updated regularly. Therefore the actual amount pending realisation and recovery thereof was not ascertainable. The internal audit also pointed out (2004-05) serious deficiencies in revenue realisation and termed the situation as alarming. The company, however, did not take corrective action so far. Audit scrutiny revealed that against the estimated lease rent of Rs 13.11 crore during 2005-08, amount realised was approximately Rs 4.71 crore (35.94 per cent). Reasons were not assessable in the absence of proper record keeping. Audit noticed following further deficiencies in revenue realization:

- As per lease deed (*clause 3*), allottees should pay lease rent and user charges in advance on 10 January / 10 April every year. Delayed payment would attract penal interest at the rate of 18 per cent up to one year and 24 per cent thereafter. Audit observed that the system of monitoring recovery of lease rent/ user charges and imposing of penal interest was inadequate.

⁴¹ At prevailing allotment rate of Rs. 13 lakh per hectare or Rs. 5.26 lakh per acre.

Consequently, in certain cases penal interest as low as Rupees seven was collected, whereas penal interest up to Rs 1.54 lakh was not recovered. A test check of money receipts and recovery registers for the period 2003-08 showed that penal interest of Rs 14.83 lakh was not recovered in 72 cases and in 13 cases, penal interest of Rs 4.40 lakh was short recovered which indicated lack of internal controls.

- Jayaswals Neco Limited (JNL) was allotted (October 1994) 1031.27 acres land as per MoU with the company. Under the terms of agreement it constructed an *anicut* for Rs 5.22 crore, of which 50 *per cent* cost was to be borne by the company. The company had given a loan of Rs 2.27 crore and balance Rs 0.34 crore was payable to JNL. Consequently, JNL did not pay any lease rent/ user charges up to February 2007. Scrutiny of records revealed that the amount of Rs 0.34 crore had got adjusted against dues up to December 1999 and JNL should have started paying lease rent/ user charges from January 2000. However, JNL settled the dues for the period 2002-08 during March 2007 to March 2008. This payment did not include dues from 1 January 2000 to 31 December 2001 amounting to Rs 0.20 crore. Penal interest (Rs 1.49 crore) was also payable as dues were not paid in advance by 10 January every year from January 2000 to January 2007. It was also observed that the premium was increased from Rs 10 lakh to Rs 13 lakh per hectare with effect from April 2006. Consequently the lease rent payable also increased. However, the company recovered lease rent of Rs 26.08 lakh per annum from April 2006 to December 2008 corresponding to the premium of Rs 10 lakh as against Rs 33.91 lakh per annum which was recoverable as per revised premium of Rs 13 lakh. This resulted in short recovery of Rs 0.22 crore. Total undue benefit extended to JNL was Rs 1.91 crore.

Management stated (September 2008) that as per lease deed, lease rent was recoverable from JNL at 25 *per cent* of the prevailing lease rent and there was no provision in the MoU for levying interest on delayed payment. Reply is not tenable. From April 2006 onwards lease rent was wrongly calculated at 25 *per cent* of land premium of Rs 10 lakh per hectare instead of 25 *per cent* of prevailing rate of Rs 13 lakh per hectare. Lease deed executed by JNL provides (clause 3) for levy of penal interest on delayed payment of lease rent and user charges.

- As per land allotment order, allottees have to execute lease deed within 60 days from allotment date and the company starts recovery of lease rent and user charges from the date of lease deed. Audit observed that in 36 cases there was delay ranging from 20 to 835 days (after allowing 60 days time) in execution of lease deeds causing revenue loss to the extent of Rs 11.94 lakh. Had the company recovered lease rent and user charges from the date of execution of lease deed or on expiry of 60 days which ever was earlier by incorporating a suitable clause in the allotment order, the loss could have been avoided.

6.2.41 Internal audit

Internal audit is a system designed to ensure proper functioning as well as effectiveness of the internal control system and detection of errors and frauds.

The purpose of any internal audit is to ensure compliance with the directives, rules and regulations laid down by the company/Government. The company conducted its internal audit through Chartered Accountants. The company did not have an internal audit manual. The internal audit reports were neither submitted to the MD nor BoD for taking timely corrective action. The company failed to ensure compliance with internal audit findings.

6.2.42 Corporate governance

Corporate governance is the system by which companies are directed and controlled by the management in the best interest of the stakeholders ensuring greater transparency, better and timely financial reporting. The BoD is responsible for good governance in the company. Section 285 of the Indian Companies Act, 1956, stipulates that in the case of every company, a meeting of its BoD shall be held at least once in every three months and at least four such meetings in a year. Audit scrutiny revealed that the BoD of the company met only 13 times during the five years ended 31 March 2008. Further, the following important issues were not considered and discussed in the Board meetings:

- Status of acquisition of land for various projects. Had this been done, it would have accelerated the process since most of the Board Members are from the State Government.
- Progress of implementation of various infrastructure development projects.
- Arrears of lease rent and user charges.

Further the company failed to implement the decisions of the BoD / State Government on land premium and user charges as discussed in paragraphs 6.2.12, 6.2.14, 6.2.24, 6.2.26 and 6.2.27.

Conclusion

None of the state projects initiated by the company during the five years were completed as per schedule. The land premium and user charges were not revised as prescribed and there was a wide gap between the premium charged and actual cost of acquisition and development of land. There were many deficiencies in land allotments resulting in undue benefits to allottees. The concessions extended to small scale industries and mega industries were not monitored after allotment to ensure compliance with necessary conditions. Proper records of overdue amount recoverable from allottees was not maintained. There was no mechanism to monitor the compliance with lease deed conditions.

Recommendations

The company may consider:

- reviewing the prevailing land premium rates in consultation with State Government;

- publicising land availability at various growth centres and industrial areas through the media and on the website;
- forming a committee for allotment of land with representation from Allotment, Finance and Technical sections for greater transparency and ensuring that land is allotted to the extent required and premium is correctly charged;
- strengthening the system of post allotment monitoring and evaluation of compliance with lease deed conditions;
- strengthening the system for monitoring of timely receipt of lease rent and user charges; and
- strengthening the system of monitoring compliance with the conditions for concessions.

6.3 Transaction audit observations

Chhattisgarh State Electricity Board

6.3.1 Undue benefit to employees

Chhattisgarh State Electricity Board paid avoidable Fringe Benefit Tax of Rs 2.44 crore on the productivity incentive paid to employees.

Chhattisgarh State Electricity Board (Board) introduced (August 2003) Meritorious Productivity Incentive Award Scheme (MP) for its employees applicable up to March 2004 for increasing the productivity in terms of energy generated and for reducing fuel oil consumption. After a gap of two years (2004-06) the scheme was again applied during the years 2006-07 and 2007-08.

Audit scrutiny revealed that the Board treated the productivity incentive as fringe benefit (Gift under section 115 WB (2) (O) of the Income Tax Act) and paid fringe benefit tax (FBT) of Rs 2.44 crore. However, Section 17 (1) (iv) read with section 17 (1) and (3) of the Income Tax Act (Act) provide that “salary” includes any fees, commission, perquisites or profits in lieu of or in addition to any salary or wages or any payment due to or received by an assessee from an employer. Thus the tax on productivity incentive is to be paid by employees as in the case of bonus, commission etc. It was also observed that productivity incentive does not fall in any category of the fringe benefits including gift. Consequently, the Board incorrectly paid Rs 2.44 crore FBT during the period 2006-07 and 2007-08 although the employees had to pay tax on the productive incentive after clubbing it with salary income.

Government, while endorsing the management’s views, stated (April 2008) that the productivity incentive was covered under Section 115 WB (2)(O) of the Act and the employer was liable to pay FBT. It was further stated that payments covered under the terms of employment shall only be treated as salary, whereas, productivity incentive paid under a special scheme could not be included under salary. The reply is at odds with the provisions of the Act because “Salary” as defined in the Act includes any fees, commission, perquisite or profits in lieu of or in addition to any salary or wages and the productivity incentive was a perquisite paid in addition to salary. Further, productivity incentive did not fall in any category of the fringe benefits defined under section 115 WB of the Act.

6.3.2 Incorrect assessment and delay in finalisation of tender

Chhattisgarh State Electricity Board incurred avoidable extra expenditure of Rs 31.48 lakh due to delay in assessment of quantity resulting in inadequate procurement and subsequent procurement at higher rates.

Chhattisgarh State Electricity Board (Board) prepared a schedule for installation of 3,92,818 Low Tension Epoxy Molded Cast Ring Type Indoor Current Transformers (LTCT) as Distribution Transformers during 2003-08 in a phased manner. For this purpose, the Board invited (October 2003) tenders (TS-84) for the procurement of 1,00,365 LTCT of various types.

The techno commercial bids of 12 bidders were opened on 31 January 2004 and the offers of 10 bidders were found to be techno-commercially qualified. Their price bids were opened in July 2004, evaluated, ranked and submitted to Member (Transmission and Distribution) for approval. Member (T&D) observed that the tendered quantity assessed by Chief Engineer (Operation and Maintenance) with the concurrence of Executive Director (Operation and Maintenance) was very high as it was not linked to the execution plan. The quantity to be ordered for procurement was reassessed (January 2005) to 45,350 at the instance of Member (T&D). Due to this exercise, tenders could not be finalised within the time limit (Oct 2004) and the Board requested the bidders for the extension of validity of offers for the third time upto April 2005. Only five firms agreed to extend the validity upto 24 April 2005. The Board could place orders (May 2005) only for 30,215 LTCT as per their allotment procedure⁴² laid down in the tender documents. Subsequently the Board invited (November 2005) fresh tender (TS-159) for the requirement of 2006-07 in which the balance quantity of 15,135 LTCT of original tender (TS-84) was also included and orders were placed on the firms at rates higher by Rs 207.98 per LTCT. Thus, due to the initial over-assessment of requirement, the Board took over 19 months (October 2003 to April 2005) to finalise the tender and due to this delay, it was forced to procure shortfall of 15,135 LTCT of original tender (TS-84) at higher rate resulting in avoidable

⁴² *The Notice Inviting Tender provides that orders will be placed on L1, L2, L3, L4 suppliers for different LTCT items in the following ratios and they will supply at L1 rates.*

LTCT 100/5 Amp- four suppliers in the ratio of 40:30:20:10;

LTCT 200/5 Amp- three suppliers in the ratio of 50:30:20;

LTCT 300/5 Amp- two suppliers in the ratio of 60:40;

LTCT 500/5 Amp- two suppliers in the ratio of 60:40;

Consequently, it could not procure the items in full as some suppliers on whom orders had to be placed as per these ratios, did not agree to extend the validity or did not agree to match L1 rates.

extra expenditure of Rs 31.48 lakh (Rs 207.98 X 15,135 nos.). The Chairman of the Board had also expressed (April 2005) displeasure over the abnormal delay and directed to fix responsibility which had not been done so far (February 2008).

Management while agreeing with the delay in finalisation of tender stated (January 2008) that the purchase of LTCT was linked to purchase of other items like meters, meter boxes and cables without which the LTCT could not be used. Therefore the purchases were made in accordance with the actual requirements so that store inventory could be kept at an optimum level and to avoid blocking of fund. The reply indicated that the procurement planning for LTCT was faulty as the requirement was grossly overstated without planning for simultaneous procurement of essential ancillary items. Consequently the tender finalisation was delayed while requirement was being reassessed and the Board was forced to procure 15,135 LTCT at higher rates.

The matter was reported to the Government (May 2008); their reply had not been received so far (September 2008).

6.3.3 Non inclusion of a safeguarding clause in tender

Non-incorporation of suitable clause in the extension order to safeguard the interest of the Board resulted in extra expenditure of Rs 17.68 lakh.

Chhattisgarh State Electricity Board (Board) invited (September 2004) tenders (TR-04/167) for procurement of 37 numbers 132 KV Control and Relay (C&R) Panels for transformers and feeders and orders were placed (15 April 2005) with three⁴³ firms, at the lowest FOR destination prices, which were duly supplied and utilised.

The time limit for placing extension order expired in October 2005. The Board placed (February 2007) extension orders 16 months later citing urgency for nine numbers 132 KV feeder C&R Panels and five numbers 132 KV transformer C&R Panels with the same firms at the same rates for scheduled delivery from April 2007 to June 2007. Meanwhile, a new tender (TR-06/233) including same items had already been invited (December 2006) and was under process.

It was observed that in other extension orders in a similar case, where a new tender was under process during extension order, the Board had incorporated a "Price Reduction Clause". It stipulated that if a lower price was finalised in the tender-in-process, then the quantity would have to be supplied under the

⁴³ *Expo Fyn, Easun Reyroll and Alstom (Areva)*

extension order at the lower price. In the instant case, the clause was not included in the extension orders. The price bids of the tender-in-process were opened on 7 April 2007. It was observed that two firms⁴⁴ on which the board had given extension orders, had quoted lower rates⁴⁵ in the tender-in-process. The dispatch instructions for the extension orders were given from 20 April to 23 June 2007 after opening of new price bids. Therefore, the payments would have been made at the lower rates available from the tender in process, if the price reduction clause had been kept in the extension orders. Thus, non-incorporation of price reduction clause resulted in extra expenditure of Rs 17.68 lakh⁴⁶.

Board stated (August 2007) that prices of tender-in-process (TR-06/233) were not available for comparison at the time of issue of extension orders on 2 February 2007, as the price bid of fresh tender were opened on 7 April 2007. The reply is not tenable. The price reduction clause is inserted in extension orders to protect the interest of the Board because the prices of the tender-in-process are not known and cannot be compared to the price in the extension orders. Therefore, it had to pay higher rates as it did not insert the clause in the extension orders.

The matter was reported to the Government (May 2008); their reply had not been received (September 2008).

Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited

6.3.4 Undue favour to a firm

The improper tendering process resulted in additional financial burden of Rs 94.08 lakh on the purchase of 9.02 lakh Kg ginger seeds and 5.48 lakh Kg of potato seeds during the year 2005-06 and undue benefit to the supplier.

The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited (company) invited tenders (April 2005) for registration and rate contract offers for supply of seeds, plants, etc. for the year 2005-06 for meeting the requirement of various indenting Government Departments and Organisations. As per the tender conditions, the tender was to be submitted in three separate envelopes containing earnest money deposit (EMD), technical bid and financial bid and if the technical bid did not meet the specified requirements, financial bid envelop was not to be opened for further action.

⁴⁴ Expo Fyn and Alstom (Areva)

⁴⁵ 132 KV feeder, C&R panel Rs 7.16 lakh-Rs 5.49 lakh = Rs.1.67 lakh and 132 KV transformer C&R panel Rs 5.83 lakh-Rs 5.30 lakh=Rs 0.53 lakh

⁴⁶ 9X(Rs 7.16 lakh- Rs 5.49 lakh)+5X(Rs 5.83 lakh-Rs 5.30 lakh)=Rs 17.68 lakh

The company received 18 bids for supply of ginger seeds and 17 bids for potato seeds. It was observed from the comparative statement that none of the bids fulfilled all the tender conditions⁴⁷. The financial bids of all companies were however opened (17 June 2005) without rejecting any firm on technical grounds and the lowest quoted rates were Rs 44 and Rs 12 per Kg for ginger and potato seeds respectively. The tender committee rejected the price bids of all bidders for non - compliance of tender conditions other than Safal Seeds and Biotech Ltd. After negotiations, Safal Seeds was approved (5 August 2005) for supplying ginger and potato seeds at Rs 52 and Rs 16 per Kg respectively which were substantially higher than the rates of lowest bids.

The company should have disqualified all the suppliers on technical grounds instead of opening all the financial bids. It was observed that the selected firm Safal Seeds also did not fulfil the technical requirement as it did not furnish any experience certificate and was also liable to be disqualified. However, its bid was accepted whereas the disqualified bidders included suppliers who⁴⁸ had been supplying seeds to the company during 2004-07, and some⁴⁹ who were considered for supply of other seeds and plants but disqualified for ginger and potato seeds. It was also observed that the company had not made efforts to obtain quotation from National Seeds Corporation (NSC) in 2005 which made an offer (May 2006) for supply of ginger seed at the rate of Rs 45 per Kg. This showed that the rate of Rs 52 was higher than market rates. The improper tendering process resulted in additional financial burden of Rs 94.08⁵⁰ lakh on the purchase of 9.02 lakh Kg ginger seeds and 5.48 lakh Kg of potato seeds during the year 2005-06 and undue benefit to the supplier.

Management stated (July 2008) that Safal Seeds was the only technically qualified bidder and they did not accept the L-1 rates. After price negotiations, they agreed for Rs 52 per Kg for ginger and Rs 16 per Kg for potatoes. It was also stated that the financial bids were opened because there were different items in the tender with different conditions and the price of Safal Seeds had been approved by the State Level Technical Committee. However, the technical requirements were uniform for all items in the Notice Inviting Tender and did not require opening of financial bids. The State level Technical Committee had approved the rates but not examined the tendering process in which only Safal Seeds was considered technically qualified although they did

⁴⁷ *Documentary proof of certificate of incorporation, previous experience and copies of agreement/rate contract for supply of seeds to other department etc. not furnished*

⁴⁸ *Sainath Traders, Bhopal; Minal House, Gwalior and Ajay Krishi Kendra, Jagdalpur.*

⁴⁹ *Krishi Kalpa, Jagdalpur; Mansi Agro and Fertilisers, Rajnandgaon and Unique Associates, Raipur*

⁵⁰ *9.02 lakh Kg ginger (Rs 52-Rs 44)+5.48 lakh Kg potato Rs 16-Rs 12).*

not produce experience certificates necessary for qualifying technical conditions. Under the circumstances, all the bidders were technically not qualified. The company did not explain why the offer of Safal Seeds was considered although it did not submit experience certificate.

The matter was reported to the Government (May 2008); their reply had not been received (September 2008).

6.3.5 Deficient cash management

The company suffered loss of interest of Rs 32.13 lakh due to deficient cash management

The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited (company) was incorporated (October 2004) as a wholly owned government company and commenced operations from August 2005. The company does not prepare periodical cash/funds flow statements to assess anticipated receipts and payments and surplus funds available for investment. It maintains both current accounts and savings accounts.

It was observed that the company opened Smart Roamer Current Account (SRCA) in October 2005 having facility of automatic transfer of funds to Fixed Deposit (FD) account with interest rate (3.50 to 5.50 *per cent*) applicable for 46 days. Between October 2005 and July 2007 balances ranging from Rs 8.00 lakh to Rs 7.21 crore remained accumulated in FDs transferred from SRCA for periods ranging from 4 to 21 months but earned interest at low rates applicable for 46 days period. If these surplus funds had been invested for the periods ranging from 3 months to 24 months in FDs which carried higher interest rates (6 to 7.25 *per cent*), the company would have earned additional interest of Rs 32.13 lakh.

Management stated (June 2008) that company could not transfer the amount to the FDs for longer duration since the same was required for day to day operations. The reply does not explain why the company had not made any assessment of the amount which could be invested without affecting the operations more so in view of the fact that the company is required to prepare cash flow statements, to identify how much of the surplus can be invested without affecting day to day requirements.

The matter was reported to the Government (May 2008); their reply had not been received (September 2008).

Raipur
The

(SUBIR MALLICK)
Accountant General (Audit), Chhattisgarh

Countersigned

New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India