

## CHAPTER-VII

### GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

#### 7.1 General

This chapter deals with the results of audit of Government companies and Statutory corporation. Para 1 gives a general view of Government companies and Statutory corporation and paragraph 2 deals with the miscellaneous topics of interest

#### 7.1.1 Overview of Government companies and Statutory corporations

##### 7.1.1.1 Introduction

Consequent on enactment of Madhya Pradesh Reorganisation Act 2000, the Madhya Pradesh State was bifurcated and Chhattisgarh State was formed on 1 November 2000. Three companies<sup>90</sup> and one Statutory<sup>91</sup> corporation were bifurcated on reorganisation of MP State and transferred to Chhattisgarh State. The process of distribution of assets and liabilities of these companies and the corporation was not complete (December 2002). The Chhattisgarh State also set up two<sup>92</sup> new companies. One company viz. AKVN<sup>93</sup>(Raipur) Limited, existing in Chhattisgarh was renamed after fresh incorporation in April 2001 as Chhattisgarh State Industrial Development Corporation Limited.

The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG), as per provisions of Section 619(2) of Companies Act, 1956. These accounts are also subject to supplementary audit, conducted by the CAG as per provisions of Section 619(4) of the Companies Act, 1956. The audit of Chhattisgarh State Electricity Board is conducted by Comptroller & Auditor General of India under Section 69 (2) of the State Electricity (Supply) Act 1948.

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<sup>90</sup> Chhattisgarh Rajya Van Vikas Nigam Limited, Chhattisgarh Mineral Development Corporation Limited and Chhattisgarh State Supplies Corporation Limited.

<sup>91</sup> Chhattisgarh State Electricity Board.

<sup>92</sup> Chhattisgarh State Beverage Corporation Limited and Chhattisgarh Infrastructure Development Corporation Limited.

<sup>93</sup> Audyogik Kendra Vikas Nigam Limited.

The details of all the Government companies and Statutory corporation are furnished in *Appendix XXII, XXIII and XXIV*.

### **7.1.2 Working Public Sector Undertakings (PSUs)**

#### **7.1.2.1 Investment in working PSUs**

The total investment in seven working PSUs (six Government companies and one Statutory corporation) at the end of March 2002 was as follows:

*(Rupees in crore)*

| Year    | Number of working PSUs | Investment in working PSUs |                         |       |       |
|---------|------------------------|----------------------------|-------------------------|-------|-------|
|         |                        | Equity                     | Share application money | Loans | Total |
| 2001-02 | 7 <sup>94</sup>        | 3.40                       | 1.00                    | 1.00  | 5.40  |

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

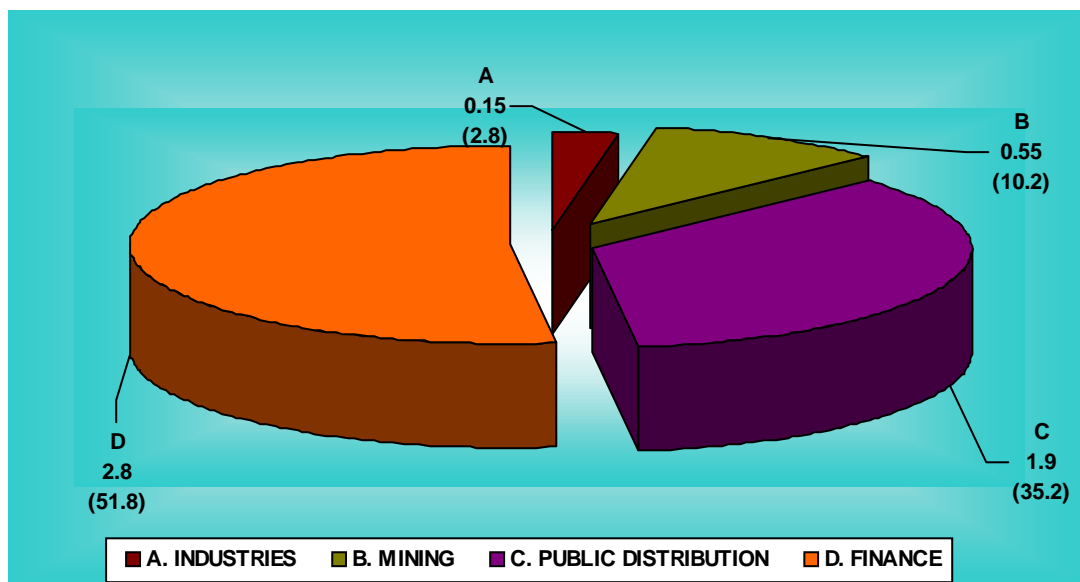
The investment (equity and long term loans) in various sectors and percentages thereof at the end of March 2002 are indicated in the following pie chart:

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<sup>94</sup> *Information regarding investment in Chhattisgarh Rajya Van Vikas Nigam Limited and Chhattisgarh State Electricity Board is not available due to non apportionment of assets and liabilities of the successor companies /corporation*

### Sector-wise investment in working Government companies and Statutory corporation as on 31 March 2002

(Figures within bracket indicate percentages of investment)  
(Rupees in crore)



#### 7.1.2.2 Working Government companies

Total investment in six working Government companies at the end of March 2002 was as follows:

(Rupees in crore)

| Year    | Number of working Government companies | Investment in working PSUs |                         |       |       |
|---------|--|----------------------------|-------------------------|-------|-------|
|         |  | Equity                     | Share application money | Loans | Total |
| 2001-02 | 6 <sup>95</sup>                        | 3.40                       | 1.00                    | 1.00  | 5.40  |

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

As on 31 March 2002 the total investment in working Government companies comprised 81 per cent in equity capital and 19 per cent in loans.

<sup>95</sup>

Information regarding investment in Chhattisgarh Rajya Van Vikas Nigam Limited and Chhattisgarh State Electricity Board is not available due to non apportionment of assets and liabilities of the successor companies /corporation.

### 7.1.2.3 Working Statutory corporation

The total investment in one working Statutory corporation i.e. Chhattisgarh State Electricity Board is not available at the end of March 2002 due to non-apportionment of assets and liabilities between MPSEB and CSEB.

### 7.1.2.4 Budgetary outgo, grants/subsidies, guarantees, 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 State Government in respect of working Government companies and one working Statutory corporation are given in *Appendix XXII and XXIV*.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to four working Government companies for the year 2001-02 are as follows:

*(Amount: Rupees in crore)*

|                                  | Number          | Amount |
|----------------------------------|-----------------|--------|
| Equity capital outgo from budget | 3               | 2.45   |
| Loans given from budget          | 1               | 1.00   |
| Other grants/subsidy             | 2               | 10.36  |
| Total outgo                      | 4 <sup>96</sup> | 13.81  |

### 7.1.2.5 Finalisation of accounts by working PSUs

The accounts of the Government companies for every financial year are required to be finalised within six months from the end of 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. They are also to be laid before the Legislature within nine months from the end of financial year. Similarly, in case of Statutory corporations their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

As per Section 210 (4) of Companies Act, 1956, the accounts of a company are to be laid in the first annual general meeting of the Company within 18 months from the date of incorporation. The accounts of three Government companies were not due for finalisation. The accounts of Statutory corporation for 2001-02 were in arrears.

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<sup>96</sup> *These are the actual numbers of companies, which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during the year.*

### 7.1.3 Response to draft paragraphs

Draft paragraphs 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. However, two draft paragraphs forwarded to the respective departments during April to September 2002, as detailed in **Appendix XXV**, have not been replied to so far (December 2002).

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

### 7.1.4 Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

Committee on Public Undertakings (COPU) of the Chhattisgarh State was formed on 17 April 2001 comprising nine members including chairman. As there was no Audit Report pertaining to Chhattisgarh State, the COPU plans to take up for discussion those reviews/paragraphs relating to the new State which stood included in Audit Reports for 1999-2000 and 2000-01 of composite Madhya Pradesh State.

The status of Audit Reports (Commercial) and paragraphs pending for discussion in the COPU at the end of October 2002 is shown below :

| Audit Report for the year | Number of paragraphs featured in the Audit Report | Number of paragraphs pending for discussion |
|---------------------------|---|---|
|                           | Paragraphs  | Paragraphs                                  |
| 1999-2000                 | 5 <sup>97</sup>                                   | 5   |
| 2000-2001                 | 7 <sup>98</sup>                                   | 7   |

<sup>97</sup> Pertains to 2 reviews.

<sup>98</sup> Pertains to 1 review

## PARAGRAPHS

### **Chhattisgarh Infrastructure Development Corporation Limited (Government Company)**

#### **7.2 Infructuous payment of retainership fee**

##### **Payment of fees to consultancy firm without getting any services resulted in infructuous expenditure of Rs.15.02 lakh**

Chhattisgarh Infrastructure Development Corporation Limited (Company) Raipur, appointed (September 2001) consultancy firm<sup>99</sup> on a retainership fee of

Rs.2.90 lakh per month to represent the Company's interest in infrastructure opportunities in New Delhi, Mumbai and Bangalore to do away with opening of branches. The terms of reference (TOR) of the firm were to provide services in liaison, promotion, facilitation and, if required, corporate and project advisory and capital raising services.

**Payment of  
Rs.15.02 lakh to  
consultant without  
getting any services  
proved infructuous**

It was observed that there were shortcomings in the firm's performance from September to November 2001. The Company informed (January 2002) the firm that it would not be appropriate to make full payment for that period. As their performance did not improve, the Company's Board was informed (March 2002 and May 2002) that the consultant's offices at Mumbai and Bangalore were practically not doing any work and it was proposed to discontinue their services in these two cities. The Board, however, decided (May 2002) to continue consultancy contract for services in Mumbai and Bangalore cities up to May 2002 and thereafter pay proportionate retainership fee for Delhi office only up to August 2002, which resulted in an undue benefit of Rs.15.02 lakh to the consultancy firm.

Management replied (June 2002) that the payments were made as per the terms of contract.

The reply is not tenable as the Company was fully aware of the non-performance of the consultancy firm in Mumbai and Bangalore in January 2002 itself. Though, no service was rendered in these cities from September 2001, yet the Company failed to deduct proportionate retainership fees for

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<sup>99</sup> *R.R Financial Consultants Limited.*

these two regions while making payment. Instead, it decided to continue consultancy services in the regions (including these two) upto May 2002. This resulted in infructuous payment of fees of Rs.15.02 lakh.

The matter was reported to Government (September 2002); their reply had not been received (December 2002).

### **Chhattisgarh State Electricity Board (Statutory Corporation)**

#### **7.3 Failure to impose penalty**

##### **Non deduction of penalty from contractor tantamount to undue benefit to the contractor**

In October 1995, the Board placed an order for supply, fabrication and erection of structural steel for Power House Building (unit 3 & 4) on M/s. Bharat Industrial Works, Bhilai at a total contract value of Rs.19.85 crore scheduled to be completed within a period of 20 months. As the site was handed over in November 1995 as such the work was scheduled to be completed in July 1997.

After a delay of about one and half year, the work was actually completed in January 1999. The extension of time for the period from July 1997 to January 1999 was, however, yet to be approved by the Board (July 2002).

Under the contract the penalty at the rate of 5 per cent of the value of work, remaining incomplete on the due date or 2.5 per cent of the estimated value of work whichever was higher was to be imposed and deducted from the R.A. Bills (from 67<sup>th</sup> to 79<sup>th</sup> Running Account Bills). The amount of penalty works out to Rs.27.83 lakh which was not deducted.

It was observed that Board had paid escalation of Rs.3.43 crore for this period to the contractor, whereas, the escalation was payable only after approval of time extension by the Board. Hence the payment of price escalation amounting to Rs.3.43 crore for the above period pending approval of time extension by the Board was unwarranted. The non deduction of penalty of Rs.27.83 lakh and the payment of escalation of Rs.3.43 crore pending approval of time extension by the Board was thus irregular and tantamount to undue favour to the contractor.

**Undue favour to the contractor due to non-imposition of penalty on a defaulter contractor.**

The matter was reported to the Government/Board (April 2002); their replies had not been received (December 2002).

**RAIPUR**  
**The**

**(PREMAN DINARAJ)**  
**Accountant General ,**  
**Chhattisgarh**

*Countersigned*

**New Delhi**  
**The**

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