

CHAPTER IV

Transaction Audit Observations

Important audit findings arising out of test check of transactions carried out by the State Government companies and Statutory corporations are included in this Chapter.

Government companies

Madhya Pradesh Laghu Udyog Nigam Limited

4.1 Infructuous investment on purchase of showrooms

Investment of Rs.32.42 lakh on the purchase of three showrooms proved infructuous due to non-utilisation of the same since their purchase in February 2005.

The Company purchased (February 2005) three "Avanti" showrooms situated in Mumbai, Indore and Kanpur at a cost of Rs.23.42 lakh from the Madhya Pradesh State Textile Corporation Limited to open its own outlets for sale of handloom and handicrafts items. These showrooms were purchased in three big cities and were expected to be useful for opening of showrooms. No cost benefit analysis was, however, done before purchase of showrooms. The Company further spent Rs.9 lakh (Rs.3.55 lakh-Interior decoration, Rs.4.60 lakh-Registration charges and Rs.0.85 lakh towards discharge of miscellaneous liabilities) on these show rooms, and possession taken over (February to October 2005). The Company, on detailed investigation and market survey, found (March 2006) that these showrooms were not strategically located for sale of handloom products and handicrafts. The Company did not use these showrooms so far (September 2007).

It was also noticed that the decision of the Company to sell or outsource these properties did not yield results since the showrooms at Mumbai and Kanpur were created by Madhya Pradesh State Textile Corporation Limited by availing of grants from the National Handloom Development Corporation. These showrooms, therefore, could not be put to any use other than sale of handicrafts and handloom products as per the terms and conditions governing the grant. Similarly, the property at Indore, which was under the control of

Indore Municipality, precluded the Company from issue of open advertisements for its sale or outsourcing.

While accepting the facts the Government stated (June 2007) that a Committee of Departmental heads of the Company has been constituted to examine the usage of showrooms by leasing or renting them and on receipt of their decision, suitable action would be taken. The fact remains that the purchase of these showrooms, without conducting cost benefit analysis, resulted in infructuous investment of Rs.32.42 lakh.

Madhya Pradesh State Electronics Development Corporation Limited

4.2 Loss of interest

Interest Rs.15.57 lakh was foregone due to imprudent fund management.

The Company invests surplus funds in term deposits with banks. The Company deposited (September 2005) Rs.14.95 crore including Rs.11.75 crore received from GoI as Grant-in-aid with the State Bank of Indore for a period of 24 months at interest rate of 6.60 *per cent* per annum. Another deposit of Rupees five crore was made (March 2006) for a period of one year at interest rate of eight *per cent* per annum.

It was noticed that though the Company was well aware of the increase in interest rates, it did not take any steps in March 2006 to foreclose its deposits made in September 2005 and reinvest the same at higher rate of interest for the remaining period of 18 months. By doing so, the Company would have earned additional interest of Rs. 15.57 lakh.

The Government stated (August 2007) that the Company preclosed the deposits and re-deposited the same on 1 December 2006 at higher rate of interest.

The fact remains that the Company had to forego a revenue of Rs.15.57 lakh during September 2005 to March 2006 due to imprudent fund management.

Madhya Pradesh State Mining Corporation Limited

4.3 Avoidable payment of interest on Income Tax

Incorrect assessment of estimated profit for payment of Income Tax resulted in avoidable payment of interest of Rs. 33.20 lakh.

Under section 208 read with section 210 of the Income Tax Act, 1961 (Act), it was obligatory to pay the Advance Income Tax (AIT) during the financial year in every case where the amount of tax payable exceeds Rs.5000. AIT on the current income (as calculated under section 209 of the Act) was payable in four instalments between June and March of each financial year (Section 211 of the Act). If the amount of AIT falls short by more than 10 *per cent*, the assessee is liable to pay simple interest for default in payment of balance tax at the rate of one *per cent* per month under Section 234 B of the Act. Further, interest at the rate of one *per cent* per month for deferment of AIT under section 234C of the Act is also payable if the total AIT fell short of total tax liability.

The Company paid AIT of Rs.5.05 crore on due dates on estimated profit of Rs.15 crore during the financial year 2005-06. In addition an amount of Rs.0.63 crore was deducted at source from the payments received by the Company during the year. The total payment of Income Tax by way of AIT and Tax Deducted at Source (Rs.5.68 crore) fell short of total Income Tax of Rs.7.98 crore payable by the Company on its profit of Rs.23.75 crore for the year 2005-06 by more than 10 *per cent*. The Company, therefore, paid (October 2006) interest of Rs 16.10 lakh and Rs.17.10 lakh under sections 234-B and 234-C of the Act respectively along with the balance Income Tax of Rs.2.30 crore.

It was observed that the Company paid (March 2006) final instalment of AIT on the estimated profit of just Rs.15 crore, as against the profit of Rs.18.39 crore at the end of third quarter i.e. 31 December 2005. As such the estimated profit on the expected turnover of the last quarter should have been added to the profit of third quarter for the purpose of payment of AIT. Had the Company deposited AIT based on realistic estimates, after taking into account all contributing factors and available data, the installments of AIT would have not been underestimated and the payment of interest to Income Tax department could have been avoided.

The Management stated (April 2007) that they revised the earlier estimate of annual profit of Rs.11 crore to 15 crore in March 2006 on the basis of increased turnover. The reply is not tenable as the profit at the end of third quarter was Rs.18.39 crore which was more than the profit of Rs.15 crore, estimated by the Company for the year. This shows that the estimates were made without taking into account all the contributory factors.

Thus, the failure of the Management in estimating its income with reasonable accuracy resulted in avoidable payment of interest of Rs.33.20 lakh to the Income Tax Department.

The matter was reported (May 2007) to the Government; their reply is awaited (October 2007).

4.4 Undue benefit to a joint venture partner

Undue benefit of Rs.21.60 lakh on account of use of Railway sidings at the cost of the Company was extended to a Joint Venture Company (JVC).
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The Company was holding licence to use 28 plots at railway siding of Satna station for storage and transportation of Bauxite. Since the Company was negotiating with Katni Bauxite Private Limited (private partner) for entering into a joint venture (JV) for mining operations in the area, it did not intend to renew the licence for use of the plots.

The Company entered (July 2000) into a JV agreement with private partner for formation of a JVC for mining, storage and transportation of bauxite. As per the agreement, the Company was to provide its bauxite mines in Village Tamar, for which it was entitled to a commission of Rs.71 per MT of bauxite mined. There was no specific mention about the handing over the railway sidings to the private partner/JVC.

The private partner approached (June 2000) the Company for renewal of licence initially for at least one year (2000-01). It also offered (June 2000) to bear the expenses of future renewals for usage of the siding plots. It was observed that the Company paid the licence fee amounting to Rs.21.60 lakh for usage of the railway sidings by the JVC upto March 2007 (licence was not renewed after March 2007) but did not claim this amount from the JVC as the Managing Director (MD) of the Company decided (June 2001) that the Company would bear the renewal charges. As per delegation of powers (DoP), the decision of waiver of claim was required to be ratified by the Board of Directors (BoD). However, no proposal was submitted to BoD for ratification.

Thus, by discharging the liability of the JVC, the Company extended an undue benefit of Rs.21.60 lakh to the JVC on account of rent of sidings paid to the Railways from September 2000 to March 2007.

The Management stated (September 2007) that the decision to bear the charges for railway sidings was taken (June 2001) by the MD, at the request of the JVC. It was assumed by the JVC that the facility of usage of the sidings was part of the infrastructure to be made available by the Company in consideration of the agreed commission. It was also stated (August 2007) that the decision taken by the MD to bear the charges did not require approval of the BoD. The reply is not tenable because the JV agreement is silent about

providing of any such facility to the JVC. Moreover, JVC's assumption of the facility being a part of the infrastructure does not hold good in view of its initial offer to bear expenses for future renewals. The decision of the MD of the Company to bear the expenses was to be ratified by the BoD, as DoP specifically provided for ratification of model draft terms and conditions governing a contract by the BoD.

The matter was reported (May 2007) to the Government; their reply is awaited (October 2007).

4.5 Loss of revenue

Revenue of Rs.25.98 lakh was foregone due to irregular allotment of mine for excavation, transportation and selling of sand.

The Company allotted (January 2005) 13 sites of Group 4 in Katni region to a contractor for excavation, transportation and selling of sand. The terms and conditions of the agreement (Agreement) envisaged lifting of a minimum quantity of 81,000 Cubic Meters (Cum) of sand by the contractor within a period of one year from January 2005 and payment of an assured sum of Rs.64.80 lakh (at the rate of Rs.80 per Cum) in monthly installments. The contractor deposited (January 2005) the first installment of Rs.5.46 lakh and Security Deposit of Rs.16.20 lakh. The Agreement, *inter-alia*, also provided for allotment of new sites, as and when these became available, to the contractor, who was already working in the area nearer to the new sites.

After receipt of permission (January 2005) from the Collector for working in seven new sites in Katni region, the Managing Director (MD) directed (January 2005) the Officer- in-charge (OIC), Katni region to allot these sites to the contractor of Group 4 against a consideration of Rs.13.07 lakh (Minimum quantity of 16,335 Cum at the rate of Rs. 80 per Cum). The OIC, however, in utter disregard of the orders of the MD, allotted (January 2005) only six sites to the contractor and allotted the seventh site to another contractor working in another group of sites (Group I). The contractor entered (May 2005) into supplementary agreement for six sites for Rs.13.07 lakh. Since the seventh site was considered to be profitable, the contractor (of Group 4) felt aggrieved and sought judicial remedy. The court stayed (February 2005) the working in the seventh newly allotted site.

It was noticed that the contractor lifted 15,345 cum sand (upto 15 September 2005) and paid (upto July 2005) Rs.35.69 lakh, the assured monthly instalments. Since the operation of sites of Group 4 was unprofitable and the contractor was not allotted the profitable seventh new site, he did not make any payment towards assured instalments from August 2005. The Company, therefore, terminated (October 2005) the contract and forfeited the security deposit of Rs.16.20 lakh. The Company surrendered (December 2005) the entire lot of sites in Umari district to the State Government.

Thus, irregular action of the OIC in allotting the profitable site to another contractor in contravention of the orders of his superior authority which prompted the contractor to stop the work on mines, resulted in termination of the contract. Thus, the Company was deprived of the revenue of Rs.25.98⁵² lakh.

The Management accepted (September 2007) the irregularity committed by the OIC. No action, however, against the delinquent officer has been taken so far (September 2007).

The matter was reported (June 2007) to the Government; their reply is awaited (October 2007).

Madhya Pradesh Police Housing Corporation Limited

4.6 Avoidable expenditure

Decision of the Company to publish Notice Inviting Tenders in national daily newspapers in contravention of guidelines/instructions issued by the State Government resulted in incurring of avoidable expenditure of Rs.51.09 lakh.

The Company undertakes construction activity for Police Department of the State. These construction works, funded by the GoI and the State Government are executed through contractors selected on the basis of competitive bidding. For this purpose, the Company publishes Notice Inviting Tenders (NIT) in the newspapers.

The GOI guidelines (March 2000) envisaged that works on national highways and other centrally sponsored schemes costing upto Rs.1.5 crore should be advertised in three regional daily newspapers. The standing instructions (April 1994) of Madhya Pradesh Public Works Department (MPPWD) also provided that NITs for works exceeding Rupees one crore only were to be published in national daily newspapers. NITs for works below one crore were to be published in two or three daily newspapers published within the State and the weekly "*Rozgar evam Nirman*" published from Bhopal.

During the years 2004-07, the Company spent Rs.59.12 lakh on publication of NITs in national level newspapers in respect of 63 works valued at Rs.36.90 crore. In contravention of the GOI guidelines and the standing instructions of the MPPWD, the Company published NITs in respect of 50 works exceeding

⁵² *Rs.64.80 lakh+Rs.13.07 lakh-(Rs.35.69 lakh-monthly installments+Rs.16.20 lakh-SD).*

Rs.25 lakh but less than Rupees one crore in national daily newspapers also. The Company incurred expenditure of Rs.51.09 lakh on this account. It was noticed that the purpose (wide publicity) of publication of NITs in national newspapers was defeated, as it did not evoke any response from tenderers outside the State. Thus, the decision of the Company to publish NITs in national daily newspapers in contravention of guidelines/the standing instructions resulted in incurring of avoidable expenditure of Rs.51.09 lakh.

The matter was reported (June 2007) to the Management/Government; their replies are awaited (October 2007).

4.7 Infructuous expenditure

Non acceptance of lower rates resulted in incurring of infructuous expenditure of Rs.53.98 lakh.

The Company as implementing agency of Police Force Modernisation Scheme, undertakes civil construction works for the Police Department through contractors. The tenders are invited from registered contractors for the estimates prepared on the basis of State Public Works Department Schedule of Rates, 1999 (SOR), as amended upto date of issue of tender notice. Tenderers are required to quote rates on percentage of SOR basis.

Audit scrutiny (December 2006) of the allotment process of 25 works (taken up by the Company sanctioned during 2002-05) in Indore and Gwalior divisions, revealed that the initial bids submitted by the contractors for these works were rejected (2002-05) on the plea that the rates offered by the contractors were on higher side. It was observed that even offers, which were below the estimates, were also rejected. Fresh tenders for these works were invited (during 2005-07) by publication of advertisements in the newspapers from two to eleven times. These works were finally allotted (2006-07) to the contractors at higher rates than those quoted in the initial offers.

It was also observed that in two cases the Company was not able to take a decision about the allotment of work even after inviting tenders (by publication of NITs in newspapers) on ten (construction of 10 *plus* 40 quarters at Sendhawa) to fifteen (construction of Thana at Suwarsa) occasions. For instance the first lowest offer of 2.85 *per cent* above SOR (September 2005) for the work, "Construction of 10 *plus* 40 quarters at Sendhwa- (cost of work Rs.1.13 crore)", was rejected and after inviting fresh tenders, 10th offer (December 2006) which was 24.99 *per cent* above SOR was under consideration of the Company (May 2007). The Company spent Rs.3.98 lakh on publication of NITs after first call for this work.

It was also observed that indiscriminate rejection of tenders did not augur well for the Company in as much as there was very poor response to the NITs published in the newspapers. Twenty two NITs of Indore Division published

(between January 2006 and April 2006) did not evoke any response as no tender document was sold by the Company. Thus, by not accepting the tender in the first attempt, the Company incurred an extra expenditure of Rs.44.41 lakh, cost difference between the rejected initial offers and the final accepted offers. The Company also spent Rs.9.57 lakh on publication of tenders for these works. Moreover, there was considerable delay in taking up these works. This resulted in infructuous expenditure of Rs.53.98 lakh.

The matter was reported (June 2007) to the Management/Government; their replies are awaited (October 2007).

Madhya Pradesh Road Development Corporation Limited

4.8 Avoidable extra expenditure due to adoption of higher specifications

Avoidable extra expenditure of Rs.69.08 lakh was incurred on adoption of higher specification in upgradation of Highways.

The Company is engaged in the up-gradation of State highways. The project proposals for the works are based on the specifications laid down by the Indian Road Congress (IRC) and the Union Ministry of Road Transport & Highways (MORT&H). IRC specifications (IRC 37-2001) provide laying of 50mm Bituminous Macadam (BM) on roads with traffic density upto five Million Standard Axles (MSA) during the designed life of the road. Laying of Dense Bituminous Macadam (DBM⁵³) only for roads with heavy traffic density of above five MSA was prescribed by IRC. As per recommendations of IRC, the state highways should be designed for a life span of fifteen years.

The Company awarded (July 2003) the work of up-gradation of 43.6 Km of Katni –Damoh Road for Rs.14.58 crore. The work was taken up (September 2003) and was completed (July 2006) at a cost of Rs.14.64 crore. It was observed that average vehicular movement on this road was 1275 vehicles per day. Considering the recommended life of 15 years, the traffic density works out to less than five MSA and as such the Company should have used BM only for the construction of road. It was, however, observed that the Company considered the life of the road as 20 years which resulted in traffic density of more than five MSA. Accordingly, the Company used costlier DBM in place of BM for the construction of road. This resulted in extra expenditure of Rs.69.08 lakh on 10,699.334 cum of DBM.

⁵³ *Design of mix with minimum 4.5% Bitumen (grade 60/70) and gravel 21.*

The Management stated (July 2007) that 20 years design life for the road was adopted in the Detailed Project Report (DPR). The count of the traffic was not realistic as it was based on ten percent sample traffic of the bad road on which the traffic density was less. It was further stated that the IRC 37-2001 was recommendatory and consultant had chosen higher design life period. The reply is not tenable since the Company has been adopting IRC provisions for finalisation of its project proposals and failed to scrutinise and update the DPR before finalizing the technical specifications.

The matter was reported (June 2007) to the Government; their reply is awaited (October 2007).

4.9 Extra expenditure

Non-adherence to the approved specifications resulted in extra expenditure of Rs.4.62 crore

The Company undertook (October 2004) up-gradation of the State highways with the financial assistance from the Asian Development Bank (ADB) and the State Government. On review of the Draft Project Report (DPR) the Consultants recommended (October 2002) that the work should be carried out according to AASHTO⁵⁴ specification. These specifications were subsequently scrutinized and revised by the Company to meet the IRC specification. The Technical Reports containing the revised specifications were approved (October 2003) by the State Government and confirmed (October 2003) by ADB. Subsequently, the tenders for upgradation of the state highways were issued (April 2004) on the basis of these revised specifications. The changes in the specifications for the following Roads as recommended in October 2002 and as per Technical Report are detailed below:

Name of the Road	Specifications as recommended in October 2002		Specification as per Technical Report and in Tender drawings	
	DBM	BC	DBM	BC
1- Betul- Paratwara Road	100 mm	40 mm	85 mm	40mm
2- Chhindeara- Multai Road	75 mm	40 mm	60 mm	40 mm
3- Khichipur- Susner-Road	60 mm	40 mm	50 mm	25 mm

Source: data supplied by management.

⁵⁴ *Americian Association of State Highways and Transportation Officials.*

During scrutiny of interim payment certificates (February 2007), it was observed that these works were carried out as per the specifications recommended in October 2002 and not as per Technical Report approved by the State Government and ADB. On account of non-adoption of the specifications as per the approved Technical Report, the Company incurred an extra expenditure of Rs. 4.62 crore.

The Management stated (July 2007) that the actual execution of the road was done in accordance with the DPR provisions as finalized and instructions given by the supervision consultant. The reply is not tenable since the specifications considered in DPR were subsequently revised and approved by the State Government and ADB. Thus, the deviation in the specifications during execution of the up-gradation work resulted in extra expenditure of Rs. 4.62 crore.

The matter was reported (June 2007) to Government; their reply is awaited (October 2007).

Madhya Pradesh Audyogik Kendra Vikas Nigam (Bhopal) Limited

4.10 Loss of revenue

Waiver of additional premium and surcharge in allotment of land resulted in loss of revenue Rs.1.24 crore.

As per the standard practice, the Company charged additional premium at the rate of 10 *per cent* for developed industrial plots facing 80 feet and above wide road. The Company also charged 10 *per cent* surcharge for industrial plots situated at corners.

The Company allotted (September 2005) a 150 acre corner industrial plot situated on 80 feet wide road in Mandideep Industrial area to Mahavir Spinning Mills Limited (allottee). At the request of the allottee, the State Government gave (December 2005) a concession of 75 *per cent* of the premium on 30 acre out of 150 acre allotted under the State Industrial Promotion Policy, 2004. It was observed that while extending the concession under the State Industrial Promotion Policy, the State Government made it clear that no further benefit would be allowed under this policy. A consideration of Rs.6.96 crore including premium, security deposit, advance lease rent and maintenance charges was collected (September 2005) from the allottee. The consideration, however, did not include 10 *per cent* additional premium and 10 *per cent* surcharge for the advantageous location. It was noticed that the Chairman waived (September 2005) these charges without the approval of the Board of Directors (the competent authority). This waiver of

charges resulted in further benefits to the allottees, which were not permitted by the State Government. Further, the fact of waiver of the additional premium and surcharge by the Chairman was not intimated to the State Government. Thus, waiver of additional premium and surcharge in violation of the Government orders resulted in loss of revenue of Rs.1.24 crore to the Company.

The matter was reported (April 2007) to the Management/Government; their replies are awaited (October 2007).

Madhya Pradesh State Civil Supplies Corporation Limited

4.11 Loss due to avoidable procurement of gunnies

Avoidable expenditure Rs.44.64 lakh was incurred on procurement of gunny bags due to improper assessment of their requirement.

The Company assessed (November 2004) the requirement of gunnies for rabi marketing season 2005-06 as 12,500 bales⁵⁵ in view of the initial procurement target of 3.50 lakh Metric Tonnes (MT) of wheat. Accordingly, the Company placed (December 2004 and January 2005) two indents with the Director General of Supplies and Disposals (DGS&D) for supply of 12,048 bales. Consequent upon upward revision (March 2005) of procurement target to 5 lakh MT, the Company reassessed (March 2005) the requirement of gunnies as 18,096 bales after considering a safety margin of 10 *per cent* and the stock of 4385 bales in hand. DGS&D supplied 15069 bales between 8 March and 17 April 2005. One rake of 3024 bales was scheduled to be received by 7 May 2005. The Company procured 3 lakh MT of wheat upto 23 April 2005 and utilized 11,998 bales. The balance stock of 8,781 bales was sufficient to pack 2.20 lakh MT of wheat against the balance procurement target of 2 lakh MT. In addition, 3,024 bales were expected to be received by 7 May 2005.

In spite of the availability of sufficient stock of gunnies in stock/transit, the Company decided (23 April 2005) and obtained (May 2005) 2,654 bales of gunnies from FCI, Raipur on loan basis citing reasons of urgency. The procurement of 4.70 lakh MT wheat was completed on 31 May 2005 and 18,772 bales were consumed leaving a balance of 7,717 bales which was partly consumed for packing crop procured during khariff marketing season 2005-06 (October 2005-December 2006). The Company returned (October 2005) 2,654 bales to FCI, Raipur. The Company had to bear an expenditure of Rs.15.92 lakh on account of variation in the cost of gunny bags and Rs.28.72

⁵⁵ 500 bags of 50 Kg capacity.

lakh on railway freight charges, transportation and handling etc on unnecessary procurement of these gunnies.

The Government stated (September 2007) that the need for more gunnies was felt in view of enhanced procurement target of 5.54 lakh MTs which was further revised to 6.05 lakh MTs due to heavy inflow of wheat in the market. The reply is not acceptable as the Company did not furnish the orders of the State Government revising the procurement target to 6.05 lakh MT. However, a review of progress report of wheat procurement revealed that it was only in the progress report of 13 May 2005, the enhanced procurement target of 6.05 lakh MT was indicated for the first time. The Company had, however, already decided (23 April 2005) to borrow gunny bags from FCI.

Thus, the expenditure of Rs.44.64 lakh incurred by the Company on obtaining gunnies on loan from FCI and their subsequent return could have been avoided.

Madhya Pradesh Power Transmission Company Limited

4.12 Blocking of funds

Improper planning in procurement of 160 MVA power transformer resulted in idling of asset valuing Rs.2.76 crore and consequential interest loss of Rs. 68.08 lakh.

For strengthening of transmission system, the Company (erstwhile Madhya Pradesh State Electricity Board) approved (October 2001) the proposal which *inter alia* included erection of one 160 MVA power transformer with the feeder line of 220 KV Bina- Shivpuri line at 220 KV substation at Shivpuri. The Company placed order (September 2002) for supply of 160 MVA power transformer. The 160 MVA power transformer costing Rs.2.76 crore was received (December 2003) at the construction site of the substation at Shivpuri for installation.

It was observed that the transformer was not charged till March 2005 and thereafter it was connected to 132 KV Shivapuri inter-connector line and kept in idle charge⁵⁶ condition. The transformer was charged (January 2007) to 220KV Bina – Shivpuri line when it was completed (January 2007). Thus, by keeping the transformer idle, without reviewing the situation to shift the transformer to any other substations⁵⁷ where similar work was undertaken and completed during the same period, has resulted in blocking up of funds of Rs. 2.76 crore for 37 months and consequential interest loss of Rs.68.08 lakh (interest calculated at the rate of ten *per cent*). Besides, the warranty period of

⁵⁶ *The transformer not charged to full load.*

⁵⁷ *Bhopal, Pandhurna, Mehgaon, Rajgarh, Tikangarh and Dewas*

this transformer has already expired (June 2006) even before its actual commissioning.

The matter was reported (June 2007) to Management/Government; their replies are awaited (October 2007).

Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited

4.13 Undue benefit to contractor

Non recovery of mobilisation advance in time resulted in undue benefit to the contractor and loss of interest of Rs. 44.10 lakh to the Company.

The Company (erstwhile Madhya Pradesh State Electricity Board) placed orders (February/March 2004) on three firms for supply, erection and commissioning of 33 KV and 11 KV conductors and vacuum circuit breakers for augmentation, renovation and construction of new lines in Indore and Ujjain circles at a total cost of Rs.83.17⁴³ crore under Accelerated Power Development and Reforms Programme (APDRP) as per details given below:

(Amount: Rs. in crore)

Name of the firm	Order date	Order value	Supply portion	Work portion	To be completed by
Deepak Cables	19-02-04	21.28	18.58	2.80	February 2005
Larsen and Toubro	25-03-04	35.51	26.29	9.22	March 2005
Crompton Greaves	06-03-04	26.28	22.49	3.78	February 2005
Total		83.17	67.38	15.79	

Source: Data furnished by Management.

The terms and conditions of the orders for supply of equipment provided for payment of 10 *per cent* mobilisation advance on order value, which was to be adjusted proportionally (10 *per cent* of the running bills) from the running bills of the contractors. The Board released (February and March 2004) mobilisation advance amounting to Rs.6.74 crore against these contracts.

It was observed that the works were not completed within the stipulated period and upto that period (February and March 2005), advance of Rs.1.12 crore only could be adjusted against the running bills submitted by the contractors. The Company allowed time beyond schedule due date of completion to Deepak Cables (upto March 2006), Larsen and Toubro (upto June 2007) and Crompton Greaves (upto March 2007). The work in respect of contracts on Deepak Cables and Crompton Greaves was completed (February 2006 and March 2007) but final bills had not been submitted, so far (September 2007).

As on March 2007, against mobilisation advance of Rs.6.74 crore, only Rs.4.44 crore could be recovered (March 2007) from the three contractors.

It was observed that the Company failed to incorporate a suitable clause in the agreement for charging interest on mobilisation advance which could not be recovered by the scheduled completion dates. This fact assumes significance as the Company has been borrowing funds for the projects being executed under APDRP. Non inclusion of such a clause in the agreements resulted in undue favour of Rs.44.10 lakh to the contractors, being the amount of interest⁵⁸ on un-recovered mobilisation advance of Rs.2.30 crore as on March 2007. Further, sanctioning of mobilisation advance did not have the desired result of completion of work in time.

The Government stated (July 2007) that extensions were accorded to the vendors (contractors) whereby the contractual period itself stood extended to that date, and no reason of any interest on mobilisation advance was contemplated during contractual period, as per contract. The reply is not tenable as the Company failed to protect its interest by not including a clause for charging interest on mobilisation advance in case of delay completion of work particularly when the borrowed funds were being utilised in the execution of the projects.

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited.

4.14 Blocking of funds

Decision to keep the partly completed projects in abeyance resulted in blocking of funds of Rs.76.85 lakh with consequential loss of interest of Rs.25.83 lakh.

With a view to solve the voltage problem in the distant areas of Nateran Tehsil, the Company (erstwhile Madhya Pradesh State Electricity Board) took up (April 2002) extension of 33KV lines from Mahaneam chauraha to Satpada hat (20 Kms) and from Sirong to Bhoriya (13 Kms), and installation of 1x3.15MVA, 33/11KV substation at Satpada hat and Bhoriya in Vidisha district. These works were estimated to cost Rs.81.97 lakh and Rs.63.81 lakh respectively. The expenditure was to be met from the funds available under Sub-Transmission (Normal) {ST(N)} scheme funded by the State Government. Line work of 33KV Mahaneam chauraha to Satpada hat was completed and charged (December 2004) with 11 KV feeder from another 33/11 KV substation (Shamshabad) instead of Satpada hat. The sub station

⁵⁸ *Being the average rate of interest (10 per cent) on loan received by the Company under APDRP Schemes.*

work at Satpada hat remained incomplete, as the transformer costing Rs.26.82 lakh was not made available by the Company for installation. The line work and the substation on Sirong-Bhoriya line was not completed for want of conductors and substation material to be supplied by the Company. The expenditure incurred on both the works was Rs.76.85 lakh as on May 2005.

It was noticed that while the execution of above two works was incomplete, the Company decided (September 2005) to keep both the works in abeyance as the material required for these works were not available under ST (N) scheme. However, no action was taken by the Company either for ensuring availability of funds from the State Government or for providing funds from their own budget to complete the two works (September 2007). Thus, injudicious decision of the Company to keep the work in abeyance after incurring huge sum resulted in blocking of Rs.76.85 lakh with the consequential loss of interest of Rs.25.83 lakh (September 2007).

The matter was reported (May 2007) to the Management/Government; their replies are awaited (October 2007).

Madhya Pradesh Power Generating Company Limited

4.15 Infructuous expenditure on maintenance of road

Failure to take timely action to transfer Damua-Sarni road to PWD resulted in infructuous expenditure of Rs. 1.32 crore on its maintenance.

The PWD leased out (November 1992) the Damua-Sarni road to the Company (erstwhile Madhya Pradesh State Electricity Board) on nominal lease rent of rupee one per year for 30 years to facilitate transportation of coal by the Company for Satpura Thermal Power Station. The road was to be kept open for use by general public also. The road was to be maintained by the Company at its own cost. The Company stopped transporting coal through this road after the year 2000. Since then the road was being used for public transport only.

It was observed that the Company did not take any action upto August 2004 to transfer the road to the PWD and continued to incur expenditure on its maintenance. An amount of Rs.1.32 crore was incurred during 2000-01 to 2004-05. Thereafter the Company stopped maintenance of the road. Though the PWD agreed (June 2005) in principle to take back the road, but the road has not been surrendered so far (September 2007). Thus, failure of the Company to take timely action to transfer the road and stop incurring expenditure on its maintenance immediately after stopping its use has resulted in infructuous expenditure of Rs.1.32 crore.

The Management stated (June 2007) that the expenditure incurred towards the maintenance of road was as per the terms and conditions of transfer of road on lease from the PWD wherein the responsibility rested on the lease-holder (Company) to keep the road motorable till it was not transferred back to the PWD. The reply is not tenable as the matter for short closure of the lease period or for transfer of road was not taken up immediately with the PWD after stoppage of use of the road by the Company.

The matter was reported (May 2007) to the Government; their reply is awaited (October 2007).

4.16 Extra expenditure

Failure of the Company to include the additional quantity as per the revised indent in the original order resulted in extra expenditure of Rs.47.83 lakh on purchase of admiralty brass condensed tubes.

The Company invited (July 2004) open tenders in two bid system for procurement of 25000 Admiralty Brass Condenser tubes for Power House I, of Satpura Thermal Power Station, Sarni against an indent from the Chief Engineer, Sarni (indenter). While the bids were under process, the indenter enhanced (August 2004) the requirement to 30,000 tubes. The Company placed (March 2005) purchase order on Cubex Tubings, being the lowest bidder, for 25,000 (1,40,000 Kgs⁵⁹) tubes without including the additional requirement of 5000 tubes, at variable price of Rs.257.86 per kg (inclusive of ED, ST and freight). The reasons for non inclusion of additional requirement was not on records. The material was received between May and October 2005.

Scrutiny in audit revealed that the same indenter again indented (January 2006) 10000 tubes which was increased (February 2006) to 15000 tubes. It indicates that there was a requirement of additional 5000 tubes in March 2005. The Company placed (May 2006) another order on the same firm, after inviting snap⁶⁰ offers, on lowest offer basis of variable price of Rs. 416.73 per kg. for 15000 tubes. Thus, the failure of the Company to include the additional requirement of 5000 tubes intimated in August 2004, for purchase in the original order (March 2005) resulted in extra expenditure of Rs.47.83 lakh, after adjusting the escalation payable under the contract.

The Management stated (June 2007) that at the time of processing the purchase, the matter was discussed with the indenter and accordingly action was taken for purchase of 25000 tubes only. Further, there was no loss to the

⁵⁹ Weight of one tube is 5.6 Kg.

⁶⁰ Process of calling price bid from all firms which participated in earlier tender.

Company because inventory of 5000 tubes was avoided. The reply is not tenable as nothing was available on record to show that such a discussion for reduction in indent was made with the indenter.

The matter was reported (May 2007) to the Government; their reply is awaited (October 2007).

General

4.17 Persistent non-compliance with Accounting Standards in preparation of Financial Statements by Public Sector Undertakings

Accounting Standards (AS) are the acceptable standards of accounting recommended by the Institute of Chartered Accountants of India (ICAI) and prescribed by the Central Government under section 211 (3C) of the Companies Act, 1956 (Act) in consultation with National Advisory Committee on Accounting Standards, constituted under section 210 A(1) of the Act. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the financial statements prepared exhibit a true and fair view of the transactions. This also facilitates the comparability of the information contained in published financial statements of companies. Section 211 (3A) of the Act also makes it obligatory for every company to prepare the financial statements (profit and loss and balance sheet) in accordance with the AS.

Under Section 227 (3)(d) of the Companies Act 1956, it was made obligatory for the Statutory Auditors of companies, to report and ensure that the financial statements comply with the AS issued by ICAI.

A review of the financial statements and Statutory Auditors' Report there on in respect of 23 working companies/corporations in the State revealed that the companies did not comply with AS while finalising their financial statements (*Annexure - 25*). The details of AS, being violated by large number of companies, are discussed below:

- Five companies (Sl.No.2,3,5,6 and 14 of the Annexure) violated AS-1 regarding non-disclosure of accounting policies pertaining to fundamental accounting assumptions.
- Five companies (Sl.No.1,10,14,19 and 20 of the Annexure) did not follow AS-2 regarding declaration of procedure to be adopted for valuation of inventories, which may have its impact on the profit/losses as depicted in the accounts.

- Four companies (Sl.No.8,13,16 and 17 of the Annexure) did not comply with AS-3 regarding non preparation of cash flow statements in the accounts.
- Three companies (Sl No. 2,3 and 14 of the Annexure) did not comply with the AS-5 which deals with depiction of 'prior period items'.
- Eight companies (Sl.No.1,2,3,4,5,10,14 and 19 of the Annexure) have violated AS-9 regarding recognition of revenue in profit/loss accounts meaning thereby inflow of cash receivable or other consideration arising in the course of ordinary activities of the enterprise.
- Five companies (Sl.No.1,4,8,14 and 19 of the Annexure) have not complied with AS-10 which lays the directions for accounting of fixed assets. Non compliance affects the Assets (Balance Sheet) and profit/losses in the ordinary course of the business of the company.
- Four companies/corporations (Sl.No. 4,7,14 and 22 of the Annexure) have ignored AS-12 regarding treatment of grants received from the Government etc. which shall have consequent effect on the treatment of assets in the accounts.
- Seven companies (Sl.No. 7,9,10,13,14,15, and 19 of the Annexure) did not comply with the provisions of the AS-13 which deals with the disclosure of status of the investments.
- Nineteen companies/corporations (Sl.No. 2,4,5,6,7,8,9,10,11,12, 13,14, 15, 16,18,19,21,22 and 23 of the Annexure) have persistently violated AS-15 (for 46 times) which deals with accounting for retirement benefits to employees (viz. Provident Fund, Pension, Gratuity, Leave Encashment, etc.). The AS provides that the contribution payable by the employer towards retirement benefits be charged to Statement of Profit and Loss for the year on accrual basis and the liability thus accrued calculated according to actuarial valuation.
- Eleven companies/corporations (Sl.No.1,4,6,11,12,13,14,15,16,18 and 19 of the Annexure) did not comply with AS-22 regarding accounting of taxes on income. The non-accounting of taxes on income may have affected the profit/ loss of the company/corporation, which in turn shall affect the true and fair view of the accounts as well.

The matter was reported (May 2007) to the Management of 23 companies/Government; only nine companies responded. Of these nine companies, five companies (Sl.No.5,6,12,16 and 22 of the Annexure) accepted the violation and committed to follow AS from 2006-07 onwards. Four

companies (Sl. No. 3,9,10 and 23 of the Annexure) accepted the fact without any further commitment.

Follow-up action on Audit Reports

4.18 Explanatory notes outstanding

4.18.1 The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices of Public Sector Undertakings and Departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Chief Secretary, Government of Madhya Pradesh had issued instructions (November 1994) to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on the paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertaking (COPU).

The Audit Reports for the years 2003-04, 2004-05 and 2005-06 were presented to the State Legislature in August 2005, March 2006 and March 2007 respectively. The position of paragraphs for which explanatory notes were not received upto September 2007 is indicated in the table below:

Year of Audit Report (Commercial)	Total number of paragraphs/reviews in the Audit Report	Number of paragraphs/reviews for which explanatory notes were not received
2003-04	73	02
2004-05	138	113
2005-06	109	109
Total	320	224

Department-wise analysis is given in the *Annexure-26*.

Compliance to the Reports of Committee on Public Undertakings (COPU)

4.18.2 The replies to recommendations of the Committee on Public Undertakings (COPU) as contained in its Reports are required to be furnished within six months from the date of presentation of the Report by the COPU to the State Legislature. Replies to recommendations pertaining to 111 paragraphs included in 28 Reports of COPU presented to the State Legislature between April 2002 and March 2007 had not been furnished by the concerned departments of the State Government as on October 2007 as indicated below:

Year of COPU Report	Total number of Reports involved	Number of paragraphs in respect of which replies were not received
2002-03	04	37
2003-04	05	04
2004-05	01	01
2005-06	09	35
2006-07	09	34
Total	28	111

Response to Inspection Reports, Draft Paragraphs and Reviews

4.19 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the PSUs and the administrative departments concerned of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of administrative departments within a period of six weeks. Inspection reports issued up to March 2007 pertaining to 28 PSUs showed that 5,337 paragraphs relating to 2,053 inspection reports remained outstanding at the end of September 2007. Of these, 1,942 inspection reports containing 4,888 paragraphs had not been replied to for one to 20 years. Department-wise breakup of inspection reports and audit observations outstanding as on 30 September 2007 is given in *Annexure-27*.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, noticed that replies to two reviews and 14 draft paragraphs forwarded to various departments between May 2007 to August 2007 as detailed in *Annexure-28*, had not been replied so far(October 2007)..

It is recommended that the Government should ensure that: (a) procedure exists for action against the officials who fail to send replies to inspection Reports/ draft paragraphs/reviews as per the prescribed time schedule;

(b) action is taken to recover loss/outstanding advances/overpayments in a time bound schedule; and (c) the system of responding to audit observations is to be revamped.

**Gwalior
The**

**(Sanat Kumar Mishra)
Principal Accountant General
(Civil and Commercial Audit)
Madhya Pradesh**

Countersigned

**New Delhi
The**

**(Vijayendra N. Kaul)
Comptroller and Auditor General of India**