

CHAPTER III

Transaction Audit Observations

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

Government companies

Madhya Pradesh Audhyogik Kendra Vikas Nigam (Bhopal) Limited

3.1 Avoidable loss due to under insurance

The Company's failure to include individual value of assets in the lease Agreement resulted in under-insurance by the lessee and consequential avoidable loss of ₹ 74.67 lakh.

Madhya Pradesh Audhyogik Kendra Vikas Nigam (Bhopal) Limited (Company) commissioned (February 2007) a Food Processing Park at Pipariya in Hoshangabad District. It consisted of Cold Storage Plant, Ice Plant and Warehouse at total cost of ₹ 2.93 crore. The Building, Cold Storage Plant and Ice Plant was leased (9 October 2007) to M/s. Big India Farms Limited (firm) at annual lease rent of ₹ 10.50 lakh. As per the lease agreement, the firm had to insure the Buildings, Cold Storage and Ice Plant at its own cost in the joint name of the firm and the Company. But the Company failed to indicate the individual value of Buildings (₹ 1.75 crore), Cold Storage Plant (₹ 92.21 lakh) and Ice plant (₹ 26.37 lakh) in the lease agreement. Thus, the firm insured (31 October 2007) the Buildings for ₹ 1.10 crore and Plant and Machineries for ₹ 1.10 crore with New India Insurance Company Limited from 31 October 2007 based on the value determined by a private valuer in October 2007.

A fire accident occurred on 26 February 2008, which caused extensive damages to the Buildings, Cold storage Plant and Ice Plant. Since the Buildings and Plant and Machineries were insured for ₹ 1.10 crore each, the surveyor concluded the under-insurance in Buildings as 53.84³³ per cent. Finally, the loss for Buildings and Plants (Cold storage and Ice plants) was assessed at ₹ 1.78 crore and ₹ 12.97 lakh respectively. After deducting salvage value, under-insurance, short circuited cable cost and policy excess, the surveyor worked out the net loss as ₹ 76.22 lakh and this was finally settled (April 2009) as full claim by the Insurance Company.

³³ $(₹ 238.19 \text{ lakh} - ₹ 110 \text{ lakh}) / ₹ 238.19 \text{ lakh} = 53.84 \text{ per cent.}$

We observed (July 2010) that the failure of the Company to include the individual value of Building, cold storage plant and ice plant in the lease agreement resulted in under-insurance by the lessee and consequential avoidable loss of ₹ 74.67 lakh. Further, the firm took the insurance cover in its own name only without inclusion of name of the Company. Thus, the Company not only failed to indicate the separate costs for Buildings and individual Plants but also failed to ensure that the insurance cover is taken in the joint name with Company being made a beneficiary for the same.

The Company stated (July 2010/September 2011) that the settlement was received in protest and an appeal was pending with the Consumer Disputes Redressal Commission (Commission). However, we observed that the Commission dismissed (October 2010) the appeal and further the Honorable Supreme Court had also rejected the further appeal in the matter (February 2011) on the ground that since the insurance cover was not taken in the joint name of the firm and the Company, the claim of the Company was not maintainable.

Had the Company incorporated correct individual cost of building, cold storage plant and ice plant in the lease agreement and also taken the insurance cover jointly in the name of lessee and the Company, the loss of insurance cover to the extent of ₹ 74.67 lakh could have been avoided.

The matter is referred to Government in May 2011 and its reply is awaited.

Madhya Pradesh Audyogik Kendra Vikas Nigam (Rewa) Limited

3.2 Loss of revenue

Failure to charge transfer fee of 100 per cent of land premium as per existing rules applicable on the date of transfer of land resulted in loss of revenue of ₹ 4.12 crore.

Madhya Pradesh Audyogik Kendra Vikas Nigam (Rewa) Limited (Company) is the subsidiary of Madhya Pradesh State Industrial Development Corporation Limited and is responsible for development of industrial infrastructure in the areas within its jurisdiction. As per the orders of the State Government issued at the time of its formation (1981), the Company is vested with powers for allotment of land for industrial purpose by charging the premium, lease rent, etc. as per the rates fixed by State Government from time to time. As per Madhya Pradesh Industrial (Shed, Plot, Land) Allotment Rules 1974, the plots and sheds are transferrable between parties on payment of transfer fee, being percentage of premium fixed by State Government from time to time. The

above rules were amended (April 1999) and transfer fee was enhanced to 100 *per cent* of the premium.

For establishing cement Plant in Rampur, the Company leased (June 1986) 103.1 hectare (ha) of land to M/s JK synthetics (firm) at a premium of ₹ 4.39 lakh with an annual lease rent of ₹ 100 per ha. Though the firm paid the annual lease rent regularly from 1986 to 2006, it requested (April 2006) to transfer the land in favour of M/s Jay Prakash Associates.

We observed (November 2010) that the Company approved (July 2006) the transfer of land to Jay Prakash Associates on payment of transfer fee at the concessional rate of 20 *per cent* of prevailing land premium of ₹ 5 lakh per ha, without taking cognizance of the State Government's Order (April 1999) of charging transfer fee at 100 *per cent* of land premium on transfer of land. The lease agreement for the same was executed on 17 July 2006 with Jay Prakash Associates.

We observed that the transfer of land to Jay Prakash Associates at concessional rates was in contravention of the State Government's Order not only resulted in revenue loss of ₹ 4.12 crore³⁴ but also undue benefit to a private party.

The Company replied (September 2011) that no industrial unit was ready to take over the land. It was further stated that considering the MP Shed Allotment Rules 1974, 20 *per cent* land premium on transfer was approved by their Board (July 2006) and added that the objective of the Company was not to maximize profits.

The Company should have charged land premium at hundred *per cent* as per Madhya Pradesh Government amendment order (1 April 1999) and against total land premium of ₹ 5.15 crore (103.1 ha* ₹ 5 lakh per ha) realizable, only ₹ 1.03 crore was realized and ₹ 4.12 crore was foregone.

The matter was reported (5 May 2011) to the Government and its reply awaited.

³⁴ 103.1 ha* ₹ 4 lakh (i.e. prevailing land premium ₹ 5 lakh per ha less concessional rate of ₹ 1 lakh). = ₹ 4.12 crore

Madhya Pradesh Laghu Udyog Nigam Limited

3.3 Extra expenditure

The Company failed to invoke fall price clause of the agreement to reduce the procurement rate of alumina ferric resulting in extra expenditure of ₹ 1.53 crore to the exchequer.

The Madhya Pradesh Laghu Udyog Nigam Limited (Company) is an agency of the State Government for finalizing the rate contracts for reserved items³⁵. The indents for use of reserved items in various departments of the State Government are received by the Company and it arranges the supply of these items based on the rate contracts entered with it. The rate contracts are valid for one year and the commission at the rate of two *per cent* is receivable directly by the Company on sales made through it. The finalized rates are circulated among the departments for making payments to the suppliers.

The rate for Alumina ferric was finalized at ₹ 3,092 per ton with effect from 16 August 2007. However, during the currency of the rate contract, the rates were revised to ₹ 4,500 per ton from 29 November 2007 and further to ₹ 5,000 from 11 February 2008 which remained valid upto 15 August 2008. Subsequently, the new rate contract was finalised at ₹ 8,404 per ton valid for one year with effect from 25 August 2008. Even though the quoted rates were much higher than the previous tender, the company accepted the rate (₹ 8,404) as reasonable considering the prevailing rates for raw materials, viz. sulphuric acid and bauxite.

We observed (August 2010) that the Company failed to ascertain the prevailing rates of alumina ferric from Directorate General of Supplies & Disposal (DGS&D). DGS&D had fixed the rate at ₹ 4,080 per ton in August 2008. We further observed that though the Company was aware that chemical export of one of the raw material viz., sulphuric acid was banned by China and the raw material prices were volatile due to Olympic games (being a temporary phenomenon) it failed to negotiate with the lowest bidder for reduction in quoted rate from ₹ 8,404 per ton. Moreover, the 'fall price clause' of the tender document clearly specified that the prices charged by the bidder should in no event exceed the price offered to any other person/ party/ State Government/ DGS&D/ Public undertaking during the period of the contract. It was further provided in the said clause that if the bidder offered lower price in such contract to any other person/ party/ State Government/ DGS&D/ Public undertaking, such lower rate shall be applied in this contract. We observed that though the DGS&D had finalized the rate of ₹ 4,368 per ton

³⁵ 149 items manufactured by Small Scale Industrial units of Madhya Pradesh were classified as reserved items in the Stores Purchase Rules 1995 (SPR) and these were stipulated to be purchased through the Company.

for alumina ferric in February 2009, the Company failed to invoke the fall price clause for downward revision of rates from March 2009.

The Company invoked the clause for increasing the rate from ₹ 3,092 to ₹ 4,500 and further to ₹ 5,000 during the previous rate contract (November 2007 and February 2008) on the plea of rise in the price of raw materials but failed to invoke the same when the decrease of prices of raw materials was noticed. Thus, failure of the Company to decrease the rate of Alumina ferric from ₹ 8,404 to ₹ 4,368 per ton from March 2009 by invoking the fall price clause resulted in avoidable expenditure of ₹ 1.53 crore to the State Exchequer.

The Company replied (26 March 2011) that there was an unprecedented rise in sulphur rate at the time of finalizing the rate (August 2008). The Company accepted the availability of fall clause in the tender conditions. The Company remained silent for not invoking the fall clause.

Thus the Company failed to invoke Clause 33.1 of the tender for revising the alumina ferric rate to ₹ 4,368 per ton from March 2009 resulting in avoidable expenditure of ₹ 1.53 crore to the exchequer.

The company should incorporate price variation clause in future tenders to avoid extra expenditure to the exchequer.

The matter was referred to the Government in May 2011 and reply is awaited.

SEZ Indore Limited and Madhya Pradesh Police Housing Corporation Limited

3.4 Avoidable payment of Interest

Non-filing of Annual income tax return and shortfall in remittance of Advance Income tax resulted in avoidable payment of interest of ₹ 99.25 lakh (SEZ) and ₹ 37.85 lakh (MPPHC)

Under the provision of Section 139 and 140 A of Income Tax Act, 1961, every Company, at the close of each financial year, must assess its tax liability for the year, adjust both advance tax paid and tax deducted at source and deposit balance tax payable on self assessment and file returns within 30 September of the assessment year. Further as per Section 208 of the Income Tax Act 1961, it is obligatory for a company to pay Advance Income Tax (AIT) in four quarterly installments³⁶ during the financial year. As per section 234 A of the Act, simple interest at one *percent* per month is payable in case of default in furnishing return on income. As per section 234 B of the Act, simple interest at one *percent* per month is payable on the amount of shortfall in assessed tax, if the advance tax paid fall short by more than ten *percent* of the assessed tax

³⁶ on or before 15 June, 15 September, 15 October and 15 March .

and as per section 234 C, simple interest is payable in case of deferment in payment of Advance income tax on due dates.

We observed (April 2011) that SEZ Indore Limited failed to file the Income Tax Returns for the Assessment Years 2007-08 and 2008-09 till date (June 2011). Further, there was shortfall in payment of Advance Income Tax (AIT) besides deferment in payment of AIT. Due to the above irregularities, SEZ paid interest of ₹ 99.25 lakh towards non-filing of return in time under Section 234 A (₹ 41.74 lakh), shortfall in payment of AIT under Section 234 B (₹ 50.50 lakh) and deferment of payment of AIT under section 234 C (₹ 7.01 lakh). The Company remitted Income Tax along with interest only on 20 February 2010 and 27 May 2011 for these Assessment years respectively. This resulted in payment of interest of ₹ 99.25 lakh, which could have been avoided by timely paying the quarterly installments of AIT and by filing the IT returns on due dates as per the provisions of the Act.

The Company replied (June 2011) those Annual Accounts for last few years were being finalised together and there were difficulties in ascertaining profit for the respective years and on finalization of accounts, tax obligation would be fulfilled. The primary duties of management is to ascertain the profit for respective years, estimation and payment of advance tax on their due dates and it should have been completed in time even without finalizing the Annual Accounts. Had the company remitted Advance Tax on due dates and filed Income Tax Return on due dates during these years, it could have avoided payment of interest of ₹ 99.25 lakh.

Similarly, it was observed (November 2010) in respect of the Madhya Pradesh Police Housing Corporation Limited that the Company did not remit the quarterly advance tax payable on 15 June and 15 September during the years from 2007-08 to 2009-10. As a result, it paid interest of ₹ 37.85 lakh under Section 234 B of the Act. Payment of interest could have been avoided had the Company correctly estimated the liability and remitted AIT on due dates.

The Company replied (April 2011) that due to inadequacy of trained staff, finalization of accounts was in arrears and thus income tax liability could not be estimated exactly in advance. It also stated that the dates of completion of civil works were spread beyond the financial year and thus it was not possible to assess the surplus income generated at various stages of construction during the financial year. The Company further contented that by depositing the available money under fixed deposits, they earned interest. The interest paid on delayed payment of income tax was paid out of interest earned on fixed deposits. The estimation of income tax for every financial year is a primary duty of the management and spreading of project completion over different financial years is a normal phenomenon in a business entity. Even in those cases, the Tax payable can be fairly estimated on the basis of stages of completion of work. Further, the Company's contention of interest earned on fixed deposit due to delayed payment of income tax does not appear to hold good since the funds lying in current account balances were much more than

the liabilities towards income tax payment. The amount available under current accounts during the corresponding quarters could have been used for payment of advance tax. Thus due to incorrect estimation of income tax liability and default in payment of quarterly advance tax installments resulted in avoidable expenditure of ₹ 37.85 lakh.

In order to avoid payment of interest on delayed filing of return and delayed payment of quarterly AIT installments, the Company should file return and remit AIT on due dates.

The matter was reported to Government (26 April 2011) and its reply is awaited.

Madhya Pradesh Power Transmission Company Limited

3.5 Non- recovery of dues

Delay in submission of compensation claims to insurance company for recovery of cost of shortage of material within the validity period of insurance cover resulted in loss of ₹ 92.35 lakh

(a) The Madhya Pradesh Power Transmission Company Limited (Company)³⁷ placed an order (October 2005) on M/s Tejinder Singh, Jabalpur for erection of 132 KV Baansagar PH IV – Amarpatan Double Circuit Single Stringing (DCSS) line at the cost of ₹ 1.48 crore with scheduled date of completion as 19 August 2006. As per the terms and conditions of the contract, the contractor obtained an insurance cover jointly in the name of Company and Contractor to cover risks relating to issue of materials by the Company for the period upto 28 October 2009. The Company issued (December 2005 to March 2009) various line materials to the contractor.

The progress of the work was very slow and after issue of several notices, the contractor completed work of tower erection (53 out of 236) and stringing (Nil) as on 19 August 2006. Though the Company granted extension of time upto February 2008 and subsequent assurance given by contractor to complete the work by March 2009, the contractor failed to complete the work. The balance work valuing ₹ 16.37 lakh was withdrawn (April 2009) from the contractor and was completed by the Company at the risk and cost of the contractor in November 2009. The Company claimed (April 2010) ₹ 42.06 lakh from the contractor. The break-up details of ₹ 42.06 lakh revealed that ₹ 31.48 lakh related to shortage of materials found at the time of taking of the possession of site in August 2009 from the contractor and the balance towards additional cost incurred for completing the balance works. The company failed to claim the value of shortage of materials from insurance company within

³⁷ *Erstwhile the work was done by the Madhya Pradesh State Electricity Board, Jabalpur.*

validity period of insurance cover i.e. 28 October 2009. The Company adjusted the security deposit of ₹ 5 lakh (August 2010) against the dues. Even though the Company decided (12 June 2009) to file civil suit against the contractor for recovery of dues, the company failed to do so. As the amount of ₹ 37.06 lakh was yet to be settled by the contractor, the company initiated arbitration proceedings in June 2010 which was in progress till June 2011. Failure on the part of the Company to take possession of the left out materials on the site at the time of withdrawal of the contract in April 2009 and prefer the claim for compensation for shortage of material value before expiry of the joint insurance cover by 28 October 2009 resulted in a loss of ₹ 31.48 lakh to the company.

The Company replied (June 2011), contractor did not return balance materials and the Company took possession of materials in August 2009 and at the time reconciliation, the insurance policy was expired on 28 October 2009. The Company added that arbitration proceedings ordered (14 June 2010) against the contractor was under way.

As the Company took possession of materials in August 2009, it had sufficient time to process and prefer the claim for compensation in accordance with the insurance policy before its expiry on 28 October 2009. Failure to do so resulted in loss of ₹ 31.48 lakh.

(b) Similarly, Company placed (December 2005) an order on M/s. Aditya Transmission Ltd, Hyderabad, for erection of 220 KV Birsinghpur – Rewa Transmission line at a revised cost of ₹ 2.97 crore (original contract value ₹ 1.91 crore) with scheduled date of completion in November 2006. In accordance with the terms and conditions of the contract, the contractor took an insurance policy covering the risks relating to the cost of materials jointly it in the name of the Board and the Contractor and hypothecated it in favour of the Board till the completion of the work. The contractor failed to complete the work in spite of several notices issued and left the site (April 2008) without notice. The Company got the balance work completed (October 2008) at the risk and cost of the contractor by incurring additional expenditure of ₹ 20.27 lakh. After adjusting the security deposit of the contractor available with the Company (₹ 9.53 lakh) and pending bills of ₹ 6.58 lakh, the Company claimed ₹ 55.29 lakh from the contractor (September 2009) after a lapse of more than one year after completion of work and the amount is yet to be recovered (November 2011).

We observed (December 2010) that out of ₹ 55.29 lakh, ₹ 46.63 lakh related to material shortage by the contractor. The Company not only failed to ensure the renewal of the insurance policy which expired in October 2007, without an active insurance policy, but also it kept on issuing materials from time to time till April 2008. The Company maintained security deposit of ₹ 9.53 lakh from the Contractor which was insufficient to recover the balance dues from him.

The Company neither reviewed the amount of security deposit so as to increase it sufficiently to cover the material cost nor was it ensured that there exists an insurance cover for adequate amount.

The Company replied (August 2011) that the contractor failed to renew in spite of several requests for renewal of insurance policy. The Company further added that arbitration proceedings are under way (June 2011).

The Company failed to reconcile the materials issued to the contractor at regular interval to ensure that the value of materials left with the contractor is covered by the amount of insurance policy and the security deposit. Failure to do so has resulted in a loss of ₹ 55.29 lakh.

The matter was referred to the Government in March 2011 and its reply is awaited.

Madhya Pradesh Power Trading Company Limited

3.6 Inadequate letter of credit

Inadequate LC collected from Lanco Power Trading Ltd resulted in accumulation of dues of ₹ 78.63 crore.

The Madhya Pradesh Power Trading Company Limited (Company) is responsible for trading of Power on behalf of three Power distribution Companies of the state of Madhya Pradesh. The Company agreed (April 2010) for sale of power to Lanco Power Trading Limited, Gurgaon (Purchaser) on firm basis at the pre-determined rates for the specified contracted quantum of power on monthly basis. As per the agreement between the parties, the Purchaser had to provide weekly revolving letter of credit (LC) equivalent to 30 days of energy billing in favour of the Company and the LC shall be available for all unpaid dues towards energy charges, compensation dues, penalty, open access charges and surcharge. Also if the Purchaser failed to schedule (purchase) 80 *per cent* of energy approved by the Regional Load Despatch Centre on monthly basis, it shall be liable to pay compensation at ₹ 2 per Kilowatt hour (Kwh) for the shortage quantity within 15 days from the date of receipt of invoice. Further, surcharge at the rate of 15 *per cent* could be levied in case of failure to pay the compensation in time for the period of delay.

Our scrutiny (May 2011) revealed that the Purchaser failed to purchase the power as stipulated in the agreement during the period July 2010 to March 2011. Accordingly, the Company claimed compensation on monthly basis aggregating to ₹ 83.63 crore over the corresponding period. Since the Purchaser failed to settle the compensation, the Company claimed (April 2011) a surcharge of ₹ 2.92 crore for 2010-11 and requested them to pay the dues within 15 days otherwise it will take recourse to legal action for recovery of outstanding amount.

We observed (May 2011) that though the Purchaser had provided (October 2010) the LC for ₹ 5 crore only as against the due LC amount for ₹ 65.51 crore (being the energy bill of 30 days of May 2010), the Company continued to supply the power without protecting its financial interest by obtaining the adequate LC in advance. Had the Company taken diligent action by obtaining the requisite LC for ₹ 65.51 crore in time, it could have encashed the same thereby recovering at least 78 per cent of the outstanding dues of ₹ 83.63 crore. It was further observed that in spite of default in settling the amount claimed, no concrete action was taken against the Purchaser and sale of power was continued (June 2011). On being pointed out by Audit in May 2011, the Company encashed (May 2011) the LC of ₹ 5 crore and a petition was also filed (May 2011) before Madhya Pradesh Electricity Regulatory Commission for adjudication on the matter.

The Company accepted (June 2011) the facts and stated that the Purchaser did not provide the requisite LC despite repeated reminders.

However, the fact remains that the Company failed to protect its own financial interests and resulted in the accumulation of dues ₹ 78.63 crore. In order to safeguard the same, the Company should ensure strict adherence to the terms and conditions of the agreement before effecting sale of power.

The matter was reported (July 2011) to the Government and reply is awaited.

Madhya Pradesh State Tourism Development Corporation Limited

3.7 Avoidable expenditure

Despite the poor performance of the marketing agency, the company's action of extending the contract without inclusion a clause for pro-rata reduction in remuneration resulted in avoidable expenditure of ₹ 25.26 lakh.

The Madhya Pradesh State Tourism Development Corporation Ltd (Company) was incorporated (May 1978) for development of tourism in the state. It aimed at providing accommodation to tourists, developing places of tourist interest, providing transport services so as to attract large number of tourists. Accordingly, the company has been operating Hotels in various places of State. After following the due tendering process and further negotiating with the lowest bidder, the Company appointed (November 2007) M/s Solutions (firm) as marketing agency for increasing the business of one of its hotels viz., Hotel Palash Residency in Bhopal initially for six months on payment of ₹ 85,000 per month and it was extended from time to time. As per the agreement, the firm assured to bring monthly business of ₹ 15 lakh to Hotel Palash Residency. The following table indicates the business targets vis-à-vis achievements there-against till March 2011.

Year	Target (in ₹ lakh)	Business actually contributed (in ₹ lakh)	Percentage of achievement	Shortfall in achievement		Remuneration paid (in ₹ lakh)
				Value (in ₹ lakh)	In percentage	
2007-08	75	10.20	13.60	64.80	86.40	4.25
2008-09	180	33.57	18.65	146.43	81.35	10.20
2009-10	180	39.05	21.69	140.95	78.31	10.20
2010-11	72	50.19	69.71	21.81	30.29	10.20
Total	507	133.01	26.23	373.99	73.77	34.25

It may be seen from the above table that as against the targeted business of ₹ 5.07 crore, the firm brought business of only ₹ 1.33 crore (i.e. 26.23 per cent achievement against its target), but the Company paid 100 per cent remuneration as per the agreement.

We observed (January 2011) that since the Company failed to incorporate any penal clauses in the agreement for non-achievement of targeted business or for pro-rata reduction in remuneration payable to the firm for shortfall in achievement of targeted business, the Company paid excess remuneration of ₹ 25.26 lakh as against the pro-rata remuneration of ₹ 8.99 lakh based on its actual achievement. It was further observed that despite the dismal performance of the firm during February to June 2008 by contributing insignificant business of just ₹ 11.51 lakh, the Company extended the agency tenure from July 2008 to March 2011 without any modification in the agency agreement. Had the Company incorporated the pro-rata remuneration clause in the renewed agency agreement with effect from July 2008 to March 2011, an expenditure of ₹ 25.26 lakh from July 2008 to March 2011 could have been avoided.

The Company replied (May/July 2011) that due to heavy business in hotel, the staff were hardly finding time to go out for marketing and they were totally engaged in regular works in hotel itself, thus there was need to extend the marketing agency work. We observed that the business of hotel recorded increasing trend from ₹ 5.20 crore (2008-09) to ₹ 7.65 crore (2009-10) and ₹ 6.57 crore (2010-11) while business contributed by M/s. Solutions was only 6.54, 5.10 and 5.06 per cent of the total income during these years respectively. Failure to incorporate pro-rata remuneration clause in the agreement has resulted in loss of ₹ 25.26 lakh in payment of excess remuneration to the agency.

The matter was reported (4 May 2011) to the Government and its reply awaited.

Bhopal City Link Limited

3.8 Blockage of funds

Investment of ₹ 46.90 lakh in Passenger Information System (PIS) units is lying idle since February 2009 due to non-commissioning of BRTS corridor.

Bhopal City Link Ltd (Company) was incorporated to establish and maintain public transport system in the city of Bhopal. With the objective of operation of city buses in an efficient manner and to monitor the bus operation from a central control room, the Company placed (4 November 2006) an order for ₹ 59.58 lakh on M/s. Arya Omnitalk Wireless Solutions (firm) for supply of 48 numbers of Global Positioning System based Vehicle Tracking Units (Bus Units), 100 numbers of Bus Stop Passenger Information System (PIS) and setting up of a central control room and integrating/ interfacing these Bus Units/ PIS for use under Bus Rapid Transit System (BRTS). Though the contract was stipulated to be completed by 4 January 2007, 100 PIS Units and 39 Bus units were received between February and March 2007 and monitoring system report was generated on 1 February 2008. The Company paid ₹ 46.90 lakh between February 2007 to February 2009 towards 100 PIS Units and payment of ₹ 7.40 lakh towards 39 Bus units was met from Jawaharlal Nehru Urban Renewal Mission (JNNURM) Project.

We observed (April 2010) that while the Company installed (March 2007) all 39 Bus Units, it installed (March 2007) only 23 PIS units. It was further observed that even these 23 PIS Units were not working since January 2008. As the balance 77 PIS were never installed, all the 100 PIS Units were lying idle resulting in blockage of funds of ₹ 46.90 lakh from February 2009. It was noticed that though the Company was aware that these PIS Units could be utilized for passenger information only on completion of the BRTS Project which was scheduled for completion only by September 2011, these were procured four years ahead of schedule thereby leading to blockage of funds.

The Company stated (29 April 2010) that the PIS procured for operation of buses under BRTS Project of JNNURM scheme, would be put to use on commissioning of BRTS. The Company anticipated (19 May 2011) that the BRTS Project would be completed by 9 September 2011. Thus the Company admitted the procurement of PIS four years in advance of commissioning of BRTS.

The Company's failure to synchronise the purchase of PIS units with the completion of BRTS Project resulted in blockage of funds of ₹ 46.90 lakh from February 2009.

The matter was reported to the Government (8 April 2011) and its reply is awaited.

Statutory Corporation

Madhya Pradesh Road Transport Corporation

3.9 Loss of revenue on discontinuance of Inter-State Buses

The operation of inter-state bus services by contractors' buses were discontinued despite its profitability resulting in net revenue loss of ₹ 2.08 crore

Madhya Pradesh Road Transport Corporation (Corporation) was incorporated for operation of bus services both within the state and outside the state. Due to recurring losses, the Corporation discontinued operation of its own buses since 2005 and allowed (13 June 2005) private buses to be operated in the name of the Corporation. Under the above arrangement, the vehicles of the private operators were registered with transport authorities of the State Government in the name of the Corporation and were allowed to obtain bus permits. Besides bearing all expenses of operation, the operators had to pay administrative charges at ₹ 3 per route km to the Corporation. The number of bus services operated during 2008-09, 2009-10 and 2010-11 (upto August 2010) were 681, 195 and 174 with respective revenue earnings of ₹ 15.04 crore, ₹ 7.11 crore and ₹ 2.74 crore. The Corporation discontinued contractors' bus services within the state in November 2008 and only inter-state bus services were operating from December 2008.

The Government of India rejected (12 November 2009) the proposal initiated in February 2005 for closure of the Corporation and advised the State Government to implement suitable package for restructuring/revival of the Corporation. In reply, the State Government sought (12 January 2010) financial support but it did not consider the profitability of operation of inter-state buses. The Corporation was earning monthly revenue of ₹ 50.30 lakh with monthly expenditure of ₹ 32.13 lakh in August 2010 on operation of inter-state buses. The Corporation failed to take cognizance of these aspects and decided (1 September 2010) to discontinue the operation of inter-state services. The existing agreements with private operators were not renewed beyond their validity. Accordingly, all the service agreements were discontinued from 1 October 2010.

Despite assured monthly income of ₹ 50.30 lakh on operation of interstate buses for meeting out total monthly salaries and wages and other expenditure of ₹ 14.03 lakh in October 2010 with viability/scope for existence, the Corporation discontinued the operation of interstate bus services from 1 October 2010, resulting in net revenue loss of ₹ 2.08 crore during the period from 1 October 2010 to March 2011.

The matter was reported (May 2011) to the Government and its reply is awaited.

General

3.10 Follow-up action on Audit Reports

Explanatory notes outstanding

3.10.1 Report of the Comptroller and Auditor General of India 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).

Though, the Audit Report for the year 2009-10 was presented to the State Legislature on 28 March 2011. Six departments which were commented upon, did not submit explanatory notes on 12 paragraphs/reviews as on 30 September 2011. Department-wise analysis is given in the *Annexure-20*.

Compliance to the Reports of Committee on Public Undertakings

3.10.2 The replies to recommendations of the COPU, as contained in its Reports, are required to be furnished in the form of Action Taken Notes (ATNs) within six months from the date of presentation of the Report by the COPU to the State Legislature. On the basis of recommendations of the COPU, three Action Taken Notes (ATNs) were received during 2010-11.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.10.3 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 four weeks.

Inspection reports issued up to March 2011 pertaining to 37 PSUs showed that 1566 paragraphs relating to 482 inspection reports remained outstanding at the end of September 2011 which had not been replied for one to six years. Department-wise breakup of inspection reports and audit observations outstanding as on 30 September 2011 is given in *Annexure-21*.

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 four weeks. We, however, noticed that replies to two reviews and nine draft paragraphs forwarded to various departments between April 2011 to July 2011 as detailed in **Annexure-22** had not been received (November 2011).

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 revamped.

**Gwalior
The**

**(K.K. Srivastava)
Principal Accountant General
(Civil and Commercial Audit)
Madhya Pradesh**

Countersigned

**New Delhi
The**

**(Vinod Rai)
Comptroller and Auditor General of India**