

## CHAPTER -III

### 3. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government Companies have been included in this Chapter.

#### Chhattisgarh State Beverages Corporation Limited

##### *3.1 Undue benefit to the suppliers of foreign liquor by fixing purchase price on higher side*

**The Company finalised purchase price of foreign liquor for the years 2014-15 and 2015-16 at higher rates in violation of terms and conditions of tender as well as directives of Board of Directors resulting in extension of undue benefit of ₹ 112.87 crore to the suppliers of foreign liquor.**

The Chhattisgarh State Beverages Corporation Limited, Raipur (Company), was established (November 2001) as a wholly owned State Government Company to act as sole licensed wholesale agent to procure, store and sell foreign liquor<sup>1</sup> in the State of Chhattisgarh. For every financial year, the Company invites open tender for registration of suppliers as well as finalisation of rates i.e. purchase price<sup>2</sup> for supply of foreign liquor to the Company. Based on the offers received, the purchase price is approved by the Board of Directors (BoD) of the Company. From the registered Suppliers, the Company procures different brands of foreign liquor, stores the same in its godowns and after adding its margin of 10 *per cent* on the purchase price and applicable taxes and duties etc., the same is then sold to the retailers having permit of the State Excise Department. The retail price (MSP and MRP) at which the foreign liquor is sold to the public is fixed by the State Excise Department.

For the year 2014-15, the Company had finalised (March 2014) purchase price of 462 Brands/labels pertaining to 35 suppliers. Similarly, for the year 2015-16, the Company had finalised (March 2015) purchase price of 512 brands of 39 suppliers.

On scrutiny of records (January 2016) relating to finalisation of purchase price for the years 2014-15 and 2015-16, Audit observed the following:

##### *a) Finalisation of purchase price without obtaining Ex-Distillery Price*

As per clause 5 (a) of the terms and conditions of Rate offer, the suppliers was to submit purchase price with Ex-Distillery Price<sup>3</sup> (EDP) for those products, which they want to sell in State in the prescribed format of “Annexure A” to the tender document. However, none of the suppliers had submitted EDP for the years 2014-15 and 2015-16 because the format of “Annexure A” was not having any column to indicate EDP, though a specific column for submitting

<sup>1</sup> Indian made foreign liquor, foreign made foreign liquor and Beer

<sup>2</sup> The price (Free on Road destination cost) at which the Company receives stock of foreign liquor from suppliers at its godowns

<sup>3</sup> Direct manufacturing cost of foreign liquor at the distillery excluding packing, freight, handling, insurance charges etc.

EDP in the format of “Annexure A” was included upto 2012-13. Obtaining the EDP was important as it helps the Company to ascertain what are the indirect charges after EDP being loaded by the suppliers to arrive at purchase price and whether the same are reasonable or not. In the absence of EDP, Audit could not ensure how the Company assessed the reasonability of rates offered by the suppliers and found that the purchase price was finalised at higher rate as discussed in succeeding paragraph.

The Government stated (December 2016) that the column for providing the EDP was omitted inadvertently from the “Annexure A” of the tender document. The Government further assured that in future tenders, the Company will rectify the mistake by adding column for EDP in the “Annexure A”.

***b) Undue benefit to the suppliers to the tune of ₹ 112.87 crore due to fixation of purchase price at higher rates without assessing the reasonability of rates***

For assessment of reasonability of rates offered by the suppliers, clause 5 (c) of terms and conditions of Rate offer stipulated that the supplier should quote the purchase price of their products on competitive basis keeping in view the prices prevailing in the market. The Supplier shall also mention EDP and rates of their products, which they have quoted in other adjoining States. The purchase price quoted for any label should be reasonable keeping in view the price quoted by the supplier in neighboring States, namely Maharashtra, Madhya Pradesh, Uttar Pradesh, Jharkhand, Odisha and Andhra Pradesh. Further, clause 9 also empowers the Company to enter into negotiation with the suppliers for obtaining competitive and reasonable rates.

Audit observed that for 2014-15, none of the suppliers had submitted their EDP and supply rates for adjoining States. At the time of approval of the purchase price, BoD directed (March 2014) to ensure reasonability of rates through comparative analysis of prevailing rates of foreign liquor in six adjoining States by obtaining rates from these States to fulfill the condition of clause 5 (c) of the Rate offer. Accordingly, the Company obtained rates from adjoining States and prepared a comparative statement which showed that the purchase price quoted by many suppliers for Chhattisgarh State was much higher as compared to rates of adjoining States. Out of total 462 approved brand/labels for 2014-15, the purchase price quoted by suppliers for 106 labels were higher than the supply rates in adjoining states.

Audit observed that though the Company was aware about higher rates quoted by the Suppliers for Chhattisgarh, it did not take any action to get reduced the purchase price through negotiation with the suppliers in accordance with clause 9 of the Rate offer and directions of BoD. Thus fixation of higher purchase price of 106 labels has resulted in undue benefit of ₹ 6.69 crore to the suppliers for the year 2014-15 as detailed in *Annexure - 3.1* which consequently resulted in selling of liquor to the general public of the State at higher rates.

Similarly, for 2015-16 also the suppliers had not submitted EDP and supply rates for adjoining States. The Company, however, simply approved (March 2015) the purchase price of 512 brands/labels at their quoted price without any analysis of reasonability of rates quoted by the suppliers. Though the

management had prepared a comparative statement of purchase prices of adjoining states for comparison purpose for 2015-16 also, however, it did not make use of it and take any action to get the rates reduced. Out of total 512 approved brand/labels for 2015-16, the purchase price quoted by suppliers for 275 labels/brands was much higher than the prevailing rates in adjoining states resulting in extension of undue benefit of ₹ 106.18 crore to the suppliers for 2015-16 as detailed in *Annexure - 3.2*.

Had the Company properly assessed the reasonability of purchase price in 2014-15 itself and taken action against the suppliers for reduction of purchase price at par with adjoining states, this irregularity could have been avoided in succeeding year i.e. 2015-16. Thus during the years 2014-15 and 2015-16, the Company extended undue benefit of ₹ 112.87 crore to the suppliers of IMFL by accepting higher purchase price.

The Secretary, Department of Commercial Tax and Registration, Government of Chhattisgarh during discussion (December 2016) on the para accepted the audit observation and stated that show cause notices were issued on 24 November 2016 to all the suppliers for recovery of ₹ 112.87 crore<sup>4</sup>. The Secretary further stated that action would be taken against these suppliers after verification of their responses.

The fact remains that the Company had not done any analysis of reasonability of rates quoted at appropriate level before accepting the rates in violation of provision of terms & conditions of tender as well as directives of Board of Directors resulting in extension of undue benefit of ₹ 112.87 crore to the suppliers of foreign liquor.

## Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited

### 3.2 Avoidable payment of Income Tax

**The Company made payment for business expenditure of more than ₹ 20000 in cash and also made payments without effecting TDS in violation of provisions of Income Tax Act which led to disallowance of ₹ 6.10 crore business expenditure resulting in payment of extra income tax of ₹ 2.02 crore by the Company.**

As per section 40A (3) of the Income Tax Act 1961 (Income Tax Act), where the assessee incurs any expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque or bank draft, exceeds ₹ 20000<sup>5</sup>, no deduction shall be allowed in respect of such expenditure for the purpose of computing the income chargeable under the head profit and gains of business or profession.

Similarly, as per section 40(a) (ia) of Income Tax Act, any interest, commission, brokerage, rent, royalty, fees for professional services or technical services, any amount payable to a resident contractor shall not be allowed as a deduction in the previous year in which the expenses are incurred, while computing the income chargeable under the head profit and

<sup>4</sup> 2014-15: ₹ 6.69 crore from two suppliers and 2015-16: ₹ 106.18 crore from 19 suppliers

<sup>5</sup> ₹ 35000 where payment is made for plying, leasing or hiring goods carriages

gains of business or profession, if in respect of such expenses, tax has not been deducted at source.

Audit observed (March 2016) that on various occasion the Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited (Company) has made payment of business expenditure (pay and allowance, transportation charges, repair and maintenance, bonus, godown rent, payment to statutory auditors) more than ₹ 20000 in cash and also paid business expenditure without effecting tax deduction at source (TDS) in gross violation of provisions of the Income Tax Act. The Tax Auditor of the Company has been regularly pointing out this irregularity and in spite of this the Deputy General Manager (Finance), who was incharge of the Finance Wing of the Company, has not taken any corrective action to ensure compliance of Income Tax Act while making payment towards business expenditure.

Thus, due to making payment of business expenditure more than ₹ 20000 in cash and making payment without effecting TDS, business expenditure aggregating ₹ 6.10 crore has been disallowed by the Tax Auditor itself while computing total income of the Company for the years 2005-06 to 2012-13. As a result the Company had to pay income tax of ₹ 2.02 crore on such disallowed expenditure which was otherwise avoidable as detailed in the **Table - 3.1**.

**Table - 3.1: Disallowed expenditure and avoidable payment of income tax**

(Amount in ₹)

Financial Year	Payment of business expenditure more than ₹ 20000 in cash, disallowed under section 40A (3) of Income Tax Act	Expenditure disallowed due to not effecting TDS while making payment under section 40(a) (ia) of Income Tax Act	Effective rate of income tax (%)	Avoidable payment of income tax
1	2	3	4	5 (2+3) x Col 4
2005-06	101038	1562580	33.66	559974
2006-07	691411	1894957	33.66	870571
2007-08	353655	5643731	33.99	2038512
2008-09	54263	8176042	33.99	2797481
2009-10	1234552	2507356	33.99	1271875
2010-11	156778	11152832	33.22	3756770
2011-12	2013876	593384	32.45	845926
2012-13	2464689	22390666	32.45	8065563
<b>Total</b>	<b>7070262</b>	<b>53921548</b>		<b>20206670</b>
<b>Grand Total</b>		<b>60991810</b>		

\* Details for 2013-14 to 2015-16 are not available since accounts of the Company are yet to be finalised and tax audit yet to be conducted.

Audit also noticed that the above matter of disallowed expenditure by Tax Auditor was not discussed in the meeting of Board of Directors.

The Management stated (July 2016) that in future the Company would act as per the suggestions of audit in true spirit and for violation of the same, the

officials would be liable for recovery. Further necessary instructions have also been issued (23 July 2016) to all the concerned in this regard.

During discussion (29 December 2016) on audit para, the Joint Secretary, Department of Agriculture stated that DGM (Finance) was the Chief Finance Officer during the period mentioned in the para. However, he may not be held responsible for this irregularity because the main reason for this irregularity was that the accounts of the Company were in arrears and due to this the Company could not monitor the payment status effectively. The Joint Secretary further stated that instructions have been issued to all the field offices of the Company for full compliance of the provisions of Income Tax Act. In case of failure to adhere the above, recovery would be made from the concerned official.

The fact remains that due to not complying with provisions of Income Tax Act while making payment towards business expenditure despite being pointed out by the Tax Auditor, the Company had to pay extra income tax of ₹ 2.02 crore and suffered loss to that extent. Further, regarding arrears of accounts the reply of the Government is also not acceptable because timely preparation of accounts of the Company is also the responsibility of the Finance Wing.

### 3.3 Loss on sale of surplus paddy seed

#### **The Company suffered loss of ₹ 2.18 crore due to lack of proactive marketing strategy for sale of surplus paddy seed.**

The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited (Company) is responsible for supply of adequate quantity of certified seeds of various crops to the farmers as per the requirement intimated by the State Agriculture Department (SAD). If the in house production of certified seed of the Company is not sufficient to meet the requirement of SAD, then the shortfall quantity is procured by the Company through Central/State agencies and registered co-operative societies.

Scrutiny of records revealed (March 2016) that for Kharif 2015 season, the Company received (December 2014) total demand of 6.34 lakh quintal paddy seed of different varieties from SAD against which total 6.90 lakh quintal<sup>6</sup> paddy seed was available with the Company. The Company sold 5.47 lakh quintal seed to the farmers and after revalidation of 0.32 lakh quintal seed for next year use, 1.11 lakh quintal seed remained unsold/surplus. Out of surplus stock, 76872 quintal seed was auctioned by the Company as foodgrain in *Krishi Upaj Mandis* so far (February 2016) at total sale proceed of ₹ 8.77 crore at an average rate of ₹ 1140 per quintal.

Audit observed that the Company was well aware about availability of excess paddy seed over the requirement since beginning (March 2015) when it assessed demand of SAD *vis-a-vis* availability of seeds under production programme and found that it would have surplus quantity of 53220 quintal paddy seed. However, the Company did not take prompt action to market the surplus paddy seed to other seed marketing agencies and first such attempt

<sup>6</sup> In house production - 665755 quintal and procurement from outside agencies - 24523 quintal

was made by the Company only in May 2015 when it offered to sell paddy seed to other seed marketing agencies<sup>7</sup>.

Since almost all the agencies had finalised their seed arrangements by this time, the Company could not sell any quantity to them. The Company subsequently auctioned 76872 quintal surplus paddy seed at an average rate of ₹ 1140 per quintal. Had the Company taken prompt action in March 2015 itself to sell the paddy seed to other agencies when these agencies generally finalise<sup>8</sup> their paddy seed requirement for Kharif season, the surplus quantity could have been sold out at the minimum rate of ₹ 1550 per quintal<sup>9</sup>. This has resulted in minimum<sup>10</sup> loss of ₹ 410 per quintal aggregating ₹ 2.18 crore<sup>11</sup> to the Company on the sale of surplus quantity of 53220 quintal available in March 2015 itself for which no timely action was taken by the Company for its marketing.

Further, the Company had not taken any steps to sell the entire surplus quantity of paddy seed to the Chhattisgarh State Marketing Federation (MARKFED) which procures paddy from the farmers under the Decentralised Procurement Scheme (DCP) of Government of India at Minimum Support Price (MSP) for distribution of rice under Public Distribution System. Since the quality of processed paddy seed is much better than that of normal paddy, the Company should have taken up the matter with State Government to sell surplus paddy seed to MARKFED similar to as was done in case of failed paddy seed for which Government of Chhattisgarh allowed (26 May 2015) farmers to sell their failed seed to MARKFED at MSP.

Thus, the decision of the Company to auction the surplus paddy seed as foodgrain in *Krishi Upaj Mandi* at lower rate of ₹ 1140 per quintal against the prevailing MSP of ₹ 1450 per quintal was not in the best interest of the Company. Had surplus quantity been sold to MARKFED at MSP the Company could have earned more revenue of ₹ 310 per quintal (₹ 1450 - ₹ 1140) than the revenue earned through auction.

The Government stated (November 2016) that there was no demand for paddy seed in other States and hence other agencies had not shown any interest to purchase the same. However, during discussion (December 2016) on the audit para, the Joint Secretary, Department of Agriculture stated that with an objective to develop the State as one of the prime seed exporting States in future, the State Government has directed the Company to ensure export of surplus seeds to other seed marketing agencies.

The reply of the Government regarding no demand of paddy seed in other States is not acceptable because the Company offered to sell the surplus paddy

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<sup>7</sup> National Seed Corporation Limited, Andhra Pradesh State Seed Development Corporation Limited and Madhya Pradesh Rajya Beej Evam Farm Vikas Nigam

<sup>8</sup> For instance, the Directorate of Agriculture, Government of Jharkhand had invited (28 March 2015) tender for procurement of 3.04 lakh quintal paddy seed for its seed distribution programme for Jharkhand. Similarly, The National Seed Corporation also invited (April 2015) tender for procurement of 55000 quintal paddy seed.

<sup>9</sup> Per quintal subsidised rate of paddy seed at which the Company sells it to the farmers

<sup>10</sup> The Company has sold 76872 quintal surplus paddy seed so far at an average rate of ₹ 1140 per quintal. The remaining surplus quantity would fetch further lower amount due to deterioration in quality with passage of time which would decrease the per quintal average rate of realisation and increase the loss. Thus ₹ 2.18 crore is minimum loss.

<sup>11</sup> 53220 quintal X ₹ 410 per quintal



seed belatedly in May 2015 whereas significant demand of paddy seed was there in March and April 2015. For instance, Directorate of Agriculture, Government of Jharkhand and National Seed Corporation Limited invited tenders to procure paddy seed during this period. However, the Company did not take any action to dispose the surplus quantity of paddy seed by participation in these tenders.

Regarding sale of surplus paddy seed to MARKFED, the Joint Secretary appreciated the suggestion of audit to sell the surplus paddy seed to MARKFED at MSP in the same manner as that of failed seed. The Joint Secretary further stated that by selling the same to MARKFED, the losses to State Government will be reduced and best quality rice will be available for State Public Distribution System. The Government directed the Company to submit a suitable proposal for sale of surplus paddy seed to MARKFED through farmers after identifying the concern farmer from seed tags.

## Chhattisgarh State Industrial Development Corporation Limited

### 3.4 Award of work at higher rate

**The Company awarded civil works valuing ₹ 44.40 crore at exorbitant higher rate simply based on two price bids at first call and without assessing the reasonability of rates properly resulting in avoidable extra expenditure of ₹ 5.19 crore.**

The Government of India (GoI) sanctioned (March/August 2015) the infrastructure upgradation<sup>12</sup> scheme for Urla and Sirgitti Industrial Areas of Chhattisgarh State Industrial Development Corporation Limited (Company) under the 'Modified Industrial Infrastructure Upgradation Scheme' (MIUS). The industrial area wise progress of MIUS scheme is discussed in succeeding paragraphs.

#### A. Urla Industrial Area

The Company invited (6 November 2015) online tenders for work of construction of cement concrete roads for strengthening and widening of existing roads along with RCC drain and street light at industrial area Urla under MIUS at a total Schedule of Rates (SoR 2015) value of ₹ 24.89 crore. In response, eight bids were received, of which only three bidders had qualified the technical bids. The price bids of all the three qualified bidders were opened on 31 December 2015 and the bid of M/s Sewa Singh Oberoi & Company was found lowest at 24.03 *per cent* below SOR value.

As the lowest quoted rate was much below the SOR value, the tender committee after examination of price justification furnished by the Contractor as to workability of quoted rate, decided (5 January 2016) to award the work to the contractor after obtaining five *per cent* additional performance guarantee as per clause 22 of the tender condition. Accordingly, the work was awarded (4 February 2016) to M/s Sewasingh Oberoi & Company at their quoted rates of 24.03 *per cent* below SOR at total value of

<sup>12</sup> Upgradation of existing roads, drainage system, water supply system, common facilities etc.

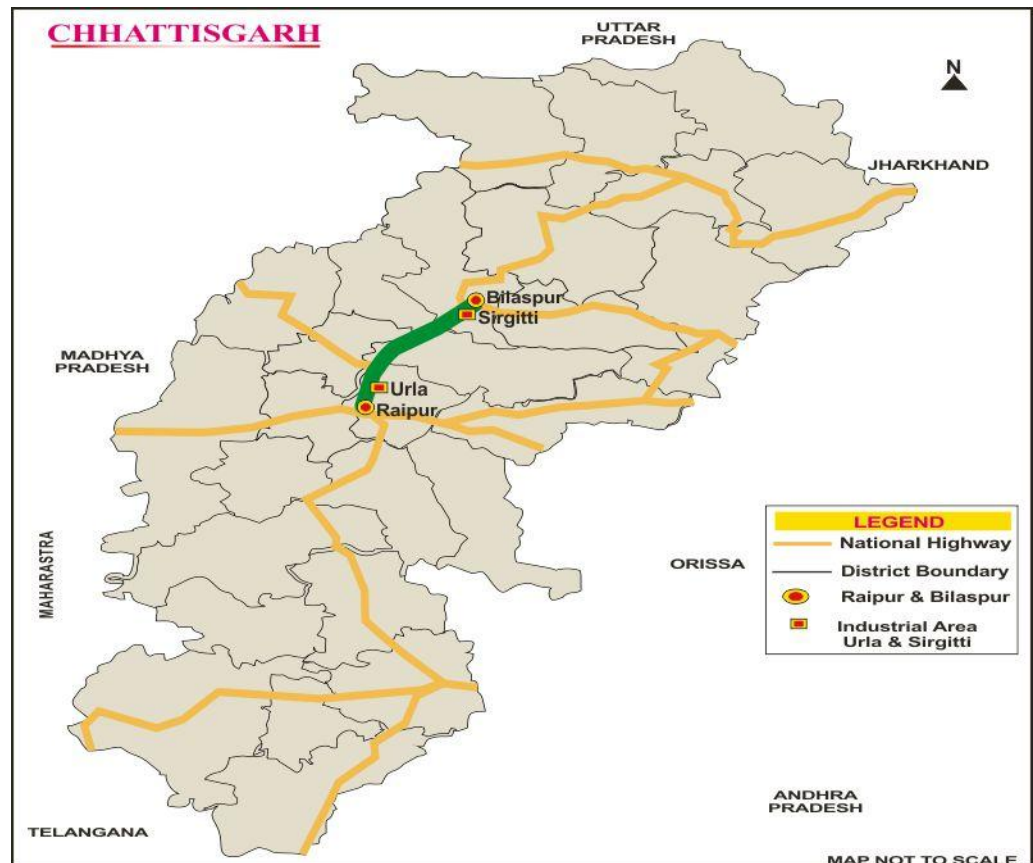
₹ 18.91 crore. The scheduled date of completion is August 2017 and as of 31 March 2016, the contractor has completed work amounting to ₹ 1.51 crore.

### B. Sirgitti Industrial Area

Similarly, the Company invited (3 November 2015) online tender for upgradation of infrastructure i.e. roads, drainage system and water supply in Sirgitti industrial area under MIIUS at a total SOR (SoR 2015) value of ₹ 41.23 crore which was subsequently revised (5 December 2015) to ₹ 44.40 crore. In response, seven bids were received upto the last date (11 January 2016) of submission of bids. On technical evaluation (3 March 2016), five bids were rejected due to not fulfilling the pre-qualifying requirement and only two bids (M/s Raipur Construction Private Limited, Raipur and M/s Aarcons Infrastructure Private Limited, Chhindwara) were found technically qualified. The price bids of both the eligible bidders were opened on 5 March 2016 and the bid of M/s Raipur Construction Private Limited was found lowest at 12.36 per cent below SOR value.

As the lowest quoted rate was below the SOR value, the tender committee decided (15 March 2016) to award the work to M/s Raipur Construction at lowest quoted rate after obtaining five per cent additional performance guarantee as per clause 22 of the tender terms and conditions. Accordingly the work was awarded (May 2016) to M/s Raipur Constructions Private Limited at their quoted rates of 12.36 per cent below SOR at total value of ₹ 38.92 crore with scheduled date of completion within 12 months including rainy season.

Map of Chhattisgarh State showing location of Urla and Sirgitti industrial area and adjacent National Highway 200 is as follows:





Audit observed (May 2016) that during finalisation of tender for Sirgitti industrial area, the Company compared the lowest quoted rates (12.36 *per cent* below SoR) with the rates obtained (6.24 *per cent* below SoR) in upgradation of road<sup>13</sup> work of Public Works Department (PWD) and found the same as reasonable on the ground that the quoted rates were lower than that of PWD work. In this process the Company simply ignored the much lower rates (24.03 *per cent* below SoR) received in simultaneous tender for its Urla industrial area for similar scope of work for assessing the reasonability of rates quoted by the lowest bidder. Since the lowest quoted rate received for Sirgitti at first call with two price bids was much higher (about 12 *per cent*) than the rates finalised by the Company for its Urla industrial area, the Company should have resorted to retendering to get more competitive rates.

Thus, award of work for Sirgitti industrial area at higher rate simply based on two price bids received at first call without assessing the reasonability of rates properly taking into account the lower rates received for Urla industrial area has resulted in avoidable extra expenditure to the tune of ₹ 5.19 crore<sup>14</sup>.

The Government stated (July 2016) that reasonability of rates is assessed on the basis of rates received in similar nature works in near vicinity and thus it is not appropriate to compare the rates with the rates received for Urla industrial area. Accordingly, it had compared the rate received for Sirgitti industrial area with the rate received for work of upgradation of Chnadkhuri-Marosambalpur-Umariya road (ADB project of PWD) and it was found that the rates received was much lower than the rates received for PWD work. The Government further stated that the rates received for Urla industrial area was not workable and that is why it obtained five *per cent* additional performance guarantee from the contractor of Urla industrial area. Further, during discussion (January 2017) on the para the Joint Secretary, Department of Commerce and Industries reiterated the Government reply.

The reply is not acceptable in view of following:

- The rates received for Urla industrial area was well comparable because both the projects (Sirgitti and Urla) are situated on the same National Highway (NH-200) with distance less than 100 km with same scope and specifications. However, at the time of assessment of reasonability of rates of Sirgitti industrial area the Company simply ignored the much lower rates received for Urla industrial area and accepted the lowest quoted rate received for Sirgitti without making any efforts to get the rates reduced.
- The specifications of Chandkhuri-Marosambalpur-Umariya Road (ADB Project) are quite different than that of Sirgitti Industrial area and ADB compliant tendering processes are also complex and hence, both the works are not comparable.
- By stating the rates received for Urla industrial area as unworkable, the Government put serious questions on the Company's tendering process and decision because the work for Urla was awarded after assessing the workability with the approval of Board of Directors of the Company. It is pertinent to mention that the work of Urla industrial area is going on smoothly

<sup>13</sup> Chnadkhuri- Maro- Sambalpur- Nawagarh- Chirha- Umariya road

<sup>14</sup> ₹ 44.40 crore being value of Sirgitti work x ( 24.03 *per cent* below for Urla – 12.36 *per cent* below for Sirgitti)

and as on 31 December 2016, the contractor has completed work valuing ₹ 11.80 crore.

### 3.5 Short assessment of land premium

**The Company had recovered land premium at lower rate resulting in loss of ₹ 75.46 lakh to the Company and extension of undue benefit to a private party.**

The Chhattisgarh State Industrial Development Corporation Limited (Company) allots land to industries within the industrial areas as well as outside the industrial areas. On receipt of application from entrepreneurs for allotment of land outside the industrial areas, the Company acquires Government land through transfer from Revenue Department, Government of Chhattisgarh (GoCG) and private land through Land Acquisition Officer (LAO) i.e. District Collector. For allotment of private land, the Company collects the land premium equal to the amount of land compensation (value of land as per Central Valuation Board Guidelines<sup>15</sup> plus solatium at the rate of 100 per cent and interest at the rate of 12 per cent of the value of the land) awarded by LAO and service charge at the prevailing rate.

Similarly, as per State Government notification of April 1982, the calculation of land premium in respect of Government land allotted to entrepreneurs outside the industrial area is also done in line with the valuation of private land. The Company also collects annual lease rent at the prevailing rate from all the allottees outside the industrial area.

M/s. Salasar Pipes Private Limited (Salasar) applied (25 September 2014) for allotment of land at village Konari, Tilda for setting up of its fly ash products unit. The Company issued (22 January 2015) letter of Intent (LoI) for allotment of 1.9424 hectare land from its land bank<sup>16</sup> at concessional<sup>17</sup> land premium of ₹ 29.14 lakh and lease rent of ₹ 1.46 lakh as detailed in the [Annexure – 3.3](#). The Company issued (12 May 2015) land allotment order and also executed (26 May 2015) lease deed for 99 years.

Audit observed (April 2016) that since the land allotted to M/s Salasar was situated outside the industrial area, as per prevailing CVB guidelines rate, land premium of ₹ 39.07 lakh and annual lease rent of ₹ 1.95 lakh should have been recovered as detailed in [Annexure – 3.4](#). By not recovering land premium as per CVB guidelines rate the Company has suffered loss of ₹ 9.93 lakh towards land premium and ₹ 65.53 lakh towards lease rent over the period of lease of 99 years resulting in extension of undue benefit to the firm to that extent.

The Government stated (November 2016) that the Board of Directors of the Company had fixed (26 June 2009) ₹ 30.00 lakh per hectare as land premium for allotment of land in industrial area, Tilda and land premium has been

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<sup>15</sup> For every financial year, the Central Valuation Board of GoCG fixes the value of different land according to their nature and location

<sup>16</sup> Land Bank means the private as well as Government land acquired outside the industrial area for setting up of industries by the entrepreneurs/industrial area without any delay in getting requisite land.

<sup>17</sup> The fly ash industry comes under the priority sector in industrial policy 2009-14 and thus eligible for 50 per cent rebate on land premium for allotment of land at industrial areas of the Company.

recovered accordingly. The Government further stated that allotted land is unirrigated government land, for which of ₹ 8.20 lakh per hectare would be applicable instead of ₹ 17.25 lakh per hectare for land situated at main road as considered by the audit. Further, during discussion (January 2017) on the para the Joint Secretary, Department of Commerce and Industries reiterated the Government reply.

The reply is not acceptable because Board of Directors had fixed ₹ 30 lakh per hectare as land premium for proposed large industrial area at Tilda which has not yet been setup. In absence of development of large industrial area, the Company started allotting land from its land bank kept for large industrial area. Here it is also pertinent to mention that the Company allotted land to RK Warehousing (February 2015) and Bharat Petroleum Corporation Limited (August 2015) at CVB guidelines rate in the same area. The Government reply regarding applicability of rate for unirrigated land is also not acceptable because the allotted land is also situated at main road, which connect the two villages Nakti and Konari. Therefore the rate of land would be ₹ 17.25 lakh per hectare for land situated at main road as per CVB guidelines.

### Chhattisgarh State Civil Supplies Corporation Limited

#### 3.6 Loss due to failure in recovery of interest

**The Company failed to enforce provisions of MoU for advance payment and incorporate suitable clause in MoU towards penal interest for delayed payment. As a result interest of ₹ 6.18 crore could not be recovered from KFCSCCL causing loss to the Company.**

The Government of Chhattisgarh (GoCG) decided (June 2013) to sell rice to Karnataka Food & Civil Supplies Corporation Limited (KFCSCCL) through the Chhattisgarh State Civil Supplies Corporation Limited (Company). Accordingly, the Company signed (July 2013) Memorandum of Understanding (MoU) with KFCSCCL. As per clause 10 of MoU, KFCSCCL was required to pay the cost of rice and freight charges of each rake in advance to the Company before loading the rice. The Company was to supply 2.25 lakh MT rice between August 2013 and December 2014 as and when indented by the KFCSCCL at the effective rate of ₹ 2290 per quintal<sup>18</sup> excluding railway freight charges, which is to be recovered on actual basis.

Scrutiny of records revealed (September 2014) that KFCSCCL had paid ₹ 45 crore advance once in July 2013 and accordingly the Company has started supplying rice. Subsequently though KFCSCCL had not made advance payment, the Company continued supplying of rice. The Company sold 155715.66 MT rice valuing ₹ 377.75 crore from July 2013 to December 2013, against which KFCSCCL paid ₹ 332 crore between July 2013 and February 2014 and ₹ 45.68 crore in October 2014. As on 30 September 2016, ₹ 6.23 lakh was still outstanding (*Annexure - 3.5*).

Audit observed that despite clear provision of advance payment in MoU, the Company continued to supply the rice without obtaining advance payment from KFCSCCL. It is pertinent to mention that every year the Company avails

<sup>18</sup> Including ₹ 30 per quintal for handling and transportation charges.

loan/cash credit from various financial institutions to make payment towards cost of rice procured by it. Accordingly, the Company should have incorporated a suitable clause in MoU towards penal interest for delayed payment by KFCSCCL. The Company failed to do so and as a result interest on delayed payment could not be recovered from KFCSCCL causing loss to the Company. On being pointed out this by Audit in September 2014, the Company raised (February 2015) demand of ₹ 6.17 crore towards interest on delayed payment at the average rate of interest of 11 *per cent* per annum from KFCSCCL. However, KFCSCCL has not paid the amount so far (December 2016).

Thus, failure of the Incharge of the Finance Department of the Company to ensure receipt of advance payment before supply of rice in violation of MoU provisions and to incorporate suitable clause in MoU for payment of interest on delayed payment by KFCSCCL resulted in no recovery of interest of ₹ 6.18 crore (*Annexure - 3.5*) causing loss to the Company.

The Government stated (November 2016) that correspondence is being made for payment of outstanding amount of ₹ 6.23 lakh along with interest of ₹ 6.17 crore. The Government also stated that If KFCSCCL does not pay outstanding dues, the action would be taken as per the provisions of MoU. Further, during discussion (November 2016) on the audit para, the Secretary, Department of Food, Civil Supplies and Consumer Protection assured that a suitable clause regarding penal interest would be incorporated in future MoUs/agreements. The Secretary also informed that at the time of finalisation of MoU and supply of rice to KFCSCCL, there was no General Manager (Finance) appointed from State Finance Services.

The fact remains that in the absence of enabling clause in MoU, no effective legal action can be taken by the Company to recover interest of ₹ 6.18 crore from KFCSCCL.

### ***3.7 Excess payment of interest***

**Due to lack of proper internal control the Company failed to detect and raise the demand for excess payment of interest of ₹ 2.09 crore made to Madhya Pradesh Civil Supplies Corporation Limited.**

The Chhattisgarh State receives wheat for distribution in Public Distribution System from Food Corporation of India (FCI) on the basis of allotment received from Government of India (GoI). However, as allotment of wheat was not received from GoI for 2014-15, the Government of Chhattisgarh decided (March 2014) to purchase wheat from Madhya Pradesh Civil Supplies Corporation Limited (MPCSCCL). Accordingly, a Memorandum of Understanding (MoU) was signed (June 2014) between the Chhattisgarh State Civil Supplies Corporation Limited (Company) and MPCSCCL. As per MoU, MPCSCCL was to supply two lakh MT wheat to the Company at the rate as decided by GoI and FCI. However, railway freight was to be paid by the Company on actual basis. The Company was to pay the amount in advance to MPCSCCL. Since MPCSCCL had already completed procurement of wheat by April/ May 2014 it was provided in MoU (clause 5) that the Company would pay one month interest upto 31 May 2014 on the cost of two lakh MT wheat to

MPCSCCL at the average rate at which MPCSCCL obtained finances from various banks. From 1 June 2014, the interest was payable by the Company till the date the actual payment was made.

The Company paid ₹ 405 crore in tranches during June 2014 to December 2014 including railway freight of ₹ 19.17 crore to MPCSCCL against which MPCSCCL supplied 199734.575 MT wheat during July 2014 to March 2015. After completion of supply of wheat, MPCSCCL submitted (19 May 2015) actual cost sheet of wheat supplied to the Company.

On scrutiny of cost sheet submitted by MPCSCCL, Audit observed (February 2016) that MPCSCCL had wrongly charged interest for two months i.e. April and May 2014 instead of interest for one month as per clause 5 of MoU. Further, while calculating the interest for subsequent months, the date of payment was not taken correctly by MPCSCCL. The Company paid ₹ 150 crore, ₹ 30 crore and ₹ 40 crore to MPCSCCL on 13 June 2014, 24 July 2014 and 8 October 2014 respectively, but interest was calculated considering the date of payment as 16 June 2014, 25 July 2014 and 14 October 2014 respectively. Due to charging of additional interest for one month and due to wrong calculation of interest by taking wrong/different date of receipt of payment, MPCSCCL had charged excess interest of ₹ 3.97 crore which was accepted by the Company without verification. This has resulted in excess payment of ₹ 3.97 crore to MPCSCCL. On being pointed out (February 2016) by Audit, the Company raised (March 2016) demand of ₹ 3.97 crore on MPCSCCL.

The Government stated (September 2016) that MPCSCCL had recovered interest for two months against interest for one month as per MoU plus additional 15 days interest allowed by GoI in the Cost Sheet of wheat procured by MPCSCCL. Accordingly, MPCSCCL has refunded (17 May 2016) ₹ 2.09 crore towards 15 days excess interest charged and excess interest charged on account of calculation mistake. Further, during discussion (November 2016) on the audit para the Secretary, Department of Food, Civil Supplies and Consumer Protection reiterated the Government reply.

The fact remains that the Company failed to detect from the cost sheet (May 2015) that MPCSCCL had charged excess interest and it raised demand for the same after almost one year in March 2016 only after it was pointed out by Audit (February 2016) which indicates lack of proper scrutiny/ internal control while passing the bills for payment. The Company should strengthen its internal control mechanism so far as scrutiny and payment of bills are concerned.



### 3.8 Extra interest burden due to not availing cash credit at lower rate of interest

**The Company failed to timely submit the lower interest rate proposal of ICICI bank before the State Level Committee for approval resulting in extra expenditure of ₹ 98.27 lakh towards interest on cash credit limit.**

The Government of Chhattisgarh (GoCG) had constituted (April 2010) a State Level Committee (SLC) for finalisation of proposal of Chhattisgarh State Civil Supplies Corporation Limited (Company) for obtaining finances to arrange working capital for procurement of rice. As per the recommendation (October 2014) of SLC the Company invited (18 November 2014) open tender for availing ₹ 2000 crore Cash Credit limit (CC limit) from various banks to arrange the working capital for Kharif Marketing Season 2014-15.

Offer of seven banks were opened by SLC on 27 November 2014 and after negotiation (3 December 2014) SLC approved (12 December 2014) offer of five<sup>19</sup> banks. Subsequently, Indian Bank further reduced its rate and submitted a proposal to this effect to the Company on 16 February 2015 which was put up before SLC on 4 March 2015. Considering the lower rate offered by Indian Bank, SLC approved revised CC limit of five banks on 4 March 2015. The original as well as revised approval given by SLC is detailed in the **Table-3.2**.

**Table – 3.2: Statement showing CC limits and rate of interest**

(₹ in crore)

SN	Name of the Banks	Original approval of SLC (12 December 2014)		Revised approval of SLC (4 March 2015)	
		Amount	Rate of interest	Amount	Rate of interest
1	Dena Bank	500	10.49	400	10.49
2	State Bank of India	500	10.49	500	10.49
3	Canara Bank	200	10.49	100	10.49
4	Indian Bank	500	10.49	500	10.29
5	Allahabad bank	500	10.35	500	10.35
6	ICICI Bank	200	10.50	Not approved	
7	Punjab & Sind Bank	200	10.75		

Audit observed (February 2016) that ICICI bank had also subsequently reduced the rate of interest from 10.50 per cent to 10 per cent for ₹ 200 crore CC limit and intimated the same to the Company on 3 March 2015. However, while submitting (4 March 2015) the rate reduction proposal of Indian Bank to SLC, the Company failed to submit the rate reduction proposal of ICICI bank to SLC. As a result the Company lost the opportunity to avail CC limit of ₹ 200 crore at lower rate of 10 per cent from ICICI bank against the higher rate of 10.49 per cent offered by other banks leading to loss of ₹ 98.27 lakh<sup>20</sup> to the Company.

<sup>19</sup> Dena Bank, State Bank of India, Canara Bank, Indian Bank and Allahabad Bank

<sup>20</sup> ₹ 200 crore x 0.49 per cent (being the difference of rate of 10 per cent offered by ICICI bank and rate of 10.49 per cent of other banks) x 366 days (from 1 April 2015 to 31 March 2016 during which the Company availed CC limit)

The Management stated (May 2016) that it had subsequently requested (20 March 2015) GoCG to consider the proposal of lower rate of interest of ICICI bank but in absence of any decision on the matter, it could not obtain CC limit from ICICI bank. The Government stated (July 2016) that offer of ICICI bank was received on 7 March 2015 as also confirmed by ICICI bank and therefore the same could not be placed before SLC on 4 March 2015. Further the ICICI bank had offered CC limit for different purpose (maintenance of godowns, payment to employees etc.) than the requirement of the Company to procure rice.

During discussion (November 2016) on the audit para, the Secretary, Department of Food, Civil Supplies and Consumer Protection added (November 2016) that ICICI bank was not selected by the SLC in the meeting held on 12 December 2014, therefore, proposal of rate reduction of ICICI bank was not considered.

The reply of the Government is not acceptable because the proposal of ICICI bank was received by the Company on 3 March 2015 well before meeting of SLC as clearly evident in the note dated 3 November 2015 submitted by Deputy Accounts Officer and Senior Accounts Officer to the Chairperson of the Company. Regarding confirmation given by ICICI bank that letter was delivered on 7 March 2015 it is surprising that the Company has not diarised the letter and against the standard procedure of giving acknowledgement of receipt of letter by the receiver (the Company in this case), the ICICI bank itself (sender in this case) has given confirmation that letter was delivered to Civil Supplies on 7 March 2015 which is not in order.

Further, the Government's contention that ICICI bank had offered CC limit for different purpose was also not acceptable as SLC did not reject the proposal of ICICI bank on the basis of different purpose of CC limit. The Government's reply regarding not selecting (12 December 2014) of ICICI bank by the SLC seems to be an afterthought because the SLC authorised Managing Director (MD) to consider the proposal of further reduction of interest rate by the banks, which participated in the tender.

Thus, the failure of the MD to bring the revised proposal of ICICI bank before the SLC and subsequent inability to pursue the matter with GoCG has resulted in loss of ₹ 98.27 lakh to the Company. The role of the Government's nominees on the Board (Secretary, Finance and Secretary, Food, Civil Supplies & Consumer Protection) to coordinate between GoCG and the Company was also quite ineffective in the matter.

## Chhattisgarh State Power Transmission Company Limited

### 3.9 Loss due to not recovery of risk and cost amount

**The Company has not recovered risk and cost amount of ₹ 97.17 lakh from the contractor resulting in loss to the Company as well as extension of undue benefit to the contractor.**

The Chhattisgarh State Power Transmission Company Limited (Company) issued (October 2011) work order for construction of 10 Km LILO<sup>21</sup> of 132 kV Bilaspur – Bhilai line to 132 kV substation at Patharia (first work) to M/s Nirmala Construction, Raigarh (contractor) at a value of ₹ 57.46 lakh on labour contract basis. Further, the work for construction of 10 Km LILO of 220 kV Korba- Budhipadar line at PGCIL substation at Raigarh (second work) was also awarded (April 2012) to the same contractor for ₹ 1.02 crore on labour contract basis. The first and second work was to be completed by April 2012 and January 2013 respectively. Clause 28 of the tender conditions of both the works provided that if contractor fails to complete the work, the Company reserves the right to engage another contractor upon such terms and in such a manner as may deem appropriate and the contractor will be liable to the Company for any additional costs as may be required for the completion of work.

Scrutiny of records revealed (January 2016) that the contractor had not executed the first work even after lapse of scheduled completion period. Consequently, the Company terminated the first work in January 2013 after forfeiting initial security deposit of ₹ 2.87 lakh. Further, in case of second work the contractor did not execute the contractual formalities including submission of security deposit and the work was terminated in December 2012 after forfeiting earnest money deposit of ₹ 0.70 lakh. Subsequently, the Company executed these terminated works on labour contract basis by engaging new firms. The first work was completed in July 2014 at a total cost of ₹ 85.79 lakh and second work was completed in August 2015 at a total cost of ₹ 1.74 crore.

Audit observed that while terminating both the works the Chief Engineer (Extra High Tension: Construction and Maintenance) of the Company had informed the contractor about his liability to pay the risk and cost amount to be intimated by the Company separately. However, the Company has neither intimated the contractor about the risk and cost amount nor recovered the same. Thus, failure to recover risk and cost amount of ₹ 97.17 lakh (first work ₹ 25.46 lakh<sup>22</sup> and second work ₹ 71.71 lakh<sup>23</sup>) from the contractor has resulted in loss to the Company as well as extension of undue benefit to the contractor to the extent of ₹ 97.17 lakh.

<sup>21</sup> When a new EHV substation is inserted between two existing substations, the transmission line for new inserted EHV substation is called LILO i.e. Line In Line Out.

<sup>22</sup> First work completed ₹ 85.79 lakh - original order ₹ 57.46 lakh - ₹ 2.87 lakh security deposit forfeited.

<sup>23</sup> Second work completed ₹ 174.19 lakh - original order ₹ 101.78 lakh - ₹ 0.70 lakh security deposit forfeited

The Government stated (October 2016) that the Company had forfeited EMD and initial security deposit and debarred the contractor for future business for a period of two years. It was further stated that two separate legal notices were issued (August 2016) to the contractor for payment of risk and cost amount as per the tender terms and conditions, however, the contractor has not responded to notices so far. During discussion (January 2017) on the audit para, the Special Secretary, Department of Energy reiterated the Government reply.

The reply confirms the failure on the part of Management to safeguard the Company's financial interest as it had served legal notices for recovery of risk and cost amount only after it was pointed out by Audit.



**Raipur**  
**The 26 February 2017**

**(BIJAY KUMAR MOHANTY)**  
**Accountant General (Audit), Chhattisgarh**

**Countersigned**



**New Delhi**  
**The 1 March 2017**

**(SHASHI KANT SHARMA)**  
**Comptroller and Auditor General of India**