

Overview

This Report contains the following chapters:

Chapter-1: General information on functioning of State Public Sector Undertakings (PSUs),

Chapter-2: Performance Audit on finalisation of rate contracts and procurement of materials by Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited, and

Audit on construction activities of Chhattisgarh Police Housing Corporation Limited

Chapter-3: Three Compliance Audit paragraphs on PSUs.

The total financial impact of the Audit findings is ₹ 77.79 crore.

1. Functioning of State Public Sector Undertakings

Investment in State PSUs

There are 23 PSUs in Chhattisgarh. As on 31 March 2017, the investment (Capital and Long Term loans) in these PSUs was ₹ 24,161 crore. The thrust of the State Government investment in PSUs during the last five years was in the Power sector (₹ 1,223.85 crore).

Of the 23 PSUs, 19 Government companies and one Statutory Corporation are working PSUs. The three non-working PSUs are all Government companies.

Out of the 23 PSUs, 13 PSUs had arrears in accounts ranging from 2012-13 to 2016-17. Delay/ non-preparation of accounts are fraught with risk of misrepresentation of facts, fraud and misappropriation.

As per the latest finalised accounts of the 20 PSUs that had finalised their accounts in the last three years, 12 PSUs earned profit of ₹ 142.38 crore, seven PSUs incurred loss of ₹ 544.84 crore, and the remaining one PSU had no profit or loss as its net expenditure has been booked against capital work in progress during the project construction period. These 20 PSUs registered a turnover of ₹ 23,094.67 crore.

The 20 PSUs, that had finalised their accounts in the last three years, generated an average Return on Investment of 3.52 *per cent* on the investments (₹ 6,972.39 crore) made by the State Government. As against this, the average cost of borrowings of the State Government was 8.17 *per cent* during 2014-15 to 2016-17. Thus, the notional loss to the public exchequer as a result of investment in these 20 PSUs amounted to ₹ 324.21 crore over the past three years. The loss, if any, incurred by the remaining three PSUs who have not finalised their accounts, could not be assessed.

(Paragraphs 1.1, 1.5 and 1.6)

Arrears in finalisation of accounts

The Companies Act, 2013 stipulates that the annual financial statements of companies are to be finalised within six months from the end of the relevant financial year i.e., by September end. Failure to do so may attract penal provisions, under which, every officer of the defaulting Company shall be

punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh, or with both.

Out of 20 working PSUs, only seven PSUs finalised their accounts for the year 2016-17, while 13 PSUs had arrears of 20 accounts as of 31 December 2017 with the extent of arrears ranging from one to five years. There were no accounts in arrears in the three non-working PSUs as on 31 December 2017. The State Government had extended budgetary support (Equity, Loans, Capital Grants and Subsidy) of ₹ 7,707.17 crore to eight PSUs, during the period for which accounts were in arrears, out of which ₹ 315.63 crore was extended to two working PSUs, whose accounts were in arrears for more than three years.

The State Government has not formulated any dividend policy for State PSUs. Consequently, though as per their latest finalised accounts, nine PSUs with Government equity of ₹ 6,146.97 crore earned an aggregate profit of ₹ 74.43 crore, only one PSU, Chhattisgarh Rajya Van Vikas Nigam Limited proposed dividend of ₹ 0.87 crore.

(Paragraphs 1.8, 1.9 and 1.12)

Recommendations:

- **The Finance department and the concerned administrative departments should ensure that the State PSUs take immediate action to make their accounts current, so that the directors of these PSUs do not continue to fall foul of the Companies Act.**
- **The Finance department and the concerned administrative departments should initiate steps to ensure that budgetary support is not extended to such PSUs whose accounts are not current.**
- **The Finance department may consider formulating dividend policy for payment of specified dividend on equity invested in profit making PSUs as per practice of Government of Uttar Pradesh (five *per cent* of equity capital) and Madhya Pradesh (20 *per cent* of profit after tax).**

Accounts comments

The quality of accounts companies needs improvement. The Statutory auditors had given qualified certificates for 20 accounts finalised by 16 working companies. Compliance to the Accounting Standards by the companies remained poor as there were 15 instances of non-compliance to Accounting Standards in nine accounts of eight companies.

(Paragraph 1.15)

Recommendation:

The Finance department and the concerned administrative departments should immediately review the working of the 16 companies where the Statutory Auditors have given qualified comments.

Follow-up action on Audit Reports

In terms of extant instructions, Administrative departments are required to submit replies /explanatory notes to audit paragraphs/performance audits included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature. It was observed, however, that out of 20 audit paragraphs/performance audits, replies/explanatory notes to three paragraphs/performance audit of Audit Reports for the years 2008-09 and 2014-15 in respect of five departments (Energy department, Food, Civil Supplies and Consumer Protection department, Commerce and Industries department, Geology and Mining department and Commercial Tax (Excise) department), which were placed in the State Legislature upto 31 March 2016, were still awaited (31 July 2018).

(Paragraph 1.17)

Restructuring of PSUs

Consequent to the reorganisation of the erstwhile Madhya Pradesh State into the states of Madhya Pradesh and Chhattisgarh w.e.f. 1 November 2000, the assets and liabilities of 19 PSUs (out of the then existing 28 PSUs) were to be divided amongst the successor states. However, the division has been completed only in respect of 13 PSUs as of December 2017.

(Paragraph 1.20)

Recommendation:

Since almost two decades have passed after the reorganisation of the State, the State Government is required to work closely with the Government of Madhya Pradesh for the expeditious division of assets and liabilities of the six PSUs, where the Government investment as on 1 November 2000 was ₹ 36.98 crore.

Reforms in power sector under Ujwal Discom Assurance Yojna (UDAY)

Memorandum of Understanding (MoU) was signed (January 2016) between Ministry of Power, GoI, Government of Chhattisgarh and Chhattisgarh State Power Distribution Company Limited (CSPDCL) for implementation of the scheme with identified financial and operational targets.

CSPDCL failed to achieve operational targets in respect of distribution transformer metering, feeder metering, rural feeder audit and feeder segregation. CSPDCL also failed to make any progress in the area of smart metering.

(Paragraph 1.21)

2. Performance Audit relating to Government Companies

2.1 Finalisation of rate contracts and procurement of materials by Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited

Introduction

The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited (Company) was incorporated on 8 October 2004 as a wholly owned Government Company under the Department of Agriculture (Department), Government of Chhattisgarh (GoCG). The main activities of the Company are production, processing/procurement and distribution of certified seeds to the farmers; finalisation of rate contracts (RCs) for supply of agricultural implements, pesticides, hybrid vegetable seeds etc. to the various departments of GoCG and production of bio fertiliser.

The Performance Audit was conducted to assess the performance of the Company during 2012-13 to 2016-17 covering various aspects such as finalisation of RCs, procurement of materials, financial management, manpower management and internal control and monitoring mechanism of the Company.

The following are the main audit findings:

Manpower Management

There was acute shortage of manpower in the Company ranging from 42 *per cent* to 53 *per cent* from 2012-13 onwards which adversely affected the functioning of the Company. The Company did not take effective steps to fill the vacant posts despite having permission from the Department. Shortage of Accountants was the major reason in delayed finalisation of accounts of the Company. The Company failed to post required officials in its district offices, processing centres and farms. The vacancies of these posts in the field offices were in the range of 38 *per cent* to 62 *per cent*. As a result, lower rank officials were handling the charge of these field offices.

(Paragraph 2.1.6)

Internal Control and Monitoring

Lack of effective internal control and monitoring mechanism led to deficiencies such as delay in finalisation of accounts, avoidable payment of income tax, non-realisation of auction proceeds of surplus seeds, purchase of materials from cancelled RCs etc. The Company does not have its own internal audit wing and it also does not have an internal audit manual. Consequently, no internal audit was conducted in the Company from 2012-13 onwards though it was mandatory as per the Companies Act, 2013. The Company did not have any Management Information System relating to finalisation of rate contracts and procurement of materials as no reports/returns were prescribed for submission of information to higher management on above matters.

(Paragraphs 2.1.7, 2.1.7.1 and 2.1.7.4)

Financial Management

The Company had to pay ₹ 3.84 crore towards penal interest during 2012-13 and 2014-15 to 2016-17, due to incorrect estimation of income for payment of advance income tax under the Income Tax Act. The Company also incurred loss on account of avoidable payment of Income Tax of ₹ 4.27 crore due to disallowance of expenditure on account of non deduction of Tax Deduction at Source (TDS) from the fees paid to Chhattisgarh State Seed Certification Agency.

(Paragraphs 2.1.8.4 and 2.1.8.5)

Finalisation of rate contracts

The Company finalised 70 Rate Contracts (RCs) for procurement of various materials during 2012-13 to 2016-17, out of which, in 51 RCs, the tender terms and conditions were finalised after invitation of tenders in violation of the Chhattisgarh Store Purchase Rules, 2002. The Company finalised nine RCs with 27 bidders who did not meet the specified eligibility criteria and 11 RCs with 29 suppliers who had indulged in collusive bidding, resulting in irregular purchase of ₹ 52.96 crore. Further, in one case, the Company delayed the finalisation of RC at lower rates received and continued to procure materials at higher rates under previous RC resulting in loss of ₹ 1.08 crore.

(Paragraphs 2.1.9.3, 2.1.9.5, 2.1.9.6 and 2.1.9.9)

Procurement of materials

The Company incurred loss of ₹ 32.14 crore on auction of surplus seeds due to lack of proactive marketing strategy for sale of surplus seeds. The Company purchased materials worth ₹ 3.90 crore from three cancelled RCs/ disqualified bidder. Further, the Company executed a Public Private Partnership (PPP) Project to promote integrated agricultural business and agro based processing industries. Under the project, the private partner incorporated six Special Purpose Vehicles (SPVs) for manufacturing of specified products. The main objective for formation of SPVs under PPP mode was defeated as these SPVs neither purchased raw material from the farmers of the State nor generated any employment in the State due to non-establishment of their own manufacturing plant. Further, the Company procured materials valued at ₹ 21.58 crore from these SPVs for various Government Departments without inviting tenders.

(Paragraphs 2.1.10.2, 2.1.10.3 and 2.1.10.4)

Summary of recommendations

The Company should:

- recruit manpower as per the approved sanctioned strength without further delay.
- prepare the internal audit guidelines/manual and depute suitable and adequate manpower for internal audit.
- device a proper mechanism for estimation of quarterly profit accurately to avoid penalty under the Income Tax Act.

- take action against the firms who had indulged in collusive bidding and also take action against the members of the technical committee who qualified these collusive bidders.
- take steps to sell surplus seeds to other seed marketing agencies to avoid losses.
- take action against the officials who procured materials from cancelled RCs/disqualified bidder.
- ensure that the SPVs only purchase raw materials from the farmers of the State and set up the manufacturing units in the State. Further, the procurement of items from SPVs by the Company for Government departments should be made by inviting open tender in accordance with the Stores Purchase Rules of GoCG.

2.2 Audit on construction activities of Chhattisgarh Police Housing Corporation Limited

Chhattisgarh Police Housing Corporation Limited (Company) was incorporated in December 2011 as a wholly owned Government Company under the administrative control of Home Department, Government of Chhattisgarh (GoCG). The Company works as a Nodal Agency of the Home Department to undertake construction of police buildings viz., police stations, office buildings and residential accommodations, etc., by engaging contractors. During the year from 2012-13 to 2016-17, total 286 works valued at ₹ 546.69 crore were taken up by the Company, out of which 181 works valued at ₹ 389.17 crore were pending completion including 178 work pending completion for periods ranging between two to 52 months beyond their scheduled date of completion.

The Audit covered the Company's activities relating to construction works carried out within the State of Chhattisgarh during the period 2012-17. Following are the main audit findings:

Manpower Management

Shortage of manpower in the Company ranged from 34.21 *per cent* to 78.91 *per cent* during 2012-13 to 2016-17. The post of General Manager (Finance) was not filled up in 2012-13 and 2014-15 and post of Accounts Officer had never been filled up since inception of the Company resulting in inadequate monitoring of financial activities and consequent deficiencies in financial management. Further, delay in filling up of vacancies in engineering cadre resulted in inadequate supervision of works and consequential delay in completion of works.

(Paragraph 2.2.6)

Financial Management

The Company accounted the interest income of ₹ 53.55 crore on funds received from PHQ for execution of schemes/ projects as its own income instead of crediting the same to project funds. This resulted in avoidable payment of income tax of ₹ 17.52 crore. Further, the Company failed to ensure timely payment of Service Tax amounting to ₹ 1.95 crore resulting in avoidable liability of ₹ 60.51 lakh towards penal interest and penalty. Also, the Company had parked ₹ 57.22 crore in three banks which were not eligible for parking of surplus funds as per the GoCG directives.

(Paragraphs 2.2.7.1 to 2.2.7.3)

Internal Oversight Mechanism

The Company lacked adequate internal control and monitoring mechanism, reporting system of progress of works, record keeping, and internal audit system.

(Paragraph 2.2.8)

Deficiencies in contractual provisions

The Company failed to prepare a works manual to regulate execution of works in a uniform and transparent manner. The Company did not include risk and cost clause in the agreements for recovery of extra cost incurred on execution of works left incomplete by the contractors resulting in loss of ₹ 1.10 crore. The Company also failed to recover compensation of ₹ 1.04 crore from the defaulting contractors as per the contract terms and conditions. Further, in violation of the Works Department (WD) manual, GoCG, the Company granted interest free mobilisation advances of ₹ 2.62 crore to its contractors. The Company awarded nine works valued at ₹ 30.23 crore on single tender basis on first call of tenders ignoring the provisions of the WD manual.

(Paragraphs 2.2.9.1 and 2.2.9.4)

Award, execution and monitoring of works

The Company awarded five works valued at ₹ 46.80 crore avoiding approvals of competent authorities as per Delegation of Powers (DoP). Execution of 10 test checked works was delayed for periods ranging from 12 to 31 months beyond their scheduled date of completion due to slow progress and stoppage of works by the contractors. Delay in taking action for termination and re-award of delayed/ abandoned works resulted in non-achieving of envisaged purpose of the works besides blockage of funds amounting to ₹ 29.32 crore for the period ranging upto 31 months. The Company did not recover penalty of ₹ 1.89 crore from the contractors for delay as per the terms and conditions of the contracts.

(Paragraphs 2.2.10.1 to 2.2.10.3)

Summary of recommendations

The Company should:

- **fill up vacant posts in a time bound manner so as to ensure adequate monitoring over the construction activities as well as financial management.**
- **credit the interest earned on project funds to the project accounts or remit the same to PHQ to avoid unnecessary payment of income tax.**
- **fix responsibility for the avoidable creation of liability due to belated payment of Service Tax.**
- **immediately transfer its funds from accounts in ineligible banks to accounts in eligible banks.**
- **prepare its own works manual in line with the WD manual to regulate its construction activities.**

- incorporate a suitable clause for recovery at risk and cost in the agreements, and ensure timely recovery of penalty and compensation from defaulting contractors.
- modify its agreement clause in line with the WD manual with respect to grant of mobilisation advance.
- ensure adequate competition while awarding works and ensure compliance to applicable rules and regulations.
- ensure strict adherence to Delegation of Powers to ensure that due approval of the competent authority is obtained at every stage of award and execution of works.
- Invariably adhere to agreement terms while levying/ recovering penalties and ensure timely completion of works.

3. Compliance Audit Observations

Gist of some of the important compliance audit paragraphs are given below:

The Chhattisgarh State Beverages Corporation Limited incurred loss of ₹ 8.53 crore by paying additional duty from its margins instead of recovering the same from retailers.

(Paragraph 3.1)

The Chhattisgarh Medical Services Corporation Limited and Chhattisgarh State Civil Supplies Corporation Limited unnecessarily paid penal interest of ₹ 1.17 crore to Income Tax authorities due to failure to correctly estimate current income for the financial year and non-submission of IT returns on time.

(Paragraph 3.2)

The Chhattisgarh Road Development Corporation Limited incurred loss of interest of ₹ 1.90 crore by not availing of auto sweep facility in its bank accounts.

(Paragraph 3.3)