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.

Government Companies

Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited

3.1 Irregular finalisation of rate contracts

Irregular finalisation of rate contracts for vegetable seeds resulted in placement of orders worth ₹ 47.26 crore on ineligible bidders

The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited, Raipur (Company) procures vegetable seeds {Certified[1]/ Open Pollinated Truth Level[2] (OPTL)} of different crops through its District Offices for Horticulture and Farm Forestry Department, Government of Chhattisgarh. This is done on the basis of rate contracts finalised by it by inviting Open Ended Rate Contract Offer (RCO) from the registered seed producers/ suppliers. The lowest rates received through RCO are compared with the previous rates (increased by 50 *per cent*) finalised by the Company and prevailing rates of Madhya Pradesh State Agro Industries Development Corporation Limited (MP Agro). Accordingly, the Company issues counter offers to the suppliers on the basis of lowest of the above three rates and rate contracts are finalised with the suppliers who accept the counter offer rate. These rate contracts remain effective for one year or upto finalisation of new rate contracts.

For the year 2010-11, the Company invited (11 February 2011) RCO for 29 and 40 types of Certified and OPTL vegetable seeds respectively. In response, 15 offers were received upto the last date i.e. 26 March 2011. The technical bids were evaluated by the tender evaluation committee on 26 March 2011 and 13 bidders were found technically qualified. Accordingly, price bid of these 13 bidders were opened on 13 April 2011 who had quoted the rates for 17 and 37 crops of Certified and OPTL seeds respectively. As rates received were on higher side, the tender committee conducted (2 May 2011) negotiation with the bidders. Only one bidder i.e. M/s Raj Seeds Traders, Bhopal was present for negotiation. After negotiation, tender committee recommended rates of ₹ 25 and ₹ 30 per kg for Certified seeds of potato and arbi respectively. In case of remaining 52 Certified/OPTL vegetable seeds, the committee recommended for issue of counter offer to the bidders at the rate received in RCO or 150 *per cent* of old rates or rates approved by MP Agro whichever was less. Accordingly, Company issued (3 May 2011 and 18 May 2011) counter offers to all the 13 bidders of which only eight bidders accepted the same. After receipt of acceptance from the suppliers, the Company finalised Rate

[1] Certified by the seed certifying agency with respect to variety
[2] Uncertified seed which contains more than one variety due to pollination

Contracts (RCs) with eight[3] suppliers in May 2011 and July 2011 for 11 crops of Certified seeds and 25 crops of OPTL seeds. Subsequently, Company also finalised (July 2011) RC with M/s Shefali Business International, Raipur in line with the RCs already finalised based on the request (25 April 2011) of M/s Shefali though they did not participate in the tender.

On scrutiny of records relating to finalisation of RCs, the following observations are made:

A. Finalisation of RCs with ineligible bidders and discrepancies in tendering system resulted in undue favour to the suppliers

- **Opening of RCO without obtaining proper approval of the competent authority**

  The Company had constituted (14 March 2011) a committee comprising eight members including two technical members from Horticulture & Farm Forestry Department and Agriculture University, Raipur for verification of tender documents. However, for evaluation of technical and financial bids, a separate purchase committee, though required under Rule 4.12 of Chhattisgarh Store Purchase Rules, was not constituted. The tender verification committee *suo moto* evaluated the technical bids (26 March 2011) and financial bids (13 April 2011) without approval of the competent authority. Moreover, at the time of evaluation of technical and financial bids, both the technical members were not present. The technical bids were evaluated by non-technical members (all from the Company itself) in clear violation of Rule 4.12 of Chhattisgarh Store Purchase Rules which stipulates compulsory presence of technical members in the tender committee, thus making the entire tendering process irregular.

  The Government while acknowledging the fact of non constitution of separate committees for evaluation of technical and financial bids, stated (July 2013) that due to continuous absence of technical members, the bids were opened and evaluated by the remaining members of the committee.

  The reply confirms that technical members were not involved with the opening and technical evaluation of the bids. The Company did not make any efforts to ensure the presence of technical members to comply with the provision of Chhattisgarh Store Purchase Rules. Further, the reply is silent about non-formation of a separate tender evaluation committee.

- **Finalisation of RCs with ineligible bidders**

  i. As per clause 1.1 of Annexure III of the RCO documents, the bidder/ offerer should be a registered producer of Certified vegetable seed and must be registered with certification agency for production of Certified seed with license for sale of seeds under Seed Act, 1966 and Seed Control Order, 1983. However, we observed that out of 13 technically qualified bidders, only one bidder i.e. M/s K. B. A. Traders, Indore was actually

[3] Avani Traders- Raipur, K.B.A. Traders- Indore, Sanyog Marketing Pvt. Limited- Raipur, Royal Seeds & Fertilisers Pvt. Limited- Kolkata, Laukik Seeds & Fertilisers- Raipur, Rama Traders- Bhopal, Raj Seeds – Bhopal and Nafed Seeds, Ranchi

having valid license for production of Certified seed. The remaining 12 bidders did not fulfill this criteria.

ii. Clause 1.2 of Annexure III of the RCO documents stipulates that the bidder/offerer should enclose alongwith the tender documents, the details of nursery they are having alongwith area of production taken crop wise, latest copy of B-1 (Khasra) and list of farmers and area of each crop, if seed production programme was taken on the land of other farmers. However, none of the bidders had attached the above documents.

iii. Clause 1.4 of Annexure III of the RCO documents stipulates that the bidder/ offerer must produce the source of seed material and variety for production of OPTL seed. However, none of the bidders had furnished the required information.

The Government stated (July 2013) that at the time of preparation of RCO documents, the tender committee had removed the terms and conditions of Annexure – III and fixed the eligibility criteria for the bidder as per Annexure – IV of the RCO documents. However, due to clerical mistake, the changes could not be made in the RCO documents. It was further stated that the bidder who fulfilled the eligibility criteria as per the Annexure - IV of the RCO documents had been considered as eligible by the tender committee.

The reply is not acceptable and seems to be an afterthought because nowhere in the records it was mentioned that the tender committee had changed the eligibility criteria as stated above. Further, Annexure – IV of the RCO documents also stipulated that the bidder must be a self producer of seeds. However, 12 out of 13 bidders did not furnish the supporting documents regarding seed production.

- **Finalisation of RC with the firm despite non participation in the tender**

The Company had finalised (July 2011) an RC with M/s Shefali Business International, Raipur which was irregular because the firm did not participate in the tender.

The Government stated (July 2013) that in the 14th meeting (July 2009) of the Board of Directors of the Company, a decision was taken that the firms which have not participated in RCO can get themselves registered and they would be issued orders on prevailing rates of the items.

The reply is not acceptable because the scheme as stated in the reply was discontinued from June 2011 and thus finalisation of RC with M/s Shefali Business International in July 2011 was irregular.

From the above it is evident that all the 13 bidders did not qualify the technical bid and thus their financial bids should not have been opened. However, the tender committee ignored these facts and considered all the 13 bidders for opening of financial bids and finalised RCs with the nine ineligible bidders from whom it procured vegetable seeds amounting to ₹ 47.26 crore during the years 2011-12 to 2012-13 as detailed in ***Annexure - 3.1*** which resulted in extension of undue benefit to these bidders.

It is pertinent to mention that the Company was aware about the above discrepancies in finalisation of RCs and had issued (26 November 2011) show cause notices to the members of tender committee i.e. Deputy General Manager (Marketing), Deputy General Manager (S), Deputy Manager (Accounts) and District Manager, Raipur. The officials were required to submit their replies within 10 days but only one reply[4] from District Manager, Raipur was received (28 December 2011) and all the other officials had not submitted their replies till the date of Audit (April 2013). Even the Company had neither taken any action against the officials nor cancelled the rate contracts till the date of Audit.

B. Procurement of seeds worth ₹24.42 crore from the bidders who indulged in collusive bidding

As per clause 5.1 of the general conditions of RCO document, not more than one RCO will be accepted from any bidder. If an individual participates in the RCO, representing more than one organisation in one or different names, such offer (s) would not be entertained.

We observed that out of eight bidders with whom RCs were finalised by the Company, two bidders had submitted four bids in different names who shared the same registered addresses, landline & mobile numbers and signatures as follows:

Name of firm	Address	Contact Number	Value of seeds procured upto 31. 03. 2013 (₹ in crore)	Remarks
Raj Seeds Traders	A-7, B.D.A. Colony, Tulsi Nagar, Bhopal – 462003	0755-2551094 94250-11024	1.65	Correspondence from both the firms was made by the same person which was evident from the signature.
Rama Traders	A-7, B.D.A. Colony, Tulsi Nagar, Bhopal – 462003	0755-2551094 94250-11024	0.29	
Avani Traders	54, Aishwarya Residency, Telibandha, G.E. Road, Raipur	0771-4034171 99261-99999	12.87	Correspondence from both the firms was made by the same person which was evident from the signature.
K.B.A. Traders	54, Aishwarya Residency, Telibandha, G.E. Road, Raipur	0771-4034171 99261-99999	9.61	
Total			**24.42**	

This indicates that two bidders were operating under different names which were against the tender conditions. Despite being aware of receipt of higher rates, the Company, while finalising the RCs, did not verify the bid documents and credentials of the bidders properly even though there was evidence of malpractice. Instead of rejecting the bids and blacklisting the bidders who indulged in malpractices, the Company accepted the higher rates. Failure of the Company to verify the documents properly facilitated the bidders to submit higher rates through collusive bidding. For instance, RCs for Certified

[4] The District Manager, Raipur has replied that his role in the tender committee was only to assist the tender committee for preparation of comparative statements and other clerical works. It was further stated by him that he was not a part of decision making process.

seed of potato and coriander were finalised at the rate of ₹ 25 per kg and ₹ 180 per kg respectively against the prevailing rate of ₹ 16 per kg and ₹ 140 per kg respectively (discussed in succeeding paragraph). Thus, finalisation of RCs and procurement of seeds worth ₹ 24.42 crore during the years 2011-12 to 2012-13 from these bidders was irregular and resulted in extension of undue benefit to them. Out of the total value (₹ 47.26 crore) of seeds procured, 52 *per cent* seeds were procured from the above four firms only.

The Government stated (July 2013) that all the four firms mentioned above were separate firms having separate owners. M/s K.B.A. Traders, Indore was from Indore and its Raipur address and phone numbers may be the address and phone numbers of its agent at Raipur.

While it is a fact that bids were furnished by different firms, their addresses and telephone/mobile numbers were identical which proves that all the bids were submitted by bidders related to each other and operating from the same location. This proves collusive bidding. Further, participation in the tender by M/s KBA Traders as principal and Avani Traders as agent of M/s KBA is a clear violation of clause 5.1 of the general conditions of RCO document which stipulates that if an individual participates in the RCO, representing more than one organisation in one or different names, such offer (s) would not be entertained.

C. ***Procurement of potato and coriander seeds worth ₹14.24 crore at higher rates***

We observed that while issuing counter offer rates in respect of OPTL seeds, the Company did not compare the rates with the rates of MP Agro and finalised the RCs for 25 crops. Similarly, out of 11 crops of Certified seeds finalised for RCs, the Company did not compare the rates of three crops with that of MP Agro. The RCs for 25 crops of OPTL seed and three crops of Certified seed was finalised by comparing with previous rates only.

Further, on comparing the available rates of Horticulture Department, Government of Madhya Pradesh for the year 2011-12 in respect of two crops of Certified seeds (rates of which were not compared), we observed that the RCs for Certified seed of potato and coriander were finalised at much higher rates as follows:

SN	Certified seed (Crops)	Rate of Horticulture Department, MP (₹ per kg)	Rate at which RC has been finalised by the Company (₹ per kg)	RC finalised with	Total value of seeds procured (₹ in crore)
1	2	3	4	5	6
1	Potato	16	25	Eight firms except NAFED	13.76 (Details in ***Annexure – 3.2)***
2	Coriander	140	180	Two firms only viz Rama Traders and Raj Traders	0.48 (Details in ***Annexure – 3.3***)
				Total	**14.24**

It is pertinent to mention that the two firms with whom RCs have been finalised for coriander seed was actually one firm who had submitted bids in different names as discussed in the preceding paragraph.

The Government stated (July 2013) that at the time of finalisation of RCs in May 2011, the rates of MP Agro were not available. Further the rates of Director, Horticulture, MP finalised in August 2011 were ex-Nursery rates whereas the rates finalised by the Company in RCs were FOR destination. Thus, the rates were finalised at the lower rates based on the then available data.

The reply confirms that the rates were not compared in absence of the rates of MP Agro which indicated that the Company's policy of comparing the rates only with the rates of MP Agro was deficient. The basic purpose of comparison of rates is to ascertain the prevailing market rates so as to assess the reasonability of rates received in tender. Therefore, for the purpose of comparison of rates, the Company should have obtained rates finalised by other PSUs/ State Government and should not solely depend on MP Agro. Further, even after knowing the lower rates of Director, Horticulture, MP, the Company did not try to get the offer from them to assess the reasonability of rates of the RCs already finalised.

Thus, irregular finalisation of rate contracts for vegetable seeds resulted in placement of orders worth ₹ 47.26 crore on ineligible bidders.

The Company should finalise the RCs in transparent manner after following applicable rules and laid down procedures to protect its financial interest. The Company may fix responsibility for irregularities committed in the instant tender and take suitable action against the concerned officials.

3.2 Extra expenditure due to procurement at higher rates

Extra expenditure of ₹ 23.60 lakh due to procurement of jute bags at higher rates

The Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited, Raipur (Company) produces seeds of different crops through its registered farmers. After processing and packing, the seeds are sold to the farmers as Certified seeds. The seeds are packed in jute bags. The requirement of jute bags for ensuing Khariff season is assessed on the basis of estimated production as per production programme of the season. Similarly the jute bags for Rabi season are procured after considering surplus jute bags of previous Khariff season, if any.

To meet the requirement of jute bags for Khariff 2011 and Rabi 2011-12 season, the Company, after completing tender formalities, had executed (10 October 2011) agreement with M/s National Agriculture Co-operative Marketing Federation of India Limited, Raipur (NAFED) for supply of 40 kg and 50 kg bags at the rate of ₹ 37.73 and ₹ 42.63 per bag respectively. As per clause 11 of the agreement, approved rate was valid for one year upto 9 October 2012. Similarly, for Khariff 2012 and Rabi 2012-13 seasons, the Company had executed (6 October 2012) agreements with NAFED and M/s K. L. Jute, Kolkata for supply of 50 kg bags at the rate of ₹ 43.92 per bag and 40 kg bags at the rate of ₹ 38.61 per bag respectively. Accordingly, to meet the requirement of jute bags for Khariff 2012 season, the Company placed order on NAFED (8 October 2012) and M/s K. L. Jute, Kolkata

(18 October 2012) for supply of 10 lakh jute bags of 50 kg and 12.16 lakh jute bags of 40 kg respectively.

We observed that the rate of 50 kg bag was ₹ 42.63 per bag as per the first agreement executed with NAFED which was valid up to 9 October 2012. However, within this validity period, the Company placed (8 October 2012) order on NAFED for supply of 10 lakh bags of 50 kg at the rate of ₹ 43.92 per bag ignoring the prevailing lower rate of ₹ 42.63 per bag. Thus placement of order at higher rate ignoring the then prevailing lower rate on the same firm resulted in extra expenditure of ₹ 12.90 lakh[5] to the Company.

We also observed that placement (18 October 2012) of order on M/s K. L. Jute, Kolkata for supply of 12.16 lakh of 40 kg jute bags at the rate of ₹ 38.61 per bag was also not proper. Since the production programme for Khariff 2012 was already approved on 16 April 2012, the Company was well aware of the requirement of 40 kg jute bags in advance. Therefore, the Company should have placed the order on NAFED within the validity period (9 October 2012) of the first agreement for supply of 40 kg jute bags at the old rate (₹ 37.73 per bag) which would have avoided placement of order (18 October 2012) on M/s K L Jute, Kolkata at a higher rate (₹ 38.61 per bag) and consequent extra expenditure of ₹ 10.70 lakh[6] .

Thus, issue of orders for purchase of jute bags at higher rates ignoring the prevailing agreed rates had resulted in extra expenditure of ₹ 23.60 lakh.

The Government stated (July 2013) that on finalisation of new agreements on 6 October 2012, the old agreement had ceased to exist. Thus, placement of orders at old rates was not justifiable. Had the Company placed the orders as per old agreement, the suppliers could have disputed the orders and would not have supplied the material.

The reply is not acceptable because while executing (6 October 2012) the new agreements with NAFED and M/s K. L. Jute, the Company was aware that the new rates were higher than the old rates which were valid upto 9 October 2012. Accordingly, to protect its financial interest, the Company should have placed the orders on NAFED at old rates within the validity period of the old agreement and thereafter executed the new agreements.

The Company should procure the materials in most economical way to protect its financial interest.

Chhattisgarh Nishakt Jan Vitt Avam Vikas Nigam

3.3 Deficient fund management

Failure of the Company to avail auto sweep facility in savings bank account resulted in loss of interest of ₹ 18.84 lakh

The Chhattisgarh Nishakt Jan Vitt Avam Vikas Nigam, Raipur (Company) was incorporated (19 July 2004) with a view to formulate and implement schemes for the economic development of the physically handicapped and

[5] 10 lakh bags x (₹ 43.92 - ₹ 42.63)
[6] 12.16 lakh bags x (₹ 38.61 - ₹ 37.73)

disabled persons. The Company avails loan from National Handicapped Finance and Development Corporation, New Delhi (NHFDC) and provides financial assistance in the form of loan to disabled persons of the State of Chhattisgarh for various self employment schemes. The Company maintains savings bank account with State Bank of India (SBI) for carrying out its day to day transactions. The surplus funds of the Company are invested in Fixed Deposits (FD).

Scrutiny of cash book revealed (December 2012) that the Company had huge cash balance in its saving account maintained with SBI. The minimum balance lying in the account was ranging between ₹ 11115 (November 2009) to ₹ 32475930 (July 2012) on which the Company received interest at the rate of four *per cent* per annum.

We observed that SBI had introduced (August 2007) '*Surabhi Deposit Scheme',* an auto sweep facility for Corporate, Institutions, Trusts and Small and Medium Enterprises. Under the scheme, the customer has to maintain a minimum balance of ₹ 50000 and the amount exceeding the minimum balance would be automatically converted into FDs on weekly basis for the period till the fund is utilised by the customer. At the requirement of the customer, if there are insufficient funds in the savings account, the FD would be automatically closed (depending on the withdrawal amount) and interest will be calculated for the period during which the fund was remained under the scheme, subject to the minimum duration of 15 days. However, the Company did not avail auto sweep facility and instead allowed huge balances to remain in the savings account at lower rate of interest.

Had the Company availed auto sweep facility, it could have earned additional interest of ₹ 18.84 lakh during the period 2009-10 to 2012-13 as detailed in ***Annexure - 3.4***.

The Management stated (May 2013) that the Company receives funds from NHFDC for disbursement to the beneficiaries within 90 days and for this purpose, the funds were kept in savings account.

The reply is not acceptable because the Company can maximise the interest income on the undisbursed amount lying in the savings bank account by opting the auto sweep facility and this would not have impacted on payment to beneficiaries within 90 days because FD rates were applicable for any deposit beyond 15 days only.

We reported (June 2013) the matter to the Government, their reply is awaited (September 2013).

3.4 Providing financial assistance to the disabled persons

Introduction

3.4.1 The Chhattisgarh Nishakt Jan Vitt Avam Vikas Nigam, Raipur (Company) was incorporated (19 July 2004) with a view to formulate and implement schemes for the economic development of the physically

handicapped and disabled persons. The Company avails[7] loan from National Handicapped Finance and Development Corporation, New Delhi (NHFDC) and provides financial assistance in the form of loan to disabled persons of the State of Chhattisgarh (State) for various self employment schemes (schemes) approved by NHFDC for Small Business, Agricultural/ allied activities, Purchase of Vehicle, Self Employment, Small Industries, Technical Education/ Training, Micro Credit Scheme, Scheme for Association of Parents for the Mentally Retarded Persons, and Skills and Entrepreneurial Development. Any Indian citizen aged between 18 and 60 years with 40 *per cent* or more disability, who fulfils the criteria as prescribed by NHFDC, is eligible for financial assistance.

Rate of interest

3.4.2 The Company recovers interest[8] from beneficiaries and repays the same to the NHFDC at the rates prescribed in the lending policy of NHFDC. The income towards differential rate of interest is retained by the Company for meeting its administrative expenses.

Audit objectives

3.4.3 Audit was undertaken with a view to assess whether:

- the Company had prepared any plans for financing the targeted beneficiaries;
- the financial assistance was extended to the eligible disabled persons in time;
- the system of recovery of loan was effective to ensure timely recovery and effective action was taken in case of default; and
- the Company had put in place an efficient system of monitoring of implementation of scheme after disbursement of loans.

Audit Findings

Performance of the Company

3.4.4 Since its inception in July 2004 upto 2012-13, the Company extended financial assistance to 952 disabled persons out of the total 170290 eligible population of disabled persons[9] of the State. During the period 2009-2013, the Company received ₹ 8.66 crore from NHFDC and same was disbursed to 457 beneficiaries as detailed in ***Annexure - 3.5***.

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[7] For the purpose of availing loan from NHFDC and disbursing the same to the disabled persons, the Government of Chhattisgarh nominated the Company as the State Channelising Agency (SCA).

[8] (i) For loans upto ₹ 50000, rate of interest to be paid by beneficiaries to the Company is five *per cent* and rate of interest to be paid by the Company to NHFDC is two *per cent.*
(ii) For loans above ₹ 50000 and upto ₹ 5.00 lakh, rate of interest to be paid by beneficiaries to the Company is six *per cent* and rate of interest to be paid by the Company to NHFDC is three *per cent.*
(iii) For loans above ₹ 5.00 lakh, rate of interest to be paid by beneficiaries to the Company is eight *per cent* and rate of interest to be paid by the Company to NHFDC is five *per cent.*

[9] As per the State wide survey of 2001- Population of Indian citizen aged between 20 to 59 years with 40 *per cent* or more disability

Planning

Non formulation of long term/ short term plans

3.4.5 The main objective of the Company is to implement schemes for the economic development of the disabled persons by extending financial assistance to them. For proper implantation of the schemes by covering the entire eligible population of disabled persons, preparation of long terms/short terms plans was essential indicating targets and means to achieve the same.

We observed that though the Company has been in existence for more than nine years, it has not formulated any long term or short term plans for financing the targeted beneficiaries in phased manner which led to poor coverage of targeted population. The Company had also not formulated its own policy in line with the guidelines issued by the NHFDC.

Sanction of loans

Upto 2012-13, the Company had extended financial assistance to only 0.56 *per cent* of the total eligible disabled population.

3.4.6 The Company, since its inception upto 2012-13, could extend financial assistance to only 952 disabled persons i.e. 0.56 *per cent* of the total eligible disabled population of the State. Further, the coverage of the disabled persons in the tribal and remote areas was also very poor. Upto 2012-13, the Company had extended financial assistance to only 14 out of 90 application received from the total 18055 disabled persons from these areas as follows:

District	Number of eligible population of disabled persons in the district	No. of applications received	No. of applications not sanctioned due to deficiencies/ in process	Loans sanctioned to the number of disabled persons
Bastar	7373	19	17	2
Narayanpur		2	0	2
Dantewada	5784	17	14	3
Bijapur		1	1	0
Kanker	4898	51	44	7
Total	**18055**	**90**	**76**	**14**

Thus the eligible disabled persons living in remote areas were also deprived of the financial assistance and consequent benefits of the schemes.

The Management stated (May 2013) that with the help of Social Welfare Department, Government of Chhattisgarh, financial assistance was extended to the disabled persons.

The reply does not address the main issue of poor coverage of the targeted population.

Delay in sanctioning loans

Loans were sanctioned with delay ranged between three and 46 months.

3.4.7 On scrutiny of records pertaining to loans sanctioned during the period from 2009-10 to 2012-13, we observed that the Company had not prescribed any time schedule for processing the loan applications received by it at district offices and at HO. In absence of the same, very long time ranged between three and 46 months were taken in processing cases as noticed on test check of 220 out of 457 cases of loan sanctioned during the period. It was also observed

that the registers were not maintained at the district offices and HO to monitor the status of the applications.

We also observed that the Company has also not prescribed any time schedule for holding the meeting of the screening committee responsible for sanctioning of the cases at HO. As a result the meeting of the screening committee was not conducted regularly which is evident from the fact that during the period from 1 April 2009 to 31 March 2013, only five meetings were held which had also delayed the sanction of loans.

The Management stated (May 2013) that the work of sanctioning of loans has now been included under the *'Chhattisgarh Lok Seva Guarantee Adhiniyam 2011'* and cases would be processed within the time limit of 90 days as prescribed therein.

Disbursement of loan

Non-disbursal of Company's share to beneficiaries

3.4.8 As per guidelines issued by NHFDC, the Company was expected to contribute five *per cent* of the sanctioned project cost as their share of loan[10] in case the cost of the project exceeds ₹ 50000 (except educational loan scheme).

We observed that while disbursing the loan amount to the beneficiaries, the Company had released only the share of NHFDC and did not disburse its share of loan in respect of all the cases where project cost exceeded ₹ 50000. As a result, the beneficiaries had to arrange more funds from their own sources for implementation of their project thereby causing financial hardship to them.

The Management stated (May 2013) that in absence of provision for payment of five *per cent* share of the Company, the same was not released to the beneficiaries. The Management, however, stated that they would take up the matter with the Government.

The fact remains that by non disbursing its share, Company failed to comply with the guidelines issued by NHFDC.

Non insurance of loans disbursed to the beneficiaries

3.4.9 The Company decided (March 2008) to obtain insurance coverage of loan disbursed to the beneficiaries so that Company's interest may be safeguarded against the life risks of the beneficiaries and in case of death of any beneficiary, the outstanding loan amount may be claimed from the Insurance Company.

We, however, observed that in spite of the above decision, the Company did not obtain any insurance policy against the loans of ₹ 8.66 crore disbursed to 457 beneficiaries during 2009-10 to 2012-13. We also observed that an

[10] (i) For project cost upto ₹ 50000, NHFDC share is 100 *per cent.*
(ii) For project cost above ₹ 50000 and upto ₹ 1.00 lakh, NHFDC share is 95 *per cent* and Company share is five *per cent.*
(iii) For project cost above ₹ 1.00 lakh and upto ₹ 5.00 lakh, NHFDC share is 90 *per cent* , Company share is five *per cent* and beneficiary share is five *per cent.*
(iv) For project cost above ₹ 5.00 lakh, NHFDC share is 85 *per cent* , Company share is five *per cent* and beneficiary share is 10 *per cent.*

amount of ₹ 2.64 lakh was outstanding upto March 2013 against four beneficiaries who expired between 2007 and 2009.

The Management stated (May 2013) that due to non-finalisation of rate of premium with the insurance companies, the insurance policy could not be obtained. The Management also stated that as per the guidelines (2011) of NHFDC, there is provision for waiver of the loan amount in death case.

The reply is not convincing because the loan waiver scheme of NHFDC is applicable to cases of loan upto rupees one lakh only given to the Below Poverty Line beneficiaries. Further the waiver is also conditionals such as income generating unit becomes non-operational due to the demise of beneficiary, the legal heir(s) of the beneficiary are not in a position to carry out the business or repay the outstanding loans.

Recovery and monitoring of loans

Accumulation of huge arrears of ₹ 4.27 crore due to poor pace of recovery of loans

3.4.10 The Company sanctions and disburses the loans to the beneficiaries with repayment period ranging between three and seven years excluding moratorium period of three months. For loans upto rupees five lakh[11], no security is taken by the Company whereas for loan above rupees five lakh, the assets purchased out of the loan amount is hypothecated in favour of the Company. The amount of principal and interest is recovered through equated monthly instalment.

We observed that for recovery of loans, the Company had neither formulated any policy nor evolved a proper system. Recoveries were being made based on the cash/ cheques/ post dated cheques deposited by the beneficiaries. As a result, the recovery of loan during the last four years ending 31 March 2013 was very poor and percentage of recovery ranged between 40.53 and 42.48. Due to the poor recovery, the outstanding amount increased from ₹ 1.12 crore in 2009-10 to ₹ 4.27 crore in 2012-13 as follows:

(₹ in crore)

Year	Amount due at the end of the year			Amount paid by beneficiaries	Outstanding amount at year end	Percentage of recovery
	Principal	Interest	Total receivable amount at the year end			
1	2	3	4	5	6 (4-5)	7 (5/4)
2009-10	1.33	0.56	1.89	0.77	1.12	40.74
2010-11	2.16	0.77	2.93	1.19	1.74	40.61
2011-12	3.41	1.11	4.52	1.92	2.60	42.48
2012-13	6.20	0.98	7.18	2.91	4.27	40.53

We further observed that 229 beneficiaries to whom the Company had disbursed loan of ₹ 3.95 crore between 2005 and 2012, did not pay any installments so far (December 2012). The age wise details of these 229 beneficiaries are as follows:

[11] Rupees three lakh upto 31 March 2012

Year	No. of beneficiaries	Loan Amount (₹)
2005-06	5	270000
2006-07	7	347000
2007-08	27	1424600
2008-09	8	982000
2009-10	33	3001050
2010-11	11	1089977
2011-12	71	16746665
2012-13	67	15618049
Total	**229**	**39479341**

Though the Company had decided (12 July 2010) to issue show cause notices to defaulters and hand over the cases to Revenue Department for recovery of dues as arrears of land revenue, not a single case was handed over to Revenue Department so far (March 2013). Further, the Company had not fixed any criteria for categorisation of loans as performing assets and non performing assets.

The Management stated (April 2013) that procedure for recovery of loans would be formulated and outstanding amount would be recovered as land revenue. The Management further stated (May 2013) that necessary instructions have been issued to District Managers for improving the recovery position.

The fact remains that in absence of proper system of recovery of loans and failure of the Management to take action against the defaulters, the percentage of recovery of dues was very poor which remained below 43.

Lack of monitoring of implementation of projects

3.4.11 As per the guidelines of NHFDC, it was the responsibility of the Company to ensure that the loan disbursed to the beneficiaries was utilised for the purpose for which it was sanctioned. Further, the Company was also responsible for monitoring the implementation of the projects for which loans were sanctioned to the beneficiaries.

We, however, observed that for monitoring of the projects, the Company had not put in place any system and even it had not conducted any physical verification of assets of beneficiaries, which were purchased/ created from the loan. As a result, Company was not in position to ascertain whether the funds were utilised by the beneficiaries for the purpose for which it was sanctioned or whether the projects were in working condition or the same was closed, sold or managed by persons other than the beneficiaries.

The Management stated (May 2013) that physical verification of assets and monitoring of the projects are done by the District Managers.

The reply is not acceptable as the Management failed to produce any documentary evidence in support of their claim.

Subsidy amounting to ₹28.79 lakh drawn for ineligible beneficiaries

3.4.12 The '*Utthan Subsidy Scheme'* approved by the Social Welfare Department, Government of Chhattisgarh envisages payment of subsidy equal to 50 *per cent* of the balance amount of loan to those beneficiaries who are

running their business successfully for at least three years and repaid the monthly installments of loan on due dates without any default during the last three years.

Accordingly, during the year 2009-10, the Company had identified 84 beneficiaries under this scheme and submitted (January 2010) a proposal to the Government claiming ₹ 14.83 lakh as subsidy which was released by the Government in March 2010. Similarly, during the year 2010-11, the Company identified 55 beneficiaries and submitted (January 2011) a proposal to the Government for release of ₹ 15.20 lakh towards subsidy. Accordingly Government released ₹ 15.00 lakh in November 2011.

We observed that while submitting the proposals to the Government for claiming subsidy under this Scheme for the years 2009-11, the Company had also selected beneficiaries who were not eligible under the Scheme as they had not remitted the installments on due dates and in some cases period of loan disbursement to the beneficiaries were less than three years. As a result the Company had drawn excess subsidy of ₹ 28.79 lakh from the Government in the name of 131 ineligible beneficiaries which is yet to be disbursed to the beneficiaries. Further, the subsidy of ₹ 1.04 lakh received from the Government for the eight eligible beneficiaries were also not distributed so far (March 2013).

Thus, drawing of subsidy in respect of ineligible beneficiaries and non disbursement of the subsidy to the eligible beneficiaries despite receiving the same from Government was irregular.

The Management stated (May 2013) that the beneficiaries were selected at the district level according to the criteria of the Scheme.

The reply is not acceptable because out of the total 139 beneficiaries selected by the Company under the *Utthan Subsidy Scheme*, 131 beneficiaries did not fulfill the eligibility criteria.

Conclusion

The Company had not prepared any long term/short term plans for providing financial assistance to the disabled persons. The coverage of the disabled persons was very poor as the Company could extend the financial assistance only to 952 disabled persons out of the total 170290 eligible disabled population of the State upto 2012-13. For sanctioning of loans, the Company had taken very long time ranged between three and 46 months. The Company had not obtained insurance coverage against the loans sanctioned to the beneficiaries. The Company had not evolved any effective and proper system for recovery of loan from the beneficiaries resulting in accumulation of arrears of ₹ 4.27 crore as on 31 March 2013 and percentage of recovery remained below 43 during last four years ending 31 March 2013. There was no system for monitoring the implementation of the projects to ensure that the loan was utilised for the purpose for which it was sanctioned.

We reported (June 2013) the matter to the Government, their reply is awaited (September 2013).

Chhattisgarh State Beverages Corporation Limited

3.5 Non-recovery of Excise Duty on godown breakages

Failure of the Company to recover excise duty of ₹ 2.97 crore from the suppliers and deposit with the Excise Department resulted in extension of undue benefit to the suppliers and loss to the State exchequer to that extent

The Chhattisgarh State Beverages Corporation Limited, Raipur (Company), a FL-10 licensee[12] under the '*Chhattisgarh Videshi Madira Niyam 1996'* (*Videshi Madira Niyam*), having two godowns at Raipur and Bilaspur was established (November 2001) as a wholly owned State Government Company to act as sole licensed wholesale agent to procure, store and sell Indian Made Foreign Liquor (IMFL) in the State of Chhattisgarh. Every financial year, the Company invites open tender from suppliers/manufacturers of IMFL (Suppliers) for registration for supply of IMFL to the Company at the landing price[13]. The landing price is approved by the Company based on the offers received from the Suppliers. From the registered Suppliers, the Company procures different brands of IMFL at the landing price, stores the same in its godowns and after adding its margin, the same is then sold to the retailers having permit of the State Excise Department (Department). As per clause 2.2 of the agreement finalised between the Company and Suppliers, payment to the Suppliers for IMFL so procured is made only when the stock is sold to the retailers by the Company. The clause 2.4 of the agreement also provides that till the sale is made by the Company to the retailers, the risk and property in the stock shall vest with Suppliers who shall bear all losses in the stock. The unsold closing stock lying at the godowns at the end of financial year is valued at the then prevailing landing price and the same is shown in the annual accounts of the Company as closing inventory.

The Rule 17(2) of *Chhattisgarh Videshi Madira Niyam 1996* does not allow any godown wastage/ breakage of IMFL stored at the godown of FL-10 licensee. In case of any godown wastages, the FL-10 licensee needs to pay the applicable duty on the quantity of godown wastages to the State Excise Department.

Scrutiny (January 2013) of records relating to godown breakages revealed that during the years 2007-08 to 2010-11, 132448.25 Proof litre of spirit and 140253.9 Bulk litre of malt were accounted under breakages in Raipur godown. Similarly, during the same period, 122004.4 Proof litre of spirit and 253927.5 Bulk litre of malt were accounted under breakages in Bilaspur godown. As per Rule 17 (2) of *Videshi Madira Niyam* and clause 2.4 of the agreement finalised with the Suppliers, the Company was required to recover the Excise Duty of ₹ 2.97 crore on the quantity of above godown breakages from the Suppliers

[12] Wholesale license to sell registered brands of IMFL manufactured by the distilleries to retailers.

[13] The price at which the Company receive the stock of IMFL at its godown.

and deposit with the State Excise Department as detailed in ***Annexure – 3.6***. We, however, observed that the Company did not recover the Excise Duty of ₹ 2.97 crore from the Suppliers and deposit the same with the State Excise Department. This has resulted in extension of undue benefit to the suppliers and loss to the State exchequer to the extent of ₹ 2.97 crore.

The Management stated (June 2013) that as per clause 2.4 of the agreement, the Suppliers are responsible for all losses till the stock is resold by the Company but nowhere in the agreement it was mentioned that the Suppliers would be liable for payment of excise duty on the quantity of godown breakages. The Management also stated that the rule 17 (2) of *Videshi Madira Niyam* states about *Chhijan* only i.e. losses on account of leakage and evaporation and it does not state about losses on account of godown breakages/shortages. Since the instant cases related to godown breakages, the rule 17 (2) is not applicable. The Management further stated that as per the judgments of the Honourable Supreme Court of India in cases of the State of Madhya Pradesh *versus* Gappulal, the State of Rajasthan *versus* Pannalal and Bimal Chandra Banerjee *versus* the State of Madhya Pradesh, excise duty on the quantity of liquor not lifted/drawn by the licensee is not recoverable. The Government has also endorsed (August 2013) the views of the Management.

The reply is not acceptable because

- clause 2.4 of the agreement states that the Suppliers are responsible for all losses till the stock is resold by the Company. Thus it is implied that any taxes payable on such losses is also to be borne by the Suppliers only.
- *Chhijan* means wastage which includes godown breakages as mentioned by the Management in its letter (10 December 2010) to the Commissioner (Excise), Government of Chhattisgarh. In the letter the Management had requested the Commissioner to fix a permissible limit for storage loss (godown breakage) by amending the *Videshi Madira Niyam* because it does not allow any loss towards *Chhijan* as occurrence of storage loss on handling of IMFL in the godowns is a normal process.
- Case laws cited by the Company were regarding collection of excise duty on unlifted/ undrawn quantity of liquor if the fixed monthly quantity is not taken in any month by the liquor contractors (retailers) whereas the instant case is regarding collection of excise duty on reported godown breakages from FL-10 licensees. Thus, the collection of excise duty on godown breakages from the FL-10 licensees is totally different from collection of excise duty on unlifted quantity from the retailers.

Chhattisgarh State Industrial Development Corporation Limited

3.6 Extension of undue benefit

Extension of undue benefit of ₹ 32.40 lakh to the allottee due to non recovery of penal interest

The Chhattisgarh State Industrial Development Corporation Limited, Raipur (Company) develops and maintains industrial growth centres / areas with common facilities like roads, water, power etc. and allots land to the potential

industrial units (entrepreneurs). For land within the industrial area, the Company collects land premium (lumpsum amount towards cost of the land) as fixed by the Board of Directors (Board) of the Company as well as annual lease rent and annual maintenance charges from the entrepreneurs. The Company receives applications from entrepreneurs for allotment of land. If land is available and applications are found in order, the Company, after collecting advance premium (10 *per cent* of total premium payable) issues Letter of Intent (LoI) indicating the terms of allotment and total amount to be paid. On receipt of LoI amount, land allotment order is issued.

Sona Beverages Private Limited (SBPL) had applied (October 2009) for allotment of 25 acres land at Birkoni Industrial Area of the Company in Mahasamund District for setting up a Beer manufacturing unit. After receipt (19 February 2010) of ₹ 5.83 lakh[14] towards advance premium, the Company issued (6 May 2010) LoI for allotment of 12 acres land. Subsequently, SBPL had submitted (18 August 2010) fresh application for allotment of 25 acres land at Borai Industrial Growth Centre, Durg and requested (25 August 2010) the Company to adjust the amount of advance of ₹ 5.83 lakh already paid for land at Birkoni Industrial Area. Accordingly, the Company issued (8 October 2010) revised LoI for allotment of 25 acres land and instructed SBPL to deposit the balance amount of ₹ 9.02 crore[15]. However, SBPL requested the Company (12 October 2010) to allot 9.63 acres land instead of 25 acres. In response, the Company again revised (14 October 2010) the LoI for allotment of 9.63 acres land for ₹ 3.50 crore but SBPL did not deposit the amount and sought (26 November 2010) extension of one month for the same as soil testing work was going on in the subject land. Request of SBPL was accepted (9 December 2010) by the Company with the condition of payment of penal interest as per clause 5 of LoI[16]. The SBPL deposited (23 April 2011) ₹ 3.44 crore after adjusting ₹ 5.83 lakh. However, SBPL did not deposit the penal interest amounting to ₹ 32.40 lakh[17] and requested (23 April 2011) the Company to waive the same considering the high value of the land. The land allotment order was issued on 13 May 2011. Considering the request of SBPL, the Company submitted (13 July 2011) a proposal to the Board for waiver of penal interest of ₹ 32.40 lakh on the ground that the value of the land allotted to SBPL in food park area was more than the value of land in other part of the Borai Industrial area. Neither the Board had taken any decision in this regard even after lapse of two years nor the Company had recovered the penal interest of ₹ 32.40 lakh from SBPL so far (July 2013).

We observed that the proposal submitted by the Company for waiver of penal interest of ₹ 32.40 lakh for delayed payment of ₹ 3.44 crore on the ground of high value of land was not justified and amounts to extension of undue benefit to SBPL as the value of the land was pre fixed (September 2010) by the Board

[14] 10 *per cent* of total cost of ₹ 58.28 lakh.

[15] ₹ 9.08 crore for land at Borai – ₹ 0.06 crore advance already paid for land at Birkoni

[16] If the applicant failed to deposit the required amount within the stipulated time of 45 days, the applicant shall apply for time extension and if the Company accepted the request of time extension, the applicant shall have to pay interest at the rate of 18 *per cent* per annum for delay period.

[17] ₹ 3.44 crore X 18 *per cent* X191 days (08/10/2010 to 23/04/2011)/ 365 days

of the Company and SBPL was also aware of the same. Thus, as per clause 5 of LoI, SBPL was required to pay penal interest for delayed period which was also mentioned in the Company's extension letter dated 9 December 2010.

The Management stated (December 2012) that the decision regarding recovery of penal interest would be taken by the Board of the Company.

The reply confirms that though the Board is supposed to take the decision in the interest of the Company according to the terms and conditions of LoI, it has not taken any decision so far despite lapse of more than two years. The Company instead of recovering the amount of ₹ 32.40 lakh from SBPL, has kept the matter pending for more than two years which tantamounts to undue advantage to SBPL of ₹ 32.40 lakh.

The Company should immediately recover the amount of ₹ 32.40 lakh from SBPL.

We reported (June 2013) the matter to the Government, their reply is awaited (September 2013).

Chhattisgarh State Power Distribution Company Limited

3.7 Loss of revenue

Reduction in contract demand in violation of provision of the Chhattisgarh State Electricity Supply Code resulted in loss of revenue of ₹ 36.68 lakh

The distribution and supply of electricity in the state of Chhattisgarh is governed by the "Chhattisgarh State Electricity Supply Code 2005" (Supply Code) as amended from time to time. As per clause 7.9 of Supply Code 2005, generally no application for reduction of contract demand / connected load shall be entertained by the licensee within the 'initial period of agreement'. The clause 7.9 was modified in the amended (November 2011) Supply Code 2011 which provided that no application form for reduction of contract demand / connected load for more than 50 *per cent* shall be entertained by the licensee within the 'initial period of agreement'. As per clause 2.1 (kk) of Supply Code 2011, 'Initial period of agreement' means the period of two years starting from the date of commencement of agreement. The initial period of agreement shall continue till the end of the month, on which the last date of the two year period expires.

The erstwhile Chhattisgarh State Electricity Board {now Chhattisgarh State Power Distribution Company Limited (Company)} had released (September 2007) High Tension connection to M/s Brahaspati Iron and Steel Company (P) Limited, Raipur (consumer) for contract demand[18] (CD) of 4160 KVA. Based on the request (September 2009) of the consumer, the CD

[18] The maximum load in KW, KVA or HP, as the case may be, agreed to be supplied by the licensee and contracted by the consumer and mentioned in the agreement.

was enhanced from 4160 KVA to 10000 KVA with effect from 1 April 2010 after finalising (17 February 2010) a new agreement in this regard with consumer. Clause 4 and 9 of the new agreement provide that the parties are bound to comply with the relevant provisions of the Electricity Act, 2003 and all regulations made there under including the Supply Code. The supply and use of electricity under this agreement shall be strictly regulated in accordance with the various provision of the Supply Code as amended from time to time. As per special clause 27 (i) of the new agreement, the existing agreement (September 2007) entered into by the consumer for supply of power for a total CD of 4160 KVA shall cease to have further effect from the date of commencement of this agreement. Subsequently, on the basis of the request (November 2011) of the consumer, the Company reduced the CD from 10000 KVA to 60 KVA with effect from 1 January 2012.

We observed that as per provision of clause 2.1 (kk) of the Supply Code 2011, the initial period of two years of new agreement was due for expiry on 31 March 2012. Within this initial period of two years, the reduction in CD was permitted upto 50 *per cent* of the existing CD i.e 5000 KVA. However, the Company reduced the CD of the consumer for more than 50 *per cent* of the existing CD i.e. from 10000 KVA to 60 KVA with effect from 1 January 2012 in violation of the provision (clause 7.9) of the Supply Code 2011.

Thus reduction of CD in violation of provision of Supply Code 2011 had resulted in loss of revenue of ₹ 36.68 lakh[19] to the Company towards minimum demand charges for the period from 1 January 2012 to 31 March 2012.

The Management stated (May 2013) that the consumer had begun to take electrical energy on 28 November 2007 and thus the initial period of agreement had expired on 30 November 2009. Subsequently for the purpose of increasing the CD from 4160 KVA to 10000 KVA, a supplementary agreement was executed with the consumer with effect from 1 April 2010 in accordance with the clause 7.17 of Supply Code 2005 which provides that "If there is a need to modify/ amend the agreement signed between the licensee and consumer, it may be done by a supplementary agreement." Thus, the agreement executed with the consumer effective from 1 April 2010 was for all purpose was a supplementary agreement and not a new agreement. Hence the provision of Supply Code regarding restriction of reduction in CD during the initial period of agreement is not applicable on this supplementary agreement.

The reply is not acceptable because as per clause 7.17 of Supply Code 2005, modification/ amendment of existing agreement may be done by supplementary agreement. Thus, supplementary agreement is not mandatory as per Supply Code but is only an option and this option was not exercised by the contracting parties. For the purpose of increasing the CD to 10000 KVA the Company had executed (17 February 2010) a new agreement, not a supplementary agreement, with the consumer. The above fact is also

[19] Permissible reduction in CD i.e. 50 *per cent* of 10000 KVA = 5000 KVA - 60 KVA = 4940 KVA x 75 *per cent* (billing is done based on actual maximum demand or 75 *per cent* of the CD whichever is higher) x ₹ 330 per KVA (being the rate of demand charges per KVA per month as per the then prevailing tariff) x 3 months (January 2012 to March 2012) = ₹ 3667950

substantiated from the special clause 27 (i) of the new agreement which provides that the existing agreement (September 2007) entered into by the consumer for supply of power for a total CD of 4160 KVA shall cease to have further effect from the date of commencement of this agreement. It is pertinent to mention that in case of supplementary agreement, both the original agreement and supplementary agreement co exist. However, in the instant case the validity of the original agreement (September 2007) expired after the new agreement came into effect from 1 April 2010 as per clause 27 (i) of the new agreement.

While allowing reduction in contract demand, the Company should strictly comply with the provisions of "Chhattisgarh State Electricity Supply Code".

We reported (May 2013) the matter to the Government, their reply is awaited (September 2013).

Chhattisgarh State Power Generation Company Limited

3.8 Avoidable expenditure

Avoidable expenditure of ₹ 1.08 crore on outsourcing of operation & maintenance of 'Dual Flue Gas Conditioning System' at Power House -II of KTPS

In order to reduce stack emission[20] of exit flue gases of Power House - II of Korba Thermal Power Station (KTPS) within the norms prescribed by the Chhattisgarh Environment Conservation Board, the erstwhile Chhattisgarh State Electricity Board {now Chhattisgarh State Power Generation Company Limited (Company)} installed a Dual Flue Gas Conditioning System (DFGC). The DFGC was designed, erected and commissioned (1 February 2008) by a private company i.e. M/s Chemithon Engineers Private Limited, Mumbai (Chemithon). As per the work order (13 October 2006), Operation & Maintenance (O&M) of DFGC for initial one year from date of commissioning was to be carried out by Chemithon. It was also stipulated in the work order[21] that Chemithon shall train the staff of the Company for O&M of DFGC at no cost to the Company. The O&M of DFGC for initial one year was completed by Chemithon in January 2009.

However, the Company citing (February 2009) acute shortage of staff at KTPS did not spare the man power for training and consequently it had to outsource

[20] A stack is a type of chimney, through which combustion product gases called flue gases are exhausted to the outside air. Flue gases are produced when coal, oil, natural gas or any other fuel is combusted in a power plant's steam generating boiler. Flue gas is usually composed of carbon dioxide, water vapor, nitrogen, excess oxygen and small percentage of pollutants such as suspended particulate matter, carbon monoxide, nitrogen oxide and sulfur oxides. To control these pollutants, the Dual Flue Gas Conditioning System is used which minimises the emission of pollutants to the air.

[21] Clause 3.14.00 – Upon completion of the work and prior to taking over the system the contractor shall train the Company personnel for O&M of the system installed by them at no cost to the Company.

the O&M of DFGC to Chemithon continuously from February 2009 on yearly contract basis with total expenditure of ₹ 2.23 crore (till January 2013).

We observed (January 2012) that the Company was aware that the DFGC, an important environment protection equipment required continuous operation parallel to the operation of Power House – II of KTPS. Accordingly, O&M of DFGC for initial one year from date of commissioning was given to Chemithon mainly with a view to train the staff of the Company so that O&M of DFGC can be carried out departmentally in subsequent years without incurring any extra expenditure. In spite of the above and despite being aware of requirement of only four Plant Attendants Grade II (PAs II) and four Junior Engineers (JEs) for O&M work, the Company had not taken any action during the initial period of one year of O&M contract (February 2008 to January 2009) to recruit the required manpower and get them trained for O&M of DFGC. We further observed that the Company had subsequently recruited 14 PAs II and 257 JEs between 2009-10 and 2011-12 but same were not deputed for O&M of DFGC system.

Thus the Company continued to outsource the O&M work despite recruiting 14 PAs II and 257 JEs. Had O&M of DFGC been carried out departmentally the Company could have saved ₹ 1.08 crore[22] over period of four years (February 2009 to January 2013) because O&M of DFGC departmentally would have cost ₹ 28.84 lakh[23] per annum only as compared to ₹ 55.79 lakh[24] per annum incurred on outsourcing. This extra expenditure would increase further because Company had not initiated (July 2013) any action to train its staff for O&M of DFGC as the same is a continuous nature work.

The Management stated (December 2012) that to carry out O&M of DFGC departmentally for three shifts, four JEs and four PAs II are required. However, due to shortage of staff, the required manpower could not be spared for training and consequently O&M of DFGC is being carried out through outsourcing.

The reply is not acceptable because though the Company had made a provision in the agreement for training of staff for O&M of DFGC but had actually not drawn up any action plan to do so under the pretext of shortage of manpower and consequently did not train either the existing or the newly recruited PAs II and JEs for O&M of DFGC which led to avoidable expenditure of ₹ 1.08 crore.

The Company may take immediate steps to carry out O&M of DFGC departmentally to avoid further losses.

We reported (May 2013) the matter to the Government, their reply is awaited (September 2013).

[22] (₹ 55.79 lakh – ₹ 28.84 lakh) x 4 years

[23] (₹ 33043 being salary of one JE per month x 4 JEs x 12 months) + (₹ 27048 being salary of one Plant Attendant Gr Ik 4 Plant Attendant Gr II x 12 months)

[24] ₹ 22318102 / 4 years

Chhattisgarh State Power Holding Company Limited

3.9 Avoidable payment of penal interest

Avoidable payment of penal interest of ₹ 45.46 lakh due to non/ short payment of advance income tax

As per Section 208 of the Income Tax Act, 1961 (Act), advance tax is payable during a financial year, in every case, where the amount of such tax payable by the assessee during the year is rupees ten thousand or more. Section 234B of the Act stipulates that where in any financial year, an assessee who is liable to pay advance tax under Section 208 failed to pay such tax or where the advance tax paid by such assessee is less than 90 *per cent* of the assessed tax, the assessee shall be liable to pay simple interest at the rate of one *per cent* for every month from the first day of April on the amount by which the advance tax paid fell short of the assessed tax. Further, Section 234C of the Act provides that if an assessee fails to pay advance tax or the advance tax paid is less than 15 *per cent*, 45 *per cent*, 75 *per cent* and 100 *per cent* of the tax due till 15 June, 15 September, 15 December and 15 March respectively, the assessee shall be liable to pay simple interest at the rate of one *per cent* per month on the amount of the shortfall.

The Government of Chhattisgarh had notified (March 2010) the 'Chhattisgarh State Electricity Board Transfer Scheme Rules, 2010' (Transfer Scheme) effective from 1 January 2009 for transfer of properties, undertakings, interests, rights, obligations, liabilities, personnel and proceedings from Chhattisgarh State Electricity Board (CSEB) to its five[25] successor companies. As per the Transfer Scheme, the main objective of Chhattisgarh State Power Holding Company Limited (Company) was to undertake the coordination activities between the other four successor companies for smooth functioning.

We observed that during the financial year 2010-11, the Company earned income of ₹ 17.63 crore including interest income of ₹ 17.52 crore. However, the Company failed to pay advance tax on the above income within the stipulated period as per the provision of Section 208 of the Act and paid income tax on 29 September 2011 at the time of filing income tax return for the year 2010-11. As the interest income was an assured income for the Company and the Company was also aware of the same, it should have paid advance tax in accordance with the provision of the Act. Due to non-payment of advance tax, the Company

[25] Chhattisgarh State Power Generation Company Limited, Chhattisgarh State Power Transmission Company Limited, Chhattisgarh State Power Distribution Company Limited, Chhattisgarh State Power Trading Company Limited and Chhattisgarh State Power Holding Company Limited

had paid (29 September 2011) ₹ 39.91 lakh[26] towards penal interest. Further, due to short payment of advance tax for the year 2011-12, the Company had to pay (September 2012) penal interest of ₹ 5.55 lakh under Section 234C.

Thus, failure of the Company to pay advance tax for the years 2010-11 and 2011-12 in accordance with the provision of the Act resulted in avoidable payment of penal interest of ₹ 45.46 lakh.

The Management stated (June 2013) that the Company had taken proactive step to optimise the tax liability by converting the interest bearing loan given to the subsidiary companies as interest free loan. By doing this, it had saved income tax of ₹ 2.11 crore and ₹ 4.88 crore for the years 2010-11 and 2011-12 respectively. The Management also stated that because of its effective persuasion it could receive refund of income tax of ₹ 251.41 crore including ₹ 21.54 crore towards interest pertaining to the period of erstwhile CSEB from Income Tax Department. The Management further stated that payment of penal interest of ₹ 45.46 lakh was very small as compared to ₹ 21.54 crore received as interest from Income Tax Department.

The reply of the Management was not relevant and not acceptable because in their reply, the Management has given details of its efforts in tax optimization and obtaining refunds from Income Tax Department. These activities are legitimate duties of the Management and it does not in any way explain or condone the avoidable payment of penal interest on income tax dues which is a material amount. Neither these activities could have hampered timely payment of income tax.

The Company should devise a system for timely payment of advance tax in accordance with the provisions of the Act.

We reported (May 2013) the matter to the Government, their reply is awaited (September 2013).

GENERAL

3.10 Follow up action on Audit Reports

3.10.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of audit scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive.

Audit Reports for the years 2008-09 to 2011-12 were placed in the State Legislature in March 2010, March 2011, April 2012 and March 2013 respectively. Out of 17 paras/ Reviews involving 11 PSUs under seven departments featured in the Audit Reports (Civil & Commercial) for the year 2008-09 and Audit Report (PSUs) for the year 2011-12, no replies in respect of 11 paras have been received from the Government by 30 September 2013 as indicated in following table:

[26] Under Section 234B - ₹ 21.67 lakh and Section 234C - ₹ 18.24 lakh of the Act.

Year of Audit Report	Total Paragraphs/ Reviews in Audit Report	No. of Departments involved	No. of Paragraphs for which replies were not received
2008-09	6	6	2
2011-12	11	5	9
Total	**17**		**11**

Department wise analysis is given in ***Annexure - 3.7***.

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

3.10.2 In the Audit Reports (Civil & Commercial) and Audit Report (PSUs) for the years 2001-02 to 2011-12, 66 paragraphs and seven Reviews were included. Out of these, 46 paragraphs and five Reviews had been discussed by COPU upto 30 September 2013. COPU had made recommendations in respect of six paragraphs of Audit Reports for the years 2001-02 to 2009-10. No recommendations have been made on the Reviews so far.

As per the working rules of the COPU, the concerned departments are required to submit Action Taken Notes (ATNs) to COPU on their recommendations within three months. Upto 30 September 2013, only one ATN for the years 2001-02 to 2009-10 was received.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.10.3 Audit observations noticed during audit and not settled on the spot were communicated to the heads of PSUs through Inspection Reports (IRs). The heads of PSUs are required to furnish replies to the IR within a period of four weeks of its receipt. IRs issued upto March 2013 pertaining to 13 PSUs disclosed that 580 paragraphs related to 198 IRs remained outstanding at the end of September 2013. Department-wise break-up of IRs and audit observations outstanding as on 30 September 2013 are given in ***Annexure - 3.8***.

Similarly, draft paragraphs and Reviews on the working of PSUs are forwarded to the Principal Secretary/ Secretary of the administrative department concerned and the Principal Secretary, Finance demi-officially, seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Out of nine draft paragraphs and one Review forwarded to the various departments during May 2013 to July 2013, the Government had replied to three draft paragraphs so far (September 2013). Replies to six draft paragraphs and one Review have not been received as detailed in ***Annexure - 3.9.***

We recommend that the Government should ensure that (a) a procedure exists for taking action against the officials who failed to send replies to Inspection Reports/Draft Paragraphs/ Reviews and Action Taken Notes on the recommendation of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayments in a time bound manner and (c) the system of responding to audit observations is revamped.

Raipur
The

(PURNA CHANDRA MAJHI)
Accountant General (Audit), Chhattisgarh

Countersigned

New Delhi
The

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India