

## Chapter IV

### Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.

### Government companies

#### Gujarat State Fertilizers and Chemicals Limited

##### 4.1 Avoidable payment of price escalation

#### Failure to seek GOI approval at appropriate time for foreign collaboration led to avoidable payment of Rs. 5.96 crore.

The Company decided (October 2006) to enter into foreign collaboration agreements (FCA) with Halder Tapsoe A/S Denmark (HTAS) for setting up a project for production of Methanol, at Vadodara for an estimated cost of €85,97,500 (Rs. 51.59 crore<sup>∇</sup>). Under FCA, the Company was to make two arrangements with HTAS *i.e.* a) for license, knowhow and basic engineering package (€ 21,00,000; equivalent to Rs. 12.60 crore) and b) supply of proprietary equipments (€ 64,97,500 equivalent to Rs. 38.99 crore). The Company issued letter of intent (LOI) and also got the acceptance of HTAS for the work in October 2006. The contract was signed on 11 January 2007.

As per the provisions of contracts, the contract would be considered effective only if 10 *per cent* of the contract price is paid to HTAS within 30 days from the date of signing of the contract. In the contract for supply of proprietary equipments, it is further specified that if the contract is not made effective till 10 February 2007, HTAS reserves its right to revise the price of the contract. As per the contract signed for supply of proprietary equipments, the price was fixed at €66,02,500\* (Rs. 39.62crore). The Company, however, did not pay the advance of €7,12,750<sup>#</sup> (Rs. 4.28 crore) by 10 February 2007, on the plea that approval to its proposal for foreign collaboration was pending with Government of India (GOI)<sup>§</sup>. In March 2007, HTAS intimated the Company that it had revised the contract price for supply of equipments upward by € 7,35,000 (Rs. 4.41 crore). The Company upon receipt of GOI approval on 11 May 2007 remitted the advance payments to HTAS for both contracts

<sup>∇</sup> Calculated at the rate of Rs. 60 per Euro as adopted by the Company in its proposal and the amount was exclusive of duties, taxes, cess and transportation.

\* Revised at later stage by including €1,05,000 on account of additional items.

<sup>#</sup> Total value of contract €87,02,500 (Engineering €21,00,000 supplies including catalysts €66,02,500) (-) value of catalysts €11,00,000= €76,02,500 on which 10 *per cent* advance = €7,60,250 (-) credit on engineering fee allowed by HTAS €47,500= €7,12,750.

<sup>§</sup> Ministry of Commerce and Industry, Department of Industrial Policy and Promotion Secretariat for Industrial Assistance.

(i.e. i. Engineering package and ii. Supply of proprietary equipments) and also accepted the revision in the price of supply of equipments.

As per the guidelines of GOI, the approval of GOI was required to be taken before signing of FCA. In fact, the approval itself should be made a part of the FCA to be executed between the Company and HTAS. Hence, the Company could have approached the GOI upon acceptance of LOI by HTAS i.e. on 26 October 2006. Instead, the Company approached GOI on 23 January 2007 i.e. after signing of the FCA. If the Company had avoided this delay in seeking GOI approval, it could have made the contract effective by 10 February 2007 and thereby avoided the increase in cost of supply of equipments by Rs. 5.96 crore<sup>∇</sup>.

The Management/Government stated (July/August 2009) that as this project being a unique one in which old ammonia plant was being revamped for production of Methanol, various aspects were discussed with HTAS even after issue of LOI. Hence, the Company approached GoI after entering into contract with HTAS. However, GoI took more than three months in granting the approval against the reasonable period of one month estimated by the Company.

The reply is not convincing. The Company carried out (August 2006) the evaluation of HTAS technology for the project through a consultant and also discussed all vital issues with HTAS till September 2006. After arriving consensus on various issues with HTAS, the LOI was issued. As such, the Company was in a position to approach GoI for the approval in October 2006 itself. The Company, however, with a notion of getting the approval within a period of one month, belatedly approached GoI in January 2007.

It is recommended that the Company should fix the responsibility for delay in approaching GoI for approval.

#### **Gujarat Mineral Development Corporation Limited**

#### **4.2 Excess payment made to a transport contractor**

#### **Excess payment of Rs. 1.52 crore was made to a transport contractor for Akrimota Power Station.**

The Company awarded (August 2005) work for excavation and transportation of lignite/limestone from Akrimota/Panandhro/Umarsar mines to Akrimota Thermal Power Station (ATPS) and transportation of ash on return from ATPS to mines, to Swaminarayan Vijay Carry Trade Private Limited, Bhuj (SVCT). The scope of work covered excavation, loading and transportation of 15 lakh MT per annum of lignite; and 7.5 lakh MT per annum of limestone from mines to ATPS and on return trip to mines, to carry 15 lakh MT per annum of ash generated in the plant. The rate for excavation, loading and transportation

<sup>∇</sup> Rs. 4.41 crore (Increase in basic price) plus 34.21 per cent customs duty plus 1 per cent transportation charges.

of lignite and limestone was Rs. 61.95 per MT and Rs. 62.45 per MT respectively and for transportation of ash was Rs. 31 per MT.

From December 2005, the Company started selling ash from the point of ATPS itself to a cement company which resulted into non-availability of ash at power plant for transportation back to mines. This affected the earnings of the contractor as it was related to the quantity of ash lifted from ATPS. SVCT requested (May 2007) escalation in price as compensation since the prices quoted were for composite work of supply of lignite/limestone to ATPS and to transport ash back to mines.

Tender committee in its 50<sup>th</sup> meeting decided (3 April 2008) to increase transportation rates of lignite and limestone by Rs. 24.57 per MT. Accordingly a composite rate of Rs. 91.87<sup>⊗</sup> per MT was fixed which was to be paid in case of non-availability of sufficient ash from ATPS. If ash was made available on the return journey of dumpers to mines, the original rates specified in the work order was to be applicable. The revised rates were made applicable from 1 April 2006.

Audit scrutiny revealed that the Company applied the revised rate on entire quantity of lignite/limestone transported to the mines except where ash was available on return journey for which original rates were applied. As per the original contract, the contractor was being paid for an assured quantity of 15 lakh MT of ash only. Therefore, after the hike in the rates, the contractor should be paid at the original rates for the quantity of ash transported from ATPS and at higher rate for non-availability of the assured minimum quantity of ash which shall be the difference between 15 lakh MT and the quantity actually transported. Remunerating the transporter at the enhanced rate for the difference between the entire quantity of lignite and limestone transported (18.55 lakh MT) and the quantity of ash actually transported (1.24 lakh MT) resulted in excess payment of Rs. 1.52 crore on 6,18,339 MT of lignite/limestone transported during April 2006 to February 2009 as per **Annexure 12**.

The Management stated (July/October 2009) that the number of dumpers required to carry ash from ATPS to mines shall be equivalent to number of dumpers required to carry lignite/limestone from mines to ATPS due to less density of ash (0.75 MT/M<sup>3</sup>) compared to lignite/limestone (1.25 MT/M<sup>3</sup>). Hence, the Audit should have considered practical quantity of ash transported instead of the quantity of ash assumed to have been transported from ATPS.

The reply is not convincing as the transportation rates are based on the quantity of lignite, limestone and ash transported which has no relevance to number of trips. In fact, considering the density of proportion of lignite and ash, it was not possible for transporter to transport more than 15 lakh MT. Accordingly, payment to the transporter for the difference in quantity of lignite/limestone transported and quantity of ash transported was incorrect. Audit has correctly worked out the excess payment after considering the actual

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<sup>⊗</sup> Original rate (Rs. 61.95)+ Hike for non-availability of Ash (Rs. 24.57) + diesel hike as per the contract terms & conditions(Rs. 5.35) = Rs. 91.87.

quantity of ash transported against the proportionate quantity of ash supposed to have been transported during the period by the contractor.

It is recommended that the responsibility should be fixed for the excess payment made as pointed out in audit.

The matter was reported to Government (September 2009); their reply had not been received (December 2009).

### **Gujarat Industrial Investment Corporation Limited**

#### **4.3 Introduction of unwarranted OTS scheme**

**The Company incurred a loss of Rs. 1.17 crore by settling dues of profit making company against whom the Company had security worth Rs. 7.13 crore.**

The Company introduced (January 2002) One Time Settlement (OTS) Scheme III for settling the dues of the loss making defaulting units. In January 2008, the Company modified the Scheme (OTS III - Modified) by extending its applicability for settling the dues from the defaulting Units which made profit in any of the last three years.

Belgium Glass & Ceramics (P) Limited (the unit) was sanctioned a term loan of Rs. 73 lakh (December 1995) which was repayable with interest in 20 quarterly installments within a period of six years. The loan was secured by all present and future assets of the Unit, personal guarantee of its directors and corporate guarantee given by a firm<sup>⊕</sup>. The Unit started making profits from March 1998 but was not regular in the repayment of its dues since beginning. Though, the Company took possession of mortgaged assets of the Unit twice (March 2000 and February 2001), but did not proceed for sale of assets of the Unit and gave back the possession to loanee. Despite having cash profit of Rs. 54 lakh to Rs. 58 lakh during 2005-07, the Unit did not repay the dues. The Unit repeatedly approached (June 2006 to November 2007) the Company either for reduction of interest/rescheduling of loan or for settlement of dues under OTS. The Company did not consider the request as the Unit was profit making and was not eligible for any OTS scheme.

After the introduction (January 2008) of OTS III – Modified scheme, the Unit got eligibility and approached (12 February 2008) the Company for OTS. As on 15 February 2008 the outstanding dues of the Unit were Rs. 1.69<sup>∇</sup> crore. The value of the security available with the Company was Rs. 7.13\* crore. The Unit, however, offered to pay Rs. 51.85 lakh which was higher than the principal outstanding of Rs. 51.37 lakh applicable in this case as per OTS. The Company sanctioned (March 2008) the OTS and the Unit paid Rs. 51.85 lakh (March 2008). This was the only profit making Unit which approached and

<sup>⊕</sup> Vimal Proteins (P) Limited.

<sup>∇</sup> Principal Rs. 51.37 lakh; Interest Rs. 117.28 lakh and other expenses Rs. 0.44 lakh.

\* Value of fixed and current assets Rs. 5.92 crore and value of personal guarantee of directors Rs.1.21 crore.

settled its dues since the introduction of OTS III – Modified scheme till April 2009.

As the Company could have taken the possession of the assets under Section 29 of the State Financial Corporations (SFC) Act, 1951 and realised the full outstanding amount, the introduction of such a scheme was unwarranted. Also, only one loanee has taken the benefit of the scheme which shows that there was not much problem of default by profit making units. Thus, by modifying the OTS-III scheme without justification, the Company incurred loss of Rs. 1.17 crore (Rs. 1.69 crore *less* Rs. 0.52 crore).

The Government/Management (July 2009) stated that the Company modified the OTS III scheme with a view to maximise the recovery of dues from defaulting units even if they were of profit making units. The Company, however, to safeguard its interest, fixed criteria for ensuring a minimum rate of return<sup>#</sup> while settling the defaulters' accounts under OTS. Regarding settlement of account of only one unit under OTS III – Modified scheme, it was stated that it was left with the loanees to decide whether to avail benefit of OTS or not. Further, for not taking any action against the Unit under SFC Act, it was stated that the Company did not consider it prudent to close the operation of a running unit for realising its dues.

The reply is not tenable. The modification of OTS III scheme did not achieve its purpose of maximising the recovery of dues from the defaulting units; rather it had benefited only one defaulting unit which was making profit. Reason given for not taking action under SFC Act is not convincing.

It is recommended that the Company should introduce/modify any OTS scheme only after properly assessing the need for it.

#### **Sardar Sarovar Narmada Nigam Limited**

#### **4.4 Undue benefit to contractors**

#### **The Company gave undue benefit to contractors by not recovering the component of royalty of Rs. 1.19 crore.**

The Company awards the work for construction of canal earth work, structures and service roads for creation of canal system of Sardar Sarovar Project (SSP). One of the items of the work is 'earth in embankment in uniform layers from borrow areas/village tanks etc., in all sorts of soil, soft murrum (E-6)'. The contractors for the work have to bring earth/clay/ soft murrum from nearby villages, tanks or borrow areas. The contractors quote their rate for the above item based on the distance and the royalty on earth, if applicable. As per the provisions of Gujarat Minor Minerals Rules, 1966<sup>∇</sup>, royalty is payable on earth/clay/ soft murrum taken from borrow areas/village tanks.

<sup>#</sup> Rate of 15.25 *per cent* compounded quarterly from the date of disbursement of loans to till the settlement of dues under OTS. The rate 15.25 *per cent* is one *per cent* higher than the prime lending rate of the Company.

<sup>∇</sup> Renamed as Gujarat Minor Minerals (Amendment) Rules 2005 in December 2005.

The Company received and opened the tenders for award of six contracts relating to construction of canal earth work, structures and service roads for Botad and Limbdi Branch Canals during August to October 2006. The contracts were awarded (February – May 2007) with the stipulated period of completion ranging from 15 to 18 months from issue of work orders as per **Annexure 13**. As per clause 40 of tender conditions of these six contracts, the royalty charges were to be borne by the contractors and they were required to pay royalty and produce the “no due certificate” issued by the competent authority of Government of Gujarat (GoG), to the Company. Otherwise, the Company shall deduct the amount of royalty from the running account bill of the contractor. Further, it was stipulated that if the law of local or duly constituted authority or introduction of any State statute, decree, regulations or bye laws led to any reduction in cost to the contractor then such reduction in cost should be passed on to the Company. On 20 January 2007, GoG exempted the payment of royalty on earth/clay/soft murrum used in the works executed for the Company.

The rate<sup>^</sup> for E-6 item of work in these contracts was inclusive of royalty as the tenders were received and opened prior to 20 January 2007. After grant of exemption on 20 January 2007, the contractors were not paying any royalty on earth/clay/ soft murrum taken from borrow areas/village tanks for these works. Thus, the exemption granted by GoG led to reduction in cost of work under E-6 item. The Company, however, while making payments to contractors for the work executed under E-6 item, did not invoke the contract provisions to take the credit of such reduction in cost by deducting royalty of Rs 8.05 per cubic meter (cum) included in the rate of E-6 item.

Resultantly, an amount of Rs. 1.19 crore towards royalty remained unrecovered from contractors for 14.74 lakh cum of earth/clay/ soft murrum utilised in these works during 20 January 2007 to May 2009. Thus, the Company gave undue benefit to the contractors to the extent of Rs. 1.19 crore by not deducting amount of royalty in defiance to the provisions of contract. The works under these contracts were not yet completed (May 2009).

It is recommended that the Company should recover the amount of royalty from the contractors and also should fix the responsibility for non deduction of royalty as per the contract.

The matter was reported to Government/Management (July 2009); their reply had not been received (December 2009).

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<sup>^</sup> Ranging from Rs. 35 to Rs. 48 per cubic metre which includes royalty also.

<b>Gujarat State Financial Services Limited</b>
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#### 4.5 Irregular expenditure

<b>Finance Department made the Company incur expenditure of Rs. 5.22 crore on its renovation and modernisation, most irregularly and inappropriately, under a hugely extended interpretation of ‘Nirmal Gujarat’ slogan of the Government.</b>
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The Finance Department (FD) of GoG informed (25 January 2007) the Company that GoG declared the year 2007 as ‘Nirmal Gujarat’<sup>£</sup> and there was a need to modernise the office building of FD and accordingly asked the Company to bear the cost of such modernisation. FD justified its instructions on the plea that the Managing Director (MD), Joint MD and Vice President of the Company were holding positions in and were operating from FD. Also, the Company was getting its financial resources due to instructions of FD (July 1995/December 1999) to all the state public sector undertakings (PSUs) to place their surplus funds with the Company. As per the intimation, modernisation including new furniture/cabins etc., were to be done in all the six floors of FD and title to the property was to vest with FD.

The Board of Directors (BoD) of the Company (1 February 2007) gave in principle approval for incurring of expenditure without any estimate. FD directed (April/May 2007) the Company to issue the required work orders to architects, civil contractors etc., from time to time. The Company’s BoD sanctioned (2 June 2007) the expenditure as a donation for the ‘Nirmal Gujarat- Modernisation of FD’ and authorised the MD to do the needful in this regard. The Company had no role in the whole process of preparation of estimate, selection of contractors, passing the bills and ensuring final output. In July 2007, though FD tentatively estimated the cost of modernisation as Rs. 4.50 crore, the Company has already incurred Rs. 5.22 crore till 31 March 2009 and the work was still in progress (April 2009).

The actions of the Company as well as the State Government (Finance Department) are irregular and improper on account of the following reasons:

- Instead of seeking funds requirements through legislative process for budget allocation for the same, the State Government opted for seeking donation from the Company.
- The BoD of the Company gave donation to its administrative ministry in violation of the provisions of the Companies Act, 1956 and the financial propriety which reflected poor corporate governance.

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<sup>£</sup> “Nirmal Gujarat” is about managing waste (including capacity building in the management of waste) related with industries, transportation, hospitals, sanitation, solid waste disposal, tourism, temples, office building etc. It is also protecting water bodies, trees, green spaces and heritage buildings. It is also about implementing strategies, innovations, recycling and cleaner technologies, rules and regulations, incentives, administrative charges, and special campaigns.

- As per Section 293(i)(e) of the Companies Act, 1956, granting donations did not fulfil the terms and conditions governing corporate donations.

The Government stated (August 2009) that improving the working environment was one of the objectives of 'Nirmal Gujarat' slogan. The Company modernised its office through optimal utilisation of space and manpower usage resulting in improvement of its working environment. It was also stated that the expenditure had the sanction of BoD which must have considered the role of FD in formation and progress of the Company. Further, it was stated that the Company had given rationale for incurring the expenditure as its top officials were from FD and majority of the top management decision making processes had been taking place at FD itself. As far as the violation of the Companies Act was concerned, it was mentioned that there was no such violation since the decision taken by the BoD was within the powers granted by Article of Association (AA) of the Company.

The reply is not convincing as modernisation of government department is not covered under 'Nirmal Gujarat'. Moreover, the decision of the BoD in the matter was *ultra vires* of the Companies Act, 1956.

It is suggested that the Company should approach the State Government for return of the amount donated.

#### **Gujarat State Electricity Corporation Limited**

#### **4.6 Delay in award of contract for replacement of high pressure heaters**

**Delay in award of contract for replacement of high pressure heaters led to generation loss of 221.40 million units resulting in contribution loss of Rs. 7.08 crore.**

Thermal Power Stations (TPSs) use high pressure feed water heaters (HPHs) to recover heat from the steam which is extracted from the turbine. This heat is used to increase the temperature of the feed water in the boilers. This results in saving of heat energy used in heating feed water in boilers. As Gandhinagar Thermal Power Station (GTPS) of erstwhile GEB<sup>∇</sup> experienced frequent failures of HPHs in its Unit 3 and 4 during 2000-03, GTPS prepared (21 April 2003) a detailed project report (DPR) for taking up the work of replacement of HPHs in these units at the estimated cost of Rs. 6.50 crore. For completion of the work, DPR envisaged a span of 34 ½ months divided as (i) 12 months for the activities till award of contract, (ii) 20 months for supply of HPHs from the date of award of contract and (iii) 2½ months for erection and commissioning. The anticipated benefits as per DPR were in the form of increased generation of 7.5 MW per hour i.e. 65.70 MUs<sup>⊗</sup> per annum for each Unit 3 and Unit 4 based on its actual plant load factor, extended life of boiler, coal mill and

<sup>∇</sup> Gandhinagar TPS which was hitherto with erstwhile Gujarat Electricity Board (GEB) was transferred to its generation company Gujarat State Electricity Company Limited after the unbundling of GEB on 1 April 2005.

<sup>⊗</sup> 7.5 MW per hour x 24hrs.x 365 days = 65.70 MUs per annum.



induced draft (ID) fan parts, improvement in heat rate, and reduction in coal consumption and auxiliary consumption. In June 2003, the GEB accorded approval to GTPS for taking up the work.

It was observed in audit that against the envisaged completion of work and commissioning of HPHs by April 2006, the HPHs of Unit 4 was commissioned on 12 September 2008 and that of Unit 3 on 31 December 2008 only. In all, there was a delay of 32 months. Of this, delay 20 ½ months was attributable to GEB/Company due to delay\* in taking various actions and decisions in time as evident from following facts:

- The GEB/Company took 14 ½ months in preparation and approval of tender specifications for the work (13 June 2003 to 2 September 2004) against the envisaged time limit of six months.
- For invitation of tender and issue of detailed work order to the contractor, a time limit of six months was fixed. Against this, the GEB/Company, took 18 months *i.e.* i) GTPS took nearly five months and 22 days in inviting the tender (24 February 2005) after the approval of tender specifications and ii) both GTPS and the HO of the Company took 12 months and 7 days from invitation of tender to issue of detailed work order (2 March 2006) to the contractor.

Thus, due to avoidable delay of 20 ½ months in finalisation of tender for the work, the Company, apart from other benefits, failed to get the envisaged benefit of increased generation of 221.40 million units worth Rs. 54.02 crore<sup>∇</sup> during the period of delay which led to loss of a contribution of Rs. 7.08 crore<sup>⊕</sup>.

The Government/Management stated (September 2009) that to have a better competitive bidding, erstwhile Gujarat Electricity Board for the first time decided to go for open tender for purchase of HPHs instead of directly purchasing it from the original equipment manufacturer for GTPS (*i.e.* BHEL). Hence, the preparation of tender specifications for the first time by GTPS and granting of its approval by the HO and evaluation of bids after obtaining clarifications from bidders on the technical and commercial terms quoted in their offer in deviation to tender specifications took a lot of time in finalisation of tender and award of work.

The reply is not convincing. The reasons cited for the delays are very common and the GEB/Company could have avoided these delays if it had taken adequate and timely actions on all the activities relating to award of work.

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\* Delay of 5 months was attributable to the contractor for which Company recovered (June 2009) penalty of Rs. 25.20 lakh. Remaining delay of 6 ½ months was unavoidable.

∇ 65,700 MWH per annum x 1000=6,57,00,000 kwh or units per annum which is equal to 1.8 lakh units per day. 1,80,000x615 days (the delay) =11,07,00,000 units x2 (Units 3 and 4) =22,14,00,000 units x average selling price of a unit during 2006-07 and 2007-08 was Rs. 2.44=Rs. 54.02 crore.

⊕ Average selling price of a unit (Rs. 2.44) *minus* average variable cost of per unit (Rs. 2.12)= contribution per unit (Rs. 0.32) x22,14,00,000 units= Rs. 7.08 crore.

It is recommended that the Company should fix the responsibility for the delays pointed out and put in place suitable mechanism that such delays do not take place in future.

#### 4.7 Avoidable payment of Gujarat Sales Tax

**The Company made an avoidable payment of Rs. 2.70 crore on account of Gujarat Sales Tax by not executing separate agreement for purchase of gas and transportation of gas with GAIL.**

The Company entered into a single agreement (February 2004) with Gas Authority of India Ltd (GAIL) for purchase and transportation of 2,80,000 standard cubic metre per day of gas to the Company's gas based power station at Utran. The gas transmission charges\* were fixed separately from the gas charges.

A scrutiny of the gas bills of GAIL for the period 2004-08 revealed that GAIL prepared a combined bill for the value of gas as well as the gas transmission charges for the gas quantity supplied, though the gas transmission charges are shown separately in the bill. GAIL recovered Gujarat Sales Tax (GST) at the rate of 14/12 per cent up to 31 March 2006 and thereafter Value Added Tax (VAT) at the rate of 12.50 per cent both on the component of gas charges and on the transmission charges. Moreover, transportation of gas being a service covered under Service Tax Act, GAIL also recovered service tax at rate of 10.20 to 12.36 per cent<sup>∇</sup> on the fixed monthly transmission charges with effect from 16 June 2005. Accordingly, the Company has paid both VAT as well as Service tax on the gas transmission charges.

The Company also received gas for which the transmission charges were recovered by Gujarat State Petronet Limited without levying VAT. Hence, the Company while contracting with GAIL should have entered into separate agreements for purchase of gas and for transportation of gas. If it had done so, the transmission charges would have remained outside the purview of payment of GST as well as VAT. Thus, it could have avoided GST of Rs. 1.30<sup>⊕</sup> crore which was levied on the transmission charges of Rs. 9.59 crore during 2004-06 and VAT of Rs. 1.40 crore<sup>∇</sup> during 2006-08 for the gas transported by GAIL.

The Management/Government stated (August/November 2009) that GAIL was both supplying and transporting the gas to its customers as a single entity and so the gas supply agreements executed by GAIL with all its customers were identical. Hence, it did not agree to any changes in the agreement.

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\* Transmission charges were Rs. 13.65 per Million British Thermal Unit (mmbtu) and Rs. 22.86 per mmbtu till 31 March 2007 and monthly fixed transmission charges of Rs. 27,69,748 is being charged from 1 April 2007.

<sup>∇</sup> Including education cess at the rate of 2/3 per cent on service tax of 12 per cent.

<sup>⊕</sup> Rs. 71.28 lakh GST paid on transmission charges up to 15 June 2005 plus Rs. 58.88 lakh GST paid on transmission charges and on service tax levied on transmission charges from 16 June 2005 to 31 March 2006.

<sup>∇</sup> VAT paid on transmission charges and on service tax levied on transmission charges from 1 April 2006 to 31 March 2008.

The reply is not convincing as the records did not show that the Company made adequate efforts for entering into separate agreements with GAIL to avoid GST/VAT on the transmission charges. Having separate agreements is possible because GAIL has a system for accounting the transmission charges separately. Also, tax consultant of GAIL had opined (June 2005) that VAT could be avoided if separate agreement for transportation of gas would be executed.

It is recommended that the Company should effectively pursue for entering into separate agreements with GAIL for purchase of gas and for transportation of gas.

#### **4.8 Loss due to deficient planning in procurement and use of spares**

**Deficient planning in procurement and use of turbine generator spares for capital overhauling of power plant not only led to contribution loss of Rs. 1.13 crore but also interest loss of Rs. 1.11 crore.**

The Chief Engineer, Sikka Thermal Power Station (STPS) sent (March 2000) proposal to its Head Office (HO) of erstwhile GEB<sup>#</sup> for purchase of turbine generator spares. The spares were required during capital overhaul (COH) of unit 2 of STPS scheduled to be conducted in June 2000. The HO approved (November 2000) purchase proposal and STPS placed (7 December 2000) the order for Rs. 2.42 crore (ex-works price) on BHEL, Vadodara. Delivery of materials was to be completed in 12 months from the date of placing order i.e., by 7 December 2001. In view of this, COH scheduled to be taken up in June 2000, was postponed till January 2002 and was completed during 25 January 2002 to 10 April 2002.

Against the ordered quantity, BHEL supplied spares worth Rs. 1.69 crore during December 2001 to March 2003 with a delay up to 16 months over the stipulated delivery period. Out of these, the spares of Rs. 17.29 lakh were received up to 10 April 2002 i.e. prior to completion of COH. From these spares, STPS utilised spares of Rs. 1.56 lakh only as the complete set of assembly was not received during COH and COH was completed by reconditioning the existing parts of turbine generator. In view of completion of COH, STPS requested (June 2002) its HO for short closure of the supply order. Belatedly in February 2004, the HO intimated the STPS about its disagreement for short closure of order on the reason that such spares would not be readily available if needed in future. In the meantime, STPS continued to accept the supply of spares of Rs. 1.52 crore during June 2002 to March 2003.

It was observed in audit that, the COH done without using new spares was inadequate, as unit 2 of STPS had forced outages for a total span of 436.88 hours on four occasions<sup>⊗</sup> during 2003-07 due to problems in turbine generator. Consequently, STPS suffered a generation loss of 26.90 million units and

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<sup>#</sup> STPS was hitherto with erstwhile Gujarat Electricity Board (GEB) was transferred to its generation company Gujarat State Electricity Company Limited after the unbundling of GEB on 1 April 2005.  
<sup>⊗</sup> 4 to 7 November 2003, 28 April 2004, 13 to 16 June 2005, 6 to 18 January 2007.

resultant contribution loss of Rs. 1.13 crore<sup>∇</sup>. Further, of the total spares procured (till March 2003), STPS utilised spares of Rs. 8.80 lakh (Rs. 1.56 lakh and Rs. 7.24 lakh) only both during COH and in the subsequent period. However, spares of Rs. 1.93 crore<sup>⊕</sup> remained in stock over a period of six years resulting in loss of interest of Rs. 1.11 crore<sup>∇</sup> on the blocked funds during 2004-09.

The Management/Government stated (September/November 2009) that BHEL being the original equipments supplier for unit 2 of STPS; it had placed the order for spares as recommended by BHEL. Initially, for want of spares COH was postponed till end of January 2002. However, as annual overhaul (AOH) of boiler of unit 2 was due as per boiler regulations, COH of generator was also carried out with available spares while taking up AOH of boiler in January to April 2002.

The reply does not give any justification for belated submission of proposal by STPS and the delay in placement of order for spares by HO for the COH. Thus, the fact remained that deficiency in planning the procurement of spares led to taking up of COH without having required spares and occurrence of problems in turbine generator during post COH period and consequential generation loss. Besides, the Company also suffered interest loss on the funds blocked up due to idle inventory of spares.

It is recommended that the responsibility should be fixed for the lapses pointed out in audit.

#### 4.9 Deficient monitoring mechanism

<b>Gujarat State Electricity Corporation Limited awarded contract to a non-competent bidder for purchase of Gravimetric feeders.</b>
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In order to replace the existing volumetric coal feeders<sup>⊗</sup> at Ukai, Sikka and Wanakbori TPS with gravimetric feeders<sup>∇</sup> at an estimated cost of Rs. 8.30 crore, Rs. 2.77 crore and Rs. 12 crore respectively the Board invited tenders (March/May 2002) for rotary type gravimetric feeders for Ukai and Sikka TPS and dual belt type gravimetric feeders for Wanakbori TPS. The Board decided to go in for dual belt type gravimetric feeders for all the three TPS and consequently offer of Techfab Systems, Faridabad, was considered as the only technically acceptable bidder for Ukai and Sikka TPS and the lowest technically acceptable bidder for Wanakbori TPS. The Board approved placement of orders for Ukai and Wanakbori TPS, in August 2003, at a cost of Rs. 27.20 crore and for Sikka TPS, in May 2004, at a cost of Rs. 4.48 crore.

Audit observed following irregularities in the above contracts:

<sup>∇</sup> Average realisation rate Rs. 2.57 per unit minus average variable cost Rs. 2.15 per unit (during 2005-07) = Contribution Rs. 0.42 per unit x 2,69,01,395 units.

<sup>⊕</sup> Rs. 1.6 crore ex-works price, excise duty Rs. 0.26 crore and central sales tax Rs.0.07 crore.

<sup>∇</sup> At the rate of 9.55 per cent being the average borrowing rate during 2004-09.

<sup>⊗</sup> Ukai 3, 4 and 5; Sikka-unit 1; Wanakbori-Units 1, 2 and 3.

<sup>∇</sup> 6 feeders per unit; total 42 feeders.

- Techfab Systems, Faridabad (division of Technofab Engineering Limited) was the L-1 bidder and was approved for award of the contract by the Board of Directors. However the final order was issued to Technofab Engineering Limited considering it as the contracting party for Techfab Systems. This was irregular as tenders are not transferrable. The Board by allowing a division without contractual capacity to quote in the tender and then transferring the order to the party with contractual capacity had vitiated the basic norms of tendering.

The Management/Government stated (November/December 2009) that as Techfab Systems which had quoted for the tender was a division of Technofab Engineering Limited, the tender was in fact quoted by Technofab Engineering Limited hence there was no transfer of tenders.

Reply is not acceptable as in that case the tender could have been directly quoted by Technofab Engineering Limited. Moreover, if Techfab Systems (actually a partnership firm of Delhi) was the authorised agent of Stock Equipment, USA, the bid of Technofab Engineering Limited which was declared as qualified should have clearly mentioned in the bid documents of Techfab Systems.

- The tender filed by Techfab Systems, Faridabad (a division Technofab Engineering Limited) was for the supply of gravimetric feeders of Stock Equipment, USA. But the authority letter of Stock Equipment, USA enclosed along with the tender mentioned Techfab Systems, Delhi as their marketing and sales representative. Audit scrutiny revealed that Techfab Systems, Delhi which was the agent of Stock Equipment USA, was a registered partnership firm and the authorisation letter of this partnership firm had been fraudulently used by Techfab System, Faridabad (division of Technofab Engineering Limited) to obtain the order. The Board was unable to detect this fraud as it did not insist on the RBI approval of the tenderer to act as the agent of Stock Equipment, USA. Even when the Board came to know of the fraud later on through investigations conducted, it did not cancel the order but allowed the firm to continue the execution of the contract.

The Management/Government denied (November/December 2009) the possibility of fraud but has not given any justification as to why even the agency agreement was not insisted on.

- The CVC guidelines (January 2002) on public procurement lays down that while considering Indian agents of foreign suppliers for placement of orders the foreign principal's proforma invoice indicating commission payable to the agent, copy of the agency agreement with the foreign principal and the enlistment of the Indian agent with DGS&D under the compulsory registration scheme of the Ministry of Finance should be insisted upon. None of the above was insisted upon by the Board leading to violation of the CVC guidelines and consequent non detection of the fraud in the agent's name committed by the bidder.

The Management/Government has not given any justification for violation of the CVC guidelines.

- The supply order placed (December 2003) by the Board in respect of Ukai and Wanakbori TPS on Technofab Engineering Ltd required feeder capacity of 4 T/Hr to 40 T/Hr ordinarily and a maximum designed discharge capacity of 100 T /Hr if required. But in the corresponding order placed (December 2003) with Stock Equipments Company, USA, the stipulation as regards maximum discharge capacity which was required for emergencies was absent.

The Management/Government stated (November/December 2009) that in the existing mill 100 tonnes/hour is not technically feasible. Reply is not acceptable as in the original order 100 tonnes/hour was meant only for emergencies and Company has not given any reasons as to why it was at all included in the original tender if it was not feasible.

- CVC guidelines further lays down that the modifications in contract terms/specifications after award of contracts should be severely discouraged. It was seen in the above orders that many amendments were made after the issue of the order as discussed below:
  - a) The order required a security deposit of 10 *per cent* of the order value to be given for satisfactory completion of the work in addition to performance guarantee by way of bank guarantee for the warranty period. This was amended (April 2004) to a bank guarantee of 10 *per cent* of order value towards security deposit and performance guarantee to be released after completion of the warranty period.
  - b) The original order required release of order for one feeder initially and after its successful commissioning and performance, release of the orders for the remaining feeders for the unit. This was amended (April 2004) so as to allow the supplier to supply all feeders of one unit simultaneously. Resultantly as on date 12, 6 and 6 feeders have already been supplied to Ukai, Wanakbori and Sikka respectively whereas only 3, 1 and 1 feeder have been installed (upto September 2009) in these power stations.

The Management/Government stated (November/December 2009) that terms and conditions were changed based on negotiations in case of security deposit and performance guarantee. The reply is not convincing because change in conditions after award of contract which favours the supplier is against the financial interest of the Company. Reply also does not state why all the feeders were purchased at one go when original order required release of order for only one feeder initially.

Hence, the Company not only failed to detect the fraud of utilisation of agency certificate issued in respect of other firm but also wrongly awarded the orders to the entity which had not participated in the bid, violated CVC guidelines and gave various unauthorised benefits to the party by unilaterally deviating from the terms and conditions of the contract after award of Contract.

**Alcock Ashdown (Gujarat) Limited****4.10 Avoidable loss in ship building contract**

**The Company incurred loss of Rs. 13.73 crore and also exposed with a liability for payment of Rs. 10.36 crore, besides blocked up inventory of Rs. 74.34 crore due to non supply of vessels in time.**

The Company entered (September 2005) into ship building contract with Sea Tanker Management Company Limited, Norway (STMC) for construction of 4 Chemical Tankers at the rate of US \$ 16.75 million (approx Rs. 75 crore) each with payment terms as (i) 20 *per cent* advance, (ii) 10 *per cent* at Keel Laying and (iii) 70 *per cent* at the time of delivery. STMC paid Rs. 74.01 crore as per the terms of the contract. The delivery of first vessel was scheduled in September 2007 and for the balance three vessels, each after six months. The scheduled delivery for the first vessel was mutually agreed (in December 2007) to be extended to December 2008. But, STMC unilaterally terminated the contract and invoked Bank Guarantee (November 2008) under Article IV clause 1(b) which states that “if the delay in delivery of the vessel shall continue for a period in excess of 120 days after delivery date, the buyer may at its option cancel the contract” and take back the advance already paid. Accordingly, STMC recovered Rs. 87.74 crore<sup>∇</sup>.

Audit observed that the Company’s order book which had orders of Rs. 25 crore in March 2004 crossed to Rs. 1,200 crore in 2006-07 which was beyond the capacity of the Company. Meanwhile GoG considered to disinvest the Company in July 2006 but in March 2008 GoG decided to defer the disinvestment plan<sup>#</sup>. During this period, the Company stopped all ship construction activities. This resulted in non-fulfillment of the original delivery schedule.

Even after extension of delivery schedule for first vessel, the Company did not make sincere efforts to meet the revised delivery schedule of December 2008. This is evident from the fact that the Company started searching for new buyer and invited bids (10<sup>th</sup> August 2008) through its website for selling all the four vessels on as is where is basis. The Company did not receive any bids and hence was unable to find a buyer for all the vessels. These vessels had remained incomplete (July 2009).

Thus, the Company did not fulfill its contractual commitments by taking orders for more than the construction capacity and by incorrectly stopping the work during consideration of disinvestment. Besides, the Company, instead of meeting the revised delivery schedule, tried to sell the vessels in the market without assessing its market value. As a result, the Company suffered a loss of Rs. 13.73<sup>^</sup> crore and also led to blocking of inventory worth Rs. 74.34 crore spent on four vessels (March 2009). Further, the Company is liable to pay to a

<sup>∇</sup> Rs. 74.01 crore advance, Rs. 7.96 crore as foreign exchange loss and Rs. 5.77 crore as interest loss.

<sup>#</sup> Disinvestment was deferred because the highest bid received (Rs. 169 crore) was much less than the valuation (Rs. 350 crore).

<sup>^</sup> Rs. 87.74 crore (recovered by STMC) less Rs. 74.01 crore (paid by STMC)

supplier firm<sup>⊗</sup> an amount of Rs. 9.82 crore<sup>∇</sup> towards cost of Main Propulsion Engines and Rs. 53.79 lakh\* towards storage charges against the purchase order placed (April 2006) for these vessels. The supplier was ready with the engines in July 2008 but the Company has not yet taken delivery of the engines (September 2009). In case of non delivery of engines, the Company had a risk to lose the advance payment of Rs. 2.45 crore paid for these engines.

Moreover, the Company had incurred an additional cost of Rs. 3.73 crore<sup>∇</sup> in purchase of CPP Propulsion System and main DG set due to change in the specification<sup>⊕</sup> by firm M which firm M had agreed to pay. But now, with the cancellation of the order by firm M, this amount also can not be recovered.

The Management stated (September 2009) that the orders booked were normal looking into the boom situation prevailed for shipbuilding business during 2003-06. Regarding non adherence to revised construction schedule, it was stated that due to time overrun in execution of the above contract the Company's banker stopped funding for that project and further STMC also did not agree (June 2008) to the Company's demand (May 2008) for increasing the contract price by 30 to 40 *per cent* due to escalation in cost. This led to cancellation of the contract on mutually agreed basis.

The reply is not convincing. The Company's BoD meeting held on 5 December 2008 confirms that booking of orders for Rs. 1,200 crore (2006-07) was beyond their technical and financial competency and it was one of the reasons for delay in execution of the above contract. Further, the minutes of the above meeting also confirm that STMC had unilaterally terminated the contract and not on mutual consent basis.

It is suggested that the Company should execute orders in time and avoid their cancellations

The matter was reported to Government (July 2009); the reply had not been received (December 2009).

#### **4.11 Irregular amendment in the agreement**

**The Company exposed itself to a contractual liability of Rs. 7.30 crore by unauthorisedly and incorrectly passing on ship building subsidy to a buyer of vessels.**

Government of India (GoI)<sup>∇</sup> extended the 'Shipbuilding Subsidy Scheme' to State Public Sector Shipyards from October 2002 which was hitherto

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<sup>⊗</sup> M/s. Rolls-Royce, Norway.

<sup>∇</sup> Being 80 *per cent* of cost of engines as advance of 20 *per cent* of cost is already paid.

\* 5000NOK per week\*66 weeks \*Rs.8.15/NOK \* 2 engines.

<sup>∇</sup> This cost is included in the cost of inventory i.e. Rs. 74.34 crore.

<sup>⊕</sup> M/s Sea Tankers asked the Company to supply the propeller with 4500 mm diameter instead of 3800 mm diameter and also to supply main DG set with fuel HPO (180 CST burning) instead of fuel MDO as mentioned in the contract.

<sup>∇</sup> Ministry of Shipping.



applicable only to Central Public Sector Shipyards. Under the scheme, the shipyards become eligible for a subsidy up to 30 *per cent* of the price of the vessel to be received from GOI, for both domestic and export orders.

On 23 December 2004, the Company entered into an agreement with Gudami International Pte. Limited, Singapore<sup>#</sup> (Firm G) for construction and sale (export) of two self propelled Product Carriers ('vessels') of 3000 Metric Tonnes dead weight at a total cost of US\$ 60,50,628<sup>^</sup> (Rs. 26.48 crore), after successfully winning an international competitive bid. On 26 December 2004, Executive Director (ED) of the Company issued an amendment to agreement committing to pass on 94.42 *per cent* of shipbuilding subsidy to firm G upon its receipt from GoI. In December 2007, when the management brought up the matter for the first time to their notice, the BoD noted that the amendment made was unauthorised and directed the then MD to inform firm G that the amendment to contract was *ab initio* null and void. The Board, however, did not fix managerial responsibility for unauthorised management action to suo moto soften the agreement against its fiscal interest, which also vitiated the spirit of GoI's subsidy scheme. Till date, no action has been taken on the directive of BoD.

The Company delivered the first vessel in February 2008 and second vessel was scheduled to be delivered by end of December 2009. Till March 2008, the Company received Rs. 25.78 crore from firm G as stage payments for two vessels, and based on that it also received shipbuilding subsidy of Rs. 7.73 crore from GoI. The Company stands exposed to contractual liability of payment of Rs. 7.30 crore, being 94.42 *per cent* of shipbuilding subsidy received till March 2008, to firm G.

The Management stated (July 2009) that it had brought to the notice of BoD about the receipt of subsidy of Rs. 7.73 crore. Further, the Company neither transferred nor committed to transfer the subsidy amount received to firm G. The reply is not convincing as the Company has not intimated firm G declaring that the amendment to contract issued on 26 December 2004 was *ab initio* null and void. Thus, fact remained that the Company stands exposed to contractual liability for passing the subsidy to firm G.

It is recommended that the Company should intimate the firm that the amendment to contract was *ab initio* null and void and also take action against the official concerned who have authorised the issue of such amendment. A system should be devised whereby any amendments to the contracts especially having financial implication/creating any other kind of liability to the Company should be made only with the approval of BoD.

The matter was reported to Government (June 2009); the reply had not been received (December 2009).

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<sup>#</sup> An Adani Group Indian Company.

<sup>^</sup> i.e. at US\$ 30,25,314 per vessel at the exchange of rate of Rs. 43.77 per \$.

**Gujarat State Petronet Limited**

**4.12 Irregular and premature investment in construction of spur line**

**The Company made irregular and premature investment of Rs. 2.25 crore in laying of spur line without approval of BoD and without entering into gas transmission agreement with a customer.**

The Company in its BoD meeting decided (11 May 2005) to develop its gas transmission network by laying spur lines from its main trunk line i.e. Mora-Vapi pipeline (MVP) to cater to demands of potential customers identified in three clusters situated around MVP. Accordingly, three spur lines from MVP to GIDC<sup>⊗</sup> estate, Vapi (15 kms), Morai (3 kms) and GIDC estate, Sarigram (15 kms) were to be laid. The Company awarded (April 2006) contract for laying and commissioning of five spur lines in a package at a cost of Rs. 11.76 core<sup>∇</sup> to Medikonda Construction, Nallore. Of the five, three spur lines were planned for customers in the identified clusters and the remaining two separate spur lines were intended individually for Raymonds Limited (firm R) and Atul Limited (firm A), Valsad district. The contractor laid all the five spur lines and commissioned (February to April 2007) all the spur lines except the spur line for firm A (March 2009). The Company also started transportation of gas in these four spur lines since its commissioning by entering into Gas Transmission Agreement (GTA) with gas supplying companies\* and directly with customers<sup>∇</sup>. No such agreement was entered into for Atul spur line.

It was observed that the firm A did not fall in any of the three clusters for which BOD gave approval (11 May 2005) for laying spur lines. Though the Company assessed (September 2004) the demand of firm A for gas would be around 3,75,000 standard cubic metre per day, it did not initiate GTA with either firm A or any gas supplying company. Further, firm A had also not entered into any Gas Supply Agreement (GSA) with any gas supplying company. The GTA could not be finalised as Firm A wanted that the Company should also lay the additional spur line (1.5 km) inside its premises free of cost which was not agreeable to the Company. Despite this, the Company without entering into any GTA with firm A, laid a separate spur line (4 kms.) up to the premises of firm A at a cost of Rs. 2.25 crore.

Thus, the Company made an irregular and premature investment of Rs. 2.25 crore in laying spur line without approval of BoD and without ensuring any firm commitment from the customer by entering into GTA. Further, the locking up of fund of Rs. 2.25 crore led to interest loss of Rs. 40.89 lakh<sup>⊕</sup> over a period of 23 months (May 2007 to March 2009).

<sup>⊗</sup> Gujarat Industrial Development Corporation, a State Government PSU.

<sup>∇</sup> Excluding cost of pipes and valves which was to be supplied by the Company.

\* For three clusters, the Company entered into GTA with GSPC and GSPC Gas Co. (both being associate companies).

<sup>∇</sup> For spur line to Morai cluster, one customer Alok Industries entered into separate GTA with the Company.

<sup>⊕</sup> Calculated at the Company's average borrowing rate of 9.5 per cent.

The Government/Management stated (August/September 2009) that the Company had to take certain decision involving business risk. Accordingly, the decision to lay spur line for firm A was taken by the Company's management in full knowledge of the situation/market scenario at that point of time. Further, the spur line for firm A was being transferred under the control of GSPC Gas Company Limited (GSPC Gas), one of the group companies of Gujarat State Petroleum Company Limited, engaged in distribution of gas. Hence, GSPC Gas was in touch with firm A for signing a contract.

The reply is not convincing. Investing in laying a pipeline for a specific customer without ensuring any firm commitment from the potential customer indicates that the decision lacks commercial prudence. Further, the reply does not contain any details on the terms and condition of transfer of spur line for firm A to GSPC Gas and the status of such transfer. Finally, the fact remained that the investment made in the spur line was not only irregular but also premature.

It is recommended that the Company should fix the responsibility for the lapses pointed out.

#### **Infrastructure Finance Company Gujarat Limited**

#### **4.13 Unfruitful expenditure**

**The Company's failure to conduct feasibility study coupled with lack of support from GoG resulted in non raising of funds. Consequently, the Company remains dormant with an accumulated loss of Rs. 1.03 crore.**

GIIC promoted (February 2000) Infrastructure Finance Company Gujarat Limited (the Company), an Asset Management Company<sup>∇</sup> in order to make available funds for infrastructure projects in Gujarat. The Company, in turn formed (March 2000) two trusteeship companies<sup>#</sup> to carry on the activities from the proposed corpus of Rs. 3,200 crore in Gujarat Infra Debt Fund (GIDF) and Rs. 1,277 crore in Gujarat Infrastructure Equity Fund (GIEF). Infrastructure Development Finance Company Limited (IDFC), Chennai and American Orient Capital Partner India Private Limited, (AOC), Mumbai were the other shareholders<sup>^</sup> of the Company. GoG released (November 2000/March 2001) Rs. 88.60 crore in Personal Ledger Account (PLA) of GIIC for contributing to GIEF and GIDF in the ratio of 1:3.

The Company launched the first tranche to raise Rs. 100 crore for GIDF and Rs. 80 crore for GIEF during October 2001 to February 2002. The Company, however, was not able to raise funds. In view of this, the GoG contribution towards GIDF and GIEF was also not passed on to the trusteeship companies.

<sup>∇</sup> It is an investment Company that invests the pooled funds of retail investors in securities in line with the stated investment objectives. For a fee, the investment company provides more diversification, liquidity and professional management service than is normally available to individual investors.

<sup>#</sup> Gujarat Infracapital Trust Limited and Infra Invest Trust Gujarat Limited.

<sup>^</sup> IDFC and AOC joined in the Company (October 2000) with total equity capital of Rs.2.50 crore (25 lakh shares of Rs. 10 each) GIIC, IDFC and AOC held the shares in ratio of 48:26:26 till June 2005.

The Company applied (March 2004) to Registrar of Companies for winding up of the trusteeship companies under simplified exit scheme.

As the Company was lying dormant, GoG resolved (October 2004) to create two new trust funds<sup>⊗</sup> to attract overseas subscription for funding infrastructure projects with the Company acting as the settler\* of funds. However, no progress was made in this regard also. As the Company was no longer an asset management company, IDFC and AOC divested (June 2005) their holdings<sup>∇</sup> in the Company in favour of GIIC. During 2004-08, the Company had earned only interest income by keeping the equity capital funds in the bank deposits. The accumulated loss of the Company was Rs. 1.03 crore upto 2007-08.

It was observed in audit that the main reasons (as cited by the Company itself) for failure to raise subscription for original funds were long tenure of funds, poor response from banks to these funds being unrated investments, absence of any anchor investor for the funds, financial market etc. The reasons indicate that the Company had neither conducted any feasibility study nor obtained any expert opinion before launching the funds. Though GoG decided (November 2000) to contribute debt fund at zero *per cent* rate so as to reduce the average cost of capital for infrastructure projects and attract investment from private sector participants for the funds, later on, it decided (February 2001) to contribute to the fund at 12 *per cent* interest. Even, the GoG fund of Rs. 88.60 crore kept in PLA was also not made available at the time of launching of first tranche.

The Government/Management stated (July/August 2009) that as three financial institutions viz., GIIC, IDFC and AOC were associated with the Company for raising the funds, neither any expert opinion was obtained nor rating of the instruments was done prior to launching the first tranche. Further, it was stated that GIIC had put up a proposal to GoG for merging the Company with it.

The reply is not convincing as in the absence of feasibility study, appropriate decisions on various crucial issues for the successful launch of the first tranche should not be taken. The Government reply does not give any reason for not releasing their contribution with zero interest as envisaged. Thus, the fact remained that the Company's failure to conduct feasibility study coupled with lack of support from GoG in getting GoG contribution with zero interest led to failure of the launch and resultant non achievement of objective by the Company. The Company, thus, remained dormant and earned only interest income by keeping its equity capital in bank deposits.

It is recommended that GoG should take decision either to entrust meaningful business activity to the Company or closure of the Company itself.

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<sup>⊗</sup> Gujarat Infrastructure Development Fund and Gujarat Charity Fund.

\* The role of settler is to form and incorporate trust for any specified purpose and the settler can also contribute any fund to the trust being formed by him.

<sup>∇</sup> IDFC and AOC divested their holding of 6,50,000 shares each at Rs.5.70 per share.

<b>Dakshin Gujarat Vij Company Limited</b>
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#### 4.14 Non recovery of security deposit

<b>The timely recovery of security deposit from the low tension consumers could have enabled the Company to reduce its borrowings and save the interest of Rs. 21.67 crore thereon.</b>
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Dakshin Gujarat Vij Company Limited<sup>⊕</sup> (the Company), is one of the licensees supplying electricity to different category of consumers in the State. Gujarat Electricity Regulatory Commission (GERC) notified (31 March 2005) that Low Tension (LT) consumers should at all times maintain with the licensee an amount equivalent to consumption charges of three months from consumers with bi-monthly billing cycle or of two months from consumer with monthly billing cycle, as the case may be, as security against any default in payment towards the electricity supplied/to be supplied to him during the period, till the agreement for supply of energy is in force. The licensee should review the adequacy of amount of security deposit (SD) once in a year based on the consumers' average consumption during last 12 months. The licensee should pay interest on SD of consumers at the Bank Rate (as on 1 April of every year) notified by Reserve Bank of India (RBI) or such higher rate as may be fixed by the GERC from time to time.

Though the notification came into effect from 31 March 2005, the Company was ready with modified software only in August 2006. During the intervening period, the Company did not have any other system. Even after introduction of software, the Company did not recover the shortfall amount of SD promptly from all consumers due to various representations received from the consumers. Had the Company taken necessary action within one year from the date of notification and started the recovery of shortfall amount of SD from May 2006, it could have avoided the borrowing to the extent of shortfall and saved the interest paid on it. Test check of ten out of 17 divisions of the Company revealed that the Company short recovered amount ranging between Rs. 158.56 crore and Rs. 200.63 crore during 2006-09 and paid interest of Rs. 21.67 crore which could have been avoided otherwise. The details are given below.

Year	Total consumers	Short Recovery		Period (months)	Differential interest rate (per cent) <sup>#</sup>	Loss of interest (Rs. in lakh)
		No. of consumers	Amount (Rs. in crore)			
2006-07	12,75,675	8,96,733	158.56	11	4	581.38
2007-08	13,84,569	9,42,027	200.63	12	4	802.51
2008-09	12,76,513	8,87,990	195.69	12	4	782.77
<b>Total</b>						<b>2166.66</b>

Thus, the Company could have avoided interest of Rs. 21.67 crore at the rate of 4 per cent during 2006-09. Besides, due to non recovery of SD, the

<sup>⊕</sup> Earlier Gujarat Electricity Board.

<sup>#</sup> Difference between interest rate on cash credit availed (10 per cent) and interest rate payable on the SD (6 per cent) to consumers as per bank rate notified by RBI for the years 2006-09.

Company's position would be precarious if the consumers make default in payment of energy bills.

The Management stated (November 2009) that initial problems after unbundling of Gujarat Electricity Board, floods in Surat, preparation of computer programme, consumers' representation were the main reasons for the non/ delay in recovery of SD. Further, it stated that the hard step relating to disconnection of defaulting consumers has not been taken since there is no clear cut provision in GERC Regulations.

The reply is not convincing as even though GERC notification came into effect from 31 March 2005, the Company took nearly 18 months (April 2005-September 2006) in initiating action for recovery by processing and issuing bills. Further lack of proper follow up even after having a specific computer programme for this, reflects adversely on the systems and procedures that have been evolved by the Company for implementation of a notification which had implications on the revenue and finance of the Company. As far as the power to disconnect the supply to defaulting consumers is concerned, the Company is already empowered to do so under Section 56(1) of The Electricity Act, 2003.

It is recommended that directions/ instructions of BoD/GERC should be implemented strictly and officials should be made accountable for any lapse in implementing the instructions.

The matter was reported to Government (August 2009); their reply had not been received (December 2009).

#### **4.15 Avoidable extra expenditure**

**Deficiency in the purchase proposal led to avoidable expenditure of Rs. 49.45 lakh in purchase of cables, besides resulting in their delayed supply.**

The Company invited (September 2005) tender for purchase of 90 kms of 3.5 core LT PVC 150 mm<sup>2</sup> cables for its annual requirement of 2005-06 with the validity period of 120 days from the date of opening the tender. The cables were required for providing power supply to Low Tension (LT) consumers. Ten bidders submitted their bids and the tenders were opened on 12 September 2005. Nine bidders were declared technically qualified.

The Company held (October 2005) negotiations with L-1 bidder i.e. Suyog Electricals Limited, Vadodara (firm S) who had quoted end cost of Rs. 2,45,827 (including 5 per cent sales tax) per km. During negotiations held on 27 October 2005, firm S offered two per cent discount on its quoted rate, provided the Company would place the order for the full quantity of 90 km. Reckoning the discount, the revised end cost worked out to Rs. 2,40,940<sup>^</sup> (including sales tax) per km. The Company's management while recommending (November 2005) for the placement of order for the full quantity on Firm S at the end cost of Rs. 2,40,940 per km did not bring to the

<sup>^</sup> (basic cost Rs.1,95,804 + freight charges Rs.1,564 + excise duty Rs.31,956) Rs.2,29,324 + Rs.11,466 (sales tax @ five per cent) + insurance Rs.150 = Rs.2,40,940.

notice of the Board of Directors (BOD) that the discount offer of Firm S was valid only if the supply order for full quantity was placed with it. BoD allotted 60 per cent (54 kms) to firm S and balance 40 per cent (36 kms) to L-2 Chandresh Cables Limited, Chatral (firm C) on the condition that firm C should match the rate of firm S. The Company placed (9 January 2006) the order on both firm S and firm C at the end cost of Rs. 2,40,940 per km for the quantity allotted. Firm S did not accept (January 2006) the order at the reduced rate as full quantity was not allotted to it. Likewise, firm C refused (January 2006) to accept the order at matching rate of firm S. The Company, therefore, reallocated (12 January 2006) the 40 per cent quantity of firm C to firm S. Firm S, however, did not accept this order on plea that the order was received after the validity period of the tender i.e 10 January 2006. Hence, the Company re-invited (July 2006) tender and placed (17 November 2006/17 March 2007) orders for procurement of 62.5 kms<sup>⊗</sup> cables on the same firm S who stood L1 with the end cost of Rs. 3,20,052 per km (including 12.5 per cent value added tax). The firm completed the supply in September 2007 and the Company made the full payment of Rs. 2.07 crore by October 2007.

The Company mismanaged the purchase by not informing BoD about the conditional discount offer of L1 firm while seeking approval to the purchase proposal. Resultantly, there was a delay in supply of cable by 281 days (from 10 January 2006 to 16 November 2006), and the Company had to incur avoidable extra expenditure of Rs. 49.45 lakh<sup>∨</sup> on purchase through retendering subsequently. The Company has no system of determining the economic (opportunity) cost of delayed supplies of critical inputs such as cables.

The Government/Management while admitting the fact about not specifically mentioning the conditional discount offer of L-1 while appraising the BoD stated (September 2009) that as per practice of distributing critical items to more than one supplier at matching price, BoD took decision to allot the quantity between two suppliers as cable was considered to be a critical item. Further, the Company does not incur any additional cost on account of delay in supply of material. The reply is not convincing as cables were critical item, the Management was required to inform BoD about the discount offer of L-1 subject to allotment of full quantity. Though the loss due to delay in procurement could not be ascertained, the Company incurred additional cost of Rs. 49.45 lakh by paying higher price for cables.

It is recommended that in future all the facts pertaining to the purchases should be presented before BoD to enable it to take decisions based on adequate and reliable facts to safeguard financial interest of the Company.

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<sup>⊗</sup> Original order was placed for 50 kms and then repeat order clause in the Purchase order was invoked to procure further quantity of 12.5 kms.

<sup>∨</sup> (Rs.3,20,052 – Rs.2,40,940) = Rs.79,112 x 62.5 kms = Rs. 49,44,500.

**Paschim Gujarat Vij Company Limited**

**4.16 Avoidable extra cost in purchase of transformers**

**The Company incurred an extra cost of Rs. 1.41 crore in purchase of transformers and irregularly refunded a penalty of Rs. 19.12 lakh to a supplier.**

The Company decided (August 2007) to procure 2,100 CRGO\* transformers of 63 KVA urgently for ensuring proper supply of power to agricultural consumers during peak season of September-October 2007. Further, it was decided to purchase the transformers from the suppliers of UGVCL<sup>∇</sup>, viz. Shilchar Electronics Limited, Vadodara<sup>⊕</sup>, and Western Transformers, Vadodara, (WT) on whom UGVCL had placed (September 2006) orders for supply of similar transformers at an end cost of Rs. 97,609 per transformer. Both the suppliers confirmed (16 August 2007) to supply the quantity at a discount of 2.3 per cent in view of decrease in cost of the material. The Company, without inquiring from the market about prevalent prices and without confirming from UGVCL about any further purchases, placed (21 August 2007) orders for purchase of 1,500 and 600 transformers at end cost of Rs. 95,592.63 and Rs. 95,587.63 per transformer with STL and WT respectively. In the meantime, UGVCL opened (18 August 2007) price bids of subsequent tender invited (2007-08) for purchase of similar transformers. In this tender, STL quoted lowest rate at end cost of Rs. 88,882.56 per transformer. Since the Company was placing the order with supplier of UGVCL, it should have inquired with UGVCL regarding any further purchases. In that case, the Company could have known about the tender to be opened shortly and the price quoted by STL with UGVCL before placing the order. As a result, the Company paid higher price for the transformers. Had the Company placed the order at the rate of end cost of Rs. 88,882.56 per transformer, it could have saved Rs. 1.41<sup>∇</sup> crore.

Further, against the stipulation for completion of supply by 31 October 2007, STL asked (October 2007) for grant of extension in delivery period till 30 November 2007 citing the reasons of heavy rains and power failures during August/September 2007. But the Company did not confirm extension of delivery period. Both suppliers completed the supply by February 2008. Accordingly, the Company recovered (October 2007 to February 2008) a penalty of Rs. 35.36 lakh and Rs. 20.01 lakh from STL and WT respectively for delayed supplies beyond 31 October 2007. STL again approached (January 2008) the Company for extending the delivery period up to 30 November 2007 on the pretext that at the time of accepting the Letter of Intent (17 August 2007) itself, it had requested the Company to keep the delivery period up to 30 November 2007. The Company accepted (May 2008) the request of STL and

\* Cold rolled grain oriented annealed steel lamination.

<sup>∇</sup> Uttar Gujarat Vij Company Limited, Mehsana, a State Government PSU engaged in power distribution.

<sup>⊕</sup> Shilchar Electronics Limited changed to Shilchar Technologies Limited (STL).

<sup>∇</sup> STL - 1500 (95592.63-88,882.56) = Rs.1,00,65,105 and WT - 600 (95587.63-88,882.56) = Rs. 40,23,042.



released (July 2008) part penalty of Rs. 19.12 lakh recovered for the delay up to 30 November 2007. Since the Company had not accepted the earlier requests of STL and no refund of penalty was made to WT, accepting the request of STL later on lacks justification and was irregular.

The Management stated (July 2009) that generally they would give one month time from the date of receipt of order by the supplier for commencing the supply. However, in these cases, one month time were not given as the transformers were required urgently. Hence, management considered the request of STL and released penalty recovered for the delay up to 30 November 2007. The reply is not convincing as the condition to commence the supply without any time lag was known to STL while accepting the order and reason given for refund of penalty was not justified. The Management is also silent on the issue of non communication with UGVCL about the price before placing the order with its supplier.

Thus, the Company not only incurred an extra expenditure of Rs. 1.41 crore on purchase of transformers but it also suffered a loss of Rs. 19.12 lakh by way of irregular refund of penalty.

It is recommended that the Company should device a system where it should share critical information like price offered, the supply position and the quality of the product of the vendor within the sister concerns.

The matter was reported to Government (June 2009); their reply had not been received (December 2009).

#### **4.17 Irregular refund of penalty**

**The Company gave undue benefit to a supplier by irregularly refunding penalty of Rs. 36.32 lakh.**

The Company placed (January 2006) order for 2,20,000 units of 11 KV Disc Insulators at a cost of Rs. 6.78 crore with Aditya Birla Insulators Limited<sup>#</sup>, Hooghly (firm A). As per the contract, the supply was to be completed by October 2006 with a delivery schedule of 15,000-20,000 units for the first two months from the date of receipt of supply order and 30,000-40,000 units per month thereafter, failing which penalty shall be levied at 1/2 *per cent* per week subject to maximum of 10 *per cent* reckoned on the value of delayed supplies. Further, the penalty levied for delayed supply could be waived for the reasons absolutely beyond control of the supplier (*force majeure*) for which documentary evidence will have to be provided. Firm A did not supply the material within the delivery schedule and completed the entire supply by July 2007. The Company recovered (February 2006 to July 2007) penalty of Rs. 45.40 lakh for the delayed supplies in terms of the contract. Firm A, while making request (November 2006/April 2008) for extension of delivery period, attributed the delay in supply to rise in price of raw materials, difficulty in getting metal part of the disc insulators and transportation problems due to flood. The Company on the plea that no monetary loss was suffered due to

<sup>#</sup> Formerly known as Birla NGK Insulators Private Limited.

delay decided (May 2008) to retain token penalty of Rs. 9.08 lakh (20 *per cent*) and refunded (May 2008) remaining penalty of Rs. 36.32 lakh (80 *per cent*).

Audit observed that the problem of rise in raw material prices and difficulty in getting metal parts are normal business risks and do not fall under force majeure. Also, there were no documentary evidences to show the difficulty in transportation due to flood. Thus, the Company's decision to refund the penalty in contravention to the terms of contract resulted in undue benefit of Rs. 36.32 lakh to firm A.

The Management stated (September 2009) that delay in supply was due to natural calamity such as heavy rains in Gujarat Region in August/September 2006 which led to transportation problem affecting delivery of material. Further, the work did not suffer due to delay and there was no additional financial loss to the Company. The reply is not convincing as till July 2006, firm A had delivered only 85,000 units as against scheduled delivery of 1,50,000 units. Also, the Company has not secured its financial interest and refunded the penalty amount, which was due as per terms of purchase order without the approval of BoD.

It is recommended that Company should strictly apply the penalty provisions of the purchase order and refrain itself from using discretionary powers.

The matter was reported to Government (July 2009); the reply had not been received (December 2009).

#### **Uttar Gujarat Vij Company Limited**

#### **4.18 Loss of revenue**

**The Company suffered revenue loss of Rs. 3.56 crore by not merging more than one HT connections in single premises.**

Gujarat Electricity Board (GEB) instructed (October 1967 and April 1993) that more than one connection should not be released in one single premise, unless it was 'helpful to the Board'. Gujarat Electricity Regulatory Commission (GERC) vide Electricity Supply Code and Related Matters Regulations dated 31 March 2005 also stated that the distribution licensee cannot provide more than one connection/meter for one premises, unless consumer opting for second meter produces separate legal entity document such as Income Tax number/Sales Tax number, ration card and rent or lease agreement.

The Company is one of the four power distribution companies created after unbundling of erstwhile GEB. Audit observed that in following two cases, the Company released more than one High Tension (HT) connection in the same name at same premise:

Sl No.	Name of the division	Name of the consumer	Remarks
1.	O & M Division, Palanpur	Banaskantha District Milk Producers Union Limited	The Division released (May 1972 and May 1977) two connections (29002 and 29004) to the consumer, in the same premises having contract demand of 1400 KVA and 550 KVA respectively. The division released (April 2001) a third connection (29068) to the consumer having contract demand of 2000 KVA. All the three connections were in adjacent premises and having the same PAN <sup>^</sup> . The division could have amalgamated the existing connections in 2001 itself when the consumer applied for a new connection and thereby the contract demand of the consumer would have been more than 2500 KVA on which the higher rates of demand charges and energy charges were applicable. This led to revenue loss of Rs. 3.45 <sup>⊗</sup> crore.
2.	O & M Division, Gandhinagar	Nirma Education and Research Foundation	The Division released (October 1996 and March 2004) two connections (18028 and 19706) to Nirma Education and Research Foundation having contract demand of 500 KVA and 475 KVA respectively at the same premises. Contract demand of connection no. 18028 was increased (May 2007) from 500 KVA to 700 KVA. As the two connections were having the same PAN and falling in same premise, the release of second connection to the consumer was not justified. The division could have increased the contract demand of connection 18028 at the time of application for second connection. By doing so, the contract demand would have increased to 975 KVA (from March 2004) and 1175 KVA (from June 2007) and ToU charges could have been recovered. This resulted in revenue loss of Rs. 10.57 <sup>∨</sup> lakh.

Thus, Company's action to allow the consumers to have more than one connection in the same premise was against the directions of erstwhile GEB and GERC, and led to aggregate revenue loss of Rs. 3.56 crore.

The Management stated (August 2009) that in case of Palanpur division, the survey number and premises of all the three connections are different. Connection no.29004 is about 750 meters away from connection no.29002 and 29068. In case of Gandhinagar division, the block numbers of two connections are different. The premise is divided into sub premises and two connections are divided by big ground and road and therefore they are separate premises.

<sup>^</sup> Permanent Account Number.

<sup>⊗</sup> Rs. 1.14 crore (demand charges)+Rs. 2.31 crore (energy charges) from April 2001 to March 2009.

<sup>∨</sup> Rs. 10.57 lakh (ToU charges) from April 2004 to March 2009.

The reply is not convincing. As per GEB and GERC stipulations, the consumer should not be allowed to have more than one connection in one premise irrespective of the distance and survey number of the units situated in the same premises.

It is recommended that the Company should streamline its internal control procedures to ensure that such connections are reviewed and corrective actions are taken immediately and also take action against defaulting officials for violation of instructions.

The matter was reported to Government (September 2009); the reply had not been received (December 2009).

## **Statutory corporations**

### **Gujarat State Financial Corporation**

#### **4.19 Avoidable liability of sales tax, interest and penalty**

##### **Failure to recover sales tax from the loanees assisted under hire purchase scheme exposed the Corporation to a liability for Rs. 56.58 crore.**

The Corporation extended (1995-2000) financial assistance of Rs. 174.35 crore to 197 units (loanees) in purchase of machinery/equipments (assets) under Hire Purchase (HP) scheme. Under HP scheme, the Corporation was making direct payment to supplier for asset purchased for the loatee. This amount was to be recovered with interest in 36/48 monthly instalments. As per Gujarat Sales Tax Act, 1969, hire purchase transactions are considered as 'sale' and attract sales tax (ST)<sup>v</sup>.

The HP agreement executed with hirer i.e., loatee, provided for recovery of ST. The Corporation, however, neither recovered the applicable ST (at the rate of 4/8 *per cent*) nor paid ST in all 197 cases where HP assistance was provided. ST department in assessment orders (November 1998/April 1999) for the year 1995-96 and 1996-97 raised demand of Rs. 26.24 crore\* for the assistance provided under HP scheme. The Corporation's plea (December 1998) that the HP transactions were merely loan transactions and it would not attract ST was not accepted (May 2000) by ST department. The Corporation, however, reiterating the plea went in appeal (June 2000/May 2001) to ST tribunal without simultaneously going for recovery of ST on adhoc basis from the loanees.

At the instance of GoG, the Corporation withdrew (2 September 2002) the appeals made before ST Tribunal. The Corporation, on the plea of fund constraint, did not avail (April/May 2007) ST department's Samadhan Yojana,

<sup>v</sup> (a) if asset is purchased from outside the state/ imported, then the first sale made within the state (b) if the purchase is made from a registered supplier within the state or if supplier has not included the amount of ST in invoice and paid it to ST department. The Corporation was a registered (April 1995) dealer under the Act, *ibid*.

\* Tax Rs. 8.87 crore; interest and penalty Rs. 17.37 crore.

2007 wherein it was to pay only ST amount of Rs. 13.70 crore in settlement of its total dues of Rs. 56.58 crore<sup>∇</sup> till March 2007.

Of the 197 assisted units, 96 units settled their dues and No Due Certificate (NDC) were issued to them. In remaining 101 units, total dues of Rs. 243.32 crore were outstanding (April 2008). In 32 out of 101 units, the Corporation issued (June 2007) notices for recovery of ST along with interest for Rs. 34.31 crore. In remaining 69 units, it was unable to issue notices as individual case files were misplaced in the absence of which vital details including loanee's supplier and his registration number were not available. No recovery was made on the notice issued to the 32 units (March 2009).

The Management stated that (August 2009) pending disposal of the appeal, if it recovered ST on adhoc basis from the loanees, it would have diluted the Corporation's stand on this issue. Further, NDC were issued to 96 units under the impression that the Corporation would not have to recover ST from loanees. After withdrawal of appeal, the Corporation was unable to issue notices for recovery of ST to remaining 69 units as the assessment order issued by ST department did not have details of the name of units, the amount of ST considered (loanee wise), etc.

The reply is not convincing since as per HP agreement, ST was to be recovered from loanee and hence if the ST was recovered on adhoc basis till disposal of the appeal, it would not have diluted the Corporation's stand on the issue. Further, the Corporation should have kept the basic details about loanees for settling any statutory dues arising out of its transactions with them. Thus, series of lapses, viz., non recovery of ST from the loanees since beginning, non maintenance of records, issuing NDC to loanees without recovery of ST and non settlement of the dispute under Samadhan Yojana led the Corporation exposed with a liability of Rs. 56.58 crore.

It is recommended that the Corporation should fix responsibility for the lapses pointed in audit.

The matter was reported to Government (June 2009); the reply had not been received (December 2009).

#### ***4.20 Loss due to intimation of erroneous amount of dues to assisted units***

**Corporation suffered loss of Rs. 2.11 crore due to non revision of OTS amount as per stipulation approved by State Government.**

The State Government approved (September 2007) 'One Time Settlement Scheme 2007' (OTS) of the Corporation for settling the defaulters' loan accounts which were considered as non performing assets (NPA). The OTS allowed for settlement of loans of Rs. 15 lakh and above but were in default. The outstanding dues of loanee units as on 1 May 2007 were to be reworked

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<sup>∇</sup> ST Rs. 13.70 crore for 1995-2001(plus) Interest Rs. 25.08 crore and penalty Rs. 19.14 crore for year 1995-2007=Rs. 57.92 crore (minus) amount paid/recovered was Rs. 1.34 crore =Rs. 56.58 crore.

after recasting their accounts based on the benefits offered and the amount of OTS was to be determined.

The Units opting for OTS had to apply on or before 31 March 2008 along with down payment of 25 *per cent* of principal outstanding. While approving the OTS, GoG added (September 2007) a stipulation on its own that the units settling their accounts under OTS will not be entitled to get the credit of subsidy<sup>⊕</sup>, if any, received from the State Government after their account became NPA.

The Corporation had entrusted (5 March 2007) the work of calculation of OTS amount to iNDEXTb<sup>∇</sup> even before the scheme was approved by BoD (28 March 2007). The Corporation, however, failed to intimate iNDEXTb about the stipulation regarding exclusion of credit of subsidy by the State Government. Resultantly, in 48 units eligible for OTS, iNDEXTb reckoned the credit for the subsidy of Rupees three crore received (1991-2007) even after their account became NPA and computed (May-December 2007) the OTS amount incorrectly as Rs. 9.79 crore instead of Rs. 15.16 crore. The Corporation intimated (December 2007) the incorrect amount to these 48 Units which had made the down payments (upto March 2008) for registering their case under OTS. The Corporation when noticed the mistake reworked (March 2008) the OTS amount as per the new stipulation in respect of 48 Units. Though nine units paid (May/June 2007) their dues of Rs. 2.56 crore as per the revised OTS amount, many of remaining units objected to hike in the OTS amount. Consequently, the remaining 39 units from whom the revised OTS amount of Rs. 12.60 crore was due, the Corporation again revised (July 2008) their OTS amount to Rs. 10.49 crore by giving the benefit of interest on subsidy received after accounts of the units become NPA. The settlement was made accordingly based on this revised OTS amount for these 39 units. The Corporation did not obtain formal approval of GoG regarding this modification of the stipulation inserted by GoG. Thus, the Corporation suffered loss of Rs. 2.11 crore<sup>#</sup> due to non revision of OTS as per stipulation approved by the GoG.

It is recommended that the responsibility should be fixed for not timely intimating the iNDEXTb the changes in the scheme to correctly work out the amount of OTS and also for not obtaining formal approval of GoG before giving the benefit of interest on subsidy.

The matter was reported to Government/Management (June 2009); their reply had not been received (December 2009).

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<sup>⊕</sup> To attract investments in the less industrially developed areas for generation of more employment, the State Government gives the capital investment subsidy limited to maximum of 20 *per cent* of fixed capital investment in the industrial units. The amount of this subsidy is adjusted against the dues repayable by the units for the loans availed from the Corporation.

<sup>∇</sup> It is a State Government agency and runs a computer centre to cater to the computerisation requirements of different organisation on commercial basis.

<sup>#</sup> Revised OTS amount of 39 units (Rs. 12.60 crore) – Re-revised OTS amount of 39 units (Rs. 10.49 crore).

#### 4.21 Short recovery of dues

**Due to deficiency in the OTS, the Corporation had to withdraw the sale proceedings against assets of a defaulting loanee and lost out Rs. 96 lakh.**

The Corporation introduced (September 2007) OTS for settling the accounts of the loanee units (the Units) which were NPA as on 1 May 2007. The unit opting to settle its due had to apply on or before 31 March 2008 along with down payment of 25 *per cent* of principal outstanding. As per the OTS, the Corporation was to rework the outstanding dues of the Unit as on 1 May 2007 after recasting their accounts with reference to the benefits offered under OTS and the extent of repayment made by the unit. As per the OTS, if the finally arrived amount was less than 65 *per cent* of the principal amount disbursed, the Corporation will recover either 65 *per cent* of the principal amount or 65 *per cent* of total valuation of all securities available, whichever was higher as OTS amount from the Unit.

Audit observed (December 2008) that the Corporation had disbursed (December 1998 to November 1999) a loan of Rs. 3.33 crore to Makcur Laboratories Limited, Ahmadabad (firm M). The loan was repayable in quarterly installments till November 2005. Firm M, however, remained in default and its outstanding dues were Rs. 3.48 crore<sup>^</sup> (September 2007). The Corporation extended (14 December 2007) an offer to firm M for settlement of dues under the OTS, but firm M did not give any response. Hence, the Corporation took possession of the factory premises of firm M on 29 December 2007. As per valuation done by the approved valuer on 29 January 2008 and 02 February 2008, the combined value of premises and plant and machinery was Rs. 3.84 crore. The Corporation advertised for sale of the said property (20 January 2008) and got the highest offer of Rs. 3.46 crore. The Corporation's Regional Tender Committee (RTC) recommended (5 February 2008) for acceptance of this offer. Pending compliance of further formalities of sale, firm M applied (21 January 2008) for being included in the OTS and made the down payment on 8 February 2008, i.e. after acceptance of offer for sale of the property by RTC. In the absence of any condition in the OTS scheme to reject the application of defaulting units whose assets were already in the possession of the Corporation and the proceedings to sell such assets are also reached in an advanced stage, the Corporation had to allow (13 February 2008) firm M to settle its accounts for OTS amount of Rs. 2.50 crore (being 65 *per cent* of valuation of property). Firm M paid OTS amount in May 2008. Consequently, the Corporation lost out Rs. 0.96 crore (Rs. 3.46 crore less Rs. 2.50 crore) on its outstanding dues.

The Management stated (August 2009) that it considered this case under OTS as the application and down payment from firm M was received during the validity period of OTS i.e., upto 31 March 2008. Thus, the fact remains that due to the deficiency in the OTS scheme, the Corporation had to settle the dues of the firm M even after recommendation of RTC to sell the assets at higher price which was detrimental to the financial interest of the Corporation.

<sup>^</sup> Principal Rs. 2.74 crore and Interest Rs. 0.74 crore.

It is recommended that the Corporation should insert a provision in the OTS scheme, whereby it should reserve its right to reject the application of defaulting units whose assets are already in the possession of the Corporation and the proceedings to sell such assets are also reached in an advanced stage.

The matter was reported to Government (June 2009); their reply had not been received (December 2009).

**General**

**4.22 Opportunity to recover money ignored**

**Five PSUs did not either seize the opportunity to recover their money or pursue the matters to their logical end. As a result, recovery of money amounting to Rs. 5.33 crore remains doubtful.**

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 10 paras in respect of five PSUs involving a recovery of Rs. 5.33 crore. As per clause 197 of Regulations on Audit and Accounts 2007, the PSUs are required to take remedial action within four weeks after receipt of IRs. However, no effective action were taken to take the matters to their logical end, i.e., to recover money from the concerned parties. As a result, these PSUs have so far lost the opportunity to recover their money which could have augmented their finances.

PSU wise details of paras and recovery amount are given below. The list of individual paras is given in *Annexure 14*.

Sl. No.	PSU Name	No. of paras	Amount for Recovery (Rs. crore)
1	Gujarat Industrial Development Corporation	3	3.95
2	Gujarat State Investments Limited	1	0.25
3.	Dakshin Gujarat Vij Company Limited	2	0.41
4.	Sardar Sarovar Narmada Nigam Limited	3	0.12
5.	Gujarat Water Resources Development Corporation Limited	1	0.60
<b>TOTAL</b>		<b>10</b>	<b>5.33</b>

The paras mainly pertain to recovery of dues from allottees, non-recovery of bridge loan, interest for delayed remittance from banks, non execution of decrees and issue of excess advance. Above cases point out the failure of respective PSU authorities to safeguard the financial interests of PSUs. Audit observations and their repeated follow up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU Management periodically have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.



The matter was reported to Government (August 2009); the reply was awaited (December 2009).

#### 4.23 Lack of remedial action on audit observations

**Ten PSUs did not either take remedial action or pursue the matters to their logical end in respect of 24 IR paras, resulting in foregoing the opportunity to improve their functioning.**

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 24 paras in respect of 10 PSUs, which pointed out deficiencies in the functioning of these PSUs. As per clause 197 of Regulations on Audit and Accounts, 2007, the PSUs are required to take remedial action within four weeks after receipt of IRs. However, no effective action were taken to take the matters to their logical end, i.e., to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU wise details of paras are given below. The list of individual paras is given in *Annexure 15*.

Sl. No	Name of PSU	No. of Paras
1	Gujarat State Financial Corporation	1
2	Gujarat Industrial Investment Corporation Limited	2
3	Gujarat Industrial Development Corporation	1
4	Gujarat Mineral Development Corporation Limited	1
5	Gujarat Water Infrastructure Limited	1
6	Tourism Corporation of Gujarat Limited	1
7	Alcock Ashdown (Gujarat)Ltd	1
8	Dakshin Gujarat Vij Company Limited	1
9	Paschim Gujarat Vij Company Limited	1
10.	Sardar Sarovar Narmada Nigam Limited	14
	<b>Total</b>	<b>24</b>

The paras mainly pertain to unfruitful investment/infructuous/avoidable expenditure, unjustified acceptance of offer under One Time Settlement Scheme, non-invocation of risk and cost clause, non-availment of rebate and payment of price escalation without approval of competent authority.

Above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated follow-up by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

The matter was reported to Government (August 2009); the reply was awaited (December 2009).

#### 4.24 Follow-up action on Audit Reports

##### *Outstanding action taken notes*

**4.24.1** Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained by various public sector undertakings (PSUs). It is, therefore, necessary that they elicit appropriate and timely response from the Executive. As per rule 7 of the Rules of Procedure (Internal Working) of Committee on Public Undertakings (COPU), Gujarat Legislative Assembly, all the administrative departments of PSUs should submit, within three months of their presentation to the Legislature, explanatory notes indicating the corrective/ remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports.

Though, the Audit Reports for the year 2004-05, 2005-06 and 2006-07 were presented to the State Legislature on 24 March 2006, 30 March 2007 and 26 March 2008 respectively, 14 departments, which were commented upon, did not submit explanatory notes on nine out of 67 paragraphs/ reviews as on 30 September 2009 as indicated below.

Year of the Audit Report (Commercial) <sup>#</sup>	Total Paragraphs/ Reviews in the Audit Report	Number of Paragraphs/Reviews for which explanatory notes were not received
2004-05	22	2
2005-06	24	5
2006-07	21	2
<b>Total</b>	<b>67</b>	<b>9</b>

Department-wise analysis is given in *Annexure 16*.

##### *Compliance to Reports of Committee on Public Undertakings outstanding*

**4.24.2** The First Report of COPU of 12<sup>th</sup> Assembly was presented to the State Legislature on 19 February 2009. The Report contains 44 recommendations on 36 paragraphs and six reviews related to nine PSUs falling under five administrative departments included in the Audit Report for the years 1993-94 to 2003-04 (Commercial), Government of Gujarat. As per rule 32 of the Rules of Procedure (Internal Working) of COPU, Gujarat Legislative Assembly, the administrative departments of PSUs should submit the Action Taken Notes (ATNs) on the recommendations within a period of three months from the date of its presentation.

ATNs on 23 recommendations of seven PSUs falling under three administrative departments had not been received as on 30 September 2009.

##### *Response to Inspection Reports, Draft Paragraphs and Reviews*

**4.24.3** Audit observations noticed during audit and not settled on the spot are communicated to the heads of the respective PSUs and the concerned departments of the State Government through Inspection Reports. The heads

<sup>#</sup> The Audit Report for the year 2007-08 was presented to the State Legislature on 28 July 2009. The explanatory notes on the paragraphs and reviews were due for submission by 27 October 2009.

of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2009 pertaining to 50 PSUs revealed that 1,391 paragraphs relating to 413 Inspection Reports remained outstanding as on 30 September 2009. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2009 is given in *Annexure 17*.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Audit noticed that 13 draft paragraphs and two draft reviews forwarded to the various departments during June to September 2009 as detailed in *Annexure 18* had not been replied to so far (December 2009).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/ reviews and ATNs to the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/ outstanding advances/ overpayment is taken within the prescribed time; and (c) the system of responding to audit observations is strengthened.

**AHMEDABAD**  
The



**(DHIREN MATHUR)**  
Accountant General  
(Commercial and Receipt Audit), Gujarat

*Countersigned*

**NEW DELHI**  
The



**(VINOD RAI)**  
Comptroller and Auditor General of India