Chapter III

Transaction Audit Observations

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

Government Companies

Gujarat State Civil Supplies Corporation Limited

3.1 Imprudent decision for re-inviting tender

Imprudent decision to re-invite tender for purchase of Tur dal ignoring lower rates received under original tender led to avoidable expenditure of ₹ 1.28 crore.

The Company procures and supplies Tur dal for the Mid Day Meal (MDM) Scheme of Government of Gujarat (GoG). To meet the requirement of Tur dal for July and August 2008, the Company invited (12 May 2008) tender for procurement and distribution of 35,000 quintals (qtls.) of Tur dal for its six purchase centres[1]. As per tender terms, the bidders had to quote per quintal (qtl.) rates inclusive of all the cost and transportation for delivery of Tur dal up to the place of Company's respective purchase centres.

The price bids were opened (2 June 2008) and negotiations were held (5 June 2008) with five bidders who were L1 bidders for supply to different centres. The negotiated rates for the centres by L1 bidders ranged from ₹ 3,525 to ₹ 3,721 per qtl., as against the market rates, of ₹ 3,400 to ₹ 3,900 per qtl. prevailing during the period from May 2008 till the date of negotiation. The Company, however, had taken the lowest rate of ₹ 3,525 per qtl. received for one of the centres i.e. Mehsana and compared it with the L1 rates of the remaining centres. As L1 rates for the remaining centres were higher by ₹ 116 to ₹ 196 per qtl., the Company placed (9 June 2008) purchase order (PO) on the L1 bidder whose rate was ₹ 3,525 per qtl. for supply of 5,875 qtls. of Tur dal only to Mehsana centre which was executed in June-July 2008. It had also decided (June 2008) to re-invite tender for the remaining requirement.

The Company re-invited (19 June 2008) tender for procurement of 29,125 qtls. of Tur dal for its remaining five purchase centres. The price bids were opened (19 June 2008) and negotiations were held (24 June 2008) with four bidders who were the L1 bidders for supply of Tur dal to the five centres. The rates offered for different centres by the L1 bidders after negotiation ranged from ₹ 4,104 to ₹ 4,175 per qtl. which were higher than the market rates of ₹ 3,400

[1] Ahmedabad, Vadodara, Rajkot, Junagadh, Surat and Mehsana.

to ₹ 4,050 per qtl. prevailing between 6 June 2008 and the date of negotiation i.e. 24 June 2008. The Company placed (9/15 July 2008) POs with all four L1 bidders and procured (July-August 2008) 27,406.20 quintals of Tur dal.

Our analysis of the records related to purchases of Tur dal made in the past during August 2005 to February 2008, revealed that there had been differences between the L1 rates for different centres from ₹ 14 to ₹ 105 per qtl. apparently due to transportation cost for different centres. The Company, however, ensured that overall the POs were placed at the rates which were lesser than the then prevailing market rates.

However, while finalising the bids received against the original tender of May 2008, the Company failed to give due weightage to the fact that the overall negotiated rates for different centres were well within the prevailing market rates and the marginal differences in the rates among L1 bidders of various centres were on account of the transportation costs involved for various locations. On the contrary, under the re-invited tender, the Company placed POs with four bidders whose quoted rates were not only higher than their negotiated rates under the original tender, but were also higher than the prevailing market rates. Had the Company prudently placed POs at the negotiated rates under the original tender, it could have avoided the extra expenditure of ₹ 1.28 crore[2] incurred in purchase of 27,406 qtls. of Tur dal at higher rates under the re-invited tender.

The Government/ Management stated (September 2011) that as the bids received for original tender were not competitive, it had re-invited the tender. Further, the Company did not have any historical data for analysing the rates in finalisation of tender invited in May 2008. Therefore, the higher rates received in the subsequent tender of June 2008 could not be taken adversely against the Company's decision making process, particularly when the competition was less in June 2008. Moreover, the proposal for adopting e-tender procedure for future procurements was under consideration of the government and the revised purchase procedure would be followed by the Company once the Government granted its approval.

The reply is not tenable. The re-invitation of tender was not required since the rates received in the original tender were well within the market rates prevailing during the period. Even the re-invited tender did not infuse any competition as it had received only three bids for one centre (Junagadh) and one bid each for the remaining centres. Moreover, while finalising the original tender, the Company had historical data relevant for taking prudent decision.

[2] Centre: Qty in qtls x Differential Rate per qtl. between original and re invited tenders=avoidable exp.| Ahmedabad 4825 qtls. x ₹ 404; Vadodara 7281qtls. x ₹ 490; Rajkot 5300 qtls. x ₹ 511; Junagadh 4500 qtls. x ₹ 526; Surat 5500qtls. x ₹ 396 = ₹ 1,27,70,290.

Sardar Sarovar Narmada Nigam Limited

3.2 Unfruitful investment

Failure to promptly stop spending on the canal works in the area affected due to the acquisition of land for PCPIR resulted in unfruitful investment of ₹ 2.86 crore.

The Phase I of Sardar Sarovar Project (SSP) canal system comprises Narmada Main Canal chainage from 0 to 144.50 KM and a delivery network consisting of branch canals, distributaries, minor, sub-minor channels and control structures. The Phase I of SSP covers culturable command area (CCA) of 4.46 lakh hectares (ha) and is divided into 52 blocks.

The Government of Gujarat (GoG) proposed (November 2007) setting up of a 'Petroleum, Chemical and Petrochemicals Special Investment Region[3]' (PCPIR) at Dahej. Accordingly, in March 2008, GoG issued initial notification for acquiring land covering an area of 45,299 ha, spreading over Vagra and Bharuch, under the Land Acquisition Act, 1894. The final notification was also issued in June 2009.

The Company was aware (May 2008) that some of the areas under its four blocks i.e. 6G4, 6G5, 6G6, and 6G7 (the blocks) of Phase I were falling within the areas earmarked for PCPIR. However, it had not taken any prompt action to indentify the exact areas which were getting affected in the four blocks so as to stop making any further investment in the canal network which was either under progress or was to be taken up in those areas. Only in March 2009, the Company initiated action and indentified that out of total CCA of 29,730 ha, 14,927 ha was being affected due to PCPIR. Further, as late in August 2009, it had decided to stop any canal construction work in the boundary of PCPIR.

We observed that as the Company belatedly decided (August 2009) to stop the canal work, the work awarded (September 2004) for construction of Kaladara distributory and its minors of block 6G4 were continued till its completion in January 2009. Consequently, the cost of ₹ 1.87 crore[4] incurred for the canal work carried out during June 2008 to January 2009 in the affected areas was an imprudent and avoidable investment.

Further, in July 2008, the Company awarded a contract for supply and commissioning of 156 vertical gates on the control structures of distributaries and minors under the four blocks at a cost of ₹ 1.52 crore to a firm[5]. The stipulated period for completion of work was April 2009. Till April 2009, the firm had supplied gates and had partly erected embedded parts and gate leaf

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[3] It is a specifically delineated investments region planned for the establishment of manufacturing facilities for domestic and export led production in petroleum, chemicals and petrochemicals, along with the associated services and infrastructure.

[4] Total value of work carried out till completion in January 2009, was ₹ 11.43 crore (-) the value of work done up to June 2008 was ₹ 9.56 crore.

[5] M/s Hardware Tools & Machinery Project Private Limited, Ahmedabad.

costing ₹ 1.16 crore. As the Company identified (March 2009) the areas in four blocks affected due to PCPIR, it had asked (July 2009) the firm to erect and commission only 39 out of 156 gates in the areas not affected by PCPIR. Hence, the firm had commissioned 39 gates till December 2009. The total value of work executed was ₹ 1.43 crore and payments were also made (August 2008 to May 2010) to the firm. Of the expenditure of ₹ 1.43 crore, ₹ 0.44 crore related to 39 gates and the rest ₹ 0.99 crore was incurred on the surplus un-erected 117 gates with 33 embedded parts which pertained to the areas covered under PCPIR. This surplus material remained unfruitful due to its idleness for over a period of two years (November 2011).

Government/Management stated (August/September 2011) that the notification for PCPIR was issued in June 2009. In Kaladara distributory, the Company had withdrawn the work of ₹ 1.04 crore from the contractor in July 2009. Further, PCPIR was planned to be developed in a phased manner starting from 2011 and hence till the full development of PCPIR, the farmers would continue to utilise the canal net work created in the region. Regarding the gate works, it was stated that the contract was awarded even prior to issue of notification of June 2009. The firm executed gate works costing ₹ 1.31 crore, of which the cost of 39 gates was ₹ 0.86 crore, and the surplus 117 gates would be used in the canal works in other places.

The reply is not correct. The initial notification for acquisition of land for PCPIR was issued in March 2008 and public notices were also issued in May 2008. Hence, the continuing of the canal work of Kaladara distributory and also the award of gate works were avoidable. Further, the records produced to us indicated that the cost of canal work of Kaladara distributory carried out during June 2008 to January 2009 was ₹ 1.87 crore, the cost of 39 gates was ₹ 0.44 crore and the value of surplus 117 gates lying idle was ₹ 0.99 crore.

Thus, the Company's failure to promptly indentify the affected areas due to acquisition of land for PCPIR and consequential delay in taking prudent decisions related to works in the affected areas led to unfruitful investment of ₹ 2.86 crore. Responsibility should be fixed for the failure to promptly indentify the affected areas leading to the unfruitful investment of funds.

3.3 Avoidable payment of interest on enhanced compensation

Delay in depositing enhanced land compensation as per the Court award led to avoidable payment of interest of ₹ 79.04 lakh.

The Company acquires land under the provisions of Land Acquisition Act, 1894 (Act) for construction of canal network under Sardar Sarovar Project (SSP) in the State. As per the procedures followed, Government of Gujarat (GoG) issues the notification for acquisition of the land under section (U/s) 4 (1) of the Act, the Special Land Acquisition Officer (SLAO) declares the land award U/s 11 of the Act and the possession of the land is taken over U/s 16 of the Act. In case of any objection as to the amount of compensation determined

in the land award, the land owner can, through written application, request SLAO to refer the matter to the Court for determination of amount of compensation U/s 18 of the Act. SLAO may accordingly refer the matter to the Court and also deposit the amount of compensation as declared in his award with the Court if the land owner is not accepting the amount.

The Court may either uphold the award of SLAO or give the award enhancing the amount of compensation[6]. On receipt of the Court award, the Company takes the opinion of District Government Pleader (DGP) and the SLAO and later seeks directions of its Administrative Department[7] (Department) of GoG, as to whether it should go for appeal or deposit the compensation as per the Court award. If approval is received for payment of compensation, the Company should deposit the amount with the Court.

Our scrutiny of records of three divisions[8] of the Company revealed that during December 2005 to September 2009, the Court had given award in respect of 33 land reference (LR) cases involving a total amount of enhanced compensation of ₹ 10.36 crore. Further, U/s 28 of the Act, the Company was to pay interest on the enhanced amount of compensation at 9 *per cent* per annum (p.a.) for a period of one year from the date of taking over the possession of land and thereafter at 15 *per cent* p.a. till the amount was deposited in the Court. Accordingly, the divisions paid the enhanced compensation amount along with interest of ₹ 13.96 crore[9] payable U/s 28 of the Act till depositing the amount during January 2007 to March 2010.

Taking into account the procedures such as, getting copy of the Court award and obtaining approval of the Department, a period of three months from the date of award could reasonably be considered to be sufficient for depositing the amount in the Court. However, even after allowing the period of three months, delays of two to 24 months were noticed in depositing the amount by the Company in the Court. The delays were caused not for want of funds but due to laxity in adhering to the procedures and also due to the existence of poor monitoring mechanism for reporting the delays. After the Court had given the award, the Company took 61 to 293 days even in approaching the Department for obtaining the approval and thereafter the Department also took 40 to 581 days for deciding to make payments. The delays could have been avoided, since the Company's HO had a separate Section to monitor the LR cases manned by the officials on deputation from the Revenue Department of GoG and also the Secretary of the Administrative Department was a Member in the Company's Board of Directors. Thus, delay of 2 to 24 months, over and above three months reasonably adequate for decision making, led to avoidable payment of interest of ₹ 79.04 lakh.

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[6] This enhanced compensation consisted of additional amount of compensation for the land + 30 *per cent* Solatium on that additional amount + 12 *per cent* increase on the additional amount for the period from the date of notification under Section 4 (1) to the date of award by SLAO under Section 11 of the Act.

[7] Narmada, Water Resources, Water Supply and Kalpsar Department

[8] Narmada Project Canal Division 4/1-Limdi, 1/1 Dhandhuka and 2/6 Botad

[9] Interest was reckoned from the period April 1994 to January 1999 during which the original award was made by SLAO till the period October 2006 to March 2010 considered for depositing the amount of compensation.

The Government stated (September 2011) that the opinion of various authorities viz., DGP, SLAO and the Legal Department of GoG were being obtained to decide whether to prefer an appeal against the Court award or not. Hence, neither the Company nor its Administrative Department was solely responsible for these procedural delays. Further, only in four cases there was an abnormal delay in processing the LR cases and it occurred for want of original documents at the division offices.

The reply is not tenable. Taking into account the various procedures involved in the process, a reasonable period of three months for depositing the enhanced compensation was already considered by us for working out the interest loss. The Company needs to devise an effective control mechanism in coordination with its Administrative department for proper monitoring of LR cases, so as to avoid any delay in depositing the enhanced amount of compensation.

3.4 Premature investment

Premature investment of ₹ 70.05 lakh made in construction of Pressurized Irrigation Network System not required for immediate use.

The Sardar Sarovar Project (SSP) canal system comprises Narmada Main Canal, branch canals, distributaries, minor and sub-minor channels. Government of Gujarat (GoG), to promote Micro Irrigation System (MIS)[10], at the farms falling under the command of SSP, issued (August 2008) instructions to the Company to construct and commission the Pressurized Irrigation Network System (PINS) in the command area in a phased manner.

The PINS acts as an interface between canal and the MIS at farm level. The work of PINS, *inter alia* includes construction of storage structure, inlet structure for carrying water from off take point of canal (i.e. distributary/minor) to storage structure, supply and fittings of pumps, laying of pipes to deliver water to farmers' fields for its ultimate use through the MIS net work created by the farmers in their fields. As per the guidelines of GoG, the Company should take up the construction of PINS at various locations after considering the factors such as topography, hydrology of the land and the readiness of the canal for supply of water to the proposed PINS.

Test check of records of three Division offices[11] of the Company revealed that the Division offices awarded (December 2008) separate contracts for construction and commissioning of PINS at four locations at a tendered cost

[10] It refers to system of irrigation that applies water through small devices. The devices deliver water onto the soil surface very near the plant or below the soil surface directly into the plant root zone. Under this system, depending upon the agronomic or horticultural requirements, the water is sprinkled, sprayed or misted in the micro-sprinkler mode. This led to saving of water and electricity compared to ground water utilization.

[11] Two divisions viz., Saurashtra Brach Canal Division (i) 2/5 Limbdi and (ii) 2/3 Dhandhuka; and one division viz., Kutchh Branch Canal Division (iii) 1/5 Chanasma under the control of Office of Chief Engineer (CE), Rajkot and the Office of CE, Mehsana respectively.

aggregating ₹ 98.18 lakh with a stipulation to complete the work within a period of three months. Of the four locations, for the PINS at Khambhkav and Zanzarkha, the water had to be drawn from minor canals under the distribution net work of Saurashtra Branch Canal. Further, for one PINS at Govna and for the remaining one PINS at Dodiwada, the water was to be drawn from a minor and a distributary under the distribution net work of Kutchh Branch Canal respectively.

We observed that at the time of award (December 2008) of the work for PINS, neither the distributary/minors which were to supply the water to the PINS at the above locations were constructed and ready, nor was there any plan to take up their construction in the near future. Further, the construction of PINS was a small civil work which could have been easily completed within a normal period of three months once the canal was ready to serve the water. Despite this and disregarding the guidelines of the State Government regarding readiness of the canal for supply of water to the proposed PINS, Division Offices of the Company awarded the work for PINS. The works of PINS construction were completed (August 2010) against the stipulated period of completion by March 2009. The constructed PINS could not be tested and commissioned in the absence of canal to supply the water to PINS (March 2011). The full payments to the tune of ₹ 70.05[12] lakh were also made till June 2010 against the total value of work done for the four PINS. Thus, the imprudent award of work for PINS even before the construction of related distributary and minor canals led to premature investment of ₹ 70.05 lakh and consequential idling of assets created for PINS.

Government/Management (August/September 2011) stated that the work of PINS cited in audit was taken up only on pilot basis, but in any case for constructing the minors/distributary connecting these PINS, the contracts were now awarded.

The reply is not tenable. The guidelines of the State Government were issued even before taking up the work of PINS on pilot basis. Hence, the selection of the location for constructing the PINS even on pilot basis should have been made based on the guidelines so as to avoid blocking of funds in idle assets. Responsibility should be fixed for the imprudent award of work for PINS causing idle investment.

[12] The total tender cost of ₹ 25.44 lakh for the PINS works at Govna and Dodiwada was later reduced to ₹ 14.06 lakh.

Gujarat State Electricity Corporation Limited

3.5 Non commissioning of Ash Collection System

Imprudent selection of a firm and non-commissioning of Ash Collection System led to avoidable expenditure of ₹ 9.95 crore.

A mention was made in paragraph 4.14.8 of Audit Report 2004-05 (Commercial), Government of Gujarat about non-finalisation of tender invited (September 2003) for the work of supply and commissioning of Dry Fly Ash Collection (DFAC) System including Silos[13] at Unit 3 and 4 of Gandhinagar Thermal Power Station (GTPS) till March 2005. It was also mentioned that due to non-commissioning of the DFAC system, the Company had continued with the practice of dumping fly ash on top soil instead of providing facilities to the brick manufacturers for lifting of dry ash as per the directives (14 September 1999) of the Ministry of Environment and Forest, GoI. In the absence of proper DFAC system, the Company could not avoid incurring the expenditure on water and electricity in disposal of dry fly ash in wet mode and failed to achieve the envisaged savings of ₹ 1.80 crore *per annum* on this account (February 2004).

Further scrutiny of the case revealed that, of the three bids received (October 2003) for the work invited on firm price basis, Energo Engineering Projects Private Limited, New Delhi (firm E) who quoted ₹ 4.68 crore stood L1. The Company awarded (December 2005) the work to firm E at a total cost of ₹ 4.65 crore with stipulated completion period of seven months up to July 2006. While awarding the work, the Company was aware that firm E was small and less experienced as compared to other two bidders. Further, silos commissioned in past (1999/2002) by firm E at Unit 5 of Ukai TPS (UTPS) and Unit 1 and 2 of GTPS were not working satisfactorily due to use of inferior equipments and improper works executed by Firm E. Besides, the Raw Coal Stacker Reclaimer System commissioned (August 2004) by firm E at UTPS with a delay of 54 months failed twice (March 2005) and was not working to the full capacity due to design deficiency[14]. Despite poor track record of firm E as stated above, the work was awarded to the same firm on the basis of their quote being L1.

The deficient drawings/ layout for the system and silos furnished (December 2005) by firm E and also its poor response to clarifications sought by the Company led to delay in taking decision on various issues including location for putting up silo and the design of ash evacuation system. Even after shifting the 'zero date' for the work to 7 December 2006 (by nearly one year), firm E executed meagre work costing ₹ 27.95 lakh at slow pace till December 2007 and there was no progress in the work since then. The Company, however, belatedly issued termination notice and encashed (March 2009) the bank guarantee of ₹ 46.50 lakh of firm E. The Company finally terminated the

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[13] It is a structure used for storing dry ash in bulk quantity.

[14] In this regard, a mention was made *vide* paragraph 2.4.16 of Audit Report (Commercial) for the year 2006-07.

contract in January 2010. The Company, however, did not have any plan for installation of DFAC system.

Thus, the imprudent selection of firm E completely ignoring its poor performance track record and also inordinate delay in terminating the contract of firm E, coupled with non fixation of any other new agency for the work led to non-commissioning of the system (November 2011). Considering the stipulated completion of work i.e. June 2007 (based on the shifted 'zero date'), the Company had incurred avoidable expenditure of ₹ 9.95 crore (cost of ₹ 200.36 per MT as worked out by the Company) in disposal of 4.97 lakh MT of dry fly ash (of Unit 3 and 4 of GTPS) in wet mode during the period from July 2007 to March 2011. Besides, the Company was unable to control the pollution of top soil and air due to non-commissioning of DFAC system.

The Government / Management stated (July/August 2011) that it could not ignore firm E being a L1 firm. However, this work order was issued after firm E attended to the defects in the silos at GTPS and UTPS at Company's instance. As regards to the time consumed in termination of contract, it was stated that initial delay was caused in persuading firm E to resume the work and later in seeking the legal opinion on this issue. Further, new agency for the work was not fixed as there was a proposal to convert fuel base in GTPS from coal to gas.

The Management's plea regarding selection of firm E and delay in termination of contract were not convincing as the Company should have taken cognisance of poor track record of firm E before award of work and should have terminated the work with firm E without wasting any time in persuading the firm considering the abnormally slow progress of work. As regards the Management's contention on conversion of fuel base in GTPS, we observed that though the proposal for conversion of fuel base was under consideration of the Management since December 2009, no concrete action was noticed in this regard.

Thus, imprudent selection of firm ignoring its poor track record and failure in commissioning the Ash Collection System led to avoidable expenditure of ₹ 9.95 crore, besides failure in stopping the pollution of top soil and air in violation of GoI directives.

3.6 Avoidable expenditure

Failure to place the letters of intent on L2 bidders at their quoted rates within validity period of tender led to avoidable expenditure of ₹ 1.04 crore

The Company invited (January 2008) tender on Annual Rate Contract basis for supply of 267 MT of blended Organophosphate (OPH) to its four thermal power stations (TPS)[15] for use in the cooling water treatment system. As per

[15] Wanakbori (WTPS) -100MT, Gandhinagar (GTPS)-110 MT, Dhuvaran (DTPS)-50 MT and Utran (UTPS) -7 MT.

tender conditions, the validity of bid was to be in force for a period of 120 days from the date of opening of the technical bids. In case of exigency, the Company could go to L2 bidder at their quoted rate for the placement of order. The technical bids were opened on 28 January 2008. Of the three qualified bidders, Synergy Associates (SA) was the L1 bidder for all the TPS[16], whereas, Puja Chemicals (PC) and Chempure Technologies Pvt. Ltd. (CTP) were L2 bidders for two TPS each[17].

The Company, instead of placing Letter of Intent (LoI) for supply of 267 MT of OPH on SA who had offered to supply entire quantity required, placed (April 2008) LoI only for the supply of 160 MT. On the plea of avoiding dependency on single supplier (i.e., SA), the Company placed LoI for the remaining requirement of OPH (107 MT) on CTP (50 MT) and PC (57 MT) with the condition that both suppliers should match their supply rates with the rates of SA (L1). PC and CTP, however, did not agree (April 2008) to supply the material at the L1 rate. Hence, the quantity allotted to PC and CTP was re-allotted by placing (April 2008) an additional LoI on SA. SA did not accept (8 May 2008) both LoIs citing the reason of increase in price of basic raw material (i.e Yellow Phosphorus) for OPH.

As the price of material showed an increasing trend and the rates offered by CTP and PC were to remain valid till 27 May 2008, the Company, after the refusal of LoIs by SA, should have immediately placed LoIs on L2 bidders who were willing to supply at their quoted rates for the required quantity (267 MT) of OPH. The Company, however, failed to place the LoIs within the validity period of offer of L2 bidders at their quoted rates. Belatedly, on 3 June 2008, the Company approached one L2 bidder, PC, asking its confirmation for supply of material at their quoted rate. PC refused (9 June 2008) to supply even at their quoted rates on the ground of expiry of validity of their offer.

Due to exigency, the Company procured the required material of 267 MT through the tenders invited in July 2008 and October 2008. Under the above tenders, the orders were placed (September to December 2008) with PC and CTP at the rates which were higher by ₹ 29,600 to ₹ 42,850 per MT for the supply at different TPS compared to their L2 rates quoted for the tender invited in January 2008. This resulted in avoidable expenditure of ₹ 1.04 crore[18] on the 267 MT of material purchased.

Thus, initially, the Company failed to place the LoI for the entire requirement of 267 MT with L1 bidder SA in April 2008 who was willing to supply the same. Even when SA did not accept the LoI on 8 May 2008, the Company should have placed LoIs with L2 bidders who were willing to supply the required quantity of OPH at their quoted rates which remained valid till

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[16] ₹ 24,900/MT for WTPS and GTPS; ₹ 27,400/MT for DTPS and ₹ 28,900 for UTPS.

[17] PC was L2 bidder for DTPS and UTPS; CTP was L2 bidder for WTPS and GTPS.

[18](I) Cost of purchase if L2 rate of tender (January 2008) was accepted: TPS wise: ₹ 28,900 x 100 MT + ₹ 27,150 x 110 MT+ ₹ 31,100 x 50 MT+ ₹ 29,200 x 7 MT = ₹ 76.36 lakh.
(II) Cost of actual purchases made through subsequent tenders: ₹ 60,700x65 MT+ ₹ 70,000x202 MT= ₹ 180.85 lakh.
Extra cost (II-I) = ₹ 104.49 lakh.

27 May 2008. Hence, the purpose of keeping the tender provision enabling the Company to place order at L2 rates, in case of exigency, was also defeated.

The Government/Management stated (June/July 2011) that the price of OPH remained volatile due to shortage of its input raw material i.e Yellow Phosphorus in the market, hence the firms were unwilling to accept the orders even at their quoted rates.

The reply is not tenable. Only one L2 bidder PC was approached (3 June 2008) after the expiry of validity period and hence PC cited (9 June 2008) that the validity of their offer was over on 27 May 2008 and was unable to extend the validity of the offer due to increase in price of the material. The reason why the Company did not approach both L2 bidders PC and CTP before the expiry of validity period was not on record. The Company should fix the responsibility for not placing the orders within the validity period of the offer.

Alcock Ashdown (Gujarat) Limited

3.7 Loss due to non safeguarding of financial interest

Imprudent acceptance of a ship building contract exposed the Company to probable loss of ₹ 96.42 crore.

The Company accepted (December 2006) a contract for construction of six survey vessels for Indian Navy from Ministry of Defence (MoD), Government of India, at an aggregate firm price of ₹ 698.91 crore[19]. The price consisted of basic price of ₹ 109.89 crore per vessel amounting to ₹ 659.34 crore, cost of modification of ₹ 32.97 crore and cost of project management of ₹ 6.60 crore. As per contract terms, first vessel was to be delivered on 6 April 2009 while the remaining five vessels were to be delivered from 6 July 2009 to 6 July 2010.

The Company, however, could execute (March 2011) the works valuing ₹ 276.23 crore only against which payments to the extent of ₹ 257.15 crore were also received from MoD. Based on the Company's repeated requests seeking extension in delivery schedule on the grounds of difficulties in mobilising working capital loans, the MoD rescheduled (December 2009) the delivery of vessels starting from September 2011 to March 2013.

We observed that while accepting (December 2006) the contract of MoD, the Company already had five ship building contracts (worth ₹ 465.44 crore) on hand. Further, as the proposal for disinvestment of the Company was under consideration (since July 2006) with the Government of Gujarat (GoG), technical staff of the Company had started quitting causing adverse impact on the pace of execution of the contracts on hand. As a result, the Company had started facing difficulties in mobilising working capital loans from Banks.

[19] Excludes the cost of spares estimated to ₹ 98.90 crore for which payment would be made by MoD on actual cost not on fixed price basis.

The Company, however, while accepting (December 2006) the huge value contract of MoD did not take cognisance of the above facts, which were vital for protecting the financial interests and reputation of the Company.

We further observed that the Company imprudently accepted the price of ₹ 109.89 crore per vessel for MoD project even though its own estimated cost of construction (excluding the element of profit) per vessel was ₹ 115.87 crore. Further, the Company was, for the first time, bidding (July 2005) for the Indian Navy contract; however, it did not prepare proper cost estimate for the project by taking cognisance of the fact that core equipments for navy vessels were highly sophisticated and its availability was from limited sources due to stringent specifications. Besides, the time overrun in execution of the shipbuilding contract also led to escalation in the cost of the project. As per the Company's own latest estimate (March 2011), the cost of construction (excluding the element of profit) per vessel would be ₹ 125.96 crore as against the contract price of ₹ 109.89 crore. Thus, the Company was already exposed to the probable loss of ₹ 96.42 crore (₹ 125.96 crore - ₹ 109.89 crore x 6 vessels), which did not include the revised costs for the other fixed price items in the contract (viz*.,* cost of modification and project management.) not estimated by the Company as yet.

In response to an audit query, the Management admitted (October 2010) that inexperience in preparation of cost estimate for the special type of equipments/steel for the navy vessels was the reason for inaccuracy in the preparation of estimate for the contract. Regarding delay in execution, it was stated that uncertainty due to GoG's disinvestment plan and non availability of adequate financial assistance from banks had caused the delay.

Thus, the acceptance of a huge contract at the rate below cost estimates and without considering the prevalent circumstances having direct impact on its capability of executing the work, the Company was exposed to the probable loss of ₹ 96.42 crore in execution of the contract.

The matter was reported to Government/Management (June 2011); their replies had not been received (November 2011).

GSPC Gas Company Limited

3.8 Non-synchronisation of activities in setting up of CNG stations

Non synchronisation of activities in setting up of CNG stations led to loss of ₹ 9.41 crore due to non availing of free operation and maintenance of compressor machine and loss of interest on the blocked up of funds.

The Company, for setting up of Compressed Natural Gas (CNG) stations at various locations, invited (July 2007) tender and awarded (10 December 2007) the work for supply, installation and commissioning of 10 Comprehensive

Compressor Packages (CCPs)[20] on three firms at a total cost of ₹ 18.71 crore. Further, for setting up of another 15 CNG stations, repeat orders for 15 CCPs[21] were also placed (31 May 2008) at a total cost of ₹ 27.92 crore on the same firms at the same rates of the original orders. As per stipulation given in the work orders, works should be completed within 30 weeks from the date of issue of the orders. The Company was entitled to have free operation and maintenance (O&M) of CCPs for a period of 12 months starting from the date of commissioning or 18 months from the date of supply of CCPs whichever was earlier for each CNG station.

Against the scheduled date of commissioning of 10 CCPs i.e*.,* 7 July 2008 as per the original orders, the CCPs were supplied during June to August 2008 and were commissioned during September 2008 to September 2010. In case of repeat orders, against the scheduled date of commissioning of 15 CCPs i.e*.,* 27 December 2008, the CCPs were supplied during October to November 2008 but only 10 CCPs were commissioned during November 2009 to March 2011. Remaining 5 CCPs were not commissioned as on 31 March 2011.

We observed that CCPs were supplied by the firms within a period of five to seven months from the date of placement of orders. However, the supplied CCPs could not be commissioned due to the Company's failure to synchronise the placement of work orders with the phase relating to adherence to various statutory procedures before setting up of CNG stations. Our analysis revealed that an average time of 260 to 310 days were taken in completing the procedures viz*.,* obtaining necessary clearances from Revenue/Forest departments, Highways Authorities, Pollution Control Board, etc. The Company was aware that supply of CCPs against the orders placed was expected with a lead time of six months and the statutory clearances were to be obtained before commissioning of CCPs. However, it had submitted the applications for obtaining clearances for the CNG stations as late as in April 2008 to June 2010. Further, avoidable delays due to revision of drawings of works, shifting of cables, construction of approach road etc., also attributed to the overall delay in commissioning of CCPs and starting CNG stations.

Against the schedule date, 20 CCPs were commissioned with a delay of 75 to 815 days and the remaining 5 CCPs were not commissioned even after a delay of 824 days (March 2011). Due to belated commissioning, the Company could not avail free O&M for a period of 2 to 12 months in 24 out of 25[22] CCPs. This led to loss of ₹ 2.91 crore[23]. Further in all 24 cases, CCPs costing ₹ 37.62 crore supplied by the firms remained idle for a period of 245 to 787 days since the receipt of CCPs till the date of its commissioning or 31 March

[20] (3 CCPs -1200 sm3/hr and 7 CCPs - 650 sm3/hr)

[21] (4 CCPs - 1200 sm3/hr and 11 CCPs - 650 sm3/hr)

[22] In one CCP i.e. at Gandhinagar, there was a delay of 75 days against the schedule date of commissioning date, the free O&M period did not lapse.

[23] Reckoning the rate of ₹ 1.20 lakh per month per CCP offered by the firms for the O&M of CCP after the warranty period given in the contract x no. of months lost in availing the free O&M in 24 CCPs as per the terms of the contract i.e., 12 months starting from the date of commissioning or 18 months from the date of supply whichever was earlier.

2011. Consequently, the Company suffered loss of interest of ₹ 6.50 crore[24] on the locked up fund of ₹ 37.62 crore for the period (July 2008 to March 2011).

The Management/Government (June/July 2011) stated that the delays in commissioning of the CCPs were unavoidable as the Company had to depend on external agencies for obtaining the clearances before setting up the CNG stations and also in few cases, the locations of CNG stations were changed due to Petroleum and Natural Gas Regulatory Board (PNGRB) Regulations.

The reply is not tenable. Before placement of work orders, the Management was aware of the procedures involved in obtaining the statuary clearances and also about the suppliers' obligations for providing free O&M for the CCPs supplied. However, it did not properly assess the estimated time required for completing each activity and had also not made adequate efforts to expedite the activities leading to non-synchronisation of activities and the consequential delays. The Management, however, did not furnish the necessary details relating to change in the locations of the CNG stations, which include date of issue of PNGRB Regulations, the cases where the locations changed, the extent of delay etc., in absence of which no comments could be offered.

The Company needs to avoid recurrence of similar incidents of idle investments on account of non-synchronisation/delays relating to project activities through better planning duly taking the cognisance of the time involved in obtaining the statuary clearances.

Gujarat State Petronet Limited

3.9 Undue benefit to a firm

Undue benefit of ₹ 12.02 crore was passed on to a firm by way of waiver of capacity charges contrary to the provisions of gas transmission agreement.

The Company transports gas through its own pipeline network to the customers and recovers transmission charges from them. Essar Steel Limited (ESL) entered into (March 2004) a Gas Transmission Agreement (GTA) with the Company for transporting maximum daily quantity of 7,201 MMBTU[25] of gas from ESL's suppliers (i.e. IOCL and BPCL[26]) at Dahej to its plant premises at Hazira. In this regard, reference is invited to Paragraph 3.13 and 3.14 of Audit Report (Commercial) for the year 2006-07 regarding short recovery of interconnectivity charges of ₹ 10.20 crore[27] and non recovery of penalty and interest of ₹ 14.73 crore by the Company from ESL in violation of provisions of GTA.

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[24] Calculated at company's average borrowing rate of 10.63 *per cent* on the value of each CCP for the number of days delayed.
[25] Million metric british thermal units
[26] Indian Oil Corporation Limited and Bharat Petroleum Corporation Limited
[27] Money value of ₹ 20.10 crore commented in previous Report, ₹ 10.20 crore pertain to ESL.

Under GTA, the Company further reserved (September 2006) Capacity Tranches (CT) viz., Essar Spot CT and Essar SEZ CT in its pipeline and started transportation of 58,350 MMBTU and 50,845 MMBTU gas respectively to ESL. In addition, at the request of ESL, the Company allotted (June/July 2009) another CT viz., Essar D6 CT with entry point at the Company's pipeline at Atakparadi to transport 1,08,334 MMBTU[28] D6 gas of Reliance Industries Limited (RIL), to ESL plant. The Spot CT and SEZ CT were valid till June 2010 and D6 CT got the validity up to March 2010. As per terms of GTA, ESL was to pay transmission charges consisting of capacity charges and commodity charges. The capacity charges were payable for the contracted (reserved) quantity of the gas under each CT till its validity period, even if there was no transportation of gas in any billing period. The commodity charges were, however, payable based on the actual gas transported during the billing period.

We observed that ESL wanted (September 2009) to lay its own pipeline to directly connect with pipeline of Reliance Gas Transportation Infrastructure Limited (RGTIL) at Damka so as to avoid using the existing pipeline network of the Company. Hence, to retain the business with ESL, the Company decided (May 2010) to lay the pipeline from RGTIL's pipeline at Damka to the Company's nearest pipeline network at Mora at an estimated cost of ₹ 2.35 crore[29] for onward transportation of D6 gas to ESL premises. Further, the Company (May 2010) also extended the validity of D6 CT on a long term basis with effect from 1 April 2010 to 31 March 2014. The Company incurred expenditure of ₹ 1.82 crore for the work of laying the pipeline and the work was in progress (June 2011). After laying the pipeline from Damka, ESL would have to pay transmission rate of ₹ 2.98/ MMBTU which would be cheaper to the existing rate of ₹ 19.74/ MMBTU being paid to the Company for transportation of D6 gas from Company's entry point at Atakparadi.

The decision of the Company to lay the new pipeline at the estimated cost of ₹ 2.35 crore could be considered to be prudent as it was in Company's own interest in retaining business of ESL. The Company, however, further waived (May 2010) the capacity charges of ₹ 12.02 crore already recovered from ESL during April to June 2010 under Spot CT and SEZ CT. This waiver was done on the basis of ESL's plea that it was not able to utilise the capacity reserved under Spot CT and SEZ CT during the said period (April to June 2010), after it started taking the supply of D6 gas through D6 CT. The waiver was not justified as it was made in violation of terms of GTA and also led to loss of revenue of ₹ 12.02 crore to the Company.

The Management stated (September 2011) that to retain ESL's transportation volume of D6 and also to avoid development of competing pipeline which would have long term implication, a contractual arrangement was made with ESL wherein the Company agreed to raise the credit note for ₹ 12.02 crore for the unutilised capacity under Spot CT and SEZ CT against the capacity

[28] D6 CT- 91,009 MMBTU and D6 RE CT 17,325 MMBTU.

[29] Cost of laying pipeline ₹ 197.17 lakh, Consultancy cost ₹ 17.95 lakh and Third party Inspection cost ₹ 20.09 lakh.

charges previously recovered under these CTs during April to June 2010. Hence, this was not waiver of income.

The reply is not tenable. The Company reserved the capacity in its pipeline separately for each CT of ESL and hence charges were to be levied and recovered as per the provisions of GTA. Thus, the benefit of ₹ 12.02 crore passed on to ESL in the form of credit note was outside the scope of GTA.

The matter was reported to Government (June 2011); their reply had not been received (November 2011).

3.10 Avoidable payment of non-utilisation penalty and other charges

Delay in planning and utilising the leasehold plots within the prescribed time limit led to avoidable payment of non-utilisation penalty and other charges amounting to ₹ 1.21 crore.

The Company with an aim to construct Gas Grid Control Room, Training Centre and Residential quarters for its staff acquired (May 2007[30]) two plots viz., plot E and S, on 99 years lease basis at total cost of ₹ 7.23 crore[31] in the estate of Gujarat Industrial Development Corporation (GIDC), Gandhinagar. As per the terms of License Agreement (agreement) entered with GIDC, the Company should complete the construction of the buildings and make it fit for occupation within a period of two years from the date of allotment of plots by GIDC in February 2007. Otherwise, GIDC shall recover non utilisation (NU) penalty at the rate of 3 *per cent* on the prevailing allotment price for the period of non utilisation of plots. Further, the Company should also pay other charges viz*.,* service charges, lease rent, etc. even if it did not utilise the plots. The Company did not even start the construction of buildings in both plots till March 2011. As the plots were not utilised within the stipulated time of February 2009, GIDC recovered (July 2010 to March 2011) NU penalty of ₹ 1.15 crore[32] and other charges of ₹ 0.06 crore[33] from the Company.

Our analysis of the reasons for non utilisation of plots within the stipulated time revealed that after the acquisition of the plots in May 2007, the Company prepared (September 2008) a proposal with design layout for construction of control room and training centre. Subsequently, the Company revised (September 2009) the proposal by increasing the size of design layout of buildings on the reason of impending expansion of its activity. However, on the plea of change of Managing Director (MD) and reconstitution of Board of Directors (BoD), it had put up a proposal and obtained the approval of BoD only in January 2011, for construction of control room and training centre in plot E and for construction of residential quarters in plot S at an estimated cost of ₹ 23.87 crore and ₹ 17.92 crore respectively. While the bids received (June 2011) for the work relating to plots were under finalisation (August 2011), the

[30] Date of actual possession of plots after allotment.
[31] E-18 (25,464 sq.mtrs.) costing ₹ 5.13 crore and S-1 (10,436sq. mtrs.) costing ₹ 2.10 crore.
[32] ₹ 82.52 lakh for E-18 plot and ₹ 32.97 lakh for S-1 plot.
[33] ₹ 5.74 lakh for E-18 plot and ₹ 0.75 lakh for S-1 plot.

construction work in plot E started in May 2011 and is scheduled for completion by February 2012. GIDC granted extension of time from February 2009 as stipulated in the agreement to August 2011 and February 2012 for utilisation of plot S and E respectively. Considering the present status of the works, the Company may have to seek further extension of time from GIDC and also have to pay NU penalty and other charges accordingly. Thus, 45 months taken since acquisition of the plots only for the process of planning and approval of development plan etc for the plots without any justifiable reasons led to avoidable payment of NU penalty and other charges amounting to ₹ 1.21 crore.

The Management stated (August 2011) that, as the Company planned (January 2009) to expand its activities outside the State by creating pipelines across the country, it had revised the size of design layout of control room and training centre. Further, the subsequent change of MD and reconstitution of BoD also led to delay in finalisation and starting of work in the plots.

The reply is not tenable. As per the provisions, of agreement with GIDC, even after constructing the buildings within the stipulated period of two years, the Company had the option to retain the unutilised portion of the plots for taking up the additional construction work in future, if required, for expansion of its activities. Considering this aspect, the Company, should have designed the layout of buildings in such a manner so that based on the then prevailing need, it could have taken up and completed the construction within stipulated time of February 2009. Further, change of MD and reconstitution of BoD are part of routine business process and cannot be considered to be a valid reason for delay in utilising of plots. Thus, the Company's laxity in developing the plots within the time limit stipulated in the agreement led to an avoidable payment of NU penalty and other charges amounting to ₹ 1.21 crore.

The matter was reported to Government (July 2011); their reply had not been received (November 2011).

Gujarat Energy Transmission Corporation Limited

3.11 Loss due to delay in finalisation of tender

Failure to finalise the tender within the validity period led to avoidable expenditure of ₹ 90 lakh in purchase of various steel items.

The Company invited (24 October 2009) tender on firm price basis for purchase of various types of steel items[34] weighing 1749.96 MT for transmission line works. Fourteen bids were received and the technical bids were opened on 30 November 2009. The validity period of tender was for 120 days from the date of opening of technical bids viz., upto 30 March 2010. The price bids of seven technically qualified bidders were opened on 29 January 2010. The Company placed the Letters of Intent (LOIs) on six firms (based on the lowest rate quoted for various items) at a total cost of ₹ 5.48 crore on 08 April 2010. As the validity of the tender expired on 30 March 2010, the firms refused to accept the LOIs issued to them.

The Company procured (June and November 2010), the above steel items by placing the purchase orders (POs) under the subsequent tenders invited on 6 February and 19 July 2010. The prices of various type of steel items procured under the subsequent tenders were ranging from ₹ 33,082 to 37,841 per MT compared to the prices of ₹ 27,951 to ₹ 33,274 per MT offered under the tender of October 2009. Five out of six firms which did not accept LOIs under tender of October 2009 got POs under the subsequent tenders at prices which were higher ranging from ₹ 2,868 to ₹ 5,860 per MT.

We observed that the Company, since its formation in April 2005, had never fixed any stage-wise time frame for completing the entire process of finalisation of tender after taking into account the reasonableness of the time required by the concerned section so as to ensure placement of the orders within the validity period of the tender. In the instant case, against the validity period of 120 days, the Company took 128 days for placement of orders after opening of technical bids. For scrutiny of technical bids and approving the technically qualified bidders 59 days were taken (30 November 2009 to 28 January 2010) and for scrutiny of price bids upto obtaining the approval of Purchase Committee (PC) another 56 days were taken (29 January to 25 March 2010). Even after the approval of PC, 13 days (26 March to 7 April 2010) were taken for issuing LOIs. As this procurement was made for the regular items of MS steel with routine technical specifications and tender terms, the delay in finalising the tender was not justified and could have been avoided. The Company's failure to finalise the tender within the validity period led to avoidable expenditure of ₹ 90 lakh[35] on procurement of steel items at higher rates under the subsequent tenders.

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[34] M S Beams (i) 150x150mmx13 meter-1228 MT (ii) 116x100mmx11 meter-72.96 MT; M S Channel (iii) 100x50x6mm -152 MT (iv) 125x65x6mm -80MT (v) 50x50x6 mm -156 MT; M S Flat - (vi) 75x10mm-29 MT; M S Plain Bar (vii) 20mm-32 MT= 1749.96 MT

[35] Price difference between the tender of October 2009 and subsequent tenders and the quantity (i) 150x150mmx13 meter - ₹ 5859.85 x 1228 MT; (ii) 116x100mmx11 meter - ₹ 2867.80 x 72.96 MT; (iii) 100x50x6mm - ₹ 3719.30 x 152 MT (iv) 125x65x6mm – ₹ 3750.20 x 80MT; (v) 50x50x6 mm – ₹ 5130.41 x 156 MT; (vi) 75x10mm- ₹ Nil x 29 MT; (vii) 20mm - Nil x 32 MT

The Government/Management stated (May 2011) that adherence to the lengthy procedures involved in finalisation of tender and also careful scrutiny of bid documents with available resources led to non finalisation of tender within the validity period.

The reply is not tenable. As the Management itself had fixed the validity period of the tender after reckoning the relevant aspects, it should have made adequate efforts to adhere to the time schedule in finalising the offer of the bidders within the validity period of their offers. The Management, however, agreed to our suggestions on framing of the stage-wise time schedule for completing each activity involved in finalisation of tender and also for devising a mechanism to monitor the timely finalisation of tenders.

Dahej SEZ Limited

3.12 Loss of interest due to non adherence to Government instructions

Failure to evolve financial management system in line with the instructions of Finance Department led to loss of interest of ₹ 2.46 crore.

The Company was incorporated[36] (September 2004) with the main objective to establish and develop multi products Special Economic Zone (SEZ) at Dahej in Gujarat. The Company allots plots in SEZ on lease for 30 years to the allottees and collects the allotment price from them either upfront or in three installments, generating huge surplus funds. As per the instructions (31 December 1999) of Finance Department of Government of Gujarat (GoG), the State Public Sector Undertakings (PSUs) should deposit their short term surplus funds[37] for periods below 15 days with Gujarat State Financial Services (GSFS) under its Liquid Deposit Scheme (LDS), which could be withdrawn upon one day notice and was offering interest at the rate as specified from time to time[38]. Further, GSFS was also accepting deposits from PSUs for a period of more than 15 days separately under its inter-corporate deposits scheme.

The Company, since the commencement of business in March 2007, had kept huge surplus funds in the Current Accounts (CAs) with two banks viz*.,* State Bank of India (SBI) and HDFC Bank, Gandhinagar. Our scrutiny of CAs with the banks revealed that during the period from April 2007 to March 2011, the funds ranging from ₹ 0.21 lakh to ₹ 294.21 crore were kept in CA with SBI

[36] Both Gujarat Industrial Development Corporation (GIDC) and ONGC are holding equal share in the equity capital of the Company.

[37] As per the FD's instructions, surplus funds would mean any operating surplus with PSUs in the form of Cash in Current Account with Bank or otherwise and would be required by PSU in future date even after one day.

[38] Prior to July 2007, GSFS was giving interest based on the interest received from inter-bank call money market which was fluctuating. However, from July 2007, GSFS was offering fixed rate of return under LDS

for a period of one to 60 days. Further, it had also kept surplus funds ranging from ₹ 75.78 lakh to ₹ 35.70 crore in CA with HDFC Bank for a period of one to 56 days during June 2009 to March 2011. Despite the instructions of GoG, the parking of such huge funds in the CAs earning absolutely no return indicated the imprudent management of funds by the Company. We observed that no mechanism was in place to ensure the efficient management of Company's huge funds. Even after reckoning two days for withdrawal of funds from CAs and depositing the same in LDS, the Company suffered an avoidable loss of interest of ₹ 2.46 crore[39] due to idling of funds in CAs with banks instead of depositing the same in LDS at the interest rate ranging from 3 to 12.20 *per cent* offered by GSFS during March 2007 to March 2011.

The Government/Management stated (May/September 2011) that the uncertainty in making payments to the developer (GIDC) executing the work of developing infrastructure in SEZ and also the difficulty in operating the account under LDS as GSFS did not provide the facility of cheque book, were the reasons for not deploying the funds under LDS. As such, the loss of interest worked out in Audit was notional.

The reply is not tenable as the funds deposited under LDS could be withdrawn from GSFS at one day notice, hence, there would not be any liquidity problem. Further, the timing for making payments to GIDC was known to the Company in advance as GIDC happened to be the promoter of the Company and also the developer of SEZ. Thus, due to non adherence to GoG instructions, the Company lost the opportunity of earning significant returns on its surplus funds.

The Company should devise proper mechanism for the efficient management of funds duly observing the instructions of GoG issued from time to time so as to safeguard the financial interests of the Company.

Gujarat Urja Vikas Nigam Limited

3.13 Irregular payment

Irregular payment of ₹ 1.76 crore was made to a firm at the instance of the State Government in violation of Incentive Scheme and Wind Power Policy.

As per the 'Incentive Scheme for Wind Power Generation-1993' of Government of Gujarat (GOG), industrial undertakings (IUs) setting up[40] Wind Turbine Generator (WTG), if opted for transmitting the energy generated to its factory at a different location, would be permitted to do so

[39]The funds which were kept more than two days in current accounts of SBI ranged from ₹ 0.21 lakh to ₹ 165.14 crore and HDFC ranged from ₹ 1.86 crore to ₹ 35.70 crore, which led to loss of interest of ₹ 2.17 crore and ₹ 0.29 crore on the funds kept in SBI and HDFC respectively.

[40] At the location as identified by Gujarat Energy Development Agency

through the grid of erstwhile Gujarat Electricity Board (GEB)[41] against the payment of wheeling charges[42]. If the energy of WTG wheeled to grid remained surplus after meeting the captive requirement of IU, the same would be allowed to bank for a period of six months and thereafter the unconsumed energy would lapse. But, if an IU opted to sell the energy to GEB, it would get a fixed rate of ₹ 1.75 per unit for the energy sold to GEB.

Choksi Tube Company Limited (CTC), an IU, had set up WTGs with a total capacity of 1.84 MW at Navadra, Jamnagar in January 1997. CTC had entered (December 2001) into an agreement with GEB for wheeling the energy generated from its WTGs through GEB grid for meeting the captive requirement of its Unit at Kalol, Mehsana with retrospective effect from February 2001. However, the agreement did not provide for sale of power to GEB. During February 2001 to September 2009, CTC wheeled 15.90 million units (MUs) from WTGs to GEB grid. Of this, only 3.23 MUs was consumed by its Unit during February 2001 to March 2007 and there was no captive consumption thereafter up to September 2009 due to shut down of its Unit.

In September 2009, GoG issued direction to the Company to pay CTC at ₹ 1.75 per unit for the surplus energy fed into the grid but not utilised for captive consumption. The direction was issued as CTC represented that its WTGs had generated more energy than required for the captive consumption resulting in accumulation of surplus energy over the succeeding years. The Company paid (February 2010) ₹ 1.76 crore[43] to CTC for the 11.41 MUs[44] of surplus energy fed to its grid during February 2001 to September 2009 and also executed power purchase agreement (PPA) with CTC for purchasing the unconsumed energy at ₹ 1.75 per unit effective from October 2009.

We observed that as the wheeling agreement with CTC did not provide for sale of energy, CTC could only transmit the energy of WTG through GEB grid to CTC factory for its captive consumption. Hence, as per the scheme, the surplus energy banked after meeting the captive requirement of CTC would have lapsed automatically on expiry of six months from the date of banking of each unit of energy. Further, as per New Wind Farm Policy-2007, entering into a power purchase agreement (PPA) with the Company is indispensable for sale of energy of WTG by IU. By entering into PPA, IU undertakes several contractual obligations as well, like, not to dump the energy in excess of the schedule allowed, not to claim the payment for the inadvertent flow of energy to grid (i.e. below 2 MW on hourly time block), etc. However, in the instant case, CTC did not undertake any such contractual obligation meant for safeguarding the interest of the Company. Thus, in the absence of PPA, the payment of ₹ 1.76 crore made to CTC with retrospective effect was irregular and against the financial interests of the Company.

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[41] The erstwhile GEB was unbundled in a phased manner by 31 March 2005. Since then the activities related to purchase and sale of power and exercising strategic control over the generation, transmission and distribution companies had been performed by Gujarat Urja Vikas Nigam Limited.

[42] Wheeling charges are operation and maintenance charges to GEB.

[43] 1,14,06,168 units x ₹ 1.75 per unit= ₹ 1,99,60,794 *less* ₹ 23,64,465 towards O&M charges, service tax etc.

[44] Of the 15.90MUs wheeled to grid, 14.64 MUs were available for CTC after reckoning wheeling charges and reactive power charges. Of the 14.64 MUs, the captive consumption by CTC Unit was 3.23 MUs and the remaining 11.41 was surplus power fed to grid.

The Government stated (June 2011) that as CTC was not using single unit of energy generated through WTG for their captive consumption and continuing to bank the energy in the grid for many years, GoG considered the representation of CTC and instructed the Company to make the payments for the energy fed to the grid.

The reply is factually not correct as there was captive consumption of energy (3.23 MUs) by CTC during 2001 to 2007. Further, there was no provision in the scheme, either for extension of banking period of energy in grid beyond six months or for making payment for unutilised energy on account of non-consumption of wind energy by the recipient. Moreover, it was not only CTC, there were other 27 WTGs of the Company which had also lost 17.98 MUs of surplus energy to the grid due to banking it in grid for more than six months during 2003 to 2008 without getting any payment from the Company. Thus, the payment made to CTC was irregular and set a wrong precedence, which could prompt other WTGs also to raise similar claims against the Company.

Statutory Corporations

Gujarat State Financial Corporation

3.14 Short recovery of dues under OTS Scheme

Erroneous calculation of OTS amount led to short recovery of ₹ 1.42 crore from the loanee units.

The Corporation introduced (October 2007) One Time Settlement (OTS) Scheme with the approval (September 2007) of Government of Gujarat to settle the accounts of the loanee units which had availed term loans from it but had defaulted in repayment of their dues. As per terms of the Scheme, the account of the unit which had been declared as Non Performing Asset (NPA) as on 1 May 2007 was eligible to avail the Scheme. As stipulated in the scheme, the Corporation was to re-work out the outstanding dues of the units afresh by applying a concessional rate of 6 to 11 *per cent* of interest[45] against the interest rate of 18 to 21 *per cent* originally charged on the loan disbursed in the accounts of the units and then deduct the amount of repayments made by the units to arrive at the amount of dues under OTS scheme.

As per the scheme, the amount to be adopted for settlement under OTS should be higher of the following two criteria, i.e. (i) the dues as re-worked out by the Corporation as per the method stated above (criteria I), or (ii) 50 or 65 *per cent*[46] of the principal disbursed including the other incidental expenses

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[45] The concessional rate of 6, 9 and 11 *per cent* of interest were applicable for the units to whom the loan amount disbursed was up to ₹ 5 lakh, above ₹ 5 lakh up to ₹ 15 lakh and ₹ 15 lakh respectively. This concessional rate of interest was to be applied on compounded quarterly basis from the date of disbursement to the last date of schedule of repayment of loan and, thereafter, simple interest at the concessional rate was to be applied.

[46] 50 *per cent* and 65 *per cent* was applicable to the units to whom the loan disbursed was up to ₹ 15 lakh and above ₹ 15 lakh respectively.

capitalised in the accounts of the unit (criteria II). Further, it was stipulated that if the unit had more than one defaulting loan account, all the defaulting accounts were required to be settled simultaneously by the unit based on the OTS amount determined for each loan account separately.

We observed that two NPA units viz., Khyati Multimedia Entertainment Limited, Mehsana (KMEL) and Principal Pharmaceuticals and Chemicals Limited, Bharuch (PPCL) which had two defaulting accounts each, applied (October 2007/March 2008) for settlement of all the accounts simultaneously under OTS scheme. However, we noticed that while considering the cases for OTS, though the Corporation had separately re-worked out the dues for each account of two NPA units as per Scheme, the OTS amount for each unit was wrongly determined based on the aggregate value of reworked out dues and 65 *per cent* of the principal disbursed (including other incidental expenses capitalised in the accounts of each unit) against different loan accounts taken together as given in ***Annexure* 14.** As a result of erroneous calculation, the Corporation sanctioned (February 2008/May 2008) and recovered (March 2008/September 2008) OTS amount of ₹ 1.99 crore and ₹ 0.62 crore instead of correct amount of ₹ 3.12 crore and ₹ 0.91 crore from KMEL and PPCL respectively. This led to total short recovery of ₹ 1.42 crore from the NPA units.

The Management stated (June 2011) that Board of Directors (BOD) granted approval (January 2010), whereby if the OTS amount calculated for any account of the loanee unit was negative then such amount could be adjusted against the OTS amount payable under any other accounts of the same unit.

The reply of the management is not correct. The BoD granted approval for making such adjustment of the negative OTS amount in respect of the new liberal OTS scheme introduced in 2010 as a part of Swarnim Gujarat Celebrations and not for this particular OTS scheme 2007. Moreover, the OTS scheme 2007 was introduced with the approval of GoG, hence, BoD was not competent to allow any concessions or alter the scheme provisions without formal approval of GoG.

Thus, due to erroneous calculation of OTS amount, the Corporation suffered a loss of ₹ 1.42 crore in settlement of dues of KMEL and PPCL, which tantamounted to passing on of undue benefit to the NPA units in violation to the norms/criteria of OTS scheme 2007 approved by the GOG.

The Corporation should fix the responsibility for erroneous settlement of loan accounts of these NPA units under OTS scheme 2007.

The matter was reported to Government (May 2011); their reply had not been received (November 2011).

Gujarat State Road Transport Corporation

3.15 Avoidable expenditure

Avoidable expenditure of ₹ 41.60 lakh due to inordinate delay in replacement of scraped steam boiler

The Tyre-Retreading[47] Plant (plant) at the Central Workshop of the Corporation, Ahmedabad, had steam boiler (boiler) which was using furnace oil and burnt oil as fuel. The boiler was in use since 1957 and completed its useful life. As it had some defects, it was declared as scrap in May 2006. The Workshop Manager, however, belatedly, in December 2007, sent his proposal to the Head of the Office of the Corporation for purchase of a new Thermic Fluid Heater (heater)[48] estimated to cost ₹ 10 lakh to replace the scraped boiler. The Vice Chairman-cum Managing Director accorded approval for the proposal in June 2008 as the heater was more fuel efficient compared to the boiler. Moreover, there would be a saving in the manpower cost as the use of heater would not require the services of boiler attendant.

The Corporation invited (September 2008) e-tender for supply and commissioning of the heater, but no bid was received. Again, it invited (November 2008) tender but did not award the work on the plea that the only technically qualified bidder[49], had quoted a rate of ₹ 14.74 lakh which was higher by ₹ 4.76 lakh compared to the rate of another supplier[50] who did not participate in bidding. In June 2009, the Corporation re-invited the tender for the work with a revised estimated cost of ₹ 15 lakh. Of the four technically qualified bids received, L1 bidder, i.e. Fluid Tech Builders (FTB), Ahmedabad was selected (September 2009) for award of the work at a total cost of ₹ 13.47 lakh. The Corporation, however, took seven months for awarding (May 2010) the work to FTB and the heater was commissioned in November 2010.

We observed that though the Corporation was well aware of the fact that the old boiler had outlived its life and the new heater was an efficient and cost effective replacement of old boiler, it inordinately delayed the commissioning of new heater on account of avoidable reason. In view of this, the Corporation should not have taken a period of 52 months (June 2006 to May 2010) for procuring and commissioning of the heater for the Plant. Had the Corporation promptly acted after declaration of the boiler as scrap and taken timely procurement action, it could have procured and installed the heater within a period of ten months, i.e. upto March 2007.

Our analysis of related cost data indicated that the average cost of retreading of tyres in the Plant after installation of the new heater was only ₹ 163.81 per

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[47] The old tread in the worn out tyre is polished away and a new rubber tread is applied to the bare casing using this plant. This retreading process extends the useful life of the tyre.
[48] It is a coil type vertical thermal oil heater and has larger heating surface and efficient burner to get high thermal efficiency. The heater HSD oil as fuel
[49] Praj Sales, Ahmedabad.
[50] Isotex Corporation.

tyre[51] as compared to the average cost of retreading of ₹ 267.48 per tyre[52] in the Plant with the boiler. This difference of ₹ 103.67 per tyre was due to lesser fuel cost incurred in the Plant by using the heater in the place of boiler. Hence, the Corporation had incurred ₹ 41.60 lakh for the work of retreading of 40,127 tyres done through the Plant with use of the boiler during the period from April 2007 to November 2010.

The Management stated (August 2011) that the attendant of the scraped boiler was to retire in May 2009 and till then it had to incur cost of ₹ 7.26 lakh towards his salary. Keeping this in view and also by considering the lead time of eight to nine months in the procurement and commissioning of new heater, it had initiated for procurement action in September 2008. Further, it took some time as it was in search of right heater from a competent manufacturer.

The reply is not tenable. As it was uneconomical to repair and maintain the old boiler, the Management declared it as scrap in May 2006. Hence, the replacement of old boiler with heater should not have been delayed on the plea of incurring the cost towards salary of the attendant which was negligible and there was an option to avail his services elsewhere till his retirement. The Corporation should fix the responsibility for the inordinate delay in procurement of a cost saving device.

The matter was reported to Government (July 2011); their reply had not been received (November 2011).

General

3.16 Follow-up action on Audit Reports

Outstanding action taken notes

3.16.1 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 performance audits included in the Audit Reports.

[51] Calculated based on 5,244 tyres retreaded at the total fuel (HSD oil) cost of ₹ 8.59 lakh incurred during December 2010 to May 2011.

[52] Calculated based on 40,127 tyres retreaded at the total fuel (furnace oil and burnet oil) cost of ₹ 107.33 lakh incurred during April 2007 to November 2011.

Though, the Audit Reports for the year 2006-07, 2007-08, 2008-09 and 2009-10 were presented to the State Legislature on 26 March 2008, 28 July 2009, 30 March 2010 and 30 March 2011 respectively, five departments, which were commented upon, did not submit explanatory notes on 30 out of 85 paragraphs/ performance audits as on 30 September 2011 as indicated below.

Year of the Audit Report (Commercial)	Total Paragraphs/ Performance audits in the Audit Report	Number of Paragraphs/Performance audits for which explanatory notes were not received
2006-07	21	1
2007-08	21	3
2008-09	25	10
2009-10	18	16
Total	**85**	**30**

Department-wise analysis is given in ***Annexure* 15.**

Compliance to Reports of Committee on Public Undertakings outstanding

3.16.2 The First Report of COPU of 12th Assembly was presented to the State Legislature on 19 February 2009. The Report contained 44 recommendations on 36 paragraphs and six performance audits 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. Further, the Fourteenth Report of COPU of 12th Assembly was presented to the State Legislature on 29 March 2011 which contained four recommendations on four paragraphs related to two PSUs falling under two administrative departments included in the Audit Report 2004-05 (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 eight and three recommendations made by the COPU in its First and Fourteenth Report of 12th Assembly respectively, pertaining to four PSUs falling under two administrative departments, had not been received as on 30 September 2011.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.16.3 Our 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 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 2011 pertaining to 52 PSUs revealed that 1,423 paragraphs relating to 400 Inspection Reports remained outstanding

as on 30 September 2011. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2011 is given in ***Annexure* 16.**

Similarly, draft paragraphs and performance audits 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. We noticed that five draft paragraphs and one performance audit forwarded to the various departments during May to August 2011 as detailed in ***Annexure* 17** had not been replied to so far (November 2011).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/ performance audits 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 **(Dr. P. MUKHERJEE)**
The Principal Accountant General
(Commercial and Receipt Audit), Gujarat

Countersigned

NEW DELHI **(VINOD RAI)**
The Comptroller and Auditor General of India