Overview

1. Overview of Government Companies and Statutory Corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Gujarat had 60 working PSUs (56 companies and four Statutory corporations) and 13 non-working PSUs (all companies). The working PSUs which employed 1.09 lakh employees, had registered a turnover of ₹ 63008.20 crore for 2010-11 as per their latest finalised accounts as on 30 September 2011. This turnover was equal to 12.24 per cent of State GDP indicating an important role played by State PSUs in the State economy. During 2010-11, the working PSUs earned an overall aggregate profit of ₹ 2,662.94 crore as per their latest finalised accounts as on 30 September 2011. The aggregate accumulated profits of all PSUs were ₹ 169.34 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2011, the investment (capital and long term loans) in 73 PSUs was ₹ 67,351.96 crore. It grew by 44.64 per cent from ₹ 46,563.67 crore in 2005-06. Besides the Miscellaneous sector, the thrust of PSU investment was mainly in Power sector in which percentage share of investment increased from 31.44 in 2005-06 to 31.88 in 2010-11. The Government contributed ₹ 9,266.03 crore towards equity, loans and grants/ subsidies to State PSUs during 2010-11.

Performance of PSUs

During the year 2010-11, out of 60 working PSUs, 41 PSUs earned profit of ₹ 3,145.83 crore and eight PSUs incurred loss of ₹ 482.89 crore as per their latest finalised accounts as on 30 September 2011. Major contributors to the profit were Gujarat State Petronet Limited (₹ 765.00 crore), Gujarat Mineral Development Corporation Limited (₹ 584.61 crore) and Gujarat State Petroleum Corporation Limited (₹ 403.62 crore). The heavy losses were incurred by Gujarat State Road Transport Corporation (₹ 159.74 crore), Gujarat State Financial Corporation (₹ 156.91 crore) and Alcock Ashdown (Gujarat) Limited (₹ 131.44 crore).

Though the PSUs were earning profits, there were instances of various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of ₹ 4,216.53 crore and infructuous investment of ₹ 300.98 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits/ minimise losses. The PSUs can discharge their role efficiently only if they are financially self reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Eighteen out of 58 accounts finalised during October 2010 to September 2011 received qualified certificates. There were 24 instances of non-compliance with Accounting Standards in 10 accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty seven working PSUs had arrears of 38 accounts as of September 2011. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 13 non-working companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

(Chapter 1)

2. Performance audits relating to Government Companies

Performance audits relating to 'Power Distribution Utilities' and 'Functioning of Gujarat State Petroleum Corporation Limited' were conducted.

Executive summary of performance audit on '**Power Distribution Utilities in Gujarat viz., Dakshin Gujarat Vij Company Limited and Paschim Gujarat Vij Company Limited'** are given below:

The distribution system of the power sector constitutes the final link between the power sector and the consumers. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. However, it constitutes the weakest part of the sector, which is incurring large losses. In view of the above, the real challenge of reforms in the power sector lies in efficient management of the distribution system. Hence, the National Electricity Policy (NEP) also gives emphasis for the efficiency improvements and recovery of cost of services provided to consumers to make power sector sustainable at reasonable and affordable prices besides others.

Network planning and execution

The creation of distribution network and up-keep of existing network to ensure efficient distribution system for covering maximum population in the State is an important work of Power Distribution Companies (DISCOMs). As on 31 March 2011, the four DISCOMs in Gujarat had a total distribution network of 5,21,157 CKM, 1,190 substations and 4,41,095 transformers for catering supply of power to 1.13 crore consumers. The increase in the distribution capacity during 2006-11 could not match the pace of growth in consumer demand in all the DISCOMs as a whole as well as in Dakshin Gujarat Vij Company Limited (DGVCL) and Paschim Gujarat Vij Company Limited (PGVCL). The inadequacy of available transformers capacity of DISCOMs to meet the connected load as on 31 March 2011 led to overloading of network and consequential rotational cuts in distribution of electricity. In selected three divisions of PGVCL, due to improper management of feeders, the connected load was very low compared to the transformer capacity which led to the loss of 104.92 million units valuing ₹ 42.08 crore in the form of iron and copper losses.

Implementation of central schemes

The NEP envisages supply of electricity to all areas including rural areas. Accordingly, Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) of Government of India (GoI) was being implemented. Overall funds of ₹ 135.33 crore under RGGVY remained unutilised by four DISCOMs (March 2011). Further, the deficiencies viz., delay in execution of work, non-synchronisation of activities, poor workmanship in execution of work, etc., were noticed in implementation of the scheme.

Under GoI's Restructured Accelerated Power Development Reforms Programme (R-APDRP), the DISCOMs were to establish IT enabled system (Part A) for the distribution management and also to strengthen sub-transmission and distribution system (Part B). As on 31 March 2011, out of ₹ 23.28 crore and ₹ 75.26 crore sanctioned (June 2009) to DGVCL and PGVCL respectively under Part A, ₹ 7.01 crore and ₹ 41.67 crore were released. Against this, ₹ 6.54 crore and ₹ 7.17 crore was actually utilised by DGVCL and PGVCL respectively. Further, though funds of ₹ 50.14 crore and ₹ 140.58 crore were sanctioned in March/December 2010 for Part B for DGVCL and PGVCL respectively, the works were not started even after a lapse of nine months (DGVCL) and 18 months (PGVCL) since sanction of loans. During 2006-11, the AT&C losses ranged between 20.59 and 18.35 per cent and 33.77 to 29.03 per cent in DGVCL and PGVCL respectively against the envisaged norm of 15 per cent under R-APDRP.

Operational efficiency

The operational performance of the DISCOM is judged on the basis of availability of adequate power for distribution, adequacy and reliability of distribution network, minimising line losses, detection of theft of electricity, etc.

In DGVCL and PGVCL the distribution loss was in excess of Gujarat Electricity Regulatory Commission (GERC) guideline by 213.14 MUs valuing ₹ 105.79 crore (2008-10) and by 1,076.48 MUs valuing ₹ 451.01 crore (2007-11) respectively. The reasons for the high losses included decrease in maintenance activities, excessive failure of transformers (DTRs), delay in repairing DTRs, slow replacement of conventional meters with static/quality meters, non metering of all agricultural consumers, slow implementation of LT less system, slow conversion of LT conductors with Aerial bunch cables, high incidence of theft, etc.

Billing and collection efficiency

Deficiencies in billing system such as unrealistic estimation of agricultural consumption contrary to GERC directives and under recovery of additional Security Deposit (₹ 297.46 crore in DGVCL and ₹ 223.10 crore in PGVCL) were noticed. As far as collection efficiency was concerned, non/delay in disconnection of defaulted consumers, delay in issuance of estimate/release of connection order and delay in execution of decree for recovering dues were noticed.

Financial management

The turnover of DISCOMs was ₹ 19,053.09 crore in 2010-11, which was equal to 30.24 per cent and 3.70 per cent of the State Working PSUs turnover and State Gross Domestic Product, respectively. The holding company Gujarat Urja Vikas Nigam Limited is arranging for borrowings for meeting short and long term requirements of funds of DISCOMs. Hence, DISCOMs do not have any active role in arrangement of funds. However, DGVCL on its own accord, unwarrantedly borrowed funds of ₹ 80 crore and repaid it prematurely resulting in loss of interest of ₹ 8.25 crore. Further, instances of financial losses due to deficiencies such as non-availment of rebate (₹ 286.62 crore) from holding company for prompt payment against procurement of power, supply of power by DGVCL to agriculture consumers beyond eight hours without any commitment from GoG, for reimbursement of losses (₹ 38.94 crore), etc., were noticed.

Subsidy Support and Cross Subsidisation

Subsidy support from GoG showed a decreasing trend in two DISCOMs during review period. National Tariff Policy (NTP) envisaged that the tariff of all categories of consumers should range within plus or minus 20 per cent of the Average cost of supply (ACOS) by the year 2010-2011. However, fixation of tariff as per the norms of NTP could not be achieved by the two DISCOMS and there was cross subsidisation exceeding the said norms.

Tariff Fixation

The delay in filing of Annual Revenue Requirement in 2008-09 led to revenue loss of ₹ 51.75 crore in DGVCL and ₹ 48.89 crore in PGVCL. In none of the years during 2006-11 any of the two DISCOMs could recover the fixed costs fully against the revenue from sale of energy which indicate that tariff is on lower side and needs revision.

Consumer satisfaction

As per GERC guidelines for redressing the grievances of consumers, the details in a prescribed proforma are required to be maintained. However, in the test checked three divisions of DGVCL, the registers maintained were deficient so far as they did not record the details such as classification and nature of complaint, time and date of redressal of grievances, etc.

Energy Conservation

DGVCL and PGVCL did not conduct energy audit during 2006-11 which would have, otherwise, enabled them to identify the areas of energy losses and take steps to reduce the same through system improvements, besides accurately accounting for the units purchased/sold and losses at each level.

Further, the fund provided (2006-11) by GoG for energy conservation activities were not fully utilised by the two DISCOMs.

Conclusion

The distribution reforms envisaged under National Electricity Policy/Plans were not fully achieved by the two DISCOMs. The improper management of feeders in PGVCL led to excessive distribution losses. The implementation of various GoI Schemes for rural electrification and system upgradation/controlling of AT&C losses were sub-optimal on account of several reasons like, poor workmanship/non-synchronisation of activities, inadequate maintenance activities, slow replacement of conventional meters with static/quality meters, failure in cent percent metering of agricultural consumers, slow implementation of LT less system, etc. Non-collection of additional security deposits, lack of financial autonomy, etc affected the financial health of the DISCOMs. The guidelines of GERC were not strictly adhered to as far as addressing the consumer grievances and conducting energy audits were concerned.

Recommendations

The performance audit contains seven recommendations for timely implementation of GoI Schemes, strengthening the distribution network, expediting the cent percent metering of the agricultural consumers and other measures for controlling the AT&C losses, taking corrective measures for timely recovery of dues from consumers, financial autonomy to DISCOMs, timely redressal of consumer complaints and conducting energy audit.

(Chapter 2.1)

Executive summary of performance audit on '**Functioning of Gujarat State Petroleum Corporation Limited'** are given below:

The Company was incorporated on 29 January 1979 for exploration, development and production of petroleum and carrying on business of all chemicals derived from hydrocarbons. The Company ventured in exploration activities under Pre-NELP in 1994 and participated in bidding with introduction of New Exploration Licensing Policy (NELP) from 1999. The Company is also engaged in gas trading activity and caters to industries engaged in power generation, steel and city gas distribution.

Blocks and hydrocarbon reserves

After surrender of four blocks (2006-10), the Company, as on 31 March 2011, had 64 blocks, of which 53 blocks are in India and 11 blocks are overseas. Of the 53 domestic blocks, the Company is operator in nine blocks and non operator in 44 blocks. The Company has 14 producing blocks which are domestic.

The proved and probable (2P) reserves in 11 out of 14 producing blocks are 3,376.9 MBbl of oil and 19.6 BCF of gas. Of the remaining 39 domestic blocks which are under exploration stage, one offshore block viz., Krishna Godavari (KG) block entered development stage and 2P of KG block is 18,303.7 MBbl of oil and 947.3 BCF of gas.

Bidding for hydrocarbon blocks

The Company with its consortium submitted bid for acquiring KG block without properly assessing related technical and financial issues. As a result, against the estimated drilling cost of US $ 102.23 million and the total depth committed of 45,348 meter in the minimum work programme (MWP), the actual drilling cost incurred was US $ 1,302.88 million (₹ 5,920.27 crore) and the total depth drilled was of 77,395.07 meters.

The main reason for the incorrect estimation was adoption of deficient geological model prepared by a joint venture (JV) partner, Geo Global Resources Inc., Canada (GGR). The Company on the ground that GGR was a technical expert, admitted GGR in the JV without taking any financial contribution from him during the exploration phase of KG block. As a result, the Company incurred GGR's share of US $ 175.07 million (₹ 780.81 crore) towards the

exploration cost and suffered loss of interest of ₹104.14 crore during 2007-11.

Exploration

An unreasonable time of 14 to 106 months was taken (2006-11) for completing the environment impact studies (EIS) in eight out of nine domestic blocks where the Company was operator.

Against the estimated drilling rate of 27.76 meters per day, the actual rate was 22.49 meters per day in drilling (July 2004 to April 2010) 16 wells in KG offshore block. This resulted in extension of tenure of drilling activity and consequential avoidable expenditure of ₹ 180.91 on drilling work.

Reliance Industries Limited (RIL) a private sector enterprise, installed Control and Riser Platform unilaterally in the part area of KG block licensed to the Company on which no other operator has any right without the consent of the Company/GoI. As per the mining lease conditions of GoI, the Company would be responsible for safety and security of all structures in its block including RIL's structure for its life period.

Further, in exploration activities, instances such as, drilling of well in area belonging to other operator, acceptance of material against specifications, incurring of imprudent expenditure and payment of idle charges were noticed. Consequently, the Company incurred avoidable expenditure of ₹ 13.23 crore and also suffered loss of ₹12.45 crore.

Twenty-six unviable wells were not abandoned even after expiry of 166 to 1,610 days since completion of test (November 2006 to October 2010), so as to bring the wells area to the pre-existing local environment as per the Regulation 59 of Oil Mines Regulations, 1984.

Development

The Company incurred total expenditure of ₹ 104.29 crore on drilling of wells without obtaining approval of the Management Committee/GoI for the Field Development Plan (FDP). In absence of necessary approval, the said expenditure could not qualify for recovery as 'cost petroleum'. Further, delay of 12 months in finalisation of construction contract from the date of approval of FDP would have corresponding impact in commencement of production activities in KG block.

Marketing

During 2006-11, the total revenue from trading of gas was ₹ 19,245.39 crore and the revenue from sale of its own production of gas and oil was ₹ 1,563.63 crore which indicated that Company was focusing mainly on trading rather than production activity. In trading activities the Company failed to safeguard its interest due to non-insertion of clause for recovery of Take or Pay (ToP) charges in the contracts for sale of gas with 25 to 36 customers out of 38 to 47 customers. This led to potential revenue loss of ₹ 502.19 crore in selected cases.

Though the Company purchased (2006-09) gas on spot price, it sold gas at a price which was lesser than the purchase price by ₹ 5.23 to ₹ 430.79 per MMBTU which resulted in extension of undue benefit of ₹ 70.54 crore to a private entrepreneur, Adani Energy (Gujarat) Limited.

Finance

Though exploration, development and production activities are of high risk and capital intensive nature and requires long gestation period, the Company largely utilised (2006-11) short term loans (constituting 38 per cent of the total borrowings) on these activities. The dependence on short term loans for these activities was not a prudent financial practice.

Instances of losses due to financial deficiencies such as, interest loss (₹ 3.14 crore) due to delay in raising claims for recovery of dues from JV partners and avoidable payment of penal interest (₹ 4.17 crore) due to short remittance of advance tax were noticed.

Internal Control and Monitoring Mechanism

The internal control and monitoring mechanism of the Company was weak in several areas like non-submission of annual budget to Board of Directors,

absence of Management Information System with regard to taking up of exploration and development activities as per the commitments made in Minimum Work Programme of Profit Sharing Contracts and as per the approved FDP, etc.

Conclusion

Proper assessment of technical and financial issues was not done before bidding for acquisition of KG block. Unreasonable time was taken in completing environment impact study and wells were drilled beyond exploration period. Improper management of exploration and development activities led to incurring of avoidable expenditure/ losses. Financial interest of the Company was not safeguarded due to non insertion of clause for recovery of ToP charges in all the contracts for sale of gas. Proper internal control and monitoring system was not in existence.

Recommendations

The review contains five recommendations which inter alia include properly assessing both financial and technical issues before bidding for the blocks, devising mechanism for improving the efficiency in the management of activities related to exploration and development, insertion of the clause for recovery of Take or Pay charges in all the contracts for sale of gas and improving the internal control and monitoring system.

(Chapter 2.2)

3. Transaction Audit Observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 17.66 crore in four cases due to non-compliance with rules, directives, procedures and terms and conditions of contracts.

(Paragraphs 3.9, 3.12, 3.14, and 3.15)

Loss of ₹ 98.74 crore in three cases due to non-safeguarding the financial interests of organization.

(Paragraphs 3.1, 3.6 and 3.7)

Loss of ₹ 14.60 crore in five cases due to defective/deficient planning.

(Paragraphs 3.2, 3.4, 3.8, 3.10 and 3.16)

Loss of ₹ 1.69 crore in two cases due to inadequate/deficient monitoring.

(Paragraphs 3.3 and 3.11)

Loss of ₹ 9.95 crore in one case due to non-realisation of objective.

(Paragraph 3.5)

Gist of the major observations is given below.

Alcock Ashdown (Gujarat) Limited is exposed to probable loss of ₹ 96.42 crore by imprudently accepting a ship building contract.

(Paragraph 3.7)

Gujarat State Petronet Limited passed undue benefit of ₹ 12.02 crore to Essar Steel Limited by way of waiver of capacity charges contrary to the provisions of gas transmission agreement.

(Paragraph 3.9)

Gujarat State Electricity Corporation Limited incurred avoidable expenditure of ₹ 9.95 crore due to imprudent selection of a firm and non-commissioning of Ash Collection System.

(Paragraph 3.5)