

Chapter III

Transaction Audit Observations

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Important audit findings that emerged from the test check of transactions of the Government of Gujarat Companies and Statutory Corporations are included in this Chapter.

Government Companies

Gujarat Mineral Development Corporation Limited

3.1 Avoidable expenditure

Imprudent decision to sell the wind energy generated, instead of using it for captive requirement, led to avoidable expenditure of ₹ 60.16 lakh.

In order to promote renewable power generation and have additional revenue, the Company commissioned (1 October 2009) a wind farm project in Rajkot district with an installed capacity of 19.5 MW, consisting of 13 Wind Turbine Generators (WTGs) of 1.5 MW each. As per the Government of Gujarat's Wind Power Policy (First Amendment) - 2007, the energy generated from the WTGs of the wind farm owner can either be sold under power purchase agreement¹ (PPA) or can be wheeled for its captive use by entering into wheeling agreements² (WAs). Under the WA, the net energy generated³ is set off against the actual energy consumption at its recipient locations and in case of any excess wind energy generated the same shall be sold to Gujarat Urja Vikas Nigam Limited (GUVNL) at the rate of 85 *per cent* of tariff applicable.

We observed (December 2011) that the Company, instead of evaluating the option available for wheeling the energy generated from its WTGs to its major energy consumption centers, had started selling the energy of all its WTGs at fixed rate of ₹ 3.56 *per unit*⁴ to GUVNL under PPA entered for the period upto October 2029. During October 2009 to March 2012, the Company generated and sold 82.02 MUs of energy to GUVNL. Reckoning the past consumption pattern for one year from October 2008 to September 2009 for four major locations⁵ of the Company, it should have entered into WAs for three out of its 13 WTGs for wheeling of energy to these locations from October 2009. Had this been done, the actual energy consumption of 21.88 MUs of these locations during October 2009 to March 2012 would have

¹ PPA to be entered for 20 years with Gujarat Urja Vikas Nigam Limited.

² WAs to be entered with Gujarat Energy Transmission Corporation Limited (GETCO) and concerned Distribution Licensee (DISCOMs).

³ After taking into account the wheeling losses.

⁴ The original rate fixed under PPA was ₹ 3.37 *per unit* which was re-fixed by Gujarat Electricity Regularity Commission at ₹ 3.56 *per unit* which would be applicable till December 2029.

⁵ Mines project at (i) Panandhro, (ii) Rajpardi (iii) Tadkeshwar and (iv) Panandhro Colony.

been catered by these three WTGs, which generated 18.93 MUs of energy during the period. Thus, the Company could have saved electricity cost of ₹ 60.16 lakh⁶ during October 2009 to March 2012, as the set off would be available against energy consumption charged at the tariff of ₹ 5.29 to ₹ 6.68 *per* unit based on contracted demand. This option could also guard the Company against the possible hike in the electricity tariff of Distribution Licensee till December 2029.

The Management/ Government stated (June 2012) that it had a captive load of only 2,350 KVA and the activities in one of these mines were expected to be closed by next five years. Thus, reckoning all factors viz., the possibilities for decrease in the consumption of power in these mines, increase in power generation of WTG, increase in the charges for transmission/wheeling losses and also the absence of 'Switch Over Option' from selling of power to wheeling of power in the wind power policy, the preference was made to sell the power under PPA.

We do not accept the reply. The total connected captive load of the Company was 5,810 KVA and the locations mentioned in WAs for wheeling of power were interchangeable according to consumption pattern, which would take care of future decrease in consumption in identified locations. Further, in view of the absence of 'Switch Over Option' from selling of power to wheeling of power, it was necessary for the Company to carry out a cost benefit analysis based on actual consumption pattern.

Sardar Sarovar Narmada Nigam Limited

3.2 Extra cost due to non award of work to an eligible bidder

An eligible bidder under the original tender was not considered leading to award of work at an extra cost of ₹ 45.09 crore. This also delayed the irrigation of cultivable command area of 1.06 lakh hectares of land.

The Company invited (23 July 2010) tenders for the work of construction of canal network consisting of distributaries and minor channels for the cultivable command area (CCA) under Dhrangadhra Branch Canal from chainage 0 to 124.983 km at an estimated cost of ₹ 239.23 crore. The time schedule for completion of work was 18 months from the date of award of work. Tender provisions stipulate that after technical evaluation of bids was received, the successful bidders would be declared as pre-qualified and their price bids would be opened for further evaluation. If it was noticed at later stage that any bidder had hidden any material detail or given false details, he would be declared disqualified for the award of work. Eight bidders submitted bids for the work. The Company, after the technical evaluation of bids, declared (13 September 2010) six bidders as pre qualified and opened (17 September 2010) their price bids. The rates quoted by the first four lowest

⁶ After reckoning the transmission charges, wheeling losses and possible revenue from sale of surplus energy after meeting requirement of the locations.

bidders⁷ were L1- ₹ 216.05 crore, L2- ₹ 228.98 crore, L3- ₹ 229.01 crore and L4- ₹ 231.72 crore.

Based on the information received (October 2010 to March 2011) from various agencies⁸ about the slow performance/poor quality of works executed by L1 and L2 bidders, the Company's Purchase and Tender Committee (PTC) disqualified (April 2011) L1 and L2 bids. Further, as per concurrent evaluation criteria⁹, PTC also declared L3 bidder as ineligible bidder for this work since he was considered for award of another work (Limbdī Branch Canal) for which the tender was under finalisation. Hence, L4 bidder was considered as qualified and was asked to match his rates with the rates of L1 bidder. However, L4 bidder declined (April 2011) the offer of matching with L1 rate on the plea that L1 rate was uneconomical for him, but had expressed his willingness to accept the work at L3 rate. The Company did not consider the plea and scrapped (May 2011) the tender.

The Company re-invited (May 2011) tender for the work by dividing it in three works (i.e. in chainages of: 0 to 74.31 km, 74.31 to 98.267 km and 98.267 to 124.983 km.) The Company awarded¹⁰ (October/November 2011) all the three works under the re-invited tenders at the total cost of ₹ 283.23 crore. Of the three works, two works were awarded to the firm who was L4 under the original tender of July 2010. The execution of works was in progress (March 2012).

We observed (January 2012) that the Company was aware that, under the original tender of July 2010, the L1 bidder had quoted unduly lower rates for some major items of work and that both the L1 and L2 bidders were disqualified for the award of work based on the adverse feedback about their work. Under the circumstances, the Company should not have insisted the L4 bidder to match his rate with the rate of disqualified L1 bidder, but should have considered the willingness of L4 bidder to execute work at L3 rate. Thus, non award of work to L4 bidder at L3 rate of ₹ 229.01 crore had not only led to award of work at extra cost of ₹ 54.22 crore (₹ 283.23 crore - ₹ 229.01 crore) but also delayed the irrigation of CCA of 1.06 lakh hectares of land by one year. Out of the extra cost of ₹ 54.22 crore, the cost of ₹ 9.13 crore¹¹ was due to minor change in the scope of work, resulting in extra expenditure of ₹ 45.09 crore.

⁷ L1- Gammon India Limited, L2 - Ramky Infrastructure Private Limited quoted, L3 - Hindustan Construction Company Limited and L4 - Madhucon Projects Limited.

⁸ Delhi Metro Rail Corporation, Hyderabad Urban Development Authority, National Highways Authority of India, Gujarat Water Supply and Sewerage Board, Ahmedabad Municipal Corporation, Pune Municipal Corporation and Jabalpur Municipal Corporation.

⁹ If any bidder gets qualified for award of more than one work under various tenders invited by the Company, then the maximum number of works that can be awarded to him shall be decided on the aggregate qualifying criteria for all such Bids (Physical as well as Financial). Such bidder shall be eligible to get only those numbers of works which the Company considers it appropriate.

¹⁰ Chainage 0 to 74.31 km: Madhucon Projects Limited at the cost of ₹ 141.93 crore against estimated cost of ₹ 137.47 crore, chainage 74.31 to 98.267 km: Madhucon Projects Limited at the cost of ₹ 60.06 crore against estimated cost of ₹ 57.67 crore and chainage 98.267 to 124.983 km: Kunal Structures Limited at the cost of ₹ 81.24 crore against estimated cost of ₹ 79.67 crore.

¹¹ Based on the revised quantity in new tender at SoR prevailing at the time of original tender, the estimated cost would have been ₹ 248.36 crore. Hence, the increase in estimated cost due to change in scope of work was ₹ 9.13 crore (₹ 248.36 crore less ₹ 239.23 crore).

The Government/ Management stated (June/July 2012) that as per the Company's policy whenever bidders other than L1 were considered for award of contract they should match their price with L1 price. As L4 bidder did not accept to match L1 quoted price, the tender was scrapped and it was decided to re-invite the tender. On re-invitation due to change in Schedule of Rates (SoR) 2008-09 to SoR 2010-11 and increase in scope of work, the estimate of work itself increased by ₹ 35.58 crore¹².

We do not accept the reply as L1 and L2 bidders were technically disqualified due to slow performance/poor quality of work and the L3 bidder was disqualified on concurrent evaluation criteria of the Company. Hence, the Company should have accepted the request of L4 bidder to match L3 bidder, who was L1 bidder based on technical disqualification of L1 and L2 bids. Further, the increase in the estimate due to increase in the scope of physical work component was only to the extent of ₹ 9.13 crore. Thus, non award of work to eligible bidder in original tender resulted in delay in completion of work and incurring of extra cost of ₹ 45.09 crore.

Gujarat State Petronet Limited

3.3 Undue benefit to a firm

Deviation from the agreed terms of recovery of transportation charges for transportation of gas from the specified entry point of the Company's pipeline network led to passing of undue benefit of ₹ 52.27 crore to a firm.

The Company entered (March 2007) into a Gas Transportation Agreement (Bhadbhut GTA) with Reliance Industries Limited (RIL) for transportation of D6 gas from Bhadbhut, in Bharuch district, to RIL Refinery (refinery), Jamnagar. As per the arrangement, RIL would transport D6 gas through its pipelines to Bhadbhut for onward transportation to the refinery through the Company's new pipeline network to be created for the purpose.

Bhadbhut GTA would be valid for 15 years from the 'start date', which should not be later than 1 July 2008. Four months period from 'start date' would be allowed as commissioning period. The Company would recover transportation charges (TC) in the form of Capacity charges at ₹ 6.75 per MMBTU¹³ and Commodity charges at ₹ 6.75 per MMBTU at net calorific value (NCV) of gas transported¹⁴. While Commodity charges were payable on the quantity of gas actually transported, Capacity charges were payable on the maximum capacity of 3,71,000 MMBTU/day the Company ought to transport to RIL.

Due to belated completion of work by RIL in its KG-D6 field, the flow of gas started only from April 2009. By this time, the Company had created the pipeline network from Bhadbhut to Jamnagar at a total cost of ₹ 807.30 crore.

¹² Revised Estimate cost for all the three works - ₹ 274.81 crore and Original Estimate cost - ₹ 239.23 crore. Hence, increase in the estimated cost was ₹ 35.58 crore.

¹³ Million British Thermal Unit.

¹⁴ Further, 10 per cent of both the charges would be considered for escalation every year based on Wholesale Price Index.

However, as Government of India (GoI) had initially made the allocation (April 2009) for supply of gas to priority sector¹⁵ under Gas Utilisation Policy, RIL was unable to off take gas from KG-D6 field for its refinery. Hence, to cater to its refinery's demand for gas, RIL and Reliance Petroleum Limited (RPL) made (May 2009) the arrangement for purchase of gas from two firms¹⁶ at Mora and Dahej. Accordingly, RIL/ RPL had also entered into (May 2009) two separate short term GTAs with the Company for transportation of gas aggregating to 2,52,200 MMBTU/ day¹⁷ of gas from Mora and Dahej to its refinery at Jamnagar through the Company's pipelines for a period of three months from May 2009 to July 2009. The short term GTA did not have two parts tariff viz., Capacity charges and Commodity charges. As per terms of this short term GTA, for the gas to be transported from entry points at Mora/ Dahej to the exit point i.e. refinery, the TC would be levied at the rate of ₹ 12.45 *per* MMBTU on the gross calorific value¹⁸ fixed under Bhadbhut GTA *plus* an additional rate of ₹ 9.18 *per* MMBTU on the quantity of gas transported as these two entry points are far away from Bhadbhut. However, if gas would be transported from the entry point of Bhadbhut, then TC would be levied as terms of Bhadbhut GTA i.e. Capacity charges of ₹ 6.75 *per* MMBTU and Commodity charges of ₹ 6.75 *per* MMBTU on the NCV of gas.

We observed (December 2011) that RIL was allowed (October 2009) by GoI to off take the gas from its KG-D6 field for its refinery and the Company started transporting the D6 and other gas from Bhadbhut to RIL Refinery from January 2010. The Company charged the single rate on the quantity transported from Bhadbhut and recovered TC of ₹ 12.45 to 12.61 *per* MMBTU for 46,71,032 to 1,00,64,670 MMBTU gas transported *per* month during May 2010 to March 2012. However, the Company should have invoked the provisions of GTA that in respect of transportation from Bhadbhut entry point, Bhadbhut GTA would apply, under which Capacity charges were to be levied. As per the Bhadbhut GTA, Capacity charges of ₹ 6.22 to 6.30 *per* MMBTU on the allocated Capacity of 3,71,000 MMBTU/ day and the Commodity charges of ₹ 6.22 to 6.30 on the above mentioned actual transported quantity of gas *per* month during May 2010 to March 2012 were to be charged. This led to passing of undue benefit of ₹ 52.27 crore¹⁹ to RIL.

The Management/ Government stated (June 2012) that GoI allocated only 21 *per cent* of the total gas requirement of D6 gas to be transported from Bhadbhut for RIL Refinery i.e., 67,435 MMBTU/day out of the requirement of 3,71,000 MMBTU/day. Thus, RIL had not been able to get access to the contracted quantity of gas for transportation as per Bhadbhut GTA. So, if the

¹⁵ Empowered Group of Ministers (EGoM) made the allocation for supply of gas to Fertiliser, power, city gas, LPG and steel.

¹⁶ M/s Haizra LNG Pvt. Limited and Petronet LNG Limited.

¹⁷ 1,35,800 MMBTU/ day from Mora and 1,16,400 MMBTU/ day from Dahej.

¹⁸ This rate on the GCV was arrived based on the rate viz., Capacity charges ₹ 6.750/ MMBTU and Commodity charges ₹ 6.750/ MMBTU fixed under Bhadbhut GTA on NCV of gas.

¹⁹ (A) **Amount recoverable as per terms of Bhadbhut GTA:** MDQ in MMBTU undertaken × capacity charges of ₹ 6.225 to 6.30 *per* MMBTU + Actual quantity of MMBTU transported × Commodity charges of ₹ 6.225 to 6.30 *per* MMBTU **minus** (B) **Amount recovered as per terms of short term GTA:** Actual quantity of MMBTU transported x transportation charges of ₹ 12.45 to 12.61 *per* MMBTU.

Bhadbhut GTA was made operational, RIL would have claimed *Force Majeure* under the GTA, thereby getting relieved of its obligations of ship or pay charges. Further, the income generated under the short term GTAs was more or less in line with what it could have generated had it operationalised the Bhadbhut GTA at 67,435 MMBTU/ day firm volumes.

We do not accept the reply. If the operationalisation of Bhadbhut GTA was not feasible, the same should have been reviewed in the present context. Further, even the terms of short term GTAs categorically stipulated that the TC would be recovered for the gas transported from Bhadbhut entry point as per the terms of Bhadbhut GTA. Moreover, 83 *per cent* of quantity transported to RIL refinery during May 2010 to March 2012 was transported from Bhadbhut. Thus, the Company did not safeguard its own interest leading to passing on of undue benefit of ₹ 52.27 crore to RIL.

Gujarat Urban Development Company Limited

3.4 Undue benefit to contractors

Issuance of Project Authority Certificate for availing excise duty exemption issued to the contractors who had quoted the rates inclusive of excise duty led to passing of undue benefit of ₹ 41.33 lakh to contractors.

The Company implements Drinking Water Supply schemes and its augmentation schemes in tribal areas under Tribal Sub plan of Government of Gujarat (GoG) and in small and medium towns under Urban Infrastructure Development Schemes of GoG (the schemes). These works included inter-alia supply and laying of pipes for delivery of water from its source to the treatment plant and from there to the storage point.

As per Ministry of Finance, Government of India (GoI), notification dated 06 September 2002 and 01 March 2006 (the notifications), the payment of Excise Duty (ED) was exempted on the pipes needed for delivery of water from its source to the plant and from there to the storage facility. The contractor could claim this exemption based on Project Authority Certificate (PAC) issued by the Company subject to the certification by the concerned District Collector.

During the course of implementation of the above schemes, three works²⁰ were awarded at a total cost of ₹ 19.21 crore to four contractors²¹ during June 2009 to May 2010. The preamble to the Price Bid forming part of tender documents for the above works mentioned that the rates had to be quoted inclusive of ED except for the items on which the contractor intends to avail benefit of ED exemption as per the notifications. The clause also clarified that in respect of such items the contractor shall submit a separate list of the items

²⁰ Augmentation of Water Supply Scheme at Tarsadi, Augmentation of Water Supply Scheme at Sonagadh, and Water supply works at Gandhidham (Two separate contracts I and II).

²¹ (i) At Tarsadi - Aquafil Polymers Co. Pvt. Ltd.; (ii) At Songarh - P. C. Snehal Construction Co.; (iii) At Gandhidham - I - Uniroyal Sthapatya; and (iv) At Gandhidham - II - B D Sorathia & Co.

for which the ED exemption was proposed to be claimed. The contractor would be considered eligible for ED exemption only for such listed items.

We observed (January 2012) in Audit that the contractors had not submitted the list of items on which they wished to avail ED exemption benefit at the time of submission of price bid. The price bids and cost sheets prepared showed the price as being inclusive of all taxes. However, the Company issued PAC, to the contractors for availing ED exemption under the notifications for the pipes used in the above works.

The payment terms of the Company for the works related to supply and laying of pipes were on stage-wise completion basis. Out of the above stated three works, the total value of works completed by March 2012 was ₹ 14.83 crore. Based on the payment schedules, the cost of the pipes in the four contracts awarded for the three works approximately worked out to ₹ 3.86 crore²². Thus, issuing PAC to the contractors to avail the benefit of ED exemption when the rates quoted by the contractors for the above works were inclusive of ED resulted in passing of undue benefit of ₹ 41.33 lakh²³ to the contractors. Further, the Company has not devised any mechanism to verify the ED exemption actually availed by the contractors against the PACs issued, for making appropriate deduction from Running Account Bills, so as to pass on the benefits of ED exemption for the water supply works, as intended by the Central Excise Department, GoI.

The Management stated (August 2012) that the rates quoted by the bidders for the pipeline work were exclusive of ED and the PAC was issued to contractors for the pipes used by them. As per the standard practice, the preamble to price bid prevailed over the item description in price bid and the price schedule clearly stated that rates on items where ED exemption is available shall be quoted exclusive of ED. Further, all bidders were aware of tender conditions and no undue benefit was passed to contractors.

We do not accept the reply as the item rate quoted and passed in the RA bills showed that the rates were inclusive of ED. Further, at the time of tender the Company had not obtained from the contractors, any list of items which were eligible for ED exemption even though this requirement was also specified in the preamble. Further, the Company had issued PAC to contractors for availing the exemption of ED without ensuring that the bidder had quoted rates exclusive of ED, as no documents were insisted at the time of bidding.

We reported the matter to the Government (June 2012); we are awaiting their reply (December 2012).

²² As actual cost of pipes could not be ascertained as quoted rates were for item rate contract, Audit worked out the cost of pipes based on payment schedule of Company. As the Company has payment terms of releasing 70/ 65 per cent payment on supply of pipes, reducing further 20 per cent of this for loading charges, taxes etc, the audit has worked out the cost of pipes as 56/ 52 per cent of the item rate.

²³ ED at the rate of 12 per cent based on the value of pipes used on the work executed till March 2012.

Gujarat Foundation for Mental Health and Allied Sciences

3.5 Loss of interest due to non adherence to Government instructions

Failure to evolve financial management system in line with the instructions of Government of Gujarat led to loss of interest of ₹ 52.40 lakh.

The Company received (March 2007 to February 2009) total grants of ₹ 7.45 crore from Government of India (GoI)²⁴/ Government of Gujarat (GoG)²⁵ for implementation of various projects related to mental health care. The Company with the approval of GoG, decides projects to be implemented by various Government institutions, hospitals, NGOs, etc., and disburses the grants in installments as per the Memorandum of Understanding (MoU) entered into with them.

As per the instructions²⁶ of Finance Department (FD) of GoG regarding deposit of surplus funds of the State Public Sector Undertakings (PSUs), the PSUs should deposit their short term surplus funds²⁷ for periods below 15 days with Gujarat State Financial Services (GSFS) under its Liquid Deposit Scheme (LDS), which could be withdrawn upon on one day notice and was offering interest at the rate as specified from time to time²⁸. Further, GSFS also accepts medium to long term deposits from PSUs for a period of more than 15 days separately under its Inter Corporate Deposit (ICD) schemes.

We observed (January 2012) that all the grant funds received by the Company were kept in nil/low rate of interest bearing Current/ Savings Account (CA/SA) in a nationalised bank²⁹ and not in the LDS or ICD of GSFS. During the period of five years i.e. April 2007 to March 2012, funds ranging from ₹ 2.67 lakh to ₹ 570.95 lakh were kept in the CA/SA. Of the above period of five years (60 months), in the first spell of 42 months (April 2007 to September 2010), funds ranging from ₹ 77.00 lakh to ₹ 5.71 crore were kept in the CA/SA. Had, the Company parked these funds in round figures of ₹ 50 lakh to ₹ 5.00 crore in ICD for a period of six months and above from time to time and parked the remaining funds in excess of it in the LDS, it could have earned interest of ₹ 59.79 lakh (at rate ranging from 3 to 12.20 per cent per annum). Further, during second spell of 18 months i.e., October 2010 to March 2012, the Company kept funds ranging from ₹ 2.67 lakh to ₹ 75 lakh in the CA/SA; if these funds were also deployed in

²⁴ Under National Rural Health Mission.

²⁵ Grants under the Budget head of GoG.

²⁶ Instructions for deployment of surplus funds of PSUs were issued by FD of GoG on 26.07.1995 and further instructions were issued on 16.07.1998, 31.12.1999, 29.11.2000, 03.10.2001, 10.10.2002 and 26.10.2006.

²⁷ 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.

²⁸ 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.

²⁹ Central Bank of India, Gandhinagar – Current Account No. 3003470358 later converted into Saving Account.

LDS, it could have earned interest of ₹ 0.57 lakh (at rate ranging from 3 to 6 per cent per annum).

Thus, due to non adherence to the Government instructions, the Company suffered avoidable loss of interest of ₹ 52.40 lakh (after considering interest earned of ₹ 7.96 lakh during the period). Further the Company's failure to park such funds in ICD/LDS of GSFS and consequential loss of opportunity to earn higher rate of return indicated lack of prudence in the management of funds.

We recommend that the Company should devise an investment policy for the grants received so as to earn higher interest on surplus funds until the same are disbursed to NGOs /agencies.

We reported the matter to the Government/ Management (July 2012); we are awaiting their replies (December 2012).

Dahej SEZ Limited

3.6 Undue benefit to an allottee

Non recovery of interest on the outstanding dues of a plot retained by an allottee led to passing of undue benefit of ₹ 77.83 lakh to him.

The Company allotted (13 December 2007) plot no Z-88, admeasuring 1,40,648 sq. mtrs³⁰ at an allotment price of ₹ 900 per sq.mtr. to M/s Neesa Infrastructure India Pvt Ltd (allottee) in Dahej Special Economic Zone (SEZ) for manufacture of various castings and engineering products. The Company entered into an agreement with the allottee and also handed over the physical possession of the plot on 2 January 2008. As per terms of agreement, the allottee was required to pay the allotment price in three installments till December 2008. In the event of default, interest would be charged at the rate of 13 per cent per annum. It was also stipulated that the plot was given on lease for a term of 30 years and the allottee should commence construction of building within a period of six months and complete it within three years from the date of allotment. In case of non adherence to the stipulations including the terms of payments by the allottee, the Company could forfeit the amount already paid by the allottee and take back the possession of the plot or allow the allottee to continue to have the possession of the plot on payment of such fine as may be decided by the Company.

The allottee paid first installment (i.e. down payment) of ₹ 3.08 crore in December 2007, but did not pay the second installment due in June 2008 and requested for rescheduling the installments. The Company rescheduled (September 2008) the period of payment of balance amount of ₹ 9.58 crore in six quarterly installments starting from September 2008 to December 2009 along with interest of 13 per cent per annum. The allottee paid

³⁰ Allotment letter indicated approximate size of 1,71,064 Sq. mtrs., later it was determined as 1,40,648 Sq. mtrs. (₹ 12.66 crore) as per actual survey of the plot.

(September 2008) the first rescheduled installment due of ₹ 1.85 crore (including the interest of ₹ 5.88 lakh) as per the revised schedule but did not pay the remaining dues. Further, the allottee did not commence the construction of building within the stipulated period. The Company, however, neither took back the possession of plot no.Z-88 nor forfeited the amount paid by the allottee. In January 2010, the allottee requested the Company to drastically reduce the size of the plot allotted as they wanted to scale down their proposed manufacturing activities in the plot. Accordingly, the Company, carved out a small plot viz., Z-88/3 admeasuring 18,650 Sq. mtrs., from the original plot no. Z-88 admeasuring 1,40,648 sq. mtrs and allotted (March 2010) it at the same allotment price of ₹ 900 *per* sq.mtr. amounting to ₹ 1.68 crore. Further, the Company terminated (March 2010) the agreement entered with the allottee for the plot no. Z-88 and adjusted the total amount of ₹ 4.93 crore received for the plot against the dues³¹ for the plot no. Z-88/3 and for another plot no. Z/4/1 allotted (February 2010) at some other location in the SEZ for their hospitality project.

We observed (March 2012) that even though as per the terms of agreement the Company could forfeit the plot or levy fine for non utilisation at its discretion. The Company had neither initiated any action on the allottee nor framed any policy for exercise of its discretion. The Company also did not recover the interest on the default in payment of installments as provided in the terms of agreement. Further, as per the Company's policy, entire allotment price should have been collected upfront if size of the plot allotted was more than 50,000 sq.mtr. However, on the request of the allottee, the payment was allowed in installments for the plot no.Z-88, which also lacked justification. Thus, due to absence of any deterrent system, the allottee continued to retain the plot no.Z-88 valuing ₹ 12.66 crore till March 2010. The Company should have charged the interest of ₹ 77.83 lakh³² for the period December 2008 to March 2010 on the installments due in arrears. The Company's failure to determine and recover any fine or the interest of ₹ 77.83 lakh from the allottee and also adjusting the amount collected without fine led to passing of undue benefit to the allottee.

The Government/ Management stated (July/ April 2012) that the Company had received the full amount of plot of land of reduced area within stipulated time and thus, the time schedule for payment of installments, interest, etc., for earlier size of plot became irrelevant.

We do not find the reply specific to our observations. The fact remains that the Company passed undue benefit to the allottee by allowing the repayment of dues in installments, rescheduling the installments without levy of interest though the allottee had defaulted in making payment and by allowing the possession of a big plot (Z-88) for a long period (December 2008 to March 2010) without receiving the payment of installments or interest for the defaults in payments.

³¹ For plot Z/88/3 dues of ₹ 1.68 crore; plot Z/4/1 dues of ₹ 2.96 crore and balance towards other charges levied by SEZ for the plots.

³² Interest at 13 *per cent per annum* on installments dues in arrears amounting to ₹ 7.78 crore.

We recommend that the Company should devise a system of levy of penalty in the case of non utilisation of plot and suitably incorporate the terms of such policy in the agreements also.

Gujarat Urja Vikas Nigam Limited

3.7 Short recovery of penalty

Non adherence to the terms of Power Purchase Agreement led to short recovery of penalty of ₹ 160.26 crore and passing of undue benefit to a private firm.

The Company entered (06 February 2007) into a power purchase agreement (PPA) with Adani Power Limited (APL) for purchase of 1,000 MW electricity at a tariff of ₹ 2.81 *per* unit (i.e. capacity charges ₹ 1.33 and energy charges ₹ 1.48) from a power project with 1,320 MW capacity (4 units 330 MW each) to be set up by APL at Mundra in Gujarat. The scheduled commercial operation date (SCOD) for the Project was 05 February 2010 (i.e. 36 months from PPA date). The Company's subsidiary i.e. Gujarat Energy Transmission Corporation Limited (GETCO) was to lay transmission lines for evacuation of the power generated from the Project.

As per the PPA terms, APL was to inform the Company in advance about the date of synchronising, commissioning and testing of each unit of the Project including the initiation to sell the power generated prior to the SCOD. The Company was entitled to get proportionate power generated to the extent of 250 MW³³ from each unit restricted to 1,000 MW. If APL failed to ensure proportionate availability of power, the Company was entitled to recover the penalty from APL in respect of non/short supply of power. The penalty proposed was equal to 1.5 times of the difference between highest energy charges applicable for industrial category of consumers in Gujarat and energy charges quoted by APL in PPA. If during such failure, any Unscheduled Interchange (UI) charge³⁴ at a grid frequency of 49.0 Hz was applicable and the UI charge was higher than the highest energy charges for industrial category, then the penalty would be 1.5 times of the difference between the UI charge and energy charges quoted by the APL for such unit of energy.

APL synchronised the Unit-1 on 23 May 2009 and declared the Unit commercially operational on 4 August 2009 i.e. ahead of SCOD by six months. Further, during 4 August 2009 to 15 October 2009, APL sold 243.98 MUs of power generated in Unit-1 to third parties through the use of GETCO's 220 KV Mundra-Nanikhakhar transmission line. After persistent persuasion by the Company, APL commenced power supply to the Company

³³ The capacity of each unit is 330 MW (*minus*) auxiliary consumption as per norms 30 MW and hence the power available for sale from each unit would be 300 MW. The Company's entitlement would be 250 MW from each unit i.e. 5/6th of 300 MW.

³⁴ UI charge is a penalty recovered by the transmission utility from the users of its grid for their failure to maintain the grid discipline by not adhering to the schedule in dispatch/drawal of power through grid. UI charges applicable for the period 1 April 2009 to 3 May 2010 was ₹ 7.35 per unit and for the period 3 May 2010 to 1 April 2012, it was ₹ 8.73 per unit.

from 16 October 2009. Remaining three units of the Project were also commissioned (March to December 2010) and the power was being supplied to the Company.

We observed (April 2012) that the Company recovered³⁵ total penalty of ₹ 79.82 crore from APL for its failure to supply the power as discussed above and also for the short supply of power against the Company's entitlement in the power generated by APL on the following occasions during August 2009 to January 2012. The penalty was short recovered by ₹ 160.26 crore as per the details given below:

Period of non supply/short supply	Short supply of power in MUs	Penalty to be recovered as per PPA terms	Penalty recovered	Short recovery
4 Aug. 2009 to 15 Oct. 2009	203.32	179.06	45.18 ³⁶	133.88
16 to 31 Oct. 2009	21.29	18.75	13.67	5.08
Nov. 2009 to April 2010	35.62	31.37	20.44	10.93
May to Dec. 2010	7.59	8.26	0	8.26
Jan. 2011 to Jan. 2012	2.42	2.64	0.53	2.11
Total	270.24	240.08	79.82	160.26

While calculating the penalty for the period 4 August 2009 to 31 October 2009, the Company did not adopt the rate of ₹ 8.81 *per* unit {i.e. 1.5 times × (applicable UI charge of ₹ 7.35 *less* energy charges of ₹ 1.48) quoted by the APL} on the non/short supplied power as stipulated in PPA. Instead, it had adopted the rate of ₹ 4.18 to 6.42 *per* unit realised by APL in selling the power to third parties. Further, in all the cases, at the instance of APL, the Company allowed deductions for various expenses viz., transmission charges, power exchange charges, scheduling/connectivity charges, take or pay compensation etc., incurred by APL from the penalty recoverable. Thus, the application of incorrect rate and allowing deduction of expenses not stipulated in the PPA led to short recovery of penalty and passing of undue benefit to APL.

The Government/ Management stated (June 2012) that APL and GUVNL had divergent views regarding obligation of APL and rights of GUVNL prior to SCOD. It was only as a goodwill gesture that APL agreed to pass on to GUVNL the additional revenue received from selling power to outside parties. Further in another PPA (Bid II) with APL where also GUVNL had a right to purchase 1,000 MW, GERC had held that APL was under no obligation to supply power to GUVNL prior to SCOD. For the period after SCOD i.e. 16 October 2009, the APL had started the supply, despite, the fact that sufficient transmission system could not be made available by the Company. Hence, at the instance of APL certain deductions were allowed from the penalty recoverable for the short supply of power made after SCOD.

We do not accept the reply. The penalty was recoverable as per term of PPA, once commercial operation of a unit was declared even prior to scheduled commercial operation date. The GERC judgment related to another PPA

³⁵ June 2010, May 2010, February 2011 to February 2012.

³⁶ Proportionate penalty for the period from 04 August 2009 to 15 October 2009 based on the total penalty of ₹ 66.75 crore deducted by GUVNL for the period 23 May 2009 to 15 October 2009.

(Bid II) where circumstances regarding transmission net work, RFP clauses etc were different. Further, the transmission network for evacuating the power generated by APL was provided by GETCO. Hence, the contention that certain deductions were allowed from the penalty as sufficient transmission system could not be made available to APL was not convincing. Thus, the fact remains that non adherence to the terms of PPA led to short recovery of penalty of ₹ 160.26 crore and passing of undue benefit to a private firm.

Statutory Corporations

Gujarat State Road Transport Corporation

3.8 Loss of revenue

Inordinate delay in award of contract for establishing the ‘Public Entertainment System’ in bus stations and buses led to loss of revenue of ₹ 1.36 crore.

The Board of Directors of the Corporation decided (June 2009) to install ‘Public Entertainment System (PES)’ for providing entertainment and displaying information to the travelling public. The contract for PES was to be awarded on ‘Built, Own and Operate (BOO)’ basis, wherein the contractor was to install PES consisting of audio visual system with liquid crystal display (LCD) screen in 50 major bus stations and 2,000 buses. The Corporation was entitled to recover the monthly license fee from the contractor, which was to be determined under the contract.

In December 2009, the Corporation appointed a project consultant for preparation of request for proposal (RFP) documents, scrutiny of tender, evaluation of bids and monitoring implementation of the PES project. The consultant prepared RFP in February 2010 and the Corporation invited tender for awarding the contract for the project in August 2010. The price bids were opened in December 2010 and the contract for a period of ten years was awarded on 04 June 2011 to Sambhaav Media Limited, Ahmedabad (firm) at monthly license fee of ₹ 2,000 *per screen per bus station* and ₹ 525 *per screen per bus*.

We observed (November 2011) that the Corporation had initially framed a time schedule of three months for the activities from issue of RFP to opening of commercial bids for the tender. Drawing the same analogy, Audit reckoned a reasonable period of three months each for completion of the three stages covering various activities involved in the award of contract viz., (i) appointment of consultant and the preparation of RFP (July to September 2009), (ii) floating of tender to opening of price bids (October to December 2009) and (iii) evaluation of price bids to placement of work order (January 2010 to March 2010). Accordingly, the Corporation could have awarded the contract in April 2010 (i.e., nine months from the date the

decision to install the PES). However, a time of 23 months was taken against the reasonable period of nine months in awarding the contract. Further analysis revealed that there were delays of five months, seven months and two months in the first, second and third stage of activities respectively which were avoidable since it was attributable to the casual approach of the Management in adhering to the procedures related to award of contract. As the Corporation had a huge accumulated loss of ₹ 1,704 crore till end of March 2009, it should have given due importance for timely award of this income generating contract which did not entail any investment.

In case, the contract was awarded in April 2010, and drawing analogy of the terms agreed in the actual contract awarded to firm, PES could have been installed in 10 bus stations and in 100 buses under Phase I till 15 July 2010 and in the remaining 40 bus stations and 1900 buses under Phase II till 15 December 2010. Further, as per terms of the contract, the Corporation could have recovered the license fees amounting to ₹ 1.81 lakh³⁷ for the period from 1 October 2010 (i.e. after expiry of 'no fee period' of six month from the envisaged date of award of contract) to 15 December 2010. Thereafter, it could have recovered license fees amounting to ₹ 1.34 crore³⁸ for the period from 16 December 2010 till 4 December 2011 (i.e. till the expiry of 'no fee period' of six month from the date of actual award of contract). Thus, the Corporation has lost the opportunity to earn a total revenue of ₹ 1.36 crore (₹ 0.02 crore *plus* ₹ 1.34 crore) due to the delay of 14 months in award of contract.

The Government/ Management stated (August / May 2012) that as the project was complex, a consultant was appointed for preparation of RFP documents which was approved by the Corporation in July 2010. Thereafter a reasonable time of 11 months was taken in the award of contract. Further, the tender procedures took time due to absence of regular Managing Director and delay in conducting Board Meetings.

We do not accept the reply as the reasons attributed for delay stated were of routine nature and avoidable. As the project was revenue generating one and no financial outlay was involved for the Corporation, it should have made efforts to award the contract on priority basis by prescribing the time frame for each milestone involved in accomplishment of the project.

³⁷ For 2.5 months x (for 10 bus station at the rate of ₹ 2,000 *per* bus station + for 100 buses at the rate of ₹ 525 *per* bus) = ₹ 1,81,250.

³⁸ Revenue loss of ₹ 1,33,78,333 was arrived by applying total licence fee ₹ 11,50,000 *per* month (i.e. for total 50 bus station at the rate of ₹ 2,000 *per* bus station + for 2,000 buses at the rate of ₹ 525 *per* bus) for a period of 11 months and 19 days.

3.9 Non disposal of scrapped and unused buses

Failure to devise any mechanism for timely disposal of inventory of scrapped/ unused buses led to blocking of funds of ₹ 3.47 crore and loss of interest of ₹ 71.96 lakh.

The Corporation acquired (September 1999) 254 buses costing ₹ 20.03 crore with the financial assistance of Government of Gujarat company viz., Gujarat Mineral Development Corporation (GMDC) under a lease agreement executed in this regard. The terms of agreement *inter alia* stipulated that the Corporation was to pay monthly lease rent of ₹ 44.77 lakh during the lease period of 60 months; in the event of its default, penal interest at 24 *per cent per annum* was recoverable by GMDC on the outstanding dues. The Corporation could terminate the agreement only after payment of various dues viz., lease rent, interest and other charges payable to GMDC and till then it was not allowed to sell the buses without the written consent of GMDC.

The Corporation was in default in payment of the dues and an amount of ₹ 11.83 crore was outstanding as on 31 August 2004 (i.e. after expiry of 60 months from the effective date of agreement). Even after extension of time granted by GMDC for clearing the outstanding dues, the Corporation was unable to clear the dues on account of its poor financial condition. As on 31 March 2012 an amount of ₹ 9.81 crore excluding interest charges remained unpaid to GMDC.

We observed (November 2011) that, due to overage³⁹ of these 254 buses, 56 buses were declared as scrap (2005-09) and remained idle for a period ranging from 42 to 84 months⁴⁰. Further, 175 buses were also withdrawn (2007-12) from the operating fleet of the Corporation and remained idle for a period ranging from one month to 44 months⁴¹. Thus, only 23 buses were in use till March 2012. The estimated scrap value of 231 buses was ₹ 3.47 crore. As the Corporation did not pay the dues of GMDC, it was not able to get the written consent of GMDC for disposing the scrap buses. Both the Corporation and GMDC are state government companies and are under the administrative control of Ports and Transport (P&T) department and Industries and Mines (I&M) department respectively. As the Corporation had been withdrawing the overage buses from its operating fleet since April 2005, it should have taken up the matter with I&M department through its administrative department for devising a mechanism whereby the disposal of overage buses should not have been held up for want of consent from GMDC. Simultaneously, some other modality should have been worked out for the settlement of dues to GMDC as both are State Government entities. Thus, the failure of the Corporation and the Government of Gujarat to devise a mechanism as mentioned above led to holding up of huge inventory of overage and unused buses over a long period, besides, occupying precious space (11,550 sq.m.) of the Corporation's depots.

³⁹ Overage bus is one which had completed the running of eight lakh kilometers.

⁴⁰ **Range (in months) and scrapped buses (in nos.):** 42-49 months – 14 buses, 50-59 months – 23 buses, 60-69 months -7 buses, 70-79 months – 10 buses, 80-84 months – 2 buses.

⁴¹ **Range (in months) and buses not put to use(in nos.):** 1-9 months – 60 buses, 10-19 months – 78 buses, 20-29 months -21 buses, 30-39 months – 13 buses, 40-44 months – 3 buses.

Further, the non disposal of 231 overage buses and consequential blocking of fund of ₹ 3.47 crore (i.e., estimated cost of scrap/unused buses as calculated by the Management) resulted in loss of interest of ₹ 71.96 lakh⁴² (calculated at the Corporation's average borrowing rate of 10 *per cent*) during the period 2005-06 to 2011-12.

The Corporation stated (July 2012) that due to critical financial position it was unable to pay the lease rent regularly to GMDC. Finally, a meeting arranged with the officials of GMDC on 27 March 2012 and as per the decision taken in the meeting, the Corporation paid ₹ 20.03 lakh i.e., *one per cent* residual value of the original cost price of 254 buses as per the terms of lease agreement to GMDC. Now, the formalities for release of 254 buses by GMDC were completed for proceeding ahead with auction of the buses by the Corporation.

We do not find the reply specific to our observation as it does not give the reasons for not taking any effective actions for obtaining the consent of GMDC and also for disposing of the buses as and when it had been declared as scrap since the year 2005. Thus, the fact remains that failure of the Corporation/the Government of Gujarat to devise a mechanism for timely disposal of scrapped buses led to holding up of huge inventory of overage/unused buses over a long period.

We reported the matter to the Government (June 2012); we are awaiting their reply (December 2012).

Gujarat Industrial Development Corporation

3.10 Excess payment due to non adherence to contract stipulation

Reckoning the tender rate instead of stipulated SoR for the work executed in excess of tendered quantity led to excess payment of ₹ 45.87 lakh.

The Corporation awarded (November 2008) the work of "Strengthening and widening of existing road and construction of new road with pavement and street light" at its industrial estate, Vilayat to M/s. Kunal Structural India Private Limited, Rajkot (firm) at a cost of ₹ 47.22 crore on firm price. The work was scheduled to be completed by April 2009. The terms and conditions of the contract stipulated that if the actual quantity of any item of work exceeded the tendered quantity by more than 30 *per cent*, the contractor would be paid for the quantity in excess of 30 *per cent* at the rate given in Schedule of Rate (SoR) of the year during which the excess quantity was first executed.

During execution of work, the firm was assigned (February 2010) excess/extra work of ₹ 7.25 crore, necessitated due to changes in the original designs pertaining to RCC roads, pipe/ slab culverts and street light works and extension of road upto the premises of one of its allottee viz., Gujarat Hydro

⁴² Value of scrap bus × Number of months lapsed from its withdrawal from operating fleet to 31 March 2012 × 10/100.

Carbon (₹ 2.84 crore) and also to Vilayat village⁴³ (₹ 1.88 crore) at the request of the allottee and Vilayat Panchayat respectively. The work was completed in April 2010 at a total cost of ₹ 51.62 crore after a delay of one year for which extension of time was granted by the Corporation on account of delays in obtaining requisite approvals from various agencies.

We observed (August 2011) that in respect of six items of work, the quantity executed was in excess of 30 *per cent* of the tendered quantity and the Corporation made payments over and above SoR for the year 2009-10 amounting to ₹ 45.87 lakh⁴⁴ by adopting tendered rates which was higher. Thus, applying tender rates for excess work done, in violation of the contractual obligations, led to additional expenditure of ₹ 45.87 lakh.

The Management/ Government stated (May/ July 2012) that the excess quantities were not known to the Corporation while preparing the estimates and the requests for extension of road were received later on. Therefore, it was decided to execute the resultant additional work through same firm, which was ready to execute the increased quantities only at the tendered rates. Thus, there was no excess payment and even if audit contention of excess payment was accepted the excess payment as per SoR 2009-10 would only be ₹ 13.48 lakh.

We do not accept the reply. The additional work was awarded as an excess work of the existing contract for which the terms and conditions of the contract were to be followed. Further, the Corporation's working of excess payment of ₹ 13.48 lakh was incorrect as the Corporation did not apply SoR correctly.

We recommend that the Corporation should not violate the contract stipulations while approving the payment for excess/extra items in respect of works executed.

General

3.11 Follow-up action on Audit Reports

Outstanding action taken notes

3.11.1 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

⁴³ The Corporation accepted the village road work considering it as Corporate Social Responsibility.

⁴⁴ The additional expenditure has been worked out without considering the cost of road constructed for the allottee as the payment for the same was made by him.

indicating the corrective/ remedial action taken or proposed to be taken on paragraphs and performance audits included in the Audit Reports.

Though, the Audit Reports for the year 2007-08, 2008-09, 2009-10 and 2010-11 were presented to the State Legislature on 28 July 2009, 30 March 2010, 30 March 2011 and 30 March 2012 respectively, six departments, which were commented upon, did not submit explanatory notes on 25 out of 81 paragraphs/ performance audits as on 30 September 2012 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
2007-08	21	3
2008-09	25	8
2009-10	18	4
2010-11	17	10
Total	81	25

Department-wise analysis is given in **Annexure 10**.

Compliance to Reports of Committee on Public Undertakings outstanding

3.11.2 The COPU of 12th Assembly had presented its First, Fourteenth and Seventeenth Reports to the State Legislature on 19 February 2009, 29 March 2011 and 29 March 2012 respectively. The Reports in all contained 49 recommendations on 41 paragraphs and six performance audits related to 10 PSUs falling under six administrative departments included in the Audit Report for the years 1993-94 to 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 nine recommendations pertaining to three PSUs⁴⁵ falling under Industries and Mines department, had not been received for vetting by Accountant General as on 30 September 2012.

Response to Inspection Reports, Draft Paragraphs and Performance Audits

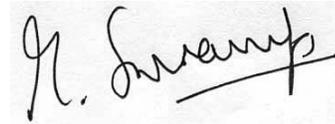
3.11.3 Our observations noticed during audit and not settled on the spot are communicated to the heads of the respective PSUs and the concerned departments of the Government of Gujarat through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2012 pertaining to 53 PSUs revealed that 1,378 paragraphs relating to 400 Inspection Reports remained outstanding as on 30 September 2012. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2012 is given in **Annexure 11**.

⁴⁵ Gujarat State Financial Corporation, Tourism Corporation of Gujarat Limited and Gujarat Industrial Investment Corporation Limited.

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 four draft paragraphs and two draft performance audits forwarded to the various departments during June to September 2012 as detailed in **Annexure 12** had not been replied to so far (December 2012).

We recommend 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
The



(MEERA SWARUP)
Principal Accountant General
(Economic and Revenue Sector Audit), Gujarat

Countersigned

NEW DELHI
The



(VINOD RAI)
Comptroller and Auditor General of India