

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 the Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2013, the State of Gujarat had 69 working PSUs (65 companies and four Statutory Corporations) and 12 non-working PSUs (all companies). The working PSUs, which employed 1.12 lakh employees, registered a turnover of ₹91,309.63 crore during 2012-13, as per their latest finalised accounts as of 30 September 2013. This turnover was equal to 13.09 per cent of State GDP indicating an important role played by State PSUs in the State economy. During 2012-13, the working PSUs earned an overall aggregate profit of ₹4,041.06 crore as per their latest finalised accounts as of 30 September 2013. The aggregate accumulated profits of all PSUs were ₹2,865.09 crore as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2013, the investment (capital and long-term loans) in 81 PSUs was ₹97,472.56 crore. It grew by 91.90 per cent from ₹50,793.35 crore in 2007-08. Besides the other sector, the thrust of PSU investment was mainly in power sector in which share of investment increased from 30.34 per cent in 2007-08 to 31.12 per cent in 2012-13. The Government contributed ₹15,340.87 crore towards equity, loans and grants/subsidies to State PSUs during 2012-13.

Performance of PSUs

During the year 2012-13, out of 69 working PSUs, 42 PSUs earned profit of

₹4,468.00 crore and 19 PSUs incurred loss of ₹426.94 crore. Major contributors to the profit were Gujarat State Petroleum Corporation Limited (₹1,247.14 crore), Gujarat Mineral Development Corporation Limited (₹924.07 crore) and Gujarat State Petronet Limited (₹825.72 crore). Heavy losses were incurred by Gujarat State Road Transport Corporation (₹141.99 crore) and Gujarat State Financial Corporation (₹113.17 crore) and Alcock Ashdown (Gujarat) Limited (₹76.48 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 the CAG shows that in the State PSUs' losses of ₹4,891.92 crore and infructuous investment of ₹24.52 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. Twenty-seven out of 68 accounts of working companies finalised during October 2012 to September 2013 received qualified certificates. There were 39 instances of non-compliance with Accounting Standards in 19 accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts

Thirty PSUs had arrears of 42 accounts as of September 2013. These arrears need to be cleared. (Chapter 1)

2. Performance audit relating to Government Company

Performance audit relating to Power Purchase Agreements entered into with Independent Power Producers by Gujarat Urja Vikas Nigam Limited was conducted.

Executive summary of performance audit on 'Power Purchase Agreements with Independent Power Producers' is given below:

The Electricity Supply Act was amended (1991) to open up generation of power to the private sector, as State Electricity Boards (SEBs) began to suffer huge losses and fresh investments in the power sector were not forthcoming. The Independent Power Producers (IPPs) were to operate on a cost plus model and enter into Power Purchase Agreements (PPAs) with the SEBs who were responsible for transmission and distribution.

PPAs with IPPs both private and State owned were entered into under cost plus approach up to January 2006, after which competitive bidding was made compulsory for all new generation plants set up under the private sector. In respect of State owned IPPs, cost plus approach based on GERC tariff orders was allowed up to January 2011, after which competitive bidding was made compulsory for them also. The Ministry of Power, in January 2005, issued guidelines for determination of tariff by bidding process for procurement of power.

Planning

During the period 2008-09 to 2012-13, the gap between actual installed capacity of Government of Gujarat (state as a whole) and capacity required to meet the registered unrestricted demand changed from a deficit of 4,020 MW to a surplus of 6,822 MW due to the capacity addition made by the GUVNL.

Finalisation and signing of MOUs/PPAs for purchase of Non-Renewable Energy (NRE)

The GUVNL executed 22 PPAs for 9,265.07 MW with its generating subsidiary, Gujarat State Electricity

Corporation Limited (GSECL). Besides, the GUVNL also entered into 20 PPAs with IPPs other than GSECL for a capacity of 12,089 MW.

The increase in capital cost of the PPA entered into with Bhavnagar Energy Company Limited would increase the levelised tariff by ₹0.13 per Kwh leading to an annual burden of ₹ 38 crore on public.

Deviation from standard bidding guidelines in respect of provisional bills led to monthly loss of rebate ranging from ₹16.60 lakh to ₹3.31 lakh related to three IPPs.

Provisions in PPAs for NRE

Fixing of delivery point subsequent to finalisation of PPA led to passing of undue benefit to Essar Power Gujarat Limited for ₹587.50 crore during the tenure of the PPA.

Incentive payments made to three IPPs on their Deemed Generation declared on Naphtha prior to September 2002 disregarding the GoI Notification of November 1995 coupled with belated legal action for recovering the erroneous payments led to a loss of ₹396.39 crore.

Operationalization of PPAs for NRE

Non-compliance with the provisions of PPA as regards to the date of operationalising the tariff parameters led to excess expenditure of ₹5.36 crore.

The GUVNL incurred an interest loss of ₹3.17 crore due to non-adherence to provisions of PPA with Essar Power Gujarat Limited regarding Liquidated damages.

Monitoring mechanism

Inadequate monitoring of commercial operation of 250 MW expansion plant of Gujarat Industrial Power Company Limited led to belated recovery of Liquidated Damages of ₹11.37 crore and consequential loss of interest for ₹2.11 crore.

Renewable energy

Contracting excess capacity under solar policy by the GUVNL led to excess burden of ₹473.20 crore on the consumers of the state.

Reduction in levelised tariff by ₹0.21 per unit on account of availment of excise duty and customs duty benefit by solar power developers was not passed on to the GUVNL and the same was not monitored by Gujarat Energy Development Agency.

Conclusion

Instances of losses or passing of undue benefits to IPPs were noticed due to non-adherences to Standard Bidding Guidelines, GoI notifications, GERC orders and terms of PPA and also due to weak monitoring mechanism with the GUVNL/GEDA.

Recommendations

The GUVNL may consider consulting STU in planning evacuation of power well in advance. Adherence to the provisions of GOI notifications/guidelines, GERC orders and terms of PPAs should be ensured and the GUVNL should also refrain from contracting excess capacity from costlier sources.

(Chapter 2)

3. Compliance Audit Observations

Compliance 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 ₹5.11 crore in one case due to non-compliance with rules, directives, procedures and terms and conditions of contracts.

(Paragraph 3.2)

Loss of ₹141.89 crore in ten cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11 and 3.12)

Loss of ₹10.61 crore in two cases due to defective/deficient planning

(Paragraphs 3.1 and 3.13)

Gist of the major observations is given below:

Gujarat State Electricity Corporation Limited passed an undue benefit of ₹10.71 crore to the washery contractor by allowing him to retain the washery rejects at a lower price.

(Paragraph 3.3)

Gujarat State Petronet Limited passed an undue benefit to Essar Steel Limited by waiver of ship and pay charges and also to Torrent Power Limited by taking an imprudent decision to reduce the contracted quantity and suffered loss of revenue of ₹ 92.34 crore.

(Paragraphs 3.6 and 3.7)

GSPC Gas Company Limited did not revise the selling price of gas as per the contractual terms of the agreement entered with industrial customers and consequently suffered loss of revenue of ₹ 25.37 crore.

(Paragraph 3.8)