Chapter - III

Transaction Audit Observations

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

Government companies

Gujarat Mineral Development Corporation Limited

3.1 Avoidable payment of interest

Avoidable payment of interest of Rs.65.94 lakh was made due to non-compliance with procedural requirements for prepayment of loan by the Company.

The Company decided (June 2004) to prepay loan of Rs.37.30 crore carrying interest at the rate of 12.50 *per cent* per annum taken (March 2003) from Life Insurance Corporation of India (LIC). The Company approached (August 2004) Power Finance Corporation Limited (PFC) for assistance. PFC sanctioned (September 2004) a loan of Rs.1,116 crore carrying interest at the rate of Rs.7.25 *per cent* per annum to the Company for its lignite Thermal Power Station, Kachchh and prepayment of loan taken from LIC. The terms of sanction of PFC loan allowed the Company to execute the loan agreement till 2 May 2005 and draw the entire loan immediately thereafter. The interest on the loan was payable from the date of issue of cheque by PFC.

As per the terms of the sanction of LIC loan, LIC at its discretion could allow the Company to prepay the loan. Hence, the Company was to obtain written consent of LIC before pre-paying the loan along with prepayment charges to be determined by LIC in this regard. The Company, however, without obtaining prior consent of LIC and before determination of the prepayment charges obtained (17 September 2004) a cheque of Rs.37.30 crore from PFC drawn in favour of LIC and sent it to LIC. LIC did not accept the cheque and asked (October 2004) the Company to repay the loan along with prepayment charge of Rs.7.44 crore reduced to Rs.5.66 crore after negotiations (10 December 2004). The Company resubmitted the cheque (dated 17 September 2004) for Rs.37.30 crore along with prepayment charges of Rs.5.66 crore and interest at 12.50 *per cent* per annum on Rs.37.30 crore till 16 December 2004. As the Company had collected (17 September 2004) the cheque from PFC and retained it till its utilisation on 16 December 2004, PFC charged (October 2004/January 2005) interest of Rs.65.94 lakh[#] for 89 days though there was no transfer of fund from PFC.

[#] Calculated at the rate of 7.25 *per cent* per annum on Rs.37.30 crore for the period from 18 September 2004 to 15 December 2004.

The payment of interest of Rs.65.94 lakh could have been avoided had the Company obtained the cheque in favour of LIC only after obtaining prior consent of LIC for prepayment of loan and after determination of the amount of prepayment charges to be paid.

The management/Government stated (June/August/November 2006) that as the Chairman of PFC had, on 17 September 2004 informed the Company about the possibility of their increasing the rate of interest with immediate effect, it withdrew the entire loan including the cheque of Rs.37.30 crore drawn in favour of LIC. Hence, the cheque was submitted to LIC before finalisation of prepayment charges with them. The reply is not tenable as no records showing the intimation made by the Chairman PFC were made available to Audit. Further, the interest on PFC loan was revised from 7.25 to 7.50 *per cent* from July 2005 only *i.e.*, nine and half months after the receipt of the cheque from PFC. Besides, had the Company got the amount of Rs.37.30 crore transferred to the Company's account, it could have got a minimum return of Rs.42.11[•] lakh on the amount of Rs.37.30 crore till it was finally paid to LIC.

Gujarat State Fertilizers & Chemicals Limited

3.2 Loss due to installation of Chemical Storage Tanks without the required environmental clearance

Installation of Chemicals Storage Tanks without obtaining environmental clearance resulted in loss of Rs.5.48 crore.

The Company, with the objective to have its own storage facility for imported chemicals[*] installed (December 1998) Carbon Steel Storage Tanks with pipe lines passing from jetty at Sikka port, at a total cost of Rs.15.30 crore (Pipes and Tanks Rs.14.78 crore; Fire/Water supply system Rs.0.52 crore). The storage tanks were installed without obtaining the prior environment clearance of Ministry of Environment and Forests (MOEF), Government of India, as required under Coastal Regulation Zone (CRZ) notification of 1991.

The Company approached MOEF only in June 2001 for obtaining clearance before commissioning the storage tanks. MOEF declined (July 2002) the clearance as the storage tanks were installed in the CRZ and asked the Company to relocate the storage tanks outside CRZ. The Board of Directors of the Company authorised (February 2003) its Managing Director to relocate or sell the storage tank, if it was not be possible to obtain the clearance from MOEF. The Company pursued the matter with MOEF till September 2003 but did not take any action either for relocating or for selling the storage tanks (September 2006).

• Calculated at the average interest rate of 4.63 *per cent* offered by Gujarat State Financial Services Limited on the funds kept under its 'Liquid Deposit Scheme'.

* Benzene and Cyclohexane.

It was noticed during audit that the Company had not only defaulted in obtaining the prior clearance of MOEF but had also failed to take action for the relocation or disposal of the storage tanks (September 2006). Consequently, it continued to suffer loss of interest aggregating Rs.5.48[@] crore up to September 2006 on the blocked up fund of Rs.15.30 crore. The Company also incurred an avoidable expenditure of Rs.13.83 lakh towards cost of insurance on the idle pipes and storage tanks for this period.

The management/Government stated (March/April/November 2006) that despite best efforts, the Company could neither obtain the clearance from MOEF nor could relocate the storage tanks. It was further stated that the sale of storage tanks might fetch only scrap value.

Gujarat Alkalies & Chemicals Limited

3.3 Avoidable payment of interest

An avoidable payment of interest of Rs.44.15 lakh was made due to delay in repurchase of debentures issued to Unit Trust of India.

The Company had a total debt of Rs.180.37 crore in June 2002 in the form of the debentures issued by it from time to time to various banks and financial institutions. This included debentures of Rs.36.51 crore issued to Unit Trust of India (UTI) carrying 14/15 *per cent* interest. The debentures were due for redemption during February 2003 to February 2005, in a phased manner. The Company, however, had the discretion to repurchase the debentures prior to the scheduled dates of redemption.

As the interest rate had decreased during January 1998 to April 2002, the Company approached (June 2002) Corporate Debt Restructuring (CDR) cell[*] of Industrial Development Bank of India (IDBI) for restructuring its total debt in consultation with all the lenders (debenture holders) of the Company. IDBI approved (March 2003) reduction in interest rate on these debentures from 14/15 to eight *per cent* with retrospective effect from April 2002 and also for deferment of repayment period ranging from 2006 to 2008. All the lenders except UTI accepted (March 2003) the proposal.

The Company continued to pursue the matter with UTI for accepting the CDR proposal instead of exercising its right of repurchasing the debentures issued to UTI. Though UTI had not agreed, the Company, *suo moto* decided (March 2003) to pay interest at the rate of eight *per cent* instead of 14/15 *per cent* on UTI debentures with effect from April 2002. UTI issued notices (June/ September 2003) to the Company to repay the total principal of Rs.24.34 crore outstanding (14 *per cent* debenture : Rs.17.69 crore: and 15 *per cent* debentures : Rs.6.67 crore) within seven days alongwith applicable interest

[@] Calculated at the interest rate of eight to 12.85 *per cent* at which the Company availed cash credit during the period.

[*] Reserve Bank of India had authorised CDR to facilitate and monitor the implementation of Corporate Debt Restructuring Plan.

thereon. The Company then decided (October 2003) to repurchase debentures from UTI and obtained the approval (November 2003) of IDBI under CDR programme for raising funds from other sources to repay its debt to UTI. Accordingly, in December 2003, the Company raised fund of Rs.25 crore carrying interest at eight *per cent* and repaid the total dues of Rs.24.34 crore to UTI. Further, on the insistence of UTI, the differential interest due of Rs.3.43 crore (14/15 *per cent less* eight *per cent* as per CDR proposal with effect from April 2002) withheld by the Company was also released (July 2004) to UTI.

Since the Company was aware (March 2003) that UTI was categorical in not accepting the CDR proposal, it should have obtained IDBI approval and repurchased the debentures from UTI during April-June 2003. Had it done so, it could have saved interest of Rs.44.15 lakh* for the period from July-December 2003.

The management/Government stated (April/May/December 2006) that the Company had no right to prepay the debentures as the right to accept the prepayment was vested with UTI. Further, the Company got the approval of the CDR cell only in November 2003 for prepaying the debt to UTI. The banks were also not prepared to offer funds to the Company due to its poor financial background. Hence, there was no delay in repurchase of debentures of UTI.

The reply is not tenable. As per clause 15 of the Debenture Trust Deed, the Company had the right to repurchase the debentures prematurely. Thus, delay in repurchase of debentures the Company made an avoidable payment of interest of Rs.44.15 lakh.

Gujarat State Petroleum Corporation Limited

3.4 Undue favour to a firm

Non recovery of minimum charges of Rs.1.80 crore in violation of the agreement.

The Company engaged (1994) NIKO Resources, Canada (Niko) for production of natural gas from Hazira gas field, Surat. The income from the sale of gas was to be shared in the ratio of 2:1 between the Company and Niko. The Company along with Niko entered into (December 2003) a Gas Sale Agreement (GSA) with Gujarat Adani Energy Limited, Ahmedabad (the firm) for supply of one lakh SCMD£ gas at a price in Indian rupees equivalent of US $3.45 per thousand cubic feet@. GSA was initially valid for a period of ten years. The firm wanted to purchase the gas for further distribution to industrial, commercial and domestic consumers. As per the GSA, the `Commencement Date' for supply of gas was 1 May 2004 or such other date

* Interest at higher rate by 6/7 *per cent* (debenture rate of 14/15 *minus* CDR rate of eight *per cent*) paid during July to December 2003 Rs.60.95 lakh *less* the interest of Rs.16.80 lakh saved on the funds of Rs.3.43 crore belatedly released to UTI.

£ Standard cubic metres *per* day.

@ One cubic foot = 0.0283 cubic metre.

mutually agreed between the Company and the firm. The firm was to purchase 20,000 SCMD gas in the first month and reach one lakh SCMD in the fifth month after the commencement date by gradually increasing the quantity by 20,000 SCMD each month. In the event of the firm being unable to take delivery of the contracted quantity of the gas from the commencement date, it had to pay minimum charges equivalent to 80 *per cent* of the daily contracted quantity.

The Company was ready to supply the full contracted quantity of one lakh SCMD gas to the firm from 1 September 2004. The firm, however, wanted to purchase only 5000 SCMD of gas on a temporary basis because it was yet to give distribution connections to a large number of its potential customers. The Company accepted (September 2004) the firm's request and supplied the gas on temporary basis during September to November 2004. In December 2004, the Company declared 2 December 2004 as the 'Commencement Date' and started the supply of the gas as per the provisions of GSA. The firm, however, again pleaded (December 2004/January 2005) that as most of its potential customers were carrying out major modification in their plants to take supply of the gas from it from March 2005, it may be allowed to purchase the gas on temporary basis till March 2005 instead of purchasing the gas as per the provisions of the GSA. The company accepted (February 2005) the firm's plea and re-declared the 'Commencement Date' as 1 April 2005.

Though there was no provision in the GSA for the supply of gas on temporary basis, the Company supplied it during September-November 2004 to enable the firm to tide over its teething problems. Thus, after declaration of commencement date as 1 December 2004, the Company should have treated (February 2005) the supply from December 2004 as supply under the agreement.

The firm had taken supply of 71.61 lakh SCMD gas against the minimum guaranteed quantity of 1.21 crore SCMD gas during December 2004 to June 2005[*] as per the provision of GSA. Due to the shift of commencement date of supply from 2 December 2004 to 1 April 2005, the provisions of GSA were not made applicable during the period. Hence, the minimum charges of Rs.2.70 crore recoverable at the rate of Rs.5.33 to Rs.6.22 per cum on the short purchased quantity of 49,35,495 SCMD during December 2004 to June 2005 were not recovered from the firm. Of the above mentioned loss of revenue of Rs.2.70 crore, the Company's share was Rs.1.80 crore.

The management/Government stated (April/May/November 2006) that the commencement date from 15 September 2004 to 31 March 2005 was extended at the request of the firm as it was in the initial stage of setting up its distribution network in the market. Further, during December 2004 to June 2005, the demand for gas from the Company’s buyers had exceeded actual production of gas in the Company’s Hazira field. Hence, the gas that the firm

[*] The period is considered upto June 2005 being six month after the changed date (December 2004) of commencement for supply of gas as per the agreement.

could not off take during the period was sold to other customers at the same price avoiding any loss of revenue to the Company.

The reply is not tenable as the decision to extend the commencement date did lacked commercial prudence. Further, as per the provisions of the GSA the Company was contractually bound to reimburse 90 *per cent* cost of the fuel purchased by the firm in case of the Company's failure to supply full contracted quantity of gas. In view of this reciprocal arrangement, non recovery of minimum charges from the firm not only resulted in loss of revenue but also defeated the purpose of insertion of such provisions in GSA meant to ensure discipline in fulfilling the commitments made by the parties to GSA.

Sardar Sarovar Narmada Nigam Limited

3.5 Short recovery of performance guarantee

Short recovery of performance guarantee resulted in extension of undue benefit to a contractor.

The Company awarded (September 2001) the work of installation and commissioning of five pumping stations for Saurashtra Branch Canal Pumping Stations of Sardar Sarovar Narmada Project to Kirloskar Brothers Limited, Pune (KBL). The work was given on turnkey basis at a cost of Rs.441.92 crore. The scope of work *inter alia* included design, engineering, manufacturing, supplying and commissioning of the pumping stations. The stipulated date of completion of the work was 11 September 2006. Of the total cost of work, KBL had to execute the work of manufacturing and supply of Concrete Volute Pumps worth Rs.46.35 crore through its foreign collaborator *viz*., Termomeccanica, Italy (firm 'T'). As per the terms of the agreement, KBL and the firm 'T' were jointly responsible for the execution of the work within the stipulated time and also responsible for successful performance of the pumping stations during the defect liability period up to September 2008. KBL and the firm 'T' were to furnish performance bank guarantee in favour of the Company valid up to 11 December 2008. The amount of guarantee to be furnished by KBL was 10 *per cent* of the contract value *i.e.* Rs.44.19 crore and by firm 'T' it was five *per cent* of the contract value *i.e*. Rs.22.10 crore.

KBL furnished the stipulated amount of guarantee in October 2001. Firm 'T', however, furnished (November 2002) the guarantee of Rs.2.32 crore only resulting in short fall of Rs.19.78 crore against the stipulated amount of Rs.22.10 crore. KBL completed the work of Rs.307.02 crore (including Rs.42.83 crore value of work done by firm'T') till February 2006. Execution of further work was in progress (March 2006).

Regarding the amount of guarantee of firm 'T', KBL represented (January 2003) to the Company for recovery of guarantee equal to five *per cent* of the cost of work of Rs.46.35 crore awarded to firm 'T' *i.e.* Rs.2.32 crore instead of Rs.22.10 crore being five *per cent* of total value of the contract. The Company agreed (March 2003) to the representation of KBL in violation of the terms stipulated in the award of work.

The short recovery of guarantee of Rs.19.78 crore has exposed the Company to greater risk of loss in the event of non-performance by firm 'T' during execution/defect liability period of the work. Besides, the short recovery benefited firm "T" by Rs.2.77* crore on account of the commission payable to its bankers on the balance guarantee of Rs.19.78 crore.

The management/Government stated (July/August 2006) that in the pre-bid conference held with the bidders in July 1997, the Company had agreed to take security at five *per cent* of the value of work (*i.e*. Rs.46.35 crore) to be done by firm ‘T’ and not on the entire contract value (*i.e.* Rs.441.92 crore). As the acceptance given in the pre-bid conference also formed a part of the contract, there was no short-recovery of guarantee amount from firm ‘T’.

The reply is not tenable being an afterthought. Firm ‘T’, while executing the undertaking deed in November 1997 *i.e.* subsequent to the pre-bid conference, had accepted in writing to furnish the guarantee equal to five *per cent* of the total contract value of Rs.441.92 crore. Further, the Company had also kept on insisting KBL to arrange the guarantee from firm ‘T’ for Rs.22.10 crore, till January 2003. It was only in March 2003 that the Company agreed to reduce the amount of guarantee to Rs.2.32 crore.

3.6 Avoidable payment of price escalation

The Company incurred liability for payment of price escalation of Rs.6.43 crore due to non-compliance with the State Government instructions for award of work contracts.

The Narmada river water from Sardar Sarovar Project is supplied to farmers' group for irrigation through minor and sub-minor canals constructed for this purpose in the command area^ of the project. The work of construction of minor and sub-minor canals includes earth work, laying of concrete lining, construction of structures and service roads. The duration of the contracts for construction of minor and sub-minor canals is six to twelve months.

The Company follows the Gujarat Public Works Manual and also the instructions regarding award of work contracts of the Government of Gujarat (GOG) issued to Public Works Department from time to time. As per the GOG instructions (August 1981), no price escalation is payable if the duration of the work contract is one year or less. As the duration of contracts for construction of minor and sub-minor canals is six to twelve months, the Company did not make any provision for payment of price escalation in the contracts awarded till March 2004. The Company, however, decided (April 2004) to make provision for price escalation in the fresh contracts to be awarded for similar works on the plea that the bidders for the new contracts had demanded it. The Company further justified its decision stating that the payment of price escalation would solve problem of the contractors due to rise in price of

* Two *per cent* on Rs.19.78 crore for the period upto which guarantee was required from December 2001- December 2008.

^ The area identified under the project for providing irrigation.

materials during execution of the work and would in turn expedite the completion of work.

Audit scrutiny of the records of 11 divisions* of the Company which award and oversee the execution of the works of construction of minor and sub minor canals revealed that during April 2004 to January 2006, the divisions had awarded 412 works costing Rs.540.61 crore. The duration of these work contracts ranged from six to twelve months and these were to be completed between September 2004 and January 2007.

As per the Company's decision of April 2004, the division offices made provision in the contracts for payment of price escalation to the contractors. As a result an amount of Rs.6.43 crore became due for payment as price escalation till March 2006 of which, the Company paid Rs.3.88 crore up to March 2006 and the remaining Rs.2.55 crore were under disbursement. None of the works whose completion period had already expired was completed (March 2006).

The Company's decision to provide price escalation was not in consonance with the instructions of GOG. Thus, price escalation of Rs.6.43 crore allowed in these contracts was irregular and tantamount to passing of undue benefit to the contractors. It is pertinent to mention that the Company had revoked (February 2006) its earlier decision of allowing price escalation for the similar contracts to be awarded in the future.

The management/Government stated (August 2006) that the construction of minor/sub-minor canals in the command area was a complex work as the work sites were scattered and the land owners were to be pursued vigorously for getting access to their fields for construction of canals. Thus, to motivate the contractors for executing this complex work expeditiously, the Company made the provision for price escalation from April 2004 in the fresh contracts awarded. Even after providing for price escalation, the works could not be completed within the stipulated time due to various reasons *viz*., monsoon, and unwillingness of the land owners in giving their land for canal work *etc*. Hence, in February 2006, the Company decided not to allow price escalation in the future contracts.

The reply is not tenable. The Company’s decision (April 2004) to provide for price escalation in violation of Government instructions was imprudent. Besides, the Company’s decision of February 2006 vindicates the audit contention.

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* NP Canal division no.10, Vadodara, division no.17, Kalol, division no.4-A, Dabhoi, division no.4 & 7, Gandhinagar, division no.3, Dehgam, division no.1, Thasra, division no.8, Dholka, NP Canal division no.15, Jambusar, NP Canal division no.5, Karjan, NP Canal division no.9, Sanand.

3.7 Non-recovery of liquidated damages

Liquidated damages of Rs.83.93 lakh for delays in completion of the works were not recovered from the contractors.

The Company awards the works of manufacture, supply, erection and commissioning of radial and vertical gates across regulating structures on the canals of Sardar Sarovar Narmada Project. The terms of agreements and the rules of the Company stipulate for recovery of liquidated damages (LD) from the contractors for any delay in completion, attributable to them against the agreed time period. The amount of LD would be one-tenth of one *per cent* of the value of incomplete work for each day of delay subject to maximum of 10 *per cent* of the tendered amount of the contract.

In the work contracts detailed in the table below, as against the stipulated period of completion of work by April/June 1995, the works were completed during June-December 2004. The applicable LD on account of delay by the contractors was not recovered even though it could be recovered from the final payments of the works, which were made during April 2005 to January 2006 to them.

Name of the work	Name of the Contractor (cost of work)	Date of award of work	Stipulated date of completion (actual date of completion)	Delay attributable to contractor (No. of days)	Amount of LD (Rs. in lakhs)
Gate works on Sakarda, Ranoli and Mandva branch canal	Indian Fabricators, Ahmedabad (Rs.2.44 crore)	25.6.1993	24.6.1995 (15.10.2004)	945	24.40*
Gate works on Miyagam branch canal Ch. 0 to 18.65 km.	Jacks Engineering Works,Ahmedabad (Rs.2.23 crore)	26.04.1993	25.04.1995 (30.11.2004)	884	22.30*
Gate works of Vadodara branch canal –I (Ch. 0 to 21.4 K.M.)	Om Metals & Minerals Ltd., New Delhi (Rs.1.71 crore)	10.5.1993	9.5.1995 (31.12.2004)	1825	17.10*
Gate works at branch canal Ch.18.650 Km to 71.298 Km.	Gujarat State Construction Corporation, Gandhinagar (Rs.3.47 crore)	29.4.1993	28.04.1995 (30.06.2004)	730	20.13
Total					**83.93**

It was noticed during audit that the delay of 730 to 1,825 days was caused due to delay in mobilisation of resources to the work site and slow progress in execution of work by the contractors. Thus, non-recovery of LD of Rs.83.93 lakh in these cases in violation of the terms of the agreement resulted in passing of undue favour to the contractors.

The management/Government stated (June/August 2006) that in all these cases, the work of installation of the gates was to be taken up after completion of civil works for the canals given to other contractors. As there were delays in

* Restricted to ten *per cent* of the tendered amount of the contract.

completion of civil works, the gate works could not be completed within the original time schedule. After the completion of civil works, these gate work contractors were unwilling to complete the works which led to delay. Further, the Company had paid the price escalation only on the basis of the price indices frozen as on the date of occurrence of delay attributable to them. The legal opinion obtained by the Company was also not in favour of recovery of LD.

The reply is not relevant. Price escalation payments were restricted as per the terms of the contract while LD was not levied in violation of the clear stipulation in the contracts.

Gujarat State Electricity Corporation Limited (the erstwhile Gujarat Electricity Board)

3.8 Generation loss due to delay in rehabilitation of cooling towers

Belated action for rehabilitation of cooling towers resulted in revenue foregone of Rs.43.30 crore.

Kachchh Lignite Thermal Power Station (KLTPS) of the Board has two power generating units (Unit-I and II) of 70 MW each and one Unit (Unit-III) of 75 MW. Every Unit has separate Natural Draught Cooling Tower (NDCT)[*]. The concrete structure of NDCT-I and II had started deteriorating since November 1999. The Chief Engineer (CE) of KLTPS intimated (August 2000) to the Board that expert consultation on the condition of NDCT-I and II was immediately required to prevent any major catastrophe. The Board, however, appointed a consultant only in October 2001. Based on the consultants' report (April 2002) the Board approved (June 2002) construction of a new combined NDCT for Unit I and II within 24 months at a cost of Rs.15 crore and temporary rehabilitation of existing NDCTs at a cost of Rs.4.50 crore, pending construction of the new combined NDCT. The Board invited (August 2002) tenders for award of temporary rehabilitation work. The NDCT-II, however, collapsed on 30 August 2002. Hence, all the three units of the KLTPS were interconnected to NDCT-I and III since September 2002. Consequent upon the collapse of NDCT-II, the Board cancelled (December 2002) the tender for award of the rehabilitation work. The Board, however, awarded (June 2003) the work of construction of Induced Drought Cooling Tower[∞] (IDCT) for Rs.4.85 crore to a firm as the IDCT could be commissioned within a period of six months. The IDCT was constructed and commissioned on 28 October 2004.

As all the three units were run on the then existing NDCT-I and III, there was an aggregate generation loss of 165.239 MUs[×]. The generation loss in Unit I

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* NDCT is constructed vertically and prone to deterioration due to weather conditions and its construction cost is high.

∞ IDCT is constructed horizontally and less prone to deterioration due to weather conditions.

× MUs - million units.

was 100.033 MUs and Unit III was 65.206 MUs during September 2002 to October 2004 as these units were generating about 50 MW against their capacity of 70/75 MW[#] each.

Though CE, KLTPS had intimated the precarious condition of NDCT I and II in August 2000, a period of two years was lost till the collapse of NDCT-II, without undertaking any work of rehabilitation of NDCTs. Had the Board, taken timely action for rehabilitation of NDCTs in August 2000 it could have prevented the generation loss of 165.239 MUs and consequential revenue foregone of Rs.43.30 crore[∨].

The Government stated (May 2006) that as the work relating to NDCT is a specialised one, the Board had taken time to find out an appropriate consulting agency and rehabilitation agency for proper execution of the work. The reply is not tenable. The Board took 14 months for the appointment of consultants and even after collapse of NDCT II, it took nine months for awarding the work of IDCT. These delays were unjustifiable.

3.9 Generation loss due to non-maintenance of spare turbine rotor

Non-maintenance of spare turbine rotor at Unit-II of Kachchh Lignite Thermal Power Station resulted in potential loss of revenue of Rs.184.87 crore.

The Kachchh Lignite Thermal Power Station (KLTPS) of the erstwhile Gujarat Electricity Board (the Board) has two power generating units of 70 MW each (Unit I and II). In April 2001, the turbine rotor of Unit II had bent, as a result of which the Unit encountered high eccentricity/vibration problem in the rotor. Hence, KLTPS sent (April 2001) the turbine rotor for repair and simultaneously undertook the work of capital overhauling of the entire Unit-II of KLTPS during 24 April to 12 November 2001. The Unit-II started functioning from November 2001 with repaired turbine rotor. The vibration problem in the rotor, however, continued and the Unit had to run at partial load of 32 MW against its capacity of 70 MW.

The Chief Engineer, KLTPS sent a proposal (March 2003) to the Board for purchasing a new turbine rotor for Unit-II. The Board placed (November 2003) an order on Bharat Heavy Electricals Limited (BHEL) for purchase of turbine rotor at a cost of Rs.6.25 crore. As per the terms of the order, the turbine rotor was to be delivered by 20 February 2005. While the supply of rotor from BHEL was still awaited (April 2005), the repaired rotor stopped functioning from April 2005. The Board kept Unit-II under forced shutdown condition from April 2005 and undertook its scheduled work of renovation

[#] The generation loss in Unit -II was not taken in audit as the unit was running at a partial load of 32 MW against the capacity of 70 MW due to vibration problem in its rotor since November 2001.

[∨] Calculated at the annual average rate of Rs.2.46 to 2.65 *per* unit during 2001-04.

and modernisation, which would be completed in April 2006. Thus, there was a loss of generation of energy to the extent of 720.12 million units worth Rs.184.87 crore due to running the Unit-II at partial load during November 2001 to March 2005 (calculated at the yearly average realisation rate of Rs.2.21 to Rs.2.65 per KWH).

As a prudent spares management practice, an entity engaged in generation of electricity should have spare turbine rotor because of its strategic value to power generation plant. Though the Board kept spare turbine rotors for the Thermal Power Stations (TPS) at Gandhinagar, Sikka and Wanakbori, it had not kept a spare rotor for the KLTPS. Further, in this case, the Board placed the order (November 2003) for purchase of rotor only after a period of 24 months even after knowing (November 2001) of the persisting vibration problem in the repaired rotor, which lacked justification.

The management/Government stated (March/April 2006) that the generation capacity of most of its units was of 200/210 MW, whereas, these two units of KLTPS were of 70 MW only. As the turbine rotor was a high inventory cost item, it was considered 'unviable' to keep 70 MW spare turbine rotors separately for these units; the turbine rotor, however, had been procured in 2006. The reply is not tenable. The inventory cost of spare rotor was Rs.6.25 crore which was meagre as compared to the generation loss since November 2001. Further, the reply is silent on the delay of 24 months in placement of purchase order for turbine rotor.

3.10 Generation loss due to delay in Renovation and Modernisation works

The Board had lost potential revenue of Rs.259.02 crore due to deferred execution of renovation and modernisation works.

Unit I and II of Ukai Thermal Power Station (TPS) of 120 MW each started deteriorating since 1993-94 and the operation of the Units had to be restricted to 90 MW. Based on the residual life assessment (RLA) and performance evaluation tests (PET) of the Units carried out (1994-97), the Board prepared (February 1999) a plan for taking up renovation and modernisation (R&M) works with the aim to increase the plant load factors (PLF) of both the Units by 30 MW each. The estimated cost of the work was Rs.107 crore and the work was to be completed by the end of 2002. The Board appointed (February 1999) a consultant (L&T-S&L[#], Vadodara) for the R&M works for a fee of Rs.19.62 lakh. Power Finance Corporation Limited (PFC) sanctioned (December 1999) a loan of Rs.51 crore for execution of R&M works under Accelerated Generation and Supply Programme (AG&SP) of GOI.

While the work of finalisation of specifications for R&M works was under process, GOI informed (February 2001) the Board that Unit I and II of the Ukai TPS had been identified for taking up the R&M and life extension (LE) work with World Bank assistance, during 2002-07. The R&M works envisaged by the Board were 'need based R&M works', whereas the GOI's

[#] Larsen and Toubro-Seargent and Lundy, Vadodara.

R&M and LE work was meant to have R&M and increasing the life of the power plants. Accordingly, the Board decided (September 2002) to drop the original R&M work plan and foreclosed the contract with the consultant.

The Board, finally awarded (July 2005) R&M and LE works to BHEL at a cost of Rs.260 crore. Work of Unit I was scheduled for completion in October 2006 and Unit II in July 2007. PFC sanctioned (August 2005) financial assistance of Rs.208 crore for execution of the R&M and LE works.

Audit scrutiny revealed that the Board should not have dropped the R&M works plan of February 1999 and switched over to R&M and LE works of the Units in view of the following:

- The Chief Engineer, TPS had opined (November 2002) that as most of the activities based on the RLA of 1994 and 1996 had already been completed rectifying the problems of critical components of the Units was sufficient to make them achieve their rated capacity of 120 MW.

- The guidelines on R&M and LE work of GOI provided that for the power plants working at 40 to 60 *per cent* plant load factor (PLF), 'need based R&M works' were to be taken up for achieving the rated capacity and further measures could also be taken gradually to obtain life extension of the plants. In case of on going R&M works under AG&SP, the same should be continued. The PLF of Unit I and II during 1995 to 1998 was 36.48 and 41.21 *per cent* respectively and the R&M works of February 1999 were initiated under AG & SP with an objective to achieve the rated capacity of the Units.

Had the Board continued its original R&M works, it could have completed the same by the end of 2002 and the Units would have been generating at their rated capacity since then. Further measures for life extension of the Units could have been taken subsequently. Thus, the Board's decision to drop the R&M works had delayed the achievement of rated capacity. The Generation loss in the two Units as a result of not achieving the rated capacity for the period 2003-04, 2004-05 and 2005-06 was to the extent of 909.29 million units valuing Rs.259.02 crore.

The management/ Government stated (August/September 2006) that even after appointment of the consultants for the R&M works in February 1999, an unsolicited proposal for the R&M work received (September 2000) from L&T was under the consideration of the Board. Meanwhile, GOI’s suggestion (February 2001) for ‘R&M and LE works’ was received. As a result, Board could not go ahead with the implementation of original R&M works. The reply lacks justification as the Board could have avoided the generation loss by timely implementation of the R&M works.

Gujarat State Petronet Limited

3.11 Deficiency in Gas Transmission Arrangement Agreement

Deficiency in the Gas Transmission Arrangement Agreement entered with Gujarat Gas Company Limited led to avoidable payment of Rs.30.12 crore.

The Company has a pipeline network for transmission of gas from Hazira and Suvali gas fields to places up to Mora and recovers charges from the users of the gas. The Company wanted (March 2001) to transmit gas to its potential customers in Bharuch. The Company, however, did not have any pipeline from Mora to Sajod from where supply of gas to Bharuch could be made. Hence, the Company decided to use pipelines passing from Hazira to Ankleshwar (HAPi line) owned by a private company *viz*.,Gujarat Gas Company Limited (GGCL). Besides, the Company was also planning to lay its own pipelines from Mora to Sajod in near future.

The Company (September 2001) entered into a Gas Transmission Arrangement Agreement (GTAA) with GGCL valid up to November 2011. Under GTAA, the Company could use HAPi line for transmission of 21 lakh SCMD (standard cubic metres of gas per day) of gas from Suvali and 10.5 lakh SCMD from Hazira to its customers in Bharuch. The Company was to pay transmission charges consisting of capacity charges and commodity charges to GGCL on fortnightly basis for using the HAPi line. The capacity charges[@] are worked out based on the contracted quantity for transmission of gas and are payable during the validity of GTAA even if there is no transmission of gas in any spell. In addition, commodity charges[*] are also payable on the actual quantity of gas transmitted through HAPi line to the Company's customers. The Company used HAPi line from November 2001 and transmitted gas to its customers in Bharuch.

The Company (December 2004) commissioned its own pipeline from Mora to Sajod at a cost of Rs.101.82 crore. Hence, there was no need for the Company to use HAPi line from January 2005. As there was no provision in GTAA for its pre-mature termination on mutual consent basis, the Company was unable to terminate GTAA with GGCL. The Company stopped using the HAPi line for transmission of gas from Hazira since April 2005. The Company also stopped (September 2005) using the HAPi line for transmission of gas from Suvali.

The Company paid Rs.27.31 crore till October 2005 and further liability of Rs.2.81 crore was outstanding (February 2006). Though the Company already had a plan (March 2001) to lay its own pipeline from Mora to Sajod while entering into GTAA with GGCL, it failed to insert a suitable provision for premature termination of GTAA in the event of laying its own pipeline from

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@ Rs.62.35 per Gcals/day (one billion calories per day) for the gas from Hazira and Rs.36.05 per Gcals/day for gas from Suvali fields.

* Rs.6.93 to 4.01 per Gcals/day.

Mora to Sajod. Had it inserted such a provision, the Company could have saved capacity charges and the liability created in this regard of Rs.30.12 crore up to January 2006. Further, the Company is contractually bound to pay capacity charges of approximately Rs.15.18 crore per annum till September 2007 and Rs.10.12 crore per annum from November 2007 to November 2011 (calculated based on the validity period of transmission agreement the Company had entered with its customers in Bharuch).

The management/Government (June/July/November 2006) stated that while entering into GTAA, the Company did not have any time frame for developing Mora-Sajod pipeline. Further, the Company was in the initial stage of developing its pipeline network and was operating in a competitive environment. Hence, it did not have bargaining power with GGCL for insertion of any provisions in GTAA for its termination on mutual consent basis.

The reply is not tenable. In March 2001, the Company had plans for developing Mora Sajod pipeline in near future. As such, the possibility for developing the Mora-Sajod pipeline and consequential event for foreclosing GTAA before the expiry of 10 years period could have been foreseen by the Company. The Company's argument that it did not have enough bargaining power with GGCL is not based on facts as GGCL had no takers for its capacity (of the pipeline) prior to September 2001.

Gujarat State Energy Generation Limited

3.12 Non utilisation of asset

Lease-hold land acquired at a cost of Rs.1.61 crore for construction of new corporate office remained unutilised resulting in loss of interest of Rs.88.45 lakh.

The Company has its corporate office in a hired building at Gandhinagar. It decided (March 2001) to construct its own corporate office building in Surat so that it could efficiently control the activities of its 160 MW Power project at Hazira. The Company acquired (March 2001) lease hold land measuring 2,008 square meter at Adajan (near Hazira) from Surat Municipal Corporation (SMC) at a price of Rs.1.61 crore. As per the terms of allotment, the lease period of land would expire on completion of 99 years from March 2001 and the Company during the lease period should pay annual lease rent of rupee one per square meter.

The Company dropped (December 2001) its plan to construct the corporate office building on the plea that it was not prudent to make any investment in the construction of office building as it had very thin staff strength of 10 to 15 persons. In June 2002, the Company decided to use the land for commercial/residential purpose with the approval of SMC and accordingly drafted the lease deed for getting approval from SMC. The lease deed had not been executed so far (September 2006) as the Company did not prepare any plan for commercial/residential use of the land. Pending execution of the lease deed, the land acquired remained unutilised (September 2006).

Audit scrutiny revealed that the Company had acquired the land in haste without conducting any detailed study about the need for construction of a new corporate office. Further, no justification was on record for the delay in preparation of a plan for using the land for commercial/residential purpose. Thus, non utilisation/non surrender of the land to SMC resulted in loss of interest of Rs.88.45[@] lakh on the blocked fund of Rs.1.61 crore.

The management while accepting the audit findings stated (April 2006) that as it had not taken any decision regarding use of the land, it did not execute the lease deed with SMC. Further, execution of the lease deed would cost the Company Rs.25 lakh towards stamp duty.

The Government stated (July 2006) that the land could be used for setting up of office/colony in future as the Company was in the process of implementing another power project of 350 MW at Hazira. As the land in the city was scarce, it was acquired well in time. Hence, use of the land by others for commercial/residential purpose was not thought of. The reply is not tenable. The records made available to Audit clearly indicate that the Company had dropped the plan for construction of its corporate office on the land and had explored the possibility of using the land for commercial/residential purpose. Thus, the land was acquired without requirement.

Gujarat Urban Development Company Limited

3.13 Extra cost due to re invitation of bids

Rejection of reasonable bid and award of the work of Repair and Rehabilitation of Water Supply System after re-invitation resulted in extra cost of Rs.36 lakh.

The Company is the implementing agency for urban infrastructure works under Gujarat Earthquake Rehabilitation and Reconstruction project (the project) funded by Asian Development Bank (ADB). The Company invited (October 2003) bids from the pre-qualified bidders for award of the work of Repair and Rehabilitation of Water Supply System for Wankaner and Halvad, at an estimated cost of Rs. 1.58 crore. Only one bidder *i.e.* Backbone Projects Limited, Ahmedabad (firm 'B') submitted (November 2003) the bid for tendered cost of Rs.1.92 crore. The tender cost was higher than the estimated cost by 21.76 *per cent*.

The Company's consultant pointed out (December 2003) that the estimated cost was arrived at based on the Schedule of Rates (SOR) for the year 2001-02. As the work was to be executed during the year 2004, considering an escalation in the cost at eight *per cent* per annum, the rate quoted by the firm 'B' was higher by 4.39 *per cent* only. As the firm 'B' was technically qualified for the work, the consultant recommended (December 2003) the Company to award the work to the firm 'B'. The Company, however, rejected (January

[@] Calculated at the borrowing rate of 7.5 to 12.86 *per cent* prevailed during April 2001 to June 2006.

2004) the bid considering the rate as high. Fresh bids for the work were invited in February 2004 to which no response was received. The Company again (April 2004) invited bids for the work and received response from two bidders. Of the two bidders, the only bidder Mahendra Kumar and Company, Porbandar (firm ' M') was technically qualified and had quoted the rate of Rs.2.28 crore. Though, firm M's rate was higher by 43.96 *per cent* than the estimated cost of Rs.1.58 crore, the Company awarded (October 2004) the work to firm 'M'. The work was completed in May 2006.

It was noticed during audit that firm 'B' was not new to the Company as it had executed (July to November 2002) four contracts at total value of Rs.34.79 crore in the past. Besides, the rate quoted by firm 'B' was not very high in view of eight *per cent* escalation as per the consultant's opinion. Hence, the Company should have awarded the work to firm 'B' at Rs.1.92 crore. Thus, the award of work to firm 'M' against subsequent call of bids resulted in extra expenditure of Rs.36 lakh (Rs.2.28 crore-1.92 crore) to the Company.

The management/Government stated (May/December 2006) that the consultant's opinion that the rate of firm `B' was higher by 4.39 *per cent* was arrived at based on eight per cent cost escalation per annum on all the items. The consultant did not carry out detailed calculation with reference to actual market price prevailing for the pipes which formed the major item in the total cost of the work. The work was finally awarded to firm `M' as the market rates for material were increasing and the Company 'could have got still higher rate only' had it gone for further invitation of tender for the work.

The reply is not tenable. At first, the estimate prepared by the Company based on SOR 2001-02 was not relevant for evaluation of the bids received in response to tenders invited in October 2003 and in April 2004. The Company should have prepared justification of rates based on the prevailing market rates of the major items before deciding the fate of the bid. Only in June 2004, after realising that the estimate adopted was not realistic, the Company recalculated the cost of work based on the market rate and revised the estimated cost to Rs.2.16 crore before award of the work to firm `M'. The Company should have revised the estimate in December 2003, based on the consultant's opinion and assessed the reasonability of rate quoted by firm `B' instead of rejecting the bid of firm `B'. Thus, due to rejection of the bid without finding out the prevailing market rates and the market trend the Company incurred extra expenditure of Rs.36 lakh in addition to delaying the work by ten months.

Gujarat Urja Vikas Nigam Limited (the erstwhile Gujarat Electricity Board)

3.14 Extra expenditure on purchase of concrete poles

Violation of terms and conditions of purchase orders resulted in extra expenditure of Rs.4.28 crore on purchase of ready made poles.

The Board invited (April 2003) tenders for the supply of 7,76,000 ready made pre-stressed concrete poles, on firm price basis in which 48 pole manufacturers participated. The tenure of the supply contract was two years.

Technical bids were opened on 28 May 2003 and price bids were opened on 17 June 2003, which were valid up to 28 September 2003. The lowest quoted price (L-1) was Rs.1,003.66 per pole. The Board decided (July 2003) to purchase 7.76 lakh ready-made poles at the L-1 price.

Letters of intent were issued (July to September 2003) to 31 technically qualified manufacturers for the placement of orders of different quantities at the price of Rs.1,003.66 per pole. The Board, however, decided (October 2003) to increase the price from Rs.1,003.66 to Rs.1,076 per pole on the plea that the manufacturers had demanded hike in price due to abnormal increase in steel price. Accordingly, purchase orders were issued (November 2003) indicating the applicability of revised price of Rs.1,076.60 per pole with retrospective effect from July 2003. This price was to remain firm for a period of two years or till the execution of orders by the manufacturer whichever was later. The purchase orders stipulated that no price variation would be allowed for any escalation in the cost of production of poles. The pole manufacturers, however, represented (April 2004) to the Board for increasing the price of the pole on the plea that the market price of steel/cement had increased abnormally since January 2004. The Board increased (September 2004) the price from Rs.1,076.60 to Rs.1,207 per pole with retrospective effect from 1 July 2004. The manufacturers, supplied 3,28,169 poles during July 2004 to October 2005 at the higher price of Rs.1,207 per pole. The Board's acceptance of the demand (April 2004) of the manufacturers for increase in the price of the pole in violation of the terms and conditions of the purchase orders resulted in an extra expenditure of Rs.4.28 crore[#].

The management/Government stated (May 2006) that the Board, while revising (October 2003) the price to Rs.1,076 per pole with retrospective effect from July 2003 had reached an understanding with the manufacturers that the revised price would remain firm for the first year (July 2003 to June 2004) and become variable for the second year (July 2004 to June 2005). However, while issuing (November 2003) the purchase orders, the above stipulation was not mentioned. This was done so that the manufacturers did not take undue advantage of small rise in prices of inputs in future. Thus, further revision of price to Rs.1,207 per pole was made based on the understanding reached with the manufactures and also the representation made by them in April 2004. The reply is not tenable. The Board had increased the purchase price of the poles not only in violation of the agreed terms of the contract but also vitiated the sanctity of the competitive bidding process.

3.15 Purchase at higher rates

Extra expenditure of Rs.2.12 crore incurred due to purchase of Hydrochloric Acid at higher rates.

The Board invited (February 2002) tenders for award of annual contract on firm price basis for supply of 20,018 MT of Hydrochloric Acid (HCL) at its

[#] [Rs.1,207 - Rs.1,076.60] x 3,28,169 poles.

various power stations for the year 2002-03. Three firms[*] submitted (February 2002) their bids which were opened in March 2002. The firms were technically acceptable and had supplied HCL to the Board in the past. The lowest end cost quoted by the firms for different power stations ranged from Rs.1,450 to Rs.2,500 per MT at the total end cost of Rs.3.13 crore for 20,018 MT of HCL.

Pending decision, the Board decided (February 2002) to try entering into a direct supply agreement with the manufacturer of HCL *viz.*, GACL[#], to get the best price. Further, the Board was aware (February 2002) that such a direct supply agreement existed between GACL and GSFCL[^]. Hence, the Board held (May 2002) discussion with GACL who, in turn agreed (June 2002) to supply HCL up to 30 September 2002 at the lowest end cost price quoted by the firms against the tender. Thereafter, the price as decided by GACL for supply to GSFCL at the time of renewal (October 2002) of agreement with them would be made applicable to the Board also. The Board accepted (July 2002) the terms and issued orders to GACL for supply of 20,018 MT of HCL for a period of one year from July 2002.

GACL intimated (October 2002) its revised end cost price of Rs.2,750/MT *plus* transportation charges. The end cost ranged from Rs.3,600 to Rs.4,650 per MT effective from October 2002. Accordingly, against the ordered 20,018 MT, GACL supplied 16,506.69 MT of HCL during July 2002 to July 2003. Of this quantity, 6,666.69 MT were supplied during July to September 2002 at the lowest end cost price of the tender amounting to Rs.1.04 crore and remaining 9,840 MT were supplied during October 2002 to July 2003 at higher rates amounting to Rs.3.62 crore. Thus, the Board had incurred total cost of Rs.4.66 crore (Rs.1.04 crore *plus* Rs.3.62 crore) against Rs.2.54 crore that it would have incurred had it purchased at the lowest end cost price of the tender. Consequently, the Board incurred an extra expenditure of Rs.2.12 crore (Rs.4.66 crore - Rs.2.54 crore).

Though the prices quoted by the firms were firm for one year, the Board imprudently placed the order on GACL without even knowing the price applicable from 1 October 2002. Besides, it continued to renew the agreement with GACL from time to time up to July 2006. A comparison of the basic prices of HCL purchased by the Board with that of NTPC Limited was made in audit to ascertain the reasonableness of the price. It was observed that the basic price paid to GACL by the Board was Rs.1,600 to 2,750/MT which was higher than the basic price of Rs.900 to Rs.2,725/MT paid by NTPC Limited to its suppliers during October 2002 to March 2006. Though, the price of HCL remains volatile, no system was devised to verify the reasonableness of the price charged by GACL in relation to the market price prevailing.

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[*] National Chemicals, (L1), Ahmedabad; Janata Chemicals, (L2), Mumbai; and Synergy Associates, (L3), Vadodara.

[#] Gujarat Alkalies and Chemicals Limited, Vadodara.

[^] Gujarat State Fertilizers and Chemicals Limited, Vadodara.

The management/Government stated (July/August/September 2006) that as per the Chairman's instructions (September 2001) HCL was to be purchased from GACL being a Government Company. Regarding the bidders of the tender (February 2002), it was stated that the L1 did not quote the rate for supply to Kachchh TPS, the past performance of L2 was not satisfactory and L3 did not accept the LOI issued in July 2002 to match with the rate of L1. Hence, the Board decided to directly purchase HCL from GACL. Besides, the rate offered by GACL was equal to the rate offered to GSFCL.

The reply is not tenable as no reason has been given for inviting bids (February 2002) when the Chairman had already directed (September 2001) to purchase HCL from GACL. Besides, if the past performance of L2 was unsatisfactory it was not clear why LOI was issued to them. As regards unwillingness of L3 to match its price with the price of L1, the Board could have got the supply from other bidders whose rates for HCL were lower than the rate of GACL.

General

3.16 Loss making companies – reasons for such losses

Introduction

As on 31 March 2006, the State had 64 Public Sector Undertakings comprising 52 Government companies, four Statutory corporations and eight deemed Government companies. Of the 52 Government companies, 39 were working and 13 were non working. As per the finalised accounts of these companies up to September 2005, seven companies had incurred losses for three or more consecutive years. The paid up capital, accumulated losses and net worth of these companies as per their latest finalised accounts up to 30 September 2006 are given below:

(Rupees in crore)

Name of the Company	Year of Account	Paid-up capital	Accumul-ated losses	Net worth
Gujarat Industrial Investment Corporation Limited	2004-05	256.98	234.51	22.47
Gujarat State Land Development Corporation Limited	2003-04	5.86	96.98	(-) 91.12
Gujarat State Handloom and Handicrafts Development Corporation Limited	2003-04	12.06	39.83	(-) 27.77
Tourism Corporation of Gujarat Limited	2004-05	17.19	23.58	(-) 6.39
Gujarat State Rural Development Corporation Limited	2004-05	0.58	2.15	(-)1.57
Gujarat Water Infrastructure Limited	2005-06	59.92	19.11	40.81
Gujarat Minorities Finance Development Corporation Limited	2005-06	1.35	1.83	0.48

Reasons for losses

Details of income, expenditure and profit or losses of these companies for a period of five years based on the information made available to Audit till September 2006 are given in ***Annexure*-15.** Reasons for losses incurred by these companies are discussed in the succeeding paragraphs.

Gujarat Industrial Investment Corporation Limited

The main objective of the Company is to provide financial assistance to large and medium scale industries, and the main source of income of the Company is the interest earned on its lending which shows a decreasing trend. The Company earned interest income of Rs.72.46 crore in 2000-01 which decreased to Rs.40.90 crore during 2004-05. The main reasons for the losses of the Company are high cost of borrowings and poor recovery performance.

Deficiencies in appraisal, sanctions and disbursements of fund and ineffective follow up actions under various financial assistance schemes had been the reasons for non-recovery of dues from the loanees. These deficiencies were also reported *vide* Chapter 2.2 in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial) – GOG and *vide* paragraphs 4.2 and 4.3 in the Report for the year ended 31 March 2005.

While accepting the audit findings, the management/Government stated (July/ November 2006) that the Company had lost its relevance due to its high cost of borrowings and consequential high lending rates compared to banks, where cheap finance is available. Further, the Company's inability to recover its dues and high NPA had also made its operations unviable. Though the Company had taken steps to reduce loss through recovery of its dues under the one time settlement scheme, disinvestment of its equity holdings, restructuring of high cost borrowings, these were not sufficient for a turn around.

Gujarat State Land Development Corporation Limited

The Company was formed to execute land reclamation and soil conservation schemes for improving and maintaining the quality of land. The Company mainly depended on the budgetary support from GOG. The main reason for the losses of the Company is its excessive administrative cost which ranged between 19.86 and 61.14 *per cent* of its total income during 2000-05. To meet the administrative cost, the Company recovers land development charges ranging from 10 to $33^{1/3}$ *per cent* of the expenditure incurred under the schemes. As the charges recovered were not adequate to meet its huge administrative cost, the Company resorted to excess appropriation of grants towards administrative cost from the fund under the schemes.

The management/Government (July/August/November 2006) stated that inadequate funds provided by the State Government towards administrative expenditure was the main reason for the loss. It was further, stated that the Company had taken measures to cut down administrative cost by abolishing some posts and repatriating employees on deputation.

Gujarat State Handloom and Handicrafts Development Corporation Limited

Gujarat State Handicrafts Development Corporation Limited and Gujarat State Handloom Development Corporation Limited were amalgamated (June 2002) to form a new Company *viz.*, Gujarat State Handloom and Handicrafts Development Corporation Limited for the promotion of handloom and handicrafts in the State. The main source of income of the Company is the sale of handloom and handicraft articles through its various sales outlets. The main reasons for the losses of the Company are as under:

- reduction in sales volume;
- increase in cost of production; and
- high overhead cost.

While accepting the audit observation, the management stated (July 2006) that the Company had taken various administrative measures *viz.,* implementation of Voluntary Retirement Scheme (VRS), closing of uneconomical emporia, *etc*.

Tourism Corporation of Gujarat Limited

The Company was formed to develop and promote places of tourist interest in the State of Gujarat. The Company's activities include running holiday homes, canteens, cafeteria, providing transport facilities to tourists and arranging fairs and festivals. The main reasons for the losses of the Company are as under:

- uneconomical operations;
- non recovery of lease rent from the leased properties; and
- high employee cost.

The management stated (June 2006) that uneconomic operational activities were not the reason for the continuous losses. It was, however, in the process of introducing VRS to reduce employee cost and had also initiated the process to privatise its units. The outcome of the corrective steps initiated by the Company was awaited (September 2006).

Gujarat State Rural Development Corporation Limited

The Company is implementing both GOI and GOG schemes meant for the economic development of drought prone and rural areas of the State. During 2000-2005, the Company implemented schemes, such as Gokul Gram Yojana, Rural Sanitation Programme, Watershed Development Programme and Gram Haat project. The following are the main reasons for the losses of the Company which was accepted (June 2006) by the management:

- The employee cost constituted major part of the expenditure ranging from 44.05 to 111.19 *per cent* of the total income of the Company during 2000-05.

- The Company's only source of sustenance is the commission of half *per cent* received from the Government, on the value of schemes implemented by the Company. During 2000-2005, GOG gradually transferred the work of implementation of all the above schemes to other GOG agencies/Non Government Organisations. Consequently, the commission received for meeting administrative expenses in the form of grants dwindled from Rs.159.99 lakh to Rs.19.09 lakh during

2000-05. The reasons for transfer of schemes from the Company were not on record.

Gujarat Water Infrastructure Limited

The Company is the implementing agency of GOG for laying bulk water transmission pipelines from Sardar Sarovar Narmada Main Canal. The role of the Company is to give feeder service to Gujarat Water Supply and Sewerage Board which is engaged in the distribution of water to the consumers.

The main source of income of the Company is sale of water. The supply of water is mainly to the Government organisations, urban local bodies and industrial consumers. During 2001-06, the sale price of water was low ranging between Rs.0.50 to Rs.15 per kilo litre to different types of consumers. Against the sales ranging between Rs.6.07 crore and Rs.18.41 crore, the operating cost (including material cost, employee cost, *etc.*) of the Company during the period remained between Rs.7.93 crore and Rs.22.67 crore. Due to low sale price, the Company was unable to recover its operating cost and was saddled with losses. As on 31 March 2006, there were outstanding dues of Rs.12.89 crore recoverable mainly from local bodies and industrial consumers.

The management/Government stated (June/August 2006) that the recovery of water charges was low due to weak financial position of local bodies. The Company had initiated measures such as, restructuring of loans and outsourcing major services to reduce losses. The Company had also approached (July 2006) GOG to revise the sale price of water to augment its revenue.

Gujarat Minorities Finance Development Corporation Limited

The Company was established (September 1999) to promote economic and developmental activities for the benefit of backward section among the religious and linguistic minorities. The Company gets refinance facility from National Minorities Finance and Development Corporation Limited at the interest rate of 4 to 3.5 *per cent* and in turn provides loans to the beneficiaries at the rate of 7 to 6 *per cent* for their self employment activity. The main reason for the losses of the Company is non recovery of loans and interest thereon from the beneficiary.

The total loan amount outstanding as on 31 March 2006 amounted to Rs.39.18 crore. Of the above, Rs.26.01 crore were outstanding for more than three years. As on 31 March 2006, 130 beneficiaries had not paid any instalment towards total outstanding of Rs.64.28 lakh. Besides, against the interest accrued and due ranging between Rs.1.03 crore and Rs.11.18 crore on the loan, the Company could realise interest of Rs.0.51 crore to Rs.5.75 crore during 2001-06. Thus, the recovery of interest was around 50 *per cent* of the dues.

The management/Government accepted (July/September/November 2006) that the reason for the loss was poor recovery of dues as the beneficiaries could not pay the loan due to their poor financial condition. Lack of infrastructure and man power of the Company also affected the efficiency of recovery process.

In view of continuous losses, there is an urgent need for Government to undertake a comprehensive review of their performance. It is recommended that the Government may undertake such a review on priority so as to improve performance of these companies or consider their closure.

The matter was reported to the Government (May 2006). Replies from two administrative departments[#] had not been received (August 2006).

Statutory corporations

Gujarat State Road Transport Corporation

3.17 Delay in construction of bus station

Failure to expedite the work of construction of new bus station resulted in loss of interest of Rs.12.55 lakh on the blocked fund of Rs.27.32 lakh.

The Corporation awarded (July 2000) the work of construction of a bus station at Visavadar to V.I. Pandya, Jetpur (contractor) at a cost of Rs.28.14 lakh. The work was stipulated to be completed by October 2001. The new bus station was to be constructed near the existing bus station.

During the stipulated period up to October 2001, the contractor had completed only 5.86 *per cent* of the work. As per the provisions of the contract, the Corporation could terminate the contract for slow progress of work and could get the work done through other agency at the risk and cost of the contractor. The Corporation, however, did not invoke the provision and only recovered (November 2000 to September 2005) liquidated damages of Rs.0.48 lakh from the contractor and allowed him to carry on the work. The contractor completed (September 2005) work of Rs.27.32 lakh. Payment for the portion of work done was made to him (December 2005) and plumbing and wood work worth Rs.0.81 lakh remained to be executed (September 2006).

Moreover, the Corporation was yet (September 2006) to fix up any agency for the award of works of filling, hardening and leveling the surface in the bus station and construction of compound wall before putting the new bus station open for use. The estimated cost of these works was of Rs.10 lakh and would need four months for completion.

The Corporation failed to complete the left out work through other agency at the risk and cost of the defaulting contractor. Consequently, the new bus station could not be constructed even after delay of 58 months (September 2006) since the expiry of the stipulated date of completion (October 2001). Further, the non-award of the critical items of works such as, leveling and construction of compound wall so far (September 2006) indicated lack of interest with the Corporation for putting the new bus station to use even after spending Rs.27.32 lakh in this regard. Though the Corporation had (2001-06) borrowed funds at the rate of 12 *per cent*, the expenditure of Rs.27.32 lakh

[#] Industries and Mines and Panchayat, Rural Housing and Rural Development.

incurred on the construction of the new bus station remained unfruitful. Consequently, the Corporation suffered loss of interest of Rs.12.55[*] lakh on the blocked fund during November 2001 to September 2006.

The management/Government stated (June/September 2006) that there were some delays on the part of the Corporation in supplying design drawings and cement and also in making payments to the contractor. Further, the rate quoted by the contractor for the work was reasonable and he did not abandon the work at any point time. Hence, the Corporation did not terminate the contract. The reply is not tenable. The records made available to Audit indicate that the progress of work was slow from the beginning as the contractor did not mobilise adequate labour for the work. Besides, the reply is silent about the reasons for not awarding the works of leveling and construction of compound wall (September 2006).

Gujarat State Financial Corporation

3.18 Short recovery of dues under One Time Settlement Scheme

The Corporation suffered a loss of Rs.29 lakh due to short recovery of dues from a defaulting loanee under One Time Settlement Scheme.

The Corporation declared (March 2004) 'One Time Settlement Scheme (OTS)' for settling the defaulters' loan accounts to maximise recovery and reduce non-performing assets (NPA[#]). The settlements were made with loanees who did not repay their dues even after expiry of the scheduled dates of repayment allowed to them or having legal disputes with the Corporation regarding payment of dues. Under OTS, the amount payable was to be worked out as per the terms of the scheme.

In the case of Raviraj Foils Limited, Ahmedabad (firm) the Corporation intimated (September 2004) the firm that an amount of Rs.1.08 crore as determined under the OTS was payable by the firm in instalments during October 2004-August 2005.

Audit scrutiny revealed that as per the norms for calculation of OTS, an amount of Rs.1.37 crore was recoverable. The incorrect calculation of the amount payable under OTS had resulted in short recovery of Rs.29 lakh. Though the mistake was in the notice of the Corporation since December 2004, the Corporation did not make any effort to recover the balance OTS amount.

The management while accepting the audit findings stated (August 2006) that it had initiated an inquiry to fix responsibility for the short recovery of dues under OTS. Further, efforts were being made for recovering the amount of shortfall from the firm.

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[*] Worked out at the borrowing rate of 12 *per cent*.

[#] NPA - Interest remaining overdue for a period of more than 180 days and/or instalment of principal remaining overdue for a period of 365 days or more.

The matter was reported to Government in February 2006; reply had not been received (August 2006).

General

3.19 Persistent non-compliance of Accounting Standards in preparation of Financial Statements

Accounting Standards (AS) are the acceptable standards of accounting recommended by the Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on AS. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by the companies so that the annual accounts prepared exhibit a true and fair view of the state of affairs of the Company and also facilitate comparability of the information contained in published financial statements of various Companies. It is obligatory under Section 211 (3A) of the Companies Act, 1956 for every company to prepare the financial statements (profit and loss account and balance sheet) in accordance with the AS.

During 2003-04 to 2005-06, 55 companies finalised 156 accounts relating to period from 1996-97 to 2004-05. Besides, three Statutory corporations which follow AS had also finalised 10 accounts relating to the period from 2001-02 to 2004-05. A review of the financial statements and the Statutory Auditors' report thereon revealed that 20 companies and one Statutory corporation (Public Sector Undertakings – PSUs) did not comply with one or more AS in 96 instances as detailed in ***Annexure*-16.** It would be seen from the ***Annexure*** that:

- Eight[*] PSUs violated AS 15 relating to accounting for retirement benefits to employees (*viz*., provident fund, pension, gratuity, leave encashment etc.) which provides that the contribution payable by the employer towards retirement benefits should be charged to the statement of profit and loss for the year on accrual basis and the accruing liability should be calculated on actuarial basis.

- Eight[^] PSUs did not comply with AS 13 relating to classification of investment into current investment and long term investments and providing for diminution in the value of investments.

- Eight[•] PSUs did not comply with AS 9 relating to recognition of revenue having regard to the timing, certainty and fulfillment of conditions attached to the revenue arising in the course of ordinary activities.

- Five[∨] PSUs did not comply with AS 2 relating to determination of value at which inventories are carried in financial statements until the related

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[*] Sl. No. 2, 4, 6, 9, 10, 11, 14 and 16 of ***Annexure*-16.**

[^] Sl. No. 1, 3, 5, 12, 13, 16, 18 and 21 of ***Annexure*-16.**

[•] Sl. No. 1, 4, 5, 9, 10, 11, 16 and 18 of ***Annexure*-16.**

[∨] Sl. No. 4, 6, 14, 16 and 21 of ***Annexure*-16.**

revenues are realised and provides that inventories should be valued at the lower of the cost or net realisable value.

- Five[Δ] PSUs did not comply with AS 10 relating to accounting for fixed assets with regard to identification, components of cost, revaluation, retirement and disposal of assets.

- Four[$] PSUs did not comply with AS 1 relating to disclosure of significant accounting policies followed in preparation and presentation of financial statements.

- Four[∀] PSUs flouted AS 12 which deals with method of accounting for Government grants as to whether it related to capital or revenue.

- Four[θ] PSUs flouted AS 22 relating to accounting for taxes on income as to the determination of the amount of the expense or saving related to taxes on income in respect of an accounting period and disclosure of such an amount in the financial statements.

- Three[ℵ] PSUs violated AS 5 relating to disclosure of prior period items and changes in accounting estimates in the financial statements.

- Three[∂] PSUs either did not provide for depreciation or did not apply the rates prescribed in Schedule VI to the Companies Act, 1956 as per AS 6 which deals with depreciation accounting.

- Two[∇] PSUs having distinguishable segments have not complied with AS 17 which deals with segment reporting and establishes principles for reporting financial information about the different types of products and services and also the different geographical areas in which it operates.

- Two[&] PSUs whose turnover exceeded Rs.50 crore did not prepare cash flow statement as prescribed in AS 3.

- Two[Σ] PSUs did not disclose the significant events which occurred after the balance sheet date but before the approval of financial statements, as required under AS 4.

- One[μ] PSU did not charge interest on loan to profit and loss account in contravention to AS 16 which deals with accounting of borrowing costs.

[Δ] Sl. No. 1, 2, 9, 11 and 20 of ***Annexure*-16.**
[$] Sl. No. 4, 8, 15 and 21 of ***Annexure*-16.**
[∀] Sl. No. 4, 6, 9 and 14 of ***Annexure*-16.**
[θ] Sl. No. 4, 9, 11 and 13 of ***Annexure*-16.**
[ℵ] Sl. No. 4, 17 and 19 of ***Annexure*-16.**
[∂] Sl. No. 6. 9 and 11 of ***Annexure*-16.**
[∇] Sl. No. 9 and 21 of ***Annexure*-16.**
[&] Sl. No. 2 and 21 of ***Annexure*-16**.
[Σ] Sl. No. 7 and 11 of ***Annexure*-16**.
[μ] Sl. No. 19 of ***Annexure*-16.**

- One[ϕ] PSU did not comply with AS 20 relating to determination and presentation of basic and diluted earnings per share of an enterprise.

Out of 21 PSUs, nine[*] PSUs persistently violated two to six AS in two to three Accounts. As per Section 211 (3B) of the Companies Act, 1956, any company which does not comply with the Accounting Standards shall disclose in its profit and loss account and balance sheet, the deviation from the Accounting Standards, the reasons for such deviation and the financial effect, if any, arising due to such deviation. The above PSUs did not disclose their non-compliance to Accounting Standards as stipulated in Section 211 (3B) of Companies Act, 1956. Others had admitted the violation pointed out by Audit.

The matter was reported to Government/PSUs in June 2006. Replies from eight[#] PSUs and their administrative departments had not been received (November 2006); others had admitted the violation pointed out by Audit.

3.20 Follow-up action on Audit Reports

Outstanding action taken notes

3.20.1 Audit 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 in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. As per rule 7 of the Rules of Procedure (Internal Working) of Committee on Public Undertakings (COPU), Gujarat Legislative Assembly, all the administrative departments of PSUs should submit, within three months of their presentation to the Legislature explanatory notes indicating the corrective/ remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports.

Though the Audit Reports for the year 2002-03, 2003-04 and 2004-05 were presented to the State Legislature on 21 February 2005, 13 September 2005 and 24 March 2006 respectively, fourteen departments, which were commented upon, did not submit explanatory notes on 32 out of 71 paragraphs/ reviews as on 30 September 2006 as indicated below.

Year of the Audit Report (Commercial)	Total Paragraphs/ Reviews in the Audit Report	No. of Paragraphs/ reviews for which explanatory notes were not received
2002-03	26	2
2003-04	23	9[*]
2004-05	22	21[^]
Total	**71**	**32**

ϕ Sl. No. 2 of ***Annexure*-16.**
* Sl. No.1, 2, 4, 5, 9, 11, 16, 19 and 21 of ***Annexure*-16**.
\# Sl. No.1, 7, 8, 13, 14, 15, 20 and 21 of ***Annexure*-16**.
* includes one paragraph for which replies were awaited from three departments.
^ includes one paragraph for which replies were awaited from eleven departments.

Department-wise analysis is given in ***Annexure*-17**.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.20.2 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the respective PSUs and the concerned departments of the State Government through Inspection Reports. The heads 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 2006 pertaining to 43 PSUs revealed that 1,031 paragraphs relating to 352 Inspection Reports remained outstanding as on 30 September 2006. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2006 is given in ***Annexure*-18**.

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

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Countersigned

NEW DELHI **(VIJAYENDRA N. KAUL)**
The Comptroller and Auditor General of India