CHAPTER - II

2. Performance reviews relating to Government Companies

Gujarat Mineral Development Corporation Limited

2.1 Construction and Commissioning of Akrimota Thermal Power Project

Highlights

The Company commissioned Unit-I and II of Akrimota Thermal Power Project in March 2007 and May 2006 with delay of 39 and 23 months respectively against the scheduled date of commissioning. Delay in arranging finance from banks, delay in award and execution of contracts *etc.* led to belated commissioning of both the Units. Delay in commissioning resulted in cost overrun of Rs.78.71 crore and also loss in generation of 3,274.799 MUs of power worth Rs.884.20 crore.

(Paragraphs 2.1.7, 2.1.21, 2.1.25 and 2.1.31)

The Company was liable to pay extra expenditure of Rs.81.60 crore on account of interest payment as it did not avail itself of the loans bearing fixed rate of interest as suggested by the consultant. Loss of rebate on term loan, imprudent drawal of loan, non-availing of benefit of reduced rate of interest and avoidable payment of guarantee fee amounting to Rs.13.79 crore were noticed in management of funds for the project.

(Paragraphs 2.1.10, 2.1.11, 2.1.12, 2.1.13 and 2.1.14)

Deficiency in terms and conditions of contracts and non-adherence to the terms of contract led to loss of Rs.27.16 crore in the award of contracts.

(Paragraphs 2.1.18, 2.1.19, 2.1.20 and 2.1.22)

Deficient handling of contracts resulted in payment of extra claims, exchange variations, avoidable payment of sales tax and non-recovery of liquidated damages led to loss of Rs.49.55 crore. Besides, security deposit and retention money of Rs.27.60 crore were released to the contractors before conducting the performance guarantee tests.

(Paragraphs 2.1.25, 2.1.26, 2.1.29, 2.1.30 and 2.1.32)

The cost and time overrun of the project and excess auxiliary consumption of power and furnace oil led to increase in per unit cost of generation from Rs.2.86 to Rs.5.28 for the year 2005-06.

(Paragraph 2.1.34)

Introduction

2.1.1 Gujarat Mineral Development Corporation Limited (Company) was incorporated (May 1963) as a private limited Company to undertake mining of minerals and ancillary works and also to develop mineral resources in the State. It was converted into a wholly owned Government Company in July 1971. The Company is operating seven* mining projects. The Government of Gujarat (State Government) assigned (July 1994) the work of implementation of Akrimota power project to the Company as the Company was mining lignite at various locations and was financially sound. The project envisaged to set up power station based on lignite as fuel at Akrimota in Lakhpat taluka of Kachchh district. As per the Detailed Project Report (DPR) prepared ((March 1999) by the Company, the installed generating capacity of the power station would be 250 MW having two Units of 125 MW each. The two Units were to be commissioned by 30 November 2003 and 31 May 2004. The estimated cost of the project was Rs.1,395 crore (borrowed funds Rs.1,116 crore and own funds Rs.279 crore).

Scope of Audit

2.1.2 The performance review conducted during January-May 2007 covers activities related to planning, funding, implementation and commissioning of the power project mainly during the period 2002-07. Audit examined the project related records kept at the Company's head office (HO), monthly progress reports and other details furnished by the project office to HO.

Audit objectives

2.1.3 The audit objectives of the performance review were to ascertain whether:

- the management was efficient to safeguard against risks to the economy and efficiency of the project in planning and award of contracts;
- the project was completed and commissioned within the time schedule as stipulated in the DPR;
- the management availed the borrowed funds to the extent required and utilised it economically and efficiently for the project;

---

* Four Lignite projects – Panandhro and Mata-no-Madh both in Kachchh district, Rajpardi in Bharuch district and Tadkeshwar in Surat district (commissioned in March 2006); two Bauxite projects- Bhatia in Jamnagar district and Gadhsisa in Kachchh district and one Fluorspar project at Kadipani in Vadodara district.

- a dependent quality assurance system was put in place which was effectively monitored by the top management;
- the management complied with various provisions of statutes and rules concerning environment;
- actual cost of generation was as per the norms envisaged in the project report and the auxiliary consumption of power and fuel did not exceed the norms; and
- the power generated and sold was properly invoiced and dues recovered as per terms and conditions settled with purchaser of power.

Audit criteria

2.1.4 The following audit criteria were adopted:

- terms and conditions mentioned in the statutory clearances given by the Union Ministry of Power (MOP), Central Electricity Authority (CEA) and State Government for the project;
- terms and conditions of agreements with financial institutions for availing loans;
- the procedures followed for award of contract with reference to principles of economy, efficiency, effectiveness and transparency;
- terms and conditions of the contracts entered into with parties for execution of the works; and
- milestones given in DPR and Power Purchase Agreement (PPA).

Audit methodology

2.1.5 Audit followed the following mix of methodologies for achieving the audit objectives with reference to audit criteria:

- analysis of project report, loan documents, PPA, monthly performance reports of the project;
- study of norms and guidelines of the MOP, CEA, State Government and minutes of the meeting of the Board of Directors (BOD), Tender Committee;
- study of records relating to tender, bid documents, award of work and payments made to the contractors;
- analysis of data relating to the consumption of materials for generation of power; and
- interaction with management and issue of audit queries.

Audit findings

2.1.6 The audit findings were reported (August 2007) to the Government/ Management and discussed at the meeting (1 November 2007) of the Audit Review Committee for State Public Sector Enterprises (ARCPSE), which was attended by the Deputy Secretary to Government of Gujarat Industries and Mines Department and three General Managers (Power, Finance and Accounts) of the Company. The views of the Government and the Management were taken into account while finalising the review.

Audit findings are discussed in succeeding paragraphs.

Project planning

Non-adherence of project milestones

Both the units of power project were commissioned with a delay ranging from 23 to 39 months.

2.1.7 The Company obtained the approval (August 1999) of CEA for the project and entered (February 2000) into Power Purchase Agreement (PPA) with erstwhile Gujarat Electricity Board (GEB) for selling of power after commissioning of the Units. As per PPA, the GEB was to execute an Escrow and Disbursement Agreement (EDA)[∇] with the Company in November 2000. GEB, however, executed the EDA only in March 2002. As a result, the Company was unable to arrange finances from financial institutions for the project till March 2003. In the meantime, the Company fixed 30 September 2000 as zero date[•] and planned for synchronisation of Unit I and II within a period of 32 and 38 months from zero date and also for commissioning the Units within 180 days from synchronisation. Thus, the Unit I and II were to be commissioned by 30 November 2003 and 31 May 2004 respectively. Against the scheduled dates, Unit I was commissioned on 12 March 2007 and Unit II on 1 May 2006 after a delay of 39 and 23 months respectively. The implementation of the project was delayed mainly due to delays in arranging finances from banks, award and execution of contracts and due to stay order obtained by one of the bidders relating to award of contract for material handling system. Delays were also noticed in releasing the power for construction activity and laying of transmission lines for evacuation of power by GEB as per terms of PPA. The delays in award and execution of various works of the project have been discussed in paragraphs 2.1.21, 2.1.22 and 2.1.25 *infra.*

The Management while accepting (September 2007) the delay stated that most of the delays were beyond their control. The reply is not tenable. The Company failed to pursue GEB for expediting the execution of EDA, which led to delay in arranging finances. Further, the litigation in award of material handling contract was avoidable as discussed in paragraph 2.1.21 *infra.* Lack of monitoring of project activities by the Company had also attributed to the delay in execution of works by various contractors.

∇ As per the agreement, the GEB would deposit sufficient fund in escrow account (depositary account) to cover the Company's liability of interest and loan repayment to financial institutions.

• The date adopted as base to indicate the targeted date for completion of various activities of project.

Delay in execution of afforestation work

2.1.8 The conditional clearance given (April 1999) by the Union Ministry of Environment and Forests (MOEF), for the project, envisaged planting of 3.06 lakh trees covering the plant periphery, Coastal Regulatory Zone and the road side of the project during 1999-2003. Against this, the Company initiated the afforestation activity only in July 2002 by planting 30,000 saplings (9.80 *per cent*). Thereafter, the afforestation works were not carried out on the plea that high wind velocity and high salinity of the creek were not conducive for the survival of the plants. The Company, however, did not bring the constraints to the notice of MOEF for seeking alternatives for afforestation as of October 2007. The fact, however, remains that the Company did not comply with the conditions of MOEF.

Project finance

2.1.9 The consortium of financial institutions (FIs)[∨] sanctioned (March 2003) term loans aggregating to Rs.1,116 crore for the project. The loans carried interest rates ranging from 11.75 to 12.50 *per cent*. The Company had drawn loans of Rs.783.86 crore up to March 2004. In view of falling interest rate, the Company approached (August 2004) the Power Finance Corporation (PFC) under its debt restructuring plan and availed (September 2004) a loan of Rs.1,114.64 crore for the project. PFC loan carried interest rate of 7.75 *per cent* per annum before commissioning and 7.50 *per cent* after commissioning of the project. The loan was repayable within a period of 10 years. The Company prepaid the previous loan of Rs.783.86 crore to consortium of FIs in September 2004. The Company also utilised (December 2006) fund of Rs.359.07 crore from its internal resources for the project. Audit observations related to project financing are discussed in the succeeding paragraphs.

Acceptance of term loan with reset clause

2.1.10 While planning (June 2004) to restructure the previous loans availed from consortium of FIs, the Company evaluated two offers, one from consortium of banks[⊗] and another from PFC. Both offers contained proposal for sanction of loan of Rs.1,116 crore with repayment period of 10 years. The consortium of banks offered the loan with fixed rate of interest of 7.50 *per cent* per annum, applicable for the entire period of loan. PFC, however, offered the loan with interest rate of 7.75 *per cent* and 7.50 *per cent* per annum, applicable for the period before and after commissioning of the project respectively, with a condition to reset the interest[*] at every three years of disbursement. PFC also agreed to allow a rebate of 0.50 *per cent* for timely payment of dues. The Company's financial consultant advised (August 2004) that as loan was to be repaid over a period of 10 years, it would not be advisable to go in for interest rate with reset option since there was a risk of

---

[∨] Consortium consists of 14 banks, Power Finance Corporation and Life Insurance Corporation of India.

[⊗] Consortium of nine banks.

[*] Under reset clause in fixed loan, the interest rate does not remain fixed for the entire tenure and is subject to revision on a regular basis either two years or more (three years in the instant case) depending on the decision taken by the lending agencies.

Ignoring the advice of consultant, the Company availed loan from PFC with condition to reset the interest rate and increase in interest rate due to resetting would result in extra interest liability of Rs.81.60 crore over the remaining period of loan.

upward movement in interest rate. Ignoring the advice, the Company availed the loan from PFC. PFC not only reduced (July 2005) the rebate for timely payment of dues from 0.50 to 0.25 *per cent*, but also increased (March 2007) the interest rate to 11 *per cent* per annum. Accordingly, interest rate of 11 *per cent* per annum would be applicable to the Company's loan on the first resetting (August 2007) of interest. Comparing the fixed rate of interest of 7.50 *per cent* per annum offered by the consortium of banks with that of rate of 11 *per cent* per annum, the Company would incur extra interest burden of Rs.81.60 crore (on the loan of Rs.1,114.64 crore drawn) over the remaining period of seven years.

The Management stated (September 2007) that the option of fixed rate of interest was not considered as it was expected that the interest rates would come down in future. As the terms of loan allowed for repayment of entire outstanding loan after the expiry of three years term, the Company was in search of cheapest option to repay PFC loan on 15 October 2007. The reply is not tenable as the consultant suggested for the fixed interest loan only after evaluating the interest trend prevalent at the relevant point of time. Further, the fact remains that the Company is liable for payment of interest of Rs.11.66 crore per annum to the PFC.

Loss of rebate on term loan

Non-compliance with the terms of PFC loan resulted in loss of rebate of Rs.42.49 lakh.

2.1.11 As per terms of PFC loan, rebate for timely payment of loan dues would be given by PFC only after the receipt of full amount of installment on the due date. The Company, however, in the following instances failed to pay the full amount of installments due and consequently did not get the rebate of Rs.42.49 lakh:

- The Company deducted rebate of Rs.23 lakh and paid Rs.3.32 crore to PFC for the period from 01 April 2005 to 15 April 2005. PFC objected (April 2005) to such *suo moto* deduction made by the Company and disallowed the rebate of Rs.23 lakh.

- PFC raised (January 2006) demand of Rs.22.01 crore towards interest for 93 days (15 October 2005 to 15 January 2006) on the due installments. The Company, however, paid the interest for 92 days (16 October 2005 to 15 January 2006) without any reasons. As a result, PFC disallowed (January 2006.) the rebate of Rs.19.49 lakh to the Company.

The Management admitted (September 2007) non-payment of full installment due and that the installment amount paid was also credited in PFC's account with a delay of five days. As a result, PFC disallowed the rebate in the former case.

Imprudent drawal of loan

2.1.12 Instead of withdrawing amounts only as per requirement to avoid payment of interest, the Company withdrew (September 2004) Rs.1,114.64 crore in lumpsum against the loan of Rs.1,116 crore sanctioned by PFC. The

Company utilised (September 2004) Rs.894.64 crore towards various payment obligations including the pre- payment of previous loan to consortium of FIs. Instead of returning the Rs.220 crore the Company kept (September 2004 to June 2006) the same as Inter Corporate Deposit (ICD) with Gujarat State Financial Services Limited (GSFS) at 4.50 to 5.75 *per cent* interest and earned Rs14.96 crore whereas it paid 7.25 to 7.50 *per cent* interest to PFC amounting to Rs.20.71 crore. Thus, the imprudent drawal resulted in avoidable interest of Rs.5.75 crore.

Imprudent drawal of loan resulted in avoidable loss of interest of Rs.5.75 crore.

The Management stated (September 2007) that the entire amount of loan was drawn at a stretch as per the terms and condition of loan. The reply is not tenable, as the loan of Rs.1,116 crore constituted 80 *per cent* of the estimated project cost and was to be spent for the implementation of the project over a period of three years.

Non-availing the benefit of reduced rate of interest

2.1.13 While sanctioning the term loan of Rs.1,116 crore, PFC had agreed (September 2004) to reduce the interest rate by 0.25 *per cent* from the date of commissioning of any one of the Units. The Company synchronised Unit-I on 31 March 2005 and Unit-II on 19 December 2005. As per terms of PPA, the Company should have commissioned Unit-I on 27 September 2005 and Unit-II on 17 June 2006 (*i.e.* within 180 days from the date of its synchronisation). The Company, however, commissioned Unit-II on 1 May 2006 and Unit-I on 12 March 2007 due to prolonged trial run, forced outages, and the Company's failure to arrange for the rectification of lignite feeder in boilers. As a result of belated commissioning of the Units, the Company could not get the benefit of reduced rate of interest amounting to Rs.1.62 crore during the period from 27 September 2005 to 30 April 2006.

Due to belated commissioning of units, the Company could not avail reduced rate of interest amounting to Rs.1.62 crore.

The Management accepted (September 2007) the delays.

Loss due to payment of guarantee fee

2.1.14 The State Government extended (December 1999) guarantee facility for a maximum limit of Rs.600 crore to the Company for availing the loans from FIs for the project. As per Government orders (December 1998), the State Government insisted for the payment of guarantee fee at the rate of one *per cent* per annum on the amount of guarantee given irrespective of the fact that the loan was availed or not. Though, the banks sanctioned (June 2000) loan for the project, the Company was unable to withdraw the loan due to delay in completion of various formalities like execution of EDA by GEB *etc.* The guarantee facility provided by State Government was not availed till February 2003 as the financial closure was achieved only on 25 March 2003. As per terms, the Company, however, was liable to pay guarantee fee of Rs.24 crore during 1999-2003 (*i.e.* Rupees six crore per annum). Of which, it paid (November 2004) guarantee fee of Rupees six crore for the year 1999-2000 and balance guarantee fee of Rs.18 crore was yet to be paid to the State Government (October 2007).

The Company paid guarantee fee of rupees six crore, though it did not utilise guarantee facility provided by the State Government.

Increase in liability for payment of signature bonus

2.1.15 The Gujarat Power Corporation Limited (GPCL), a State Government Company had initially executed work relating to the implementation of the project till 1994. At the direction (July 1994) of the State Government, GPCL signed a Memorandum of Understanding (MoU) with the Company for handing over the project to the Company. GPCL handed over the project in October 1994. As per MoU, the Company had agreed to pay 0.5 *per cent* of the final cost of the project as signature bonus to GPCL. Due to various deficiencies as discussed in paragraphs 2.1.16 to 2.1.33 *infra* in the implementation of the project by the Company, the actual project cost increased to Rs.1,473.71 crore against the estimated cost of Rs.1,395 crore. The Company's liability for payment of signature bonus thus, increased from Rs.6.98 crore to Rs.7.37 crore. The Company has already paid (1995) signature bonus of Rs.5.82 crore and the amount of Rs.1.55 crore remains to be paid (March 2007). Thus, the Company had to incur extra liability of Rs.39 lakh due to delay in execution of the project.

The Management stated (September 2007) that no demand had been received from GPCL for payment of signature bonus on the increased project cost. The reply is not tenable, since as per MoU, the responsibility for payment of bonus on the increased project cost rests with the Company.

Project implementation

Deployment of manpower

2.1.16 As per Company's assessment (March 2005), 234 personnel were required for the project against which it had deployed 148 personnel during March 2005 to March 2007. Audit noticed following deficiencies on manpower recruitment:

- DPR mentioned that the Company had a core group of professionals, besides, consultants for planning and implementation of the power project. In fact, the Company did not have any core group of professionals. It had earmarked only two permanent officials[∇] for the project till March 2005.

- The Company did not devise any training plans or impart any training to personnel recruited for the project though stipulated in National Training Policy for Power Sector issued (June 2002) by the Union Ministry of Power.

- The Company awarded (May 2001 and March 2005) contracts for the supervision of erection and commissioning and also for supervision of operation and maintenance (O&M) contracts to NTPC. The Company made payments of Rs.9.80 crore to NTPC under the contracts till March 2007. Though supervision of project activities was a vital

[∇] Shri S B Vora, M.Sc (Metallurgy), General Manager and Shri K S Nagendra, AIME (Mechanical), Sr Manager.

function, while awarding the contracts, the Company specifically assured NTPC that it would not hold it responsible for any delays attributable to contractors. Award of supervision contracts to NTPC without assigning any responsibility for the delay in execution of contracts lacked justification.

- Due to 70 to 37 *per cent* vacancies in sanctioned posts and non-imparting of training to the existing personnel for the project, the Company had to award (January - May 2006) five O&M contracts for running of the plants and equipments. The contracts were awarded at a total cost of Rs.11.54 crore for a period of one to two years.

The Management stated (September 2007) that the main reasons for vacancies were due to high turnover of technical staff and also the intention of the Company to use its existing staff for the non-technical work of the project. Besides, the two permanent officials, the Company had availed the service of experts on consultancy basis. Regarding training, it was stated that arrangement was being made to impart training to its project personnel from December 2007 as per the National Training Policy. Further, as per Company's plan, number of auxiliary operations was to be outsourced instead of assigning to permanent staff. Hence, the services of NTPC were availed for supervision of various activities. The reply is not tenable as frequent changes of technical staff resulted in lack of focus and instability. Further, use of existing technical staff for non-technical work of the project was totally unjustified in view of existing shortage of technical personnel. The DPR did not provide for outsourcing any of the activities. On the contrary, the Company had a plan to recruit personnel and operate and maintain the power station on its own.

Award of contracts

2.1.17 The Company awarded 44 contracts worth Rs.982.44 crore during 2000-04 for design, engineering, supply and erection of various plants and equipments. Of these contracts, two main contracts relating to boilers and steam turbine generators were awarded (March-April 2000) through invitation of global tenders. The irregularities in award of contracts are discussed in the succeeding paragraphs.

Non-inclusion of a clause for claiming refund of excise duty

Failure to incorporate a suitable clause for claiming refund of ED paid on supplies resulted in loss of Rs.5.57 crore.

2.1.18 As per EXIM policy (March 1997) of GOI, the domestic manufacturer supplying capital equipments for power project was eligible for deemed export benefit, *i.e.* entitled for refund of ED paid on the supplies. In the contract awarded (April 2000) to AEI an arrangement was made whereby the associate concern of AEI *i.e.*, Ansaldo Services (P) Limited (ASPL), Bangalore, manufacturer for capital equipments of power projects had supplied (April 2002 to December 2004) equipments costing Rs.48.45 crore. The Company, however, failed to incorporate a clause in the contract awarded to AEI for claiming refund of ED paid. As a result, it suffered loss of Rs.5.57 crore since it did not get the refund of ED paid on the supplies made by ASPL.

The Management stated (September 2007) that even if ASPL might be eligible to claim the ED, but it was not necessary that the refund of ED should have been passed on to the Company. The reply is not tenable, since as per EXIM policy, the capital equipments for power projects were eligible for refund of ED. Further, the fact remains that the Company failed to incorporate a suitable clause in the contract.

Non-inclusion of clause for claiming ED refund

Failure to incorporate suitable clause for claiming refund of ED resulted in loss of Rs.19.58 crore.

2.1.19 The Company awarded (March 2000) the contract for design, engineering, supply and erection of boilers with auxiliary equipments to EVT-GEC Alstom, (EGAG) Germany at a cost of Rs.345.96 crore. As per terms of contract, an arrangement was made whereby an associate concern of EGAG *i.e.*, ABB ABL Limited (ABB), Durgapur was to carry out onshore supply and erection activities of boilers at a cost of Rs.259.29 crore. The Company did not incorporate suitable clause in the contract for claiming refund of ED in terms of EXIM policy as discussed in paragraph 2.1.18 *supra*. As a result, the Company did not get ED refund of Rs.19.58 crore on the supplies made by ABB. Thus, the failure to incorporate suitable clause in the contract resulted in loss of Rs.19.58 crore.

The Management stated (September 2007) that even if ABB might be eligible to claim the ED, but it was not necessary that the refund of ED should have been passed on to the Company. The reply is not tenable, since as per EXIM policy, the capital equipments for power projects were eligible for refund of ED. Further, the fact remains that the Company failed to incorporate a suitable clause in the contract.

Shifting of offshore equipments to onshore supply contract

2.1.20 The contract awarded (March 2000) to EGAG included offshore supply of materials worth Rs.47.20 crore [23.49 million Deutschmark, (DM)]. As per terms of contract, the Company was to pay 22 *per cent* customs duty on the offshore supplies. At the instance of EGAG, the Company agreed (March 2000) for the arrangement made by EGAG for shifting some of the supplies *viz.* bore piping, valves etc. worth Rs.11.10 crore to ABB, Durgapur on which Rs.2.44 crore was payable as customs duty at the rate of 22 *per cent* as per the terms of contract. After this arrangement, the Company's liability for payment of customs duty on the supplies of Rs.11.10 crore (raw material Rs.7.27 crore *plus* bought out items Rs.3.83 crore) was reduced from Rs.2.44 crore to Rs.1.71 crore[*] due to reduced rate of customs duty applicable on raw material supplies. Disregarding this arrangement, the Company made the payment of custom duty of Rs.2.44 crore to EGAG. This resulted in excess payment of Rs.73 lakh (Rs.2.44 crore *less* Rs.1.71 crore).

The Management accepted (September 2007) the audit contentions and stated that the matter was being taken up with EGAG for effecting recovery of the customs duty.

[*] (Raw material supplies of Rs.7.27 crore at the reduced customs duty rate of 12 *per cent*) *plus* (Bought out items of Rs.3.83 crore at the customs duty rate of 22 *per cent*) = Rs.1.71 crore.

Deficient evaluation of bids of material handling system

2.1.21 The Company received (September 2001) five technically qualified bids for manufacture and commissioning of lignite and lime handling system. As per the State Government notification (December 1998), while evaluating the bids, the Company should unload the element of Gujarat Sales Tax (GST) from the end cost price quoted by the Gujarat based firms. Despite this, the Company took more than eight months (October 2001 to May 2002) in evaluating the bids on the plea of seeking clarification from the State Government about the applicability of notification. The Company evaluated TRF Limited, Jamshedpur, (TRF) as L1 after receipt (May 2002) of the confirmation on the applicability of the notification and awarded (July 2002) the contract to it at a cost of Rs.75.01 crore. Aggrieved by the award of contract to TRF, the L2$^{\oplus}$ firm (Rs.75.28 crore), challenged (July 2002) the evaluation of bids made by the Company in Court. The High Court directed (September 2002) the Company to re-evaluate the bids. The Company re-evaluated the bids (June 2003) and declared the re-evaluated price of TRF as Rs.74.74 crore against Rs.75.01 crore awarded earlier and L2 as Rs.79.03 crore against Rs.75.28 crore evaluated earlier. Though the bids received contained deviations with respect to tender specifications, the Company failed to evaluate these deviations critically in the original evaluation which led to litigation for a period of 10 months (September 2002 to June 2003). Thus, deficiency in evaluation resulted in avoidable delay of 18 months. On account of re-evaluation, excess payment of Rs.0.27 crore (Rs.75.01 crore less Rs.74.74 crore) was prevented.

The Management stated (September 2007) that though the Company had to re-evaluate the bids at the directions of the High Court, the status of L1 bidder did not change even after re-evaluation. The reply does not absolve the Company for avoidable delay of 18 months in commissioning of the projects and weakness in evaluation:

- as per initial the difference between L1 and L2 was Rs.0.27 crore.
- as per re-evaluation, the difference between L1 and L2 increased to Rs.4.29 crore but the Company saved Rs.0.27 crore as L1 bid was reduced.

Award of work to an ineligible bidder

2.1.22 The Company invited tenders (November 2000) for award of contract for design and construction of two Chimneys. Of the six bids received (November 2000), the Company selected Vishwakarma Projects (I) Pvt. Limited, New Delhi (VPPL), being L1, disregarding the fact that VPPL did not have adequate experience in execution of similar works and also that it had not furnished proper solvency certificate, as stipulated in the tender. The Company also did not assess the financial capacity of VPPL. The Company awarded (April 2001) the work for Rs.2.93 crore completion by August 2002. VPPL executed the work costing Rs.73.31 lakh (25 *per cent* of work) till January 2003 and abandoned it due to its poor financial condition. This led to a loss of Rs.1.28 crore as discussed below:

Award of work to ineligible bidder resulted in financial loss of Rs.1.28 crore.

$^{\oplus}$ Elecon Engineering Company Limited, Vallabh Vidyanagar.

- The Company paid Rs.99.59 lakh up to January 2003 against the actual value of work executed amounting to Rs.73.31 lakh. This resulted in excess payment of Rs.26.28 lakh. The reasons for excess payment were not available on records.

- As per terms of contract, the requirement of cement and steel was 1,561.60 MT and 271 MT respectively which was to be supplied free of cost. Against this, the Company issued (April 2001 to January 2003) 1,902.20 MT cement and 392.26 MT steel to VPPL for 25 *per cent* of completed civil work. For this work, 940.60 MT cement and 142.21 MT steel was required to be issued as per contract. Reasons for excess issue of cement and steel were not on record. The Company had not recovered the cost of 961.60 MT of cement (Rs.28.85 lakh) and steel 250.05 MT (Rs.56.45 lakh) issued in excess of the requirement.

- The Company did not recover the liquidated damages (LD) of Rs.29.29 lakh from VPPL for delay in execution of work.

- The incomplete work worth Rs.2.20 crore was awarded (October 2003) to Bygging India Limited, Mumbai at a cost of Rs.2.23 crore. The work was completed on 4 August 2005 (1st chimney) and 25 March 2006 (2nd chimney). The Company had made payment of Rs.2.21 crore and final bill on account of extra works amounting to Rs.14.32 lakh was pending.

Thus, the Company suffered loss of Rs.1.28 crore (after adjusting firm's security deposit: Rs.10.54 lakh and retention money: Rs.5.23 lakh) due to award of work to technically and financially incompetent firm.

The Management stated (September 2007) that the work was awarded as per norms since VPPL had an experience of executing two such similar works in the past, as VPPL executed work worth Rs.1.04 crore against which the Company had made payment of Rs.82.68 lakh and withheld an amount of Rs.4.67 lakh. The reply is not tenable, since against the norms of experience in execution of three such works, VPPL had completed only two works in the past. No reason was given for not obtaining proper solvency certificate. The work executed by VPPL was Rs.73.31 lakh and not Rs.82.68 lakh. The reply was silent on recovery of excess cement (Rs.28.85 lakh) and steel (Rs.56.45 lakh) issued to the firm.

Incorrect evaluation of bids for air compressor system

2.1.23 The Company invited (November 2002) tender for award of contract for supply and erection of air compressor system. Of the three bids received (January 2003), two were technically qualified. Whereas Elgi, Mumbai quoted Rs.3.88 crore Atlas Copco, Pune quoted Rs.3.96 crore. The Company, while evaluating the technical bids, did not consider the aspect of recurring cost of electricity consumption for running the system. The energy consumption required for the system offered by Elgi was higher by 270 kwh compared to the system offered by Atlas. Accordingly, the system offered by Atlas would give an annual saving of Rs.62.99 lakh. The Company, however, awarded

(December 2003) the contract to Elgi being L1. This would result in an extra consumption of 58.32 MUs of power worth Rs.15.75 crore[⊗] over a period of 25 years of serviceable life of the system.

The Management stated (September 2007) that the power consumption indicated by Elgi was 315 kwh against 308.7 kwh of Atlas. As such the power consumption of system offered by Elgi was higher by 6.3 kwh against 270 kwh cited in audit. Thus, the saving in power consumption was minimal. Further, the tender did not specify for assessing any saving of power consumption in evaluation of bids. The reply is not correct as Audit had adopted the saving of 270 kwh based on the assessment made by the Company's consultant. Further, non-stipulation of criteria of power consumption in the NIT specifications as well as in the evaluation is indicative that due care was not given to these aspects by the Company.

Construction of switchyard

Infructuous expenditure of Rs.80.44 lakh was incurred on purchase of defective washing equipment.

2.1.24 The Company invited (July 2001) tender for supply and erection of 245KV switchyard. Of the ten bids received (September 2001), the bids of four firms were not technically qualified. Despite this, the Company awarded (March 2002) the work at a cost of Rs.9.87 crore to a technically disqualified firm, Crompton Greaves Limited, Chennai (CGL). CGL completed supply and commissioning of the switchyard in June 2005 against the stipulated period of December 2002. The Company, however, did not recover LD of Rs.98.78 lakh (as discussed in paragraph 2.1.29 *infra*). Further, of the supplied items, live line washing equipment meant for cleaning the switchyard costing Rs.80.44 lakh was defective. As per terms of the contract, the defect in the equipment was to be rectified by the supplier within 12 months from the date of commissioning (May 2006) of switchyard. The Company, however, did not intimate (March 2007) CGL for rectification of the defects. On the contrary, the Company awarded (March 2006) annual maintenance contract for cleaning the switchyard to Yashmun Engineers Limited, Mumbai and incurred an expenditure of Rs.4.13 lakh till March 2007. Thus, not only the investment of Rs.80.44 lakh made in purchase of defective washing equipment remained infructuous but the Company also incurred an avoidable expenditure of Rs.4.13 lakh on maintenance of the washing equipment.

The Management stated (September 2007) that CGL was initially declared disqualified as its offer was not supported by valid documents. Subsequently, CGL submitted the documents and became technically qualified. Due to the Company's delay in construction of structure foundation, control room etc. CGL was unable to complete its work in time. Hence, the Company did not recover LD. The nozzles of washing equipment were damaged due to operational mistake. Further, cleaning the switchyard was risky job and needed trained manpower, so maintenance contract was given to Yashmun Engineers Limited. The reply is not tenable as, as per codal provisions non-conformity to NIT terms and condition results in disqualification. Further, the Company neither gave reasons nor documents in support of their stand that

[⊗] 58.32 MUs at the levellised tariff rate of Rs.2.70 per unit as given in DPR.

delays were not attributable to CGL. As the washing equipment purchased remained idle, the purpose for which it was purchased was defeated.

Execution of contracts

Avoidable payment of extra claims

Extra expenditure of Rs.34.24 crore was incurred towards payment of compensation.

2.1.25 The Company incurred extra expenditure of Rs.34.24 crore due to deficient handling of contract as discussed below:

- Under the contract awarded (April 2000) for supply and erection of steam turbine and generators, AEI[∇], could not complete the erection work within the stipulated period (November 2003), as the Company had not provided the front (site for work) for taking up the erection work. AEI completed (December 2005) the erection work after a delay of 25 months. Thus, failure of the Company to provide the front in time resulted in payment (November 2005 to February 2007) of compensation of Rs.18.61 crore to AEI for various costs such as insurance, bank guarantee, interest, equipment's maintenance costs, *etc* incurred by AEI during the delay period, as per terms of contract.

- Under the contract awarded (March 2000) for supply and erection of boilers, EVT-GEC Alstom, Germany (EGAG) was unable to complete the erection work within the stipulated period (June 2003), as the Company failed to ensure the completion of allied works, such as, material handling system, ash handling system and sea water circulating system for taking up the erection work of boilers. EGAG completed (February 2006) the erection work with a delay of 32 months. This resulted in avoidable payment of compensation of Rs.15.63 crore (September 2005 to August 2006) to EGAG for various cost *viz.* insurance, bank guarantee, interest and equipments maintenance costs *etc*.

The Management stated (September 2007) that material handling system was to be kept ready prior to commissioning of generators and boilers. Due to litigation, the contract for material handling system was awarded belatedly. It had caused further delay on the works executed by AEI and EGAG. Hence, the Company paid the compensation as per terms of contract. The reply is not tenable, as the deficient evaluation of bids had caused the avoidable delay in award of contract for material handling system as discussed in paragraph 2.1.21 *supra.*

Extra payment for exchange variation on onshore supplies

2.1.26 As per contract awarded to EGAG, the onshore supply of equipments for boiler units costing Rs.226.37 crore were to be supplied by ABB ABL Limited, Durgapur (ABB). The contract price included imported materials worth Rs.34.06 crore. As per contract, the Company was not to reimburse any cost incurred by ABB due to fluctuations in foreign exchange rate on the imported materials. Disregarding the terms, the Company reimbursed

[∇] Ansaldo Energia, Italy

Irregular payment of Rs.7.06 crore was made on account of exchange rate variations.

(February 2002 to August 2006) Rs.7.06 crore on account of exchange rate variation on the imported materials at the instance (December 2001) of EGAG.

The Management stated (September 2007) that as per the work order issued, any variation in exchange rates and customs duty should be borne by the Company. The reply is not correct as the terms of onshore supply contract clearly stated that the contractor was not eligible to claim for fluctuations in foreign exchange rate on the raw materials imported.

Payment of training costs without training of personnel

2.1.27 As per terms of contract awarded to EGAG, training was to be given to the Company's personnel at the place of EGAG *i.e* in Germany. Though the value of contract included the cost (Rs.1.53 crore) of training, the Company neither sent its personnel for training nor deducted the amount of Rs.1.53 crore from the payments made to EGAG (May 2007).

The Management stated (September 2007) that the Company had to incur more expenses on the traveling and living allowance for training its personnel abroad. Hence, it had organised the training in the power station itself and EGAG imparted the training. The reply is not tenable, as the training programme mentioned in the contract at the premises of EGAG was over and above the training organised at power station.

Non-recovery of service tax

2.1.28 Contract entered with EGAG stipulated that EGAG was liable to pay all non-Indian as well as Indian taxes, duties and levies. As the work of rendering expatriate supervision of the erection activities was performed in India under the contract, it was subject to levy of service tax from 14 May 2003 at the rate of eight *per cent* and at 10.2 *per cent* from 10 September 2004. The Company, however, did not deduct the applicable service tax of Rs.60.02 lakh on the payments of Rs.6.35 crore made (May 2003 to August 2005) to EGAG.

The Management stated (September 2007) that EGAG was not responsible for payment of any duties, octroi and works tax, if levied, and the Company should be solely responsible for all taxes and duties that may be levied. The Company's contention is not correct. As per the contract for design, engineering and expatriate supervision services, the contractor should be solely responsible for all taxes that may be levied in India on the contractors engineering and supervision services.

Non-recovery of liquidated damages

Liquidated damages of Rs.6.76 crore were not recovered even after lapse of 15 to 24 months since synchronisation of units.

2.1.29 The general terms and conditions of work and supply orders awarded to various contractors for design, supply, erection and commissioning of various equipments and machineries stipulated for recovery of liquidated damages (LD) for the delay attributable to the contractors at the rate of half *per cent* of the lump sum contract price per week subject to a ceiling of 10 *per* *cent* of the lump sum contract price. The Company decided (June 2003) to recover LD wherever applicable, only after commissioning of the Units of the project. Though, Unit-I and II were synchronised on 31 March 2005 and 19 December 2005 respectively, the Company did not recover (March 2007) LD of Rs.6.76 crore even after lapse of 15 to 24 months in the following cases:

Name of work	Name of contractor	Contract value (Rupees in lakh)	Month of completion		Period of delay (in months)	LD not recovered (Rupees in lakh)
			Scheduled	Actual		
245 KV switchyard	Crompton Greaves Limited, Chennai	987.77	December 2002	June 2005	30	98.78
14000 M3/hr concrete volute pumps and auxiliaries	Kirloskar Brothers Limited, Pune	2,957.06	March 2003	December 2005	33	295.70
Ash handling Systems	Mcnally Bharat Engineering Company Limited, Kolkata	1,419.00	July 2004	October 2005	15	141.90
Control and Instrumentation package	ABB ABL Limited, Bangalore	1,397.34	April 2004	March 2007	35	139.73
Total						**676.11**

The Management stated (September 2007) that the LD would be recovered wherever the delays were solely attributable to the contractors at the time of contract closure. The reply is not tenable as the contracts were physically completed prior to synchronisation of the Units and LD amounting to Rs.6.76 crore should have been recovered.

Undue favour to contractors

2.1.30 The Company placed (November 2000 to August 2005) orders for purchase of 66,000 MT of cement on two firms* for use in civil construction work of the project. The purchase price of cement per MT ranged from Rs.2,300 to Rs.2,640. These prices included sales tax at the rate of 15 *per cent* for the supplies made up to 31 March 2002 and eight *per cent* thereafter along with 10 *per cent* surcharge. The firms were exempted from payment of sales tax for the goods manufactured by them, as per State Government notifications (5 March 1992 and 19 July 1996). Though, the sales invoices of the firms indicated the sales tax exemption, the Company erroneously paid the price ranging from Rs.2,300 per MT to Rs.2,640 per MT without deducting the element of sales tax. As a result, the Company incurred avoidable extra expenditure of Rs.1.49 crore on purchase of 55,847.67 MT of cement supplied during November 2000 to August 2005.

The Company incurred avoidable extra expenditure of Rs.1.49 crore due to payment of sales tax not applicable.

The Management stated (September 2007) that the suppliers quoted that the benefit of sales tax exemption receivable by them would be passed on to the Company. Hence, the Company made the payment as per invoice raised by them. But the fact remains that the Company had not, so far, initiated any action to recover the sales tax exemption availed by the suppliers as indicated in the invoices.

* Gujarat Ambuja Cements Limited, Ahmedabad and Larson & Toubro Cements Limited Ahmedabad.

Project commissioning

Loss of revenue due to delay in commissioning

Belated commissioning of units led to generation loss of 3,274.799 MUs valued Rs.884.20 crore

2.1.31 The Company had targeted Unit-I to be commissioned on 30 November 2003 and Unit-II on 31 May 2004. Due to various reasons as discussed in paragraphs 2.1.21, 2.1.22, 2.1.24 and 2.1.29 *supra*. Unit-I was commissioned on 12 March 2007 and II on 1 May 2006 with delay of 39 and 23 months respectively. Considering 68.50 *per cent* plant load factor (PLF) on installed capacity and 10 *per cent* of total generation for auxiliary consumption as given in DPR, the Company suffered generation loss of 3,274.799 MUs resulting in consequential loss of potential revenue of Rs.884.20 crore.

The Management, while accepting the audit contention, stated (September 2007) that the plant was in initial operation/stabilisation stage as it was not possible for it to achieve the envisaged PLF and auxiliary consumption as given in DPR.

Non-conducting of performance guarantee test

Disregarding the terms of contract, SD of Rs.4.11 crore and RM of Rs.23.49 crore were prematurely released to the contractors.

2.1.32 As per terms of contracts for supply of plant and equipments, the Company had to conduct performance guarantee (PG) test of plants and equipments within two months from commissioning of Unit to determine the compliance of equipments to the performance parameters. In case of non-compliance, the contractors had to take corrective measures at their cost for the successful completion of PG test. The Company did not conduct PG test for any plant and equipments including most important items like boilers, steam turbine and generators though tests were due on 12 May 2007 for Unit-I and on 1 July 2006 for Unit-II. The Company prematurely released (February-April 2007) security deposit (SD) Rs.4.11 crore and retention money (RM) Rs.23.49 crore out of Rs.31.59 crore to the contractors before conducting PG test as per terms of contract in the following cases which tantamount to passing of undue benefit to the contractors:

- The Company at the request (October 2006) of AEI, released (February-April 2007) RM of Rs.20.90 crore out of Rs.27.88 crore even though the PG tests on the turbine and generators were not carried out (May 2007).

- In the contract awarded (April 2002) for the work of supply and erection of sea water treatment plant system, the Company carried out (October and December 2005) PG test partially. PG test for the plant *i.e.* auxiliary boiler which has strategic importance to the system was not carried out (May 2007). The Company released (May 2005) full amount of SD of Rs.4.11 crore and RM of Rs.2.59 crore out of Rs.3.71 crore to contractor VA Tech WABAG, Chennai.

The Management stated (September 2007) that it would shortly conduct the PG test of turbine and generators of Unit-I. The PG test of auxiliary boiler was conducted in June 2007. As the Company had the security of bank performance guarantee furnished by the contractors, the release of SD and RM was allowed to them on their request. The reply is not tenable, since as per the terms of contract, both SD and RM besides bank guarantee would be released only after conducting the PG test.

Non-conducting of performance guarantee test as per PPA

2.1.33 As per PPA with Gujarat Electricity Board (GEB), the Company should conduct PG test for each Unit within 180 days from the date of its commissioning. Accordingly, PG test for Unit-II was due on 27 October 2006. The Company, however, did not conduct the tests. The Company's records did not indicate the reasons for not conducting PG test within the stipulated time. Failure to conduct PG tests in violation of terms of PPA may jeopardise the Company's interest in ensuring the performance of the plant and equipments and coverage of warranty period.

The Management while accepting (September 2007) the audit contention stated that the Unit-II would be on annual shut down during August–September 2007, as such the PG test would be conducted thereafter. The reply is incomplete as it does not give any justifications for not conducting the PG test even after lapse of 488 days (August 2007) since the date of its commissioning.

Cost of generation

Cost and time overrun of project led to increase in per unit cost of generation from Rs.2.86 to Rs.5.28.

2.1.34 As per the cost audit report of the project for the year 2005-06, the cost of generation per unit of power was increased from Rs.2.86 as envisaged in DPR to Rs.5.28. It was observed that the high generation cost was due to cost overrun (Rs.78.71 crore) on account of delay in commissioning of the Units. The cost of generation also increased due to consumption of auxiliary power, secondary fuel in excess of the norms and low PLF as discussed below:

- As per DPR, the auxiliary consumption[ς] of the Units should be 10 *per cent* of the total power generated. Against this, the auxiliary consumption (2005-06 and 2006-07) was 34.53 and 22.70 *per cent* respectively as detailed below:

(in million units)

Particulars	2005-06	2006-07
Actual generation including auxiliary consumption	175.788	377.881
Actual auxiliary consumption	60.709	85.802
Percentage of auxiliary consumption	34.53	22.70
Normative auxiliary consumption *i.e.* 10 *per cent*	17.578	37.788
Excess auxiliary consumption over norms	43.131	48.014

(Source: Information compiled from records of the Company)

Excess auxiliary consumption led to loss of potential revenue of Rs.24.61 crore.

The excess auxiliary consumption of 91.145 MUs resulted in loss of potential revenue of Rs.24.61 crore[∂].

[ς] It is the power consumed by the plant and equipments of the power stations engaged in generation of electricity.

[∂] 91.145 MUs at the levellised tariff rate of Rs.2.70 per unit as given in DPR.

Excess consumption of furnace oil over the norms resulted in extra expenditure of Rs.13.96 crore.

- Unit-II was commissioned on 1 May 2006. As per PPA, the Unit was to consume secondary fuel *i.e.* furnace oil (FO) at the rate of 5 ml per Kwh during the stabilisation period (May 2006 to October 2006) and thereafter at the rate of 3.5 ml per Kwh. Thus the normative consumption of FO should have been 608.50 ml (May 2006 to October 2006) and 470.05 ml (November 2006 to March 2007). But the actual consumption of FO during the periods was 4,754.61 ml and 3,269.88 ml respectively. Thus, there was excess consumption of 6,945.93 ml of FO worth Rs.13.96 crore.

The excess auxiliary consumption of power and FO was due to frequent forced outages caused on account of blast in lignite feeder, burner failure and tripping of transmission lines. The Company, however, did not analyse the reasons for the excess auxiliary power consumption and secondary fuel consumptions for taking corrective measures.

The Management stated (September 2007) that the plant in initial operation/ stabilisation stage was running at low load with frequent starts and stops. As a result, the PLF was very low and consumption of secondary fuel *viz.* power and furnace oil was very high. The reply is not tenable, as the consumption of auxiliary power and furnace oil during initial operation/stabilisation stage was not in accordance with the norms prescribed in DPR and PPA.

Non-replacement of lignite feeders in boiler

2.1.35 Each Unit of the project has two lignite feeders (LF) in the boiler, of which one LF has to be kept as spare. After synchronisation of both Units, trial runs were carried out (March 2006). During trial run, one of the LFs in each Unit-I and II failed. As per warranty clause, the supplier *i.e*. EGAG was to rectify the failed feeders within seven days from the date of intimation to EGAG. Though, the Company intimated (March 2006), EGAG neither rectified the defect nor replaced the LFs. The Company also did not rectify the defects/replaced the LFs at the cost of EGAG as per provisions in the contract. As a result, both Units had been running without spare LFs from March 2006. During July 2006 to March 2007, whenever the working LFs faced technical problems, the Company was unable to meet the contingency in the absence of spare LFs. Consequently, the units were shutdown 20 times for duration ranging between 0.75 to 744 hours which resulted in potential generation loss of 402.25 MUs worth Rs.108.61 crore[∇] during the period.

The Management stated (September 2007) that one LF in each boiler was capable to meet the full load in a Unit. However, the fact remains that in the absence of spare LFs, the Company was unable to meet the contingencies. Further, the Company's failure to ensure for the rectification/replacement of defective LF has resulted in generation loss.

[∇] 402.25 MUs at the levellised tariff rate of Rs.2.70 per unit as given in DPR.

Avoidable payment of energy charges on start-up power

2.1.36 As per PPA, GEB was to provide necessary start-up power[⊗] for generating station since its synchronisation to commissioning. GEB was entitled to recover energy charges from the Company for the power supplied at the rate of 1.1 times of the highest of its power purchase price from other sources. Unit-I was synchronised on 31 March 2005, as such the power supplied by GEB for the start-up of the generating station was to be recovered as per the terms of PPA. GEB, however, levied the energy charges at the rate of Rupees four per unit against the applicable rate of Rs.2.78 (for 2005-06) and Rs.3.32 (2006-07) per unit. The Company, therefore, paid (April 2005 to June 2006) Rs.5.03 crore to GEB in excess.

The Management stated (September 2007) that payment of Rupees four per unit was made as per the discussion (June 2006) between the Chairman of the Company and Gujarat Urja Vikas Nigam Limited (GUVNL-erstwhile GEB). The reply is not tenable, as no amendment was made in the PPA based on the meeting of the Chairman. Thus, the fact remains that the payment of Rupees four per unit was in violation of the terms of PPA.

Non-realisation of energy charges from GEB

2.1.37 As per terms of PPA, GEB was to open letter of credit (LC) in favour of the Company for an amount equivalent to the estimated monthly tariff payments. GEB did not open any LC. During April 2005 to March 2007, the Company issued monthly invoices of Rs.323.39 crore to GEB for supply of 477.97 MUs of power. Against this, GEB paid Rs.38.72 crore and the balance amount of Rs.284.67 crore remained outstanding (October 2007). The Company did not levy delayed payment surcharge of Rs.22.89 crore on the unpaid dues.

The Management stated (September 2007) that GEB/GUVNL had opened an Escrow account which was a security for the Company. The date of commercial operation of Unit-I declared on 1 January 2006 by the Company was not accepted by GUVNL. Finally, as agreed with GUVNL, 12 March 2007 was adopted as date of commercial operation of Unit-I. In view of this change of date, there was no overdue amount from GUVNL towards energy charges. The reply lacks clarity as it did not explain as to how the change in the date of commercial operation of Unit-I, could set off the dues of Rs.284.67 crore without actual realisation.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the Management at various stages of conducting the performance audit.

[⊗] Power supply initially required to start the operation of power station after erection of plants and equipments.

Conclusion

The Company had commissioned both Units of the project with delay ranging between 23 to 39 months. Main reasons were delay in arranging finance from banks and delay in award and execution of contracts. Consequently there was increase in project cost as well as cost of generation. No performance guarantee tests were conducted as stipulated in the agreement. The Company's performance in implementation of the project was deficient due to improper management of funds/contracts including various lacunae in the contract, excess payments/premature release of deposits to contractors and non-recovery of liquidated damages from the contractors. Further, the Company instead of filling the sanctioned posts and imparting training to the existing personnel of the project awarded operation and maintenance contracts to outside agencies for running the Units. Non-insistence for compliance of agreement with GEB/GUVNL had resulted in accumulation of revenue dues from them.

Recommendations

- **The Company should redefine its finance functions relating to drawal and repayment of loans.**
- **The Company should conduct the performance guarantee tests of all the plant and equipments and also the power station Unit of a project for quality assurance.**
- **The Company should adopt efficient and effective commercial practices in contract management for avoiding delays in contract execution, recovery of liquidated damages, verifying payments before release.**
- **The Company should analyse the reasons for excess auxiliary consumption of power/furnace oil and take corrective measures.**
- **The Company should settle all the issues relating to billing of energy sold and recovery of dues as per terms of PPA.**
- **The Company should arrange for imparting training to the personnel of the project as per National Policy for Power Sector of June 2002 and it should run the Units on its own instead of outsourcing operation and maintenance of the plant.**

The matter was reported to the Government in August 2007; the reply had not been received (November 2007).

Gujarat State Handloom and Handicrafts Development Corporation Limited

2.2 Trading Activities and Implementation of Welfare Schemes for Weavers and Artisans

Highlights

The Company had implemented (2001-06) 19 schemes and utilised Rs.13.19 crore (53.77 *per cent*) against available funds of Rs.24.53 crore indicating its failure to fully utilise the funds for the benefit of artisans and weavers.

(*Paragraph 2.2.15)*

Of the 22 to 26 emporia, two to nine emporia did not achieve (2003-07) even the 50 *per cent* of the target fixed. Nine to seventeen emporia incurred (2001-06) losses of Rs.3.03 crore and the Company had restarted the six closed and unviable emporia during 2001-05.

(*Paragraphs 2.2.8, 2.2.10 and 2.2.12)*

The performance of Scheme for Tool kits Distribution to the earthquake affected artisans/weavers was unsatisfactory. Delays in distribution of tool kits to artisans/weavers ranged between one to three years. Supply of looms were not as per specification.

(*Paragraphs 2.2.17 and 2.2.18)*

Deficiencies such as non-maintenance of separate books of accounts, bank accounts, failure to review the progress of the scheme on quarterly basis were noticed in the implementation of Revolving Fund Scheme. Achievement (2001-06) in generation of mandays employment was 7.92 to 18.35 *per cent* and payment of wages to the artisans was 4.57 to 25.50 *per cent* against the target fixed.

(*Paragraph 2.2.20)*

Of the 323 exhibitions organised (2001-06), 85 exhibitions were held within the premises of its emporia, defeating the very objective of Exhibition Scheme meant for exploring new markets at various places for promoting sales of handicraft products.

(*Paragraph 2.2.21)*

Against the targeted coverage (2001-06) of 783 artisans under Handicrafts Exhibition Scheme and 1,425 artisans under Tribal Mela Scheme, the Company had covered only 49 (6.26 *per cent*) and 318 (22.32 *per cent*) artisans respectively.

(*Paragraphs 2.2.21 and 2.2.22)*

Internal control system was marred by the inadequate internal audit, inadequate control on issue of raw materials to artisans, delayed payments to artisans and misreporting to the State Government.

(*Paragraphs 2.2.26 to 2.2.29)*

Introduction

2.2.1 Prior to June 2002, there were two Government Companies *viz.*, Gujarat State Handloom Development Corporation Limited and Gujarat State Handicrafts Development Corporation Limited dealing separately with handloom and handicraft products and to protect the interest of the weavers and artisans respectively. Both these Companies were amalgamated (20 June 2002) for improving the trading activities of both the products and implementing the welfare schemes efficiently for artisans and weavers of the State. The amalgamated company was named as Gujarat State Handloom and Handicrafts Development Corporation Limited. The main objective of the Company is to procure and sell all kinds of handicrafts and handloom products of Gujarat thereby protect and promote the interest of artisans and weavers of the State.

During 2002-07, the Company had 22 to 28 emporia spread over nine[*] States including 14 to 18 in Gujarat. It had four[#] procurement centres for purchase of handicrafts products and five[$] production centres for production of handloom products.

The Management of the Company is vested in a Board of Directors (BOD) consisting of Chairman, Managing Director (MD) and six official directors. The MD is the chief executive who is assisted by a Company Secretary cum Financial Controller, six Managers/Deputy Managers/Assistant Managers.

Scope of Audit

2.2.2 The present performance review conducted during December 2006 to April 2007 covers the trading activities and implementation of schemes for artisans and weavers. Audit findings are based on the test check of records mainly for the period 2001-06[^] of head office and 12 unit offices *i.e.* (8[∇] out of 28 emporia, two[∅] out of five production centres and two[⊗] out of four

---

[*] Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharastra, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

[#] Bhuj, Patan, Sankheda and Vadaj.

[$] Dholka, Khambhat, Palanpur, Patan and Surendranagar.

[^] Data for 2006-07 was under compilation by the Company and wherever available, the data has been included in the review.

[∇] Ahmedabad (Ambavadi, Ashram road), Vadodara, Bhuj, Gandhinagar, New Delhi, Palanpur, and Surendranagar.

[∅] Palanpur and Surendranagar.

[⊗] Bhuj and Vadaj.

procurement centres) selected on the basis of turnover, 9[∨] out of 20 schemes (including revolving fund) selected on the basis of sufficient financial implication and advance stage of implementation.

Audit objectives

2.2.3 Audit was conducted with a view to ascertain whether:

- the Company was able to promote handloom and handicrafts activities in the State and protect the interest of the weavers and artisans;
- the Company had carried out its trading activities as per its business plan and implemented the schemes in conformity with the objectives, policies and guidelines framed for the schemes;
- emporia were working efficiently and had achieved its objectives;
- the procurement of handicrafts and handloom products had been done in economic and effective manner;
- grants were utilised for the purpose for which these were sanctioned; and
- the Company had devised internal control system to monitor its trading activities and effective implementation of schemes.

Audit criteria

2.2.4 The following audit criteria were adopted:

- business plan for taking up various activities including targets fixed for trading activities;
- the Company's sales policy;
- scheme guidelines, terms and conditions of sanctions, targets and annual action plan for implementation of schemes;
- the objective of State Government for amalgamation of the two separate Companies and extent of its achievement; and
- agenda and minutes of the meetings of BOD/ other Committees and instructions issued by the Management.

Audit methodology

2.2.5 Audit adopted a mix of the following methodologies:

∨ GOI Schemes: Handloom-Tool Kits distribution-Earthquake and Handicraft-Tool Kits distribution-Earthquake. State Government Schemes: Handicraft-Tool Kits distribution-Earthquake, Handloom-Tool Kits distribution-Earthquake, Handicraft-Exhibition Scheme, Handloom-Exhibition Scheme, Intensive Handloom Development Project and Tribal Area Sub Plan scheme for Tribal Mela.

- review of agenda and minutes of meetings of the BOD and other Committees, instructions issued by head office to field offices, procurement of raw material and its issuance to artisans and weavers, promoting sale, controlling operational expenditure of units *etc*;
- review of Government directions, scheme guidelines, terms and conditions of sanctions;
- review of amalgamation documents and progress reports on implementation of schemes; and
- issue of audit queries and interaction with the Management.

Audit findings

2.2.6 The audit findings were reported (July 2007) to the Government/ Management and discussed at the meeting (12 October 2007) of the Audit Review Committee for State Public Sector Enterprises (ARCPSE), which was attended by the Secretary to Government of Gujarat (Cottage and Rural Industries), Industries and Mines Department and MD of the Company. The views of the Government and the Management were taken into account while finalising the review.

The Audit findings are discussed in the succeeding paragraphs.

Planning

2.2.7 For effective implementation of the schemes for welfare of artisans/weavers in the State, it was necessary to identify the beneficiaries through proper surveys, prepare efficient plans for deployment of available funds, mobilisation of adequate manpower and their reorientation to meet the objectives of the schemes. Scrutiny of records revealed that the Company neither conducted any survey nor compiled any data on targeted artisan/weavers in the State in terms of village/district wise dispersion of artisan/weavers. In the absence of such database, the Company could not fix physical and financial targets so as to cover the entire eligible artisans/weavers in phased manner. Thus, planning of Company in terms of identification and coverage was inadequate.

Trading activities

Target and achievement

2.2.8 The main trading activities of the Company consisted of procurement of handicraft items produced by the artisans in the State and production of handloom items through issue of raw materials to the weavers. The items so obtained are sold by the Company through its emporia, exhibitions and franchisees. During 2001-06, the Company’s production, procurement from artisans, purchase from traders and sale was of the value of Rs.6.20 crore, Rs.2.43 crore, Rs.14.11 crore and Rs.40.42 crore respectively. The emporia-wise details (2002-07) regarding sale target and achievement are given in ***Annexure*-8** which reveal the following:

- In handloom division, during 2002-03, against the target of Rs.4.30 crore, the Company achieved sales of Rs.2.59 crore (60.16 *per cent*); out of 21[∇] emporia, only one emporium (Vadodara-Mandvi) could achieve the sale target and the performance of eight emporia was below 50 *per cent* of the sale targets. In the handicrafts division, no targets were fixed in 2002-03.

- After amalgamation (June 2002), the Company fixed overall targets and separate targets for handicrafts and handloom divisions were not fixed from 2003-04.

- The Company achieved (2003-07) sale of Rs.33.14 crore (77.39 *per cent*) against the target of Rs.42.82 crore. During 2003-04, none of the emporia achieved sales target. Whereas, during 2004-07, only 3 to 10[#] out of 22 to 26 emporia achieved the sales target and the achievement in the remaining 12 to 23[⊗] emporia ranged between 4.63 and 98.23 *per cent* out of which, achievement of two to nine emporia was below 50 *per cent* of the sales targets.

During 2003-07, two to nine emporia achieved less than 50 *per cent* of the sales targets.

The Management/Government while accepting the fact of non-achievement of targets stated (August/November 2007) that division wise targets will be fixed from the next year.

Pricing of products

2.2.9 During 2002-07, the Company added 10 to 80 *per cent* of the basic procurement/production cost of handicrafts and handloom products as mark-up[$] for fixing the selling prices. The Company decided the percentage of mark-up for different products on *adhoc basis* as it did not have any policy defining the rationale for determination of mark-up. The justification for the mark-up could not be ascertained in the absence of any defined policy for such fixation.

The Management while accepting the fact stated (August 2007) that it had different mark-up for different items within/outside the State and considering commercial angle, the BOD had authorised (March 2007) the MD to revise the mark up as and when required. The fact, however, remains that there is no comprehensive mark-up policy defining all the parameters and methodology for fixation of sales price.

∇ Ashram Road, Ahwa, Ambaji, Ambawadi, Anand, Bharuch, Bhuj, Gandhinagar, Himatnagar, Jaipur, Kanpur, Khambhatt, Kolkata, Palanpur, Petlad, Rajkot, Shamlaji, Surat, Surendranagar, Vadodara and Vadodara Mandvi.

\# Ambawadi, Ashram Road, Bangalore, Bharuch, Delhi, Hyderabad, Kolkata, Mumbai, Surat and Vadodara.

⊗ Ahwa, Ambaji, Ambawadi, Amreli, Anand, Ashram Road, Bangalore, Bhuj, Delhi, Gandhinagar, Hyderabad, Jaipur, Kanpur, Khamabatt, Kolkata, Lucknow, Mumbai, Palanpur, Rajkot, Shamlaji, Surat, Surendranagar and Vadodara.

$ Consist of estimated overhead cost and profit margin to arrive at selling price.

Monitoring of sales

2.2.10 The Company's head office failed to implement its own decision (October 2003) to compile and monitor periodical emporia sales. Consequently, the performance of emporia was not reviewed by the Company so as to take suitable action for improving their sales.

Reopening of unviable emporia

Reopening of six unviable emporia resulted in loss of Rs.4.93 lakh during 2005-06.

2.2.11 The Company closed (2001-05) six^ emporia due to poor performance, but restarted these emporia without any justification on record. All the restarted emporia suffered losses aggregating Rs.4.93 lakh during 2005-06. The details for the year 2006-07 have not been compiled by the Company.

The Management/Government stated (August/October/November 2007) that emporia were restarted to utilise the services of available staff and to improve sales. Further, out of the six restarted emporia, four were again closed. The reply is not tenable because reopening of these emporia without analysing the reasons for loss and ensuring their viability only increased the loss of the Company.

Profitability of Emporia

2.2.12 The Company came into existence after merger in June 2002. The performance of the emporia (2001-06) was analysed by audit based on their sales, expenditure and profit earned/loss incurred by each emporium. It was noticed that after initial period of losses, the Company had improved its performance as it has made profit in 2005-06. The overall performance of the emporia is discussed below:

- The year wise (2001-06) details of profit making and loss incurring emporia are given below:

Year*	Profit making emporia		Loss incurring emporia		Net Profit or (-) Loss (Rupees in lakh)
	Number of Emporia	Profit (Rupees in lakh)	Number of Emporia	Loss (Rupees in lakh)	
2001-02	10	12.87	17	81.37	(-)68.50
2002-03	11	13.86	15	69.01	(-)55.15
2003-04	6	8.10	16	83.96	(-)75.86
2004-05	7	13.38	13	61.99	(-)48.61
2005-06	14	81.21	9	6.67	74.54
Total		**129.42**		**303.00**	**(-)173.58**

* Figures for 2006-07 are not compiled by the Company.

(Source: Information provided by the Company)

Nine to seventeen emporia incurred (2001-06) aggregate loss of Rs.3.03 crore.

During 2001-06, 6 to 14 emporia earned aggregate profit of Rs.1.29 crore, whereas nine to seventeen emporia incurred aggregate loss of Rs.3.03 crore. Except in 2005-06, overall contribution from emporia was negative and the net loss (2001-05) ranged between Rs.48.61 lakh and Rs.75.86 lakh.

^ Ambaji, Ahwa, Jaipur, Kanpur, Lucknow and Shamlaji.

- The year wise (2001-06) percentage of cost of operation to sales for profit making and loss incurring emporia are given below:

Year*	**Loss incurring emporia**		**Profit making emporia**	
	Maximum	**Minimum**	**Maximum**	**Minimum**
2001-02	93.70	27.20	24.97	12.40
2002-03	275.18	27.45	23.84	11.37
2003-04	364.82	30.34	24.47	1.30
2004-05	130.41	26.64	27.63	16.00
2005-06	94.34	30.38	20.63	8.21

* Figures for 2006-07 are not compiled by the Company.

(Source: Information provided by the Company)

The cost of operation to sales (2001-06) in respect of loss incurring emporia was 364.82 to 26.64 *per cent* whereas it was 27.63 to 1.30 *per cent* in respect of profit making emporia. This indicates that loss incurring emporia were making poor sales and incurring higher cost of operation. Audit analysis revealed that this was due to high employee cost which ranged between 13.25 and 338.89 *per cent* of sales, and administrative overheads which ranged between 1.45 and 91.20 *per cent* of sales.

The Management/Government stated (August/November 2007) that the number of loss incurring emporia was reduced from 17 to 9 during 2001-06. The fact is that the Company had not prepared any action plan to make all emporia self sufficient.

- While process of amalgamation of two[∀] Companies was in progress, the State Government engaged (October 2001) Institute of Rural Management, Anand (IRMA) for examining the feasibility of running both Companies after their amalgamation. As per IRMA report (October 2001) the new Company after amalgamation, would be viable only if it could achieve annual increase in sales by 25 *per cent*. Considering the amalgamated Company's sales of Rs.10.28 crore for the year 2001-02, it should have increased its sales to Rs.31.37 crore for the year 2006-07 as per the IRMA report. On the contrary, the actual sales decreased and the sales ranged between Rs.6.96 crore and Rs.10.54 crore per annum during 2002-07.

The Management stated (June 2007) that the sales projection made in the report of IRMA was unrealistic. The Company's contention of unrealistic report is not tenable, as the Company accepted (May 2003) all the recommendations of IRMA and based on this, it had availed (2003-05) the financial assistance of Rs.4.50 crore from the State Government and relieved 162 employees under Voluntary Retirement Scheme.

Non-achievement of objective to protect the interest of artisans/weavers

2.2.13 One of the objectives of the Company was to protect the interest of the artisans/ weavers. The Company devised a system of providing raw material to

[∀] Gujarat State Handloom Development Corporation Limited and Gujarat State Handicrafts Development Corporation Limited.

artisans/weavers living in villages of the interior areas and marketing their products through Company's emporia. This provided employment to the artisans/weavers and eliminated the middleman.

During 2001-06, the Company procured goods worth Rs.22.74 crore, of which goods worth Rs.14.11 crore (62 *per cent*) were purchased from traders. Thus, the Company failed to directly involve artisans/weavers or eliminate traders/middlemen.

The Management/Government stated (August/November 2007) that the purchases made from traders were in turn generating employment for the artisans/ weavers since the goods were originally procured from them. The reply is not tenable, as the system of purchasing goods from traders defeats the objective of the Company to provide direct employment to the artisans/weavers by eliminating the role of middleman.

Purchases for emporia

2.2.14 The Company's emporia place their requirements of handicrafts and handloom products on their head office. The Company had not prescribed any time limit within which the products requisitioned by emporia were to be procured and supplied. Records were also not maintained to ascertain the time gap between the requisition and receipt of goods by emporia.

Audit scrutiny of Bhuj procurement center revealed that placement of purchase orders for 181 products worth Rs.21.70 lakh were placed after a time gap ranging between 18 and 191 days after taking decision (2003-06) of procurement. Further, delays, if any, in delivery of the same to emporia could not be ascertained in the absence of records. In addition to above, the delivery of 112 products worth Rs.12.71 lakh was delayed for 62 and 252 days by the artisans to the emporia after approval of the head office of the Company. The Company was unable to show documentary evidence regarding reasons for delay. Thus, the delay caused in procurement also formed one of reasons for purchasing goods from traders by emporia.

The Management/Government stated (August/November 2007) that it was making payments to the artisans after a period of four to five months from the date of supply made by them. Hence, the artisans were unwilling to accept the purchase orders from the Company. The reply defeated the objective of the Company to promote and protect the interest of the artisans.

Implementation of Schemes

2.2.15 The Company received (2001-06) grant of Rs.17 crore under 19 schemes from the State Government/ GOI and loan of Rupees three crore under a revolving fund scheme as detailed below:

(Rupees in lakh)

Particulars of schemes	As on 1 April 2001	Receipt during 2001-06	Utilisation	Utilisation of grants as on 31 March 2006
Schemes funded by GOI				
Handloom-Tool Kits distribution-Earthquake	--	187.50	187.50	--
Handicraft-Tool Kits distribution-Earthquake	--	41.86	49.01	(-) 7.15
Schemes funded by State Government and Gujarat State Disaster Management Authority				
Handicraft-Tool Kits distribution-Earthquake	--	175.72	168.09	7.63
Handloom-Tool Kits distribution-Earthquake	--	288.52	288.52	--
Handicraft-Exhibition Scheme	--	61.25	61.25	--
Handloom-Exhibition Scheme	--	11.44	11.44	--
Tribal Area Sub Plan scheme for Tribal Mela	5.99	105.85	39.64	72.20
Intensive Handloom Development Project	282.68	301.50	262.54	321.64
Others(11^ Schemes)	463.84	526.58	250.69	739.73
Total	**752.51**	**1,700.22**	**1,318.68**	**1,134.05**
Revolving Fund (Earthquake) Loan	--	300	300	0.00

(Source: Information compiled from records of the Company)

The Company utilised Rs.13.19 crore out of Rs.24.53 crore received as grants during 2001-06.

It could be seen from the above table that out of available funds of Rs.24.53 crore (Rs.7.53 crore *plus* Rs.17 crore) against 19 schemes, the Company utilised (2001-06) only Rs.13.19 crore (53.75 *per cent*). Besides, revolving fund of Rupees three crore also remained under utilised as discussed in paragraph 2.2.16 *infra*. Thus, though funds were not a constraint yet the Company could not benefit the artisans and weavers. The implementation of various schemes is discussed below:

Tool kits distribution in earthquake affected areas

2.2.16 The GOI, State Government and Gujarat State Disaster Management Authority (GSDMA) had declared (March-October 2001) relief packages for providing tool kits to the artisans/weavers affected by the earthquake (January 2001). The State Government prescribed (March 2001) the procedure whereby weavers registered with the Company or co-operative societies eligible for assistance should submit their application to District Industries Centre (DIC). DIC forwards the application to Taluka Level Committee (TLC) which recommends the eligible applicant to the Commissioner of Cottage Industries (CCI). The Company at the instance of CCI was to procure and distribute tool kits to the eligible artisans/weavers. The Company was entitled to get 7.5 *per cent* service charge on the cost of tool kits purchased.

The relief packages declared by the GOI, State Government and GSDMA are given below:

- the State Government scheme (March 2001) provided for extending assistance of Rs.10,000/Rs.14,000 each in the form of tool kits to artisans and weavers.

^ Design and technical assistance under special component plan, Dindayal Hathkargha Protsahan Yojana, Implementation of integrated handloom training project, Leather training project, Raw material depot and design assistance under special component plan, Subsidy for all India handicraft week, Subsidy for cluster scheme, Subsidy for IND-18, Subsidy for printing of folder, Subsidy for woolen carpet training and Tribal handicraft artisan scheme for tribal areas.

- the GOI scheme (February 2001) provided for distribution of 2,500 looms to handloom weavers of Kachchh, Surendranagar and Jamnagar districts at the rate of Rs.7,000 per loom and working capital assistance of Rs.10,000 per weaver. Further, the scheme provided for distribution of 1,793 embroidery/ patch work tool kits and for hand block printing tools in Kachchh district.

- the GSDMA scheme (October 2001) provided for assistance of 10,000 handicrafts kits at the rate of Rs.4,000 per kit and 5,400 handloom kits at the rate of Rs.10,000 per loom for distribution among the earthquake affected artisans and weavers.

The Company's performance in procurement and distribution of tool kits of handicrafts and handloom are discussed below:

Distribution of handicrafts tool kit

2.2.17 During May 2001 to March 2005, Rs.2.18 crore were released (GOI: Rs.41.86 lakh, GSDMA: Rs.44 lakh and State Government: Rs.131.72 lakh) against which 12,899 tool kits of six crafts[#] were supplied to artisans up to May 2005 at a cost of Rs.2.17 crore. Various deficiencies were noticed in respect of these 12,899 tool kits such as delay/excess distribution of tool kits, *etc.* Some of the deficiencies noticed in Audit are discussed below:

Timely relief was not given to artisans due to delay in distribution of Hand Block Print tool kits.

- The State Government instructed (March 2001) the Company to procure 'Hand Block Print'[*] tool kits through invitation of tenders. The Company belatedly sought (September 2002) permission of the State Government for procuring tool kits without inviting tenders which was not agreed to (September 2003) by the State Government. Thus, the Company initiated (October 2003) procurement action after a delay of two and half years. Placement of purchase orders (March 2004) took further five months and tool kits were finally distributed (June 2004 to May 2005) after a gap of 39 to 50 months since the State Government directives (March 2001).The delay had deprived the artisans from getting timely relief. Further, ignoring the Government instructions, the Company did not incorporate any clause for recovery of penalty in the purchase orders in the event of delay in supply. As a result, liquidated damages of Rupees two lakh from the suppliers for supplies made beyond the stipulated period of 120 days were not recovered.

The Management/Government stated (August/November 2007) that delay occurred as the Company wanted to supply new design block which was rejected (June 2001) by the artisans. Hence, the Company sought (September 2002) permission from the State Government for procurement of traditional wooden blocks directly from the artisans without invitation of tender. The reply is not tenable as the Company was aware of the State Government

---

[#] Block Print (4), Embroidery (10,439), Hand Block Print (247), Leather Work (102), Tie and Dye (2,088) and Wood Carving (19).

[*] A manual printing process of cloth printing.

directive (March 2001) to procure the material through invitation of tender. Hence, seeking the permission again for the same resulted in avoidable delay after ascertainment of unsuitability of new design in June 2001. Further, the material was purchased from traders only and not from artisans.

- The Development Commissioner (Handicrafts), GOI released (May 2001) Rs.41.86 lakh for distribution of 1,793 embroidery tool kits to the beneficiaries. The Company distributed (May 2001 to February 2002) 3,700 tool kits valuing Rs.49.01 lakh on which service charge of Rs.3.68 lakh was receivable from the GOI. Reason for the excess distribution of tool kits by the Company without obtaining prior approval of GOI was not available on record. Further, the Company's net claim of Rs.10.83 lakh (Rs.49.01 lakh *less* Rs.41.86 lakh *plus* Rs.3.68 lakh) has not yet been lodged (March 2007) with the GOI. Consequently, the chances of recovery of Company's funds of Rs.10.83 lakh are remote.

The Management/Government while accepting the audit contention stated (August/November 2007) that it did not lodge the claim as sufficient funds from the State Government grant were available. The fact remains that the delay in lodging the claim led to lapse of GOI funds.

- The Company did not submit the details of employment generated to CCI as stipulated in the Scheme.

Distribution of handloom tool kit

2.2.18 Funds amounting to Rs.4.76 crore (GOI: Rs.1.87 crore, GSDMA: Rs.1.65 crore and State Government: Rs.1.24 crore) were released (May 2001 to March 2005) to the Company. The Company provided 3,418 looms (up to May 2004) to the beneficiaries at a cost of Rs.4.76 crore. Various deficiencies were noticed in respect of distribution of these 3,418 looms such as delayed distribution (437 looms), genuineness of distribution of looms not ascertainable (2,580 looms), distribution of looms not as per specification (2207 looms), *etc.* Some of the deficiencies noticed in Audit are discussed below:

- As per the prescribed procedure, DIC, TLC and CCI are involved in identification of beneficiaries under the scheme. The State Government directed the Company (January 2001) to associate themselves in survey of affected weavers. In violation of this, the Company started (March 2001) receiving applications directly from the weavers of Surendranagar district instead of asking them to submit applications to DIC. Hence, the State Government had to appoint a Committee (July 2002) especially for processing the applications received by the Company. The Committee finalised the list of beneficiaries and obtained approval (February 2003) of the State Government. The looms were distributed to the beneficiaries during July 2003 to May 2004. Audit observed that the Company's action of accepting applications directly from the weavers led to a delay of 15 months reckoned from November 2001, when the TLC approved the list of all other beneficiaries. The Company distributed 437 looms upto May 2004 *i.e.* after a delay of nearly 15 months even after the State Government's approval in February 2003.

The Management/Government stated (August/November 2007) that at the directions of the State Government, the Company undertook the survey of earthquake affected weavers of Surendranagar district. During survey, the Company accepted applications from the weavers seeking assistance for them. The reply is not tenable, since as per the Company's own contention, it was authorised to undertake survey only. Hence it should not have accepted the applications since there is a mechanism already in place for this purpose.

- GSDMA earmarked (October 2001) funds amounting to Rs.5.40 crore for providing 5,400 looms in the Kachchh, Surendranagar and Jamnagar districts of the State. Out of sanctioned amount of Rs.5.40 crore, the Company utilised (March 2006) only Rs.1.65 crore on providing 1,650 looms. Though there were 1,003 registered weavers with the Company in Surendranagar district, the remaining funds of Rs.3.75 crore were not obtained to provide looms to them.

The Management/Government stated (August/November 2007) that the State Government had given only the work of procurement and distribution of handloom. The reply is not tenable, as the Company being nodal agency for promoting handloom in the State should have created awareness among weavers about the benefits of the scheme with aim to fully utilise the funds earmarked for the purpose.

- The State Government directed (March 2001) that an individual weaver or co-operative society or weavers registered with the Company was eligible for assistance under the scheme. The Company, based on the list prepared by CCI, distributed (2001-04) 2,580 looms valued at Rs.3.61 crore in three[^] districts. As the Company did not have list of registered weavers in Kachchh, Rajkot and Jamnagar districts, genuineness of distribution of 2,580 looms (Rs.3.61 crore) in these districts could not be ascertained. After distribution of looms, the Company had not obtained feed back of employment generated.

The Management/Government stated (August/November 2007) that as per the guidelines, the role of the Company was confined to deliver the looms to beneficiaries as approved by DIC. The reply is not tenable, as the Company being engaged in development of handloom/handicrafts in the State, it could have brought the matter to the notice of the State Government for guidance.

- As per the standard terms of tender, the Company is entitled to levy inspection charges from the suppliers at the rate of half *per cent* on the value of goods purchased. The Company, based on the request received from suppliers, waived (September 2001) this tender condition on the purchase of handlooms without any justification. Thus, the waiver of

^ Jamnagar: 73 looms, Kachchh: 2,449 looms and Rajkot: 58 looms.

inspection charges had resulted in undue favour to the suppliers to the extent of Rs.2.38 lakh.

Looms distributed were not as per specification prescribed by CCI.

- The Company in anticipation of approval from CCI specified the width of 68.89" (1,750 mm) and 55.12" (1,400 mm) for looms in the rate contract awarded (May 2001) to the suppliers. The looms were to be supplied to weavers of Kachchh district. CCI, however, directed (June 2001) the Company to provide looms of 72" (1,828.80 mm) width and of 56" (1,422.40 mm) width. Despite the change in the specifications intimated by CCI, the Company purchased and supplied (August 2001 to May 2004) 221 looms of 68.89" (1,750 mm) width to weavers of Bhujodi and 1,986 looms of 55.12" (1,400 mm) width based on its own previous specifications. Thus, the looms distributed by the Company were not as per the specification prescribed by CCI.

The Management/Government stated (August/November 2007) that as the contract was awarded prior to receipt of CCI directions, the Company allowed the supply of looms with previous specifications and apprised CCI in this regard. The reply is not tenable, as the work was awarded on rate contract basis, the Company should have availed the option of either placing the orders with changed specifications or cancel the rate contract itself. Besides, apprising CCI is not supported with any *post facto* approval of CCI regularising the supply made with different specifications.

The Company did not submit details of employment to CCI.

- The Company did not submit the details of employment generated to CCI as stipulated in the scheme.

Non availing of funds

2.2.19 The Council of Handloom Development Corporations (COHANDS) earmarked (July 2003) Rs.10 lakh for distribution of hand block printing tool kits at a cost of Rs.3,450 per tool-kit to 290 earthquake affected artisans. The Company did not submit any proposal resulting in lapse of the grant.

The Management/Government stated (August/November 2007) that the proposal was not initiated as further list of beneficiaries was not made available by the DIC. The reply is not tenable as the Company had not taken up the matter with DIC to seek additional list of beneficiaries.

Similarly, the Company did not submit proposal for utilisation of working capital fund at the rate of Rs.10,000 per weaver for 2,500 weavers of earthquake affected areas, earmarked (February 2001) by GOI. Thus, the State weavers were deprived of the working capital fund to the extent of Rs.2.50 crore.

The Management while accepting the audit contention stated (August 2007) that the proposal for working capital assistance was not submitted as it was already burdened with the work of distributing looms to the weavers. The reply is not tenable as the Company's inaction has deprived the weavers from assistance of Rs.2.50 crore. Moreover, in absence of working capital, use of the looms supplied was questionable.

Revolving fund

2.2.20 The State Government released (May 2001 to December 2003) interest free loan of Rupees three crore as revolving fund (Rs.1.67 crore for handicrafts and Rs.1.33 crore for handloom activities) to be utilised for rehabilitation of artisans/weavers of earthquake affected areas *i.e.* eight districts[#] as identified under the scheme. The fund was to be revolved twice a year and returned after five years to the State Government. During the five years (2001-06) the fund was to be utilised for generation of employment by providing raw material to artisans/weavers in production of handicrafts/handloom goods. Further, the goods produced were to be sold through the Company's emporia in order to replenish the fund and to refinance the next cycle of activity.

The Company neither maintained separate books of accounts nor reviewed the implementation of Revolving fund scheme as prescribed.

Audit noticed that the Company did not maintain separate books of account or bank account for the revolving fund as per directions (May 2001) of the State Government. The Company also failed to review implementation of the scheme on quarterly basis as stipulated in the scheme. Further, audit findings in utilisation of revolving fund for handicrafts and handloom activities are discussed below.

Against the target, mandays of employment of 18.35 *per cent* and payment of wages to artisans of 25.50 *per cent* were achieved.

- As against the target (2001-06) to generate 22.56 lakh mandays of employment and to make wages payment of Rs.9.02 crore to handicrafts artisans in eight districts, the Company generated only 4.14 lakh mandays of employment and paid wages of Rs.2.30 crore covering three districts. The percentage of achievement in respect of mandays and wages was as low as 18.35 and 25.50, respectively.

- The Company distributed 275 embroidery and 210 hand block tool kits to 485 artisans of six villages[*] in Kachchh district upto January 2005 under the Handicrafts-Tool kits Distribution – Earthquake Scheme. These artisans, however, did not get any employment under Revolving Fund Scheme despite having tool kits with them. Thus, the Company failed to exploit the potentiality existed for generation (2005-06) of 1.80 lakh mandays by providing employment to the artisans.

Against the target, mandays of 7.92 *per cent* and payment of wages to weavers of 4.57 *per cent* were achieved.

- In three districts, *viz.*, Surendranagar, Kachchh and Patan in respect of handloom activities, against the targeted generation (2001-06) of 8.62 lakh mandays and wages payment of Rs.3.45 crore, the Company could generate only 68,295 mandays of employment with wages payment of Rs.15.75 lakh in Surendranagar district only. Against stipulated wages of Rs.40 *per* day, the Company paid wages of Rs.23 per day. No employment was generated in Kachchh and Patan districts. The percentage of achievement in respect of mandays and wages was as low as 7.92 and 4.57, respectively.

[#] Ahmedabad, Banaskantha, Jamnagar, Kachchh, Patan, Rajkot, Sabarkantha and Surendranagar.
[*] Anjar, Bhuj, Dhamadka, Hodka, Khavda, and Rudramata.

- As per the norms of the scheme, the Company was to give employment of 25 days in a month to handloom weavers so as to ensure payment of minimum wages of Rs.1,000 per month. It was observed that in Surendranagar district, the Company provided (2001-06) assistance under the scheme to 588 weavers. Of these, only three weavers (0.51 *per cent*) got the minimum employment of 25 days in a month.

- The Company did not have any system of forward/backward linkages (supply of raw material to the beneficiaries and marketing of finished products) so as to quantify the benefit derived from the utilisation of fund for the artisans/weavers.

- While reviewing the progress of utilisation of the fund, the State Government (April 2004) expressed its concern at the poor fund utilisation even after lapse of two years since the introduction of scheme. Further, the State Government directed (September 2005) the Company to refund the loan of Rupees three crore along with interest at the rate of four *per cent* per annum. Poor fund utilisation defeated the objective of providing employment to artisans/weavers. As the Company has not refunded the fund as per State Government directions, it is liable to pay additional interest of Rs.44.81 lakh on Rupees three crore for the period from May 2001 to March 2006.

- The Company while submitting (April 2001) proposal for drawing the loan under revolving fund for handloom weavers adopted the cost element of wages as Rs.50 instead of Rs.40 per day as stipulated in the scheme. As a result, the estimate was inflated and the Company had drawn an excess loan of Rs.40.50 lakh.

- Similarly, in case of proposal submitted (April 2001) for drawing loans under revolving fund for handicrafts artisans, the Company had included Ahmedabad district which was not identified by the State Government for implementing the scheme. As a result of inclusion of Ahmedabad district, the Company had drawn excess loan of Rs.16.70 lakh.

The Management/Government stated (August/November 2007) that no employment was generated for weavers of Kachchh and Patan district for want of funds. Further, it had adopted the element of wages as Rs.50 instead of Rs.40 per day while drawing the fund, since it had actually paid wages at the rate of Rs.50 per day. The reply is not tenable, as the Company received funds during May 2001 to December 2003. As such, non-availability of fund was not the reason for non-implementation of scheme in Kachchh and Patan district. Besides, the Company paid wages of Rs.23 per day against drawal of Rs.50 per day.

Exhibition scheme

2.2.21 Every year the Company submits proposals to the State Government for seeking financial assistance for organising exhibition cum sale of handicrafts and handloom products having 7 to 10 days duration. The scheme envisaged artisans to be taken to exhibitions so as to provide them a platform to demonstrate their skills in making handicraft products and to promote sales. The Company's emporia are responsible for organising the exhibition in the areas under its jurisdiction. The cost of organising the exhibitions was to be met from the grant and also from the profit earned on sale during exhibitions.

The Company received (2001-06) grants of Rs.61.25 lakh and Rs.11.44 lakh from the State Government for organising exhibition cum sale for handicrafts and handloom products respectively. The targets and achievements under the scheme are given below:

Particulars	Target			Achievement		
	Expenditure (Rupees in lakh)	Exhibition (numbers)	Artisans (numbers)	Expenditure (Rupees in lakh)	Exhibition (numbers)	Artisans (numbers)
Handicrafts	80.00	172	783	74.99	188	49
Handloom	No details were made available to audit			28.68	135	*

(Source: Information compiled from records of the Company)

Scrutiny of records related to the exhibitions organised (2001-06) revealed the following:

- Despite the Company's standing instructions, the emporia did not furnish to Head office the details of expenditure and also the report on reconciliation of stock and cash of the exhibitions organised under its jurisdiction. Absence of any control mechanism to monitor the submission of such data leaves scope of mis-appropriation as discussed in paragraph 2.2.22 *infra*.

The Management/Government stated (August/November 2007) that the overall reconciliation of stock/cash and expenditure were being done annually. The reply is not tenable as organising of exhibition involves movement of sizable goods and cash; the Company should have a system of reconciling all these items, exhibition wise, to prevent misappropriation.

- Advertisements are necessary to attract the people for exhibition sales. Against the earmarked expenditure of Rs.32.55 lakh for organising exhibitions (2001-06), the Company spent Rs.18.86 lakh (57.94 *per cent*) only; thus failed to fully utilise the earmarked funds for holding the exhibitions. Audit noticed that in respect of 85 (45.21 *per cent*) out of 188 handicrafts exhibitions and 106 (78.52 *per cent*) out of 135 handloom exhibitions organised during the above periods no expenditure on advertisements was incurred. Thus, it had failed to adopt effective medium for promotion of handicrafts and handloom products.

The Management/Government stated (August/October/November 2007) that no exhibition was held without advertisement and publicity. The Company participated in exhibitions organised by the Government agency like INDEXT-C where publicity was carried out by them. The reply is not convincing as even after considering the exhibitions held with INDEXT-C,

* There was no practice of taking weavers to handloom exhibitions.

there was no advertisement for majority of the exhibitions held without INDEXT-C.

Handicrafts exhibition

- The Company did not prepare any detailed action plan for organising the exhibitions.

Out of 188 exhibitions held during 2001-06, 70 were organised within the premises of emporia.

- One of the objectives of organising the exhibitions was to explore new markets for sale of handicrafts through exhibitions. The Company organised (2001-06) 188 exhibitions, of which 70 exhibitions were organised within the premises of emporia defeating the objective of conducting the exhibitions. For the remaining 118 exhibitions organised outside emporia, the Company did not analyse the exhibitions sales data to identify new markets for expansion of activities.

Against the target of 783 artisans, only 49 artisans gave demonstration of 13 crafts in 12 exhibitions covering just 6.26 *per cent* of the targeted artisans.

- The Company proposed to take four to five artisans at each of the exhibitions totaling to 783 artisans for 172 exhibitions proposed. The Company, however, organised (2001-06) 188 exhibitions in which 49 artisans gave demonstration of 13 crafts in 12 exhibitions, covering just 6.26 *per cent* of targeted artisans. This had deprived the artisans from exhibiting their skills.

The Management/Government stated (August/November 2007) that the artisans were unwilling to go outside their home town for performing demonstration. The reply is not tenable, as the artisans were being financially rewarded for their work, the Company should have encouraged them to participate in the demonstration show at the exhibition held at different localities.

- The Company organised (2005-06) demonstration of only 13 crafts[^] against 25 traditional handicrafts identified by it.

- The Company did not maintain separate accounts records for the sales made during each exhibition against the target of Rs.4.35 crore fixed for it.

The Management/Government stated (August/November 2007) that separate account were maintained for actual sales. The reply is not acceptable as no such records were shown to audit.

- Against the norm of 7 to 10 days, the duration of nine exhibitions was 25 to 120 days which resulted in avoidable expenditure of Rs.4.47 lakh on holding of exhibition beyond the stipulated period. No justification was available on record for prolonged duration of the exhibitions.

---

^ Leather, bamboo work, bead, clay work, copper bell, embroidery, lacquer, patch work, pithora, puppet, tying and dyeing ,white metal jewellary and wood carving.

- The Company charged expenditure of Rs.5.30 lakh on salary, electricity expenses under the scheme though it was not allowed as per the terms of grant.

Handloom Exhibition

- Of 26 districts in the State, the Company organised (2001-06) 135 exhibitions in 8 to 12 districts. Of which, 126 exhibitions were held only in the districts where the Company had emporia/production centre. Thus, there was uneven coverage of areas geographically in promoting the handloom products.

- The Company organised (2001-06) 135 exhibitions at a cost of Rs.23.03 lakh, of which 15 exhibitions were held within emporia defeating the objective of exploring the new markets for handloom products.

- The Company stipulated that the total expenditure for conducting exhibitions should be restricted to 10 *per cent* of sales made for the period up to 2001-02 and 15 *per cent* thereafter. The Company incurred (2001-06) expenditure of Rs.20.99 lakh on 87 exhibitions which exceeded the prescribed limit by Rs.11.36 lakh. Reasons for excess expenditure were not analysed by the Company for remedial measures.

The Management/Government stated (August/November 2007) that due to under estimation of expenditure in 87 exhibitions the Company had to exceed the limit fixed. The reply indicates that the deficiency in planning is the cause for incurring of excess expenditure.

The above deficiencies reflected lack of Company's concentrated approach towards organising such exhibitions, analysing their outcome, taking effective steps to give tangible results and thereby defeating the objective of promoting the scarce crafts and boost up its sales.

Tribal Mela Scheme

2.2.22 One of the unique features in the Tribal Mela (TM) was that the tribal artisans would be encouraged to take part in the Mela so as to get a platform for demonstrating their skills in making of handicrafts products so as to promote the sale of these products. The Company proposed (2001-06) to the State Government to organise 46 TMs of 8 to 10 days duration, at a cost of Rs.1.52 crore by taking 1,425 artisans to TMs and get released (2001-06) Rs.1.26 crore for this scheme. Review of records relating to the TMs organised (2001-06) revealed the following:

- The Company did not prepare any detailed plan indicating time, place, duration and targeted sales for each TM.

- The Company could organise (2001-06) 39 TMs only against the targeted 46 TMs. Of this 22 TMs were held within emporia (cost Rs.21.49 lakh) defeating the objective of exploring new markets for products of artisans.

Against the target of 1,425 artisans, only 318 were taken to tribal melas.

- The Company proposed to take 15 to 50 artisans in each TM totaling to 1,425 artisans for 46 TMs to be organised during 2001-06. Against this, only 318 artisans were taken to 33 TMs organised. Six^ TMs were organised without having any demonstration show by artisans.

The Management/Government stated (August/November 2007) that though the artisans were unwilling to go outside their home town for performing demonstration, yet, it had never organised any TM without artisans. The reply is not tenable, as the artisans were being financially rewarded for their work, the Company should have encouraged them to participate in the demonstration show of the exhibition held at different places. Further, details of artisans participated in the six TMs is not made available to audit.

- The Company organised (2001-06) demonstration by artisans of only 11˅ crafts against 25 traditional handicrafts identified by it.

- The Company charged expenditure of Rs.1.64 lakh on account of repair and maintenance of emporia, expenditure for opening of new emporia, *etc.* under the scheme though it was not allowed as per terms of the grant.

Intensive handloom development project

2.2.23 Under Intensive handloom development project, the State Government provides grant for modernisation of looms, providing training to weavers and to meet their administrative expenditure on running of production centre of handloom products. The Company sought (2001-06) grant of Rs.3.74 crore from the State Government for the project meant to modernise 800 looms at a cost of Rs.58.75 lakh, training at a cost of Rs.48 lakh and to provide employment to 4,250 weavers. Against this demand, the State Government released Rs.2.69 crore during the above period. Audit observed that the Company utilised Rs.2.16 crore. Of which, it had spent Rs.1.86 crore towards administrative cost for running the production centres and spent only Rs. 4.04 lakh for modernisation of 66 looms. Besides, the Company had covered only 1,038 weavers in providing employment under the project. Further, the Company had originally demanded the grant of Rs.3.74 crore and this was higher by 173 *per cent* compared to actual utilisation of funds. It is indicative of unrealistic proposal sent by the Company while seeking the State Government assistance.

Evaluation

2.2.24 The Company neither maintained records to ascertain scheme wise benefit provided to weavers/artisans nor got the schemes evaluated. A scrutiny of data relating to the Company's perpetual schemes *viz.*, Handicraft exhibition, Tribal Mela, Revolving Fund and Intensive handloom development

^ Ahmedabad, Anand, Delhi, Surat and Vadodara: 2001-02 and Ahmedabad: 2004-05.

˅ Bamboo work, Bead work, Clay art, Kalamkari, Lacquer, Patch work, Pithora, Puppet, Weaving, White metal art and Wood carving.

project revealed that against the target (2001-06) of 9,725 artisans and 8,623 weavers, the assistance under the schemes was extended only to 2,284 artisans (23.48 *per cent*) and 1,852 weavers (21.48 *per cent*). Thus, the achievement was far from satisfactory. Under these schemes, wages of Rs.2.97 crore were paid to the beneficiaries (Rs.2.35 crore to artisans and Rs.0.62 crore to weavers). Actual wage payment per weaver ranged from Rs.3,081 to Rs.3,532 (2001-06) against the target of Rs.6,495 to Rs.12,000. Thus, coverage of weavers and payment per weavers was far below the target. Further, out of total 3.32 lakh[*] handicraft artisans in the State only 2,284 artisans (0.69 *per cent)* were covered during the period. Thus, benefit accrued to the needy masses was negligible.

Unutilised grant

2.2.25 As per Gujarat Financial Rules, 1971 (GFR)[⊗], every grant shall be subject to the following implied conditions:

- The grant shall be spent for the specified objective within one year of receipt if no time limit has been prescribed by the competent officer.
- Any portion of the amount which is not required for expenditure upon that objective shall be duly surrendered.

It was observed that the Company had unutilised grant of Rs.11.34 crore as on 31 March 2006 of which an amount of Rs.6.87 crore (GOI: Rs.1.32 crore, State Government: Rs.5.55 crore) remained unutilised for more than four years (March 2006). The Company, however, did not surrender the unspent grant to the GOI/ State Government, which is in violation of GFR rules. Further, of the unspent grant of Rs.11.34 crore, the Company had utilised Rs.7.33 crore[ϒ] to meet its working capital needs which lacked justification.

The Management/Government stated (August/November 2007) that in view of accumulated losses and adverse cash positions the Company sent proposal for conversion of unspent grant into equity. The fact remained that the funds earmarked for welfare of the artisans/weavers were not utilised for the designated purposes.

Internal control

2.2.26 Internal controls are essential pre-requisite for the efficient discharge of an organisation’s functions and required for ‘good governance’. These are procedures and safeguards that are put in place by the management of an organisation to ensure that its activities are proceeding as planned. Strict observance of these procedures/ safeguards is vital for good governance in organisation.

---

* Source: Report of Indian Institute of Management, Ahmedabad.

⊗ Rule 154 (5) of Gujarat Financial Rules, 1971.

ϒ Closing balance of grants as on 31 March 2006: Rs.11.34 crore *less* Rs.4.01 crore: available liquid funds (Deposit with GSFS, cash and bank balance and balance in personal ledger account).

Audit observed the following deficiencies in internal control system being followed in the Company:

Internal audit

- The internal audit of the Company was entrusted to a firm of Chartered Accountants. The scope of internal audit *inter alia* included audit of records of head office, stores, district offices and emporia. Internal audit reports (2001-06) included comments like deficient internal control system of the Company in the areas of maintenance of inventory records, identification/ disposal of non-moving obsolete stocks, remittances of sales proceeds, system of verification of cash, *etc*. Despite serious nature of the comments and specific direction (13 July 2001) of the State Government, the internal audit reports were not placed before the BOD.

- The Company did not take adequate action for improving the system of internal control based on the Internal audit reports.

- Due to deficient internal control system, there were 17 instances of misappropriation (2001-06) of cash/ stock amounting to Rs.7.31 lakh by employees. These employees continue to hold important posts in the Company thereby rendering the internal control system ineffective.

- Despite, Statutory Auditors' persistent qualification in their reports (2001-04) on annual accounts of the Company requiring expansion of the scope of internal audit to commensurate with the size and nature of business of the Company, it did not take remedial measures.

Issuance of raw materials to artisans

2.2.27 A test check of records of Vadaj procurement centre of the Company revealed that out of total stock (Rs.9.32 lakh) outstanding (March 2006) with 213 artisans, no formal agreement was made with 193 artisans (Rs.7.91 lakh) for returning the material; agreements executed with 10 artisans were deficient as these did not contain signature/ thumb impression of artisans; raw materials worth Rs.6.39 lakh issued upto March 2005 was outstanding from 152 artisans and raw materials worth Rs.1.58 lakh were issued (2001-06) to 10 artisans before recovery of past dues from them.

The Management/Government stated (August/November 2007) that action was initiated to get the agreements. The reply is silent as to what action has been taken to recover the value of stock lying with the artisans.

Delay in making payment of goods to artisans

2.2.28 A test check of records of Bhuj procurement centre revealed that out of goods procured (2005-06) worth Rs.55.54 lakh, an amount of Rs.31.71 lakh remained to be paid to 119 artisans as on 31 March 2006 even after the expiry of prescribed time of 60 days. It was further noticed that in case of five artisans (Rs.2.68 lakh), the payment was delayed ranging from three to eight months over the prescribed time of 60 days. Despite the fact that the Company received (2005-06) grant of Rs.5.50 lakh for procurement of goods and also it had an amount of Rupees three crore under revolving fund for making payments to artisans, these payments were delayed to them.

The Management/Government stated (August/November 2007) that the payments were delayed due to its adverse liquidity position. The reply is not tenable as the Company had revolving fund of Rupees three crore and received grant of Rs.5.50 lakh during the year. Hence, it should have made the payments in time to the artisans.

Mis-reporting of figures

2.2.29 Internal control system lacked in reporting accurate information to the State Government. As compared to the details available in the financial records of the Company it reported excess utilisation (2001-06) of grants by Rs.2.97 crore as detailed below:

(Rupees in lakh)

Name of the schemes	Amount utilised as		Over/under (-) reporting to the State Government
	Reported to the State Government	Per Records	
Revolving Fund (Handicrafts)	763.10	407.62	355.48
Revolving Fund (Handloom)	49.59	141.63	(-)92.04
Exhibition Scheme (Handicrafts)	108.59	74.99	33.60
Total	**921.28**	**624.24**	**297.04**

(Source: Information compiled from records of the Company)

The Management/Government while accepting the fact stated (August/November 2007) that the mis-reporting happened due to administrative problems and implementation of voluntary retirement schemes of the employees.

Non-payment of dues under Thrift Fund

2.2.30 A mention was made in paragraph 4.6.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001-(Commercial) Government of Gujarat about unauthorised diversion of thrift fund meant for the welfare of handloom weavers, for meeting the working capital requirement of the Company. The Committee on Public Undertakings (COPU) discussed (October 2003) the paragraph. Pending the recommendations of COPU, the State Government directed (November 2003) the Company to pay the dues of the weavers within one month. The Company appointed (December 2003) a firm of Chartered Accountants to ascertain the amount due to weavers. The firm reported (February 2004) that Rs.33.94 lakh was outstanding to 3,076 weavers as on 31 December 2003. The Company repaid (up to 31 March 2006) Rs.1.64 lakh only. The State Government released (August 2006) loan of Rs.20 lakh for repaying these dues under Thrift Fund. However, the dues of Rs.40.16 lakh (Principal: Rs.32.29 lakh and Interest: Rs.7.87 lakh) to 2,919 weavers has still not been paid (March 2007).

Non-compliance of the State Government directions (November 2003) lacked justification.

Monitoring and corporate governance

2.2.31 A mention was made in paragraph 4.19 of the Report of Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial), Government of Gujarat about the deficient corporate governance in the Company. Inadequate corporate governance persisted (2005-07) as would be evident from the following:

- Out of 12 directors, posts of four directors were vacant since November 2005.
- Two directors did not attend (2005-07) any of the eight meetings of the BOD and one director attended only one meeting. Thus, the purpose of their nomination on the BOD was defeated.
- The State Government appointed (2001-06) eight Managing Directors having tenure ranging between 11 and 606 days. Short tenures and frequent changes of chief executive of the Company compromised the continuity of manifestation likely to affect its proper functioning.
- The Audit Committee (AC) of the BOD constituted as per Section 292 A of the Companies Act, 1956, should consider the Company's budget, review half yearly statement, internal control system, look into aspects of financial and risk management and discuss the scope of Internal Auditor (IA)/Statutory Auditor (SA) before commencement of audit and also consider their reports after completion of audit. It was, however, noticed that the above functions were not performed by the Committee during 2005-07. Further, only two meetings each of the Audit Committee were held during 2005-06 and 2006-07 against the minimum of three meetings to be held in a year as per the State Government instructions (April 2003). Besides IA and SA did not attend four meetings of the Committee (2005-07) in violation of the provision of Section 292 A (5) of the Act, *ibid.*

Financial restructuring

2.2.32 Institute of Rural Management, Anand (IRMA) and Indian Institute of Management, Ahmedabad (IIM-A) in their reports on the aspect of restructuring of the Company had recommended (October 2001) that the loans payable to the State Government should be waived off and additional working capital should be infused for improving the Company's financial position and also making it viable. Though the BOD of the Company accepted (May 2003) the recommendations and decided to approach the State Government for working capital of Rupees five crore and waiver of outstanding loans, no effective actions were taken on it. As on 31 March 2006, the Company had huge loans of Rs.28.06 crore payable to the State Government and had accumulated loss of Rs.45.52 crore.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the management at various stages of conducting the performance audit.

Conclusion

The Company's performance in trading activities was far from satisfactory. It was unable to achieve the targeted sales, restart its closed and unviable emporia without devising any revival plan and high cost of operation compared to sales. Implementation of schemes were marred by under-utilisation of grant, lesser coverage of artisans/weavers, non-generation of targeted mandays for employment, non-maintenance of separate accounts, failure to review the schemes on quarterly basis. Internal control system was marred by the inadequate internal audit, lack of control in issue of raw materials to artisans, delayed payments to artisans and misreporting to the State Government.

Recommendations

- **The Company should formulate a strategic plan cut down its operational losses, and bring improvement in performance of its emporia in a planned manner.**

- **The Company should set sustainable targets, commensurate with its mandate and infrastructure, for generation of employment and strive to achieve it with better diligence and planning.**

- **The Company should improve and ensure full utilisation of funds for optimum upliftment of artisans and weavers.**

- **The State Government and the Company should take forward the recommendations of management consultants, *viz.*, Institute of Rural Management, Anand and Indian Institute of Management-Ahmedabad, for improvement of its performance.**

- **The Company should strengthen its internal control and internal audit system.**

Tourism Corporation of Gujarat Limited

2.3 Performance of Commercial and Promotional Activities

Highlights

The Company's share in the State tourism industry was only 0.97 *per cent* despite in existence for more than 30 years. The Company did not prepare any detailed plan for its growth consistent with tourism policy of State Government.

(Paragraphs 2.3.7 and 2.3.8)

Cases of excess drawal of grants of Rs.3.16 crore in five cases, drawal of grant of Rs.3.43 crore for the same project from the State Government as well as Government of India (GOI), misappropriated/diverted grants of Rs.58.59 lakhs in two cases and submission of incorrect utilisation certificates of Rs.1.21 crore in five cases to the GOI were noticed.

(Paragraphs 2.3.11 to 2.3.15)

Of the 14 to 19 hotels and six to eight cafeterias, 63 to 93 *per cent* hotels and 83 to 100 *per cent* cafeterias of the Company incurred operational losses during 2002-07. Of these, 26 *per cent* hotels and 50 *per cent* cafeterias continuously incurred operational losses during 2002-07.

(Paragraphs 2.3.22 and 2.3.25)

The utilisation (2002-07) of funds for infrastructural projects was low, ranging between 20 and 33 *per cent,* indicating inadequate planning, monitoring and control over the project activities by the Company.

(Paragraph 2.3.10)

The poor governance in the Company is exemplified by non-functioning of Purchase and Tender Committee, inadequate size of the Board of Directors and shorter tenure and frequent transfer of Managing Director.

(Paragraphs 2.3.32 and 2.3.33)

Introduction

2.3.1 The Tourism Corporation of Gujarat Limited (the Company) was incorporated (June 1975) as a Government Company for systematic development of tourism on commercial basis in the State of Gujarat and elsewhere. The Company started (September 1978) commercial operation and the State Government transferred its own holiday homes, tourist bungalows, and other establishments to the Company. The Company undertakes activities to establish, develop, improve and manage places of tourist interest. As on

31 March 2007, the Company had 25 hotels (18^ self-managed and seven# leased out), to provide catering and accommodation facilities to tourists. Further, it has six∨ cafeterias and operates nine* tourist information bureaus (TIB) for dissemination of information relating to marketing of tourist resorts, tour packages, *etc*. During 2002-06, 324.61 lakh tourists including 3.64 lakh foreign tourists visited the State, out of which 3.57 lakh tourists including 4,012 foreign tourists availed the facilities of the hotels of the Company.

The Management of the Company is vested in a Board of Directors (BOD) consisting of Chairman, Managing Director (MD) and four nominee Directors of the State Government. The MD is assisted by nine$ departmental heads and managers heading the field units.

The working of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial), Government of Gujarat. The Committee on Public Undertakings discussed the Report in May 2003 and their recommendations are awaited (August 2007).

Scope of Audit

2.3.2 The present performance review conducted during November 2006 to March 2007 covers the performance of the Company with regard to its commercial and promotional activities and 14 tourism projects undertaken during 2002-07. The Company finalised its accounts for the year 2005-06 and hence the provisional figures for the year 2006-07, wherever received, have been incorporated. All the main records of the Company are kept at its Head office. As such, the audit reviewed the records of the Company at its Head office. Besides two∇ hotels, one⊕ cafeteria and two∅ TIB were selected on the basis of geographical location and volume of work to assess the system of functioning of the units.

Audit objectives

2.3.3 The performance audit was conducted to ascertain whether:

- the Company had achieved its stated objectives;
- the activities undertaken by the Company were in consonance with its objectives, Government instructions and tourism policy;

---

^ Balaram, Chorwad, Dholavira, Dwaraka, Gandhi Ashram, Junagadh, Mount Abu, Malvan, Nalsarovar, Palitana, Porbandar, Pawagadh, Saputara, Shamalaji, Tithal, Valthan, Vadnagar and Veraval.

Ahmedpur Mandvi, Ankleshwar, Dakor, Enjal, Nargol, Sasangir and Ubharat.

∨ Gandhinagar, Kevadiya, Modhera, Patan, Sarita Udhyan, and Somnath.

* Ahmedabad, Chennai, Jaipur, Kolkata, Mumbai, New Delhi, Rajkot, Surat and Vadodara.

$ Sr. Manager Operation, Company Secretary *cum* Finance Manager, Sr. Manager Tourism, Manager Marketing, Manager Public Relation and Personal Relation, Executive Engineer (Engineering Branch), Personal Manager, Manager (Tourism) and Dy. Manager (Hotels).

∇ Ahmedabad and Palitana.

⊕ Gandhinagar.

∅ Ahmedabad and Vadodara.

- the Company made corporate plan factoring in all relative issues and prepared action plan to achieve its objectives;
- the grants received from the Government were utilised for the purpose for which they were sanctioned;
- the projects were executed economically, efficiently and effectively; and
- all the units were operating on viable basis and the Company had devised effective monitoring/oversight and internal control/audit.

Audit criteria

2.3.4 The following audit criteria were adopted:

- tourism policy of the State Government and its directives ;
- guidelines of centrally sponsored schemes for infrastructure development as issued by the Ministry of Tourism, (MOT) and Department of Tourism of the State Government;
- Minutes and agenda of the meetings of the BOD, annual plan of the Company and project reports;
- norms fixed by the Company for consumption of raw materials for cooked items; and
- terms and conditions of the lease/ purchase agreements.

Audit methodology

2.3.5 Audit used a mix of the following methodologies to assess the audit objectives with reference to the audit criteria:

- review of tourism policy of the State Government, guidelines/directives issued by MOT /State Government ;
- review of lease deeds entered into with the lessee; contracts with agencies, documents on selection of agency and running account (RA) bills;
- review of agenda notes and minutes of the meetings of the Tender Committee and BOD;
- files relating to grants received from the MOT and State Government; and
- issue of audit enquiries and interaction with the management.

Audit findings

2.3.6 The audit findings emerging from the performance audit were reported (July 2007) to the Management/ Government and discussed in the meeting (12 October 2007) of the Audit Review Committee for State Public Sector enterprises (ARCPSE) which was attended by the Secretary to Government of Gujarat (Tourism), Industries and Mines Department and MD of the Company. Their views were kept in view while finalising the review report.

The audit findings are discussed in the succeeding paragraphs:

Growth of tourism

2.3.7 The main objective of the Company is to promote and develop tourism in the State. Tourist inflow into Gujarat and tourists availing the facilities of the Company's 14# out of 18 hotels is as follows:

Year*	Tourist who visited Gujarat			Tourists who stayed at Company's hotels			Percentage of tourists availing Company's facilities		
	Indian	Foreign	Total	Indian	Foreign	Total	Indian	Foreign	Total
2002-03	61,00,124	65,094	61,65,218	60,475	400	60,875	0.99	0.61	0.99
2003-04	79,15,487	65,107	79,80,594	90,707	933	91,640	1.15	1.43	1.15
2004-05	75,52,026	59,987	76,12,013	98,723	1,371	1,00,094	1.31	2.29	1.31
2005-06	1,05,29,000	1,74,000	1,07,03,000	1,02,958	1,308	1,04,266	0.98	0.75	0.97
Total	**3,20,96,637**	**3,64,188**	**3,24,60,825**	**3,52,863**	**4,012**	**3,56,875**	-	-	-

* Figures for 2006-07 are not compiled by the Company.

(Source: Information provided by the Company)

The Company's share in the tourism industry was only 0.97 *per cent.*

Despite being in operation for more than 30 years, the overall share of the Company in the State tourism industry was only 0.97 *per cent*. Though, the inflow of domestic tourists increased during 2002-06, the Company could attract only 0.98 to 1.31 *per cent* domestic tourists. The share of foreign tourists ranged between 0.61 and 2.29 *per cent*. The State tourism policy (2003-10) envisaged development and promotion of tourism to bring Gujarat on national and international tourist map. Thus, the Company's performance in terms of attracting major portion of domestic and foreign tourists was dismal. Despite this and the fact that major portion of policy period is over, the Company had neither analysed the reasons for poor inflow of tourists to its units nor designed any plan to increase the inflow of tourists to its units.

The Management stated (August 2007) that the comparison of total tourist inflow with reference to number of tourists availing the Company's facilities was not proper. Audit should have compared the total tourists arrival at a particular destination vis-à-vis tourist staying in the Company's hotel. The reply is not tenable as the comparison made by audit gives a fair view of the Company's share in providing its services to the total tourist inflow in the State. Moreover, the Company had not analysed this aspect as it did not have the data relating to total tourists arrival and use of the Company's facilities

Chorwad, Dholavira, Dwaraka, Gandhi Ashram Guest House, Junagadh, Palitana, Pavagadh, Porbandar, Malvan, Mount Abu, Saputara, Tithal, Valthan and Veraval. In respect of remaining four hotels (Balaram, Nalsarovar, Shamlaji and Vadnagar) information was not available.

destination wise. As such audit was not able to make comparison on this aspect.

Tourism policy of the State and its implementation

2.3.8 The Company being sole public sector undertaking in the State for promotion of tourism, should have been a front runner with a specific role in the implementation of tourism policy of the State. The tourism policy 2003-10 (policy) laid emphasis on development of tourism as an 'engine of economic growth' with the purpose to bring Gujarat on the national and international tourist map. The policy identified the following areas for development:

- hospitality industry for tourists by setting up hotels, tent sites, heritage hotels including star hotels, air conditioned dormitories, *etc*.,
- beach resorts and water resorts at nine beaches[∂],
- wayside amenities, dam and canal tourism, and
- special entertainment zones, golf courses, dinosaur theme park, gauge conversion of the Royal Orient train, *etc.*

The Company has not made micro level planning for implementation of State tourism policy.

As per the policy, office of the Managing Director of the Company would act as Secretariat to the Gujarat Industrial Promotion Board (GIPB) for evaluating and obtaining the Government approval on various tourism projects. The Company's role in implementation of this policy has, however, not been defined. In view of this, the Company neither identified the critical areas as envisaged in the policy to effect micro level planning nor it devised any action plan with milestones to be achieved for its successful implementation.

The Management stated (August 2007) that the State Government declared (2006) various plans for development of heritage/eco/medical tourism, introduced various incentives in the form of reduction of rate of entertainment tax, electricity duty, luxury taxes, *etc*., for implementation of the policy. Thus, the fact remains that the Company had not done any work for implementation of the policy and whatever steps as cited in the reply had been taken by the State Government.

Financial Position

2.3.9 Summary of financial position of the Company during 2002-07 is given below:

(Rupees in crore)

Year	Paid-up capital	Income	Expenditure	Profit/ Loss(-)	Accumulated loss	Net worth
2002-03	17.20	6.12	6.99	(-)0.87	17.90	(-)0.70
2003-04	17.20	5.95	8.23	(-)2.28	19.73	(-)2.53
2004-05	17.20	6.27	8.17	(-)1.90	23.58	(-)6.38
2005-06	19.99	6.70	7.56	(-)0.86	24.42	(-)4.43
2006-07[^]	19.99	8.65	7.65	1.00	23.42	(-)3.43

(Source: Information compiled from annual accounts of the Company)

[∂] Dandi, Dumas, Dwaraka, Madhavpur, Mandvi –Kachchh, Somnath, Tithal, Ubhrat and Veraval.

[^] The figures for the year 2006-07 are provisional.

The Company has been incurring losses continuously and the accumulated losses as on 31 March 2007 were Rs.23.42 crore. Its paid-up capital of Rs.19.99 crore had been fully eroded and had a negative net worth of Rs.3.43 crore as on 31 March 2007. The main reason for the losses was unviable operation of hotels and cafeterias as discussed in paragraphs 2.3.22, 2.3.24 and 2.3.25 *infra* and non-recovery of lease rent due to deficient formulation of lease deed by the Company as discussed in paragraph 2.3.36 *infra*. Further, the Company could not recover outstanding loans and advances of Rs.91.47 lakh (March 2006) for more than five years. Out of these advances, Rs.16.57 lakh were the advances drawn by its retired employees, the Company did not recover it before relieving them from their services.

Grants

2.3.10 The MOT/State Government released total grant of Rs.150.88 crore to the Company under various tourism projects up to 31 March 2007. The Company had an unspent grants of Rs.23.88 crore as on 1 April 2002 and received (2002-07) grants of Rs.127 crore (Rs.104.61 crore from the State Government and Rs.22.39 crore from the MOT). Of this, the Company utilised (2002-07) Rs.103.65 crore leaving an unutilised balance of Rs.47.23 crore as on 31 March 2007.

The MOT released funds in the form of grants up to 31 March 2001for the GOI aided projects through the State Government who in turn released the amount to the Company. Thereafter, the MOT released the funds directly to the Company. Audit observed that funds of Rs.3.90 crore relating to 55 projects as received from the MOT were not released by the State Government for which no reason was made available to audit as of September 2007.

In the case of State Government grants, the Company was accounting receipt of grants, expenditure out of grants and consolidated opening and closing balances of various schemes under common head of grants without keeping the details of project wise spending made under each scheme. As a result, the progress of amount spent on each project could not be monitored.

The above grants include infrastructure grants received from the MOT as well as State Government for augmenting tourist infrastructural facilities[•] in the State. The total unspent grant (April 2002) of Rs.23.88 crore includes infrastructure grant of Rs.16.34 crore. Further, the Company received infrastructure grant of Rs.49.65 crore during 2002-07 and utilised only Rs.40.55 crore (81.67 *per cent*) as detailed below:

(Rupees in crore)

Year	Opening Balance			Received			Total grant available	Utilised			Closing Balance	Utilisa-tion in perce-ntage
	State Govt.	MOT	Total	State Govt.	MOT	Total		State Govt.	MOT	Total		
2002-03	14.7	1.62	16.34	2.99	3.07	6.06	22.40	4.29	0.39	4.68	17.72	20.89
2003-04	13.4	4.31	17.72	4.20	0.90	5.10	22.82	6.24	1.35	7.59	15.23	33.26
2004-05	11.3	3.86	15.22	3.78	2.05	5.83	21.05	3.24	0.89	4.13	16.93	19.62
2005-06	11.9	5.02	16.93	13.65	10.43	24.08	41.01	10.47	1.19	11.66	29.35	28.43
2006-07	15.0	14.26	29.34	2.80	5.78	8.58	37.92	4.68	7.81	12.49	25.43	32.94
Total				**27.42**	**22.23**	**49.65**		**28.92**	**11.63**	**40.55**		

(Source: Information compiled from the records of the Company)

• Construction of roads, motels on the ways leading to tourist spots.

Utilisation of the grants was low and ranged between 20 and 33 *per cent* during 2002-07.

Utilisation of grants was low and ranged between 20 and 33 *per cent.* The MOT sanctioned (2002-07) 14 projects at a cost of Rs.29.11 crore and released (2002-07) Rs.18.82 crore. Out of 14 projects, six[#] projects were to be completed by April 2007. The Company completed three[∇] projects during the period. The reasons for low utilisation of grants and slow progress of the project were not analysed by the Company. The low utilisation of grants, however, indicates inadequate planning, monitoring and control over the project activities of the Company.

The Management stated (August 2007) that execution of projects normally took two to two and a half years, as a result the percentage of grant utilisation remained low. The reply is not tenable as the Audit worked out the percentage of utilisation with reference to the total grants available (inclusive of grants received prior to 2002) and not the grants received and utilised during 2002-06.

Excess drawal of grant

2.3.11 Audit noticed the following cases of excess drawal of grants of Rs.3.16 crore:

- Under the scheme for restoration of buildings affected by earthquake, the Company received (2001-04) grant of Rs.11.50 crore from the State Government and spent Rs.8.18 crore (71.13 *per cent*). The Company had an unspent balance of Rs.3.32 crore as on 31 March 2004. The Company, however, further requested (January 2005) for release of grant of Rupees two crore for the year 2004-05 which was received in March 2005. The amount of Rupees two crore drawn was kept in saving bank account till March 2007. Thus, drawal of grant without any immediate requirement lacked justification.

- The Company had drawn (2002-06) grant of Rs.4.95 crore for developing infrastructure facilities of beach resort at Mandvi, Kachchh. The grant included Rs.48 lakh provided for renovating guest house at Mandvi owned by the Gujarat Water Supply and Sewerage Board (GWSSB). Pending any settlement of terms of transfer, GWSSB let out (November 1998) the guest house to the Company for a token lease rent of Rs.101 per month. The Company sought (May 1999) the permission for retaining the guest house on lease for a period of 50 years but GWSSB did not grant the permission, but offered (June 2003) to sell the guest house at a price of Rs.1.22 crore. As the Company did not agree (June 2006) to this offer on the plea of financial constraints, the State Government issued (July 2006) instructions to surrender the guest house to GWSSB. As the grant of Rs.48 lakh was not utilised, the same should have been surrendered to the State Government, but, it had not been surrendered so far (March 2007).

[#] Balasinore, Malegaon, Modhera, Tera, Udwada and Vadnagar.
[∇] Balasinore, Udwada and Vadnagar.

- In case of project for construction/improvement of Udwada town, the project was completed (November 2006) at a cost of Rs.1.36 crore. The Company, however, had drawn (2002-07) a total grant of Rs.1.65 crore (MOT: Rs.97.27 lakh and State Government: Rs.67.23 lakh). This had resulted in excess drawal of grant of Rs.29 lakh from the State Government, which had not been surrendered.

The Management stated (August 2007) that amount of Rs.29 lakh would be utilised on exhibition materials, panels *etc*. The reply is not correct, as the total cost of work of Rs.1.36 crore is inclusive of the above item of work.

- In case of project for installation of signages at highways, the project cost was Rs.30 lakh (MOT component: Rs.7.50 lakh, State Government component: Rs.22.50 lakh) and the work of signages was awarded (August 2001) to a contractor at a cost of Rs.28.92 lakh. The Company, however, had drawn (2002-05) Rs.45 lakh as financial assistance from the State Government. Besides, grant of Rs.6.77 lakh was also released during 2000-06 by the MOT for the project. This had resulted in excess drawal of grants by Rs.22.85 lakh, for which no justification was on record. Besides, expenditure of Rs.28.03 lakh incurred so far from this grant remain infructuous as discussed in paragraph 2.3.18 *infra*.

The Management stated (August 2007) that it had decided to put up more signages by utilising the grant of Rs.22.85 lakh in future. The reply is not tenable. It is irregular to retain the grant for utilisation for some other works which has not the approval of the State Government.

- The Company received a grant of Rs.72 lakh during 2001-04 from the State Government for construction of tourist complex at Valthan. The construction work was completed (July 2003) at a cost of Rs.96.09 lakh. The Company drew (2004-06) further grant of Rs.40 lakh for the project. This had resulted in excess drawal of grants of Rs.15.91 lakh (Rs.112 lakh *less* Rs.96.09 lakh) which lacked justification.

The Management stated (August 2007) there was no excess drawal of grant as it had to make payment of Rs.15 lakh to the State Government towards the cost of land for the project. The reply is not correct, as the State Government has adjusted the value of the land as its share capital contribution to the Company. Hence, the grant was drawn in excess of the requirement.

Drawal of grants from GOI for the same project

Grants for the same project were drawn from both GOI and State Government resulting in double drawl of grants for the same work.

2.3.12 In case of project for development of infrastructure facilities at beach resort, Mandvi, Kachchh (as discussed in paragraph 2.3.20 *infra*), it was observed that the State Government released (August 2002 to March 2006) grant of Rs.4.95 crore in a phased manner for implementation of the work. The Company in the meanwhile, also requested (September 2004) MOT for release of grant for the work. The MOT released (September 2005) Rs.3.43 crore for execution of the project.

The Management stated (August 2007) that State Government had granted (April 2007) approval to adjust the grant received from GOI against work already completed through grants of the State Government. However, the fact that the same work was already under execution from State funds was not brought to the notice of the GOI.

Excess appropriation of grant

2.3.13 The Company is undertaking various tourist developmental activities. Hence for the projects implemented by the Company, the State Government permitted (May 1998) to appropriate 15 *per cent* of grants utilised for plan schemes towards salary overheads. The Company, however, disregarding the State Government's directives not only appropriated 15 *per cent* as salary overheads but also made an excess appropriation of Rs.43.39 lakh[#] towards salary for employees. Excess appropriation of grant of Rs.43.39 lakh, thus, lacked justification.

The Management stated (August 2007) that there was no excess appropriation for salary. The amount was booked under the respective grant as salary overheads of those staff who were directly associated with the project works. The reply is not tenable as the appropriation of the grant towards salary overheads is restricted to 15 *per cent* of the total grant utilised for the project works. In these instances, the Company had drawn the amount in excess of the ceiling.

Excess appropriation/ diversion of grants to the tune of Rs.58.59 lakh were noticed.

Diversion of grants

2.3.14 For celebration of Mahatma Gandhi Jayanti and Navratri festival, 2003, the MOT released (September 2003) Rs.3.20 lakh and Rs.12 lakh respectively. The Company, however, diverted the amount of Rs.15.20 lakh for holding International Kite Festival, 2004.

The Management stated (August 2007) that the funds were diverted as per the approval (February 2004) of the State Government. The reply is not tenable, since the grant was received from the MOT, the Company should have obtained approval from the MOT.

Submission of incorrect utilisation certificates

The Company submitted incorrect utilisation certificates of grants of Rs.1.21 crore in five cases to the GOI.

2.3.15 The MOT/State Government provide financial assistance by way of grants to the Company for execution of infrastructural development projects. As per terms of sanction, the Company has to submit utilisation certificates (UTC) of grants to the MOT /State Government. The underlying objective of the UTC was to ensure that funds were utilised only for the specified purposes. Audit noticed that the Company submitted incorrect UTCs of Rs.1.21 crore to the MOT in the following cases:

[#] Shahi Rail (TRO) (FY 2002-03)-Rs.18.27 lakh, Modernisation and Upgradation (FY 2005-06)-Rs.9.05 lakh and Advertisement and Publicity (FY 2005-06)-Rs.16.07 lakh.

- The MOT sanctioned (March 1999 and March 2000) a project for Development of Mandvi, Phase-I and Infrastructure development at Mandvi, Kachchh Phase-II at a total cost of Rs.1.99 crore and Rs.99.80 lakh respectively. The grants received from the MOT for the project was Rs.49.87 lakh and Rs.23.36 lakh respectively and the remaining grants were from the State Government. The Company submitted UTC to the MOT for Phase-I and Phase-II in March 2005 and September 2004 respectively, wherein it stated that the project had been completed at a cost of Rs.1.25 crore and Rs.50.36 lakh and grants of Rs.31.36 lakh and Rs.23.36 lakh as received from the MOT had been utilised in the project. Audit noticed that the above grants of Rs.31.36 lakh and Rs.23.36 lakh were still lying unutilised as per the financial accounts of the Company for 2005-06.

The Management stated (August 2007) that UTCs submitted to the MOT were correct as the MOT grants of Rs.31.36 lakh and Rs.23.36 lakh had been utilised for the project, but the same were not adjusted in the books of accounts. The reply is not tenable, as the details of actual execution of works under this project were not made available to audit. In their absence, the genuineness of the UTCs furnished could not be vouchsafed in audit.

- The MOT sanctioned the project for development of Dwaraka Phase-I (March 1999) for Rs.98.66 lakh (MOT: Rs.47.80 lakh and State Government: Rs.50.86 lakh) and Dwaraka Phase–II (March 2000) at a total cost of Rs.82.22 lakh (MOT: Rs.41.11 lakh and State Government: Rs.41.11 lakh). The MOT subsequently released Rs.23.90 lakh (March 1999) and Rs.12.30 lakh (August 2000) for the execution of Phase-I and Phase-II respectively. The Company submitted (November 2006) UTCs to the MOT in which it stated that the work had been completed at a total cost of Rs.100 lakh (MOT: Rs.36.20 lakh and State Government: Rs.63.80 lakh). Audit noticed that the submission made to the MOT was incorrect as the Company completed (July 2006) the work from the State Government grant of Rs.91.97 lakh. Moreover, the total grant received from the MOT amounting to Rs.36.20 lakh is still lying unutilised in the State Government's treasury (March 2007).

- The MOT had sanctioned (March 2001) a project *viz.*, Upgradation refurbishment of Royal Orient Train in Gujarat at an estimated cost of Rs.1.05 crore inclusive of the State Government share of Rupees five lakh. Of the sanctioned grant, the MOT released (June 2001) Rs.30 lakh through the State Government. Audit observed that the State Government had retained Rs.15.30 lakh and released (February 2002) Rs.14.70 lakh to the Company. The Company had incorrectly submitted (September 2004) UTC to the MOT stating that it had utilised the full grant of Rs.30 lakh. The UTC issued is factually incorrect as the grant of Rs.14.70 lakh was shown as unutilised in the financial accounts for 2005-06 of the Company and the amount of Rs.15.30 lakh was never released by the State Government. Thus, submission of incorrect UTCs to the MOT resulted in non-utilisation of scarce public funds.

Project management

Inadequate planning resulted in dropping of projects

2.3.16 The MOT released (1985-2000) grant of Rs.70.50 lakh for four infrastructural development projects meant for construction of cottages at Nargol, Yatri Niwas at Dakor and wayside amenities at Fazalpur and Halvad. These projects were subsequently dropped (July 2002) because of litigation with contractors and non-availability of suitable land. The Company had incurred an expenditure of Rs.20 lakh on these projects till July 2002. Details of expenditure incurred were not made available to audit. Besides, nothing was on record for the efforts, if any, made by the Company to implement these projects.

The Management stated (April/August 2007) that as per the direction (July 2002) of the MOT, it was to complete the pending projects of VIIIth and IXth Plan period latest by March 2002 and March 2003 respectively. The Company dropped these projects as it was not possible for it to adhere to the time schedule. The reply is not convincing as the Company was having adequate time to execute the projects and dropping the projects after having incurred a huge expenditure lacked justification.

2.3.17 Wayside amenities *viz.*, cafeteria, toilet, bathroom, drinking water are essential requirements of tourists on National and State highways leading to various tourist destinations.

Audit observed that the MOT sanctioned (1997-2002) grants for construction of wayside amenities at nine[*] places at an estimated cost of Rs.1.78 crore and released (1997-2002) Rs.63.50 lakh (35.67 *per cent*)for the projects. None of the aforesaid projects were taken up for execution except a project at Malvan which was completed (November 2002) at a cost of Rs.48.03 lakh. The Company dropped (October 2002/August 2004) its plan for implementation of the projects in the remaining places on the plea of non-availability of suitable land. The efforts, if any, made by the Company for acquiring the suitable land for the projects were not on record.

The Management stated (August 2007) that out of nine places, the Company acquired land for the project at four places. The Company, however, dropped the projects as the State Government did not release the grants of Rs.63.50 lakh (35.67 *per cent*) received from the MOT to the Company and the MOT also decided to drop this kind of smaller project as it did not create desired impact. The reply is contradictory as these grants were released on the proposal of the Company. Moreover, there was lack of efforts on the Company's part in taking up the work of execution of these projects as these projects were sanctioned by the MOT during 1997-2002. Further, the reply does not give the reasons as to why the State Government did not release the grants received from MOT.

[*] Adesar, Bamanbore, Bhachau, Fazalpur, Halwad, Malvan, Miyana, Prantij and Sikka.

Infructuous expenditure on Highway Signages

2.3.18 The MOT sanctioned (March 2000) project for installation of highway signages at a total cost of Rs.30 lakh (MOT: Rs.7.50 lakh and State Government: Rs.22.50 lakh) with direction to complete the work within 30 months. Through a contract (August 2001), the Company got 30 highway signages fabricated and completed (September 2002) at a cost of Rs.28.03 lakh. The Company, however, failed to install these signages at the selected places for want of approval from the Roads and Buildings (R&B) Department of the State Government. The Company installed (September 2004) seven signages at places other than the selected places and the remaining 23 signage valuing Rs.21.49 lakh were still lying unutilised with the Company (October 2007). As per the proposal submitted to the MOT, the work was to be undertaken with the consent of R&B and Archeological Department. The Company did not obtain the required consent from these departments before taking up the project even though it had sufficient time at its disposal since March 2000. Thus, expenditure of Rs.28.03 lakh on fabrication of signages proved infructuous.

The Management stated (August 2007) that the work was taken up in anticipation of approval of the R&B and Archeological Department and the approval was still awaited. This is indicative of lack of proper planning in execution of the project.

Infructuous expenditure on printing of Navratri souvenirs

2.3.19 The Company on behalf of the State Government was to arrange for printing of souvenirs for distribution to the tourists during Navratri festival of 2004 (14 to 23 October 2004). The Company, however, issued the order on 3 November 2004 for printing 2000 copies of souvenirs at a cost of Rs.14 lakh when the festival was over. The souvenirs were received by the Company during 10-20 November 2004. No justification was on record for printing the souvenirs after conclusion of the festival.

The Management stated (August 2007) that these souvenirs were subsequently issued to various Companies, embassy offices and hoteliers. The reply is, however, silent as to why the souvenirs were printed after the festival. Further, no records were made available to confirm its issuance to various agencies as cited in the reply.

Unwarranted payment of centage charges

2.3.20 The Company assigned (July 2002) a deposit work of developing infrastructure facilities at beach resort at Mandvi, Kachchh to R&B Department at an estimated cost of Rupees four crore. The R&B Department in turn awarded (December 2002) the work to a contractor. The work was under execution for which the Company had released Rs.4.95 crore to the R&B Department till March 2007.

The Company had assigned the work to R&B Department on the plea of shortage of manpower for supervision. The Company was aware that R&B

Department was entitled to recover centage charges at nine *per cent* on the estimated cost of work in lieu of administrative cost to be incurred by R&B Department for executing the deposit work. The rate of centage charges was higher than the consultancy fees of two *per cent* being charged by private firms for the supervision of the work. Despite this, the Company awarded the work to the R&B Department which resulted in extra payment of Rs.28 lakh (R&B charges: Rs.36 lakh *less* Consultancy fees: Rs.8 lakh) in supervision of work. Justification for assigning the work to the R&B Department was not on record.

The Management stated (August 2007) that the work was assigned to the R&B Department as per the directives (September 2002) of the State Government. The reply is not tenable, as the copy of the directives was not produced to audit. Moreover, the State Government did not give any justification for issuing such directive especially, when the R&B Department had in turn assigned the work to some private agency on sub contract basis.

Deviation from project proposal

2.3.21 The MOT approved grants (January 2004) for the rural tourism project at an estimated cost of Rs.1.21 crore (MOT: Rs.93 lakh and State Government: Rs.28 lakh) to be executed by the Company. Under this project, Navagam and Malegam in Dang district were identified by the Company for development and promotion of rural tourism with a view to give socio-economic benefit to the rural people. The activities under the project *inter alia* included construction of shops, cafeteria, setting up of tourist information centers in these villages. The Company, however, shifted (May 2004) the site of the project from the selected villages to Saputara on the plea of administrative convenience. The approval for change in location of the project was, however, not obtained from the MOT/State Government. Consequently, the people residing at Malegam and Navagam villages were deprived of the intended benefits of the projects due to shifting of the location. Against the stipulated date of completion of November 2006, the work was still in progress (September 2007).

The Management stated (August 2007) that as Navagam and Malegam villages are located very near to Saputara and more tourists were visiting Saputara, the projects proposed at these villages were shifted to Saputara. The reply is not convincing as the Company was aware of the locational advantage of Saputara while planning for the project at these villages prior to 2004. Further, no reply was given for not obtaining the approval of the MOT/State Government for change in location of the project.

Operational performance of hotels

2.3.22 The Company operated 14 to 19 hotels (2002-07) and incurred operational loss of Rs.75.64 lakh. The operational performance of hotels during the period is given in the ***Annexure*-9**. Summarised position of the operational performance of the hotels is given below:

(Rupees in lakh)

Year	Number of hotels	Total Operational profit/ loss (-)	Hotels earned profit			Hotels incurred losses		
			No	Percentage	Amount	No.	Percentage	Amount
2002-03	14	(-) 60.40	1	7	15.25	13	93	75.65
2003-04	14	(-) 21.67	1	7	36.62	13	93	58.29
2004-05	15	(-) 8.14	5	33	36.12	10	67	44.26
2005-06	19	14.19	7	37	51.81	12	63	37.62
2006-07	19	0.38	7	37	42.85	12	63	42.47
Total		**(-) 75.64**			**182.65**			**258.29**

(Source: Information compiled from records of the Company)

During 2002-07, 63 to 93 *per cent* of the hotels incurred operational losses.

The percentage of loss making hotels ranged from 63 to 93 during 2002-07. Further, 26 *per cent* of hotels (five[#] numbers) had continuously incurred losses aggregating Rs.1.28 crore during 2002-07. The main reason for uneconomical operation of units was low occupancy as discussed in paragraph 2.3.24 *infra*.

The Management stated (August 2007) that even though profit making was not the prime consideration of the Company, it had earned the operational profit of Rs.7.55 lakh and Rs.79.42 lakh during 2004-05 and 2005-06 respectively on the hotels and TIBs. The reply is incorrect as the audit observations are based on the income and expenditure statements of the respective units and the figures mentioned in the reply are not supported by any document. Further, the Company is a commercial organization, supposed to operate competitively and on sound commercial principles.

Non-award of unviable units on management contract

2.3.23 The Company constructed (October 2002 to July 2003) hotels without any feasibility study/detailed project report at a cost of Rs.3.81 crore at five[∂] places with the grants received from the MOT and the State Government. The Company without making any analysis about the viability of the hotels decided (June 2002) to run the hotels on management contract basis. But no action was taken to put them into operation till February/May 2005 and all the five hotels remained idle for 25 to 31 months since its construction. The Company, however, revised (February 2005) its earlier decision and started operating (February/May 2005) all the five hotels on its own. Further, the Company conducted (April 2005) a study to ascertain the viability of operating the remaining four hotels on its own. As per the study, the operation of the projects was not viable due to low potentiality for occupancy, high operating cost including employees cost compared to the potential revenue. Despite this, the Company had neither made any efforts for giving these hotels on management contract basis nor devised any plan that would facilitate to make these hotels commercially viable. All the five hotels, consequentially, incurred (2004-07) operational losses of Rs.42.58 lakh.

The Management stated (August 2007) that there was less commercial consideration involved in taking up these projects. The Company, however, started operating the projects in February/May 2005 with aim to provide facilities to tourists. The reply is not tenable as the Company is a commercial organisation and required to operate competitively. Further, no reasons were

[#] Chorwad, Junagadh, Mandvi, Mount Abu and Palitana.

[∂] Dholavira, Malvan, Nalsarovar, Shamalaji and Valthan.

given for construction of hotels without feasibility study, delay in starting the operation of the hotels and non-devising of a plan to make the hotels commercially viable.

Occupancy

2.3.24 The Company had neither fixed any targets for occupancy ratio nor worked out breakeven point to operate the hotels competitively. The Karnataka Tourism Development Corporation Limited and Bihar Tourism Development Corporation Limited had fixed norms for room occupancy at 57 and 60 *per cent* respectively. Even by taking 50 *per cent* of occupancy as norm, the number of the Company's hotels which did not reach these targets is given below:

(Rupees in lakh)

Year	Number of hotels	Targeted income (at 50 *per cent* occupancy)	Actual income	Shortfall	Units achieving the target		Units not achieving the target	
					Num-ber	perce ntage	Num-ber	perce ntage
2002-03	14	180.13	93.82	86.31	1	7	13	93
2003-04	14	165.50	121.50	44.00	4	29	10	71
2004-05	15	180.66	133.00	47.66	4	27	11	73
2005-06	19	194.56	153.89	40.67	5	26	14	74
2006-07	19	179.04	155.19	23.85	5	26	14	74
Total		**899.89**	**657.40**	**242.49**				

(Source: Information compiled from records of the Company)

The percentage of units which could not achieve the norms ranged between 71 and 93 during 2002-07. The total shortfall of revenue in these hotels was Rs.2.42 crore as compared to the income that could be achieved at 50 *per cent* of occupancy. The Management had not analysed the reasons for low occupancy for taking corrective action. Thus, there was inadequate monitoring mechanism available at the Head office, as the Head office had not analysed and took corrective action to improve the room occupancy, based on the monthly reports submitted by the units. Moreover, there is no system to receive the feed back from the customers for improving the efficiency of services and to ensure customer satisfaction.

The Management stated (August 2007) that occupancy of the hotels ranged between 60 and 80 *per cent* during off season and 100 *per cent* during season. The reply is incorrect as the audit observations are based on the income and expenditure statements of the respective units and the figures mentioned in the reply are not supported by any document. Even if the Company had achieved 50 *per cent* of occupancy, it would have earned additional revenue of Rs.2.42 crore.

Operational performance of cafeterias

2.3.25 The Company operated six to eight cafeterias during 2002-07 and incurred total operational loss of Rs.1.31 crore. The operational performance of cafeterias during this period is given in the ***Annexure*-10**. It would be seen from the annexure that all the cafeterias were incurring operational loss continuously except one cafeteria earning profit for the last three years.

A summarised position of operational performance of the cafeterias is given below:

(Rupees in lakh)

Year	Number of working cafeterias	Total operating loss	Profit earning cafetarias			Loss making cafeterias		
			Number	Perce-ntage	Amount	Number	Perce-ntage	Amount
2002-03	6	19.01	--	--	--	6	100	19.01
2003-04	6	25.09	--	--	--	6	100	25.09
2004-05	8	34.15	1	13	1.12	7	88	35.27
2005-06	7	23.06	1	14	1.69	6	86	24.75
2006-07	6	29.43	1	17	0.76	5	83	30.19
Total		**130.74**			**3.57**			**134.31**

(Source: Information compiled from records of the Company)

During 2002-07, 83 to 100 *per cent* of cafeterias incurred operational loss.

The percentage of loss making cafeterias ranged from 83 to 100 during 2002-07. Of the eight cafeterias, seven[∇] cafetarias incurred total operational loss of Rs.1.34 crore during 2002-07, three[*] cafetarias had continuously incurred losses amounting to Rs.67.56 lakh. Audit scrutiny revealed that losses were due to high cost of food, electricity and fuel as discussed in paragraphs 2.3.26, 2.3.27 and 2.3.28 *infra.*

The Management stated (August 2007) that the high manpower and competition from private players were the reasons for the losses. The reply is not tenable as the Company being a commercial organisation failed to operate keeping its financial interest in view.

Food cost

2.3.26 The Company had been maintaining catering facilities at 14 to 19 units including six to eight cafeterias during 2002-07. The Company had not fixed any norms for percentage of food cost to its sales price. Haryana Tourism Corporation Limited fixed the percentage of food cost to sales price ranging from 35 to 45 *per cent.* Even if the Company had fixed the norms of food cost to sales at 45 *per cent,* the actual food cost incurred was in excess of norms in 13 units in 2002-03,14 units in 2003-04, 10 units in 2004-05, seven units in 2005-06 and 11 units in 2006-07. The Company did not furnish the data on food cost of four units during 2004-05, three units during 2005-06 and seven units during 2006-07. Further, catering activity of eight and ten units was given on agency basis during 2005-06 and 2006-07. Hence, there was reduction in number of units exceeding food cost norms during 2004-07. In all, during 2002-07, the actual food cost incurred in excess of norms in the units resulted in extra expenditure of Rs.50.45 lakh.

The Management stated (August 2007) that it was maintaining monthly consumption register from which the ratio of food cost to sales could be ascertained. Besides, it had been reviewing the food cost in the monthly meeting of managers. The reply is not tenable, as no norms for food cost has been fixed. Further, the minutes of the review meetings, their recommendation and action reports were not made available to audit.

[∇] Kevadiya, Modhera, Patan, Somnath, Sarita Udhyan, Sector-28 Gandhinagar and Toran Sachivalaya.

[*] Cafeterias at Modhera, Sarita Udhayan and Sachivalaya at Gandhinagar.

Cost of electricity

2.3.27 The Company had not fixed any norms for consumption of electricity for its units. Audit noticed that Punjab Tourism Development Corporation Limited fixed the electricity cost norms between four and six p*er cent* of the turnover of its units. Considering the norm of six *per cent,* the position of electricity consumption in respect of the units for which the data was available is discussed below:

Year	**Total units**	**Number of units for which power data was available**	**Number of units with consumption in excess of six *per cent***	**Range of consumption where consumption exceeds six *per cent***
2002-03	20	16	14	10.13 to 31.59
2003-04	20	17	15	8.44 to 24.07
2004-05	23	15	13	8.22 to 35.79
2005-06	26	17	15	6.87 to 375.43
2006-07	27	24	17	7.89 to 58.85

(Source: Information compiled from records of the Company)

The percentage of cost of electricity to turnover in these units ranged between 6.87 and 375.43 during 2002-07. Audit observed that the abnormal consumption of electricity was due to ineffective control and supervision and poor sales performance of the units. Thus, the electricity cost in excess of six *per cent* of sales resulted in extra expenditure of Rs.67.81 lakh during 2002-07.

The Management stated (August 2007) that electricity consumption in the units was commensurate with occupancy. Moreover, the consumption was reviewed in the monthly meetings on regular basis. The reply is not tenable, as the norms for consumption of electricity was not fixed. Further, the minutes of the review meetings, their recommendation and action reports were not made available to audit.

Fuel Cost

2.3.28 The Company had not fixed any norms for fuel cost. Fuel cost norm in Orissa, Rajasthan and Punjab Tourism Development Corporations was three, three and four *per cent* of the sales respectively. Considering norm of four *per cent,* position of fuel consumption in respect of the units for which the data was available is tabulated below:

Year	**Total units**	**Number of units for which data was provided to audit**	**Number of units (in excess of norms of four *per cent)***	**Range of consumption where consumption exceeds four *per cent***
2002-03	20	6	3	4.59 to 07.86
2003-04	20	7	5	4.60 to 15.76
2004-05	23	6	5	4.18 to 14.94
2005-06	26	4	3	4.18 to 13.98
2006-07	29	10	5	4.24 to 08.33

(Source: Information compiled from records of the Company)

The above table reveals that the percentage of cost of fuel to sales in these units ranged between 4.18 and 15.76 during 2002-07. Audit observed that the high consumption of fuel was due to poor sales performance of the units and ineffective control and supervision. The fuel cost in excess of four *per cent* amounted to Rs.2.67 lakh during 2002-07.

The Management stated (August 2007) that fuel consumption in the units was commensurate with occupancy. Moreover, the consumption was reviewed in the monthly meetings on regular basis. The reply is not tenable, as the norms for fuel cost were not fixed. Further, the minutes of the review meetings and their recommendation and action reports were not made available to audit.

Inadequate essential facilities at hotels/cafeterias

2.3.29 To provide essential facilities to the tourists is an important pre requisite in the tourism industry. A review of essential services and other amenities available in the hotels/cafeterias of the Company revealed some inadequacies like non-maintenance of records pertaining to the visits of Public Health authorities and their findings in regards to maintenance of hygiene in the hotels, absence of any system of periodical medical check-up of the cooks and non-availability of test reports of Food Inspectors on the quality of food provided in the hotels/cafeterias.

The Management while accepting the non-existence of system for periodical medical check up of cooks stated (August 2007) that officials of Public Health department/Food Inspectors were visiting the Company's units. No documentary evidence in support of the visit of these officials to the units was produced to audit.

The new Royal Orient Train

2.3.30 The Company, in collaboration with the Indian Railways had been running a luxury train 'The Royal Orient (TRO)' from Delhi to Delhi[▽]on meter gauge line since February 1995. The Railways was operating and maintaining the train and the Company was performing housekeeping in the train, local sight seeing and entertaining guests. The earnings from TRO were shared between the Railways and the Company in the ratio of 72:28. The Company had earned total profit of Rs.1.02 crore (2000-04) from the TRO. The route of train was gradually shortened due to work undertaken by the Railways for conversion of Saurashtra region track from meter gauge to broad gauge. The TRO was finally put (January 2004) out of operation upon completion of the work of conversion of the track.

The Company decided (March 2004) to reintroduce a new TRO on broad gauge line in collaboration with the Indian Railways at an estimated cost of Rs.14.35 crore (contribution of Railways: Rs.3.36 crore, State Government: Rs.4.29 crore and MOT: Rs.6.70 crore) to be completed within seven months from the execution of MOU with the Indian Railways. The earnings were to be shared between the Railways and the Company in the ratio of 35:65. The Company, however, had not taken any action for execution of the MOU with the Railways and entering into agreements with the MOT and the State Government for availing contribution for the projects. (March 2007).

[▽] Route of the train is Delhi, Udaipur, Palitana, Somnath, Bhilwada, Ahmedabad, Jaipur, and Delhi.

The Management stated (August 2007) that necessary steps were being taken to sign the MOU and execute the agreement with concerned authorities. The fact remains that due the inadequate efforts of the Company in complying with the formalities new TRO has not been reintroduced even after lapse of three years.

Financial Management

2.3.31 The State Government issued (December 1999) directions to all the State Public Sector undertakings (PSUs) to place surplus funds available with them for a period of less than 15 days in Liquid Deposit Scheme of Gujarat State Financial Services Limited (GSFS) to enable PSUs to earn interest on these surplus funds.

Scrutiny of records revealed that during April 2002 to March 2007, the Company kept funds ranging from Rs.52.26 lakh to Rs.18.42 crore in eight current accounts and two savings accounts with six• nationalised banks in Gandhinagar. The retention of such huge amounts in the current/savings accounts lacked justification. The Company could have invested the surplus funds ranging from Rs.2.26 lakh to Rs.17.92 crore even after retaining a minimum balance of Rs.50 lakh (seven days working capital requirement) in the current/savings accounts. Had the Company invested the surplus funds in the GSFS, it could have earned an interest of Rs.1.06 crore (after considering the interest earned of Rs.10.50 lakh in savings account) during the period.

The Management stated (August 2007) that it had retained funds in saving/current accounts with various banks to meet probable payment liabilities. The reply is not tenable, as the deposits made with GSFS are realisable on one day notice. Further, audit has worked out the interest loss after keeping in view the working capital requirement of the Company.

Monitoring and Corporate Governance

2.3.32 A mention was made in paragraph 4.19 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial) –Government of Gujarat about deficient corporate governance in the Company. It was noticed that some of the deficiencies pointed out still continued to persist during 2005-07 as listed below:

There were only six directors against the maximum limit of 15 and tenure of Managing Directors was short ranging from two to eighteen months.

- As against the maximum limit of 15 directors, the Company had only six directors. The BOD being the apex decision making body of the Company requires more representation.
- The post of Managing Director was held by eight incumbents during 2002-07, with the tenure ranging from two to eighteen months. Frequent changes in the incumbency resulted in lack of initiative at the top level to formulate and implement any long term action plan for improvement in

• Bank of India, Indian Bank, Punjab National Bank, State Bank of India, State Bank of Saurashtra and Syndicate Bank.

the working of the Company which is evident from the absence of any long term corporate plan with milestones for achievements there against.

Non-functioning of Purchase and Tender Committee

No meeting of the Purchase and Tender committee was held from October 2002 to December 2005.

2.3.33 As per the instructions (September 2001) of the State Government, all the purchases/tenders for the work exceeding Rupees one crore were to be scrutinised by Purchase and Tender (P&T) Committee. Though, the Company had a P&T committee consisting of members from Finance, Information & Broadcasting and Managing Director of the Company, no meetings of P&T committee were held during October 2002 and December 2005. Even in its subsequent meetings, the P&T committee did not scrutinise any proposals for award of work. Audit noticed that eight proposals for purchases/award of work involving Rs.17.55 crore were submitted (November 2002 to March 2006) to the BOD without involving the P&T committee. This not only resulted in violation of instructions of the State Government but also deprived the Company of the experience of the Committee.

The Management stated (August 2007) that P&T committee meetings were regularly held during 2002-05. However, during last two years only five to six members were appointed in the BOD of the Company. In view of the small size of BOD, the Company had submitted all the purchase proposals directly to the BOD. The reply is not tenable as no minutes of the meetings of P&T committee held during October 2002 and December 2005 were available. Both P&T committee and the BOD are two different forums constituted with specific purposes. Hence, the Company had violated the Government instructions by not finalising the purchase cases through the P&T committee.

Non-constitution of monitoring committees

2.3.34 The MOT issued (April 2003) guidelines and reiterated (April 2004 and September 2006) for the implementation of centrally sponsored schemes. As per the guidelines, the State Level Monitoring Committee and Convergence Committee were to be set up under the chairmanship of the Secretary (Tourism) of the respective State Governments and should have nominees from the Department of Tourism, MOT and the implementing agency for the schemes. Further, a Convergence Committee was to be set up under the chairmanship of the Collector of the district to oversee the implementation of the project.

Audit noticed that the Company on an average received Rs.4.11 crore and utilised Rs.95.50 lakh per annum under the centrally sponsored schemes. The State Government, however, had not constituted the above two committees

The Management stated (August 2007) that the State Government had constituted (April 2007) these committees. The fact, however, remains that delay of four years in constitution of the committees is indicative of its lack of concern in improving the monitoring mechanism for implementation of centrally sponsored schemes.

Non-observance of directives

2.3.35 In the following cases, the Company had taken a decision for not operating the unit either because of its poor performance in the past or there was no scope for viable operation of the unit. In disregard to its own decisions, to close down/not to operate unviable units, the Company continued the operations in the following units resulting in loss of Rs.47.63 lakh:

- As per the Company's decision (June 2000), the cafeteria at Sarita Udhayan, Gandhinagar was to be given on management contract basis because of poor operational performance. No efforts were made in this regard and the operation of cafeteria was continued by the Company itself resulting in accumulated operational loss of Rs.54.87 lakh (2001-07).

- The Company decided (February 2004) to close TIB at Rajkot from April 2004, if TIB would not make any operational profit during February and March 2004. Though, the TIB suffered operational loss of Rs.0.02 lakh (February 2004) and Rs.0.27 lakh (March 2004), the Company continued to operate the TIB resulting in loss of Rs.3.17 lakh (2004-06).

- The Company decided (February 2004) not to start operation of cafeteria at Somnath because of uncertainty in running it on a viable basis. The Cafeteria was, however, put in operation from August 2004 and its operation resulted in loss of Rs.13.36 lakh (August 2004 to March 2007). No justification was available on record for disregarding its own decision to stop the functioning of unviable units.

The Management stated (August 2007) that the Company being a nodal agency of the State Government had been operating the above units without having any commercial motive for it. The reply is not tenable as the decisions for not operating the above units were taken by the Company from the viability point of view even after knowing its role as nodal agency of the State Government.

Internal control

2.3.36 Internal controls are essential pre-requisite for the efficient discharge of an organisation's functions and required for 'good governance'. These are procedures and safeguards that are put in place by the management of an organisation to ensure that its activities are proceeding as planned. Strict observance of these procedures/ safeguards is vital for good governance in an organisation.

Following instances are indicating the deficiencies in internal control system of the Company:

- The Company identified (March 1999) 271 out of 490 employees as surplus and decided (March 1999) to retrench these surplus employees. The Company, however, did not take any action in this regard.

Consequently, it had incurred an avoidable expenditure of Rs.10.77 crore towards pay and allowances of 235 employees (excluding 36 employees who took VRS/expired/retired) during July 1999 to March 2007.

The Management stated (August 2007) that the identification of surplus staff and decision for their retrenchment were not taken based on any scientific study. Looking to tourism projects being undertaken by the Company and also as per the hotel industry standards, there existed shortfall of 137 hotel staff during 1999-2000 and even now also it needed additional staff of 170. The reply is not tenable, as it does not give any reasons for the Company's claim that the decision of March 1999 was not based on any scientific study. Besides, its present claim for requirement of additional staff is also not supported by any study made in this regard.

- The Company failed to recover (April 1996 to March 2007) lease rent of Rs.4.12 crore in respect of its four♦ hotels/motels due to deficient lease agreement executed by it with lessees. The departmental enquiry conducted (January-April 2002) indicated lapse on the part of four officials-three from Indian Administrative Services/Gujarat Administrative Services and one employee of the Company. The Company submitted (September 2002) the enquiry report to the State Government. Neither the State Government nor the Company took action against these officials (March 2007). This is indicative of deficient monitoring and control system existed in the Company.

The Management stated (August 2007) that the State Government had taken a decision (May 2007) to close down enquiry against the three IAS officers. However, the matter pertaining to Company's employee was under its examination. Thus, the fact remains that no action has been taken against any officials though it had resulted in non-recovery of rent of Rs.4.12 crore.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the management at various stages of conducting the performance audit.

Conclusion

The performance of the Company was deficient. Even after its existence of more than 30 years in the tourism sector, the percentage of tourists availing the Company's facilities was negligible compared to the inflow of tourists in the State. Poor planning, lack of proper monitoring and control during project execution resulted in slow progress of works and consequential low utilisation of funds. Grants were not utilised as per the terms and conditions of grants released. Norms for controlling the operational cost of food, fuel and electricity and also for increasing the occupancy of its hotels were not fixed resulting in huge operational losses. The governance of the Company was marred due to non-functioning of

♦ Ankleshwar, Dakor, Nargol and Ubharat.

Purchase and Tender committee, inadequate size of the BODs and frequent changes of Managing Director.

Recommendations

- **The Company should identify the critical areas of the tourism policy to effect micro level planning and devise action plan with milestones to achieve the objectives envisaged in the policy.**

- **Suitable monitoring system should be devised to ensure that the government grants are drawn and utilised as per the terms and conditions for release of grants.**

- **Efforts should be made to improve the process involved in planning and execution of the project activities with an aim to complete the projects in time.**

- **The improvement in the efficiency of performance of hotels and cafeterias could be made by fixing the norms and controlling the cost of food components, fuel and electricity and also increasing the occupancy of its hotels.**

- **Effective steps should be initiated to ensure functioning of Purchase and Tender Committee, adequate representation of the BODs and reasonable period of tenure of the Managing Director.**

The matter was reported to the Government in July 2007; the reply had not been received (November 2007).

Gujarat State Electricity Corporation Limited (erstwhile Gujarat Electricity Board)

2.4 Implementation of Renovation and Modernisation Activities in Power Stations

Highlights

The Board/Company had not laid down comprehensive plan for execution of each R&M activity. Against the originally planned 96 R&M activities, the Board/Company had executed (2002-07) only 28 activities costing Rs. 228.20 crore. Non-execution of the planned activities was mainly due to the procedural delays.

(Paragraph 2.4.7)

Infructuous expenditure of Rs.40.29 crore was incurred due to undertaking two R&M activities which were not needed in the Power Stations.

(Paragraphs 2.4.12 and 2.4.18)

Improper management of R&M activities led to loss of Rs.4.95 crore due to short recovery of penalty from defaulting contractor, avoidable payment of demurrage charges and MODVAT credit of excise duty.

(Paragraphs 2.4.13, 2.4.16 and 2.4.18)

Procurement of material for four R&M activities without assessing their needs resulted in blocking of Rs.16.48 crore with consequential interest loss of Rs.1.37 crore.

(Paragraphs 2.4.14, 2.4.17, 2.4.21 and 2.4.22)

Of the 28 R&M activities implemented, avoidable delays were noticed in procurement and commissioning of components and systems required for six R&M activities. These delays led to generation loss (2002-07) of 368.339 MUs worth Rs.76.92 crore.

(Paragraphs 2.4.11, 2.4.14, 2.4.15, 2.4.19 and 2.4.20)

Introduction

2.4.1 The Gujarat State Electricity Corporation Limited, Vadodara (Company) was incorporated (August 1993) with the main objective to generate and supply power to transmission company. Pursuant to the Gujarat Electricity Industry (Re-organisation and Regulation) Act, 2003, the erstwhile Gujarat Electricity Board (Board) was unbundled in a phased manner by 31 March 2005. The generation, transmission and distribution activities of the erstwhile Board were transferred to six Companies (including the generating Company *viz.*, Gujarat State Electricity Corporation Limited) working under the strategic control of Gujarat Urja Vikas Nigam Limited (the holding Company), which had taken over the residual activities of the erstwhile Board. The Company had taken-over (August 2002 to March 2005) seven power stations (PS) of the Board under power sector reforms programme of the State Government.

As on 31 March 2007 the Company had seven power stations of which four[^] are coal based thermal power station (TPS), one[∨] lignite based, one[*] oil based, one[#] gas based. The total installed capacity of all the seven power stations is 4,420.617 MW. As of March 2007, 13 Units of four[$] power stations having 1,624 MW capacities had completed their normal life of 25 years.

The renovation and modernisation (R&M) activities are undertaken with a view to increase the operational efficiency of the existing power plants. The R&M activities undertaken by the Company are broadly classified under (i) renovation and modernisation and life extension programme (R&M/LE) for plants; and (ii) Need based R&M programme. The R&M activities involve various works *viz.*, identification of the problems of plants through residual life assessment (RLA) studies of the plants, deciding the kind of R&M activity to be undertaken, preparation of detailed project report (DPR), deciding technical specification and preparing bid documents, obtaining approval from concerned authorities, arrangement of finance from institutions, invitation of tenders, evaluation of the bids, award of contracts for R&M activity and its implementation and conducting the performance guarantee test on the plants. The Company had implemented (2002-07) 28 R&M activities at a cost of Rs.228.20 crore in six[∇] TPS.

The management of the Company is vested in a Managing Director (MD) who is assisted by an Executive Director, a Chief Engineer, an Additional Chief Engineer (ACE), two Superintending Engineers (SE), two Executive Engineers (EE) and Deputy Engineers (DE) of Projects and Planning (P&P) Department at Head office for implementation of R&M activities and these activities are implemented at the TPS level by ACE, SE, EE and DE of the Company.

Scope of Audit

2.4.2 The present performance review conducted (December 2006 to April 2007), covers the planning, financing and implementation of R&M/LE activities in five out of six TPS undertaken for renovation (2002-07) and selected for review on the basis of magnitude of expenditure incurred.

---

^ Gandhinagar (870 MW), Sikka (240 MW), Ukai (850 MW) and Wanakbori (1,470 MW).

∨ Kachchh lignite thermal power station, Panandhro (215 MW).

* Dhuvaran thermal power station oil based (534 MW) and gas based combined cycle power plant (106.617 MW).

Utran thermal power station (135 MW).

$ Dhuvaran (Oil based), Gandhinagar, Ukai and Wanakbori.

∇ Dhuvaran, Gandhinagar, Kachchh lignite Panandhro, Sikka, Ukai, and Wanakbori.

Audit objectives

2.4.3 The audit objectives were to ascertain whether:

- detailed project reports (DPR) for the R&M activities were prepared after due surveys and studies;
- the R&M activities were executed as per the company's plan and DPRs;
- funds sanctioned by the Power Finance Corporation Limited (PFC)/ Rural Electrification Corporation (REC) for R&M activities were optimally utilised;
- the machinery, equipments and materials for R&M activities were procured economically after assessing their requirement and ensuring their quality and suitability; and
- the R&M activities were implemented in most efficient, economical and effective manner and the projected benefits achieved.

Audit criteria

2.4.4 The following audit criteria were adopted:

- prescribed procedure for assessing the need for undertaking R&M/LE activities and preparation of DPR for undertaking R&M activities;
- the guidelines/instructions issued by Ministry of Power (MOP)/ State Government, Board of directors (BOD) *etc* to the TPS related to R&M activities;
- best management practices regarding fund management;
- procedures for purchase of material and inventory control; and
- monitoring procedure and milestone for implementation of R&M activities.

Audit methodology

2.4.5 Audit followed a mix of the following methodologies:

- review of agenda notes, resolutions and minutes of BOD meetings, directives issued by MOP/Central Electricity Authority (CEA)/ State Government related to R&M activities;
- scrutiny of tender documents, correspondence and agreements entered into with contractors *etc*;
- review of various progress reports; and
- issue of audit queries and interaction with management.

Audit findings

2.4.6 The audit findings were reported (July 2007) to the Management/ Government and discussed in the meeting (25 October 2007) of the Audit Review Committee for State Public Sector enterprises (ARCPSE) which was attended by Additional Secretary to Government of Gujarat, Energy and Petrochemicals Department and MD of the Company. Their views were considered while finalising the review.

Audit findings are discussed in succeeding paragraphs.

Project Planning

Work planned and executed

Of the 96 R&M activities planned, the Board/Company executed only 28 activities costing Rs.228.20 crore.

2.4.7 The erstwhile Board/ Company had planned (2002-07) to take up 96[⊕] R&M activities (including three R&M/LE activities) at an estimated cost of Rs.965.69 crore covering six TPS. The Board/Company from time to time, reassessed its need and planned for execution of only 76 R&M activities (including three R&M/LE activities) during the period and dropped the remaining 20 R&M activities. The Board/Company did not have any comprehensive plan for R&M activities indicating the milestones like approval of DPR, inviting tender, award of works *etc*. The Board/Company had executed (2002-07) 28 activities (including one R&M/LE activity) at a cost of Rs.228.20 crore against 76 activities planned. This included 17 spillover R&M activities of ninth plan (1997-2002) and 11 R&M activities of tenth plan (2002-07). Details of power station-wise works planned and executed is summarised below:

(**Amount: *Rupees in crore***)

Sl. No.	Name of TPS	Planned		Executed	
		Number of activities	Amount	Number of activities	Amount
1.	Kachchh lignite, Panandhro	3[∇]	97.86	1	113.51
2.	Gandhinagar	10	75.09	5	50.83
3.	Ukai	23[∇]	364.08	4	8.80
4.	Wanakbori	27	130.93	14	54.23
5.	Dhuvaran	24[∇]	289.55	--	--
6.	Sikka	9	8.18	4	0.83
Total		**96**	**965.69**	**28**	**228.20**

(Source: Information provided by the Company)

In the case of remaining 48 R&M activities, the execution of 34 R&M activities costing Rs.464.04 crore were in progress and 14 R&M activities at an estimated cost of Rs.214.90 crore were not at all taken up during the period. Non-execution of planned activities was mainly due to avoidable delays in procurement and commissioning of components/systems as discussed in the succeeding paragraphs.

[⊕] 19 spillover work of ninth plan and 77 R&M activity of tenth plan.

[∇] Includes one life extension activity in these TPS.

The Management stated (August/October 2007) that execution programme for each R&M activity was mentioned in its DPR. As PFC/REC sanctioned loans for R&M activities on reimbursement basis, the fund crunch was also one of the reasons for non execution of planned activities. Fourteen R&M activities were not taken up because of non-supply of primary fuel and feasibility studies. The reply is not tenable. The execution programme mentioned in the DPR is for each activity and is also tentative. Thus, the Company did not have any comprehensive plan for execution of all the R&M activities which resulted in execution of only 28 out of 76 R&M activities within the plan period.

Project funding

2.4.8 The Company, after preparation of DPR for the R&M activity takes the approval of Board of Directors (BOD) and sends it to the CEA and the State Government for obtaining their approval. On receipt of approval from the CEA, the Company approaches PFC/REC for availing financial assistance. The PFC/REC sanctions loan equal to 70/90 *per cent* respectively of the estimated cost of the activity. The Company can draw loan either with the State Government guarantee or by creating a charge on its assets. The balance funds are to be met by internal resources.

Avoidable payment of guarantee fees

2.4.9 For financing the planned 76 R&M activities, the erstwhile Board/Company availed the financial assistance of Rs.345.80 crore out of Rs.706.13 crore sanctioned up to March 2007. The loans carried interest from 3.75 to 14 *per cent* with tenure for repayment ranging from five to ten years. The details of loan sanctioned, availed, un-availed and rate of interest are given below:

(Amount: *Rupees in crore*)

TPS	Amount of loan sanctioned			Total Amount availed up till 31 March 2007	Amount Un-availed	Guarantee fees paid on un-availed amount	*Per cent* of amount availed to sanctioned
	Funding agency	Amount	Rate of interest *per cent*				
KLTPS	PFC	84.35	6.50 to 7.50	73.00	11.35	0.00	86.54
	REC	1.80	8.50	0.18	1.62	0.00	10.00
Gandhinagar	PFC	50.93	4.75 to 11.50	45.32	5.61	0.00	88.98
	REC	19.34	8.50	0.81	18.53	0.00	4.19
Ukai	PFC	250.99	4.75 to 14.00	157.71	93.28	0.93	62.84
	REC	78.32	8.50	1.17	77.15	0.00	1.49
Wanakbori	PFC	28.20	4.75 to 7.15	28.20	--	--	100.00
	REC	85.98	8.50	8.60	77.38	0.00	10.00
Dhuvaran	PFC	25.90	4.75 to 5.75	25.90	--	--	100.00
	REC	74.79	8.50	3.04	71.75	0.00	4.06
Sikka	PFC	1.50	6.50 to 9.50	1.47	0.03	--	98.00
	REC	4.03	8.50	0.40	3.63	0.00	9.93
Total	**PFC**	**441.87**		**331.60**	**110.27**	**0.93**	**75.04**
	REC	**264.26**		**14.20**	**250.06**[∇]	**0.00**	**5.37**
	Total	**706.13**		**345.80**	**360.33**	**0.93**	**48.97**

(Source: Information provided by the Company)

[∇] In all these REC loans, charges were created on the assets of the Company as security in lieu of Government guarantee. Hence, no guarantee fee was paid.

The Board/ Company made an avoidable payment of guarantee fees of Rs.93 lakh on unavailed loan of Rs.93.28 crore.

The Board/Company availed (2002-07) only 48.97 *per cent* of the loans sanctioned as only 62 R&M activities were undertaken against the planned 96 R&M activities. Of the unavailed loans of Rs.360.33 crore, the Board/Company made an avoidable payment (2002-07) of guarantee fees of Rs.93 lakh* to the State Government.

The Management stated (September/October 2007) that on approval of R&M activities the financial assistance and Government guarantee was arranged; whereas on approval of loan amount, drawal schedule was prepared along with payment of guarantee fees. Thus, the guarantee fees were paid on the planned activities. The reply is not tenable. The fact is that R&M activities were approved for proposed amount, hence question of drawing extra/accepting more than requirement should not have arisen. Further, in the absence of any system for mid-term review of activities, the planned activities were not revised in a realistic manner. Thus, the deficiency in planning and monitoring of R&M activities led to payment of avoidable guarantee fees on unavailed loan in respect of the slow progress/dropped activities.

Implementation of renovation and modernisation/life extension activities

2.4.10 The R&M/LE activities are implemented at TPS level. Review of records relating to the R&M/LE activities indicated the instances of delay in awarding and executing the works, taking up of R&M activities in disregard of CEA opinion, procurement of materials without properly assessing their requirement and avoidable losses due to improper management of activities. These are discussed in the succeeding paragraphs:

Kachchh lignite thermal power station, Panandhro

Renovation, modernisation and life extension programme

2.4.11 Unit 1 and 2 of the Kachchh Lignite Thermal Power Station (KLTPS) were commissioned in 1990 and 1991 respectively at the rated capacity of 70 MW each. The Units were operating at the load of 58 MW and 32 MW respectively due to use of low calorific value (CV) (3,000 Kcal./Kg.) of lignite against the designed CV (4,150 Kcal./Kg.) of the plants. To achieve the rated capacity of 70 MW, the lignite milling capacity and selected boiler heating surfaces needed augmentation. For this, the R&M work was awarded (June 2003) to Larsen and Toubro Limited (L&T), Vadodara at lump-sum price of Rs.103.70 crore. The work of Unit 1 was to be completed by June 2005 and that of Unit 2 by April 2006. Against this, L&T had completed the work of Unit 1 on 30 December 2005 and Unit 2 on 30 August 2006. R&M activity also required construction of a chimney for which the Board had already awarded (October 2002) work order to Gammon India Limited, New Delhi at the price of Rs.10.20 crore. The chimney was to be commissioned by December 2003 but actually commissioned in two phases – November 2005 (Unit 1) and July 2006 (Unit 2).

* Calculated at the rate of one *per cent* on the amount of loan sanctioned.

Delay of six months in completion of the work led to generation loss worth Rs.52.10 crore.

In Unit 1, there was delay of six months in completion of the work as the Board/Company failed to replace the defective generator rotor and supply the spares of turbine/generator rotors to L&T within the time limit. Besides, the Board/Company had not made available the chimney required for commissioning the Unit to L&T. Thus, the delay (July-December 2005) in completion of R&M activity led to generation loss of 259.200 MUs valued at Rs.52.10 crore*.

The Management while accepting (August/October 2007) the audit observation stated that for the first time it had implemented such a major work. During execution of R&M activity, some unforeseen problems like repairing of turbine components, replacing of mill foundation parts and rectifying electrical defects in generator rotor led to the delay. The nature of problems cited in the reply were very incidental and not unforeseen, therefore, the delay could have been avoided through proper planning and monitoring of the activity.

Gandhinagar thermal power station

Upgrading of milling system

As the upgradation of coal mills did not achieve the purpose an expenditure of Rs.38.65 crore incurred remained infructuous.

2.4.12 Gandhinagar TPS Unit 1 and 2 commissioned in 1977 have a rated capacity of 120 MW each. The Units were, however, running at 90 MW since 1996 due to deterioration in CV of coal received by the TPS. In order to achieve the rated capacity large quantity of coal was required to be fed to the coal mills due to low CV of coal. Hence, the Board decided (March 1996) to upgrade the capacity of five coal mills of Unit 1 and 2 at an estimated cost of Rs.39.60 crore. The CEA was of the opinion (November 1998) that the proposed upgradation of coal mills would not help in achieving the rated capacity. As feeding of more quantity of coal will result in other problems like erosion of boiler internals, Induced Draft (ID) fans and overloading of Electrostatic Precipitator. The CEA had earlier opined (January 1998) to carry out RLA study of boilers, turbines and other equipments before taking up any R&M activities. This was reiterated in November 1998. The Board ignored the suggestion (January and November 1998) of CEA and carried out (September 2000 to March 2004) the upgradation of coal mills through Alstom Project India Limited, New Delhi at a cost of Rs.38.65 crore. The generation capacity of Units did not increase even after upgradation of coal mills and remained at 90 MW resulting in infructuous expenditure of Rs.38.65 crore as the purpose for which coal mills were upgraded was defeated.

The Management stated (August/October 2007) that as suggested by CEA the Company carried out RLA study (September 2003 to March 2004) and awarded (October 2006) the R&M/LE activity to BHEL, New Delhi based on the recommendation of RLA study. Thus, the envisaged increase in the generation by 30 MW would be achieved by 2009-10 on the completion of R&M/LE activity. However, the percentage of rejection of coals by coal mills had reduced from 3.8 to 0.08 after upgradation coal mills, besides there was

* Worked out at the average realisation price Rs.2.01 per unit for 2005-06.

overall improvement in generation of energy. The reply is not tenable. The DPR for the work of augmenting the milling system envisaged that the increase in generation by 30 MW would be achieved on completion of upgradation of coal mills; which was not achieved. The reduction in the percentage of rejection of coals and improvement in the generation were attributable to various reasons including using of washed coals and imported coals in the TPS since 2003-04.

2.4.13 The Board awarded (September 2000) the work to Alstom with the stipulation to complete the work of Unit 1 and 2 of the TPS by June 2001 and November 2001 respectively. Alstom, however, delayed the supply of material and commissioning of erection of coal mills ranging from 33 to 51weeks and 13 to 16 weeks respectively. As a result, the work of Unit 1 was completed in September 2002 and that of Unit 2 in March 2004. As per terms of contract with Alstom, penalty of Rs.3.86 crore (being 10 *per cent* on value of contract of Rs.38.65 crore) was recoverable. The BOD reduced (September 2006) the amount of penalty to Rs.65.10 lakh on the plea that there were delays on the part of the Board/Company in approval of drawings, delay in taking shutdown of the Units, compulsory stoppage of work of Alstom due to other works carried out at the site, *etc.*

There was a short recovery of penalty of Rs.3.21 crore.

Audit observed that slow progress of work due to delay in supply of material and belated commissioning of erection of coal mills by Alstom mainly led to belated completion of works in both units. Further, the BOD's decision (September 2006) was not supported with any analysis clearly indicating the cause and extent of each delay attributable either to Alstom or to the Board/Company. Thus, the short recovery of penalty of Rs.3.21 crore from Alstom lacked justification.

The Management stated (October 2007) that the BOD after deliberating (September 2006) the issue of levy of penalty and based on the merits and demerits of the case, had reduced the amount of penalty. The reply is not tenable, as adequate justification was not on record for reducing the penalty by Rs.3.21 crore.

Replacement of economiser assemblies

2.4.14 The TPS submitted (April 2003) a DPR for replacing (as per availability of shutdown) the old economiser assemblies (EAs) installed in 1986-87 in the boilers of Unit-1 and 2 of the TPS. The AOH of Unit 1 and 2 was scheduled to take place in February and September 2005 respectively. Considering six months for placement of order as per Boards norms and 12 months (actual time allowed 8 to 12 months as per the purchase order) for getting the supply of EAs, the Board had adequate time for replacing EAs in Unit 1 and 2 during the scheduled (February and September 2005) AOH. The Company without any reason on records took abnormal time of 13 months (April 2003 to May 2004) in the issue (May 2004) of tender enquiry and nine months (May 2004 to February 2005) in placement (February 2005) of order for this R&M activity. The order was placed (February 2005) on BHEL, Vadodara, at a cost of Rs.6.13 crore for supply and replacement of EAs for both the Units. BHEL completed the supply in September 2006. In the

Non-replacement of EAs led to generation loss of Rs.5.35 crore, besides loss of interest of Rs.73.56 lakh on the blocked up fund of Rs.6.13 crore.

meantime, due to delay of 16 months[⊕] in placement of order, the Company decided (June 2005) to replace EAs while taking up the R&M/LE activity of Unit-1 and 2 from April 2008. Hence, the EAs were not replaced (February/ September 2005) as envisaged in the DPR. Due to non-replacement of EAs, the Company suffered potential generation loss of 25.45 MUs valued at Rs.5.35 crore[#] (February 2006 to March 2007) due to tube failure in the old EAs. Further, the EAs purchased (September 2006) for Rs.6.13 crore would remain idle till April 2008. The potential interest loss on the blocked-up fund of Rs.6.13 crore worked out to Rs.73.56 lakh[*] from January 2007 (the month in which payments for EAs were completely made to the supplier) till the proposed date of replacement (April 2008).

The Management stated (August/October 2007) that the replacement of EAs required minimum 35 days. In this case, even if materials were procured in time the Company might not have been able to replace the EAs during the scheduled AOH. As, AOH of Unit 1 and 2 were conducted (February and September 2005) with a short spell of 25 and 14 days respectively due to power crisis in the state. The reply is not tenable. The Company's contention that there was no possibility for replacing the EAs is presumptive and after thought. Further, it does not respond to audit point as to why DPR submitted by TPS as far back as in April 2003 could not be acted upon in reasonable time.

Replacement of platen super heater assemblies

2.4.15 The Board decided (September 2003) to replace the old platen super heater assemblies (PSH) in the furnace area of Unit 1 as the PSHs had completed (June 2002) its 25 years of useful life. The Company was to procure PSHs before AOH scheduled (April 2005) for its replacement during AOH. The Board, however, belatedly (March 2005) placed the order for procurement of PSHs at a cost of Rs.1.61 crore. As per the purchase order, the supply of PSHs was to be completed by June 2005 but these were received during August 2005 to June 2007. Hence, the PSHs could not be replaced during the AOH (April 2005) of the Unit. The old PSHs failed on four occasions (August 2005 to March 2007) resulting in potential generation loss of 23.767 MUs worth Rs.5.08 crore[∀]. There was delay of 15 months in taking the decision to replace the PSHs even after the expiry (June 2002) of its useful life. Further, the purchase order was not placed at the appropriate time to match the supply of PSHs with scheduled AOH.

Non-replacement of PSH resulted in generation loss valued Rs.5.08 crore.

The Management stated (August/October 2007) that against the order placed for PSHs the last consignment of the supplies were received (June 2007)

⊕ Order should have been placed in October 2003 (*i.e.* within six months from May 2003) instead of February 2005.

\# Worked out at the average realisation price of Rs.2.01 and Rs.2.17 per unit for the year 2005-06 and 2006-07 respectively.

* Interest is calculated at the Company's average borrowing rate of 9.60 *per cent* per annum from January 2007 to April 2008 (*i.e.,* payment made to supplier till 2008 for 15 months).

∀ Worked out at the average realisation price of Rs.2.01 and Rs.2.17 per unit for the year 2005-06 and 2006-07 respectively.

belatedly. Even if the appropriate actions were taken in time leading to timely completion of supply, the Board might not have replaced it as the supplies received were defective. Further, against the four occasions of generation loss mentioned in the paragraph, only on one occasion the loss occurred due to failure of PSHs (December 2006). The reply is not tenable. The Board should have taken appropriate action well before the completion (September 2002) of useful life of PSHs. Besides, the generation loss of December 2006, the losses were also occurred in August 2005, October 2005 and September 2006 due to PSHs failure as per Company's records.

Ukai thermal power station

Raw coal stacker reclaimer system

2.4.16 The Board awarded (July 1999) a contract for design, manufacture and commissioning of raw coal stacker and reclaiming system at a cost of Rs.1.99 crore to Energo Engineering Products Private Limited, New Delhi (EEP). The work was to be completed by February 2000. The Board undertook the work *inter alia* to expedite the unloading of coal wagon and return the empty wagons to the Railways to avoid any payment of demurrage. Due to slow progress in execution of work, EEP was able to commission the system after a delay of 54 months. Further, due to defective design in the system it could be operated at 750 revolutions per minute (rpm) against the specified 1,500 rpm. Consequently, the purpose of installing the system to expedite the unloading of coal from wagons was not achieved. The Board/Company paid (November 2004 to November 2006) demurrage of Rs.1.57 crore to the Railways. Though, the Company had retained a sum of Rs.26.70 lakh for the delay in commissioning the system, it did not encash the performance bank guarantee of Rs.18.86 lakh. Besides, no action was taken against the firm for the deficiency in design of the system under the arbitration clause of the contract.

Defective design in the system led to payment of demurrage of Rs.1.57 crore.

The Management stated (August 2007) that due to the problem in the reclaim chain conveyor, the system was working at 50 *per cent* of its designed capacity. The reclaim chain conveyor, however, had nothing to do with unloading of coal from the wagons. Thus, the payment of demurrage was not caused due to the defective design of the system. The reply is incorrect. The reclaim chain conveyor, though, was required to feed the stacked coal into the coal bunker; the lower speed of the conveyor had a consequential effect on the unloading of coal wagons. Moreover, the Company did not give any reason for slow unloading of coal with corroborative document. Besides, the Company had not taken any action against the firm including encashment of bank guarantee with it.

Avoidable extra expenditure due to excess purchase

2.4.17 The Board decided (June 2003) to replace 20,848 condenser tubes of Unit 1 and 2 as the tubes got punctured frequently resulting in forced outages. The Company awarded (July 2005) another work for Unit 1 and 2 under R&M/LE to BHEL, Trichy in which 3,000 tubes condenser of Unit 1 and 2 were also to be replaced while executing R&M/LE activities. Therefore, the total requirement for the tubes had reduced to 17,848. The Company,

Excess procurement of 3,000 tubes led to blocking of funds Rs.93.63 lakh.

however, procured (January 2006 to February 2007) 20,848 tubes as per its original plan (June 2003). This resulted in excess procurement of 3,000 tubes costing Rs.93.63 lakh which may remain idle for a longer period as the condenser tubes have a life of 20 years and all the condenser tubes of both the Units have been replaced (March 2007) recently.

The Management stated (August/October 2007) that the TPS purchased the excess 3,000 tubes considering 2,259 tubes taken (November 2001 to March 2003) from other TPS on returnable basis and 741 tubes as spare. The reply is not tenable. The procurement of 20,848 tubes made by the TPS included neither the quantity of tubes to be returned to other TPS nor to be kept as spare. On the contrary the tubes which were to be returned to other TPS were included in a separate purchase order issued (January 2006) for Unit 5.

Dual flue gas conditioning system

2.4.18 The Board awarded (October 2001) a contract for manufacture and commissioning of dual flue gas conditioning (DFGC) system[∇] for Unit 4 of Ukai TPS at a cost of Rs.3.20 crore to Chemithon Engineers Limited, Mumbai (CEL). DFGC system was commissioned in November 2002. CEL was selected (September 2001) over the another bidder Bachmann Industries India Limited (BIIL) who was L-1 on price evaluation because foreign principal of BIIL had not given performance guarantee on behalf of BIIL and BIIL had stated that only 20 *per cent* of its material supply would be imported. CEL matched the L-1 price of BIIL before awarding the contract. Audit observed the following deficiencies:

- None of the conditions for which BIIL was refused the order was satisfied by CEL. CEL submitted a collaboration agreement for sulphurisation plant instead of a DFGC system. Performance guarantee was given by CEL and not by the foreign principal and CEL had no previous experience in the field. Further, the CEL matched with the price (Rs.3.20 crore) of BIIL which was inclusive of fees of Rs.80 lakh. The fee was meant for technology transfer which was not required in case of CEL as there was no technology transfer.

The Management stated (August/October 2007) that the firm had submitted necessary documents on transfer of technology from its foreign principal. The reply is not tenable. The documents regarding transfer of technology by its foreign principal were not made available to audit.

- The Board commissioned DFGC system without ascertaining its suitability for Indian coal. The Chief Engineer (CE), Ukai was of the opinion (July 2005) that as the sulphur is naturally available in Indian coal, sulphur injection was not required in the ESP. An analysis of the

[∇] In DFGC system SO_3 (Sulphur) and NH_3 (Ammonia) are injected before Electrostatic Precipitators (ESP) inlet (*i.e.*, air pollution control equipment) in the flue gas to reduce resistivity of fly ash and increase the collection efficiency of ESPs, to reduce the level of suspended particulate matter (SPM).

usage of the system revealed that sulphur was used (January 2004 to December 2005) very minimally (946 Hrs.) compared to the ammonia (10,174 Hrs.). Instead of dual flue gas system, the Board should have commissioned the ammonia based injecting system which was cheaper by Rs.1.64 crore.

Imprudent investment of Rs.1.64 crore was made for sulphur injection under DFGC system.

The Management accepted (August/October 2007) the audit contention on the imprudent investment made for sulphur injection of DFGC system.

- The CEL had quoted (December 1999) its price for the contract based on concessional excise duty (ED) of eight *per cent* applicable for pollution control equipments. No Modified value added tax (MODVAT) credit was available at this rate. Due to change (March 2000) of ED rates, the concession was withdrawn and CEL paid ED at the rate of 16 *per cent.* However, the MODVAT credit of Rs.17.37 lakh (being 65 *per cent* of ED of Rs.26.72 lakh paid by the Board) which the firm is now entitled to was not obtained and passed on to the Board.

Modified value added tax credit for Rs.17.37 lakh was not passed on to the Board.

The Management stated (August/October 2007) that as per tender specifications the firm was to quote the price after considering the MODVAT credit availability. As such the price quoted was net of MODVAT. The reply is not tenable as the firm had quoted the price considering concessional ED of eight *per cent* but as the concession was withdrawn (March 2000), the firm demanded (September 2001) and the Board paid the ED of Rs.26.72 lakh at the rate of 16 *per cent.* However, the MODVAT credit in the light of payment of ED at a higher rate was not considered and passed on to the Board by the firm.

Wanakbori thermal power station

Purchase of seamless tubes type high pressure heaters

2.4.19 The Board decided (February 1999) to take up R&M activities related to replacement of six seamless tubes type high pressure (STHP) heaters in place of existing heaters for Unit 4, 5 and 6. The Board envisaged benefit of Rs.5.37 crore per annum after replacement of the STHP heater due to improvement in the plant load factor (PLF). The Board did not prepare detailed plan for implementing the work. Though, funds were available from PFC since November 1998, the Board placed order for STHP heaters only in March 2001 and the STHP heaters were replaced (April 2003). Had the Board immediately taken action, the order could have been placed within six months *i.e.,* June 1999. The delay of 20 months (*i.e.,* July 1999 to February 2001) in placement of order resulted in non-improvement of PLF and non-realisation of envisaged benefit of Rs.12.82 crore (53.70 MUs) during the period.

Delay in placement of order led to non-realisation of envisaged benefit of Rs.12.82 crore.

The Management stated (August/October 2007) that even if the order was placed in August 1999 the HP heaters would have been replaced in August 2000. As the tubes having leakages were plugged from time to time, there was nominal loss due to delay in replacement of seamless tube HP heaters. The reply is not tenable. It does not contain the reasons of delay in placement of order for STHP heaters. Further during 1999-2003, 363 tubes of old HP heaters were plugged. Thus, plugging of more tubes adversely affected the efficiency of the HP heaters as the plugged tubes were not capable of transferring heat. Besides, the management accepted (October 2007) that there was an improvement in the PLF after replacement of STHP heaters, thus the benefits of improved PLF could have been derived even from September 1999 if the heaters were replaced in time.

Renovation of turbo supervisory instrumentation

2.4.20 Wanakbori TPS prepared (April 2000) a DPR for renovation of turbine supervisory instrumentation (TSI) system of Unit 2 under R&M activities as the existing TSI system became obsolete. Further, malfunctioning of the Unit resulted in tripping and generation loss. The new TSI system proposed was based on microprocessor based digital technology. The R&M activity envisaged improvement in generation and PLF. As per DPR, supply of materials for the system was to be completed by April-June 2001 and the system was to be commissioned during AOH (June 2001). The Board, however, accorded approval (February 2001), invited tenders (March 2002) and placed orders (June-July 2003) for supply, erection and commissioning *i.e.* 24 months after AOH. After completion of supply (November 2003) *i.e.* 28 months after AOH the TSI system was commissioned during AOH of August 2004. Thus, the delay of more than three years (July 2001 to August 2004) in according the administrative approval and placement of order led to tripping of the plant and consequential generation loss of 6.222 MUs valued at Rs.1.57[∇] crore during the period in Unit 2.

Delay in placement of order led to generation loss valued at Rs.1.57 crore.

The Management stated (August/October 2007) that as TSI system was critical component, the Board took extra caution in finalising the technical specifications and evaluating the bids before placement of order. This had caused the delay. Further, the generation loss commented in the audit was worked out on the rated capacity of the Unit ignoring the low load period. The reply is not tenable as the three years abnormal delay occurred even though the Board finalised the commissioning date (June 2001) after conducting detailed project study. Further, the reply regarding the working of generation loss is not tenable as the figures have been obtained from the Company's record.

Dhuvaran thermal power station

Avoidable purchase due to delay in taking decision

2.4.21 Under R&M activities for the Dhuvaran TPS, the Board decided (June 2003) to replace the condenser tubes of Unit 5 and 6 at an estimated cost of Rs.12 crore as the existing tubes were old and frequently leaked. The order for purchase of 27,000 tubes at the cost of Rs.11.82 crore was placed (December 2005) on Multimetals Limited, Kota (firm). The stipulated period for completion of the supply was June 2006. The firm, however, did not

[∇] Worked out at the average realisation price of Rs.2.46 to Rs.2.85 per unit for 2002-04.

Excess procurement of 13,978 tubes led to loss of interest of Rs.19.56 lakh on the blocked fund of Rs.4.89 crore.

commence the supply till June 2006. Indian Oil Corporation Limited, Vadodara (IOC) did not agree to extend the supply of low sulphur heavy stock oil *i.e.*, basic fuel for the TPS beyond July 2009. Therefore, the Board, decided (June 2006) to drop the R&M activity. But the Board did not cancel the order for purchase of the tubes, though it was empowered to do so. On the contrary, the Board kept on accepting (July 2006 to April 2007) the supply of 13,978 condenser tubes for which payment of Rs.4.89 crore was made (August-October 2006). Thus, the procurement of 13,978 condenser tubes worth Rs.4.89 crore was proved imprudent. Further, this resulted in loss of interest of Rs.19.56[^] lakh on the blocked fund of Rs.4.89 crore.

The Management stated (August/October 2007) that it continued to accept the supply of 13,978 tubes as it wanted to ensure the efficient functioning of Unit 5 and 6 till July 2009. As such, it had already replaced (January 2007) condenser tubes of Unit 5 in by using the stock of 13,022 tubes available with it. The new purchases would be utilised (December 2007) in replacing the condenser tubes of Unit 6. The reply is not tenable. The condenser tube has got a life of 20 years. Besides, during 2002-07 except on one[*] occasion no outages had occurred due to condenser tube failure. Under the circumstances, it may not viable to install the tubes in the Units having residual life of two years.

Replacement of condenser tubes

Excess procurement of 10,470 condenser tubes led to loss of interest of Rs.43.39 lakh on the blocked fund of Rs.4.52 crore.

2.4.22 The Board decided (January 2004) to replace the old condenser tubes of Unit 1 to 4 of the TPS under R&M activity. The Company dropped (October 2005) the R&M activity in view of its decision (July 2005) to close down the Units in March 2006 due to their uneconomical operation. Despite this, the Company procured (December 2005) 10,470 condenser tubes costing Rs.4.52 crore from Multimetals Limited, Kota disregarding its decision (July 2005) of closure. The condenser tubes were lying idle since April 2006 at the TPS. Thus, the procurement of tubes was imprudent and lacked justification. This resulted in loss of interest of Rs.43.39 lakh[⊗] on the blocked (April 2006 to March 2007) funds of Rs.4.52 crore.

The Management stated (September/October 2007) that in December 2005 the order for the procurement of condenser tubes were placed with a view to meet the O&M requirement of Unit 2 and 3 till its closure in 2006. The reply is not tenable. As even against the order placed in December 2005, the Company got the supply in April 2006. Since then it is lying idle (August 2007).

No system was evolved for monitoring the progress of R&M activities undertaken.

Internal control system

2.4.23 Adequate internal control system does not exist with the Company in controlling the R&M activities. The Company had not prepared any

---

^ Calculated for the period from November 2006 to March 2007 at 9.60 *per cent* based on the Company's borrowing rate during 2006-07.

* In Unit 6 on 30 November to 02 December 2005.

⊗ Calculated at the average borrowing rate of 9.60 *per cent* per annum of the Company during 2006-07.

comprehensive plan for implementation of R&M activities during 2002-07. Inordinate delays occurred in the decision making process had led to belated placement of orders and failure to synchronise various activities for the successful completion of R&M activities. Further, no system was evolved for monitoring the progress of R&M activities undertaken. The periodical progress reports received from the TPSs relating to execution of R&M activities were not analysed for undertaking suitable follow-up actions by the Head Office of the Company.

The Management stated (August 2007) that the Company had a system for controlling the R&M activities. The periodical reports received from the TPS were analysed and suitable actions were taken based on the analysis. The reply is not acceptable in absence of any record indicating the periodical evaluation of the activity by the management.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the management at various stages of conducting the performance audit.

Conclusion

The Board/Company did not have any comprehensive plan for R&M activities indicating the milestones like approval of DPRs, inviting tender, award of works *etc.* Non-adherence of procedures and delays in award of R&M works led to non-execution of the activities as per time schedule. Undertaking of few R&M activities which were not needed, led to infructuous expenditure. Performance of the Board/Company in implementation of R&M activities was further affected due to delays/excess procurement of materials and delay in commissioning of components/systems, short recovery of penalty from defaulting contractors, non-recovery of MODVAT credit of excise duty, avoidable payment of demurrage charges. Consequently, the Board/Company suffered generation loss and also incurred avoidable expenditure.

Recommendation

- **The Company should devise a proper assessment system to identify the R&M activities to be undertaken at various power stations. Further, a comprehensive plan indicating the milestones for executing the identified R&M activities is required to be prepared;**

- **A system should be devised for minimising the delay in decision making process and for monitoring the adherence to comprehensive plan in the implementation of R&M activities. The system should also provide for mid-term evaluation of R&M activities being implemented, in order to take timely corrective actions; and**

- **Procurement of material for R&M activity should be made keeping in view the available stock and lead time required for getting the supplies.**

The matter was reported to the Government in July 2007; the reply had not been received (November 2007).