CHAPTER - II

2 Reviews relating to Government companies

2.1 Gujarat State Police Housing Corporation Limited

Highlights

Gujarat State Police Housing Corporation Limited was incorporated in November 1988 as a wholly owned State Government company with the main objective of construction of residential and non-residential buildings for police and jail in the State.

(Paragraph 2.1.1)

The Company, working on "no profit no loss" basis, had finalised its accounts up to 1999-2000 only.

(Paragraphs 2.1.2 and 2.1.6)

Due to excess drawals from the State Government, the Company could utilise only 34.87 to 56.24 *per cent* of the available funds for execution of works during 1998-2003. Besides, the Company could not earn interest of Rs.1.79 crore on unutilised funds as the same were lying in current account.

(Paragraphs 2.1.7 and 2.1.10)

There were delays ranging between 64 and 675 days in completion of 21 out of 45 civil works test checked in audit.

(Paragraph 2.1.13)

The estimates prepared by the Company were unrealistic as there were wide variations between estimated and executed quantities, mainly because of carrying out soil bearing test and preparing structural designs, in most of the cases after the award of the work. There were savings of Rs.7.02 crore against revised estimated cost of Rs.30.77 crore in respect of 29 projects completed.

(Paragraphs 2.1.14 and 2.1.15)

Due to collapse of one block of C-4 (12 units) at Mavdi, Rajkot district, the police personnel had not occupied 136 quarters constructed at a cost of Rs.3.76 crore. Consequently, the Government had made avoidable payment of house rent allowance of Rs.18.69 lakh to police personnel, besides, the purpose of construction of staff quarters could not be achieved.

(Paragraph 2.1.17)

The Company's unauthorised decision to increase the carpet area of B, C and D types of quarters from the area prescribed by the State Government led to additional financial burden of Rs.4.56 crore on the State exchequer.

(Paragraph 2.1.19)

Introduction

2.1.1 The Gujarat State Police Housing Corporation Limited (the Company) was incorporated in November 1988 as a wholly owned State Government company with the main objective of construction of residential and non-residential buildings for the Police and Jail.

Objectives and activities

2.1.2 The main objectives of the Company, *inter alia*, included the following:

- to formulate and execute schemes for construction and maintenance of all types of police buildings (residential and non-residential) and allied works;
- to formulate and execute various housing schemes for serving and retired employees of Police in the State Government;
- to promote the formation of residential townships, colonies, co-operative housing societies, trusts, or other association or organisation for owning any of the properties for policemen;
- to invest the surplus funds of the Company from time to time in deposits, units, Government securities or in other securities including shares, bonds and debentures as may from time to time be determined by the Board of Directors and from time to time sell or vary investment and to execute all assignments, transfers, receipts and documents that may be necessary in that behalf;
- to acquire or lease lands, buildings, sites necessary for carrying out any of the objects of the Company.

The Company is acting as a nodal agency to the State Government for construction of residential and non-residential buildings for the police, jail, forensic science laboratory, anti-corruption bureau *etc.*, and maintenance and repairs of buildings of police and other offices under the Home Department and is operating on "no profit and no loss" basis.

Organisational set up

2.1.3 The management of the Company is vested in a Board of Directors consisting of six official directors nominated by the State Government *viz.*, a Chairman, a Managing Director and four directors as on 31 March 2003. Besides, during 1998-2003 the number of non-official directors ranged between four and six.

The Managing Director is the Chief Executive of the Company and is assisted by an Executive Director, a Chief Engineer, a Deputy General Manager, a Company Secretary and a Manager (Finance and Accounts).

The Company has eight* division offices in the State, each headed by an Executive Engineer for execution of works relating to construction, repairs and maintenance. The activities are co-ordinated and monitored from the Head Office at Gandhinagar.

Scope of Audit

2.1.4 This maiden review on the performance of the Company has been conducted with a view to ascertain whether the Company has been managing its affairs in an efficient, economic and effective manner. The working of the Company for the period of five years up to 31 March 2003 was reviewed during October 2002 to March 2003 from records of five$ out of eight division offices and head office.

The audit findings, as a result of test check of records, were reported to Government/Company in May 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view points of Government/Company was taken into account before finalising the review. The meeting of ARCPSE was held on 11 June 2003 with officials of State Government and the Company and their view points have been duly incorporated in the review.

Capital structure

2.1.5 The entire paid up share capital of Rs.50 crore of the Company as on 31 March 2003 was subscribed by the State Government.

Financial position

2.1.6 The Company finalised its accounts up to 1999-2000. The accounts for the subsequent years were not prepared, even on provisional basis (July 2003). The fact of delay in finalisation of accounts was brought to the notice of the State Government *vide* paragraph number 1.2.3, included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (Commercial) - Government of Gujarat. The Company's financial position for the three years ended 31 March 2000 is given in ***Annexe*-10**. It was observed that the cash and bank balances and balances under personal ledger account (PLA)# had been increasing year after year.

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* Gandhinagar, Ahmedabad (City), Ahmedabad (Rural), Vadodara, Junagadh, Mehsana, Rajkot and Surat.

$ Gandhinagar, Ahmedabad (City), Rajkot, Vadodara, Junagadh

\# PLA - Personal Ledger Account maintained with the Government treasury office.

Fund management

2.1.7 The State Government made budgetary provision under plan and non-plan head every year for undertaking construction and maintenance of residential and non-residential buildings of the Home Department. During 1998-2003, the Company received Rs.259.95 crore from the State Government against works (Rs.189.85 crore), jail housing (Rs.6.33 crore); border area development programme (BADP) (Rs.2.89 crore), commando training centre, Karai (Rs.8.80 crore), forensic science laboratory (Rs.1.77 crore); maintenance works (Rs.49.35 crore) and others (Rs.96 lakh). Due to slow progress in execution of work by the Company the State Government withdrew Rs.30 crore during 2001-02 (Rs.20 crore) and 2002-03 (Rs.10 crore) from PLA.

As per the system followed for disbursement of funds, the State Government was issuing Government Resolution (G.R.) for the release of funds. The amount released was credited to PLA. The treasury was issuing cheques to the Company after obtaining approval of Finance Department, subject to the availability of funds till February 2002. Thereafter, the State Government was issuing G.R. for release of funds to the extent available with the treasury. Accordingly, the treasury was issuing cheque to the Company instead of crediting the grant in PLA.

The State Government granted advances for construction of residential quarters for police personnel based on annual plan submitted by the Company. The annual plan is prepared as per the priorities for construction of quarters decided by the Director General of Police (DGP) of the State. However, deviations from proposed plan were observed due to change in priority list later on.

The table below indicates the position of total funds received from the State Government and available for execution of works including maintenance and repairs *etc., vis-à-vis* funds utilised mainly for work thereagainst during 1998-2003.

The Company could utilise funds ranging between 34.87 and 56.24 *per cent* only.

(Amount : Rupees in crore)

Year	Opening balance	Funds received during the year	Total (2+3)	Repay-ment of loan	Total availa-ble fund (4-5)	Fund utilised	Unutilised balance at the end of the year	Percentage of funds utilised to total available funds
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1998-99	16.02	32.18	48.20	1.92	46.28	19.50	26.78	42.13
1999-00	26.78	42.77	69.55	4.80	64.75	25.54	39.21	39.44
2000-01	39.21	60.49	99.70	6.72	92.98	32.42	60.56	34.87
2001-02	60.56	54.23	114.79	9.29	105.50	41.85	63.65	39.67
2002-03	63.65	40.28	103.93	--	103.93	58.45	45.48	56.24

It would be seen from the above that during 1998-2003, the Company could utilise only 34.87 to 56.24 *per cent* of available funds.

Centage charges

2.1.8 In absence of specific budget allocation for administrative expenditure, the Company incurred Rs.9.84 crore (1998-2000: Rs.5.32 crore and 2001-03: Rs.4.52 crore) towards administrative cost (salary, wages and administrative expenses) which was allocated to works on *pro rata* basis. Based on the proposal made (October 2001) by the Company for staff requirement, the Government approved (December 2001) centage charges on its projects at five *per cent* of the project cost in *lieu* of the budgetary support for administrative expenses from 2001-02. Evenafter the receipt of G.R. (December 2001), there was no change in the system of allocating expenditure followed by the Company as the Company had represented (May 2002) to the Government for modification in G.R. towards implementation of centage charges. Neither the Government provided funds separately towards centage charges nor the Company asked for the same. Implementation of method of claiming centage charges was yet to be finalised. As a result, the funds received for works adjusted towards centage charges to the extent of Rs.4.52 crore during 2001-03 was yet to be regularised by the State Government (July 2003). The Company/Government stated (June/August 2003) that the Company claimed and received the administrative expenditure as per actuals from the State Government. The reply was not tenable as the directive of the State Government issued in December 2001 required to restrict the centage charges to five *per cent* of project cost.

Retention of unspent grant

The unspent balance of M&R grant of Rs.8.96 crore was retained by the Company.

2.1.9 The Government transferred (December 1999) the activities of maintenance and repairs of the residential and non-residential buildings of the police to the Company. Accordingly, the State Government released Rs.43.93 crore towards maintenance and repairs grant during 1999-2003. Out of which the Company utilised only Rs.34.97 crore and retained the unspent amount of Rs.8.96 crore. Further, the records did not indicate that the Company had furnished utilisation certificates in respect of grants received. The Company stated (June 2003) that the utilisation certificate for maintenance and repairs grant of 2000-01 and onwards would be given to Government on finalisation of accounts of three years.

Violation of State Government's directives

2.1.10 The State Government issued (December 1999/November 2000) instruction to all Public Sector Undertakings (PSUs) to place surplus funds available with them for a period of less than 15 days in liquid deposit scheme (LDS) of Gujarat State Financial Services Limited (GSFS). It was also clarified by the State Government that the surplus funds would mean any operating surplus with PSUs in current account with bank or otherwise and would be required by PSUs in future even after one day. Funds placed with GSFS under the scheme were withdrawable on one day's notice.

The Company had balance ranging between Rs.4.56 crore and Rs.58.70 crore in current accounts with nationalised banks at Ahmedabad and Gandhinagar during March 2002 to March 2003. In view of the directives of the State

Non-investment of surplus funds in GSFS resulted in interest loss of Rs.1.79 crore.

Government, the Company could have assessed its liability to be cleared immediately and invested the surplus funds in LDS of GSFS, after retaining rupees one crore towards urgent requirements. Failure of the Company to do so had resulted in loss of interest of Rs.1.79 crore during March 2002 to March 2003 (calculated at interest rates ranging between 4.62 and 10.78 *per cent).*

The Company/Government stated (June/August 2003) that it had decided to invest the surplus funds with GSFS. Besides, as the funds received were advance against work, no impropriety was committed if the funds were kept in the balance for the works already executed or to be executed. The reply was not tenable as the unutilised funds indicated that the Company did not take up work even after availability of funds and funds were kept in current account without earning any interest.

Targets and achievements

2.1.11 The Company has not fixed annual physical and financial targets to compare its achievements and to assess the reason for short fall in achievement. In reply to an audit query, the Company confirmed (April 2003) that the Company was not fixing targets indepedently in terms of financial and physical parameters as it was undertaking the works programme as per the priority of the State Government. However, the fact remained that, the Company, even after 14 years of its existence was not able to assess its annual capacity.

Construction performance

2.1.12 The Company was formed to take up construction of residential quarters and other civil works for Police and Jail under the Home Department of the State in a speedier way. In this process, the Company was to spend judiciously the funds made available by the State Government by undertaking the projects and completing them within the stipulated time. Scrutiny of tendering process, execution of projects *etc.*, revealed the following:

Projects taken up and handed over

2.1.13 The police personnel, up to the rank of Police Inspector, were entitled for rent free accommodation and the strength of police force has been increasing consistently. Hence, it was considered necessary to bridge the gap between demand and supply of police staff quarters (PSQs). Accordingly, the Company had taken up the construction of PSQs of different categories mainly based on the priorities accorded by the DGP.

The table below indicates the projects taken up for PSQ/jail/border area development programme prior to 1998-99 and pending completion as on 1 April 1998, projects taken up by the Company and handed over during 1998-2003, and projects in progress as on 31 March 2003.

Year of taking up the project	Project cost (Rupees in crore)	Name of project	Number of projects	Number of projects handed over						Number of projects in progress
				1998-99	1999-2000	2000-01	2001-02	2002-03	Total	
1995-96	4.54	1 PSQ	1	-	1	-	-	-	1	-
1996-97	7.67	13 PSQ	13	10	2	1	-	-	13	-
1997-98	13.00	3 BADP, 5 jail, 10 PSQ	18	4	12	2	-	-	18	-
(i) Total	**25.21**		**32**	**14**	**15**	**3**	**-**	**-**	**32**	
1998-99	23.61	2 jail, 16 PSQ	18	1	4	8	4	1	18	-
1999-2000	25.80	1 jail, 2 BADP, 18 PSQ	21	-	-	1	15	3	19	2
2000-01	8.75	PSQ	7	-	-	-	1	4	5	2
2001-02	40.65	PSQ	27		-	-	-	13	13	14
2002-03	55.20	PSQ	43		-	-	-	-	-	43
(ii)Total	**154.01**		**116**	**1**	**4**	**9**	**20**	**21**	**55**	**61**
Total (i)+(ii)	**179.22**		**148**	**15**	**19**	**12**	**20**	**21**	**87**	**61**

Delays in civil works ranged between 64 and 675 days.

The Company did not prepare programme evaluation and review techniques/critical path method for synchronisation of various inter-related activities to complete the projects in time. The various activities include soil bearing capacity (SBC) test based on which structural design of the building would be prepared, fixation of agency for various works, approval from local authority, supply of door shutters in time *etc*. A test check of records of 45 civil works revealed that there were delays of 64 to 675 days in completion of 21 civil works as detailed in ***Annexe*-11**. Delays were attributable to change in designs, delay in obtaining the approvals from concerned authorities, delay in supply of designs/materials to contractors *etc*.

The delays in completion of works by the Company resulted in delays in handing over the quarters to the beneficiaries. It was also observed in audit that there were further delays of 94 to 401 days in handing over of residential quarters to the beneficiaries even after completion of main civil work, electrical work and other ancillary work. Consequently, the State Government had to pay house rent allowance of Rs.22.49 lakh to the entitled police personnel during the period of delay in completion of works and handing over of quarters to the beneficiaries.

The Company/Government accepted (June/August 2003) the audit contention regarding the delays and stated that efforts would be made to minimise the time for completion of the various activities.

Variation between estimated and executed quantities

2.1.14 The Company prepares estimates based on schedule of rates (SOR) of the concerned district for the estimated quantities to be executed and awards the works through invitation of tenders. Subsequently, the Company obtains structural design from structural consultants. After completion of works, deviation statements are prepared to ascertain variation between estimates and actuals.

A scrutiny of various estimates in audit revealed that the estimates were prepared on higher side as there were substantial savings on completion of work. The details of total number of items having savings with reference to estimates and details of savings in core item quantities of building work are indicated in ***Annexe*-12** and **13,** respectively.

Percentage of savings with reference to estimated quantities ranged between 25 and 94.

It would be seen from ***Annexe*-12** and **13** that the percentage of savings with reference to estimated quantities ranged between 25 and 94 in 14 cases test checked in audit and between 28 and 64 *per cent* of estimated quantities in respect of core items for building work *viz.*, mild steel/high yield strength steel deformed (HYSD) bar used for reinforcement. It was also observed that the works were awarded below the estimated cost in some cases and actual cost of execution of work was further lower than the tendered cost. This indicated that the estimates were on higher side and unrealistic. Unrealistic estimates not only resulted in lack of control of the Company over works both in financial and physical terms but also rendered the estimation procedure redundant.

The Company/Government stated (June/August 2003) that the estimates were prepared as soon as the priority was received. Subsequently, after the soil testing and load bearing capacity of the foundations, the structural designer gave the structural design which determined the requirement of steel for which the provision for reinforcement was made on experience basis at the time of preparing the estimates. As regards variation between estimated and executed quantities, it was normal and inevitable that the quantities of various items vary to some extent on completion of the work.

The reply was not tenable, as the Company was required to prepare realistic estimates for steel which was a crucial item used in construction work of buildings. The fact remains that the estimates were unrealistic as the percentage of variation in saving was on higher side. Besides, the Company was required to carry out SBC test before award of works, as the same got direct bearing on structural design. Further, the Company should have obtained structural design before award of the works.

Thus, the Company, despite being in existence for more than a decade and having technical personnel and experience of construction of more than 6000 quarters, was unable to prepare realistic estimates.

Savings in project cost

2.1.15 The Company prepares estimates for each project to be taken up in a year. Audit observed that 29 projects taken up during 1996-2000 for construction at the revised estimated cost of Rs.30.77 crore, were completed at the cost of Rs.23.75 crore resulting in savings of Rs.7.02 crore. The project-wise revised estimated cost and actual expenditure is given in the ***Annexe-14***. The percentage of savings to the project cost ranged between 11 and 53. This indicated that the estimation of cost was unrealistic and on higher side.

The Company while accepting the fact stated (June 2003) that the saving would be adjusted/refunded to the State Government on receipt of approval for adjustment of the cost of completed quarters against financial assistance. The reply was not convincing as the savings pertained to old projects also, wherein the Company had not taken any action to adjust/refund the same so far.

Blocking up of funds

Lack of planning

2.1.16 The civil construction of category B-96 units at Ghaludi (Surat district) was completed by 8 December 2000 at a cost of Rs.1.51 crore. However, the units were handed over to the beneficiary after a delay of 22 months (October 2002) due to non completion of electrical as well as external water supply of drainage works. Audit analysis revealed that the delay was mainly attributable to lack of proper planning by the Company while the projects were taken up for implementation. The Company/Government stated (June/August 2003) that the delay in handing over the units was due to delay in receipt of water connection from outside agency and in future care would be taken from the initial stage of taking up of the work. The reply was not tenable as lack of proper planning and scheduling had also attributed to the delay in handing over the units.

Collapse of a block

Out of 184 quarters, 136 quarters constructed at a cost of Rs.3.76 crore remained unoccupied for more than four years.

2.1.17 While the work of construction of C-60 units at Mavdi (Rajkot district) was in progress, one block bearing number C-4 (12 units) collapsed on 3 June 1997. As per the test reports received (December 1998/June 2000), the collapse was due to poor quality and strength of bricks, the mortar was not sticked with bricks on account of weak binding capacity and cement concrete was of substandard quality. Subsequently, the Company recovered the cost of collapsed block and the matter was subjudice (July 2003).

The Company handed over (April 1999) 184 staff quarters (B-132, C-48 and D-4 units) at the same location, constructed at a total cost of Rs.4.99 crore to the beneficiary. The beneficiary allotted only 44 quarters of B category and 4 quarters of C category in December 2002 to the police personnel and remaining 136 quarters constructed at a cost of Rs.3.76 crore were not occupied by the police personnel due to collapse of the above-said block. Consequently the Government had made avoidable payment of HRA of Rs.18.69 lakh[∇] to the police personnel. This has also resulted in blocking of Rs.3.76 crore for more than four years. Besides, the purpose of construction of staff quarters could not be achieved.

Abandoned work

2.1.18 The Company awarded (August 2000) the work of construction of PSQs of category B-40 at Bhuj to a contractor at Rs.88.24 lakh (14.29 *per cent*

∇ Calculated from the date of handing over the quarters to the beneficiary till January 2003 when HRA payment was stopped to the entitled police personnel, irrespective of allotment of the quarters.

below the estimated cost of Rs 1.03 crore), to be completed by 21 November 2001. The contractor after executing the work valuing Rs.13.97 lakh stopped the work due to damage caused in earthquake on 26 January 2001. The contractor expressed (June 2001) his inability to execute the remaining work at original quoted rates. The Company relieved (September 2001) the contractor and the work remained incomplete. The Company had not re-awarded the work so far (June 2003). This resulted in blocking up of the Company's funds to the tune of Rs.13.97 lakh. The Company/Government stated (June/August 2003) that the technical sanction had been accorded to renovate the work as per advice of the consultant and fresh tenders would be invited.

Avoidable expenditure due to change in design

Unauthorised change in design of residential quarters resulted in additional financial burden of Rs.4.56 crore on the State exchequer.

2.1.19 The State Government prescribed (September 1987) entitlement areas of residential quarters for each category of Government employees based on the scale of pay drawn. As per the instruction, carpet area of B, C and D types of quarters was 42, 55 and 64 square metres (sq.mts.), respectively. Contrary to the instructions issued by the State Government, the Company unauthorisedly increased (September 1995) the carpet area of B, C and D types quarter to 44, 58.32 and 69.39 sq.mts., respectively, without the approval of the State Government. During 1995-2002, the Company had taken up construction of 4,345 quarters (including works-in-progress) in these categories. Consequently, the unauthorised action resulted in additional construction of 9,292.58 sq.mts., in respect of these quarters. This resulted in an additional financial burden of Rs.4.56 crore on the State exchequer during 1995-2002.

The Company/Government stated (June/August 2003) that as the Board of Directors of the Company had approved the scale of accommodation, no specific approval of the State Government for such change was considered necessary. The reply was not acceptable as the Company was only a nodal agency for construction of quarters of the State Government and was not authorised to increase carpet area than the entitlement of the employees, without getting specific approval for such change from the Government.

Non recovery of cost on deposit work

2.1.20 The Company had taken up (1993-94) the deposit work of construction of new jail complex with all other ancillary facilities at Bilodara for which, Nadiad Nagarpalika and the State Government had provided funds of Rs.3.54 crore. However, audit noticed that the Company had incurred (March 2000) an expenditure of Rs.3.66 crore on the work, involving its own funds of Rs.12.34 lakh, which was not recovered from the beneficiaries (March 2003) by raising supplementary demand while the work was in progress. This indicated the Company's failure to follow the basic principles of deposit work *i.e.* incur expenditure to the extent of funds received. Besides, the Company's funds of Rs.12.34 lakh remained locked up.

The Company stated (June 2003) that the amount of Rs.12.34 lakh on the work was recoverable from the State Government. The reply of the Company was not tenable as the work taken up was on deposit basis and the principles therein were well defined. Hence, the Company should have reviewed the expenditure incurred against the deposit received and raised supplementary demand in time.

Border area development programme (BADP)

2.1.21 The BADP, a centrally sponsored programme was being implemented in the State since 1993. The main objectives of programme, *inter alia*, included creating adequate infrastructure facilities and ensuring security in the border talukas of the State. The State Government from time to time sanctioned funds for meeting expenditure for construction of the Police/Border Security Force (BSF) buildings in Kutch and Banaskantha/Patan districts. The State Government directed the Company that no re-appropriation would be allowed to be made from the funds.

During 1994-2003, the Company received total grant of Rs.2.36 crore and Rs.58.84 lakh for Kutch and Banaskantha/Patan respectively. Scrutiny in audit revealed that against the grant receipt, the expenditure incurred by the Company was Rs.2.22 crore and Rs.1.01 crore respectively, However, the saving of Rs.14.09 lakh in respect of Kutch district, was not refunded (July 2003) by the Company to the Government as per State Government directive. Besides, the Company incurred excess expenditure of Rs.42.11 lakh in Banaskantha/Patan district (March 2003) by cross utilisation of funds, in violation of terms of sanction of the State Government. The Company/Government stated (June/August 2003) that re-appropriation of funds from one work to another under BADP was not barred. The reply was not tenable as the expenditure incurred was more than the receipts under the programme.

Evaluation of programmes

2.1.22 The Company did not evolve a system for periodical evaluation of programmes for analysing the bottlenecks, if any, experienced during the execution of the projects for suggesting mid course corrections. The periodical progress reports of the activities were also not submitted to the Board of Directors (BOD).

The Company/Government accepted the audit observation and stated (June/August 2003) that the process was on to streamline the activities to minimise the project duration and elimination of bottle-necks.

Accounting manual

2.1.23 The Company had not compiled its accounting manual incorporating therein the details of accounting records to be maintained by various offices at Head Office/division/sub-division, duties and responsibilities of the personnel, system of internal control, accounting procedures *etc.*, with a view to streamline the accounting system. The Company/Government stated (June/August 2003) that proposal for compilation of the manual was under consideration.

Internal control system and internal audit

Internal control system

2.1.24 The Internal Control System (ICS) *inter alia* includes operational controls *viz.*, quality control, work standards, budgetary control, periodic reporting, internal checks, internal audit, policy appraisals, quantitative controls *etc*., evolved for ensuring efficient and effective management of an organisation.

The statutory auditors (chartered accountants) are required to furnish a detailed report upon various aspects including the ICS in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619(3)(a) of the Companies Act, 1956. Accordingly, during 1997-1999, the statutory auditors observed that the Company should introduce a proper accounting system whereby the profit and loss account reflects only the actual projects completed during the year. However, the Company, did not follow the correct accounting system and continued to show cumulative figures of cost of projects undertaken, completed and handed over to various agencies since the inception of the Company on the plea that the legal formalities were to be completed for the transfer of completed projects to the various agencies.

Internal audit

2.1.25 The Company does not have its own internal audit wing. However, the Company has been appointing a firm of chartered accountants as internal auditor for conducting audit of its financial records every year. The scope of work of internal auditor, *inter alia* includes, checking of cash and bank accounts, vouchers, general ledgers, final accounts *etc*. It was observed that:

- The work of internal auditor does not cover operational audit of all the procedures relating to procurement and supply of building material, preparation of estimates and award of contracts and review of misappropriation/fraud cases and status thereof.

- The internal auditors' reports were not placed before the BOD during the period covered in the review. However, the Company/Government stated (June/August 2003) that the internal audit reports, henceforth would be placed before the BOD. Moreover, preparations of estimates for the works carried out by the Company were not giving fair idea and were unrealistic with regard to the cost involved in execution of works. Though, the deficiency was pointed out by the internal auditor in March 1999, no improvement was noticed in this regard (March 2003).

Conclusion

There were abnormal delays in completion of works mainly due to absence of sound planning, execution and monitoring system. Even after its existence for more than a decade and experience in construction of more than 6,000 quarters, the Company had poor expertise in preparation of estimates. Drawal of funds from the Government without undertaking the schemes left the Company with huge unutilised funds. Existence of huge balances in current accounts indicated financial imprudence in deployment of funds.

The Company should have used modern project completion techniques, such as programme evaluation and review techniques/critical path method to efficiently control and complete various projects. The State Government should evolve a system to assess and ensure the correctness of estimates before release of funds. To improve the housing facility, the Company should judiciously spend the funds received for the specified purpose.

2.2 Gujarat State Civil Supplies Corporation Limited

Highlights

Gujarat State Civil Supplies Corporation Limited was incorporated in September 1980, as a wholly owned Government company with the main object of procurement of allotted quantities of food grains and edible oils from central agencies such as, Food Corporation of India/State Trading Corporation, coarse grain from open market and distribution of the same to the fair price shops under public distribution system/targeted public distribution system.

(Paragraph 2.2.1)

The Company carried out Government activities on commission basis at the rates prescribed by the State Government on yearly basis. The proportion of the Government activities to the total activities of the Company ranged between 59 and 70 *per cent* during 1997-2002. The Company also undertook its own activities by setting up departmental stores, liquified petroleum gas centres and petrol and diesel outlets.

(Paragraphs 2.2.4 and 2.2.7)

The commission of Rs.88.66 crore received by the Company on Government activities was not enough to meet the administrative expenditure of Rs.105.65 crore of the Company during 1997-2001.

(Paragraph 2.2.13)

The Company incurred extra expenditure of Rs.65 lakh on purchase of palmolien oil in tin pack instead of bulk quantities .

(Paragraph 2.2.22)

Due to delay in receipt of subsidy from the State Government, the Company suffered interest loss of Rs.3.18 crore. Besides, delay by the State Government in revision of central issue price under targeted public distribution system resulted in a loss of Rs.17.06 crore to the State exchequer and of Rs.89.57 lakh to the Company.

(Paragraphs 2.2.25 and 2.2.27)

Due to non receipt of Rs.33.28 crore from mid-day meal commissionerate, the Company suffered an interest loss of Rs.3.59 crore.

(Paragraph 2.2.28)

Failure to ease out the surplus employees of the Company resulted in avoidable expenditure of Rs.5.08 crore towards pay and allowances.

(Paragraph 2.2.39)

Introduction

2.2.1 Gujarat State Civil Supplies Corporation Limited (the Company) was incorporated in September 1980, as a wholly owned Government company under the Companies Act, 1956 with the main object of procurement of allotted quantities of food grains and edible oils from central agencies such as, Food Corporation of India (FCI)/State Trading Corporation (STC), coarse grain from open market and distribution of the same to the fair price shops (FPS) under public distribution system (PDS)/targeted public distribution system (TPDS). The Company, in order to strengthen its base, also undertook own activities by setting up departmental stores, liquified petroleum gas (LPG) centres and petrol and diesel outlets. Besides, the Company undertook other activities relating to civil supplies, as directed by the State Government from time to time.

Objectives and activities

Objectives

2.2.2 The main objectives of the Company were to:

- ensure supply of food grains and edible oils to various categories of population through FPS under PDS/TPDS;
- provide services and assistance of all kinds for the above purpose;
- strengthen its base through own activities; and
- undertake other activities related to civil supplies, as directed by the State Government from time to time.

Activities

2.2.3 The Company had carried out Government as well as own activities during 1997-2002 as discussed below:

Government activities

2.2.4 The Company, being an agency of the State Government had carried out the Government activities under PDS/TPDS and received commission at the rates fixed by the State Government on yearly basis. The proportion of the Government activities to the total activities of the Company ranged between 59 and 70 *per cent* during 1997-2002. The Company distributed wheat, rice and edible oil to FPS from its godowns for further distribution to the above poverty line (APL) category, below poverty line (BPL) category and antyodaya anna yojana (AAY) under PDS/TPDS.

2.2.5 The Company distributed wheat, rice, coarse grain (tur dal, mung dal, gram) and edible oil (groundnut oil, cotton seed oil) from its godowns to mid-day meal (MDM) scheme/integrated child development scheme (ICDS).

Besides, the Company distributed iodised salt under tribal development programme (TDP), as per the directives of the State Government.

2.2.6 The Company, based on the State Government's directives, had undertaken work of procurement and delivery of excise/sales tax free cement to earthquake affected people through material banks and non government organisations (NGOs).

Own activities

2.2.7 The Company carried out its own activities such as, operation of Kalpataru departmental stores (KDS), liquified petroleum gas (LPG) centres, petrol/diesel pumps, procurement and distribution of free sale cement to various Government departments/boards/corporations, and distribution of levy sugar.

Organisational set up

2.2.8 The management of the Company is vested in Board of Directors (BOD) consisting of 15 directors appointed/nominated by the State Government including a Chairman and a Managing Director, who are full time directors. There are eight non-official Directors. The Managing Director is the Chief Executive of the Company and is assisted in day to day operations by an Executive Director, two Chief General Managers, four General Managers, one Company Secretary at Head Office (HO) level and twenty five District Supply Mamlatdars (one for each district) at field level. The Company has 184 taluka level godown offices in the State.

During 1998-2003, the State Government appointed four Chairmen and seven Managing Directors, of which only three Managing Directors worked for more than one year; one of the Directors, who was also the Secretary of the Company's administrative department attended only one out of 11 BOD meetings during November 2000 to March 2003. The instability in tenure of directors and continuous absence of the directors in BOD meetings had resulted in lack of proper guidance from them to the Company.

Scope of Audit

2.2.9 The performance of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1993 (Commercial) – Government of Gujarat. The Report was examined by the Committee on Public Undertakings (COPU) during December 1995 to July 1996 and recommendations were made by COPU in March 1999 for abolishing market cess, sales tax and octroi on the food grains to be supplied under PDS, to which the State Government did not agree and issued (October 1996) clarification to continue market cess on wheat and also levied (September 2000) market cess on rice.

The present review covers the working of the Company during 1997-2002, to examine whether the activities of the Company related to procurement and distribution of essential commodities were carried out with due regard to economy and efficiency. The records of the Company at its HO and six* out of 25 District Supply Mamlatdars (DSM) offices were test checked on geographical basis during October 2002 to August 2003, as all payments related to procurement were regulated at HO and incidental payments were regulated by HO through DSM. Sales realisations were directly remitted to HO by FPS through designated branches of the banks. The financial management and control system, including internal audit and inventory management, were also examined in audit.

The audit findings, as a result of test check of records, were reported to Government/Company in May 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view points of Government/company was taken into account before finalising the review. The meeting of ARCPSE was held on 11 June 2003 with officials of State Government and the company and their viewpoints have been duly incorporated in the review.

Sources of funds

2.2.10 The funds received from the State Government towards equity share capital, cash credits sanctioned by the Reserve Bank of India (RBI) and profit earned in PDS/TPDS activities retained as surplus on Government activities by the Company for its working capital, were the main sources of finance for the Company.

Against the authorised share capital of Rs.25 crore, the paid-up share capital of the Company as on 31 March 2002 was Rs.10 crore, wholly subscribed by the State Government. The Company resorted to cash credit and inter-corporate deposits during 1998-2001 and it retained surplus on Government activities as interest bearing loan. In addition, it had also received interest free loan of Rs.30 crore from the State Government in 2000-01 for earthquake relief work. The details of major borrowings during 1999-2002 were as given below:

(Rupees in crore)

Year	RBI credit maximum sanctioned	RBI credit maximum availed	Cash credit (CC) outstanding at the end of the year	Inter-corporate deposits	Surplus on Government activities retained as loan
1997-98	25	24.83	--	--	34.22
1998-99	40	39.52	30.46	10.00	29.74
1999-00	45	45.55	1.31	15.00	30.99
2000-01	75	62.28	19.18	10.00	40.71
2001-02	42	12.47	11.63	--	49.34

The Company maintained separate account for Government activities wherein purchase of food grains, edible oils *etc*., and other expenditure and realisation there against were booked. The excess of income over expenditure was considered as "Surplus on Government activities" payable to the Government.

* Bhuj (Kutch), Junagadh (Saurashtra), Surat (South Gujarat), Vadodara (Central Gujarat), Palanpur (North Gujarat) and Jamnagar (Saurashtra).

The surplus was retained by the Company as loan, on which, interest at 14 *per cent per annum* up to 2001-02 and 12 *per cent per annum* from 2002-03 onwards, was payable to the State Government. The Company had to retain the surplus on Government activities for executing the PDS/TPDS activities due to non receipt of subsidy of Rs.118.55 crore from the State Government. As on 31 March 2002, Rs.31.95 crore was outstanding against accumulated interest accrued and due on the surplus on Government activities of Rs.49.34 crore. Though the Company was liable to pay interest on surplus on Government activities, it was not entitled to claim any interest on subsidy receivable from the Government.

Financial position and working results

2.2.11 The financial position and working results of the Company during 1997-2002 are given in ***Annexe-15*** and ***Annexe-16***, respectively. It was observed that the Company incurred losses during 1997-2001 which accumulated to Rs.4.72 crore and earned profit of Rs.1.46 crore in 2001-02, due to receipt of interest free loan and commission on earthquake relief work in cement distribution. The accumulated loss of Rs.3.26 crore as on 31 March 2002 had eroded the capital base by 32.6 *per cent*. The major reasons for losses up to 31 March 2001 were as under:

2.2.12 There was steep reduction in sale of food grains under APL scheme of TPDS due to increase in end consumer price and consequently, the Company's share of commission from this activity came down drastically. The details of year-wise sale of foodgrains during 1997-2001 are as tabulated below:

(Quantity in MT)

Year	Wheat	Rice
1997-98	1,65,980	1,54,797
1998-99	1,49,321	1,48,022
1999-2000	16,297	74,115
2000-2001	1,392	913

The commission received on PDS activity was not enough to meet administrative expenses.

2.2.13 The Company's main source of earning was the commission it received from the State Government at the rates fixed by the State Government from time to time for carrying out the Government activities. Though the commission received by the Company increased in absolute terms, it was insufficient to meet its administrative expenses, as detailed below:

(Rupees in crore)

Year	Administrative expenses	Commission
1997-98	21.45	15.18
1998-99	29.46	25.76
1999-2000	27.25	23.43
2000-01	27.49	24.29
Total	**105.65**	**88.66**

2.2.14 There was increase in the staff expenses from Rs.13.80 crore in 1997-98 to Rs.21.50 crore in 2000-01 due to implementation of recommendations of fifth pay commission.

2.2.15 The Company incurred loss in running business of KDS due to reduction in turnover and increase in administrative expenses as discussed in paragraph 2.2.31 *infra*.

Procurement and distribution

2.2.16 A review on PDS was incorporated in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1999 (Civil) – Government of Gujarat, in which, following four paragraphs related to the working of the Company were also included:

- Difference in quantity lifted from FCI and put in the godown of the Company;
- Construction of godowns – excess availment of subsidy of Rs.9.44 lakh and underutilisation of godowns;
- Collection and remittance of sale proceeds – Operation of food credit; and
- Quality of food grains

The Report was pending (August 2003) for discussion by Public Accounts Committee. However, during review audit, it was noticed that the irregularities in godown and cash management were still persisting, as discussed *vide* paragraphs 2.2.30, 2.2.36 and 2.2.37 *infra*.

Procurement and distribution of essential commodities under PDS

2.2.17 The Company, under PDS, procured allotted quantity of wheat and rice from FCI at fixed issue rates, transported it to the godowns for storing and made available the quantity to FPS for further distribution to the beneficiaries under different schemes of the Government. The details of purchases, sales, shortage/transit loss and closing stock of wheat and rice during 1997-2002 are given in ***Annexe -17***.

It was observed from the annexe that the percentage of procurement to allotment of wheat and rice ranged between 53.74 and 86.86 and between 26.63 and 77.08, respectively during 1997-2002 indicating under-lifting of food grains from FCI by the Company.

The Company stated (May 2003) that the price fixed by Government of India for distribution of wheat and rice to APL was higher as compared to the prevailing market price during the period. Consequently, allotted quantities of food grains were not lifted due to lack of demand from APL.

Dealings with Food Corporation of India (FCI)

2.2.18 The Company does not have any formal agreement or Memorandum of Understanding with FCI. The terms and conditions covering various aspects of the purchases, payment *etc*., were decided on the basis of rates fixed between the Government and FCI. In the absence of a formal agreement

Delay in settlement of claims of Rs.9.98 crore with FCI resulted in interest loss of Rs.3.95 crore.

regarding terms of trade, disputes between FCI and the Company pertaining to central issue price (CIP) fixed by the Government of India (GOI), railway freight and forwarding charges (RFFC) *etc*., were pending since long. The delay in settlement of such cases not only resulted in loss of interest to the State Government but also impacted the working capital of the Company. There was no effective mechanism to resolve the disputes promptly and satisfactorily. Due to delay in settlement of claims with FCI, funds of Rs.9.98 crore remained locked up resulting in loss of interest of Rs.3.95 crore as discussed in the following paragraphs:

Non-receipt of claims for reimbursement of railway freight and forwarding charges (RFFC)

2.2.19 Prior to February 1997, FCI reimbursed the RFFC claims of the Company in lifting commodities from FCI depots to the Company's godowns. In February 1997, FCI identified designated depots to deliver the food grains to the Company and RFFC claims was to be reimbursed only in case the food grains was not delivered from these designated depots.

Audit observed that the Company's claims for RFFC for Rs.15.32 crore pertaining to the period between 1988 and 1997 (up to 10 February 1997) were rejected (June 1998) by FCI on the ground that designated depots were identified only in February 1997. The matter was discussed (August 1999) in the High Power Committee appointed by GOI. On the basis of the High Power Committee's recommendations, GOI directed (December 2002) FCI to process RFFC claims of Gujarat for the period from 1988 to 10 February 1997. Accordingly, the Company re-submitted (January 2003) revised claim of Rs.7.07 crore for the above period, recovery of which was awaited (March 2003).

Thus, the delay in issuance of orders by GOI and payment by FCI had resulted in loss of interest of Rs.2.97 crore to the State Government on the locked-up funds of Rs.7.07 crore (calculated at the rate of 12 *per cent per annum* for the period from September 1999 to March 2003).

2.2.20 Similarly, the Company submitted (January 2003) RFFC claims of Rs.1.91 crore pertaining to the period from 11 February 1997 to 31 March 2000, which were also pending (March 2003) for settlement with FCI, with resultant interest loss of Rs.68.76 lakh to the State Government (calculated at the rate of 12 *per cent per annum* for three years up to March 2003).

Thus, due to non receipt of above claims, the Company was also deprived of funds to the tune of Rs.9.98 crore, which, otherwise would have been available as working capital of the Company at its disposal.

The Company accepted (May 2003) the fact that there was no formal agreement or MOU with FCI. It further stated that periodical meetings were conducted between State Government and FCI for early settlement of such claims.

Edible oil

2.2.21 The Company, based on allotment from GOI, procured refined bleached and deodorised (RBD) palmolein oil through STC up to March 2002 for distribution to BPL card holders under TPDS. Thereafter, the Company resorted to procurement from open market due to change in Government policy. It procured cotton seed oil from co-operative oil dealers after obtaining quotations from them for ICDS. The Company procured groundnut oil from open market up to 1997-98 and thereafter through National Dairy Development Board (NDDB) for distribution under TPDS as well as MDM scheme. Scrutiny of the purchase records of edible oil revealed the following:

Purchase of palmolien oil

2.2.22 The State Government directed (October 2002) the Company to procure 3000 MT palmolien oil meant for distributing one litre each among BPL card holders during Diwali festival in November 2002. The PTC of the Company on 18 October 2002 decided to purchase 3,000 MT RBD palmolien oil in 15 kg. new tin pack. Accordingly, the Company purchased two lakh palmolien oil tins at a cost of Rs.621 *per* tin (*ex*-works) during October to November 2002. The State Government again directed (January 2003) the Company to procure 4,000 MT palmolien oil for distribution. Accordingly, the Company procured one lakh tin of palmolien oil at Rs.690 *per* tin (*ex*-works) during January and February 2003.

The above price of palmolien oil included Rs.42 towards the cost of tin as estimated by the Company. It was observed that the distributions were to be made in loose and in immediate ensuing period of November 2002 and February 2003, respectively. Audit observed that there was no purpose of purchasing palmolien oil packed in tins and had the Company procured the oil in bulk quantities as done prior to October 2002, it could have saved the cost of tin. The Company adjusted Rs.20 *per* tin from the commission payable to FPS and incurred extra expenditure of Rs.22 *per* tin.

Further, as per notice for tender appeared in the local news paper, it was specified that the tin of oil should be of ISI mark. It was, however, noticed that one of the three suppliers had not fulfilled the condition of ISI mark and offered a discount of rupees one lakh. Thus, procurement of oil in tin resulted in avoidable expenditure of Rs.65 lakh [Rs.22 x 3 lakh tin (-) Rs.1 lakh] to the State Government.

The Company replied (September 2003) that most of the barrels lying with the Company and FPS were old. Besides, FPS might have used those barrels for storing kerosene or non-eatable items. Further, the transportation of loose oil might have caused both transit and godown losses. Moreover, had the palmolien oil been procured and distributed in loose, the Company would have required to purchase 18,500 new barrels which would have taken time with investment of Rs.1.80 crore. The reply was not tenable as the reasons given were mere hindsight. The Company used to procure palmolien oil in loose up to October 2002. There were no specific orders from the State Government to procure palmolien oil in tins.

Implementation of Central/State Government schemes and programmes

2.2.23 The State Government's Food, Civil Supplies and Consumers Affairs Department, Director of Food and Director of Civil Supplies Department were responsible for planning, administration and monitoring of all Central as well as State Government schemes and programmes. The Company's role of implementation of various schemes was limited to procurement of food grains from FCI at prescribed rates of Central Government, its transportation, storage and distribution to FPS.

Targeted public distribution system

2.2.24 The targeted public distribution system (TPDS) was introduced with effect from 1 June 1997. Under the system, there were two categories; below poverty line (BPL) family, whose yearly income was less than Rs.11,000 and above poverty line (APL) family, whose yearly income was Rs.11,000 and above. The Central Government prescribed distribution of wheat and rice to BPL card holders at rupees three and four *per* kg., respectively (including 50 *paise per* kg., as incidental charges). The State Government decided to distribute wheat at rupees two *per* kg., and rice at rupees three *per* kg., to BPL card holders from June 1997 and May 1998, respectively. The subsidy of Rs.142.08 crore *at the rate* of rupees one *per* kg., on 14.21 lakh tonnes MT of wheat and rice issued under BPL from June 1997 to March 2002 was to be borne by the State Government.

Due to delay in receipt of subsidy, the Company suffered interest loss of Rs.3.18 crore.

2.2.25 The Company was claiming subsidy on account of difference between procurement and selling prices and also on overheads from the State Government from time to time. On test check of records relating to subsidy claims and receipts for the period 2001-02, it was noticed that the Company had preferred (June 2001 to July 2002) subsidy claim of Rs.121.09 crore and received the same during August 2001 to March 2003. The delay in receipt of subsidy, which ranged between 92 and 347 days, had resulted in interest loss of Rs.3.18 crore to the Company (calculated *at the rate of* 14 *per cent per annum*).

The Company, while accepting the audit observations on delay in receipt of subsidy from the State Government stated (May 2003) that the claims were preferred within two months and the State Government allowed interest of two months in costing of issue price of wheat and rice. The reply was not tenable as interest allowed was not on account of subsidy receivable and the Company preferred the claims normally in two months period.

Distribution of free rated wheat and rice

2.2.26 The Company distributed free rated 19.51 lakh MT of wheat and 9.85 lakh MT of rice to Central MDM scheme, Food For Works scheme, drought and riot affected people during 1997-2002 under TPDS. As the wheat and rice were obtained free of cost from GOI, no value was passed on to the Government activities account. Consequently, the Company was deprived of commission charges receivable on Government turnover at different rates ranged from 3.50 to six *per cent* during 1997-2002.

The Company while accepting the fact stated (May 2003) that the Company would make attempt to get the commission on value of free stock issued under different schemes.

Loss of commission due to delay in revision of retail issue price

Delay in revision of prices under PDS, resulted in loss of Rs.17.06 crore to State Government and of Rs.89.57 lakh to the Company.

2.2.27 GOI revised the CIP of wheat and rice under TPDS for APL from Rs.450 and Rs.700 to Rs.650 and Rs.905 *per* quintal, respectively with effect from 29 January 1999. The State Government, however, revised issue price from 1 April 1999, even though the Company paid the revised issue price from 29 January 1999 itself to FCI. The Company distributed 57,440 MT and 25,935.8 MT of wheat and rice, respectively, under APL scheme during the period between 29 January and 31 March 1999 at the pre-revised issue price of the State Government. Thus, the delay in revision of issue price resulted in loss of Rs.17.06 crore to the State exchequer and consequent loss of commission of Rs.89.57 lakh (worked out *at the rate* of 5.25 *per cent*) to the Company.

The Company stated (May 2003) that the decision was taken by the State Government; hence, they had no comment to offer. However, the fact remained that the Company had not taken any effective follow-up action to expedite the Government decision, which resulted in loss to the State exchequer and the Company. Further, the Company could not pursue the matter actively with the State Government, due to the absence of the Secretary of Administrative Department in the meetings of BOD.

Mid day meal (MDM) scheme

2.2.28 The State Government, through MDM commissionerate runs MDM scheme under which, school children up to 7th standard were provided with one time free meal in a day. The Company distributed tur dal, mung dal, edible oil, wheat and rice under the MDM scheme on demand from the commissionerate during 1997-2002 as detailed below:

Item	1997-98	1998-99	1999-00	2000-01	2001-02
	(Quantities in MT)				
Groundnut oil (GNO)	816.34	330.27	---	---	---
Refined cotton seed oil (RCO)	783.97	22.29	1,395.84	3,068.09	3,060.63
Tur dal	--	--	2,303.75	3,717.61	6,119.30
Mung dal	--	--	2,339.78	1,498.44	12.90

Non recovery of Rs.33.28 crore resulted in interest loss of Rs.3.59 crore.

It was observed that the Company was to recover Rs.33.28 crore as on 31 March 2003 from the MDM commissionerate and non-recovery had resulted in loss of interest of Rs.3.59 crore to the Company (calculated at the rate of 12 *per cent* up to March 2003).

The Company stated (May 2003) that it had followed with MDM commissionerate for recovery of outstanding amount from time to time and discontinued the supplies under the scheme, which were re-started upon orders from the Supreme Court. However, outstanding existed even for the period of 1997-98 and the Company was facing financial crunch. This necessitates effective and concrete action from the senior level management of the Company as well as the Government.

Distribution of cement to earthquake affected people

2.2.29 The State Government, under clause 173 of Articles of Association, directed (March 2001) the Company to procure building materials *viz.*, cement, steel and wooden poles and distribute the same to earthquake affected people through material banks. The material-banks were created from registered co-operative societies which were authorised to deliver cement bags at prescribed rates to earthquake affected people, based on permits from the Collectors/Mamlatdars/TDOs. The Company distributed 8.39 lakh MT of cement valued Rs.168.33 crore during 2001-03 (up to September 2002).

It was observed in audit that:

- As decided by the State Government in March 2001, in distribution of cement, the co-operative mandlies were to be given one time credit only. However, during 2001-02 the Company distributed cement on credit for more than one time to approximately 681 co-operative mandlies. Consequently, an amount of Rs.56.34 lakh for the period 2001-02 was still outstanding for recovery against 46 co-operative mandlies and Mamlatdar offices (March 2003).

Utilisation certificates for distribution of cement were not submitted by 236 material-banks

- Utilisation certificates were required to be submitted by the material-banks through Collectors/Additional Collectors, Mamlatdars within three months from receipt of cement. However, the certificates were outstanding from 236 material-banks for 3,930.90 MT, out of 6.76 lakh MT of cement supplied during 2001-02, and from 126 material-banks for 7,636.05 MT, out of 1.62 lakh MT of cement supplied during 2002-03 (up to September 2002).

Godown management

2.2.30 The details of owned and hired godowns of the Company and its percentage of utilisation during 1999-2002 were as follows:

Utilisation percentage	Number of godowns		
	1999-2000	2000-01	2001-02
0	7	12	4
1-10	18	3	3
11-25	190	176	156.5
26-50	238	238	197
50-75	38	50	78.5
Above 75	5	17	7
Total godowns (hired godowns)	496 (68)	496 (68)	446 (52)
Percentage of utilisation	31	34	34

It would be observed from the above table that the capacity utilisation of the godowns ranged between 31 and 34 *per cent* during 1999-2002. Reasons for low utilisation of godowns were awaited from the management (August 2003). Audit analysis revealed that the godowns lying un-utilised were located in Surat and Navsari regions.

The Company stated (September 2003) that though godowns in Surat and Navsari districts were very old, these were used for storing food grains. However, the food grains were distributed mostly after their procurement, hence, full utilisation of godowns was not possible throughout the year. The reply was not tenable as the godowns at Surat and Navsari districts were not at all utilised. Hence, the reasons given by the company lacked conviction.

Own activities of the Company

Kalpataru departmental stores (KDS)

2.2.31 With the main objective of providing required commodities of good quality, correct weight and at reasonable price to the public, the Company started (between 1992 and 1997) KDS at nine[#] places in the State. However, the Company closed Vastrapur and Veraval KDS during 1998-99 and Surendranagar and Bhuj KDS during 2001-02, due to poor turnover which was not even sufficient to meet the overhead and other expenses. The annual turnover and profit/loss of seven KDS during 1997-2002 were as given below:

(Rupees in lakh)

KDS		1997-98	1998-99	1999-2000	2000-01	2001-02
Gandhinagar	Turnover	326.81	395.94	351.13	312.58	370.65
	Profit/loss	(-)6.52	(-)5.88	(-)2.93	(-)0.92	(+)3.78
Ahmedabad	Turnover	246.75	231.69	190.23	195.18	159.48
	Profit/loss	(-)5.85	(-)6.43	(-)7.58	(-)0.09	(+)1.83
Vadodara	Turnover	385.95	461.22	375.05	279.19	231.92
	Profit/loss	(+)5.15	(+)0.21	(+)5.97	(-)5.93	(-)7.48
Bharuch	Turnover	142.75	182.16	86.29	70.72	63.31
	Profit/loss	(-)4.85	(-)6.40	(-)3.84	(-)7.50	(-)8.49
Surat	Turnover	153.65	172.92	162.32	135.19	104.55
	Profit/loss	(-)9.45	(-)1.19	(-)0.82	(-)2.75	(-)4.07
Surendranagar	Turnover	85.35	93.77	27.53	22.35	Closed
	Profit/loss	(-)0.91	(-)6.24	(-)8.26	(-)6.54	
Bhuj	Turnover	117.02	117.39	54.75	43.66	Closed
	Profit/loss	(+)0.89	(+)1.58	(+)0.49	(-)1.89	

Note : The head office overheads (a full branch is working for central procurement of commodities of known companies) are not considered while calculating profit/loss results.

The Company attributed (August 2003) poor turnover to stiff competition from private sector, discontinuance of sale to defaulted creditors, recession in

Gandhinagar, Ahmedabad, Vadodara, Bharuch, Surat, Surendranagar, Bhuj, Vastrapur (Ahmedabad) and Veraval.

market and introduction of tender purchases by the Government agencies. Further, though the turnover was reduced, the Company's administrative expenditure had shown an increasing trend during 1997-2002.

2.2.32 Audit observed that Bharuch and Surat KDS incurred losses continuously during 1997-2002 whereas Vadodara KDS, which was earning profit up to 1999-2000, started incurring loss from 2000-01. The Company incurred loss of Rs.14.43 lakh in 2001-02 in running KDS. Though the State Government directed (September 2000) the Company to sell out the KDS to private parties, the Company had not taken any decision in this regard.

The Company stated (May 2003) that it had already taken a decision not to expand KDS activities and gradually discontinue them. The reply was not tenable as no action was taken by the Company to privatise the existing KDS as per the Government direction.

2.2.33 The Company effected sale on credit basis to the Government and semi-Government departments. As per the standard undertaking obtained from the Government agencies, service charges at one *per cent* on the credit sales, if the agency made the payment within 30 days and three *per cent*, if the agency failed to make payment within 30 days was to be charged.

Audit noticed that, as on 31 March 2002, total credit sales of Rs.2.45 crore and service charges of Rs.11.14 lakh were outstanding from the Government agencies. In KDS at Bharuch and Surat, service charges were not recovered during 1997-2002 on the credit sales of Rs.8.86 crore.

Further, the Company had not maintained age-wise analysis of debtors. The sundry debtors, in most of the cases, had not made payment of service charges. The Company's policy of purchasing goods on cash basis and selling it on credit basis to the Government and semi-Government departments without receiving any service charges was against commercial prudence.

The Company replied (May 2003) that the State Government departments were depending on the grants and in most of the cases payment were delayed due to non-availability of grants. The reply was not tenable as the credit sales effected were not only to the Government departments but to other Boards and Corporations also, which were not solely depended on Government grants. Further, as per the undertaking given by the Government agencies, they agreed to pay the service charges at declared rates.

Service charge was not levied on the sale of milk powder through KDS Gandhinagar.

2.2.34 The Company, during April 2002 to December 2002, sold milk powder worth Rs.3.93 crore (through KDS, Gandhinagar) to the Collector, Ahmedabad on credit basis for distribution in relief camps. Out of this, an amount of rupees two crore was outstanding (March 2003). The Company had not levied service charge of Rs.11.79 lakh on the said credit sale. When this was pointed out in audit, the Company replied (May 2003) that the supply of milk powder was not a regular business of the Company and it was provided on special credit facility to riot affected people. The reply was not tenable as levying of service charges was a standing decision of the Company and the Company did not approach the Government for recovery of service charges.

Operation of petrol/diesel pumps

Decision was not taken for closure of loss making petrol pump.

2.2.35 The Company operated two petrol pumps *viz.*, Gandhinagar and Gandhidham (Kutch), out of which, the petrol pump at Gandhidham was incurring continuous loss. The Company started (December 1982) the petrol pump at Gandhidham without conducting techno-economic feasibility study. Due to continuous loss reported by the petrol pump since inception, BOD of the Company decided (February 1990) to dispose of the pump. However, the Company could not do so, as it was located far away from the city. The petrol pump remained closed during September 1995 to March 1999 and restarted from April 1999. Thereafter, the petrol pump continuously reported loss of Rs.2.72 lakh (1999-2000), Rs.5.04 lakh (2000-01) and Rs.4.09 lakh (2001-02).

The Company replied (May 2003) that steps to improve the performance of the petrol pump were taken and the losses were reduced during 2002-03 to Rs.2.89 lakh (provisional). However, the fact remains that the Company failed to select proper site for petrol pump at Gandhidham, due to which, it had to face hardships.

Cash management

Delay in transfer of funds

2.2.36 The FPS owners remitted due amount for procurement of commodities in non-operative bank accounts of the Company through challans, and based on challans the godown manager of the Company issued the commodities. The Company had 280 such non-operative collection accounts with various banks throughout the State in 2001-02.

As per the terms and conditions for operating the collection account, the bank branches were required to transfer the balance in the collection accounts to their Gandhinagar branch on the last working day of the week or whenever the credit balance exceeds Rs.50,000. Scrutiny of records related to six banks revealed that there were delays ranging between 91 and 913 days during 1998-2002 in transferring the amounts to the Company's HO account as shown below:

Period of delay (in days)	Number of cases	Amount (Rupees in lakh)
91 to 365	77	195.29
365 to 903	103	203.33

Delay in transfer of fund resulted in interest loss of Rs.61.95 lakh.

Consequently, the Company suffered loss of interest of Rs.61.95 lakh (calculated *at the rate of* 12 *per cent per annum*) due to delay in remittances.

The Company stated (May 2003) that there were voluminous transactions and delay on the part of the banks in few transactions could be considered as normal, hence, it would not be proper to put a claim for interest for such delay. The reply was not tenable. The Company should implement a system to review the transactions in pipeline periodically and to draw the attention of the banks, when delays were for more than normally acceptable period.

Surplus funds

2.2.37 The State Government issued (December 1999) instructions to all Public Sector Undertakings (PSUs) to place surplus funds available with them for a period of less than 15 days in liquid deposit scheme (LDS) of Gujarat State Financial Services Limited (GSFS). It was also clarified that the surplus funds would mean any operating surplus with PSUs in current account with banks or otherwise and would be required by PSUs in future even after one day. Funds placed with GSFS under the scheme were withdrawable on one day notice.

Failure to invest surplus funds as per Government directive resulted in interest loss of Rs.18.69 lakh.

Audit noticed that during December 2001 to March 2002, the Company kept funds ranging from Rs.2.87 crore to Rs.29.37 crore in eight current accounts with banks. As the Company could assess its liability in advance for making payments, retention of such funds in current accounts lacked justification. Had the Company, after keeping rupees one crore for emergency payments, invested the surplus funds from Rs.1.87 crore to Rs.28.37 crore with GSFS, it could have earned an interest of Rs.18.69 lakh.

The Company stated (May 2003) that surplus funds should be considered on the basis of requirement of funds and not on the basis of balance shown by the banks. Further, it stated that rupees one crore was not enough for emergency and the Company was to repay Rs.30 crore in March 2002. The reply was not tenable as for arriving the available surplus funds for investment, audit considered the daily utilisation of funds by the Company from current accounts and in addition rupees one crore was provided for emergency purpose.

Demand for payment of purchase tax

2.2.38 The Company assigned (March 1996) the interior designing work (including purchase of furniture) of its new administrative building at Gandhinagar to firm ‘S’, Surat, who had completed (November 1996) the work at a cost of Rs.4.27 crore. Before entering into the contract, the Company not only failed to verify antecedents and bonafides of the firm but also did not ascertain the sales tax registration number of the firm. Consequently, while assessing the sales tax of the Company, the Assistant Commissioner of Sales Tax, Gandhinagar raised (February 2000) demand for payment of purchase tax of Rs.61.68 lakh (including penalty of Rs.15.95 lakh) on the above work, under Section 15 read with Section 9 of Sales Tax Act, 1969. The Company made representation (March 2000) to the Dy.Commissioner of Sales Tax against the demand, on which decision was awaited (August 2003).Besides, the Company could not take up the matter with the firm, as the whereabouts of the firm were not available. Thus, the Company’s failure to obtain sales tax registration number of the firm resulted in liability of purchase tax of Rs.61.68 lakh under the Act, *ibid*.

Surplus manpower

2.2.39 In order to improve efficiency and productivity and to reduce costs, the State Government directed (April 1999) the Public Sector Enterprises to introduce voluntary retirement scheme (VRS). The main conditions prescribed by the State Government for implementation of the scheme was that the Company would be the sole authority to decide the nature and quantum of surplus staff and the State Government will not reimburse any part of the cost involved. The BOD of the Company approved (August 2000) introduction of VRS for surplus category III and IV employees of the Company. Accordingly, the Company identified (July 2001) 360 employees as surplus on account of reduction in PDS activity, closure of four regional offices, KDS *etc*., and submitted a proposal to the State Government, seeking financial assistance of rupees four crore for implementation of VRS. In the meantime, during 2002-03, the Company accommodated 76 surplus employees of category III and IV in newly started four petrol pumps, besides 30 employees were retired/died or went on deputation with other organisations. For the remaining 254 surplus staff the Company continued to incur recurring expenditure on their pay and allowances. During August 2001 to March 2003, the total expenditure on this account worked out to Rs.5.08 crore.

The Company stated (August 2003) that approval from the State Government for VRS was awaited and meanwhile the Company had started sending their staff on deputation. The reply lacked justification. The Company identified 360 surplus staff and during August 2001 to March 2003, only 16 employees were sent on deputation. This necessitates immediate follow up action from the Company to expedite the Government decision on the proposal of VRS so as to avoid recurring expenditure on surplus staff.

Internal control system and internal audit

Internal control system

2.2.40 The statutory auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the internal control systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. Accordingly, during 1999-2002 statutory auditors, *inter alia* observed the following:

- The system of inter-office reconciliation was grossly inadequate and the system of monitoring timely recovery of outstanding dues was not implemented effectively.

- System needs to be evolved for obtaining regular balance confirmations in respect of receivable/payables and reviewing policies and procedures for reducing the operational expenditure.

Internal audit

2.2.41 The Company has an internal audit wing (IAW) at its head office. Besides, chartered accountant firms were appointed to look after internal audit of both head office and field offices of the Company. It was observed in audit that:

- The Company had neither internal audit- manual nor fixed internal audit standard.

- The internal audit reports containing 6,440 paras pertaining to 1985-2002 remained unsettled (March 2003). This indicated lack of follow-up action on the reports. Besides, the internal audit reports were not placed before the BOD. The Company stated (May 2003) that the paras on misappropriation/fraud cases were placed before BOD.

Conclusion

The Company mainly carried out Government activities on commission basis and was also supplying food grains, coarse grains and edible oil under mid day meal/integrated child development scheme. While the commission received on Government activities was not sufficient to meet the administrative expenditure of the Company, there were huge outstanding against supplies made under mid day meal scheme. Though, the Company undertook limited market activities by setting up kalpataru departmental stores, liquified petroleum gas centres and petrol and diesel outlets, continuous losses were reported under own marketing activities due to increase in outstanding dues under credit sales and increased administrative expenditure. The Company also failed to monitor timely transfer of funds from bank branches to head office, implementation of voluntary retirement scheme and privatisation of kalpataru departmental stores, which indicated that the Company did not achieve efficiencies both in executing Government and its own activities.

The Company should take immediate action to reduce the administrative expenditure by introducing voluntary retirement scheme and privatising kalpataru departmental stores. Also, the Company should evolve effective system to increase the utilisation of godowns and recovery of dues from mid day meal commissionerate as well as other debtors.