CHAPTER - IV

4. Miscellaneous topics of interest relating to Government companies and Statutory corporations

GOVERNMENT COMPANIES

Gujarat Mineral Development Corporation Limited

4.1 Fruitless expenditure

Lack of the Company's involvement and control in execution of integrated software development work resulted in fruitless expenditure of Rs.58.40 lakh.

The project was to be completed within 18 months from the date of commencement of work.

The Company placed (November 1998) a work order on M/s.A.F. Ferguson & Company (the firm) for development of an integrated software to cover head office and all other mining locations. The project was to be completed within 18 months from the date of commencement at total cost of Rs.1.30 crore and out of pocket expenses not exceeding Rs.10 lakh. The work order envisaged essentially a turn key solution. The firm was required to begin with a business requirement study and present recommendations, provide information system strategy plan, prepare procedure manuals and functional specifications, design the system and finally implement the same. The timely completion of the project depended on the prompt delivery by the firm of the deliverables and the Company's prompt approval of the same. The payment was scheduled in such a manner that after completion of each major deliverable, the firm was to receive a part of the contracted amount.

The proposal for an enterprise-wide computerisation was initiated as early as in September 1997 and the Company had enough time to settle the scope of and locations to be covered by the project. However, immediately after issue of the work order, differences cropped up between the Company and the firm regarding scope and locations. This necessitated issue of an amended work order and postponement of the date of commencement from 15 December 1998 to 1 March 1999.

The Company paid a commencement fee of Rs.10 lakh to the firm. Subsequently, between March and September 1999, the Company paid Rs.48.40 lakh which included payment for presentation of recommendations (Rs.23.33 lakh), preparation of procedure manuals (Rs.10.58 lakh) and preparation of functional specification documents (Rs.9.44 lakh), out of pocket expenses (Rs.2.50 lakh) and strategy plan (Rs.2.55 lakh). The amount paid represented 41 *per cent* of the total project cost.

The system was, however, never implemented and in January 2001, the Company terminated the contract.

Audit analysis of the case revealed the following:

- From the very beginning, the understanding between the Company and the firm regarding the project parameters was inadequate necessitating issue of amendments to the work order.

- The Company did not pay required attention before approving procedure manuals and functional specifications on the basis of which the system was to be designed. During lifetime of the project, the firm developed the system prototype of only sales module out of the nine modules to be developed, but that also suffered from many lacunae from the point of view of the Company.

- The Company also did not take prompt action in several areas which were the responsibility of the Company and were crucial for the success of the project. For example, the Company delayed hardware procurement, item codification, weighbridge realignment which were necessary for the sales module to function effectively.

- In the original work order dated 26 November 1998, the payment schedule envisaged a commencement fee of Rs.39 lakh against a bank guarantee of Rs.40 lakh. During the discussions on enlarging the scope of the project, the payment terms for each deliverable were changed drastically. The commencement fees were brought down to Rs.10 lakh as also the bank guarantee to the same amount. The amount for delivering business requirement analysis (presentation of recommendations) was increased from Rs.16.33 lakh to Rs.23.33 lakh, payment for delivery of procedure manuals was increased from Rs.5.24 lakh to Rs.10.58 lakh and the payment for functional specifications was increased from Rs.5.90 lakh to Rs.9.44 lakh. These amounts were released or approved to be released even while the Company and the firm had differences over the procedure manuals and functional specifications.

- Such was the payment schedule that 41 *per cent* of the projected amount was paid without ensuring that the firm had even started developing the software. The lowering of the bank guarantee had left little leverage at the hands of the Company to ensure that the firm delivers the products.

- The Company never analysed the reasons for delay and tried to apportion responsibility. The unilateral termination of the contract on the ground that it was not going to be useful to the Company is indicative of the fact that the firm did not do a satisfactory job but no serious analysis was ever undertaken by the Company. It also released the amount of the bank guarantee. Though the original proposal was approved by the Board, the proposal of termination was never intimated to it.

The Company/Government stated (March/August 2003) that there were several reasons for delay attributable to the Company. The Company also justified its action of not informing the BOD on the ground that the Managing Director of the Company was authorised to terminate the contract. However,

the fact remains that the Company failed to maintain strict discipline in the manner of carrying out its assignments and incurred an expenditure of Rs.58.40 lakh which proved completely fruitless.

4.2 Undue favour to a firm

Undue favour shown to a firm in award of contract for interior work resulted in avoidable loss of Rs.52.24 lakh.

The Company invited (December 2000) tenders for award of interior work of ground, seventh and eighth floors of its corporate office building in Ahmedabad. Of the five firms which responded to the tender, only two firms*, SIPL and NC, were declared (January 2001) pre-qualified and their technical bids were opened (March 2001) for scrutiny by the Company. However, on scrutiny of technical bids opened, the Company came to know the insufficient details given by the bidders on 12 items of sub-works such as, chairs, sofas, *etc*. Hence, the Company held (April 2001) discussions with the bidders during which the Company also came to know that prices were quoted by the bidders on some assumptions. Thereafter, the Company asked (April 2001) both the firms to submit revised price bids for the interior work after modifying the rates for the 12 items of sub-works based on the Company's requirements. Accordingly, the firms submitted (April 2001) their revised price bids.

Firms were asked to submit revised price bids.

The Company opened (April 2001) both original and revised price bids submitted by the firms in January and April 2001, respectively. In the original price bid, SIPL quoted the lowest rate (L-1) of Rs.2 crore compared to the rate (L-2) of Rs.2.28 crore of NC. However, in the revised price bid, NC quoted lowest rate (L-1) of Rs.2.37 crore compared to the rate (L-2) of Rs.2.38 crore of SIPL. However, the Company decided (May 2001) to exclude the 12 items of sub-works from the scope of interior work on the plea that rates quoted by the firms were higher by 31 to 48 *per cent* compared to the rates quoted for the items of sub-works in their original price bids. Thus, after deletion of the 12 items of sub-works (i.e. Rs.38.00 lakh and Rs.79.06 lakh of NC and SIPL respectively for the items of sub-works), the rate as per revised price bid for the remaining interior work was reduced to Rs.1.99 crore and Rs.1.59 crore for NC and SIPL respectively. However, the Company awarded (June 2001) the interior work (excluding the 12 items of sub-works) to NC(L-2) at a total cost of Rs.1.99 crore resulting in avoidable expenditure of Rs.39.56 lakh. Moreover, the Company incurred an extra expenditure of Rs.12.68 lakh due to increase in the volume of work given to NC, whose rate was higher being L-2.

It was observed in audit that although SIPL's rate of Rs.1.59 crore for the interior work (excluding the 12 items of sub-works) was the lowest yet the change in L-1 status of the firms (i.e. from NC to SIPL) after deletion of the 12 items of sub-works, was not specifically brought to the notice of Tender Committee (TC) and Board of Directors of the Company. On the contrary, NC

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* Sujako Interior Pvt. Limited (SIPL), Ahmedabad and New Concept (NC), Ahmedabad.

was projected as L-1 firm and the approval of TC was obtained for award of contract to NC.

The Company/Government stated (July/August 2003) that as per guidelines given (17 April 2001) by the Managing Director, the 12 items of sub-works were deleted from the scope of interior work. It further stated that the fact regarding the change in L-1 status of the firms were not brought out in the agenda note submitted to TC as one could easily make the allegation that the Company had favoured either of the firms. The reply was not tenable, as the Company was aware at the time of awarding the contract to NC that the rate of SIPL was cheaper to rate of NC. Besides, no convincing reasons were on record for ignoring the rate of SIPL. Moreover, the Company's apprehension on the possibility of allegation was not valid since it was the duty of the Company to adequately narrate the facts in agenda placed before the TC for obtaining their approval before the award of contract. Thus, the fact remains that the award of work to NC resulted in avoidable loss of Rs.52.24 lakh.

4.3 Delay in finalisation of tender

Award of mining contract on *ad hoc* basis at a higher rate to the same firm who quoted lower rate for taking up the contract on regular basis resulted in loss of Rs.21.34 lakh.

The Company invited (11 January 2002) tender for award of overburden* removal work at Lignite Project, Panandhro. The due date for opening of technical bids of the tender was 19 January 2002. However, the Tender Committee (TC) of the Company, at the instance of Company's Chairman decided (18 January 2002) to award the work immediately on *ad hoc* basis to M/s.Ranjit Construction Company (the firm) till the finalisation of the tender in normal course. It was also decided that the firm should be paid Rs.24.96 *per* cubic metre (cmt) of overburden removed, as per the rates finalised in the previous tender (February 2000) invited by the Company for a similar work. However, the Company awarded the work on *ad hoc* basis only in May 2002. The firm removed overburden of 6,56,529.57 cmt till July 2002. The tender of January 2002 was finalised in July 2002 and the work was awarded (July 2002) to the same firm at the lowest quoted rate of Rs.21.71 *per* cmt.

The Company awarded the work on *ad hoc* basis instead of finalising the tender already invited for the work.

Audit noted that though it was possible for the Company to finalise the tender within two months from the date of opening of bids, it postponed (January/May 2002) the schedule of opening the bids from 19 January to 20 May 2002 on the plea of waiting for the appointment of regular Managing Director for the Company. In the mean time, the Company had also not awarded the work on *ad hoc* basis immediately (i.e. as per decision of January 2002) for want of confirmation of minutes by the members of the TC. Besides, the procedure adopted in selection of the firm on *ad hoc* basis, based on the rates (i.e. Rs.24.96 *per* cmt) quoted for tender of February 2000 was not judicious as the very tender was subsequently cancelled (August 2000) by the

* Waste of earth burden above the minerable top of lignite available in earth seams is classified as overburden.

Company without awarding work to any firm. Had the Company expedited the finalisation of tender of January 2002, it could have avoided the extra payment of Rs.21.34 lakh (Rs.24.96 (-) Rs.21.71 *per* cmt X 6,56,529.57 cmt) through regular award of the work to the firm in time.

The Company/Government stated (July/August 2003) that one of the members of TC suggested some changes in minutes of TC held on 18 January 2002 for which Company was seeking legal opinion, hence the confirmation of the minutes was obtained from the members only in the subsequent TC held on 16 April 2002. The reply did not contain any details on the nature of suggestions given by the member and legal opinion obtained in this regard. Besides, justification for the delay in finalisation of tender invited on 11 January 2002 and injudicious selection of firm on *ad hoc* basis were not given by the Company.

The Company should avoid any delay in finalisation of tenders and should ensure prompt follow up action on the decisions taken on urgent basis.

Gujarat Industrial Investment Corporation Limited

4.4 Imprudent investment

Funds of Rs.7.60 crore remained locked up due to imprudent investment made in the fully convertible debentures. Consequently, the Company was exposed to interest burden of rupees three crore.

SWIL Ltd. (SWIL) approached (April 1999) the State Government with a request to extend financial assistance for implementing copper cathodes manufacturing project set up in Bharuch. Accordingly, the State Government instructed (April 1999) the Company to take up the work of underwriting SWIL's offer (April 1999) of rights issue of FCDs[#] to the extent of Rs.7.60 crore. The Company, in turn, raised the funds of Rs.7.60 crore from three State PSUs[*] in the form of inter corporate deposits (ICDs) with interest rate of 10.5 to 12 *per cent per annum* and paid (May to July 1999) the amount to SWIL towards subscription of 7,60,000 FCDs of Rs.100 each as the right issue was not fully subscribed. FCDs carried interest of 17.5 *per cent per annum.* Against the original schedule of commissioning the project in August 1998, SWIL had not yet commissioned (April 2003) the project. In the meantime, the FCDs were converted into 76 lakh equity shares of Rs.10 each by SWIL on 7 June 2001. However, against total interest dues of Rs.2.07 crore on the FCDs till conversion thereof, SWIL issued (July 2001) preferential shares worth Rs.1.55 crore (at Rs.10 each) and did not pay any interest as per terms of FCDs. On the contrary, the Company paid (October 2000 to May 2001) Rs.92.48 lakh out of rupees three crore interest liability (as on March 2003) accrued and due on the ICDs. Remaining amount of interest of Rs.2.08 crore along with the amount of ICDs (i.e. Rs.7.60 crore) were not yet paid by the Company (March 2003).

[#] Fully Convertible Debentures

[*] Public Sector Undertakings *viz.*, Gujarat Maritime Board, Gujarat Industrial Development Corporation and Gujarat Mineral Development Corporation Limited.

Terms in the buy back agreement was not honoured by the promoter.

Besides, as per the agreement entered into (May 1999) by the Company with the promoter of SWIL, the promoter should have bought back 36 lakh shares at Rs.10 each from the Company before 5 July 2001. However, neither the promoter fulfilled the terms of agreement nor the Company could sell the shares as the average market price prevailing till January 2002 was Rs.3.25 *per* share only. Hence, the Company filed (January 2002) a civil suit against the promoter for breaching the terms of agreement, the outcome of which was awaited (April 2003).

Audit noticed that the Company was aware of the following facts while underwriting the issue of FCDs:

- The Company was not holding a valid certificate of registration issued under Section 12 of Securities and Exchange Board of India Act, 1992, to act as an underwriter.

- The Company had earlier sanctioned (August 1998) a term loan of Rs.16.86 crore to SWIL for the project and further financial assistance was not allowable to SWIL as per the exposure norms fixed (August 1996) by the Company.

- Delay in commissioning of the project, inadequate cash accruals and high debt equity ratio of SWIL were also in the knowledge of the Company.

Despite this, the Company, on receipt of the State Government instructions (April 1999), failed to impress upon the Government about the constraints involved in complying with the instructions. Consequently, the funds of Rs.7.60 crore remained locked up and the Company was also exposed to interest burden of rupees three crore (inclusive of Rs.92.48 lakh interest paid) on the funds raised for investing in the FCDs. Besides, dues of Rs.24.79 crore (principal : Rs.16.86 crore, interest : Rs.7.93 crore) on the term loan given to SWIL also remained unrecovered by the Company (March 2003).

The Company stated (July 2003) that it apprised the Government on the restriction in further providing financial assistance to SWIL due to the exposure norms fixed, yet the instructions were issued. The fact remains that the Company could not convince the Government about the constraints in subscribing the right issue of FCDs.

The matter was reported to Government in May 2003; their reply had not been received (October 2003).

Gujarat State Handloom and Handicrafts Development Corporation Limited

4.5 Loss due to belated closure of unviable unit

Belated decision to close the unviable unit led to a loss of Rs.22.96 lakh.

The Company sells handicraft products through its own emporia or franchise shops. The Managing Director of the Company after reviewing (October

1999) the performance of its emporium in Lucknow (the unit) sent a proposal to the Chairman of the Company recommending closure of the unit as it remained unviable since 1994-95. However, the Chairman took the decision to watch the performance of the unit till February 2000. Subsequently, the proposal for closure of the unit was referred (March 2000) to the Board of Directors (BOD) of the Company for their decision as the performance of the unit did not show any improvement. Despite this, BOD also on four occasions (March, September and December 2000 and March 2001) deferred the decision on the closure and preferred to further watch the performance of the unit. Finally, BOD took the decision to close the unit in April 2002. The Company closed the unit only on 8 February 2003 after the delay in implementation of BOD's decision was pointed out (July 2002) in audit.

The unit did not achieve break-even sales since 1994-95.

Audit noticed that against the breakeven sales of Rs.60.00 lakh, the sales by the unit decreased from Rs.54.67 lakh in 1994-95 to Rs.21.13 lakh in 1998-99. Besides, during the period, the efforts made by the Company to reduce the operating expenses and to promote the volume of sales of the unit did not yield any results. Despite this, the BOD delayed the decision (April 2002) to close the unit and the Company delayed the implementation of BOD's decision (April 2002) on the pretext of watching the performance of the unit till February 2003. Consequently, the Company suffered an avoidable loss of Rs.22.96 lakh during April 2000 to January 2003 due to the delay in closure of the unviable unit.

The Company/Government stated (July/August 2003) that either the Chairman or the BOD of the Company had avoided to take the decision for closure in the hope of improvement in working of the unit. However, the unit was closed after obtaining the permission of Government in this regard in January 2003. The reply was not tenable, as the Company had sought the Government's permission only in November 2002. Besides, the fact remains that the delay in closing the unit was avoidable. The Company should take timely decision on the proposals initiated with commercial prudence to safeguard its interest.

Gujarat State Seeds Corporation Limited

4.6 Loss due to improper management of funds

Failure to evolve system for efficient management of the Company's funds resulted in loss of interest of Rs.86.23 lakh.

Management of funds involves projections for inflow/outflow of cash, financial requirements and strict cash control of an organisation. Efficient funds management provides for establishing a sound system of cash and credit control, which serves as a tool for taking decisions for investment of surplus funds. However, the Company did not devise any system for efficient management of funds. Consequently, in the following instances, the funds available with the Company were not invested prudently to get optimum returns:

Short term deposits were renewed repeatedly.

- During June 1999 to August 2002, the Company kept 17 inter corporate deposits (ICDs) each with funds of Rupees one crore to Rupees three crore aggregating Rs.32.50 crore with Gujarat State Financial Services Limited (GSFS). These ICDs were initially made for a term ranging from 16 to 60 days at interest rates of 5.5 to 7.5 *per cent per annum.* However, the deposits were subsequently renewed on four (minimum) to 20 (maximum) occasions. Thus, the funds were finally kept for 119 to 651 days. Had the Company, through proper planning, invested the funds initially for a term of 46 days to more than one year, it could have earned interest on the deposits at the rate of 6.5 to 10 *per cent per annum*. Thus, the failure to deposit the funds for longer periods resulted in loss of interest of Rs.44.23 lakh.

Funds were not deposited as per Government instruction.

- The Company kept funds ranging from Rs.28 lakh to Rs.12.10 crore in cash credit (CC) account with State Bank of Saurashtra (SBS) during April 2000 to March 2003. However, as per instructions issued (December 1999) by State Government, the funds in the form of operating surplus available with the Company for a period of less than 15 days were required to be deposited in the Liquid Deposit Scheme (LDS) of GSFS. Underlying objective of the instructions was to enable the Company to receive more return on surplus funds which would otherwise be kept in current account of banks due to non availability of any avenue for parking such very short term surplus funds. Besides, the funds placed with GSFS under the scheme were withdrawable on one day notice. Hence, during the period, the Company could have invested funds ranging from rupees three lakh to Rs.11.85 crore after retaining Rs.25 lakh in CC account which was adequate to meet its working capital requirements for seven days. Despite this, the Company failed to invest the funds as per the instructions of State Government and suffered a loss of interest of Rs.42 lakh (calculated at the rate of 4.31 to 16.25 *per cent per annum* on daily balance offered by GSFS) during the above period.

The Government/Company stated (July 2003) that the funds were deposited initially for short periods based on their future requirements. However, on the maturity of the deposits, it was found that the funds could be invested for further periods accordingly the deposits were renewed. Further, the funds received under various Government schemes were kept in CC account as the Company was not knowing the time for making payments to the beneficiaries. The Company further stated (September 2003) that during April 2000 to March 2003 it saved Rs.53.92 lakh as SBS did not charge any renewal fee/bank charges on cash credit limit/on demand drafts drawn respectively and allowed free mail transfer facility. The reply was not tenable as the incidence of frequent renewals of deposits indicated the inefficient management of funds. Further, the funds placed with GSFS under LDS were withdrawable on one day notice. The savings as worked out by the Company were mere hindsight as the Company in any case would have got the savings even by keeping the fund of Rs.25 lakh in CC account. Hence, the huge amount of funds kept in CC account in violation of the Government's instructions lacked justification.

Sardar Sarovar Narmada Nigam Limited

4.7 Avoidable expenditure due to non availment of concessional tariff

Failure to avail concessional tariff resulted in avoidable expenditure of Rs.1.73 crore.

The Company had been availing of energy supply (since June 1979) from Gujarat Electricity Board (the Board) for meeting the energy requirements of Narmada project including residential colonies at Kevadia. The contract demand (CD) for the energy supply was 7,500 KVA from June 1999. The consumption of energy was charged as per the Board's tariff for supply of electricity applicable to high tension (HT) consumer under rate HTP-I[#]. However, the Board while revising (October 2000) the tariff also incorporated a new rate HTP-II (B) for charging the energy exclusively consumed through a separate point of supply at the residential colonies/townships of the HT consumers.

Rate of HTP-II(B) was cheaper compared to rate of HTP-I.

Audit noticed that, out of the total CD of 7,500 KVA and average monthly energy consumption of 22.57 lakh units for the project charged (October to December 2000) under HTP-I, demand of 1,000 KVA and 6.17 lakh units were attributable to the energy consumed at the residential colonies of the project. Besides, the demand charges and energy charges were cheaper by Rs.95 per KVA and Re.0.50 per unit, respectively in rate HTP-II (B), compared to HTP-I. Moreover, the Company was recovering electricity charges from the residents of the colonies at concessional rate of Re.0.80 *per* unit against the average rate of Rs.7.29 *per* unit for the energy consumed by them. Despite all this, the Company did not apply to the Board for taking a separate point of supply for the energy consumption at the residential colonies after revision of the tariff in October 2000.

Hence, the Board continued to charge the Company for the energy consumed at residential colonies under rate HTP-I instead of at the cheaper rate under HTP-II (B). Consequently, the Company made extra payments of Rs.1.73 crore on the energy (i.e. 1.82 crore units) consumed at the residential colonies during April 2001 to March 2003. Had the Company made efforts (October 2000) to obtain the separate point of supply for residential colonies, it could have got the supply point before March 2001 (i.e. considering five months time for obtaining the separate point supply). Reasons for the Company's failure to obtain a separate point of energy supply for the residential colonies were not on record.

The Government/Company stated (August 2003) that for availing the benefit of tariff for residential colonies, officials of the Company personally approached the Board. However, as lot of modifications were to be made in the existing set up of HT connection, it was not possible to carry out the modifications and take out a separate line for the residential colonies. Despite this, the Company was pursuing again the issue of obtaining separate point of

[#] High Tension Power

energy supply for residential colonies. The reply was not tenable as the records made available to audit did not give any details of the efforts made by the Company and also the difficulties involved in taking out the separate line. On the contrary, the Company approached the Board only in May 2003 after the failure to obtain the separate point of energy supply was pointed out by Audit in April 2003. Thus, the fact remains that the Company incurred an avoidable expenditure due to non availment of concessional tariff applicable for the energy consumed in the residential colonies.

The Company should keep itself abreast of all the changes taking place having impact on the cost of performing its activities and explore the avenues for minimising the cost.

4.8 Avoidable expenditure due to improper soil investigations

Improper soil investigations carried out before award of earth works resulted in an avoidable expenditure of Rs.1.39 crore.

The Company awarded (January/October 1996) two contracts for earth works of Saurashtra Branch Canal to M/s.Shah Engineering Company (the firm) at a total cost of Rs.20.94 crore. The Company, based on the results of soil investigations, carried out during 1991-92 at the sites meant for construction of canal, did not anticipate the existence of hard strata *viz.* soft rock. Hence, provisions were made in the contracts only for the work of excavation of soil strata *viz.* sand, silt, gravel, stiff clay, soft murrum, *etc*.

Excavation of soft rocks was treated as "extra item of work"

However, the soft rocks were noticed (May 1996/November 1997) at the sites during excavation works carried out by the firm. Consequently, the Company decided (June 1998) to accept the demands (February/November 1997) of the firm to treat the work of excavation of canal in soft rocks as an "extra item of work" and approved the rates ranging from Rs.64 to Rs.92 *per* cubic metre (cmt.) against the then prevailing rates (May 1996/November 1997) of Rs.64.42 to Rs.84.76 *per* cmt., as per Schedule of Rates (SOR) for the said item of work. In view of this, the Company made (up to November/December 2001) avoidable extra payment of Rs.1.39 crore (Rs.1.27 crore as difference between approved rates and SORs; Rs.12.38 lakh as price escalation thereon) to the firm on the quantity of 21.76 lakh cmt. of soft rocks excavated during execution of the earth works. The firm completed the earth works in December 1998 and June 1999.

Audit noticed that the quantity of soft rocks excavated constituted 28 *per cent* of total quantity of excavation (i.e. 76.45 lakh cmt.) of earth works carried out. However, the soil investigations carried out by the Company did not reveal existence of such huge quantity of soft rocks at the site of the works. Reasons as analysed in audit revealed that the Company, at the time of conducting soil investigations, drilled trial pits with improper equipment, collected inadequate samples, did not drill the pits to the required depth and even allowed termination of the pits at the level of overburden/soil. Consequently, the Company incurred an avoidable expenditure of Rs.1.39 crore.

The Government/Company stated (August 2003) that the areas below the ground level of the sites were having rocks which were weathered in nature. Hence, the differentiation between soil and rock was not possible. Further, adoption of mechanical drilling process at the sites led to breaking of rock mass and consequential low recovery of material for sample tests. The reply was not tenable because the reasons as analysed (October 2002) by the geological division of the Company also revealed that use of improper equipment, adoption of incorrect methodology and collection of inadequate samples during soil investigations had led to the Company's failure in identifying the soft rocks. Thus, the fact remains that the improper soil investigations carried out by the Company resulted in avoidable expenditure of Rs.1.39 crore.

4.9 Avoidable expenditure on excess contract demand

The Company incurred avoidable expenditure of Rs.1.29 crore on the excess contract demand for energy supply.

The Company had been availing of high tension connection with a contract demand (CD) of 4,000 KVA from Gujarat Electricity Board (the Board) since July 1997 for meeting the energy requirement of Narmada (Mechanical) Division, Kevadia. However, the Company approached (February 1999) the Board for increasing the CD from 4,000 to 7,500 KVA on the plea that construction activities in Narmada dam were expected to go in full swing. Accordingly, the Board released (June 1999) the supply based on increased CD of 7,500 KVA.

No proper analysis was made for assessing the requirement for energy.

Audit noticed that the decision (February 1999) for increasing the CD up to 7,500 KVA was taken by the Company without assessing the requirement for energy properly based on the past energy consumption pattern, especially linking it with volume of construction activities undertaken. An analysis of data of actual consumption of energy by the Company during June 1999 to March 2003 revealed that against the CD of 7,500 KVA, the actual demand for energy ranged between 2,059 and 5,932 KVA except during six months when the demand hardly exceeded 6,000 KVA. In the mean time, the Company approached (July 2001) the Board for reducing the CD from 7,500 KVA to 6,000 KVA as the actual demand was much lower than CD. The Board agreed (August 2001) to grant the reduction in CD provided the Company installed the requisite size of CTPT* units (costing Rs.4.90 lakh) and execute related agreement as prescribed by the Board. The Company failed to comply with these conditions. Consequently, reduction of CD to 6,000 KVA was not allowed by the Board (June 2003).

Had the Company opted for increase in CD from 4,000 to 6,000 KVA instead of 7,500 KVA in February 1999, it could have avoided an expenditure of Rs.1.29 crore on the excess CD of 1,500 KVA during June 1999 to March 2003. Moreover, the avoidable expenditure of Rs.1.29 crore could have been

* CTPT (Current Transformer Potential Transformer) is an auxiliary equipment to bring down the voltage and ampere to the level to which the meter is designed.

reduced by Rs.56.38 lakh (the expenditure incurred from November 2001 to March 2003), if the Company had fulfilled the conditions prescribed by the Board and also got CD reduced from 7,500 to 6,000 KVA up to October 2001.

The Government/Company stated (July 2003) that the CD was increased to 7,500 KVA after considering future requirement for energy for ensuring uninterrupted progress of work. However, the Company later decided to reduce the CD from 7,500 KVA to 6,000 KVA due to revision in construction schedule made on account of permission (18 February 1999) given by the Hon'ble Supreme Court (SC) for raising the dam height by five instead of ten metres as planned by the Company. Further, the reduction in CD to 6,000 KVA were not effected as the Company was insisting on the Board to procure and install the CTPT units. The reply was not tenable as the Company had applied for increasing the CD to 7,500 KVA only after receipt of the permission from SC. Moreover, the Company made the payment to the Board only in May 2003 for procuring the CTPT units after the delay in reduction of CD was pointed out by audit in April 2003. Thus, the fact remains that the increase in the CD to 7,500 KVA without assessing the requirement of energy properly and also delay in fulfilling the Board's conditions meant for reducing the CD to 6,000 KVA lacked justifications.

4.10 Irregular payment for earth work

The Company made irregular payment of Rs.33.96 lakh on the contracts awarded for the construction of distributory canals for Sardar Sarovar Narmada Project.

The Company awarded (1992-95) contracts for construction of distributory canals for Sardar Sarovar Narmada Project to nine contractors. Provisions of the contracts, *inter alia,* stipulated that pad[@] embankment for canal would be constructed first with compaction[#] of earth in uniform layers and thereafter canal section would be excavated from the embankment. Further, payment was to be made to the contractor only for the compacted earth work done on the embankment.

Payments were allowed even on the uncompacted earth work done.

Audit noticed that on the completion of the contracts during March 1996 to August 2000, the Company allowed the payment of Rs.33.96 lakh even on the uncompacted earth work of 89,311.9 cubic metre (cmt) done by the contractors on the embankments. In spite of being pointed out (March 1999) in audit, the Company had not effected any recovery on the plea that the contractors were entitled to get the payments for bringing and placing the earth on embankments eventhough the earth was uncompacted. The Company's plea was not tenable as the compaction of earth work in embankment was a precondition for making payment under the contract. Moreover, in the instant case, the earth of 89,311.9 cmt were placed in uncompacted condition above a particular level on the embankments, for which, payments were not allowable as per the provisions of contract.

[@] Earth bank with flat surface

[#] The process of pressing the earth in embankment through roller (after watering it) up to a degree specified for embankment construction.

The Government/Company stated (July 2003) that though the earth of 89,311.9 cmt were first placed in uncompacted condition above the particular level on the embankments yet for constructing the remaining compacted portion of embankments the equal quantity of earth were brought from borrow pits and got compacted for which payments were made. The reply was not tenable as per the provisions of contract, the earth excavated from canal was to be used first for constructing remaining compacted portion of the embankments and the surplus earth available thereafter should be placed in uncompacted condition above the particular level on the embankments. Besides, the above contention of the Company contradicted their earlier reply of March 1999 that the contractors were entitled to get the payments for bringing and placing the earth on embankments even though the earth was uncompacted. Thus, the payments allowed to the contractors remained outside the scope of the contracts for which responsibility needs to be fixed by the Company.

4.11 Loss due to non recovery of interest

The Company suffered a loss of Rs.30.14 lakh due to non recovery of interest on the undue financial assistance of Rs.24.78 lakh extended to a firm.

The Company awarded (January 1989) the work of constructing distribution system of Shedhi branch canal to M/s.Nila Construction Company (the firm) at a cost of Rs.12.64 crore. Though the work was to be completed by June 1993, the firm had executed only 14 *per cent* of the cost of the work up to March 1992. Hence, the Company terminated (June 1992) the contract for the work on the plea of unsatisfactory progress noticed in the execution of the work. Consequently, the firm lodged (June 1992) claims for Rs.10.95 crore against the Company for various reasons *viz.*, loss of profit, cost towards idle manpower, machineries, *etc*. However, the Company based on the representation made (March 1993) by the firm decided (May 1993) to treat contract for the work as withdrawn instead of being terminated as was decided in June 1992. Further, the Company got (August 1994) the claims of the firm examined through a committee constituted for the purpose and finally approved (September 2000) the claims amounting to Rs.75.16 lakh only and made the payments thereof in December 2000.

Financial assistance extended was beyond the scope of contract.

Audit noticed that an amount of Rs.59.38 lakh towards mobilisation advance and Rs.30.79 lakh as interest (at the rate of 16 *per cent*) accrued thereon remained to be recovered from the firm by the Company till May 1993. However, pending settlement of the claims made by the firm, the Company did not recover the dues of Rs.90.17 lakh (i.e. Rs.59.38 lakh *plus* Rs.30.79 lakh) till December 2000. Besides, while approving the claims of the firm, the Company decided not to recover any interest on the dues of Rs.90.17 lakh. In fact, the Company failed to take note of the fact that the outstanding mobilisation advance of Rs.59.38 lakh was inclusive of an amount of Rs.24.78 lakh in the form of financial assistance extended (November 1989) by the Company though it was beyond the scope of contract. Hence, the undue financial assistance of Rs.24.78 lakh was, in any case recoverable from the

firm in May 1993. However, the Company did not invoke immediately (May 1993) the bank guarantee of the firm received against amount of Rs.24.78 lakh. Besides, the Company's failure to consider (September 2000) the aspect of recovery of interest on the locked up funds of Rs.24.78 lakh for the period from May 1993 to December 2000 which resulted in loss of interest of Rs.30.14 lakh during the period.

The Government stated (September 2003) that the firm was entitled to get both mobilisation advance and advance against machineries of Rs.54.43 lakh each (i.e. at the rate of five *per cent* each on the estimated cost of the work of Rs.10.89 crore). Thus, the financial assistance of Rs.24.78 lakh extended fell within the firm's overall entitlement for advances i.e. Rs.1.08 crore. The reply was not tenable because as per terms of contract the mobilisation advance was allowable only at the time of commencement of work and advance against machineries was allowable against the machineries in which contractor got undisputed ownership. In the instant case, the firm had drawn fully the entitled mobilisation advance in February 1989 itself. Besides, the firm's machineries were already hypothecated to IDBI. Consequently, it was not entitled to draw advance against machineries. Moreover, no other advances were allowable to the firm under the contract. Hence, extension of the assistance (November 1989) of Rs.24.78 lakh was beyond the scope of contract. Further, non encashment of the bank guarantee upon withdrawal of the work and non recovery of interest on the amount of assistance till settlement of the claims by the Company were tantamount to passing of undue benefits to the firm. Responsibility for the lapses needs to be fixed by the Company.

Gujarat Power Corporation Limited

4.12 Loss due to belated compliance of terms of purchaser

Delay in complying with the terms of share acquisition agreement resulted in interest loss of Rs.8.03 crore.

The Company, as per State Governments' directions (December 1999), decided (January 2000) to disinvest its holdings of 873.60 lakh equity shares held in Gujarat Powergen Energy Corporation Limited (GPECL) in favour of Powergen UK plc, London (parent Company of Powergen India Private Limited). Accordingly, the shares with face value of Rs.10 each were to be sold by the Company at Rs.33 *per* share to Powergen UK plc (the purchaser). The purchaser sent (22 September 2000) a draft share acquisition agreement (SAA) to the Company containing terms and conditions for purchase of shares. The Company and the purchaser signed the SAA on 28 June 2001. As per the terms of SAA, the purchaser paid (September 2001) Rs.28.83 crore, being 10 *per cent* of total purchase consideration to the Company. However, the remaining consideration was payable on completion of necessary formalities relating to transfer of shares by the Company before 1 October 2001.

Audit noticed that the Company was aware (September 2000) that as per draft SAA it had to obtain the consent from the lenders (i.e. financial institutions)

on the proposed sale of shares to the purchaser because the Company while availing (May 1996) of financial assistance for GPECL gave an undertaking to the lenders that the Company would not sell their shares held in GPECL. Despite this the Company belatedly initiated (13 March 2001) action to obtain the lenders' consent at the specific instance (12 March 2001) of the purchaser. Consequently, the Company had to take the approval of the purchaser on four occasions for extension of the due date from 1 October 2001 to 16 February 2002 for completing the shares transfer formalities. Finally, the Company obtained the consent of lenders by 11 February 2002 and received the remaining consideration of Rs.259.46 crore on 15 February 2002 from the purchaser. The Company, upon the receipt of the consideration, invested it in inter corporate deposit with GSFS* at the rate of 8.25 *per cent per annum*. The delay of 171 days (23 September 2000 to 12 March 2001) in initiating the action for obtaining lenders' consent was caused due to wrong presumption of the Company that initiation of such action would be premature at that point of time. The delay, however, was avoidable. Moreover, the extension of 137 days (1 October 2001 to 15 February 2002) had deprived the Company of interest of Rs.8.03 crore (calculated at rate of 8.25 *per cent per annum* on an amount of Rs.259.46 crore).

Action for obtaining lenders' consent was initiated after a delay of 171 days.

The Company/Government stated (April/May 2003) that the purchaser did not give any firm commitment for purchasing the shares at Rs.33 each till March 2001. In the meantime, the purchaser was insisting the Company and the State Government to make necessary arrangements for settling of some issues on recovery of dues and power purchase agreement existed between Gujarat Electricity Board (GEB) and GPECL. Hence, the Company initiated action for obtaining lenders' consent only in March 2001. The reply was not tenable as the purchaser in September 1999 agreed for purchasing the shares at Rs.33 each subject to the settlement of the issues between GEB and GPECL. In fact, a settlement on the issues was also arrived in May 2000 at the instance of the Government. Accordingly, the purchaser sent (September 2000) draft SAA to the Company. Hence, the Company should have initiated action for obtaining lenders' consent immediately. Responsibility for the delay in initiating the action needs to be fixed by the Company.

Gujarat State Road Development Corporation Limited

4.13 Avoidable expenditure on consultancy services

Failure to adopt prudent approach before appointing the consultants for taking up the pre-feasibility studies for the road projects resulted in loss of Rs.93.00 lakh.

The Gujarat Infrastructure Development Board (GIDB) provides assistance for the development of road projects meant for encouraging the private sector participation *via* BOOT/BOT** route. The Company, being a nodal agency of GIDB identifies the projects to be developed in road sector and sends the

* Gujarat State Financial Services Ltd.
** Built-Operate-Own and Transfer (BOOT)/Built-Operate and Transfer(BOT)

proposal to GIDB for approval. GIDB on the approval of the proposal releases the fund to the Company for appointing the consultants for preparation of pre-feasibility reports and for bidding documents on the identified road projects. The Company reimburses to GIDB the amount of expenditure incurred on the consultancy services availed of by recovering the same from the private sector participants (i.e. developers) after award of the works for development of the projects.

The Company decided (September 2000) to appoint consultants for preparing pre-feasibility reports and bid documents for eight road projects identified for development in the State. Accordingly, the Company approached (October 2000) GIDB and got the sanction of funds to the tune of Rs.1.89 crore for availing of the services of consultants for these eight projects. The Company appointed (June 2001) consultants. When the works of preparations of pre-feasibility reports were in progress, the Company, at the instance of GIDB (November 2001) decided to terminate the services of the consultants as the identified projects were overlapping with the projects which were either earmarked or already under implementation through other agencies under World Bank programmes (WBP) for the road sector. The Company terminated the services of consultants on receipt (between October 2001 and July 2002) of the interim pre-feasibility reports after incurring an expenditure of Rs.93.00 lakh.

Services of consultants were terminated after incurring expenditure of Rs.93.00 lakh.

Audit noticed that the Company was intimated from time to time by GIDB about the details of various road projects earmarked for development through different agencies in the State and also their status reports. In the instant case, the Company had received (January 2001) adequate details to note the fact that the projects identified by the Company were already earmarked for implementation under WBP. Despite this, the Company failed to take note of the overlapping before appointing the consultants for the projects identified by the Company. Moreover, the basis adopted for selection of the eight projects by the Company (September 2000) already earmarked under WBP was not on record. Besides, the interim reports of the consultants mainly contained the details on methodology adopted for conducting studies and preliminary analysis of the survey data on the eight projects, which were of limited use to the Company.

The Government/Company stated (July 2003) that the eight projects were selected since they were included in Gujarat Infrastructure Agenda – Vision 2010[#]. However, the WBP also covered these projects either for widening the existing roads to make two lanes roads or renewal of the existing two lanes roads. On the contrary, the projects identified by the Company envisaged development of four lanes roads in the same places covered under WBP. The reply was not correct as three out of the eight projects were only included in Vision 2010. Besides, all eight projects were subsequently dropped by the Company since they were overlapping with projects covered under WBP. Thus, the Company's failure to adopt prudent approach before appointing the

[#] Represents State Government's estimation on sector wise infrastructure requirements of State up to the year 2010. Besides, the agenda identifies the projects and linkages across sectors for coordinated developments.

consultants for taking up the pre-feasibility studies of the projects resulted in loss of Rs.93.00 lakh.

STATUTORY CORPORATIONS

Gujarat Electricity Board

4.14 Loss of revenue due to delay in construction of bore wells

Belated commissioning of new bore wells led to energy generation loss of 3.08 crore units and consequently revenue loss of Rs.6.81 crore.

The Kutch lignite thermal power station (the TPS) with a total installed capacity of 215 MW*, had three generating units (Unit-I, II and III). The total water requirement for the functioning of all the units of the TPS was approximately 22,000 to 23,000 cubic metre *per* day (cmt/day). The water requirement was met through 15 bore wells constructed for this purpose.

Generation loss of 3.08 crore units due to forced shut down resulted in loss of revenue of Rs.6.81crore.

However, six out of the 15 bore wells failed during April to July 2001. Consequently, the remaining nine bore wells could provide approximately 15,000 cmt/day. Functioning of the TPS was managed during 19 July to 12 November 2001 with the available water of 15,000 cmt/day, as Unit-II was under shutdown during that period due to major problem in turbine rotor. Finally, five bore wells were drilled and commissioned during December 2001 to March 2002. In the meantime, when Unit-II started functioning (i.e. on 12 November 2001), the TPS kept one or the other unit under shutdown due to shortage of water during November and December 2001. Thus, due to shutdown of units (November/December 2001), the Board lost generation of 3.08 crore units. This resulted in loss of potential revenue of Rs.6.81 crore (calculated at an average realisation rate of Rs.2.21 *per* unit applicable for the year 2001-02) to the Board.

Audit noticed that the Board knew (July 2001) that with the completion of the work undertaken for repairing the turbine rotor, Unit-II would start functioning from November 2001. Therefore, the Board should have taken immediate action for commissioning new bore wells to solve the impending problem of shortage of water from November 2001. On the contrary, estimates for construction of new bore wells were prepared as late as in September 2001 and orders for construction were placed only in December 2001/January 2002. Such belated action led to avoidable loss of potential revenue of Rs.6.81 crore due to forced shutdown of the units.

The Board/Government stated (July/August 2003) that though the six bore wells had failed, four new bore wells were commissioned between April and September 2001. Hence, 13 to 15 bore wells were in operation and were supplying required quantity of water for the functioning of the three units simultaneously till December 2001. The reply was not correct because as per the Board records five bore wells were commissioned between December 2001 and March 2002. Hence, after Unit-II started functioning, the shutdowns

* Mega Watt

of the units on account of shortage of water occurred during November and December 2001 as per monthly outages statement of the TPS.

4.15 Avoidable payment of hire charges

Avoidable payments of Rs.39.33 lakh were made due to imprudent decision to hire bulldozer.

Based on an unsolicited offer received (June 2001) from a firm*, the Board decided (November 2001) to hire a bulldozer from the firm for attending to the works of stacking, shifting and spreading of coal at Wanakbori Thermal Power Station (WTPS). The decision to hire the bulldozer was taken as the hire charges *per* hour (Rs.2,400) were considered cheaper compared to the average cost *per* hour (Rs.2,961) incurred while using the Board's own bulldozers at WTPS. Accordingly, the Board hired one bulldozer from the firm initially for six months (December 2001 to May 2002) and subsequently, for three more months (November 2002 to January 2003). As per terms of contract, hire charges of Rs.4.32 lakh *per* month (calculated at the rate of Rs.2,400 *per* hour for minimum of 180 hours) were paid by the Board during the period, apart from incurring transportation cost of Rs.0.45 lakh on sending the hired bulldozer to TPS.

Incorrect cost comparison of owned and hired bulldozers resulted in avoidable payment of Rs.39.33 lakh

Audit observed (February 2002) that the Board's decision to hire the bulldozer was imprudent and lacked conviction. The Board while working out the average cost *per* hour for using their own bulldozers included elements of fixed cost also which in any case were to be incurred by the Board. After excluding the fixed costs, the operating cost *per* hour of the Board's bulldozers was lower (Rs.1,995 to Rs.2,095) than the hire charges of Rs.2,400 *per* hour. Besides, three out of the five Board's bulldozers with WTPS, normally worked on average for 40, 118 and 122 hours *per* month during January 2000 to November 2001 for meeting the requirements of WTPS. The Board, however, did not use one bulldozer on the plea of engine failure and restricted the use of other two bulldozers on an average to 17 and 13 hours *per* month during the period when the hired bulldozer was in use.

The Government/Board while accepting (July 2003) the audit contention regarding inclusion of fixed cost in the working of average cost *per* hour and also the underutilisation of own bulldozers, stated that the bulldozer was hired on trial basis to assess the economics of hire option. The reply was not tenable as the Board hired the bulldozer from the same firm in two spells stretching over a period of nine months which was too long for any trial study. Besides, the Board's own bulldozers were under utilised during the same period. Thus, avoidable payment of Rs.39.33 lakh was made to the firm due to imprudent decision of the Board to hire the bulldozer.

Besides, the responsibility for the imprudent decision taken for hiring the bull dozer needs to be fixed by the Board.

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* Techno-Sound Earth Movers Pvt. Ltd.

4.16 Avoidable payment of maintenance charges

The Board made avoidable payment of Rs.13.22 lakh due to inclusion of obsolete and idle bulldozers under maintenance contract.

The Ukai thermal power station (UTPS) of the Board awarded (April 2000) annual rate contract for maintenance work of earth moving machines consisting of six bulldozers and three wheel loaders to M/s.Minal Earth Movers (the firm). Subsequently, the contract was extended from time to time up to February 2003. As per terms of contract, the firm was to be paid at the rate of Rs.31,207 *per* machine *per* month for maintenance work of the machines.

Maintenance contract was awarded for obsolete models of bulldozers resulting in avoidable payment of Rs.13.22 lakh.

Audit observed (December 2002) that two bulldozers remained idle with UTPS from December 1999/February 2000 for want of spare parts as the bulldozers were obsolete models. Despite this, UTPS had included the bulldozers in the contract awarded in April 2000 without ascertaining the availability of the requisite spare parts for them. Further, UTPS withdrew the two bulldozers from the contract coverage only during June to November 2002 though UTPS was empowered to do so during intermediate period of the contract. Consequently, UTPS made avoidable payments of Rs.13.22 lakh (at the rate of 75 *per cent* on Rs.31,207 *per* machine *per* month) to the firm under the contract for the two bulldozers during their idle periods from April 2000 to October 2002.

The Board stated (June 2003) that while awarding the contract, the bulldozers were under break down and efforts were made for procuring their spare parts. In the meantime, to keep the bulldozers in good conditions, maintenance contract coverage was given. As soon as the Board came to know from the manufacturer/other suppliers that the spares were not available, the bulldozers were withdrawn from the contract coverage. Reply was not tenable, as bulldozers were obsolete. Hence, keeping the idle bulldozers under the maintenance contract coverage for long periods (26 to 30 ½ months) on the plea of waiting for the supply of spares for them lacked justification. Reply from the Government was awaited (October 2003).

The Board should periodically review the coverage of machines under maintenance contracts awarded.

4.17 Loss of revenue

Non levy of demand charges as per captive power policy of the Board resulted in revenue loss of Rs.15.86 lakh to the Board and Rs.3.80 lakh to the State exchequer.

As per the captive power policy (CP policy) of November 1998, the Board can give consent under Section 44(a) of Electricity (Supply) Act, 1948, to any industrial undertaking to set up and operate its own captive power plant. Besides, such undertaking is also allowed to draw the electrical energy from the Board, as well as supply its surplus energy to the Board. However, if the

undertaking draws more energy over and above the contract demand, three times of the demand charges of applicable HT tariff *per* KVA on the excess drawal of energy would be recovered from such undertaking by the Board.

Higher demand charges not levied on excess drawal of energy.

It was observed in audit that Tata Chemicals Ltd., Mithapur (HT consumer) covered under CP policy was having (April 2000) contract demand of 2,500 KVA and had also availed of the Board's supply of energy during April 2000 to April 2002. The Board, thereafter, permanently disconnected (May 2002) the energy supply as the consumer did not require it. However, the Board failed to levy the higher demand charges of Rs.540 *per* KVA (i.e. three times of applicable tariff of Rs.180 *per* KVA) as per CP policy on the excess energy (i.e. more than 2,500 KVA) ranging from 1,910 to 8,480 KVA drawn by the consumer during May to September 2000. This resulted in loss of revenue of Rs.15.86 lakh to the Board. Besides, State exchequer also suffered loss of revenue of Rs.3.80 lakh due to non levy of electricity duty and tax on sale of electricity on the demand charges not levied.

The Government/Board replied (July 2003) that the provision for charging three times of demand charges on the excess drawal of energy was included in CP policy as the power situations prevailing during 1997-98 warranted such penal provision. However, the situations changed later on and consumers were encouraged to draw more energy for industrial purposes from the Board. Hence, in the instant case, higher demand charges were not recovered from the consumer. The reply was not convincing as the non recovery of higher demand charges from the consumer was not in consonance with the provisions of CP policy.

The Board should ensure strict compliance to the provisions of CP policy having implications on the Board's revenue.

Gujarat State Road Transport Corporation

4.18 Extra expenditure in production of aluminium extrusions

Failure to assess the financial viability of an unsolicited offer resulted in extra expenditure of Rs.37.48 lakh in production of aluminium extrusions.

The Corporation, based on an unsolicited offer received (May 1999) from firm 'M'* decided (March 2000) to produce aluminium extrusions at the Corporation's central workshop through award of the work of converting aluminium scrap into extrusion on contract basis instead of purchasing readymade extrusions. Accordingly, the Corporation entered (November 2000) into an agreement valid for a period of five years with firm 'E'@ (a sister concern of firm 'M') for production of 435 metric tonnes (MTs) of aluminium extrusions *per annum* for its use in bus body building work.

As per terms of the agreement, the Corporation was to pay to firm 'E' license fee of Rs.18.24 lakh *per annum* and labour charges of Rs.16,520 *per* MT of

* M/s. Maharashtra Aluminium Extrusions.
@ Everlast Engineering Private Limited.

extrusions produced. Besides, the Corporation was to bear cost of other inputs, such as, furnace oil, energy charges, foundry chemicals and additive involved in the production. Firm 'E' produced 252.300 MTs of extrusions from October 2001 to March 2003.

Audit observed that the Corporation estimated (March 2000) a saving of Rs.750 *per* MT in cost of producing (i.e. Rs.1,12,320 *per* MT) the extrusions compared to the then prevailing market price (i.e. Rs.1,13,070 *per* MT). The proposed savings works out to 0.67 *per cent* of the cost. However, the Corporation incurred an extra expenditure of Rs.14,854 *per* MT as the cost of production worked out to Rs.1,46,790 *per* MT against the average market price of Rs.1,31,936 *per* MT of extrusions prevailing during the period of production (October 2001 to March 2003).

To get saving of Rs.750 *per* MT, the annual production should be of 435 MTs of extrusions.

Audit analysis revealed that the estimated saving of Rs.750 only *per* MT was possible, if the optimum annual production of 435 MTs was achieved based on the capacity of plant installed by firm 'E'. However, the Corporation reduced (from April 2001) the purchase of new chassis from 973 to 198 numbers due to financial difficulties. Consequently, the requirement for extrusions was also reduced to 252.300 MT against its estimate of 652.50 MTs during October 2001 to March 2003. However, the aspect of plant capacity utilisation below installed capacity of the plant was not considered while calculating the saving by own production in comparison to purchase from market. Further, the actual cost of other inputs (furnace oil, foundry chemicals *etc*.) was higher by 15.74 to 236.31 *per cent* compared to its estimated cost, due to unrealistic estimation made by the Corporation in this regard.

The Corporation stated (September 2003) that firm 'E' produced 392.544 MT of the extrusions during October 2001 to August 2003 and there was a saving of Rs.2,520 *per* MT of the extrusions produced compared to its market price. The reply was not tenable, as verification of reply in audit revealed that the actual production was 386.329 MT against 392.544 MT stated by the Corporation. Further, against the average production of 14.016 MT during October 2001 to March 2003 commented in audit, the average production during April 2003 to August 2003 went up to 26.806 MT, for which reasons were not on record. Despite the increase in the production during April 2003 to August 2003, the quantity of inputs, such as, aluminium scrap and furnace oil supplied to the firm was less by 36 and 39 *per cent* respectively compared to the quantity supplied during the period commented in audit. Moreover, in the absence of any system to periodically indicate the balance quantity of unutilised materials (i.e. the scrap, furnace oil, foundary chemicals *etc*.), lying with firm 'E', it would not be possible to verify the savings as worked out by the Corporation.

Thus, the decision of the Corporation to produce aluminium extrusions without properly assessing its financial viability resulted in extra expenditure of Rs.37.48 crore on 252.300 MTs (Rs.14,854 *per* MT x 252.300 MTs).

The matter was reported to the Government in March 2003; their replies had not been received (October 2003).

Gujarat State Financial Corporation

4.19 Undue favour to a ship breaking unit

Non adherence to the laid down procedure in respect of sanction and disbursement and inadequate follow-up of recoverable dues resulted in non recovery of Rs.3.24 crore.

The Corporation sanctioned (August 1998) financial assistance of Rs.1.50 crore to Global Ship Trade Private Limited, Bhavnagar (the unit) under Hire Purchase Scheme (the scheme) for acquisition of machineries (three cranes and winches) costing Rs.1.68 crore. The unit was engaged in ship breaking activities since November 1996. The unit acquired machineries in January 1998 and sought financial assistance for repaying the dues to the suppliers of the machineries. Consequently, the Corporation released (August 1998) Rs.1.50 crore which was repayable by the unit in 36 equated monthly instalments (EMIs) of Rs.5.55 lakh each starting from September 1998. However, the unit, after the payment of two EMIs (i.e.Rs.11.10 lakh), stopped making payment after November 1998. The unit was closed in January 1999. Consequently, Rs.3.24 crore (principal : Rs.1.38 crore, interest : Rs.34.51 lakh and penal interest : Rs.1.51 crore) remained unrecovered (March 2003) from the unit.

Dues of Rs.3.24 crore remained to be recovered from a ship breaking unit.

It was observed in audit that, the Corporation was aware at the sanction and disbursement stages, that the unit had neither completed minimum two years period since commencement of commercial production nor had acquired new machineries as stipulated in the scheme. Besides, the cash accruals of the unit for the year 1997-98 indicated the inadequacy of the accruals to meet the liabilities of EMIs payable as per the scheme. Moreover, the Corporation had neither obtained invoices/purchase bills issued by the suppliers nor had obtained valuation report from the approved valuers of the three cranes worth Rs.1.20 crore acquired by the unit before releasing the assistance.

Further, it was observed that the cranes were not available with the unit at the time of taking over (March 2000) the possession of the unit by the Corporation. Despite this, the Corporation failed to file a criminal complaint against the promoters of the unit. The winches taken over by the Corporation were worth Rs.12 lakh only. But the Corporation neither invoked the personal guarantee against the promoters nor made any efforts to attach the collateral security (i.e. land worth Rs.3.94 lakh) of the unit so far (May 2003).

The Corporation stated (August 2003) that the past experience of the promoters of the unit in ship breaking activities and anticipation of adequate cash accruals, based on projected cash generation of the unit for the subsequent years were the reasons for sanctioning the assistance to the unit. Regarding the follow up actions on recovery of dues it was stated that the Corporation had filed the criminal complaint against promoters and also taken over possession of the collateral security in August 2003. The reply was not tenable as the reasons cited for sanctioning the assistance disregarding the stipulations made in the scheme lacked convictions. Thus, the fact remains

that the sanctioning of assistance to the ineligible unit coupled with failure to verify the value of machineries acquired and belated follow-up actions on the recovery of dues by the Corporation resulted in non recovery of dues of Rs.3.24 crore.

The laid down procedures in respect of sanction, disbursement and follow-up of recoverable dues need to be adhered to scrupulously by the Corporation to prevent the recurrence of such flaws in future and responsibility need to be fixed for the said lapses.

The matter was reported to Government in June 2003; their reply had not been received (October 2003).

4.20 Extending financial assistance to an ineligible unit

Disbursement of loan to an ineligible unit coupled with inadequate follow up action for the recovery of dues by the Corporation resulted in non recovery of dues amounting to Rs.3.08 crore.

The Corporation sanctioned and disbursed (March/April 1998) working capital term loan of Rs.80 lakh to Alpine Poly Tex Pvt. Ltd., Vadodara (the unit). The loan was repayable in 20 monthly instalments starting from September 1998. As per the norms fixed (July 1997) by the Corporation, the unit was required *inter alia* to fulfill the following criteria for availing the loan:

- The unit should be in production for at least three years with a positive net worth of minimum of Rs.1.50 crore.
- The existing cash accruals of the unit should be adequate to meet existing and proposed liabilities of term loans and debts.
- The asset coverage ratio[#] after considering the proposed term loan should not be less than 2:1.

Disregarding the eligibility criteria, the Corporation had sanctioned the loan.

However, at the time of sanction, the unit was in production for a period of one year and eight months with the net worth of Rs.1.17 crore, the cash accrual was Rs.3.42 lakh against the proposed liabilities for repayment of dues ranging from Rs.4.06 lakh to Rs.5.20 lakh *per* month and the asset coverage ratio was only 1.37:1 as against the norm of 2:1. The justification for sanctioning the loan in the instant case disregarding the criteria, was not on record. After repayment of first instalment of principal and interest of Rs.7.76 lakh, the unit defaulted in repayment of loan as well as interest. Consequently, an amount of Rs.3.08 crore (principal : Rs.75.84 lakh and interest : Rs.2.32 crore) remained unrecovered (March 2003) from the unit.

Though the unit was in default in repayment of the loan since October 1998, the Corporation came to know only in March 2001 that the unit was closed since long. The exact date of closure was not known to the Corporation. The Corporation initiated (September 2001) proceedings belatedly to take over the

[#] Ratio showing total assets to total liabilities

possession of machineries of the unit under Section 29 of State Financial Corporations Act 1951. As the Corporation had not prepared the assets verification report on the mortgaged machineries before sanctioning the loan, it could not take over the possession of the machineries. Moreover, it was not possible for the Corporation to sell the collateral security (i.e. open plot of waste land) worth Rs.2.59 crore as required formalities were not followed by the Corporation while accepting the security of the unit.

The Corporation stated (August 2003) that while determining the eligibility status of the unit with regard to the criteria fixed, due weightage was also given on the aspects, such as, the unit's working performance, accumulated reserves and surplus and value of collateral securities offered by the unit. Regarding follow up actions, it was stated that action was being initiated against guarantors. The reply was not tenable as the weightage given on some aspects were merely incidental and did not lead to fulfillment of the eligibility criteria fixed by the Corporation. Thus, the fact remains that the sanctioning of loan to the ineligible unit coupled with non preparation of assets verification report and inadequate follow-up action on the recovery of dues by the Corporation had resulted in non recovery of outstanding amount of Rs.3.08 crore. The Corporation should fix the responsibility for the lapses pointed out in audit.

The matter was reported to the Government in February 2003; their reply had not been received (October 2003).

4.21 Imprudent financial assistance

An amount of Rs.1.69 crore remained unrecovered by the Corporation due to imprudent financial assistance extended under hire purchase scheme.

The Corporation extends financial assistance equal to 90 *per cent* of cost of the asset to be procured by a loanee under hire purchase scheme (the scheme) and recover the amount in 36/48 equated monthly instalments (EMIs) inclusive of interest at the rate of 20 to 24 *per cent per annum*. The Corporation sanctioned (October 1998) financial assistance of Rs.1.50 crore to Solid Carbide Tools Limited, Mumbai (the unit) for purchase of machineries worth Rs.1.70 crore for setting up a factory at Mehsana in Gujarat. However, against the sanctioned amount, the Corporation disbursed Rs.95.00 lakh between October 1998 and June 1999. Further disbursement was not made due to unsatisfactory progress in acquisition of the machineries and setting up the factory by the unit at Mehsana. The EMIs became due from November 1998, the unit was irregular in repayments since begining. Production activities were also not started in the factory. Consequently, an amount of Rs.1.69 crore (principal : Rs.82.15 lakh, interest : Rs.87.12 lakh) was outstanding against the unit (March 2003).

The unit did not start any production activity.

Audit analysis of the case revealed the following irregularities:

- Although the Corporation, as per norms of the scheme, initially did not agree (July 1998) to sanction any assistance to the unit based on adverse report given (June 1998) by the unit's banker on the repayment behavior of the unit yet the assistance was provided subsequently (October 1998), for which no reasons were available on record.

- The Corporation had not evolved any system to obtain and verify details of criminal and other cases against the promoters before sanctioning the loans. The Corporation was aware (October 1998) of the fact that the promoter of the unit was a member of Mumbai Stock Exchange (MSE), yet it failed to verify his credibility in dealings with MSE. A criminal complaint pending against the promoter since March 1997 for a cheating case relating to shares transactions came to the notice of the Corporation (September 1999) only after disbursements of the assistance.

- Against the disbursement of Rs.75.00 lakh made in October 1998 it was noticed (May 1999) that the machineries procured by the unit were old and used one, for which assistance should not have been extended under the scheme. In spite of this, the Corporation released (June 1999) additional assistance of Rs.20 lakh in favour of the unit.

- No time schedule for commencement of production in the factory was ensured at the time of sanctioning the loan.

The Corporation could take possession (March 2000) of the unit's assets worth Rs.9.58 lakh (shed : Rs.6.01 lakh, machineries : Rs.3.57 lakh) against the unrecovered dues of Rs.1.69 crore.

The Corporation stated (September 2003) that the unit repaid their dues to the banker and obtained "No Due Certificate" from the banker before the Corporation sanctioned the assistance to the unit. Besides, the membership of the promoter in MSE was known to Corporation only in September 1999. Regarding disbursement of assistance against old machineries, it was stated that the machineries were self designed and fabricated by the unit. The reply was not tenable. As per norms of the scheme, the loanee should have the track record for regular repayment of dues to the banks/financial institutions. However, in the instant case, the unit's banker gave adverse report since the unit was not regular in repayment of their dues to the bank. Besides, the Corporation made a mention about the promoter's membership in MSE in the appraisal report of the unit prepared in October 1998. Further, records made available to audit indicated that the machineries procured by the unit were not new.

Thus, failure of the Corporation to consider the banker's report on the unit and to verify the antecedent and bonafides of the promoter coupled with irregularities in disbursing financial assistance are indicative of professional deficiencies in the Corporation. The Corporation should fix the responsibility for the lapses.

The matter was reported to the Government in February 2003; their reply had not been received (October 2003).

Gujarat Industrial Development Corporation

4.22 Under recovery of water charges

In violation of the Corporation's policy, interest on capital cost was not considered for fixing water charges which resulted in short recovery of Rs.3.35 crore from industrial units.

The Corporation supplies water to the industrial units (the units) situated in its estates and recovers water charges from the units. As per the Corporation's policy, the water charges are fixed on 'no profit no loss' basis after considering all the costs involved in supplying water to the units.

Capital cost of the scheme was not fully recovered.

Based on the demand made by the industrial units of Dahej estate, the Corporation decided (August 1995) to undertake a water supply scheme on an agency basis for supply of water to the units. As per terms of the scheme, the units were to bear the total capital cost involved in implementation of the scheme. The Corporation initially laid the pipelines from Vilayat estate and started (June 1996) supply of water to the units of Dahej estate. However, the other works relating to the scheme, *viz.,* construction of water reservoir, water bound macadam approach road to the reservoir, *etc*. at Dahej were got completed by the Corporation till March 1999. Against the capital cost of Rs.53.07 crore (i.e. Nand to Vilayat Rs.18.05 crore and Vilayat to Dahej Rs.35.02 crore) incurred by the Corporation for the scheme, the units had contributed (March/August 1996) only Rs.44.06 crore. The Corporation did not recover the balance amount of Rs.9.01 crore from the units for which no justification was on record.

The Corporation, as per its policy, should have fixed the water charges from 1999-2000 and onwards after considering the element of interest at the rate of 18 *per cent per annum* on Rs.9.01 crore invested by it under the scheme. However, the water charges were fixed without considering the element of interest. Consequently, the Corporation recovered water charges at the rates of Rs.9.10 *per* cubic metre (cmt), Rs.9.40 *per* cmt and Rs.9.00 *per* cmt against the correct rates of Rs.11.40 *per* cmt, Rs.11.05 *per* cmt and Rs.10.21 *per* cmt applicable for the year 1999-2000, 2000-01 and 2001-02, respectively. This resulted in short recovery of water charges of Rs.3.35 crore from the units at Dahej estate on 1.98 crore cmt water supplied during 1999-2002.

There is a need to closely monitor the adherence to the laid down policies having implications on the Corporation's revenue.

The matter was reported to Government/Corporation in April 2003; their replies had not been received (October 2003).

4.23 Follow-up action on Audit Reports

Outstanding action taken notes

Audit Reports of Comptroller and Auditor General of India represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices and departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. As per rule 7 of Rules of Procedure (Internal Working) of Committee on Public Undertakings (COPU), Gujarat Legislative Assembly, all the administrative departments of State Public Sector Undertakings (PSUs) should submit explanatory notes indicating corrective/remedial actions taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature.

Though the Audit Reports for the years 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 were presented to the State Legislature in September 1999, October 2000, August 2001, April 2002 and March 2003 respectively, 10 out of 13 departments which were commented upon did not submit explanatory notes on 37 out of 139 paragraphs/reviews as on 30 September 2003 as indicated below:

Year of the Audit Report (Commercial)	Total Paragraphs/ Reviews in Audit Report	No. of paragraphs/ reviews for which explanatory notes were not received
1997-98	30	2
1998-99	31	3
1999-2000	29	2*
2000-01	24	6
2001-02	25	24
Total	**139**	**37**

* includes one paragraph for which replies were awaited from three departments.

Department-wise analysis is given in ***Annexe*-22**. The departments largely responsible for non-submission of explanatory notes were Industries and Mines, Energy and Petrochemicals and Narmada, Water Resources and Water Supply. The Government did not respond on such important reviews as pertaining to recovery performances of State PSUs engaged in finance activities and also on the paras on mis-management and misappropriation of Government money. Absence of replies hampered the work of COPU.

Outstanding Reports of Committee on Public Undertakings (COPU)

Replies to three paragraphs pertaining to two Reports of COPU presented to State Legislature in December 1994 and March 1999 had not been received (September 2003) as indicated below:

Year of Report of COPU	Total number of Reports involved	No. of paragraphs where replies not received
1994-95	1	3
1998-99	1	--
Total	**2**	**3**

The two Reports of COPU (i.e. Thirteenth Report of Eighth Assembly and First Report of Tenth Assembly) contain 23 recommendations related to paragraphs appeared in Audit Reports from 1987-88 to 1992-93. As per rule 32 of Rules of Procedure (Internal Working) of Committee on Public Undertakings (COPU), Gujarat Legislative Assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are to be submitted by the administrative department of PSUs within three months from the date of placement of Report of COPU in the State Legislature. However, in case of three recommendations, replies to two paragraphs pertaining to Gujarat Electricity Board and one in respect of Gujarat State Road Transport Corporation appeared in the Audit Report for the year 1987-88 are awaited (September 2003). In case of remaining 20 recommendations, COPU completed examination (October 2001) of ATNs, however, the formal intimation regarding settlement of these paras was awaited (September 2003).

Actions taken on the persistent irregularities

With a view to assist and facilitate discussion of the paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned auditee organisation and results thereof are indicated in ***Annexes*-23** and **24.**

Government companies

The irregularities of undue favours extended to loanee units amounting to Rs.18.24 crore and imprudent investment of funds amounting to Rs.6.65 crore noticed in audit of Gujarat Small Industries Corporation Limited and Gujarat Industrial Investment Corporation Limited (the Companies) respectively, were included in the Reports of Comptroller and Auditor General of India for the years 1996-97 to 2001-02 (Commercial) – Government of Gujarat. The irregularities were persisting with the companies over the period of seven years. Actions taken by the companies/State Government on the irregularities as scrutinised (July 2003) in audit revealed that the actions were belated and inadequate as per details given in ***Annexe*-23**.

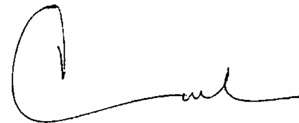
Statutory corporations

The irregularities of various nature having financial implication of Rs.82.89 crore and Rs.9.08 crore pertaining to Gujarat Electricity Board and Gujarat State Financial Corporation respectively, were included in the Reports of Comptroller and Auditor General of India for the years 1998-99 to 2001-02

(Commercial) – Government of Gujarat. The irregularities were persisting with the Board/Corporation over the period of four years. Actions taken by the Board/Corporation on the irregularities as scrutinised (July 2003) in audit revealed that the Board/Corporation had not taken corrective actions due to lack of seriousness on their part as per details given in ***Annexe*-24**.

Ahmedabad **(Raghubir Singh)**
The: **Principal Accountant General (Audit)-I, Gujarat**

Countersigned



NEW DELHI **(Vijayendra N. Kaul)**
The: **Comptroller and Auditor General of India**