Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective Legislation. As on 31 March 2010, the State of Maharashtra had 62 working Public Sector Undertakings (PSUs) (58 Companies and four Statutory corporations) and 23 non-working PSUs (all Companies), which employed 1.99 lakh employees. The working PSUs registered a turnover of ` 40,872.98 crore in 2009-10 as per their latest finalised accounts. This turnover was equal to 4.91 per cent of the State GDP indicating an important role played by the State PSUs in the economy. The working PSUs incurred overall loss of ` 1,360 crore in 2009-10 and had accumulated losses of ` 7,368.66 crore as on 31 March 2010.

Investments in PSUs

As on 31 March 2010, the investment (Capital and long term loans) in 85 PSUs was ` 50,550.20 crore. It grew by 132.08 per cent from ` 21,781.64 crore in 2004-05 mainly because of increase in investment in power sector. Power Sector accounted for 80 per cent of the total investment in 2009-10. The Government contributed ` 5,509.86 crore towards equity, loans and grants/subsidies during 2009-10.

Performance of PSUs

During the year 2009-10, out of 62 working PSUs, 36 PSUs earned profit of ` 741.56 crore and 21 PSUs incurred loss of ` 2,101.56 crore. Four PSUs prepared their accounts on no profit no loss basis and one PSU was under construction and had not prepared profit and loss account. The major contributors to profit were Maharashtra State Electricity Transmission Company Limited (` 368.03 crore), Maharashtra State Road Transport Corporation (` 117.98 crore) and Maharashtra State Power Generation Company Limited (` 72.75 crore). Heavy losses were incurred by Maharashtra State Electricity Distribution Company Limited (` 1,351.45 crore), Maharashtra State Road Development Corporation Limited (` 421.58 crore) and MSEB Holding Company Limited (` 297.99 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the State PSUs losses of ` 2,259.25 crore and infructuous investments of ` 68.05 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 67 accounts of working companies finalised during October 2009 to September 2010, 49 accounts received qualified certificates and nine accounts received unqualified certificates, adverse certificate for three accounts and disclaimer for six accounts from Statutory auditors. Additionally, there were 68 instances of non-compliance with Accounting Standards in 28 accounts. Of the four accounts finalised during October 2009 to September 2010 by the Statutory corporations, three accounts received qualified certificates and one account received adverse certificate. The Reports of the Statutory auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Fifty six working PSUs had arrears of 178 accounts as of September 2010. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 23 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.

2. Performance Audit relating to Government Companies

Performance Audit relating to 'Operational performance' of the **Maharashtra Tourism Development Corporation Limited** and 'Power generation activities of the **Maharashtra State Power Generation Company Limited'** were conducted. Executive Summary of the main Audit findings is given below**:**

Performance Audit on Operational performance of the Maharashtra Tourism Development Corporation Limited

Maharashtra Tourism Development Corporation Limited (Company) was incorporated in January 1975 as a wholly owned Government Company to promote and develop tourism in the State. The State has a rich cultural heritage and geographical diversity. The Company has six Regional offices and 23 units in various districts of the State. The Company had leased out 79 properties since inception and operated 18 resorts, three restaurants and two water sports complexes as on 31 March 2010. The Company implements various tourist infrastructure developmental projects with the help of grants from the Government of India (GoI) and Government of Maharashtra (GoM). The performance audit of the Company for the period 2005-06 to 2009-10 was conducted to assess the financial management, project management and operational performance relating to tourist activities.

Tourist Inflow

The overall atmosphere in the State is conducive for tourist development. The tourist inflow in the State ranged between 157.80 lakh and 257.38 lakh tourists during 2005-10.

Despite the Company being in existence for more than 35 years in the tourism sector, the number of foreign tourists who had availed the Company's facilities was negligible during 2005-10.

The accounts of the Company have been pending for finalisation since 2006-07. The Company failed to develop proper mechanism to collect statistics of the tourists in the State as envisaged in the Tourism Policy of 2006 of GoM. The Company did not prepare any Corporate Plan or Action Plan to meet the requirements of Tourism Policy 2006.

Receipt and utilisation of grants

The Company executed various infrastructural projects for tourists with the help of grants from GoI and GoM. The utilisation of funds (2005-06 to 2009-10) from grant receipts of ` 617.73 crore was very low. Grants to the extent of ` 358.66 crore from GoI and GoM remained unutilised as of March 2010. There was lack of monitoring of the progress of the projects and delays were noticed in completion of projects.

Operational performance

Despite having spent ` 23.49 crore on its own resorts during 2005-06 to 2009-10, the Company failed to attract adequate number of tourists to its resorts. The number of foreign tourist who availed the facilities continued to be negligible. Though the number of domestic tourists arriving in the State had increased from 143.30 lakh in 2005-06 to 237.39 lakh in 2009-10, the number of tourists availing facilities of the Company declined from 2.30 lakh in 2007-08 to 2.07 lakh in 2009-10.

The Company had leased out land and resorts to private operators but failed to take effective and timely recovery action against the defaulting lessees. The lease rental could not be recovered in 62 cases out of 79 cases and ` 20.32 crore outstanding dues accumulated as of March 2010.

The occupancy norms including benchmark occupancy standards were not fixed by the Company. The average occupancy in the resorts of the Company was 37 to 51 per cent against the All India Average occupancy of 59.66 per cent during the review period.

Monitoring and internal control

There was no effective internal control mechanism in the Company. The minimum number of Board meetings were not held by the Company. There was lack of monitoring by the top management. The Internal Audit was not commensurate with requirement.

Conclusions and Recommendations

To assist the Company in rectifying the deficiencies noticed, audit has made eight recommendations. These include introduction of effective project monitoring systems, monitoring of utilisation of grants received from the GoI and GoM, improvement in financial management by timely reporting with greater accountability, evolving a systematic policy for leasing of assets and conducting of impact analysis of its operations.

Performance Audit on power generation activities in Maharashtra State Power Generation Company Limited

Introduction

One of the core objectives of National Electricity Policy has been "Supply of Power for All" by 2012. Maharashtra being a power deficient State, could not meet the peak demand and deficit in the power remained between 25 and 34 per cent of the peak demand during 2005-10. In view of the above it was considered desirable to conduct performance audit of power generation activities in the State in general and the Maharashtra State Power Generation Company Limited (Company) in particular. The performance audit covered capacity addition programmes, optimal utilisation of its resource for generation of power, management of fuel and output efficiency besides environmental aspects. The significant audit findings are discussed below:

Financial position and working results

The borrowings increased from ₹ 2,413.74 crore in 2005-06 to ₹ 12,987.99 crore in 2009-10 mainly on account of taking up new power projects. The debt equity ratio, therefore, increased from 0.90:1 in 2005-06 to 2.67:1 in 2009-10. The turnover of the Company during 2009-10 was ₹ 11,083.25 crore.

Planning and capacity additions

Capacity additions planned by the Company were not commensurate with the deficit of power. As against the required capacity additions of 5,210 MW, the actual additions by the Company was only 625 MW during 2005-10. The State Government signed (April 2005) Memorandum of Understanding with eight IPPs (12,168 MW) and provided financial/administrative support to another 24 IPPs (31,590 MW) for setting up power projects. However, 20 IPPs (28,718 MW) had not started their activities due to non acquisition of land. Out of potential of 7,852 MW for renewable energy in the State, sources were tapped up to 2,775 MW only by 2009-10. Thus, the objective of the National Electricity Policy to provide Power for All by 2012 may not be achieved.

Project implementation

The completion of two power projects (Parli Unit-6-250 MW and Paras Unit-3-250 MW) had spilled over from X Five Year Plan to XI Five Year Plan and completed in 2007-08 after a delay of 13-14 months. These projects were commissioned without conducting trial run. Resultantly, Parli Unit-6 remained under forced outage during November 2007 to March 2010 and led to loss of generation of 832 MUs. Out of remaining nine ongoing projects, six projects (2,750 MW) were behind the schedule by five to ten months.

Renovation and Modernisation of existing stations

The Company on the ground of shortfall of power in the State had not taken up any Renovation and Modernisation (R&M) programme of the existing nine thermal units due in the X Five Year Plan and compromised with technical requirements. Moreover, there was no long-term

Corporate Plan (CP) for R&M of old units in a phased manner.

Input and output efficiency

The excess consumption of 333.33 lakh MT of coal (value ` 5,515.85 crore) was mainly on account of low calorific value of coal received during 2005-10. The Company had not entered into coal supply agreements with two coal companies up to March 2009 and claims amounting to ` 76.10 crore on account of stones and shales and slippage in grade relating to the period 2001-09 were still pending with the two coal companies. The Company had not fixed modalities for ensuring timely submission of coal related claims as per new agreements from April 2009 onwards. There was also loss of generation of 335.88 Mus due to short supply of gas during 2005-10.

The actual Plant Load Factor (PLF) and generation of electricity by majority of thermal units was below the target fixed by MERC during the period of review. The PLF of 27 thermal units was below the target during 2009-10. Auxiliary consumption remained higher than the target resulting in loss of 1,076 Mus valued at ` 246.05 crore during review period.

Environmental issues

The environmental norms were not strictly complied with. The environment impact assessment was also not conducted by the Company for its projects.

Conclusion and Recommendations

The Company had not taken up R&M programme for any of the old units nor had it prepared Corporate Plan for replacement of overaged units in a phased manner. The operational efficiency of power stations was lower as compared to norms relating to consumption of fuel, PLF, forced outages and auxiliary consumption. The review contains eight recommendations which include preparation of comprehensive plan for replacement of overaged units, updatation of Management Information System on coal claims and fixing of power station-wise bench mark for transit loss.

3. Transaction Audit Observations

Transaction audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings involving significant financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ` 8.80 crore in one case due to non-compliance with rules, directives, procedures, terms and conditions of contract.

(Paragraph 3.2)

Loss of ` 31.25 crore in 13 cases due to non-safeguarding of the financial interests of the organisations.

(Paragraphs 3.1,3.5,3.6,3.8,3.9,3.11,3.14,3.15,3.16,3.17, 3.18, 3.20 and 3.21)

Loss of ` 38.56 crore in four cases due to defective/deficient planning.

(Paragraphs 3.4, 3.7, 3.12 and 3.13)

Loss of ` 2.71 crore in three cases due to lack of fairness, transparency and competitiveness in operations.

(Paragraphs, 3.3, 3.10 and 3.19)

Gist of some of the important audit observations is given below:

Failure of **Maharashtra State Electricity Distribution Company Limited** to avail the complete credit period for payment for energy purchased resulted in avoidable loss of interest of ` 8.91 crore on borrowings for payment.

(Paragraph 3.1)

Maharashtra Airport Development Company Limited extended undue favour to an agency due to non cancellation of allotment and non forfeiture of the advance payment of ` 8.80 crore.

(Paragraph 3.2)

Lack of proper planning exhibited by **Maharashtra State Road Development Corporation Limited** led to a time overrun of more than five years in commissioning of Rail Under Bridge at RCF Junction, Chembur (Mumbai), unfruitful expenditure of ` 4.30 crore and additional liability of ` 5.90 crore.

(Paragraph 3.4)

Maharashtra Film, Stage and Cultural Development Corporation Limited suffered revenue loss of ` 4.21 crore due to short recovery of upfront cost from BOT operators.

(Paragraph 3.6)

Maharashtra State Electricity Transmission Company Limited failed to obtain prior statutory permission for utilising forest land for construction of transmission line resulting in idle investment of ` 33.59 crore.

(Paragraph 3.7)

Shivshahi Punarvasan Prakalp Limited incurred extra expenditure of ` 1.45 crore due to undue benefit in award of contract to a private agency without calling for competitive bids and in violation of Government of Maharashtra advertising policy**.**

(Paragraph 3.10)

Maharashtra State Road Transport Corporation incorrectly availed excess abatement from the charges collected for providing buses on casual contracts resulting in short recovery of service tax of ` 1.09 crore

(Paragraph 3.17)

Maharashtra Industrial Development Corporation extended undue benefit of ` 1.05 crore due to allotment of land at industrial rates though the allottees agreed for commercial rates. The Corporation executed work valued at ` 72.53 lakh not required to be done as per Request for Proposal resulting in undue benefit to the private agency.

(Paragraphs 3.18 and 3.19)

Maharashtra Electricity Regulatory Commission awarded consultancy work at higher rates without undertaking a transparent bidding process resulting in an irregular expenditure of ` 9.66 crore on consultancy charges.

(Paragraph 3.21)