

## CHAPTER - VI

### Government Commercial and Trading Activities

#### 6.1 Overview of State Public Sector Undertakings

##### Introduction

**6.1.1** The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Goa, the State PSUs occupy a moderate place in the state economy. The State PSUs registered a turnover of ₹ 413.72 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover was equal to 1.88 *per cent* of State Gross Domestic Product (GDP) for 2010-11. Major activities of Goa State PSUs are concentrated in Infrastructure development sector. The State PSUs earned a profit of ₹ 10.31 crore in the aggregate for 2010-11 as per their latest finalized accounts. They had employed 3,251 employees\* as of 31 March 2011. The State PSUs do not include two prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government Departments. Audit findings on these DUs have also been incorporated in this chapter.

**6.1.2** As on 31 March 2011, there were 17 PSUs as per the details given below. None of the companies included in these PSUs was listed on the stock exchange.

| Type of PSUs           | Working PSUs | Non-working PSUs <sup>ψ</sup> | Total     |
|------------------------|--------------|-------------------------------|-----------|
| Government Companies   | 15           | NIL                           | 15        |
| Statutory Corporations | 2            | NIL                           | 2         |
| <b>Total</b>           | <b>17</b>    | <b>NIL</b>                    | <b>17</b> |

**6.1.3** During the year 2010-11, no PSU was established or closed down.

##### Audit Mandate

**6.1.4** Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a

\* As per the details provided by 17 PSUs.

<sup>ψ</sup> Non-working PSUs are those which have ceased to carry on their operations.

Government company (deemed Government company) as per Section 619-B of the Companies Act. However, the state had no 619-B company.

**6.1.5** The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

**6.1.6** Audit of statutory corporations is governed by their respective legislations. CAG is the sole auditor for both the statutory corporations viz. Goa Industrial Development Corporation and Goa Information Technology Development Corporation.

### Investment in State PSUs

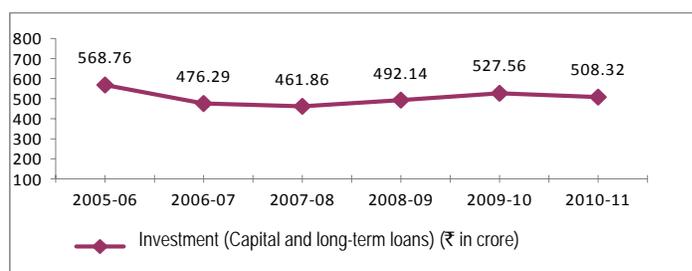
**6.1.7** As on 31 March 2011, the investment (capital and long-term loans) in 17 PSUs was ₹ 508.32 crore as per details given below.

(Amount ₹ in crore)

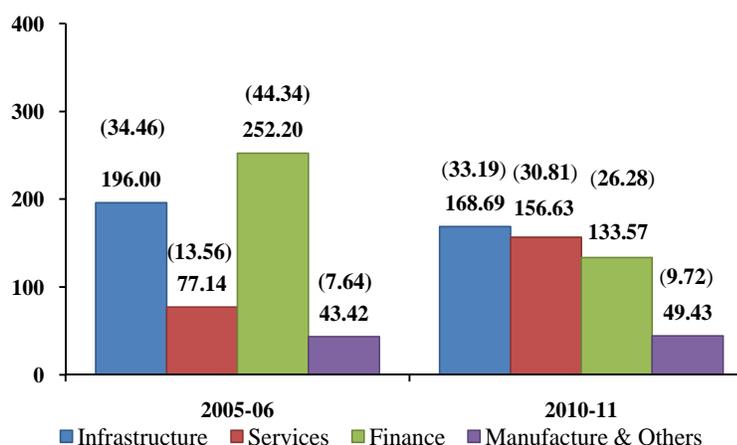
| Type of PSUs | Government Companies |                 |        | Statutory Corporations |                 |       | Grand Total |
|--------------|----------------------|-----------------|--------|------------------------|-----------------|-------|-------------|
|              | Capital              | Long Term Loans | Total  | Capital                | Long Term Loans | Total |             |
| Working PSUs | 264.18               | 212.48          | 476.66 | 31.66                  | -               | 31.66 | 508.32      |

A summarised position of Government investment in State PSUs is detailed in **Appendix 6.1**.

**6.1.8** As on 31 March 2011, investment in State PSUs consisted of 58.20 per cent towards capital and 41.80 per cent in long-term loans. The investment has dropped by 10.63 per cent from ₹ 568.76 crore in 2005-06 to ₹ 508.32 crore in 2010-11 as shown in the graph below.



**6.1.9** The investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart. The investment in Finance sector was reduced by 47.04 per cent in 2010-11 compared to 2005-06, whereas investment in Service sector and Manufacturing & Others increased by 103.05 per cent and 13.84 per cent respectively.



(Figures in brackets show the percentage of total investment and figures without bracket show the amount of investments ₹ in crore)

### Budgetary outgo, grants/subsidies, guarantees and loans

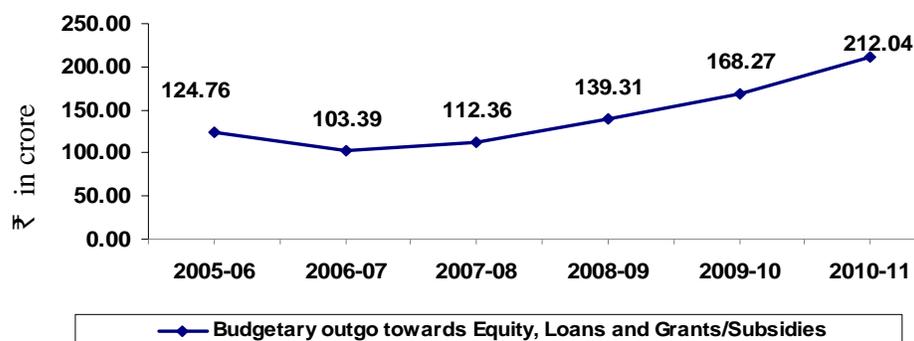
**6.1.10** The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in *Appendix 6.3*. The summarised details are given below for three years ended 2010-11.

(Amount ₹ in crore)

| Sl. No. | Particulars                             | 2008-09      |        | 2009-10      |        | 2010-11      |        |
|---------|---|--------------|--------|--------------|--------|--------------|--------|
|         |   | No. of PSUs* | Amount | No. of PSUs* | Amount | No. of PSUs* | Amount |
| 1       | Equity Capital outgo from budget 5.3(a) | 3            | 4.45   | 6            | 11.70  | 3            | 12.47  |
| 2       | Loans given from budget                 | 2            | 6.55   | -            | NIL    | -            | NIL    |
| 3       | Grants/Subsidy received                 | 6            | 128.31 | 7            | 156.57 | 10           | 199.57 |
| 4       | Total Outgo (1+2+3)*                    | 9            | 139.31 | 10           | 168.27 | 10           | 212.04 |
| 5       | Guarantee Commitment                    | 4            | 86.60  | 3            | 86.00  | 3            | 83.71  |

\* Number of PSUs represents actual number of PSUs which have received budgetary support from the State Government in the form of equity, loans and grants/subsidy etc.

**6.1.11** The details regarding budgetary outgo towards equity, loans and grants/subsidies for past six years are given in a graph below.



The budgetary outgo of the State Government towards Equity contribution, Loans, Grants and Subsidies decreased from ₹ 124.76 crore in 2005-06 to ₹103.39 crore in 2006-07 and thereafter it showed increasing trend and stood at ₹ 212.04 crore during 2010-11.

**6.1.12** The guarantee commitment by the State Government against the borrowings of State PSUs was showing a declining trend. Guarantees for ₹ 86.60 crore were outstanding as at the end of 2008-09 which came down to ₹ 83.71 crore at the end of 2010-11. The State Government is usually levying a one time guarantee fee of 0.5 per cent of the amount guaranteed. This, however, was not levied in some cases.

#### Reconciliation with Finance Accounts

**6.1.13** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2011 is stated below.

| (₹ in crore)              |                                |                               |            |
|---------------------------|--------------------------------|-------------------------------|------------|
| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of PSUs | Difference |
| Equity                    | 226.52                         | 235.95                        | 9.43       |
| Loans                     | *                              | 8.28                          | -          |
| Guarantees                | 79.00                          | 83.71                         | 4.71       |

**6.1.14** Audit observed that the differences occurred in respect of 10 PSUs and some of the differences were pending reconciliation since 1998-99. Though

\* State Government's loan to State PSUs are extended through the Government Departments. These Government Departments re-allocated the loan funds to different PSUs. Hence, PSU wise figures of State Government loans are not available in Finance Accounts.

the Director of Accounts, Government of Goa as well as the PSUs concerned were appraised by Audit about the need for reconciliation, considerable progress has not been achieved. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

### Performance of PSUs

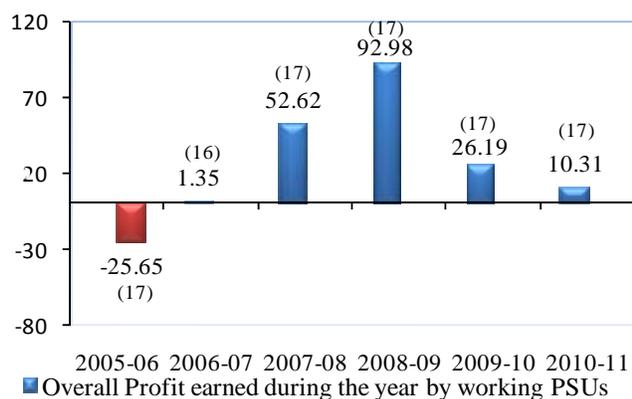
**6.1.15** The financial results of PSUs, financial position and working results of working statutory corporations are detailed in *Appendix 6.2, 6.5* and *6.6* respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2005-06 to 2010-11.

(₹ in crore)

| Particulars                         | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|-------------------------------------|---------|---------|---------|---------|---------|---------|
| Turnover                            | 303.74  | 221.11  | 350.86  | 459.33  | 440.04  | 413.72  |
| State GDP                           | 13354   | 15023   | 16901   | 19014   | 22512   | 22062   |
| Percentage of Turnover to State GDP | 2.27    | 1.47    | 2.08    | 2.42    | 1.95    | 1.88    |

It can be seen from the above that the extent of PSU activities in the State economy showed marginal decline since 2009-10.

**6.1.16** Profit/(loss) earned/(incurred) by State working PSUs during 2005-06 to 2010-11 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years and figures without bracket show the amount of profit/loss ₹ in crore)

During the year 2010-11, out of 17 PSUs, five PSUs earned a profit of ₹ 31.55 crore and 10 PSUs incurred loss of ₹ 21.24 crore. One working PSU did not prepare the Profit and Loss Account while the other working PSU had not finalized its first account. The major contributors to profit were EDC Ltd. (₹ 21.35 crore) and Goa Industrial Development Corporation (₹ 6.03 crore). Heavy losses were incurred by Kadamba Transport Corporation Limited (₹ 14.07 crore), Goa Handicrafts and Small Scale Industries Development

Corporation Limited (₹ 2.60 crore), Goa Auto Accessories Limited (₹ 1.61 crore) and Goa Electronics Limited (₹ 1.01 crore).

**6.1.17** The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of ₹ 47.79 crore which were controllable with better management. Year-wise details from Audit Reports are stated below.

(₹ in crore)

| Particulars                                   | 2008-09 | 2009-10 | 2010-11 | Total  |
|---|---------|---------|---------|--------|
| Net Profit                                    | 92.98   | 26.19   | 10.31   | 129.48 |
| Controllable losses as per CAG's Audit Report | 40.25   | 1.90    | 5.64    | 47.79  |

**6.1.18** The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the overall profits of the PSUs can be enhanced substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

**6.1.19** Some other key parameters pertaining to State PSUs are given below.

(₹ in crore)

| Particulars                                    | 2005-06  | 2006-07  | 2007-08  | 2008-09 | 2009-10 | 2010-11 |
|--|----------|----------|----------|---------|---------|---------|
| Return on Capital Employed ( <i>Per cent</i> ) | 3.74     | 8.49     | 15.23    | 21.64   | 10.01   | 7.25    |
| Debt   | 374.30   | 256.01   | 216.54   | 224.73  | 242.69  | 212.48  |
| Turnover                                       | 307.74   | 221.11   | 350.86   | 459.33  | 440.04  | 413.72  |
| Debt/Turnover Ratio                            | 1.22:1   | 1.16:1   | 0.62:1   | 0.49:1  | 0.55:1  | 0.51:1  |
| Interest Payments                              | 40.96    | 34.15    | 27.63    | 27.67   | 29.20   | 31.30   |
| Accumulated Profits (losses)                   | (222.65) | (222.53) | (171.70) | (82.46) | (34.56) | (36.00) |

**6.1.20** The percentage of return on Capital Employed showed a rising trend improving from 3.74 *per cent* in 2005-06 to 21.64 *per cent* in 2008-09 and declined to 7.25 *per cent* in 2010-11. The total debt position also showed improvement as total debts declined from ₹ 374.30 crore in 2005-06 to ₹ 212.48 crore in 2010-11. The outgo of PSUs towards payment of interest had shown a declining trend up to 2007-08 and stood at ₹ 31.30 crore as on 31 March 2011 showing an increase of ₹ 3.67 crore when compared to 2007-08. The turnover position showed improving trend up to 2008-09 except for 2006-07 (₹ 221.11 crore) but declined thereafter and stood at ₹ 413.72 crore in 2010-11. The debt turnover ratio improved from 1.22:1 in 2005-06 to 0.51:1 in 2010-11. The position of accumulated losses has improved gradually during 2005-06 to 2009-10 but increased to ₹ 36.00 crore in 2010-11.

**6.1.21** The State Government has not formulated any dividend policy for payment of any minimum return by PSUs on the paid up share capital contributed by the State Government. As per their latest finalised accounts, five PSUs earned an aggregate profit of ₹ 31.55 crore and two PSUs declared a dividend of ₹ 1.38 crore.

**Arrears in finalisation of accounts**

**6.1.22** The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2011.

| Sl. No. | Particulars                                     | 2006-07      | 2007-08      | 2008-09      | 2009-10      | 2010-11      |
|---------|---|--------------|--------------|--------------|--------------|--------------|
| 1       | Number of Working PSUs                          | 17           | 17           | 17           | 17           | 17           |
| 2       | Number of accounts finalized during the year    | 12           | 15           | 16           | 16           | 11           |
| 3       | Number of accounts in arrears                   | 26           | 28           | 29           | 30           | 36           |
| 4       | Average arrears per PSU (3/1)                   | 1.53         | 1.65         | 1.71         | 1.76         | 2.12         |
| 5       | Number of Working PSUs with arrears in accounts | 14           | 14           | 13           | 12           | 13           |
| 6       | Extent of arrears                               | 1 to 6 years | 1 to 7 years | 1 to 7 years | 1 to 8 years | 1 to 9 years |

**6.1.23** It can be seen from the above that the quantum of arrears in accounts was high and the average stood at more than one account per PSU in the last five years.

**6.1.24** The State Government had invested ₹ 217.61 crore (Equity: ₹ 16.90 crore, Loans: NIL and grants/subsidies ₹ 200.71 crore) in ten PSUs during the years for which accounts have not been finalized, as detailed in *Appendix 6.4*. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalization of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

**6.1.25** The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, about the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken

up (June 2011) with the Chief Secretary/Finance Secretary to expedite the backlog of arrears in accounts in a time bound manner.

**6.1.26 In view of above state of arrears, it is recommended that:**

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

**Accounts Comments and Internal Audit**

**6.1.27** Nine working companies forwarded their ten audited accounts to AG during the year 2010-11, of which nine were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount ₹ in crore)

| Sl. No. | Particulars                      | 2008-09         |        | 2009-10         |        | 2010-11         |        |
|---------|----------------------------------|-----------------|--------|-----------------|--------|-----------------|--------|
|         |                                  | No. of accounts | Amount | No. of accounts | Amount | No. of accounts | Amount |
| 1       | Decrease in profit               | 2               | 0.32   | 2               | 0.46   | 2               | 15.71  |
| 2       | Increase in loss                 | 5               | 5.10   | 3               | 2.13   | 2               | 0.21   |
| 3       | Non-disclosure of material facts | 6               | 61.85  | 7               | 11.03  | 2               | 98.91  |
| 4       | Errors of classification         | 3               | 24.79  | 3               | 0.03   | 5               | 17.93  |

**6.1.28** During the year 2010-11, the statutory auditors had given unqualified certificates for five accounts and qualified certificates for five accounts. None of the PSUs were given adverse comments or disclaimer certificates for their accounts by the CAG or statutory auditors. The compliance of companies with the Accounting Standards remained poor as there were four instances of non-compliance in three accounts during the year.

**6.1.29** Some of the important comments in respect of accounts of companies are stated below.

**Goa Tourism Development Corporation Limited (2009-10)**

- Sundry debtors were overstated by ₹ 1.07 crore as no provision for bad and doubtful debts was made against old outstanding.

**EDC Limited (2009-10)**

- Loan account has been overstated by ₹ 10.75 crore as no provision for non-performing assets was made against loan to GAPL. Consequently profit for the year 2009-10 was also overstated to the same extent.

- Current Liabilities and provisions were overstated by ₹ 3.90 crore as sale proceeds received from Vishwas Steels Ltd., was not adjusted against loan account. This has also resulted in understatement of profit to the same extent.
- The company has credited interest of ₹ 1.23 crore earned on Fixed Deposits in Income instead to amount payable to L.K Trust. This has resulted in understatement of current liabilities by ₹ 1.23 crore and consequent overstatement of profit for the year to the same extent.
- The company in violation of NBFC norms wrongly classified a loanee (Penguin) as ‘doubtful’(under category-F) instead of ‘loss assets’ (category-G). This has resulted in short provision of ₹ 1.92 crore for NPA with consequent overstatement of profit.
- Provision for taxation included ₹ 10.75 crore being provision for taxation for the assessment years 2006-07 and 2007-08. Though Income Tax assessment of the Company was completed upto assessment year 2008-09, provision was not set off against advance tax/TDS, resulting in overstatement of “Provisions” by ₹ 10.75 crore with corresponding overstatement of “Loans and Advances”.

#### **Goa Antibiotics and Pharmaceuticals Limited (2009-10)**

- Sundry Debtors include ₹ 43.96 lakh due from HSCC Ltd., related to the supply of medicines in the year 1999-2000. As the amount is more than 10 years old, provision for doubtful debts should have been made in accounts. Non provision for the doubtful debts has resulted in understatement of provision for doubtful debts to the extent of ₹ 43.96 lakh and consequent overstatement of profit for the year to the same extent.

**6.1.30** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of 13 companies<sup>£</sup> for the year 2009-10 and three companies<sup>µ</sup> for the year 2010-11 are given below:

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<sup>£</sup> Sr. No. 1 to 15 (except Sr. No. 6 & 7) of Appendix-6.2.

<sup>µ</sup> Sr. No. 4, 11 & 13 of Appendix-6.2.

**Audit Report for the year ended 31 March 2011**

| Sl. No. | Nature of comments made by Statutory Auditors   | 2009-10   |   | 2010-11   |   |
|---------|---|---|---|---|---|
|         |   | Number of companies where recommendations were made | Reference to serial number of the companies as per Appendix 6.2 | Number of companies where recommendations were made | Reference to serial number of the companies as per Appendix 6.2 |
| 1       | Auditors Report & Comments /Draft paras/Mini Reviews not discussed in Audit Committee | 4   | A-5,9,12,13   | -   | -   |
| 2       | No system of making a business plan/short/long term plan                              | 6   | A-1,3,12,13,14,15   | 1   | A-13  |
| 3       | No clear credit policy  | 6   | A-3,5,12,13,14,15   | 1   | A-13  |
| 4       | No delineated fraud policy  | 11  | A-1,4,3,5,9,10,11,12,13,14,15                                   | 1   | A-4, 11 & 13  |
| 5       | No separate vigilance department  | 10  | A-1,3,4,5,8,9,10,12,13,14                                       | 1   | A-13  |
| 6       | Non prescribing of Maximum/Minimum level of stock                                     | 1   | A-13  | 1   | A-13  |
| 7       | No ABC analysis adopted to control the inventory.                                     | Nil   | Nil   | -   | Nil   |
| 8       | Inadequate scope of Internal Audit  | 3   | A-2,9,10  | -   | -   |
| 9       | Absence of proper maintenance of Fixed Asset Register                                 | 2   | A-2,10  | -   | -   |

**6.1.31** Similarly, one working statutory corporation (GIDC) forwarded one account (2009-10) to AG during the year 2010-11. This was subjected to sole audit by CAG. The Audit Reports of CAG on this account is under process (October 2011).

**Status of placement of Separate Audit Reports**

**6.1.32** All the Separate Audit Reports issued by the CAG on the accounts of statutory corporations till 30 September 2011 were placed in the Legislature by the Government.

**Departmentally managed Government commercial/quasi commercial undertakings**

**6.1.33** There were two departmentally managed Government commercial/quasi commercial undertakings viz., the Electricity Department and River Navigation Department in the state as on 31 March 2011. The Proforma accounts of the River Navigation Department were in arrears for the years from 2005-06 to 2010-11 and that of the Electricity Department for the years from 2006-07 to 2010-11 (September 2011).

The summarized financial results of the Electricity Department and River Navigation Department for the last three years for which their proforma accounts were finalized are shown in **Appendix 6.7**.

### Recoveries at the instance of audit

**6.1.34** During the course of propriety audit in 2010-11, recoveries of ₹ 58 lakh were pointed out to the Divisional Officers of Goa Electricity Department, which were admitted by the Department and recoveries effected during the year was ₹ 1.97 lakh. In respect of two companies, recoveries of ₹ 12.26 lakh were pointed out by audit.

### Disinvestment, Privatisation and Restructuring of PSUs

**6.1.35** During the year 2010-11, no exercise was undertaken by the Government of Goa for the Disinvestment, Privatisation and Restructuring of PSUs.

### Reforms in Power Sector

**6.1.36** The Power Sector in the State is managed by the Electricity Department of Goa. The Union Government had set up (May 2008) a “Joint Electricity Regulatory Commission for the State of Goa and for Union Territories”, under the Electricity Act, 2003. Presently, the Commission is in the process of framing various regulations as mandated in the Electricity Act 2003, to facilitate its functioning.

**6.1.37** A Memorandum of Understanding (MOU) was signed in October 2001 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below:-

| Sl. No. | Milestone   | Achievement  |
|---------|---|--|
| 1       | Government of Goa will Corporatise its electricity Department by 31 March 2002.   | Studies were carried out and final report obtained.<br>Decision awaited from Government.     |
| 2       | Government of Goa will set up SERC by 31 December 2001 and file tariff petitions.   | Has joined Joint Electricity Regulatory Commission (JERC) set up.                            |
| 3       | The State Government would provide full support to the SERC to enable it to discharge its statutory responsibilities. The tariff orders issued by SERC will be implemented fully unless stayed or set aside by a court order.                         | Full support being provided.   |
| 4       | Government of Goa will ensure timely payment of subsidies required in pursuance of State Government's orders on the tariff determined by the SERC.  | Not applicable as yet.   |
| 5       | Government of Goa will undertake Energy audit and Energy Accounting at all levels to promote accountability and reduce transmission and distribution losses and bring them to the level of 18 per cent and achieve break even in current distribution | Losses reduced below 18 per cent. The Department is achieving substantial operating surplus. |

**Audit Report for the year ended 31 March 2011**

|    |  |  |
|----|--|--|
|    | <p>operations in two years and positive returns thereafter. This will be achieved by taking following measures:</p> <ul style="list-style-type: none"> <li>- Install meters on all 11 KV feeders by 31 December 2001.</li> <li>- 100 <i>per cent</i> metering of all consumers by 31 December 2001.</li> <li>- Computerised billing at towns by December, 2002.</li> <li>- Development of distribution Management Information System.</li> </ul> | <p>Achieved (March 2003)</p> <p>Achieved (March 2004)</p> <p>In process in some towns and balance under implementation.</p> <p>Will be implemented under Re-structured APDRP during XI Plan.</p> |
| 6  | Goa would achieve 100 <i>per cent</i> electrification of villages by 2002.   | Achieved (December 1988)   |
| 7  | Government of Goa will securitise outstanding dues of CPSUs as per scheme approved by Government of India. After the securitization Government of Goa will ensure that CPSU outstanding does not cross the limit of two months billings.   | Achieved   |
| 8  | Goa will maintain grid discipline, comply with grid code and carry out the directions of Regional Load Despatch Centre   | Maintains Grid discipline.   |
| 9  | Goa will constitute district level committees to undertake resource planning monitoring of distribution reforms and rural electrification.   | DRC was constituted.   |
| 10 | Government of Goa will follow the guidelines on captive power policy as issued by Government of India on 11 July 2001.   | Following Ministry guidelines.   |

## SECTION B –TRANSACTION AUDIT OBSERVATIONS

### GOVERNMENT COMPANIES

#### InfoTech Corporation of Goa Limited

#### *6.2 Infrastructure development for the IT Park at Dona Paula- Irregular payment of compensation to contractor and avoidable expenditure on Project Management Consultancy*

**Payment of compensation to the contractor over and above the contractual obligations and the delay in terminating the Project Management consultancy contract resulted in undue benefit of ₹ 71.91 lakh to the Contractor and Consultant at the cost of the Company.**

a) The Company awarded (May 2006) the work of infrastructure development for the proposed IT Park at Dona Paula to MVR-PCL-JV, Goa at an amount of ₹ 21.32 crore. As per the work order/agreement, the work was to be completed within nine months from the fifteenth day of the work order by February 2007. Accordingly the contractor started the work on 2 June 2006 and interest free mobilization advance of ₹ 4.26 crore was paid to him. The contractor was paid ₹ 18.68 crore against RA bills, for the value of work done up to December 2007. The payment till December 2007 worked out to 88 *per cent* of the contract amount.

As the local people started creating obstruction, the execution of work was delayed. Violent activities were also reported in December 2007, which brought the work to a halt. Since the situation at the site was not conducive to resume the work, the Company decided (January 2008) to fore-close the work invoking force majeure clause in the contract, and this was agreed to by the contractor also.

After one year from the stoppage of work, the Contractor claimed (January 2009) ₹ 7.05 crore towards bonus on early completion of contract, non-utilization of equipments, compensation for labour settlement etc., which was referred to Project Management Consultants (PMC) for their recommendation. The PMC recommended (August 2009) payment of ₹ 56.95 lakh towards idling of equipments for months upto April 2008 (₹ 36.12 lakh) and loss of profit against unexecuted work (₹ 20.83 lakh). Accordingly the Company paid (September 2009) ₹ 56.95 lakh, after obtaining an undertaking from the contractor that they will not make any further claim.

Audit scrutiny revealed that, as per the provisions of the contract (GCC 63.5), if the work suffers loss or damage consequent to force majeure, the contractor shall be entitled only to the cost of work executed in accordance with the contract. Thus, the contractor was not entitled for the compensation for idle equipments at site or for loss of profit on unexecuted portion of work etc. especially when the contract was fore closed by January 2008 and the

contractor had no business to keep the equipments at site till April 2008. The claim of ₹ 7.05 crore was unreasonable when 88 *per cent* of the contracted amount was already paid by December 2007. Hence, payment of ₹ 56.95 lakh as compensation for a fore-closed work without any enabling clause in the contract, was irregular and unauthorized.

Management stated (May 2011) that compensation was paid to the contractor for avoiding litigation that may come up in future. This reply is not tenable as the contractor was not legally eligible for any compensation and as such no grounds existed for any anticipated litigation.

b) To monitor the above work the Board of Directors of the Company approved (May 2006) appointment of Madhav Kamat & Associates as Project Management Consultants (PMC). The consultancy contract was effective from the date of work order (May 2006) to the date of completion of services by PMC. Thus the expiry period of consultancy was vague and indefinite. As per the agreement executed (July 2006) between the Company and the PMC, the consultancy fees would be 2.85 *per cent* of the total project cost which works out to ₹ 0.61 lakh. Further, for the extended period of work, consultancy fee was to be paid at a higher rate.

The Company paid ₹ 1.14 crore (including service tax) as consultancy fees, of which ₹ 69.82 lakh was for the extended period of 14 months from March 2007 to April 2008. Thus the percentage of total fee paid to PMC had gone upto 5.6 *per cent*. Audit scrutiny revealed that though the contract for the infrastructure development was fore-closed in January 2008 by invoking force-majeure clause, the consultancy contract was not fore-closed and their fee was paid till April 2008. Moreover, the Company had not issued any orders at any time for the extension of service of PMC. Though there was provision for the force-majeure closure of consultancy contract also, the Company did not terminate the same in time which resulted in avoidable expenditure of ₹ 14.96 lakh\* by way of consultancy fee for three months from February 2008 to April 2008.

Management stated (May 2011) that the services of the PMC were availed subsequent to the fore-closure of the work for settlement of contractor's compensation claim and final bill. The reply is not tenable in view of the fact that PMC should have been terminated by January 2008 when contract was terminated. Further, the contractor was also paid ₹ 18.68 crore by December 2007 which covered the work done upto December 2007 and hence there was no possibility of any bill being received thereafter for which the services of PMC was required.

Thus due to recommendations of PMC for payment to contractor for three months upto April 2008 not only resulted in irregular payment to contractor but PMC was also benefited at the cost of the Company.

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\* Prorata for the 3 months from February 2008 to April 2008 of ₹ 69.82 lakh paid for the extended period of 14 months.

The matter was referred to the Government in April 2011; their reply has not been received (September 2011).

### **Goa Handicrafts, Rural and Small Scale Industries Development Corporation Limited**

#### **6.3 Loss due to short lifting of allocated quantity of coal**

**Execution of Fuel Supply Agreement for purchase of coal by fixing higher contracted quantity resulted in payment of penalty of ₹ 46.25 lakh.**

The new coal policy notified (October 2007) by the Ministry of Coal, Government of India required State Governments to work out the genuine quantity of coal required for Small and Medium Industrial units (SMI) whose annual requirement would be below 4,200 Metric Tonnes (MTs). Government of Goa (GoG) appointed (April 2008) the Goa Handicrafts, Rural and Small Scale Industries Development Corporation Limited as the state agency for procurement and distribution of coal to various SMI units in Goa. The Company was entitled for five *per cent* margin over the basic price of coal.

The Company intimated (February 2009) CIL the expected annual requirement for 2009-10 as one lakh MTs, although the quantity estimate based on applications received from SMIs was 40,000 MTs only. CIL again requested (April 2009) the GoG to intimate the annual requirement of coal for 2009-10 and whether the Government proposes to continue with the same agency. The Company did not respond to the requirement of CIL and did not reassess and reduce the requirement to 40,000 MTs against 1,00,000 MTs intimated earlier. CIL allocated (May 2009) one lakh MTs of coal to the Company for the year 2009-10 and FSA to this effect was executed (June 2009) by the Company with SECL, Bilaspur<sup>^</sup>.

As per clause 4.8 of the FSA, if the quantity of coal lifted falls below 60 *per cent* of the annual allocated/contracted quantity, compensation at the rate of five *per cent* of basic price of the short lifted quantity was payable to SECL. Further, as per clause 17(1), the FSA can be terminated either in the event of lifted quantity falling below 30 *per cent* of the annual allocated/contracted quantity or in the event of cancellation of nomination of the purchaser by the State Government.

For the year (2009-10) as against the allocated quantity of one lakh MTs of coal, the Company could lift only 28,910 MTs. Since the response from the SMIs was very poor, at the instance of the Company, GoG de-nominated (April 2010) it as the state agency. In view of the short lifting of allocated quantity/de-nomination of Agency ship, SECL terminated

<sup>^</sup> South Eastern Coal Fields Ltd., a subsidiary of C I L.

(July 2010) the agreement and forfeited the security deposits by invoking Bank guarantee to the tune of ₹ 46.25 lakh.

Audit observed that:-

- The Company did not restrict its requirement to 40,000 MTs which was based on the assessment made by the Company. The Company should have restricted its requirement to 40,000 MTs in FSA so that its lifting corresponds more or less to the quantity mentioned in the FSA. This could have restricted the amount of penalty to the minimum in case of shortlifting. Instead of acting prudently on the above lines, it carelessly entered into the FSA for 1,00,000 MTs against which the actual lifting of coal was only 28,910 MTs. Had the quantity been restricted to 40,000 MTs there would not have been any instance of paying the penalty even in the case of lifting of 28,910 MTs. As this was not done it ended up paying the penalty of ₹ 46.25 lakh.
- Though SECL recovered penalty of ₹ 46.25 lakh for the year 2009-10, the actual amount payable as worked out in audit was ₹ 23.88 lakh\* only, resulting in excess recovery of ₹ 22.37 lakh by SECL. The Company, however, has not noticed this so far and taken up the matter with SECL (June 2011).

The Government, while endorsing the reply of the Management stated (August 2011) that action is underway for getting refund of the penalty. It was further clarified that CIL allotted one lakh MT unilaterally though the Company intimated (March 2009) CIL its requirement as 41,297 MT. This reply is not tenable as the FSA for one lakh MT was executed with mutual consent. The Management further stated that the possibility of recovering the loss from SMIs will be examined. This, however, is not feasible as there was no such agreement executed with SMIs.

## **Goa Industrial Development Corporation**

### **6.4 Idle investment on Utility service centre building**

**Inordinate delay in completion of Utility Service Centre building rendered the construction expenditure of ₹ 33.54 lakh, unfruitful.**

With the intention to encourage the unemployed youths for self employment, the Corporation decided (July 2001) to construct a 'Utility Service Centre Complex' at Bogda, near Vasco-da-Gama with built up area of 1,606.94 square meter, consisting of 17 gallas (small shop rooms) of 30 square meter each, with canteen and other common facilities.

The required land (2,530 square meter) was taken possession in January 2002 from Goa Electricity Department and foundation stone laid in March 2002.

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\* ₹ 1,536 x (60% of 1,00,000 MTs – 28,910) x 5 per cent.

Tenders were invited (September, 2001) and work order issued (March 2002) to the lowest offer of Satej Engineering Pvt. Ltd. for ₹ 60.84 lakh.

Audit scrutiny revealed that though the Contractors were required to complete the work within 360 days from the date of work order, the work remained incomplete even after nine years (April 2011). Despite the slow progress of work, no action was taken to terminate the contract and execute the same at the risk and cost of the Contractor. The incompleting building complex remained open without proper fencing and security and was being used by outsiders. Thus, the expenditure incurred for the work (₹ 33.54 lakh) remained unfruitful as the intended purpose for which the project was undertaken was not served.

The matter was referred to the Government in April 2011; their reply has not been received (September 2011).

## GENERAL

### 6.5 Corporate Governance in State Government Companies

#### Introduction

**6.5.1** Corporate governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors is responsible for governance in State Government Companies.

**6.5.2** The Companies Act, 1956 was amended in December 2000 by providing *inter alia*, for a Directors' Responsibility Statement (Section 217) to be attached to the Director's Report to the shareholders. According to Section 217 (2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for the maintenance of the accounting records for safeguarding the assets of the company and for detecting and preventing fraud and other irregularities.

Further, in terms of Section 292A of the Companies Act, 1956 notified in December 2000, every public limited company having paid up capital of not less than ₹ five crore shall constitute an Audit Committee, at the Board level. The Act also provides that the Statutory Auditors, Internal Auditors, if any, and the Director in charge of Finance should attend and participate in the meetings of the Audit Committee.

**6.5.3** The main components of Corporate Governance are:

- Matters relating to the Board of Directors;
- Director's Report;
- Constitution of the Audit Committee.

**6.5.4** Out of the 15 working State Government Companies in Goa, Audit reviewed all 15 Companies (all unlisted) as detailed in the *Appendix-6.1*. Audit findings are discussed in the succeeding paragraphs.

#### **Board of Directors**

**6.5.5** The responsibility for good governance rests with the Corporate Board which has the primary duty of ensuring that principles of Corporate Governance both as imbibed in law and those expected by the stakeholders are scrupulously and voluntarily complied with and the stakeholders' interests are kept at the highest level. For this purpose, every company should hold meetings of the Board of Directors at regular intervals. Every Director should attend these meetings to share the expertise and knowledge and to guide the affairs of the company.

#### **Meeting of the Board of Directors**

**6.5.6** Section 285 of the Companies Act, 1956 requires that in the case of a company, a meeting of the Board of Directors should be held every three months and at least four such meetings should be held every year. Audit scrutiny revealed that during 2007-08 only one meeting of Board of Directors was conducted by GMCL\* and two meetings by KTCL and three meetings by GTDC. Board of Director's meetings was conducted after a wide interval of 13 months by GMCL, nine months by GFDCL, six months by KTCL and GHRSSIDC. Thus, the Managements of these companies failed to comply with the legal provisions.

During 2008-09 only one meeting was conducted by GSSCOBCFDCL and three meetings by ITCGL. Besides, Board meetings were conducted after a wide interval of seven months by ITCGL, five months by GSSCOBCFDCL and GSSTFDCL.

During 2009-10 only two Board of Directors' meeting were conducted by GSSCOBCFDCL and GSSTFDCL.

#### **Attendance of Directors in the Board meetings**

**6.5.7** Audit noticed that nine Directors of five companies (GMCL, GSIDC, GSSCOBCFDCL, GSSTFDCL, GAAL) did not attend any of the meetings conducted during the year 2007-08, while 9 Directors of seven companies (GMCL, GSIDC, GSSCOBCFDCL, KTCL, GSSTFDCL, GTDC, GAAL) failed to attend any meeting during 2008-09. Similarly, 20 Directors of nine companies (ITCGL, GMCL, EDC, GSIDC, GSSCOBCFDCL, KTCL GAPL, GSSTFDCL, GAAL, GFDCL) absented themselves from all the meetings conducted during the year 2009-10. This indicated that the Directors did not actively participate in the management of the affairs of the Companies and in the decision making process to safeguard the interest of the Companies/stakeholders.

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\* Full name of all companies are given in *Appendix-6.1*.

### **Vacancies of the Directors**

**6.5.8** Out of total 12 Directors of the Board of GSHCL, 10 functional director seats remained vacant since June 2010, which reflects the failure on the part of Government in taking active initiatives in the management of such PSUs.

### **Preparation of the Minutes of the meetings of the Board of Directors**

**6.5.9** Section 193 of the Companies Act, 1956, stipulates that every company shall prepare the minutes of proceedings of all General Meetings and the meetings of the Board of Directors within thirty days of such meeting. The record of proceedings of a meeting is required to be recorded in the minutes book. Instance were noticed in four companies (GEL, SIDCL, GHRSSIDC and GSSTFDCL) where the minutes of the meeting of Board of Directors were not prepared within thirty days of the meetings and the delay ranged from five (in the case of SIDCL) to 81 days (GSSTFDCL).

### **Directors' Report to shareholders**

**6.5.10** The Companies Act, 1956 {(Section 217 (2AA))} requires that a report of the Board of Directors including a Director's Responsibility Statement (DRS) is to be attached to every balance sheet laid before the shareholders at the Annual General Meeting. Audit scrutiny revealed that the Director's Report of GSSCOBCFDCL did not include the DRS from 2000-01 onwards.

### **Audit committee**

#### ***Role and functions***

**6.5.11** The main functions of the Audit Committee are to assess and review the financial reporting system, to ensure that the financial statements are correct, sufficient and credible. It follows up on all issues and interacts with the Statutory Auditors before finalization of the annual accounts. The committee also reviews the adequacy of the Internal Control System and holds discussions with Internal Auditors on any significant findings and follow up action thereon. It also reviews the financial and risk management policies and evaluates the findings of internal investigation where there are any suspected frauds or irregularities or failure of the Internal Control System of a material nature and reports to the Board.

**6.5.12** Audit review of all Public Limited Companies revealed that in six companies (GSIDCL, GEL, GMCL, GSSCOBCFDCL, GFDCL and GSHCL), the paid up capital was less than Rupees five crore and hence they were not required to constitute the Audit Committees. In respect of the remaining companies, the position is given in the succeeding paragraphs.

### **Terms of Reference**

**6.5.13** The terms of reference of the Audit Committee of KTCL have not been specified by the Board in writing.

## **Meetings of Audit Committees**

**6.5.14** The following irregularities were noticed:

- Audit Committee has not been constituted yet by ITCGL and SIDCL.
- Though Audit Committee has been constituted by GSSTFDCL in November 2009, no meeting was held during 2009-10 and 2010-11.
- KTCL failed to hold any Audit Committee meeting during 2007-08.
- Audit Committee was constituted only during 2009-10 by GHRSSIDC and GAPL. The Audit Committee of GAPL met only two times during 2009-10.

## **Discussion by the Audit Committees**

**6.5.15** Section 292A(6) of the Companies Act, 1956 requires that the Audit Committee should have discussions with the auditors periodically about the internal control systems, the scope of audit including the observations of the auditors and review the half-yearly and annual financial statements before submission to the Board and also ensure compliance of the internal control systems. Further, section 292A(5) of the Act requires that the auditors and internal auditors shall attend and participate at meetings of the audit committee.

**6.5.16** Audit scrutiny revealed the following:-

- Findings and recommendations of internal audit were not prudently looked into by the audit committee of KTCL, like payment through cheque in place of cash payment, and manual maintenance and recording of fixed assets.
- Statutory Auditor was absent in the first meeting of the audit committee of EDCL during 2009-10 and internal auditor as well as Statutory Auditors remained absent during two out of three audit committee meeting.
- No discussion was held with external auditor by the Audit Committee of GHRSSIDC before commencement as well as on completion of audit during 2010-11 which rendered the discussion held by audit committee fruitless and ineffective.
- Audit Committee of GHRSSIDC did not review company's financial risk management policies.

## **Attendance of Chairman of Audit Committee at the Annual General Meeting (AGM)**

**6.5.17** Sub section 10 of section 292 A of the Companies Act, 1956 requires the Chairman of the Audit Committee to attend the AGM of the Company and provide any clarification on matters relating to audit.

- The Chairman of the Audit committee of KTCL had never attended any AGM during the period under review.
- Similarly Chairman of EDCL also did not attend any Annual General Meetings.

## DEPARTMENTAL COMMERCIAL UNDERTAKINGS

### Goa Electricity Department

#### 6.6 *Loss of revenue due to non-levying of compounding charges in electricity theft cases*

**Failure to implement the provisions of Electricity Act 2003 regarding cases of theft of energy caused loss of revenue of ₹ 2.78 crore.**

As per section 135 of the Electricity Act 2003, consumers involved in theft of electricity shall be punishable with imprisonment for a term which may extend up to three years or with fine or with both. Section 152 of the Act further provides that the Department may accept from Consumers involved in theft cases, compounding charges at the prescribed rates<sup>♦</sup>. By levying compounding charges, such consumers are deemed to be acquitted from the penalties under the Criminal Procedure Code.

During the period from April 2006 to March 2011, the Meter, Relay and Testing (MRT) Division of the Department had detected 453 cases of theft of energy against which in 141 cases Department recovered energy charges of ₹ 67.37 lakh on the basis of assessment made. However, the prescribed fine as per Section 135 (i) and (ii) was not imposed, in these cases. Further, these cases were neither reported to Police for further action nor any compounding charges collected, thereby absolving the persons involved in theft cases from criminal liability. Thus the Department failed to comply with the Codal Provisions which led to loss of revenue of ₹ 2.78 crore by way of compounding charges.

Department stated (September 2011) that, in all the cases pointed out by Audit, assessments were made and energy charges were recovered or were yet to be recovered. It was also replied that booking a consumer under section 135 of the Act is not necessary if the theft or by-passed load is not done intentionally by the consumer. The reply is not convincing since the Department had not established the fact that the theft was not intentionally done in any of the cases. Further, out of the 453 cases, details of energy charges recovered/demanded were available with the Department for 141 cases only. Department further stated that, no orders have been issued by Government appointing the authorized person for booking the case under section 135. This reply itself indicates that the Department has not complied with the provisions of the Electricity Act 2003.

The matter was referred to the Government in July 2011; their reply has not been received (September 2011).

♦ Industrial service @ ₹ 20,000, Commercial service @ ₹ 10,000, Agricultural service @ ₹ 2,000 and other services @ ₹ 4,000 (rates are per KW/HP for LT service and per KVA of contact demand for HT service).

**6.7 Loss of revenue due to non-collection of electricity duty on sale of power**

**Failure to include electricity duty while fixing the price for sale of power to a private firm resulted in loss of revenue of ₹ 55.20 lakh.**

The Department entered into (August 2007) an agreement with Goa Sponge & Power Limited (GSPL) for a period of 15 years for purchase of surplus power generated by the latter's Captive Power Plant, at a price of ₹ 2.40 per unit. GSPL was also permitted to draw power from the Department's source in case of their additional requirement, at the rate of ₹ 2.76 per unit during normal hours and at the rate of one and a half times more than the normal rate during peak hours. The rate for sale of power to GSPL was fixed on the basis of parameters such as (i) the then tariff applicable to High Tension Industries (Ferro metallurgical/steel melting/power intensive); (ii) contract demand of 4500 KW; (iii) power factor of 0.99 and (iv) loading factor as 0.8. The power purchase rate by the Department (₹ 2.40 per unit) was fixed constant for the entire period of agreement, whereas the rate for power sold to GSPL was subject to revision based on changes made by Government in the tariff applicable to HT Industrial category.

As per Section 3(1) of the Goa, Daman and Diu Electricity Duty Act, 1956 duty at the specified rate should be levied on the units of energy consumed. The rate of electricity duty for HT Industrial category was revised (May 2008) by Government from ₹ 0.05 to ₹ 0.58 per unit. The Department, however, while fixing the rate for sale of power to GSPL, failed to include the electricity duty factor. This resulted in loss of revenue of ₹ 55.20 lakh\* on the 112.85 lakh units sold to GSPL during the period from August 2007 to March 2011, and the loss is still recurring.

The Department stated (September 2011) that as back-up/start-up power only is supplied to GSPL, they are not a regular consumer and hence no duty is chargeable as per the Electricity Duty Act. The reply is not tenable in view of the facts that:- (a) according to the Electricity Duty Act, the word 'energy' includes energy generated, transmitted, supplied or used for any purpose and (b) as per the Power Purchase Agreement, GSPL was required to be considered at par with HT Industrial (ferro metallurgical/steel melting/power intensive) consumer.

The matter was referred to the Government in May 2011; their reply has not been received (September 2011).

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\* ₹ 0.05 per unit for 19.31 lakh units sold from August 2007 to May 2008 and at the rate of ₹ 0.58 per unit for 93.50 lakh units sold from June 2008 to March 2011.

6.8 *Extra expenditure in the purchase of single phase electronic meters*

**Purchase of electronic meters without assessing the exact re-ordering quantity with reference to the available stock, resulted in extra expenditure of ₹ 90 lakh.**

In order to reduce the loss of revenue on account of faulty meters, Department had fixed a target of replacement of mechanical energy meters with electronic meters in a phased manner. Considering this, the Stores & Workshop Division of the Department invited (August 2007) tenders for supply of 20,000 numbers of single phase electronic meters (5-20 Amps). On evaluation of tenders, the offer of ₹ 1,650 per meter, of LASER EQUIPMENTS was found as the lowest. LASER EQUIPMENTS expressed (March 2008) their willingness to reduce the rate to ₹ 1,250 if the order quantity is increased to 60,000 numbers. However, the Goa State Works Board approved (March 2008) the offer of LASER EQUIPMENTS for a quantity of 20,000 meters only at the rate of ₹ 1,650. The reduced offer of ₹ 1,250 per unit was ignored though sufficient funds were available. Accordingly, purchase order was placed (April 2008) for 20,000 numbers of single phase electronic meters at a rate of ₹ 1,650 per meter and the firm supplied the entire ordered quantity by May 2008.

Tenders were again invited (January 2009) for supply of 40,000 meters of same type and there again, of the two offers received, the lower one was of LASER EQUIPMENTS who quoted ₹ 1,250 per meter which was the rate offered by them in March 2008. Accordingly, purchase order was placed (May 2009) on LASER EQUIPMENTS for supplying 40,000 meters.

Audit scrutiny revealed that:-

The Department had fixed 20,000 as the minimum and 40,000 as the maximum level of stock for single phase electronic energy meters. Within the period of 10 months (April 2008 to January 2009), the Department had decided to procure a total quantity of 60,000 single phase electronic meters. But during the said period and in subsequent periods, the quantity in stock had never exceeded the maximum stock level at any time, whereas the minimum stock level had dipped to the level of 16 numbers. Further, had the quantity of 20,000 ordered in April 2008 been increased to 40,000, the maximum stock level would not have been crossed. As such, there was no accumulation of inventory and hence the Department could have procured the entire quantity of 60,000 meters at the rate of ₹ 1,250 itself through a staggered delivery schedule. Failure of the Department in this regard resulted in procurement of meters at higher rate and consequent extra expenditure of ₹ 90 lakh<sup>1</sup>. The Department also did not conduct any negotiations with LASER EQUIPMENTS to reduce their first offer to supply 20,000 meters at the rate of ₹ 1,650. Further, the reason for not accepting the earlier offer for supply of 60,000 meters at ₹ 1,250 per meter, though sufficient funds were available, was not on record.

<sup>1</sup> [(₹ 1650-1250) x 20,000 plus VAT @ 12.5 per cent thereon].

The Department stated (September 2011) that loss, if any, incurred in the transaction has been fully compensated by the supplier by supplying 6,400 meters free of cost. The reply is not tenable as the reduced offer price in March 2008 by LASER EQUIPMENTS was not taken up by the Department against all principles of financial prudence. The subsequent free offer of LASER EQUIPMENTS was not against any specific order and it was supplied as a good will gesture in March 2010 much after the completion of supply against first order and placement of subsequent order.

The matter was referred to the Government in May 2011; their reply has not been received (September 2011).

#### **6.9 Loss due to non-recovery of cost of strengthening of supply line**

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| <p><b>Failure to recover the cost of strengthening supply line from the consumer compiled with non-completion of the work resulted in loss of ₹ 22.79 lakh.</b></p> |
|---|

As per clause 4(i) of the “Conditions of Supply of Electrical Energy”, if an existing consumer requires an additional load and if for the supply of additional power, the service line require to be strengthened, the entire cost of such strengthening shall be borne by the consumer on the basis of the actual estimated cost plus 15 *per cent* supervision charges.

Electrical Division IV (Margao) of the Department received (October 2005) an application from Penguin Alcohols Pvt. Ltd. (PAPL), Canacona for enhancement of connected load of their HT installation from 1,000 KVA to 1,250 KVA. For this, the 33 KV feeder already erected upto Rajbag was to be tapped and extended by five kilometers. Accordingly an estimate for ₹ 43.53 lakh was proposed, tenders invited (December 2005) and work awarded (February 2006) to a contractor for ₹ 44.21 lakh, with a stipulation to complete the work by July 2006. Meanwhile, as the consumer for whom the work was proposed, was not prompt in paying the monthly charges, the service was disconnected temporarily in July 2006 and permanently in January 2007.

The Department had incurred ₹ 22.79 lakh<sup>♦</sup> for the work. As the work could not be completed due to objection from local people and the consumer had already closed his industry, the Division proposed (June 2009) for pre-closure of the work.

Audit observed that:-

- Though the line extension work was initiated at the instance of the consumer (PAPL), the Department decided not to recover the cost from the consumer and instead, executed the work at its own cost by obtaining minimum guarantee for seven years from the consumer which resulted in loss of ₹ 22.79 lakh to the Department. Revenue Recovery action was initiated in April 2007 for recovering only the electricity charges

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<sup>♦</sup> Excluding ₹ 13.48 lakh being the cost of materials returned by the contractor.

(₹ 1.32 lakh) up to the date of disconnection and the same is still pending (August 2011).

- The Contractor had not started the work till July 2006 when the supply to the consumer was disconnected. At the same time (July 2006) though the contractor had not started the work, the Department granted extension instead of cancelling the same.
- Further, the scope of completing the work in future and recovering the cost already incurred is remote, as the Consumer has already closed his business and power supply disconnected permanently.
- Further, if the department insisted that the customer made payment in advance of the all expenses to be incurred for laying the separate line and the feeder alongwith reasonably expected charges on account of consumption of electricity, the department would have avoided incurring the loss of ₹ 24.11 lakh.

Failure to invoke the power vested with the department under Section 47 of the Electricity Act, 2003 to demand security from the customers has resulted in a loss of ₹ 24.11 lakh.

The Department stated (September 2011) that the cost of strengthening the service line alone was collected as done in a similar case previously. This, however, is against the codal provisions. Further, the reply that the Department could not anticipate closure of the consumer's industry is also not tenable as the work was actually started at the time when disconnection was effected.

The matter was referred to the Government in April 2011; their reply has not been received (September 2011).

**Panaji**  
**The**

**(DEVIKA)**  
**Accountant General, Goa**

Countersigned

**New Delhi**  
**The**

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