Preface

Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories:

(i) Government companies,

(ii) Statutory corporations, and

(iii) Departmentally managed commercial undertakings.

This report deals with the results of audit of Government companies and Statutory corporations including Gujarat Electricity Board and has been prepared for submission to the Government of Gujarat under Section 19A of the Comptroller and Auditor General's (CAG) (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time. The results of audit relating to departmentally managed commercial undertakings are included in the Report of the Comptroller and Auditor General of India (Civil) - Government of Gujarat.

Audit of the accounts of Government companies is conducted by Comptroller and Auditor General of India under the provisions of Section 619 of the Companies Act, 1956.

In respect of Gujarat State Road Transport Corporation and Gujarat Electricity Board, which are Statutory corporations, the Comptroller and Auditor General of India is the sole auditor. As per State Financial Corporations (Amendment) Act, 2000, CAG has the right to conduct the audit of accounts of Gujarat State Financial Corporation in addition to the audit conducted by the Chartered Accountants, appointed by the Corporation out of the panel of auditors approved by the Reserve Bank of India. In respect of Gujarat State Warehousing Corporation he has the right to conduct the audit of accounts in addition to the audit conducted by the Chartered Accountants, appointed by the State Government in consultation with CAG. The audit of accounts of Gujarat Industrial Development Corporation was entrusted to the Comptroller and Auditor General of India under section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, for a period of five years from 1977-78 and has been extended from time to time up to the accounts for the year 2006-07. In respect of Gujarat Electricity Regulatory Commission, CAG is the sole auditor. The Audit Reports on the annual accounts of all these corporations/Commission are forwarded separately to the State Government.

The cases mentioned in this Report are those which came to notice in the course of audit during the year 2002-03 as well as those which came to notice in earlier years but were not dealt with in the previous Reports. Matters relating to the period subsequent to 2002-03 have also been included, wherever necessary.

Overview

1. Overview of Government companies and Statutory corporations

As on 31 March 2003, the State had 49 public sector undertakings (PSUs) comprising 44 Government companies and five Statutory corporations, as against 50 PSUs comprising 45 Government companies and five Statutory corporations as on 31 March 2002. Out of 44 Government companies, 34 were working Government companies, while 10 were non-working Government companies. All the five Statutory corporations were working corporations.

(Paragraph 1.1)

The total investment in working PSUs increased from Rs.25,051.95 crore as on 31 March 2002 to Rs.29,612.85 crore as on 31 March 2003. The total investment in 10 non-working PSUs also increased from Rs.606.19 crore to Rs.619.49 crore during the same period.

(Paragraphs 1.2 and 1.18)

The budgetary support in the form of capital, loans and grants/subsidies disbursed to the working PSUs decreased from Rs.6,488.81 crore in 2001-02 to Rs.2,761.04 crore in 2002-03. The State Government also contributed Rs.13.13 crore in the form of loan to one non-working company during 2002-03. The State Government guaranteed loans aggregating Rs.2,347.45 crore during 2002-03. The total amount of outstanding loans guaranteed by the State Government to all PSUs as on 31 March 2003 was Rs.12,843.26 crore.

(Paragraphs 1.5 and 1.19)

Twelve working Government companies and two working Statutory corporations finalised their accounts for the year 2002-03. The accounts of remaining 22 working Government companies and three working Statutory corporations were in arrears for periods ranging from one to seven years as on 30 September 2003. Three non-working Government companies finalised their accounts for the year 2002-03. The accounts of remaining seven non-working Government companies were in arrears for periods ranging from one to eight years as on 30 September 2003.

(Paragraphs 1.6 and 1.21)

According to the latest finalised accounts, 20 working PSUs (19 Government companies and one Statutory corporation) earned aggregate profit of Rs.352.30 crore, out of which only four working Government companies declared dividend of Rs.25.53 crore to the State Government. Against this, 16 working PSUs (12 Government companies and four Statutory corporations) incurred aggregate loss of Rs.1,179.50 crore as per their latest finalised accounts. Of the loss incurring working Government companies, five companies had accumulated losses aggregating Rs.122.64 crore which exceeded their aggregate paid-up capital of Rs.39.27 crore by more than three times. One loss incurring Statutory corporation had accumulated loss of Rs.2,160.26 crore, which exceeded its paid-up capital of Rs.570.85 crore by more than three times.

(Paragraphs 1.7, 1.8, 1.9, 1.10 and 1.11)

Even after completion of five years of their existence, the individual turnover of three working Government companies and one working Statutory corporation had been less than rupees five crore in each of the preceding five years as per their latest finalised accounts. Further, two Government companies (one working and one non-working) had been incurring losses for five consecutive years as per their latest finalised accounts, leading to negative net worth. As such, the Government may either improve the performance of these six PSUs or consider their closure.

(Paragraph 1.46)

2. Reviews relating to Government companies

2.1 Gujarat State Police Housing Corporation Limited

Gujarat State Police Housing Corporation Limited was incorporated in November 1988 as a wholly owned State Government company with the main objective of construction of residential and non-residential buildings for police and jail in the State. The Company, despite being in existence for more than a decade, was not able to prepare realistic estimates. Further, there were abnormal delays in completion of works, absence of sound planning, inadequate execution and monitoring system. Some of the important points noticed in the review were as under:

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

(Paragraphs 2.1.7 and 2.1.10)

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

(Paragraphs 2.1.14 and 2.1.15)

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

(Paragraph 2.1.17)

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

(Paragraph 2.1.19)

2.2 Gujarat State Civil Supplies Corporation Limited

Gujarat State Civil Supplies Corporation Limited was incorporated in September 1980, as a wholly owned Government company under the Companies Act, 1956 with the main object of procurement of allotted quantities of food grains and edible oils from central agencies, coarse grain from open market and distribution of the same to the fair price shops under public distribution system/targeted public distribution system. The Company carried out Government activities on commission basis at the rates prescribed by the State Government on yearly basis. The Company also undertook limited market activities, which were marred by continuous losses. Some of the important points noticed in the review were as under:

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

(*Paragraph 2.2.22)*

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

(Paragraphs 2.2.25 and 2.2.27)

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

(Paragraph 2.2.28)

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

(Paragraph 2.2.39)

3. Reviews relating to Statutory corporation

Gujarat Electricity Board

3.1 Power sector reforms-signing of Memorandum of Understanding and implementation thereof

The State Government/Board initiated the process of power sector reforms with the formation of Gujarat State Electricity Corporation Limited (August 1993) and Gujarat Energy Transmission Corporation Limited (May 1999). A Memorandum of Understanding was signed in January 2001 between Government of India and Government of Gujarat as a measure of joint commitment to undertake time bound power reforms in the State. The State Government and the Board had not taken adequate steps to expedite the power reforms and implementation of measures, as envisaged in Memorandum of Understanding. No progress has been made to make Gujarat Energy Transmission Corporation Limited functional. The financial assistance availed from Power Finance Corporation Limited and Government of India for renovation and modernisation of the existing thermal power stations and also system improvement did not yield the desired results due to delay/non-implementation of programmes. Some of the important points noticed in the review were as under:

The Board suffered a revenue loss of Rs.19.92 crore due to excessive transmission and distribution losses of energy during 2002-03 despite the expenditure of Rs.40.75 crore incurred under accelerated power development programme for system improvement.

(Paragraph 3.1.9)

The Board could not avail benefits of Rs.4.43 crore per annum due to indecision in the implementation of the wide area network project. Besides, it incurred infructuous expenditure of Rs.40.70 lakh on consultancy charges (Rs.22.35 lakh) and commitment charges (Rs.18.35 lakh) on the project.

(Paragraph 3.1.11)

Failure to submit the proposal for adopting new fuel cost adjustment formula as per Gujarat Electricity Regulatory Commission's directives resulted in loss of Rs.762.94 crore during 2001-03.

(Paragraph 3.1.14)

3.2 Procurement and performance of energy meters in Gujarat Electricity Board

As per section 26(1) of the Indian Electricity Act, 1910, the Board is required to install and maintain correct energy meters on each point of supply of energy to consumers for measuring the energy actually sold. There were delays in installation of meters in agricultural premises and replacement of defective meters. System of procurement of meters was marred by delay in finalisation of tenders, non comparison of rates with previous tender and inter state rates, non placement of orders at the lowest rates and non placement of repeat orders. Some of the important points noticed in the review were as under:

Non metering of 4.88 lakh agricultural consumers as on 31 March 2003 led to non realisation of anticipated revenue of Rs. 173.19 crore.

(Paragraph 3.2.5)

The Board incurred avoidable expenditure of Rs.2.35 crore due to non placement of orders at the lowest rate, non placement of repeat orders and non comparison of rates of previous tender and inter state rates.

(Paragraphs 3.2.12 to 3.2.18)

The Board incurred extra expenditure of Rs.2.02 crore due to bulk purchase rates being higher than local purchase rates.

(Paragraph 3.2.19)

Due to inadequate monitoring in 17 out of 67 high tension express feeders test checked in eight operation and maintenance divisions, the Board suffered revenue loss of Rs.1.52 crore on account of transmission and distribution losses in excess of the norms.

(Paragraph 3.2.24)

4. Miscellaneous topics of interest

Gujarat Mineral Development Corporation Limited

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

(Paragraph 4.1)

Gujarat Industrial Investment Corporation Limited

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.

(Paragraph 4.4)

Sardar Sarovar Narmada Nigam Limited

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

(Paragraph 4.8)

Gujarat Power Corporation Limited

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

(Paragraph 4.12)

Gujarat Electricity Board

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

(Paragraph 4.14)

Gujarat State Financial Corporation

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.

(Paragraph 4.19)

Gujarat Industrial Development Corporation

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.

(Paragraph 4.22)

CHAPTER-I

1. Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2003, there were 44 Government companies (34 working companies and 10 non-working* companies) and five Statutory corporations (all working) as against 45 Government companies (35 working companies and 10 non-working companies) and five Statutory corporations as on 31 March 2002 under the control of the State Government. During the year Gujarat State Handloom Development Corporation Limited was amalgamated with the Gujarat State Handicrafts Development Corporation Limited *vide* Government notification dated 19 June 2002. In addition, the State had formed Gujarat Electricity Regulatory Commission whose audit is also being conducted by the Comptroller and Auditor General of India (CAG). The accounts of the Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors who are appointed by the CAG as per provision of Section 619(2) of Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Sl. No.	Name of the corporation	Authority for audit by CAG	Audit arrangement
1.	Gujarat Electricity Board (GEB)	Section 69(2) of the Electricity (Supply) Act, 1948	Sole audit by CAG
2.	Gujarat State Road Transport Corporation (GSRTC)	Section 33(2) of the Road Transport Corporations Act, 1950	Sole audit by CAG
3.	Gujarat Industrial Development Corporation (GIDC)	Section 19(3) of CAG's (Duties, Powers and Conditions of Service) Act, 1971	Sole audit entrusted by the State Government to CAG up to 2006-07
4.	Gujarat State Financial Corporation (GSFC)	Section 37(6) of the State Financial Corporations Act, 1951	Chartered Accountants and supplementary audit by CAG
5.	Gujarat State Warehousing Corporation (GSWC)	Section 31(8) of the State Warehousing Corporations Act, 1962	Chartered Accountants and supplementary audit by CAG

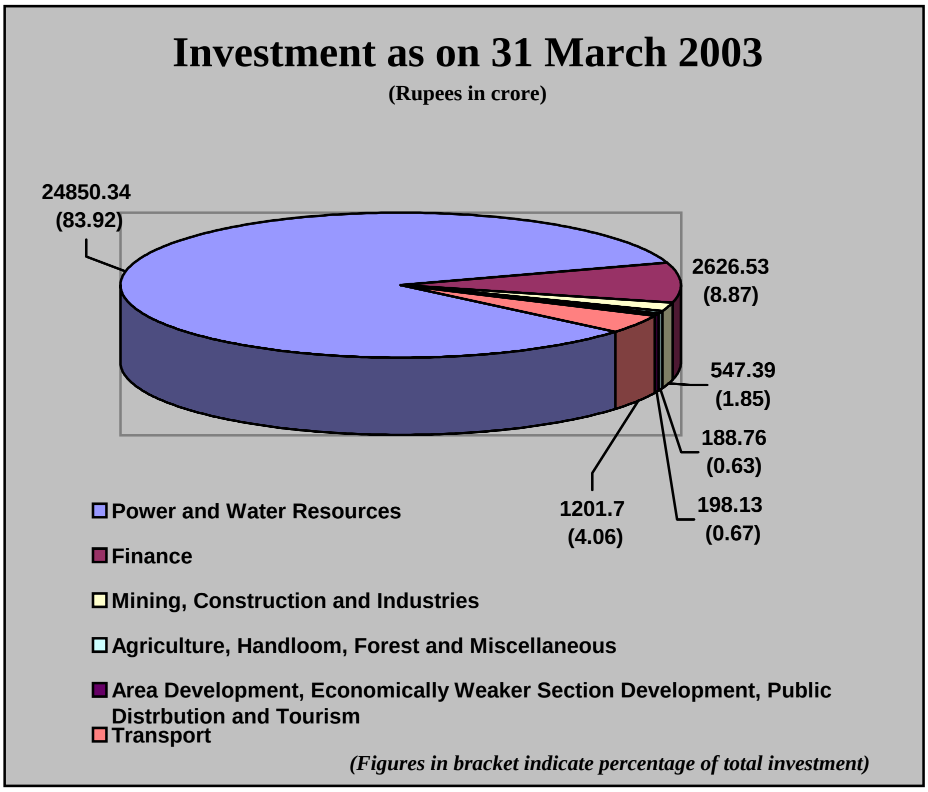
* Non-working companies/corporations are those which are under the process of liquidation/closure/merger *etc*.

Working Public Sector Undertakings (PSUs)

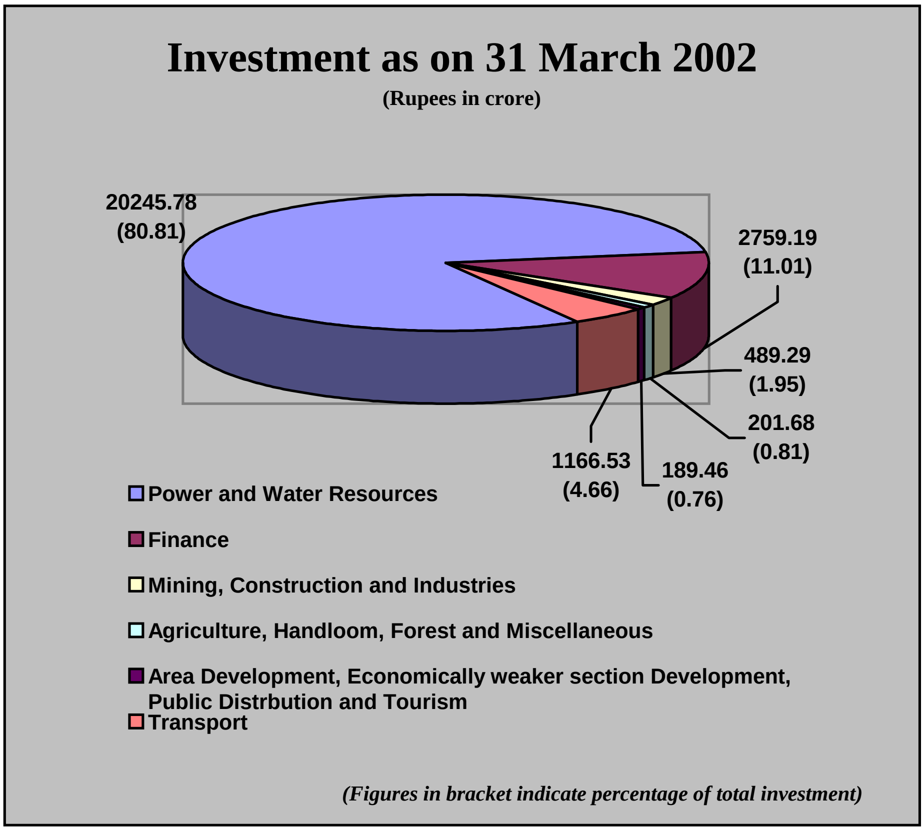
1.2 As on 31 March 2003, the total investment in 39 working PSUs (34 Government companies and five Statutory corporations) was Rs.29,612.85 crore (equity : Rs.10,444.82 crore; long-term loans• : Rs.18,336.44 crore; and share application money : Rs.831.59 crore) as against 40 working PSUs (35 Government companies and five Statutory corporations) with a total investment of Rs.25,051.95 crore (equity: Rs.10,439.02 crore; long-term loans: Rs.14,503.27 crore; and share application money: Rs.109.66 crore) as on 31 March 2002. The analysis of investment in working PSUs is given in the following paragraphs:

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2003 and 31 March 2002 are indicated below in pie charts:

Sector wise investment in working Government companies and Statutory corporations



• Long term loans mentioned in paragraphs 1.2, 1.3 and 1.4 are excluding interest accrued and due on such loans.



Working Government companies

1.3 The total investment in the working Government companies at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

Year	Number of working Government companies	Equity	Share application money	Long-term loans	Total
2001-02	35	9,784.21	109.66	7,041.67	16,935.54
2002-03	34	9,780.85	831.59	9,012.25	19,624.69

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in ***Annexe*-1**.

As on 31 March 2003, the total investment of working Government companies, comprised 54.08 *per cent* of equity capital and 45.92 *per cent* of loans as compared to 58.42 *per cent* and 41.58 *per cent*, respectively as on 31 March 2002.

Due to significant increase in long-term loan of Power and Water Resources sector, the debt equity ratio of working companies increased from 0.71:1 in 2001-02 to 0.85:1 in 2002-03.

Working Statutory corporations

1.4 The total investment in five working Statutory corporations at the end of March 2002 and March 2003 was as follows:

(Rupees in crore)

Name of corporation	2001-02		2002-03[@]	
	Capital	**Loan**	**Capital**	**Loan**
Gujarat Electricity Board	--	5,638.76	--	7,471.01
Gujarat State Road Transport Corporation	556.80	609.73	570.85	630.85
Gujarat State Financial Corporation	94.01	1,198.77	89.11	1,210.57
Gujarat State Warehousing Corporation	4.00	--	4.00	--
Gujarat Industrial Development Corporation	--	14.34	--	11.77
Total	**654.81**	**7,461.60**	**663.96**	**9,324.20**

The summarised statement of Government investment in working Statutory corporations in the form of equity and loans is detailed in ***Annexe*-1**.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by State Government to working Government companies and working Statutory corporations are given in ***Annexes*-1 and 3**.

The budgetary outgo in the form of equity capital, loans and grants/subsidies from the State Government to working Government companies and working Statutory corporations during 2000-2003 are given below:

@ All figures for 2002-03 other than for Gujarat State Financial Corporation are provisional and as furnished by respective Corporations.

(Rupees in crore)

Particulars	2000-01				2001-02				2002-03			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	15	1,014.61	1	41.61	5	2,226.36	1	17.85	8	767.39	1	14.05
Loans given from budget	8	42.78	1	498.53	4	2.67	1	1.50	4	1.37	1	390.81
Grant/ subsidy towards												
(i) Projects/ programmes / schemes	15	284.38	4	2,122.61	16	190.05	2	168.00	13	150.90	--	--
(ii) Other subsidy	2	0.78	--	--	2	38.94	1	3,843.44	3	90.69	3	1,345.83
(iii) Total subsidy	16	285.16	4	2,122.61	18	228.99	3	4,011.44	15	241.59	3	1,345.83
Total outgo	**24***	**1,342.55**	**4***	**2,662.75**	**23***	**2,458.02**	**3***	**4,030.79**	**15***	**1010.35**	**3**	**1,750.69**

During the year 2002-03, the Government had guaranteed loans aggregating Rs.2,347.45 crore obtained by two working Government companies (Rs.1,000.00 crore) and two working Statutory corporations (Rs.1,347.45 crore). At the end of the year guarantees amounting to Rs.12,801.20 crore obtained by eight working Government companies (Rs.5,968.42 crore) and four working Statutory corporations (Rs.6,832.78 crore) were outstanding as against outstanding guarantees of Rs.13,253.77 crore obtained by 11 working Government companies (Rs.5,573.77 crore) and four Statutory corporations (Rs.7,680.00 crore) as on 31 March 2002. The guarantee commission paid/payable to Government by four Government companies and by three Statutory corporations during 2002-03 was Rs.72.30 crore and Rs.115.30 crore, respectively.

Finalisation of accounts by working PSUs

1.6 The accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year. Similarly, in case of Statutory corporations their accounts are finalised, audited and laid before the Legislature as per the provisions of their respective Acts.

However, as could be noticed from ***Annexe-2***, out of 34 working Government companies, only 12 working companies and out of five working Statutory corporations, only two working corporations finalised their accounts for the year 2002-03, within the stipulated period. During October 2002 to September 2003, 19 working Government companies finalised 23 accounts for previous years. Similarly, during this period, three working Statutory corporations finalised three accounts for previous years.

* Actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidies from Government in respective years.

The accounts of 22 working Government companies and three working Statutory corporations were in arrears for periods ranging from one to seven years as on 30 September 2003 as detailed below:

Sl. No.	**Number of working PSUs whose accounts were in arrears**		**Period for which accounts were in arrears**	**Number of years for which accounts were in arrears**	**Reference to Sl.No. of *Annexe*-2**	
	Government companies	**Statutory corporations**			**Government companies**	**Statutory corporations**
1	1		1996-97 to 2002-03	7	A-15	
2	1		1999-00 to 2002-03	4	A-33	
3	3		2000-01 to 2002-03	3	A-4, 6.1 & 6.2 and 10	
4	17	3	2002-03	1	A-1, 3, 5, 9, 11, 12, 13, 16, 18, 19, 20, 25, 29, 30, 31, 32 and 34	B-1, 4, 5
	22	**3**				

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by PSUs within prescribed period. Though the concerned administrative departments and officials of the Government were appraised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government. As a result, the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in ***Annexe*-2**. Besides, statement showing financial position and working results of individual working Statutory corporations for the latest three years for which accounts are finalised are given in ***Annexe*-4** and **5**, respectively.

According to the latest finalised accounts of 34 working Government companies and five working Statutory corporations, 12 companies and four corporations had incurred an aggregate loss of Rs.96.23 crore and Rs.1,083.27 crore, respectively. Nineteen companies and one corporation earned an aggregate profit of Rs.345.97 crore and Rs.6.33 crore, respectively. One company (Sl.No.A-22 of ***Annexe-2***) had not commenced commercial activities, one company (Sl.No.A-10 of ***Annexe-2***) had capitalised excess of expenditure over income and one company had transferred excess of income to non-plan grant (Sl.No.A-16 of ***Annexe-2).***

Working Government companies

Profit earning working Government companies and dividend

1.8 Nine profit earning working companies, which finalised accounts for 2002-03 by September 2003, earned profit aggregating Rs.197.15 crore. Of these, only four companies (Sl.No.A-8, 26, 27 and 28 of ***Annexe*-2**) declared dividend of Rs.29.85 crore of which State Government's share was Rs.25.53 crore. The remaining five profit earning companies did not declare dividend. The total return by way of above dividend of Rs.25.53 crore, worked out to 0.25 *per cent* in 2002-03 on total equity investment of Rs.10,317.24 crore by the State Government in working Government companies, as against 0.13 *per cent* in the previous year. The State Government had not formulated any dividend policy for payment of minimum dividend.

Ten profit earning working companies, which finalised their accounts for previous years by 30 September 2003, earned profit aggregating Rs.148.82 crore. Out of the 19 profit earning companies 16 companies were earning profit for two or more successive years.

Loss incurring working Government companies

1.9 Of the 12 loss incurring working Government companies, five[*] companies had accumulated losses aggregating Rs.122.64 crore which exceeded their aggregate paid-up capital of Rs.39.27 crore by more than three times.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, further grant of loans, conversion of loans into equity, subsidy, *etc*. According to available information, the total financial support so provided by the State Government was Rs.67.89 crore by way of share capital (Rs.0.41 crore), loans (Rs.0.06 crore) and subsidy (Rs.67.42 crore) during 2002-03 to these four companies.

Working Statutory corporations

Profit earning Statutory corporation and dividend

1.10 Gujarat Industrial Development Corporation which finalised its accounts for the year 2001-02 earned profit of Rs.6.33 crore, but did not declare dividend.

Loss incurring Statutory corporations

1.11 Gujarat State Financial Corporation and Gujarat State Road Transport Corporation finalised their accounts for 2002-03 by September 2003. These two working corporations incurred a loss aggregating Rs.461.20 crore. Other two working Statutory corporations (Gujarat Electricity Board and Gujarat

* Serial No.A-1, 4, 6.1 & 6.2, 18 and 20 of *Annexe*-2.

State Warehousing Corporation) finalised their accounts for 2001-02 and incurred loss aggregating Rs.622.07 crore. GSRTC had accumulated loss of Rs.2,160.26 crore, which exceeded its paid-up capital of Rs.570.85 crore by more than three times.

Despite poor performance, the State Government continued to provide financial support to these corporations in the form of contribution towards equity, further grant of loans, conversion of loans into equity, subsidy, *etc*. According to available information, the total financial support so provided by the State Government was Rs.1,745.86 crore by way of share capital (Rs.14.05 crore), loans (Rs.390.81 crore) and subsidy (Rs.1,341.00 crore) during 2002-03 to two corporations (Sl. No. B -1 and 2 of ***Annexes*-1** and **3**).

Operational performance of working Statutory corporations

1.12 The operational performance of the working Statutory corporations is given in ***Annexe-6***. The following observations are made:

Gujarat Electricity Board

1.13 The percentage of transmission and distribution loss to total power available for sale had increased from 22.07 *per cent* in 1999-2000 to 22.84 *per cent* in 2001-02. Though the demand during 1999-2002 was 31,960 MKWH, the power generation decreased from 21,018 to 20,770 MKWH during the same period resulting in more dependence of GEB for purchase of power from private/central grid.

Gujarat State Road Transport Corporation

1.14 The loss per kilometre which was Rs.3.28 in 1999-2000 decreased to Rs.2.22 during 2000-01 and again increased to Rs.3.50 during 2001-02.

Return on capital employed

1.15 As per the latest finalised accounts (up to September 2003), the capital employed* worked out to Rs.22,822.96 crore in 34 working companies and total return† thereon amounted to Rs.463.70 crore which was 2.03 *per cent* as compared to total return of Rs.504.51 crore (3.33 *per cent*) in the previous year (accounts finalised up to September 2002). Similarly, the capital employed and total return thereon in case of working Statutory corporations as per the latest finalised accounts (up to September 2003) worked out to Rs.4,079.11 crore and Rs.151.57 crore (3.72 *per cent)*, respectively as against the total return of Rs.(-)1,538.31 crore in previous year (accounts finalised up to September 2002). The details of capital employed and total return on

* Capital employed represents net fixed assets (including capital works-in-progress) *plus* working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

† For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

capital employed in case of working Government companies and Statutory corporations are given in ***Annexe*-2**.

Reforms in power sector

Status of implementation of MOU between the State Government and the Central Government

1.16 A Memorandum of Understanding (MOU) was signed on 19 January 2001 between the Government of India and the Government of Gujarat as a joint commitment for implementation of reforms programme in power sector with identified milestones. Status of implementation of reforms programme against commitment made in the MOU are discussed *vide* Review on "Power sector reforms - signing of Memorandum of Understanding and implementation thereof" in Chapter-3.1 of this Report.

Gujarat Electricity Regulatory Commission

1.17 Gujarat Electricity Regulatory Commission (Commission) was formed on 12 November 1998 under Section 17 of Electricity Regulatory Commissions Act, 1998 with the main objective of determining electricity tariff, advising the State Government in matters relating to electricity generation, transmission and distribution *etc.* in the State. The Commission is a body corporate and comprises three members including a Chairman, who are appointed by the State Government. The audit of accounts of the Commission has been entrusted to CAG under Section 34 of the Act *ibid*. The Commission had finalised its accounts up to 2002-03.

Non-working PSUs

Investment in non-working PSUs

1.18 As on 31 March 2003, the total investment in 10 non-working PSUs (all Government companies) was Rs.619.49 crore (equity : Rs.38.06 crore, long term loans : Rs.538.89 crore and share application money : Rs.42.54 crore), as against total investment of Rs.606.19 crore (equity : Rs.38.06 crore, long term loans :Rs.525.59 crore and share application money : Rs.42.54 crore) in 10 non-working Government companies as on 31 March 2002.

The classification of the non-working PSUs was as under:

Sl. No.	Status of non-working PSUs	Number of companies	Investment (Rupees in crore)	
			Equity*	Long term loans
(i)	Under liquidation	4	46.47	340.15
(ii)	Under closure	6	34.13	198.74
	Total	**10**	**80.60**	**538.89**

(Note : There is no non-working Statutory corporation)

* Equity includes share application money of Rs.42.54 crore for companies under liquidation.

Of the above non-working PSUs, four Government companies were under liquidation under Section 560 of the Companies Act, 1956 since last six years and substantial investment of Rs.386.62 crore was involved in these companies. Effective steps need to be taken for their expeditious liquidation or revival.

Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity

1.19 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government to non-working PSUs are given in ***Annexes*-1 and 3**.

The State Government had paid budgetary support of Rs.13.13 crore in the form of loan to one non-working company during 2002-03. At the end of the year, guarantees amounting to Rs.42.06 crore obtained by three non-working companies were outstanding as against outstanding guarantees of Rs.43.88 crore obtained by four non-working companies as on 31 March 2002.

Total establishment expenditure of non-working PSUs

1.20 The year wise details of total establishment expenditure of non-working Government companies and the sources of financing them during last three years up to 2002-03 are given below:

(Rupees in crore)

Year	Number of PSUs	Total establishment expenditure	Financed by		
			Disposal of investment/assets	Government by way of Loans	Others
2000-01	10	54.20$	4.13	36.25	13.82
2001-02	10	4.05@	0.04	1.85	2.16
2002-03	10	0.62*	--	--	0.62
Total		**58.87**	**4.17**	**38.10**	**16.60**

An amount of Rs.58.87 crore has been incurred towards establishment expenditure of these 10 non-working Government companies during 2000-2003. Expeditious action is necessary for winding up of these companies to avoid further non-productive expenditure in this regard.

Finalisation of accounts by non-working PSUs

1.21 Three non-working Government companies finalised their accounts for the year 2002-03. The accounts of remaining seven non-working Government companies were in arrears for periods ranging from one to eight years as on 30 September 2003, as could be noticed from ***Annexe*-2**.

$ This relates to six non-working Government companies (Sl.No.C-1, 2, 3, 4, 5 and 10 of *Annexe*-2). Remaining four companies (Sl.No. C-6, 7, 8 and 9 of *Annexe*-2) did not furnish the information.

@ This relates to six non-working Government companies (Sl.No.C-3, 5, 7, 8, 9 and 10 of *Annexe*-2). Remaining four companies (Sl.No. C-1, 2, 4 and 6 of *Annexe*-2) did not furnish the information.

* This relates to five non-working Government companies (Sl.No.C-5, 7, 8, 9 and 10 of *Annexe-2*). Remaining five companies (Sl. No. C-1, 2, 3, 4 and 6 of *Annexe-2*) did not furnish the information.

Financial position and working results of non-working PSUs

1.22 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in ***Annexe*-2**. The details of paid-up capital, net worth, cash loss and accumulated loss of these non-working companies as per their latest finalised accounts are given below:

(Rupees in crore)

Non-working PSUs	Paid-up capital	Net worth[@]	Cash loss	Accumulated loss
10 (Government companies)	83.30	1,172.36	351.89	1,225.66

(Note : Net worth, cash loss and accumulated loss calculated are as per last certified accounts.)

As the accumulated loss was more than fourteen times of the paid-up capital and as further losses are being incurred every year, these non-working PSUs should be wound up expeditiously.

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

1.23 The following table indicates the status of placement of various Separate Audit Reports (SARs) on the accounts of Statutory corporations issued by CAG in the Legislature by the Government:

Sl. No.	Name of the Statutory corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government
1.	Gujarat Electricity Board	2000-01	2001-02 2002-03	24.03.02 SAR under process
2.	Gujarat State Road Transport Corporation	2000-01	2001-02	25.09.03
3.	Gujarat Industrial Development Corporation	2001-02	----	----
4.	Gujarat State Financial Corporation	2001-02	2002-03	SAR under process
5.	Gujarat State Warehousing Corporation	2000-01	2001-02	SAR under process

Disinvestment, Privatisation and Restructuring[*] of Public Sector Undertakings

1.24 During the year 2002-03, the State Government did not disinvest or privatise any of its PSUs. In October 1992, the Government of Gujarat had constituted State Finance Commission to examine the potential for

[@] Net worth represents paid-up capital *plus* free reserves *less* accumulated losses.

[*] Restructuring includes merger and closure of PSUs.

privatisation and disinvestment of PSUs of the State Government. The recommendations of the Commission including setting up of a High Level Committee for formulating broad guidelines and constitution of a Cabinet Sub-Committee (constituted in March 1996) were reported *vide* paragraph 1.2.2 of Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial) Government of Gujarat. The action taken as a follow up to decisions of Cabinet Sub-Committee up to April 2003 was as under:

Privatisation

1.25 The Sub-Committee decided (July 1996) to privatise three Government companies *viz.*, Gujarat Communications and Electronics Limited (GCEL), Gujarat Tractor Corporation Limited (GTCL) and Gujarat State Export Corporation Limited (GSECL). As reported by the Government, GTCL had been fully privatised in December 1999. In case of GCEL, it announced closure of the Company under Industrial Disputes Act and all employees were given voluntary retirement/retrenchment. Gujarat High Court had passed orders (February 2002) for winding up of the Company and appointed liquidator for liquidation process. This order was stayed by a subsequent order of the Court (May 2002) during pendency of reference before Board for Industrial and Financial Reconstruction (BIFR). It was reported by Government (April 2003) that BIFR has ordered winding up of the Company and necessary actions for vacating the stay order were initiated. Further, the official liquidator has been requested to undertake the liquidation process. In case of GSECL, the Sub-Committee had decided to reduce Government stake to 11 *per cent*. It was reported by the Government (April 2003) that the agreement of shareholders with the private sector partner was expected to be signed by June 2003.

Restructuring

1.26 In case of Gujarat Agro Industries Corporation Limited, Cabinet Sub-Committee decided to sell uneconomic divisions/units, which was agreed to by the Government of Gujarat in January 1999. It was reported by Government (April 2003) that necessary action had been initiated and all employees of the concerned divisions/units had been offered voluntary retirement.

1.27 In case of Gujarat Industrial Development Corporation (GIDC), the Sub-Committee decided for unbundling of GIDC, by transferring maintenance services to Industries Associations and Industrial Park to joint sector. Regulatory and planning work was to be continued by the Corporation. It was reported by Government (April 2003) that action had been initiated on the recommendations.

1.28 In case of Tourism Corporation of Gujarat Limited, it was decided to close un-economic units and to offer Voluntary Retirement Scheme (VRS) to its employees. Action was being initiated in this regard.

Disinvestment

1.29 In case of Gujarat Industrial Investment Corporation Limited, the Cabinet Sub-Committee decided to reduce the stake of Government to 49 *per cent* of equity shares. As a follow-up, 11 *per cent* equity shares were to be transferred to Gujarat Narmada Valley Fertilisers Company Limited and Gujarat State Fertilizers and Chemicals Limited. The term lending activity of the Company had been reduced. VRS had been offered to staff and the Company was refocusing on implementing infrastructure projects.

1.30 In case of Gujarat Mineral Development Corporation Limited, the Cabinet Sub-Committee decided to disinvest 49 *per cent* equity shares and 26 *per cent* of the equity shares had already been disinvested.

Merger

1.31 The Cabinet Sub-Committee recommended merger of Gujarat Rural Industries Marketing Corporation Limited with Gujarat State Leather Industry Development Corporation Limited and that of Gujarat State Handloom Development Corporation Limited with Gujarat State Handicrafts Development Corporation Limited. These recommendations were accepted by the Government of Gujarat in July 1996. The draft scheme of merger was approved by the Government of India in both the cases and Gujarat Leather Industry Development Corporation Limited was merged (January 2001) with Gujarat Rural Industries Marketing Corporation Limited. Gujarat State Handloom Development Corporation Limited was merged in June 2002 with Gujarat State Handicrafts Development Corporation Limited as per Government of India notification of 19 June 2002.

Closure

1.32 The decision of Cabinet Sub-Committee to close Gujarat Small Industries Corporation Limited was accepted by the Government of Gujarat in January 1999. The Company had suspended all the activities and given VRS to most of the employees.

1.33 The decision of Cabinet Sub-Committee on closure of Gujarat Fisheries Development Corporation Limited (GFDCL) and Gujarat State Construction Corporation Limited (GSCC) was accepted by the Government on 4 September 1998. As a follow up, the Government reported (April 2003) that all activities of these companies have been suspended and most of the employees had been given VRS. In case of GFDCL, assets were being transferred/sold. In case of the Film Development Corporation of Gujarat Limited and Gujarat State Rural Development Corporation Limited, the Government had decided to continue these companies, earlier identified for closure.

Results of audit of accounts of PSUs by Comptroller and Auditor General of India

1.34 During the period from October 2002 to September 2003, the audit of accounts of 33 Government companies (working 27 and non-working six) and five working Statutory corporations were selected for review. As a result of the observations made by CAG, one company (Gujarat State Petronet Limited) revised its accounts for the year 2001-02. The net impact of the important audit observations as a result of review of the accounts of these PSUs were as follows:

Details	Number of accounts		Rupees in crore	
	Working Government companies	Working Statutory corporations	Working Government companies	Working Statutory corporations
(i) Decreases in profit	--	1	--	0.25
(ii) Increase in loss	2	1	0.36	289.07
(iv) Non-disclosure of material facts	2	2	126.21	603.37
(v) Errors of classification	2	2	50.57	2,208.14

Some of the major errors and omissions noticed in the course of review of annual accounts of some of the above companies and corporations are mentioned below:

Errors and omissions noticed in case of Government companies

Gujarat State Land Development Corporation Limited (1999-2000)

1.35 The Company provided for interest on Government loans at the rate of 10 *per cent* as against applicable rate of 12.5 *per cent*, resulting in under statement of unsecured loans by Rs.25.52 lakh, current liabilities by Rs.6.11 lakh and under statement of loss by Rs.31.63 lakh.

Sardar Sarovar Narmada Nigam Limited (2001-02)

1.36 The Company overstated capital works in progress by Rs.21.37 crore due to double adjustment of guarantee fees resulting in understatement of incidental expenditure pending capitalisation to that extent.

1.37 The Company did not account for the works of Rs.5.90 crore, in respect of Guest House resulting in understatement of fixed assets by Rs.5.90 crore, current liabilities by Rs.2.95 crore and overstatement of loans and advances by Rs.2.95 crore.

Errors and omissions noticed in case of Statutory corporations

Gujarat State Road Transport Corporation (2001-02)

1.38 The Corporation had not created sinking fund for timely repayment of Debenture Bond liability of Rs.3.50 crore, though required as per the condition of the Government Regulation in this regard.

Audit assessment of the working results of Gujarat Electricity Board

1.39 Based on the audit assessment of the working results of GEB for three years up to 2001-02 and taking into consideration the major irregularities and omissions pointed out in the SARs on the annual accounts of GEB and not taking into account the subsidy/subventions receivable from the State Government, the net surplus/deficit of GEB will be as given below:

(Rupees in crore)

Sl. No.	Particulars	1999-00	2000-01	2001-02
1	Net surplus/(-)deficit as per books of accounts	(-)2,208.58	(-)2,542.98	(-)622.03
2	Subsidy from the State Government	1,329.87	2,021.26	2,578.65
3	Net surplus/ (-) deficit before subsidy from the State Government (1-2)	(-)3,538.45	(-)4,564.24	(-)3,200.68
4	Net increase/decrease in net surplus/ (-) deficit on account of audit comments on the annual accounts	(-)1,027.79	(-)446.11	(-)289.07
5	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)4,566.24	(-)5,010.35	(-)3,489.75

Persistent irregularities and system deficiencies in financial matters of PSUs

1.40 The following persistent irregularities and system deficiencies in the financial matters of PSUs had been repeatedly pointed out during the course of audit of their accounts but no corrective action was taken by these PSUs so far:

Government companies

Gujarat State Forest Development Corporation Limited

1.41 The works-in-progress under plantations were understated by Rs.17.78 crore in respect of Bulsar and Panam Projects due to non-inclusion of cumulative interest charges on term loans obtained from the banks for the plantation for the year ended 31 March 2002.

Statutory corporations

Gujarat Electricity Board

1.42 Some of the major persistent irregularities noticed are detailed below:

- The fuel related costs and losses were overstated by Rs.60.48 crore due to excess accounting of loss in respect of disallowed unilateral sampling claim of South Eastern Coal Fields Ltd., pertaining to the period up to May 1995 resulting in overstatement of deficit to the same extent.

- The material fact of claim of Rs.318.81 crore made by ONGC Limited for the period from 14 July 1988 to 15 May 1992 was not properly disclosed.

- The Board did not provide for bad and doubtful debts to the extent of Rs.46.56 crore being outstanding revenue arrears in respect of 28 permanently disconnected consumers, the chances of recovery of which are remote. This has resulted in understatement of deficit to that extent.

Gujarat State Road Transport Corporation

1.43 The balance under 'personal account with other State transport undertakings' given in the accounts of the Corporation included Rs.54.06 lakh being dues from other state road transport undertakings *viz.,* Madhya Pradesh (Rs.30.07 lakh), Rajasthan (Rs.16.76 lakh) and Maharashtra (Rs.7.23 lakh) which were pending for recovery/adjustment since 1985-86 onwards.

Gujarat Industrial Development Corporation

1.44 Due to inclusion of development works carried out for Gujarat Growth Centres Development Corporation Limited (Rs.21.24 crore) and deposit paid to Gujarat Electricity Board (Rs.11.20 crore) the capital expenditure incurred by the Corporation was overstated by Rs.32.44 crore.

Internal audit/internal control

1.45 The statutory auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the internal audit/internal control systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under section 619(3)(a) of the Companies Act, 1956 and to identify the areas which needed improvement. Accordingly the companies in which the statutory auditors observed deficiencies in respect of internal audit system during 1999-2003, are detailed below:

Sl. No.	Nature of observations	Number of companies in which observations were noticed	Reference to Sl.No. to companies as per *Annexe-2*
1	Internal audit required to be strengthened having due regard to its size and nature of its business	3	A-4, 20, C-3
2.	The compliance on internal audit report is not adequate	2	A-1, 20
3	Absence of internal audit system	1	C-5
4.	Inadequate internal audit system	1	A-30
5.	Staff of internal audit department not professionally qualified	1	A-19

Recommendations for closure of PSUs

1.46 Even after completion of five years of their existence, the turnover of three* working Government companies and one# working Statutory

* Serial No.A-2, 12 and 31 of *Annexe*-2.
\# Serial No.B-4 of *Annexe*-2.

corporation had been less than rupees five crore in each of the preceding five years as per their latest finalised accounts. Two[@] Government companies (one working and one non-working) had been incurring losses for five consecutive years as per their latest finalised accounts, leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of above five Government companies and one Statutory corporation or consider their closure.

Response to Inspection Reports, Draft Paras and Reviews

1.47 Audit observations noticed during audit and not settled on the spot are communicated to the head of PSUs and concerned departments of State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports within a period of six weeks. Inspection Reports issued up to March 2003 pertaining to 39 PSUs disclosed that 1,298 paragraphs relating to 398 Inspection Reports remained outstanding at the end of September 2003. Of these, four Inspection Reports containing 20 paragraphs had not been replied to for more than one year. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2003 is given in ***Annexe*-7**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that seven draft paragraphs and one draft review forwarded to various departments during February 2003 to June 2003, as detailed in ***Annexe*-8**, had not been replied to so far (September 2003).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment is taken in a time bound schedule, and (c) system of responding to the audit observations is revamped.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.48 The position of discussion of Audit Reports (Commercial) by the COPU, reviews and paragraphs pending for discussion in the COPU as on 30 September 2003 was as under:

@ Serial No.A-4 and C-5 of *Annexe*-2.

Period of Audit Report	Number of reviews/paragraphs appeared in the Audit Report		Number of reviews/paragraphs pending discussion	
	Reviews	Paragraphs	Reviews	Paragraphs
1996-97	3	26	NIL	2
1997-98	4	26	2	3
1998-99	5	26	5	19
1999-00	3	26	3	21
2000-01	4	20	4	18
2001-02	3	22	3	22
Total	**22**	**146**	**17**	**85**

619–B Companies

1.49 There were nine companies falling under Section 619-B of the Companies Act, 1956 of which one company was non-working. ***Annexe-9*** indicates the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest available accounts.

CHAPTER - II

2 Reviews relating to Government companies

2.1 Gujarat State Police Housing Corporation Limited

Highlights

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

(Paragraph 2.1.1)

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

(Paragraphs 2.1.2 and 2.1.6)

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

(Paragraphs 2.1.7 and 2.1.10)

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

(Paragraph 2.1.13)

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

(Paragraphs 2.1.14 and 2.1.15)

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

(Paragraph 2.1.17)

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

(Paragraph 2.1.19)

Introduction

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

Objectives and activities

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

- to formulate and execute schemes for construction and maintenance of all types of police buildings (residential and non-residential) and allied works;

- to formulate and execute various housing schemes for serving and retired employees of Police in the State Government;

- to promote the formation of residential townships, colonies, co-operative housing societies, trusts, or other association or organisation for owning any of the properties for policemen;

- to invest the surplus funds of the Company from time to time in deposits, units, Government securities or in other securities including shares, bonds and debentures as may from time to time be determined by the Board of Directors and from time to time sell or vary investment and to execute all assignments, transfers, receipts and documents that may be necessary in that behalf;

- to acquire or lease lands, buildings, sites necessary for carrying out any of the objects of the Company.

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

Organisational set up

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

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

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

Scope of Audit

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

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

Capital structure

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

Financial position

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

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

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

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

Fund management

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

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

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

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

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

(Amount : Rupees in crore)

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

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

Centage charges

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

Retention of unspent grant

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

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

Violation of State Government's directives

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

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

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

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

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

Targets and achievements

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

Construction performance

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

Projects taken up and handed over

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

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

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

Delays in civil works ranged between 64 and 675 days.

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

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

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

Variation between estimated and executed quantities

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

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

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

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

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

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

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

Savings in project cost

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

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

Blocking up of funds

Lack of planning

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

Collapse of a block

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

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

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

Abandoned work

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

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

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

Avoidable expenditure due to change in design

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

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

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

Non recovery of cost on deposit work

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

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

Border area development programme (BADP)

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

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

Evaluation of programmes

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

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

Accounting manual

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

Internal control system and internal audit

Internal control system

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

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

Internal audit

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

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

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

Conclusion

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

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

2.2 Gujarat State Civil Supplies Corporation Limited

Highlights

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

(Paragraph 2.2.1)

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

(Paragraphs 2.2.4 and 2.2.7)

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

(Paragraph 2.2.13)

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

(Paragraph 2.2.22)

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

(Paragraphs 2.2.25 and 2.2.27)

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

(Paragraph 2.2.28)

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

(Paragraph 2.2.39)

Introduction

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

Objectives and activities

Objectives

2.2.2 The main objectives of the Company were to:

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

Activities

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

Government activities

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

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

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

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

Own activities

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

Organisational set up

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

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

Scope of Audit

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

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

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

Sources of funds

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

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

(Rupees in crore)

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

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

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

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

Financial position and working results

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

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

(Quantity in MT)

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

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

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

(Rupees in crore)

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

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

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

Procurement and distribution

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

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

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

Procurement and distribution of essential commodities under PDS

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

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

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

Dealings with Food Corporation of India (FCI)

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

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

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

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

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

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

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

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

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

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

Edible oil

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

Purchase of palmolien oil

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

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

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

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

Implementation of Central/State Government schemes and programmes

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

Targeted public distribution system

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

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

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

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

Distribution of free rated wheat and rice

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

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

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

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

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

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

Mid day meal (MDM) scheme

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

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

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

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

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

Distribution of cement to earthquake affected people

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

It was observed in audit that:

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

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

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

Godown management

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

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

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

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

Own activities of the Company

Kalpataru departmental stores (KDS)

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

(Rupees in lakh)

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

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

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

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

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

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

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

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

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

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

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

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

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

Operation of petrol/diesel pumps

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

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

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

Cash management

Delay in transfer of funds

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

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

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

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

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

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

Surplus funds

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

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

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

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

Demand for payment of purchase tax

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

Surplus manpower

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

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

Internal control system and internal audit

Internal control system

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

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

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

Internal audit

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

- The Company had neither internal audit- manual nor fixed internal audit standard.
- The internal audit reports containing 6,440 paras pertaining to 1985-2002 remained unsettled (March 2003). This indicated lack of follow-up action on the reports. Besides, the internal audit reports were not placed before the BOD. The Company stated (May 2003) that the paras on misappropriation/fraud cases were placed before BOD.

Conclusion

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

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

CHAPTER - III

3 Reviews relating to Statutory corporation

Gujarat Electricity Board

3.1 Power sector reforms - signing of Memorandum of Understanding and implementation thereof

Highlights

The Memorandum of Understanding was signed in January 2001 between Government of India and Government of Gujarat as a measure of joint commitment to undertake time bound power reforms in the State.

(Paragraph 3.1.2)

Report of the consultants on corporatisation of the Board, received in May 2000, was not considered (July 2003). Thus, consultancy fees of Rs.66.02 lakh paid for the report was unproductive.

(Paragraph 3.1.8)

The Board suffered a revenue loss of Rs.19.92 crore due to excessive transmission and distribution losses of energy during 2002-03 despite the expenditure of Rs.40.75 crore incurred under accelerated power development programme for system improvement.

(Paragraph 3.1.9)

The Board could not avail benefits of Rs.4.43 crore *per annum* due to indecision in the implementation of the wide area network project. Besides, it incurred infructuous expenditure of Rs.40.70 lakh on consultancy charges (Rs.22.35 lakh) and commitment charges (Rs.18.35 lakh) on the project.

(Paragraph 3.1.11)

Failure to submit the proposal for adopting new fuel cost adjustment formula as per Gujarat Electricity Regulatory Commission's directives resulted in loss of Rs.762.94 crore during 2001-03.

(Paragraph 3.1.15)

The achievement of the profit centres could not be measured due to non-identification of the off-take points and non-fixation of the transfer price of power supplied to the profit centres.

(Paragraph 3.1.21)

Introduction

3.1.1 Gujarat Electricity Board (Board) was established in 1960 under the provisions of the Electricity (Supply) Act, 1948. The Board is engaged in generation, transmission and distribution of electricity in the State of Gujarat except in urban areas of Ahmedabad and Surat which are served by two public limited companies[•].

Section 59 of the Electricity (Supply) Act, 1948, stipulated a minimum rate of return (ROR) of 3 *per cent* on the value of fixed assets of the Board in service at the beginning of the financial year. Against this, the actual ROR (excluding subsidy from the State Government) was negative. The Board had been incurring losses since 1985-86 and the accumulated losses went up to Rs.5,873 crore as on 31 March 2003. The main reasons for losses were unremunerative tariff, supply of power to agriculture at subsidised rates, excessive transmission and distribution (T&D) losses, *etc*.

Continued negative ROR, besides adversely affecting the ways and means position of the Board, also jeopardised the developmental activities of the Board. The State could not add much to its generating capacity, which was 4,540 MW[♠] during 1997-98 and marginally increased to 4,888 MW in 2002-03 against the demand of 6,112 MW in 1997-98 and 8,601 MW in 2002-03. In order to increase the generating capacity, the Board incorporated a subsidiary company (Gujarat State Electricity Corporation Limited) in August 1993 for generation of power. The company is a deemed Government company under section 619-B of the Companies Act, 1956.

Memorandum of Understanding

3.1.2 A Memorandum of Understanding (MOU) was signed on 19 January 2001 between the Government of India (GOI) and the Government of Gujarat (GOG) as a measure of joint commitment to undertake the reforms in power sector in a time bound manner and the support which the GOI would extend to GOG. The MOU was valid for a period of five years and subject to review annually. The records made available to audit, however, did not indicate meetings, if any, held between GOI and GOG specifically for review of MOU.

Organisational set up

3.1.3 The Board does not have any formal organisational set up for the specific purpose of implementing the reform process. In respect of implementation of the reform process and commitments under the MOU, the Board stated (August 2003) that the implementation of the reform process was depended on the decision of GOG to finally restructure the Board, based on the recommendations of the consultants appointed by the Asian Development Bank (ADB). It was further stated that the activity of reform was an ongoing

• The Ahmedabad Electricity Company Limited and Surat Electricity Company Limited, respectively.

♠ Mega Watt

process and the same had been discussed by the Board from time to time based on the reports of consultants.

Scope of Audit

3.1.4 Status of power sector reforms during 1997-2003 including the reforms made in the State of Gujarat as per MOU signed between GOI and GOG in January 2001 was reviewed during December 2002 to February 2003.

The audit findings, as a result of test check of records, were reported to the Government/Board in March 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view points of Government/Board was taken into account before finalising the review. The meeting of ARCPSE was held on 26 May 2003 with officials of State Government and the Board and their view points have been duly incorporated in the review.

Implementation of the reform programme

3.1.5 The objectives of the reforms and restructuring of the power sector as per MOU have been outlined in ***Annexe*-18**. Out of the commitments made in the MOU, the following components of the reform programme were implemented:

Sl. No	Commitments made by the State Government	Present status
1.	Setting up of Gujarat Electricity Regulatory Commission (GERC)	Gujarat Electricity Regulatory Commission was set up (July 1999).
2.	Implementation of first tariff award of GERC	The Board got approval of its first tariff award by GERC and implemented it *w.e.f.* 10 October 2000.
3.	Offsetting subsidy and subvention arrears owed by GOG to the Board till 31 March 2000 against dues of the Board owing to GOG and payment of outstanding municipality dues owing to the Board till 31 March 2001.	GOG adjusted Rs.2,072.94 crore on 31 March 2001 and Rs.1,974.47 crore on 26 September 2001 against outstanding loan of Rs.4,047.41 crore as on 31 March 2000.
4.	Introduction of the Reforms Bill in the Gujarat State Assembly and subsequent enactment of the Reforms Act.	The State Legislative Assembly passed the Gujarat Electricity Industry (Reorganisation and Regulation) Bill, 2003 (the Reforms Act) on 14 May 2003 which came into effect from 16 May 2003

5.	Creation of independent distribution circles of Kheda (Anand) and Rajkot as profit centres and accord of fiscal and administrative autonomy to such profit centres by the Board.	The Board created (October 1998) two profit centres at Anand and Rajkot.
6.	Rationalisation and reduction of electricity duty by GOG in the budget for the financial year 2002-03.	GOG rationalised and reduced the electricity duty in the budget for the financial year 2002-03.

Formation of separate companies

Formation of a generation company

In spite of GOG approval in March 2001, the Board did not transfer Gandhinagar TPS to GSECL.

3.1.6 The Board was unable to mobilise requisite funds for undertaking expansion activities for setting up additional generation capacity to meet the increasing demand of power in the State. To overcome resource crunch, Gujarat State Electricity Corporation Limited (GSECL) was incorporated on 12 August 1993 with authorised capital of Rs.10 crore. GSECL received the certificate of commencement of business in September 1993. The commercial operations of GSECL started only in October 1998 with the commissioning of 210 MW Gandhinagar Unit-V followed by commissioning of 210 MW Wanakbori Unit-VII in April 1999. Besides, the Board transferred (August 2002) the Utran gas based thermal power station (UGTPS) to GSECL. Moreover, GSECL was also setting up a 107 MW combined cycle gas based thermal power station (TPS) at Dhuvaran, which was under completion stage (July 2003). Further, as per MOU, the assets and management of Gandhinagar TPS units I-IV were to be transferred to GSECL for which the approval was granted by GOG (March 2001). However, the Board stated (August 2003) that in the absence of finalisation of modalities, the transfer of Gandhinagar TPS had not materialised (September 2003).

Formation of a transmission company

Transmission company formed in May 1999 could not start commercial operation for lack of directions from GOG.

3.1.7 Gujarat Energy Transmission Corporation Limited (GETCL) was formed in May 1999 under the Companies Act, 1956 for undertaking transmission activities with authorised share capital of Rs.100 crore. The Board invested (16 March 2002) Rs.45 lakh towards equity share capital but the Company could not start commercial operations as transmission lines of 66 to 400 KV were not transferred to GETCL by the Board due to lack of directions from the State Government (September 2003).

Appointment of consultants

Consultants' report obtained by spending Rs.66.02 lakh was not considered by the Board.

3.1.8 The Board appointed (March 1999) Administrative Staff College of India, Hyderabad (ASCI) to draw a detailed action plan for implementation of various tasks, specifically for corporatisation of the Board at a consultancy fee of Rs.66.02 lakh. ASCI in its final report (May 2000) recommended restructuring of the Board in phased manner into one or more generating companies, one transmission company, five distribution companies and retaining the Board as holding company.

However, the report was not submitted to the Board of Directors (BOD) for consideration (July 2003). The Board stated (August 2003) that though the report was not submitted to BOD yet the same was utilised by the consultants of Asian Development Bank (ADB) in connection with sanction of loan by ADB to the Board in December 2000. The Board’s contention was not tenable as the very purpose of appointment of ASCI was defeated due to the Board’s inaction on the report.

The Board after passing of the Reforms Act (May 2003), appointed (May 2003) M/s. CRISIL Infrastructure Advisory (CIA) as a consultant for formulating and implementing the restructuring and reforms in the Board. As per terms of the appointment, CIA would submit its report by October 2004 and charge consultancy fee of Rs.72 lakh. Besides, the Board also constituted (May 2003) a Reform Project Management Group (RPMG) to coordinate with other departments on the various issues that require clarification and interaction and to furnish information to CIA. The appointment of new consultant without considering and implementing the earlier report was irregular.

Support from Government of India and financial institutions

Assistance received from the Government of India

3.1.9 As per the MOU signed with State Government/State Electricity Boards (SEBs), GOI provides financial assistance to the SEBs for strengthening the infrastructure in the power sector through respective State Governments under Accelerated Power Development Programme (the programme). The assistance so received by the Board was to be utilised mainly for the following:

- To ensure 100 *per cent* metering system with high precision electronic meters up to distribution transformer centres (DTC) level so as to accurately assess the supply of energy;
- To ensure 100 *per cent* metering of the consumers so as to increase the metered energy;
- Revamping of 66/11 KV sub-stations so as to ensure the reliable supply and meet the increased demand;
- Bifurcation of long feeders, so as to improve the voltage regulation and reduction in energy losses;
- Computerised billing centres and automatic data logging system to improvise mechanism for billing and accounting of energy; and
- Renovation and modernisation (R&M) of the power stations in the State.

The Board received Rs.200.15 crore (including Rs.101.25 crore for rehabilitation work in earthquake affected Kutchh district) during 2000-03 against the sanctioned cost of Rs.803.17 crore of the programme. Thereagainst Rs.77.16 crore was utilised under the programme up to February 2003. Audit observed that despite incurring a substantial expenditure of Rs.40.75 crore on replacement of meters and metal meter boxes (MMB) and strengthening of distribution and sub-transmission systems for reduction of T&D losses in three circles covered under the programme, *viz.* Sabarmati, Himatnagar and Jamnagar, the percentage of T&D loss actually increased in these circles during 2002-03, as detailed below:

Name of the circle	**2000-01**	**2001-02**	**2002-03**
	(T&D loss in percentage)		
Sabarmati	8.53	9.13	9.52
Himatnagar	8.25	8.48	9.39
Jamnagar	20.42	19.76	21.54

There was heavy T&D loss of 80.993 Million units in Jamnagar circle during 2002-03.

T&D loss in case of Jamnagar circle was abnormal during 2000-03 as it was in excess norms of 15 *per cent* fixed by Central Electricity Authority. Consequently, the Board suffered a revenue loss of Rs.19.92 crore[∅] on the excess T&D losses of 80.993 million units[∇] as worked out in audit for 2002-03.

The Government/Board stated (July 2003) that efforts were being made by the Board for reducing the distribution losses in Jamnagar circle and there was substantial reduction in T&D losses from industrial, urban and GIDC[∆] feeders of Himatnagar circle. The reply of the Board was not tenable as there was an overall increase in distribution losses.

Loans from Power Finance Corporation Limited

3.1.10 The Board had not formulated any future investment plan for achieving the programme under power sector restructuring and MOU. However, the Board made investment for renovation and modernisation (R&M) of its existing TPS and system improvement out of the loans and assistance availed from the Power Finance Corporation Limited (PFC) and GOI during 1998-2003. It was observed that during the said period the Board drew Rs.107.64 crore out of Rs.143.86 crore sanctioned by PFC in six schemes, as tabulated below:

∅ At the rate of Rs.2.46 *per unit* realisation rate for 2002-03

∇ Difference of units sent out (1,238.715 MU) and units received (971.915 MU) minus 15 *per cent* normative T & D loss on units sent out.

∆ Gujarat Industrial Development Corporation

(Amount rupees in crore)

Name of scheme	Date of sanction	Sanctioned amount	Amount drawn up to March 2003	Status of work	Scheduled completion date
Wide Area Network (WAN)	27 May 1998	9.52	Nil	The work was not taken up yet (August 2003)	January 1999
Installation of 500 MVAR capacitors	21 August 1998	10.45	10.45	The work was completed in July 2000	April 2000
Installation of 500 MVAR capacitors	3 April 2000	18.74	11.42	The work was completed belatedly (July 2003)	December 2001
R&M of Wanakbori TPS	19 November 1998	27.45	20.13	The work was in progress (August 2003)	January 2004
R&M of Gandhinagar TPS	27 August 1999	41.70	35.85	-do-	July 2003
R&M of Ukai TPS	13 December 1999	36.00	29.79	-do-	March 2004
Total		**143.86**	**107.64**		

Scrutiny of the records revealed the following irregularities:

Wide Area Network (WAN)

3.1.11 The Board developed and implemented computerisation in various application areas *viz.*, computerised billing of consumers, financial accounting system, inventory control etc. The Board approached (February 1998) PFC for availing of loan for setting up WAN in order to interlink all the business applications and control system through robust communication network system.

Besides, implementation of WAN would result in benefits of Rs.4.43 crore *per annum* to the Board due to better management of working capital and revenue realisation, thereby reducing overdraft burden, saving of time in decision-making, saving in administrative expenses and better monitoring, control and redistribution of inventory. Accordingly, PFC sanctioned (May 1998) loan of Rs.9.52 crore to the Board with the stipulation to complete the work relating to WAN in January 1999.

Non-implementation of WAN project deprived the Board of annual benefits of Rs.4.43 crore besides unfruitful expenditure of Rs.40.70 lakh.

Scrutiny of the records revealed that even after lapse of more than four years from the stipulated date of completion (January 1999) of WAN, the Board neither initiated any action nor drew the loan (March 2003). This deprived the Board of the annual benefits of Rs.4.43 crore. Since the Board could not draw the loan according to the time schedule submitted to PFC, the Board had to pay commitment charges of Rs.18.35 lakh. Further, payment of consultancy charges of Rs.22.35 lakh made to M/s. Tata Consultancy Services (TCS) for the preparation of "Information Systems and Strategy" relating to the work of WAN also remained unfruitful.

The Government/Board (July 2003) stated that it could not decide the type of technology due to advancement in the information technology and it was waiting for stabilisation of the same.

Assistance from Asian Development Bank

3.1.12 The Asian Development Bank (ADB) sanctioned (December 2000) $350 million, comprising policy loan of $150 million and project loan of $200 million which was to be utilised up to 31 December 2002 and 30 June 2005 respectively as per the loan agreement. Further, the policy loan was to be released to GOG through GOI in three tranches of $50 million each upon fulfillment of conditions attached thereto.

GOI released (January 2001) the first tranche of ADB's policy loan of $50 million (equivalent to Rs.233.70 crore) to GOG. In turn, GOG released (February 2001) Rs.136.91 crore as loan to the Board after adjustment of Rs.96.79 crore being the grant already paid towards clearance of electricity dues of municipalities. As per the conditions of ADB, the loan was to be utilised for liquidation of outstanding liabilities to IPPs[♣], coal suppliers, railway freight *etc*. The Board had not received the amount of second tranche due to non-fulfillment of two conditions *viz.* submission of action plan for metering all agricultural consumers and transfer of assets and management of Unit I-IV of Gandhinagar TPS to GSECL (July 2003). In respect of the project loan, ADB paid Rs.19.36 crore (four million dollars) during May to December 2002 to suppliers on the basis of bills forwarded by the Board.

Non-implementation of GERC directives

Metering of agricultural consumers

3.1.13 GERC in its tariff award directed (October 2000) the Board for metering of all agricultural consumers in a phased manner by October 2003. This was included as one of the commitments in the MOU. The Board could provide meters only to 31,216 out of 5,19,685 consumers billed under Horse Power (HP) based tariff as on 31 March 2003. As per the Board's estimate, metering on HP based agricultural connections would lead to increased revenue of Re.0.21 *per unit* of energy sold. Thus, the delay in metering of 4.88 lakh HP based consumers as on 31 March 2003 led to non-realisation of anticipated revenue of Rs.173.19 crore[⊗] for the year 2002-03.

Submission of proposal on new fuel cost adjustment formula

3.1.14 The Board, apart from the energy charges, was also separately recovering fuel cost adjustment (FCA) charges from the consumers to

♣ Independent Power Producers

⊗ Average load 8.26 KW X Average daily supply hours 8 hrs X Minimum utilisation factor 0.7 X number of unmetered consumers 4,88,469 X number of days in year 365 X minimum benefit of metered tariff Re.0.21 = Rs.1,73,18,77,781.21

Non-observation of GERC's directives resulted in revenue loss of Rs.762.94 crore.

neutralise the effect of increase in the cost of generation/purchase of energy till GERC tariff award of October 2000. However, GERC in the tariff award merged the FCA prevalent up to the date of the award in the new tariff and directed (October 2000) the Board to submit a proposal for adoption of a new formula for FCA within six months. However, the Board failed to submit the proposal on new FCA formula (July 2003) as per the direction. Consequently, the increase in fuel cost of Re.0.16 and Re.0.19 *per unit*[*] at the Board's TPS during 2001-02 and 2002-03, respectively was not recovered from the consumers. This resulted in revenue loss of Rs.762.94 crore (Rs.344.01 crore during 2001-02 and Rs.418.93 crore during 2002-03). Reasons for the Board's failure to adhere to the GERCs' directives were not made available to audit (July 2003).

Creation of independent profit centres

3.1.15 ADB appointed (July 1997) M/s. Deloitte Touche Tomastsu (DTT) as a consultant to design a model for profit centre as a precondition for sanction of loan for which consultancy fees were to be paid by ADB. On the basis of the report submitted (May 1998) by the consultant, MOUs were signed between the Board and two of its circles at Rajkot and Anand in October 1998.

The main objectives of creating two circles into profit centres *inter alia* included:

- Reduction in T&D losses,
- Creation of effective cost control system, and
- Ensuring efficient revenue realisation,

In order to assess the efficacy of the profit centres at Anand and Rajkot, an analysis of the activities of the centres was carried out in audit with reference to the objectives of creation of such centres. The results of audit analysis are given hereunder:

Reduction in T&D losses

3.1.16 A review of the T&D losses at various sub-divisions of the Rajkot centre revealed that even after the expiry of three years since the centre was created, the losses ranged between 30 and 51.77 *per cent* in 13 out of 39 sub-divisions due to insufficient energy audit activities like installation of MMBs, replacement of defective meters, checking of installation at consumers' premises, etc. The Government/Board stated (July 2003) that a system of feeder manager was being introduced, for monitoring each feeder with T&D losses in excess of 30 *per cent*. Accordingly, action was being taken at circle, zonal and head office level, for monitoring the feeders to reduce the distribution losses. The reply was not tenable as the action proposed by the Board was belated.

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* Calculated based on the fuel cost of Rs.1.24 *per unit* incurred during 2000-01

Creation of effective cost control systems

3.1.17 The Board neither ensured the preparation of financial budgets by the profit centres for allocation of funds nor allowed the centres to take decision related to cash flow management as envisaged in MOU signed with centres. This in turn affected the overall performance of the centres in achieving the targets. Likewise, powers were not given to the centres for dealing with the matters related to revenue realisation and its retention.

The Government/Board stated (July 2003) that funds were allotted to centres on the basis of indent received from them. Besides, according to the policy of the Board, no circle was allowed to retain the revenue collected. The reply was not tenable since the restrictions imposed for retaining the revenue collected was not in consonance with the concept of financial autonomy as envisaged.

3.1.18 In respect of procurement of materials the centres can place orders up to Rs.10 lakh each. However, the financial powers delegated to centres were inadequate, as scrutiny of the records of pending works at Anand centre revealed that three out of four works valuing Rs.56.01 lakh remained unexecuted for one to three years as on March 2003 for want of material, to be procured through the Board.

The Government/Board stated (July 2003) that the procurement of the material locally was costlier compared to procurement of the material by the Head Office in bulk quantity and then supplying it to the centres. The reply was not tenable since the inadequate financial powers with the centre hampered their efficient functioning.

Ensuring efficient revenue realisation

3.1.19 One of the objectives of the restructuring of the two circles into profit centres was to ensure efficient revenue realisation. However, the revenue arrears in respect of all categories of consumers had increased from Rs.60.78 crore and Rs.59.52 crore in March 2001 to Rs.80.83 crore and Rs.74.04 crore in March 2003 in Rajkot and Anand centres respectively. The Government/ Board stated (July 2003) that increase in arrears was due to huge outstanding lying unrecovered from permanently disconnected consumers (PDC) and water works consumers. Thus, the revenue arrears were mounting in the centres.

Negligible progress was made in billing under meter based tariff.

3.1.20 Out of 50,298 agricultural consumers under Rajkot centre, only 9,458 agricultural consumers exercised the option to be billed under meter based tariff of which only 1,127 agricultural consumers were installed with meters up to March 2003. This indicated a very poor performance of the installation of meters and billing under meter based tariff.

The achievement of the profit centres could not be measured in the absence of fixation of off-take point and transfer price.

3.1.21 As per the MOUs signed with centres, the Board was to supply and deliver electricity of agreed quantity and quality at the outskirts of the geographical limits of a profit centre. Meters were to be installed at the off-take points to monitor the quality and quantity of the electricity supplied. The circles at the beginning of each quarter were to notify to the Board, the electricity requirement for that quarter. However, no off-take points[∇] were identified for purchase of power. Consequently, quantity of power supplied to the profit centre was not measured. Besides, transfer price for power supplied was also not fixed by the Board. As a result, the achievement of the profit centre could not be evaluated correctly as both the profit centres were preparing their Profit and Loss Account on the basis of different transfer prices adopted on their own accord.

Thus, the concept of a profit centre though based on sound managerial principles and concepts, failed as the Board did not implement it as per the road map designed by the consultants.

Conclusion

The State Government/Board initiated the process of power sector reforms with the formation of Gujarat State Electricity Corporation Limited (August 1993) and Gujarat Energy Transmission Corporation Limited (May 1999). However, no progress has been made to make the Gujarat Energy Transmission Corporation Limited functional. The financial assistance availed from Power Finance Corporation Limited and Government of India for renovation and modernisation of the existing thermal power stations and also system improvement did not yield the desired results due to delay/non-implementation of programmes. In spite of the Gujarat State Electricity Regulatory Commission's directives, the Board failed to meter all agricultural consumers and submit the proposal for accepting new fuel cost adjustment formula within the prescribed time limit. As regards the profit centres, the desired results were not achieved even after a lapse of four years from the date of creation of the centres due to non- adherence to the objectives in the right perspective. The State Government and the Board need to take adequate steps for expediting the power reforms and implementation of measures as envisaged in the Memorandum of Understanding.

∇ Off-take points refer to the sub-stations from where energy has been supplied by the Board to profit centres

3.2 Procurement and performance of energy meters in Gujarat Electricity Board

Highlights

As per section 26(1) of the Indian Electricity Act, 1910, the Board is required to install and maintain correct energy meters on each point of supply of energy to consumers for measuring the energy actually sold. Of the total 74.74 lakh consumers, 4.88 lakh agricultural consumers were unmetered, besides, as on 31 March 2003 besides there were 6.57 lakh defective meters pending replacement.

(Paragraph 3.2.1)

Non-metering of 4.88 lakh agricultural consumers as on 31 March 2003 led to non realisation of anticipated revenue of Rs.173.19 crore during 2002-03.

(Paragraph 3.2.5)

The Board incurred avoidable expenditure of Rs.2.35 crore due to non placement of orders at the lowest rate, non placement of repeat orders, and non comparison of rates of previous tender and inter state rates.

(Paragraphs 3.2.12 to 3.2.18)

The Board incurred extra expenditure of Rs.2.02 crore due to bulk purchase at rates higher than local purchase rates.

(Paragraph 3.2.19)

The Board lost revenue of Rs.81.22 lakh due to delay in replacement of defective three-phase meters and non raising of supplementary bills in the case of 332 low tension consumers, test checked in audit.

(Paragraph 3.2.22)

Due to inadequate monitoring in 17 out of 67 high tension express feeders test checked in eight operation and maintenance divisions, the Board suffered revenue loss of Rs.1.52 crore on account of transmission and distribution losses in excess of the norms.

(Paragraph 3.2.24)

Introduction

3.2.1 Energy meters are broadly classified into five types *viz.*, single phase, three phase, low tension current transformer (CT) operated, high tension (trivector) and feeder meters. The first four are installed at consumer premises, feeder meters are installed at sub-stations for recording energy received through incoming feeders and energy sent out through outgoing feeders to a number of consumers or a single high tension consumer. Meters are also installed at generating stations for preparing energy account and determining system losses.

As per section 26(1) of the Indian Electricity Act, 1910, the Board is required to install and maintain correct energy meters on each point of supply of energy to consumers for measuring the energy actually sold. Of the total 74.74 lakh consumers, 4.88 lakh agricultural consumers were unmetered (March 2003). Details of number of consumers under each category along with units sold during 1998-2003 is given in ***Annexe-19***. Besides, as on 31 March 2003 there were 6.57 lakh defective meters pending replacement.

In January 2001, the Government of Gujarat (GOG) entered into a Memorandum of Understanding (MOU) with the Ministry of Power, Government of India (GOI) to undertake the reform and restructuring of the power sector in the state of Gujarat in a time-bound manner, which envisaged *inter alia* metering of all agricultural consumers in a phased manner by October 2003 and replacement of conventional meters by quality meters to increase revenue.

Organisational set up

3.2.2 For distribution of power and operation and maintenance of distribution lines, the Board has five regional offices, each headed by an Additional Chief Engineer under the overall supervision of the Chief Engineer (Distribution) at Head Office, 19 Operation and Maintenance (O&M) circles, each headed by a Superintending Engineer, 76 O&M divisions, each headed by an Executive Engineer and 439 sub-divisions, each headed by a Deputy Engineer.

The billing, collection of revenue and regular O&M functions relating to low tension (LT) consumers are done by the sub-divisions. The O&M divisions, under the overall supervision of General Manager (Commerce), look after similar functions in relation to high tension (HT) consumers. The stores purchase (SP) section of the Board at Head Office headed by Chief Engineer (Materials) looks after the purchase of various types of meters as per the requisitions received from the Chief Engineer (Distribution).

Scope of Audit

3.2.3 This review conducted during October 2002 to February 2003 covers the deficiencies in the system of procurement and performance of energy meters and metering equipments for five years upto 2002-03 as noticed during audit of records of 16* out of 76 O&M divisions and 229 out of 271 centralised purchase orders placed by the Board during 1998-2003. The audit

* Surat (Industrial), Surat (Rural), Ankleshwar (O&M), Ankleshwar (Industrial), Bharuch, Vishwamitri (E), Vadodara (O&M), Jamnagar (City), Jamnagar (Rural), Sabarmati, Bavla, Rajkot (O&M), Rajkot (City), Rajkot (Rural), Bhavnagar (City) and Bhavnagar (O&M)

findings as a result of test check of records relating to purchase orders placed during 1998-2003 for procurement of energy meters by the Board and performance of energy meters and metering equipment were reported to the Government/Board in April 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government/Board was taken into account before finalising the review. The response from the Government/Board for holding the discussion on the draft review under the forum of ARCPSE was awaited (July 2003).

Financing pattern

3.2.4 The purchase of meters is normally financed through budgetary allocations. Besides, GOI provided funds for various schemes under the MOU through the Accelerated Power Development Reform Programme (APDRP) and counter part funding[#] was done by Rural Electrification Corporation (REC) and Power Finance Corporation (PFC).

The table below summarises the funds sanctioned, received and utilised during 2000-01 to 2002-03 (up to February 2003) in respect of the above programme.

Schemes	Year	Funds sanctioned			Funds received (up to February 2003)			Amount spent (up to February 2003)
		GOI	REC/ PFC	Total	GOI	REC/ PFC	Total	
		(Rs. in crore)						
Replacement and installation of meters	2000-01	11.39	11.39	22.78	11.39	9.86	21.25	22.78
Strengthening of distribution and sub-transmission system	2002-03	291.97	291.97	583.94	75.42	---	75.42	27.44

Implementation of metering schemes

3.2.5 Funds of Rs.22.78 crore meant for the financial year 2000-01 and received in March 2001 (GOI) and October 2002 (REC) were to be utilised for replacement of 1.40 lakh defective meters by quality meters and installation of 0.49 lakh three-phase meters in agricultural connections in three identified circles. Due to resistance from farmers in installation of meters and also to ensure timely closure of scheme, the Board utilised the fund received for the year 2000-01 for replacement of 1.87 lakh defective meters by quality meters and installation of 0.15 lakh meters in agricultural connections and sought approval for the modification in the scheme of metering. The approval from GOI was awaited (August 2003).

For the year 2002-2003, the GOI sanctioned a scheme for strengthening of distribution and sub-transmission system; initially for three circles at a cost of

[#] Counter part funding indicates matching contribution that has to be arranged by the Board.

Rs.255.27 crore and further extended it to six more circles at a cost of Rs.328.66 crore. During the year 2002-03, the Board received only Rs.75.42 crore from GOI. No counterpart funding was received. The Board only spent Rs.27.44 crore (up to February 2003) for both the schemes put together. Consequently, against the target of replacing 6.40 lakh defective meters by quality meters and installing 1.45 lakh meters in agricultural connections, the Board (February 2003) could replace only 0.52 lakh meters and install 484 meters in agricultural premises at a cost of Rs.6.15 crore. Remaining amount was utilised for other than metering activities.

GERC, in its award of October 2000, which was also adopted in the MOU signed in January 2001, envisaged metering of all agricultural consumers by October 2003. Hence, over and above the metering of agricultural consumers done under the APDRP circles, metering of agricultural consumers was also done in other circles not covered under the scheme. However, by 31 March 2003 the Board was able to provide meter only to 31,216 of its 5.20 lakh HP based agricultural consumers, leaving 4.88 lakh HP based agricultural consumers still unmetered.

Non metering of 4.88 lakh HP based agricultural consumers led to non realisation of anticipated revenue of Rs. 173.19 crore.

As per the Board's own estimate, metering an agricultural consumer and consequent shifting from the HP based tariff to the metered tariff led to increased revenue of Re.0.21 per unit of energy sold. The non metering of 4.88 lakh HP based consumers as on 31 March 2003 led to non realisation of revenue of Rs.173.19 crore for the year 2002-03 as calculated below:

Average Load in KW	**Average hours supplied in a day**	**Minimum utilisation factor**	**Number of unmetered consumers (in lakh)**	**Number of days in a year**	**Minimum benefit of metered tariff per KW**	**Amount (Rupees in crore) (product of column 1 to 6)**
(1)	(2)	(3)	(4)	(5)	(6)	(7)
8.26 KW	8 hours	0.7	4.88	365	Rs.0.21	**173.19**

The Board needs to expedite its arrangement of counter part funding so as to avoid delays in implementation of schemes and also lay down time period for achievement of targets to ensure effective monitoring.

Procurement of energy meters

3.2.6 During 1998-2003, the Board procured 20.42 lakh meters at a cost of Rs.199.74 crore which included 8.69 lakh quality and semi-quality meters procured at a cost of Rs.70.44 crore.

Purchase procedure

3.2.7 The Board had SP section at head office, which made the purchases, as per the stores procedure and delegation of powers laid down by the stores procedure code as amended from time to time. Tenders above Rs.10 crore had to be approved by the Board of Directors whereas tenders above rupees five crore and upto Rs.10 crore were approved by the Purchase Committee. In October 2000 the Board also adopted a purchase policy to streamline purchase procedure like classification of new and regular parties, price evaluation, requirement of technical specifications, negotiations and quantity distribution which had also to be followed for purchases made after that date.

Assessment of requirement

3.2.8 Besides replacement of conventional meters and installation of meters in agricultural premises under the APDRP the requirement of meters for each year was assessed based on new connections to be released, defective meters to be replaced as per the regular activities of the Board scheme. Though the Board had been replacing around 3.29 lakh to 6.83 lakh defective meters every year during 1998-2003, there were still 4.21 lakh to 7.88 lakh meters pending replacement at the close of these years. The Board, therefore, needs to make a realistic assessment of its requirements and also link it with the funded schemes being carried out separately so as to minimise number of defective meters pending replacement.

Suppliers rating cards

3.2.9 The stores procedure code and the purchase policy did not provide for a system of supplier rating. Consequently, the Board did not have a data bank of supplier performance. It was observed that supplier's performance was being ascertained from field offices on a case-to-case basis as and when required during finalisation of tenders.

Placement of orders

3.2.10 During 1998-2003, the Board placed 117 orders for meters of which 114 orders valuing 199.74 crore were executed. The Board also placed 154 orders for kit kat fuses, plastic seals and metal meter boxes of which 137 orders valuing Rs.22.66 crore were executed. Out of the said purchase orders, purchase orders valuing Rs.181 crore were test checked in audit.

A test check in audit revealed that system of procurement was marred by the inefficiencies such as delay in finalisation of tenders, non placement of orders at the lowest rate, non comparison of previous tender prices, non comparison of inter-state rates and bulk purchase at rates higher than local purchase rates leading to avoidable extra expenditure of Rs.4.38 crore, as discussed in the following paragraphs.

Inordinate delay in finalisation of tenders

Delay in finalisation of tenders ranged from 37 to 600 days.

3.2.11 As per norms laid down by the Board, purchase orders are required to be placed within 100 days from the receipt of indent. An analysis of 24 out of 33 tenders (finalised during 1998-2003) scrutinised in audit revealed delays ranging from 37 to 600 days, as tabulated below:

Number of tenders	Period of delay (in days)		
24	1 to 180	181 to 365	Beyond 365
	5	16	3

The Board should avoid such delays as it leads to delay in implementation of the schemes.

Non placement of orders at the lowest rate

3.2.12 The stores procedure code provides that where the lowest cost firms were ignored for reasons other than technical specifications; the reasons thereof should be recorded. Further, as per the Board's convention, once a party was selected as the lowest cost firm for placement of order, all other approved parties had to match end cost with the lowest cost firm. The purchase policy adopted by the Board in October 2000 made it compulsory for all the approved firms to match with the lowest cost.

A test check of tenders revealed erroneous rejection of the lowest offer in one case and non-insisting of matching with the lowest firm in two cases, as discussed below:

Erroneous rejection of the lowest cost firm

3.2.13 The Board invited (May 2000) tenders for 30 lakh plastic seals and proposed to procure 43.5 lakh seals at an estimated cost of Rs.76.56 lakh. The lowest regular firm who had quoted Rs.1.76 *per* unit was not considered due to alleged supply of 2.1 lakh defective seals in the previous order of September 1999 and a notice for supply of duplicate seals having been received by the Board from the Commissioner of Electricity duty (August 1999) against the supplier, which was found erroneous subsequently.

Orders on suppliers other than the lowest firm were placed (July 2000) for 4.35 lakh seals at the rate of Rs.2.10 *per* unit and for 39.15 lakh seals at the rate of Rs.2.21 *per* unit. It was only on 1 August 2000, after nearly 12 months from the date of notice that the Board called for explanation from the lowest firm. The Board knew at the time of putting up the proposal (July 2000) that the defective seals of the lowest cost firm had already been attended to by the firm. Further, on receipt of reply from supplier on 7 August 2000, against its enquiry of 1 August 2000, the Board realised that the notice of duplicate seals had never been communicated to the supplier and that the duplicate seals did not belong to the supplier. Subsequently, in November 2000, the Board placed orders for two lakh plastic seals at the rate of Rs.1.76 *per* unit on the lowest cost firm.

Erroneous rejection of lowest cost firm resulted in loss of Rs.19.10 lakh.

Due to ignoring the lowest firm erroneously, as its defective seals had already been replaced and the alleged supply of duplicate seals did not belong to the firm, the Board incurred an avoidable expenditure of Rs.19.10 lakh. No responsibility for the lapses has been fixed by the Board. The Board/ Government replied (July /August 2003) that the lowest firm had been ignored on account of notice of duplicate seals and supply of defective seals in previous tender. Reply was not acceptable for reasons already brought out in the paragraph.

Placement of orders at quoted rates without matching lowest cost

3.2.14 The Board invited (November 1997) tenders for the procurement of 5.18 lakh single-phase energy meters for meeting the requirements for 1998-99. The Board approved (July 1998) placement of orders for 1.19 lakh

Placement of orders at quoted rates without matching with the lowest rate resulted in extra expenditure of Rs.41.89 lakh.

meters (25 *per cent* tendered quantity) of assorted ratings on 11 parties at their quoted rates ranging from Rs.364.44 to Rs.435.19 *per* meter. On the plea of obtaining better quality, rates of all the firms were not brought down to match with the lowest cost firm. Further, all the eight firms which actually supplied meters against the orders were not able to pass the quality tests of ERDA*. These meters were, however, accepted on the grounds of urgency. Additional orders for 2.10 lakh meters were placed on the same eight parties in July 1999 by matching the lowest cost, as non-matching with L-1 cost in the main orders had not benefited the Board. As a result of placing main orders for 1.19 lakh meters at quoted rates without ascertaining the superiority of the high priced meters, the Board incurred an extra expenditure of Rs.41.89 lakh.

The Board/Government replied (July/August 2003) that the decision to offer 25 *per cent* of approved quantity at quoted rates was for the purpose of encouraging manufacturers to ensure better quality. However, the exercise did not yield expected results. Reply was not acceptable as there was no justification for giving higher price without establishing superiority of quality.

Non placement of orders at lowest price

3.2.15 The SP section proposed (December 1998) to procure 44 numbers of standard electronic portable low tension (LT) accuecheck meters at an end cost of Rs.58.96 lakh for testing and calibrating energy meters for use by the newly created 44 checking squads. The proposal was based on invitation of quotation from a single previous supplier viz. P.I. Industries. The only other previous supplier, Duke Arnics Ltd. was not considered even for invitation of quotations. This was in violation of the stores purchase procedure code, which required invitation of tenders through advertisement for all purchases above Rs.0.25 lakh.

Non-placement of orders at the lowest price resulted in extra expenditure of Rs.29.29 lakh.

The Chairman of the Board, while approving the proposal (December 1998), scaled down the purchase to 15 meters from P.I. Industries at the rate of Rs.1,28,334 per meter and directed that rates from other state electricity boards should be ascertained. Upon deliberation, it was decided (May 1999) to procure the material through competitive bidding. Accordingly, quotation was invited from Duke Arnics also. In February 2000 the purchase of 15 numbers of accuecheck meters from Duke Arnics Ltd. at Rs.72,192 *per* meter and 14 accuecheck meters from P.I. Industries at Rs.1,25,692 *per* meter was approved. Matching with the lower cost was not insisted on the grounds of additional facilities available in the meters supplied by P.I. Industries. Further, additional orders for 25 accuecheck meters were also placed on P.I. Industries in March 2001 at the higher rate. The Board thus incurred an extra expenditure of Rs.29.29 lakh$ due to not inviting quotation from Duke Arnics Ltd. at the time of initial purchase of 15 accuecheck meters and not insisting on matching with the lower cost in the main order of 14 accuecheck meters and additional order of 25 meters.

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* Electrical Research and Development Agency

$ 15 X Rs.56,142 = Rs.8.42 lakh, 39 X Rs.53,500 = Rs.20.87 lakh Total = Rs.29.29 lakh

The Board/Government replied (July/August 2003) that considering higher failure rate of Duke Arnics, tender was not initially invited from the firm and considering the additional features and quality of P.I. Industries, matching of cost with Duke Arnics was not insisted upon. Reply was not acceptable as the records clearly indicated that the performance of both parties was satisfactory. Further, the additional features were not part of the technical specifications as a result thereof both parties were technically acceptable and a high price based on unspecified features was not justifiable.

Non placement of repeat order

3.2.16 The Board reserves the right to place repeat orders up to 50 *per cent* of the ordered quantity on the same terms and conditions, within four months of the date of original order. Repeat orders could be made even after four months based on the willingness of suppliers.

Non placement of repeat order at lower rates resulted in extra expenditure of Rs.66.96 lakh.

The Board approved (August 2000) purchase of 0.41 lakh three-phase four wire energy meters along with metal meter boxes against the tendered quantity of 1.03 lakh. Orders on eight firms were placed in September 2000. In April 2001, based on the urgent requirement of Chief Engineer (Distribution), a proposal was put up for placement of repeat orders at the rate of Rs.914.80 per meter, based on confirmation of the suppliers for 0.16 lakh meters at an end cost of Rs.2.20 crore**.** The proposal was, however, delayed and cancelled in July 2001 as the price bids of new tenders had been opened in June 2001. The rates quoted in the new tender were 51 to 58 *per cent* higher than the rates in the proposed repeat orders. The urgent requirement of 0.16 lakh meters was met by placing advance purchase order for 0.15 lakh meters on a party which had quoted in the new tender at a negotiated rate of Rs.1,361.17 *per* meter even prior to the Board's approval for the new tender. Had the repeat orders at the lower rate of Rs.914.80 *per* meter been placed, extra expenditure of Rs.66.96 lakh could have been avoided.

The Board/Government stated (July/August 2003) that new tender was with revised specifications, hence, proposal for repeat order was cancelled. Reply was not acceptable as the reason on record for cancellation of the repeat order was the delay in the processing of the repeat order and consequent opening of new tender. Records also indicate that while placing the advance order in the new tender the repeat orders pending approval were not linked and consequently, to avoid duplication the proposed repeat orders were cancelled.

Non comparison of rates with previous tender and market trend

3.2.17 While finalising a tender the prices paid in the previous tender for the same item and existing trends are generally compared and analysed to ensure purchase of meters at most competitive rates. A test check of tenders revealed extra expenditure in two cases due to improper comparison and analysis.

Non comparison of rates with previous tender

3.2.18 The Board approved (November 2001) purchase of 0.16 lakh LT static meters and 160 meter reading instruments (MRIs) from four parties. Though there was a recessionary trend in the prices of meters, a comparison of the prices of this tender with the previous tender (1999) revealed that the MRIs which were supplied free of cost (one for every 100 meters) in the previous tender were charged @ Rs.62,514.30 *per* unit in this tender as tabulated below:

Rating of LT static meter	Unit end cost (tender of 2001) (In Rupees)	Unit end cost (tender of 1999) (In Rupees)
100/5 ampere with CT	8,864	9,149
200/5 ampere with CT	8,450	8,837
MRI	62,514.30 (*per* unit)	Free of cost (one for every 100 meters)

Non-comparison of rates with previous tender resulted in payment of a price for MRIs previously supplied free of cost and consequent extra expenditure of Rs.78.14 lakh.

During the processing of the tender (2001), matter regarding providing of MRI free of cost as per provision of last tender (1999) was mooted but not approved by the Chairman (June 2001) on the ground that it was difficult to ask for financial benefit, six months after opening of tender. Since in the past tender, one MRI was supplied free of cost for every 100 static meters, the same condition should have been incorporated in the present tender itself. Thus non incorporation of condition for supply of MRI free of cost, in the present tender, resulted in extra expenditure of Rs.78.14 lakh to the Board.

The Board/Government stated (July/August 2003) that during the finalisation of the above tender, the Board had asked suppliers (September 2001) to provide resin cast CTs instead of ring type CTs, though the former was costlier, without any increase in tender price. As the firms had agreed to this, the Board had benefited to the extent of Rs.1.99 crore. Reply was not acceptable as the unilateral decision not to insist on supply of pro-rata MRI free of cost was taken in June 2001 when the issue of supply of resin cast CTs was not under consideration. Further, there is nothing on record to show that when the firms agreed (September 2001) to supply resin cast CTs at the cost of ring type CTs, it was in lieu of MRIs being supplied at a cost.

Extra expenditure due to bulk purchase at rates higher than local purchase rates

3.2.19 The purchasing power at circle level was rupees three lakh for a single order and at division level it was rupees one lakh. Local purchase at circle and division level mainly consisted of single-phase and three-phase metal meter boxes (MMBs). MMBs were also being purchased through centralised purchase at Head Office. Comparison of the rates paid in four circles and one division for these boxes with rates paid by Head Office during corresponding period revealed variations in inter-circle rates and rates of circle and Head Office. The circles were purchasing a large quantity of these MMBs locally at much lower prices than the rates of Head office’s bulk purchases. The higher rates of Head office purchase as compared to the local purchases led to extra expenditure of Rs.2.02 crore, as tabulated below:

Year	Local purchase			Head office purchase		Excess paid*
	Name of circle/ division	Quantity (in nos.)	Average price (In Rs.)	Quantity (in nos.)	Lowest price matched (In Rs.)	(Rs. in lakh)
3φ[@] metal meter box						
2000-01	Sabarmati Rajkot	5,271 1,700	339.00 234.21	41,120 59,975	455.00 389.00/ 429.36	47.70 3.15/ 48.50
2001-02	Sabarmati Rajkot	614 850	326.00 234.21	31,970	376.01	15.99
1φ[$] metal meter boxes						
2000-01	Sabarmati Godhra Rajkot Surendranagar	31,691 3,815 9,370 5,229	80.86 72.90 96.00 74.40	3,84,375 1,38,600	97.46 97.46	63.81 23.01
Total						**202.16**

* Excess paid has been calculated based on the rates paid by Sabarmati circle.

The Board needs to conduct an analysis of local purchase and Head Office purchase of MMBs so as to determine the reasons for such variations and take suitable decision for increased delegation of powers for these purchases so as to avoid bulk purchase at higher rates.

The Board/Government stated (July/August 2003) that suppliers are tempted to quote lesser price in local purchases as they are assured of prompt payment, excise duty benefit, limited transportation cost and cheaper tender procedure. If this be true, there was no reason for the Board to continue the bulk purchase at a price disadvantage.

Performance of meters

3.2.20 As per notification issued by the Central Government in January 1992, the life of an energy meter is 15 years. The Board, however, did not maintain history card of each meter to ascertain whether a meter that had failed within the guarantee period or completed its full life. However, in the orders placed from the year 2001, the Board had adopted a practice of inscribing the tender number and date of purchase on the meter itself so as to ascertain the useful life of a meter and instances of failure within guarantee period. The Board also did not maintain a supplier-wise data bank of performance. As a result, the benefit of constant monitoring of performance could not be derived.

As and when required, performance details, either of a particular supplier or of a particular tender were called for and decisions were taken. Resultantly, the performance analysis was in most cases limited to the circles, which submitted the required information and it represented the information available on a particular date. Deficiencies observed in audit on the performance of meters are discussed in the following paragraphs:

[@] 3φ three-phase
[$] 1φ single-phase

Delayed replacement of defective meters

Number of defective meters pending replacement had increased in respect of single-phase meters over the last five years.

3.2.21 There was no specific procedure for declaring a meter as faulty. A meter was declared faulty by the meter reader on physical examination in case of meters found creeping or stopped and on noticing less consumption compared to load. Besides, the O&M and vigilance staff also detected slowness and malpractice during installation checking.

The table below gives year-wise details of defective meters added, replaced and pending at the end of the five years.

(Number in lakh)

Year	Type	Total no. of metered connection	Opening balance of defective meters	Additions during the year	Replaced during the year	Closing balance of defective meters	Percentage of defective meters to total meters
1998-99	1 φ 3 φ	58.73 1.95	4.01 0.02	3.24 0.24	3.06 0.23	4.19* 0.03*	
Total		**60.68**	**4.03**	**3.48**	**3.29**	**4.22**	**6.9**
1999-00	1 φ 3 φ	61.09 2.00	*4.42 *0.02	3.28 0.23	3.34 0.24	4.36 0.01	
Total		**63.09**	**4.44**	**3.51**	**3.58**	**4.37**	**6.9**
2000-01	1 φ 3 φ	61.45 4.23	4.36 0.01	6.71 0.31	4.86 0.30	6.21 0.02*	
Total		**65.68**	**4.37**	**7.02**	**5.16**	**6.23**	**9.5**
2001-02	1 φ 3 φ	63.59 4.48	6.21 *0.01	6.78 0.28	5.12 0.29	7.87 ---	
Total		**68.04**	**6.22**	**7.06**	**5.41**	**7.87**	**11.6**
2002- 03	1 φ 3 φ	64.93 4.89	7.87 ---	5.11 0.41	6.43 0.40	6.55 0.01	
Total		**69.81**	**7.87**	**5.52**	**6.83**	**6.56**	**9.4**

* Closing balances do not tally with opening balances as per MIS data provided by the Board.

The percentage of defective meters to total meters progressively increased from 6.9 in 1999-2000 to 11.6 in 2001-02 and decreased to 9.4 in 2002-03. The Board had not analysed the reasons for increase in defective meters. As the division and sub-division did not maintain detail of defective meters the period from which defective meters were awaiting replacement was not directly determinable.

Loss of revenue due to delay in replacement of defective three-phase LT meters

3.2.22 As per stipulation laid down by the Board, when a meter is defective, the consumption during defective period should be charged on the basis of average consumption of the preceding three billing periods and the meter should be replaced as expeditiously as possible. Supplementary bills should be preferred on comparison with average higher consumption for three months after replacement. A test check of records of low-tension three-phase meters in 16 O&M divisions during April 1998 to October 2002 revealed that one to 46 months were taken in replacement of defective meters.

Delay in replacement of defective meters resulted in loss of revenue of Rs.81.22 lakh.

Review of the billing of these cases during defective period indicated that average consumption of energy as stipulated was levied till replacement. However, the average higher consumption recorded by meter after replacement was not compared with the average levied during defective period and the resultant differential higher consumption was not charged. This deprived the Board of possible revenue of Rs.81.22 lakh for 35.35 lakh units in respect of 332 consumers as detailed in ***Annexe*-20**.

The Board/Government stated (July/August 2003) that the consumption after replacement was being compared with the previous six months' consumption prior to replacement and if there was an abnormal rise a supplementary bill was issued to the consumer and thus the Board was not at much revenue loss. However, details of supplementary bills in the cases pointed out were not furnished. Even by accepting management's plea of billing based on past six months consumption, a sum of Rs.33.46 lakh for the period exceeding six months could not be claimed.

Energy audit

3.2.23 Energy audit aims at accounting for energy received and sent out at each stage of power system to determine separately the technical losses (occurring due to inherent characteristic of conductors and equipment used in the system) and commercial losses (occurring due to pilferage of energy, defective meters, meter reading errors and unmetered supply of energy and energy not accounted for).

In pursuance of the directives of Gujarat Electricity Regulatory Commission (GERC) (October 2000) to undertake detailed study to ascertain the losses including bifurcation of losses into technical and commercial losses as well as the measures to reduce and ultimately to eliminate the losses, a study was entrusted to the consultants *viz*., Tata Energy Research Institute (TERI). The analysis of the results of the study indicated that the total losses in GEB corresponding to the year 2000-01 was estimated to be 28.8 *per cent* comprising of 7.9 *per cent* technical and 20.8 *per cent* commercial losses. It was reported by the consultant that there was little scope of reduction in technical losses as they were within the permissible limit. However, there was scope of reduction in commercial losses.

For reducing the distribution losses the Board took up (October 2000) action plan for providing metal meter boxes, sealing installation, checking of CT operated meters, replacement of non-working/defective meters and installation checking.

The Board reviews the circle-wise, feeder-wise monthly information on industrial/urban feeders having distribution losses of more than 30 *per cent*. As on 31 March 2002, there were 347 feeders having losses of more than 30 *per cent*. The Board had decided (August 2002) on measures to fix up responsibility at different levels for feeder-wise reduction of distribution losses. A scrutiny of the information revealed that of the 347 feeders, 291 feeders were still having losses of more than 30 *per cent* as on 31 March 2003.

The position of distribution losses of these 291 feeders as on 31 March 2003 was as under:

Total	**30-40**	**40-50**	**50-60**	**60-70**	**70-80**	**80-90**
291	98	117	57	14	4	1

A review of the details of pending works as on 31 March 2003 for reduction of losses in these 347 feeders revealed that the percentage of pending works to the total quantum was 27.36 *per cent* in providing of MMBs, 20.62 *per cent* in sealing of meters and 20.91 *per cent* in replacement of non-working meters. During 2002-03 the overall distribution loss was 30.83 *per cent* in urban feeders and 12.10 *per cent* in industrial feeders as against the target of less than 30 and 10 *per cent*, respectively.

Further follow-up action was awaited for reduction of distribution losses in feeders.

Loss of revenue on account of transmission and distribution (T&D) losses in express feeders

3.2.24 The Board had been effecting supply to single HT consumer through high tension/extra high tension express feeders directly from sub-stations. As the express feeder involves only a single HT consumer, as per the norms of the Board, the maximum difference between energy sent out from sub-station and energy billed on the HT consumer should not exceed 3 *per cent*. The Board had also stipulated various measures such as calibration of meters, checking of meter, verification of CT/potential transformer (CTPT) ratio at consumer end and at sub station end and also providing identical CT ratio and accuracy class meters so that error due to measuring instrument could be avoided or minimised.

T&D losses in excess of norms in 17 express feeders resulted in revenue loss of Rs. 1.52 crore.

A test check of 67 express feeders in eight O&M divisions for the period 1999-2003 revealed instances of T&D losses in excess of 3 *per cent* in 17 feeders resulting in loss of revenue of Rs.1.52 crore as detailed in ***Annexe*-21**.

The excess loss (Rs.36.95 lakh) in three feeders in Bavla O&M division was stated to be due to length of feeder lines and lower capacity of conductors. In respect of 11 KV Transpack feeder, the excess loss (Rs.37.36 lakh) was due to deployment of less accurate meter and in respect of 11 KV Jolly and Apar feeders, the excess loss (Rs.7.19 lakh) was due to defective CTPT unit and meter at consumer's premises during the period. In respect of remaining feeders reasons were awaited.

The Board/Government replied (July/August 2003) that monitoring would be enforced which would yield T&D loss of less than 3 *per cent*.

Conclusion

There were delays in replacement of defective meters by quality meters and installation of meters in agricultural premises as envisaged under accelerated power development reform programme. System of

procurement of meters was marred by delay in finalisation of tenders, non comparison of rates with previous tender and inter-state rates, non placement of orders at the lowest rate and repeat order resulting in extra expenditure to the Board.

The Board did not also maintain supplier-wise data bank on performance of meters. Defective meters were not replaced promptly resulting in undercharge of revenue from the consumers. Non monitoring of corrective measures to reduce transmission and distribution losses resulted in loss in excess of norms in high tension express feeders.

The Board should streamline the procedures of purchase and prepare a comprehensive plan for replacement of defective meters in a time bound manner to maximise revenue collection through correct metering. Action needs to be taken to reduce the distribution losses.

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

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

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.

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

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* 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**

Back to the Audit Report of Gujrat (Comm.)

ANNEXE-1

Statement showing particulars of up-to-date paid-up capital, equity/loans received ou

(R

Sl. No.	Sector and Name of the company/ corporation	Paid-up capital as at the end of the curren			
		State Government	Central Government	Holding company	Others
1	**(2)**	**3(a)**	**3(b)**	**3(c)**	**3(d)**
A	**WORKING COMPANIES**				
	AGRICULTURE & ALLIED SECTOR				
1	Gujarat Agro-Industries Corporation Limited	703.75	--	--	--
2	Gujarat Sheep and Wool Development Corporation Limited	228.41	188.70	--	14.25
3	Gujarat State Seeds Corporation Limited	235.00	18.00	--	--
		50.00*			
4	Gujarat State Land Development Corporation Limited	586.31	--	--	--
	Sector wise total	**1,753.47**	**206.70**	**0.00**	**14.25**
		50.00*			
	INDUSTRY SECTOR				
5	Gujarat State Petroleum Corporation Limited (GSPC Ltd)	10,036.00	--	--	525.00
		850.00@@			
	Sector wise total	**10,036.00**	**0.00**	**0.00**	**525.00**
		850.00@@			
	HANDLOOM AND HANDICRAFTS SECTOR				
6	Gujarat State Handloom & Handicrafts Development Corporation Limited	982.15	180.67	--	2.00
		40.71*			
	Sector wise total	**982.15**	**186.67**	**0.00**	**2.00**
		40.71*			
	FOREST SECTOR				
7	Gujarat State Forest Development Corporation Limited	392.76	178.89	--	--
	Sector wise total	**392.76**	**178.89**	**0.00**	**0.00**

	MINING SECTOR				
8	Gujarat Mineral Development Corporation Limited	2,353.20	--	--	826.80
9	Gujarat State Petronet Limited (Subsidiary of GSPC Limited)	--	--	14,831.00	3,685.00
				2,500.00*	
	Sector wise total	**2,553.20**	**0.00**	**14,831.00**	**4,511.80**
				2,500.00*	
	CONSTRUCTION SECTOR				
10	Gujarat State Police Housing Corporation Limited	5,000.00	--	--	--
11	Gujarat State Road Development Corporation Limited	500.00	--	--	--
	Sector wise total	**5,500.00**	**0.00**	**0.00**	**0.00**
	AREA DEVELOPMENT SECTOR				
12	Gujarat State Rural Development Corporation Limited	58.00	--	--	--
13	Gujarat Growth Centres Development Corporation Limited	1500.00	1,835.00	--	--
			240.66*		
14	Gujarat Urban Development Company Limited	2053.00	--	--	--
	Sector wise total	**3,611.00**	**1,835.00**	**0.00**	**0.00**
			240.66*		
	DEVELOPMENT OF ECONOMICALLY WEAKER SECTION SECTOR				
15	Gujarat Scheduled Castes Economic Development Corporation Limited(b)	765.00	735.55	--	--
16	Gujarat Women Economic Development Corporation Limited	532.00	170.05	--	--
17	Gujarat Minorities Finance & Development Corporation Limited	95.00	--	--	--
18	Gujarat Safai Kamdar Vikas Nigam Limited (c)	Rs.900.00 only	--	--	--
	Sector wise total	**1,392.01**	**905.60**	**0.00**	**0.00**
	PUBLIC DISTRIBUTION SECTOR				
19	Gujarat State Civil Supplies Corporation Limited	1,000.00	--	--	--

	Corporation Limited				
	Sector wise total	**1,000.00**	**0.00**	**0.00**	**0.00**
	TOURISM SECTOR				
20	Tourism Corporation of Gujarat Limited	1,719.91	--	--	--
	Sector wise total	**1,719.91**	**0.00**	**0.00**	**0.00**
	POWER AND WATER RESOURCES SECTOR				
21	Gujarat Water Resources Development Corporation Limited	3,148.61	--	--	--
22	Sardar Sarovar Narmada Nigam Limited	8,19,109.24	--	--	--
		77,909.72*			
23	Gujarat Power Corporation Limited	20,027.47	--	--	1,930.09
24	Gujarat Water Infrastructure Limited	2,992.01	--	--	--
		767.91*			
	Sector wise total	**8,45,277.33**	**0.00**	**0.00**	**1,930.09**
		78,677.63*			
	FINANCING SECTOR				
25	Gujarat Industrial Investment Corporation Limited (GIIC)	25,697.77	--	--	--
26	Gujarat State Investments Limited	44,276.91	--	--	--
27	Gujarat State Financial Services Limited (GSFS Ltd.)	2,628.00	--	--	--
28	GSFS Capital & Securities Limited (Subsidiary of GSFS Ltd.)	--	--	500.00	--
	Sector wise total	**72,602.68**	**0.00**	**500.00**	**0.00**
	MISCELLANEOUS SECTOR				
29	Gujarat State Export Corporation Limited	1.65	--	--	13.35
30	Gujart Rural Industries Marketing Corporation Limited	905.17	--	--	--
31	The Film Development Corporation of Gujarat Limited (b)	82.11	--	--	--

32	Alcock Ashdown (Gujarat) Limited	990.00	--	--	400.00
		800.00*			
33	Gujarat National Highways Limited	1,000.00	600.00	--	--
34	Gujarat Informatics Limited	1,706.44	--	--	145.00
	Sector wise total	**4,685.37**	**600.00**	**0.00**	**558.35**
		800.00*			
	TOTAL - A (All Sector wise Government companies)	**9,51,305.88**	**3,906.86**	**15,331.00**	**7,541.49**
		80,418.34*	**240.66***	**2,500.00***	
B	**WORKING STATUTORY CORPORATIONS**				
	POWER SECTOR				
1	Gujarat Electricity Board	--	--	--	--
	Sector wise total	**--**	**--**	**--**	**--**
	TRANSPORT SECTOR				
2	Gujarat State Road Transport Corporation	46,457.31	10,627.82	--	--
	Sector wise total	**46,457.31**	**10,627.82**	**0.00**	**--**
	FINANCE SECTOR				
3	Gujarat State Financial Corporation	4,909.04	--	--	4,002.36
	Sector wise total	**4,909.04**	**0.00**	**0.00**	**4,002.36**
	AGRICULTURE AND ALLIED SECTOR				
4	Gujarat State Warehousing Corporation	200.00	200.00	--	--
	Sector wise total	**200.00**	**200.00**	**0.00**	**--**
	MISCELLANEOUS SECTOR				
5	Gujarat Industrial Development Corporation	--	--	--	--
	Sector wise total	**0.00**	**0.00**	**0.00**	**0.00**
	TOTAL (All Working Statutory corporations)	**51,566.35**	**10,827.82**	**0.00**	**4,002.36**

	TOTAL (All Working Government companies and Statutory corporations)	**10,02,872.23**	**14,734.68**	**15,331.00**	**11,543.85**
		80,418.34*	**240.66***	**2,500.00***	
C	**NON WORKING COMPANIES**				
	AGRICULTURE AND ALLIED SECTOR				
1	Gujarat Fisheries Development Corporation Limited(b)	193.77	--	--	--
2	Gujarat Dairy Development Corporation Limited	1045.81	--	--	--
	Sector wise total	**1,239.58**	**0.00**	**0.00**	**0.00**
	INDUSTRY SECTOR				
3	Gujarat Small Industries Corporation Limited	378.95	--	--	21.05
	Sector wise total	**378.95**	**0.00**	**0.00**	**21.05**
	ELECTRONICS SECTOR				
4	Gujarat Communications and Electronics Limited (b)	1,245.01	--	--	--
5	Gujarat Trans-Receivers Limited (Subsidiary of GIIC)	--	--	14.79	14.21
	Sector wise total	**1,245.01**	**0.00**	**0.00**	**29.00**
	TEXTILES SECTOR				
6	Gujarat State Textile Corporation Limited (GSTC) (under liquidation) #	392.50	--	--	--
		4,254.23*			
7	Gujarat Fintex Limited (under liquidation, subsidiary of GSTC)	--	--	Rs.200.00 only	--
8	Gujarat Siltex Limited (under liquidation, subsidiary of GSTC)	--	--	Rs.200.00 only	--
9	Gujarat Taxfeb Limited (under liquidation, subsidiary of GSTC)	--	--	Rs.200.00 only	--
	Sector wise total	**392.50**	**0.00**	**0.01**	**0.00**
		4,254.23*			
	CONSTRUCTION SECTOR				
10	Gujarat State Construction	500.00	--	--	--

	Corporation Limited				
	Sector wise total	**500.00**	**0.00**	**0.00**	**0.00**
	Total (Non working companies)	**3,756.04**	**0.00**	**0.01**	**50.05**
		4,254.04			
	GRAND TOTAL	**10,06,628.27**	**14734.68**	**15,345.80**	**11,579.11**
		84,672.57*	**240.66***	**2,500.00***	

Except in respect of PSUs which finalised their accounts for 2001-02 (Sl.No.A-2,A-8,A-14,A-17,A-21,A-

The Company was wound up with effect from 6 February 1997. Hence latest information as provided by

@ Loans includes bonds, debentures, inter corporate deposits *etc.*

* Represents s

** Represents long term loans only

@@ Represen

(b) Information as furnished by Company in earlier years.

(c) Informanti

ANNEXE-1

ıt of budget and loans outstanding as on 31 March 2003 in respect of Government companies and Sta

eferred to in paragaraph 1.3,1.4 and 1.5)

(Figures in col

t year	Equity/Loans received out of budget during the year		Other loans received during the year @	Loans outstanding at the close of 2002-03**	
Total	Equity	Loan		Government	Others
3(e)	**4(a)**	**4(b)**	**4(c)**	**4(d)**	**4(e)**
703.75	--	--	--	700.00	2,000.00
431.36	--	--	--	--	--
253.00	--	--	--	--	--
50.00*	50.00*				
586.31	0.20	--	--	1,649.34	--
1,974.42	**0.20**	**0.00**	**0.00**	**2,349.34**	**2,000.00**
50.00*	**50.00***				
10,561.00	--	--	--	--	--
850.00@@					
10,561.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
850.00@@					
1,164.82	--	6.00	--	913.45	160.00
40.71*	40.71*				
1,164.82	**0.00**	**6.00**	**0.00**	**913.45**	**160.00**
40.71*	**40.71***				
571.65	--	--	--	--	--
571.65	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

3,180.00	--	--	--	--	--
18,516.00	5,000.00		5,000.00	--	13,302.50
2,500.00*	2,500.00*				
21,696.00	**5,000.00**	**0.00**	**5,000.00**	**0.00**	**13,302.50**
2,500.00*	**2,500.00***				
5,000.00	--	--	--	--	--
500.00			67.21	2.27	327.37
5,500.00	**0.00**	**0.00**	**67.21**	**2.27**	**327.37**
58.00	--	--	--	--	--
3,335.00	--	--	--	--	--
240.66*					
2,053.00	--	--	--	--	--
5,446.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
240.66*					
1,500.55	--	--	652.42	--	3,918.26
702.05	--	--	--	--	--
95.00	20.00	75.00	739.00	250.00	3,350.00
Rs.900.00 only	--	--	--	--	--
2,297.61	**20.00**	**75.00**	**1,391.42**	**250.00**	**7,268.26**
1,000.00	--	--	3,375.00	18.33	1,212.00

1,000.00	**0.00**	**0.00**	**3,375.00**	**18.33**	**1,212.00**
1,719.91	--	--	--	335.40	25.00
1,719.91	**0.00**	**0.00**	**--**	**335.40**	**25.00**
3,148.61	--	--	--	--	--
8,19,109.24	--	--	1,95,959.00	--	7,90,425.00
77,909.72*	68,328.86*				
21,957.56	--	--	--	--	--
2,992.01	--	--	2,600.00	--	21,622.50
767.91*	767.91*				
8,47,207.42	**0.00**	**0.00**	**1,98,559.00**	**0.00**	**8,12,047.50**
78,677.63*	**69096.57***				
25,697.77	--	--	1,706.59	2,500.00	57,082.15
44,276.91	--	--	--	--	--
2,628.00	--	--	--	--	--
500.00	--	--	--	--	--
73,102.68	**0.00**	**0.00**	**1,706.59**	**2,500.00**	**57,082.15**
15.00	--	--	--	--	--
905.17	31.05	34.90	--	--	--
82.11	--	21.48	--	21.48	--

1,390.00	--	--	--	--	10.00
800.00*					
1,600.00	--	--	--	--	--
1,851.44	--	--	--	1,400.00	--
5,843.72	**31.05**	**56.38**	**0.00**	**1,421.48**	**10.00**
800.00*					
9,78,085.23	**5,051.25**	**137.38**	**2,10,099.22**	**7,790.27**	**8,93,434.78**
83,159.00*	**71,687.28***				
--	--	39,081.00	2,64,085.00	74,276.00	6,72,825.00
--	**--**	**39,081.00**	**2,64,085.00**	**74,276.00**	**6,72,825.00**
57,085.13	1,404.74	--	2,618.00	1,786.50	61,298.84
57,085.13	**1,404.74**	**0.00**	**2,618.00**	**1,786.50**	**61,298.84**
8,911.40	--	--	6,431.25	882.30	1,20,174.58
8,911.40	**0.00**	**0.00**	**6,431.25**	**882.30**	**1,20,174.58**
400.00	--	--	--	--	--
400.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
--	--	--	--	256.52	920.00
0.00	**0.00**	**0.00**	**0.00**	**256.52**	**920.00**
66,396.53	**1,404.74**	**39,081.00**	**2,73,134.25**	**77,201.32**	**8,55,218.42**

10,44,481.76	**6,455.99**	**39,218.38**	**4,83,233.47**	**84,991.59**	**17,48,653.20**
83,159.00*	**71,687.28***				
193.77	--	--	--	228.57	--
1,045.81	--	1,313.46	--	10,297.95	1,098.73
1,239.58	**0.00**	**1,313.46**	**0.00**	**10,526.52**	**1,098.73**
400.00	--	--	--	1,285.68	5,425.00
400.00	**0.00**	**--**	**--**	**1,285.68**	**5,425.00**
1,245.01	--	--	--	90.00	869.26
29.00	--	--	0.88	--	52.75
1274.01	**0.00**	**0.00**	**0.88**	**90.00**	**922.01**
392.50	--	--	--	34,012.12	--
4,254.23*					
Rs.200.00 only	--	--	--	--	0.85
Rs.200.00 only	--	--	--	--	0.85
Rs.200.00 only	--	--	--	--	0.85
392.51	**0.00**	**0.00**	**0.00**	**34,012.12**	**2.55**
4,254.23*					
500.00	--	--	--	526.52	--

500.00	**0.00**	**0.00**	**0.00**	**526.52**	**--**
3,806.10	**0.00**	**1,313.46**	**0.88**	**46,440.84**	**7,448.29**
4,254.23*					
10,48,287.86	**6,455.99**	**40531.84**	**4,83,234.35**	**1,31,432.43**	**17,56,101.49**
87,413.23*	**71,687.28***				

22,A-23,A-26,A-27,A-28,B-2,B-3,C-2 and C-10) figures are provisional and as given by the PSUs.

the Company is incorporated.

share application money

t equity deposited by the Government in Company's personal ledger account, but not actual received by the

ion not furnished by the compnay even for earlier years

tutory corporations.

umn 3(a) to 4(f) are Rupees in lakh)

Total	Debt equity ratio for the year 2002-03 (Previous year) 4(f) / 3(e)
4(f)	**5**
2,700.00	3.84:1
	(2.53:1)
--	--
--	--
1,649.34	2.81:1
	(2.35:1)
4,349.34	**2.15:1**
	(1.74:1)
--	--
	(0.11:1)
0.00	**--**
	(0.11:1)
1,073.45	0.89:1
	(0.92:1)
1,073.45	**0.89:1**
	(0.92:1)
--	0.17:1
	(0.17:1)
0.00	**0.17:1**
	(0.17:1)

--	--
13,302.50	0.63:1
	(1.10:1)
13,302.50	**0.55:1**
	(0.89:1)
--	--
329.64	0.66:1
	(0.52:1)
329.64	**0.06:1**
	(0.05:1)
--	--
--	--
--	--
0.00	
3,918.26	2.61:1
	(2.61:1)
--	--
3,600.00	(37.89:1)
	(39.43:1)
--	--
7,518.26	**3.27:1**
	(3.02:1)
1,230.33	1.23:1

ommercial) for the year ended 31 March 2003

	(1.28:1)
1,230.33	**1.23:1**
	(1.28:1)
360.40	0.21:1
	(0.20:1)
360.40	**0.21:1**
	(0.20:1)
--	--
7,90,425.00	0.88:1
	(0.70:1)
--	--
	(0.01:1)
21,622.50	5.75:1
	(6.73:1)
8,12,047.50	**0.88:1**
	(0.71:1)
59,582.15	2.32:1
	(2.66:1)
--	--
--	--
--	--
59,582.15	**0.82:1**
	(0.87:1)
--	--
--	--
21.48	0.26:1
	(0.26:1)

10.00	0.01:1
	(0.01:1)
--	--
1,400.00	0.76:1
	(1.30:1)
1,431.48	**0.22:1**
	(0.37:1)
9,01,225.05	**0.85:1**
	(0.71:1)
7,47,101.00	
7,47,101.00	
63,085.34	1.11:1
	(1.09:1)
63,085.34	**1.11:1**
	(1.09:1)
1,21,056.88	13.58:1
	(12.75:1)
1,21,056.88	**13.58:1**
	(12.75:1)
0.00	--
0.00	--
1,176.52	
1,176.52	
9,32,419.74	**(14.04:1)**
	(11.39:1)

18,33,644.79	**1.63:1**
	(1.37:1)
228.57	1.18:1
	(1.18:1)
11,396.68	10.90:1
	(9.66:1)
11,625.25	**9.38:1**
	(8.33:1)
6,710.68	16.78:1
	(16.69:1)
6,710.68	**16.78:1**
	(16.69:1)
959.26	0.77:1
	(0.77:1)
52.75	1.82:1
	(1.79:1)
1,012.01	**0.79:1**
	(0.79:1)
34,012.12	7.32:1
	(7.32:1)
0.85	--
0.85	--
0.85	--
34,014.67	**7.32:1**
	(7.32:1)
526.52	1.05:1

	(1.05:1)
526.52	**1.05:1**
	(1.05:1)
53,889.15	**6.69:1**
	(6.52:1)
18,87,533.92	**1.66:1**
	(1.41:1)
Company	

Annexe

ANNEXE - 7

Statement showing the department-wise outstanding Inspection Reports(IRs) as on 30 September 2003

(Referred to in paragraph 1.47)

Sl. No.	Name of Department	No. of PSUs	Number of outstanding IRs	Number of outstanding paragraphs	Years from which paragraphs outstanding
	A) Working PSUs				
1	Narmada, Water Resources and Water Supply	3	119	345	1993-94
2	Energy and Petrochemicals	2	124	322	1995-96
3	Home	2	55	267	1991-92
4	Industries and Mines	13	53	206	1992-93
5	Agriculture and Cooperation	5	16	53	1996-97
6	Forest and Environment	1	6	21	1992-93
7	Food and Civil Supplies	1	3	14	2000-01
8	Women and Child Development	1	3	13	1995-96
9	Panchayat, Rural Housing and Rural Development	1	5	11	1993-94
10	Social Justice and Empowerment	2	2	10	1997-98
11	Science and Technology	1	2	5	2001-02
12	Information and Broadcasting	1	1	2	1994-95
13	Urban Development and Urban Housing	1	1	2	2002-03
14	Finance	1	1	1	2001-02
	B) Non-working PSUs				
1	Industries and Mines	2	5	19	1997-98
2	Ports and Fisheries	1	1	5	1995-96
3	Roads and Building	1	1	2	2001-02
	Total	**39**	**398**	**1298**	

ANNEXE - 8

Statement showing the department-wise draft paragraphs/reviews reply to which are awaited as on 30 September 2003

(Referred to in paragraph 1.47)

Sl. No.	Name of Department	Number of draft paragraphs	No. of draft reviews	Period of issue
1	Industries and Mines	5	--	February/ April/ May/ June 2003
2	Energy and Petrochemicals	1	--	February 2003
3	Home	1	--	March 2003
4	Food and Civil Supplies	--	1	April 2003

Note: In case of one draft paragraphs, referred in Sl.No.1 neither the administrative department not the concerned PSU had given the reply. In all other cases, concerned PSUs had given their replies, however, the departments' replies were awaited.

ANNEXE-10

Statement showing financial position of
Gujarat State Police Housing Corporation Limited

(Referred to in paragraph 2.1.6)

(Rupees in lakh)

	Particulars	**1997-98**	**1998-99**	**1999-00**
Liabilities				
a	Paid-up capital	4,823.72	5,000.00	5,000.00
b	Share application money	176.28	0.00	0.00
c	Borrowings from financial institution	2,272.76	2,080.56	1,600.69
d	Trade dues and Current liabilities			
	i) Advances/ financial assistance from the State Government to be adjusted against the works	2,217.91	4,326.04	6,617.85
	ii) Deposits	166.64	156.47	225.23
	iii) Other liabilities and provisions	40.50	161.02	236.64
	Total (d)	2,425.05	4,643.53	7,079.72
Total liabilities		**9,697.81**	**11,724.09**	**13,680.41**
Assets				
e	Gross block	64.27	76.11	83.68
f	Less: depreciation	31.17	34.39	43.29
g	Net fixed assets	33.10	41.72	40.39
h	Current assets, loans and advances			
	i) Value of work done			
	a) Completed works	6,170.09	6,820.84	7,098.59
	b) Works in progress	1,622.10	1,976.56	2,424.30
	ii) Cash and bank balances	35.79	208.55	605.46
	iii) Personal Ledger Account balance	1,565.71	2,469.05	3,315.99
	iv) Security deposits from agencies	44.65	20.07	20.07
	v) Loans and advances	226.14	187.30	175.61
	Total (h)	9,664.48	11,682.37	13,640.02
i	Miscellaneous expenses	0.23	0.00	0.00
Total assets		**9,697.81**	**11,724.09**	**13,680.41**

ANNEXE-12

Statement showing savings in actual quantities with reference to estimated quantity

(Referred to in paragraph 2.1.14)

Sl. No.	Name of work	Total items	Number of items having saving	Ranges of variation *(per cent)*
1	Construction of B-48 and C-4 at Khambhat, Anand	89	22	25-94
2	Construction of SRP Barrack II for SRP GR.III at Madana	110	12	25-87
3	Construction of PSQ B-48 at Porbandar	99	24	25-85
4	Construction of SRP quarter B-32 at Valsad	113	5	25-52
5	Construction of PSQ B-12 at Jamnagar Jail	106	13	25-79
6	Construction of PSQ B-96 at Ghaludi, Surat	80	7	25-87
7	Construction of PSQ B-32 and C-01 at Alang, Bhavnagar	112	21	25-72
8	Construction of PSQ B-60 at Valsad	89	17	25-85
9	Construction of PSQ B-96 at Madana	104	9	25-71
10	Construction of PSQ B-80 at Valsad	100	12	25-75
11	Construction of PSQ B-96 at Gaikwad Haveli, Ahmedabad	95	36	25-90
12	Construction of PSQ B-48, D-4, E-3 and E-01 at Godhra	119	15	25-85
13	Provinding external water supply and drainage SRP Gr.III at Madana	43	20	25-72
14	Construction of SRP Gr.III quarter A-12, B-96 and C-12 at Madana	90	16	25-64

ANNEXE-14

Statement showing savings in project cost

(Referred to in paragraph 2.1.15)

Sl. No.	City Town	District	Total unit	Project Cost	Actual Cost	Diffe-rence	Percentage of savings to project cost
Taken up in 1996-97							
1	Liliya	Amreli	24	56.78	44.29	12.49	22
2	Palanpur Jail	Banaskantha	4	13.3	9.53	3.77	28
3	Savarkundla	Amreli	13	38.68	30.41	8.27	21
4	Vithalpur	Ahmedabad	25	82.59	72.53	10.06	12
			66	**191.35**	**156.76**	**34.59**	
Taken up in 1997-98							
1	Baroda SRP	Baroda	48	92.04	70.75	21.29	23
23	Bhuj	Kutch	1	21.49	14.4	7.09	33
3	Jamnagar Jail	Jamnagar	12	31.25	14.78	16.74	53
4	Rajkot Jail	Rajkot	23	55.43	40.33	15.1	27
5	Baroda SRP	Baroda	76	226.57	147.36	79.21	35
6	Valsad Railway	Valsad	32	85.62	73.24	12.38	14
			192	**512.40**	**360.86**	**151.54**	
Taken up in 1998-99							
1	Bhalej	Anand	13	46.67	27.18	19.49	42
2	Bhanvad	Jamnagar	25	76.79	67.19	9.60	12
3	Dahod	Dahod	41	167.75	136.02	31.73	19
4	Dhangdhra	Surendranagar	27	106.69	91.86	14.83	14
5	Sabarmati Jail	Ahmedabad	58	174.24	142.75	31.49	18
6	Surat Railway	Surat	29	87.69	74.52	13.17	15
7	Tankara	Rajkot	17	67.98	58.01	9.97	15
8	Umreth	Anand	12	32.58	24.16	8.42	26
9	Valsad	Valsad	80	239.36	176.06	63.30	26
10	Vasad	Anand	25	67.16	50.52	16.64	25
11	Visnagar	Mehsana	49	122.36	108.33	14.03	11
			376	**1,189.27**	**956.60**	**232.63**	
Taken up in 1999-2000							
1	Ankleshwar	Bharuch	24	71.69	46.8	24.89	35
2	Borsad	Anand	32	88.69	60.73	27.96	32
3	Deesa	Banaskantha	80	215.81	172.25	43.56	20
4	Dehgam	Gandhinagar	24	67.98	52.47	15.51	23
5	Deyodar	Banaskantha	24	66.32	48.80	17.52	26
6	Mehsana	Mehsana	60	164.99	132.77	32.22	20
7	Porbandar	Porbandar	65	261.15	195.22	65.93	25
8	Pratapnagar	Baroda	96	247.46	191.38	56.08	23
			405	**1,184.09**	**900.42**	**283.67**	
			1,039	**3,077.11**	**2,374.64**	**702.43**	

The actual cost figures for the year 1999-2002 are provisional.

ANNEXE-15

Statement showing the financial position of Gujarat State Civil Supplies Corporation Limited

(Referred to in paragraph 2.2.11)

(Rupees in crore)

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
Liabilities:					
Paid-up capital	10.00	10.00	10.00	10.00	10.00
Reserves and surplus	--	--	--	--	--
Secured loans	3.50	30.46	1.31	19.18	11.63
Unsecured loans	35.84	41.15	47.00	81.36	49.71
Current liabilities and provisions	75.86	62.46	68.43	84.83	134.99
Total	**125.20**	**144.07**	**126.74**	**195.37**	**206.33**
Assets:					
Fixed assets					
Gross block	36.20	36.75	37.48	37.93	38.91
Less: depreciation	11.33	13.61	15.58	17.36	19.11
Net block	24.87	23.14	21.90	20.57	19.80
Capital work in progress	0.32	0.17	0.47	0.21	0.00
Investments	--	--	--	--	--
Current assets, loans and advance including Deferred tax asset	98.91	119.47	100.71	169.87	183.27
Intangible assets (accumulated losses)	1.10	1.29	3.66	4.72	3.26
Total	**125.20**	**144.07**	**126.74**	**195.37**	**206.33**
Capital employed(i)	48.24	80.32	54.64	105.83	68.08
Net worth(ii)	8.90	8.71	6.33	5.28	6.74
Debt/equity ratio	3.93:1	7.16:1	4.83:1	10.05:1	6.13:1

(i) Capital employed represents net fixed assets including capital work in progress plus working capital

(ii) Net worth represents paid-up capital plus reserves and surplus less intangible assets.

ANNEXE-16

Statement showing the working results of Gujarat State Civil Supplies Corporation Limited

(Referred to in paragraph 2.2.11)

(Rupees in crore)

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
Income					
Sales	643.48	701.26	608.61	608.34	655.48
Other receipts	24.07	34.52	35.52	39.89	47.86
Increase(+)/Decrease(-) in stock	(-)5.81	0.06	(-)5.35	8.23	(-)20.08
Total	**661.74**	**735.84**	**638.78**	**656.46**	**683.26**
Expenditure					
Purchase	568.39	616.06	515.33	528.27	566.40
Procurement and handling charges	21.93	20.80	19.02	22.69	19.34
Staff expenses	13.80	22.15	20.22	21.01	21.54
Operation & other expenses	34.74	43.75	43.87	38.19	33.52
Interest and financial charges	6.81	9.21	13.91	10.66	5.92
Depreciation	2.67	2.29	1.99	1.79	1.76
Surplus payable on Govt. Account	15.26	21.70	26.78	34.43	33.14
Total	**663.60**	**735.96**	**641.12**	**657.04**	**681.62**
Gross profit (+) / Loss (-)	(-) 1.86	(-) 0.12	(-) 2.34	(-) 0.58	1.64
Add (+)/deduct (-) Prior period adjustment	0.18	(-) 0.07	(-) 0.03	(-)0.48	(-) 0.04
Net profit (+)/Loss (-) before taxation	(-) 1.68	(-) 0.19	(-) 2.37	(-) 1.06	1.60
Provision for taxation•	--	--	--	--	0.14
Net profit (+)/Loss (-) after taxation	(-)1.68	(-) 0.19	(-) 2.37	(-) 1.05	1.46
Accumulated loss	1.10	1.29	3.66	4.72	3.26

• As taxation provisions were less than Rs.52,000 during the years no mention was made against these columns

- Administrative expenses include staff expenses, depreciation and operation and other expenses.

ANNEXE-17

Statement showing the details of purchases, sales, shortage/transit loss and closing stock of wheat and rice

(Referred to in paragraph 2.2.17)

(Quantity in MT)

Wheat

	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**
Allotments in tonnes	6,99,150	4,84,000	4,99,500	6,88,694	7,73,307
Opening stock in tonnes	18,804	27,911	11,613	11,908	1,608
Purchase in tonnes	5,82,062	4,20,402	3,10,320	3,70,078	4,50,918
Percentage of purchase to allotment	83.25	86.86	62.13	53.74	58.31
Sales in tonnes	5,71,604	4,35,886	3,09,268	3,79,776	4,43,568
Shortage in tonnes					
Transit loss	1,086	744	557	685	908
Godown loss	28	45	2	1	55
Percentage of total shortage to opening stock and purchases					
(i) Transit loss	0.19	0.18	0.18	0.18	0.20
(ii) Godown loss	0.005	0.01	0.0006	0.003	0.01
Closing stock in tonnes	27911	11,613	11,908	1,608	8,006
Closing stock in terms of monthly sales	0.59	0.32	0.46	0.05	0.22

Rice

	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**
Allotments in tonnes	2,60,000	3,28,140	2,92,500	5,16,190	3,82,324
Opening stock in tonnes	13,018	8,623	16,791	5,833	8,109
Purchase in tonnes	1,89,161	2,52,930	1,62,258	1,37,449	1,62,138
Percentage of purchase to allotment	72.75	77.08	55.47	26.63	42.41
Sales in tonnes	1,93,006	2,44,275	1,72,843	1,34,812	1,66,493
Shortage in tonnes					
Transit loss	398	493	320	281	345
Godown loss	65	48	7	6	33
Percentage of total shortage to opening stock and purchases					
(i) Transit loss	0.21	0.19	0.20	0.20	0.21
(ii) Godown loss	0.03	0.02	0.003	0.004	0.02
Closing stock in tonnes	8,623	16,791	5,833	8,109	3,382
Closing stock in terms of monthly sales	0.54	0.82	0.41	0.72	0.24

ANNEXE-18

Statement showing objectives of the reforms and restructuring of the power sector as per the MOU entered into between the GOI and GOG

(Referred to in paragraph 3.1.5)

- Setting up of Gujarat Electricity Regulatory Commission (GERC)
- Approval of Reform Bill by the State Cabinet and submission of GOG to GOI.
- Implementation of first tariff award of GERC.
- Incorporation and establishment of separate Transmission and Generation Companies.
- Transfer of assets and management of Gandhinagar and Utran Power Station from the Board to Gujarat State Electricity Corporation Ltd. (GSECL).
- Offset subsidy and subvention arrears owed by GOG to the Board till 31 March 2000 against dues of the Board owing to GOG and payment of outstanding Municipality dues owing to the Board till 31 March 2001.
- Introduction of the Reform Bill in the Gujarat State Assembly and subsequent enactment of the Reform Act.
- Rationalisation and reduction of Electricity Duty in GOG's budget for the year 2002.
- Installation of meters at all 11 Kilo Volt (KV) feeders.
- Implementation of action plan to meter all consumers in the State in phased manner over a period of three years from 10 October 2000 as per GERC order.
- Creation of independent distribution circles at Kheda (Anand) and Rajkot as Profit Centres and accord fiscal and administrative autonomy to such Profit Centres by the Board.
- Achieve commercial viability in distribution.
- Transfer of transmission assets from the Board to Gujarat Energy Transmission Corporation Limited (GETCL).
- Second tariff submission by the Board to GERC.
- Preparation of reorganisation plan.
- Renovation and Modernisation (R&M) of Thermal Power Stations (TPS) which will be supported by GOI through Accelerated Power Development Programme (APDP).
- Strengthening of sub-transmission and distribution system.

ANNEXE-19

Statement of number of consumers under Gujarat Electricity Board

(Referred to in paragraph 3.2.1)

Category of consumers	1998-99		1999-2000		2000-01		2001-02		2002-03	
	No. of consumers	Energy consumed Mus	No. of consumers	Energy consumed Mus	No. of consumers	Energy consumed Mus	No. of consumers	Energy consumed Mus	No. of consumers	Energy consumed Mus
Domestic	51,46,121	2,643	53,42,985	2,813	55,40,354	3,021	57,00,498	2,937	58,17,482	3,117
Commercial	7,27,279	752	7,65,997	816	8,02,722	890	8,30,226	866	8,50,997	971
Industrial Low/Med.	1,57,131	2,709	1,59,902	2,696	1,56,259	2,642	1,53,923	2,451	1,50,760	3,072
Industrial HT	4,373	6,988	4,546	6,451	4,626	6,001	4,678	6,195	4,677	6,367
Public lighting	17,181	110	17,302	122	1,17,595	134	17,152	127	16,686	132
Traction, licensees & Inter-state	15	3,021	15	2,932	16	2,899	16	3,224	14	3,753
Agricultural	5,43,073	12,221	5,66,232	14,914	5,81,494	15,467	6,00,414	15,674	6,06,210	12,940
Metered					27,140		78,769		1,17,741	
Un-metered	5,43,073		5,66,232		5,54,354		5,21,645		4,88,469	
Public WW	21,104	384	22,497	434	24,327	490	26,072	486	27,576	565
Total	**66,16,277**	**28,828**	**68,79,476**	**31,178**	**71,27,393**	**31,544**	**73,32,979**	**31,960**	**74,74,402**	**30,917**

ANNEXE-20

Statement of loss of revenue due to delayed replacement of defective meters

(Referred to in paragraph 3.2.22)

Sl. No.	Name of the Division	Sub-Division	Number of consumers	Time taken for replacement of defective meters(months)	Unit billed during defective period	Unit to be billed[1]	Differential units	Value (Rupees in lakh)[2]
1	Surat (Ind.) Div.	Udhna-I	11	1 to 18	1,92,020	2,54,965	62,945	1.40
		Udhna-II	11	4 to 34	4,31,680	6,20,350	1,88,670	4.30
		Pandasera	40	1 to 25	12,23,530	19,90,966	7,67,436	17.69
		Sachin	36	1 to 46	13,02,513	21,47,905	8,45,392	19.16
		Kamrej	1	8	62,736	1,12,680	49,944	1.77
2	Sabarmati	G.I.D.C	15	3 to 11	1,33,989	2,26,791	92,802	2.44
		Barejadi	8	2 to 16	1,31,090	1,71,130	40,040	0.86
3	Ankleshwar O&M	Rural SD	3	3 to 21	25,230	50,596	25,366	0.49
		Town SD	1	10	24,050	37,375	13,325	0.44
4	Ankleshwar Indl. Dn.	G.I.D.C	16	2 to 14	1,88,870	3,03,245	1,14,395	2.46
		Ind. SD	3	1 to 28	31,160	68,000	37,040	0.74
5	Bharuch Dn.	Rural SD (Bharuch)	2	2 to 3	7,490	10,150	2,660	0.06
		Palej	6	1 to 36	88,310	2,88,395	2,00,085	3.76
6	Vishwamitri (West)	Gotri SD	3	5 to 8	28,970	41,292	12,322	0.25
		Alkapuri	7	4 to 46	1,32,794	1,94,513	61,719	1.84
7	Rajkot City 1	Rajkot Ind. SD 1	5	2 to 5	19,607	34,825	15,218	0.34
		Rajkot Ind. SD 2	11	2 to 10	61,366	88,349	26,983	0.61
		Prahalad SD	2	2 to 7	26,860	30,250	10,790	0.21
8	Rajkot City 2	Udyognagar	18	1 to 9	75,570	11,315	35,745	0.80
		Pradumnagar	1	4	2,720	3,440	720	0.02
9	Rajkot Rural	Kalsad	4	2 to 5	13,422	21,260	7,838	0.15
		Rural SD	5	3 to 12	46,480	77,370	30,890	0.90
10	Surendra-nagar	City SD1	9	2 to 23	68,421	1,13,690	45,269	0.98
		City SD 2	20	2 to 37	90,028	1,75,095	85,067	1.93
11	Jamnagar Rural	Rural SD	5	12 to 37	70,690	1,69,230	98,540	2.51
12	Jamnagar City	Ind. SD	4	3 to 18	1,30,960	1,50,010	19,050	0.43
13	Bhavnagar Rural	Chitra SD	16	2 to7	1,39,140	2,21,640	82,500	2.13
		Sihor Town	5	1 to 14	27,110	40,070	12,960	0.36
14	Bhavnagar City	Power House SD	34	3 to 31	3,26,610	5,85,610	2,59,000	5.73
		KalanallaSD	15	2 to 31	2,52,780	3,58,620	1,05,840	2.20
15	Baroda O&M	Chani SD	15	3 to 34	1,38,759	3,31,095	1,92,336	4.26
			332		**54,94,955**	**90,30,422**	**35,35,467**	**81.22**

1 This represents units to be billed for the defective period on the basis of three months average consumption after replacement.
2 This represents differential units multiplied by rate.

ANNEXE - 22

Statement showing paragraphs/reviews for which explanatory notes were not received

(Referred to in paragraph 4.23)

Sl. No.	Name of the Department	1997-98	1998-99	1999-2000	2000-01	2001-02	Total
1	Agricultural and Co-operation	1	--	--	--	2	**3**
2	Energy and Petrochemicals	--	--	--	--	8	**8**
3	Industries and Mines	1	2	--	3	8	**14**
4	Home	--	--	--	--	1	**1**
5	Roads and Building	--	--	1*	--	--	**--**
6	Panchayat, Rural Housing and Rural Development	--	--	--	--	1	**1**
7	Women and Child Development	--	--	1*	--	--	
8	Narmada, Water Resources and Water Supply	--	--	1*	3	4	**7**
9	Finance	--	1	--	--	--	**1**
10	Information and Broadcasting	--	--	1	--	--	**1**
11	General para related to departments – referred at Sl. No. 5, 7 and 8	--	--	1*	--	--	**1***
	Total	**2**	**3**	**2**	**6**	**24**	**37**

* This represents one general para to which three departments' replies were awaited.

ANNEXE - 23

Statement showing persistent irregularities pertaining to Government companies appeared in the Report of CAG of India for the year 1996-97 to 2001-02 (Commercial) – Government of Gujarat

(Referred to in paragraph 4.23)

Sl. No.	Gist of persistent irregularities	Year of Audit Report/ Para No.	Money Value (Rs. in crore)	Gist of audit observations	Actionable points/ Action to be taken	Details of actions taken
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Gujarat Small Industries Corporation Limited						
1. (i)	Undue favour to loanee/ unit	**1996-97/** 4A.1.1	2.57	The Company's decision to finance a sick unit without insisting on elementary financial safeguards in the MoU resulted in non recovery of dues of Rs.2.57 crore.	Responsibility is required to be fixed for extending the financial assistance to a non SSI unit and failure to safeguard the Company's interest.	Among the four officials involved, no action was initiated against two *ex*-MDs. While one DGM was compulsorily retired in some other case and in remaining one, departmental enquiry was initiated (July 2003).
(ii)		**1997-98/** 4.1.1	2.56	The Company by extending financial assistance to units with dubious financial credibility had rendered the chances of recovery of Rs.2.56 crore as remote.	Responsibility is required to be fixed for extending the assistance to units with dubious financial credibility and for not obtaining adequate security.	Among the three officials involved, no action was initiated against *ex*-MD and *ex* - Financial Controller and also against one Executive, who was already dismissed on some other ground.
(iii)		**1998-99/** 4.1.1	1.48	The Company's failure in obtaining adequate security while extending financial assistance to a firm, resulted in unrecoverable dues of Rs.1.48 crore.	Responsibility is required to be fixed for not obtaining adequate security.	Among the six officials involved, no action was initiated against two *ex* -MDs, *ex* -Chairman and *ex* -Financial Controller and also against one official who had resigned on some other ground. Remaining one official was removed from the service.
(iv)		**1999-2000/** 3.1.1	10.19	An amount of Rs.10.19 crore had remained unrecovered due to imprudent financial assistance extended by the Company to a sick and non SSI unit and also to its associate concerns.	Responsibility is required to be fixed for extending the assistance to a sick and non SSI unit and also to its associate concerns and for not obtaining adequate security.	Among the three officials involved, no action was initiated against *ex* -MD and also against one DGM who was already given compulsory retirement from service on some other ground. Remaining one official was removed from the service.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
(v)		**2001-02/** 4.1.1	1.44	Due to irregular extension of financial assistance of Rs.0.86 crore to a firm, the Company was unable to recover the principal and also suffered loss of interest of Rs.0.58 crore.	Responsibility is required to be fixed for not ensuring the SSI status of the unit, unauthorised sanctioning of assistance and for obtaining deficient legal documents from the unit.	Among the three officials involved, no action was initiated against *ex* -MD and *ex* -Financial Controller and also against a Manager who retired from the service.
Total			**18.24**			
Gujarat Industrial Investment Corporation Limited						
1. (i)	Imprudent investment of funds	**1998-99/** 4.3.1	0.79	The Company lost Rs.0.79 crore on an investment made in Gujarat Alkalies & Chemicals Ltd., which did not earn remunerative return to service the borrowings.	Responsibility is required to be fixed for imprudent investment of fund and for the failure to follow the COPU's recommendation.	Details of action taken by the Company were not made available to audit.
(ii)		**1999-2000/** 3.3.1	4.80	An amount of Rs.4.80 crore remained unrecovered due to imprudent investment of funds by the Company in Inter Corporate Deposits.	Responsibility is required to be fixed for not obtaining the Board's approval and for not encashing the collateral security of the assisted unit.	GM (Finance) was involved and removed from service in July 2001. Possession of property was acquired vide panchnama dated 29.11.2001.
(iii)		**2001-02/** 4.3.1	1.06	Advance payment of Rs.0.59 crore without execution of agreement coupled with belated legal action for recovery resulted in loss of interest of Rs.47.09 lakh to the Company.	Responsibility is required to be fixed for hasty payment made without execution of agreement also for the belated legal action to recover Rs.0.59 crore.	Details of action taken by the Company were not made available to audit.
Total			**6.65**			

ANNEXE - 24

Statement showing persistent irregularities pertaining to Statutory corporations appeared in the Report of CAG of India for the year 1998-99 to 2001-02 (Commercial) – Government of Gujarat
(Referred to in paragraph 4.23)

Sl. No.	Gist of persistent irregularities	Year of Audit Report/ Para No.	Money Value (Rs. in crore)	Gist of audit observations	Actionable points/ Action to be taken	Details of actions taken
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Gujarat Electricity Board						
1. (i)	Loss due to delay in finalisation of tender	**1998-99/** 4.13.5	0.45	The Board's delay in placing the purchase order and invoking the repeat order clause of purchase agreement resulted in avoidable extra expenditure of Rs.0.45 crore in procurement of conductors.	Responsibility is required to be fixed for the delay in finalisation of tender. Besides, a system should be devised to monitor the status of finalisation of tender against the norms fixed.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(ii)		**1998-99/** 4.13.7	0.33	The Board incurred avoidable extra expenditure of Rs.0.33 crore in procurement of insulators due to delay in placement of purchase order.	Responsibility is required to be fixed for the delay in finalisation of tender. Besides, a system should be devised to monitor the status of finalisation of tender against the norms fixed.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(iii)		**1999-2000/** 3.11.4	0.18	Due to avoidable delay in finalisation of tender the Board had to incur extra expenditure of Rs.0.18 crore.	Responsibility is required to be fixed for the delay in finalisation of tender. Besides, a system should be devised to monitor the status of finalisation of tender against the norms fixed.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(iv)		**2000-01/** 4.9.4	0.29	The Board lost Rs.0.29 crore due to delay in finalisation of tender.	Responsibility is required to be fixed for the delay in finalisation of tender. Besides, a system should be devised to monitor the status of finalisation of tender against the norms fixed.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
(v)		**2001-02/** 4.8.4	0.83	The Board had to incur an extra expenditure of Rs.0.83 crore due to delays in placement of regular supply order on a firm.	Responsibility is required to be fixed for the delay in finalisation of tender. Besides, a system should be devised to monitor the status of finalisation of tender against the norms fixed.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
2. (i)	Loss due to non-invocation of risk purchase clause against defaulting supplier	**1998-99/** 4.13.2	3.12	Due to its own default the Board could not invoke risk purchase clause against the defaulting suppliers resulting in avoidable expenditure of Rs.3.12 crore in procurement of conductors.	Responsibility is required to be fixed for the failure to invoke Risk Purchase clause against the defaulting firms.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(ii)		**1999-2000/** 3.11.6	0.36	The Board suffered a loss of Rs.0.36 crore due to non-invocation of Risk Purchase Clause against the defaulting suppliers.	Responsibility is required to be fixed for the failure to invoke Risk Purchase clause against the defaulting suppliers.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
3. (i)	Loss of revenue	**1998-99/** 4.13.3	2.71	By not adhering to the instructions regarding issue of notice to the consumers, the Board sustained a loss of revenue of Rs.2.71 crore.	Responsibility is required to be fixed for the failure to ensure the timely issuance of notice.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(ii)		**1998-99/** 4.13.6	0.36	The erroneous calculation of average power factor while preparing the energy bills of high tension consumers resulted in loss of revenue to the Board.	Responsibility is required to be fixed for erroneous calculations of average power factor.	Of the under recovery of Rs.35.89 lakh pointed out by Audit, the Board recovered Rs.33.52 lakh. In case of remaining amount, a civil suit has been filed.
(iii)		**2000-01/** 4.9.2	3.34	The Board undercharged Rs.3.34 crore due to incorrect application of tariff.	Responsibility is required to be fixed for the incorrect application of tariff.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(iv)		**2000-01/** 4.9.3	1.50	By not adhering to the instructions regarding issue of notice to the consumers, the Board sustained a loss of revenue of Rs.1.50 crore.	Responsibility is required to be fixed for the failure to ensure the timely issuance of notice.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
4. (i)	Generation loss	**1999-2000/** 3.11.1	28.87	Defective terms in the contract for construction of weir at Kadana Hydro Electric Project resulted in avoidable expenditure of Rs.11.32 crore and also deprived the Board of potential revenue of Rs.17.55 crore due to generation loss.	Responsibility is required to be fixed for entering into a contract with defective terms.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(ii)		**1999-2000/** 3.11.3	0.74	Lack of timely rectification of defective indicators of the meters resulted in low storage of fuel oil leading to forced shut down of the plant and potential generation loss of 5.35 MU worth Rs.0.74 crore.	Responsibility is required to be fixed for the failure in repairing defective indicators of the meters.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(iii)		**2001-02/** 4.8.1	31.74	Avoidable delay in replacing the boiler tubes resulted in loss of revenue of Rs.27.29 crore to the Board and Rs.4.45 crore to State exchequer.	Responsibility is required to be fixed for the avoidable delay in replacing the boiler tubes.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
5. (i)	Infructuous expenditure	**1998-99/** 4.13.8	0.26	A series of acts of financial imprudence by the Board in procurement of nitrogen plant has resulted in unfruitful expenditure of Rs.0.19 crore and consequential loss of interest of Rs.0.07 crore while the objective of the Board to have captive nitrogen plant remained unfulfilled.	Responsibility is required to be fixed for reviving the cancelled contract, waival of condition regarding payment of security deposit and for releasing the payment before receipt of material.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(ii)		**1999-2000/** 3.11.8	0.16	The Board suffered a loss of Rs.0.16 crore in the construction of civil work on a site ultimately surrendered.	Responsibility is required to be fixed for incurring the expenditure on civil works before arriving at the finality on the acquisition process.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
(iii)		**2000-01/** 4.9.1	7.65	The Board incurred infructuous and avoidable expenditure of Rs.7.65 crore on construction of a facility against the advice of railways.	Responsibility is required to be fixed for incurring the infructuous expenditure on the construction of track hopper against the advice of Railways.	The Board did not accept the audit contention and gave justifications for the lapses pointed out by audit. Hence, no actions were taken.
		Total	**82.89**			

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Gujarat State Financial Corporation						
1. (i)	Sanctioning of financial assistance to ineligible unit	**1998-99/** 4.15.1	1.85	A series of failure in non-adherence to prudent financial norms had resulted in non recovery of dues to the tune of Rs.1.85 crore, from a hire purchaser.	Responsibility is required to be fixed for sanctioning assistance to the unit having poor repayment records, failure to file criminal case and failure to verify the availability of assets of the unit.	Details of action taken by the Corporation were not made available to audit.
(ii)		**1999-2000/** 3.13.1	1.89	Absence of adequate security for discounting bills of purchase has made the recovery of loan and interest thereon amounting to Rs.1.89 crore as doubtful.	Responsibility is required to be fixed for the failure to obtain adequate security from the assisted unit.	Details of action taken by the Corporation were not made available to audit.
(iii)		**2001-02/** 4.10.1	5.34	An amount of Rs.5.34 crore remained to be recovered by the Corporation due to imprudent financial assistance extended under Hire Purchase Scheme.	Responsibility is required to be fixed for sanctioning the assistance to the units having poor repayment records / inadequate cash accruals and also for failure to verify antecedent and bonafide of the supplier.	Details of action taken by the Corporation were not made available to audit.
Total			**9.08**			