Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Gujarat had 57 working PSUs (53 companies and 4 Statutory corporations) and 13 non-working PSUs (all companies), which employed 1.16 lakh employees. The working PSUs registered a turnover of Rs. 50,289.48 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 13.90 per cent of State GDP indicating an important role played by State PSUs in the economy. The working PSUs earned profit of Rs. 2,404.89 crore for 2008-09 and had aggregate accumulated profit of Rs. 2,176.11 crore.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 70 PSUs was Rs. 48,137.78 crore. It grew by 24.82 per cent from Rs. 38,565.15 crore in 2003-04. Power, Finance and Manufacturing Sectors together accounted for 35.73 per cent of total investment in 2008-09 whereas other Sectors accounted for 64.27 per cent. The Government contributed Rs. 9,201.10 crore towards equity, loans and grants/ subsidies during 2008-09.

Performance of PSUs

During the year 2008-09, out of 57 working PSUs, 40 PSUs earned profit of Rs. 2,586.06 crore and seven PSUs incurred loss of Rs. 181.17 crore. Major contributors to the profit were Gujarat State Fertilizers and Chemicals Limited (Rs. 739.18 crore), Gujarat State Petroleum Corporation Limited (Rs. 628 crore) and Gujarat Mineral Development Corporation Limited (Rs. 369.90 crore). The heavy losses were incurred by Gujarat State Financial Corporation (Rs. 109.13 crore) and Gujarat State Road Transport Corporation (Rs. 66.10 crore).

Though the PSUs were earning profits, there were instances of various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs. 1,723.63 crore and infructuous investments of Rs. 204.91 crore were controllable with better management.

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, the statutory auditors had given unqualified certificates for 17 accounts, qualified certificates for 38 accounts. There were 74 instances of non-compliance with Accounting Standards in 28 accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Thirty four working PSUs had arrears of 52 accounts as of September 2009. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 13 non-working companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

2. Performance reviews relating to Government company

Performance review relating to **Outcome audit on the irrigation component of Sardar Sarovar Project** implemented by **Sardar Sarovar Narmada Nigam Limited** was conducted. Executive summary of the audit findings are given below:

Outcome audit on the irrigation component of Sardar Sarovar Project implemented by Sardar Sarovar Narmada Nigam Limited

Sardar Sarovar Narmada Nigam Limited has been engaged in implementing the interstate multipurpose Sardar Sarovar Project (SSP) and managing Narmada water through 458 Kms long Narmada Main Canal and a distribution network of 89,931 kms comprising of Branch canals, Distributaries, Minors and Sub-Minors. The performance audit of the Company for the period 2004-05 to 2008-09 covered the activities related to planning, execution, development and commissioning of the Canal network.

Project planning

The Detailed Project Report (DPR) originally prepared (January 1980) by the Company remained unrevised. Though the deadline of 2000 was fixed for achievement of full irrigation potential, no detailed plan to execute the project was prepared. As a result, the Company could create irrigation potential mainly in phase-I and II A and in other phases, it - constructed branches only without creation of any irrigational potential.

Project finance

At the end of March 2009, the Company's share capital was Rs. 23,719.21 crore and total borrowing was Rs. 9,075.30 crore. The project cost increased substantially from Rs. 6,406.04 crore at 1986-87 prices to Rs. 35,045.75 crore at 2005-06 prices. Due to imprudent financial management, the Company incurred avoidable expenditure of Rs.32.28 crore on higher borrowed cost and guarantee fee. The Company diverted AIBP funds to the tune of Rs. 1,833.12 crore meant for development of NMC and distribution network to other areas of the project which led to delay in creation of irrigation potential.

Project implementation

The completed length of the canal system was only 18,803 kms against The envisaged length of 90,389 kms.

Out of the total envisaged CCA of 18.29 lakh ha, the Company so far developed a CCA of 3.41 lakh ha of which the utilised CCA remained at 1.20 lakh ha only.

In Phase I and II A, there were 669 and 130 numbers of missing links affecting a CCA of 1,86,824 ha and 51,590 ha respectively. Of the above, 1,70,271 ha of CCA in Phase I was reported as developed which was actually not developed as no irrigation benefit can be availed from the incomplete construction of canals.

Due to non adoption of 'vertical integration approach', the Company created only branch canals in Phase II B, Phase II C and SBC and no irrigation potential could be created. The Company created irrigation potential in water fed zones first and ignored the water scarce zones like Saurashtra and Kutchh. In addition the Company was slowly converting the irrigation project into a drinking water project.

No data was maintained by the Company on the impact of providing irrigation facility on agricultural productivity or agricultural pattern in the SSP command area. As a result, the Company was not in a position to know whether the project has achieved its objective of increase in the agriculture produce as envisaged.

Irrigation policy

The Company has not framed a comprehensive long term policy. The interim policy framed by the Company did not cover some vital issues like, system of assessing corps pattern, guarding canal up to sub-minor level, fixation of water charges, duties and responsibilities of WUAs.

Canal maintenance

Even after investment of Rs. 18,515.58 crore in canal network, the repairs and maintenance was not done indicating laxity of the Company in safeguarding its valued assets besides threat of life/property in canal vicinity.

Conclusions and recommendations

The financial management of the company was poor as it borrowed funds at higher cost. While implementing the project the company failed in adoption of 'vertical integration approach' and which was further marred by non prioritization of distribution network and diversion of funds to other component of Sardar Sarovar Project.

There were deficiencies in management of contracts like award of work before acquisition of requisite land/ obtaining requisite clearance/ finalising the construction stage drawings, failure to take up repairing work in time which led to missing link in the channel and the development of CCA was adversely affected.

This review contained seven recommendations which included formulating strategic plan to execute canal project, expedite the work of development of distribution work, taking corrective action based on reasons identified for missing links and complete them as soon as possible, taking immediate steps to strengthen the WUAs for better management of canal and making a viable debt service plan to avoid huge financial burden on GoG in future.

(Chapter 2)

3. Performance review relating to Statutory corporation

Performance review relating to **Functioning of Gujarat State Road Transport Corporation** was conducted. Executive summary of the audit findings are given below:

Functioning of Gujarat State Road Transport Corporation

Gujarat State Road Transport Corporation (Corporation) provides public transport in the State through its 16 divisions and 125 depots. The Corporation had fleet strength of 7,561 buses as on 31 March 2009 and carried an average of 23.97 lakh passengers per day. The performance audit of the Corporation for the period 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation suffered a loss of Rs. 158.28 crore in 2008-09 without considering prior period adjustments. Its accumulated losses and borrowings stood at Rs. 1,702.36 crore and Rs. 932.82 crore as at 31 March 2009. The Corporation earned Rs. 17.55 per kilometre and expended Rs. 19.11 per

kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to increase revenue and reduce costs so as to earn profit and serve its cause better.

Vehicle profile and utilisation

The Corporation could not keep pace with the growing demand for public transport and its share declined from 19.59 per cent to 16.38 per cent during 2004-09. Corporation had a fleet of 7,561 buses. Of these, 3,791 were overage i.e. more than seven lakh kms. The percentage of overage buses declined from 78.36 per cent to 50.14 per cent due to acquisition of 3,720 new buses during 2004-09 at a cost of Rs. 530.11 crore.

The acquisition was mainly funded from the loans and equity contribution from the State Government.

Corporation's fleet utilisation at 87.8 per cent in 2008-09 was below All India Average (AIA) of 92 per cent. Its vehicle productivity at 417 kilometers per day was above the AIA of 313 kilometres. Similarly, its load factor at 65.74 remained above the AIA of 63 per cent. However, the Corporation could not achieve its own targets of vehicle productivity except during 2006-07. Though the Corporation did well on operational parameters, its 89 per cent of routes of buses remained unprofitable due to high cost of operations.

Economy in operations

Manpower and fuel constitute 76 per cent of total cost. The Corporation succeeded in reducing its manpower per bus from 7.32 in 2004-05 to 6.22 in 2008-09. However, the expenditure on repairs and maintenance was Rs. 185.34 crore (Rs. 2.45 lakh per bus) in 2008-09, of which 45.20 per cent was on manpower.

Revenue maximization

The Corporation can increase its revenue generation by reducing the percentage of spare vehicles to four from the present 10 per cent and put more buses on road for operation. Optimal utilisation of crew can control the cancellation of schedules to a significant level. The Corporation should also take up with the State Government the reimbursement of outstanding subsidy.

The Corporation has 4.78 lakh square metres of land. Though the Corporation has undertaken projects under public private partnership for construction of shopping complexes, malls, hotels, office spaces, etc. at seven of the 34 sites, the progress is very slow. Early completion of the projects would ensure steady stream of revenue without any investment by it and also help cross subsidise its operations. The Corporation has not framed any policy in this regard.

Need for a regulator

The Corporation has not formed norms for providing services on uneconomical routes.Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address the grievances of commuters.

Inadequate monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. The Corporation did not set targets for fleet utilisation and load factor. Further, the MIS did not give bus wise cost data to assess the viability of repairs and maintenance of buses and taking suitable remedial measures. The Board of Directors did not give any direction /instruction for improvement of various operational parameters.

Conclusion and Recommendation

Though the Corporation is incurring losses, it is mainly due to its high cost of operations. The Corporation can maximize its revenue by tapping non-conventional sources of revenue. The review contains seven recommendations to improve the Corporation's performance. Phasing out overage buses, creating a regulator to regulate fares and services and devising policy of tapping non conventional sources of revenue through public private partnership projects are some of the recommendations.

(Chapter 3)

4. Transaction Audit Observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of Rs. 8.78 crore in two cases due to non-compliance with rules, directives, procedures and terms and conditions of contracts.

(Paragraphs 4.5 and 4.18)

Exposure to unwarranted liabilities of Rs. 74.24 crore, loss of Rs. 54.42 crore and premature investment of Rs. 2.25 crore in 15 cases due to non-safeguarding the financial interests of organization.

(Paragraphs 4.2, 4.3, 4.6, 4.7, 4.10 to 4.17 and 4.19 to 4.21)

Loss of Rs. 8.20 crore in two cases due to defective/deficient planning.

(Paragraphs 4.1 and 4.8)

Loss of Rs. 1.19 crore in one case due to lack of fairness, transparency and competitiveness in operations.

(Paragraph 4.4)

Gist of the major observations is given below.

Finance Department made **Gujarat State Financial Services Limited** incur expenditure of Rs. 5.22 crore on its renovation and modernisation, most irregularly and inappropriately, under a hugely extended interpretation of 'Nirmal Gujarat' slogan of the Government.

(Paragraph 4.5)

Alcock Ashdown (Gujarat) Limited incurred loss of Rs. 13.73 crore and also exposed with a liability for payment of Rs. 10.36 crore, besides blocked up inventory of Rs. 74.34 crore due to non supply of vessels in time.

(Paragraph 4.10)

Gujarat State Financial Corporation suffered loss of Rs. 2.11 crore due to non revision of OTS amount as per stipulation approved by State Government.

(Paragraph 4.20)