# Chapter IV

## Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.

## Government companies

## Gujarat State Fertilizers and Chemicals Limited

### *4.1 Avoidable extra expenditure in purchase of Rock Phosphate*

**Failure to evaluate and accept the competitive offer from supplier of Rock Phosphate resulted in avoidable extra expenditure of ₹ 5.91 crore.**

The Company procured Rock Phosphate (RP) from Rajasthan State Mines & Minerals Limited, Rajasthan (RSMML) and Jordan Phosphate Mines Co. Limited, Jordan (JPMC) for production of Phosphoric Acid (PA). In July 2008, the Company entered into a Memorandum of Understanding (MoU) with JPMC for supply of 38,500 MT high grade RP at US dollar (USD) 435 PMT CFR[∇] Dahej. JPMC was to arrange for the combined shipments of RP along with the requirements of RP by other entities *viz.*, Gujarat Alkalies and Chemicals Limited (GACL) and Gujarat Narmada Valley Fertilizers Limited (GNFC). The entire supplies were to be completed before December 2008 against which JPMC supplied 13,700 MT of RP upto December 2008. Balance supply of RP was not accepted by the Company considering high cost of RP *vis-a-vis* market price of PA making manufacturing of PA operation not viable.

In March 2009, JPMC offered to supply the balance 24,800 MT of RP at USD 175 PMT CFR Dahej. The Company did not accept the offer on the plea that the landed cost of RP (at the Company's factory) at USD 175 PMT, worked out to ₹ 10,258 PMT which was higher than the landed cost of ₹ 10,137 PMT charged by RSMML. JPMC again offered (May 2009) to supply the balance quantity at USD 140 PMT CFR Dahej during the month of May and June 2009 itself. The Company, this time, did not evaluate and consider this revised offer with reference to the rate at which it was getting supply from RSMML. However, the other entities *viz.*, GACL and GNFC who had got similar offers from JPMC, accepted (May 2009) the same and accordingly entered into MoU with JPMC.

[∇] This means the cost and freight for the delivery of goods to the named port of destination (discharge) would be at the seller's expense.

We observed that considering the offer price of USD 140 PMT CFR Dahej, landed price of RP supply from JPMC worked out to ₹ 7,755.25 PMT[Σ] which was economical than the price (₹ 10,137 PMT) charged by RSMML. The Company, however, continued to purchase 24,864.32 MT during May to July 2009 from RSMML at the landed cost of ₹ 10,137 PMT. Had the Company evaluated the JPMC offer of May 2009 in comparison to the cost of supplies from RSMML, it could have purchased the balance quantity of 24,800 MT of RP from JPMC at ₹ 7,755.25 PMT. Thus, the Company's failure to evaluate and accept the competitive offer of JPMC resulted in avoidable extra expenditure of ₹ 5.91[⊗] crore in purchase of 24,800 MT of RP.

The Management stated (June 2010) that the offer made by JPMC in May 2009 was unsolicited. Further no quantity was specified and even the price indicated was also for the supply to be made in May/ June 2009. Moreover, JPMC would supply only 5,000 MT of RP on sharable basis with GACL and GNFC in one shipment which would not be sufficient to meet the Company's requirement for RP till June 2009. RSMML was a Government company and was also regular supplier of the Company.

The justification of the Company is not tenable for the following reasons:

- The offer of JPMC (March/May2009) was not unsolicited as it was originating from the MoU of July 2008, under which 24,800 MT was left out for purchase by the Company;

- JPMC offered (May 2009) to supply 25,000 MT of RP during May and June 2009 itself and was ready to supply the required quantity while fixing vessel for shipment for RP to the Company along with GACL and GNFC;

- The Company had a stock of 29,282 MT (April 2009) as against the stock requirement of 50,000 MT and the offer of JPMC for supply of 25,000 MT of RP was sufficient to meet its requirement till June 2009;

- As per the Company's records, it had been sourcing the RP both from JPMC and RSMML and adopting conservative approach, it was beneficial for the Company to have another sources of supply viz., JPMC in addition to RSMML.

The Company should fix responsibility for the failure in timely evaluating JPMC's supply offer of May 2009 with reference to the cost of supplies by RSMML.

The matter was reported to Government (May 2010); their replies had not been received (November 2010).

---

[Σ] Considering the offered price (after reckoning franchise and quantity discount) at the exchange rate of ₹ 47.6045 per USD prevailed in May 2009 and adding other elements such as, landing charges, duties, service /handling charges, transportations cost etc.

[⊗] (₹ 10,137- ₹ 7,755.25) x 24,800 MT.

### *4.2 Loss due to unfavourable payment terms*

**The Company failed to recover claim for short receipt of imported sulphur valuing ₹ 1.08 crore due to unfavourable terms of payment.**

The Company placed (February 2008) a purchase order (PO for import of 15,000 MT of Sulphur on M/s Sun International, New Delhi (firm S). Firm S was to supply the sulphur of Iran origin through their principals M/s.Havi Ocean Co., Dubai (firm H) at the rate of EURO 397 PMT C&F[∇] at Bhavnagar port (port B). Firm H nominated (February 2008) the vessel *viz.*, MV "Power" Panama, and loaded (4 March 2008) only 10,900 MT out of the ordered quantity (15,000 MT) of sulphur into the vessel after carrying out draught survey[f] through his agent (M/s Caleb Brett). For 10,900 MT executed, the Company made (11 March 2008) the full payment of ₹ 27.09 crore[⊗] to firm H through letter of credit (L/C) at sight on receipt of documents.

The discharge of cargo from the vessel at port B was carried out between 17 and 24 March 2008 by the Company's clearing agent M/s.Shree Sagar Stevedores. The clearing agent informed (24 March 2008) the Company that before complete discharge of cargo, the Master of vessel instructed him to stop the work as the total cargo of 10,900 MTs had already been discharged. The draught survey agents of both firm H (i.e M/s Caleb Brett) and that of the Company (*i.e.* M/s H Mahendra & Company, Jamnagar) certified (on 24-25 March 2008) that the entire cargo of 10,900 MTs was discharged from the vessel at port B. But, the Company's records indicated that there was a shortage of 427 MTs[*] of cargo as measured at port B. As the shortage was in excess of 0.5 per cent of Bill of Lading (B/L) quantity, the Company asked (March, August and October 2008) firm S to either deliver the short supplied quantity of cargo or refund the price paid for it. Firm S did not accept (August 2008) this demand on the plea that the quantity discharged at port B as certified in the draught survey report of M/s Caleb Brett matched with the quantity given in B/L.

In this regard, we observed that as per terms of previous PO placed (September 2006) with firm S, the Company was to make payment of only 95 *per cent* of value of PO against the documents and balance five *per cent* was payable only after settlement of claims, if any, with the supplier. The Company, however, in present P.O agreed to make full payment against the documents, without any justification. Further, even after lapse of more than two years, the Company did not investigate and correctly identify the cause for shortage of 427 MTs of cargo worth ₹ 1.08 crore[×] and agency responsible for it.

---

[∇] The rate inclusive cost and freight for the consignment upto Bhavnagar port.

[f] It is a method of cargo weight determination by ship's displacement calculations, empty and loaded.

[⊗] ₹ 10,900 MT x ₹ 24,853.19/MT(the exchange rate at which payment made was ₹ 62.6025 per EURO).

[*] 10,900 MTs (-) moisture loss 6.322 MTs (-) actual receipt of cargo 10,467.070 MTs at port.

[×] Landed cost of sulphur ₹ 25347.90 (₹ 24,853.19 + customs duty ₹ 494.71) per MT x 427 MTs.

The Management stated (July 2010) that the payment terms under present PO were changed as firm S wanted full payment against delivery of documents. As regards the shortages, it was stated that the same occurred due to some error in the Company's draught surveyor report and also due to the losses which occurred during transit of cargo from vessel to open plot at port B. The surveyor was stated to have been blacklisted with no action against the clearing agent as he was not at fault for the shortage. Further, the shortage of cargo was only 381 MTs instead of 427 MTs as pointed out by Audit.

The reply is not convincing as while agreeing to the request of firm S for changing the payment terms, the Company failed to safeguard its financial interests. As regards the shortages, the reply was not supported with any analysis for reasons of shortages in excess of the allowable limits at each stage i.e., during shipping/handling of material from ship to port and the agencies responsible for it. Further, the quantum of shortages of 427 MTs was taken by us based on the Company's records showing the measurement of cargo recorded at port B.

The Company should investigate the reasons for the shortage and also fix the responsibility for the loss.

The matter was reported to Government (June 2010); their replies had not been received (November 2010).

## Gujarat Industrial Investment Corporation Limited

### *4.3 Grant of One Time Settlement to an ineligible firm*

**Grant of One Time Settlement to an ineligible firm led to loss of ₹ 1.53 crore.**

The Company sanctioned (March 1999) a term loan of ₹ 3.07 crore to Ganadhyaksha Hospitalities Limited, Ahmedabad, (Unit) for setting up a hotel (project) estimated to cost ₹ 6.49 crore. The promoters of the Unit were to arrange for the remaining fund. The Company disbursed (March 2000 to May 2002) loan of ₹ 2.90[*] crore based on the progress of execution of the project. The loan carried interest of 18.50 *per cent* and was to be repaid from April 2003 to April 2009. Till November 2003, only 85 *per cent* of the project was completed and further progress was held up due to non availability of small proportion of fund. As the Unit was in default in repayment of loan, the Company took over (August 2004/May 2005) the Unit's assets under section 29 of the State Financial Corporations Act 1951. However, the Company did not make any attempt to sell the assets taken over. Meanwhile, promoters of the Unit had attempted to arrange finance from other sources for repaying the Company's loan and also to complete project.

[*] March 2000- ₹ 2.23 crore, May 2001- ₹ 0.16 crore, April 2002- ₹ 0.37 crore, May 2002- ₹ 0.14 crore.

The Company valued (May 2007) assets of the Unit offered as primary/collateral securities at ₹ 5.53[∇] crore. However, the Unit's outstanding dues (30 June 2007) stood at ₹ 9.56 crore (principal ₹ 2.96 crore and interest ₹ 6.60 crore).

The Company decided (June 2007) to allow the Unit to settle its dues under One Time Settlement (OTS) Scheme IV. As per eligibility criteria for availing OTS scheme, the net worth of the Unit should be negative, recovery of its dues should have been considered to be doubtful and the unit should not have opted for relief[√] from State Government being a sick unit. In addition, the Unit should fulfill any of the following criteria to avail benefits of the OTS Scheme:

i. The unit should have been ordered for winding up by BIFR/AAIFR/High Court or such competent authority; or

ii. The disposal of the unit's assets in possession of the Company should not have materialised despite repetitive attempts of auctions (at least three times) for its sale; or

iii. The project of the unit should have been abandoned during implementation stage due to unfavourable conditions, such as, natural calamities, change in Government policies, major change in technology, etc.

In this case, we observed that the Unit did not satisfy any of the above conditions (i) to (iii). The Unit was never ordered for winding up nor the Company ever made any attempt to sell the Unit's assets taken over by it. Further, the project was never abandoned during implementation stage due to any of the above factors given at sl. no. (iii). In fact, the Managing Director of the Company decided (December 2006) that this Unit was ineligible for settlement of dues under OTS on the ground that the Unit was attempting to get the NRI investor to complete the project. Subsequently, the Company without any justification sanctioned (June 2007) OTS to the Unit for settling its dues against the payment of ₹ 4.00 crore under the scheme which was paid[∞] (August 2007 to March 2008) by the Unit.

Thus, the grant of OTS had not only benefited an ineligible unit under the scheme but also the Company lost an opportunity of recovering ₹ 5.53 crore, through disposal of the Unit's assets already under the possession of the Company. Consequently, the Company suffered a loss of ₹ 1.53 crore[€].

---

[∇] **Prime security** of the Unit (land- ₹ 308.40 lakh, buildings- ₹ 69.97 lakh, equipments- ₹ 57.80 lakh and furniture & fixtures ₹ 26.55 lakh)- ₹ 4.63 crore: **Collateral security** (five residential plots ₹ 64.04 lakh and three office premises ₹ 26.04 lakh)- ₹ 0.90 crore.

[√] The State Government *vide* its GR dated 12.5.2004 approved granting of relief to the sick units for its revival.

[∞] August 2007- ₹ 200.05 lakh, February 2008- ₹ 100.00 lakh and March 2008- ₹ 107.99 lakh (including penal interest for the delay- ₹ 7.99 lakh).

[€] ₹ 5.53 crore (-) ₹ 4.00 crore.

The Management stated (June 2010) that before introduction of OTS scheme IV in May 2005, as per the direction of State Government, the Company inspected the units of its loanees affected by earthquake and this Unit was identified as a Unit abandoned at implementation stage due to earthquake. Thus, after the introduction of OTS scheme IV the benefit was extended to the Unit.

The reply is not tenable. The Company inspected the Unit during February 2001 and identified the Unit as the 'Unit abandoned at implementation stage'. However, the Company went ahead with disbursement of loan amount of ₹ 66.63 lakh during May 2001 to May 2002 and thereafter, 85 *per cent* of project work of the Unit was also completed till November 2003. Moreover, in November 2006 when the Unit opted to settle dues under OTS scheme IV, the Company declared (December 2006) that the Unit was not eligible for OTS under this scheme. Thus, the contention of the Management lacked justification.

The Company should ensure that in future, the benefits of OTS schemes are extended to eligible units only and also fix the responsibility for not initiating timely action for disposal of Unit's assets.

The matter was reported to Government (May 2010); their replies had not been received (November 2010).

## Gujarat State Petroleum Corporation Limited

### *4.4 Non recovery of take or pay quantity charges and penalty*

**Undue favour was shown to buyers of gas due to non recovery of take or pay quantity charges of ₹ 47.97 crore and penalty of ₹ 3.59 crore.**

The Company entered into (December 2008) Gas Sale Agreement (GSA) separately with Essar Power Limited (EPL), Mumbai and Gujarat Paguthan Energy Corporation Limited (GPECL), Ahmedabad for supply of gas at average daily volume of 13,00,000 SCM[∇] and 4,00,000 SCM respectively. The period of GSA was upto 31 December 2013. EPL and GPECL were Independent Power producers and were supplying power to Gujarat Urja Vikas Nigam Limited (GUVNL). As per the provisions of GSA, if the total quantity of gas taken in any of the quarters by EPL/GPECL was less than the minimum off take quantity i.e equivalent to 80 *per cent* of the Daily Contracted Quantity[∂] (DCQ) of gas multiplied by the number of days in the quarter, EPL/GPECL were liable to pay 'Take or Pay quantity (ToP) charges' on this differential quantity. ToP charges were to be paid by EPL/GPECL in addition to the amount payable for the actual gas taken during the quarter. In the event of default in paying the dues by EPL/GPECL, the Company was

---

∇ Standard cubic metre.
∂ For EPL - 50,960 million metric British thermal units (MMBTU) and GPECL-15,863 MMBTU.

entitled to levy the penalty[Σ] on the outstanding dues or suspend the supply of gas to EPL/GPECL. Further, EPL/GPECL were also required to open and maintain letter of credit (L/C)[↕] in favour of the Company with bank as security against any payments as may be due and payable to the Company under GSA.

Our scrutiny revealed that during July to September 2009, the quantity of gas taken by EPL and GPECL was 562.74 lakh SCM and 285.51 lakh SCM against the minimum off take quantity of 919.43 lakh SCM and 295.14 lakh SCM respectively. Accordingly, for the differential quantity of 356.69 lakh SCM[◊] and 9.63 lakh SCM[⇑], the Company raised (6/8 October 2009) demand on EPL and GPECL for payment of 'ToP charges' of ₹ 46.71 crore and ₹ 1.26 crore respectively by 12 October 2009. EPL and GPECL, however, had not paid the charges (April 2010). Against the dues of EPL, the Company had no security as EPL did not open (December 2008) the required L/C for ₹ 95.08 crore in favour of the Company as per terms of GSA. Even in case of dues of GPECL, the Company did not take action to encash the L/C of ₹ 26.56 crore available with it for recovery of ToP charges. The Company also failed to suspend the gas supply and levy the penalty of ₹ 3.50 crore and ₹ 0.09 crore[⇓] on outstanding ToP charges from EPL and GPECL respectively for the period from 12 October 2009 to 30 April 2010.

The Management stated (April/June 2010) that if it would recover ToP charges from EPL/GPECL, they would in turn pass on the expenditure to GUVNL being fuel related cost under PPA and GUVNL would further pass this cost to the end consumers of electricity. Further, it was stated that though EPL/GPECL had not taken the minimum off take quantity of gas, the Company did not pay any ToP charges under GSA with its suppliers[∇]. As the Company sold the short drawn quantity of gas by EPL/GPECL to alternate customers, there was no loss to the Company.

The reply is not convincing. EPL was utilising 42 *per cent* of the total quantity of gas purchased from the Company for EPL's captive consumption and there was nothing on record to prove that the gas procured from the Company was exclusively utilised for generation and supply of power to GUVNL. Further, ToP charges are in the nature of penalty levied on account of inefficiency in procurement and not directly related to cost of inventories. Hence, the plea that these were necessarily to be passed on to the cost of fuel is not acceptable as no contention in terms of authoritative pronouncement was enclosed. Furthermore, the question of payment of ToP charges to the suppliers of the Company did not arise as admittingly, the short lifted quantity of gas by EPL and GPECL were said to have been sold to other consumers. The rationale of ToP charges to ensure commitment of long term supply based on which the infrastructure was developed including production/sourcing was drawn, stood

---

[Σ] Penalty rate was equal to SBI Prime lending rate plus two *per cent.*

[↕] L/C equivalent to an amount which was the sum of 45 days x DCQ x contract per MMBTU.

[◊] 13,95,219 MMBTU.

[⇑] 37,672 MMBTU.

[⇓] At 13.75 *per cent* (SBI Prime lending rate 11.75 *per cent* w.e.f. 29 June 2009 *plus* two *per cent*).

[∇] Indian Oil Corporation, Bharat Petroleum Corporation Limited/Gas Authority of India Limited.

defeated in the instant case as the provisions of written agreements were not followed.

Non obtaining of required L/C from EPL and non recovery of ToP charges as per term of GSA from the defaulting buyers of gas were indicative of the poor internal control mechanism of the Company.

The matter was reported to Government (May 2010); their replies had not been received (November 2010).

## Gujarat State Investments Limited

### *4.5 Non adherence to government instructions on deployment of surplus funds*

**Placement of surplus funds in non interest bearing PLA in violation of Government instructions led to loss of interest of ₹ 3.26 crore.**

Finance Department (FD) of Government of Gujarat (GoG) issued instructions (26 July 1995) to all State Public Undertakings (PSUs) to deposit funds given by the Government as grant, equity contribution, loan, subsidy or in any other forms in non interest bearing Personal Ledger Account[∇] (PLA) with Government Treasury. Further, if any PSU had surplus fund[€] other than those received from GoG, it was not required to deposit such surplus funds in PLA but should deposit it as an Inter Corporate Deposit (ICD) in Gujarat State Financial Services Limited (GSFS)[Σ]. For these ICDs, GSFS would pay interest which would be at least one *per cent* higher than the maximum rate approved by Reserve Bank of India[◊] for term deposits. It was also mentioned in the instructions that in order to meet the ways and means requirement, if GoG draw the funds from GSFS it would pay interest to GSFS which would not be less than the rate at which GSFS was paying interest to PSUs on the deposits.

A series of such instructions directing all state PSUs to deposit their surplus fund with GSFS was also issued during March 1998 to November 2000. Instances of non adherence to these instructions by not deploying the surplus funds by various state PSUs was also pointed *vide* Para 3.10 of Audit Report

---

[∇] Funds under PLA are deposited with the RBI and against the balances kept in the PLA by the PSUs of various states, interest at the rate of five *per cent* per annum was allowable to the Government of the respective states.

[€] As defined by GoG *vide* its instructions dated 13 December 1999, any operating surplus with enterprise in form of cash in current account with bank or otherwise that is required in a future date even after one day for the enterprises' expenses and till then could be invested in any instrument available with GSFS.

[Σ] a State PSU (registered with RBI as non banking finance company) got mandate to manage the surplus funds of various GoG entities. The surplus funds accepted as ICD or very short deposit even for one day under 'Liquid deposit scheme' from state PSUs are being used by GSFS to lend money to needy PSUs or to GoG or invest the funds in inter-bank call money through Discount and Finance House of India, a primary dealer in call money market.

[◊] *Vide* GoG instructions of 23 March 1998, the interest to be payable on this ICD should be one *per cent* higher than the rate at which State Bank of India was paying interest on the term deposits of relevant nature.

1999-2000, Para 4.6 of Audit Report 2002-03 and Para 4.5 of Audit Report 2003-04 (Commercial) – Government of Gujarat.

A test of check of records of the Gujarat State Investments Limited, a state PSU engaged in the business of investing its funds mainly in the equity shares of public limited companies and holding such investments on long term basis, revealed that it had a huge surplus of funds ranging from ₹ 0.36 crore to ₹ 131.86 crore during April 2006 to March 2010. These funds were accumulated mainly due to receipt of dividend from the investments made by the Company. The Company was aware that these funds were not received from the Government in the form of grant etc., but earned as dividend out of investments. Hence, the Company should have deposited these surplus funds in ICD with GSFS which carried interest varying between five and eight *per cent* per annum. The funds, however, were kept in non interest bearing PLA for a period ranging from 15 days to 184 days on which interest at the rate of five *per cent* per annum allowable by RBI to GoG with no return to the Company. Even after taking into account the interest at the rate of five *per cent* per annum allowed by RBI to GoG on PLA deposits, the Company had lost an interest income of ₹ 3.26 crore for the differential interest rate ranging from 0.25 to 3 *per cent* allowable in ICD of GSFS for a term of 15 to 90 days/181 days to one year.

In the reply (September 2010) of the Management which was endorsed (September 2010) by the Government, it was stated that the Company had been functioning under the direct supervision and control of FD of GoG and its policies and decisions were in conformity with those of GoG. The dividend income from the equity shares held on behalf of GoG was the primary source of income for the Company. Hence, it had been a conscious decision of Management to transfer the earnings of the Company to PLA with an intention to pass the revenue surplus in the control of GoG. However, the audit observation was noted and the Management was in the process of formulating an investment strategy to leverage its earnings.

The reply is not tenable. The surplus funds were not deployed in conformity with the policies and decisions of GoG. Further, during 2006-07 to 2009-10, GoG did not draw any ways and means advances from RBI. In view of this, the transfer of such surplus funds to the control of GoG could not have served any purpose. Rather by adhering to FD instructions on deployment of surplus funds, the Company could have got interest income of ₹ 3.26 crore.

## Sardar Sarovar Narmada Nigam Limited

### *4.6 Avoidable payment of price adjustment*

**Avoidable payment of price adjustment of ₹ 13.92 crore due to avoidable delay in making payment of dues and submission of model test data to the contractor.**

The Company awarded (September 2001) two contracts for (i) supply of plant and equipment (₹ 273.93 crore) and (ii) installation and commissioning of five pumping stations (PS) (₹ 167.99 crore) on Saurashtra Branch Canal (SBC) at a total cost of ₹ 441.92 crore to Kirloskar Brothers Limited (firm KBL), Pune on turnkey basis*. The entire works awarded under the above contracts were to be carried out in two phases, *viz*. Phase I∇ within 36 months and Phase II# within 60 months, from the date of award of contract. Thus, all five PSs were to be fully commissioned by September 2006. The contracts stipulated for the payment of price adjustment (PA) to KBL for neutralising the increase in the cost of material and labour during performance of the contract.

None of the PSs could be completed as per the schedule stipulated under each Phase. The Company granted (December 2003 to September 2009) six extensions of time for completion of the work up to December 2009. All the PSs were fully commissioned in November 2009 with a delay of 39 months. The Company paid ₹ 165.72 crore towards PA to KBL during the period of the contract up to November 2009, of which ₹ 41.76 crore was paid for the work executed during the extended period of contract i.e. September 2006 to November 2009. Of the 39 months, the delay of 13 months was attributable to the Company on account of its failure in making payments to KBL within the period of 45 days from the date of receipt of Running Account (RA) bills as stipulated in the contract (delay of 10 months) and also due to the delay in supply of model test data of Concrete Volute (CV) type pumps to KBL (delay of three months). Remaining delay of 26 months was beyond the control of both the Company and KBL.

We observed that the delays attributable to the Company were avoidable on account of the following:

- During the period from April 2002 to May 2007, there were delays ranging from 3 to 209 days (beyond the stipulated period of 45 days) in making payments against the RA bills claims of ₹ 0.41 crore to ₹ 21.25 crore lodged by KBL. During this period, the Company had a huge balance of ₹ 920.11 crore to ₹ 1,862.82 crore both in Current Accounts with banks and in Personal Ledger Account with treasury whereas the Company's liabilities for payment of total dues for the various works being executed

---

* It refers to the type of project that is constructed by contractor and handed over it to the Company in ready to use condition.

∇ Phase I comprised of supply and installation of 11 nos. of concrete volute pumps and 22 nos. of vertical volute pumps at PS-1 PS-2, PS-3 PS-4 and PS-5.

\# Phase II comprised of supply and installation of 15 nos. of concrete volute pumps at PS-1, PS-2, PS-3, PS-4 and PS-5.

through other contracts ranged from ₹ 9.45 crore to ₹ 118.41 crore. Hence, the funds available with it could have been used for the payment to KBL within 45 days as per terms of contract.

- Under the contract one of the items of work was supply and installation of CV pumps in PSs. KBL was to carry out model test/study of the performance of CV pumps in Italy i.e. at the place of manufacturer viz., Termo Meccanica who was the collaborator of the KBL for the work. As per schedule the model test of CV pumps was to be conducted in December 2001 and the Company's officials were to witness such test for finalising the design and engineering of pumps. The Company, however, belatedly sought approval of State Government in April 2002 for deputing its officials to Italy. Accordingly, the model test was conducted only in June 2002. No reason was on record for the delay in seeking the approval of the State Government.

Thus, the Company's failure to avoid the above delays resulted in avoidable payment of PA of ₹ 13.92 crore (reckoning the delay of 13 months out of 39 months attributable to the Company against the total PA of ₹ 41.76 crore).

It is recommended that the Company should revamp its internal control system for the management of funds so as to ensure payment of dues in time.

The matter was reported to Government/Management (August 2010); their replies had not been received (November 2010).

### *4.7 Premature investment*

**Blocking up of expenditure of ₹ 4.23 crore incurred on construction of control cabins not required for immediate use.**

The Sardar Sarovar Project (SSP) canal system comprises of Narmada Main Canal (NMC) and a delivery network consisting of branch canals, distributaries, minor channels and control structures *viz.,* cross regulators[^], escapes[∀], etc. The Company planned (August 1994) to adopt computer aided Remote Monitoring and Control System (RMCS) for operation of the canal conveyance system. It was envisaged that through RMCS, the volume of water between any two cross regulators would be altered as desired by proper positioning of flow regulating structures. Mention was made in paragraph 3.6 of Audit Report 2007-08 (Commercial) – Government of Gujarat, regarding the Company's failure to review the feasibility of installation of RMCS for 10 years (1995-2005) and also how the Company incurred an expenditure of ₹ 9.92 crore on consultancy services which proved unfruitful due to deferment (November 2005) of implementation of RMCS project till 2011 when the canal system was expected to serve water in the entire command area[⊕].

---

[^] It is provided in the main canal after every 12 to 15 kms distance.

[∀] Escape is a passage provided with the gate in the canal to allow the excess water of the canal to flow in the nala/river/other places.

[⊕] Area that can be reliably irrigated from a project and is fit for cultivation.

We further analysed (April to June 2010) various aspects related to installation of RMCS by the Company. One of the items planned for RMCS was construction of control cabins alongside the control structures (having design discharge of 8.5 Cumecs and above) on the branch canals and distributaries. The control cabin was to house the remote terminal unit (RTU), a microprocessor based remote station in the field which was to collect, process and communicate the data with its master station and other stations and was also to perform some control action through proper positioning of flow regulating structures (across the canal) having radial and vertical gates to be operated electrically.

The Company awarded (1997 to 2005) contracts for construction of 242 control cabins (CCs) costing ₹ 18.37 crore through its four offices of Chief Engineer at Vadodara, Mehsana, Rajkot and Gandhinagar. Against this, till November 2005, the Company incurred expenditure of ₹ 16.31 crore and completed the construction of 188 CCs at a cost of ₹ 15.63 crore and also incurred ₹ 0.68 crore on 54 CCs, the construction of which was under progress. Clause 56 of the contract allowed the Company to order the contractor to stop the construction of CC for any reasons. In view of the Company's decision of November 2005 to defer the installation of RMCS till 2011, the Company should have stopped the construction work of 54 CCs by invoking clause 56 of the contract in November 2005 itself. However, it did not stop but continued the work and incurred an expenditure of ₹ 2.06 crore during December 2005 to November 2007 to complete these 54 CCs. Further, the Company had also awarded new contracts for construction of 41 CCs through its CE Offices at Mehsana and Gandhinagar during July to October 2009 and incurred an expenditure of ₹ 2.17 crore till March 2010. Thus, the imprudent spending of ₹ 4.23 crore (₹ 2.06 crore + ₹ 2.17 crore) due to non stopping of the works already awarded and also due to award of new contracts for construction of CCs resulted in blocking of funds on the work which was not immediately required.

As against the entire Command Area of 18.45 lakh hectare to be developed prior to installation of RMCS in 2011, the Company had developed Command Area of 3.48 lakh hectare (June 2010). In view of this, the possibility for taking up the work of installation of RMCS may also get further delayed beyond 2011 and the possibility of using the CCs in near future, for the purpose for which it was constructed was not certain.

The Management stated (September 2010) that CCs were required in both systems i.e. either for automation or for manual operation of the canal. As such, the CCs constructed were being used as storage for keeping necessary gate items and as a shelter for staff engaged in canal operation. Further, the Company now decided to implement the work of RMCS, for which required actions were initiated. Thus, expenditure incurred for construction of CCs was not premature.

The reply is not tenable. The very purpose of construction of CC was to house RTU envisaged under RMCS project. As such, the contracts for construction of CCs were awarded with an aim to meet the requirement related to canal automation only. Thus, the Company's contention that CCs were also required for storing gate items and giving shelter to staff engaged in manual operation of canal gates is mere hindsight.

It is recommended that the Company should fix the responsibility for the unnecessary expenditure of ₹ 4.23 crore incurred on the construction of CCs.

The matter was reported to Government (August 2010); their replies had not been received (November 2010).

## Gujarat State Petronet Limited

### *4.8 Undue benefit to a firm*

**Non adherence to the terms of gas transmission agreement and also to the decision of Company's Board of Directors resulted in passing of undue favour of ₹ 11.18 crore to a firm.**

The Company undertakes the work of transmission of gas, through pipeline, from the place of supplier of gas to the place of consumer after entering into gas transmission agreement (GTA) with the consumer. In February 2006, Torrent Power Generation Limited (TPGL), Ahmedabad, a private sector company, which was setting up its 1100 MW gas based combined cycle power plant at Akhakhol near Surat had entered into GTA with the Company. As per the provisions of GTA, the Company would reserve capacity (capacity tranche-CT) in its pipeline for transmission of 58 Billion BTUs* of gas from ONGC Hazira premises to TPGL's power plant at Akhakhol. Further, the Company would lay spur line to TPGL's plant for starting transmission of gas to enable TPGL to commission its first block of power plant by November 2007. Accordingly, under GTA, CT start date was fixed as 30 November 2007, and the Company was entitled to levy and recover spur charges, transportation charges during the period from start of transmission of gas up to the CT start date. In addition to the above, Company was also entitled to levy and recover various penal charges, such as, overrun charges, variance charges and imbalance charges in the event of not maintaining the grid discipline by TPGL while drawing gas through Company's pipeline.

We observed that the Company after laying (15 May 2007) spur line started to raise invoices levying spur charges as per provisions of GTA from July 2007. However, anticipating delay in commissioning of power plant beyond 30 November 2007 and with a view to avoid payment of penal charges due to difficulty in adhering to the grid discipline during the delay period beyond CT start date i.e. 30 November 2007, TPGL requested (October 2007) for shifting the CT start date to 31 May 2008 and later requested (September 2008) for shifting it to 15 November 2008. Since the physical transportation of gas started from 1 November 2008 to TPGL plant, the Company raised invoices for recovery of transportation charges and penal chargers also. Pending the Company's decision on its request, TPGL made the payments against invoices

* British Thermal Unit.

on adhoc basis. The Company's Board of Directors (BoD) discussed (February 2009) the issue of shifting the CT start date of TPGL and decided not to postpone the CT start date and to follow the terms of GTA entered with TPGL. Despite this, the Company instead of effecting the recoveries, had continued to accept adhoc payments from TPGL. In September 2009, TPGL informed the Company that it had commissioned and started commercial operation of plant from 15 August 2009 and requested for shifting the CT start date to 15 August 2009. Disregarding the Board of Directors decision of February 2009, the Company acceded to the request of TPGL to shift the start date to 15 August 2009 and amended (October 2009) the GTA accordingly. Consequently, of the invoices amounting to ₹ 40.49 crore raised from time to time as per terms of GTA during the period July 2007 to 14 August 2009, the Company gave up its legitimate right for recovery of ₹ 11.18 crore levied towards penal charges[∇] during the period from November 2008 to 14 August 2009 for non maintaining grid discipline by TPGL.

In the reply (September 2010) of the Management which was endorsed (September 2010) by Government, it was stated that the Company accepted the request of TPGL for waiver of the penal charges from the date of commencement of transportation of gas (1 November 2008) up to the date of commissioning of their power plant (14 August 2009) in view of the fact that the GTA allowed for non levy of penal charges during the commissioning period as there would be some variation in offtake which would be beyond the control of the customer. Further, as per the Access Code notified (July 2008) by PNGRB[#] the Company, being the transporter, should deposit the penal charges collected into an escrow account and hence, the penal charges would not form part of their income. Thus, the Company was not the beneficiary from the receipt of such charges. So far as the waiver of dues against the decision of BoD was concerned, it was stated that the matter was brought to the notice of BoD in July 2010 and a Committee of Directors was constituted to resolve such issues in future.

The reply is not tenable. GTA was formulated after reckoning the time required both by the Company and TPGL for laying the pipelines and commissioning of the power plant respectively. Thus, on the expiry of proposed commissioning period (30 November 2007) fixed in GTA all the charges would be applicable. Further, GTA did not provide for changing the commissioning period/CT Start Date. Regarding the penal charges to be deposited into the escrow account, the Company would be the beneficiary since the deposit made in the account would be available to the Company to meet the expenditure relating to compressing of gas/improving the management of pipelines system due to the imbalances created by the customers while off taking the supply. The fact, therefore, remained that the Company passed undue benefit of ₹ 11.18 crore to TPGL which was neither allowable under GTA nor authorised by the Company's BoD.

---

∇ Overrun charges ₹ 19.06 lakh, Variance charges ₹ 36.29 lakh and Imbalance charges ₹ 1,062.15 lakh related to the period from 1 November 2008 after starting of physical transportation of gas.

\# Petroleum and Natural Gas Regulatory Board.

It is recommended that the responsibility should be fixed for allowing shifting of CT start date by overriding the Board's decision.

### *4.9 Unfruitful expenditure*

**Lack of Company's involvement and control over execution of contract for development of software for gas grid led to unfruitful expenditure of ₹ 2.34 crore.**

The Company awarded (26 February 2004) a lump-sum contract for development of application software for its gas grid at a cost of ₹ 3.35 crore to Energy Solution International India Private Limited (ESI), Hyderabad. As per contract, ESI was to design, install, commission and test the application software systems viz., i) Pipeline Manager (PLM) System to give complete picture of pipeline operation including pressure, flow, temperature, leak detection etc., by retrieving data from the Company's existing SCADA[∇] system for gas grid, ii) Pipeline Transporter (PLT) system to allow for management of gas transportation contracts including capturing of data from SCADA system on the actual flow of gas and its quality and preparation of invoices for customers. The work was to be completed within a period of 32 weeks *i.e.* by 31 October 2004. The payments to be made to ESI were linked with achievement of certain milestones i.e, payments of 20, 10, 35, 25 and 10 *per cent* of the value of contract were to be released (a) on signing of contract, (b) on completion of Functional Design Specifications (FDS), (c) Factory Acceptance Test (FAT)[↔] and integration with SCADA system, (d) Site Acceptance Test (SAT)[f] at the Company's office, and (e) fault free operation for continuous 45 days respectively. While releasing the payments, the Company was to deduct ten *per cent* of the amount towards security deposit (SD).

The Company made (March 2004) the payment of ₹ 60.30 lakh to ESI after signing the contract. Against, the schedule of completion of FDS by 31 March 2004, ESI was ready with FDS on 20 May 2004. But, the Company further delayed the finalisation of FDS by ten months (till March 2005) due to belated vetting of FDS, reviewing and approving the modifications carried out by ESI on FDS. For this milestone, payment of ₹ 30.15 lakh was released in March 2005. Consequent to the delay in approval of FDS, the FAT was completed by 21 May 2005 against the schedule of 31 July 2004. During FAT, the Company noticed (May 2006) problems, such as, PLM system becoming inoperative, disconnecting from SCADA server, SCADA data not getting updated on PLM, etc. The Company, however, without rectification of the problems for ensuring the proper integration of PLM/PLT software with SCADA through ESI, released (May 2005) the payment of ₹ 1.06 crore against the work of FAT. Further, the work of SAT was taken up during January/February 2006 against the schedule of 15 September 2004. Even though, ESI did not complete the SAT, the Company released (February 2006) the payment of

[∇] Supervisory control and data acquisition system refers to a computer system monitoring and controlling any process of work.
[↔] to be conducted at ESI office.
[f] to be conducted at the Company's office at Gandhinagar.

₹ 37.69 lakh being 50 *per cent* of 25 *per cent* of contract value. SAT was never completed and the problem especially in integration of PLM/PLT software with SCADA which was vital for the success of this project remained unresolved. No progress was made since October 2006. The above payments amounting to ₹ 2.34 crore were made after deduction of applicable SD of ₹ 25.96 lakh (May 2010).

We observed that the contract for the work was awarded without invitation of tender for which no justification was on record. Further, delay on part of the Company in finalising FDS, releasing the payments before satisfactory completion of work of FAT/SAT and non initiation of legal actions[Σ] against ESI indicated lack of involvement and control over the execution of contract for development of software. Consequently, the expenditure of ₹ 2.34 crore incurred for the work remained unfruitful as it did not achieve the purpose for which the contract was awarded.

It is recommended that the Company should fix the responsibility for lapses and also should take appropriate decision on revival of software, if feasible, considering the huge costs incurred on its implementation.

The matter was reported to Government/Management (June 2010); their replies had not been received (November 2010).

## GSPC Gas Company Limited

### *4.10 Undue benefit to a firm*

**The Company passed an undue benefit of ₹ 1.18 crore to a firm due to non levy of Take or Pay charges as per terms of gas supply agreement.**

The Company was engaged in the business of procurement and distribution of natural gas through pipelines to the customers belonging to industrial, commercial and residential segments in certain locations/cities of the State. The Company entered into a gas supply agreement (GSA) with Krishana Knitwear Technology Limited, Sarigam (firm K), on 3 March 2008 for supply of daily contracted quantity (DCQ) of 24,000 SCM of gas to firm K. The price of gas was fixed at ₹ 11.81 per SCM and was to remain valid for the period upto December 2008[⇓]. As per the provision of GSA, if in any month, the total quantity of gas taken by firm K was less than the Take or Pay (ToP) Quantity i.e. 80 *per cent* of DCQ multiplied by number of days in a month, firm K should, in addition to payment of gas actually taken, be also required to pay ToP charge for the quantity of gas which was equal to the difference between the quantity of gas taken by him and the ToP quantity for month. However, ToP charges were not leviable for a period of 90 days from the commencement date of supply of gas (grace period). On the expiry of grace period even if firm K had not completed the construction, testing and

[Σ] by invoking provisions of Arbitration and Conciliation Act, 1996 as per terms of contract.

[⇓] From January 2009, the Company had increased the basic price of supply of gas to ₹ 15.50 per SCM and also excluded the provisions related to levy of ToP charges.

commissioning of plant and equipment at his premises, the ToP charges would be recovered.

We observed that the supply of gas to firm K started from 12 March 2008 and grace period allowable was up to 9 June 2008 as per GSA. Firm K, however, requested (6 May 2008) for extension of grace period on the plea that due to some technical problem in their DG set (bi-fuel system), they were unable to conduct trial run and commission their project. The Company granted (21 May 2008) extension of grace period up to 31 July 2008 considering it as a case of 'unplanned interruption and emergency'. Hence, the Company did not levy the applicable ToP charges of ₹ 1.18 crore for the period from 10 June 2008 to 31 July 2008 for non lifting of ToP quantity of 9,98,400 SCM[∇] by firm K. We observed that the action of the Company was not regular as, in terms of GSA, there was no provision for extension in grace period beyond the stipulated period of 90 days under any circumstances. Thus, the grant of irregular extension of grace period resulted in non levy of ToP charges of ₹ 1.18 crore and passing of undue benefits to firm K. Though firm K had continued to take supply even after December 2008, the Company did not recover the ToP charges of ₹ 1.18 crore.

The Management stated (November 2010) that in May 2010 during trial run of plant and equipment of firm K's industrial unit, the unit's gas engine failed due to some technical problem. So, on the request of firm K, the Company relived firm K from ToP obligation till 31 July 2008 considering the interruption in the operation of the unit as a case of 'unplanned interruption and emergency'. So, this was not a case of extension of grace period. As per GSA, the customer could be relieved from ToP obligation during 'unplanned interruption and emergency' period.

The reply is not tenable. In terms of GSA, relief from ToP obligation on account of 'unplanned interruption and emergency' was allowable to a customer in case the unit's operations get interrupted due to some technical problem only after completion of the trial run and commissioning of industrial unit. However, in this case, the unit of firm K was not at all commissioned till 31 July 2008. Hence, relieving the firm K from ToP obligation on account of 'unplanned interruption and emergency' was not a valid ground. Thus, the non levy of ToP charges of ₹ 1.18 crore resulted in passing of undue benefit to firm K.

The Company should fix the responsibility for passing the undue benefit to firm K.

The matter was reported to Government (August/October 2010); their replies had not been received (November 2010).

---

[∇] ToP quantity for June 2008 (80 *per cent* of 24,000 DCQ X 21 days)= 4,03,200 SCM + for July 2008 (80 *per cent* of 24,000 DCQ X 31 days) = 5,95,200 SCM.

## Gujarat Energy Transmission Corporation Limited

### *4.11 Deficiencies in preparation of estimates and award of O&M contracts*

**Improper assessment of the related costs before awarding the contracts for operation and maintenance of substations led to over estimation of cost of the work by ₹ 1.03 crore.**

As on March 2010, the Company had 39,518.73 Circuit Kilometres (CKMs) transmission lines and 1,050 sub-stations (S/s) of various voltage classes *viz.,* 33/11 KV, 66 KV, 132 KV, 220 KV and 400 KV. The Company with an aim to bring in expertise through private participation in transmission business especially in the area of operation and maintenance (O&M) of substations (S/s) decided (January 2006) to go in for outsourcing of O&M in new sub-stations. Accordingly, the Company invited tenders in phases in July 2006 (Phase I), February 2008 (Phase II) and November 2008[∀] (Phase III) for awarding the O&M contracts on fixed price basis for 61 S/s, 32 S/s and 75 S/s of 66 KV respectively. The Company prepared estimates and the bidders were asked to quote on percentage basis with firm price. The contracts were also awarded during the period from December 2006 to August 2009. The duration of each contract was for a period of two years. The scope of O&M work *inter alia* included round the clock monitoring the system, data logging, and maintenance of switchyard, control and relay panels, power transformers, circuit breakers etc., of S/s by the contractor as per the Company's norms. The Company had constructed (2006-10) 202 new S/s of 66 KV, of which 168 S/s were handed over as and when they were ready during December 2006 to March 2010[*].

Our analysis of records related to preparation of estimates and award of O&M contracts revealed the following deficiencies:

**Excess provision in the estimate for escalation of O&M expenses**

**1** The estimated cost of O&M contract awarded under Phase I (for tender of July 2006) was ₹ 10.14 lakh per S/s per year {excluding Service tax (ST) ₹ 1.24 lakh}. The cost broadly consisted of two major items *viz.,* O&M expenditure ₹ 8.82 lakh[∇] and Supervision charges ₹ 1.32 lakh. The contracts for 61 new S/s were awarded (December 2006 to October 2008) at the negotiated rate of ₹ 10.95 lakh per S/s per year (excluding ST ₹ 1.34 lakh) which was 8 *per cent* above the estimated rates to three firms[#]. The Company revised (July 2007) the estimated cost of O&M contract to ₹ 13.13 lakh per S/s per year (excluding ST ₹ 1.61 lakh) and invited (February 2008) tenders for

---

[∀] Re-invited tenders in March 2009.

[*] Phase I - December 2006 to September 2008, Phase II – June 2008 to July 2009 and Phase III – January 2009 to March 2010.

[∇] O&M expenses viz., O&M staff salary ₹ 5.10 lakh, other expenses ₹ 1.50 lakh, Maintenance expenses ₹ 0.12 lakh, Engineer charges ₹ 0.60 lakh, Incidental expenditure and insurance charge of staff ₹ 0.30 lakh and Transportation charges of ₹ 1.20 lakh.

[#] JBS Enterprises Private Limited, Thane, (25 S/s) Kintech System Private Limited (17 S/s) and Simms Engineering, Porbandar(19 S/s).

Phase II. This revised estimated cost, applicable for Phase II was arrived at by giving 10 *per cent* escalation on the existing rate of ₹ 10.95 lakh per S/s per year for the contracts awarded under Phase I i.e. ₹ 1.09 lakh and also by adding a new item of work i.e. cost of testing of equipments of ₹ 1.09 lakh. The 10 *per cent* escalation allowed on the existing rate (which was already 8 *per cent* above the original estimate) was not based on any justification. Even GERC, in their tariff order for the year 2007-08 approved (March 2007) a price escalation of 5 *per cent* towards employees' cost and 8 *per cent* towards other O&M cost of transmission lines and S/s i.e. the percentage of escalation in weighted average worked out to 6 *per cent*[^] only. Considering this 6 *per cent* escalation in cost allowed by GERC, the revised estimated cost of tender in Phase II was inflated by ₹ 43,800 per S/s per year (i.e. 4 *per cent* on ₹ 10.95 lakh) which led to incorrect estimation of cost of O&M work of 32 S/s for two years by ₹ 28.03 lakh (₹ 43,800 x 32 S/s x 2 years).

In the reply (September 2010) of the Management which was endorsed (September 2010) by the Government, it was stated that while revising the estimated cost for invitation of tender for Phase II, the escalation of 10 *per cent* was given considering the increase in minimum wages and the consumer price index during the period 2006-07.

The reply is not tenable. At the time of revising the estimate for Phase II, the Company was aware that the cost escalation (i.e. at 6 *per cent* on a weighted average) approved by GERC for the year 2007-08 had factored in all the costs related to O&M of transmission lines and S/s. Hence, it should not have increased the estimate by 10 *per cent* simply based on the general increase in minimum wages and consumer price index.

**Unrealistic estimation of cost of insurance**

**2** As per the terms of O&M contract, the contractor should cover all his employees under the workmen's compensation fund and under liability insurance as per the provisions of Workmen's Compensation Act 1923. The Company would not be responsible for the payments of compensation to the workers of contractor for any fatal/non fatal accidents during the period of contract. For the O&M activity of each S/s, the contractors had deployed 10 persons (Switch board operators – 4, Helpers - 4 and Security Guard – 2). The Company included ₹ 30,000 in its estimate towards insurance premium and incidental expenditure. Against the estimated insurance premium, the actual insurance premiums paid by the contractors for 10 persons ranged from ₹ 4,900 to ₹ 7,700 per year. Considering the cost of insurance of ₹ 7,700 per year, the estimate made in this regard by the Company was higher by ₹ 22,300[*] per S/s per year. Thus, there was an overall incorrect estimation of cost of this item by ₹ 74.93 lakh[⊗] for 168 S/s for two years of contract period.

---

[^] Based on the projected expenditure for O&M (for 2007-08) consisting of employee cost (66%), R&M expenses (18%), admn. and general expenses (11%) and load dispatch centre charges (5%) the rate of 5 *per cent* allowed on employees cost and 8 *per cent* on the rest of the items were applied to arrive at the percentage of weighted average.

[*] ₹ 30,000 – ₹ 7,700.

[⊗] ₹ 22,300 per S/s x 168 S/s x 2 years.

Further, after starting the award of contracts in Phase I since December 2006, the Company was aware of the insurance cost actually incurred by their O&M contractors. So while preparing the estimate for the next tenders to be invited for Phase II and III, it should have revised those estimates on this item on realistic basis.

In the reply (September 2010) of the Management which was endorsed (September 2010) by the Government, it was stated that the estimated cost was prepared considering the prevailing market rate for all items including cost of workmen compensation insurance. Further, the data on the actual cost of insurance cited by Audit were not part of the Company's records as it did not reimburse this expenditure to O&M contractors. Moreover, O&M contract was awarded on lump sum basis and not on individual item wise. So, it did not have to adopt actual expenses incurred by the O&M contractors for revising the estimate for the tender to be invited for the next phases.

The reply is not tenable. The wide variation between the actual cost and the estimated cost towards the insurance premium was indicative of the unrealistic estimate prepared by the Company. Further, we had cited the insurance expenditure incurred by the O&M contractors from the details available on the records of Ranasan transmission division of the Company. Hence, based on the details available, the Company while preparing the tender estimate for the Phase II and III, could have revised those estimates on this item on realistic basis.

Thus, the Company before going for outsourcing the O&M activity of S/s failed to conduct detailed survey for properly assessing each cost component of various items of work for the O&M activity of S/s. Consequently, over provision of ₹ 1.03 crore was made towards cost of escalation in O&M expenses and also for the cost of insurance in the tender estimates leaving scope for the bidders to take undue benefit/ margin in the O&M contracts.

It is recommended that the Company should devise a proper internal control system so as to ensure preparation of estimate for the works on realistic basis.

## Dakshin Gujarat Vij Company Limited

### *4.12 Extra expenditure due to erroneous technical specification*

**Erroneous specification of size of MS Channel in the tender coupled with delay in issue of necessary amendment to purchase order led to extra expenditure of ₹ 1.98 crore.**

The Company invited (February 2008) tenders for supply of 600 MT of Mild Steel (MS) Angles and 400 MT each of MS Channel and MS Round Bar against the annual requirement of 2007-08. Of the two technically acceptable bids received, the Company placed (April 2008) purchase order (PO) on L1 bidder i.e M/s. Agrawal Structures Mills Pvt. Ltd., Raipur (firm A) at a total cost of ₹ 5.43 crore for the items. As per the PO, firm A should commence the supply by May 2008 and complete it by September 2008. In the tender, technical specifications for the size of MS Channel was specified as 100 x 50 x 6 mm with sectional weight of 9.56 kg/meter as per IS-2062. Further, as per the terms of PO, the Company reserved the right to place repeat order on Firm A during the contractual delivery period for the quantity up to 25 *per cent* of total quantity ordered *vide* original PO at the same price.

In May 2008, before issuing despatch instructions, the Company carried out the inspection of material at the work site of firm A. During inspection, firm A offered 400 MT of MS Channel with size of 100 x 50 x 5 mm on the plea that as per IS-2062, MS channel with sectional weight of 9.56 kg/meter would have the size of 100 x 50 x 5 mm and not 100 x 50 x 6 mm as erroneously mentioned in the tender. Further, firm A requested (June 2008) the Company to issue necessary amendment to the original PO as regards to size of the channel before starting the supplies under the PO.

We observed that the specification of size of MS Channel made in the tender/ PO was not in accordance with IS-2062 and was erroneous. The Company, however, did not agree to the request of firm A stating that no amendment to PO could be issued at this stage. Hence, firm A did not supply any of the items of the order. The Company issued (June/July 2008) legal notices to firm A insisting for the supply of material as per the original PO placed. Moreover, it had placed (September 2008) repeat order on firm A for additional quantity of 150 MT MS Angle and 100 MT each of MS Channel and MS Round Bar (being 25 *per cent* of originally ordered quantity) at a cost of ₹ 1.36 crore as per the terms of the original PO. In the meantime, to meet the urgent requirements, the Company purchased (July/September 2008) 750 MT of MS Angles, 500 MT of MS channel and 225 MT of MS Round Bar from the suppliers of other DISCOM[∇] and also through its subsequent tenders at a higher price of ₹ 49,930 to 55,519 per MT against the price ₹ 38,087 to 39,090 per MT of firm A. Though similar error was committed by the Company in mentioning the specification of MS Channel while placing the subsequent order (July/September 2008), but this time, the Company accepted the delivery compromising with the width of the channel. This led to purchase of the above items at an extra cost of ₹ 1.98[↓] crore. Finally, in November 2008, the Company rectified the erroneous specification of size of MS Channel by issuing necessary amendment to the original PO of firm A. Thereafter, firm A also completed the supply of material against both the original and repeat order within three months after the receipt of the amendment as allowed by the Company in November 2008.

Thus, the Company's failure to ensure the correctness of technical specifications of material before mentioning it in the tender/ PO and also delays in issuing necessary amendment to the original purchase order led to procurement of the same material at higher cost and consequential extra expenditure of ₹ 1.98 crore.

---

∇ Paschim Gujarat Vij Company Limited.

↓ **MS Angle - 65 x 65 x 6mm :** 300 MT x ₹ 39,090 (Rate in the original order-OR) (-) ₹ 49,946 (Rate at which finally procured-PR); 300 MT x ₹ 39,090 (OR) (-) ₹ 49,930 (PR); 150 MT x ₹ 39,090 (OR) (-) ₹ 50,440 (PR); MS Channel – 100 x 50 x 5mm : 500 MT x ₹ 39,090 (OR) (-) ₹ 55,519 (PR) and; **MS Round** Bar - **16mm** : 225 MT x ₹ 38,087 (OR) (-) ₹ 53,101 (PR).

In the reply (October 2010) of the Management which was endorsed (November 2010) by the Government, it was stated that as firm A had submitted the bid considering the tender specification, the Company insisted that the firm should supply material as per the tender specification which led to the stalemate on this issue for some time. Regarding purchase of material from other suppliers, it was stated that during the period of stalemate, to meet the requirement of the above items, the Company had to purchase the material at a higher price as the price of steel had increased abnormally during the period.

The reply is not tenable. As the Company was aware (July 2008) that its tender specification was not as per IS specification, and was also knowing that the price of steel was increasing, it should have prudently acceded to the request of firm A and should have issued necessary amendment to the original PO in June itself by rectifying the mistake. This could have enabled the Company to avoid the subsequent purchase made at the extra cost. Further, the revival of original PO of firm A at the same rate did not give any benefit, since the rate of steel had started decreasing from October 2008 and had fallen by 33 *per cent* till November 2008 compared to the rate of steel in April 2008 when original PO was placed.

It is recommended that the Company should strengthen their internal control system as far as vetting of draft tender papers are concerned and should fix the responsibility for the delay in issuing necessary amendment to the original purchase order placed on firm A.

## Paschim Gujarat Vij Company Limited

### *4.13 Avoidable extra expenditure in procurement of conductors*

**Failure to place the repeat order on the regular supplier led to purchase of 2,500 KMs of "Rabbit" Conductors at an extra cost of ₹ 93.97 lakh.**

The Company assessed (August 2007) the requirement of 55 $MM^2$ AAA "Rabbit" Conductors for the year 2007-08 at 23,000 KMs. After considering the available stock of 5,351 KMs of conductors, the Company invited (August 2007) tenders for the balance length of 17,650 KMs of conductors on firm price basis. The L1 bidder i.e, Diamond Cables Limited, Vadodara (firm D) had offered (4 October 2007) to supply 10,000 KMs of conductors at the negotiated end cost of ₹ 20,949.92 per KM and accordingly, purchase order (PO) for 10,000 KMs was placed (6 October 2007) on firm D. As per the terms and conditions of PO, the delivery schedule for commencement and completion of the supply was fixed as 6 November 2007 to 6 August 2008. It was also stipulated that during the contractual delivery period, the Company had the right to place repeat order at the same price on firm D for the quantity up to 25 *per cent* of total quantity ordered *vide* this PO.

In February 2008, the Company while inviting tender for purchase of same type of conductors to meet the requirement for the 2008-09 had also reckoned the short purchased quantity for the year 2007-08. Accordingly, it had placed

(24 April 2008) PO for 22,590 KMs on firm price basis with four firms[Σ] at the uniform end cost of ₹ 24,708.85 per KM. with stipulation to commence and complete the supply from June 2008 to February 2009.

We observed that the validity period for placing repeat order on firm D as per the terms of original PO was to expire only by 6 August 2008. As such, at the time of placing PO in April 2008 at ₹ 24,708.85 per KM, the Company was entitled to place repeat order on firm D to the extent of 25 per cent of the original order (viz. 2,500 KM of conductor) at lower agreed rate of ₹ 20,949.92 per KM. The Company, however, failed to place the repeat order on firm D for no reason. By placing repeat order on firm D, the Company could have restricted the procurement to 20,090 KMs against 22,590 KMs made at a higher cost and could have avoided extra expenditure of ₹ 93.97 lakh[∇] towards cost of 2,500 KMs of conductors.

In the reply (July 2010) of the Management which was endorsed (August 2010) by the Government, it was stated that at the time of placing (6 October 2007) the original PO, firm D had agreed to supply only 10,000 KMs of conductors against the quantity of 17,650 KMs it had initially offered to supply. Hence, the repeat order was not placed on firm D.

The reply is not tenable. The Company's right to place the repeat order during the contractual delivery period as stipulated in the original PO was known to firm D. Moreover, firm D was a regular supplier of the Company and it had even completed (25 July 2007) the supply of 10,000 KMs of conductors before the stipulated time (6 August 2008) under the original PO placed. Despite this, the Company did not attempt to place the repeat order on firm D.

It is recommended that the Company should fix the responsibility for the failure to place the repeat order on the firm D which led to incurring of avoidable extra expenditure of ₹ 93.97 lakh in purchase of conductors.

**Dakshin Gujarat Vij Company Limited**
**Paschim Gujarat Vij Company Limited**

### *4.14 Loss of revenue due to non-amalgamation of HT connections*

**Two distribution companies suffered revenue loss of ₹ 1.77 crore by not amalgamating more than one HT connection in single premises.**

The two companies were among the four power distribution companies established (April 2005) after unbundling of erstwhile Gujarat Electricity Board (GEB). As per the internal instructions of erstwhile GEB issued from time to time (October 1967, April 1993 and January 2005), more than one connection should not be sanctioned in single premises unless it was 'helpful to the Board'. Gujarat Electricity Regulatory Commission (GERC) *vide* Electricity Supply Code and Related Matters Regulations dated 31 March

[Σ] Hiren Aluminium Ltd. (11,295 KMs.), Suyog Electricals Ltd. (5,000 KMs), Gujarat Wire Products (4,005 KMs) and Deora Wire Pvt. Ltd. (2,290 KMs).

[∇] ₹ 24,708.85 (-) ₹ 20,949.92 = ₹ 3,758.93 per KM X 2,500 KM = ₹ 93,97,325.

2005 also stated that more than one connection/meter for one premises cannot be provided unless separate legal entity of the consumer was established through acceptable documentary evidence. Before release of High Tension (HT) power connection, the Executive Engineer of the concerned division of the distribution companies was required to personally visit the consumer premises so as to confirm that the premises was a separate legal entity for the purpose of allowing separate connection.

As per the tariff applicable to HT supply, the rate of demand charges, energy charges and time of use charges increase* progressively for the supply having contract demand (CD) above 500 KVA and above 1,000 KVA when compared to the supply for the CD less than 500 KVA. In the event of non-amalgamation of multiple connections into one connection, the distribution Companies would lose revenue due to application of lower tariff on account of split of total higher CD into smaller CD under multiple connections.

In the two distribution companies viz. Dakshin Gujarat Vij Company Limited (DGVCL) and Paschim Gujarat Vij Company Limited (PGVCL), we observed that the concerned divisions of DGVCL and PGVCL had released more than one HT connection in the name of single legal entity at same premises as discussed in the following paragraphs:

**Dakshin Gujarat Vij Company Limited**

***4.14.1*** O & M - Surat Industrial division released two HT connections in the same premises having CD of 425 KVA (No. 39594) in July 1998 and 200 KVA (No. 11174) in June 2003 respectively to M/s. Lakhani Filament Pvt. Ltd. Surat (Firm L). The division, while considering (January 2005) the request of firm L for increasing the CD of connection no. 11174 from 200 to 400 KVA, noticed that firm L had already been availing power through above two HT connections in the same premises so as to get undue benefit of lesser tariff by keeping the CD less than 500 KVA under each connection. The division instructed (January 2005) firm L to procure required circuit breaker and lightening arrestor for amalgamating the two connections otherwise it would start issuing one bill by reckoning the consumption recorded under the two connections as one. The division, however, neither amalgamated the two connections nor started issuing single bill as contemplated. On the contrary, the division had not only allowed (February 2005) the enhancement of CD to 400 KVA in connection no. 11174 but also released (March 2006) a third connection (no. 11308) with CD 250 KVA$^{\Sigma}$ to firm L in the same premises. The division should have amalgamated the existing connections in January 2005 itself. The CD of firm L would have been more than 500 KVA in February 2005 and 1000 KVA in March 2006. Thus, the non amalgamation of

---

| * | | | |
|---|---|---|---|
| Demand charges(₹ /KVA) : | **Upto 500 KVA** | **Next 500 KVA** | **Next 1500 KVA** |
| | 98 | 139 | 208 |
| Energy charges (₹ /unit) : | **Upto 1000 KVA** | **For 1001 KVA to 2500 KVA** | |
| | 3.75 | 3.95 | |
| Time of use charges(₹ /unit) : | **500 KVA and above** | | |
| | 0.75 | | |

$^{\Sigma}$ This was increased to 475 KVA in June 2006.

multiple connections led to revenue loss of ₹ 1.06 crore[Δ] for the period from January 2005 to March 2010.

In the reply of the Management (November 2010) which was endorsed (November 2010) by the Government, it was stated that notice was issued to the consumer for merging of all the three HT connections and the same would be amalgamated into one HT connection after expiry of the notice period. Further, the supplementary bill would be issued to the consumer after clearance by the competent authority.

The reply is not tenable. Despite extant instructions of erstwhile GEB and GERC, the Company failed to follow the instructions at the time of enhancing (February 2005) the CD of second connection (No.11174) as well as at the time of release (March 2006) of third connection (No. 11308).

**Paschim Gujarat Vij Company Limited**

***4.14.2*** The following instances of irregular release of HT connections were noticed during audit of PGVCL.

- Rajkot (Rural) division, PGVCL released (April 1997) HT connection having CD of 300 KVA (No.25910) to M/s. Atul Auto Limited (firm A). Firm A applied (November 2004) for second connection with CD of 300 KVA. The division after inspection (January 2005) of the premises of firm A rejected the request for second connection as the new connection was sought for the same premises in which firm A already had one HT connection (No.25910). The division, however, later released (December 2005) the second connection (No.26209) with CD of 300 KVA to firm A, for which no justification was on record. The CD of second connection was enhanced from 300 to 800 KVA in November 2008 and the CD of first connection was enhanced from 300 to 450 KVA in March 2009. We observed that the division, instead of releasing new connection should have increased the CD of first connection. Thereby, total CD of firm A would have been made more than 500 KVA in December 2005 and 1,000 KVA in November 2008, accordingly the applicable electricity charges at higher rate would have been recovered. Release of second connection in the same premises led to revenue loss of ₹ 27.46 lakh[⇓] for the period from January 2006 to September 2010.

- Bhavnagar (City) division, PGVCL released (January 2008) one HT connection (No.23064) with CD of 1,200 KVA to Steelcast Limited (firm S) who was already having a HT connection (No.23027) with CD of 3,600 KVA in the same premises since 1975. Further, the CD of second connection (No.23064) was also increased (July 2008) to 1,600 KVA. If firm S was not allowed to have two connections, its total CD would have been 4,800 KVA and 5,200 KVA during January 2008 to September 2010 for which applicable electricity charges at higher rate would have been recovered. Thus, the release of second connection in

[Δ] ₹ 0.55 crore (demand and energy charges) + ₹ 0.51 crore (Time of use charges).

[⇓] ₹ 6.83 lakh (Demand and Energy charges) + ₹ 20.63 lakh (Time of use charges).

the same premises led to revenue loss of ₹ 43.81 lakh[√] for the above period.

Thus, the two distribution companies suffered revenue loss of ₹ 1.77 crore by allowing more than one HT connection in same premises in violation of the directions of erstwhile GEB and GERC.

It is recommended that the distribution companies should fix the responsibility for the lapse and streamline the internal control mechanism to promptly detect the cases of multiple connections given in a single premises and also take corrective actions for avoiding recurrence of such loss of revenue in future.

The matter was reported to Government/PGVCL (June/July 2010); their replies had not been received (November 2010).

## GSPC Pipavav Power Company Limited

### *4.15 Award of consultancy works on nomination basis*

**The Company awarded consultancy works consecutively without invitation of tender to a single firm in violation of CVC guidelines.**

GSPC Pipavav Power Company Limited (GPPCL), a joint venture company of Gujarat State Petroleum Corporation Limited (GSPC) and Gujarat Power Corporation Limited (GPCL) was incorporated in February 2006 as a special purpose vehicle (SPV) for setting up a 700 MW Gas based combined cycle power plant at village Kovaya near Pipavav.

As part of project activity, consultancy service was required to be availed at three stages *viz.,* for preparation of detailed project report (DPR), for selection of Engineering, Procurement and Construction (EPC) contractor and for working as Owner's Engineer[∇]. Accordingly, GSPC awarded (September 2005) the work of preparation of DPR to TCE Consulting Engineers Limited (TCE), Mumbai, on nomination basis at a lump sum fee of ₹ 7.04 lakh on the plea of urgency for taking up the power project. The DPR was submitted in January 2006. The second order for consultancy services for selection of EPC contractor was initially placed (February 2006) by GSPC on Desein Pvt. Limited, New Delhi (firm D), through limited tender enquiry at a cost of ₹ 35.50 lakh. However, in one of the meetings (10 March 2006) of High Power Committee (HPC)[∂] of State Government, it was opined that the technical capability of firm D was not up to the mark and their approach was also not professional as was noticed in many projects for which their services

---

[√] As per tariff, demand charges = 85 *per cent* of CD or actual whichever is higher. Considering CD of 5200 KVA (3600 + 1600), the Demand charges (₹ 35.71 lakh) and Energy charges (₹ 8.10 lakh) was recoverable.

[∇] Review the design and engineering documents, vendors' selection, inspection and expediting at EPC contractor's works, project management and site supervision, witnessing, evaluation and review of performance guarantee test, O&M contract finalization, identification, preparation of RFP documents for non-EPC contracts etc.

[∂] The Committee is empowered to monitor and review power situation, Power projects under execution and performance of the existing Power projects as well as various allied issues of power projects.

were availed by some state PSUs. Based on this opinion, GSPC cancelled (April 2006) the work order placed on firm D and TCE was invited to submit its offer for the said work. TCE offered to execute the work at a cost of ₹ 37 lakh and the order was placed on TCE by GPPCL (April 2006). TCE completed the work of selection of EPC contractor by February 2008. In the meantime, for the last portion of the consultancy services of 'Owner's Engineer', GPPCL invited offer only from TCE who in turn quoted ₹ 9.04 crore (November 2007). GPPCL issued (February 2008) the work order to TCE at a negotiated price of ₹ 8.59 crore. TCE completed 72 *per cent* of the work under 'Owner's Engineer' consultancy service and was paid ₹ 4.15 crore (March 2010).

We observed that in all the three stages of award (September 2005, April 2006 and November 2007) of work, TCE alone was invited to submit offer on selection basis without inviting global bids for which no justification was on record. Central Vigilance Commission's (CVC) guidelines of 5 July 2007 clearly stated that tendering process was a basic requirement for award of contract by any Government agency as any other method, especially award of contract on nomination basis, would amount to breach of Article 14 of the Constitution guaranteeing right to equality to all interested parties. Considering these guidelines, GPPCL should have invited the global tenders for awarding the works under 'Owner's Engineer' consultancy service.

Further, GPPCL while approving the award of work to TCE as Owner's Engineer (December 2007) also considered the offers received by its sister concern, Gujarat State Energy Generation Limited (GSEG) for similar services[Σ]. GSEG had invited offers from five consultants including TCE who was L-5 with the evaluated bid amount of ₹ 8.71 crore and M/S Fichtner consultants was the L-1 bidder at ₹ 3.58 crore. GSEG awarded (March 2008) the work to L-1 bidder. Drawing the analogy from the bids received by GSEG for similar nature of work, GPPCL was aware that amount of ₹ 9.04 crore quoted by TCE was high; despite this it had awarded the work to TCE at a negotiated price of ₹ 8.59 crore in absence of global tendering for the work.

The Management stated (September 2010) that GSPC re-awarded (April 2006) the work to TCE, based on the opinion of HPC for cancelling the work order of firm D and appointing a good consultant like TCE for the work. Further, the services availed from TCE for more than two years for this project was very good; hence, the work of consultancy service as 'Owner's Engineer' was also awarded to TCE.

Reply is not tenable considering the fact that award of contract through public tender aimed to ensure transparency in public procurement, maximise economy and efficiency in procurement, promote healthy competition among the tenderers, provide fair and equitable treatment of all tenderers and eliminate irregularities, interference and corrupt practices by the authorities concerned.

[Σ] As owner's engineer consultancy services in setting up of 350 MW combined cycle power plant at Hazira.

It is recommended that the Company should streamline its tendering process for ensuring the timely invitation of tender and selection of competent contractor for the work.

The matter was reported to Government (July 2010); their replies had not been received (November 2010).

## Statutory corporations

## Gujarat State Financial Corporation

### *4.16 Short recovery of dues under OTS Scheme*

**Erroneous calculation of OTS amount led to short recovery of ₹ 51.46 lakh from the loanee units.**

The Corporation introduced (February 2009) One Time Settlement (OTS) Scheme to settle the accounts of the loanee units which had availed various kinds of financial assistance[∇] from it but had defaulted in repayment of their dues. As per terms of the Scheme, the units which had been declared as sick by the Board for Industrial and Financial Reconstruction (BIFR) were considered eligible to avail the Scheme. As stipulated in the scheme, the Corporation was to re-work out the outstanding dues of the units afresh after reckoning the loans disbursed and repayments made by the units by applying a concessional rate of six *per cent* of interest[ϒ] against the interest rate of 17 to 27 *per cent* originally charged in the accounts of the units as per terms of sanction of the loan.

As per the scheme, the amount to be adopted for settlement under OTS should be lower of the following two, i.e. (i) the dues as re-worked out by the Corporation as per the method stated above, or (ii) the principal[¥] outstanding of the Unit on the last date preceding the quarter during which the application for OTS was received. Further, it was stipulated that if the unit had more than one defaulting loan account, all the defaulting accounts were required to be settled simultaneously by the units without merging the defaulting loan accounts.

We observed that in case of two sick units *viz.,* Sandeep Cements Private Limited, Bhavnagar (SCPL) and Jatta Polyester Limited, Vapi (JPL) which had four and seven defaulting accounts respectively, applied (March/February 2009) for settlements of all the accounts simultaneously under the OTS scheme. However, we observed that while considering these cases for OTS, though the Corporation had separately re-worked out the dues for each account of two loanees as per the Scheme, the OTS amount for each loanee

---

[∇] Under the scheme for hire purchase, lease finance, bill discounting and working capital term loan.

[ϒ] Six *per cent* of interest from the date of disbursement, compounded quarterly till the last date was to be applied for the period upto last date as per the schedule of repayment of loan and, thereafter, for the period up to last date preceding the quarter during which the application for OTS was received from the loanee, simple interest at six *per cent* was to be applied.

[¥] Sixty five *per cent* of the said principal outstanding w.e.f. September 2009 as per the modifications to the OTS approved by the Board of Directors.

was wrongly determined based on the aggregate value of reworked out dues and principal outstanding against different loan accounts taken together as given in ***Annexure* 16**. As a result of this erroneous calculation, the Corporation sanctioned (September 2009/ December 2009) and recovered (up to March 2010[⊗]) OTS amount of ₹ 64.45 lakh and ₹ 211.25 lakh (exclusive of sales tax and legal charges) instead of the correct amount of ₹ 78.35 lakh and ₹ 248.81 lakh from SCPL and JPL respectively. This led to total short recovery of ₹ 51.46 lakh from these Units.

The Management stated (November 2009) that the clubbing of accounts of each loanee was made with the approval of the Managing Director. The reply is not tenable because the methodology adopted in calculation of the amount of OTS in the above cases was not in conformity with terms of OTS approved by the BOD.

It is recommended that the Corporation should fix the responsibility for the lapse that led to the short recovery of dues.

The matter was reported to Government/Management (June 2010); their replies had not been received (November 2010).

## General

## 4.17 Follow-up action on Audit Reports

***Outstanding action taken notes***

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

Though, the Audit Reports for the year 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09 were presented to the State Legislature on 24 March 2006, 30 March 2007, 26 March 2008, 28 July 2009 and 30 March 2010 respectively, 15 departments, which were commented upon, did not submit explanatory notes on 32 out of 113 paragraphs/ reviews as on 30 September 2010 as indicated below.

[⊗] JPL:-Down payment ₹ 68.19.lakh (06.08.2009) and ₹ 35.80 lakh each in four instalments (19.01.2010, 19.02.2010, 19.03.2010 and 26.03.2010) : Total ₹ 211.39 lakh inclusive of sales tax and legal charges. SCPL:- Down payment ₹ 17.22 lakh (16.05.2009), ₹ 48.03 lakh (11.07.2009) and ₹ 2.03 lakh (26.08.2009) : Total ₹ 67.28 lakh inclusive of sales tax and legal charges.

| Year of the Audit Report (Commercial) | Total Paragraphs/ Reviews in the Audit Report | Number of Paragraphs/Reviews for which explanatory notes were not received |
|---|---|---|
| 2004-05 | 22 | 2 |
| 2005-06 | 24 | 4 |
| 2006-07 | 21 | 1 |
| 2007-08 | 21 | 3 |
| 2008-09 | 25 | 22 |
| **Total** | **113** | **32** |

Department-wise analysis is given in ***Annexure* 17.**

***Compliance to Reports of Committee on Public Undertakings outstanding***

***4.17.2*** The First Report of COPU of 12th Assembly was presented to the State Legislature on 19 February 2009. The Report contained 44 recommendations on 36 paragraphs and six reviews related to nine PSUs falling under five administrative departments included in the Audit Report for the years 1993-94 to 2003-04 (Commercial), Government of Gujarat. As per rule 32 of the Rules of Procedure (Internal Working) of COPU, Gujarat Legislative Assembly, the administrative departments of PSUs should submit the Action Taken Notes (ATNs) on the recommendations within a period of three months from the date of its presentation.

ATNs on 14 recommendations of four PSUs falling under one administrative department had not been received as on 30 September 2010.

***Response to Inspection Reports, Draft Paragraphs and Reviews***

***4.17.3*** Our observations noticed during audit and not settled on the spot are communicated to the heads of the respective PSUs and the concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2010 pertaining to 51 PSUs revealed that 1,296 paragraphs relating to 374 Inspection Reports remained outstanding as on 30 September 2010. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2010 is given in ***Annexure* 18.**

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. We noticed that 12 draft paragraphs forwarded to the various departments during May to August 2010 as detailed in ***Annexure* 19** had not been replied to so far (November 2010).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/ reviews and ATNs to the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/ outstanding advances/ overpayment is taken within the prescribed time; and (c) the system of responding to audit observations is strengthened.

**AHMEDABAD** **(Dr. P. MUKHERJEE)**
**The** Principal Accountant General
(Commercial and Receipt Audit), Gujarat

***Countersigned***

**NEW DELHI** **(VINOD RAI)**
**The** Comptroller and Auditor General of India