

## 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 2010, the State of Gujarat had 58 working PSUs (54 companies and four Statutory corporations) and 13 non-working PSUs (all companies). The working PSUs which employed 1.13 lakh employees, had registered a turnover of ₹ 58,451.76 crore for 2009-10 as per their latest finalised accounts as on 30 September 2010. This turnover was equal to 15.34 per cent of State GDP indicating an important role played by State PSUs in the State economy. The working PSUs earned an overall aggregate profit of ₹ 2,404.22 crore for 2009-10 and had aggregate accumulated loss of ₹ 262.16 crore.*

#### **Investments in PSUs**

*As on 31 March 2010, the investment (capital and long term loans) in 71 PSUs was ₹ 60,396.37 crore. It grew by 46.42 per cent from ₹ 41,248.53 crore in 2004-05. The thrust of PSU investment was mainly in power sector, in which percentage share of investment increased from 26.87 in 2004-05 to 30.31 in 2009-10. The Government contributed ₹ 8,078.91 crore towards equity, loans and grants/ subsidies to State PSUs during 2009-10.*

#### **Performance of PSUs**

*During the year 2009-10, out of 58 working PSUs, 40 PSUs earned profit of ₹ 2,672.93 crore and nine PSUs incurred loss of ₹ 268.71 crore. Major contributors to the profit were Gujarat State Petronet Limited (₹ 626.89 crore), Gujarat Mineral Development Corporation Limited (₹ 406.08 crore), Gujarat State Petroleum Corporation Limited (₹ 403.02 crore) and Gujarat*

*State Fertilizers and Chemicals Limited (₹ 389.12 crore). The heavy losses were incurred by Gujarat State Financial Corporation (₹ 129.38 crore) and Gujarat State Road Transport Corporation (₹ 94.57 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 ₹ 2,266.59 crore and infructuous investment of ₹ 317.90 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits/ minimise losses. The PSUs can discharge their role efficiently only if they are financially self reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.*

#### **Quality of accounts**

*The quality of accounts of PSUs needs improvement. Thirty three out of 70 accounts finalised during October 2009 to September 2010 received qualified certificates. There were 35 instances of non-compliance with Accounting Standards in 13 accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.*

#### **Arrears in accounts and winding up**

*Twenty five working PSUs had arrears of 36 accounts as of September 2010. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 13 non-working companies. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.*

**(Chapter 1)**

## 2. Performance review relating to Government company

Performance review relating to **Power Generating Activities of Gujarat State Electricity Corporation Limited** was conducted. Executive summary of the audit findings are given below:

### *Power Generating Activities of Gujarat State Electricity Corporation Limited*

*Power is an essential requirement for all facets of life and has been recognised as a basic human need.*

*To meet the energy generation requirement of 70,369 MUs in the State, a capacity addition of about 1,352 MW was required during 2005-10. Against this, the State had made the capacity addition of 3,329 MW. Despite this the State was unable to meet the peak demand to the extent of 8,277 MUs to 14,857 MUs during the period. In view of this, performance review on generating activities was undertaken.*

#### **Project management**

*During 2005-10, the Company had installed and commissioned three power projects with a total installed capacity of 562 MW. Of the three projects, time overrun of 37 months and cost overrun of ₹ 370.28 crore were observed in execution of Kutchh Lignite Thermal Power Station Unit IV.*

#### **Operational performance**

*The operational performance of Gujarat State Electricity Corporation Limited (Company) for the period 2005-10 was assessed in audit based on various efficiency parameters as discussed below:*

#### **Input efficiency**

*In the absence of fuel supply agreement with the coal companies/ supplier of lignite, the Company could not procure allotted quantity of coal/ lignite and this was one of the factors for non achievement of generation targets.*

*During 2005-10, consumption of coal was in excess of norms by 37.49 lakh MT valued at ₹751.67 crore.*

*During 2005-10, the technical manpower actually deployed was above Central*

*Electricity Authority (CEA) norms in thermal and oil/ gas based power stations and actual deployment of non technical manpower was above CEA norms in Oil/ Gas based power stations. Despite this, the Company had paid overtime allowance for ₹187.03 crore.*

#### **Output efficiency**

*During 2005-2010, against a target of 1,48,517 MUs fixed, the generation of power by the Company was 1,40,606 MUs, which led to short fall in achievement of target by 7,911 MUs.*

*As against the national average Plant Load Factor (PLF) of 76.74 per cent, the PLF of the Company remained between 68.01 to 76.2 per cent. Due to non maintenance of PLF at par with national average, there was a short fall in generation of 9,599 MUs resulting in loss of contribution amounting to ₹ 348.72 crore during 2005-10.*

*The planned and forced outages in excess of CEA norms led to generation loss of 13,810 MUs and 6,807 MUs respectively and consequential loss of contribution amounting to ₹740.72 crore during 2005-10. Further, auxiliary consumption of power was also in excess of norms of Gujarat Electricity Regulatory Commission which led to excess consumption of 254.62 MUs valuing ₹57 crore.*

#### **Renovation & Modernisation (R&M) and refurbishment activities (RA)**

*The delay in execution of R&M and RA at Ukai Unit I and II resulted in generation loss of 345.16 MUs. Further, the Company's failure to stop accepting the material for the RA of Gandhinagar Thermal Power Station (GTPS) I and II even after its decision to hold the implementation of work resulted in*

blocking of fund of ₹ 145.16 crore and consequential avoidable loss of interest of ₹ 30.60 crore during June 2008 to March 2010.

#### **Financial Management**

The Company allowed an irregular rebate of ₹ 174.55 crore to Gujarat Urja Vikas Nigam Limited even for the belated receipt of payments of energy bills during 2008-09.

The Company's delay in filing of accounting statements with aggregate revenue requirement with GERC for its approval under Multi Year Tariff for the control period from 1 April 2008 to 31 March 2011 led to loss of revenue of ₹ 172.65 crore.

#### **Conclusion and recommendations**

The management of contracts relating to execution of R&M and RA were not carried out efficiently and economically.

The operational efficiency of power stations was lower as compared to norms relating to consumption of fuel, PLF, planned/ forced outages and auxiliary consumption.

The review contains seven recommendations which include undertaking R&M and RA of GTPS on priority, maintaining coal consumption within norms and achieving target of generation.

(Chapter 2)

### **3. Performance review relating to Statutory corporation**

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

#### **Functioning of Gujarat Industrial Development Corporation**

##### **Introduction**

The Corporation was incorporated in August 1962 for assisting in the rapid and orderly establishment of industries in Gujarat.

##### **Industrial Policy**

As per the Industrial Policy 2003, Government intended to convert the existing allotted leasehold land to freehold by charging appropriate premium and create the Industrial Estate Development Fund. The fund so created was to be utilised on upgradation of facilities in the existing estates. The policy was pending for implementation in absence of reasonable response from the allottees.

##### **Land acquisition**

The development of land was not commensurate with the land acquired though funds were available with the Corporation. During 2005-10, the percentage of land developed to land

acquired at the end of each year ranged between 0.21 and 13.01.

##### **Development of infrastructure, Special Economic Zones (SEZs) and Critical Infrastructure Project (CIP)**

The Corporation did not prepare any detailed plan indicating the time schedule within which the developmental works in the estates were to be taken up and completed which had adverse effects on monitoring of execution of works.

The Corporation developed Ceramic and Glass SEZ, at Jhagadia without conducting any feasibility study, which led to its failure and blockage of funds spent on it. Further, out of the total plots allotted, 53 per cent of plots in Surat SEZ and 80 per cent of plots in Ahmedabad SEZ were lying unutilised by the allottees in absence of proper feasibility study.

The Corporation and Government of Gujarat had to bear extra financial burden of ₹ 118.47 crore and ₹ 142.41 crore due to splitting up of same kind of

works into smaller segments with the intention of passing on maximum financial assistance to Industrial Associations under CIP.

#### **Fixation of Premium Price (PP)**

The Corporation sustained loss of ₹ 14.94 crore in two cases in absence of the enabling clause in land allotment agreement for recovery of compensation awarded by the court under Land Reference Cases. There were instances of huge revenue loss to the Corporation on account of erroneous fixation and abnormal delays in revision of PP.

#### **Allotment and transfer of plots**

The Corporation suffered a huge revenue loss of ₹ 44.85 crore due to various kinds of irregularities in allotment and transfer of plots viz., incorrect or non charging of applicable PP (₹ 31.61 crore), allotment of plots at concessional PP to ineligible allottee (₹ 8.46 crore), non recovery of transfer fee (₹ 1.11 crore) and allotment of plots at lesser PP (₹ 3.67 crore).

#### **Maintenance of estates**

Fixation of water charges in violation of the Corporation's policy led to short recovery of water charges of ₹ 6.43 crore at Dahej and Vilayat estates. Further, in 171 out of 183 functional estates, none of the three systems for disposal of waste was provided.

#### **Unutilised plots and unauthorised use of plots**

The Corporation failed to take effective action against the allottees who did not utilise the plot beyond the stipulated period (1,868 plots with a total area of

50.85 lakh square metre) and also against the allottees who had unauthorisedly used the plots (153 plots with a total area of 3.69 lakh square metres) for commercial activities in the plots allotted to them for industrial use

#### **Utilisation of funds**

During 2005-09, there was a short fall in achievement of targeted expenditure on land acquisition and on infrastructure development activities by 73 and 62 per cent respectively due to inadequate efforts of the Corporation.

#### **Conclusion and Recommendations**

The Corporation had no detailed plan fixing time frame for taking up and completing the work of setting up of estates and it did not focus more on the activities of land acquisition and infrastructure development. No proper adherence to policy/rules/methods was followed in fixation/revision of PP, allotment of plots, etc. Adequate systems for proper disposal of waste were not provided in the estates. Internal control and monitoring mechanism were not adequate considering the volume of activities related to development and maintenance of estates.

The review contained five recommendations which inter alia included formulating time frame for setting up of estates, devising suitable mechanism for ensuring compliance with policy, rules and methods relating to fixation/revision of PP, allotment of plots etc., and strengthening the internal control system looking at the volume of activities.

(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 ₹9.41 crore in five cases due to non-compliance with rules, directives, procedures and terms and conditions of contracts.*

(Paragraphs 4.3, 4.5, 4.9, 4.14 and 4.16)

*Loss of ₹ 23.83 crore in five cases due to non-safeguarding the financial interests of organization.*

*(Paragraphs 4.1, 4.2, 4.6, 4.12 and 4.13)*

*Loss of ₹ 5.26 crore in two cases due to defective/deficient planning.*

*(Paragraphs 4.7 and 4.11)*

*Loss of ₹ 63.92 crore in three cases due to undue favour.*

*(Paragraphs 4.4, 4.8 and 4.10)*

Gist of the major observations is given below.

**Gujarat State Fertilizers and Chemicals Limited** failed to recover claim for short receipt of imported sulphur valuing ₹ 1.08 crore due to unfavourable terms of payment.

*(Paragraph 4.2)*

**Gujarat State Petroleum Corporation Limited** had shown undue favour to Essar Power Limited and Gujarat Paguthan Energy Corporation Limited by not recovering take or pay quantity charges of ₹ 47.97 crore and penalty of ₹ 3.59 crore for failure to lift minimum quantity of gas.

*(Paragraph 4.4)*

**Gujarat State Petronet Limited** passed undue favour of ₹ 11.18 crore to Torrent Power Generation Limited by not adhering to the terms of gas transmission agreement.

*(Paragraph 4.8)*

