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 Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective Legislation. As on 31 March 2011, the State of Maharashtra had 64 working Public Sector Undertakings (PSUs) (60 Companies and four Statutory corporations) and 22 non-working PSUs (all Companies), which employed 2.08 lakh employees. The working PSUs registered a turnover of ₹ 49,058.92 crore in 2010-11 as per their latest finalised accounts. This turnover was equal to 4.76 per cent of the State GDP indicating an important role played by the State PSUs in the economy. The working PSUs earned an overall profit of ₹ 213.64 crore in 2010-11 and had accumulated losses of ₹8,401.88 crore as on 31 March 2011.

Investments in PSUs

As on 31 March 2011, the investment (Capital and long term loans) in 86 PSUs was ₹58,389.55 crore. It grew by 54.48 per cent from ₹ 37,796.91 crore in 2006-07 mainly because of increase in investment in power sector. Power Sector accounted for 81 per cent of the total investment in 2010-11. The Government contributed ₹2,313.58 crore towards equity, loans and grants/subsidies during 2010-11.

Performance of PSUs

During the year 2010-11, out of 64 working PSUs, 37 PSUs earned profit of ₹1,722.87 crore and 18 PSUs incurred loss of ₹1,509.23 crore. Four PSUs prepared their accounts on no profit no loss basis and five PSUs were under construction and had not prepared profit and loss account. The major contributors to profit were Maharashtra State Power Generation Company Limited (₹ 800.02 crore) and Maharashtra State Electricity Transmission Company Limited (₹520.19 crore). Heavy losses were incurred by Maharashtra State Electricity Distribution Company Limited (₹782.77 crore), Maharashtra State Road Development Corporation Limited (₹ 422.55 crore) and MSEB Holding Company Limited (₹248.23 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A audit of three years Audit Reports of CAG shows that the State PSUs losses of ₹2,160.19 crore and infructuous investments of ₹53.36 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/ eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 82 accounts of working companies finalised during October 2010 to September 2011, 67 accounts received qualified certificates and nine accounts received unqualified certificates, adverse certificate for four accounts and disclaimer for two accounts from Statutory auditors. Of the four accounts finalised during October 2010 to September 2011 by the Statutory corporations, all four accounts received qualified certificates. The Reports of the Statutory auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Fifty three working PSUs had arrears of 162 accounts as of September 2011. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There were 22 non-working companies. As no purpose may be served by keeping these PSUs in existence, Government needs to expedite closing down of the non working PSUs.

2. Performance Audit relating to Government Companies

Performance Audit relating to 'Operational performance' of the **Forest Development Corporation of Maharashtra Limited** and 'Power distribution utilities in **Maharashtra State Electricity Distribution Company Limited'** were conducted. Executive Summary of the main Audit findings is given below**:**

Performance Audit on working of Forest Development Corporation of Maharashtra Limited

Forest Development Corporation of Maharashtra Limited (Company) was incorporated in February 1974 as wholly owned Government Company to raise plantations of important species like teak, bamboo etc., protection of forest crop and wildlife, processing and grading of forest produce etc. Company was also engaged in production and distribution of seeds, seedlings and turnkey plantations. The main activity of the Company was forestry in 3.93 lakh Hectare (Ha) of forest land allotted to it by the Government of Maharashtra (GoM). The performance audit of the Company for the period 2006-07 to 2010-11 was conducted to assess whether proper planning for the activities existed, afforestation had been carried out as per the approved management plan, protection measures for forest land, plantation and wildlife were in place, manpower utilisation was efficient and proper internal controls were in existence.

Financial performance

The sales of the Company increased from ₹101.77 crore in 2006-07 to ₹128.94 crore in 2010-11. The profit before tax correspondingly increased from ₹ 54.32 crore to ₹ 76.30 crore during the period. The proposal for conversion of World Bank Loan, along with interest thereon, into share capital was pending with the GoM.

Planning

The Company did not formulate a comprehensive corporate plan encompassing plantation activities, utilisation of infrastructure, human resource development etc. The targets for plantation and harvesting fixed in Annual Plan were not realistic and resulted in major downward revision in area. Wildlife protection measures were not planned and taken up till 2009-10. No Research and development activity was planned and carried out during the audit period. The Company had not re-looked into its activities to match the requirements of National Forest Policy 1988/Maharashtra State Forest Policy 2008.

Utilisation of land

The Company had not maintained land register indicating allotment, possession, surrender and the balance land available. The Company had not taken possession of the entire land allotted to it. The Company surrendered 78,335 Ha of land due to large scale encroachment, non-viability and security related issues. On specific rejection of claims for expenditure incurred on surrendered land the Company had written off ₹ 56.54 crore during the five years ended 31 March 2011. However, similar claims of ₹83.95 crore had been accounted for as receivable as at the end of March 2011. The GoM had not formulated policy for reimbursement of expenditure incurred by the Company on surrendered land. An area of 13,700 Ha of land was under encroachment as at the end of March 2011.

Plantation and harvesting

During the five years ended 31 March 2011, the Company carried out plantations in an area of 13,538 Ha consisting of teak, bamboo and miscellaneous species. The survival rate of the plantation was satisfactory during this period. The Company lost 1.95 lakh trees due to illicit cutting during five years ended 31 December 2010 and the incidence was on a higher scale in Nashik region. The

turnkey plantation activity of the Company was in loss during this period. The Company could not harvest the entire area fit for harvesting and there was a shortfall of harvesting in 28,559 Ha during the audit period. The productivity of the Company as a whole during a particular year had not been estimated and therefore variance could not be analysed with actual production. The capacity utilisation of nurseries was low and the Company could not meet the demand for seeds in all the five years ending 31 December 2010. There was lack of coordination with Forest Department for placement of orders for seedlings to increase the capacity utilisation of nursery.

The Company had redeployed its manpower not based on the workload in each division after re-organisation/ surrender of land. The Company had not worked out the entitlement of land to the eligible forest dwellers under the Scheduled Tribe and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006 and its impact in terms of area to be regularised. The Company did not pursue the implementation of Joint Forest Management project with the GoM and the project became defunct. The Company did not carry out wildlife protection measures till 2009-10 and the initiatives were made only in 2010-11.

Internal control and monitoring

The land records were not maintained and reconciled with records of Forest Department. The division wise revenue and expenditure statement is not prepared to ascertain the commercial viability of operations of the divisions. 3,708 Internal audit paras were pending and this includes 1,795 paras pending for a period for more than five years and 804 paras pertaining to divisions closed for operations.

Conclusion and Recommendations

To assist the Company in rectifying the deficiencies noticed, audit has made six recommendations. These includes preparation of comprehensive corporate plan, maintenance of land register, strengthen efforts to reduce encroachment and illicit cutting, increase the turnover of seeds/nurseries and action plan to turn-around loss making divisions.

Performance Audit on Maharashtra State Electricity Distribution Company Limited

Introduction

In order to assess the progress achieved in the State in respect of various parameters stipulated in National Electricity Policy/ Plan with regard to distribution of power, it was considered desirable to conduct performance audit of Maharashtra State Electricity Distribution Company Limited. The performance audit covered network planning, rural electrification, billing and collection efficiency, tariff fixation and subsidy support by the State Government during 2006-07 to 2010-11.

Financial Position and Working Results

The revenue of the Company from sale of power increased from ₹ 18,864 crore in 2006-07 to ₹ 33,238 crore in 2010-11. However, the Company incurred losses during performance audit period and accumulated losses increased from ₹ 487 crore in 2006-07 to ₹ 3,793 crore in 2010-11. The loss per unit was between ₹ 0.13 and ₹ 0.46 during 2006-07 to 2010-11. The losses were attributed to disallowance of certain controllable expenses by Maharashtra Electricity Regulatory Commission (MERC) while fixing the tariff. The borrowing increased from ₹ 3,795 crore in 2006-07 to ₹ 10,074 crore in 2010-11 due to taking infrastructural projects linked with loan.

Distribution Network Planning

The Company had not assessed the total requirement of distribution network to provide reliable and quality power and did not prepare well documented long term plan for replacement/additions of existing network. The Company added 466 substations during 2006-07 to 2010-11 as against 525 targeted. The Company had total 2,236 substations as at the end of 31 March 2011. The shortfall between connected load and transformer capacity was of 4,967 MVA as on 31 March 2011.

Rural electrification

Four projects undertaken under Rajiv Gandhi Grameen Vidyudhikaran Yojna during X five year plan (2002-07) were completed by September 2010 and actual cost was ₹ 108.64 crore as against ₹ 86.24 crore approved by Ministry of Power. The increase in cost was mainly due to non inclusion of certain expenditure in Detailed Project Report. Further, the Company had taken 30 projects at a cost of ₹748 crore during XI plan to be completed by December 2011. As compared to completion period, the progress was poor. There were instances of non levy of penalty for delay in execution and irregularities in payment to contractors.

Operational efficiency

The Company sold 49,148 MUs in 2006-07 which increased to 71,280 MUs in 2010-11. The distribution losses reduced from 29.60 per cent in 2006-07 to 17.28 per cent in 2010-11. The losses were above the norm of MERC during 2009-11 and amount of excess loss was ₹ 214 crore. Replacement of Distribution Transformers failed within Guarantee Period was not monitored effectively and penalties for delays were not recovered in time from suppliers. Besides 6.67 lakh faulty meters were awaiting replacement while 15.36 lakh Agricultural (Ag) consumers were to be metered by 31 March 2011. The Company had not assigned priority for replacement of faulty meters by including requirement in the annual plan for procurement of meters.

Billing and collection efficiency

The energy billed included an element of assessed sale to the extent of 14 per cent. The unmetered agricultural and faulty meter consumers had a impact on assessed sales. There were instances of incorrect/ delay in application of revised tariff resulting in loss of revenue of ₹ 20.82 crore. The arrears recoverable from consumers as at the end of March 2011 were ₹13,396 crore. The major portion was recoverable from Ag consumers (₹ 6,033 crore) and Public Water Works (PWW) consumers (₹ 1,490 crore). The Company did not take action for disconnection of PWW connections.

Subsidy support and cross subsidisation

The State Government provided subsidy of ₹10,552 crore in tariff for Agricultural and Power loom consumers during 2006-07 to 2010-11. Besides, these consumers were also heavily cross subsidised at the cost of commercial and industrial consumers while fixing tariff by MERC. National Tariff policy envisaged that the tariff of all categories of consumers should range within plus or minus 20 per cent of the cost of supply. However, the gap in tariff fixation was more than ± 20 per cent during 2010-11.

Conclusion and recommendations

The Company had not prepared well documented long term plan for replacement of overaged network and additions required to meet the increasing demand for power. Distribution losses were more than MERC norms during 2009-11. Non replacement of faulty meters and unmetered Ag consumers had an impact on billing efficiency. Major portion of arrears was due from Ag and PWW consumers. While fixing the tariff, MERC had not allowed certain controllable expenses in full. The impact of disallowance during 2009-10 and 2010-11 was ₹ 504 crore approximately. The audit made seven recommendations which include preparation of well documented long term plan for development of distribution network, timely replacement of faulty meters, metering of all Ag consumers, fixing targets for reduction in controllable expenditure and pursuing recovery of outstanding dues from consumers and improve Management Information System on faulty meters/energy audit reports.

3. Transaction Audit Observations

Transaction audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings involving significant financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 498.31 crore in 10 cases due to non-compliance with rules, directives, procedures, terms and conditions of contract.

(Paragraphs 3.2,3.4,3.5,3.6,3.7,3.8,3.9,3.11,3.14 and 3.16)

Loss of ₹ 14.17 crore in four cases due to non-safeguarding of the financial interests of the organisations.

(Paragraphs 3.10,3.12,3.17 and 3.18)

Loss of ₹4.06 crore in one case due to defective/deficient planning.

(Paragraph 3.13)

Loss of ₹27.12 crore in four cases due to lack of fairness, transparency in the organisation and competitiveness in operations.

(Paragraphs 3.1,3.3,3.15 and 3.19)

Gist of some of the important audit observations is given below:

City and Industrial Development Corporation of Maharashtra Limited Larsen and Toubro Limited was extended undue benefits of ₹ 464.27 crore during 2009 on incomplete projects of the Development of Integrated Complex at Seawood Railway Station. The Company suffered loss of revenue of ₹ 22.63 crore due to allotment of a plot below the market price in September 2009 on the single tender basis. It also transferred another plot to 15 Societies of employees of Mazagon Dock Limited instead of re-allotting the same at new rates and suffered revenue loss of ₹ 21.46 crore.

(Paragraphs 3.2, 3.3 and 3.4)

Splitting of the orders during September 2008 to February 2009 to avoid approval of higher authorities lacked transparency in **Maharashtra State Power Generation Company Limited.**

(Paragraph 3.8)

Non-finalisation of tenders before expiry of existing contract resulted in loss of ₹ 10.76 crore to the **Maharashtra State Road Development Corporation Limited** during April 2008 to March 2011.

(Paragraph 3.10)

The **Maharashtra Industrial Development Corporation** granted extension of time for a period of 16 years for development of land and revised its decision on several occasions at the unreasonable request of the allottee (Compact Disc India Limited). Consequently, it suffered a loss ₹ 3.12 crore in August 2009. In another case, the Corporation failed to ensure the utilisation of a piece of plot allotted at concessional rate for the purpose for which the land was allotted resulting in undue favour to the allottee (Shivchatrapati Shikshan Sanstha) besides revenue loss of ₹ 1.55 crore during 2007-08.

(Paragraphs 3.15 and 3.16)