

## CHAPTER-V

### Government Commercial and Trading Activities

#### 5.1 Overview of State Public Sector Undertakings

##### Introduction

**5.1.1** The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Goa, the State PSUs occupy a moderate place in the State economy. The State PSUs registered a turnover of ₹ 569.35 crore for 2012-13 as per their latest finalised accounts as of September 2013. This turnover was equal to 1.63 *per cent* of State Gross Domestic Product (GDP) for 2012-13. Major activities of Goa State PSUs are concentrated in Infrastructure development sector. All State PSUs are working and earned an overall aggregate profit of ₹ 15.58 crore for 2012-13 as per their latest finalised accounts. They had employed 3,219 employees\* as of 31 March 2013. There were 17 PSUs at the end of March 2013 consisting of 15 Government companies and two Statutory Corporations. The Departmental Undertakings (DUs) of Electricity Department and River Navigation Department, which carry out commercial operations are not included in these 17 PSUs. Audit findings on these DUs have also been incorporated in this chapter.

##### Audit Mandate

**5.1.2** Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government Company includes a subsidiary of a Government Company.

**5.1.3** The accounts of the State Government Companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (C&AG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by C&AG as per the provisions of Section 619 of the Companies Act, 1956.

**5.1.4** Audit of Statutory Corporations is governed by their respective legislations. C&AG is the sole auditor for both the Statutory Corporations *viz.*, Goa Industrial Development Corporation (GIDC) and Goa Information Technology Development Corporation (GITDC).

---

\*As per the details provided by 17 PSUs.

### Investment in State PSUs

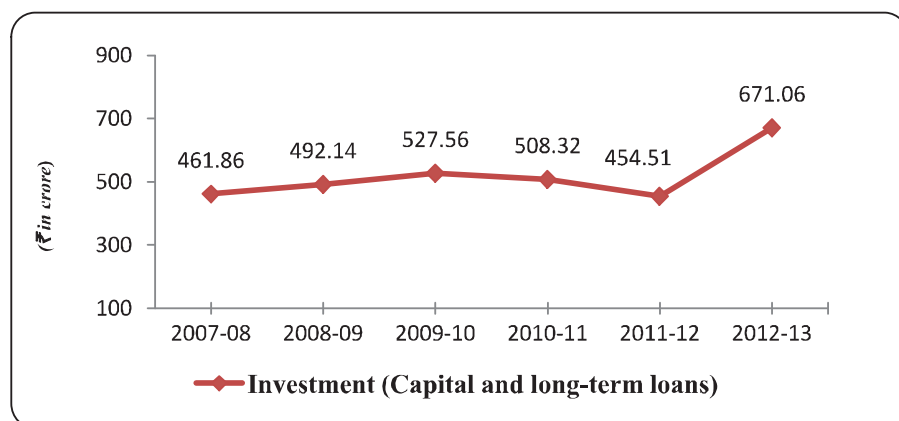
**5.1.5** As on 31 March 2013, the investment (capital and long-term loans) in 17 PSUs was ₹ 671.06 crore as per details given below.

*(₹ in crore)*

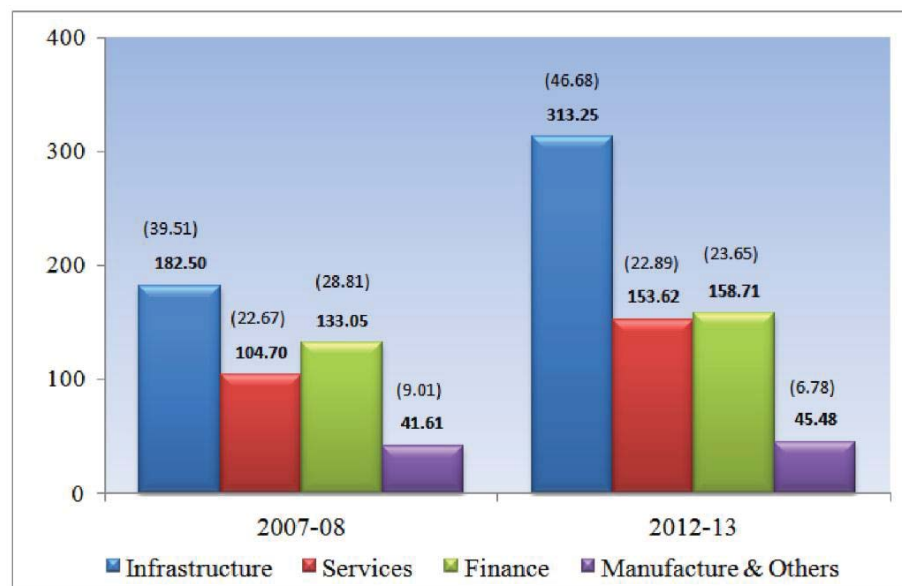
Government Companies			Statutory Corporations			Grand Total
Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
324.34	314.07	638.41	32.65	NIL	32.65	<b>671.06</b>

A summarised position of Government investment in State PSUs is detailed in **Appendix 5.1**.

**5.1.6** As on 31 March 2013, investment in State PSUs consisted of 53.20 per cent towards capital and 46.80 per cent in long-term loans. The investment has increased by 45.30 per cent from ₹ 461.86 crore in 2007-08 to ₹ 671.06 crore in 2012-13 as shown in the graph below.



**5.1.7** The investment in various important sectors and percentage thereof at the end of 31 March 2008 and 31 March 2013 are indicated below in the bar chart. The share of investment in Infrastructure sector and Service sector increased from 39.51 and 22.67 per cent in 2007-08 to 46.68 and 22.89 per cent in 2012-13 respectively. However, investment in Finance sector and Manufacturing & Other sectors declined from 28.81 and 9.01 per cent in 2007-08 to 23.65 and 6.78 per cent in 2012-13 respectively.



(Source: Information furnished by PSUs)

(Figures in bold show the amount of investment in crore and figures in brackets show the percentage of total investment)

#### Budgetary outgo, Grants/subsidies, guarantees and loans

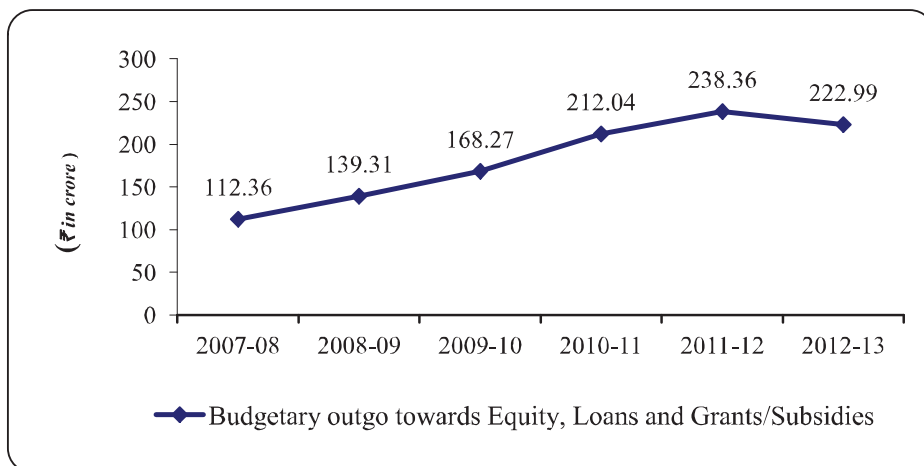
**5.1.8** The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 5.3**. The summarised details are given below for three years ended 2012-13.

(₹ in crore)

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of PSUs*	Amount	No. of PSUs*	Amount	No. of PSUs*	Amount
1.	Equity Capital outgo from budget	3	12.47	5	34.43	4	40.16
2.	Loans given from budget	NIL	NIL	1	0.72	1	4.39
3.	Grants/Subsidy received	10	199.57	11	203.21	9	178.44
4.	Total Outgo (1+2+3)	10	212.04	12	238.36	10	222.99
5.	Guarantee / Commitment	3	83.71	3	69.00	3	80.72

\* Number of PSUs represents actual number of PSUs which have received budgetary support from the State Government in the form of equity, loans and grant/subsidy etc.

**5.1.9** The details regarding budgetary outgo to the State PSUs towards equity, loans and grants/subsidies for past six years are given in a graph below.



The budgetary outgo of the State Government towards Equity contribution, Loans, Grants and Subsidies showed increasing trend over the years and has increased from ₹ 112.36 crore in 2007-08 to ₹ 238.36 crore in 2011-12 and reduced to 222.99 crore in 2012-13.

**5.1.10** The guarantee/commitment by the State Government against the borrowings of State PSUs has increased from ₹ 69.00 crore in 2011-12 to ₹ 80.72 crore at the end of 2012-13 mainly due to providing additional guarantee to Kadamba Transport Corporation Limited. The State Government usually levies a one time guarantee fee of 0.5 per cent of the guaranteed amount. This was however, not levied in all three<sup>1</sup> cases.

#### Reconciliation with Finance Accounts

**5.1.11** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2013 is stated below:

(₹ in crore)			
Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	289.42	293.11	3.69
Loans	γ	216.54	-
Guarantees	79.00	80.72	1.72

<sup>1</sup>Sr. Nos. A-7, 8 and 15 of Appendix – 5.3

<sup>γ</sup>State Governments loan to state PSUs are extended through the Government Departments. These Government Department re-allocated the loan funds to different PSUs. Hence, PSU wise figure of State Government loans are not available in Finance Accounts



**5.1.12** Audit observed that the differences occurred in respect of 10 PSUs and some of the differences were pending reconciliation since 1998-99. Though, the Government as well as PSUs concerned were apprised by audit about the need for reconciliation, considerable progress has not been achieved. The Government and PSUs should take concrete steps to reconcile the differences in a time bound manner.

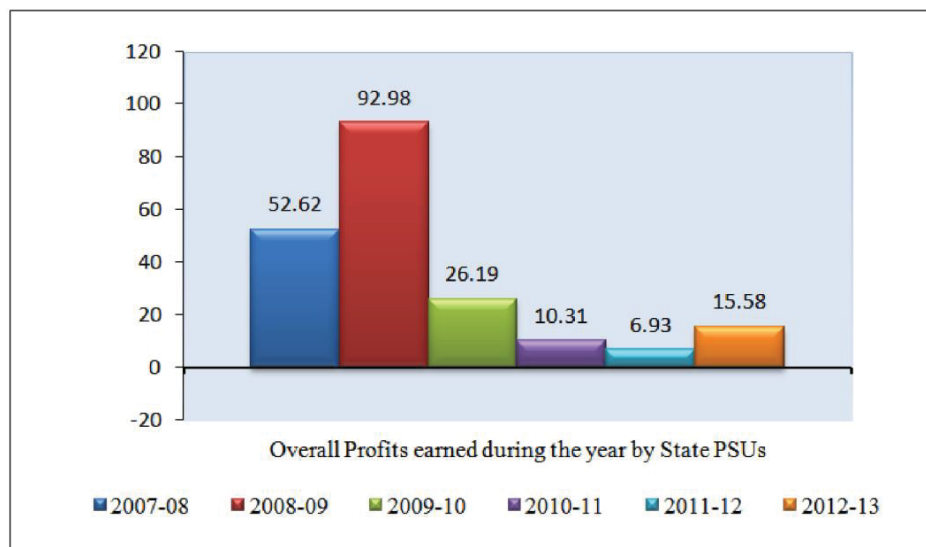
### Performance of PSUs

**5.1.13** The financial results of PSUs, financial position and working results of Statutory Corporations are detailed in *Appendix 5.2, 5.5 and 5.6* respectively. A ratio of PSU's turnover to State GDP shows the extent of PSU's activities in the State economy. Table below provides the details of PSU's turnover and State GDP for the period from 2007-08 to 2012-13.

Particulars	(₹ in crore)					
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover	350.86	459.33	440.04	413.72	456.48	569.35
State GDP	16901	19014	22512	22062	44460	34965
Percentage of Turnover to State GDP	2.08	2.42	1.95	1.88	1.03	1.63

It can be seen from the above that the extent of PSU activities in the State economy has shown an increasing trend since 2011-12.

**5.1.14** Profits earned by State PSUs during 2007-08 to 2012-13 are given below in a bar chart. *Appendix 5.2* provides details pertaining to 2012-13.



(Figures show the amount of profit ₹ in crore; 17 PSUs since 2007-08 to 2012-13)

During the year 2012-13, out of 17 PSUs, nine PSUs earned a profit of ₹ 47.72 crore and seven PSUs sustained loss of ₹ 32.14 crore. One PSU had not finalised its first account. The major contributors to profit were EDC

*Audit Report for the year ended 31 March 2013*

Limited (₹ 40.47 crore) and Goa State Infrastructure Development Corporation Limited (₹ 2.13 crore). Heavy losses were sustained by Kadamba Transport Corporation Limited (₹ 18.40 crore), Goa Industrial Development Corporation (₹ 4.17 crore) and Goa Tourism Development Corporation Limited (₹ 6.27 crore).

**5.1.15** The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of C&AG shows that the State PSUs sustained losses to the tune of ₹ 19.80 crore which were controllable with better management. Year-wise details from Audit Reports are stated below.

*(₹ in crore)*

Particulars	2010-11	2011-12	2012-13	Total
<b>Net Profit</b>	10.31	6.93	15.58	<b>32.82</b>
<b>Controllable losses as per CAG's Audit Report</b>	5.64	20.66	19.80	<b>46.10</b>

**5.1.16** The above losses pointed out in the Audit Reports of C&AG are based on test check of records of PSUs. The above table shows that with better management, the overall profits of the PSUs can be enhanced substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for greater professionalism in the functioning of PSUs.

**5.1.17** Some other key parameters pertaining to State PSUs are given below:

*(₹ in crore)*

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Return on Capital Employed (per cent)</b>	15.23	21.64	10.01	7.25	6.68	<b>8.94</b>
<b>Debt</b>	216.54	224.73	242.69	212.48	139.27	<b>314.07</b>
<b>Turnover</b>	350.86	459.33	440.04	413.72	456.48	<b>569.35</b>
<b>Debt/Turnover Ratio</b>	0.62:1	0.49:1	0.55:1	0.51:1	0.31:1	<b>0.55:1</b>
<b>Interest Payments</b>	27.63	27.67	29.20	31.30	27.49	<b>29.13</b>
<b>Accumulated Profits (losses)</b>	<b>(171.70)</b>	<b>(82.46)</b>	<b>(34.56)</b>	<b>(36.00)</b>	<b>(46.15)</b>	<b>(46.22)</b>

**5.1.18** The percentage of return on Capital Employed showed a declining trend from 21.64 per cent in 2008-09 to 6.68 per cent in 2011-12 and improved marginally to 8.94 per cent in 2012-13. This was mainly due to improvement in return on Capital Employed of three companies namely EDC Limited, Goa State Infrastructure Corporation Limited, Goa Antibiotics and Pharmaceuticals Limited. The total debt position has gone up to ₹ 314.07 crore in 2012-13 from ₹ 139.27 crore in the previous year 2011-12 due to additional loan taken by Info Tech Corporation of Goa Limited. The outgo of PSUs towards payment of interest had shown an increasing trend upto 2010-11 and stood at ₹ 29.13 crore as on 31 March 2013 showing an increase

of ₹ 1.64 crore when compared to 2011-12. The turnover position increased from ₹ 456.48 crore in 2011-12 to ₹ 569.39 crore in 2012-13 mainly due to increase in turnover of Info Tech Corporation of Goa Limited, EDC Limited and Kadamba Transport Corporation Limited. The accumulated losses decreased from ₹ 171.70 crore during 2007-08 to ₹ 34.56 crore in 2009-10 but again increased to ₹ 46.22 crore in 2012-13.

**5.1.19** The State Government has not formulated any dividend policy for payment of any minimum return by PSUs on the paid up share capital contributed by the State Government. As per their latest finalised accounts, though nine PSUs earned an aggregate profit of ₹ 47.72 crore, only two PSUs (EDC Limited and Goa State Infrastructure Development Corporation Limited) declared a dividend of ₹ 1.38 crore.

#### **Arrears in finalisation of accounts of PSUs**

**5.1.20** The accounts of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year under the Companies Act, 1956. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by PSUs in finalisation of accounts by September 2013.

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Number of PSUs	17	17	17	17	<b>17</b>
2.	Number of accounts finalised during the year	16	16	11	13	<b>13</b>
3.	Number of accounts in arrears	29	30	36	40	<b>44</b>
4.	Average arrears per PSU (3/1)	1.71	1.76	2.12	2.35	<b>2.59</b>
5.	Number of PSUs with arrears in accounts	13	12	13	14	<b>15</b>
6.	<b>Extent of arrears</b>	<b>1 to 7 years</b>	<b>1 to 8 years</b>	<b>1 to 9 years</b>	<b>1 to 10 years</b>	<b>1 to 10 years</b>

It can be seen that the quantum of arrears in accounts was increasing and the average were from 1.71 in 2008-09 to 2.59 in 2012-13.

**5.1.21** The State Government had invested ₹ 289.01 crore (Equity ₹ 53.14 crore, loan ₹ 4.39 crore and grants/subsidies ₹ 231.48 crore) in ten PSUs during the years for which accounts have not been finalised, as detailed in *Appendix 5.4*. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for, the purpose for which the amount was invested had been achieved or not and thus Government's investment in such PSUs remained outside the scrutiny of the State Legislature.

**5.1.22** The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned Administrative Departments and officials of the Government were informed every quarter by the Audit about the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit.

**5.1.23** As the position of arrears in finalisation of accounts of State PSUs was alarming, the C&AG took up the matter (September 2011) with the Ministry of Corporate Affairs (MCA) and suggested to devise special arrangements along with actionable issues to ensure enforcement of accountability. The MCA in turn devised (November 2011) a scheme, which allowed the PSUs with arrears in accounts to finalise the latest two years accounts and clear the backlog in five years. The Accountant General (AG) also addressed the Chief Secretary/Finance Secretary (November 2012 and October 2013) to expedite the backlog of arrears in accounts in a time bound manner. Delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

#### **Accounts Comments and Internal Audit**

**5.1.24** Eleven Companies forwarded their twelve accounts to AG during the year 2012-13, of which ten were selected for supplementary audit. The audit reports of Statutory Auditors appointed by the C&AG and the supplementary audit of C&AG indicate that the quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments of Statutory Auditors and C&AG are given below.

*(₹ in crore)*

Sl. No.	Particulars	2010-11		2011-12		2012-13	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	15.71	2	5.07	2	12.21
2.	Increase in loss	2	0.21	1	0.20	2	1.95
3.	Non-disclosure of material facts	2	98.91	2	12.68	5	2.50
4.	Errors of classification	5	17.93	1	2.91	2	0.13

**5.1.25** During the year 2012-13, the Statutory Auditors had given qualified certificates for twelve accounts pertaining to eleven Companies. None of the PSUs were given adverse comments or disclaimer certificates for their accounts by the C&AG or Statutory Auditors. The compliance of Companies with the Accounting Standards remained poor as there were fourteen instances of non-compliance in eight accounts during the year. One company, Goa Forest Development Corporation Limited revised its annual accounts for

2011-12 based on preliminary observations made by audit.

**5.1.26** Some of the important comments in respect of accounts of Companies are stated below:

**Economic Development Corporation Limited (2011-12)**

- Employee Benefits Expenses was overstated by ₹ 0.59 crore due to charging of superannuation scheme premium pertaining to the accounting year 2012-13 and paid to LIC during 2011-12. The same should have been accounted as pre-paid expenses instead of expenses for the year 2011-12. This had resulted in understatement of Profit for the year by ₹ 0.59 crore.
- Other Expenses was understated by ₹ 1.11 crore due to non-accounting of liability for work done by Kanaka Infratech Limited in respect of “Re-development of Patto Plaza”. This had resulted in overstatement of profit by ₹ 1.11 crore.

**Goa Handicraft, Rural and Small Scale Industrial Development Corporation Limited (2011-12)**

- Employees Benefit Expenses was understated by ₹ 0.72 crore due to non-provision of liability towards gratuity payable to LIC on implementation of the VI Pay Commission Report. This had resulted in understatement of loss to the same extent.

**Goa State Infrastructure Development Corporation Limited (2011-12)**

- Trade receivables (Government of Goa) included ₹ 6.94 crore being expenditure incurred on the work (construction of subway across NH-17 at Bambolim), executed during 2007-09 on behalf of a client Department (PWD, GOG), but not taken over/accepted by them. This material fact should have been disclosed in the Notes forming part of accounts.
- Trade receivables (Government of Goa) included ₹ 6.10 crore being excess amount received from PWD towards repayment of a loan given by GSIDC. The Board of Directors unilaterally decided (August 2010) to adjust the excess amount and accordingly accounted the same as “Contribution from Government”, in the year 2009-10. In the absence of specific Government orders, the excess money collected from PWD should have been shown under “Current Liabilities”.

**Goa Antibiotics and Pharmaceuticals Limited (2011-12)**

- **Notes forming part of financial statements** was incomplete since the disclosure as to the Company’s “Guarantee/Warranty Terms and Policies” of the Company in respect of various class of products manufactured by the Company and terms for providing of estimated liability that might be required to honour expenditure towards such claims, had not been made as required at para 67 of AS-29.

**Kadamba Transport Corporation Limited (2011-12)**

- The Company implemented the VI Pay Commission recommendations for its employees with effect from 01 April 2010 and agreed to pay 25 *per cent* arrears of revised salary/wages from 01 January 2006 to 31 March 2010 in 2010-11 and the remaining 75 *per cent* arrears in 7 annual

*Audit Report for the year ended 31 March 2013*

instalments from 2011-12 to 2017-18. However, provision for the same had not been created for the unpaid salary arrears of ₹ 19.03 crore. Non-provisioning for the same had resulted in understatement of liabilities and losses by ₹ 19.03 crore.

**5.1.27** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects, including internal control/internal audit systems in the Companies audited in accordance with the directions issued by the C&AG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of 11 Companies<sup>f</sup> for the year 2011-12 and 10 Companies<sup>h</sup> for the year 2012-13 are given below:

Sl. No.	Nature of comments made by Statutory Auditors	Companies where recommendations were made			
		2011-12		2012-13	
		Nos.	Reference to serial number as per Appendix 5.2	Nos.	Reference to serial number as per Appendix 5.2
1.	Auditors Report & Comments/Draft paras/ Mini Reviews not discussed in Audit Committee	3	A-9,10,14	2	A-7,15
2.	No system of making a business plan/short/long term plan	5	A-8,9,13, 14, 15	4	A-6,7, 10,14
3.	No clear credit policy	5	A - 2,7,13, 14, 15	5	A- 6,7,12, 14, 15
4.	No delineated fraud policy	10	A-2,4,7,8,9, 10,12,13,14,15	7	A-7,9,10,11, 12,14,15
5.	No separate vigilance Department	10	A-1,2,4,7,9,10, 12,13,14,15	9	A-1,4,6,7,9,10, 12,14,15
6.	Non prescribing of Maximum/Minimum level of stock	1	A-13	1	A-14
7.	No ABC analysis adopted to control the inventory	-	-	1	A-14
8.	Inadequate scope of Internal Audit	1	A-14	3	A-6,9,14
9.	Absence of proper maintenance of Fixed Asset Register	1	A-14	1	A-6

<sup>f</sup>Sl. No.1 to 15 (except Sl.No.3,5,6 & 11) of Appendix – 5.2.

<sup>h</sup>Sl. No. 1 to 15 (except Sl.No 2, 3, 5, 8 & 13) of Appendix – 5.2.



**5.1.28** Similarly, one Statutory Corporation, GIDC forwarded the annual accounts for 2010-11 to the Accountant General during 2011-12. This was subjected to sole audit by the C&AG. Some of the important comments are given below:

- Premium Receipts on Plots (₹ 334.69 crore) represented premium amount either received or receivable from allottees of land. As per the accounting practice for income/expenditure of assets on lease, the lease premium received/paid for use of leased assets was to be accounted/written off in equal installments over the period of lease. As neither the allotment order nor the lease agreement stipulated the refund of premium collected on the expiry of lease period, the same should have been written off over the period of lease instead of showing as liability.
- The Notes No.4 & 5 of Notes to Accounts stated that provision was made for payment of pension to staff as Pension Fund was created and yearly subscription was made to this fund by the Corporation and that provision was made for payment to staff on account of Leave Encashment, at the time of retirement. However, the Corporation had neither applied actuarial valuation for assessing the accruing liability towards pension and leave encashment nor complied with the disclosure requirements as per the provisions of Accounting Standard 15.

#### Status of placement of Separate Audit Reports

**5.1.29** The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the C&AG on the accounts of Statutory Corporations in the Legislature by the Government.

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Goa Industrial Development Corporation	2008-09	2009-10	08.11.2011	Report under print
			2010-11	10.01.2013	Report under print
2.	Goa Information Technology Development Corporation	First accounts (2006-07) awaited			

#### Departmentally managed Government commercial/quasi commercial undertakings

**5.1.30** There were two Departmentally managed government commercial/quasi commercial undertakings viz., the Electricity Department and the River Navigation Department in the State as on 31 March 2013. The Proforma accounts of the River Navigation Department were in arrears for the

years from 2006-07 to 2011-12 and that of the Electricity Department for the years 2007-08 to 2011-12 (January 2014).

The summarised financial results of the Electricity Department and River Navigation Department for the last three years for which their proforma accounts are finalised are given in *Appendix 5.7*.

#### **Recoveries at the instance of audit**

**5.1.31** During the course of compliance audit in 2012-13, recoveries of ₹ 163.55 lakh were pointed out in two companies (*Kadamba Transport Corporation Limited and Goa Handicraft Rural and Small Scale Industrial Development Corporation*) and two Departments (*River Navigation Department and the Divisional Offices of Goa Electricity Department*), which were admitted by them. The recoveries effected during the year was ₹ 28.42 lakh by Departments and ₹ one lakh by two Companies.

#### **Disinvestment, Privatisation and Restructuring of PSUs**

**5.1.32** During the year 2012-13, no exercise was undertaken by the Government of Goa for Disinvestment, Privatisation and Restructuring of PSUs.

#### **Reforms in Power Sector**

**5.1.33** The Power Sector in the State is managed by the Electricity Department of Goa. The Union Government had set up (May 2008) a “Joint Electricity Regulatory Commission for the State of Goa and for Union Territories”, under the Electricity Act, 2003. Presently, the Commission is in the process of framing various regulations as mandated in the Electricity Act, 2003 to facilitate its functioning.

**5.1.34** A Memorandum of Understanding (MoU) was signed in October 2001 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below:-



Sl. No.	Milestone	Achievement
1.	Government of Goa will corporatise its Electricity Department by 31 March 2002.	Necessary studies were carried out and final report obtained. Decision for corporatisation has not yet been taken by the State Government.
2.	Government of Goa will set up SERC by 31 December 2001 and file tariff petitions.	Joint Electricity Regulatory Commission (JERC) has been set up and full support is being provided.
3.	Government of Goa will undertake Energy audit and Energy Accounting at all levels to promote accountability and reduce transmission and distribution losses and bring them to the level of 18 <i>per cent</i> and achieve breakeven in current distribution operations in two years and positive returns thereafter. This will be achieved by taking following measures:	Losses reduced to below 18 <i>per cent</i> . The Department is achieving substantial operating surplus.
	- Install meters on all 11 KV feeders by 31 December 2001.	Achieved (March 2003)
	- 100 <i>per cent</i> metering of all consumers by 31 December 2001.	Achieved (March 2004)
	- Computerised billing at towns by December 2002.	In process in some towns and balance under implementation.
	- Development of distribution Management Information System.	Being implemented under re-structured APDRP during XI Plan.
4.	Goa would achieve 100 <i>per cent</i> electrification of villages by 2002.	Achieved (December 1988)
5.	Government of Goa will securitise outstanding dues of CPSUs and ensure that CPSU outstanding does not cross the limit of two months billings.	Achieved
6.	Goa will maintain grid discipline, comply with grid code and carry out the directions of Regional Load Dispatch Centre	Grid discipline maintained.
7.	Goa will constitute district level committees to undertake resource planning monitoring of distribution reforms and rural electrification.	DRC constituted.
8.	Government of Goa will follow the guidelines on captive power policy as issued by Government of India on 11 July 2001.	Ministry's guidelines followed.

## 5.2 Performance Audit on Loan recovery performance of EDC Limited

### Executive Summary

1. Out of total principal outstanding of ₹ 474.09 crore as on March 2013, ₹ 142.30 crore (30.02 *per cent*) represented NPA as on 31/03/2013.
2. The actual recovery as a percentage of net recoverable ranged from 18.41 *per cent* to 19.77 *per cent*, during the period under review.
3. The percentage of recovery of old dues to outstanding at the beginning of the year ranged from 2.71 *per cent* to 6.48 *per cent*, during the period under review.
4. The Company was yet to formulate a manual containing 'Standard Operating Procedures' with a view to ensure transparency in its functioning and serve as a guideline in the entire process of granting of loan and its recovery.
5. In nine out of 15 cases test checked, where the Company had settled the accounts under OTS the total waiver amounted to ₹ 1,361.52 lakh.
6. Since inception there has been no separate "Policy relating to additional Collateral Security" or separate directions issued by the top Management, Board or Government of Goa for extending financial assistance.
7. No 'additional' or 'collateral' security was sought from promoters belonging to financially sound business groups as well.
8. Due to delayed recovery action the value of securities obtained had deteriorated by 23.46 *per cent* to 99.80 *per cent* amounting to ₹ 8.25 crore in 26 cases test-checked by audit.
9. Despite becoming CIBIL member in January 2011, the Company had not listed names of its defaulters.
10. The loss due to defective appraisal in three cases of loan disbursed during the period under review was ₹ 59.99 lakh.
11. No penalty was prescribed for non-submission of documents such as financial statements, periodically to the Company.

### 5.2.1 Introduction

Economic Development Corporation of Goa, Daman & Diu Limited (Company) was incorporated on 12 March 1975, as a development bank, enjoying the *twin* status of a State Finance Corporation (SFC) as well as an Industrial Development institution. The Company was notified as a financial institution since January 1993 and provisions of Section 29, 30 and 31 of SFC Act were made applicable to the Company. The Company changed its name to **EDC Limited** (September 1999). The Company was formed with the main objectives to provide financial assistance to Small and Medium Entrepreneurs in various sectors; act as an agent for the disbursement of assistance under various schemes, incentives, concessions and benefit on behalf of the State and Central Government to the units and enterprises assisted by the Company; and participate in other development works, projects, schemes as mandated by the State Government.

As on 31 March 2013 the Company had an equity capital of ₹ 10,092.48 lakh. The Government of Goa held ₹ 8,620.26 lakh (85.41 *per cent*), IDBI held ₹ 1,153.22 lakh (11.43 *per cent*) and Daman & Diu Administration held ₹ 319 lakh (3.16 *per cent*) of this equity capital.

### 5.2.2 Organisational setup

The Management of the Company is vested with the Board of Directors (Board) consisting of nine Directors, including Chairman and Managing Director. The Board of the Company is the policy making body and the policies are being implemented through delegation of powers to the Managing Director (MD). The MD is assisted by two Chief General Managers and five<sup>2</sup> General Managers. The organisational chart of the Company is placed as **Appendix 5.8**.

The Chief General Manager (Recovery) is the head of Follow up and Recovery (FR) Section and is assisted by one General Manager and two Deputy General Managers. The Managers/Deputy Managers are primarily responsible for monitoring and recovery of dues.

### 5.2.3 Scope of Audit and Methodology

The present performance audit covered the loan recovery performance of the Company during the period 2008-09 to 2012-13. We examined the ‘*live for recovery*’ records maintained at the Corporate Office. This involved scrutiny of records of Chief General Manager (Legal, Computer Cell & Recovery) and General Manager (Recovery) *etc.* at Head Office. Since the final accounts of the Company for the year ending 31 March 2013 were under preparation, the position of loans outstanding as on 31 March 2012 was used for selecting cases for audit test check, as per table below:

---

<sup>2</sup> One General Manager is posted as Managing Director to EDC's subsidiary *i.e.* GAPL.

Type	Particulars	Period	Total Cases	Selected
A.	One Time Settlement cases	2008-13	150	15
B.	<b>Term Loan default cases</b>			
	Doubtful-I – Category ‘D’	456 to 820 days	6	1
	Doubtful- II – Category ‘E’	821 to1550 days	9	1
	Doubtful-III – Category ‘F’	Above 1551 days	61	6
	Loss – Category ‘G’		407	40
C.	Recent Term Loan cases above <i>one</i> crore for review of appraisal & disbursement processes only.		21	7

The scrutiny was made for lapses and delay in attaching the property and its disposal, inadequate security, delay in approaching Debt Recovery Tribunal (DRT) or Civil Court for recovery from sale of identified personal property not hypothecated or mortgaged with the Company. Deficiencies in the appraisal process followed during the period under performance audit have been pointed out in the paragraph on appraisal and disbursements.

The audit objectives of the Performance audit were explained to the Company during an entry conference held in May 2013. The preliminary audit findings were reported to the Management in October 2013 and their replies have been incorporated in this Performance Audit Report wherever feasible. The findings of the audit were also discussed with the Secretary (Finance) and Chairman-EDC Limited on 27 November 2013. The replies of the Company (November 2013) were concurred by the Government (January 2014).

#### 5.2.4 Classification of assets

Reserve Bank of India (RBI) has issued guidelines to banks on ‘Prudential norms on Income Recognition, Asset Classification, Provisioning pertaining to Advances and Computation of NPA levels’, which apply mutatis mutandis to the All India Financial Institutions. RBI norms applicable to the Company requires that a statement<sup>3</sup> showing position of ‘loans outstanding’ classified into (i) Standard (ii) Sub-standard (iii) Doubtful and (iv) Loss category be compiled every year as a part of the annual financial statements *i.e.* Balance sheet. Based on RBI guidelines, the loans are categorised by the Company as follows:-

**Standard assets:** is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

**Non-performing Assets:** A loan or an advance becomes ‘non-performing asset’ (NPA) when it ceases to generate income (for the *financial institution*) and where the ‘interest’ or ‘instalment of principal’ remains overdue for a period of more than 90 days. The NPAs are further classified into ‘*sub-standard*’, ‘*doubtful*’ and ‘*loss*’ assets based on total period for which the asset remained *non-performing*.

<sup>3</sup> Commonly referred to as ‘Non-Performing Assets (NPA) Statement’

a	Sub-standard assets	A sub-standard asset which remained NPA for less than or equal to 12 months.
b	Doubtful assets	A doubtful asset was such asset which remained sub-standard for 12 months.
c	Loss assets	Loss assets are those where loss has been identified by the Company, internal or external auditor, but the amount has not been written off wholly.

The cases classified under **(i) Standard** and **(ii) Sub-standard** represent loanee cases which were regular and slightly irregular in repayment respectively. As payments were regular, these low risk categories of loanees were not selected for scrutiny by audit.

### 5.2.5 Audit Objectives

The performance audit on loan recovery performance of the Company was carried out to assess whether;

- operating manuals and guidelines existed;
- adherence to procedures and guidelines on loan applications, correctness of appraisal process and use of tools such as CIBIL<sup>4</sup> data for appraisal and monitoring by management;
- timely adherence to recovery procedure, guidelines and prompt realisation of dues existed;
- system of internal control was adequate and operative;
- OTS schemes were implemented in accordance with the approved policies and reasonability of settlements; and
- assessment of overall position of loan recovery.

### 5.2.6 Audit criteria

The audit criteria derived from the following were adopted:

- Relevant provisions contained in the manual and resolutions of the Board.
- Policies, procedures and guidelines of the Company relating to recovery of loans, relevant provisions of SFC Act, Guidelines of RBI/SIDBI *etc.*
- Guidelines of RBI in respect of categorisation of loan/asset classification.
- OTS schemes and delegation of powers.
- Reports, guidelines prescribed for MIS/Internal Control/Internal Audit.

### 5.2.7 Financial Assistance process – An overview

For financial assistance, an entrepreneur was required to submit detailed project reports, viability report, promoters' background, technical ability, experience in the proposed product and its marketability, financial capabilities of the promoters, security offered, personal guarantee of the borrowers, corporate

<sup>4</sup>Credit Information Bureau (India) Limited

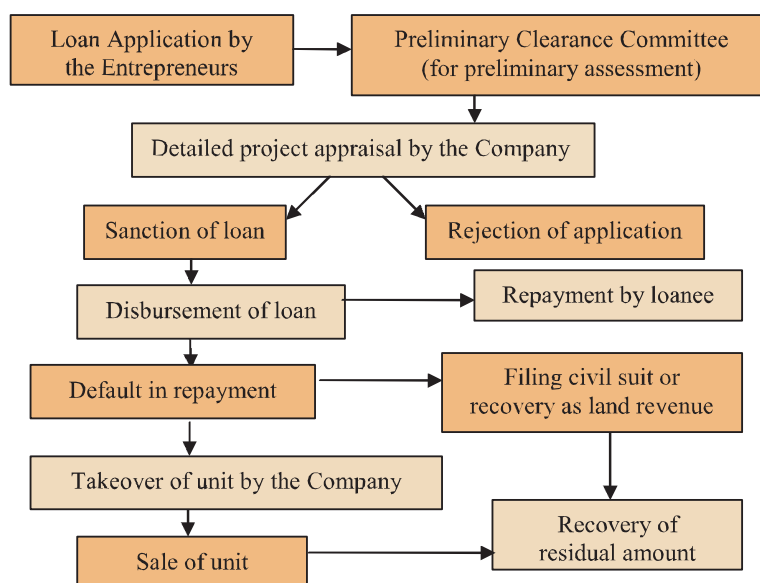
guarantee of associate companies and contribution to be brought in by promoters. EDC has also formed a Preliminary Clearance Committee (PCC) for general evaluation after which loan application form is given to the borrower. Disbursement of loan is made after execution of prescribed agreement including creation of securities in favour of the Company. In the event of default by the loanee, recovery action under appropriate provisions of the law is initiated after providing adequate opportunity by serving notices to the borrower to clear the dues and on failure to clear dues after such notices, the assets are taken in possession by the Company.

Further, in cases where outstanding amounts are not fully recovered from the sale of mortgaged/hypothecated assets, any of the following recovery options are resorted to;

- i. if balance recoverable is less than ₹ 10 lakh, the case is referred to “The Collector”, (of concerned District where a personal asset of the borrower is located or any other authority designated as District Recovery Officer), under “*The Goa, Daman and Diu Public Moneys (Recovery of Dues) Act, 1986 and The Goa Public Moneys (Recovery of Dues) Rules 1988 (PMRA)*” for recovery of balance dues as arrears of land revenue.
- ii. where the balance recoverable are more than ₹ 10 lakh, the matter is referred to Debt Recovery Tribunal (*DRT*) under the provisions of *Recovery of Debts Due to Banks and Financial Institutions Act, 1993* for recovery in view of personal guarantees obtained from the promoters.
- iii. by approaching the District Judge under section 31(1)(a) of the State Financial Corporation Act 1951 (*SFC Act*) or for enforcing the liability of any surety under section 31(1) (aa) of the SFC Act.

A flow chart indicating the process of financing and recovery thereof is depicted below:

**Process of Financing & Recovery**



### 5.2.8 Audit findings

The position of loans (excluding write off amounts) in terms of money value as on 31 March 2013 was as follows.

(₹ in lakh)

Year 2012-13	Term Loan	Micro Finance	Corpo- rate	CMRY <sup>5</sup>		Total	
				Old	New	Amount	Per- cent
A – Standard – I	3711.07	271.55	26978.12	0.00	916.63	31877.37	77.44
B – Standard – II	188.00	74.16	0.00	0.00	1039.59	1301.75	3.16
C – Sub-Standard	1292.22	21.96	877.82	0.41	1350.05	3542.46	8.61
D – Doubtful – I	698.86	1.55	90.00	1.01	171.77	963.18	2.34
E – Doubtful – II	123.45	0.00	0.00	1.09	106.98	231.52	0.56
F – Doubtful – III	893.37	0.00	0.00	47.60	96.17	1037.14	2.52
G – Loss / Court Cases	2201.28	0.00	0.00	0.08	10.56	2211.92	5.37
Total - Amount	9108.25	369.22	27945.94	50.17	3691.75	41165.34	100.00
Percentage of type of Loan to Total Loan	22.13	0.90	67.89	0.12	8.97	100.00	--

As per the above, the Company was having 80.60 per cent of its loans under Standard category. This was due to the reason that the Company had disbursed Corporate loan of ₹ 231.50 crore during 2012-13 to Info Tech Corporation of Goa Limited, GSIDC Limited and Kadamba Transport Corporation Limited and which was not under the category of NPA during the year.

### 5.2.9 Recovery performance

The details of NPA for the five years up to 2012-13 are presented in the table given below:

(₹ in crore)

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Principal outstanding at the close of the year	340.00	325.91	317.40	297.37	474.09
2.	Amount disbursed during the year	60.86	36.34	46.01	37.19	240.77
3.	Outstanding at close of the year excluding current year's disbursement.	279.14	289.57	271.39	260.19	233.32
4.	<b>Classification of loans</b>					
a)	Standard assets	191.51	194.67	179.73	145.10	331.79
b)	Sub-Standard assets	20.58	14.52	13.19	39.54	35.42
c)	Doubtful assets	39.38	39.27	44.81	25.02	22.32
d)	Loss assets	88.53	77.45	79.67	87.71	84.56
5.	Total NPA (b+ c +d)	148.49	131.24	137.67	152.27	142.30
6.	Percentage of NPA to total outstanding (5 to 1)	43.67	40.27	43.37	51.21	30.02
7.	Percentage of NPA to net outstanding (5 to 3)	53.20	45.32	50.73	58.52	60.99
8.	Percentage of doubtful and loss assets to total NPA[4( c )+4( d) to 5]	86.14	88.94	90.42	74.03	75.11

<sup>5</sup>Chief Minister's Rozgar Yojana.



It would be seen from the above that:

- i. The percentage of NPA to total principal outstanding at the end of each year during the period under audit ranged between 30.02 and 51.21 *per cent* indicating high NPA.
- ii. The percentage of doubtful and loss assets to total NPA showed increasing trend from 86.14 *per cent* in 2008-09 to 90.42 *per cent* in 2010-11 but reduced to 75.11 *per cent* in 2012-13. The position of doubtful and loss assets to total NPA indicates need for further efforts in the direction of recovery performance. This showed the need for improvement of appraisal process relating to project viability and competence of the promoter.

The Government, in reply contended (January 2014) that table above considered all the bad debts written off over the years, as a part of loan outstanding at the close of each year during the period under review and that this was not as per practice followed as the amounts had been written off during the respective periods.

The contention of the Government was not correct, since the process of writing off was only an accounting treatment in its books of accounts to present a fair position of its assets and liabilities as on Balance Sheet date. The amount written off was not actually waived off or communicated to the borrower as settled/closed. Moreover, the Company itself considered the amount written-off as a business expense in the year of its write-off and as income from recovery of bad debts, when received in future date.

#### **5.2.10 Position of loans due for recovery, targets and achievements**

The Company had disbursed total loans aggregating ₹ 1,112.28 crore up to 2012-13. Of this, principal and interest amounting to ₹ 347.82 crore were due for recovery as on 31 March 2013. The details of term loans due for recovery, targets fixed for recovery and amounts recovered during the last five years upto 2012-13 are given in *Appendix 5.9*.

Audit observed that:

- i. The target for recovery to net recoverable during the period under audit fixed by the company ranged from 19.07 *per cent* to 20.04 *per cent* was low and resulted in showing achievement of recovery target in the range of 91.85 *per cent* to 98.30 *per cent*. Even this low target fixed was not fully achieved by the Company during the period 2008-13.
- ii. The actual recovery as a percentage of net recoverable marginally increased from 18.41 *per cent* in 2010-11 to 19.77 *per cent* during the period 2012-13. Absence of a scheme or a policy to effectively induce the borrowers/defaulters to repay, resulted in consistent low level of recovery.
- iii. The percentage of recovery of old dues outstanding at the beginning of the year ranged from 2.71 *per cent* to 6.48 *per cent* during the period under audit. The recovery had fallen from 6.48 *per cent* in 2009-10 to 2.71 *per cent* in 2011-12 and marginally improved in 2012-13 to 3.75 *per cent*. This indicated that the percentage of recovery of old dues was not satisfactory.



- iv. The targets fixed for recovery were overall and not separate for old dues, current dues or for amounts relating to BIFR cases, court cases, closed units, units in possession and deficit cases *etc.* Thus, the recovery of old dues in terms of percentage constituted only 2.71 *per cent* to 6.48 *per cent* of the amounts due at the beginning of the year compared to the percentage of recovery of current demand which ranged from 57.68 *per cent* to 73.08 *per cent*. In the absence of separate targets for old dues, the performance of recovery against old dues could not be assessed in audit.

The Company has taken note of audit observation and agreed (November 2013) to fix targets separately for old accounts.

#### 5.2.11 Absence of Standard Operating Manual

The 'operating manual' in use at EDC was prepared in 1986 and was stated to have undergone several modifications in accordance with the re-finance limits stipulated by the SIDBI and IDBI. The Company was yet to formulate a manual containing 'Standard Operating Procedures' with a view to ensure transparency in its functioning and serve as a standard practice/guideline in the entire process of granting of loan and its recovery.

The Government replied (January 2014) that EDC was following an Operating Manual prepared in line with procedures followed by other SFCs and that the Board of EDC had recently decided that standard operating procedure be updated in the Operating Manual, expected to be completed by March 2014.

However, in the absence of specific guidelines, the following was observed by audit in the loan recovery process.

#### 5.2.12 Lack of timely action and delay in recovery

The manual did not specify any specific time bound action plan for step-by-step loan recovery process which involved providing adequate time and opportunity in the form of (i) time span for normal notice for default; (ii) show-cause notice; and (iii) recall notice to be provided to the borrower in a situation of default in paying quarterly outstanding dues and opportunity for the loanee to be heard. In the absence of the same such matters were not dealt with uniformly.

In the test-check of selected cases, lack of timely action, non-uniformity in the time provided to defaulters and delays in recovery process ranging from more than one year to 15 years from the date of loan becoming doubtful (*i.e.* two more years after becoming NPA) were noticed in 37 cases<sup>6</sup>, as indicated in **Appendix 5.10**. In 28 cases<sup>7</sup> the dues as on date of becoming 'doubtful' ranged from ₹ 0.49 lakh to ₹ 525.32 lakh. In the remaining<sup>8</sup> nine cases where the Company had settled the accounts under one time settlement scheme (OTS) and the total waiver amounted to ₹ 1,361.52 lakh.

<sup>6</sup>In ascending order of delay.

<sup>7</sup>Sr.Nos.1 to 5, 7 to 12, 14 to 16, 19 to 22, 24, 27, 28, 30 to 35 and 37 of **Appendix 5.9**

<sup>8</sup>Sr.Nos.6, 13, 17, 18, 23, 25, 26, 29 and 36 of **Appendix 5.9**

Of the 37 cases mentioned above, the position of five cases where the outstanding was more than a crore is listed below.

Sl. No.	Name of Borrower	Date of Loan declared doubtful Outstanding (₹ in lakh)	Delay in attachment/ reference to DRO	Amount waived, where loan settled under OTS (₹ in lakh)
1.	Jaybee Laminations Pvt. Ltd.	<u>30/06/2002</u> ₹ 163.90	December 2003, about 1½ years after date of NPA.	74.23
2.	Swan Distilleries Pvt. Ltd.	<u>31/03/2003</u> ₹ 525.32	July 2007, about four years after date of NPA.	-
3.	Decibells Electronics	<u>30/09/1999</u> ₹ 193.10	September 2003, about four years after date of NPA.	337.47
4.	Shivam Synthetics Pvt. Ltd.	<u>30/06/1992</u> ₹ 112.84	November 1996, about 4½ years after date of NPA.	142.39
5.	Penguin Alcohols Pvt. Ltd.	<u>30/06/2003</u> ₹ 278.15	February 2010, about six years after date of NPA.	-

The Company in its replies (May/September 2013) attributed the delay in attachment to; (i) adequate opportunity for the borrower to repay was provided as attaching the unit was a quasi-judicial function; (ii) the borrower and his family being dependent on the unit for livelihood; (iii) inability to seize movable asset as the vehicle was reported running outside the State and not traceable; (iv) low realisable value of security obtained and unit being operated in rented premises; (v) accepting the borrower's request for re-scheduling of repayment or re-structuring of loan due to factors beyond the control of the borrower; and (vi) time involved in the judicial/BIFR processes over which it had no control *etc.* The Government stated (January 2014) that EDC had switched over to commercial lending and necessary measures for timely recovery action had been initiated by installing alerts in the software and preparation of standard operating procedures.

The fact however was that as per the manual there were no defined time-line for providing opportunities to the borrower and thus there were delays in attachment of assets of the defaulters.

### **5.2.13 Sanction of loan without sufficient security**

The manual neither mentioned the type of assets to be accepted/not to be accepted as security towards loan nor value of depreciable assets to be considered towards security. This had provided scope for considering depreciable assets, intangible and miscellaneous expenses having no re-sale value as security and even when the value of tangible securities was less than the principal amount. During the test-check of 54 term loan cases<sup>9</sup> for adequacy of security, it was noticed in 18 cases that the loans were sanctioned and disbursed without obtaining enough tangible security to cover the principal amount as detailed in *Appendix 5.11*.

<sup>9</sup> Live for recovery *i.e.* outstanding during the period under audit even though loan sanction/disbursements pertained to the period 1986 to 2001.

The Company replied (September 2013) that the working manual was prepared in the development banking era based on systems and procedures followed by other institutions as required by IDBI/SIDBI. The manual therefore did not provide for additional or collateral security. It was further stated (November 2013) that there was no separate policy for obtaining collateral security approved by Government of Goa or directions issued by the Board.

#### **5.2.14 Settlement under One Time Settlement (OTS) scheme**

During the test-check of OTS cases, the following was observed:

**5.2.14.1** M/s Super Urethane Products Private Limited, (SUPPL) promoted by Punj Group was sanctioned a loan of ₹ 65 lakh in April 1984 and availed a total of ₹ 57.15 lakh upto January 1991. The only security obtained was the asset (unit) financed by the Company valued at ₹ 104.52 lakh and personal guarantee of the promoters. SUPPL paid only ₹ 44.15 lakh till the date of attachment (December 2003). Against a total outstanding of ₹ 330.13 lakh, the Company recovered ₹ 80 lakh on sale of assets (March 2005). Further, the Company settled the account under OTS by offering ₹ 4.00 lakh plus other miscellaneous expenses as settlement amount and waiver of ₹ 238.11 lakh.

**5.2.14.2** The promoters of M/s Styrofoam Cups & Container Private Limited, (SCCPL) defaulted in interest and principal repayments since September/November 1998 and the Company did not take any action to attach and sell the financed unit for a period of six years. Against the total outstanding of ₹ 332.47 lakh as on September 2006, the Company settled the account (April 2007) under OTS scheme at ₹ 165.39 lakh plus simple interest at 12 *per cent* on principal balance from October 2006 till the date of offer and waived off ₹ 167.08 lakh.

**5.2.14.3** M/s Shivam Synthetics Pvt. Ltd. (SSPL) defaulted in payments of principal and interest since February/September 1991. The Company did not take any action (June 1992 to November 1996) to attach and sell the financed unit for a period of four years after the date on which it had classified the loan account as doubtful (June 1992). Finally, the Company offered (September 2008) settlement of the account under OTS scheme at ₹ 53.25 lakh plus other expenses and waived ₹ 142.39 lakh out of total outstanding of ₹ 195.63 lakh as in June 2008.

The Company replied (June-August 2013) that as regards the collateral securities, it was practice followed by the Company not to insist on collateral securities and the main security was of mortgage/hypothecation of fixed assets of the borrower and personal guarantees of the promoters.

#### **5.2.15 Deterioration of value of assets due to delay in recovery**

Due to delayed action in attachment of assets, the value of the security obtained (except that of land and building in some cases) gets reduced with the passage of time due to normal wear and tear or technological obsolescence. It was thus imperative that the company exercised its options for recovery at the

earliest, giving due importance to the factor of reduction in the value of assets obtained as security.

As detailed in *Appendix 5.12* it was observed that the value of the security obtained had deteriorated by 23.46 per cent to 99.80 per cent in 26 cases and the Company was unable to recover substantial value of the asset and the amount recovered was not enough to cover the principal and interest outstanding as on the date of attachment/taking recovery action.

#### **5.2.16 Absence of action resulting in claims being irrecoverable/time-barred**

The Company did not have a defined time-plan to pursue the recoverable balance to avoid cases of recovery becoming time-barred (*i.e.* three years) as per 'The Indian Limitation Act, 1963' by filing a case in the court for recovery. Such lapses were observed in four cases mentioned below:-

- i. After auction of available assets of M/s Maruti Cement Products in February 2005, the Company failed to file FIR for missing machinery and court case for balance recovery of ₹ 41.69 lakh which had become irrecoverable and time barred inspite of detection (July 2008) of four stationery shops of the defaulter. There was no progress of the case since August 2011.
- ii. After sale of attached assets (December 2005) of M/s Harichandra Enterprises, no further action was taken or a court case filed for recovery of the balance of ₹ 37.33 lakh (including interest) till March 2013 resulting in the recovery becoming irrecoverable/time barred.
- iii. After sale of attached assets of M/s Ameya System and Printers (May 2002), no further action or court case was filed for recovery of the balance of ₹ 119.95 lakh as on March 2013 (including ₹ 76.18 lakh interest) resulting in the recovery becoming irrecoverable/time barred due to inaction for 11 years.
- iv. After sale of attached assets of M/s Enarai Vapour Lamp Ignitor Private Limited in August 1996, no further action or court case was filed for recovery of the balance of ₹ 4.25 lakh making the same irrecoverable/time barred.

Similarly, in three cases as detailed below the Company had filed cases for recovery under the Goa, Daman and Diu Public Moneys (Recovery of Dues) Act 1986, but did not pursue the case for balance recovery after partial recovery of dues were made from sale of attached assets.

- v. M/s Shubhdwar Engineering Private Limited: Case filed in February 1993 but there was no correspondence with DRO or defaulter since March 1996. The outstanding as on March 2013 was about ₹ 32.39 lakh.
- vi. M/s Chamunda Cashew Industries: Case filed in July 1992 but there was no correspondence with DRO or defaulter since May 2002 for balance recovery. The amount due for recovery as on March 2013 was ₹ 25.15 lakh (including interest).

- vii. M/s Phoenix Limited: Case filed in 1994 but there was no correspondence or efforts seen on record to recover the amount due since 1997. The balance of ₹ 12.72 lakh (including interest) was recoverable as in March 2013.
- viii. In the case of Shri Hemant M Bandekar, there was no filing of FIR or Court case in past 16 years since January 1997 when loan was recalled. The party had been promising to repay dues. No repayment was made nor action taken to attach assets/vehicle. The outstanding recoverable stood at ₹ 42.62 lakh as in September 2012.

The Government stated (January 2014) that EDC had the remedy to file recovery cases under the provisions of PMRA Act in all loans irrespective of the outstanding amount as arrears of land revenue. The Government further stated that, the remedy available to the Company to file cases under PMRA for loans above ₹ 10 lakh was curtailed upon its attaining the status of a public financial institution in the year 2007 and consequently the said cases were hit by limitation.

The fact remains that had timely action been taken by the company in all these cases which arose during the period 1996 to 2005 and much before the limitation period came into effect in 2007, the recoveries could have been effected totally.

#### **5.2.17 Inadequate utilisation of CIBIL's system of reporting on defaulters**

The Company resolved (November 2010) to apply for membership with Credit Information Bureau (India) Limited (CIBIL). This would have helped the Company in appraisal of new loan applications in the light of details of previous defaults by the applicant, if any and also to report the past defaulters of the Company to CIBIL thereby preventing the defaulters from availing loans from other banks without clearing the dues of EDC Limited. In the test-check of CIBIL data for March 2013, it was observed that:

The Company had not started appraising new loan applications based on defaulters' data of CIBIL till March 2013 despite obtaining CIBIL membership in January 2011. Due to delay of over two years in complying with the Board directives, the Company would have sanctioned financial assistance to applicants who would have been classified as defaulters by other Banks or Financial Institutions.

The Company started reporting of its borrowers (including past defaulters) to CIBIL from November 2012. Scrutiny of details of borrowers (including past defaulters) furnished monthly by the Company to CIBIL in March 2013 revealed that the names of defaulter promoters, guarantors were not being reported while reporting the defaulter companies, partnership concerns *etc.* This could enable past defaulters to avail fresh loans from other sources.

The Company stated (October 2013) that the CIBIL reports were not downloaded for all the cases as observed by audit but were done for some cases. The Company has also assured audit that the old loan manager software



would be streamlined to include all details of promoters/guarantors and update the data by March 2014.

#### **5.2.18 Incorrect appraisal resulting in loan at reduced rate of interest**

**5.2.18.1** Applications for loan were evaluated by the Company as per general financial norms like favourable Debt-Equity ratio, Debt-Service Coverage Ratio, adequate margin on security *etc.* It was observed that during the period under performance audit (2008-2013), the company had followed a practice of evaluating the loan applicants on the basis of 20 parameters (reduced to 18 parameters w.e.f. March 2010) classified broadly under management factors, industry risk factors, financial risk factors and operational experience (applicable to second time borrowers). The interest rate applicable was worked out on the basis of marks obtained in the evaluation (present interest rate band being 11.50 *per cent* to 15 *per cent*). The following deficiencies were observed in the present system of loan appraisal:

In the past, the Company charged floating rate of interest so as to pass on their refinance cost from SIDBI and IDBI. This provision protected the Company during periods of adverse (higher) interest rate. However, all the loans sanctioned during the audit period were under fixed interest rate condition as the Company did not depend on refinance from IDBI and SIDBI. Further, the Company reduced (July 2011) the prepayment penalty from one *per cent* for every year of balance tenure to flat rate of one *per cent* on outstanding of the subsequent year only. This has resulted in the Company not being able to raise interest rates for existing borrowers whenever interest rates rise in the economy.

The Government stated (January 2014) that EDC was following market conditions in deciding the interest rate, interest type (fixed or floating), levy of penalty and that reduction in prepayment penalty based on existing practice of other players in financial sector.

The reply was not correct since audit scrutiny revealed that the agenda proposal for reduction of prepayment penalty to the Board was based on practice of other players in the industry catering to home, personal and vehicle loans and there were no documents to substantiate such general practice by 'industrial loans' players.

While evaluating the credit rating of the loan applicants, the marks awarded under the 'industry and unit risk' factors were always 100 *per cent*, without any documentary evidence, company level reports *etc.* in support of the analysis. The purpose of evaluating risk was thus defeated. The company did not issue any periodical reports classifying certain industry sectors to allow for a transparent evaluation and avoidance of discretion on the part of appraising officer.

Further, the company had not evolved a mechanism to evaluate the loan applicants on the three parameters *i.e.* (i) associate concern's profitability, (ii) adequacy of associate concern's profits and (iii) repayment performance of associates. The company depended on declaration/documents submitted by loan applicants without any independent verification of the actual number of

associate (profit & loss making) concerns of the loan applicant. Because of this critical evaluation of risk factors associated with the application for the loans was prevented and this allowed interest rates to be fixed subjectively.

The Company stated (November 2013) that the decisions were already taken to improve the loan appraisal procedure to eliminate subjectivity.

**5.2.18.2** On a test check of appraisal process in seven out of total 21 cases (money value above one crore) to whom loans were sanctioned during the period under performance audit (2008-13), there was loss of interest to the Company due to incorrect appraisal in three cases, as detailed below.

The percentage of marks secured against applicable parameters was used to determine the interest rate to be applied for the loan applicant. The percentages and parameters were changed in the years 2008, 2009 and 2010.

**M/s. AVR Goa Promoters Pvt. Ltd.**

As per the Company's credit rating evaluation, M/s. AVR Goa Promoters Private Limited secured 66 marks out of applicable 82 marks (*i.e.* 80.40 *per cent* marks with very good rating) and was sanctioned a loan of ₹ 5 crore at an interest rate of 10.50 *per cent*. The loan of ₹ 4.72 crore was disbursed between June 2009 and March 2012. Out of 66 marks secured in the credit rating, 52 marks pertaining to management factors (technical experience, profitability of associates), industry risk factors (marketing arrangements, industry cycle *etc.*) were given without any documentary evidence, working calculation, *etc.*

Further, AVR did not provide details of their associate concerns' repayment status with the Company or any bank. This parameter (comprising of eight marks) was considered 'Not Applicable' instead of treating it as 'Zero'.

As per the Company's evaluation of AVR's financial risk factors, AVR was given '15 marks out of 20'. However, while computing the total marks the financial risk factors were shown as '10 marks out of 10'.

AVR was given five marks for keeping the Debt-equity ratio below 2.0. This was based on the assumption that AVR would bring equity of ₹ 8.25 crore for the project of ₹ 19.11 crore (debt of ₹ 10.86 crore) with debt-equity ratio 1.3 (10.86/8.25). However, AVR actually brought in equity of ₹ 4.26 crore only for the project of ₹ 19.07 crore raising the Debt-equity ratio to 3.48 (14.81/4.26). AVR should have been given 'zero out of five marks' for the debt-equity ratio parameter of more than three, as per the Company's own criteria.

Thus, incorrect method of evaluating parameters had resulted in undue favour to the borrower. The actual score of 66 out of 100 (Good rating) would have allowed the Company to fix interest rate of 11.50 *per cent* instead of 10.50 *per cent* as charged. The loss of interest due to incorrect evaluation of parameters and charging of lower interest rate till March 2013 worked out to ₹ 12.69 lakh.

### **M/s Premium Estates Infrastructure (India) Private Limited**

As per the Company's credit rating evaluation, M/s Premium Estates Infrastructure (India) Private limited (PEI) secured 101 marks out of applicable 126 marks (80.16% with excellent rating). PEI availed disbursements of ₹ 3.72 crore only (from August 2011 to June 2013) on which the Company levied an interest rate of 10.50 *per cent*.

The credit rating involved marks for 14 parameters (comprising of management factors, industry risk factors, financial risk factors and operational experience). The rate of interest as per predefined slabs was dependant on marks obtained.

The Company omitted a parameter of eight marks resulting in PEI scoring 101 out of 126 marks instead of 101 out of 134 marks. Further, no documentary evidence was available in support of 27 marks which were awarded to PEI as a matter of routine. These marks entitled the borrower for lower interest rates.

Thus, considering 27 ineligible marks being awarded to PEI, the actual score obtained would have been 74 out of 134 (satisfactory rating), indicative of an interest rate of 13.50 *per cent* to be levied on loan sanctioned. The loss of revenue up to June 2013 worked out to ₹ 16.39 lakh.

### **Phoenix Township Limited (PTL)**

PTL an existing borrower applied (September 2009) for additional loan of ₹ 5.00 crore for expansion of hotel project. The loan was sanctioned in January 2010 with interest rate of 13.75 *per cent* per annum based on unsatisfactory operational experience of the borrower (multiple restructuring of loans, irregular repayments, non-submission of financial statements *etc*). The borrower communicated reluctance to accept a higher rate (13.75 *per cent*) instead of old rate (10.50 *per cent*). The Board lowered (March 2010) the credit rating format to relax the weightage of past operational experience from 100 marks to 66 marks. The Company re-evaluated on the revised credit format and sanctioned an interest rate of 11.50 *per cent* on the loan.

The Company disbursed ₹ 5.00 crore between September 2010 and November 2010. It was observed from the records made available by the Company that 53 marks were awarded to PTL against parameters for which PTL did not submit evidences/fulfil the requirements.

Thus, omitting the ineligible marks of 53 awarded to PTL, the actual score would have been 88 out of 194 (average rating) and an interest rate of 14 *per cent* was to be levied on loan sanctioned instead of the 11.50 *per cent* charged. The loss of interest revenue up to June 2013 worked out to ₹ 30.91 lakh.

The Company stated (September/November 2013) that marks awarded in credit appraisals were as per practice of accepting submissions made by loan applicants and considering 'interest free unsecured loans' as 'equity' as per practice prevailing in banks and other financial institutions. Further, the Company also stated that there was no practice of obtaining documentary evidence in support of marks for 'industry specific technical expertise' and 'profitability and loan repayment of associate concerns'.



The reply was not correct since it was not in the interest of Company to disregard a parameter and award marks without any documentary evidence. The Company, further had no documentary evidence to show that interest free unsecured loans were to be treated as equity and to classify amounts acknowledged as loans by promoters as 'equity'.

#### **5.2.19 Absence of penalty for non-furnishing of periodical financial documents**

The Company had included safeguards in the terms and conditions for loan disbursement for periodical submission of project progress reports, submission of financial statements, right to inspection of projects and accounts of the borrower *etc.* These conditions were to enable the Company to evaluate and detect defaults due to adverse business environment or willful misuse of funds, payment of abnormally high dividends, salaries to promoters *etc.* and to monitor delays or non-commencement of projects.

In all the cases test checked, there was no evidence of analysis of borrowers' financial statements nor project progress reports being submitted to management periodically. Further, no penalty was prescribed for non-submission of documents required periodically. Three examples are listed below:-

- M/s Maruti Cement Products did not submit the project commencement report after availing disbursement of ₹ 8.95 lakh (date of last disbursement April 1999). The Company waited for four years for repayment before attachment of assets (July 2003) even though there was no record to prove that project was running. The non-commencement was also confirmed by the borrower later.
- M/s Millennium Wineries and Distilleries did not submit the project commencement report after availing loan of ₹ 19.93 lakh (date of last disbursement December 2001). However, the Company waited till April 2005 for repayment and there was no record to prove that the project had commenced. This resulted in deterioration of realisable value of machinery by ₹ 16.25 lakh.
- In the case of M/s Chamunda cashew, even though the unit was found closed in March 1990 and no subsequent financial statements were furnished, the Company delayed the attachment of assets by seven years (February 1997).

The Government stated (January 2014) that EDC would revise the terms to penalise non-submissions of periodical financial statements, as observed by audit.

#### **5.2.20 Record keeping system of loan application**

A scrutiny of the system of recording receipt of applications for loan/financial assistance under the two broad categories of financing schemes *i.e.* (i) term loans (loans above ₹ 25 lakh) and (ii) micro finance (loans up to ₹ 25 lakh) was taken up with a view to assess the extent of transparency in system to ensure timely processing of loan applications until sanction or rejection within prescribed time period. In this connection, following was observed:

### Term Loan Department

The data provided to audit pertaining to applications received and their further status *i.e.* rejected or sanctioned *etc.*, was compiled manually. Further, the applications for financial assistance (term loan) were not entered into the system at the time of its receipt. There was no system of issuing acknowledgement of loan applications through the system. The applications were entered in the system only after their sanction and thus did not provide for recording the exact date of receipt of application. Thus there was no audit trail and following observations are made in this regard:

- i. it was not possible to ascertain the exact number of applications received, sanctioned or rejected during any period.
- ii. there was lack of transparency in the system of recording receipt of applications for loan/financial assistance which did not rule out delay in processing of applications.
- iii. data provided was compiled manually and did not tally with the system data.
- iv. type of loans included under main category of 'Term Loan' were not readily ascertainable from the system.
- v. there was no system of monthly reporting to the management by the 'Inward section' of the total number of applications received nor summarised reporting by concerned sanctioning Department of the number of applications sanctioned/rejected/pending.
- vi. The date of rejection of application was not recorded in the system.
- vii. The data provided to audit which was compiled manually was compared with data available on the 'Loan Manager' system in respect of term loan application received and sanctioned during 2008-09 to 2012-13. The discrepancies noticed are indicated below.

#### Inward data in respect of term loan from 2008-09 to 2012-13

Sl. No.	Year	Applications received		Loans sanctioned	
		Compiled Data	Data on the system	Compiled Data	Data on the system
1.	2008-09	14	17	13	14
2.	2009-10	23	31	14	4
3.	2010-11	18	10	14	5
4.	2011-12	11	5	8	4
5.	2012-13	14	4	5	2

#### Applications received in respect of CMRY from 2008-09 to 2012-13

Sl. No.	Year	Data compiled	Data on the system
1	2008-09	320	342
2	2009-10	514	541
3	2010-11	701	717
4	2011-12	545	556
5	2012-13	258	270

The 'Loan Manager' system was not designed to be utilised as a tool for the management to watch the timely progress of processing of applications, to call for explanations for delay/non-processing of applications. Due to the limited use, the system did not provide for transparency.

The Company stated (September 2013) that most of the observations of audit were well taken and in near future it would ensure the compliance of the requirements. It stated that monitoring the status of applications was done by the Preliminary Clearance Committee (PCC).

The reply was not correct in the context that PCC's role was only at the preliminary stage. The loan application was to be monitored for its progress and timely sanction by the management. The reasons for rejection, cancellation or undue delay in sanction or disbursement if any, thereafter were recorded only in the concerned file and not in the system.

The Government stated (January 2014) that suitable measures would be initiated by EDC to rectify the discrepancies noticed by audit.

#### 5.2.21 Conclusion

In the sample cases test-checked during the review, the recovery performance was found to be affected due to following reasons:-

- Absence of a definite time bound action plan for execution of recovery action;
- Absence of documented procedure of tracing the borrowers/guarantors and their assets for recovering the outstanding amount after sale of attached assets;
- Non-obtaining of any additional or collateral security other than the financed asset and a personal or corporate guarantee without mortgage or hypothecation of any personal assets.
- Absence of penalty for non-submission of documents relating to accounts *i.e.* financial expenses, salaries, wages, debtors *etc.* that would be required by the Company to monitor the functioning of the unit and ensure that no funds are drained-off in any manner by the promoters of the unit.
- At the time of appraisal, external factors such as market conditions, demand for finished products, experience and ability of the promoter to market the products *etc.* were considered to be favourable. However, there was no subsequent monitoring of project commencement, adequacy of turnover and profits, quarterly financial statements to detect defaults in advance and initiate corrective action.

#### 5.2.22 Recommendations

The following recommendations are made:

- Formulate a Standard Operating Procedure Manual defining time-bound action plans and detailing course of action and procedures to be followed in order to ensure transparency and arrest scope for favouritism in the recovery action;

- Introduce penalty for non-adherence to terms and conditions of loan such as non-submission of financial statements and any other documents required to be submitted to the Company periodically.
- Grant incentives to loan applicants for providing additional/collateral security.
- Explore the possibility of either shifting to floating interest rate mechanism or levying higher penalty for prepayment by borrower to protect its revenue.
- Ensure that the various modules of the computerised system put in place are modified to allow for security and accuracy of data.

## TRANSACTION AUDIT OBSERVATIONS

### GOVERNMENT COMPANIES

#### Goa State Infrastructure Development Corporation Limited

##### 5.3 *Avoidable payment of Income Tax*

**The Company treated interest received on mobilisation advance paid out of funds provided by the State Government as own income resulting in avoidable payment of Income Tax of ₹ 1.31 crore.**

Goa State Infrastructure Development Corporation Limited (GSIDC) was established (February 2001) by the Government of Goa (GoG) as a Special Purpose Vehicle (SPV) for executing infrastructure works on behalf of the Government. GoG approved (November 2006) a new accounting policy framed by GSIDC. As per the policy, the expenses incurred by GSIDC (contractor, consultants, land acquisition and miscellaneous expenditure) related to projects completed or ongoing shall be reimbursed by the State Government. The GSIDC was entitled to receive development fees (ranging from 0.25 *per cent* to 4 *per cent* depending on the total project expenditure of the year) to cover its administrative expenses. State Government was to provide funds for mobilisation advances on project to project basis while entrusting works.

According to Rule 31.2(e) of Government Accounting Rules, capital receipt accruing during construction of a project should be utilised to reduce the capital expenditure and should not be credited to the revenue account of the undertaking. Since State Government provided funds for mobilisation advances, any income earned from such funds should have been deducted from the amount receivable from the Government/credited to the Government.

The company however, treated interest received on mobilisation advance amounting to ₹ 5.04 crore<sup>10</sup> for the period 2008-09 to 2010-11 as their own

---

<sup>10</sup> 2008-09: ₹ 1.25 crore, 2009-10: ₹ 2.26 crore, 2010-11: ₹ 1.53 crore

income. This resulted in inflating the income of the company and avoidable payment of Income Tax of ₹ 1.31 crore<sup>11</sup> during these three years.

In reply, the Company stated (July 2012) that the Board had decided to net off interest on mobilisation advance against the amount receivable from GoG from 2011-12 onwards. However, the fact remained that the Company had already incurred an avoidable expenditure of ₹ 1.31 crore.

The matter was reported to the Government (May 2013); Reply was awaited (January 2014).

### Goa Industrial Development Corporation

#### 5.4 Loss of ₹ 40.81 lakh due to short recovery of surrender charges

**Corporation recovered surrender charges at lower rates compared to the rates applicable for surrender of plots resulting in short recovery of ₹ 40.81 lakh.**

Goa Industrial Development Corporation (GIDC) had fixed (August 2005) uniform rate of surrender charge at one *per cent* per annum of the prevailing premium amount of the plot for those who had paid the entire cost and at five *per cent* per annum of the prevailing premium amount for those who had opted to pay in instalments/not paid the entire cost.

GIDC allotted (June/November 2006) land admeasuring 67,457.50 m<sup>2</sup> to Miditech Private Limited (MPL) in Shiroda Industrial estate for a total premium of ₹ 185.51 lakh. The premium amount was paid by MPL in seven instalments (from October 2006 to February 2012). In March 2012, MPL expressed their willingness to surrender the land and requested GIDC to refund the amount paid in full. The Board considered the matter (June 2012) and resolved to authorise the Chairman to take decision on the matter. The Chairman decided to recover surrender charges at one *per cent* and Board ratified the decision (November 2012). Accordingly, the Company recovered (excluding lease rent, processing charges and service tax) ₹ 10.20 lakh towards one *per cent* surrender charges instead of ₹ 51.01 lakh, being five *per cent* of the premium amount.

The decision of recovering one *per cent* surrender charges was not correct, as the recovery should have been at five *per cent* of the premium amount as per the prevailing rate, since the payment was made in instalments. This had resulted in loss of ₹ 40.81 lakh by way of short recovery of surrender charges.

The GIDC stated (April 2013) that considering the objective of the Corporation to encourage building up of new industries and developing infrastructure, decision of charging one *per cent* as surrender charges was taken. It further replied (January 2014) that the decision of the chairman was ratified by the Board which had wisdom and authority to charge one/five *per cent* for full/instalment payment of surrender charges.

<sup>11</sup> 2008-09: ₹ 0.42 crore, 2009-10: ₹ 0.38 crore, 2010-11: ₹ 0.51 crore

The decision of the Board was not in the best interest of the Corporation as it was against the existing uniform rates fixed and five *per cent* should have been charged as surrender charges.

The matter was reported to the Government (July 2013); their reply was awaited (January 2014).

## DEPARTMENTAL COMMERCIAL UNDERTAKINGS

### Goa Electricity Department

#### 5.5 Reimbursement of differential Sales Tax based on false document

**Goa Electricity Department failed to ensure genuineness of document submitted in support of claim for differential Sales Tax resulting in payment of ₹ 3.46 crore based on a false document.**

Goa Electricity Department (GED) entered (March 2006) into an agreement with M/s Power Grid Corporation of India Ltd. (PGCIL) for the work of design, supply, installation, testing & commissioning of 220/33 KV sub-station at Amona along with associated lines. As per the agreement, PGCIL was to award the works to a successful bidder on behalf of the State Government. All invoices of materials/equipment should be directly raised by the contractor in the name of Chief Electrical Engineer (CEE) routed through PGCIL. The CEE shall arrange issue of concessional Sales Tax Form (D Form) against such invoices to the contractor through PGCIL.

According to Central Sales Tax (CST) Act, sale to Government was taxable @ four *per cent* or applicable Sales Tax rate for sale within the State whichever was lower. This concession on CST was applicable if Form D was issued by the Government Department which purchases the goods. The practice of accepting D form was abolished with effect from 01 April 2007. Consequently, M/s Jyothi Structures Ltd. (JSL), Nasik the contractor of PGCIL claimed (June 2010) through PGCIL, reimbursement of ₹ 3.49 crore towards differential Sales Tax under VAT (₹ 2.79 crore) and interest thereon (₹ 0.70 crore) for the material supplied.

After taking the opinion of the Commissioner of Commercial Taxes, Panaji, Goa, the CEE communicated (August 2010) to the Division IX of GED and PGCIL that in case the Department desired to reimburse the payment of VAT in lieu of D form, then it should be legally checked after confirming that the dealer had really incurred this liability by payment of VAT to the Government through tax returns, but interest should not be paid on the amount of VAT. Accordingly, Executive Engineer (EE) (Division IX) requested (December 2011) PGCIL to produce documentary evidence in support of payment of additional VAT. Meanwhile CEE instructed (December 2011) the Division to pay the differential VAT based on certification by PGCIL on the rates applicable for the materials and production of documentary proof for payment of VAT by the contractor, before effecting payment. PGCIL in turn, submitted an undated certificate produced by JSL issued by the Sales Tax



Authorities of Nasik and the Division paid (March 2012) the differential Sales Tax amount of ₹ 3.46 crore to PGCIL.

Audit took up the matter (July 2012) with the Sales Tax Authority at Nasik and the Joint Commissioner of Sales Tax, in turn, confirmed (September 2012) that no such letter was issued by them nor any adjustment of Sales Tax had been made as claimed in the certificate. Thus it was evident that the certificate produced by JSL was not genuine.

We observed that GED did not exercise vigil in verifying the genuineness of the document and to comply with the directions of Commissioner of Commercial Taxes, Panaji, Goa while releasing differential Sales Tax claims of ₹ 3.46 crore.

The matter was brought to the notice of the EE/CEE and the Secretary (Power) in October/November and December 2012 respectively, urging them to take immediate action on the matter. The matter was further brought to the notice of the CEE (January 2013) who replied (March 2013) that PGCIL had not yet reimbursed the amount to JSL. The CEE further replied (May 2013), that the GED would ensure that the amount of ₹ 3.46 crore would be paid only on receipt of proper documents towards payment of differential CST to the concerned tax authority. Subsequently the PGCIL intimated GED (February 2014) that since JSL did not produce any documentary proof in support of payment of differential CST, no reimbursement had been made while processing their final bill and that the amount was still with PGCIL and the same would be adjusted/refunded to GED against settlement of final bills of other works.

The reply of the GED was not correct since the reimbursement to PGCIL was made without verifying the genuineness of certificate submitted by PGCIL in support of payment of VAT. The amount paid has neither been adjusted nor settled by PGCIL with GED till date (January 2014).

The matter was reported to the Government (April 2013); their reply was awaited (January 2014).

#### **5.6 Non-recovery of charges for short supply of energy by Goa Energy Private Limited (GEPL) ₹ 5.61 crore for year 2011-12**

**The Department failed to raise bills on GEPL for shortfall in power supply below the minimum commitment of 14MW.**

The Government of Goa had approved (September 2004) setting up of a 30MW Waste Heat Recovery Power Plant by Goa Energy Private Limited (GEPL) based on waste heat generated by Sesa Industries (SESA) with a commitment to supply about 7MW power to SESA. Goa Electricity Department (GED) entered into an agreement (January 2007) with Power Trading Corporation (PTC) to purchase the entire available power from GEPL corresponding to 14MW to 21MW round-the-clock @ ₹ 2.40 per unit (plus a trading margin of four paise per unit). GED also entered into an agreement

(May 2007) with GEPL for purchase of the said 14MW to 21MW power. Accordingly, GEPL set up a 30 MW Power Plant at Amona (June 2007).

Para 1.1 of the Procedures agreed (March 2007) to by all the three parties, required GEPL to schedule the power supply injection details everyday by 12 noon (for next day's supply) except for reasons of '*force majeure or scheduled outage*' which was to be confirmed by the Executive Engineer/Asst. Engineer of the Ponda sub-station. The Department was also obliged to purchase all the excess power beyond the scheduled saleable energy @ ₹ 2.40 per unit. In case of any shortfall/deficit of power supply vis-a-vis scheduled saleable energy, the Department has to raise a bill on GEPL for the shortfall in supply @ ₹ 2.40 per unit.

During test check (2011-12) of power purchase bills, load survey report, hourly energy import-export data *etc.* it was found that GEPL did not adhere to the commitment of 14MW power supply on any month. Moreover, GEPL in its daily power injection schedules (for next day's supply) had mentioned much lower energy ranging from 0.5MW to 2.5MW. During 2011-12 there was a shortfall in power supply of 23.37 Million Units (MUs) compared to guaranteed 14MW as detailed in *Appendix 5.13*. However, the Division did not raise any bills for compensation towards short supply.

Non-raising of bills on GEPL for the shortfall in supply resulted in loss of ₹ 5.61 crore (@ ₹ 2.40/unit X 23.37 MUs) for the year 2011-12 to GED.

The matter was reported to the Department (April 2013) and Government (May 2013); their reply was awaited (January 2014).

### **5.7 Irregular refund of EMD**

**The Department refunded Earnest Money Deposit and failed to initiate legal action against the Supply Contractor who resorted to fraudulent practices to secure contract by submitting forged records.**

Executive Engineer (EE), O&M Division X of Goa Electricity Department (GED) invited (June 2011) tender for supply of 33 KV (E), 3 Core, 400 sq.mm. XLPE armoured cable for laying from Kadamba Sub Station to Kundaim Sub Station at an estimated cost of ₹ 822.80 lakh (@ ₹ 2,420/mtr.) put to tender. Tenders were opened in July 2011 and four suppliers qualified in their techno-commercial bids. M/s Terracom Limited (Terracom) who had quoted ₹ 700.40 lakh (@ ₹ 2,060/mtr.) being 14.88 *per cent* below the estimated cost in the financial bid was the lowest. While evaluating the tender by the Technical Advisory Committee (TAC) of Electricity Department (September 2011), the EE informed TAC that co-bidders had expressed doubts about the genuineness of the documents submitted by Terracom<sup>12</sup>. Meanwhile the EE had verified (August 2011) that the test report issued by Central Power Research Institute (CPRI) had indicated that the samples failed to withstand some of the tests. CPRI labelled the test report submitted by Terracom

---

<sup>12</sup> a. Test report of materials from the Central Power Research Institute, Noida.

b. Certificate from M/s Torrent power for work done in similar category of supplies as required in clause 6.2 of the tender document



fraudulent. Besides the mandatory performance certificate (certificate of experience in similar class of works from M/s Torrent Power) submitted by Terracom was also reported false and fabricated by Terracom.

TAC, considering the above and with the approval of Goa State Works Board (GSWB) (October 2011), set aside the bid submitted by Terracom and the work was finally awarded (April 2012) to M/s Polycab Wires Pvt. Ltd. (second lowest tenderer) at the negotiated rate of ₹ 2,420/Mtr.

We observed (June 2012) that even though Terracom had resorted to fraudulent practices to secure the contract by producing forged documents and violated the code of integrity, no legal action was initiated against them and earnest money deposit (EMD) of ₹ 16.45 lakh was also refunded (December 2011).

The GED replied (March 2013) that TAC and GSWB had not proposed or decided to forfeit EMD of Terracom and forfeiture of EMD was against provisions of the CPWD Works Manual.

The reply of the Department was not tenable as the EMD was ordered to be refunded by GED. Further even when CPRI had requested GED to initiate legal action for tampering and fraud committed by Terracom, the Department had not taken any action.

The matter was reported to the Government (June 2013), their reply was awaited (January 2014).

**Panaji**  
**The 13 MAY 2014**

  
**(DEVIKA)**  
**Accountant General, Goa**

**Countersigned**

**New Delhi**  
**The 30 MAY 2014**

  
**(SHASHI KANT SHARMA)**  
**Comptroller and Auditor General of India**