Overview

1 Overview on the Functioning of State Public Sector Undertakings

Introduction

The State Public Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out the activities of Commercial nature keeping in view the welfare of people and also occupy an important place in the state economy. As on 31 March 2015, in Gujarat there were 68 Working SPSUs (64 Companies and four Statutory Corporations) and 13 non-working SPSUs. The working SPSUs registered a turnover of ₹ 1,06,553.54 crore as per their latest finalised accounts. The turnover was equal to 12.42 per cent of State's Gross Domestic Product for 2014-15.

Accountability framework

The Audit of financial statements of a Company in respect of financial years commencing on or after 1 April 2014 is governed by section 139 and 143 of the Companies Act, 2013. The financial statements of Government Companies are audited by Statutory Auditors who are appointed by the CAG as per the provisions of Section 139(5) or (7) of the Act. These financial statements are subject to supplementary audit by CAG within 60 days from the date of receipt of the audit report under the provisions of Section 143(6) of the Act. Audit of Statutory Corporations is governed by their respective legislations.

Investment in SPSUs

As on 31 March 2015, the investment (capital and long term loans) in 81 SPSUs was ₹1,15,932.27 crore. Out of the total investment, 99.31 per cent (₹1,15,132.84 crore) was in working SPSUs and remaining 0.69 per cent (₹799.43 crore) was in non-working SPSUs.

Arrears in finalisation of Accounts

Thirty five working SPSUs had arrears of 61 accounts as on 30 September 2015. The extent of arrears ranged from one to five years.

Performance of SPSUs

During the year 2014-15, as per their latest finalised accounts, out of 68 working SPSUs, 49 SPSUs earned profit of ₹3,725.62 crore and 13 SPSUs incurred loss of ₹613.17 crore. The major contributors to the profit were Gujarat State Petronet limited (₹660.32 crore), Gujarat Gas Limited (₹641.44 crore), Gujarat Mineral Development Corporation Limited (₹635.87 crore) and Gujarat Energy Transmission Corporation Limited (₹412.65 crore). Major loss making SPSUs were Gujarat State Road Transport Corporation (₹183.58 crore), Gujarat State Energy Generation Limited (₹130.03 crore), Gujarat State Financial Corporation (₹94.81 crore) and Gujarat Water Infrastructure Limited (₹91.37 crore).

Accounts Comments

Out of 52 accounts finalised during the period 2014-15, Statutory Auditors had given unqualified certificates for 36 accounts, qualified certificates for 15 accounts and disclaimer for one account. There were 12 instances of non-compliance to Accounting Standards in 10 accounts during 2014-15.

(Chapter 1)

2. Performance Audit relating to Government Company

Performance Audit of '**Exploration and Development Activities of Gujarat State Petroleum Corporation Limited**' was conducted.

Executive summary of performance audit of **Exploration and Development Activities of Gujarat State Petroleum Corporation Limited** is given below:

Introduction

Gujarat State Petroleum Corporation Limited (the Company) was incorporated on 29 January 1979. The Company along with its subsidiaries and associates has a presence over the entire energy value chain spanning across a range of oil and gas activities comprising oil and gas exploration, development and production, gas trading, gas transmission, gas distribution and power generation. The performance audit focused primarily on the exploration and development (E&D) activities of the Company for the period 2011-12 to 2014-15.

Status of blocks held by the Company

Of the total 64 blocks held by the Company as on 1 April 2011, 37 blocks were surrendered during the performance audit period and the Company had 27 blocks in hand as on 31 March 2015. Of these 11 blocks were under E&D and 16 blocks were under production.

Exploration and Development (E&D)

The major activity under E&D carried out during the period of the performance audit was the development of the Deen Dayal West (DDW) area of the KG block. The Field Development Plan (FDP) for DDW area was approved by the Management Committee (MC) in November 2009 with stipulated date of commercial production from December 2011. The trial production started in August 2014 and the commercial production has not commenced so far (November 2015).

The FDP for DDW assumed a gas price of US $ 5.7/MMBTU (Million British Thermal Unit) and was not viable at the Government approved gas price formula of US $ 4.2/MMBTU prevailing at the time of submission of FDP. The viability of the FDP was further compromised by the underestimation of costs, non-addressing of technological uncertainties, and deficiencies in project implementation. The Company did not address properly the risks associated with cost and technology as stated below which has resulted in uncertainty regarding the future prospects from the block where an investment of around ₹ 19,576 crore had been made as of March 2015.

- ***Against FDP estimates of US $ 547 million, the tender cost for offshore facilities was US $ 810 million (48 per cent higher). Further, the actual costs incurred were US $ 1,058 million.***
- ***Non finalisation of appropriate drilling technology and unresolved low permeability issue led to uncertainties regarding commercial production.***
- ***Cost overruns were noticed due to deficiencies in contract management and higher drilling costs.***

Production

During 2011-15, the revenue from production activity was reduced from ₹ 230.30 crore to ₹ 152.51 crore (i.e. by 33.78 per cent) due to reduction in prices of Oil and reduction in production of gas from 119.24 MM^3 (million cubic metres) to 50.21 MM^3. Hazira block was the main gas producing block contributing 110 MM^3 out of 119.24 MM^3 produced in 2011-12 which declined to 36.9 MM^3 in 2014-15. The sale quantity of test gas from KG block for 8 months (August 2014 to March 2015) itself was 64.81 MM^3 which was more than the combined production of 2014-15 from all producing blocks of the Company indicating the significance of the KG block in the Company's portfolio.

Surrender of blocks

Out of the 64 blocks on hand as on 1 April 2011, during the period 2011-15, the Company surrendered 37 blocks which included 10 overseas and 27 domestic blocks and had written off exploration expenditure worth ₹2,514.65 crore for 29 surrendered blocks (₹1,734.12 crore for overseas blocks and ₹780.53 crore for domestic blocks). In the remaining eight surrendered blocks the expenditure of ₹478.07 crore was yet to be written off as of March 2015.

Out of the 11 overseas blocks held as on 1 April 2011, the Company surrendered 10 blocks (nine operator and one non-operator) during 2011-15. North Hap'y and South Diyur blocks in Egypt were the major overseas blocks which were surrendered. The delays in execution of Minimum Work Programme (MWP) led to huge cost overruns in the North Hap'y block and the Company incurred US $ 263.98 million which was 76 per cent higher than the committed expenditure of US $ 150 million.

The Company went ahead acquiring overseas blocks during 2006-10 mainly as an operator with considerably high participating interests without any prior experience overseas as an operator. Further, the delayed execution of the work committed resulted in cost escalations in overseas blocks. As a result, the Company had incurred expenditure of ₹1,757.46 crore for 10 surrendered overseas blocks, of which ₹1,734.12 crore has been written off.

Financial Position

As on 31 March 2011, the total borrowings of the Company were ₹7,126.67 crore which had increased by 177 per cent to ₹19,716.27 crore as on 31 March 2015. The Company had to rely heavily on borrowings mainly for activities in the KG block. The total interest burden increased from ₹981.71 crore in 2011-12 to ₹1,804.06 crore in 2014-15. Further, there were outstanding dues of ₹2,329.52 crore not recovered from Joint Venture (JV) partners.

Monitoring of blocks as a Non-operator

The Company did not exercise its right to conduct audit of JV accounts periodically and in a timely manner in blocks where it was a non operator. Further, in cases where audit was conducted, the Company did not pursue the Audit Reports.

Recommendations

- ***Risks associated with cost, technology and price realisation may be properly considered while venturing into exploration and development activities and means of risk mitigation such as induction of strategic / financial partners may be timely considered wherever necessary.***
- ***The Company may exercise due caution in venturing into overseas exploration and should endeavor timely completion of work committed.***
- ***The Company needs to ensure that realization from Joint Venture partners are made promptly.***
- ***The monitoring of the blocks where the Company was non-operator needs strengthening through non-operator audit and periodic review of the status of activities in such blocks***

(Chapter 2)

3. Performance Audit relating to Statutory Corporation

Performance Audit of '**Working of Gujarat State Warehousing Corporation'** was conducted.

Executive summary of performance audit of **Working of Gujarat State Warehousing Corporation** is given below:

Introduction

Agriculture is one of the most critical sectors of the Indian economy. Agricultural growth was facing a setback due to lack of adequate handling and post-harvest infrastructure facilities such as warehousing. Gujarat State Warehousing Corporation was established in December 1960 with an objective to construct warehouses within the State to facilitate storage and transportation of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities. The Corporation started with a capacity of 930 MTs which increased to 1.45 lakh MTs by 1992 and thereafter there was no increase in the storage capacity. Performance Audit on the working of the Corporation covers the period from 2010-11 to 2014-15.

Planning for capacity augmentation

The warehousing capacity in the State was 13.08 lakh MTs of which the Corporation's share was 1.45 lakh MTs. In absence of scientific assessment of requirement and proper planning, non-construction of godowns under Private Entrepreneurs Guarantee (PEG) Scheme and absence of financial support from Government of Gujarat for augmentation of capacity, no capacity addition was achieved by the Corporation. Further, the vacant land of 1,24,988 sq.mts. at different locations remained unutilised.

Capacity Utilisation

The utilisation of the Corporation's warehouses including owned and hired increased from 50 per cent in 2010-11 to 82 per cent in 2014-15. This increase was owing to the contribution of hired godowns wherein the occupancy was 90 to 100 per cent during the review period though the occupancy in owned godowns remained up to 65 per cent. 97 out of 129 godowns of the Corporation remained vacant for a period of 1,809 months during the review period. The possible reasons attributable were poor condition of godowns, lack of marketing strategy, non-creating of awareness of the storage facilities among the depositors, especially farmers.

Operation and Financial Management

During the last ten years, the Corporation revised its tariff twice in 2005 and 2012. The tariff does not detail various aspects of the tariff structure such as exclusion/inclusion of advalorem insurance charges in the storage charges collected on sq.ft. basis, collection of storage charges on sq.ft. basis in respect of reservation on lock and key basis etc., nor did the Corporation re-categorise the godowns during last revision in 2012.

Warehouse charges and rent income constituted the major income of the Corporation and it earned profit during 2011-12 and 2012-13. The Corporation did not recover warehouse charges as per applicable rates leading to loss of revenue of ₹ 0.25 crore. The Corporation did not apply the prevailing sq. ft. rate on Central Warehousing Corporation (CWC) for the Inland Container Depot /Container Freight Station godowns lent to them resulting in revenue loss of ₹ 11.70 crore.

Monitoring and Internal Control

The Corporation did not have specific written delegation of powers to the hierarchy and decisions were also taken at lower cadres. There were no procedures in place to inspect godowns by personnel from head office either on regular intervals or as a surprise check. The Corporation's Executive Committee met only four times as against required 30 meetings in the last five years up to March 2015.

Recommendations

- ***The Corporation may gather the data of warehousing capacity in the State, assess the additional requirement and formulate a plan of action in co-ordination with other agencies such as CWC, Food Corporation of India (FCI) etc., for capacity augmentation.***
- ***The Corporation may review the monthly data of occupancy furnished by the warehouse centres periodically, analyse the reasons for godowns remaining vacant for long period to take remedial action and fix godown-wise break-even occupancy.***

- ***The Corporation may review the tariff and categorisation of centres on a periodic basis before fixing the tariff and give required details to bring clarity regarding the system of collection of warehouse charges and applicability of rates.***
- ***The Corporation may ensure recovery of warehouse charges as per the prevailing tariff rates.***
- ***The Corporation may develop a sound monitoring system and also evolve a mechanism for periodical reporting to the top management on the working of the warehouses.***

(Chapter 3)

4. Compliance Audit Observations

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

Loss of ₹67.22 crore in one case due to non compliance to rules, regulations, directives, procedures and terms and conditions of contracts.

(Paragraphs 4.8)

Loss of ₹ 953.90 crore in five cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 4.1, 4.2, 4.4, 4.5 and 4.6)

Loss of ₹1.25 crore in one case due to defective/deficient planning.

(Paragraphs 4.3)

Loss of ₹468.54 crore in one case due to defective/deficient planning and lack of fairness, transparency and competitiveness in operations.

(Paragraphs 4.7)

Gist of the major observations is given below:

Alcock Ashdown (Gujarat) Limited accepted the contract for constructing two ships without having technical and financial capacity. The contract was cancelled due to time over-run which resulted in loss of ₹ 42.80 crore.

(Paragraph 4.2)

The metered agricultural consumers pay energy charges based on actual energy consumption. The unmetered agricultural consumers pay fixed amount irrespective of actual consumption. The excess consumption of electricity by unmetered agricultural consumers as compared to metered agricultural consumers during the period 2009-10 to 2014-15 in the four DISCOMs of **Gujarat Urja Vikas Nigam Limited** ranged from 5,822.84 MUs to 7,569.48 MUs every year resulting in an avoidable power purchase cost every year of ₹ 1,775.97 crore to ₹ 2,910.75 crore.

The average consumption per HP by unmetered agricultural consumers was 1,833 units in 2014-15 as against the average consumption of 719 units by metered agricultural consumers. This indicates that unmetered consumption leads to wastage of electricity as well as creates subsidy burden on the State. Probability for excess consumption of water also exists.

(Paragraph 4.5)

Metro Link Express for Gandhinagar and Ahmedabad Company Limited incurred an expenditure of ₹ 373.62 crore on the development of Indroda, Motera and Chiloda site under the earlier phase without the approval of project report. As the earlier phase was scrapped and the expenditure incurred could not be used in the new phase under progress, it resulted in infructuous expenditure of ₹ 373.62 crore.

(Paragraph 4.7)