

Overview

1 Overview on the Functioning of State Public Sector Undertakings

Introduction

The State Public Sector 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 2016, in Gujarat there were 72 Working SPSUs (68 Companies and four Statutory Corporations) and 14 non-working SPSUs. The working SPSUs registered a turnover of ₹ 1,11,036.50 crore as per their latest finalised accounts. The turnover was equal to 11.27 per cent of State's Gross Domestic Product for 2015-16.

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 2016, the investment (capital and long term loans) in 86 SPSUs was ₹ 1,29,178.86 crore. Out of the total investment, 99.38 per cent (₹ 1,28,378.33 crore) was in working SPSUs and remaining 0.62 per cent (₹ 800.53 crore) was in non-working SPSUs.

Arrears in finalisation of Accounts

Thirty six working SPSUs had arrears of 64 accounts as on 30 September 2016. The extent of arrears ranged from one to six years.

Performance of SPSUs

During the year 2015-16, as per their latest finalised accounts, out of 72 working SPSUs, 49 SPSUs earned profit of ₹ 2,854.27 crore and 14 SPSUs incurred loss of ₹ 1,221.15 crore. The major contributors to the profit were Gujarat State Petronet limited (₹ 667.86 crore), Gujarat Gas Limited (₹ 252.25 crore), Gujarat Mineral Development Corporation Limited (₹ 336.63 crore) and Gujarat Energy Transmission Corporation Limited (₹ 302.79 crore). Major loss making SPSUs were Gujarat State Petroleum Corporation Limited (₹ 875.00 crore), Gujarat State Road Transport Corporation (₹ 132.45 crore), Gujarat State Financial

Corporation (₹ 104.99 crore) and Gujarat Water Infrastructure Limited (₹ 91.37 crore).

Accounts Comments

Out of 67 accounts finalised during the period 2015-16, Statutory Auditors had given unqualified certificates for 46 accounts, qualified certificates for 20 accounts and disclaimer for one account. There were 28 instances of non-compliance to Accounting Standards in 14 accounts during 2015-16.

(Chapter 1)

2. Performance Audits relating to Government Companies

Performance Audits of ‘Implementation of Re-structured Accelerated Power Development and Reforms Programme in Gujarat’ and ‘Material Management of Power Distribution Companies’ was conducted.

Highlights of the performance audit of **Implementation of Re-structured Accelerated Power Development and Reforms Programme in Gujarat** by the Power Distribution Companies (DISCOMs), viz., Dakshin Gujarat Vij Company Limited, Madhya Gujarat Vij Company Limited, Paschim Gujarat Vij Company Limited and Uttar Gujarat Vij Company Limited are given below:

Government of India (GoI), Ministry of Power (MoP), launched the Restructured Accelerated Power Development and Reforms Programme (R-APDRP) in July 2008. The main objectives of the scheme were:

- ½ to reduce Aggregate Technical and Commercial (AT&C) losses to 15 per cent in power distribution companies on a sustainable basis; and
- ½ to establish reliable and automated systems for collection of accurate baseline data and to adopt Information Technology (IT) for energy accounting/auditing and for billing.

The scheme was to be implemented in two parts viz., Part A and Part B. Part A consisted of works for establishment of the baseline data and Part B consisted of distribution strengthening works. It also included establishment of Supervisory Control and Data Acquisition (SCADA) System.

The GoI (MoP) launched (December 2014) a new scheme titled Integrated Power Development Scheme (IPDS). The components of R-APDRP which remained incomplete (December 2014) were to be subsumed in the IPDS as a separate component.

The Performance Audit covers the implementation of the GoI assisted R-APDRP in Gujarat including the components subsumed in the IPDS. It covers the period from July 2008 to 31 March 2016.

In Gujarat the Part A works were taken up in 84 towns, all of which have been completed. The Third Party Independent Evaluating Agency (TPIEA) certification of these projects is pending. Similarly in respect of Part B works out of the 62 towns wherein the works were taken up, works in 60 towns have been completed, though TPIEA verification is pending. All the six SCADA works are in progress.

The Audit findings are enumerated below:

Implementation of SCADA projects was delayed right from the point of invitation of tender. A time period of eight months was taken for the invitation of tender after the date of approval of the Detailed Project Report (DPR). There was a further delay of 16 to 18 months in the award of work. The works are still in progress due to delay in execution by the contractor.

Disaster recovery site was changed from Pune to Ahmedabad. This was in spite of the fact that Gujarat State Disaster Management Authority had classified Ahmedabad as a severe intensity zone for earthquakes.

There was irregular inclusion of departmental overheads and supervision charges in DPR cost and final project cost of Part B projects not envisaged in the guidelines. This inclusion was to the extent of ₹ 61.78 crore. This will result in overdrawal of loan of ₹ 15.44 crore.

The Part B works were completed in 60 towns, out of which in 39 towns the targeted reduction of AT&C losses upto 15 *per cent* was achieved. The targeted reduction of AT&C losses was not achieved in 21 towns. In these 21 towns, the AT&C losses ranged from 15.31 to 46.17 *per cent* in 2015-16. Due to this, the DISCOMs lost an opportunity to save ₹ 60.71 crore in these 21 towns for the year 2015-16.

Works like installation of High Voltage Distribution System, underground cables, static meters, junction boxes, armoured cables etc., were not executed as envisaged in the project reports in five out of the 21 towns test-checked in Audit.

In Paschim Gujarat Vij Company Limited, there was a persistence of outages. This indicated the need for improving load management and maintenance of power lines to enhance the quality of service to the consumers.

(Chapter 2.1)

Highlights of the performance audit of **Material Management of Power Distribution Companies** viz., Dakshin Gujarat Vij Company Limited, Madhya Gujarat Vij Company Limited, Paschim Gujarat Vij Company Limited and Uttar Gujarat Vij Company Limited are given below:

Gujarat Electricity Board (GEB) was unbundled with effect from 1 April 2005 into seven separate companies. They had functional responsibility for generation, transmission, distribution and trading of electricity. The

distribution of electricity was vested with four Power Distribution Companies (DISCOMs). The DISCOMs were Dakshin Gujarat Vij Company Limited (DGVCL), Madhya Gujarat Vij Company Limited (MGVCL), Uttar Gujarat Vij Company Limited (UGVCL) and Paschim Gujarat Vij Company Limited (PGVCL). They catered to the consumers in south Gujarat, central Gujarat, north Gujarat and Saurashtra region respectively.

The creation and maintenance of the distribution network requires purchases of different kind of materials and their storage at convenient locations.

The present Performance Audit covers the period from 2011-12 to 2015-16. It includes assessment of material requirement, procurement of material and stores management by the DISCOMs. In the above performance audit we noticed aberrations mostly in respect of quantity allocation to new bidders, allocation to Gujarat based firms, guarantees taken and placement of repeat orders. This led to favouring ineligible bidders impacting ₹ 61.41 crore and additional expenditure of ₹ 3.39 crore

Our Audit findings are enumerated below:

The DISCOMs after unbundling continued to follow the Purchase Policy 2000 of the erstwhile GEB. Gujarat Urja Vikas Nigam Limited (GUVNL - holding Company) circulated (March 2011) Purchase Guidelines to all its subsidiary companies. This was to further streamline and amend existing purchase policies, procedures and practices being followed. We found that the above Purchase Policies had not been uniformly adopted by all the DISCOMs.

MGVCL, PGVCL and UGVCL placed Purchase Orders (POs) on new parties in excess of individual limits prescribed in the Purchase Policies. MGVCL, in violation of the Purchase Policy 2000, allotted quantity above the 10 *per cent* limit to new bidders in two tenders amounting to ₹ 13.65 crore. PGVCL in respect of ten tenders and UGVCL in respect of one tender allotted excess quantity to new bidders to the extent of ₹ 28.95 crore and ₹ 4.05 crore respectively.

MGVCL and UGVCL awarded POs worth ₹ 4.93 crore to new bidders though their rates were not lower than the lowest regular bidder. As per Purchase Policy 2000 and 2011 these bidders were not eligible for any allocation.

In accordance with the Purchase Policy 2011, 50 *per cent* of tendered quantity was to be allotted to Gujarat based firms. The final cost of the product quoted by the Gujarat based firms could not be more than 15 *per cent* of the cost quoted by the firms from outside Gujarat. PGVCL awarded a PO worth ₹ 3.62 crore to a Gujarat based firm in violation of this requirement.

The Purchase Policy 2011 stipulated a bank guarantee rate of five *per cent* for large units and for outside Gujarat based firms. It stipulated a lower rate of three *per cent* for Gujarat based Medium Small and Micro

Enterprises (MSME) units. In five tenders finalised by PGVCL and UGVCL, the bank guarantee rates for the warranty period were kept at two per cent. Thus, all the four DISCOMs under recovered bank guarantee to the extent of ₹ 6.21 crore in the 43 POs placed against the five tenders.

In two tenders finalised by DGVCL and PGVCL, the new bidders were allotted lesser than the allowable quantity of 10 per cent. These quantities were allotted to regular bidders at higher rates thereby incurring an avoidable expenditure of ₹ 3.27 crore.

(Chapter 2.2)

3. Compliance Audit Observations

Compliance audit observations included in this Report highlight deficiencies in the management of PSUs which resulted in serious financial implications.

Gist of the observations is given below:

Gujarat Mineral Development Corporation Limited sold land admeasuring 16,188 square meter at a price of ₹ 18.31 crore, which was ₹ 5.24 crore below the prevailing *jantri* valuation of the land.

(Paragraph 3.1)

Gujarat State Handloom and Handicrafts Development Corporation Limited showed poor operational performance of the Emporia as many of them could not achieve even 50 per cent of the sales targets set for them. The online sales through the e-Store web portal from June 2015 till April 2016 were also very low. The Company did not carry out any periodical analysis of the sales trend of e-Store nor did it evolve any business strategy for improving this business. The Company incurred financial losses in 14 out of 23 (61 per cent) Emporia. As envisaged in its objective, the Company could not create enough employment opportunities for the artisans.

(Paragraph 3.2)

Gujarat State Petroleum Corporation Limited incurred expenditure of ₹ 478.98 crore on KG-21 well drilled outside the template which remained idle. The Company incurred additional expenditure of ₹ 34.37 crore to remove the unaligned KG-21 conductor.

(Paragraph 3.3)

Sabarmati Gas Limited had accumulated doubtful dues of ₹ 4.72 crore in respect of a consumer due to inadequate monitoring and delayed remedial action.

(Paragraph 3.4)

The One Time Settlement (OTS) schemes for Board of Industrial and Financial Reconstruction/Gujarat Board of Industrial and Financial Reconstruction (BIFR/GBIFR) units formulated by the **Gujarat State Financial Corporation** did not have the checks and balances of the GoG scheme. None of the OTS schemes of the Corporation envisaged valuation of assets as a parameter for deciding the amount for OTS. It resulted in loss of potential recovery of ₹ 12.86 crore in four cases. The Corporation did not have clear cut guidelines laying down circumstances and conditions for grant of OTS for units under BIFR/GBIFR. It led to loss of potential revenue of ₹ 11.30 crore in four cases. In the recovery efforts of outstanding accounts, we noticed instances of lack of follow up of suits filed. There were instances of assets not being sold and personal guarantees not being invoked. Even after 14 years of recovery process, the Corporation still has an outstanding of ₹ 15,349.51 crore in respect of 5,520 loanee accounts.

(Paragraph 3.5)

Gujarat Industrial Development Corporation violated its approved policy for allotment of adjoining plots in an industrial estate resulting in short recovery of ₹ 3.41 crore from three allottees.

(Paragraph 3.6)