Chapter - IV

Transaction Audit Observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies/ corporations are included in this Chapter.

Government companies

Gujarat Mineral Development Corporation Limited

4.1 Lack of follow-up action on the abnormal shortage of bauxite ore

The Company's failure to establish adequate and effective internal control system for stores at the mines resulted in loss of Rs.1.08 crore.

The Company had been appointing Chartered Accountants firm for carrying out the physical verification of stock at its various project offices on half yearly basis with the assistance of Company's mine surveyors. During the physical verification of stock at the bauxite ore mines, Mehsana (project office) in April 2001, the Company noticed that against the book stock of 1,62,647 metric tonne (MT) ore only 80,349 MT ore was actually available. Hence, there was a shortage of 82,298 MT of ore worth Rs.1.35 crore[∅]. The shortage of ore was as high as 50.60 *per cent* against the allowable limit of 10 *per cent* of the quantity shown as per book stock. Thus, the shortage over and above the allowable limit of 10 per cent worked out to 66,033.30 MT valueing Rs.1.08 crore.

Audit analysis revealed that the abnormal shortage of ore was first noticed during the physical verification of stocks carried out (April 2001) at the mines after new project manager was posted in the project office. The shortage of ore had occurred during April 1990 to March 2001. Although, during this period the physical verification of stock was reported to have been carried out on half-yearly basis, the shortage of ore was always shown on an approximation basis as less than 10 *per cent* of the quantity of book stock. Further, during the period, the project office did not report the shortages to the Company's head office.

An inquiry conducted by the Company in July 2001 against the abnormal shortage of ore pointed out failure of the management to establish a system of proper administrative and procedural control over the stock-in-trade lying at the mines. The inquiry report recommended quarterly physical verification of the stock and reporting to the Board of Directors (BOD). It was noticed in audit that after the report of the committee the physical verification was carried out half yearly but results thereof were never reported. Belated action against the officials responsible for the abnormal shortage was initiated in April/ May 2005 only after the Company's inaction was pointed out (February 2005) by Audit.

∅ 42,325 MT high grade ore: Rs.95.23 lakh and 39,973 MT low grade ore: Rs.40.00 lakh.

The management stated (May 2005) that it was taking necessary action for obtaining the BOD's approval to write off the shortage.

The matter was reported to Government in March 2005; their replies had not been received (November 2005).

Gujarat Industrial Investment Corporation Limited

4.2 Extension of loan to an ineligible unit

Relaxation of norms fixed for Loan Against Securitisation of Assets Scheme in extending loan to a unit resulted in non recovery of Rs.6.52 crore.

The Company introduced (May 1998) a scheme for Loan Against Securitisation of Assets (Scheme) for working capital needs of industrial units. The conditions for sanction of loan up to rupees five crore *inter alia* included that:

- the unit should have been an assisted unit of the Company in the past, should have shown a profit of minimum Rs.50 lakh as per the latest accounts and its free reserves should have been more than its share capital;
- the Company through mortgage and hypothecation creates first charge on all fixed assets of the unit; and
- the unit should repay the loan in monthly instalments within a period of three years including six months moratorium from the date of disbursement.

An industrial concern, ATCO Healthcare Limited, Mumbai (unit) applied (September 1998) for a working capital loan of Rs.3.20 crore for setting up a project for processing and bottling of mineral water in Daman. During project appraisal, the Company noticed (January 1999) that the unit was not covered under the scheme because only Rs.0.58 crore was required for working capital loans and balance loan Rs.2.62 crore was to be utilised for creation of fixed assets outside the State of Gujarat. In spite of this the Company sanctioned (March 1999) and disbursed (January 2000) loan of Rs.3.20 crore to the unit.

The unit was not even eligible to avail the loan as it was not an assisted unit of the Company in the past, its net profit as per the then latest accounts was only Rs.6.18 lakh and its free reserves of Rs.4.26 crore were less than its share capital of Rs.6.40 crore. The Company did not create a charge of hypothecation on the fixed assets of the unit; instead it created (December 1999) a charge of hypothecation on the movable properties of the unit. The Company also allowed (March 1999) the unit to repay the loan from July 2001 in 20 quarterly instalments over a period of six and a half years including a moratorium period of 18 months i.e. up to April 2006. The Company extended the loan to the unit disregarding all norms of the scheme and such relaxation of the norms was not even brought to the notice of the BOD of the Company (January 2005).

The unit did not repay a single instalment of loan except for the payment of interest totalling Rs.81.75 lakh made on few occasions between March 2000 and March 2003. The Company belatedly initiated (March 2003) action for taking over the possession of the unit's assets. The unit, however, got itself registered with BIFR[#] as a sick unit in December 2003 leaving remote chances for the Company to recover its total dues of Rs.6.52 crore (principal: Rs.3.21 crore and interest: Rs.3.31 crore) outstanding up to March 2005. Thus, the extension of loan to the unit disregarding the norms of the scheme lacked justification.

The management/ Government stated (May/October 2005) that the relaxation in norms in extension of loan to the unit was allowed with the approval of Company's Finance Committee that was empowered to sanction the loan. The request (August 2002) of the unit for re-schedulement of the loan was under consideration of the Company for some time, hence, it had initiated recovery action from March 2003.

The reply is factually incorrect as the Committee was not competent to relax the norms. The relaxation of norms did not have the approval of, BOD who had fixed (May 1998) the norms for the scheme. Reason given for initiation of belated recovery action also lacked justification since the unit was irregular in repayment and no instalment of principal was paid though due from July 2001.

4.3 Non recovery of dues

An amount of Rs.3.86 crore remained outstanding due to inadequate security and its verification, belated action and slow follow-up for recovery of dues.

The Company sanctioned (February 2000) and disbursed (March and May 2000) a loan of rupees five crore against securitisation of assets to Samken Multifeb Limited, New Delhi (unit). The unit, engaged in production of furnishing fabrics, availed the loan for purchasing plant and machinery worth Rs.6.89 crore. The loan carried interest at 13.75 *per cent per annum* and was repayable in 54 monthly instalments due from April 2000 to September 2004. The norms/ other conditions governing the loan meant to safeguard the interest of the Company *inter alia* included the following:

- The Company while disbursing the loan should ensure creation of first or *pari passu*[*] charge on all the movable and immovable assets of the loanee.

- Besides obtaining the Chartered Accountants' (CA) certificate in confirmation of the utilisation of loan by the loanee, the Company also got the right to inspect the unit of the loanee/ call for the original

[#] Board for Industrial and Financial Reconstruction.
[*] Charge created alongwith other lenders on the assets of a loanee.

vouchers/ documents related to the assets purchased out of the loan sanctioned by it.

Audit analysis revealed that instead of creating first/ *pari passu* charge on all the assets of the unit, the Company created (March 2000) charge of hypothecation on the machineries worth Rs.6.89 crore that were to be bought by the unit out of the loan sanctioned. The Company, however, did not verify the existence of the hypothecated machineries with the unit but relied on the utilisation certificate furnished (May 2000) by a CA firm on behalf of the unit. Though the unit was in default in repayment since July 2002, the Company did not appoint any nominee directors in the Board of the unit. Twelve post dated cheques of Rs.1.09 crore issued during July 2002 to July 2003, for repayment by the unit, were dishonoured by its bankers. The Company belatedly issued (July 2003) a notice under Section 138 of Negotiable Instruments Act, 1881, which was not pursued further for initiation of criminal action against the unit.

The unit got itself registered with BIFR as a sick unit in April 2004. As on 31 March 2005, total dues of Rs.3.86 crore (principal Rs.2.49 crore and interest: Rs.1.37 crore) remained outstanding from the unit. The Company, however, belatedly filed (April 2005) civil suit for the recovery of dues on the collateral securities, such as the personal guarantee of the promoters of the unit and the corporate guarantee of its associated unit[э]. These lapses of the Company had jeopardised its own interest which resulted in non recovery of Rs.3.86 crore due to BIFR status of the unit.

The management/ Government stated (May/ July 2005) that the securities such as charge created on the machineries, the personal guarantee and the corporate guarantee received in this case were considered adequate for safeguarding its interests. The reply is not tenable. Had the Company insisted for creation of first/ *pari passu* charges on all the assets of the unit, it could have created the charge on the assets worth Rs.69.17 crore instead of hypothecation charge created on the machineries worth Rs.6.89 crore. Further, the reply does not give the reasons for the Company's failure to verify the assets purchased by the unit and also non initiation of criminal action against the unit on the dishonoured cheques.

Gujarat State Civil Supplies Corporation Limited

4.4 Extra expenditure in procurement of Palmolein oil

Delay in placement of order for procurement of Palmolein oil resulted in avoidable extra expenditure of Rs.28.70 lakh.

The State Government directed (30 May 2003) the Company to ascertain the cost of procurement and distribution of 6,000 metric tonne (MT) Palmolein oil for sale under public distribution system (PDS). The oil was to be procured through State Trading Corporation of India Limited (STC) and was to be distributed during Janmashtami festival on 20 August 2003. On an enquiry (2 June 2003) by the Company, STC furnished (4 June 2003) details about the

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[э] Shampkin Spinners Limited.

cost of imported oil in bulk and stated that minimum 32 days were required for supply. The Company passed on (05 June 2003) the details supplied by STC to the Government. On 08 July 2003, the Government issued instructions to the Company for immediate procurement of 3,500 MT refined oil through STC.

The Company had been regularly procuring various commodities including Palmolein oil through STC for distribution under PDS. The Company, however in this case went on (July 2003) seeking clarifications from the Government on various aspects *viz.,* specifications on quality of oil, tin and barrel to be used, amount of advance, transit and storage loss, *etc*. The Government reprimanded (15 July 2003) the Company for seeking clarifications on the aspects that were familiar to the Company and also reiterated (22 July 2003) the necessity for immediate procurement action.

The Company finally approached (July 2003) STC for supply of imported refined oil at Kandla Port by 10 August 2003. STC expressed inability for importing the refined oil due to paucity of time. In view of this, the Company placed order with STC on 05 August 2003 and locally procured 3,000 MT refined oil at *ex*-Mundra refinery. The refined oil was packed in two lakh tins of 15 Kg. each costing Rs.677/ tin and was distributed during Janmashtami festival.

Audit analysis revealed that had the Company placed order with STC immediately on the receipt of the Government's instructions of 08 July 2003, it could have imported the refined oil through STC before 10 August 2003. The cost of procurement of imported refined oil in bulk at Kandla Port and also its subsequent packing in 15 Kg/ tins was worked out to Rs.662.65/ tin compared to the actual cost of procurement of Rs.677/ tin by the Company. Thus, the Company incurred an extra expenditure of Rs.28.70 lakh[φ].

The management stated (July/October 2005) that the Government, while placing the indent (08 July 2003) was not clear about important issues *viz.,* quality, quantity of the oil to be imported and type of packing for distribution *etc.,* hence, the communications received from the Government were full of ambiguities. As a result, the Company sought clarifications on these issues before the initiation of procurement activity. Further, had the Company procured the oil as per the Government’s instructions of 8 July 2003, it would have incurred Rs.674.97/ tin against the actual cost of procurement of Rs.677/ tin. The Government had endorsed (July/October 2005) the reply without giving any rebuttal to the Company's contention that the ambiguities in Government instructions were the cause for the delay.

The reply is not tenable. Though the Company wanted clear instructions, yet it did not send any detailed purchase proposal covering all important issues including quality and type of packing to the Government for their approval on 5 June 2003. The Company's calculation of assumed cost of Rs.674.97/ tin is not correct as the Company applied 4.4 *per cent* sales tax in its calculation against the applicable rate of 4 *per cent* on the oil. Likewise, while calculating

[φ] Rs.677/ tin (-) Rs.662.65/tin X 2,00,000.

the interest on blocked fund involved in the procurement of the oil, the Company reckoned three months instead of the appropriate duration of one and a half month that actually existed between the Government's instructions (8 July 2003) and the date of Janmashtami (20 August 2003).

Sardar Sarovar Narmada Nigam Limited

4.5 Avoidable extra cost in construction of Tail Race Channel

Due to imprudent deferment of construction work of Tail Race Channel for its river bed power house, the Company incurred an avoidable expenditure of Rs.14.68 crore.

The Company awarded (April 1991) the work of construction of Tail Race Channel (TRC) for its River Bed Power House (RBPH) at a cost of Rs.14.55 crore to Jaiprakash Associates (firm). The water from Sardar Sarovar Narmada Dam was planned to be drawn, for generation of hydro power at RBPH and then discharged through the TRC into Narmada river. Hence, TRC was to be constructed between portal of exit tunnels of RBPH and Narmada river. Construction work of TRC mainly involved excavation of earth, concrete lining, shortcret lining to rock faces. The work was to be completed by June 1994. In the meantime, the construction of RBPH and its exit tunnels was also under execution. Hence, a protective bund was kept between RBPH and the site meant for TRC construction for preventing the flood water flow from TRC under execution to RBPH. As the construction of RBPH and exit tunnel was not completed, the Company did not handover the full site including the bund area to the firm till June 1994. So, the firm could execute (up to June 1994) 64.64 *per cent* of earthwork and 13.98 *per cent* of concrete lining work. The firm did not execute the work of shortcreting. The work was stopped on the expiry of the agreement in June 1994 after incurring a cost of Rs.8.91 crore.

The Company again entered into a supplementary agreement with the firm in December 2000 for completion of remaining work of TRC. The rates fixed under the agreement were higher by 58, 59 and 56 *per cent* compared to the rates fixed for earth work, concrete lining and shortcreting respectively under suspended work. As the construction work of RBPH and exit tunnels was not completed due to unavoidable reasons, the bund was not allowed to be removed during December 2000 to March 2002.During this period the firm executed 20.68 *per cent* earth work, 76.46 *per cent* concrete lining and 80.67 *per cent* shortcreting at a cost of Rs.20.77 crore. The works of RBPH and exit tunnels were completed in June 2004. The bund was, therefore removed and the firm executed (June 2004) the remaining 14.68 *per cent* earth work, 9.56 *per cent* concrete lining and 19.33 *per cent* shortcreting against the total quantity of work of TRC at a cost of Rs.6.69 crore.

Audit analysis revealed that the bund hardly occupied 40 out of 1,122 metres of the site of TRC. Hence, a negligible quantity of TRC work was involved in the bund area. Leaving aside the portion of TRC work occupied by the bund, the Company could have got the work executed under the original contract during (April 1991 to June 1994). There was no justification on record for non execution of all the works except bund area of TRC during the currency of original contract. Had the Company done so, the work executed at a cost of Rs.20.77 crore during December 2000 to March 2002 could have been done at a cost of Rs.6.09 crore under the original contract due to lower rates. Thus, the Company incurred an avoidable extra expenditure of Rs.14.68 crore in construction of TRC.

The management/Government stated (October/November 2005) that as the flow in the river down stream of the dam could not be regulated due to non-closure of its sluice gates for various technical reasons, the site for TRC work near to stream area was not having reasonable dry condition during November 1991 to March 1994. Hence, the firm did not execute the TRC work fully during the original agreement period.

The reply is not correct. As per Clause 49.4 of the general conditions of the agreement, the Company was empowered to suspend TRC work if the site condition was not fit for execution of the work during November 1991 to March 1994. Further, the suspended work could have been restarted from April 1994 after the site condition became fit for execution of the work. This was possible by granting due extension of time to the firm under the original agreement. This could have enabled the Company to avoid the extra expenditure by executing the work at lower rates under original agreement. However, the Company did not invoke the clause. This lacked justification.

4.6 Avoidable payment of idle charges

The Company over paid idle charges of Rs.10.68 crore to a contractor for machinery and manpower utilised on another work.

The Company awarded (April 1987) the work of construction of concrete dam across the river Narmada for Sardar Sarovar Project (SSP) to Jaiprakash Associates (firm) at a cost of Rs.320 crore. The terms and conditions for the work were stipulated in the main agreement and those for payment of idle charges in the supplementary agreement entered into by the Company with the firm in April 1987 and December 2000 respectively. As per the agreement, the dam work was to be completed by January 2006.

The State Government decided (October 2000) to divert the reservoir water of SSP for drinking and irrigation purposes through construction of Irrigation Bye Pass Tunnels (IBPT). So, the Company assigned the work of construction of IBPT to the firm in December 2000 with the condition that all the provisions including the rates for various items of sub-works as per the original and supplementary agreements were applicable *mutates mutandis* to the IBPT work also. The firm executed (September 2004) the work of IBPT at a cost of Rs.74.35 crore and also received the payment from the Company by November 2004.

It was noticed in audit that as per provisions of the supplementary agreement if the concreting work done for the dam work in a working season (*i.e.,* July to June) was less than the target of three lakh cubic metre (cum) for reasons not attributable to the firm, then idle charges at the rate of Rs.823.90 *per* cum were payable by the Company to the firm for the shortfall in concreting work. The underlying idea for the payment of idle charges was to compensate the firm for the fixed cost, such as interest charges on investment, depreciation on plant and machinery and payments to staff/ labourers on the underutilised machinery and manpower kept for the dam work.

During the working seasons of 2000-04, there were shortfalls in concrete work done for the dam aggregating 6,84,603 cum, not attributable to the firm. The firm utilised the same machinery and manpower meant for the dam work in IBPT work also and executed 1,05,998 cum concrete work therein. The Company, however, while making payments (August 2001 to August 2004) of idle charges of Rs.68.48 crore (including price escalation [PE] of Rs.12.07 crore) on the shortfall quantity of 6,84,603 cum, did not adjust the quantity of 1,05,998 cum concrete work done (August 2001 to August 2004) by the firm in IBPT work executed at the same location utilising the same machinery and manpower. The Company should have deducted Rs.10.68 crore (including PE of Rs.1.95 crore) for the quantity of 1,05,998 cum concrete work of IBPT from the idle charges paid to the firm. The Company's failure to do so resulted in avoidable over payment of idle charges of Rs.10.68 crore.

The management stated (July 2004) that IBPT work was independent and also different from the dam work. Further, these two works had separate set of conditions and hence, the quantity of concrete work done for IBPT should not be considered for computation of the idle charges under the dam work. State Government while endorsing the management's reply stated (October 2004) that the usages of some of the common facilities of dam work in IBPT work was inevitable.

The reply is not tenable. The terms and conditions of original and supplementary agreements of the dam work were applicable for IBPT work also. Moreover, the Company's record confirmed the usage of the machinery and manpower meant for dam work in IBPT work. Thus, it was not appropriate to allow the payment of idle charges under the dam work, as there was no idleness of machinery and manpower to the extent of their utilisation for IBPT work.

4.7 Extra expenditure due to unwarranted revision of rates

The Company incurred extra expenditure of Rs.2.64 crore due to unwarranted revision of rates of extra items of work.

The work of construction of Narmada Main Canal reach 168.436 to 177.148 KM (passing Kheda district) awarded (July 1994) to Gayatri Projects Limited, Hyderabad (firm) was completed (September 2002) at a cost of Rs.93.83 crore. Final payment for the work was made in October 2004.

It was noticed in audit that the agreement for the work provided for payment of sub-items of works *viz.* excavation of canal (including dewatering and depositing the usable excavated stuff in the manner specified) in soil at Rs.20 *per* cum, in soft rocks at Rs.26 *per* cum and in hard rocks at Rs.95 *per* cum.

The firm represented (September 1997) to the Company that due to unprecedented rainfall in June/ July/ August 1997, the ground water level had risen by three metre compared to the level shown in tender documents. Consequently, an extra cost was incurred by it for excavation of canal work in wet condition with the help of heavy machineries. Thus, the quantum of excavation work done in wet condition was in the nature of `Extra item of work'. Hence, separate rates mutually acceptable both to the Company and the firm under the contract were to be fixed. In the event of non reaching of mutual agreement between the firm and the Company on fixation of rates for the extra item of work, the payment should be made at the rates fixed by the Company. The Company conceded (March 1998) to the plea of the firm.

The Company's claim committee considered (January 2000) various aspects such as, actual machinery deployed by the firm after monsoon of 1997, and also PWD guidelines for fixation of rates for the work. Accordingly, the Company fixed (June 2000) rates of Rs.55.60 *per* cum, Rs.63.70 *per* cum and Rs.124.75 *per* cum for the work of excavation of canal in wet condition in soil, soft rock and hard rock respectively, effective from September 1997. The firm in acceptance of the rates fixed, gave (July 2000) an undertaking that it would not raise any further claim on the work of excavation in wet condition.

The firm, again represented (September 2000) to the Company stating that the rates fixed in June 2000 were neither based on the actual output of work executed by it nor matched with the rates for similar other works executed in wet condition. Hence, the Company constituted (November 2000) a new committee for consideration of the representation and also for revision of rates fixed in June 2000. Based on the recommendation of the new committee, the Company revised (December 2002) the rates for excavation of canal in wet condition in soil as Rs.63.37 *per* cum and in soft rock as Rs.83.36 *per* cum for excavation of canal in hard rock. The Company fixed revised rate as Rs.151.02 *per* cum based on the observation of actual output of the firm instead of ideal out put basis adopted by the previous committee.

As the Company and the firm both accepted the rates fixed in June 2000 and the firm also gave an undertaking in July 2000, the action of the Company (December 2000) to make another revision in the rates, was not in consonance with the provisions of the contract. The revision of the rates resulted in extra expenditure of Rs.2.64 crore[*] on the total quantity of 12,38,322 cum of earthwork done in wet condition during December 1997 to September 2002.

The management/ Government stated (August 2005) that in this instance, revision of rates was made (December 2000) for the second time as a special case. The previous committee fixed (June 2000) the rates conservatively, based on PWD guidelines. The new committee, however, considered the actual output achieved by the firm and also the rates for similar works executed by the Company while revising the rates in December 2000.

[*] Calculated at the revised rates, which were higher by Rs.7.77/ cum, Rs.19.66/ cum and Rs.26.27/ cum compared to rates fixed in June 2000 for excavation of canal in soil, soft rock and hard rock respectively.

The reply is not tenable. The various parameters, such as, adoption of actual output of the firm and the rates for similar items of work etc used in fixation of rates were not new parameters and were also in the knowledge of the previous committee that fixed the rates in June 2000. Thus, the revision of rates made in December 2000 was unwarranted.

Gujarat State Fertilizers & Chemicals Limited

4.8 Avoidable payment of penal interest

Delay in refund of the excess drawn subsidy of Rs.60.81 crore resulted in avoidable payment of penal interest of Rs.15.37 crore.

The Company had been availing subsidy under retention price-*cum*-subsidy scheme (scheme) of Government of India (GOI) for the fertilizers *viz.,* urea and di-ammoniam phosphate (DAP) produced and sold by it in the market at the sale price notified by GOI. Under the scheme, the notified sales price remains less than the actual cost of production of fertilizers. Hence, to compensate fertilizer producers for the consequential loss, GOI also fixes a retention price (RP) for each fertilizer producing unit, based on normative cost of production *plus* 12 *per cent* return on its net worth determined in this regard. Thereafter, GOI reimburses the differential amount between the RP and the amount realised at the notified sale price in the form of subsidy to the producer unit based on the total quantity of fertilizers sold by it in each month. Fertilizer Industry Co-ordinating Committee (FICC) administers the scheme.

The Company had drawn subsidy on urea during March 1989 to November 1998 sold by it based on a RP of Rs.3,816/ MT to Rs.6,563/ MT and subsidy of DAP during March 1989 to August 1992 based on a RP of Rs.5,778/ MT to Rs.8,587/ MT. The DAP was excluded from the scheme since September 1992.

The Company had installed two captive co-generation (COG) plants for generation of steam and power by the end of March 1989 and 1990. Installation of COG plants changed the normative cost of production of urea and the DAP. The Company submitted (May 1994) the required data to FICC for consequential revision of the RPs *w.e.f.* March 1989. Based on this data, the FICC on 02 December 1998 downwardly revised the RP at Rs.3,676/ MT to Rs.6,733/ MT for urea and at Rs.5,610/ MT to Rs.8,396/ MT for DAP with retrospective effect from March 1989.

As per terms of the scheme, within 45 days from date of revision of RP, the producer unit had to refund to FICC any excess drawn subsidy due to subsequent downward revision of the RP, otherwise, the delay in refund would attract penal interest of 19.5 *per cent* on the excess amount retained by it.

The Company had drawn excess subsidy of Rs.60.81 crore during March 1989 to November 1998 because of this downward revision of RP., The Company, however, did not refund Rs.60.81 crore to FICC within the stipulated period of 45 days *i.e.* by 15 January 1999. On the contrary, the Company indulged in protracted correspondence with FICC contesting FICC's methodology in calculation of normative cost production after inclusion of COG plants under the scheme and also demanded reconsideration of the revised RP. FICC stopped (April 2000) entertaining subsequent claim bills. The Company in May 2000, refunded Rs.60.81 crore alongwith penal interest of Rs.15.37 crore for the period from 16 January 1999 to 02 May 2000. FICC also reaffirmed (August 2001) the correctness of the revised RP fixed (02 December 1998) by it after re-examination of the Company's demand made in this regard. The Company could have avoided the payment of penal interest of Rs.15.37 crore had it refunded Rs.60.81 crore in time simultaneously demanding FICC for re-consideration of the revised RP fixed. Thus, the Company's failure to do so resulted in avoidable payment of Rs.15.37 crore.

The management/ Government stated (March/ May 2005) that the Company had belatedly refunded Rs.60.81 crore to FICC as it initially thought of not refunding the subsidy until its demand for reconsideration of revised retention price was conclusively heard and decided by FICC. Further, the Company paid only Rs.14.43 crore as it received (December 2004) refund of Rs.94 lakh against the penal interest of Rs.15.37 crore originally charged by FICC.

The reply is not tenable as records made available to audit indicated that the Company did not get any refund related to excess drawn subsidy of Rs.60.81 crore. The refund received related to RP revised by FICC in December 2001 and not related to December 1998. Further, the Company could have avoided the payment of Rs.15.37 crore as there was no restriction on the Company to demand reconsideration of revised RP even after refunding Rs.60.81 crore to FICC within the stipulated period of 45 days. Thus, the payment of penal interest of Rs.15.37 crore could have been avoided.

Statutory corporations

Gujarat Electricity Board

4.9 Avoidable payment of interest

The Board did not insert put/ call option clause in the bonds issued. This will result in avoidable loss of Rs.105.84 crore by way of excess payment of interest on redemption of the bonds on their maturity.

The Board, with a view to financing its capital expenditure decided (May 1999) to mobilise resources by issue of secured redeemable non convertible bonds (the bonds) of rupees one lakh each on private placement basis. Accordingly, the Board raised fund of Rs.400 crore, Rs.500 crore, Rs.650 crore and Rs.950.18 crore carrying interest rate of 14, 12.5, 11.9 to 12 and 11.25 to 11.75 *per cent* through issue of bonds in June 1999, April 2000, June 2001 and August 2002, respectively. The tenure of the bonds ranges from six to twelve years and the bonds are redeemable proportionately in three instalments. The redemption period of the bonds ranges from the end of third, fourth and fifth year to tenth, eleventh and twelfth year from the period of their issues. Thus, all the bonds issued are redeemable during 2004-2015.

Audit analysis revealed that the interest rate on borrowings fell from 14 to 11 *per cent* during January 1998 to April 2002. The Board did not safeguard its interest against interest rate fluctuation by inserting the usual put/ call option[#] (option) in the bonds for its early redemption. The implication due to non insertion of the option as analysed by Audit are given below:

- As per terms of the bonds issued in June 1999, the amounts of the bonds were redeemable at the end of fifth, sixth and seventh year. Had the Board inserted the option, it could have repaid the entire fund of Rs.400 crore raised through the issue at the end of fifth year *i.e.* on 16 August 2004 instead of repaying in three instalments during 2004-07. This would have enabled the Board to save interest payment of Rs.10.49 crore on the second and third instalments for the period 16 August 2004 to 31 March 2005 as it could have avoided paying interest at the higher rate of 14 *per cent* instead of the current rate of eight *per cent*. The Board could have also avoided future interest liability at higher rates for the period from 1 April 2005 to 16 August 2006 of Rs.15.95 crore. The net present value (NPA) of this future liability works out to Rs.14.17 crore at the discounting factor of 0.93 to 0.86 for the above period.

- Similarly, had the Board inserted the option in the bonds issued in April 2000, June 2001 and August 2002 then it could have avoided future interest liability of Rs.113.29 crore[*] by exercising call option for foreclosing high cost bonds after the expiry of five years lock-in period. The NPA of the future excess interest liability works out to Rs.81.18 crore at the discounting factor of 0.86 to 0.46, based on the year of the future interest liability falling due during 2005-15.

The management/ Government stated (May/November 2005) that it was very difficult to envisage decreasing trend in interest rates at the time of issue of these bonds. In this context, the Board's decision to issue the bonds without the option was appropriate. Moreover, non insertion of such option was rather considered as attractive terms for mobilising huge fund from prospective investors.

The reply is not tenable as the Board was aware of the steady fall in the interest rates since January 1998. Further, the availability of such option would have given the Board an opportunity to repay its high cost borrowings. Besides, the Board had inserted the option in the bonds issued in November 2000 and April 2003.

[#] An option available to the bondholders to exit/ the Board to redeem the bonds after specified lock in period.

[*] This does not include interest on the principal amount of Rs.425.09 crore pertaining to bondholders who agreed (July/ December 2004) to lower the interest rate to 9/ 8.50 *per cent* on Board’s request in March 2004.

4.10 Loss due to belated exploration of alternative washeries

The Board suffered a loss of Rs.14.26 crore due to belated exploration of alternative washeries.

Ministry of Environment and Forest, Government of India directed (September 1997) State Electricity Boards to use beneficiated coal[ω] having ash content not exceeding 34 *per cent* from June 2001 in the Thermal Power Stations (TPS). The Board assessed (December 2000) that coal used by its TPS contained 40 *per cent* ash content which could be reduced to 30 *per cent* through the process of washing.

The Board invited (June 2000) quotation from a single firm *viz*., ST-BSES Coal Washeries Limited, Noida (firm S) and placed (January 2001) a trial order for washing 1.9 lakh MT coal yielding 1.5 lakh MT of washed coal at a cost of Rs.3.54 crore. The cost of washing the coal, thus, worked out to Rs.194.96/ MT [⊗]. The Board continued to place further orders only on firm S at the same rate for washing coal aggregating 21.38 MT at a total cost of Rs.50.52 crore during May 2001 to January 2003.

In the meantime, the Board invited open tenders from the washeries in August 2002. Pending finalisation of the tenders, the Board separately obtained (November/ December 2002) quotations for awarding the work on *adhoc* basis. Accordingly, the Board placed (February 2003) order on the lowest bidder Aryan Coal Benefications Private Limited, New Delhi (firm A) at their quoted rate of Rs.144.40/ MT for washing 0.8 lakh MT coal.

The Board later opened (February 2003) the tenders wherein the rate of Rs.96.77/ MT quoted by firm A was the lowest. After the finalisation of the tender in March 2003, the Board placed further orders from April 2003 at Rs.96.77/ MT on firm A. The rate was applicable for washing coal at an average of four lakh MT *per* month for the period up to May 2009. Besides, against the tender, order was also placed in March 2004 on firm S being the second lowest firm for washing remaining three lakh MT coal *per* month at Rs.138.05/ MT up to August 2004 and at Rs.115.05/ MT from September 2004 to August 2009.

Audit noticed that the Board had sufficient time between the date of issue of instructions (September 1997) and the date of use of washed coal (June 2001) to explore and avail services of alternative sources of washeries at a cheaper rate. The Board, initially placed order on firm S without making any attempt to find out alternative washeries and the prevailing washing charges in the market. Moreover, the Board went ahead with the placement of further orders on firm S. It was only in August 2002 that the Board initiated action for

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[ω] Coal with high calorific value having lower ash content obtained through physical separation or washing process.

[⊗] Cost of transportation of coal to washeries and its washing charges at the rate of Rs.18.27/MT and Rs.135/ MT respectively on 1.9 lakh MT raw coal *plus* transportation of coal to railway siding and its loading at the rate of Rs.34.51/MT and Rs.7.18/ MT, respectively on 1.5 lakh MT of washed coal.

exploring alternative washeries. Even considering the firm A's rate of Rs.144.40/ MT for the washing work awarded (February 2003) on *ad hoc* basis, the Board had incurred an extra expenditure of Rs.14.26 crore on the orders placed at higher rate of Rs.194.96/ MT with firm S during January 2001 to January 2003.

The management/ Government stated (May/November 2005) that the Board was aware (December 2000) that the rate of alternate washery *i.e.* firm A was cheaper than firm S. The Board had preferred firm S as its washing capacity was higher and the washing technique adopted by it was better compared to firm A. Hence, series of orders were placed on firm S. Subsequent to invitation of open tenders (August 2002), however, the Board considered that both the firms A and S were capable of executing its orders immediately and thus the orders were placed under the tender.

The reply is not tenable as there was nothing on record to indicate that alternate washery of firm A was considered while placing series of orders with firm S during May 2001 to January 2003. Thus, the Board's belated action in exploration of alternative washeries and the imprudent selection and placement of series of orders only on firm S lacked justification.

4.11 Avoidable expenditure

Board incurred an avoidable expenditure of Rs.1.30 crore due to delayed finalisation of tenders for procurement of single phase metal meter box.

The Board invited (October 2002) tenders for the purchase of six lakh single phase metal meter boxes (MMB). Technical bids received from 33 units were opened on 15 November 2002. The tenders were valid up to 13 March 2003. The Board identified (29 January 2003) 22 out of the 33 units as technically qualified. Price bids of 22 units were opened on 5 February 2003. The Board's purchase wing put up the purchase proposal to its Purchase Committee on 21 March 2003 when the bid validity had already expired.

In the meantime, the Board requested (3 March 2003) the technically qualified units for extension of validity up to 30 April 2003. Only two[ε] units agreed to extend the validity and to supply 35,000 MMB at the L1 tender price of Rs.122.03 per box. As against the requirement of six lakh MMB, the Board got supply of 35,000 MMB through the two units. Hence, the Board invited (April 2003) revised bids from all technically qualified units and the L-1[⊕] price obtained was Rs.145 per box. Accordingly, orders were placed (June 2003 to September 2003) on 17 units for meeting the balance requirement of 5.65 lakh MMB at L-1 price of Rs.145 per box. The units executed the orders during August 2003 to June 2004.

Audit noticed that as per the Board's norms, its purchase wing should have ensured the completion of tender process within 65 days from the date of opening of technical bids. Against these norms, the purchase wing took

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ε Shree Ram Switch gear and Shree Ram Industries of Ratlam.
⊕ The bidder quoting lowest rates.

127 days leading to non finalisation of tenders within their validity period. Thus, due to internal inefficiency of purchase wing, the Board incurred an avoidable extra expenditure of Rs.1.30 crore[@] on the purchase of 5.65 lakh MMB.

The management/ Government stated (June/November 2005) that though technical bids were opened on 15 November 2002 in case of 12 bids, other technical bids were belatedly opened on 16 December 2002 as there were some discrepancies noticed in earnest money deposits made by 12 bidders. Besides, technical scrutiny took long time due to evaluation of more number of bids involved in the process of finalisation of the tender.

The reply is not tenable, as the constraints cited by the Board were merely incidental in finalisation of any tender. The delay could have been avoided through better management of all the activities involved in finalisation of tenders.

4.12 Avoidable expenditure

The Board incurred an avoidable expenditure of Rs.1.26 crore in purchase of stores by not following the laid down purchase policy.

The Board invited (September 2003) tenders for various sizes of Mild Steel (MS) beams, channels, angles, round bars and flats totalling 6,618 MT for meeting the quarterly requirement during 2003-04. The Board, after evaluation of the bids decided (November 2003) to place orders on four[*] firms. The Board classified firm A and B as new firms and firm C and D as regular suppliers.

The purchase policy of the Board envisaged placing of orders asking the regular firm to match price with L-1 regular firm and new firm with L-1 new firm. Audit noticed that the prices quoted by the two new firms were less than the prices quoted by regular firms for various items of supply. Thus, the new firms remained L-1 or L-2 for different items of supply. The Board, while issuing (December 2003) the Letter of Intent (LOI) to all the four firms offered 25 *per cent* of the total quantity each to the two new firms and the remaining 50 *per cent* to either of the regular firms for supply of different items. The Board, however, insisted (December 2003) the regular firms to match their prices of supply with the prices of new firm A, which stood as L-1 or L-2 for the respective items of supply. The regular firms regarded the LOI as a counter offer and rejected (December 2003) the offer of 3,555.93 MT placed on them. The Board could not place repeat orders on the new firms as both new firms had already been offered 25 *per cent* quantity as per its purchase policy.

[@] Rs.145/ box (-) Rs.122.03/ box (x) 5,65,000 boxes.

[*] Bhuwalka Steel Industries (firm A), Mumbai, Ganapati Industries Private Limited (firm B), Kolkata, Shah Alloys Limited (firm C), Ahmedabad and Unique Structure and Towers, Raipur (firm D).

The Board invited (April 2004) revised price bids from among the technically acceptable units of original tender and placed (June 2004) orders on the units for supplying the urgent requirement of 1,100 MT MS angles and 220 MT MS flats. The revised prices of MS angles and MS flats were higher by Rs.9,500/ MT and Rs.9,564/ MT respectively than the price of L-1 regular firm determined under the original tender. The Board therefore incurred an avoidable expenditure of Rs.1.26 crore on the purchase of the above items on urgency basis. Thus, the Board's action (December 2003) of asking the regular firms for matching the price with that of the new firm was at the variance with its purchase policy and lacked justification.

The management/ Government stated (April/ May/October/November 2005) that though firm A was a new firm while evaluation (November 2003) of tenders the firm was considered as regular firm as it had supplied substantial quantity in a previous order placed with it by the Board. Moreover, regular firms did not agree to match their prices with firm A as steep hike in the price of steel took place in November 2003.

The reply is not tenable. As per the purchase policy, a firm would be considered as regular firm only if it had satisfactorily executed minimum of two orders previously placed on it by the Board. In this case, however, firm A had not executed two orders previously. Thus, the consideration of firm A as regular firm on the plea that it had supplied substantial quantity under the first order previously with it was not in consonance with the policy.

4.13 Avoidable expenditure due to wrong specifications in the tender

The Board incurred an extra expenditure of Rs.42 lakh due to wrong specification about the size of the air preheater blocks in the tender document.

The Board placed (March 2001) an order with Bharat Heavy Electricals Limited (BHEL) for manufacture, supply and replacement of air preheater both top and middle blocks by protruding type tube blocks in boilers of both units I and II (120 MW) of Gandhinagar Thermal Power Station at a cost of Rs.4.15 crore (inclusive of statutory levies and insurance). The replacement of blocks was to be made for preventive maintenance.

The Board's planning wing, while preparing (December 1999) the drawing specified incorrect size of the blocks. Further, the drawings on the specifications were not got vetted by the Board's user wing *i.e.* Boiler Maintenance Department (BMD) before these were incorporated (March 2000) in the tender documents. This mistake remained undetected during technical scrutiny (March 2000) of bids and also at the time of placement (March 2001) of order. BHEL supplied (April-July 2001) the blocks as per Board's specifications. The sizes of the two top blocks met the requirements but the weight of two middle blocks was 80.88 MT/ block instead of the requisite weight of 200 MT/ block.

The Board on the advice of BHEL decided (February 2002) to use one top block and two smaller size of middle blocks (*i.e.* 80.88 MT/ block) with modification materials in unit I. The remaining top block was decided to be used after purchasing one more middle block of the correct size (i.e. 200 MT/block) in unit - II. Accordingly, the Board placed (March 2002) another order for the supply and replacement of middle block in unit II and also for the supply of the modification materials for smaller middle blocks in unit I at a cost of Rs.2.43 crore. BHEL supplied (April-July 2002) the ordered materials and the blocks were replaced during May-July 2002 in unit I and September - December 2003 in unit II.

Had the Board specified the correct requirement of the blocks, the blocks could have been replaced at a total cost of Rs.6.16 crore against the actual cost of Rs.6.58 crore incurred by the Board. Thus, the Board incurred an avoidable extra expenditure of Rs.42 lakh due to specifying incorrect size of the air preheater blocks in the tender document.

The management/ Government while admitting the audit observation stated (June/ July/November 2005) that the Board had imposed (October 2003/ August 2004) penalty on the three officials responsible for the wrong specifications in the tender documents. The fact that a wrong specification made in the planning stage remained undetected at all other stages *viz.,* tender invitation, bids scrutiny, issue of purchase order, inspection and testing of samples and actual supply of blocks indicated laxity of the Board's officials in handling the purchase of high cost proprietary item.

4.14 Environment management system in thermal power stations of the Board

4.14.1 Pollution is the contamination of soil, water or air by the discharge of potentially harmful substances. Ministry of Environment and Forests, Government of India is the nodal agency for formulating and implementing the policies and instruments for environmental protection.

Environment protection policy and its follow-up

4.14.2 Pollution control is being enforced through various Acts and Rules framed in this regard, *viz* Air (Prevention and Control of Pollution) Act, 1981, Water (Prevention and Control of Pollution) Act, 1974 and Hazardous waste (Management and Handling) Rules 1989, framed under the Environment (Protection) Act 1986.

Gujarat Pollution Control Board (GPCB) oversees the implementation of the pollution control policy in the State. It is responsible to ensure that specified standards of pollutant emissions and effluents are complied with in various types of industries in the State. GPCB issues air and water Consents to the industries subject to maintenance of laid down parameters at all times. Industries have to send test results of approved laboratories in respect of the parameters fixed and Environment Audit Report to GPCB. GPCB is empowered to inspect all pollution related records and take preventive actions for controlling the pollution including imposition of penalties and/ or closure of industrial units.

Audit analysed the extent of compliance with the laid down rules, regulations and procedures as well as effectiveness of the programmes and other measures devised to control pollution in three out of five thermal power stations (TPS) of the Board. All the TPS have one environment cell each consisting of six officials including an environmental engineer and a chief chemist to attend the work relating to pollution issues of TPS. Audit noticed the following points:

Sources of pollution and control measures

Air pollution

4.14.3 Combustion of coal in the process of electricity generation results in heat energy, ash and gases. The smoke (flue gas) is removed through Induced Draft Fans (ID fans) and let out through the stack. This flue gas, if directly let out in the atmosphere creates serious pollution problems. Electrostatic Precipitators (ESPs) are installed between ID fans and Air breakers to collect the suspended particulate matter (SPM) and drop it in the hoppers. From the hoppers the dry ash is either collected in Silos for sale to brick manufacturers or converted into ash slurry and discharged into ash dykes through ash handling system.

The flue gas that comes out through stack also contains oxide of sulphur (SO_2) and oxides of nitrogen (NOx) because of the presence of these elements in the coal. Stack heights have to ensure dispersal of these gases at higher levels in the atmosphere to mitigate harm to the environment. The combustion of coal, besides effecting the atmosphere as discussed above also affects the ambient air quality[#]. Water sprinkling system, dust extraction system and ash handling system are installed to minimise pollution of the ambient air.

Water pollution

4.14.4 Water pollutants come out with wastewater discharged from condenser, cooling water (through cooling system) boiler blow downs, cooling tower blow downs and ash ponds. Effluent treatment plants are installed to ensure that the industrial effluents that are let out into the rivers conform to the prescribed parameters.

Emission of excessive air pollutants

4.14.5 The three coal based TPS (total installed capacity of 3,190 MW) comprising 17 units consume around 37,403.85 MT coal *per* day. Considering the ash content of 33 *per cent* the total ash generation per day in these three units is around 14,213.46 MT. The presence of this huge quantity of ash was a major cause of air, water and soil pollution in and around the units.

GPCB, under the Environment Protection Act 1986, had prescribed (January 1989) a norms of 150 mg/ nm^3[*] of SPM emission at stack of boiler

[#] Ambient air is the air surrounding the power plant where human beings or living organisms exist.

[*] mg/ nm^3- milligram *per* normal cubic metre.

for thermal power units in protected area[$], under which all the three TPS fall. Every year the GPCB issues air consent to the TPS with the condition not to allow SPM, SO_2 and NO_X in excess of 150 mg/ nm^3 , 100 ppm[∝] and 50 ppm respectively in the flue gas let out from the stack of boilers.

***Annexure*-14** gives the actual average SPM, SO_2 and NO_X levels in the stack emissions of the three TPS during 2000-05. The average SPM levels exceeded the norms in most of the years. During 2000-05 the average SPM level above 150 mg/ nm^3 recorded in TPS at Ukai, Gandhinagar and Wanakbori ranged from 154 to 410 mg/ nm^3, 155 to 998 mg/ nm^3 and 166 to 383 mg/ nm^3 respectively. The excess SPM in terms of percentage ranged from 2.67 to 173, 3.33 to 565 and 10.67 to 155 respectively in the three TPS.

Ukai and Wanakbori TPS had complied with the norms laid down for SO_2 and NO_X levels but the Gandhinagar TPS exceeded SO_2 norms during 2000-01, 2002-2003 and 2004-05. Against the norms of 100 ppm the actual level was as high as 277 ppm in 2003-04. During 2002-03, the average NO_X level above 50 ppm ranged between 50.4 and 71.4 ppm. Consequently, GPCB issued show cause notices from time to time to these TPS for exceeding air pollution norms during 2000-05.

The management/ Government stated (July/November 2005) that steps were being taken to install Dual Flue Gas Conditioning System in Ukai TPS and Wanakbori TPS to reduce SPM level. Steps being taken in respect of Gandhinagar TPS were not intimated.

Consequence of higher SPM levels in stack emissions

4.14.6 Stack emission of SPM above the norms fixed not only causes atmospheric pollution but also reduces the life of the impellers in the ID fans necessitating frequent replacement of impeller blades and loss of generation due to partial or complete outage during their replacements. Audit noticed that during 2000-05, Wanakbori, Gandhinagar and Ukai TPS incurred expenditure of Rs.15.56 lakh, Rs.23.62 lakh and Rs.36.33 lakh, respectively in reblading or fitting new impellers for ID fans. The impeller replacement also resulted in partial or total outage in the plant resulting in generation loss of 14.17 MU at Wanakbori, 50.76 MU at Gandhinagar and 74.42 MU at Ukai TPS, respectively during the above period. The Board therefore, suffered a revenue loss of Rs.31.31 crore in the three TPS (calculated at the average realisation rate of Rs.1.39 to Rs.2.65/ unit).

Causes of high SPM levels

Higher ash contents in coal

4.14.7 The actual ash content in the coal, which was higher than the designed ash contents of coal that can be handled by ESPs was one of the major causes

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[$] Area in close vicinity of residential area is declared as protected area.
[∝] ppm - particles per million.

for higher SPM levels in stack emissions in all the three TPS. ***Annexure-15*** gives the designed ash content in coal that can be handled by ESPs and the actual ash content in the TPS during 2000-05.

In Gandhinagar TPS, against the three designed ash content percentages of 27, 35 and 42 for various units, the actual percentage of maximum average ash content ranged between 32.52 and 45.07. Likewise, in Ukai TPS against the three designed ash percentages of 25, 28 and 40 for various units, the actual percentage of maximum average ash content ranged between 35.54 and 44.85. In Wanakbori TPS, against the designed ash percentage of 28 for all the units, the percentage of minimum and maximum average ash content ranged between 30.6 and 42.65. As a result, the ESPs of all the power stations allowed excess SPM to escape with the flue gases. Though the Board started (January 2001) using washed coal and imported coal, only Ukai TPS had shown significant decrease in ash content in 2004-05.

The management/ Government stated (July/November 2005) that the higher ash content in coal over and above the designed capacity of ESP would go untreated but would not in any case effect the efficiency of ESP. The reply is not correct. The higher ash content in the coal would not only overload ESP but also cause erosion of ID fan impellers and reduce the overall efficiency of SPM control system.

Delay in the construction of silos for dry ash handling in Unit III and IV of Gandhinagar TPS

4.14.8 Ministry of Environment and Forest, Government of India (GOI) notification dated 14 September 1999 enjoined upon all TPS to create storage facilities (*i.e*. silos[ζ]) for dry ash not only to prevent the dumping of fly ash on the top soil but also to facilitate its lifting by brick manufactures. Though the Board invited tenders (September 2003) to award the construction work of two 500 MT silos at unit III and IV in Gandhinagar TPS at an estimated cost of Rs.5.80 crore. These tenders had not been finalised so far (March 2005). The delay in award of the work indicated the Board's lack of concern on issue of pollution control. Besides, the estimated (April 2003) saving of Rs.1.80 crore *per annum* on water/ power consumption through construction of silos was not achieved due to the delay of over one year in finalisation of the tenders from the date of original bid validity (February 2004).

The management/ Government stated (July/November 2005) that the construction of silo was delayed due to time required for observing the performance of silos already installed at other units of Gandhinagar/ Ukai TPS. Reply is not tenable as performance report was called for only in September 2004, though silos at other units of Gandhinagar/ Ukai TPS were in existence since 1999-2000.

[ζ] Tall cylindrical structure usually besides a barn in which dry ash is stored.

Delay in commissioning of microprocessor based controllers in Unit I to IV of Gandhinagar Thermal Power Station

4.14.9. As per the direction (April/ November 2002) of GPCP for reducing stack emission levels of SPM, the Board decided (February 2003) to install microprocessors based controllers in 56 ESPs of unit III and IV Gandhinagar TPS at a cost of Rs.1.23 crore by February 2004. The Board had estimated (August 2002) saving of rupees six lakh *per* month as the installation of microprocessors would reduce consumption of electricity by ESPs. Though the Board invited (September 2004) tenders for the work, it had not finalised the tenders (March 2005) reasons for which were not on record. As a result, the Board had already lost envisaged savings of Rs.1.02 crore from March 2004 (*i.e.* after scheduled installation in February 2004) to July 2005 and also failed to comply with GPCB directions.

The management/ Government stated (July/November 2005) that the Board had invited and opened (March 2005) the bids both for technical and commercial scrutiny purpose and the microprocessors were likely to be procured by the end of 2005. The fact, however, remains that timely action for installation of the microprocessors by February 2004 as per its plan could, not only reduce pollution but also save Rs.1.02 crore.

Delay in the augmentation of ash handling system in Wanakbori TPS unit I to VI

4.14.10. To ensure efficient functioning of ESPs, the Board decided (November 1999) to augment the ash handling systems through installation of feeder ejector systems/ mechanical exhausters for ESP hoppers in unit I to VI of Wanakbori TPS at a cost of Rs.3.96 crore. It was estimated (November 1999) that the augmentation of ash handling systems would reduce consumption of power, water and spares and result in a saving of Rs.7.48 crore *per annum* to the TPS. The Board's decision (November 1999) was, however, not implemented (March 2005) due to non appointment of consultant for awarding the work of augmentation of ash handling system. This lacked justification. The ash handling system after its augmentation was planned to be commissioned within nine months *i.e.*, by August 2000, had not been started till date. As a result, the Board had already lost the envisaged saving of Rs.37.40 crore during September 2000 to August 2005.

The management/ Government stated (July/November 2005) that the technical specifications as approved by the consultants would be ready by December 2005. No justification for the delay was given.

Discharge of excess water pollutants

4.14.11 Standards for discharge of pollutants in industrial effluents *viz*. pH (alkalinity/ acidity), temperature, chlorine, suspended solids, oil and grease, copper, iron, zinc, chromium and phosphate were fixed under Rule-3 (Schedule-F) of the Environment Protection Rules, 1986. Water consents are issued every year by GPCB subject to the maintenance of these standards. Ukai TPS failed to bring the suspended solids in effluents within the prescribed limits for which GPCB issued 16 show cause notices during 2000-04.

The management/ Government stated (July/November 2005) that the non compliance to norms in Ukai TPS was mainly because of inadequate area available for disposal of slurry. Additional land had now been acquired and construction of new ash dyke was in progress to solve the excess discharge problem. A timely action for the additional land could, however, avoid the non compliance.

Industrial effluent, sewage and solid waste management

4.14.12 Solid waste from plants mainly consisting of fly ash transported from the hoppers to dykes in slurry form is inert and non hazardous in nature. Ministry of Environment and Forest, GOI, issued (September 1999) directions for the use of minimum 25 *per cent* fly ash in brick manufacturing, if the brick manufacturing unit was situated within a radius of 50 kilometres from the TPS. All TPS should ensure at least 30 *per cent* fly ash utilisation by September 2002.

Audit noticed that during 2003-04 the percentage of actual fly ash sold to the fly ash generated was 0.31 and 5.18 in the TPS at Wanakbori and Gandhinagar respectively, against the norms of 30 *per cent* stipulated in the notification.

The management/ Government stated (July/November 2005) that utilisation of fly ash largely depended on market and willingness of users to use fly ash in place of topsoil or cement. The process was, however, on to augment infrastructural facilities for collection and storage of ash and thereby increases its utilisation. The Board needs to address this issue and devise ways to increase disposal of fly ash to the required level of 30 *per cent* in the brick manufacturing.

Gujarat State Road Transport Corporation

4.15 Excess contribution to Employees' Provident Fund

An excess contribution of Rs.51.35 crore was made into Employees' Provident Fund due to incorrect implementation of Government notification.

Section 6 of the Employees' Provident Fund and Miscellaneous Provisions Act 1952, stipulated that the employer should pay to the Employees' Provident Fund (Fund) an amount equal to 10 *per cent* of emoluments[θ] of each employee as employer 's contribution. Each employee should also contribute a minimum of 10 *per cent* of his/ her emoluments towards the fund. Ministry of Labour, GOI *vide* notification dated 22 September 1997 raised the ceiling of contribution from 10 to 12 *per cent* with immediate effect. The notification was not applicable to the establishment, which at the end of any financial year had accumulated losses equal to or exceeding its entire assets and had also

[θ] *i.e.* basic pay (+) dearness allowance (+) retaining allowance.

suffered cash losses* in such financial year and the financial year immediately preceding such financial year. Based on the notification, the Corporation regularly paid into the Fund its additional contribution of two *per cent* (over and above 10 *per cent*) since September 1997.

Audit noticed that the accumulated losses of the Corporation exceeded its assets and it also suffered cash losses during eight preceding years ended 2003-04. Therefore, the Corporation was not required to pay additional contribution of two *per cent* aggregating Rs.51.35 crore during 1997-2004. On this being pointed out (March 2004) in audit, the Corporation approached (May 2004) Regional Provident Fund Commissioner (RPFC) of the State and sought permission for withdrawal/ adjustment of excess contribution made by it since September 1997. RPFC, however, did not give the permission on the plea that the Corporation had started contributing to the Fund at an enhanced rate since September 1997 and that there was no option to revert back to old rate of contribution.

Besides, the State Government's approval under Section 42(1) of the Road Transport Corporations Act, 1950 (RTC Act) was to be obtained by the Corporation as implementation of the notification tentamounted to amending the Regulation 112 (i)(a) of its Employees Service Regulations. The Corporation did not obtain the State Government's approval for payment of additional contribution of two *per cent* to the Fund (March 2005). The payment of Rs.51.35 crore made into the Fund was therefore avoidable as well as irregular.

The management/ Government stated (June/ July 2005) that the Corporation had reduced its contribution to the Fund from 12 to 10 *per cent* from October 2004 and had also filed a petition in the Honorable High Court against the decision of RPFC, the outcome of which was awaited.

The reply is factually incorrect. The Corporation did not file any petition in the court; on the contrary, aggrieved by the Corporation's action to reduce the rate of contribution to the Fund from 12 to10 *per cent* from October 2004, its employee association had filed (November 2004) the petition against the Corporation. Further, the reply is silent about non obtaining of the State Government's approval for making additional contribution of two *per cent* to the Fund. The fact remains that the corporation not only made excess payment but also involved itself in avoidable litigation.

4.16 Unfruitful expenditure in construction of a bus depot

Injudicious construction of a bus depot led to unfruitful expenditure of Rs.57.32 lakh.

The Corporation based on the public demand (November 1999) decided (July 2000) to construct a bus station alongwith a depot at Khambha, Amreli district. The Corporation awarded (December 2000) the construction work of the bus station (Rs. 50.20 lakh) and the depot (Rs.60.57 lakh) at Khambha to

* Net loss for the year before providing depreciation.

N P Patel and Company, Ahmedabad. The stipulated dates of completion of the bus station and depot were January 2003 and February 2003 respectively.

The bus station and the depot of Khambha fell under the administrative jurisdiction of Amreli division of the Corporation. During 1999-2000 the Amreli division had seven depots and was managing the operation of 372 service schedules at an average of 53 schedules *per* depot. The Corporation was aware (July 2000) that the depot at Khambha would not get adequate work, as the existing traffic did not have potential for operating 12 schedules from the depot. Further, the financial position of the Corporation was weak as it had accumulated losses ranging from Rs.683 crore to Rs.1199.96 crore during the year 1997-98 to 1999-2000. The Corporation did not carry out any feasibility study to determine the viability of investing the fund in construction of the depot before awarding the work of construction.

Consequently, after incurring an expenditure of Rs.57.32 lakh towards civil work till August 2002, the Corporation had an apprehension on the viability of the depot. Hence, the Corporation did not take up the remaining electrical installation work of the depot and the depot was not at all put to use since September 2002 (May 2005). Thus, the construction of the bus depot without any feasibility study resulted in unfruitful expenditure of Rs.57.32 lakh. Besides, the Corporation suffered a loss of interest of Rs.13.76 lakh* on the blocked fund of Rs.57.32 lakh during September 2002 to August 2005.

The management/ Government stated (August/ September2005) that the Corporation's intention to have depots at taluka level, the availability of land and the possibility for transferring the work of 12 to 20 schedules of operations from nearby depots to the depot at Khambha were the reasons behind its decision to construct the depot. The financial crisis faced by the Corporation since October 2003, however, did not allow it to complete the work and put the depot to use.

The reply is not correct. As per the opinion (March 2000) of traffic division of the Corporation, it was uneconomical to operate a new depot at Khambha as it was not possible to transfer more than 12 schedules of operation from nearby depots. Besides, the Corporation was already under financial crisis when it decided (July 2000) to construct the depot. Thus, the depot was constructed without conducting any feasibility study.

Gujarat State Financial Corporation

4.17 Imprudent extension of financial assistance

Imprudent extension of financial assistance resulted in non recovery of dues of Rs.2.25 crore.

Astro Age Cast Tech Limited, Ahmedabad (unit), manufacturer of metal castings, approached (March 2001) the Corporation to avail financial assistance for expansion of its production activity. The Corporation sanctioned

* Calculated at the interest rate of eight *per cent per annum.*

(June 2001) composite loans *viz.,* quick finance assistance (QFA) of Rs.35 lakh for purchase of machineries worth Rs.42.98 lakh and working capital term-loan (WCTL) of Rs.75 lakh. As per the terms of QFA, the unit was required to furnish collateral security worth Rs.10.50 lakh to the Corporation. Like wise, as per terms of WCTL, the unit was required to execute documents for creation of first charge on its immovable and movable properties worth Rs.1.91 crore in favour of the Corporation. The unit executed (July 2001) the documents as per terms of WCTL and the Corporation disbursed (July 2001) Rs.75 lakh under WCTL. The unit, however, expressed (August 2001) its inability to provide collateral security as per terms of QFA. As a result, the Corporation did not disburse any amount under QFA. The unit was required to repay WCTL during January 2002 to June 2004 in 30 monthly instalments alongwith interest of 17 *per cent per annum*. The unit did not expand its production activity and stopped functioning since March 2002. The unit did not pay any instalment of dues to the Corporation.

The disbursement of WCTL was imprudent because the unit was ineligible to avail WCTL as its net worth was Rs.55 lakh at the time of sanction (June 2001) of WCTL against the norms of Rs.1.50 crore prescribed (July 1997) by the Corporation. Further, WCTL of Rs.75 lakh was required by the unit after completion of the expansion activity but it was disbursed without taking up the expansion activity. Besides, the Corporation did not take action against the unit under section 138 of Negotiable Instruments Act 1881, when the cheques worth Rs.10 lakh for payment of instalments were dishonored (January to April 2002). Moreover, the Corporation in November 2003 belatedly took the possession of the assets worth Rs.63.29 lakh of the unit under Section 29 of the State Financial Corporations Act 1951. As on 31 March 2005, total dues of Rs.2.25 crore (principal: Rs.0.75 crore and interest: Rs.1.50 crore) remained outstanding against the unit. The Corporation, however, did not get any buyers for selling the assets of the unit taken over by it (June 2005).

The management/ Government stated (June/ July/October 2005) that though the unit's net worth was less than the norms prescribed for extending WCTL, yet the Corporation sanctioned WCTL of Rs.75 lakh as the security of Rs.1.91 crore offered by the unit was considered adequate in safeguarding the Corporation's interest. Further, during appraisal stage, the unit's projected turnover without reckoning the proposed expansion activity was considered as base for sanctioning WCTL. The Corporation further stated that the failure/ delay in recovery action against the unit were caused as the unit's request for reschedulement of WCTL was under the consideration of the Corporation.

The reply is not tenable. The reason given for relaxing the norms in sanction of WCTL lacked conviction. Further, the Corporation's contention that the unit's projected turnover reckoning the proposed expansion activity was considered as the basis for sanctioning WCTL is not correct. The documents made available to audit indicated that the WCTL was sanctioned only after reckoning the proposed expansion. Since, the very viability of extension of WCTL depended upon the completion of the expansion activity by the unit.

The disbursement of WCTL without ensuring completion of the proposed expansion activity of unit was imprudent and lacked justification.

4.18 Irregular sanction and disbursement of loan

Sanction and disbursement of term loan in violation of laid down norms resulted not only in waiver of dues of Rs.22 lakh but also in non recovery of dues of Rs.1.75 crore.

Super Star Amusement Private Limited, Ahmedabad (unit) applied (May 2000) to the Corporation for a term loan of Rs.2.40 crore to set up an amusement water park in Ahmedabad. The unit decided to set up the park by January 2001 on 10,194 square metre (token value Rs.0.16 lakh) land received from Ahmedabad Municipal Corporation (AMC) under build-operate-transfer (BOT) agreement entered (August 1999) with it. The park was to be operated by the unit for 15 years from January 2001 before transferring it to AMC. During this period, the entry fee was to be collected by AMC from the visitors of the park and it was to be shared between the unit and AMC in the ratio of 70:30 after meeting the expenditure on the management of the park.

As per the Corporation's norms, term loan could be extended only after executing the legal documents by the loanee for creation of first charge on all its immovable and movable properties in favour of the Corporation. The Corporation did not have scope to create any first charge on the immovable properties of the unit as the land belonged to AMC. Therefore, the Corporation did not agree (February 2001) to sanction the term loan. On repeated request (February 2001) from the unit, the Corporation, however, sanctioned (March 2001) the loan of Rs.2.25 crore disregarding its norms.

Terms of sanction of the loan provided for the compliance of following conditions before disbursement:

- The unit was required to provide collateral security *viz;* a residential building worth Rs.34 lakh in favour of the Corporation through lodgment of original title deed of the building with the Corporation.

- An arrangement was to be made among the unit, AMC and the bank of the unit, whereby the unit's share of entry fee collection (after adjustment of expenditure) was to be paid daily into an escrow account of the bank for enabling the bank to make payment of loan instalment to the Corporation.

Audit noticed that the Corporation disbursed (July 2001) Rs.1.21 crore out of the sanctioned loan of Rs.2.25 crore to the unit before completion of the formalities. The Corporation, however, decided (September 2002) not to disburse the remaining loan of Rs.1.04 crore, as the unit did not complete the formalities. The disbursed loan of Rs.1.21 crore carried interest of 17 *per cent per annum* and was repayable in quarterly instalments from May 2002 to May 2007. The unit, however, defaulted in payment since May 2002. Even though the park started functioning since August 2002 and earned its share of entry fee of Rs.11.43 lakh and Rs.39.21 lakh during 2002-03 and

2003-04, respectively, the Corporation did not pursue with AMC to impress upon the unit to repay its dues. The unit's assets *i.e.* water slides worth Rs.84.75 lakh hypothecated (June 2001) to the Corporation were not taken over by the Corporation.

As on 31 December 2004, an amount of Rs.2.09 crore (principal: Rs.1.21 crore and interest: Rs.0.88 crore) from the unit. The Corporation, on the request (December 2004) of the unit, consented (January 2005) to forgo Rs.22 lakh and accept Rs.1.87 crore in lieu of total dues of Rs.2.08 crore from the unit under one time settlement (OTS) scheme. Though Rs.1.87 crore were to be paid by June 2005, the unit paid (December 2004/ January 2005) Rs.12.15 lakh and did not pay the remaining dues of Rs.1.75 crore (August 2005). Thus, the Corporation's failure to take adequate security against the disbursed loan had not only resulted in waiver of dues of Rs.22 lakh but also non recovery of remaining dues of Rs.1.75 crore.

The management stated (August/October 2005) that it had considered the adequacy of security against the loan and also got the approval of its Board of Directors for sanctioning the loan to the unit. On non recovery of OTS dues, it was stated that the unit was seeking (August 2005) more time for repayment which was under the consideration of the Corporation. The reply is not correct. The Corporation's record confirmed the fact that both the sanction and disbursement of the loan were made in violation of laid down norms.

The matter was reported to Government in June 2005; their replies had not been received (September 2005).

General

4.19 Corporate Governance

Corporate Governance is the system by which companies are directed and controlled by the management in the best interest of the stakeholders and others ensuring greater transparency and better financial reporting. The Board of Directors (BOD) are responsible for the governance of their companies.

The Companies Act, 1956 was amended in December 2000 by providing, *inter alia*, Directors Responsibility Statement (Section 217) to be attached to the Director's Report to the shareholders. According to Section 217(2AA) of the Act, the BOD has to report to the shareholders that they have taken proper and sufficient care for the maintenance of accounting records, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

Further, according to Section 292A of the Companies Act, 1956, every public limited company having paid-up capital of not less than rupees five crore shall constitute an Audit Committee (AC) at the Board level. The Act also provides that the Statutory Auditors (SA), Internal Auditors (IA), if any, and the Director in charge of finance should attend and participate in the meetings of the AC and the Chairman of the AC should attend the Annual General Meeting (AGM) to answer the queries of the shareholders.

A similar provision has also been introduced through clause 49 of the Listing Agreement for listed companies issued by the Securities and Exchange Board of India (SEBI). The Listing Agreement provides that listed companies having paid-up capital of rupees three crore and above or net worth of Rs.25 crore or more at any time should have a qualified and independent Audit Committee.

Government of Gujarat issued instructions (April 2003) to all PSUs that the Government directors in the BOD of the PSUs should attend minimum 50 *per cent* BOD meetings held in a year. Further, the Company should convene minimum three meetings of AC in a year.

Inter alia, two main components *viz*. matters relating to the BOD and constitution of AC and its functions that constitute the mechanism of corporate governance have been discussed in this paragraph.

Audit examined 32 out of 35 working Government Companies[∞] ***i.e.***, two listed and thirty unlisted Government companies as given in ***Annexure*-16** having turnover/ paid-up capital exceeding rupees five crore, with regards to the provisions that affect corporate governance and matters related thereto for the period 2001-05.

Listed Government Companies

Board of Directors

4.19.1 Since the BOD is the agency for the implementation of corporate governance provisions, it is imperative that the Board devotes adequate attention to these issues. Moreover, the Board must have requisite representation, and the members of the Board should meet regularly.

Attendance of the directors in the meetings of the BOD

4.19.2 The meetings of the Board suffered inadequate attendance during 2001-05.

In GMDC, one non executive director did not attend any of the 30 meetings held during 2001-05. Two other non executive directors attended only two out of five meetings held during 2001-02.

In SSNNL, three non executive directors did not attend any of the seven, 22 and four Board meetings held in their respective tenure during 2001-05. Other two non executive directors attended only one meeting each out of 13 and 28 in their respective tenure during 2001-05. Yet another non executive director attended only three out of 14 meetings held in his tenure during 2001-03.

[∞] Of 36 Government Companies (as on 31 March 2005) information from two Companies *vis-a-vis* The Film Development Corporation Limited and Gujarat National Highways Limited were awaited and one Company was incorporated in December 2004. Further, activities of Gujarat Scheduled Caste Economic Development Corporation Limited were transferred to a Statutory Board formed by the State Government (August 1996), hence not included.

Vacancy position of directors

4.19.3 In GMDC, there was no fulltime Managing Director during January 2002 to 18 April 2002 and 5 October 2002 to 6 May 2003. Post(s) of two non executive directors were vacant from November 2002 onwards, that of seven non executive directors were vacant from January 2003 onwards.

Audit Committees

Meetings of Audit Committee

4.19.4 As per clause 49 II (B) of the listing agreement, minimum three meetings of AC are to be held in a year. In GMDC, however, the AC did not hold any meeting in 2001-02; it met only once during 2002-03 and twice in 2003-04. In SSNNL, AC met only twice during 2001-02.

Discussions in Audit Committee meetings

4.19.5 In GMDC, AC did not meet to consider and review annual accounts for 2001-02 to 2003-04 before these were placed in the BOD for approval. AC did not hold any discussions with SA before commencement and after completion of audit. The AC did not review adequacy of internal control/ internal audit system and reports of Internal/ Statutory auditors. In SSNNL, AC did not review the Company's financial/ risk management policy and half yearly financial statements, though the same were included in their terms of reference.

Attendance of Internal Auditors/ Statutory Auditors in Audit Committee meetings

4.19.6 In GMDC, IA and SA did not attend any of the AC meetings held during 2002-05. In SSNNL, the SA and the officer-in-charge of IA attended only eight out of 11 meetings held. Thus, the provisions of Section 292A(5) were not complied with. Besides, in SSNNL, one non executive director attended only one out of five AC meetings held during 2001-03.

Attendance of Chairman of Audit Committee in the annual general meeting

4.19.7 The Chairman of the AC in respect of SSNNL and GMDC did not attend AGM held during 2001-03 and 2003-05, respectively in contravention of Section 292 A (10) of the Companies Act.

Unlisted Government Companies

Board of Directors

Meetings of the BOD

4.19.8 Section 285 of the Companies Act, 1956, provides that a meeting of the BOD shall be held at least once in every three months and at least four such meetings shall be held in a year.

Audit noticed that meetings of the BOD were not held in case of GUSHEEL and GSKVN (October-December 2003), GGDCL (April-June 2001, January - March 2002, January - March 2003 and July -September 2004), GSSCL (January-March 2003), GMFDC (October-December 2001), GAIC (October - December 2001 and October-December 2002), GTKVN (July-September 2004), AAGL (April-June 2001, July-September 2001, April-June 2002 and April-June 2003), GGCDC (April-June 2003, October-December 2003 and April-June 2004), GSHHDC (January-March 2002, January-March 2003 and July-September 2003), TCGL (July-September 2003) and GWIL (April-June 2004).

Attendance of directors in BOD meetings

4.19.9 The attendance of the directors in BOD meetings was not regular in 26 companies during 2001-05 as given in ***Annexure*-17.** Audit noticed that in case of 19 companies attendance of directors was not regular during 2003-05 despite of State Government's instructions of April 2003.

Vacancy position

4.19.10 The posts of Chairman/ Executive/ Non Executive directors remained vacant in 26 companies during 2001-05 as mentioned in ***Annexure*-18**.

Audit Committee

Composition of Audit Committee

4.19.11 Constitution of AC was not in accordance with the provisions of Section 292A of the Companies Act, 1956 in the following cases:

- In TCGL, the AC was constituted in January 2002 by the Managing Director instead of BOD.
- In GRIMCO, GSFS, GSFS Caps, GGCDC, GPCL, GRDC, GWEDC and GIL**,** the BOD did not specify the terms of reference of AC during 2001-05 in violation of Section 292A (2) of the Companies Act, 1956.

- In GSFDC the strength of AC of the Company was reduced to two during 2002-03 in contravention of 292A(1) of the Companies Act.

- In AAGL, there were only two members in AC against the minimum requirement of three during 2002-03. The BOD had also not specified the terms of reference of AC.

- The composition of AC in GWEDC was not disclosed in Annual Report for the year ended March 2004.

Meetings of AC

4.19.12 Of the 30 unlisted Government companies, AC was constituted in 23 companies as they were having paid-up capital of more than rupees five crore. Audit noticed that not a single meeting of AC was convened in case of GRIMCO, GWIL, GSPHC and GSIL (2001-02), GUDC and GWEDC (2001-02 and 2002-03), GSLDC (2003-04) and GSHHDC (2004-05).

In GIIC, though the terms of reference stipulated that AC should meet at least once in a quarter (*i.e.,* four meetings in a year), AC meetings were held only twice in 2001-02 and 2004-05 and once each in 2002-03 and 2003-04 respectively.

In disregard to State Government's instructions of April 2003, AC met less than three times in a year in 18[∞] Government companies during 2003-05.

Discussions in AC meetings

4.19.13 A review of records related to the discussions held by AC of the companies during 2001-05 revealed different kinds of irregularities as per the details given in ***Annexure*-19**. A summary of such irregularities is given below:

- In nine companies, AC did not consider budget/ review half yearly financial statements, though these were included in the terms of reference of AC as required under Section 292 A(6) of the Companies Act, 1956.

- In seven companies, AC did not have discussions with IA/ SA before commencement and after the completion of audit of annual accounts.

- In nine companies, AC did not review the adequacy of internal control system/ internal audit system as required under Section 292-A (6)/ terms of reference of AC.

- In 16 companies, AC did not look into the aspects of financial and risk management policy/ frauds and fraud risks.

[∞] Sl.No.2, 5, 8, 10, 12, 14, 15, 16, 18, 20, 22, 23, 24, 26, 27, 28, 29 and 30 of ***Annexure*-16.**

- In two companies AC did not consider the annual accounts before its approval by BOD.

- In two companies the terms of reference did not include review of financial and risk management policy and hence the AC did not review the same.

Attendance of Internal Auditors/ Statutory Auditors/ Directors in Audit Committee meetings

4.19.14 As per Section 292A (5) of the Companies Act, 1956, the IA, SA and Director-in-charge of finance are required to attend the AC meeting. Audit noticed that in case of 17 companies, the attendance of directors/ IA/ SA at AC meetings was either nil or low as per the details given in the ***Annexure*-20.**

Attendance of the Chairman of Audit Committee in annual general meetings

4.19.15 The Chairman of AC did not attend AGMs in case of GPCL and GSFS Caps (2001-02 to 2004-05), GSLDC and GIIC (2001-02 to 2003-04), GWIL (2002-03), GSFDC (2003-04), GIL (2003-04 and 2004-05), GSIL (2002-03 to 2003-04), GSFS (2004-05).

Impact of poor corporate governance

4.19.16 Foregoing paras would reveal that the Government companies not only violated the legal provisions, there was a lack of seriousness with which these were governed. Deficient corporate governance contributed to the following:

- Eight companies incurred aggregate loss of Rs.75.85 crore as per their latest available accounts finalised up to September 2005.

- Thirty three accounts of 21 working companies were in arrears as on September 2005 for periods ranging from one to seven years.

- Adequate steps were not taken to strengthen the internal audit and internal control system.

Summary

- In all the companies, the vacancies of directors were not filled as and when they arose.

- The Board of directors' meetings in 12 companies were not conducted in accordance with the provisions of Section 285 of the Companies Act, 1956.

- The directors were not regular in attending Board meetings in 28 companies.

- Constitution of the Audit Committee was not in accordance with the provisions of the companies Act in 11 Companies.

- The meetings of Audit Committee were either not held or held only once in a year in many companies. In disregard to State Government instructions of April 2003, AC of 18 companies met less than three times in a year during 2003-05.

- Attendance of members (directors), Statutory Auditors and Internal Auditors was not regular in Audit Committee meetings in some of the companies.

The matter was reported to the Companies/ Government in April 2005. Replies from Finance Department of State Government and five companies had not been received (November 2005)

4.20 Follow-up action on Audit Reports

Outstanding action taken notes

4.20.1 Audit Reports of the Comptroller and Auditor General of India represent culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. As per rule 7 of Rules of Procedure (Internal Working) of Committee on Public Undertakings (COPU), Gujarat Legislative Assembly, all the administrative departments of PSUs should submit explanatory notes indicating the corrective/ remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature.

Though the Audit Report for the year 2002-03 was presented to the State Legislature on 21 February 2005, three out of seven departments, which were commented upon, did not submit explanatory notes on seven[ψ] out of 26 paragraphs/ reviews as on 30 September 2005. The Audit Report for the year 2003-04 was presented to the Legislature on 13 September 2005.

The Government did not respond to the paragraphs highlighting the losses suffered by the State PSUs due to imprudent investment, avoidable payment of energy charges, irregular payment made to the contractor and belated closure of unviable units.

[ψ] Industries and Mines (two); Narmada, Water Resources and Water Supply (four) and Road and Building (one).

Action taken notes on Reports of Committee on Public Undertakings

4.20.2 Replies to three outstanding paragraphs pertaining to one Report (*i.e.*, Thirteenth Report of Eighth Assembly, 1994-95) of the COPU presented to State Legislature in December 1994 had not been received (30 September 2005).

This report of COPU contains 12 recommendations related to paragraphs appeared in Audit Reports from 1987-88 to 1992-93. As per Rule 32 of Rules of Procedure (Internal Working) of COPU, Gujarat Legislative Assembly, replies to the recommendations in the form of Action Taken Notes (ATNs) are required to be submitted by the administrative department of PSUs within three months from the date of placement of the Report of COPU in the State Legislature. In case of three recommendations, however, the replies to two paragraphs pertaining to Gujarat Electricity Board and one para in respect of Gujarat State Road Transport Corporation which appeared in the Audit Report for the year 1987-88 were awaited (30 September 2005).

Response to Inspection Reports, Draft Paragraphs and Reviews

4.20.3 Audit observations noticed during audit and not settled on the spot are communicated to the heads of respective PSUs and concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2005 revealed that 1,142 paragraphs relating to 396 Inspection Reports pertaining to 37 PSUs remained outstanding as on 30 September 2005. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2005 is given in ***Annexure*-21**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/ Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Audit noticed that four draft paragraphs and two draft reviews forwarded to the various departments during March to June 2005 as detailed in ***Annexure*-22** had not been replied to so far (30 September 2005).

It is recommended that the Government may ensure that (a) procedure exists for action against the officials who fail to send replies to Inspection Reports/ draft paragraphs/ reviews and ATNs to recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/ outstanding advances/ overpayment is taken within the prescribed time; and (c) the system of responding to the audit observations is revamped.

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