CHAPTER - II

2 Performance reviews relating to Government companies

Gujarat Water Infrastructure Limited

2.1 Implementation of Sardar Sarovar Narmada Main Canal based Bulk Water Transmission Project

Highlights

Laying of pipeline of larger diameter than planned resulted in unfruitful expenditure of Rs.1.64 crore.

(Paragraph 2.1.10)

The Company's failure to obtain admissible excise duty exemption resulted in avoidable payment of Rs.1.36 crore.

(Paragraph 2.1.22)

Deviation from the tender specification for wire mesh used in gunniting steel pipes resulted in avoidable expenditure of Rs.1.08 crore.

(Paragraph 2.1.16)

The Company's failure to charge the recommended price for supply of water to industries resulted in loss of potential revenue of Rs.8.10 crore.

(Paragraph 2.1.26)

The Company made excess payments of Rs.49.17 lakh to the contractors towards construction of pump houses and interest amounting to Rs.51.43 lakh was short recovered on premature payments made to the contractors.

(Paragraphs 2.1.17 and 2.1.21)

Delay in obtaining administrative approval of the Government of Gujarat for award of the work resulted in cost overrun to the extent of Rs.2.71 crore.

(Paragraph 2.1.14)

The Company undertook and commissioned the sub project NC-14 (NMC–Gandhinagar City) not contemplated in the master plan, which resulted in diversion of 255 MLD water meant for supply to drought prone areas.

(Paragraph 2.1.6)

Introduction

2.1.1 Government of Gujarat (GOG) approved (1999-2000) a Drinking Water Supply Master Plan (master plan) *viz.*, Sardar Sarovar Narmada Canal Based Bulk Water Transmission Project (Project) with Sardar Sarovar Narmada Canal as the source of water. The Project envisaged supply of water[•] to the drought prone areas of Saurashtra, Kachchh, North Gujarat and Panchmahal benefitting 2.92 crore people of 8,215 villages and 135 towns by the year 2021.

The Company was incorporated (October 1999) mainly for implementing the work of sub projects of bulk water pipelines from Sardar Sarovar Narmada Canal, as assigned to it by GOG from time to time. The project included laying of bulk water pipelines as well as distribution network having estimated cost of Rs.4700 crore on the base price of the year 1996. The total length of the bulk water pipelines planned was 2,700 kilometers (KM) which was divided into 39 sub projects. These sub projects were to be executed through two State Government agencies *viz*. Gujarat Water Supply and Sewerage Board (GWSSB) and Gujarat Water Infrastructure Limited (the Company). Of these 13 sub projects involving total length of 811 KM were undertaken by the Company as detailed in ***Annexure*-9**.

GOG contributed finance for nine out of 13 sub projects and for the remaining four sub projects, the Company availed loans from HUDCO[#]/banks. The Company laid and commissioned (March 2006) 549 KM pipeline at a total cost of Rs.583.91 crore including the cost of material, filtration plant *etc*. Four sub projects involving total length of 262 KM at aggregate tendered cost of Rs.191.84 crore were under progress (September 2006). The company gives water connection to industrial consumers and local bodies directly from its pipelines. The water for domestic use is, however, supplied to GWSSB.

The governance of the Company is vested in a Board of Directors (BOD) consisting of 15 members including a Managing Director (MD). The MD is assisted in day to day functioning by two Chief General Managers for Finance and Civil respectively and a Company Secretary. The Company has four project offices[*] each headed by a Senior Manager to oversee the implementation of the sub projects and operation and maintenance (O&M) activities.

• 1.06 million acre feet (MAF) [3,571 million litre *per* day (MLD)] of which 0.86 MAF (2,897 MLD) and 0.20 MAF (674 MLD) was reserved for domestic and industrial users respectively as of March 2006.

Housing and Urban Development Corporation.

* Bhavnagar, Jamnagar, Anjar and Mehsana.

Scope of audit

2.1.2 The performance review conducted during December 2005 – March 2006 covers the performance of the Company with regard to the implementation of the 13 sub projects during 2000-06. Audit reviewed records of the head office and all the four project offices relating to nine completed sub projects and four ongoing sub projects.

Audit objectives

2.1.3 The performance audit was conducted to assess whether:

- the sub projects were implemented in a time bound manner to supply water to the targeted area/population;
- the sub projects were implemented in the areas identified in the master plan;
- detailed project report (DPR) for the sub projects were prepared in conformity with the guidelines given in the master plan;
- implementation was in conformity with respect to the DPRs and within the time and cost estimated;
- the Company had implemented the sub projects economically, efficiently and effectively;
- purchase and sale of water were regulated as per the approved/recommended pricing policy; and
- the internal control system was sufficiently sensitive to highlight variations in estimates, work standards and budgetary control.

Audit criteria

2.1.4 The following audit criteria were adopted:

- the financial and social objectives *viz*., cost of the project, population/ geographical area to be covered as envisaged in the master plan of the project;
- DPR prescribing various components of the works to be executed and the period of implementation of the sub projects;
- terms and conditions of the agreements entered into with various contractors for execution of the works;
- terms and conditions of the agreements entered into with financial institutions and banks for financing the project;
- Government of India (GOI)/GOG notifications/directions relating to the implementation of water supply projects; and
- the guidelines/generally accepted practices followed in award of works.

Audit methodology

2.1.5 Audit used a mix of the following methodologies:

- examination of documents *viz.*, master plan, DPRs, consultancy reports, financial reports, programme guidelines and technical/ price bid evaluation reports, schedule of price, running account/ final bills, progress reports and invoices relating to purchase and sale of water;
- review of the GOG directions to the Company, agenda/minutes of the meetings of Board of Directors (BOD), Tender Purchase Committee and committees constituted by the BOD;
- analysis of data collected by Audit and meeting with the officials of the Company; and
- review of the internal control system.

Audit findings

The audit findings were reported to the Government/management in May 2006 and discussed in the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 4 July 2006 which was attended by the Secretary, Narmada, Water Resources, Water Supply and Kalpsar Department, Government of Gujarat and the Chairman *cum* Managing Director of the Company. The views of the Government and the management were taken into account while finalising the review.

The audit findings are discussed in the succeeding paragraphs.

Project planning

Deviation from the master plan

The work of sub-project NC-14 was undertaken in deviation from master plan.

2.1.6 The Company had executed and commissioned (September 2004) sub project NC[*]-14 (NMC-Gandhinagar) at a cost of Rs.39.39 crore for supplying 255 MLD water to Gandhinagar city, Thermal Power Station (TPS) –Gujarat State Electricity Corporation Limited (GSECL) at Gandhinagar, *etc.* It was noticed during audit that this sub project was not covered under the master plan. Thus, the implementation of sub project NC-14 resulted in diversion of 255 MLD water meant for supply to the drought prone areas.

The management/Government stated (July/September 2006) that the sub project was implemented as the quality of water available in Gandhinagar was not suitable for drinking purpose due to high fluoride content and Gandhinagar, as a part of North Gujarat, is one of the drought prone areas.

[*] Narmada Canal.

Besides, the implementation of the sub-project benefited Gandhinagar and TPS- GSECL. The reply is not tenable as the project aimed at supply of water to drought prone areas identified in the master plan. Hence, the priority given for implementation of the sub project that was not covered in the master plan lacked justification.

Excess allocation of water to industrial users

Excess allocation of water was made for industries in Kachchh district.

2.1.7 The master plan for the Project envisaged allocation of 232 MLD water for Kachchh district which included 45 MLD water for industrial use. The company undertook three water supply projects *i.e.* NC-10 (September 2002), NC-11 (October 2002) and NC-22 (November 2004) for implementation. Scrutiny of industrial connections released/approved by the Company and GWSSB revealed that up to March 2006 the total water allotted for industrial use was 61.91 MLD (the Company : 43.38 MLD and GWSSB : 18.53 MLD) against the stipulated allocation of 45 MLD. The excess allocation of water for industrial use would reduce the availability of water for domestic use and thus adversely affect the drinking water requirements of people of Kachchh district by the year 2021.

The management/Government stated (July 2006) that Sardar Sarovar Narmada Nigam Limited (SSNNL) had increased (May 2006) the allocation for industrial water from 0.2 MAF (674 MLD) to 1.0 MAF (3369 MLD) from which the excess allocation would be adjusted. The reply is not tenable. SSNNL had increased the overall allocation of water for industries but district wise allocation has not yet been finalised (August 2006).

2.1.8 Under sub project NC-14, allocation of 90.10 MLD water was made for domestic use. As per Indian Standard (IS) Code of basic requirement for water supply, drainage and sanitation, the domestic water requirement for Gandhinagar should have been 49 MLD•. Thus, incorrect estimation led to excess provision of 41.10 MLD water at the cost of the originally planned drought prone areas.

The management/Government stated (July 2006) that the provision of 90.10 MLD water for 3.5 lakh population was made as suggested by the Road and Buildings (R&B) Department which was the nodal agency for supply of water to Gandhinagar city. The reply is not tenable. The Company, before accepting the suggestion of R&B Department, should have evaluated it with reference to the IS Code.

• 140 Litre *per* capita *per* day (LPCD) x 3.5 lakh of estimated population by 2015.

Project financing

Delay in arranging finance resulted in non-supply of water

2.1.9 GOG issued (February 2000) Administrative Approval (AA) for the work of four sub projects^ at an estimated cost of Rs.371 crore with a view to supplying 150 MLD water to Bhavnagar district. The required funds were to be arranged by GOG. Of these, the work of one sub project SPP-4 entrusted to GWSSB was scheduled for completion in April 2001. The Minister of Water Supply Department, GOG instructed (May 2000) the Company that the remaining three sub projects should be taken up for implementation immediately and completed by 31 March 2001 as any delay would lead to non-utilisation of 150 MLD of water reaching Vallabhipur through SPP-4. The Company, however, awarded the work of NC-3 to EPIL# at a cost of Rs.61.84 crore in October 2000 only and did not start the execution of work of NC-4 and NC-5 for want of funds.

In January 2001, GOG informed the Company that the work of NC-4 and NC-5 could be taken up on the condition that payment would be released only after 31 March 2001 or that the Company could arrange for finance either through bonds or loan from HUDCO. The Company obtained (February 2001) loan from HUDCO and awarded (February 2001) the work of NC-4 and NC-5 to IVRCL* at a cost of Rs.72.14 crore and Rs.69.64 crore respectively. The sub projects NC-3, NC-4 and NC-5 were completed and commissioned in June 2001, January 2002 and February 2002 respectively. Meanwhile, the work of SPP-4 was completed and water (150 MLD) reached Vallabhipur in April 2001. It was noticed during audit that though administrative approval was issued in February 2000, the necessary funds were arranged only in February 2001 *i.e.* after a lapse of 12 months. Thus, delay in arranging finance led to delayed completion of the sub projects which resulted in non supply of water further up to Rajula till February 2002.

The management/Government stated (July 2006) that the reason for delay in implementation of the sub projects was non availability of funds. The reply is not tenable as the Company could have availed institutional loan immediately after GOG's instruction of May 2000.

Project implementation

Deviation from detailed project report

Laying pipeline of larger diameter resulted in unfruitful expenditure of Rs.1.64 crore.

2.1.10 The DPR for execution of sub project NC-2 (Chavand-Amreli- Babra) provided for laying of 800 mm diameter pipes. The Company, however, executed an agreement (October 1999) with Larsen and Toubro Limited (L&T) at a cost of Rs.59.17 crore which provided for laying of 1,000 mm

^ SPP-4 (Navda to Vallabhipur), NC-3 (Vallabhipur to Budhel), NC-4 (Budhel to Borda) and NC-5 (Borda to Rajula).

\# Engineering Projects (India) Limited, Mumbai.

* IVRCL Infrastructure & Projects Limited, Hyderabad.

inside finish diameter mild steel pipe at the rate of Rs.6,886 *per* metre for a length of 9,980 metres. The unauthorised deviation made by the Company by laying pipeline of larger diameter of 1,000 mm resulted in unfruitful expenditure of Rs.1.64 crore[*].

The management/Government while accepting (September 2006) the audit observation did not give any justification for laying a pipeline of larger diameter.

Award of work to an ineligible bidder

2.1.11 The Company invited (June 2002) prequalification bids from interested contractors for award of the work of sub project NC-17 (Modhera-Mehsana). The Company received (June 2002) response from seven bidders. As per the tender provision, the bidders could be considered prequalified on the fulfillment of the following conditions:

- average turnover : Rs.50 crore for three years up to 2001-02;
- net worth : rupees nine crore as on 31 March 2002; and
- net cash accrual: rupees seven crore as on 31 March 2002.

Audit scrutiny revealed that PCEL did not fulfil the conditions relating to net worth and cash accrual as on 31 March 2002. The Company, however, relaxed (August 2002) the prequalification conditions during financial evaluation and declared PCEL as qualified bidder.

The Company awarded (September 2003) the work at a cost of Rs.26.54 crore to PCEL being the lowest bidder. The time limit for completion of the work was six months which was extended up to 15 May 2005, delay being on the part of the Company. PCEL, however, could not complete (September 2006) the work owing to its weak financial position. Thus, award of work to an ineligible bidder resulted in delay in commissioning of the sub project meant to benefit the people of 220 villages and three towns.

The management/Government stated (July 2006) that the conditions were relaxed in view of the past performance of PCEL and to infuse more competition in the bidding process. The reply is not tenable as relaxation of the tender conditions after receipt of bids not only resulted in delay in completion of the project but also vitiated the sanctity of the tendering process.

Irregular payment towards water meters

Deficient tender documents led to irregular payment of Rs.54.38 lakh.

2.1.12 As per the tender conditions, the item of work of instrumentation and control system included installation of water meter. In sub projects NC-10 (Bhachau-Anjar) and NC-11 (Anjar-Kukma-Mundra), it was noticed during

[*] Calculated at the rate of Rs.1,645 for the price difference of pipes on the basis of SOR x 9,973 metres of pipeline laid.

audit that EPIL and IVRCL had quoted (June 2002) Rs.30.43 lakh and Rs.23.95 lakh respectively, for water meters as separate items, in addition to the rates quoted for instrumentation and control system. The Company had also released (April 2004) payment to EPIL and IVRCL for both the items of work. As the installation of water meters was included in instrumentation and control system, separate payment of Rs.54.38 lakh made towards water meters was irregular.

On this being pointed out by Audit, the management/Government stated (July 2006) that recovery proceedings had been initiated against EPIL and IVRCL.

Excess payment due to application of incorrect rate

2.1.13 The work of sub project NC-5 (Borda-Rajula) was awarded (February 2001) to IVRCL. The contract provided for construction of 4ML (40,00,000 litre) sump at Rajula for which IVRCL quoted a rate of rupee one *per* litre. The price was, however, incorrectly taken as Rs.44 lakh instead of Rs.40 lakh in the total column of the price schedule. As per the tender provision if there was any discrepancy between the unit rate and the price given in the total column of the price schedule, the unit rate should prevail. The Company, however, released (August 2002) payment of Rs.44 lakh which resulted in excess payment of Rs.4 lakh (Rs.44 lakh - Rs.40 lakh).

On this being pointed out by Audit, the management/Government stated (July 2006) that recovery proceedings had been initiated against IVRCL.

Delay in administrative approval resulted in cost overrun

Delay in obtaining administrative approval resulted in cost overrun of Rs.2.71 crore.

2.1.14 As per the road map for implementation of the project, the Company was to implement sub project NC-17 (Modhera-Mehsana) during 2002-03. Accordingly, the Company submitted (February 2002) DPR for NC-17 to GOG for approval. In anticipation of the approval, the Company invited (September 2002) technical and financial bids for the award of the sub project. PCEL had submitted (October 2002) the lowest price bid of Rs.23.83 crore with a validity period of 120 days *i.e.* up to 15 February 2003. The Company could not award the work within the validity period pending approval from GOG which was received only in July 2003. All the bidders refused to extend the validity of their offers beyond February 2003. The Company obtained (July 2003) fresh price bids and awarded (September 2003) the work at a cost of Rs.26.54 crore resulting in extra cost of Rs.2.71 crore for the sub project.

The management/Government stated (July 2006) that the tenders were invited pending administrative approval at the instance of the Minister of Water Supply due to acute scarcity of water and quality problems in the area. The sub project, however, could not be taken up for implementation due to inadequacy of resources. The reply is not tenable as no justification was available on record for the 17 months taken by GOG in granting the approval and also for the Company’s failure to pursue with GOG to accord approval of the DPR within the validity period of the original offer of the bidders.

Merger of reservoir with sump resulted in avoidable expenditure

2.1.15 The scope of the work of sub project NC-11 (Anjar-Kukma-Mundra) included construction of 7.5 ML sump[#] at Anjar and 5 ML high ground level reservoir (HGLR)[♦] near Anjar. The HGLR was provided for supplying water to GWSSB, which would establish distribution network for the adjoining areas. The tendered cost of HGLR was Rs.47.60 lakh.

During execution, GWSSB intimated (April 2003) that the proposed HGLR was not required as there were no villages in the surrounding area. The Company, accordingly did not construct the HGLR. The Company, however, enhanced (April 2003) the capacity of the sump at Anjar from 7.5 ML to 12.5 ML resulting in avoidable expenditure of Rs.47.60 lakh.

The management/Government stated (July 2,006) that the capacity of the sump was enhanced to provide for additional storage capacity. The reply is not tenable as there was no justification given for enhancing the capacity of the sump over what was provided in the project report.

Avoidable expenditure due to change of specification

2.1.16 As per the tender specification for all the sub projects, wire mesh of 100 x 100 x 3.15 mm having estimated weight of 1.62 kg *per sqm* was to be used in the gunniting[*] of pipes. It was noticed during audit that for sub projects NC-3 (Vallabhipur-Budhel), NC-4 (Budhel-Borda) and NC-5 (Borda-Rajula) the Company changed the specification of wire mesh to be used to the costlier 50 x 50 x 3.15 mm wire mesh having estimated weight of 3.24 Kg *per sqm.* There was, however, nothing on record to indicate that any study or analysis was carried out in this regard before changing the specification.

The entire work of NC-3 involving pipeline of 55,507 metres was done with wire mesh of the changed specification. During execution of the work of NC-4 and NC-5, the Company, however, at the request of the contractor (IVRCL) allowed (July 2001) the use of wire mesh of 100 x 100 x 3.15 mm instead of 50 x 50 x 3.15 mm. This indicated that wire mesh of 100 x 100 x 3.15 mm was equally suitable for the work. In the meantime, 4,081 metres out of 55,049 metres and 9,208 metres out of 66,671 metres of pipeline of NC-4 and NC-5 respectively, had been completed by using wire mesh of 50 x 50 x 3.15 mm. The deviation from the tender specification in the three works resulted in extra expenditure of Rs.1.08 crore.

Use of wire mesh of different specification resulted in extra expenditure of Rs.1.08 crore.

The management/Government stated (July 2006) that the specification of 50 x 50 x 3.15 mm was included in the tender for NC-3, NC-4 and NC-5 sub projects based on the pre-bid meetings held with the bidders. The reply is silent about the technical reason for change in the specification.

[#] Reservoir for storing water partly/fully below the ground level.

[♦] Reservoir for storing water on above the ground level.

[*] Protective cover of cement mortar around the steel pipes, against corrosion.

Over payments towards construction of pump houses

Excess payment of Rs.49.17 lakh was made for construction of pump house.

2.1.17 The scope of the work of sub projects NC-10 (Bhachau–Anjar), NC-11 (Anjar–Kukma–Mundra) and NC-17 (Modhera–Mehsana) included construction of pump houses at Varsamedi with carpet area of 1500 *sqm* including cellar (Rs.98.59 lakh), Anjar with carpet area of 1950 *sqm* (Rs.1.02 crore) and Modhera with carpet area of 1050 *sqm* (Rs.86.11 lakh) respectively. Against these specifications, the contractors of NC-10 (EPIL), NC-11 (IVRCL) and NC-17 (PCEL) constructed pump houses with carpet areas of 1399 *sqm*, 1416 *sqm* and 813 *sqm* respectively. The Company, however, released payments (April 2004/ November 2005) based on the carpet area specified in the agreements instead of the actual carpet area of pump houses constructed. This resulted in excess payment of Rs.49.17 lakh to the contractors.

The management/Government stated (July 2006) that the areas to be constructed were 1100 *sqm* (NC-10), 1550 *sqm* (NC-11) and 850 *sqm* (NC-17) and that the Company had included the area of cellar while computing the actual area constructed in NC-11 and NC-17. The reply is not tenable as the areas mentioned therein are not consistent with the amendment orders (June 2002 and September 2002) which formed part of the agreement issued to the contractors. Further, as per the original tender drawings of NC-11 and NC-17, the area of cellar was not to be included while computing the carpet area.

Excess payment towards electro – mechanical equipment

2.1.18 As per the tender specification the required pump heads[#] at Varsamedi (NC-10), Anjar (NC-11) and Modhera (NC-17) were fixed at 78 metres, 47 metres and 63 metres respectively. On actual survey these were reduced to 70 metres, 35 metres and 55 metres respectively. Any reduction in pump heads leads to reduction in rating of motors and electrical equipments. Further, at Anjar (NC-11) it was decided (April 2003) to merge the originally proposed two pumping stations into one, which also necessitated reduction of rating of electrical equipments. It was noticed during audit that though, EPIL (NC-10), IVRCL (NC-11) and PCEL (NC-17) installed the pumping machinery/electrical equipments as per the revised designs, the Company while releasing (April 2004/ November 2005) payments did not effect proportionate reduction in the tendered rates. This resulted in excess payment of Rs.25.64 lakh towards pumping machinery/ electrical equipments relating to NC-10 (Rs.12.45 lakh), NC-11 (Rs.2.05 lakh) and NC-17 (Rs.11.14 lakh).

On this being pointed out by Audit, the management/Government stated (July 2006) that recovery proceedings had been initiated for Rs.22.66 lakh. It was, however, observed that Company did not effect proportionate recovery in the case of electrical items *viz.*, off load tap changer (OLTC) Panels, Switch Gear Panels (11 KV/ 3.3 KV) and Non Ground Resister pertaining to NC-10 and NC-17. This is not acceptable as the Company had effected recovery for such items in NC-11 sub project.

[#] Pressure required to raise the water to reach at the delivery point.

Payment for work not done

2.1.19 The scope of work of sub project NC-17 (Modhera-Mehsana) awarded (September 2003) to PCEL included the following:

(i) construction of sump and pump house by laying 1,200 mm diameter mild steel (MS) pipe of 300 metres from Narmada Main Canal (NMC) outlet for lump sum price of Rs.1.44 crore.

(ii) encasing of pipes* of 11,000 cum at a lump sum price of Rs.44 lakh.

(iii) construction of thrust block♦ for 5,500 cum at lump sum price of Rs.44 lakh.

In the case of item nos. (ii) and (iii) above, if the quantity executed was beyond plus/minus 30 *per cent* of the specified quantity, the same would be paid at the rate of Rs.320 per cum and Rs.640 per cum respectively.

It was noticed during audit that the Company paid an excess amount of Rs.26.61 lakh disregarding the actual quantities of works executed by the contractor under each item as per the details given below:

Excess payment of Rs.26.61 lakh was made disregarding the actual quantity of work executed.

Sl. No.	Name of work	Actual quantity executed	Applicable rate	Amount payable	Actual payment made	Excess payment
			(Rupees)	**(*Rupees in lakh*)**		
1.	Laying of pipes	145.80 metres	8,509 *per* metre	12.41	25.53◊	13.12
2.	Encasing of pipes	535 cum	320 *per* cum	1.71	8.30	6.59
3.	Construction of thrust block	464 cum	640 *per* cum	2.97	9.87	6.90
			Total			**26.61**

The management/Government stated (July 2006) that item rate for no.(i) being lump sum, no deduction was made as the reduction in length of pipeline (300 metres to 145.80 metres) was due to change in the location of the NMC outlet for which PCEL was not responsible. The reply is not tenable. The Company had clarified (September 2002) to the bidders that payment for 300 metre pipeline would be made under the item ‘Transmission main’ where payment was to be made on actual basis. The Company, however, failed to carry out necessary revision in the price schedule and incorrectly included it under item ‘Sump and pump house’. Had it been correctly included under the item - Transmission main, the Company could have saved Rs.13.12 lakh paid to the contractor towards work not done. The Company agreed that the excess payments made in respect of item no. (ii) and (iii) would be recovered from PCEL.

* Protective cover of cement concrete.

♦ R.C.C provided for resisting thrust at locations where pipelines are bent by more than 15 degree angle.

◊ Rs.8,509 x 300 metres.

Short levy of liquidated damages

2.1.20 The work of sub project NC-17 (Modhera–Mehsana) was awarded (September 2003) to PCEL at a cost of Rs.26.54 crore with stipulated date for completion of work as 29 March 2004. As per the tender conditions, liquidated damages (LD) were recoverable from PCEL at the rate of 0.1 *per cent* of the contract value for each day of delay for reasons attributable to the contractor, subject to a maximum of 10 *per cent* of the total contract value. The Company extended the time limit twice for completion up to 15 May 2005. Thereafter, neither extension of time was granted nor did PCEL complete the work (March 2006).

The Tender Purchase Committee (TPC) had decided (March 2005) to recover LD from the contractor for the period beyond 15 May 2005 if it failed to complete the work by that time. Against the total recoverable LD of Rs.2.65 crore (ten *per cent* of Rs.26.54 crore) the Company recovered only Rs.13.08 lakh during May - December 2005, though the Company had released Rs.98.22 lakh to the contractor during that period. Non-recovery of LD of Rs.2.52 crore lacked justification.

The management/Government stated (July 2006) that the issue regarding levy of LD was under consideration at the level of TPC. The reply is not tenable as TPC had clarified (March 2005) that any delay beyond 15 May 2005 was attributable to the contractor. As such non-recovery of LD was violative of the contract conditions resulting in undue favour to the contractor.

Short recovery of interest on premature payments

2.1.21 As per the terms of the agreement with Essar Projects Limited (EPL) and L&T Limited (L&T), in respect of sub projects NC-1 and NC-2 respectively, 65 *per cent* of the quoted rate would be payable to EPL and L&T on manufacture and supply of MS pipes after necessary shop testing, gunniting and transportation to the work site. The Company, however, at the instance of EPL and L&T, made payments (March 2000 to March 2001) at 55 *per cent* of the quoted rate, for bare pipes (pipes without gunniting) lying at the factory yard of the contractors. This resulted in release of premature payments ranging from Rs.8.98 lakh to Rs.6.32 crore for periods ranging from 8 to 57 days in violation of the contract conditions.

The Company, subsequently, decided (June 2001) to recover interest at the rate of 18 *per cent* on all payments made towards pipes lying at factory site treating it as advance payments. The actual interest recovered (October 2001) was only Rs.5.79 lakh as against the due interest of Rs.57.22 lakh, resulting in short recovery of interest of Rs.51.43 lakh.

The management/Government stated (July 2006) that interest was to be recovered only towards those payments which were made for bare pipes fabricated at places other than the project site and accordingly interest amounting to Rs.5.79 lakh was recovered. The reply is not tenable. All payments made towards pipes which were not brought to work site were in violation of the contract conditions. So, interest was to be levied on all such premature payments.

Loss due to non-availing excise duty exemption

2.1.22 As per Ministry of Finance, GOI notification dated 6 September 2002, the plant, machinery, and equipment needed to establish water supply plants for making water fit for human and animal consumption were exempt from payment of central excise duty (ED). For availing ED exemption, the Company was required to obtain certificate of exemption from the district Collector concerned.

The Company had awarded the works of the following sub projects, the rates of which were inclusive of ED:

(*Rupees in crore*)

Name of the Sub Project	Name of contractor	Date of award of contract	Total cost inclusive of ED	Value of excisable items	ED element on Electro-mechanical item	ED exemption not claimed	Reasons for not claiming
NC-10 Bhachau to Anjar	EPIL	23 September 2002	18.26	4.47	0.71	0.71	The Company did not obtain the required ED exemption certificate
NC-11 Anjar to Kukma Mundra-Mandvi	IVRCL	16 October 2002	25.21	4.09	0.65	0.65	The Company did not obtain the required ED exemption certificate
Total			**43.47**	**8.56**	**1.36**	**1.36**	

As can be seen from the above table, the failure of the Company to obtain ED exemption certificate resulted in non-availing of ED exemption of Rs.1.36 crore.

The management/Government stated (July 2006) that the notification of excise exemption dated 6 September 2002 was not available with them at the time of award of the work with the result that no undertaking from the contractors was obtained for passing on the benefit of excise exemption to the Company. The reply is not tenable. The Company had clarified (July 2001) to its bidders that the benefit would have to be passed on to it in case of any savings in statutory levies. Besides, non availment of ED exemption on the ground of non receipt of a copy of the relevant notification at the time of award of work is not acceptable.

Variation between estimated and executed quantities

2.1.23 The Company prepares estimate for the quantities to be executed for various items of works of the sub projects. Payments for works such as laying of pipelines, erection of kinetic/butterfly valves, encasing of pipes and construction of thrust block were made on item rates. Audit analysis of six sub projects, to assess the extent of variation between estimated and executed quantities, revealed that though the overall variation in respect of the above five items of work ranged from 5.56 to 43.59 per cent, there were wide variations in respect of two items viz, (i) encasing of pipes and (ii) construction of thrust block. The percentage of quantities executed varied from 40 to 95 of the estimated quantities in the case of encasing of pipes and from 30 to 92 in the case of construction of thrust block as per details given in ***Annexure*-10**. These wide variations indicated that the estimates had been prepared on unrealistic basis.

The management/Government stated (September 2006) that detailed estimation was not possible at the time of tendering as there was possibility of change in alignment during detailed survey/execution. Hence, lump sum provisions were made in the tenders. The reply is not tenable as variation of the order of 70 *per cent* indicates deficient estimation.

Purchase and sale of water

Setting up of water regulatory authority

2.1.24 The High Level Empowered Committee set up by GOG recommended (March 2000) the setting up an independent water regulatory authority (WRA) for regulating tariff, pricing policy and related issues. Accordingly, Tata Energy Research Institute (TERI) was entrusted with the work of formulating the framework of WRA. The report of TERI was discussed and accepted (April 2001) in a meeting under the chairmanship of the Chief Secretary, GOG. Subsequently, the Company made a proposal (May 2001) to the GOG for setting up of WRA but GOG has not constituted the WRA so far (September 2006). During 2001-06, the Company had been purchasing water at the rate of Rs.0.50 *per* KL^ from GWSSB and at the rate of Re.1 from SSNNL and selling it at the rate of Rs.0.50 *per* KL to GWSSB, Rs.15 *per* KL to industries and at an average rate of Rs.5.16 *per* KL to Local bodies, GEB, *etc*.

During 2001-06, the Company had been selling water to GWSSB at the rate of Rs.0.50 *per* KL against the cost of Rs.2.27 to 2.68 *per* KL incurred by the Company. As a result, the Company had been incurring losses during the period as shown below:

Year	Total cost of water⊗ (Rupees in crore)	Total quantity	Cost of water *per* KL (2/3)	Quantity of water sold to GWSSB		Cost of Water sold to GWSSB (4*5)	Actual amount recovered from GWSSB	Short recovery	Loss as per Accounts
		(KL)	(Rs.)	(KL)	*Per cent*	(Rupees in crore)			
1	2	3	4	5	6	7	8	9	10
2001-02	7.58	3,26,88,000	2.32	2,48,28,000	76	5.76	1.24	4.52	2.73
2002-03	10.99	4,10,26,000	2.68	3,38,12,000	82	9.06	1.69	7.37	8.74
2003-04	9.29	3,54,92,000	2.62	2,72,70,000	77	7.14	1.36	5.78	3.29
2004-05	20.23	8,89,84,000	2.27	5,26,40,000	59	11.95	2.63	9.32	3.68
2005-06	25.66	10,41,04,000	2.47	5,29,04,000	51	13.07	2.65	10.42	0.20
Total						**46.98**	**9.57**	**37.41**	**18.64**

^ Kilo litre.

⊗ It comprises material cost, energy charges, establishment charges, depreciation and other expenses excluding guarantee commission.

It is evident that if the full cost of water had been recovered from GWSSB, the Company would have earned a surplus of Rs.18.77 crore instead of incurring a loss of Rs.18.64 crore during 2001-06.

The management/Government stated (July 2006) that action had been initiated for setting up of the WRA. The reply is silent about the delay in setting up of the WRA.

Non-recovery of cost of water meters

2.1.25 As per the water sales agreements executed with the consumers, the cost of water meters provided at the supply point was to be borne by the consumers. It was, however, noticed during audit that during 2001-2004, the Company did not recover Rs.17.63 lakh on account of the cost of water meters provided to the consumers *viz*., Thermal Power Station (GEB), Gandhinagar (Rs.9.00 lakh), Bhavnagar Municipal Corporation (Rs.5.60 lakh) and Western Railway, Botad (Rs.3.03 lakh).

On this being pointed out in audit (March 2006), the management/Government agreed (July 2006) to recover the cost of water meters from the consumers.

Non implementation of consultant's recommendation

2.1.26 The Company had engaged (June 2000) CRISIL[#] as consultants for undertaking a study on financial engineering and economic feasibility of sub projects. The terms of reference to the consultants *inter alia* provided formulating, defining and recommending a pricing policy including the required tariff structure, subsidies, *etc*. The consultants in their report (June 2002) on ‘bulk water pricing' recommended charging the industrial users at the rate of Rs.25 *per* KL on the base price of the year 2002 to be escalated at the rate of 6 *per cent per* annum. The recommended rate was required to be approved by the WRA which is yet to be constituted.

Pending approval of the rate by the WRA, against the recommended rate ranging from Rs.25 *per* KL to Rs.31.57 *per* KL during 2002-06, the Company had been charging Rs.15 *per* KL from the industrial users since May 2004[•]. Had the rates been fixed as recommended by the consultants, the Company could have earned additional revenue of Rs.8.10 crore[♦].

The management/Government stated (July 2006) that the rate fixed for industries was on *ad hoc* basis which was subject to revision from time to time. Further, GOG had initiated action for setting up of the WRA. The reply is not tenable as the Company could have charged at the recommended rate of CRISIL on ad hoc basis pending approval by the WRA. As the agreements

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[#] Credit Rating Information Services of India Limited.

[•] The Company started sale of water to industries from May 2004.

[♦] The Company sold 2,61,956 KL water during 2004, 37,46,090 KL during 2005 and 13,42,757 KL up to March 2006 and the recommended rates were Rs.28.09 *per* KL, Rs.29.78 *per* KL and Rs.31.57 *per* KL respectively against Rs.15 *per* KL actually charged.

entered into with the industrial users did not provide for retrospective revision of rates, the Company has lost potential revenue of Rs.8.10 crore.

Water charges pending realisation

2.1.27 As on 31 March 2006, the amount outstanding towards sale of water was Rs.12.89 crore. The Company sells water to Local Bodies and industries. Audit scrutiny of the debtors' ledger revealed that two Local Bodies *viz.*, Bhavnagar Municipal Corporation (BMC) and Jamnagar Municipal Corporation (JMC) were the major defaulters. It was noticed during audit that out of the outstanding dues of Rs.4.80 crore from BMC, Rs.4.59 crore were pending since April 2002. Though the Company started sale of water to BMC in 2001, no water sales agreement had been entered into with it so far. Of the outstanding dues of Rs.3.27 crore from JMC, Rs.2.60 crore were pending since April 2003. Non-realisation of old dues from BMC and JMC alone had resulted in loss of interest of Rs.2.57 crore[⊕] for the period up to March 2006.

The management/Government stated (July 2006) that action would be taken for collection of pending water charges

Internal control and Internal Audit system

2.1.28 Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and orderly manner. Audit scrutiny revealed the following deficiencies in the Internal Control and Internal Audit**.**

- The Company had been appointing Third Party Inspection (TPI) agencies to oversee the construction activities of the sub projects. The scope of work of TPI agencies *inter alia* included review of design, inspection of material, construction supervision, quality and progress monitoring, certification of measurements and payments. TPI agencies, however, failed to bring out the irregularities as brought out in paragraphs 2.1.13, 2.1.14, 2.1.17, 2.1.18, 2.1.19, 2.1.20 and 2.1.21.

- The Company appoints firms of Chartered Accountants for conducting internal audit of its transactions. The scope of internal audit covers the areas of accounting procedures, all expenditure including pre-audit of running account bills of contractors, *etc.* Though the internal auditors were appointed, they failed to bring out the irregularities as brought out in paragraphs 2.1.13, 2.1.14, 2.1.17, 2.1.18, 2.1.19, 2.1.20, 2.1.21, 2.1.22, 2.1.23 and 2.1.24 of this report.

- Despite being in existence since 1999, the Company has not put in place a budgeting and performance appraisal system which is an important tool of Internal Control.

[⊕] BMC: Rs.4.59 crore for four years at an average rate of 10.19 *per cent* and JMC: Rs.2.60 crore for three years at an average rate of 8.92 *per cent*.

The management/ Government accepted the audit observations and stated (September 2006) that the scope of Internal Control/Internal Audit would be enhanced and more clearly defined in the context of the audit comments.

Monitoring and corporate governance

2.1.29 A mention was made *vide* paragraph no.4.19 of the Report of Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial)-GOG about the deficient corporate governance in the Company. The inadequacies in corporate governance persisted during 2001-06 as would be evident from the following:

- As against the strength of 15 directors, the BOD had only five directors during 2001-04 and six directors during 2005-06. One non-executive director did not attend any of the four BOD meetings held during 2002-03 and another non-executive director did not attend seven out of eight meetings held during 2001-03. Yet another non-executive director did not attend three of the four meetings held during 2005-06. The directors who did not attend 50 *per cent* of the BOD meetings held in a year had violated the instructions (April 2003) of GOG which provided that Government Directors in the BOD should attend minimum 50 *per cent* of the meetings held in a year.

- The Company has not had a full time MD since its inception. The Chairman of GWSSB holds additional charge of MD of the Company. Similarly, there is no full time posting in the cadres of Chief General Manager (Civil) and Chief General Manager (Finance).

- The Audit Committee (AC) constituted under section 292 A of the Companies Act, 1956 consisted of four members. The Finance Director did not attend any of the three AC meetings held during 2003-04. During 2005-06, three meetings of AC were held in which one member did not attend two meetings and two members did not attend one meeting. The internal auditor and the statutory auditor of the Company did not attend eight and nine AC meetings respectively, out of eleven meetings held during 2002-03 to 2005-06, in violation of section 292 A (5) of the Companies Act. It was also noticed that the Chairman of AC did not attend the Annual General Meeting (AGM) of the Company for the year 2005-06.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the management at various stages of conducting the performance audit.

Conclusion

The performance of the Company in the implementation of bulk water transmission project was found to be deficient in areas such as project planning, financing, implementation, pricing of water and internal

controls. The Company deviated from the master plan resulting in diversion of water to be supplied to the projected areas. Delay in arranging funds resulted in time overrun in three sub projects. There was lack of transparency in tender evaluation for one of the sub projects. Instances of deviation from the Detailed Project Report, unfruitful/ avoidable expenditure, overpayments and undue benefits being given to contractors were noticed in the implementation of the projects. Besides, the Company failed to evolve an effective pricing policy which had adversely affected the financial viability of the Company.

Recommendations

- **Adherence to the Master plan should be ensured and deviations made only in exceptional cases after obtaining approval of the competent authority. The system of surveys, etc. for the preparation of Detailed Project Reports should be strengthened so as to avoid variations. Contract management should also be improved so as to avoid non-uniform specifications, substandard construction, and inefficient project management.**

- **Necessary finance should be tied up before inviting bids so as to avoid delay in completion of works.**

- **Implementation of the sub projects needs to be closely monitored in order to achieve economy, efficiency, effectiveness in each activity under the sub projects.**

- **Procedure for realisation of water charges needs to be made more effective.**

- **The internal control system needs to be strengthened.**

Gujarat Urja Vikas Nigam Limited (erstwhile Gujarat Electricity Board)

2.2 Financial Management

Highlights

During 2000-05, the Board raised total fund of Rs.12,446 crore from different sources, of which substantial fund of Rs.6,347 crore was utilised for financing the revenue deficit of the Board.

(Paragraph 2.2.6)

The Board sustained loss of revenue of Rs.351.15 crore due to non-implementation of tariff award in agricultural sector.

(Paragraph 2.2.11)

Improper estimation of claim for subsidy resulted in belated receipt of subsidy of Rs.628.67 crore and consequential interest loss of Rs.66.80 crore.

(Paragraph 2.2.16)

Payment of Rs.53.40 crore was made to Government towards Electricity Duty/Tax on sale of Electricity without recovering the same from the consumers.

(Paragraph 2.2.26)

Non/delayed restructuring of loans resulted in avoidable payment of interest amounting to Rs.11.90 crore.

(Paragraphs 2.2.22, 2.2.23 and 2.2.24)

Delay of one to 55 days in depositing cheques worth Rs.1,236 crore during 2000-05 resulted in loss of interest of Rs.5.30 crore.

(Paragraph 2.2.15)

The Board did not recover additional security deposits of Rs.21.51 crore from the consumers in violation of its norms. Consequently, the Board suffered loss of interest of Rs.4.82 crore on the un-recovered amount of security deposits.

(Paragraph 2.2.13)

Introduction

2.2.1. Efficient financial management, critical to the commercial viability of any organisation, envisages establishing an effective system of cash and credit control that serves as a tool for decision making for investment of surplus funds, optimum utilisation of available resources and borrowing at the most favourable terms.

The Finance Section of the erstwhile Gujarat Electricity Board (Board) is headed by the Member (Finance) who is assisted by the General Managers (Finance and Account). Fund inflow and outflow of the Board are monitored by three Chief Finance Managers,[*] three Controllers of Accounts[#] and by the Accounts Officers at field level. The cash and financial management in the Board was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1996-97 (Commercial)-Government of Gujarat (GOG). The Committee on Public Undertakings (COPU) discussed the review in July 2002.

Scope of Audit

2.2.2 The present performance review conducted during November 2005 to April 2006 covers the financial management of the Board including revenue collection, billing, borrowings, grants, transfer of funds, interest recovery/payments, restructuring of loans, security deposits, bank reconciliations and other related transactions during 2000-05. Audit examined the financial records maintained at the Head Office (HO) of the Board and various details called for from all the 76 Operation and Maintenance (O&M) divisions of the Board.

Audit objectives

2.2.3 The audit objectives of the review were to ascertain whether the Board had:

- prescribed and manualised standard procedures for financial management and control;
- devised and put in place an adequate system for timely raising of bills/demand notes for the dues from the consumers for sale of energy and received the dues in time and such a system was made operational;
- taken adequate measures for reducing the revenue deficit in order to avoid interest/finance charges on borrowings;
- made arrangement to ensure the depositing of cheques with banks and transfer of funds from divisions to HO in an efficient and economical manner;

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[*] Accounts and Taxation, Restructuring and Human Resources Accounting and Institutional Finance and Planning.

[#] Cash, Accounts, and Finance.

- lodged claims for subsidy with the Government correctly and in time;
- managed the financial activities including payment of dues under staff welfare scheme, restructuring of loans, utilisation of internal resources, *etc*., in an economic and efficient manner;
- timely obtained the funds from GOG in respect of Centrally Sponsored Schemes; and
- devised and put in place an Internal Control System commensurate with the size and nature of the activities of the Board and that the system was operated efficiently.

Audit criteria

2.2.4 The following audit criteria were adopted for evaluation of the performance of the Board:

- financial procedures prescribed by the Board, General Standing Orders for preparation of budgets, arrangement of finance with banks, recovery of revenue on sale of electricity, *etc*;
- orders issued by Gujarat Electricity Regularity Commission (GERC) regarding tariff fixation;
- norms fixed by the Board for transfer of funds;
- terms and conditions of the loan agreements and borrowings;
- established financial management procedure and principles.

Audit methodology

2.2.5 Audit adopted a mix of the following methodologies:

- review of agenda and minutes of the Board meetings, Government Resolutions, Internal Audit Reports and previous Inspection Reports of the Board;
- analysis of various procedures prescribed by the Board;
- examination of the information and records provided by the Board; and
- meetings with the officials of the Board.

Audit findings

The audit findings were reported to the management/Government in June 2006 and discussed in the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 1 August 2006 which was attended by the Principal Secretary, Energy and Petrochemicals Department, Government of Gujarat and the Director (Finance) of the Company. Their views were considered while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

Financial position

Lower Current ratio of the Board indicates poor liquidity position.

2.2.6 The Board prepares an Annual Financial Statement of the estimated Capital and Revenue receipts and expenditure for submission to the State Legislature. ***Annexure*-11** showing the receipt and utilisation of funds during 2000-05 reveals that the Board raised total fund of Rs.12,446 crore from different sources. Of this, Rs.6,347 crore were utilised for financing the revenue deficit of the Board which indicates unviable operations carried out by the Board during the period.

The current ratio indicating the financial health of the Board in relation to its current assets and current liabilities revealed that the ratio ranged between 0.66:1 and 0.94:1 during 2000-05, which was lower than the desirable ratio of 2:1. The Acid test ratio# also ranged between 0.54:1 to 0.70:1 during 2000-05 as against accepted ratio of 1:1. Lower ratios indicate the insufficiency of current assets with the Board to meet its current liabilities.

The management/Government stated (July 2006) that as the Board had been incurring heavy cash losses, it did not have enough reserves or long term loans for financing current assets. It was further stated that as a matter of financial prudence, the Board had decided to resort to short term borrowings 'considering' the lower interest rate for such borrowing as compared to long terms loans. This resulted in a lower current ratio, which was being accepted by working capital lenders also. The reply is not acceptable as current ratio of 2:1 and Acid test ratio of 1:1 are universally accepted financial parameters. Besides, Audit worked out the current liabilities without considering the short-term borrowings of the Board referred to in the reply.

Revenue

Revenue of the Board mainly consists of realisation from sale of energy, subsidy from Government and other income. Audit scrutiny revealed that there were instances of short realisation of revenue, delays in collection of revenue from consumers, delay in transfer of funds by the division office to the head office and subsidy realisation as discussed below:

Revenue arrears

2.2.7 The sale of energy accounted for 72 to 86 *per cent* of the Board's total revenue during 2000-05**.** The following table shows the position of revenue, its realisation, arrears of revenue of consumers and borrowings of the Board during the above period:

It is a measure of liquidity calculated by dividing current assets (excluding inventory and pre paid expenses) by current liabilities (excluding Security deposit from consumer).

(Rupees in crore)

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Dues at the beginning	1,836	2,138	2,188	2,247	2,514
Assessment of revenue	7,457	8,522	9,016	9,780	10,532
Total dues	**9,293**	**10,660**	**11,204**	**12,027**	**13,046**
Realisation	7,155 (77)	8,472 (79)	8,957 (80)	9,513 (79)	10,271(79)
Outstanding dues	**2,138 (23)**	**2,188 (21)**	**2,247 (20)**	**2,514 (21)**	**2,775 (21)**
Debtors coverage in month	3.44	3.08	2.99	3.08	3.16
Borrowings	**5,758 (62)**	**6,272 (59)**	**6,551(58)**	**6,972 (58)**	**9,139 (70)**

(Figures in brackets indicate the percentage of realisation and outstandings against the total dues and total borrowings against total dues.)

Arrears of revenue increased by 30 *per cent* during 2000-05 .

As can be seen from the above table, the arrears of revenue from consumers increased by 30 *per cent* (from Rs.2,138 crore to Rs.2,775 crore) and the Board's borrowings increased by 59 *per cent* (from Rs.5,758 crore to Rs.9,139 crore) during 2000-05. The borrowings could have been minimised by evolving an effective mechanism for recovery of outstanding dues.

The management/Government stated (July 2006) that the outstanding dues included the arrears from permanently disconnected consumers (PDC) and Government agencies and provision for unbilled revenue. The arrears from current consumers had, however, decreased during 2000-05, which indicated good recovery performance of the Board. The reply is not tenable as debtors turnover ratio is still more than three months revenue indicating need for taking effective recovery action. Further, the Board did not maintain separate records for PDC so as to have effective control on current debtors.

Non-recovery of dues from permanently disconnected consumers

2.2.8 As on 31 March 2005, the arrears of PDC were Rs.927 crore as against Rs.502 crore in March 2001. Audit scrutiny revealed that though the percentage of outstanding dues in respect of PDC consumers as compared to the total consumers ranged from 23 to 33 *per cent*, the recovery ranged from 0.5 to 1.3 *per cent* during 2000-05. Of this, an amount of Rs.37.64 crore was due from three consumers whose connections were belatedly disconnected during October 1997 to April 1999. These consumers were belatedly declared PDC on one pretext or the other as detailed in the ***Annexure*-12**.

Non recovery of dues from current consumers

2.2.9 As on 31 March 2005, the arrears of current consumers showed an outstanding balance of Rs.701 crore. A review of chronic arrear cases revealed the following:

- the Board did not have any system to monitor overall outstanding dues of consumers having more than one connection. This resulted in accumulation of Rs.81.89 crore against two consumers *viz.*, Gujarat Water Supply and Sewage Board (GWSSB) Rs.78.04 crore from 69 connections and Western Railways Rs.3.85 crore from two connections, during 2000-05.

The management/Government stated (July 2006) that the discussions were being held at the highest level of GWSSB and in the case of Railways, the amount was outstanding due to non-receipt of Inter Branch Adjustment (IBA) by Anand and Surat circles of the Board. Railways had also applied for waiver of delayed payment charges under Samadhan Yojana. The reply is not tenable as the Board did not notice the huge accumulation of dues owing to the absence of effective monitoring of consumers having more than one connection.

Audit scrutiny further revealed as under:

The Board had no system to monitor dues of a consumer under various connections.

- In 26 out of 76 divisions, the arrears of Rs.54.02 crore had became time barred (March 2005) in respect of LT consumers, as the Board did not file civil suits against these consumers within the stipulated period of three years.

- The Board had obtained (January 2001) decrees in its favour for effecting recovery of Rs.3.03 crore from an HT consumer (Star Steel Private Limited), but failed to take prompt action for implementation of the Court's decision. The consumer went into liquidation in October 2001 and the Board lodged the claim with the liquidator only in April 2002. As a result, the decree could not be executed, resulting in non-recovery of dues from the consumer (March 2006).

Annual revenue requirements

2.2.10 The Board had estimated (September 1999) a deficit of Rs.3,283 crore for the 2000-01, after meeting the projected revenue expenditure against the revenue to be earned. In order to cover the projected deficit through enhancement of revenue, the Board approached (September 1999) Gujarat Electricity Regulatory Commission (GERC) for revision of tariff. GERC directed the Board to explore possibilities for reduction in the cost of operations so that the projected deficit could be minimised. Accordingly, the Board identified (July 2000) some cost elements like employee cost, fuel cost, interest cost, *etc* for reduction, besides reduction in T&D losses whereby the cost of operations could be reduced by Rs.2,138 crore, leaving a projected deficit to Rs.1,145 crore for 2000-01. GERC revised (October 2000) the tariff so as to enable the Board to cover a deficit of Rs.1,145 crore.

It was noticed in audit that the Board did not take adequate measures to reduce the cost of operation as identified. Consequently, the deficit of the Board remained uncovered even after revision of tariff in October 2000. The revenue deficit of the Board ranged from Rs.2,005 to Rs.1,066# crore during 2001-2005.

The management/Government stated (July 2006) that the Board had taken necessary measures during 2000-06 to increase the cash collection, reduce power purchase cost, fuel cost, interest cost and reduce T&D losses. The reply is not tenable as the Board could not achieve its own target to minimise the

Income (–) Expenditure (+) Rate of return.

deficit to the projected level of Rs.1,145 crore in the absence of adequate efforts in this regard. On the contrary, the T&D losses had increased from 22.26 in 2000-01 to 33.54 *per cent* in 2004-05.

Revenue loss due to non-implementation of tariff award

2.2.11 GERC *vide* its tariff award (October 2000) had directed the Board to measure the supply of energy to all the agricultural consumers by installing meters in a phased manner by October 2003, as the then prevailing practice of billing as per the Horse Power (HP) based tariff was not commensurate with the actual consumption of energy in the agricultural sector. The Board did not fully implement the GERC directive. Non-implementation of GERC directive by the Board was commented upon *vide* paragraph 3.1.13 of Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Commercial) - GOG.

Non implementation of tariff award resulted in revenue loss of Rs.351.15 crore.

According to the Board's own estimate, billing of the agricultural consumption could fetch additional revenue of Re.0.21 *per* unit, which would sizeably increase the Board's revenue. It was, however, noticed during audit that the Board failed to provide energy meters to 4.99 lakh agricultural consumers by 31 March 2004 During 2004-05 also the Board could provide only 7,000 (1.4 *per cent*) meters against the requirement of 4.92 lakh meters, which resulted in revenue forgone of Rs.351.15 crore during 2003-05.

The management/Government stated (July 2006) that the meters could not be installed due to stiff resistance from the farmers and that the Board had obtained extension upto December 2007 from GERC. The reply is not tenable as the Board, instead of taking step to overcome the resistance and to install the meters, has chosen to delay the installation of meters.

Delayed settlement of appellate cases

2.2.12 The Board formed an Appellate Committee under Clause 34 and 35 of the "Conditions and miscellaneous charges for supply of electrical energy" (conditions of supply), for adjudication of disputes with the consumers involving theft of energy/other malpractice *etc*. The consumers were entitled to approach the appellate committee only after paying 30 *per cent*[*] of the supplementary bill raised by the division/sub-division for theft or malpractice.

As per the Board's Circular, if the adjudication of the appeal takes more than six months, the Board could recover from the consumers the delayed payment charges (DPC) on the disputed dues limited to six months, upon the adjudication of the appeal. As per the Board's circular dated 8 October 2003, this limitation of levying DPC for six months would not apply to consumers who do not attend the first hearing, instead they would be charged DPC for the entire period from the date of application to the date of adjudication.

Audit scrutiny revealed that during February 2003 to October 2003, in 257 cases adjudicated after a period of six months the DPC recovery was restricted

[*] Reduced to 20 *per cent* from April 2002.

to six months. This had resulted in short recovery of DPC amounting to Rs.1.05** crore for the delay in adjudication ranging from one to 3015 days after the stipulated period of six months from the date of application. Further, the reasons for delay in adjudication of cases were not made available to Audit.

Inadequate security deposit

2.2.13 The Board, as per the "Conditions and miscellaneous charges for supply of electrical energy", recovers security deposit from its consumers as a security against possible default. It was noticed in audit that:

- The Board, in November 1998 amended clause 7 of its conditions of supply and increased the security deposit leviable in respect of all its consumers to 1.5 months' estimated consumption under fixed and energy charges. The amendment was communicated to all the divisions in January and April 1999. Audit scrutiny of one out of 76 O&M divisions, revealed that no security deposit was recovered in respect of 49 consumers of the division^, though security deposit of Rs.3.76 crore was recoverable from these consumers.

- The Board in May 1999 amended the above condition increasing the rate of security deposit and made it applicable to all new consumers and those existing consumers who apply for additional load. Audit scrutiny revealed that the revised security deposit was not recovered from 17 consumers of one division^ who had applied for additional load during 2003-05 . As per the extant tariff on the date of additional load, the under-recovery of security deposit worked out to Rs.84 lakh with consequential interest loss of Rs.17 lakh#.

Security deposit of Rs.16.91 crore not recovered.

- In continuation of the above circulars, the Board in May 2001 directed its divisions to recover security deposit equivalent to two or three months of energy consumption in respect of consumers who defaulted in the payment of Board's dues in the second or third or subsequent occasions respectively. Review of records of 27 O&M divisions, revealed that in respect of 91 HT defaulting consumers, the Board had not recovered the additional security deposit amounting to Rs.16.91 crore. This had resulted in loss of interest of Rs.4.65 crore# during 2001-05.

The management/Government accepted (July 2006) the short recovery of security deposit amounting to Rs.1.63 crore in respect of three consumers. However, the reasons for not recovering the short fall in security deposit from the remaining consumers are awaited (August 2006).

** Computed after considering the payment of Rs.4.14 crore made by the consumers against the decided amount of Rs.10.43 crore in adjudication.

^ Surat O&M (Industrial).

Computed at the State Bank Medium Term Lending (SBMTL) rate of 12 *per cent per annum.*

Computed at the State Bank Medium Term Lending (SBMTL) rate of 12 *per cent per annum.*

Delayed remittances by banks

2.2.14 The daily collections through sub-division offices are deposited in a non-operating account on day-to-day basis with specified banks at division level for onward transmission to their Vadodara branch from where these are credited to the Board's HO collection account. These are required to be credited by the banks at Vadodara to Board's HO account within a period of four days of deposit. In case of delay in remittances beyond four days, the Board was entitled to claim interest at the prescribed rate from the defaulting banks for the period of delay.

Audit scrutiny of revenue collection and transfer of funds by 16 divisions to HO during 2003-05 revealed that the funds were transferred after delays ranging from four to 195 days beyond the permissible period of four days. This resulted in loss of interest of Rs.1.58 crore[•] on the amount of Rs.849.56 crore received late**.**

The management/Government stated (July 2006) that Audit had worked out the delay based on the date on which Inter Branch Adjustment (IBA) was sent by HO to field offices regarding receipt of fund, whereas the actual credit was received by the Head office in time though there might be delays in sending the IBA to field offices. The reply is not correct as Audit has worked out the delay based on the date on which the amount had actually been credited by the bank to HO account at Vadodara and not on the basis of IBA date.

Delay in depositing cheques in the banks

2.2.15 For efficient fund management, the payments received in cheques should be immediately remitted into the bank. It was noticed during audit that cheques amounting to Rs.1,236 crore received by the Board at HO during 2000-05 were deposited into the Bank after delays[^] ranging from one to 55 days. Consequently, the Board could not use these funds to the extent of delay in depositing the cheques with the banks.

It was further noticed that out of the cheques worth Rs.1,236 crore deposited late, Rs.834 crore related to receipts from GOG. The delay in depositing the remaining cheques (other than Government releases) of Rs.402 crore could have been avoided. The Board suffered loss of interest of Rs.5.30 crore[*] on funds of Rs.1,236 crore realised late during 2000-05, due to the delay in depositing the cheques.

The management/Government stated (July 2006) that the reasons for delay in depositing the cheques of the GOG was that the cheques issued by the treasury on the last day of the financial year were taken back by the GOG and released subsequently in view of the financial position of the State.

• Computed at the SBMTL rate of 10 *per cent per annum*.

^ Delay worked out after considering intervening holidays and allowing one day for processing the cheques.

* Computed at the SBMTL rate ranging between 12 and 10 *per cent per annum*.

The reply is not acceptable. The Board could have taken up the matter of interest loss as a consequence of late depositing the Government cheques with the Government. The loss in other than GOG cheques has been worked out after deducting specific cases mentioned in reply.

Subsidy and grant from the Government

Improper estimation of subsidy claim resulted in loss of Rs.66.80 crore.

2.2.16 GOG provides subsidy and grants to the Board for various purposes. An analysis of such grants/subsidy for the period 2000-05 revealed the following:

- GOG had decided (March 1995) to allow subsidy to the Board for free supply of electricity to water works of village panchayats and voluntary organisations. During 2000-03, the Board belatedly received subsidy of Rs.93.51 crore as it did not prepare any budget estimates based on the annual growth of consumers and consumption of energy in the State. Timely receipt of subsidy could have saved the Board from interest burden of Rs.10.85 crore[#] which it had paid from the cash credit availed during this period.

The management/Government stated (July 2006) that the water works subsidy was reimbursed by the Government on the basis of actual relief availed by the consumers and not on the basis of estimate. The reply is not correct as the Government initially releases subsidy based on the estimates prepared by the Board and later on adjusts the amount based on actuals.

- GOG decided (October 2000) to release subsidy to the Board as a compensation for supply of energy to the agricultural consumers at concessional tariff. As per the practice, every year in October/ November, the Board had been submitting to GOG the budget estimate for the ensuing year and also revised budget estimates for the current financial year. It was noticed in audit that during 2001-04, the Board, while submitting the revised budget estimates, did not incorporate the shortfall in receipt of subsidy for earlier years, resulting in under estimation of subsidy receivable. This short estimation resulted in delayed receipt of subsidy of Rs.535.16 crore during 2001-04. Consequently, the Board suffered loss of interest of Rs.55.95 crore[^] during 2001-04.

The management/Government stated (July 2006) that the figure of revised estimate as considered in audit for working out the shortfall was not the one which the Board had submitted to GOG. Hence, the audit consideration was not correct. The reply is not tenable. The figures of revised estimates were considered in audit as worked out by the Board itself and submitted to GOG.

Loss of incentive

2.2.17 With a view to reduce the burden of rising outstanding dues of the State Electricity Boards (SEBs) to Central Public Sector undertakings

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[#] Computed at the SBMTL rate 12 to 15.50 *per cent per annum* prevailing during 1999-03.

[^] Computed at the SBMTL rate of 11.50 to 10 *per cent per annum*.

(CPSUs), the Ministry of Power (MOP), Government of India (GOI), prepared (March-July 2001) a scheme for one time settlement of outstanding dues. Under the scheme, the dues payable by the SEBs to CPSUs till 30 September 2001 were to be securitised through issue of bonds. For the dues payable after September 2001, the concerned SEBs were required to open requisite letter of credit (LC) or to establish acceptable security mechanism by 30 June 2002 and operate them without any default. Upon the establishment of LC by 30 June 2002, the SEBs were entitled to a cash incentive equal to two *per cent* of the nominal value of the bonds issued to the concerned CPSU.

Delay in opening the letter of credit resulted in loss of incentive of Rs.7.03 crore.

It was noticed during audit that GOG issued (March 2003) bonds of Rs.1,628.72 crore to four[#] CPSUs for settlement of past dues. Of this, bonds of Rs.351.48 crore were issued to South Eastern Coalfields Limited (SECL) Bilaspur. The Board failed to open LC for payment of current dues to SECL by June 2002. So, SECL disallowed the cash incentive of Rs.7.03 crore (*i.e* two *per cent* on Rs.351.48 crore).

The management/Government stated (July 2006) that all out efforts were made to realise the incentive by highlighting the facts that the dues of SECL were cleared in time and hence not opening of the LC was not significant in terms of the agreement. The reply is not acceptable as SECL had disallowed the incentive claim due to non fulfillment of one of the two significant conditions relating to opening of LC.

Loss due to short recovery of deposits

2.2.18 The Board provides power connection to High Tension (HT) consumers by laying service lines up to the consumer's premises only after recovery of the estimated cost thereof, in advance. The construction work of various transmission lines emanating from Sardar Sarovar Project (SSP) was taken up by the Board on behalf of Sardar Sarovar Narmada Nigam Limited (SSNNL) as deposit work. In respect of 400 KV double circuit Sardar Sarovar Madhya Pradesh Border line, SSNNL deposited Rs.75.41 crore by 2000-01. The Board completed (June 2002) the construction of the line, at a cost of Rs.78.36 crore. The Board, however, failed to finalise the bill and follow up with SSNNL for the balance amount of Rs.2.95 crore which remained to be recovered (July 2006). Thus, the non-recovery resulted in the loss of interest of Rs.1.09 crore[@] during 2001-05.

The management/Government stated (July 2006) that SSNNL being a Government undertaking, the Board did not insist on remittance of the balance amount. This amount would, however, be adjusted against the payments to be made for purchasing power being generated by SSNNL. The reply is not tenable as the Board had failed to finalise the bill even after the lapse of 46 months from the date of completion of the work which lacked justification.

[#] National Thermal Power Corporation, South Eastern Coalfields Limited, Nuclear Power Corporation and Power Grid Corporation of India Limited.

[@] Computed at the SBMTL rate of 9 to 12 *per cent per annum* on the locked up fund of Rs.2.95 crore.

Borrowing

During 2000-05, long-term funds were raised from GOG, Rural Electrification Corporation (REC), Power Finance Corporation (PFC), Life Insurance Corporation (LIC), Asian Development Bank (ADB), Industrial Credit and Investment Corporation of India (ICICI), Small Industries Development Bank of India (SIDBI), banks and by issue of Bonds, *etc*. Short-term funds were raised from various sources such as banks, REC, PFC, *etc*. Instances of late receipt of fund under centrally sponsored schemes from GOG resulting in interest loss, avoidable payment of bill discounting charges, belated restructuring of debts resulting in payment of interest at higher rate, *etc.*, observed during audit are discussed in the succeeding paragraphs.

Delayed release of funds against centrally sponsored schemes

2.2.19 For execution of various centrally sponsored schemes[$], GOI releases loans to the Board through GOG. During 2000-04, GOG released Rs.178.70 crore to the Board for the implementation of centrally sponsored schemes. These funds were actually released after delays ranging from 29 to 180 days from the date of release by GOI to GOG. As interest was payable from the date of release of funds by GOI, the Board suffered loss of interest of Rs.4.02 crore on the belated receipt of funds from GOG.

The management/Government while accepting (July 2006) the audit findings, did not give any reasons for delay in release of funds by the GOG to the Board.

Delayed release of fund/incentives by GOG under APDRP scheme

2.2.20 Ministry of Power, Government of India (GOI) launched (2002-03) the Accelerated Power Development and Reform Programme (APDRP) for upgradation of sub-transmission and distribution (ST&D) system. As per the scheme, GOI releases funds to GOG towards 50 *per cent* of the project cost by way of grant/soft loan, besides incentives for reduction in cash losses. During April 2002 to October 2005, GOI released Rs.519.08 crore (Rs.384.45 crore as incentive and Rs.134.63 crore as loan) to GOG. GOG, however, released (May 2002 to November 2005) these funds to the Board after delays ranging from 21 to 504 days (after considering seven days grace period). This resulted in loss of interest of Rs.10.60 crore[$] on the locked up funds of Rs.519.08 crore during the delay period.

The management/Government stated (July 2006) that the funds were belatedly released by GOG taking into account the ways and means position prevalent in the State.

[$] Pradhan Mantri Gramoday Yojana, Accelerated Power Development Reform Programme and Asian Development Bank.

[$] Computed at the SBMTL rate of 11.50 *per cent per annum*.

Avoidable payment of bill discounting charges

2.2.21 The Board makes payments for the power purchased from Independent Power Producers (IPPs) through bill discounting mode. Under this mode, Bills of Exchange are drawn on the Board by the IPPs for amounts equal to the principal amount accepted by the Board for payment by the due date. The IPPs get these bills discounted from their banks/financial institutions and obtain the payment net of discounting charges. The Board reimburses such discounting charges on the basis of ceiling fixed by it in this regard. During 2000-05, the Board was required to restrict the reimbursement of discounting charges as below:

Period of claim	Ceiling (in *per cent*)
April 2000 to August 2002	13
September 2002 to December 2002	12
January 2003 to July 2003	11
August 2003 to January 2004	10
February 2004 to October 2004	8.5
November 2004 to March 2005	6 upto 180 days and 7 beyond 180 days

Avoidable discount charges of Rs.2.34 crore were incurred.

Audit scrutiny revealed that the Board did not restrict the reimbursement of discounting charges to the prescribed ceilings as above in 19 cases, which resulted in the excess payment of Rs.2.34 crore during 2000-05.

The management/Government stated (July 2006) that it was decided to apply uniform yardstick for all the IPPs and their claims, though preferred at actual, were admitted at lower of the rate decided by the Board or actual. The reply is not tenable. Though the Board had fixed the yardstick for admitting the claim for repayment from 13 to six *per cent* during 2000-05, the Board had reimbursed the discount charges to seven IPPs in 19 cases on the basis of actual claims made by them.

Avoidable interest loss due to delay in restructuring of loans

2.2.22 Rural Electrification Corporation (REC) introduced (December 2002) a scheme for restructuring of loans, allowing the loanee to pay the future installments of loan at a reduced rate of interest of 10.5 *per cent* by payment of premium amount fixed in this regard, by REC.

Though the Board could have calculated the premium payable on outstanding high interest loans of Rs. 329.95 crore and paid the same in February 2003, it paid the premium of Rs.7.89 crore only, in July 2003. The delayed action of the Board resulted in avoidable payment of interest of Rs.1.51 crore[*] to REC during March, April, May and June 2003 on Rs.329.95 crore outstanding on 30 June 2003.

The management/Government stated (July 2006) that the delay in payment of premium was due to delay in communication by REC of acceptance of

[*] Computed at the SBMTL rate 50 *per cent* of 3.25 *per cent* (11.50 *plus*16/2 minus 10.5 *per cent*) on Rs.329.95 crore *less* Rs.0.28 crore on account of interest charges of repaid amount.

restructuring without NOC from GOG. The reply is not acceptable as no correspondence with REC/GOG regarding NOC was shown to Audit. In fact, the Board had not taken prompt action on the pretext of non-availability of requisite data on REC loans for calculations of premium payable to REC towards restructuring.

Non-availing of lower rate of interest from ICICI Bank

2.2.23 The Board had availed (1995-2004) bill discounting facility from ICICI Bank (the Bank) at interest rates ranging from 11 to 16 *per cent*. The Board's outstanding dues to the Bank were Rs.287.46 crore in August 2003. In view of the falling interest rates, the Board requested (September 2003) for reduction in rate of interest on outstanding dues after payment of premium as decided by the Bank in this regard. The Bank agreed (September 2003) to reduce interest rate to 10.5 *per cent* per annum with waiver of 25 *per cent* premium for one time reset and 40 *per cent* premium for reset in four stages. The Board, however, did not accept (September 2003) the offer of the Bank and requested for a waiver of 50 *per cent* premium in line with the one time reset being done by other financial institutions.

The counter offer made by the Board was accepted by the bank, after protracted negotiation but the interest rate was reduced to 8.5 *per cent* on the bills discounted from December 2003 to July 2004. The bills discounted earlier continued to attract the original higher interest of 11 to 16 *per cent*. The alternative proposal given by the Bank was not beneficial to the Board as during December 2003 to July 2004, interest rate of other lenders was already lower at 8.5 *per cent*. The Board continues to pay 11 to 16 *per cent* on its old loans and the net present value of excess interest liability to the Board works out to Rs.8.02 crore till 2009, of which Rs.4.01 crore was avoidable (being 50 *per cent* premium).

The management/Government stated (July 2006) that the benefit of interest reduction was passed on by the Bank through fresh discounting at lower rates. The reply is silent on Audit's contention of the alternative not being beneficial to the Board in view of the already lower rates prevailing in the market.

Restructuring of loans by LIC

2.2.24 The Board approached (May 2003) Life Insurance Corporation of India (LIC) for restructuring of the outstanding loans of Rs.474.30 crore. LIC agreed (September 2003) to restructure at the rate of 11 *per cent* with prepayment premium of Rs.19.97 crore being 50 *per cent* of NPV of differential interest. The Board accepted (September 2003) the proposal and paid the premium. It was noticed during audit that LIC had earlier restructured (March 2003) the loans of Rs.1,780 crore of Uttar Pradesh Rajya Vidyut Utpadan Nigam Ltd. (UPRVUNL) at the rate of 10 *per cent.* The Board failed to take up with LIC the issue of being discriminated against, which resulted in non recovery of differential interest of Rs.2.37 crore* computed at the rate of 50 *per cent* of one *per cent* for the period from October 2003 to March 2004**.**

The management in its reply (April 2006) stated that had these loans been taken by the Board against Government guarantee or through the State Government, LIC would have restructured the loans at the rate of 10 *per cent* on the lines of UPRVUNL. The reply is not tenable as the Board had taken loan from LIC on the strength of mortgage of its assets i.e. the loans were secured. Further, there was nothing in the restructuring plan about the lower rate chargeable for Government guaranteed loan.

Excess payment of premium

2.2.25 In August 2002, the Board issued 11.25 *per cent* Series-V Bonds of Rs.148.09 crore to Gujarat Industries Power Company Limited (GIPCL). The Board approached (August 2004) GIPCL with a request for reduction in the rate of interest on the Bonds. GIPCL accepted (July 2004) the request and agreed to restructure the Bonds at the interest rate of 8.50 *per cent* with payment of premium of Rs.8.06 crore equivalent to 50 *per cent* of NPV of saving in interest for the balance maturity period. The Board, however, incorrectly calculated the amount by applying wrong discounting factor, which resulted in over payment (August 2004) of premium of Rs.71 lakh to GIPCL.

On this being pointed out by Audit (February 2006), the Board had effected (June 2006) the recovery of the excess premium paid. The fact remains that the Board suffered interest loss of Rs.12.42# lakh on Rs.71 lakh for the period of 21 months till its recovery in June 2006.

Payments

Excess payment of electricity duty

2.2.26 As per Section 4 of Bombay Electricity Duty Act, 1958*, every licensee shall collect Electricity Duty (ED) and pay the same to the State Government. Where the licensee is unable to recover his dues for energy supplied by him, he shall not be liable to pay duty in respect of the energy so supplied to the consumers. The amount of ED not recovered is, therefore, deducted while making payment to the Government. The Board, however, makes the payment of ED on consumer bills other than HT consumers on assessment basis *i.e.* without deducting the ED not recovered.

The Board neither compiles any data regarding the amount of ED collected nor does it fix any proportion of total dues from the consumers as deemed arrears from defaulting consumers for calculation of ED payment liability on assessment basis. As a result, during 2000-05, ED in respect of consumers other than HT consumers was actually paid to GOG on assessment basis

* Computed at the rate of 50 *per cent* of one *per cent* for the period from October 2003 to March 2004.

\# Computed at the SBMTL rate of 10 *per cent per annum*.

* Modified and adapted by Gujarat Adaptation of Laws (solid and concurrent subject) Order, 1960.

Excess payment of ED of Rs.53.40 crore.

though the Board had not received the dues from the consumers, who were already in arrears. The Board could have at least deducted an amount of Rs.53.40 crore towards arrears of ED from the defaulting consumers at the rate of 10 *per cent* per annum (being minimum ED rate applicable) on the balance of Rs.534 crore outstanding (as on 31 March 2005) as per LT PDC consumer ledger. This would have improved the fund flow position of the Board and reduced Board's dependence on borrowings to that extent.

The management/ Government stated (July 2006) that due to complexity of the transactions, it was extremely difficult to segregate the non payment portion of arrears of ED while making the payment to the Government. The reply is not tenable as the Board could have worked out a mutually acceptable norm towards arrears of dues.

Excess adjustment of electricity duty/Tax on sale of electricity

2.2.27 It was noticed during audit that the Board had failed to intimate in time its actual liabilities for payment of ED/TSE of Rs.863.75 crore to GOG during 2000-01. As a result, GOG on *ad hoc basis* adjusted an amount of Rs.977.64 crore against the subsidy payable to the Board and treated Rs.39.06 crore as loan during the period. The excess amount treated as loan could have been avoided through a proper estimation of ED/TSE payable. This resulted in avoidable payment of interest of Rs.12.69[≠] crore for the period from 2001-04 due to the excess adjustment.

Tax deducted at source on dividend/interest payments

2.2.28 As per the provisions (Section 197- Rule 28 and 28 AA), of Income Tax Act (IT Act) any person to whom interest is payable may make an application in form no.13 to the Assessing officer and obtain such certificate from him, as may be appropriate, authorising the payer not to deduct tax or deduct tax at lower rate.

During 1998-2005, though the Board was incurring losses, it failed to approach the Income tax authorities for getting necessary exemption from Tax deducted at Source (TDS). In the absence of such a certificate, GIPCL, GSECL and others, while paying the dividend and equity, interest on loans and remunerations for O&M contracts to the Board deducted Rs.9.10 crore towards TDS for 1999-02 for which refund was received during 2000-05. Consequently, the Board suffered loss of interest of Rs.2.91 crore[∝] during 2000-05 computed after considering interest on refund of tax.

The management/Government stated (July 2006) that one of the conditions for availing exemption u/s 194-C of the IT Act, was that there should not be any amount outstanding for recovery from the Board. As huge amount was outstanding against the Board, pending decision on the appeal made to Income Tax department during 1991- 2001, the Board could not avail the benefit of exemption under the above section. The reply is not tenable as on enquiry,

≠ Computed at the SBMTL rate of 10 to 11.5 *per cent per annum.*

∝ Computed at the SBMTL rate of 15 to 12 *per cent per annum.*

Income Tax department has stated (September 2006) that there was no demand for tax pending against the Board for the period 1999-2000 to 2001-02 during. The department also confirmed that the Board had applied for such exemption certificate only in April 2004 and the certificate was issued for the year 2004-05 only. The facts indicate laxity on the part of the Board in availing the benefit of exemption since 1998-99.

Loss of rebate due to delay in repayment of PFC short term loan

2.2.29 The Board had availed short-term loan from Power Finance Corporation (PFC) New Delhi to meet its working capital requirement. The Board was entitled to a rebate of 0.50 *per cent* on the net payment of the loan made on or before the due date. In the event of delay in repayment, the Board was liable to pay penal interest at the rate of two *per cent* over and above the normal interest rate on daily compounding basis.

Audit scrutiny revealed that during 2000-03, the Board had repaid the loan on five out of 19 occasions after delays ranging from two to 20 days. This resulted in loss of rebate of Rs.1.19 crore, after considering interest which could have been paid on cash credit facilities availed for repayment of loans.

The management/Government stated (July 2006) that the delay was due to cash losses being incurred and mounting outstanding dues of IPPs. The reply is not tenable as the Board could have availed cash credit to save its financial interest.

Unviable staff voluntary retirement cum death benevolent scheme

2.2.30 The Board had introduced Staff Voluntary retirement cum Death Benevolent Fund Scheme I (SVRCDBFS) in 1981 with contribution of one rupee per month by the member. The aid available was Rs. 250 and Rs. 1,000 at the time of retirement and death respectively. In April 1993, the Board converted SVRCDBFS –I into SVRCDBFS-II. Under the scheme, an employee pays Rs.500 as entrance fee for membership of the scheme and contributes monthly subscription of Rs.75. The member of this scheme, on retirement from service, is entitled to receive total contributions alongwith interest at the rate of 12 *per cent* or Rs.10,000 whichever was higher. If the member expires during services his/her nominee receives financial assistance of Rs.2.25 lakh, besides the subscription amount alongwith interest.

It was noticed during audit that a proper accounting system had not been devised for recording the transactions under the scheme and no review of the scheme was done to determine whether the contributions and interest received from investments were sufficient to meet the liability. As on 31 March 2005, the fund erroneously showed a debit balance of Rs.16.02 crore as against the liability of Rs.122.56 crore worked out by the Board for lump sum payment and interest towards its existing employees.

Had proper accounting of the fund been done, showing at the end of each year, the liability of the Board after considering the realistic income of the fund, the

Board could have taken action to correspondingly increase the contributions to the fund and reduce the rate of interest on the fund to make the scheme viable.

The management/Government stated (July 2006) that the Scheme was being reviewed and a practising actuary was being consulted in order to provide for the liability.

Excess contribution to employees provident fund

2.2.31 Section 6 of the Employees Provident Fund and Miscellaneous Provisions Act, 1952, stipulates that the employer should pay to the employees provident fund (Fund) an amount equal to 10 *per cent* of the emoluments of each employee as employer’s contribution. Each employee should also contribute a minimum of 10 *per cent* of his 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 suffered cash losses in such financial year immediately preceding such financial year.

It was noticed during audit that though the accumulated losses of the Board exceeded its assets and it had also suffered cash losses during five years ended 2004-05, it had regularly paid into the fund its additional contribution of two *per cent* (over and above 10 *per cent*) since September 1997, which should have been discontinued soon after the Board suffered cash losses since April 2000.

Thus, the Board paid Rs.287.66 crore towards contribution at the rate of 12 *per cent* during 2000-05, instead of Rs.239.72 crore at the rate of 10 *per cent* leading to excess contribution of Rs.47.94 crore to the fund.

Excess contribution of Rs.47.94 crore towards CPF.

The management/Government stated (July 2006) that to keep the employees’ morale high and to achieve the desired productivity, the Board had decided not to reduce the rate of fund contribution. The reply is not tenable in view of the precarious financial position of the Board.

Internal control system

2.2.32 Internal control is a management tool used to provide reasonable assurance that management’s objectives are being achieved in an efficient, effective and orderly manner. Audit scrutiny revealed the following deficiencies in the Internal Control and Internal Audit System in the Board:

- The Board’s circular (December 1980) envisaged pre-audit of all high tension (HT) consumers’ energy bills by the Internal Audit Wing (IAW) before issue of the bills or maximum within a period of one week from the date of issue of the bill. The energy bills of the HT consumers were, however, audited by the IAW only six months after the issue of the bills. Instances of short recoveries amounting to Rs.6.82 crore were belatedly detected by IAW during April 2003 to

March 2005 with resultant loss of interest of Rs.0.58 crore on the above recovery due to the time overrun of six months in the post audit of the energy bill.

The management/Government while accepting (July 2006) the audit contention stated that looking to the limited staff posted for audit work, HT bills are post audited at six monthly intervals The reply is not tenable. The Board should endeavour to strengthen the internal audit system so that the HT bills can be audited within the prescribed time frame so as to expedite the revenue recovery and minimise the interest loss.

- The Board has 76 Operation and Maintenance (O&M) Divisions. The audit of these divisions is done by the Accountant General periodically, and audit findings are reported to the divisions by issuing preliminary observation memos. Major irregularities/ recoveries are reported to the Board through Inspection Reports. The recoveries of Rs.14.10 crore during 2000-05 pointed out in local audit were, however, not made by the division offices immediately, resulting in delay in recovery. Of Rs.14.10 crore, an amount of Rs.7.30 crore was recovered (2000-05) after delays ranging from two to 2,238 days of being pointed out in audit. Due to the delay in recovery, the Board could not utilise funds of Rs.7.30 crore which resulted in interest loss of Rs.51.11 lakh. Further, the remaining amount of Rs.6.80 crore was not recovered so far (March 2006).

The management/Government stated (July 2006) that of the Rs.7.30 crore pointed out by Audit, only amount by Rs.2.23 crore was recovered after delay beyond six months. In other cases the recovery was effected within six months. The reply, however, does not contain details of the period during which the recovery was effected by the Board.

- The Board has a separate cell for bank reconciliation. Despite this, it had not reconciled the difference of Rs.4.77 crore (up to July 2006) in the balances relating to its HO and Rs.1.33 crore relating to its division offices with the balances shown by the concerned banks. The unreconciled balances related to the period of 1990 to 2000. Like wise, the reconciliation of inter branch accounts between HO and divisions and among the divisions involving money value of Rs.129.38 crore relating to the period 1984 to 2005 remained to be done (March 2005).

The management/Government stated (July 2006) that as majority of the balances related to old period, efforts were being made by the Board to trace out old records for reconciliation of balances with the banks.

Corporate governance

2.2.33 The Board of Directors (BOD) consisted of six to nine members during 2000-05. Of these, one member represented the Finance department of GOG. The representative of the Finance department of GOG did not, however, attend any of the 17 meetings held during 2000-01, and attended only five of the 15 meetings of BOD held during 2001-02.

GOG had issued (April 2003) instructions to all Public Sector Undertakings (PSUs) that the Government directors/members in the BOD of the PSUs should attend atleast 50 *per cent* BOD meetings held in a year, so that GOG have requisite representation and pay adequate attention to the management of the affairs of the PSUs. Even after issue of these instructions, the representative of the Finance department attended only five and two meetings out of 15 and 11 BOD meetings held during the years 2001-02 and 2003-04, respectively. This indicates inadequate involvement of the Finance department of GOG in the governance matters of the Board.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the management at various stages of conducting the performance audit.

Conclusion

The financial management by the Board was found to be weak as the Board had resorted to borrowing for financing losses. It failed to review and improve the existing system of recovery of its dues from the consumers in order to minimise the borrowings. Timely deposit of revenue in the Board's account and prompt transfer of funds to its HO account were not ensured by the management. Erroneous estimation of subsidy claim resulted in belated receipt thereof. The Board failed to adhere to its own norms for recovery of security deposit from the consumers. The Board did not safeguard its financial interest by pursuing with the GOG for early release of funds under the centrally sponsored schemes, restricting the remittances of Electricity duty/Tax on sale of electricity to GOG to the amounts actually recovered from consumers.

Recommendations

The Board may:

- **make efforts for early recovery of outstanding dues from the consumers and also ensure early availability of funds through timely depositing of revenues and transfer of funds to the Board's HO account.**
- **expedite the process of metering of all agricultural consumers.**
- **ensure adherence to the norms of recovery of security deposit from consumers.**
- **strengthen the mechanism for post audit of energy bill so as to avoid delay in the recovery of dues from the consumers.**
- **avoid delay in restructuring of high cost debts.**

Gujarat Mineral Development Corporation Limited

2.3 Mining Activities

Highlights

There had been undue delay in obtaining lease after submitting applications for grant of lease. Fifteen applications made from 1991 onwards were pending at various levels.

(Paragraph 2.3.6)

Delay in obtaining environmental clearance for Tadkeshwar lignite project and commencement of work before obtaining environmental clearance led to suspension of the work awarded resulting in revenue foregone worth Rs.161.50 crore.

(Paragraph 2.3.8)

The Company failed to effectively utilise machinery and manpower resulting in avoidable expenditure of Rs.2.70 crore on overburden removal through outsourcing.

(Paragraph 2.3.9)

Delayed revision of price of non plant grade bauxite resulted in loss of Rs.4.24 crore. Incorrect unit incorporated in the work order resulted in unintended benefit of Rs.94.72 lakh to a contractor.

(Paragraphs 2.3.13 and 2.3.14)

Deficiencies in the award of work for overburden removal resulted in avoidable expenditure of Rs.1.59 crore.

(Paragraphs 2.3.12 and 2.3.15)

Consumption of diesel by departmental machinery in excess of the norms resulted in extra expenditure of Rs.2.26 crore.

(Paragraph 2.3.19)

Post sales discount, incorrect working and deviation from normal practice resulted in excess allowance of discount of Rs.5.42 crore to two firms on sale of lignite.

(Paragraphs 2.3.24 and 2.3.25)

Introduction

2.3.1 Gujarat Mineral Development Corporation Limited (Company) was incorporated in May 1963 as a private limited Company to undertake mining of minerals and ancillary works and also to develop mineral resources in the State. It was converted into a wholly owned Government company in July 1971. The Company disinvested 26 *per cent* of equity shares during 1997-98. The Company was operating seven[*] mining projects. Lignite sales constituted 94.60 *per cent* of the total sales of the Company during 2001-06.

As per the Mineral policy, 2003 of the State Government, the Company was authorised to undertake development of Multimetal project at Ambaji as a joint venture, modernisation of Fluorspar project at Kadipani, development of bentonite bearing areas in Kachchh district, preparation of techno-economic feasibility report on various mineral projects in the State and to set up a facilitation centre for this purpose.

The Management of the Company is vested in a Board of Directors comprising a Chairperson cum Managing Director (CMD) and four Directors. The CMD is the Chief Executive who is assisted by eight General Managers and a Company Secretary. During 2001-06, the State Government, had appointed five Managing Directors for tenures ranging between four and 20 months.

A review of the mining activities at Panandhro and Rajpardi projects was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial)- Government of Gujarat. The Report was discussed by the Committee on Public Undertakings (COPU) during October/December 2003 and January 2004. The recommendations of COPU are awaited (September 2006).

Scope of Audit

2.3.2 The present review conducted during December 2005 to April 2006 covers the mining activities undertaken by the Company during 2001-06. Audit covered all the seven mining projects under the review. As the Company had not finalised its accounts for the year 2005-06 the figures relating to the year 2005-06 are provisional.

Audit objectives

2.3.3 The audit objectives of the review were to ascertain whether:

- the activities undertaken by the Company were in conformity with various statutes, rules on mining activities, policies laid down by the Government of Gujarat (GOG) and Company's business plan;

[*] Four Lignite projects – Panandhro and Mata-no-Madh both in Kachchh district, Rajpardi in Bharuch district and Tadkeshwar in Surat district (commissioned in March 2006); two Bauxite projects-Bhatia in Jamnagar district and Gadhsisa in Kachchh district, and one Fluorspar project at Kadipani in Vadodara district.

- the Company carried out mining activities economically and efficiently;
- the contract management for overburden[*] (OB) removal and mining was efficient and effective;
- marketing of minerals and mineral products were done economically;
- irregularities as pointed out in the Audit Report 2001 had been rectified.

Audit criteria

2.3.4 The following audit criteria were adopted:

- provisions of various statute and rules relating to mining, Mineral Policy, 2003 of the State Government, directions given by the Government/ other authorities and the Company's business plans;
- the guidelines/standard practices followed in award of works;
- norms fixed by the Company for working hours of machinery and consumption of fuel by departmental machinery; and
- the guidelines of the Company relating to the discount scheme.

Audit methodology

2.3.5 Audit followed the following mix of methodologies:

- review of policy documents, agenda notes and minutes of Board of Directors (BOD) meetings and Tender Committee meetings;
- comparison of production targets *vis-à-vis* achievement;
- review of agreements/ work orders, running account bills of various contracts;
- analysis of data compiled by Audit;
- scrutiny of procedure for invitation of tenders and award of work;
- analysis of project performance.

Audit findings

The audit findings were reported to the Government/ Management in May 2006 and discussed at a meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 27 September 2006 which was

[*] Waste or earth burden above the mineable minerals available in earth seams.

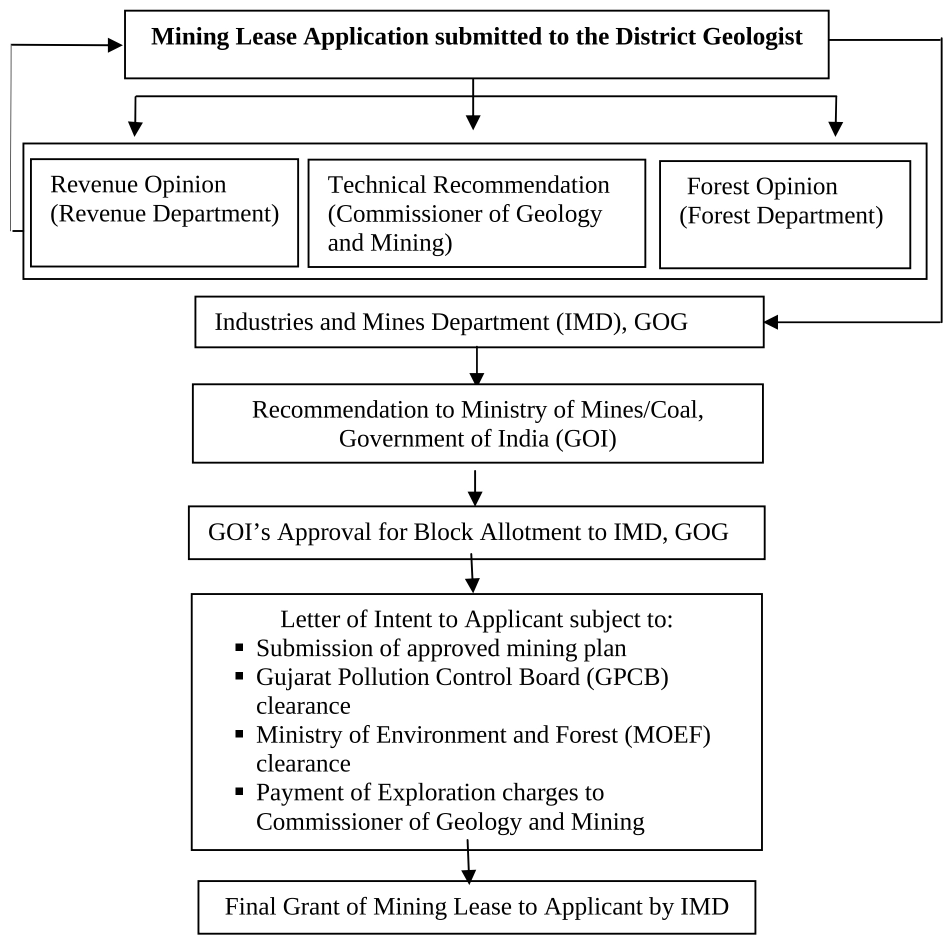
attended by the Joint Secretary, Industries and Mines Department, Government of Gujarat and the Managing Director of the Company. Their views were considered while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

Mining of lignite

Delay in obtaining leases

2.3.6 The procedure for obtaining mining lease is given in the chart below:



The Company had submitted (1991-2004) 17 applications for obtaining lignite mining leases at Bharuch, Bhavnagar, Kachchh and Surat districts. The Company obtained mining leases for two projects –*viz*., Mata-no-Madh in Kachchh district having estimated reserve of 32 million tonnes (May 2001) and Tadkeshwar in Surat district having estimated reserve of 34 million tonnes (November 2005). The mining leases against the remaining 15 applications (***Annexure*-13**) for 579 million tonnes were pending (March 2006). Audit analysis revealed that eight[*] applications were pending due to Company's failure to comply with the prescribed requirements like non adherence to the prescribed procedures such as conducting hydrological study, preparation of mine plan and due to GOG's failure to forward their recommendation to Ministry of Coal (MOC) for grant of lease. In case of remaining seven[#] applications, the grant of lease was pending either due to land disputes or for want of clearance from Forest department.

Four applications related to 1996 to 2004 are pending with GOG for disposal.

Though, the Company had planned production from the new leases from 2004-05 onwards, due to pending clearance at different levels in obtaining mining lease, the Company had to revise the production target for 2005-06 from 90 lakh tonnes to 75 lakh tonnes. Though, the State Government required to process applications for leases within one year as per Mineral Policy, 2003, four[□] lease applications submitted by the Company during May 1996 to October 2004 were pending (March 2006) with the State Government.

Deposits of lignite

2.3.7 The Company is carrying on mining activities at Panandhro, Rajpardi, Mata-no-Madh and Tadkeshwar. The table below indicates the deposits of lignite at these projects.

Project	Estimated reserve	Mined (up to March 2006)	Balance reserve as on 31 March 2006	Mined during the period
	(in million tonnes)			
Panandhro	110	74.70	35.30	1974-75 to 2005-06
Rajpardi	9	8.37	0.63	1980-81 to 2005-06
Mata-no-Madh	32	0.52	31.48	2003-04 to 2005-06
Tadkeshwar	34	0.01	33.99	Production started in March 2006.

From the table above, it can be seen that at Rajpardi mine, the Company has already mined 8.37 million tonnes during 1980-2006 leaving a balance reserve of 0.63 million tonnes. The Company obtained (July 2006) environmental clearance for a new mining lease having lignite reserve of 15 million tonnes adjacent to the existing mine.

Mining activities prior to environmental clearance

2.3.8 In response to the Company's application (June 1996) for grant of lignite mining lease at Tadkeshwar, GOG gave consent in March 2002 subject to obtaining environmental clearance from MOEF, GOI. The Company, without getting clearance from MOEF awarded (January 2004) the work for removal of overburden and mining of lignite. During February-September 2004, the contractors removed 25.18 lakh cum of OB and mined 0.03 lakh tonnes of lignite for which the Company had incurred expenditure of Rs.6.50[*] crore. The Company had to suspend (September 2004) the work for want of

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[*] Sl. No. 4, 5, 6, 7, 9, 12, 14 and 15 of ***Annexure*-13**.

[#] Sl. No. 1, 2, 3, 8, 10, 11 and 13 of ***Annexure*-13**.

[□] Sl. No. 6, 12, 14 and 15 of ***Annexure*-13**.

[*] Average cost of Rs.25.84 *per* cum.

clearance. Undertaking the mining activity prior to obtaining the statutory clearance from MOEF was in violation of the provisions of the Environment (Protection) Act, 1986. The work in the mine could be resumed only in March 2006 after obtaining environment clearance clearance in October 2005.

The Company started mining activities before obtaining environmental clearance.

It was noticed in Audit that though the letter of consent issued by GOG had stipulated (March 2002) that the Company should submit mining plan within six months, the plan was submitted to Ministry of Coal and Mines, GOI only in November 2003 *i.e.* after 18 months. Further, though GPCB had issued no objection certificate in January 2004, the Company was not able to obtain environmental clearance from MOEF in time. Consequently, the Company could not mine lignite from the project during October 2004 to March 2006 after incurring expenditure of Rs.6.50 crore (up to September 2004) on OB removal. The Company had planned (April 2004) as per the demand, to produce seven lakh tonnes and 10 lakh tonnes of lignite from the project during 2004-05 and 2005-06 respectively. Thus due to delay in obtaining clearance, the Company had to forgo sale of 17 lakh tonnes of lignite valuing Rs.161.50 crore[*] during 2004-06.

The management/Government stated (September/November 2006) that the cost of OB removal had increased to Rs.33.19 per cum due to increase in diesel cost since 2004. The Company was able to remove 25.18 cum of OB at lower rate of Rs.25.84 per cum during February-September 2004. The reply is not tenable as the Company's claim of benefit of lower rate was mere hindsight. Further, the reply does not contain any justification for undertaking the mining activity without obtaining environmental clearance and loss of potential sales.

Shortfall in departmental removal of overburden

Departmental resources were not utilised to the optimum level.

2.3.9 At Panandhro lignite project, OB removal *i.e.* waste or earth burden above the mineable minerals available in earth seams, was done using departmental resources as well as through contractors. During 2001-06, the project had man power of 788-736 number employees and was having 26-19 excavators at its disposal. The Company had not fixed targets for departmental removal of OB. The quantity of OB removed departmentally ranged from 25.59 (2001-02) to 40.72 lakh cum (2004-05) which shows that the Company could have removed at least 40.72 lakh cum of OB *per annum* during the 2001-04 and 2005-06. The Company failed to utilise the available departmental resources effectively and had outsourced the work to contractors. Had the Company utilised the available departmental resources effectively, it could have reduced its dependence on contractor and saved Rs.2.70 crore during 2001-06 as shown below:

[*] Planned production of 17 lakh tonnes at the rate of Rs.950 *per* tonne.

Year	Shortfall in OB removal^	Saving˅ (*per* cum)	Expenditure on shortfall
	(in lakh cum)	(Rupees *per* cum)	(Rupees in lakh)
2001-02	15.13	7.80	118.01
2002-03	3.89	15.40	59.90
2003-04	3.57	14.87	53.09
2005-06	2.84	13.68	38.85
Total			**269.85**

The management/Government stated (September/November 2006) that after transfer (December 2000 to January 2002) of departmental machinery from Rajpardi to Panandhro project the average OB removal capacity of Panandhro project had increased to 38.15 lakh cum *per annum* since 2002-03. As such the variation in utilisation of machinery was negligible during these years. The reply is not tenable. The percentage of utilisation of machinery by the department ranged between 24.51 and 29.73 against the scheduled utilisation which indicated under-utilisation of departmental machinery.

Production target and achievement

2.3.10 The Company had been carrying on mining of lignite, bauxite and fluorspar. Lignite constituted 94.48 *per cent* of its total production during 2001-06. The Company did not have any system of fixing targets for production of minerals till March 2003. It started fixing the targets for production of lignite from 2003-04. The targets and achievements in production of lignite during 2003-06 are given below:

Year	Production (in lakh tonnes)		
	Target	Achievement	Shortfall
2001-02	--	48.49	--
2002-03	--	55.04	--
2003-04	60	52.39	7.61
2004-05	70	66.51	3.49
2005-06	75	70.54	4.46

The Company failed to achieve the targets during the above period.

Production of other minerals

The production of minerals, such as fluorspar and bauxite constituted 5.52 *per cent* of total mineral production of the Company during 2001-06. During the period the bauxite projects produced 15.56 lakh tonnes of bauxite and 0.94 lakh tonnes of calcined bauxite making a profit of Rs.3.03 crore. Fluorspar Project at Kadipani was incurring losses since 1990 due to its non-viable operation. The Company decided (July 2001) to modernise the project

^ Difference between OB removed departmentally in 2004-05 (40.72 lakh cum) and in 2001-02 (25.59 lakh cum), in 2002-03 (36.83 lakh cum) and in 2003-04 (37.15 lakh cum).

˅ OB removal rate *less* cost of diesel *per* cum recovered from contractors.

using advanced technology. The modernisation scheme could, however, not be implemented so far (September 2006) as discussed in paragraph 2.3.11 *infra*. During 2001-06, the minerals/mineral products worth Rs.29.12 crore were produced incurring an expenditure of Rs.74.05 crore. Thus, the operation of the project had resulted in loss of Rs.44.93 crore during the period.

Modernisation of Fluorspar Project, Kadipani

2.3.11 The Company decided (July 2001) to modernise its Fluorspar Project, Kadipani, as the project was incurring losses. Accordingly, the Company appointed Macnally Bharat Engineering Company Ltd, Kolkata (MBE) as consultant for development and implementation of latest process know how in the project. The results of ore samples of the project tested (October 2001 and April 2002) at a cost of Rs.90.63 lakh indicated scope for making the project viable through adoption of advanced mining technology. Accordingly, the Company awarded (July 2003) the work of pilot plant test to MBE at a cost of Rs.3.19 crore. The test was to be completed by July 2004. MBE, however, did not complete the work during the stipulated time. The management stated (July 2006) that civil work was undertaken without stopping the plant operation due to which the work was delayed owning to space crunch. Further, the Company had delayed procurement of bowlers *etc*, required for pilot plant test. The mining lease of the project expired in December 2004. MBE completed all civil and mechanical works at the project site in February 2006 against which the Company incurred an expenditure of rupees two crore. However, pilot plant test could not be conducted till date (September 2006) as clearance for renewal of lease was not obtained from MOEF, GOI.

As noticed in audit, the Company applied for renewal of lease in February 2003. Due to lack of follow-up with State Forest Department, however, the lease could not be renewed. Due to delay in completion of work by MBE and non renewal of lease, the Company was unable to take further course of action on modernisation of the project even after spending Rs.2.91 crore.

The management/Government stated (September/November 2006) that the work of conducting pilot plant tests has nothing to do with renewal of lease. The reply is not tenable. It contradicts the Company's earlier reply (March 2006) to audit in which it accepted the non renewal of lease as the reason for not conducting pilot plant test.

Contract management

The Company awards the work of OB removal at the lignite projects at fixed rates. As per the terms of tender, diesel is supplied to the contractor by the Company. The Company makes payment for the work after recovering the cost of diesel supplied. Thus, the effective rate of OB removal for the Company is the rate of OB removal less cost of diesel supplied by the Company. During 2004-06, the Company issued 15 work orders[⊗] for OB removal. Further, the Company was engaging contractors for mining and buy-

[⊗] Five at Panandhro, six at Rajpardi, two each at Mata-no-Madh and Tadkeshwar.

back of bauxite. A scrutiny of records relating to the above revealed the following:

Excess expenditure due to non-acceptance of lower rate

2.3.12 The Company awarded (March 2003) the work of removal of 50 lakh cum of OB at Mata-no-Madh Lignite Project to Ranjit Construction Company (RCC), Mehsana. The effective rate of OB removal was Rs.17.36 *per* cum. The contract was for a period of two years upto March 2005.

Non-acceptance of offer at lower rate resulted in extra expenditure of Rs.69.99 lakh.

In February 2005, when the existing contract was nearing completion, offered 50 lakh cum OB removal at Mata-no-Madh to the contractors, who were idling at Tadkeshwar project due to suspension of work at the effective rate of Rs.9.30 *per* cum for a period of one year. One of the contractors JP Fabricators (JPF), made a counter offer (February 2005) to remove 100 lakh cum OB in two years at an effective rate of Rs.11.45 *per* cum. The rate offered by JPF was less than the rate of the on going contract being executed by RCC. The Company, however, did not accept the offer. The Company invited (April 2005) fresh tenders when the lowest effective rate of Rs.12.92 *per* cum was obtained. This rate was higher by Rs.1.47 *per* cum. The Company awarded the work of 100 lakh cum of OB removal to National Construction Company (NCC), Bhuj at the effective rate of Rs.12.92 *per* cum. Thus, due to award of work to NCC at higher rate than the rate offered by JPF, the Company incurred extra expenditure of Rs.69.99 lakh on 47.61 lakh cum of OB removed till May 2006.

The management/Government stated (September/November 2006) that the Company’s tender committee did not accept the offer of JPF, hence the work was awarded after inviting fresh tenders in this regard. The reply is not tenable. No justification was given for non acceptance of offer of JPF, which was beneficial to the Company.

Non-revision of buy-back price of non-plant grade bauxite

2.3.13 The Company had been engaging contractors for mining bauxite from its mines. As per the work orders issued, the contractors were to buy back bauxite at the rates fixed by the Company from time to time. In June 2002, the Managing Director constituted a Committee to examine and recommend the prices of bauxite. As the price of the bauxite was fluctuating, the Committee recommended (July 2002) for quarterly revision of prices. The Committee’s recommendations, however, were not placed before the Board of Directors (BOD) while fixing the price of non plant grade (NPG) bauxite in September 2002. The Company issued (October-December 2002) work orders without providing for quarterly revision of prices. During January 2003 to January 2004, the Company sold 3.26 lakh tonnes of NPG bauxite from Gadhsisa mines. The Company revised the price of NPG bauxite from Rs.70 *per* tonne to Rs.200 *per* tonne in February 2004 based on the average market price prevailing during October 2002 to September 2003.

Non-revision of bauxite price based on market price resulted in revenue loss of Rs.4.24 crore.

Had the Company made provision for quarterly review of prices in the work orders as recommended by the committee and ascertained the market prices in time, it could have revised the prices from January 2003 onwards on quarterly basis and could have earned revenue of Rs.4.24 crore[#] on the quantity sold during January 2003 to January 2004.

The management/Government stated (September/November 2006) that it had placed (September 2002) the proposal for revision of price of bauxite before the BOD keeping in view the recommendations of the Committee. The reply is not tenable. The Company did not place the Committee's recommendations before the BOD and consequently not implemented the recommendations.

Excess payment of premium to a contactor on furnace oil saving

2.3.14 A mention was made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (Commercial) - Government of Gujarat (vide paragraph 4.2.1) regarding incorrect estimation of cost of production coupled with deficiency in agreement (September 1999) with Meena agency (the agency), Jamnagar for sale of calcined bauxite. The implementation of the agreement further examined in audit revealed the following irregularity:

The agreement provided for sale of calcined bauxite under 'buy back' arrangement. As per the arrangement, high grade bauxite taken from the Company's mines was to be processed by the agency in the Company's plant for its conversion into calcined bauxite. The agency was also required to purchase the calcined bauxite from the Company at the agreed price. The Company was to bear the O&M cost of the plant run by the agency for processing the bauxite. Norms were fixed for consumption of power and fuel by the agency towards O&M expenses. In the event of saving of power/fuel against the norms, the cost of power/fuel saved in excess of five *per cent* of the norm was given as an incentive to the agency.

Error in issue of work order resulted in unintended benefit of Rs.94.72 lakh to a contractor.

Audit scrutiny of records revealed that the Company, while issuing the work order (September 1999) to the agency had erroneously maintained the norms for consumption of furnace oil as 160 Kg *per* tonne instead 160 litre *per* tonne. As a result, the Company passed on excess incentive of Rs.94.72 lakh on 9.47 lakh litres of oil saved during September 1999 to September 2002. The Company, while extending (September 2002) the tenure of the agreement for a further period of one year, corrected the mistake. It did not, however, recover the excess incentive already paid to the agency (March 2006).

Avoidable expenditure due to termination of a contract

Termination of a contract without justification resulted in extra expenditure of Rs.88.80 lakh.

2.3.15 The Company awarded (March 2001) the work of removal of 80 lakh cum of OB at Rajpardi to Dholu Contracts Company (DCC), Ahmedabad. The effective rate for removal of OB was Rs.13.51 *per* cum. The Company terminated (May 2002) the contract due to non availability of working space at the mine site. Till May 2002, DCC had removed 39.43 lakh cum of OB. The

[#] (Average market price during October 2002 to September 2003, Rs.200 *less* Rs.70 unrealised sale price of the Company) x 3.26 lakh tonnes bauxite.

Company, however, after inviting (August 2002) fresh tenders awarded (March 2003) the work of removal of 40 lakh cum of OB at Rajpardi at the effective rate of Rs.15.73 *per* cum to G.Venkata Reddy (GVR), Hyderabad for a period of one year. Thus, after terminating the contract of DCC in May 2002, the Company had invited fresh tenders for the same work in August 2002. Hence, the Company's plea of non availability of space for termination of the work order lacked justification. The award of work at higher rate after termination of the contract with DCC resulted in avoidable extra expenditure of Rs.88.80 lakh*.

The management/Government stated (September/November 2006) that as working space was not available to DCC the contract was terminated. The reply is not tenable. Though the Company had terminated the contract on the plea of non availability of working space, the work was re-awarded in March 2003 without securing any additional space, which was made available in July 2006 only when clearance for lease at Amod village was received from MOEF.

Utilisation of resources

Specialised mining equipment

2.3.16 For mining operation, the Company deploys a system of Specialised Mining Equipments (SME) at Panandhro for OB removal and lignite excavation. The system consists of three bucket wheel excavators (BWE), three mobile transfer conveyors and one spreader along with necessary conveyors. The performance data of operation of BWE for the last five years up to 2005-2006 is detailed in the table below:

Utilisation of bucket wheel excavators was only 33 to 45 *per cent* during 2001-06.

Sl. No	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1	Calendar hours^	17,472	17,424	17,520	17,472	17,520
2	Scheduled hours*	14,360	13,624	13,856	14,328	13,680
3	Actual working hours	6,496	5,764	5,250	5,251	4,561
4	Utilisation rate in *per cent* [(Sl.No.3 divided by Sl. No. 2) X 100]	45	42	38	37	33

As can be seen from the table, the percentage of utilisation of BWE had come down from 45 to 33 during 2001-06. Reasons for low utilisation of machinery were not available on record. Despite being pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial)–Government of Gujarat *vide* paragraph 2.1.7.2 regarding shortfall in utilisation of BWE, the Company had not analysed the reasons for shortfall as well as there was no system in existence in the Company to periodically review the performance of BWE for timely corrective action.

* Extra cost Rs.2.22/cum (Rs.15.73 - Rs.13.51) x 40 lakh cum = Rs.88.80 lakh.

^ Machinery hours available *per* year (365/364 days x 24 hours x 2 machines).

* Number of hours planned for operation *per* year.

The management/Government stated (September/November 2006) that lower utilisation of machinery was due to electrical and mechanical break down, operational activities like conveyor shifting, conveyor extension, conveyor shortening, boulder removal, ground levelling, machinery positioning. The system was required to be stopped for daily maintenance, tea time, shift change etc. The reply is not tenable because the reasons mentioned above had been factored in the calculation of scheduled hours.

Performance of conventional mining equipment

2.3.17 Besides SME, the Company is also using conventional mining equipment (CME) consisting of hydraulic excavators for removal of OB and mining activities. The performance of CME owned by the Company at lignite project, Panandhro is given in the table below:

Sl. No.	Particulars	2001-02		2002-03		2003-04		2004-05		2005-06	
		Depart-mentally	By con-tractor	Depart-mentally	By con-tractor	Depart-mentally	By con-tractor	Depart-mentally	By con-tractor	Depart-mentally	By con-tractor
1	Total scheduled hours	1,47,768	50,848	1,62,848	61,944	1,51,952	55,376	1,63,376	63,104	1,56,712	43,688
2	Actual working hours	36,212	18,686	42,503	13,922	40,424	16,815	48,571	18,819	43,258	14,601
3	Percentage Utilisation [(Sr.No.2/ Sl.No.1) x 100]	24.51	36.75	26.10	22.48	26.60	30.37	29.73	29.82	27.60	33.42

As can be seen from the above table, during 2001-06, the utilisation rate of CME ranged between 24.51 and 29.73 *per cent*, whereas the utilisation rate of CME by the contractors ranged between 22.48 and 36.75 *per cent* during the same period. Reasons for lower utilisation of machinery were not available on record. Despite being pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial)– Government of Gujarat *vide* paragraph 2.1.4.2 regarding shortfall in utilisation of CME, the Company had not analysed the reasons for shortfall. Besides, there was no system in existence in the Company to review the performance of CME periodically.

The management/Government stated (September/November 2006) that departmental machinery was underutilised due to aging of the machinery, non-availability of required man power and wide spread area of mines making it difficult for operation and control of machines. The reply is not tenable as there was nothing on record to show that the management had periodically reviewed the position and planned any strategy for improving the utilisation.

Consumption of teeth used in bucket wheel excavator

2.3.18 Teeth are used in bucket wheel excavator to remove overburden and excavation of lignite. The working life of the teeth used in BWE mainly depends on soil condition. The details of consumption of teeth and production of lignite and OB removal per tooth during the period 2001-06 are given as follows:

Sl. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1	Production of lignite and removal of OB (cum)	39,87,550	32,87,028	34,50,961	29,92,508	25,48,175
2	Tooth point used (Nos.)	1,413	1,218	2,234	2,137	2,237
3	Output per tooth (cum)	2,822	2,566	1,545	1,400	1139

The table shows that during 2001-06, the consumption of teeth had steadily increased from 1,413 to 2,237 while the output *per* tooth steeply decreased from 2,822 to 1,139 cum. The Company did not conduct any study for determining the norm for consumption of teeth despite being pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial)-Government of Gujarat *vide* paragraph 2.1.7.3. In the absence of any study or norm, the expenditure incurred on this critical consumable was without any control.

The management/Government stated (September/November 2006) that one could not fix the life span of tooth theoretically as it was dependent on the geological formation of the soil. The reply is not tenable in view of the fact that the output per tooth had substantially declined during 2001-06, at a single project site without any change in the geological conditions.

Excess consumption of diesel by departmental machinery

2.3.19 The Company had fixed standards for consumption of diesel in the machinery used for lignite mining & loading and OB removal. The standard for mining & loading is 0.15 litre *per* tonne and for OB removal 0.5 litre *per* cum. During 2001-06, in Panandhro lignite project, OB removal and lignite mining were done both through contractors and departmentally. Against the standard of 0.5 litre *per* cum for OB removal, the average consumption of diesel by the contractors was below 0.4 litre *per* cum during 2001-06. Compared to the rate of 0.5 litre *per* cum for OB removal and 0.15 litre *per* tonne for lignite mining, there was an excess consumption of 2.80 lakh litres of diesel for works done departmentally during 2001-02. This resulted in excess expenditure of Rs.53.84 lakh during the year.

Consumption of diesel in excess of norms resulted in extra expenditure of Rs.2.26 crore.

In Rajpardi lignite project, during 2001-06, consumption of diesel by departmental machinery employed for lignite mining ranged between 0.31 and 0.62 litre *per* tonne against the norm of 0.15 litre *per* tonne. This resulted in excess consumption of 6.96 lakh litres of diesel valuing Rs.1.72 crore.

The management/Government stated (September/November 2006) that departmental machinery was used for other jobs also where measurement of work was not possible. The reply is not tenable. The Company is separately accounting the diesel consumption for auxiliary use and Audit has commented on the consumption of diesel used for mining activity, as furnished by the Company.

Excess expenditure due to non-reduction of contract demand

2.3.20 Lignite project Panandhro gets its power supply from erstwhile Gujarat Electricity Board (GEB) (now Paschim Gujarat Vij Company Limited) through 66 KV feeders. The contract demand of the project was 3,500 KVA for which the Company paid demand charges for a minimum of 2,975 KVA even if the actual demand fell below that level. In January 2003, the Company obtained an additional power connection with a contract demand of 275 KVA for its "C" block of the lignite mine. Due to this, the demand from the original connection came down and ranged between 1975 and 2834 KVA during January 2003 to June 2006.

Non-reduction of contract demand resulted in avoidable payment of Rs. 40.12 lakh.

The Company, while obtaining additional connection did not reassess its demand for supply of energy from the original connection and reduce its contract demand from 3,500 to 3,000 KVA in January 2003. Had this been done, it could have saved of Rs.40.12 lakh in power bills during January 2003 to June 2006. The Company reduced the contract demand to 3,200 KVA from March 2006.

It was noticed in audit that the reduced contract demand to 3,200 KVA was still high. The Energy Audit Report prepared on the project under the Gujarat Use of Electrical Energy (Regulation) Order, 1999 also clearly indicated (February 2006) that the contract demand under original connection should have been reduced to 3,000 KVA.

Non-implementation of energy audit recommendation

2.3.21 During 2002, NSIC Technical Services Centre, Rajkot conducted energy audit of Bauxite Calcination project, Gadhsisa and *inter alia* recommended (April 2002) installation of variable frequency (VF) drive in induced draft fan (ID fan) motors and primary air fan to reduce damper losses in ID fan. The energy loss in dampers was estimated at 96000 KWH per year worth Rs.5.30 lakh. The estimated cost for VF drive was Rs.16 lakh.

Though, the project office had brought the recommendation regarding installation of VF drive in April 2002 to the notice of Head Office, no action had been taken so far (September 2006). As a result, the Company had to forgo saving of Rs.10.60 lakh on power charges during the period when the plant was in operation (April 2002 to July 2002, November 2002 to March 2003 and August 2004 to October 2005).

The management/Government stated (September/November 2006) that initial requirement for ID fan was originally conceived in the context of AC variable drive and now the process had been initiated for procurement of VF drive. The fact remains that avoidable delay in implementation of recommendation had resulted in loss of saving of energy charges.

Sales contracts

Sales to Gujarat Electricity Board

2.3.22 A mention was made vide paragraph 2.1.5.2 and 2.1.5.2.2.of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial) - Government of Gujarat about supply of lignite to the erstwhile Gujarat Electricity Board[◊] (GEB) without any written agreement and also about non levy of interest of Rs.17.72 crore on the outstanding dues of Rs.77.50 crore from GEB (March 2001).

An exercise was carried out by Audit to verify the corrective action taken by the Company for recovery of dues from GEB during 2001-06. It was noticed that the Company had still not executed (September 2006) any written agreement with GEB to regulate the supply of lignite. During 2001-06, the lignite sales to GEB ranged between 10.03 lakh and 13.13 lakh tonnes *per* annum. GEB was, however, irregular in payment of its dues that ranged between Rs.7.32 crore and Rs.182.42 crore. This resulted in accumulation of interest amounting to Rs.85.07 crore[*] for the period 1991-2006.

The management/Government stated (September/November 2006) that it had recovered (September 2006) Rs.41.02 crore towards interest on the delayed payments made by GEB. The fact, however, remains that an amount of Rs.44.05 crore was still to be recovered from GEB (September 2006).

Discount scheme

2.3.23 The Company decided (May 2000) to give discount on the basic price of lignite to bulk consumers entering into long-term purchase agreement. The discount was allowed from June 2000 at the slab rates of five and eight *per cent* on the annual purchase quantity of lignite over one lakh up to three lakh tonnes and over three lakh tonnes respectively. Discount was offered in view of availability of cheaper imported coal and overall recession in the market. The Company further decided (July 2001) to give discount at the rate of eight, 12 and 15 *per cent* on the annual purchase quantity of lignite over three lakh up to five lakh tonnes, over five lakh up to seven lakh tonnes and over seven lakh tonnes respectively. A scrutiny of the discount scheme revealed as under:

Undue benefit to Nirma Limited

2.3.24 The Company entered into an agreement with Nirma Limited in January 2002 allowing discount on bulk purchase of lignite in terms of decision of May 2000 and July 2001. The discount rates were five and eight *per cent* on annual purchase of lignite of over one lakh and up to three lakh tonnes and over three lakh tonnes respectively.

Though the agreement was entered into in January 2002, the Company allowed the discount from 1 June 2001 and passed on (February 2002)

[◊] Presently called 'Gujarat State Electricity Corporation Limited'
[*] Calculated at the rate of 12 *percent* as decided by BOD of the Company in December 1990.

inadmissible discount of Rs.69.87 lakh on the sales from June 2001 to December 2001.

Discrepancies in implementation of discount scheme resulted in excess payment of Rs.1.30 crore.

Further, the agreement envisaged a discount of five *per cent* for quantity above one lakh and up to three lakh tonnes and eight *per cent* for quantity above three lakh tonnes. But the Company allowed (April 2002 to April 2003) discount at the flat rate of eight *per cent* on the entire quantity resulting in inadmissible discount of Rs.60.28 lakh during January 2002 to May 2003 on 6.42 lakh tonnes of lignite lifted by the firm.

The management/Government stated (September/November 2006) that the agreement was signed in January 2002 and was made effective from 01 June 2001 as clearly specified in the agreement. The reply is not tenable as discount on sales was offered to boost future sales and not the sales already effected before entering into the agreement. Further, the reply is silent about allowing inadmissible discount of Rs.60.28 lakh.

Loss due to long tenure of discount agreement

Execution of long term agreement and allowing discount resulted in loss of Rs.4.12 crore.

2.3.25 As per the practice, the Company was entering into supply agreement with customers offering discount on sales for a period of two years only. In April 2003, the Company entered into an agreement with Sanghi Industries (firm) for three year period. From 2004 onwards, there was higher demand for lignite due to which the Company discontinued the discount scheme effective from February 2005. Since an agreement for three years was already in force with the firm, the Company had to continue the discount scheme up to April 2006. As a result, the Company passed on benefit of Rs.4.12 crore as discount to the firm from April 2005 to April 2006. It was noticed during audit that the Company had entered into agreement with this firm for three years against its normal practice of two years. Further, there was no provision in the agreement for annual guaranteed off take by the firm to ensure that the Company gets the minimum guaranteed business.

The management/Government stated (September/November 2006) that it had entered into the agreement with the customers for two/three years. The reply is not tenable as it had entered into agreement with other customers for two years only. No justification was available on record.

Other points

Payment of dead rent after commencement of production of lignite

2.3.26 The Company had obtained (December 1986) lease covering an area of 568 hectares in Panandhro village, Lakhpat taluka of Kachchh district. The lease agreement was executed in 1988-89 for a period of 20 years from June 1988 and lignite mining started in 1991-92. It was noticed during audit that the Company had paid dead rent[#] of Rs.10.32 lakh during 1992-2004 in addition

[#] Rent payable irrespective of whether the mines worked or not to ensure a definite minimum income to the lessor.

to the royalty for the lignite produced. This had resulted in excess payment of Rs.10.32 lakh.

The management/Government accepted the excess payment made and stated (September/November 2006) that it had claimed refund of the dead rent paid. The matter was pending settlement (September 2006).

Expenditure on dewatering at exhausted mines of Rajpardi

Non-filling of mine pit resulted in avoidable expenditure of Rs.2.31 crore on dewatering.

2.3.27 The Company completed lignite mining in the western parts of Rajpardi mines in March 2004 and left a mine pit covering about 20 hectares with depth of up to 80 metres. The Company had planned to dump OB from the second lease for which application was made during 1993. MOEF did not grant environmental clearance for the second lease as hydrological report, village rehabilitation and land acquisition were pending from the Company's side. Consequently, the mine pit was not filled. Due to seepage and rain, water began to accumulate in the pit. The Company during April 2005 to June 2006 had to pump out water from the pit to keep it dry incurring power charges of Rs.2.31 crore.

It was noticed during audit that though the State Government had issued Letter of Intent for the new lease in September 2002, hydrological study was taken up by the Company only in April 2004 after which application for clearance was submitted to MOEF in October 2005. MOEF granted clearance in July 2006. Thus, due to delay in obtaining clearance, the Company had incurred avoidable expenditure on dewatering (June 2006).

Monitoring and corporate governance

2.3.28 A mention was made in paragraph 4.19 of the Report of Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial) – Government of Gujarat about deficient corporate governance existed in the Company. It was noticed during audit that the deficiencies pointed out continued to persist during 2005-06 as would be evident from the following:

- There was no fulltime Managing Director during January 2002 to April 2002 and October 2002 to May 2003. Against the strength of 14 directors on the Board of Directors (BOD) of the Company, posts of two non-executive directors were vacant from November 2002 and that of seven non-executive directors were vacant from January 2003 to March 2006.
- During 2001-06, one non-executive director did not attend any of the 37 meetings held during his tenure up to December 2005. Two non-executive directors attended only two out of five meetings held during 2001-02.
- Audit Committee (AC) constituted under section 292A of the Companies Act, 1956 did not hold any meeting in 2001-02. It met only once during 2002-03 and twice during 2003-04 against a minimum of three meetings to be held as per clause 49 II (B) of the listing agreement. The Chairman of AC was not an independent director as

stipulated in clause 49 of the listing agreement read with the clarification issued by the Securities and Exchange Bond of India. The AC did not meet to consider and review annual accounts for 2001-02 to 2003-04 before these were placed before the BOD for approval. AC did not hold any discussions with the Statutory Auditors before commencement and after completion of audit.

- Internal Auditors and Statutory Auditors did not attend any of the AC meetings held during 2002-05. During 2005-06, they did not attend three out of five meetings held thereby not complying with the provisions of section 292A (5) of the Companies Act, 1956.

- The Chairman of the AC did not attend the Annual General Meetings held during 2003-06 in contravention of section 292A (10) of the Companies Act, 1956.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the management at various stages of conducting the performance audit.

Conclusion

Performance of the Company relating to mining activities was deficient due to failure to complete the required formalities. The Company failed to achieve the targeted production in any of the year. Utilisation of both specialised as well as contractual machinery was sub optimal and consumption of diesel in departmental machinery was high. The Company made avoidable expenditure on dead rent, contract demand of electricity and dewatering of mine pit. The Company allowed excess discount on sale of lignite due to incorrect working and deviation from normal practice.

Recommendations

The Company needs to:

- **pursue effectively with the concerned authorities for obtaining leases in reasonable time;**

- **take action for effective utilisation of the machinery and manpower available with the Company;**

- **fix norms in respect of consumption of diesel in departmental machinery; and**

- **establish an effective price monitoring system which can help maximise revenue.**

Gujarat Women Economic Development Corporation Limited

2.4 Implementation of welfare schemes for women

Highlights

Though the Company was formed in August 1988 with the objective of upliftment of women population in the State, the schemes implemented by the Company during 2001-06 covered less than one *per cent* of the women population of the State. The Company did not maintain any database of the targeted women population in the State.

(Paragraphs 2.4.1 and 2.4.6)

Under Ghardiwada scheme, the Company's failure to revise the subsidy amount as per the direction of Government of Gujarat resulted in excess payment of subsidy amounting to Rs.20.11 lakh to some beneficiaries whereas Rs.1.73 lakh were short paid to others.

Weak monitoring led to delay in disbursement of subsidy by 17 to 1,404 days resulted in additional interest burden on the beneficiaries.

(Paragraph 2.4.8)

Under the General Training Scheme, the Company in disregard of the Government directives accepted inadmissible income certificate from the beneficiaries. Further, after discontinuation of the scheme in April 2003, the Company was unable to arrange adequate number of trainings.

(Paragraph 2.4.9)

Under Swa Shakti project, out of Rs.31.18 crore earmarked for Gujarat (October 1998), the Company spent only Rs.11.32 crore (till closure of the project in June 2005). Further, the Company did not disburse any loan to Self Help Groups from the revolving fund of Rs.70 lakh received (2000-01)

(Paragraph 2.4.12)

Under NORAD Training Scheme, the required reports on the employment status of the trainees after completion of training were not obtained from the NGOs. Besides, the Company failed to devise any system for physical verification of the assets of Rs.40.73 lakh created by the NGOs out of the grants.

(Paragraph 2.4.13)

Introduction

The coverage of beneficiaries constitutes 0.98 *per cent* of the State's women population.

2.4.1 Gujarat Women Economic Development Corporation Limited (the Company) was incorporated on 16 August 1988 as a wholly owned Government Company to undertake the task of implementing various Government of India (GOI)/Government of Gujarat (GOG) schemes for women welfare in the State. The main objective of the Company is to promote activities for the welfare, upliftment and advancement of women, promote literacy, talent, spirit of entrepreneurship and business acumen among women and to undertake all types of activities in trade, commerce, business and industries generally to provide employment to women. During 2001-06, the Company implemented 20 (GOG-8 and GOI-12) schemes and spent Rs.18.88 crore covering 2,38,258 beneficiaries as detailed in ***Annexure*-14.** The annual coverage of beneficiaries during 2001-06 constitutes 0.98 *per cent* of the women population of the State (as per Census 2001). This indicates the ineffective and insignificant role of the Company, though it was incorporated with main objective of uplifting women in the State.

The management of the Company is vested in a Board of Directors (BOD). As of March 2006, the Company had five directors as against maximum 12 directors as per the Articles of Association (AOA) of the Company. The Managing Director (MD), who is the Chief Executive, is assisted in day-to-day operations by a General Manager and two Managers. The Company is managing its activities through Field Officers posted at various districts of the State. This is the first review of the performance of the Company since its incorporation.

Scope of Audit

2.4.2 The present review conducted during April and June 2006 covers the performance of the Company in eight[#] out of twenty schemes implemented by it during 2001-06. These schemes were selected for detailed audit, based on their financial outlay which constituted 94 *per cent* of the total expenditure on the schemes during 2001-06.

Audit objectives

2.4.3 The audit objectives of the review were to ascertain whether:

- the Company had adequately planned the implementation of the schemes to cover the needy women population in an effective and efficient manner;
- the targets set for implementation of various schemes were achieved;

[#] ***GOG Schemes:*** Ghardiwada scheme, General training scheme, Margin money scheme and Retail outlet scheme. ***GOI Schemes*:** Swa Shakti Project, Norwegian Agency for International Development (NORAD) General Training Programme, NORAD Training Programme for Earthquake affected Women and NORAD Training Programme for Riot affected Women.

- the Company had devised an effective system of identification, appraisal, and release of subsidy in a time bound manner;
- the financial assistance provided under the schemes was in conformity with the guidelines issued by GOI/GOG; and
- the Company had evolved an effective system of monitoring at the highest level to ensure that the schemes were implemented properly to achieve the stated objectives.

Audit criteria

2.4.4 The following audit criteria were adopted for assessing the performance of the Company:

- adequacy of financial assistance vis-à-vis project cost;
- guidelines issued by GOG/GOI, decisions of BOD and annual plan;
- physical and financial targets set by the Company;
- eligibility norms for selecting beneficiaries/NGOs; and
- terms of the agreements executed with the beneficiaries.

Audit methodology

2.4.5 Audit followed a mix of the following methodologies:

- review of five year/annual budgets of the Company, agenda and minutes of the meetings of BOD, guidelines issued by GOI/GOG, monthly progress reports, financial statements of the Company, agreement with NGO, evaluation reports and other relevant records;
- analysis of selection procedure of beneficiaries/NGOs for implementation of schemes; and
- questionnaires issued to the Company.

Audit findings

The audit findings were reported to the Government/ management in July 2006 and discussed at a meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 19 September 2006 which was attended by the Joint Secretary, women and Child Development, Government of Gujarat and the Managing Director of the Company. The views of the Government and the management were taken into account while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

Planning

2.4.6 For effective implementation of the schemes, it was necessary to identify the beneficiaries through proper surveys, prepare efficient plans for deployment of available funds, mobilisation of adequate manpower and their reorientation to meet the objectives of the schemes. The following deficiencies were noticed in the planning of the schemes:

- The Company neither conducted any survey nor compiled any data on the targeted women population in the State in terms of village/district-wise dispersion of women and their occupational pattern. In the absence of such a database, the Company could not fix physical and financial targets so as to cover the entire eligible women population in a phased manner. Thus, planning of the Company in terms of identification and coverage was inadequate.

- The main objectives of the Company include undertaking all types of activities in trade/commerce/business/industries, to provide employment to the women. The Company, however, did not undertake such activities in spite of having fund of Rs.7.02[£] crore as equity capital. The Company kept funds of Rs.5.02 crore in Personal Ledger Account (PLA), Rs.1.70 crore was invested with Gujarat State Financial Services Limited and the remaining Rs.30 lakh was kept in a bank. This indicates that the Company had not drawn up a plan for efficient utilisation of the available funds.

- The Committee on Public Undertakings (COPU) during its meeting held on 4 June 2003 on the working of the Company had desired that the Company should increase its staff strength after ascertaining the requirement. The Company, however, did not make adequate efforts to increase its staff strength. Besides, the existing managerial positions of the Company were filled by officials of GOG on deputation basis for an average span of 25 months only. The short tenure of the officials does not often elicit full commitment towards the implementation of a scheme**.**

The management/Government stated (September 2006) that the equity fund of Rs.5.02 crore kept in PLA could not be used as prior approval of the Finance Department (FD), GOG, was required for its utilisation. The Company further stated that it had to depend on the GOG directives for any increase in staff strength and duration of officials on deputation. The reply is not tenable as the Company had never approached FD with any proposal for utilising its equity fund. Further, there was nothing on record to indicate any proposals made by it for increasing staff strength or tenure of officials on deputation.

[£] Rs.5.32 crore by GOG and Rs.1.70 crore by GOI.

Targets and achievements

2.4.7 The Company did not fix any annual targets for GOI sponsored schemes. It, however, fixed physical/financial targets for the GOG sponsored schemes. The following table shows the physical and financial targets vis-à-vis achievements under GOG schemes during 2001-06:

Year	Targets		Achievements		Percentage of achievements	
	Physical	Financial (Rs. in lakh)	Physical	Financial (Rs. in lakh)	Physical	Financial
2001-02	13550	90.00	11,176	85.37	82.48	94.97
2002-03	12850	90.00	2,837	98.95	22.08	109.94
2003-04	53850	87.00	23,283	56.84	43.23	65.33
2004-05	53860	87.00	27,637	124.53	51.31	143.14
2005-06 (prov.)	35390	200.00	24,584	124.94	69.47	62.47

Physical and Financial targets were not achieved.

It would be seen that the achievement of the physical targets ranged from 22.08 to 82.48 *per cent* and the financial targets were 62.47 to 143.14 *per cent* during 2001-06. The wide variations between physical and financial targets were mainly due to large disparity between financial outlay per beneficiary under various schemes.

Details of targets and achievement in terms of the number of beneficiaries covered and the financial outlay involved under each scheme implemented during 2001-06 are given in ***Annexure*-14.** The shortfalls in achievement of targets under selected schemes are discussed below:

The Company did not achieve physical targets for Ghardiwada scheme (2001-02, 2003-04,), General training scheme (2001-03), Margin money scheme (2003-04) and Retail outlet scheme (2001-04).

The Company did not achieve financial targets in case of Ghardiwada scheme (2003-04, 2005-06), General training scheme (2001-03), Margin money scheme (2001-04) and Retail outlet scheme (2001-04).

The management/Government stated (September 2006) that the targets could not be achieved during 2002-05 due to diversion of its manpower for implementing the Norwegian Agency for International Development (NORAD) training programme for earthquake/riot affected women. The reply is not tenable as there was shortfall in achievement of targets by 27 and 46 *per cent* even under the NORAD schemes undertaken by the Company.

Performance of the Company in implementing the schemes

The scheme-wise performance of the Company is discussed in the succeeding paragraphs:

Government of Gujarat Schemes

Ghardiwada Scheme

2.4.8 As per the directions of GOG (January 1996), the Company was implementing this scheme for generating employment among the women living Below Poverty Line (BPL). Under this scheme, subsidy was payable at par with other bankable schemes. Under the scheme, the Company identifies BPL women with annual family income of up to Rs.11,800 in urban areas and Rs.11,000 in rural areas and recommends their applications to the banks for sanctioning loan up to Rs.25,000 *per* woman. The banks sanction and release the loans to the beneficiaries. Thereafter, the Company utilising the grant received for the scheme remits the subsidy directly to the loan account of the beneficiary in the bank. Thus, the beneficiary gets the subsidy in the form of reduction in loan amount. The Company gives the subsidy at the rate of 50 *per cent* (Scheduled Caste/Schedule Tribe beneficiaries) and 33.33 *per cent* (other beneficiaries) where the loan amount is less than Rs.10,000 and 40 *per cent*, 30 *per cent* and 25 *per cent* in case of Schedule Caste, Schedule Tribe and General category respectively where the loan amount is more than Rs.10,000. During 2001-06, the Company spent Rs.3.90 crore covering 8992 beneficiaries. The targets and achievement under the scheme were as below:

Year	Targets		Achievement	
	Physical (Number of beneficiaries)	Financial (Rs. in lakh)	Physical (Number of beneficiaries)	Financial (Rs. in lakh)
2001-02	2000	56.52	1417	60.38
2002-03	1200	56.52	1495	65.15
2003-04	1600	68.55	996	46.02
2004-05	1860	79.00	2246	104.88
2005-06 (prov.)	1890	170.00	2838	113.50

The Directorate of Evaluation, Bureau of Economics and Statistics, GOG *vide* their report on Ghardiwada scheme based on a study conducted during 2000-01, had recommended that the Company should select beneficiaries from BPL list, enhance monetary limit of loan, devise a system to verify the assets acquired out of loan, *etc.* The Company, however, did not implement these recommendations to improve the effectiveness of the scheme. Other deficiencies noticed in implementation of the scheme are as under:

- For effective implementation of the scheme, there should be an adequate database of targeted beneficiaries and the Company should also devise a mechanism for proper fixation of the targets. The Company did not maintain any database of beneficiaries. The targets were fixed without considering any norm or statistics regarding targeted beneficiaries. The Company, could not ensure coverage of beneficiaries in terms of district/category wise priorities. The details of applications received and rejected by the Company were also not on record.

- Since income of the beneficiary was the basic eligibility condition for selection of beneficiaries, GOG had issued directives in November 1998 listing out the designated authorities for issuing such income certificates. It was, however, noticed in audit that the Company, in violation of the above directives, had provided assistance on the basis of certificates which were not valid for the purpose.

- The Company exceeded its financial targets during 2001-03 and 2004-05. It spent Rs.3.86 lakh (2001-02), Rs.8.63 lakh (2002-03) and Rs.25.88 lakh (2004-05) in excess of the budget provisions for Ghardiwada scheme by diverting funds from other schemes.

Failure to revise subsidy rates resulted in excess/ short payment of subsidy.

- Despite GOG directions to sanction subsidy under Ghardiwada bankable[•] scheme at par with other bankable schemes of GOG, the Company did not revise the rate of subsidy during 1999 and 2001 at par with the revised subsidy for other bankable schemes. It continued to disburse subsidy at the rates as decided in 1996. This resulted in difference in payment of subsidy ranging between (-) 20 and 10 *per cent* under different categories during 1999-2006[∨]. Audit scrutiny of 2,246 cases revealed that the Company had made excess payment of Rs.20.11 lakh to some beneficiaries and short payment of Rs.1.73 lakh to others.

- Audit scrutiny further revealed that the Company did not devise any mechanism to monitor timely recommendation of loan, sanction of loan by the bank and disbursement of subsidy amount. Therefore, the overall extent of delay that occurred in any of these stages could not be analysed in audit. Scrutiny of 450 of out of 8,992 cases of subsidy disbursed during 2001-06 revealed that in 445 cases, the Company took 17 to 1,404 days in sending the cheques of subsidy to the banks, which resulted in excess interest burden of Rs.1.05 lakh to the beneficiaries for the period from the date of disbursement of loan to the date of receipt of subsidy amount by the banks.

- Out of 22,464 loan applications recommended by the Company, 8,992 applications were approved by the banks during 2001-06. The banks rejected 5,188 applications and kept 8,284 applications pending as on 31 March 2006. It was noticed during audit that more applications than targeted were forwarded to the banks with a view to achieve the annual targets. The reason for rejection of the applications by the banks was the different criteria followed by the Company and the banks for

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[•] A bankable scheme is one where the banks sanction and disburse loans to the beneficiaries recommended by the Company and a part of the loan is subsidised by the Government.

[∨] The Company revised subsidy rates in February 2006 at par with other bankable schemes.

recommendations and sanction of loan. There was, thus, lack of coordination between the bank and the Company with regard to the criteria of selection of beneficiaries leading to rejection of large number of applications by the banks. It is pertinent to note that the Committee on Public Undertakings (COPU) during its meeting held on 4 June 2003[$] on the working of the Company had desired that the Company should take necessary steps to ensure reduction in number of applications rejected by the banks. It was, however, observed in audit that out of 12,338 applications recommended by the Company during 2004-06, 7,254 (59 *per cent*) applications were rejected/retained by the banks, which indicates inadequate efforts made by the Company in this regard.

- There was no system of obtaining feedback from the beneficiaries in order to ascertain the end use of the loan by the beneficiaries and the benefit derived from the scheme.

The management/Government, while accepting the above deficiencies stated (September 2006) that corrective action would be taken for limiting the expenditure under the schemes within the budgeted allocation, reducing the delay in disbursement of subsidy and reduction in rate of rejection of applications by the banks. It was also stated that the recommendations made by the Directorate of Evaluation could not be fully implemented due to staff shortage.

General training scheme

2.4.9 Under the scheme, till 2002-03 the Company had imparted training to needy women so as to enable them to take up any vocation either for traditional activities like embroidery, readymade garment, *etc*. or non traditional activities like computer course, beauty parlour course, *etc*. The trainings were imparted to the women living BPL in the age group of 17 to 45 years through programmes conducted by NGOs. The Company provided Rs.150 per trainee per month to the NGO and Rs.250 per month as stipend to the trainees. During 2001-03, the Company conducted 122 training courses of three to six months duration covering 2,152 beneficiaries and incurred expenditure of Rs.49.04 lakh. The targets and achievement under the scheme are as below:

Year	**Targets**		**Achievements**	
	Physical	**Financial (Rs. in lakh)**	**Physical**	**Financial (Rs. in lakh)**
2001-02	1250	30.00	1236	19.26
2002-03	1250	30.00	916	29.68

Deficiencies in the implementation of the scheme

- The Company neither maintained an adequate database regarding targeted beneficiaries nor did it prepare detailed training programme

[$] Recommendations included in the Eleventh Report of 11th Assembly.

guidelines. In the absence of such guidelines, the Company implemented the scheme depending on training programmes proposed by the NGOs at their discretion. The tenure of the training programmes of each trade was not specifically fixed by the Company which resulted in different tenures of training programmes on the same trade by the same/different NGOs in 109 cases.

- No system exists for collection and evaluation of feedback from the trainees after completion of the training.

- Since income of the beneficiary was the basic eligibility condition for selection of beneficiaries, GOG had issued directives in November 1998 listing out the designated authorities for issuing such income certificates. It was, however, noticed in audit that the Company in violation of the above directives, had provided assistance on the basis of certificates which were not valid for the purpose.

- Though, the monthly stipend was meant for procurement of raw material by the trainees and for meeting their conveyance expenditure to attend the training, the Company paid monthly stipend to the trainees through NGO's only after completion of the training programme. This defeated the purpose of the stipend.

- The Company failed to obtain from the NGO's the details of the employment status of the trainees after completion of the training, as stipulated in the scheme guidelines.

- The Company discontinued the training prorgramme from 2003-04 on the plea that the Company was conducting similar training under NORAD General Training Scheme on the same pattern. As against the average of 68 training courses conducted *per* year during 2001-03 covering all the districts under both the schemes, only nine training programmes in three districts were conducted under the NORAD General Training Scheme during 2003-05. As a result, the number of training programmes arranged for the upliftment of women came down sharply from 136 in 2001-03 to nine in 2003-05 and the coverage of the beneficiaries was also reduced from 3248 (2001-03) to 330 (2003-05).

The management/Government while accepting the above deficiencies stated (September 2006) that due care would be taken for collection and evaluation of feedback from the trainees after completion of training and for obtaining employment status from the NGOs. Further, the income certificates issued by persons not authorised in the Government directives were accepted for facilitating rural women who faced difficulties in obtaining the certificate from the designated authorities. The reply is not tenable as Panchayat Development Officer working in rural areas was also included as the designated authority in the said directives.

Margin Money Scheme

2.4.10 Under this scheme, introduced in 1988-89, registered Industrial Cooperatives (the Co-operatives) of women engaged in production activities were eligible for financial assistance up to 20 *per cent* of the annual sales or Rs.25,000 or Rs.600 *per* BPL member, which ever was least. The margin money (assistance) was paid to the Cooperatives for a maximum period of three years, based on the audited accounts of the Cooperatives. The scheme was implemented till 2003-04. Reasons for discontinuation of the scheme were not made available to Audit.

Audit scrutiny revealed the following deficiencies in the implementation of the scheme:

- Despite the condition that Utilisation Certificate was required to be furnished by the Cooperatives, the Company did not insist on furnishing of the Utilisation Certificate. Out of 14 Cooperatives covered under this scheme during 2001-04, only one Cooperative furnished the Utilisation Certificate. In the absence of Utilisation Certificates proper utilisation of Margin Money by the Cooperatives could not be verified in audit.

- Though, the objective of the scheme was to provide employment to BPL women, no mechanism was in place to ensure that the Cooperatives were providing employment to BPL women only.

- Coverage of the scheme was low as the scheme was implemented in only ten out of 25 districts of the State (two districts each during 2001-03 and eight districts during 2003-04).

The management/Government, while accepting the deficiencies stated (September 2006) that the Utilisation Certificate from the Cooperatives could not be obtained due to shortage of staff and that a system would be devised to ensure that the Cooperatives provide employment to BPL women only. As regards low coverage of districts, it was stated that appropriate proposal was not received from the NGOs for implementing the schemes in the remaining 15 districts. The reply is not tenable as BPL population in majority of districts remained deprived of the benefits of the scheme. The Company should have initiated action and discussions with the NGOs to draw up schemes for covering all districts.

Retail outlet scheme

2.4.11 Under this scheme, introduced in 1996-97, the Company provides financial assistance to registered women Cooperatives, women NGOs and Self Help Groups (SHGs)[*] promoted by District Rural Development Agency (DRDA) for setting up and running their own retail outlets for marketing their products. The eligible agencies are provided with financial assistance of

[*] Association of women preferably from same socio economic background constituted with a view to enhance social and financial status of women by working in group environment.

Rs.4,000 *per month* for a maximum period of six months to meet recurring administrative expenses. Besides, the above agencies were also eligible for interest free loan up to Rs.15,000 which was to be repaid in two years. The scheme was implemented till 2003-04. Reasons for discontinuation of the scheme were not made available to Audit

The following deficiencies were noticed in the implementation of the scheme :

- No data base of the beneficiaries covered by the cooperatives under the scheme was maintained.

- No mechanism was in place to ensure that the Cooperatives were providing employment to BPL women only.

- The financial assistance given to the Cooperatives was subject to the condition that they should operate the retail outlet for a minimum period of three years. In case of prior closure of the retail outlet, the Cooperatives were liable to refund the amount received by them. It was noticed during audit that the Company did not have any monitoring mechanism to verify the existence of the cooperatives after the financial assistance was released to them.

- During 2001-04, the Company implemented the scheme only in five out of 25 districts of the State and provided financial assistance to seven co-operatives. No reason for selection of only five districts was on record.

The management/Government while accepting the deficiencies stated (September 2006) that system would be devised to ensure that the Cooperatives provide employment to BPL women only. As regards low coverage of districts, it was stated that no appropriate proposals from the NGOs were received for implementing the schemes in the remaining 20 districts. The reply is not tenable as BPL population in majority of districts remained deprived of the benefits of the scheme and the Company should have taken action to have the NGO's draw up and implement schemes covering all districts.

Government of India schemes

Swa Shakti project

2.4.12 The Swa Shakti project (Project) is a Rural Women's Development and Empowerment Project sponsored by World Bank and International Fund for Agricultural Development (IFAD) launched in October 1998. The Project aims at enhancing women's access to resources for a better quality of life, health, literacy and increasing their control over their income through their involvement in development schemes and income generating activities. Under the Project, women Self Help Group (SHGs) are formed to act as a vehicle to achieve the objectives of the project. An amount of Rs.31.18 crore was earmarked for Gujarat for implementation of the project. Besides, a revolving fund of Rs.70 lakh was also earmarked (January 2001) to enable the SHGs to extend loans to its members. The Company, being a nodal agency of GOG, in turn contracted NGOs to form and nurture SHGs. The Project was initially implemented in three districts and thereafter extended twice (August 2000 and February 2002) to finally cover ten districts[#] during 1998-2005. The Project covered 1,285 villages of 55 talukas in 10 districts. A total of 2,593 SHGs were formed having 44,320 members, through 66 NGOs during 1998-2005.

The following deficiencies were noticed in the implementation of the project :

- No database of the beneficiaries in SHGs was maintained
- The basis of selection of women in SHGs could not be verified as records were not made available to Audit.
- Out of Rs.31.18 crore earmarked for Gujarat (October 1998), the Company spent Rs.11.32 crore only (till June 2005). Further, the Company did not disburse any loan to SHGs from the revolving fund of Rs.70 lakh received in 2000-01.
- The Company did not fill the post of Marketing Coordinator for implementation of the Project during 1998-2005.

Assets worth Rs.15.96 lakh created outside the scope of project guidelines.

- As per the guidelines, the Project would assist SHGs to create assets, such as drinking water facilities, sanitation, multipurpose halls or acquisition of teaching and learning material for schools or pre-school groups. During 1998-2005, Community assets worth Rs.65.32 lakh were created under the project. These included assets such as reinforced cement road, coffee wending machine, *etc.*, costing Rs.15.96 lakh which were not admissible as per the Project guidelines
- As per the project guidelines, a ceiling of Rs.1.20 lakh *per annum* was fixed for hiring vehicle by the Company. Besides, if needed, additional vehicle could be hired for which an expenditure of Rs.24,000 *per annum* at State level and Rs.12,000 *per annum* at district level was allowed. It was noticed that at the State level and in three[*] districts, excess expenditure of Rs.3.30 lakh towards hire charges was incurred during 2001-05. No justification was on record for the excess expenditure.
- The scheme guidelines had prescribed the ideal size of Cluster Groups (CGs) consisting of 15-20 SHGs (200-500 members) for their effective functioning. It was noticed that in eight cases, CGs formed consisted of more than 20 SHGs ranging between 27 and 60 SHGs and beneficiaries ranging from 500 to 1,147 members. Further, CGs consisting of less than 15 SHGs were also formed in 44 cases.
- Directives of GOI (February 2000) prescribed visit/supervision by the Project Director, Training Co-ordinator, Marketing Co-ordinator and

[#] Panchmahal, Dahod, Sarbarkantha, Bharuch, Narmada, Surendranagar, Ahmedabad, Patan, Kachchh and Rajkot.

[*] Ahmedabad, Sabarkantha and Surendranagar

Monitoring Officers to the site of implementation of the Project and submission of monthly diaries to the Managing Director of the Company. Scrutiny of records revealed that these directives were not complied with, resulting in inadequate monitoring of the scheme's implementation by the Company.

The management/Government stated (September 2006) that the under utilisation of earmarked fund for the scheme was due to delay in appointment of suitable personnel for carrying out project activities. The project activities were not adequately supervised due to frequent changes of project officials. It was also stated that the community assets other than those prescribed in the guidelines were created for providing benefit/relief to the women in carrying out their day to day activities. The reply is not tenable as the scheme guidelines did not permit such deviations. The reply does not contain any specific comment on the remaining deficiencies pointed out.

NORAD training scheme

2.4.13 The GOI, under the financial support of NORAD offers assistance for setting up of projects on a sustainable basis for poor and needy women in both urban slums and rural areas. The Company (since 1998-99) works as a nodal agency for implementation of the NORAD training scheme through NGO's. Under the scheme, skill based training is imparted on various trades so as to enable the poor and needy women to engage themselves in income generating activities on a sustainable basis. Proposals are submitted by the NGO's to the Company which in turn obtains the approval of GOI and releases fund to NGO's for implementation of the project. During implementation the Company provides technical and managerial assistance to NGOs besides monitoring the progress of training arranged by NGO's. GOI also released (February 2001) grant-in-aid of Rs.50 lakh to the Company under the NORAD training scheme for providing relief to the women affected by the earthquake of January 2001. Thereafter, GOI earmarked rupees four crore (May 2002) under the NORAD training scheme to provide training in income generating activities to the women residing in the relief camps of riot affected victims in Gujarat.

The details of three training programmes conducted by the Company under NORAD training scheme during 2001-06 are given below:

Sl. No.	Training programme	Number of NGOs	Number of trainings	Number of beneficiaries	Expenditure incurred (Rs.in lakh)
1.	General training programme	14	14	1726	43.18
2.	Training programme for earthquake affected women	19	19	1015	36.54
3.	Training programme for riot affected women	51	86	5998	222.64

Audit scrutiny revealed the following deficiencies in implementation of the schemes:

- The Company did not maintain any database of the beneficiaries for monitoring, feedback, impact assessment and to prevent duplication of trainees in different training programmes.

- During 2001-05, out of 109 proposals sent by the Company for conducting training programmes under the NORAD General training programme, only four proposals were sanctioned by the GOI, 61 proposals were returned (February 2005) to the Company due to various deficiencies like non submission of relevant records (annual accounts, list of beneficiaries, placement status of previous trainees, qualification details of trainers *etc*.) and 44 proposals were kept in abeyance (March 2005). This indicates laxity on the part of the Company in scrutinising the proposals before sending them to GOI and also in pursuance with GOI for getting them approved.

- Though the age prescribed for the trainees was between 18 to 45 years, 114 out of 575 trainees in eight different training programmes conducted under NORAD training for riot affected women were above 45 years. Thus expenditure of Rs.3.59 lakh was incurred in violation of the scheme guideline.

- Under the training programme for the earthquake affected women, despite clear instructions for imparting training to earthquake affected women, the Company did not have any system to ensure that only the earthquake victims were trained. The Company had sent a proposal to GOI for conducting the training programmes at severely earthquake affected districts/talukas only. It, however, conducted training programmes at Ahmedabad and Rajkot, which were not included in the proposal sent to GOI for sanction. Though Rs.13.46 lakh remained unspent, no training programmes were conducted in severely earthquake affected talukas *viz.*, Bhachau and Rapar of Kachchh District. Out of 19 trainings conducted, 11 trainings were conducted at a cost of Rs.15.76 lakh on trades not approved by NORAD.

- Out of rupees four crore earmarked for Riot Affected Training programme, the Company could spend Rs.2.17 crore only till March 2005, when the relief camps were closed. Out of 98 relief camps operated in eight districts during the riot, the Company covered 52 relief camps only. No training programmes were conducted in Anand and Dahod districts.

No system was devised for verification of assets worth Rs.40.73 lakh created by NGOs.

- NGOs were allocated Rs.40.73 lakh under different projects under NORAD General Training Programme and NORAD training programme for Earthquake affected women for the procurement of equipment related to the training programmes during 1998-2005. The NORAD guideline stipulates that the fixed assets created by NGOs out of the grant released should be properly accounted for and should not be disposed of, encumbered or diverted for any other purpose without the prior approval of GOI. The Company, however, neither maintained any record to show the location of assets nor conducted physical verification to ascertain their existence.

- No system existed for compilation and evaluation of feedback from trainees after completion of the training programmes conducted by NGOs. Besides, no evaluation was conducted on general/earthquake affected NORAD training programmes.

- As per the scheme guidelines for assistance to projects under NORAD, the NGOs were required to submit six monthly reports up to five years after the completion of the training regarding employment status of the trainees. The Company, however, failed to ensure the submission of report by NGOs on the plea of shortage of staff.

The management/Government stated (September 2006) that corrective action would be taken for preparation of database of beneficiaries and collection and evaluation of feedback from trainees, but no specific reply was given for the various other deficiencies pointed out as above.

Unspent grants

2.4.14 As per Rule 8 of the Gujarat Financial Rules, 1971 (GFR) the money should not be drawn from the treasury unless required for immediate disbursement. Further, Rule 154(5) of GFRs provides that unless it is otherwise ordered by the Government, every grant made for a specific object shall be subject to the following implied conditions:

- The grant shall be spent upon the objective within one year if no time limit has been fixed by the competent officer.

- Any portion of the amount which is not required for expenditure upon that objective this shall be duly surrendered.

Audit scrutiny revealed that out of Rs.19.20 crore received during 2001-06 as grant from GOI/GOG, the Company had unspent grant amount of Rs.93.74 lakh as on 31 March 2006. This unspent balance includes Rs.41.82 lakh lying with the Company for four or more years. Despite the specific provision of the GFR, the Company had not surrendered the unspent grant to GOI/GOG. Besides, due to non-utilisation of scheme funds earmarked for upliftment of the women, the objective of the financial assistance remained unachieved.

The management/Government stated (September 2006) that suitable action for dealing with unspent grant was under its consideration.

Internal audit/Internal control

2.4.15 Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and orderly manner. Audit scrutiny revealed the following deficiencies in the Internal Control and Internal Audit**.**

The Company appoints firms of Chartered Accountants for conducting internal audit. During 2001-06, internal audit of the Company was delayed due to delay in appointment of internal auditor (IA) by 7 to 15 months in the respective financial years. Further, in disregard of GOG directives of July 1981 and July 2001, the Company appointed IA without obtaining approval from the BOD. The IA reports were not placed before the BOD.

The management/Government stated (September 2006) that the IA reports were reviewed by the Audit Committee (AC) which in turn submit their observations on IA and internal control system (ICS) to the BOD. The reply is not tenable as the IA reports were not submitted to BOD despite GOG directive. Further, the reply is silent on the delay in appointment of the IA and not obtaining approval of BOD for their appointment.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by different levels of the management at various stages of conducting the performance audit.

Conclusion

The performance of the Company with regard to implementation of welfare schemes for women was found to be deficient as the Company's coverage of the beneficiaries during 2001-06 was less than one *per cent*. The Company had violated the scheme guidelines by way of accepting inadmissible income certificates. There were improper disbursements, diversion of funds and cases of imparting of training to ineligible persons. Monitoring and follow-up of the schemes was absent as the Company did not maintain any database of the beneficiaries nor did it make any effort to assess the impact and outcome of the scheme implementation. The Company failed to take corrective measures as recommended by Committee on Public Undertakings for improving the overall performance of the Company in implementing the schemes meant for the upliftment of women.

Recommendations

The Company needs to:

- **increase coverage of women beneficiaries under various schemes, by creating an adequate database of the targeted population;**
- **appoint managerial staff on long term basis for proper implementation of GOG/GOI schemes;**
- **devise a system for monitoring and evaluation of the schemes implemented for taking corrective action wherever required.**

Gujarat Rural Industries Marketing Corporation Limited

2.5 Upliftment of rural artisans

Highlights

The Company spent Rs.24 lakh for giving training to 82 tanners at Central Leather Research Institute, Chennai. The effectiveness of the training programme could not be evaluated in audit as the Company did not maintain any record relating to seven out of eight phases of the programme.

(*Paragraph 2.5.9*)

Utilisation of revolving funds for Kachchh mahila rojgar and earthquake affected area was insignificant resulting in surrender of Rs.28 lakh out of Rs.50 lakh provided for the purpose.

(*Paragraphs 2.5.10 and 2.5.11*)

The Company retained unspent balance of Rs.81.54 lakh in disregard of the provisions of Gujarat Financial Rules, 1971.

(*Paragraph 2.5.13*)

Retention of Rs.64.94 lakh to Rs.6.47 crore in current accounts resulted in loss of interest of Rs.63.74 lakh during 2001-06. Besides, failure of the Company to initiate action resulted in non recovery of dues of Rs.1.72 crore from Leather Co-operative Societies.

(*Paragraphs 2.5.16 and 2.5.17*)

Introduction

2.5.1 Gujarat Rural Industries Marketing Corporation Limited (the Company) was incorporated on 16 May 1979, as a wholly owned Government company with the main objectives of marketing of products of rural industries, providing technical and managerial assistance to rural artisans engaged in rural/village industries$^{\nabla}$ of Gujarat, imparting training to rural artisans and organising production through cooperative societies and individual artisans at the Company's own production centres.

$^{\nabla}$ Under section 2 (h) (i) of the Khadi and Village Industries Commission Act, 1956 "a village industry is any industry located in rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed fifteen thousand rupees or such other sum as may, by notification in the official Gazette, be specified from time to time by the Central Government".

The Company implements State/Central Government schemes relating to welfare of rural artisans such as Manav Kalyan Yojana, Training of Leather Artisans, Kachchh Mahila Rojgar Revolving Fund, Earthquake Area Affected Revolving Fund, *etc*. Besides, for the upliftment of rural artisans of the State, the Company undertakes its own activities *viz*, execution of contracts related to interior decoration works, production and marketing of spices, garments, and steel and wood furniture.

The erstwhile Gujarat State Leather Industries Development Corporation Limited, (GSLIDC) Gandhinagar (a Government of Gujarat undertaking) was amalgamated (January 2001) with the Company, and the activities of GSLIDC were thereby also transferred to the Company.

The management of the Company is vested in a Board of Director (BOD) consisting of twelve directors. The Managing Director, who is the Chief Executive, is assisted in day-to-day operations by a Company Secretary and five Managers. As on 31 March 2006, the Company had 16 field offices (five[∇] emporia and 11[#] production centres) each headed by an Assistant/Deputy Manager.

Scope of Audit

2.5.2 This performance audit conducted during April-May 2006 covers the Company's activities during 2001-06 relating to implementation of four[*] out of ten Government schemes and its own activities of production and sales meant for the economic upliftment of rural artisans. Audit examined the records relating to the head office, all the production centres and sales emporia for the period 2001-06.

Audit objectives

2.5.3 The audit was conducted to ascertain whether:

- the Company had implemented the various Government schemes keeping in view the population of rural artisans and their needs/preferences;
- the targets fixed were consistent with the objectives of the schemes and were achieved in an efficient and effective manner;
- the Company planned and executed its own activities with the available resources for upliftment of rural artisans in an efficient, economic and effective manner; and

∇ Kamdhenu and Shalibhadra at Ahmedabad; Kalpataru, New Sachivalaya and Air force emporia (*w. e. f.* November 2005) at Gandhinagar.

Dhrangadra, Dhroll, Gandhinagar, Gota Darjikam, Gota Masala Centre, Gota Sutharikam Centre, Idar Leather and Idar Sutharikam, Mahemdabad, Mahesana and Tharad.

* Imparting training at Central Leather Research Institute, Kachchhh Mahila Rojgar Revolving Fund, Revolving Fund for Earth Quake Affected Area Artisans and Manav Kalyan Yojana.

- the Company had devised a robust system of oversight at the highest level and had effective Internal controls and good corporate governance.

Audit criteria

2.5.4 The following audit criteria were adopted for assessing the performance of the Company:

- guidelines issued under various schemes and the mechanism devised for implementation and evaluation of schemes;

- directions of the Government, decisions of BOD, business plan and instructions issued to the field offices; and

- best practices with regard to utilisation of available fund and internal controls.

Audit methodology

2.5.5 Audit followed a mix of the following methodologies:

- scrutiny of the Government resolutions/guidelines and records relating to the schemes implemented by the Company;

- scrutiny of the procedures devised for award of rate contract relating to interior decoration, procurement and marketing of spices, garments, wooden and steel furniture's, agenda papers and minutes of the meetings of BOD, instructions issued to centres by the Company, and financial statements of the Company; and

- analysis of the data collected by audit and meetings held with the officials of the Company.

Audit findings

The audit findings were reported to the management/Government in June 2006 and discussed at the meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 15 September 2006 which was attended by the Secretary, Industries and Mines Department, Government of Gujarat and the Managing Director of the Company. Their views were considered while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

Coverage of activities

2.5.6 As per the 2001 census, Gujarat had 18,539 villages falling under 25 districts. The Company, even after 27 years of existence, through a network of

Network of 16 field offices covered only eight districts representing only 37.53 per cent of the State's population.

16 field offices, covered only eight[∇] (32 *per cent*) districts having 6,104 (33 *per cent*) villages comprising 1.90 crore (37.53 *per cent*) population out of the State's total population of 5.07 crore. The Company did not maintain any database of the population of rural artisans in the State in terms of village-wise dispersion of the artisans and their occupational profile. The Company did not devise any mechanism to monitor the performance and efficiency of the schemes implemented, especially with regard to their impact on the economic upliftment of rural artisans.

The management/Government stated (July 2006) that the centres were opened with the aim of providing employment to specific targeted class of artisans *viz.*, General, Scheduled caste and Scheduled tribe artisans based on the budget approval of the Government of Gujarat (GOG). Thus, the Company had opened and run 43 centres during 1979-2005 for providing services to the artisans. The reply is not tenable as the above centres were opened and operated on *ad hoc* basis. Further, out of 43 centres the Company had closed 35 centres by 2000; two centres were closed during 2001-05 and the Company was currently operating only six centres. Hence, an adequate network had not been created to provide services to rural artisans all over the State on regular basis.

Financial outlay

2.5.7 Details of the financial outlay of the Company involved in the implementation of the Government schemes and its own activities during 2001-06 are given below:

(Rupees in lakh)

Year	Total outlay	Expenditure on			
		Government schemes	*Percentage of total outlay*	Own Activities[*]	*Percentage of total outlay*
2001-02	406.10	122.80	30.24	283.30	69.76
2002-03	533.58	411.24	77.07	122.34	22.93
2003-04	1,153.17	789.67	68.48	363.50	31.52
2004-05	1,183.25	774.33	65.44	408.92	34.56
2005-06	1,526.71	672.66	44.06	854.05	55.94
Total	**4,802.81**	**2,770.70**		**2,032.11**	

Government schemes accounted for 65.44 to 77.07 *per cent* of the total outlay during 2002-05.

From the table above, it can be seen that Government schemes constituted 65.44 to 77.07 *per cent* of the Company's total outlay during 2002-05.

∇ Ahmedabad, Banaskantha, Gandhinagar, Jamnagar, Kheda, Mahesana, Sabarkantha and Surendranagar.

* The expenditure on own activities is excluding purchases made for Manav Kalyan Yojana.

Implementation of Government schemes

2.5.8 During 2001-06, the Company had implemented ten Government schemes as detailed below:

(Rupees in lakh)

Sl. No.	Name of scheme	Balance of grants as on 1.4.2001	Receipts of grants during 2001-06	Total grants	Utilisation/ (Surrender) of grants during 2001-06	Closing balance as on 31.3.2006
	Government of India (GOI) schemes:					
1.	Common facility centre, Idar	67.09	--	67.09	67.02	0.07
2.	CLRI[∇] training	--	32.00	32.00	24.00	8.00
3.	SGSY[$] (Tanner training)	--	19.60	19.60	18.55	1.05
4.	Beekeeping development	8.30	8.50	16.80	15.79	1.01
5.	SGSY[$] (Handloom)	--	218.33	218.33	148.07	70.26
6.	SGSY[$] (Leather)	--	187.74	187.74	116.03	71.70
	Total GOI (1to 6)	**75.39**	**466.17**	**541.56**	**389.46**	**152.09**
	GOG Schemes:					
7.	Manav Kalyan Yojana	0.11	2,281.13	2,281.24	2130.55	150.69
8.	Garibi Nabudi Karyakram	0.42	33.00	33.42	18.89	14.53
	Total GOG (7+8)	**0.53**	**2,314.13**	**2,314.66**	**2149.44**	**165.22**
	Total of unspent grants of GOI and GOG schemes:					**317.31**
	GOG Revolving fund[#]:					
9.	Kachchh Mahila Rojgar	35.00[*]	--	35.00	(18.00)	17.00[◊]
10.	Earthquake affected area artisans	--	15.00	15.00	(10.00)	5.00[•]
	Total GOG (7to10)	**35.53**	**2,329.13**	**2,364.66**	**2,177.44**	**187.22**
	Grand Total including revolving fund of GOI and GOG schemes					**339.31**

The Schemes at Sl. No.1 and 4 above are old schemes not implemented during 2001-06. The Schemes at Sl. No.3, 5 and 6 are new schemes introduced during 2004-05. In the case of scheme at Sl. No. 8 the amount utilised was negligible during 2005-06. Hence, Audit selected the schemes at Sl. No. 2, 7, 9 and 10 for detailed examination and the results thereof are discussed in succeeding paragraphs.

Empowerment of leather cooperatives

2.5.9 Under the scheme, the Company being a nodal agency of GOG was to co-ordinate (November 2002) with Central Leather Research Institute, Chennai (CLRI) for providing training on technology upgradation to the members of Leather Cooperative Societies (the Societies) of Gujarat.

The span of training programme was of two years (2002-04) and included eight phases *viz,* orientation programme at Chennai, tutoring visits, mentoring

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∇ Central Leather Research Institute, Chennai.

$ Swarnajayanti Gram Swarojgar Yojana.

These represent Revolving funds to be returned after revolving/ utilisation.

* This includes cash Rs.30.61 lakh and stock of Rs.4.39 lakh.

◊ This includes cash Rs.12.59 lakh and stock of Rs.4.41 lakh.

• This represents cash balance.

visits, feed back/exhibition at Gandhinagar, buyer-seller meets/exhibition of products, establishing a material bank, development of designs & technologies and third party audit.

As per the scheme, the trainees were selected from among the members of the Societies. The selected trainees would undergo initial six weeks orientation programme at CLRI, for which the Company would make arrangement for travel, lodging and boarding in Chennai. The training included the following stages:

- After the orientation programme, the trainees would work in their respective Societies with the help of a mentor and tutor working under CLRI.

- At the end of the first year of the programme, CLRI would make an impact assessment of the Societies nominating trainees for suggesting mid-term corrective action, if needed.

- At the end of second year of the programme, CLRI would evaluate the performance of the Societies and prepare suitable techno-economic viability reports suggesting measures for technological upgradation of the Societies.

- Simultaneously, the Company, during the training programme would make arrangements for buyer-seller meets and establishment of material bank for the trainees.

- Finally, on completion of the training programme the Company would arrange third party audit for evaluation of the programme.

The scheme was implemented by the Company during 2002-04 on the directions (December 2002) of GOG. During the period the Company received (10 March 2003) Rs.32 lakh from GOG and utilised Rs.24 lakh. The Company sent 82 beneficiaries from 46 Societies in four batches for attending orientation programme at CLRI, against the target of 50 beneficiaries.

The records relating to tutoring and mentoring arrangement made, impact assessment of the cooperatives and techno-economic viability report prepared by CLRI were not made available to Audit. Besides, the Company did not maintain any record relating to the arrangements made for buyer-seller meets and establishment of material bank. Third party audit as envisaged in the programme was also not conducted. In view of this the effectiveness of the programme implemented by the Company could not be assessed in audit.

Kachchh mahila rojgar revolving fund

2.5.10 GOG provided Rs.35 lakh (1997-2000) under the Kachchh mahila rojgar revolving fund scheme for economic upliftment of women residing in Kachchh district. Under the scheme, the Company was required to purchase and supply raw material for issue to the beneficiaries for production of leather/wooden articles and garments. The articles so produced by the beneficiaries were to be marketed through the Company's emporia. The funds realised on sale of these article were to be revolved for financing the same cycle of activities as mentioned above so as to provide employment to women on a regular basis.

Unutilised fund of Rs.18 lakh had to be surrendered due to Company's failure to implement the scheme.

In April 2001, the Company's balance under the revolving fund comprised cash: Rs.30.61 lakh and unsold stock of Rs.4.39 lakh. Though, the Company was required to revolve the fund at least twice in a year, it failed to utilise the fund at all during 2001-02. During 2002-03 the Company utilised an insignificant amount of Rs.1.46 lakh benefiting 59 women. As the Company did not utilise the fund, GOG directed (November 2003) the Company to surrender the same. The Company surrendered (10 November 2003) only Rs.18 lakh; the balance fund was lying with the Company in the form of unsold stock.

The scheme failed due to non-fixation of targets, absence of an action plan, poor publicity of the scheme, absence of a mechanism for market feedback and lack of guidance on design/technical aspects to the beneficiaries for production of articles. The Company did not have any system of forward and/or backward linkages (supply of raw material to the beneficiaries and marketing of finished products) so as to assess the extent of benefit derived from the utilisation of the fund for the women artisans.

The management/Government stated (July 2006) that the utilised amount of revolving fund was lying at emporia in the form of unsold stock. The reply is not relevant to the audit observation. The Company had failed to implement the scheme as intended and the women of Kachchh were deprived of the benefits that Government had planned for them.

Revolving fund for earth quake affected artisans

2.5.11 GOG had provided (July 2003) interest bearing revolving fund of Rs.15 lakh to be utilised for the purchase and supply of leather to the artisans residing in the earthquake affected districts of Kachchh, Rajkot, Surendranagar, Porbandar, Banaskantha and Junagadh. The fund was to be revolved twice a year and returned to GOG after five years. Under the scheme the leather supplied to the artisans was to be processed for production of various leather articles on labour rates. Further, the articles produced by these artisans were to be sold by the Company for replenishing the revolving fund and refinancing the next cycle of activities.

Details of the funds received, utilised, physical targets fixed and achieved during 2003-05 are given below:

Scheme targets were not achieved.

(Amount: *Rupees in lakh*)

Year	Amount		Percentage of utilisation	Targeted number of		Achieved number of	
	Opening Balance	Utilisation/ Sale		Benefi-ciaries	Man-days	Benefi-ciaries	Man-days
2003-04	15	1.58	10.53	300	60,000	14	2520
2004-05	15	4.96	33.07	300	60,000	45	8100

As can be seen from the table above, against the norm of revolving the fund twice in a year, the Company could not revolve the fund even once in a year and the percentage of utilisations was only 10.53 to 33.07 during 2003-05. Out of Rs.15 lakh received by it, the Company failed to utilise Rs.10 lakh Accordingly, the GOG directed (January 2006) the Company to surrender Rs.10 lakh along with interest of Rs.1.03 lakh. The Company complied with the directions. Further, the number of beneficiaries covered and mandays generated were much lower than the target fixed, with the result that the earth quake affected artisans were denied the relief intended for them by the Government under the Scheme.

The management/Government stated (July 2006) that the utilised amount of the revolving fund was lying in the form of stock at various centres, emporia and sales stores. The reply is not relevant to the audit observation. The Company had failed to implement the scheme for the targeted annual generation of 60,000 mandays up to 2007-08.

Manav kalyan yojana

2.5.12 Under the scheme, the Commissioner of Cottage Industries (CCI), GOG identifies the persons living below poverty line (BPL) engaged in different trades (*viz*, carpentry, wood carving, cobbler, barber, distribution of news paper/supplying tiffins through bicycle, *etc*,) for supply of tool kits at the maximum cost of Rs.1,700 *per* tool kit. The Company's role in implementation of this scheme is restricted to purchase and distribution of tool kits to the beneficiaries through District Industries Centres (DIC). The Company is entitled to service charges of 18 *per cent* on the purchase cost of the tool kits distributed to the beneficiaries. During 2001-06, the Company procured tool kits worth Rs.15.96 crore for distribution to 97,090 beneficiaries and earned service charge of Rs.2.87 crore.

Audit scrutiny revealed as under:

- There was no system of follow up after obtaining confirmation of the distribution of tool kits to beneficiary by DIC.

- The Company had invited (May 2002) bids for purchase and supply of 11,000 bicycles to the beneficiaries under the scheme (Cycle had been declared as a tool kit under the scheme). Three price bids ranging from Rs.1,588 to Rs.1,604 *per* bicycle were received. The Company did not finalise the tender at the lowest price of Rs.1,558 *per* bicycle on the plea that the rate received was high compared to the rate of Rs.1,474.90 *per* bicycle obtained during 1999-2000 by the Central Store Purchase Organisation, GOG. The Company re-invited the bids (August 2003) and issued the supply order (November 2003) to the lowest bidder at Rs.1,650 *per* bicycle. Failure to place the order at the rate of Rs.1,558 *per* bicycle received against first call resulted in avoidable extra expenditure of Rs.10.12 lakh.

Unspent grant

2.5.13 As per Rule 8 of the Gujarat Financial Rules, 1971 (GFRs) no money should be drawn from the treasury unless required for immediate disbursement. Further, Rule 154(5) of GFRs provides that every grant made for a specific objective shall be spent on that objective within a maximum period of one year, if no time limit has been fixed by the competent officer. In case any portion of the unspent amount is not required for that objective the same shall be duly surrendered.

Audit scrutiny revealed that out of the grant of Rs.27.80[∇] crore received during 2001-06 from GOI/GOG, the Company had an unspent amount of Rs.3.17 crore as on 31 March 2006. The unspent balance included Rs.0.82 crore lying with the Company for more than one year. Retention of the unspent amount by the Company was irregular. Besides, due to non utilisation of Scheme funds earmarked for upliftment of rural artisans, the objective of the financial assistance remained unachieved.

The management/Government stated (July 2006) that as the Company was not operating Personal Ledger Account (PLA), the Government treasury rules of withdrawal, utilisation and surrender were not applicable. The reply is not tenable as the grants were released subject to the provisions of the GFRs and were to be surrendered on completion/expiry of one year from the date of receipt of grant.

Own activities

Production and sales performance

2.5.14 The Company's production and sales activities consist of manufacture of garments, steel and wooden furniture, processing of spices and execution of interior decoration contracts through its production centres and sales through emporia. The details of the Company's production and sales during 2001-06 are given below:

(Rupees in lakh)

Year	Production	Sales			
		Emporia	Interior decoration	Supply of materials	Total
2001-02	174.60	8.03	98.29	215.46	321.78
2002-03	268.16	5.53	22.45	378.99	406.97
2003-04	571.56	5.04	121.18	599.52	725.74
2004-05	729.09	7.54	167.03	735.25	909.82
2005-06	1,047.69	13.89	104.40	1,092.53	1,210.82
Total	**2,791.10**	**40.03**	**513.35**	**3,021.75**	**3,575.13**

∇ Grant received from GOI Rs.4.66 crore and from GOG Rs.23.14 crore.

It would be seen from the table above that:

Sales at the emporia were not adequate to meet their administration cost.

- During 2001-06, against the total sales of Rs.35.75 crore, the sale effected through emporia was Rs.0.40 crore, which constituted about one *per cent* of the total sales. The emporia were unable to meet their expenses in view of negligible sales and had incurred loss of Rs.9.01 lakh during 2001-06.

- The total sales of Rs.35.75 crore included Rs.5.13 crore being the value of interior decoration contracts executed. This constituted 14.35 *per cent* of the total sales even though execution of interior decoration contracts did not give any benefit to the rural artisans as discussed in paragraph 2.5.15 *infra*.

No follow-up on the earlier audit findings.

- A mention was made *vide* paragraph 3.6.1 of the Report of Comptroller and Auditor General of India (Commercial) –GOG for the year ended 31 March 2000 about the un disposed stock of cloth worth Rs.50.20 lakh, which was purchased by the Company during 1995-97. The Committee on Public Undertaking (COPU) discussed the paragraph during December 2003 and January 2004. Audit scrutiny revealed that the Company could dispose of cloth worth only Rs.11.76 lakh during 2000-06 due to lack of efforts for selling the cloth or use in other than under the Government schemes. The Company had not fixed any responsibility as per the Government instructions (27 January 2004) for the unwarranted purchase of cloth.

The management/Government stated (July 2006) that the emporia functioned as procurement agency, liaison offices and distribution channels under Manav Kalyan Yojana, which enabled the Company to minimise administrative expenses in the implementation of Government schemes. It was also stated that the matter regarding fixation of responsibility for unwarranted purchase of cloth was pending with GOG. The reply is not tenable as the financial data related to the functioning of the emporia clearly indicated their unviable operation. Regarding fixation of responsibility for unwarranted purchase of cloth, the reply of GOG was awaited (September 2006).

Interior decoration

Activity not benefiting rural artisans

Interior decoration activity is not benefiting rural artisans.

2.5.15 The Company has been undertaking contracts for execution of interior decoration work for various Government offices since 1996-97. The Company, after securing the contracts for interior decoration executes the work through labour contractors working under the supervision of architects appointed by the Company. During 2001-06 the Company executed contracts worth Rs.5.13 crore for Government agencies. The Company earned average profit margin of 7.5 *per cent* amounting to Rs.38.47 lakh. The Company neither entered into any agreement with the labour contractors for providing employment to the rural artisans nor did it keep any records indicating that the labourers employed were rural artisans. Thus, the Company executed the interior decoration contracts only with profit motive without benefiting the rural artisans.

The management/Government admitted (July 2006) that the interior decoration activity was undertaken as a profit making activity to cover the administrative expenditure of the Company, which was not financed by the Government.

Financial management

The Company did not devise any system for the efficient management of its funds. Instances of imprudent retention of funds in current accounts and lack of follow up of recovery of dues were noticed in audit as discussed in the following paras:

Imprudent retention of funds in current accounts

2.5.16 Scrutiny of records revealed that during 2001-06, the Company kept Rs.2.77 crore to Rs.11.27 crore in current accounts with four banks. Even after reckoning Rs.23 lakh towards working capital requirement for seven days, the funds kept by the Company were in excess by Rs.64.94 lakh to Rs.6.47 crore during 2001-06. Consequently, the Company suffered loss of interest Rs.63.74 lakh[#] due to unprofessional parking of its funds in current accounts during the period.

The management/Government stated (July 2006) that the Company had received the funds mainly in the form of grants and loans from the Government with specific purpose for utilisation. Hence, the funds were withdrawn from the current accounts as and when required for implementing the Government schemes. The reply is not tenable. The Company is a commercial undertaking and is expected to work on sound principles of financial management. The interest loss has been worked out excluding grants and loans received from the State Government. The excess funds kept in the current account could have been invested in various short term investment schemes offered by GSFS[#].

Lack of follow-up for recovery of dues

2.5.17 The erstwhile GSLIDC had provided (1990-98) financial assistance to 37 Leather Cooperative Societies (the Society) for upgradation of tanneries and an amount of Rs.1.24 crore was due for recovery from these Societies at the time of amalgamation (January 2001) of GSLIDC with the Company. Though, the financial assistance was secured against the properties of the Societies, the Company did not make necessary efforts including legal action, for recovering the dues. Moreover, GOG's instructions (June 2004) for assessing the financial position of the Societies and making recovery of dues either directly or as arrears of land revenue and writing-off the dues of non-existing societies were not acted upon.

[#] Computed at the interest rate ranging between 3.65 and 11.53 *per cent* applicable in the 'Liquid Deposit Scheme' of Gujarat State Financial Services Limited during 2001-06.

Non initiation of action for recovery led to mounting of dues to Rs.1.72 crore.

Thus, the dues had increased to Rs.1.72 crore (including interest Rs.93.19 lakh) as on 31 March 2006. Non-initiation of necessary action for recovery of dues lacked justification.

The management/Government stated (July 2006) that the Government had not provided funds for stamp duty and advocate fee for taking action for recovery of bad debts and that the Company had submitted a proposal to write off the bad debts. The reply is not relevant to the audit observation as the Company had failed in effecting timely recovery of old dues.

Internal audit/Internal control

2.5.18 Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and orderly manner. Audit scrutiny revealed the following deficiencies in the Internal Control and Internal Audit system of the Company**.**

Internal auditor's appointment was delayed by six to 13 months also his report was not placed before BOD.

The Company appoints Chartered Accountant firms for internal audit of its head office, production centres and sales emporia. It was noticed that since 2002 Internal Auditors (IA) were appointed after delays of six to 13 months from the commencement of the respective financial year. Even after the direction issued by the BOD (December 2003) regarding timely appointment of internal auditor, no remedial action was taken. The IA failed to report on the outstanding loans and advances, utilisation of grant for specified objectives, *etc*. Further, no follow up action was taken on the reports of the Statutory Auditors (2003-2005) which had recommended expanding the scope of internal audit to include preparation, review and analysis of financial statements, issue of audited and certified grant utilisation certificates. Besides, the internal audit reports were not placed before the BOD, disregarding the directions issued (13 July 2001) by the GOG.

The Internal Control system was deficient in the areas of inventory records, obtaining confirmation from DIC regarding supply of tool kits, recovery of advances from staff, *etc*.

The management/Government accepted (July 2006) the audit observation with respect to the delayed appointment of internal auditor. In the ARCPSE meeting (September 2006), the management admitted non-placement of IA Report in the BOD meeting.

Monitoring and corporate governance

2.5.19 A mention was made in paragraph no.4.19 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial), GOG about the deficient corporate governance in the Company. Inadequate corporate governance persisted during 2001-06 as would be evident from the following:

- The posts of seven non-executive directors were lying vacant during March 2003 to December 2004 and of four, since January 2004. One non-executive director attended only one out of seven BOD meetings held during his tenure (2001-02 to 2002-03) and another non-executive director did not attend any of the five BOD meetings in 2004-05. During 2005-06 two and three non-executive directors did not attend two and one BOD meetings respectively out of four BOD meetings held. The directors who did not attend 50 *per cent* of the BOD meetings held in year had violated the instructions (April 2003) of GOG which enjoined upon the Government Directors to attend minimum 50 *per cent* of the meetings held in a year.

- Constitution of the Audit Committee (AC) of the Company was not in accordance with the provisions of section 292A of the Companies Act, 1956 as the Company's BOD did not specify the terms of reference of the AC. During 2001-02 not a single meeting of AC was convened. In disregard of GOG instructions (April 2003) the Company had convened less than three AC meetings in a year during 2003-06. Further, as per the provisions of the Act, *ibid* during 2002-06, the AC did not consider budget, review half yearly statements/internal control system, look into the aspects of financial and risk management and had not discussed the scope of audit and their report with the Internal Auditor (IA)/ Statutory Auditor (SA), respectively before commencement of audit and completion of audit of annual accounts. During 2002-06, four AC meetings were held which were not attended by IA/SA in contravention of the provisions of Act, *ibid.*

Incorrect reporting in directors' report

2.5.20 Every year the Directors of the Company in their report to the shareholders inform the number of mandays generated by the Company for providing employment to the rural artisans. Despite availability of data on actual number of mandays, the directors had reported inflated figures worked out on the basis of assumptive formula[#]. The following table shows the excess reported mandays:

Year	Actual mandays as per record	Mandays reported by Directors	Excess reported mandays.	Number of times mandays reported in excess of actual mandays (4/2)
1.	2.	3.	4.	5.
2001-02	13,076	73,547	60,471	4.62
2002-03	8,556	93,018	84,462	9.87
2003-04	14,837	1,66,104	1,51,267	10.19
2004-05	17,586	2,08,233	1,90,647	10.84

From the table above, it would be seen that adoption of incorrect formula for reporting significant details about the main objective of the Company had resulted in reporting of 4.62 to 10.84 times of the actual mandays, which lacked justification. For 2005-06 the Company was yet to finalise its accounts (September 2006).

[#] (Total sales/ Rs.60,000) X 140 days = number of mandays.

The management/Government stated (July 2006) that the actual mandays generated as shown in the records was arrived at after taking into account the actual number of artisans employed in the production centres and in respect of value of material procured under Manav Kalyan Yojana and interior decoration activity. Assumptive mandays were derived on the basis of artisans who might have been employed. Hence, there was no incorrect reporting. The reply is silent as to why the actual mandays were not reported.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by the different levels of the management at various stages of conducting this performance audit.

Conclusion

The performance of the Company with regard to the economic upliftment of rural artisans was dismal. Even after completion of 27 years of existence, the Company has not developed an adequate and geographically balanced network to provide services to the rural artisans on regular basis. The Company had spent Rs.24 lakh on training of 82 beneficiaries, the efficacy of training programme could not be evaluated by Audit in the absence of adequate documentation. Most of the schemes were not operative defeating their objectives. The Company retained large sums of money in current accounts resulting in loss of interest of Rs.63.74 lakh and denial of the intended benefits of various schemes to rural artisans of the State.

Recommendations

- **The Company should maintain an adequate database with regard to the population of rural artisans of the State for effective implementation of the schemes.**

- **Control mechanism should be devised to monitor the performance of the schemes.**

- **Adequate records should be maintained for all phases of the implementation of the schemes.**

- **The Company should review the position of unspent grants and reassess its future requirements for their utilisation, with Government approval or surrender the same.**

- **The Company should reorient its own activities keeping in view the objective of economic upliftment of rural artisans.**