

Overview

1. Overview of Government Companies and Statutory Corporations

As on 31 March 2007, the State had 57 Public Sector Undertakings (PSUs) comprising 53 Government Companies and four Statutory Corporations as against 56 PSUs comprising 52 Government Companies and four Statutory Corporations as on 31 March 2006. Out of 53 Government Companies, 41 were working and 12 were non-working Government Companies. All the four Statutory Corporations were working Corporations. In addition, there were seven Companies within the purview of Section 619-B of the Companies Act, 1956 as on 31 March 2007.

(Paragraphs 1.1 and 1.39)

The total investment in the working PSUs increased from Rs.43,496.88 crore as on 31 March 2006 to Rs.46,169.13 crore as on 31 March 2007. The total investment in 12 non-working PSUs as on 31 March 2007 was Rs.838.71 crore as against Rs.840.61 crore in 13 non-working PSUs as on 31 March 2006.

(Paragraphs 1.2 and 1.16)

The budgetary support in the form of equity capital, loans and grants/subsidies disbursed to the working PSUs increased from Rs.4,282.12 crore in 2005-06 to Rs.5,927.35 crore in 2006-07. The State Government had provided a loan of Rs.0.40 crore to a non-working company during 2006-07. The State Government guaranteed loans aggregating Rs.597 crore during 2006-07. The total amount of outstanding loans guaranteed by the State Government in respect of all the PSUs as on 31 March 2007 was Rs.9,688.83 crore.

(Paragraphs 1.5 and 1.17)

Out of 41 working Government Companies and four Statutory Corporations, only 18 working Companies and one Statutory Corporation had finalised their accounts for the year 2006-07. The accounts of 23 working Companies and three working Statutory Corporation were in arrears for periods ranging from one to three years as on 30 September 2007. One non-working Government company finalised its accounts for the year 2006-07 and the accounts of five non-working Government Companies were in arrears for periods ranging from one to eight years as on 30 September 2007. The application of one company to the Registrar of Companies for striking off its name under Simplified Exit Scheme-2005 was pending. The remaining five Companies were under liquidation.

(Paragraphs 1.6 and 1.19)

According to the latest finalised accounts, 32 working PSUs (30 Government Companies and two Statutory Corporations) earned aggregate profit of Rs.1,421.32 crore, out of which only seven working Government Companies declared dividend of Rs.82.98 crore to the State Government. Against this, eight working PSUs (six Government Companies and two Statutory Corporations) incurred aggregate loss of Rs.177.86 crore as per their latest finalised accounts. Of the loss incurring working Government Companies, four Companies had accumulated losses aggregating Rs.170.94 crore which was more than four times their aggregate paid-up capital of Rs.39.47 crore. The two loss incurring Statutory Corporations had accumulated losses aggregating Rs.2,126.63 crore which was more than three times of their aggregate paid-up capital of Rs.697.77 crore.

(Paragraphs 1.7, 1.8, 1.9 and 1.11)

2. Performance reviews relating to Government Companies

Performance reviews relating to Construction and Commissioning of Akrimota Thermal Power Project by **Gujarat Mineral Development Corporation Limited**, Trading Activities and Implementation of Welfare Schemes for Weavers and Artisans by **Gujarat State Handloom and Handicrafts Development Corporation Limited**, Performance of Commercial and Promotional Activities of **Tourism Corporation of Gujarat Limited** and Implementation of Renovation and Modernisation Activities in Power Stations by the **Gujarat State Electricity Corporation Limited (erstwhile Gujarat Electricity Board)** were conducted. Some of the major findings are as follows:

Construction and Commissioning of Akrimota Thermal Power Project

The Gujarat Mineral Development Corporation Limited had commissioned both Units of the project with delay ranging between 23 to 39 months. Main reasons were delay in arranging finance from banks and delay in award and execution of contracts. Consequently there was increase in project cost as well as cost of generation. No performance guarantee tests were conducted as stipulated in the agreement. The Company's performance in implementation of the project was deficient due to improper management of funds/contracts including various lacunae in the contract, excess payments/premature release of deposits to contractors and non-recovery of liquidated damages from the contractors. Further, the Company instead of filling the sanctioned posts and imparting training to the existing personnel of the project awarded operation and maintenance contracts to outside agencies for running the Units. Non-insistence for compliance of agreement with GEB/GUVNL had resulted in accumulation of revenue dues from them.

The Company was liable to pay extra expenditure of Rs.81.60 crore on account of interest payment as it did not avail itself of the loans bearing fixed rate of interest as suggested by the consultant. Loss of rebate on term loan, imprudent drawal of loan, non-availing of benefit of reduced rate of interest

and avoidable payment of guarantee fee amounting to Rs.13.79 crore were noticed in management of funds for the project.

Deficient handling of contracts resulted in payment of extra claims, exchange variations, undue payment of price escalation, sales tax, and non-recovery of liquidated damages led to loss of Rs.49.55 crore. Besides, security deposit and retention money of Rs.27.60 crore were released to the contractors before conducting the performance guarantee tests.

The cost and time overrun of the project and excess auxiliary consumption of power and furnace oil led to increase in per unit cost of generation from Rs.2.86 to Rs.5.28 for the year 2005-06.

(Chapter 2.1)

Trading Activities and Implementation of Welfare Schemes for Weavers and Artisans

The performance of Gujarat State Handloom and Handicrafts Development Corporation Limited in trading activities was far from satisfactory. It was unable to achieve the targeted sales, restart its closed and unviable emporia without devising any revival plan and high cost of operation compared to sales. Implementation of schemes were marred by under-utilisation of grant, lesser coverage of artisans/weavers, non-generation of targeted mandays for employment, non-maintenance of separate accounts, failure to review the schemes on quarterly basis. Internal control system was marred by the inadequate internal audit, lack of control in issue of raw materials to artisans, delayed payments to artisans and misreporting to the State Government.

The Company had implemented (2001-06) 19 schemes and utilised Rs.13.19 crore (53.77 *per cent*) against available funds of Rs.24.53 crore indicating its failure to fully utilise the funds for the benefit of artisans and weavers.

The performance of Scheme for Tool kits Distribution to the earthquake affected artisans/weavers was unsatisfactory. Delays in distribution of tool kits to artisans/weavers ranged between one to three years. Supply of looms were not as per specification.

Against the targeted coverage (2001-06) of 783 artisans under Handicrafts Exhibition Scheme and 1,425 artisans under Tribal Mela Scheme, the Company had covered only 49 (6.26 *per cent*) and 318 (22.32 *per cent*) artisans respectively.

(Chapter 2.2)

Performance of Commercial and Promotional Activities

The performance of the Tourism Corporation of Gujarat Limited was deficient. Even after its existence of more than 30 years in the tourism sector, the percentage of tourists availing the Company's facilities was negligible compared to the inflow of tourists in the State. Poor planning, lack of proper

monitoring and control during project execution resulted in slow progress of works and consequential low utilisation of funds. Grants were not utilised as per the terms and conditions of grants released. Norms for controlling the operational cost of food, fuel and electricity and also for increasing the occupancy of its hotels were not fixed resulting in huge operational losses. The governance of the Company was marred due to non-functioning of Purchase and Tender committee, inadequate size of the BODs and frequent changes of Managing Director.

Cases of excess drawal of grants of Rs.3.16 crore in five cases, drawal of grant of Rs.3.43 crore for the same project from the State Government as well as Government of India (GOI), misappropriated/diverted grants of Rs.58.59 lakhs in two cases and submission of incorrect utilisation certificates of Rs.1.21 crore in five cases to the GOI were noticed.

Of the 14 to 19 hotels and six to eight cafeterias, 63 to 93 *per cent* hotels and 83 to 100 *per cent* cafeterias of the Company incurred operational losses during 2002-07. Of these, 26 *per cent* hotels and 50 *per cent* cafeterias continuously incurred operational losses during 2002-07.

The utilisation (2002-07) of funds for infrastructural projects was low, ranging between 20 and 33 *per cent*, indicating inadequate planning, monitoring and control over the project activities by the Company.

(Chapter 2.3)

Implementation of Renovation and Modernisation Activities

The Gujarat State Electricity Corporation Limited (erstwhile Gujarat Electricity Board) did not have any comprehensive plan for R&M activities indicating the milestones like approval of DPRs, inviting tender, award of works *etc.* Non-adherence of procedures and delays in award of R&M works led to non-execution of the activities as per time schedule. Undertaking of few R&M activities which were not needed, led to infructuous expenditure. Performance of the Board/Company in implementation of R&M activities was further affected due to delays/excess procurement of materials and delay in commissioning of components/systems, short recovery of penalty from defaulting contractors, non-recovery of MODVAT credit of excise duty, avoidable payment of demurrage charges. Consequently, the Board/Company suffered generation loss and also incurred avoidable expenditure.

Of the 28 R&M activities implemented, avoidable delays were noticed in procurement and commissioning of components and systems required for six R&M activities. These delays led to generation loss (2002-07) of 368.339 MUs worth Rs.76.92 crore.

Infructuous expenditure of Rs.40.29 crore was incurred due to undertaking two R&M activities which were not needed in the Power Stations.

(Chapter 2.4)

3. Transaction Audit Observations

Audit observations included in this chapter highlight deficiencies in the management of PSUs involving serious financial irregularities. The irregularities pointed out are broadly of the following nature:

- Imprudent/wasteful expenditure of Rs.17.02 crore due to continued spending on failed 'economic design' of check dams. Further, there was loss of interest of Rs.13.35 crore in two cases due to payment of advance cost share on behalf of a foreign firm and premature investment in construction of concrete lining.

(Paragraphs 3.3, 3.5 and 3.6)

- Avoidable extra expenditure of Rs.6.93 crore in four cases due to delay in finalization of tender, failure to file appeal in time, deficient tender and splitting of purchase orders.

(Paragraphs 3.8, 3.11, 3.12 and 3.16.1)

- Loss of revenue of Rs.24.85 crore in four cases due to failure to lease out surplus space, settlement of dues under One Time Settlement Scheme to ineligible firm, imprudent decision to award annual sale contracts and non-charging of appropriate rates for allotment of plots.

(Paragraphs 3.1, 3.2, 3.4 and 3.17)

- Non-recovery of dues of Rs.38.05 crore in three cases due to non-recovery of security deposit, short recovery of interconnectivity charges and non-levy of penalty and interest.

(Paragraphs 3.7, 3.13 and 3.14)

- Loss of potential revenue of Rs.301.19 crore in three cases due to delay in finalisation of tender, not keeping the spare generator rotor ready for use and delay in supply of chassis and unauthorised diversion of government funds of Rs.6.28 crore in one case due to use for working capital requirements.

(Paragraphs 3.9, 3.10, 3.16.2 and 3.16.3)

Gist of the major audit observations is given below.

Gujarat Industrial Investment Corporation Limited lost Rs.2.57 crore due to settlement of dues under One Time Settlement scheme to an ineligible unit.

(Paragraph 3.2)

Gujarat Water Resources Development Corporation Limited incurred imprudent expenditure of Rs.17.02 crore on failed 'economic design' of check dams of Sujalam Sufalam Yojana. The State Government circumvented the prescribed procedure for approval of public works by awarding work to the Company on outright grant basis.

(Paragraph 3.3)

Sardar Sarovar Narmada Nigam Limited lost interest of Rs.1.92 crore due to premature investment of Rs.16.78 crore on construction of concrete lining of branch canal.

(Paragraph 3.6)

Gujarat State Petronet Limited short recovered interconnectivity charges of Rs.20.10 crore from customers and did not recover penalty and interest of Rs.14.73 crore for breach of agreement from a private firm.

(Paragraphs 3.13 and 3.14)