

Chapter III

Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies and Statutory corporations are included in this Chapter.

Government companies

Gujarat State Fertilizers and Chemicals Limited

3.1 *Undue benefit to transport contractors*

The Company overpaid Rs. 2.14 crore to transport contractors outside the agreed terms of contract.

The Company awarded (2 September 2005) contracts to two firms* for transporting rock phosphate from Jhamarkotra mines, Udaipur to the Company's factory premises, Vadodara. The validity of contracts was one year, extendable for additional three months on existing terms at the discretion of the Company. As per terms of contract, the firms were to transport 600 to 900 MT of rock phosphate per day at a fixed rate of Rs. 474 per MT. No increase in rate was allowable except on account of hike in diesel price during the currency of the contract. On that basis, the Company did increase the rate to Rs. 493.98 per MT once with effect from 7 September 2005.

The Hon'ble Supreme Court (SC) quashed (9 November 2005) the practice of State Governments in permitting the overloading of trucks in excess of the prescribed weight limit (*i.e.* Registered Laden weight - RLW) by issuing tokens to truckers against a fixed fee. The contractors requested the Company (February 2006) for a rate increase by 40 *per cent* on the plea that the existing approved rates were based on the past practice of overloading the trucks upto 25 MT and 40 MT against RLW of 17 MT and 25 MT. The Managing Director accepted (February 2006) the plea and increased the rate from Rs. 493.98 to Rs. 625 per MT from 1 January 2006. The Company overpaid to the contractors Rs. 2.14 crore on 1,63,280 MT rock phosphate transported during January-November 2006 including the extended period of three months, outside the provisions of the contract. The overpayment was irregular and violative of the terms of the contract, to the detriment of the financial interest of the Company.

The Management stated (May/December 2008) that the firms had quoted rates for the above contracts in the environment wherein the practice of State Government permitting the overloading of trucks against charging of a fixed fee was in vogue. As this practice was subsequently quashed by Hon'ble Supreme Court, it created a situation which needed a correction in form of revision in the transportation rates. However, there was no clause in the

* Arbuda Transport, Ahmedabad and R.K. Carriers, Udaipur.

agreement to permit revision in price for injunction by court on the illegal practices of overloading the trucks by the transporters. By permitting increase in rates on this ground, the Company has not only incurred avoidable expenditure but also become a tactical party to an illegal practice.

The matter was reported to Government (April 2008); their reply was awaited (October 2008).

Gujarat Mineral Development Corporation Limited

3.2 Loss due to decision to repair excavator

The Company's decision for repairing hydraulic excavator instead of purchase of new excavator led to loss of savings of Rs. 21.90 lakh.
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The hydraulic excavator of Rajpardi project supplied by Bharat Earth Movers Limited (BEML) in March 1996 broke down due to fire (12 January 2004) during overburden removal, after completing 9,267 hours out of its total life of 20,000 hours. The Company and BEML officials carried out a joint inspection (January/February 2004) and the Company intimated (February 2004) damages of Rs. 86 lakh to the insurance company.

The Company (December 2004) carried out a comparative cost benefit analysis considering repair cost as Rs. 90 lakh, new acquisition cost as Rupees two crore and Income Tax benefit in both cases in the first year and accordingly decided (December 2004) to go in for repair of the excavator. The Company placed in all 46 orders for various repairs, spares and painting during April 2005 to September 2007 for a total cost of Rs. 1.46 crore. The work was completed in March 2008 at a total cost of Rs. 1.49 crore. The machine was put to use on 23 May 2008 and transferred to Panandhro project.

Audit observed that the Company in February 2005 submitted a revised claim to the insurance company for Rs. 1.40 crore but did not revise its cost benefit analysis. Had the Company revised the cost benefit analysis, purchase of new machinery would have become economical and would have saved Rs. 15.24 lakh based on revised repair cost (Rs. 1.40 crore) and Rs. 21.90 lakh on the basis of actual cost of repair (Rs. 1.49 crore).

The Management/Government stated (August/October 2008) that the increased repairing cost was lower than purchase cost if income tax benefit was considered but admitted that they had not done a revised analysis. The fact remains that the Company has not done any revised cost benefit analysis. Consideration of income tax benefit of one year instead of for all years gives a distorted picture.

Gujarat State Petroleum Corporation Limited

3.3 Flawed contract management, undue benefit to a contractor, and financial loss to the Company

The Company gave irregular benefit to the contractor and suffered loss of Rs. 106.71 crore by short recovering liquidated damages. It also gave the contractor additional undue benefit by accepting lower Performance Bank Guarantee.

The Company invited (July 2006) bids from rig contractors for hiring rigs for two years for undertaking its operations in Krishna Godavari basin. As per terms of the notice inviting tender (NIT), the Company was to recover liquidated damages (LD) at the rate of half *per cent* for each day of late commencement of the work up to a maximum of 10 *per cent* of estimated value of the contract, if the selected contractor failed to commence the work at the stipulated time, for any reasons other than *force majeure*. NIT also stipulated that the contractor should furnish performance bank guarantee (PBG) equal to ten *per cent* of estimated value of contract within 10 days of receipt of Letter of Intent (LOI).

Post evaluation of bids, the Company held techno-commercial negotiations (18 September 2006) with Essar Oil Ltd. (firm E), the L1 bidder; and, accepted its request to reduce PBG to five *per cent* of the estimated value of the contract for the first year and to three *per cent* for the second year. The Board of Directors (BOD) of the Company approved (October 2006) the award of the contract to firm E at an estimated value of US\$ 285.7 million (Rs. 1,277.65 crore^v) and the Company issued (14 November 2006) LOI to firm E. After issue of LOI, the Company also accepted (December 2006) the request of the contractor (16 November 2006) for the reduction of LD at the rate of US\$ 50,000 per day payable maximum for 30 days, *i.e.* US\$ 1.5 million against the maximum LD of US\$ 28.57 million (being 10 *per cent* of US\$ 285.7 million) stipulated in NIT. Changing the financial terms materially post evaluation only for one bidder vitiated the fairness and transparency of the bidding process and was, therefore, irregular. The Company's acceptance of reduced LD compounded the unfairness further, besides being unauthorised.

Firm E could mobilise the rig only in March 2008 with a delay of eight months from the stipulated date (15 June 2007). Due to the delay, the work of drilling well started in April 2008 instead of July 2007 affecting the Company's production programme. For the delay, the Company recovered (28 December 2007) only US\$ 1.5 million (*i.e.* Rs. 5.91 crore[^]) from firm E. Thus, the Company afforded the contractor irregular post evaluation benefit and suffered loss of US\$ 27.07 million (Rs. 106.71 crore) in short recovery of LD. Besides, the Company additionally favoured the contractor by accepting (24 January 2007) much less PBG of US\$ 13.030 million (Rs. 57.64 crore^f), even

^v As per exchange rate of Rs.44.72 per US\$ prevailing on 14 November 2006.

[^] As per exchange rate of Rs. 39.42 per US\$ prevailing on 27 December 2007.

^f As per exchange rate of Rs. 44.24 per US\$ prevailing on 24 January 2007.

against the irregularly reduced PBG of US\$ 14.285 million (at the rate of five per cent of US\$ 285.7 million).

The Management/Government stated (August/September 2008) that the rig contractors generally did not agree for LD clause as they could not commit the exact date for mobilising the rig due to uncertainty over the completion of their ongoing drilling works weather condition *etc.* Likewise, they would agree to furnish less/more amount of PBG depending upon the demand and supply scenario in the rig market. Further, the BOD authorised (October 2006) MD to finalise the terms and conditions of contract for hiring rig. The reply ignores the fact that Firm E, being aware of all terms of NIT, agreed for all other commercial terms including the amount of LD and PBG stipulated in NIT in the techno-commercial negotiations held on 18 September 2006. Being apprised of these negotiations, BOD approved the award of the contract to firm E. Hence, subsequent reduction allowed in the amount of LD and PBG was undue benefit to the contractor.

3.4 Avoidable payment of hire charges and short recovery of performance bond

Deficiencies in technical specifications led to loss of Rs. 3.38 crore beside short recovery of performance guarantee by Rs. 1.46 crore from a contractor.

The Company is engaged in the activities for exploration, development and production of hydrocarbon in the offshore block[↓] KG-OSN-2001/3 of Krishna-Godavari basin since March 2003. The Company awarded (September 2005) the contract to Atwood Oceanics Pacific Limited, Malaysia (firm A) at a cost of US\$ 97.46 million (Rs. 428.04 crore[∇]) for availing the service of Jack Up Rig[∫] for drilling of wells in the block. The duration of contract was for 25 months from the date of mobilising the rig to the block by firm A.

The technical specification of the contract *inter alia* provided for the use of drill pipes with dimension of 5 inch (5"). The Company, however, decided (November 2006) to use drill pipes of 5½" in the place of 5" on the plea that increase in the pipe width would reduce the surface pressure and increase the efficiency of drilling. The Company awarded (November 2006) a separate contract for hiring of 5½" drill pipes for a period of 25 months at a cost of US\$ 4.01 million (Rs. 18.01 crore[#]) to Asian – Acadian Marketing Inc., Singapore (firm AAM). Firm A mobilised (December 2006) the rig to the block and started drilling of wells by using hired (5½") pipes from January 2007.

[↓] One of the 27 blocks offered by GoI under the New Exploration and Licensing Policy-III.

[∇] As per exchange rate of Rs. 43.92 per 1 US\$ prevailing on 3 September 2005 on the date of contract.

[∫] It is combination of drilling rig and floating barrage fitted with long support legs. It is towed onto location with its legs up and the barge section floating on the water. Upon arrival on the drilling location the legs are jacked down onto the seafloor before starting the drilling work.

[#] As per exchange rate of Rs. 44.94 per US\$ prevailing on 20 November 2006-date of contract.

Thus, the deficient technical specification resulted in a loss of US\$ 0.81 million (Rs. 3.38 crore*) towards hire charges paid to firm AAM till November 2007. The Company is also liable to pay hire charges of US\$ 3.20 million (Rs. 14.37 crore approx.) till the completion of contract in January 2009.

Further, as per the terms of contract, firm AAM was to furnish performance bond (PB) of US\$ 0.40 million (Rs. 1.80 crore) with validity upto July 2009. The Company, however, at the instance of firm AAM accepted the PB of US\$ 75,000 (Rs. 33.70 lakh) with a validity up to March 2008. The short recovery of PB of US\$ 3,25,771 (Rs. 1.46 crore) has exposed the Company to greater risk of loss in the event of delay in replacing of defective pipes by firm AAM during execution of drilling work.

Management/Government stated (May/June 2008) that based on the experience of drilling in other oil field, the Company specified 5” pipe in the tender but during subsequent drilling of some other well of the KG block, 5½” pipe was considered appropriate. It further stated that the value of PB was reduced since the rig was due to arrive in December 2006 and the Company was to immediately arrange for 5½” pipes. The fact remains that the Company did not do proper assessment of technical specification in this regard. Besides, the Company failed to safeguard its interest due to acceptance of reduced value of PB than stipulated in the tender.

3.5 *Unsuccessful implementation of SAP*

Company incurred extra expenditure of Rs. 3.37 crore due to its failure to conduct Performance Acceptance tests properly.

Gujarat State Petroleum Corporation Limited (the Company) decided to implement Enterprise Resource Planning (ERP) system in the Company as well as its group companies in January 2004. The Company invited offers in February 2004 from three ERP solution providers namely SAP, Peoplesoft and Oracle. The Company constituted a core group and also hired a consultant (Ontrack Business Consulting) at a fee of Rs. 6.75 lakh to evaluate the bids. While evaluating the bids, the consultant gave high priority to the availability of Joint Venture Accounting (JVA) feature in SAP as business processes of the Company specific to JVA were embedded in the SAP solution and was readily deployable with minimum customisation. Based on the recommendations of the core group and consultant, the Company awarded contract for Rupees four crore (July 2004), to Tata Consultancy Services (TCS) for implementation of SAP ERP system. As per the agreement, TCS was to implement the project in nine months. TCS conducted Performance Acceptance Tests (PAT) in May 2005 for the Company which were accepted. TCS reportedly implemented ERP for the Company and its group companies by October 2005. Post implementation support from TCS was available upto November 2005. The Company made final payment to TCS in February 2006.

* Calculated based on the exchange rate prevailing on the date of payments made.

The Finance Division of the Company reported (1 December 2006) that there were problems in Joint Venture Accounting Module and Material Management Module of SAP due to which accounts cannot be generated from ERP software. Because of such inputs, the Company entrusted separate audits of implementation of SAP to Ernst & Young (E&Y) and SAP in January 2007 at a fees of Rs 17 lakh. E&Y, in its report mentioned that there were problems in the JVA module of the software. SAP also mentioned about problems in the JVA, Material Management and PSA[@] Module in its report. SAP report pointed out deficiency in project implementation by TCS in terms of lack of proper guidance, lack of proper training and regular changes in implementation team resulting into lack of consistency. Both E&Y and SAP suggested upgradation of SAP customisation and software.

In June 2007, the Company awarded another contract to TCS for Rs. 2.10 crore for SAP upgradation (including re-implementation of JVA and PSA) as well as support and training services. It also paid Rs. 74.68 lakh to SAP as license fee for upgraded version, and Rs. 1.27 crore towards the charges of E & Y for working as Project Management Consultant (PMC).

Audit observed that the Company did not report the problems in software till expiry of the warranty period. It was after more than one year of implementation (October 2005) that the Company reported (December 2006) that modules of the ERP software were not working and accounts could not be generated using the ERP system. Presence of problems in modules (as confirmed by the reports of E&Y and SAP) implies that the PATs were not conducted properly.

At the initial stage of implementation (February 2005), SAP conducted audit of Business Blue Print and recommended that audit should be conducted at three stages of implementation i.e. Realisation^{*}, Final Preparation[#] and Go live and support. It was however observed in audit that Company did not go for audit at various stages of initial implementation by TCS. If the Company had taken these steps timely, it could have asked TCS to rectify the problems without any additional cost.

Hence, the failure of the Company to properly conduct the Performance Acceptance Tests, to conduct audit at various stages of implementation and to report the problems in the software on a timely basis led to extra expenditure of Rs. 3.37 crore (to TCS Rs. 2.10 crore and Project Management Consultancy charges to E and Y Rs. 1.27 crore).

Management stated (September 2008) that the JVA configuration issues were not identified during the Performance Acceptance Test (PAT) as the same was normally done with one complete cycle of test data. The reply is not

[@] Production Sharing Accounting

^{*} Realisation stage means 1) configuration of SAP system as per the Business Blueprint, 2) customization/Development of custom components, 3) unit testing and 4) integration testing.

[#] Final preparation stage would involve master data upload to SAP system from legacy system, training, users' testing and cut over data upload to SAP system from legacy system.

convincing as JVA configuration, which was one of crucial issues for the successful implementation of the software, was not checked during the PAT and also during its initial implementation phase.

The matter was reported to Government (July 2008); their reply had not been received (November 2008).

Sardar Sarovar Narmada Nigam Limited

3.6 Unfruitful expenditure

Expenditure of Rs. 9.92 crore incurred on availing consultancy services remained unfruitful due to deferment in implementation of a project.

The Sardar Sarovar Project (SSP) canal system comprises 460 km long Narmada Main Canal (NMC) and a delivery network consisting of branch canals, distributaries, minors/sub minors channels and control structures *viz.*, cross regulators*, escapes[^], *etc.* NMC has design discharge capacity of 1134 cumecs (cubic meter per second). The Company planned (August 1994) to adopt computer aided Remote Monitoring and Control System (RMCS) for the operation of the canal conveyance system with an aim to improve the water transfer efficiency.

The Company entered into (September 1995) a consultancy agreement with GERSAR-ECI, France (Consultant) for availing their services in installing RMCS for SSP conveyance system. As per the agreement, initially, RMCS was to be installed at Vadodara division operation centres (DOC). The consultant's scope of work was divided into seven tasks *viz.*, (i) background review of operational system adopted by the Company (three months), (ii) planning and developing design for RMCS for entire SSP conveyance system (three months from completion of task at (i) above), (iii) preparation of technical specifications and contract documents both for NMC[∇] from reach 0 to 105.344 km and the canal conveyance system under the control of Vadodara DOC (pilot project) - (six months from completion of task at (ii) above), (iv) workshops/study tour (v) assisting in tender invitation and selection of contractor for pilot project, (vi) assisting in the supervising the work of contractor for pilot project (24 months from the date of fixation of contractor) and (vii) RMCS performance evaluation (six months after start of operation) for the pilot project. Under the present contract, the consultant was to perform the tasks given at (i) to (v) above and a separate contract for performing the remaining tasks would be entered later after the completion of tasks under present contract. Total fee payable to the consultant under the present contract was Rs. 7.12 crore[∇]. The Company also awarded (March

* It is provided in the main canal after every 12 to 15 kms distance.

[^] Escape is a passage provided with the gate in the canal to allow the excess water of the canal to flow in the nala/river/other places.

[∇] NMC was subsequently included in the scope of work *vide* agreement dated 7 January 2003.

[∇] Fee payable consisted of US\$ 11,57,110; French Francs 41,72,711 and INR 66,57,533.

1997) another contract to Computer Maintenance Corporation Limited (CMC) for a fee of Rs. 46.85 lakh to review the consultancy reports of GERSAR-ECI, France on RMCS.

CMC and the Company from time to time reviewed the reports of the Consultant and obtained necessary compliance to their suggestions. The Company, however, decided (November 2005) not to proceed with award of contract for installation of RMCS for the pilot project (estimated to cost Rs. 55.27 crore) till 2011 when the canal system would be ready to serve water in the entire command area[⊕]. Accordingly, upon the completion (September 2006) of tasks at (i) to (iv) by the Consultant, the Company stopped availing their services. The Company paid (May 1997 to April 2007) Rs. 9.45 crore to GERSAR-ECI and Rs. 46.85 lakh to CMC for the consultancy work carried out by them.

The Company did not review the feasibility of installation of RMCS for 10 years (1995-2005) and availed the services of two firms. In the context of fast changing technology, the feasibility of using the Consultant's reports in the year 2011 is doubtful. Therefore, inadequate planning and inadequate review of works by the Company led to loss of Rs. 9.92 crore.

The Management/Government stated (September 2008) that the Company was committed to adopt RMCS for operating the conveyance system as fast as possible but some bottlenecks in command area development work had delayed the progress of their efforts. However, whatever the background work done and the technical input compiled through availing the consultancy services would remain useful with some amendments while implementing the work of RMCS in future. The facts remains that the Company failed to adequately plan the consultants' services with the progress of other related works. Further, the feasibility of using the Consultant's reports in the year 2011 is doubtful and the expenditure incurred on the consultancy, in any case, would remain unfruitful till then.

Gujarat State Electricity Corporation Limited

3.7 Undue benefit to loading supervision contractors

Undue benefit of Rs. 37.27 crore was passed to the loading supervision contractors due to improper fixation of monthly average quantity coal per wagon.

Gujarat State Electricity Corporation Limited (GSECL)[∇] awarded (October 2003) contracts to four firms[∑] for loading supervision of coal supply from various collieries to its four[^] thermal power stations (TPS) for the period upto September 2005. The contract *inter alia* envisaged that the firms should

[⊕] Area identified for irrigation.

[∇] GSECL is one of the successor companies of the erstwhile Gujarat Electricity Board and is the inheritor of all the power stations with effect from 1 April 2005.

[∑] Karamchand Thaper and Brothers Limited, Mumbai, Nair Coal Services Limited, Nagpur, M.R.Patel, Ahmedabad and Sikka India Coal Agency, Kolkatta.

[^] Ukai, Wanakbori, Gandhinagar and Sikka.

coordinate with collieries and Railways for proper allocation of coal and materialisation of linkage, and ensure proper loading of coal in quality/quantity.

GSECL had fixed (October 2003) monthly average quantity (MAQ) per wagon as 56 MT in the contract considering the then permissible carrying capacity (PCC) of 58 MT (BOXN) of a railway wagon (as fixed by the Indian Railways) as well as of the actual MAQ received by the TPS in the past. The contract provided that the firms would be entitled to get service charges of Rs. 333 per MT on the incremental quantity of coal received at TPS above MAQ, *i.e.*, 56 MT per wagon.

The Indian Railways had increased the PCC of wagon from 58 to 60 MT and then to 62 MT effective from September and November 2004 respectively. Also, during September 2004 to August 2005 all the four TPS received coal at a MAQ of 60 MT per wagon. GSECL did not consider these factors fully while extending the period of contracts in September 2005 and in June 2007 and increased MAQ per wagon marginally at 56.25 MT and 57 MT respectively, with only marginally decreased applicable services charges of Rs. 330 per MT on the incremental quantity of coal received at TPS above MAQ. The extended period of contract is up to May 2012. GSECL ascribed the fixation of MAQ per wagon at 56.25 MT and 57 MT and of the service charges to the negotiations held with contractors. The basis of 'negotiations' and reasons as to why GSECL did not invite fresh bids in view of material changes in the carrying capacity of wagons were, however, not on record.

During October 2005 to March 2008, all the four TPS received 5,01,184 wagons of coal with average quantity of 60 to 65.44 MT per wagon. As per the original contract, considering the increase in PCC and also the receipt of actual average quantity, GSECL should have fixed 58 MT and 59.50 MT as MAQ per wagon from October 2005 and June 2007 respectively. However, due to the lower fixation of 56.25 MT and 57 MT as MAQ per wagon, GSECL overpaid loading supervision charges of Rs. 37.27 crore[∇] during the cited period, and continues to do so.

The Management/Government stated (May/June 2008) that neither there was any provision in the contract to revise MAQ per wagon, based on increase made in the PCC of wagons nor it would be appropriate to insert such provision, since Railways increase the PCC without effecting any change in the design of wagon. As the contractors would get more remuneration for loading coal over the present MAQ fixed per wagon, they would put in extra efforts for loading upto the increased PCC. This would be beneficial to GSECL. The reply is not acceptable as the service charges per wagon were increased disproportionately entirely to the advantages of the contractor. The original MAQ 56 MT itself was fixed based on PCC of 58 MT per wagon as

[∇] A. Remuneration payable as per terms = MAQ × no. of wagons × Rs.330.

B. Remuneration payable as per 58 MT/59.50 MT basis = (58 MT/59.50 MT – MAQ actually fixed) × no. of wagons × Rs.330.

Over paid = A – B.

well as of the actual MAQ received by the TPS in the past. Hence, based on the same practice, MAQ should have been increased during the subsequent period also.

3.8 Loss of generation due to clinker formation in boiler

Failure of the management to address the problem of clinker formation in the boiler of Unit 3 led to generation loss of 33.92 million units resulting in contribution loss of Rs. 4.95 crore.

Kutch Lignite Thermal Power Station (KLTPS) of the Company had frequent outages due to furnace draft fluctuations in unit 3 since its commissioning in April 1997. The erstwhile Gujarat Electricity Board (Board) assessed (September 2000) that the generation interruption in the unit was due to frequent formation of clinker^f in the boiler. The height (2902 mm) of firing zone in furnace of unit 3 was low compared to the height (5900 mm) of firing zone in unit 1 and 2 of KLTPS. Due to lower height of firing zone and heat transfer area, the furnace outlet temperature was high and hot ash in the form of clinker was getting formed in the boiler of unit 3. Falling of heavy mass of clinker on the chain conveyer at the bottom hopper required shutting down of boiler to clear the clinker masses.

It was observed that before construction of unit 3, the Board apprehended (June 1992/August 1993) problems to occur in unit 3 due to the smaller size of combustion chamber of furnace. The Board, however, went ahead with award of contract on assurance of the supplier *i.e.*, Elektrim S.A., Poland (firm 'E') without ensuring the suitability of furnace design for unit.

Though, the erstwhile Board (April-July 1997) knew that the occurrence of frequent outages was due to smaller size of furnace and resultant formation of clinker, it had not rectified the problem through firm 'E' within warranty period of one year ending by April/May 1998. The Board reported (September 2000) clinker formation problem to firm 'E' which in turn suggested (October 2000) for deputation of its engineers from Poland to KLTPS on payment basis for solving the problem. Subsequently, at the instance of firm 'E', its associate concern[♦] offered (November 2003, December 2005, and December 2006) to solve the clinker formation problem. The Board/ the Company had not yet decided on the offer. Test check in audit revealed that during 2003-2008, due to clinker formation problem in the boiler, unit 3 had forced outages for 455.63 hours leading to generation loss of 33.92 million units and contribution loss of Rs. 4.95 crore[∇].

Management/Government stated (July/August 2008) that clinker formation problem was not due to the smaller size of combustion chamber of furnace but due to deterioration in the quality of lignite available over a period of time.

^f Stony remains of burnt coal.

[♦] Energotechnika Energorozruch S.A.

[∇] Average realisation rate Rs. 2.70 per unit *minus* variable cost Rs. 1.24 per unit (during 2005-08) = Contribution Rs. 1.46 per unit x 3,39,23,250 units.

Against the envisaged ash content of 15 *per cent* based on the boiler design of unit 3, the actual lignite used had ash content of 18 to 30 *per cent*, and had more sodium and potassium contents which led to formation of clinker. The reply is contrary to the Company's record and the study (December 2006) of BHEL which indicated the defective design *viz.*, smaller size of combustion chamber of furnace was the cause for clinker formation. Further, the same quality of lignite is also used in units 1 and 2 of TPS without such problem of clinker formation.

3.9 *Wasteful investment and consequential generation losses*

Wasteful investment of Rs. 14.90 lakh made on failed information technology equipment led to generation loss of 18.265 million units and contribution loss of Rs. 4.57 crore.

The Kadana Hydro Power Station of Gujarat State Electricity Corporation Limited (the Company) has two hydro turbine units with capacity of one MW each located at Panam dam, Panchmahal. ABB, a Sweden firm, supplied power equipments and commissioned the units in March 1994. The units are normally operated for a period of four to five months (September to January) in a year, based on the water level in Panam reservoir. Unit-I of the power station stopped working since October 2002 due to some technical problem in the engineering station which is the controlling unit of turbine. The power station placed order (June 2003) with ABB, Vadodara (Collaborator of ABB, Sweden) for supply of engineering PC with latest technology to replace the engineering station MA-214. As per terms of order, the supplier was also supposed to run old application program on existing engineering station in the new engineering PC. The cost of work order was Rs. 16.14 lakh and its stipulated date for completion was 12 September 2003.

The firm supplied (August 2003) the Engineering PC against which the Company paid (May 2004) Rs. 14.90 lakh as per agreement. The firm, however, could not run old application program in the new system, because of which the new engineering station could not be commissioned (February 2008). The Company did not effectively pursue the matter with the supplier firm. It also failed to safeguard its interest by accepting terms of payment without commissioning of engineering station and to encash the bank guarantee of Rs. 1.45 lakh before it expired in August 2007.

Non-use of Engineering PC has caused Unit-I remaining non-functional for over five years since supply of the engineering PC. Mismanagement of supply contract of a critical hardware has resulted in wasteful investment of Rs. 14.90 lakh; and, more importantly, in generation loss of 18.265 MUs during October 2003 to March 2008 and contribution loss of Rs. 4.57* crore.

Management stated (May 2008) that as few floppies did not open, the loading of programme into MA-214 was not completed. Now, it has asked ABB,

* Average realisation rate Rs. 2.50 per unit *minus* variable cost Nil per unit (during 2005-08 as intimated by the Company)=Contribution Rs. 2.50 per unit x 1,82,65,000units

Vadodara either to get the copy of programme which could not be read from ABB, Sweden or arrange for preparation of new programme that could be compatible for MA 214. The reply does not give reasons for not encashing the firm's bank guarantee. Also the Company failed to protect its interest and allowed payment without ensuring commissioning of engineering station. After being pointed out (April 2008) in audit, the Company has taken up the matter with ABB, Vadodara in May 2008 suggesting the above corrective measure. Thus, failure of the Company to resolve this problem led to non functioning of one hydro unit for over five years and resultant contribution loss of Rs. 4.57 crore.

The matter was reported to Government (June 2008); their reply was awaited (October 2008).

3.10 Loss due to non availability of critical component

Failure of the Company to ensure availability of critical component of boiler led to generation loss of 8.72 million units and contribution loss of Rs. 19.19 lakh.

The Wanakbori Thermal Power Station of the Company[∇] sent (October 2004) indent to its HO for procurement of one spare unit of main steam stop valve (MSSV) with stem nut for actuator for Unit 4, 5 and 6 of the Thermal Power Station. MSSV is one of the critical items of boiler to be kept as spare for meeting any exigency. All the three units operate on MSSV supplied by a Japanese firm, Okano Valve Manufacturing Company (firm O).

The Company approached (November 2004) Bharat Heavy Electricals Limited, Vadodara for quoting the rate for supply of one unit of MSSV. BHEL, instead of quoting the rate for supply of 'OKANO' make MSSV, agreed (March 2005) to quote the rate for 'BHEL' make MSSV. Though, the Company wanted to have 'OKANO' make MSSV, it did not explore alternative source for getting the supply. In December 2005, the TPS reminded its HO for expediting procurement of MSSV. The Company approached (December 2005) authorised dealer of firm 'O' for getting the supply of 'OKANO' make MSSV. On 1 January 2006, one of the MSSV of Unit 4 of TPS was detached from spindle affecting the steam flow in the boiler. As a result, the TPS had kept the Unit 4 running with a partial load during 1-14 January 2006 and shutdown the Unit for 47 hours on 14-16 January 2006 for repairing MSSV. Consequently, the Unit lost the generation of 8.72 MUs of energy with contribution loss of Rs. 19.19 lakh[∇] during 1-16 January 2006.

Even after experiencing the exigency for MSSV, the Company took the matter in casual manner and placed order on an authorised dealer* of firm 'O' for procurement of 'OKANO' make MSSV at price of Rs. 34.61 lakh in February

[∇] GSECL is one of the successive companies of the erstwhile Gujarat Electricity Board and is the inheritor of all the power stations with effect from 1 April 2005.

[∇] Average realisation rate Rs. 1.90 per unit *minus* variable cost Rs. 1.68 per unit during 2005-06 = Contribution Re. 0.22 per unit x 87,24,749 units.

* Kokusai Commerce Company Limited, Tokyo, Japan

2007 only *i.e.* one year after experiencing the problem. The dealer supplied MSSV in October 2007.

Thus, the Company, at the first place did not ensure the availability of spare of critical components such as MSSV at TPS. Further, in the instant case, it failed to procure MSSV promptly after the receipt of indent from the TPS. This led to loss of energy and contribution loss of Rs. 19.19 lakh.

The Management/Government stated (May/September 2008) that generally the requirement of spares for equipment was being fulfilled by BHEL. But in this case, BHEL did not submit its offer for 'OKANO' make MSSV spare even after follow up. Subsequent actions taken to get the spare through the authorised dealer led to placement of order in February 2007. As outage of the Unit was planned on 14 January 2006, even if this spare was available, it could have run the Unit with a partial load during 1 to 14 January 2006 reckoning the demand for power prevailed at that time. The reply does not address the issue of non-availability of critical component when required. The Company failed to approach authorised dealer in March 2005 when BHEL did not quote for 'OKANO' make MSSV in its offer. The spare critical components are kept in TPS to meet any exigency and not for keeping it idle till date of any planned outages. Thus, the fact remains that non availability of critical components led to generation loss and also contribution loss of Rs. 19.19 lakh.

Alcock Ashdown (Gujarat) Limited

3.11 Extra expenditure due to delay in award of contract

The Company incurred extra expenditure of Rs. 3.38 crore due to delay in award of contract for propeller engines.

The Company entered into a ship building contract (September 2005) with Sea Tanker Management Company Limited (STMCL) for the construction and supply of eight numbers of 12,800 ton IMO Tankers (Ship) worth Rs. 600 crore. As per delivery schedule, first lot of four ships was to be delivered to STMCL during September 2007 to March 2009. During the negotiation itself with STMCL, the Company invited offers (June 2005) for purchase of major equipments including main propeller engines (MPEs) required for the construction of four ships. Three bids were received (July 2005) for MPE in which Wartsila (Finland) was the L1 which quoted Rs. 5.29 crore per engine followed by MAK Germany (Rs. 5.92 crore) and Bergen (Rolls Royce), Norway (Rs. 6.42 crore). Both the L1 and L2 parties were ready to supply the MPE by June 2007 so as to enable the Company to adhere to the schedule of September 2007 for delivery of the first ship.

Instead of awarding the contract, the Company invited (January 2006) fresh tenders for supply of the MPEs from the same firms. Against this tender, though the original L1 and L2 firms continued to be L1 and L2, but refused to deliver any engine in the year 2007 due to heavy order book. The earliest delivery date was stated to be May 2008. As the Company had to adhere to its schedule of delivering its first ship by September 2007, it awarded the contract

(April 2006) for the MPEs to Burgen (Rolls Royce) the L3 firm at Rs. 6.14 crore per engine, which agreed to adhere to the required time schedule of June 2007. The additional cost to the Company was Rs. 84.57 lakh per engine. Thus, as a result of the delay on the part of the Company in awarding the contract for supply of four engines, it incurred an extra expenditure of Rs. 3.38 crore (Rs. 84.57 lakh X 4 MPE).

The Management stated (July 2008) that in June 2005, the Company invited budgetary offer/quote from major suppliers of propeller engines to get the approximate cost of main propeller engine. Only in January 2006, the tender was invited for purchase of engines after entering (September 2005) the contract with STMCL. As L1 and L2 firms did not agree for the required schedule of delivery of MPEs, purchase order was placed on L3 firm. However, the minutes of Board Tender Committee of the Company held on 3 March 2006 cited that in October 2005, both L1 and L2 firms were willing to accept the delivery schedule as per the Company's requirement. Even, if the offers received from the firms in July 2005 were of only budgetary offer/quote, then the Company should have invited formal tender in September/October 2005 itself after entering into contract with STMCL. No reason was on record for not inviting the formal tender till January 2006.

The matter was reported to Government (July 2008); their reply had not been received (October 2008).

Gujarat Urban Development Company Limited

3.12 Non recovery of statutory cess for welfare of construction workers

The Company did not recover statutory welfare cess from the contractors and incurred fiscal liability of Rs. 3.45 crore.

Under section 3(1) of the Building and Other Construction Workers' Welfare Cess Act, 1996, (Act) the Ministry of Labour, Government of India (GOI) specified (September 1996) that the State Government should levy welfare cess at the rate of one *per cent* of the cost of construction incurred by an employer. As per rule 5 of the Building and other Construction Workers' Welfare Cess Rules, 1998 (welfare cess rules) framed under the Act, the proceeds of the cess should be transferred to the Building and Other Construction Workers Welfare Board (State Welfare Board) set up under Section 18 of the Buildings and other Construction Workers' (Regulation of Employment and Conditions of Service) Act, 1996. The State Government authorised (January 2005) the executive head of State PSUs to act as Cess Collectors for deducting the cess from the bills paid for building and other construction works, and for remitting collected cess within thirty days of collection in terms of rule 5(3) of the welfare cess rules.

The Company has been executing the works of construction of roads, buildings, water supply and sewerage system in the earthquake affected area of Saurashtra and Kutch as assigned by Gujarat State Disaster Management Authority (GSDMA) since March 2002. The Company completed the

execution of 49 civil works at a cost of Rs. 344.74 crore during January 2005 to June 2007 through award of contracts. It did not levy the prescribed statutory welfare cess of Rs. 3.45 crore* from the contractors during January 2005 to June 2007 for onward remission to the State Welfare Board. The Company has, thus, incurred upon itself a fiscal liability for payment of the statutory welfare cess of Rs. 3.45 crore on behalf of the contractors. Penalty not exceeding such amount of welfare cess for delayed payments can also be levied under welfare cess rules.

The Management stated (June 2008) that no provision was made in the contracts specifically for recovery of welfare cess since these were awarded before State Government authorised (January 2005) the PSUs to collect cess. The Company, however, under clause 70.8 of General Contract Condition (GCC) -Section 2 of contract, could recover any statutory levies from the contractor by increasing the cost of work awarded to that extent if such levies were made applicable after the award of the contract. Further, this increased cost of work could be recovered from GSDMA. Hence, even if the Company recovered the welfare cess, the contractors were nothing to lose. The Company, however, demanded (April 2008) fund equal to the unrecovered amount from GSDMA for remitting the welfare cess to State Welfare Board. Audit observed that the works pointed out in audit were completed after authorisation (January 2005) of the Company as cess collector. As such, the Company should have recovered the welfare cess by invoking GCC clause and ensured its timely remittance to State Welfare Board. Now, the non-compliance of provisions of Act, *ibid*, would attract penalty to the extent of amount of welfare cess not paid.

The matter was reported to Government (June 2008); their reply was awaited (October 2008).

3.13 *Extra expenditure and undue benefit to the contractors*

Flawed contract documentation led to extra expenditure of Rs. 2.89 crore by the Company and undue financial benefit to the contractors.

The Government of India (GOI) exempted through issue of notification (August 1995) all goods from payment of central excise duty (CED) if the said goods were intended to be supplied to a project financed by the Asian Development Bank (ADB). As per the notification, the Project Implementing Authority issues Project Authority Certificate (PAC) stating that the materials mentioned in it are required by the contractor for the execution of the project duly approved by GOI and funded by ADB.

Gujarat State Disaster Management Authority (GSDMA) entrusted (March 2002) the work of rehabilitation and reconstruction of urban infrastructure in the earthquake affected area of Saurashtra and Kachchh to Gujarat Urban Development Company Limited (the Company). ADB and Government of Gujarat arranged funds in the ratio of 77:23. Thus, the works awarded under

* Computed at one *per cent* of Rs.344.74 crore for 49 civil works.

the project were eligible for CED exemption. The Company executed 71 different types of construction works at a cost of Rs. 397.91 crore (August 2002 to June 2007).

As per the contract, the rates quoted by the contractor were inclusive of all taxes and duties. Though CED exemption benefit was available for the work, the Company did not mention in the contract terms that the bidders should quote the rate keeping in view the CED exemption available. It also did not clarify to the bidders whether any tax exemption will be available, and asked the bidders to quote prices inclusive of all taxes only during the pre bid meetings held for the contractors. Consequently, the bidders quoted the rate for the works inclusive of CED. Moreover the Company also did not incorporate a clause in the contract agreement stating that any savings to the contractor on account of issue of PAC in the work will be passed on to the Company.

A test check of 11 works valuing Rs. 84.54 crore out of 71 works valuing Rs. 397.91 crore revealed that the Company had issued PACs to the contractors for various materials utilised for the works. The amount of CED exemption available under these PAC was Rs. 2.89 crore. Thus, while the contractors charged the CED to the Company, they might have availed themselves of the exemption from payment of this duty based on the PACs issued to them by the Company. The Company incurred extra expenditure and afforded undue financial benefit to the contractors for amounts totaling Rs. 2.89 crore, by not incorporating the fact of CED exemption to ADB funded projects in contract documents.

The Management stated (July 2008) that if GoI would withdraw the CED exemption, then increases in the project cost on this count would have to be borne by GoG. Hence, it had asked for the rate including all taxes having responsibility of availing CED vest on the bidders. It did not mean that the bidders had quoted rates including CED. The rates were exclusive of CED. As the exemption of CED for ADB funded projects could not be denied to contractors, there was no need for incorporating any provision in this regard in the contract. The Company's apprehension about the impact in the event of withdrawal of CED is not relevant. The Company should have either specifically asked the bidders to quote the rate exclusive of CED or asked them to quote the rate inclusive of CED with the condition that the benefit of exemption availed by them should be passed on to the Company.

The matter was reported to Government (July 2008); their reply had not been received (October 2008).

Uttar Gujarat Vij Company Limited**3.14 Non/delayed recovery of security deposit**

The Company suffered loss of interest of Rs. 97.04 lakh due to non/delayed recovery of security deposit from the high tension consumers.

Uttar Gujarat Vij Company Limited* (the Company), is one of the licensee supplying electricity to different categories of consumers in the State. Gujarat Electricity Regulatory Commission (GERC) notified (31 March 2005) that High Tension (HT) consumers should at all times maintain with the licensee an amount equivalent to consumption charges of one and half months as security deposit (SD) for the electricity being supplied by the licensee under the agreement with consumers. The licensee should review the adequacy of amount of SD once in a year based on the consumers' average consumption during last 12 months. The licensee should pay interest on SD of consumers at the Bank Rate (as on 1 April of every year) notified by Reserve Bank of India or such higher rate as may be fixed by the GERC from time to time.

Though the notification came into effect from 31 March 2005, the Company was ready with modified software only in September 2006; even after calculating (September 2006) the shortfall amount of SD, the Company kept the recovery process in abeyance till January 2007 on the plea that the consumers' request for payment of SD in installments was under its consideration. If the Company had taken necessary actions within three months from the date of notification, it could have started the recovery of SD from July 2005. Audit test checked the records of five[∇] out of 19 divisions of the Company to assess the implication of delay in implementation of the notification. Results of test check are as follows:

Year	Number of consumers	Short recovery		Period (months)	Average cash credit rate (per cent)	Bank rate of Reserve Bank of India (per cent)	Differential interest rate (per cent)	Loss of interest (Rs.in lakh)
		Amount (Rs. in crore)	Number of consumers					
2005-06	694	19.49	304	9	8.00	6	2.00	29.23
2006-07	730	21.31	274	6 to 11	8.75	6	2.75	51.01
2007-08	724	7.09	154	1 to 11	10.50	6	4.50	16.80
Total								97.04

During 2005-08, the Company availed cash credit (CC) facility from banks at an average rate of interest of 8 to 10.50 *per cent*. Had the Company taken timely action and recovered the shortfall amount of SD it could have utilised the amount and reduced the bank borrowings to that extent. Thus, the

* Earlier Gujarat Electricity Board.

∇ Kalol, Kadi, Mehsana, Bavla and Sabarmati.

Company could have saved interest of Rs. 97.04 lakh *i.e.* 2 to 4.50 *per cent* being differential rate applicable for the payment of interest of 6 *per cent*[∨] to the consumers on SD over the CC rate during 2005-08. Besides, due to under recovery of SD, the Company's position would be precarious if the consumers make default in payment of energy bills.

The Government/ Management stated (June 2008) that the reasons such as, modification of software programme, considering the consumers' representation for payment of SD in installments in the Apex Co-ordination Committee[◇] (ACC) of GUVNL and approaching GERC for necessary orders led to delayed recovery of SD. The fact remains that the Company had taken more time *i.e.* 21 months (April 2005 to December 2006) for modification of software programme and considering the consumers representations. Further, after starting the recovery of SD in January 2007, the Company approached GERC in April 2007 for review norms related to calculation of SD amount only for those consumers having captive power plant and also keeping stand by contract demand with the Company. Thus, the Company's move to GERC for necessary orders was nothing to do with its delay in initiation of action for recovery of SD.

Madhya Gujarat Vij Company Limited

3.15 Non/delay in recovery of security deposit

The Company suffered loss of interest of Rs. 1.58 crore due to non/delayed recovery of security deposit from the high tension consumers.

Madhya Gujarat Vij Company Limited[Ⓢ] (the Company) is one of the licensee supplying electricity to different categories of consumers in the State. Gujarat Electricity Regulatory Commission (GERC) notified (31 March 2005) that High Tension (HT) consumers should at all times maintain with the licensee an amount equivalent to consumption charges of one and half months as security deposit (SD) for the electricity being supplied by the licensee under the agreement with consumers. The licensee should review the adequacy of amount of SD once in a year based on the consumers' average consumption during last 12 months. The licensee should pay interest on SD at the Bank Rate (as on the 1 April of every year) notified by Reserve Bank of India or such higher rate as may be fixed by the GERC from time to time.

Though the notification came into effect from 31 March 2005, the Company was ready with modified software only in September 2006; even after calculating (September 2006) the shortfall amount of SD, the Company kept the recovery process in abeyance till January 2007 on the plea that the consumers' request for payment of SD in installments was under its consideration. If the Company had taken necessary actions within three

[∨] Bank rate as notified by RBI for the year 2005-08.

[◇] Consisting of Chairman of GUVNL and Managing Directors of its four Distribution Companies.

[Ⓢ] Earlier Gujarat Electricity Board.

months from the date of notification, it could have started the recovery of SD from July 2005. Audit test checked the records of 12[∇] out of 16 divisions of the Company to assess the implication of delay in implementation of the notification. Results of test check are as follows:

Year	Number of consumers	Short recovery		Period (months)	Average cash credit rate (per cent)	Bank rate of Reserve Bank of India (per cent)	Differential interest rate (per cent)	Loss of interest (Rs. in crore)
		Amount (Rs. in crore)	Number of consumers					
2005-06	650	25.93	291	9	8.00	6	2.00	0.31
2006-07	771	18.17	265	11	8.75	6	2.75	0.46
2007-08	820	28.08	298	2 to 11	10.50	6	4.50	0.81
Total								1.58

During 2005-08, the Company availed cash credit (CC) facility from banks at an average rate of interest of 8 to 10.50 *per cent*. Had the Company taken timely action and recovered the short fall amount of SD, it could have utilised the amount and reduced the bank borrowings to that extent. Thus, the Company could have saved interest of Rs. 1.58 crore *i.e.* 2 to 4.50 *per cent* being differential rate applicable for the payment of interest of 6 *per cent** to the consumers on SD over the CC rate during 2005-08. Besides, due to under recovery of SD, the Company's position would be precarious if the consumers make default in payment of energy bills.

The Management/ Government stated (July/August 2008) that initial problems after unbundling of Gujarat Electricity Board, industrial depression, preparation of computer programme, consumers' representation were the main reasons for the non/ delay in recovery of SD. Audit observed that GERC notification was effective from 31 March 2005; however, the Company initiated recovery only after 21 months (April 2005-December 2006) on the above cited reasons. Series of actions taken by the Company since issue of notification of March 2005 indicated Company's casual approach in implementing the notification having fiscal implication on its working.

Dakshin Gujarat Vij Company Limited

3.16 Loss of revenue

The Company suffered revenue loss of Rs. 92.06 lakh by not merging more than one high tension connections in single premises.

Gujarat Electricity Board (GEB) instructed (October 1967 and April 1993)

[∇] Nadiad(City), Nadiad (Rural), Anand (City), Anand (Rural), Mehamadabad, Petlad, Jambuva, Baroda (O&M), Vishwamitri (West), Lal Baug, Godhra and Halol.

* Bank rate as notified RBI for the years 2005-08.

that more than one connection should not be released in one single premises, unless it was 'helpful to the Board'. Electricity Supply Code and Related Matters Regulations of Gujarat Electricity Regulatory Commission (GERC) also state (March 2005) that the distribution licensee cannot provide more than one connection/meter for one premises, unless consumer opting for second meter produces separate legal entity document.

Dakshin Gujarat Vij Company Limited (the Company) is one of the four power distribution companies created after corporatisation and unbundling of erstwhile GEB. O&M Division (Industrial) of GEB at Surat released three High Tension connections, to Batliboi Limited (the consumer), in the same premises having contract demand of 170 MVA, 800 KVA and 400 KVA respectively in the year 1973. GEB had told the consumer in April 1996 (when it applied for the merger of two of its three connections) that it could not be permitted to continue with three HT connections in the same premises in the name of the same Company; and was instructed to amalgamate all the three connections to avail single point of supply with the total contract demand. The consumer did not apply stating that the three connections were located on different land survey numbers. The consumer repeated its request in September 2005 for merger of two HT connections, which the Company accepted in March 2006.

The Company's March 2006 decision to allow the consumer three HT connections since 1973 till March 2006 and to agree to the request to let it have two connections afterwards, was against the 1967 stipulations of its predecessor GEB, and also against GERC directives. The financial impact of this irregularity was Rs. 92.06 lakh in foregone revenues due to short recovery of demand charges and energy charges during 1996-2008 (excluding interest charges). Of this amount, Rs. 17 lakh pertains to the period from April 2006 to March 2008. The irregularity persists, so does the loss of revenue.

The Management/Government stated (August/ September 2008) that in September 2005, the consumer wanted to install a wind farm unit in Jamnagar to supply power to GEB and in turn would like to draw equal power from GEB for its requirements at Surat. As per State Government Wind Power Generation Policy-2002, the consumer should have only two meters for availing the benefit of wind farm unit, so on its request the approval was granted for the merger of two of its three connections. Further, it was allowed to continue with two separate connections since it was meant for supply of power to its two different units situated at distance of 500 meters and on the plots having different survey numbers. However, as per GEB and GERC stipulations, the consumer should not be allowed to have more than one connection in one premises irrespective of the distance and survey number of the units situated in the same premises. Besides, the reference made about the policy of 2002 is not relevant to the observation made by Audit, the policy stipulates that consumer with wind firm unit is allowed to wheel power to its

manufacturing units (maximum upto two units) and not that the consumer should have only two meters.

Statutory corporations

Gujarat State Road Transport Corporation

3.17 Loss due to belated purchase of tyres

Failure in timely placement of orders for purchase of tyres and flaps not only led to extra expenditure of Rs. 3.09 crore and loss of contribution of Rs. 2.79 crore but also put the passengers into inconvenience.

The Corporation has prescribed (April 1999) time schedule for various activities to be carried out by its purchase department, right from receipt of indents from the store department till the placement of purchase orders for it. As per schedule, the stores department should place indent with purchase department by 15 April for the requirements during January-December of next year. The Purchase department should open the tender by June and place purchase orders on the suppliers by October.

In April 2005, the stores department placed indent for 64,494 tyres and 48,219 flaps for the consumption during January-December 2006. The purchase department, however, took nine months (April-December 2005) in deciding routine and incidental issues, viz., the technical specification of tyres/flaps and requirement of conducting lab test on the supplies. As a result, the tender was invited as late as January 2006 instead of scheduled period of June 2005. The bids were opened on 23 February 2006 and the Purchase Committee finalised the tender in June/July 2006 by placing orders (June/July 2006) only for 35,000 nylon tyre sets (a tyre and a flap constituting a set) on three technically qualified firms^Y at L-1 price of Rs. 6,588.10 *per set* (tyre Rs. 6,385.61 and flap Rs. 202.49). Though, the price bid of firms was to remain valid up to February 2007 as per terms of tender, the firms refused (June/July 2006) to accept the purchase order on the plea of huge increase in the price of rubber since submission of their bids in February 2006. The Purchase Committee after holding (June/July 2006) meeting with the above firms decided to increase the price to Rs. 7,587.26 *per set* (tyre Rs. 7,343.86 and flap Rs. 243.40) based on the revised rate quoted by the L-1 firm. Accordingly, purchase orders were placed (July/August 2006) on the three firms only for 30,000 sets with a stipulated supply period of three/four months.

If the Corporation followed the schedule and placed the purchase order in October 2005, it could have got the supply of tyres and flaps at a pre revised rate and within a normal lead time of four months i.e. by February 2006. Thus, the Corporation's failure to place the order in time led to extra expenditure of

^Y MRF Limited, Ahmedabad, CEAT Limited, Ahmedabad, J.K. Industries Limited, New Delhi.

Rs. 3.09 crore in purchase of 30,000 tyres and flaps.

Due to belated placement of purchase orders and consequential delay in supply, 4 to 231 buses remained off the road for want of tyres during 19 July 2006 to 2 November 2006 providing inconvenience to passengers. Further due to the off road buses, the Corporation suffered contribution loss of Rs. 2.79 crore[Ⓔ] as it lost the opportunity to ply the buses for 34.26 lakh kilometers during the period.

The Management stated (October 2008) that while receiving the store indent in April 2005, the Corporation was to get supply of 23,613 tyres against the previously placed orders with suppliers. Hence, it deferred its purchase actions to some extent and explored ways to strengthen the purchase procedures. Further, the purchase orders were placed at the enhanced rate mainly due to rise in rubber price. Audit observed that the pending supply of 23,613 tyres was to meet the consumption requirements for the period January-December 2005, whereas for meeting the requirements of tyres from January to December 2006, the Corporation should have invited tender in June 2005.

The matter was reported to Government (July 2008); their reply had not been received (October 2008).

Gujarat Industrial Development Corporation

3.18 Loss on sale of plots

The Corporation incorrectly charged industrial rates instead of commercial rates on sale of plots resulting in loss of Rs. 27.50 lakh.

The Corporation allotted (January 2008) seven plots of equal area measuring a total of 7,000 sq meters to Reliance Gas Transportation Infrastructure Limited, Surat (firm R) at Industrial Estate, Vapi. These plots were allotted for laying down pipelines to distribute natural gas to industrial and other consumers and for setting up of gas pumping station. The Corporation charged at industrial rate of Rs. 1,100 per sq meter for two plots, on the plea that laying down of pipelines was not a commercial activity. For the remaining five plots the Corporation charged the commercial rates of Rs. 2,475 per sq meter. Firm R paid (January 2008) the total allotment price of Rs. 1.47 crore for a total of 7,000 sq meter of land, and took the possession (February 2008) with transfer of title in its favour. The Board of Directors of the Corporation accorded (February 2008) post facto approval.

The cited allotment was in contravention with the Corporation's policy that:

- it would grant only right of use (ROU) for laying cables and pipelines by levying one time charge of 10 *per cent* of the value of land;

[Ⓔ] 34,26,170 km x contribution of Rs. 8.13 per km i.e., Earning per km of Rs. 16.09 less Variable cost (cost of fuel and tyre) per km Rs. 7.96 during 2006-07.

- it would retain the title on the plots; and
- it would retain its discretion to use the plots.

In view of the above policy, the Corporation either ought to have charged 10 *per cent* of the value of land, i.e. Rs. 2.20 lakh, as ROU charges on the two plots and should not have outrightly allotted these plots or it should have charged the firm Rs. 49.50 lakh for outright sale of the two plots at commercial rates. By not doing so, and by incorrectly charging the firm at industrial rates for outright sale of the two plots, the Corporation suffered loss of Rs. 27.50 lakh*.

The Management stated (September 2008) that normally pipelines were laid in road margin and after covering the trench, the open land was used for parking, plantation *etc.* So, plots were given under ROU to allottees after charging 10 *per cent* of the prevailing industrial rate for the plots. In this case, however, firm R wanted to lay big trunk pipeline which would occupy maximum width of the two plots and even the remaining portion of it could only be used for maintenance and service of this pipeline. Hence, instead of granting ROU, the two plots were outrightly allotted to firm R at industrial rate. If the Management considered it appropriate to outrightly allot the two plots instead of granting it under ROU, it should have charged commercial rates for the plots from firm R. Further, as per the Corporation's circular of 10 February 1995, 'Industrial gas' activity has been considered as 'commercial activity'. Thus, the fact remains that the Corporation suffered loss of Rs. 27.50 lakh due to not charging of commercial rate for the two plots from firm R.

The matter was reported to Government (July 2008); their reply had not been received (October 2008).

General

3.19 Follow-up action on Audit Reports

Outstanding action taken notes

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

Though, the Audit Reports for the year 2004-05, 2005-06 and 2006-07 were

* Cost of two plots at commercial rate Rs. 49.50 lakh less charged at industrial rate Rs. 22 lakh.

presented to the State Legislature on 24 March 2006, 30 March 2007 and 26 March 2008 respectively, 14 departments, which were commented upon, did not submit explanatory notes on 17 out of 67 paragraphs/ reviews as on 30 September 2008 as indicated below.

Year of the Audit Report (Commercial)	Total Paragraphs/ Reviews in the Audit Report	Number of Paragraphs/Reviews for which explanatory notes were not received
2004-05	22	03
2005-06	24	05
2006-07	21	09
Total	67	17

Department-wise analysis is given in *Annexure 21*.

Response to Inspection Reports, Draft Paragraphs and Reviews

3.19.2 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the respective PSUs and the concerned departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2008 pertaining to 48 PSUs revealed that 1,187 paragraphs relating to 373 Inspection Reports remained outstanding as on 30 September 2008. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2008 is given in *Annexure 22*.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Audit noticed that eight draft paragraphs forwarded to the various departments during April to July 2008 as detailed in *Annexure 23* had not been replied to so far (October 2008).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection

reports/draft paragraphs/ reviews and ATNs to the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/ outstanding advances/ overpayment is taken within the prescribed time; and (c) the system of responding to audit observations is strengthened.

AHMEDABAD
The

(NIRANJAN PANT)
Principal Accountant General
(Commercial and Receipt Audit), Gujarat

Countersigned

NEW DELHI
The

(VINOD RAI)
Comptroller and Auditor General of India