

CHAPTER IV

Miscellaneous topics of interest relating to Government companies and Statutory corporations

A. GOVERNMENT COMPANIES

4.1 Gujarat Small Industries Corporation Limited

4.1.1 Irregular extension of financial assistance

Due to irregular extension of financial assistance of Rs.0.86 crore to a firm, the Company was unable to recover the principal and also suffered loss of interest of Rs.0.58 crore.

The Kerala State Civil Supplies Corporation Limited (KSCSC) had placed (15 March 1997) five purchase orders on the Company for supply of commodities valuing Rs.1.76 crore, with completion period of 30 days from the date of issue of orders. As per the purchase orders, the Company had furnished (March 1997) a bank guarantee in favour of KSCSC for Rs.8.82 lakh towards security deposit and placed order of Rs.1.76 crore (15 March 1997) on M/s. Gayatri Masala Udyog, Godhra (GMU) under its “Tender Marketing Scheme” for supply of the commodities to KSCSC directly. As per the order, the Company was entitled to recover one *per cent* service charges on the value of grains supplied by GMU and to make payments to GMU for the supply only after receipt of payments from KSCSC. The GMU had requested the Company (17 March 1997) to provide an advance of 70 *per cent* of value of the order for enabling it to execute the order before 15 April 1997 and consequently an advance of Rs.0.80 crore was paid to GMU (2 April 1997).

GMU supplied the commodities worth Rs.0.85 crore during April 1997. KSCSC accepted the commodities worth Rs.25.34 lakh and remaining commodities valuing Rs.0.60 crore were rejected, as the same did not conform to prescribed specifications. KSCSC imposed (October 1997) a penalty of Rs.31.71 lakh for delay and non supply of goods and recovered the same by adjusting Rs.25.34 lakh against the value of the commodities accepted and the balance amount of Rs.6.37 lakh by invoking the bank guarantee. Though the Company initiated action (July 1997) against GMU under Gujarat Public Money (Recovery of Dues) Act, 1979 for recovery of dues, it could not recover Rs.0.86 crore (January 2002).

Audit analysis of the case revealed the following:

- (i) As per the object clause of Memorandum of Association, the Company could assist only SSI units. However, the Company did not ensure the SSI status of GMU before providing financial assistance.
- (ii) (a) The Managing Director of the Company had authorised (March 1997) the financial assistance beyond the powers delegated.

(b) The legal documents executed in favour of the Company before release of financial assistance were deficient, in as much as, that the stamp duty on mortgage deed was short paid and original documents of immovable property, title clearance report and valuation report from Government approved valuer were not obtained.

Thus, the funds to the tune of Rs.0.86 crore remained locked up (Rs.0.80 crore from April 1997 to October 1997 and Rs.0.86 crore from November 1997 to November 2002) due to irregular financial assistance extended to GMU beyond the scope of the purchase order. The Company suffered a loss of interest of Rs.0.58 crore (reckoned at 12 *per cent per annum*) due to blocking of the funds. Chances of recovery of Rs.0.86 crore were remote because the documents obtained were insufficient and deficient, for which, no responsibility had been fixed.

The matter was reported to the Government/Company in February 2002; their replies had not been received (November 2002).

4.2 Gujarat Mineral Development Corporation Limited

4.2.1 Loss in sale of calcined bauxite

Incorrect estimation of cost of production coupled with deficiency in the agreement for sale of calcined bauxite resulted in loss of Rs.3.52 crore.

The Company decided (March 1999) to restart bauxite calcination project at Gadhsisa which was not in operation since June 1996 due to its non-viability. The decision was taken based on the Company's assessment that there would not be any loss in running the plant if the cost of depreciation was ignored while matching other cost components of production of calcined bauxite against its sales realisation. Accordingly, the Company worked out (August 1999) the cost of production (excluding depreciation) of calcined bauxite as Rs.2,250 per metric tonne (PMT). The Company under an agreement with M/s. Meena Agency, Jamnagar (the firm) decided (September 1999) to sell the calcined bauxite at a rate of Rs.2,275 PMT for a period of three years up to September 2002.

Audit analysis of records revealed that the Company prepared cost estimate by considering plant operation at 75 *per cent* of installed capacity. However, the

Price escalation clause did not cover some of the items of input.

actual capacity utilisation was 42 to 69 *per cent* of the installed capacity. The Company failed to estimate the cost of production PMT in case actual production fell below the assumed capacity utilisation. Moreover, against the estimated cost of Rs.2,250 PMT, the actual cost of production (excluding depreciation) of calcined bauxite ranged between Rs.2,801 and Rs.3,907 PMT during September 1999 to March 2002. Besides, price escalation clause incorporated in the agreement was deficient as some of the main items of cost such as, power, wages and salaries were not covered under the clause.

The Company stated (July 2002) that due to inadequate availability of high grade bauxite in the area under mining operation of the Company, the actual capacity utilisation of the plant fell below the estimation made in this regard. Besides, the factors such as, heavy initial maintenance cost of the plant, increase in the salaries and wages and large absenteeism of labour were the causes for high PMT cost against the estimated PMT cost of calcined bauxite. It was also stated that the Company would take due care in future for inclusion of the items which were left uncovered under the price escalation clause of the agreement with the firm.

Thus, the fact remains that incorrect estimation of the cost of production of calcined bauxite as well as the failure to cover some of the items of input under the price escalation clause of the agreement had entailed an excess cost to the Company ranging from Rs.211 to Rs.1,632 PMT (after considering price escalation recovered) over the sales price. Consequently, the Company suffered a loss of revenue of Rs.3.52 crore on 69,693 MTs of calcined bauxite sold to the firm at the rate of Rs.2,275 PMT during the period from September 1999 to March 2002.

The matter was reported to the Government in June 2002; their reply had not been received (November 2002).

4.2.2 Non recovery of difference in rate of royalty

The Company's decision not to recover difference in rate of royalty from its customers resulted in loss of Rs.0.89 crore to the Company as well as loss of sales tax revenue of Rs.23.03 lakh to the State exchequer.

Ministry of Coal, Government of India had increased the rate of royalty on lignite from Rs.2.50 per metric tonne (PMT) to Rs.50 PMT with effect from 15 March 2001. Government of Gujarat, instructed the Company (29 March 2001) to implement the revised rate with effect from 15 March 2001. However, the Company revised the rate of royalty from 1 April 2001 on the sale of lignite made to the customers. The Company decided (30 April 2001) to absorb the amount of difference in rate of royalty on lignite sales made during 15 March to 31 March 2001 on the apprehension that it was not possible for the Company to recover the differential amount from the customers. Hence, the Company incurred an avoidable expenditure of Rs.0.89

There was revenue loss of Rs.23.03 lakh to State Government.

crore on account of differential royalty paid (April 2001) on the sale of 1,88,097.21 MT of lignite from 15 March to 31 March 2001 to the customers excluding Gujarat Electricity Board (the Board). Further, non-implementation of hike in royalty during the said period also resulted in loss of sales tax revenue of Rs.23.03 lakh approximately (inclusive of Rs.0.45 lakh as central sales tax) to the State Government.

The following observations are made in audit:

- As per terms and conditions mentioned in the delivery orders, the Company was entitled to recover all statutory levies from the customers even after the sales were made.
- It was observed that the customers to whom the Company sold 1,88,097.21 MT of lignite in March 2001 had also purchased 1,66,651.79 MT of lignite in April 2001. Had the Company initiated action to adjust the amount of difference of royalty from the advance for supplies to be made in April 2001, the loss would have been reduced to Rs.10.19 lakh. Thus, the Company's apprehension regarding difficulty in recovering the difference in rate of royalty was not valid.

The Company replied (April 2002) that the customers had booked their requirements of lignite at old rates after making advance payments and most of them had even lifted the lignite when the instructions of State Government were received. In view of the instructions and looking into competitive market condition, the Company thought that it was necessary to grant the benefit to the customers by taking the burden of increased royalty on itself.

The Company's reply is not convincing as the applicable rate of increased royalty was also recoverable as per terms in delivery order, on those sales made from 15 March 2001 irrespective of the fact that the formal intimation in this regard was received late by the Company. Thus, due to absence of prudent commercial practices in effecting the possible recovery, the Company suffered a loss of Rs.0.89 crore besides entailing a loss of revenue of Rs.23.03 lakh to the State exchequer.

The matter was reported to the Government in March 2002; their reply had not been received (November 2002).

4.2.3 Delay in surrender of mines and a plot acquired for processing unit

Avoidable delay in surrender of granite mines and a plot meant for processing unit had resulted in loss of Rs.15.65 lakh to the Company.

The Company acquired (March 1994 and October 1994) three mines (area 18.3 hectares) on lease situated at Tawab village (Jalore district) from the Government of Rajasthan for granite mining activity. The Company carried out mining activity during March 1996 to February 1997. With a view to

setting-up granite processing unit, a plot measuring 2.84 hectares located at Abu Road was purchased (April 1994) from Rajasthan State Industrial Development and Investment Corporation Limited (RIICO) for Rs.18.71 lakh. The Company failed to set up the processing unit and surrendered the plot (November 2000) to RIICO and got refund of Rs.16.05 lakh (January 2001). The mines were also surrendered (March 2001) by the Company to Government of Rajasthan.

An analysis of records in audit revealed the following:

Avoidable expenditure was incurred on security and maintenance of the mines and a plot.

- The viability of the operations of the mines was not carried out during the period of operation from March 1996 to February 1997.
- The estimated value of granite blocks produced and lying in the mines was Rs.11.76 lakh. According to the Company's estimates (September 1998), the blocks could have been transported to its Ambaji Project at a cost of Rs.4.98 lakh. However, this was not done. Hence, the Company had to incur an expenditure of Rs.8.83 lakh towards dead rent and security arrangements on the mines from October 1998 to March 2001. This had resulted in loss of Rs.3.85 lakh (Rs.8.83 lakh *minus* Rs.4.98 lakh) to the Company. The value of granite blocks at the time of surrender of mines (March 2001) were not on record.
- The belated surrender of the plot in November 2000 instead of March 1997 resulted in extra expenditure of Rs.4.58 lakh on security and maintenance of the plot, besides, loss of interest of Rs.7.22 lakh (calculated at 12 *per cent per annum*) on blocking of Rs.16.05 lakh from April 1997 to December 2000.

Thus, the fact remains that the Company suffered a total loss of Rs.15.65 lakh mainly due to avoidable delay in surrender of the mines and the plot meant for granite processing unit. The Company stated (April 2002) that the granite project was undertaken in view of more demand for granite at that time. Subsequently, due to heavy recession in construction industry, the market declined during the period 1997-98. However, the Company could wind up the project with minimum loss as it had not made any massive investment in the project.

The reply was silent about the reasons for the delay in surrender of the mines and the plot though the Company stopped the granite mining activity (February 1997).

The matter was reported to the Government in March 2002; their reply had not been received (November 2002).

4.3 Gujarat Industrial Investment Corporation Limited

4.3.1 Loss due to hasty payment towards right issue of shares

Advance payment of Rs.0.59 crore without execution of agreement coupled with belated legal action for recovery resulted in loss of interest of Rs.47.09 lakh to the Company.

The Company promoted a joint venture Company by the name of Remi Metals Gujarat Limited (RMGL) at Jhagadia in Gujarat, for manufacturing carbon, alloy steel and hot finished seamless pipes/tubes. As per the agreement entered (March 1993) into with RMGL, the Company contributed Rs.9.81 crore (between March 1993 and February 1994) towards its share of 11 *per cent* to the total equity capital of Rs.89.20 crore of RMGL. RMGL approached the Company (January 1996) to release Rs.0.59 crore as advance payment towards RMGL's proposed right issue of shares. Accordingly, the Company released the amount of Rs.0.59 crore to RMGL (April 1996) without executing any agreement.

It was observed in audit that there was no obligation for the Company to contribute to the right issue of shares of RMGL as per the shareholders agreement. The Company was also aware that RMGL was incurring substantial losses due to problems such as non installation of critical facility in plants, non availability of funds and increase in the power tariff. Under the circumstances, the Company's decision to make advance payment of Rs.0.59 crore lacked justification. RMGL did not come up with its proposed right issue, as the same was not approved by Securities and Exchange Board of India.

RMGL was registered with BIFR in April 1999.

Although Audit pointed out this imprudent decision in February 1997, the Company had not made adequate efforts to get back the amount of Rs.0.59 crore. The Company filed a civil suit against RMGL for recovery of the amount along with interest only in February 1999. The suit was stayed (June 1999) by the Civil Court as RMGL was already registered with BIFR (April 1999).

Thus, the hasty payment without execution of agreement coupled with belated legal action to get back the refund of Rs.0.59 crore had resulted in loss of interest of Rs.47.09 lakh on the Company's locked up fund (calculated at the rate of 12 *per cent per annum* from April 1996 to November 2002). Further, the chances for recovery of principal amount of Rs.0.59 crore were also remote due to BIFR status of RMGL. The Government/Company stated (May/April 2002) that lending institution while sanctioning the financial assistance for the creation of facility at the plants insisted on RMGL bringing unsecured loan from the promoters to bridge the gap in the means of financing the project till receipt of proceeds from the proposed right issue. Hence, the

advance payment of Rs.0.59 crore was released to RMGL. As, RMGL refused to refund the amount, the Company made an application before the BIFR to direct RMGL to refund the amount along with interest with other alternative to proceed with the suit stayed in the Civil Court.

The reply is not tenable because as per the shareholder's agreement, the Company was not under any obligation to contribute towards the right issue of RMGL. Besides, the Company had not effectively pursued with RMGL for the refund of the amount paid despite having a nominee director in the management of RMGL.

4.4 Gujarat Agro Industries Corporation Limited

4.4.1 Avoidable expenditure on modification of plant

An expenditure of Rs.21.13 lakh incurred on modification and upgradation of solvent extraction plant remained unfruitful due to imprudent decision of the Company.

The Company decided (June 1998) to carry out modification and upgradation of its solvent extraction plant at Bareja (the unit) meant for extracting oil by solvent extraction process from rice bran. The work aimed at reducing fuel and other oil consumption in the production process. The plant was modified (November 1998) at a cost of Rs.21.13 lakh. However, the Company stopped the production (March 1999) as the unit had incurred substantial losses due to unfavourable market conditions. The State Government, as per the recommendation of Asian Development Bank (ADB), directed (December 1999) the Company to dispose of some of its loss making units including the unit at Bareja. However, the Company closed the unit (October 2000), which could not be disposed (January 2002) due to lack of competitive bids.

Bareja unit was one of the loss making units of the Company.

It was observed in audit that the unit had suffered substantial losses ranging between Rs.42.07 lakh and Rs.0.91 crore during 1993-98 due to competition in the market and the Company was aware (May 1998) of the fact that the loss incurring units were to be sold under the restructuring proposal arising from the policy of the ADB. Therefore, the decision (June 1998) of the Company to incur expenditure on the modification and upgradation of the plant was imprudent and the expenditure of Rs.21.13 lakh incurred on the work remained unfruitful.

The Company stated (May 2002) that Board of Directors (BOD) of the Company came to know the policy of ADB for closure of the loss incurring units in September 1999 and the directives in this regard from the Government were received in December 1999. However, the expenditure on the modification and upgradation of the plant was incurred between September and November 1998.

The reply of the Company was not correct. The Managing Director of the Company was aware of the policy of ADB by virtue of the State Government's Technical Secretarial meeting held on 16 May 1998. Besides, the BOD was briefed by the Chairman of the Company about the policy of ADB in the BOD meeting held on 6 June 1998 in which, the BOD had taken a decision to carry out modification and upgradation of the plant at Bareja.

The matter was reported to the Government in March 2002; their reply had not been received (November 2002).

4.5 Gujarat State Rural Development Corporation Limited

4.5.1 Unfruitful financial assistance

An expenditure of Rs.0.60 crore incurred by the Company for welfare of salt workers remained unfruitful due to deficiencies in planning and implementation of the scheme.

The Company, under a State Government scheme for development and welfare of salt workers, had provided financial assistance in the form of revolving fund, equipment finance and welfare assistance to the salt workers for production of salt. The Company implemented the scheme in Ahmedabad district during 1997-2000. Accordingly, the Company provided (February 1998) Rs.19.60 lakh and Rs.16.80 lakh towards revolving fund and equipment finance, respectively to 336 families of salt workers. Likewise, the Company also provided (February 2000) Rs.10.50 lakh each towards revolving fund and equipment finance to 210 families. Though, the production of salt was to start by February 1999 and February 2001, respectively, the same was not started (April 2002). During this period the Company also incurred administrative expenditure of Rs.2.34 lakh.

It was observed in audit that the production of salt could not be started as sea water could not reach the sites selected for salt production. No detailed study was carried out by the Company to assess the viability of the scheme, despite the fact that State Government had expressed (June 1993) an apprehension regarding implementation of the scheme in the district of Ahmedabad, as the same is far away from seashore. However, the Company went ahead with implementation of the scheme on the plea that the sites selected fell in saline land identified in Dhandhuka taluka of Ahmedabad district. No provision was made in the scheme for putting the bore wells on the sites to draw the salt water, in case, the sea water required for production of salt could not reach the sites. No system was evolved by the Company to monitor the implementation of the scheme regularly.

Thus, due to deficiencies in planning and implementation of the scheme, an expenditure of Rs.0.60 crore (including administrative expenditure) incurred by the Company under the scheme remained unfruitful. The Company stated

(August 2002) that the detailed study for assessing suitability of the sites for production of salt was not carried out as already some private firms had been producing salt in the areas near the sites selected by the Company. It was also stated that for the assistance provided under the scheme during the year 1997-98, salt could not be produced due to occurrence of cyclone and heavy rain on 19 and 20 May 1999.

The reply of the Company was not tenable as the detailed study was required to be carried out specifically at the sites to assess the adequacy of sea back water availability during high and low tides in order to ensure regular production of salt. Regarding non production of salt due to cyclone and heavy rain, the contention of the Company is not correct as the records made available to audit did not indicate any production of salt prior to May 1999 though the production was to be started by February 1999.

The matter was reported to the Government in June 2002; their reply had not been received (November 2002).

4.6 Sardar Sarovar Narmada Nigam Limited

4.6.1 Loss due to delay in recovery of power factor adjustment charges

The Company suffered a loss of interest of Rs.4.92 crore due to belated decision to recover the power factor adjustment charges of Rs.4.85 crore from a contractor.

The work of construction of concrete dam across Narmada river for Sardar Sarovar Narmada Project was awarded (April 1987) to M/s.Jaiprakash Associates, New Delhi (the contractor) at their tendered cost of Rs.320 crore. Clause 5 of special conditions of the contract provided for supply of energy at the rate of Re.1 *per* unit (kilowatt hour) of energy consumed by the contractor. Further, as per sub-clause 5.5 *ibid*, the contractor was to install power factor improving capacitors for maintaining minimum average power factor* as per the rules of Gujarat Electricity Board (the Board), otherwise, penal charge *i.e.* power factor adjustment charges (PF charges) as levied by the Board were recoverable from the contractor.

Power Factor adjustment charges were either not recovered or recovered belatedly.

During the test check of records of three divisions of the Company, it was noticed (March and June 1996) that the Company had not recovered PF charges from the contractor for not maintaining the required power factor from time-to-time. On having been pointed out in audit, the divisions had either belatedly recovered or not at all recovered the PF charges as per the details given in *Annexure-17*.

* It is an expression of relationship between useful current and total current used in an electrical device

Thus, the Company incurred a loss of Rs.4.92 crore on account of interest (at 12 *per cent per annum*) on the belated recovery of Rs.4.69 crore and non recovery of Rs.16.56 lakh. Even after having been pointed out in audit, there was a delay of 48 months in taking a decision (April 2000) for recovery.

The Company stated (August 2002) that the contract was being handled by civil engineers and, therefore, guidance was sought from the experts of electrical discipline before taking the decision. The reply was not tenable, in view of the financial implication involved in recovery of PF charges. Further, the guidance could be obtained from the Company's own electrical wing. Thus, the time taken in arriving the decision lacked justification. The Company had not fixed any responsibility for the delayed recovery/non recovery (November 2002).

The matter was reported to the Government in May 2002; their reply had not been received (November 2002).

4.6.2 Irregular payment of advance to Non-Government Organisations

Irregular payment of advance of Rs.1.52 crore to NGOs resulted in loss of interest of Rs.18.85 lakh.

Advance payment of Rs.1.52 crore was made in contravention of stipulations.

The rehabilitation work of the persons affected by Narmada Project was implemented by the Company through Sardar Sarovar Punarvasavat Agency (SSPA) under the control of the State Government. The funds required for this purpose were provided by the Company and the assets created and expenditure incurred by SSPA were accounted in the Company's accounts. For payment against works awarded to Non-Government Organisations (NGOs), SSPA stipulated (July 1997) that an advance of 50 *per cent* could be granted on issue of the work order, 40 *per cent* on completion of half of the work and the balance 10 *per cent* after completion of the work.

SSPA awarded (January and May 1999) the work of developing/improving civic amenities to six NGOs in colonies where people affected by Narmada project were residing, with stipulated period of completion as May/June 1999. For these works, SSPA made advance payment of Rs.3.35 crore to the NGOs, during January 1999 to December 2000.

Audit analysis (March 2001) of the records related to the works revealed that SSPA made premature payment of advance of Rs.1.52 crore to the NGOs in contravention of the stipulations, which in turn, resulted in loss of interest of Rs.18.85 lakh (calculated at the rate of 12 *per cent per annum*) to the Company for the period ranging from one to 24 months.

None of the NGOs completed the work even after lapse of 35 to 36 months (April 2002) and after adjusting (December 2001) advances of Rs.3.11 crore against the value of work done, an amount of Rs.0.24 crore was outstanding

(April 2002) against two NGOs *i.e.* Anand Niketan Ashram and International Rural Educational and Cultural Trust.

SSPA stated (July 2002) that the instructions regarding release of advance to NGOs were not followed in the instant cases as the amenities at various remote places were to be provided at the earliest by SSPA to the project affected persons. Regarding non-recovery of outstanding amount of Rs.0.24 crore, it was replied that corrective action was being taken. The reply is not convincing as the instructions for release of advance were issued only after taking into account the urgency for completing the works awarded to NGOs and also the financial interest of SSPA and the Company. Besides, the fact remains that SSPA failed to get the works completed by NGOs even after the delay of 35 to 36 months.

The matter was reported to the Government in May 2002; their reply had not been received (November 2002).

4.7 Gujarat Water Infrastructure Limited

4.7.1 Loss due to violation of Government directive

The Company suffered a loss of interest of Rs.46.45 lakh due to non-placement of surplus funds in Liquid Deposit Scheme of GSFS.

The State Government issued (December 1999) instruction to all Public Sector Undertakings (PSUs) to place surplus funds available with them for a period of less than 15 days in Liquid Deposit Scheme of Gujarat State Financial Services Limited (GSFS). It was also clarified in the instructions that the surplus funds would mean any operating surplus with PSUs in the form of cash in current account with bank or otherwise and would be required by PSUs in future even after one day. Underlying objective of the instruction was to enable PSUs to get some return on surplus funds which would otherwise be kept in current account of banks due to non availability of any avenue for parking such very short term surplus funds. Funds placed with GSFS under the scheme were withdrawable on one day notice.

The Company had not devised system for efficient cash management.

A test check of records in audit revealed that during March to August 2002, funds ranging from Rs.2.38 crore to Rs.39.94 crore were kept by the Company in two current accounts with a bank for making payments to the contractors and others. As the Company could assess its liability in advance for making payments, retention of such funds in current accounts lacked justification. Besides, no system was devised for efficient cash management in the Company through periodical preparation of cash flow statement in advance. The Company could have invested surplus funds ranging from Rs.1.38 crore to Rs.38.94 crore, even after retaining a minimum balance of rupees one crore each in both current accounts for meeting urgent requirements. Had the Company invested these surplus funds in the scheme of GSFS, it could have earned an interest of Rs.46.45 lakh (calculated at the rate of 4.61 to 9.92 *per*

cent on daily balance offered by GSFS for the scheme) during the period. There was no justification on the records of the Company for non-placement of the surplus funds with GSFS.

The Government/Company stated (August/July 2002) that some of the projects meant to mitigate the severe shortage of drinking water in some parts of the State were undertaken by the Company on emergency basis. Hence, sufficient liquid funds were kept for making prompt payments to the contractors, consultants and others as and when their bills were processed and finalised by the Company.

The reply of the Company is not tenable as the Company had to make payments mainly to the contractors, for which it had time of 21 to 56 days from the date of receipt of bills from the contractors. As such, there was enough scope for the Company to plan for deployment of the surplus funds in a profitable way.

B. STATUTORY CORPORATIONS

4.8 Gujarat Electricity Board

4.8.1 Loss of revenue

Avoidable delay in replacing the boiler tubes resulted in loss of revenue of Rs.27.29 crore to the Board and Rs.4.45 crore to State exchequer.

The Chief Engineer, Dhuvaran Thermal Power Station (TPS) of the Board submitted (23 February 1998) an indent for urgent procurement of six sets of water wall tubes each for front, rear and side portions of boilers of Stage-I of TPS. Accordingly, the Board invited (March 1998) tenders for procurement of these items. Tenders received from 12 parties were opened on 2 May 1998 and were sent for technical scrutiny on 4 May 1998. Meanwhile, one of the boilers (*i.e.* boiler 2B) of TPS stopped functioning on 7 June 1998 due to leakage of water from wall tubes. After conducting hydrotest and after attending to the punctures, the boiler was taken into service. However, similar problem occurred frequently in the tubes of boiler. In view of this, TPS stressed (June 1998) the need for replacement of the tubes at the earliest.

Pending finalisation of tenders, the Board issued (July 1998) a letter of intent (LOI) to BHEL (from whom similar tubes were procured in 1996) for placing repeat order for two sets of boiler tubes. After receipt of LOI, BHEL informed (August 1998) the Board that the contracted delivery would begin only after receipt of clear purchase order or LOI with 10 *per cent* of ordered value as advance, whichever was later.

The boiler was kept out of operation pending replacement of water wall tubes.

In the meantime, TPS was encountering problems in operation of boiler 2B (November 1998) as it was unable to take rated pressure due to frequent failure of water wall tubes and the need for replacement of water wall tubes on top priority basis was reiterated. Despite this, after protracted correspondence with BHEL for eight months, the Board issued amended purchase order only in April 1999. Thereafter, BHEL delivered the tubes in October 1999. In the meantime, boiler 2B had completely stopped functioning from 14 February to 27 November 1999 till the tubes were got replaced. Consequently, there was generation loss of 143.643 million units (MUs) of electricity to the Board.

It was observed in Audit that though TPS knew in May 1995 itself that the tubes of boiler 2B were required to be replaced by April 1997, it did not initiate timely action by placing the indent. As the TPS was commissioned in 1964-65, the Board should have identified the boilers whose life had expired and needed replacement of tubes to avoid shut down of the unit. Further, the Board could have avoided the delay of 8 months in issuing the amendment to the purchase order as desired by BHEL in view of critical condition of boiler 2B and urgent requirement of tubes. Failure on the part of the Board in these critical areas led to generation loss of 143.643 MUs worth Rs.27.29 crore (worked out at the average tariff of Rs.1.90 *per* unit) to the Board and Rs.4.45 crore to the State exchequer by way of loss of electricity duty and tax on sale of electricity.

The Board/Government replied (May/June 2002) that there were four units for which nine boilers were available in the TPS and two boilers were in operation with each units at a time. Accordingly, the extra boiler, 5A, which was attached to Unit II of TPS was taken in service when the boiler 2B was not in operation during the period between February and November 1999. Hence, there was no generation loss to the Board. The reply of the Board was not tenable as the boiler 5A was in operation along with other two boilers 2A and 2B of Unit II of TPS till the boiler 2B stopped functioning in February 1999. As such, the average quarterly generation of 34.290 MUs, when all three boilers were in operation came down to the range of 31.072 MUs to 19.465 MUs due to functioning of only two boilers 2A and 5A during the period between February and November 1999. Besides, the reply did not contain any reasons for non-initiation of timely action for procurement of the tubes for boiler 2B.

4.8.2 Excessive transmission and distribution losses in feeders due to theft

Persistence of high T & D losses in two feeders due to theft had resulted in loss of revenue of Rs.16.65 crore to the Board and Rs.2.76 crore to the State exchequer.

A scrutiny of the records of the Godhra O & M division revealed that in respect of two feeders *viz.* at Nava Bajar and GF Mills of the city sub-division,

T & D losses were very high against the theoretical losses of the feeders.

the actual transmission and distribution (T & D) losses were in the range of 67.84 to 83.98 *per cent* during April 1997 to March 2002 against the theoretical losses ranging from 6.74 to 10.09 *per cent* of the feeders due to theft of power by the consumers of that area. Thus, out of 134.22 million units (MUs) sent out from the sub-station to the feeders during the period, the Board suffered an abnormal loss of 91.86 MUs. This had resulted in loss of revenue of Rs.16.65 crore to the Board and of Rs.2.76 crore to the State exchequer due to non levy of electricity duty and tax on sale of electricity on the unbilled consumption of lost power supply during the period.

The Board took (May 2001) a decision to minimise loss of power by taking corrective measures, such as, restriction of supply, issue of average bills for 160 units where bi-monthly consumption recorded was less than 100 units and removal of illegal fittings made for stealing power supply by the consumers. However, the Board could not implement the decision on the plea of consumer's agitation besides non availability of police force with the Board. The Board had neither deployed any private agency to handle maintenance, billing and revenue collection of the feeders, as suggested (April 2001) by the Superintending Engineer of the division nor took up the problem of high T&D losses with the State Government for making more police force available.

The Board/Government stated (August/September 2002) that it had taken necessary steps to control the losses in the feeders but the results were not encouraging. The Board added that despite this, the Board had been taking measures for controlling the losses with abundant precautions as the feeders were supplying power to the communally sensitive area.

The reply was not tenable as the high losses in the feeders have been persisting for more than five years. This is indicative of fact that the measures taken by the Board to control the losses were not adequate.

4.8.3 Excess payment to the contractors for labour component

The Board made an excess payment of Rs.0.99 crore to contractors due to adoption of incorrect formula.

The Chief Engineer, Wanakbori Thermal Power Station (TPS) of the Board awarded (March 1997) annual rate contract for maintenance of coal mill meant for crushing and powdering of coal of six units of TPS to three firms*, valid for a year from the date of commencement of work. Subsequently, the contracts were extended from time to time till June 2001. As per clause 41 of

* M/s.Skywin Erectors, M/s.Weldon Erectors and M/s.Philips Engineering

the contract, the escalation on account of cost of labour component was payable to the firms on the basis of formula given below:

$$\text{Amount of labour escalation payable} = \text{K (x) for the month} \times \frac{\text{Revised unskilled labour rate} - \text{Prevailing unskilled labour rate on opening of tender}}{\text{Prevailing unskilled labour rate on opening of tender}}$$

('K' indicates labour component in entire work.)

A provision was made in the contract to neutralise the effect of variation in the cost of labour component.

As per the Board's policy (September 1987) the value of 'K' in the formula was to be fixed based on proportion of labour cost to the total contract cost. In the above contracts, the value of 'K' was fixed as 0.80. The provision for payment of labour escalation was made in the contract to neutralise the effect of variation in the labour cost to the firms. However, the calculation of labour escalation during the period from April 1997 to June 2001 worked out to Rs.36.53 lakh by taking actual increase in the labour, as detailed below:

$$\text{Amount of labour escalation payable} = \text{Revised unskilled labour rate} - \text{Prevailing unskilled labour rate on opening of tender} \times \text{Number of labours employed} \times 30 \text{ days}$$

Thus, as against an actual increase of Rs.36.53 lakh during the period in the labour cost, the Board had paid an amount of Rs.1.35 crore to the firms, resulting in excess payment of Rs.0.99 crore. The above irregularity was brought (July 1999) to the notice of the Board. The Board reviewed the formula and came to the conclusion that adoption of value of 'K' as 0.80 had resulted in excess escalation in payment of cost of labour component due to non segregation of profit element from the cost of contract and it was decided (October 2000) to reduce the value of 'K' from 0.80 to 0.60. But the same was not implemented (June 2001).

The Board/Government stated (June/July 2002) that there would be *cent per cent* labour involvement in these types of contracts as material and consumables were supplied at the Board's cost. Hence, the value of work of 'K' was fixed at 0.80 after allowing a provision of 15 *per cent* and 5 *per cent* value of the contract towards elements of profit and administrative overheads respectively. It was also justified that the decision (October 2000) to reduce the value of 'K' from 0.80 to 0.60 could not be made effective as the contracts were already renewed for further period up to June 2001. However, the Board

had subsequently revised the formula for labour escalation which envisaged payment of actual escalation on the wages paid by the contractors. Reply of the Government was not tenable considering that the provision for payment of labour escalation was made in the contracts with intention to neutralise the effect of variation in the labour cost to the firms, in reality, due to adoption of the misleading formula, undue benefits were passed on to the firms for which the Board had not fixed any responsibility.

4.8.4 Loss due to delay in placement of regular supply order

The Board had to incur an extra expenditure of Rs.0.83 crore due to delays in placement of regular supply order on a firm.

The Board decided (March 1995) to place an order for design, fabrication, galvanising and supply of transmission line towers and erection of 400 KV single circuit line from Gandhar to Kasor on Urja Engineers Pvt. Ltd., Baroda, (the firm) at a cost of Rs.8.73 crore. The Board issued (July 1995) letter of intent (LOI) for the work and asked the firm to confirm all the terms and conditions, as per the Board's specifications. The firm, while accepting the LOI, also specifically confirmed (July 1995) that it had withdrawn the conditions and deviations of its offer against the Board's specifications. The work was to be completed within 24 months from the date of issue of LOI (*i.e.* by 10 July 1997). However, the Board issued regular supply order (the order) to the firm only in August 1996, *i.e.* after a lapse of 12 months from issue of LOI. In view of the delay as well as the representation made by the firm (October 1996), the Board decided (July 1998) to increase the cost of the work to Rs.9.56 crore and also extended the time schedule for completion of the work up to October 1998. The increase of Rs.0.83 crore in the cost was effected by updating price of the tender, based on the price prevailing in August 1996 over the price in November 1993 (opening of tender) and by addition of 12.5 *per cent* over the updated price. The work was completed in April 1999 at a cost of Rs.12.75 crore due to subsequent increase in the scope of work originally given.

The firm was not allowed to proceed ahead with the work.

It was observed in Audit that even after the receipt of confirmation (July 1995) from the firm accepting all the terms and conditions as per the Board's specifications, the Board had gone in protracted correspondence and held discussions with the firm as the Board was not satisfied with the assurance given by the firm. Pending issue of the order, the Board did not approve the route survey sheet for more than 8 months since its submission by the firm in November 1995 and did not inspect and allow testing prototype tower completed by the firm. Further, the Board instructed (April 1996) the firm not to proceed ahead with the work till placement of the order on it. In view of avoidable delay on the part of the Board in issuing the order, it had to finally accede to the demand of the firm in increasing the cost of the work by Rs.0.83 crore and had to extend the stipulated date of completion of work up to

October 1998. Responsibility for the delay in placement of the order had not been fixed by the Board (November 2002).

The Board/Government stated (August/September 2002) that the implications on the deviations noticed with the firm's offer against the Board's specifications were required to be analysed critically, hence, the order was not issued till the receipt of satisfactory clarification from the firm. As the delay was due to contractual disputes, the Board could not fix the responsibility. Besides, the increase in the cost of work was effected by mere updation of price of the tender. The reply was not tenable as the time of 12 months taken by the Board on the plea of obtaining satisfactory clarifications from the firm lacked justification. Further, the results of increase in the cost of work was not only due to updation of price of tender but also due to allowance of 12.5 per cent granted by the Board over and above the updated price of the tender.

4.8.5 Avoidable loss due to non consideration of lowest bid

The Board suffered an avoidable loss of Rs.0.60 crore because they did not consider the lowest offer received from a technically acceptable bidder.

The Board invited (August 1998) limited tender for procurement of 90 permasep permeatar modules, an important component used in Reverse Osmosis Plant meant for purifying saline water at Kutch Lignite Thermal Power Station (KLTPS). Technical and price bids received from six bidders were opened in September 1998. During scrutiny of technical bids, it was noticed that none of the bidders had specifically offered model No.B-10 6840-063 N as called for by the Board in the tender enquiry. However, of the six bidders, four had offered model No.6835 T confirming to technical requirements of the Board. Hence, the Board called for and received (December 1998/February 1999) revised bids for Model No.6835 T from the remaining two bidders *i.e.* M/s. Sukan Instruments Private Limited (Firm 'S') and M/s. Bharat Heavy Electricals Limited (BHEL), Ranipet. On the completion of technical scrutiny (February 1999), five bids were considered as technically acceptable. Of them, Firm 'S' had quoted the lowest price of Rs.3.95 crore. However, the Board decided (July 1999) not to consider the bids of BHEL and Firm 'S' as they were revised bids and received after the opening of technical and price bids. Thus, the Board placed (August 1999) a purchase order on M/s. S. R. Paryavaran Engineering Private Limited (Firm 'SRP') Chandigarh, at a cost of Rs.4.55 crore, being one among the remaining three technically acceptable bidders.

It was observed in Audit that the Board failed to specify the required model No.6835 T in the tender enquiry, though the very model was in use in KLTPS. Hence, the tender enquiry was defective. Under the circumstances, the Board should have considered the revised bids of BHEL and Firm 'S'. Otherwise, the Board should have insisted on the Firm 'SRP' to reduce its price to Rs.3.95 crore being the lowest price for model No.6835 T received from the

technically acceptable bidder Firm 'S'. Since the Board failed to do so, it had to suffer loss of Rs.0.60 crore (i.e. Rs.4.55 crore *minus* Rs.3.95 crore).

The Board/Government stated (September/October 2002) that the non consideration of revised bids of BHEL and Firm 'S' was a conscious decision taken by the Board. The Board, otherwise would have invited complications, such as, litigations and delay in procurement. The apprehensions were not valid, as the Board had got option of inviting price bids afresh for model No.6835 T from all the technically acceptable bidders before finalising the tender. Moreover, the model No.6835 T offered by the other three firms was originally not called for by the Board. Besides, the reply did not contain any reasons for Board's failure to specify the required model in the tender invited in August 1998.

4.8.6 Undue benefit extended to a contractor

The Board incurred an avoidable expenditure of Rs.16.67 lakh towards bonus payment to a contractor under a contract for coal handling work.

The Board awarded (November 1993) an annual contract for coal handling work at Ukai Thermal Power Station (TPS) to M/s. Super Handlers, Ahmedabad (the contractor). The contract was extended from time to time up to April 2002. The contract, *inter alia*, included the work of unloading coal from wagons through wagon tippers* to hoppers# at coal handling plants of the TPS. As per terms of the contract, if wagons were available for all 24 hours and wagon tippers and other machineries of the plants worked, the contractor should have unloaded the minimum of 170 wagons *per* day, failing which penalty of Rs.150 *per* wagon would be levied. The contractor would be entitled to bonus of Rs.150 and Rs.180 *per* wagon, if the number of unloaded wagons *per* day ranged from 171 to 200 and above 200, respectively. The Board installed (December 1997) two feeder breakers\$ with hopper grids at a cost of Rs.1.74 crore in one of the coal handling plants of TPS. Consequently, speed of unloading of the wagons at the plant increased by 6 to 8 wagons *per* hour. Considering this aspect, the Chief Engineer, TPS, brought (January 1998) to the notice of Head Office (H.O.) of the Board a need for upward revision in the minimum unload target of 170 wagons *per* day and also of the related necessity for amending the provision regarding bonus payment in the contract. However, H.O. of the Board did not take (April 2002) any steps to amend the provision of the contract, though it had concurred with the views of TPS.

The Board should have, logically revised the minimum unloading target from 170 to 227 wagons *per* day so that the contractor would have been entitled to bonus of Rs.150 and Rs.180 *per* wagon, if number of unloaded wagons *per*

* It is a machine used to rotate position of wagon upward to downward to unload coal from it

It is a device used for collection of coal

\$ It is to break coal lump in to small pieces

The Board had not revised the provision for payment of bonus in the contract.

day ranged from 228 to 267 and above 267, respectively, with effect from December 1997. Thus, failure of the Board to amend the provision of the contract resulted in excess payment of bonus of Rs.47.62 lakh to the contractor during the period between December 1997 and April 2002.

The Board stated (August 2002) that the aspect of revision in minimum unload target was taken care of in the new tender invited (August 2001) for the work. However, the tender could not be finalised as estimates and other conditions relating to tender were to be revised. Nevertheless, the Board had revised (June 2002) the minimum unload target in the existing contract with retrospective effect from December 1997. The reply of the Board was not tenable as the avoidable delay in effecting the revision had resulted in financial accommodation to the contractor. No responsibility had been fixed for the lapse of the Board (August 2002). Besides, the verification of reply revealed that the Board had recovered (June 2002) Rs.30.95 lakh against the total recovery of Rs.47.62 lakh, pointed out (May 2002) in audit, from the contractor's running account bill. Though the contractor protested against the recovery, the Board had not yet issued any formal amendment to the bonus clause of the contract for regularising the above recovery (November 2002).

The matter was reported to the Government in May 2002; their reply had not been received (November 2002).

4.8.7 Avoidable extra expenditure

A delay in completion of cooling tower led to an avoidable extra expenditure of Rs.36.63 lakh.

The Board awarded (August 1996) work of design and construction of Natural Drought Cooling Tower (NDCT) for extension Unit V of Gandhinagar Thermal Power Station (TPS) to National Building Construction Corporation Limited (the firm) at a lumpsum cost of Rs.9.34 crore. As per the terms and conditions of the order, the work was to be completed in 66 weeks *i.e.* by 19 November 1997 from the date of issue (4 July 1996) of letter of intent. The work was actually completed on 31 March 1999 with a delay of 71 weeks.

Out of 71 weeks delay, 54 weeks delay was attributable to the Board.

Audit scrutiny of records revealed that delay of only two weeks out of total delay of 71 weeks was attributable to the firm. Delay of 15 weeks was due to unforeseen circumstances such as heavy monsoon, unapproachable site condition. The delay of 54 weeks was attributable to internal inefficiencies of the Board. Delay on the part of the Board was mainly due to delay in carrying out second soil investigation for determining the load bearing capacity necessitating redesigning and revision of drawings, change in location of cooling tower, failure to supply material in time and delay in carrying out performance test of the cooling tower. As a consequence of delay in completion of cooling tower, the Board had to incur an expenditure of Rs.40.70 lakh to interconnect the Unit V with water cooling system of Unit IV of the TPS in order to commission Unit V on schedule date in October 1998.

The interconnection was subsequently dismantled at the cost of Rs.6.87 lakh after commissioning of the cooling tower in March 1999.

The Board/Government stated (May/November 2002) that the delay was beyond the control, hence, it would be difficult to pin point any inefficiency on the part of the Board. It was also stated that had the inter-connection work not been done, the Board could have suffered substantial power generation loss due to non-commissioning of Unit V on schedule. Besides, the inter-connection pipelines were dismantled and credited in stores and even some of the pipes were used in the TPS. The reply was not tenable as the delay was avoidable through proper planning. Moreover, the work of the cooling tower could be completed timely had the Board discharged its obligation under the contract accurately. Besides, verification of the reply revealed that the Board could utilise the dismantled pipes worth Rs.10.94 lakh only. Thus, the Board had to incur an avoidable extra expenditure of Rs.36.63 lakh (Rs.47.57 lakh *minus* Rs.10.94 lakh) mainly due to delay on its part in completion of the work by the firm.

4.9 Gujarat State Road Transport Corporation

4.9.1 Extra cost due to use of upholstered seats in super express buses

The Corporation incurred an extra cost of Rs.1.83 crore due to use of ready-made upholstered seats instead of fabricated seats.

The activities of the Central Workshop, Ahmedabad (CWA), a unit of the Corporation, *inter alia*, include bus body building. Based on the decision (October 1998) of the Chairman of the Corporation, CWA started (May 2000) using ready-made upholstered passenger seats (two and three seaters) in the super express buses, as the same was considered to be superior due to better appearance and more comfortable to passengers in comparison to the seats fabricated in CWA. Subsequently, the Corporation decided (April 2001) to discontinue the use of upholstered seats and started using fabricated seats in order to bring down the cost of body building of the buses. Thus, during the period from May 2000 to June 2001, CWA had used the costlier upholstered seats instead of the fabricated seats in super express buses.

The Corporation, without assessing the viability, used ready-made upholstered seats in super express buses.

Audit analysis of the cost records revealed that CWA had executed the work of body building for super express buses on 775 number of Ashok Leyland chassis and 75 number of TATA chassis during the period and had incurred an extra cost of Rs.20,430 *per* bus and Rs.33,390 *per* bus respectively due to use of the upholstered seats instead of the fabricated seats. Consequently, the Corporation incurred an avoidable total extra cost of Rs.1.83 crore on this account in bus body building of 850 super express buses.

The Corporation in its reply stated (October 2001) that the extra cost involved in use of the upholstered seats was in their knowledge, however, the decision (October 1998) was taken as the use of upholstered seats had given better appearance and also comfort to passengers. It was, however, noticed that the

Corporation had not conducted any study or analysis on the impact of their decision on tariff structure or on profitability of the Corporation. The decision (October 1998) of the Corporation, therefore, lacked justification. Moreover, the subsequent decision of the Corporation confirmed the fact that the earlier decision to use the upholstered seats was taken by the Corporation with an *ad hoc* and unscientific approach without any relation to the objectives of profitability of the organization.

The matter was reported to the Government/Corporation in June 2002; their replies had not been received (November 2002).

4.10 Gujarat State Financial Corporation

4.10.1 Imprudent financial assistance

An amount of Rs.5.34 crore remained to be recovered by the Corporation due to imprudent financial assistance extended under Hire Purchase Scheme.

The Corporation introduced (February 1995) a Hire Purchase Scheme (the scheme) to assist the industrial concerns for purchase of equipments, machineries and vehicles. The scheme involved rendering 90 *per cent* of the cost of the asset as hire purchase finance assistance which was to be recovered subsequently in equated monthly instalments (EMIs) inclusive of interest at the rate of 20 to 24 *per cent per annum* in a period of 36 months/48 months.

The Corporation sanctioned (February 1998) financial assistance for purchase of machineries under the scheme to M/s. Hercules Engineering Industries (unit 'H') and its associate concern M/s. Pioneer Drums and Containers (unit 'P'), Sarigam, of Rs.1.34 crore and Rs.1.32 crore respectively. The amounts were repayable in 48 instalments ending March 2002, by the units. The Corporation made payments (March 1998) of Rs.1.20 crore and Rs.1.19 crore respectively for purchasing machineries for the units to M/s. ATIN Industries, Ahmedabad (the supplier), who was selected (March 1998) as per suggestion made by the units. However, the supplier did not at all deliver any machineries. Consequently, the Corporation neither made any further payment to the supplier nor the units in turn, repaid the instalments to the Corporation. The physical possession of the units were taken over (February 2000) by the Corporation under section 29 of State Financial Corporations Act, 1951, and a criminal suit was also filed (August 2000) against the units and the supplier. However, nothing could be recovered and an amount of Rs.5.34 crore from unit 'H' (principal : Rs.1.15 crore, interest and other charges : Rs.1.53 crore, total : Rs.2.68 crore) and from unit 'P' (principal : Rs.1.14 crore, interest and other charges : Rs.1.52 crore, total Rs.2.66 crore) were outstanding as on 31 March 2002.

Eventhough advance amount was paid on behalf of the unit, machinery were not supplied by the supplier.

It was observed in audit that the Corporation at first did not agree to sanction any assistance under the scheme to the units in November 1997, as unit 'H' was very much irregular in repayment of term loan earlier availed of from the

Corporation. Units 'H' and 'P' belonged to same promoter and there were no manufacturing activities in the units. Moreover, the units would not be having adequate cash accruals to pay hire purchase instalments. Although these facts were in the knowledge of the Corporation at the time of sanctioning assistance in February 1998 there was no justification on records for subsequent sanction of the assistance to the units. Besides, the Corporation failed to verify antecedent and bonafides of the supplier before making payments for purchasing the machineries.

The Corporation stated (June 2002) that the unit 'H' was irregular in repayment of the previous loan, however it had finally repaid (November 1995) the loan after rescheduling. Hence, the assistance were sanctioned to the units. The reply of the Corporation was not tenable as the poor track record of repayment of previous loan was one of the reasons for non sanctioning of the assistance earlier in November 1997. Thus, the fact remains that the sanctioning of financial assistance to the units having poor track record in repayment of previous loan and inadequate cash accruals and non verification of antecedent and bonafides of supplier of machineries before placing purchase orders are indicative of unprofessional approach of the Corporation in disbursing credit facility.

The matter was reported to the Government in June 2002; their reply had not been received (November 2002).

4.11 Gujarat State Warehousing Corporation

4.11.1 Avoidable delay in utilising a new office premise

The Corporation suffered loss of interest of Rs.0.51 crore due to avoidable delay in putting its new office premise in use.

Fire safety system was not installed for more than 47 months.

The Corporation decided (January 1991) to shift its office from existing rented premises in Ahmedabad to Gandhinagar as the rented premises had inadequate space. Accordingly, the Corporation had constructed a five storied office building with a built-up area of 2,084 sq. mts. in Gandhinagar at a total cost of Rs.1.30 crore. The civil work of the building was completed in July 1998. As per the construction plan approved (June 1994) for the building by competent authority, the Corporation was to provide the fire safety system in the building. However, the work of installing fire safety system was not taken up (June 2002) even after expiry of 47 months since the completion of civil work of the building. In view of this, the 'Use Permission' certificate sought in April 2001 was not issued by the competent authority. Consequently, the new premise was not put to use (June 2002). Even after allowing a reasonable time of one year from completion of civil work for attending to the other works *viz.* electrical fittings, sanitary, installation of lift and fire safety system, the Corporation should have either shifted its office to new building or given it on rent from August 1999 at an estimated monthly rent of about Rs.80,000.

Thus, failure on the part of the Corporation in attending to the work of installing the fire safety system in the new premise resulted in loss of interest of Rs.0.51 crore due to blocking of Rs.1.30 crore (calculated at the rate of 12 *per cent per annum* on the basis of yearwise expenditure incurred) during the period from August 1999 to November 2002.

The Corporation stated (June 2002) that a decision to put off the idea of shifting the office to new building at Gandhinagar was taken in September 2000 by the Board of Directors (BOD) based on the representation made by the Corporation's employees union. Besides, the permission sought to either to sell out or to give new building on rent was not received from the State Government (June 2002). However, efforts were made by the Corporation to identify the buyers for selling the new building. Paucity of fund was cited as a reason for non-installation of fire safety system in new building. Reply of the Corporation was not convincing because the Corporation originally took the decision (January 1991) to shift from the rented premises in Ahmedabad due to inadequate space and the building being located in communal riot prone locality. However, the very purpose had been defeated by the BOD's decision of September 2000. The reply did not contain details about the period when the Corporation approached the Government for the permission and reason for the delay in getting it (June 2002).

The matter was reported to the Government in April 2002; their reply had not been received (November 2002).

4.12 Gujarat Industrial Development Corporation

4.12.1 Infructuous expenditure

The Corporation incurred an infructuous expenditure of Rs.14.80 lakh on the software modules procured.

The Corporation had entered (June 1999) into an agreement with Software Frontiers Limited (the firm), for preparing computer programmes to develop Management Information System (MIS) at a cost of Rs.37 lakh. As per terms of the agreement, the firm was required to prepare, finalise and implement software programmes consisting of 14 modules and was also to provide training to end users of the Corporation by August 2000. As per terms of payment, 15 *per cent* of the value of contract was payable within 20 days from the date of agreement, 70 *per cent* in phases with 5 *per cent* for each of the 14 modules within 15 days from the date of preparing and handing over of each of the modules and the balance amount of 15 *per cent* was payable on completion of the entire work. The Corporation paid (June 1999 to October 2000) an amount of Rs.14.80 lakh against the eight modules delivered (August 2000) by the firm. However, these modules were found to be incomplete by the Corporation. The firm had not performed (January 2002) any of remaining contractual obligations. The eight software modules as delivered could not be utilised by the Corporation during the last 17 months since receipt thereof (August 2000), as these were incomplete rendering the entire expenditure of Rs.14.80 lakh as infructuous.

The Corporation failed to safeguard its interest and incurred an infructuous expenditure of Rs.14.80 lakh.

It was observed in audit that the Corporation did not obtain any security deposit from the firm. The Corporation stated (August 2002) that the security deposit was not obtained from the firm as the work given to the firm was in the nature of availing the professional services for development of software and it was contemplating action against the firm for non-fulfilment of the agreed terms. Thus, the Corporation failed to safeguard its interest for which no responsibility had been fixed (June 2002).

The matter was reported to the Government in February 2002; their reply had not been received (November 2002).

4.12.2 Loss due to change in date of allotment of a plot

The Corporation suffered a loss of Rs.2.59 crore for delays for which it was not responsible as per terms of allotment.
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The Corporation allotted (13 December 1994) a plot of land measuring 1,20,000 square meters in Bhat Estate to Parekh Platinum Limited, Bombay (the allottee). The price of the land was Rs.3.75 crore, against which an amount of Rs.0.94 crore being 25 *per cent* of the price was paid (December 1994) by the allottee as down payment. The remaining amount of Rs.2.81 crore was payable in 40 quarterly instalments along with interest at 18 *per cent* commencing from March 1995 to December 2004.

The allottee had represented (November 2000) to the Corporation to defer the date of allotment of the plot, from 13 December 1994 to 11 August 1999, on the plea that the Corporation had failed to arrange for power supply, which it could avail of from Gujarat Electricity Board (GEB) on 11 August 1999 through its own arrangements. The allottee also cited that the permission for construction on the plot was received from Ahmedabad Urban Development Authority (AUDA) in September 1996 only, *i.e.* after completion of change of zone formalities in the estate by the Corporation with AUDA.

The Board of Directors (BOD) of the Corporation considered (April 2001) the plea of the allottee and decided to change the date of allotment from 13 December 1994 to 5 February 1997 (*i.e.* the date on which GEB had given estimate to the allottee for supply of power). In view of the change, the payment of balance dues was rescheduled from 5 February 1997 to December 2006, after a waiver of interest of Rs.1.09 crore on Rs.2.81 crore (balance dues as on 5 February 1997) for the period 13 December 1994 to 5 February 1997 and penal interest charges of Rs.1.50 crore for delayed payments of instalments.

The Corporation changed the date of allotment to the benefit of an allottee.

It was observed in audit that the allotment of plot was made in December 1994 with an explicit condition that the allottee at his cost had to make own arrangements for obtaining separate feeder connection for power supply. Regarding the change of zone formalities with AUDA, the Corporation had not given any commitment for its approval within any time frame, as the approval was to be given by AUDA. Besides, the allotment was made in the nature of 'as is where is' basis to the allottee. As such, the Corporation was

not responsible for providing any infrastructure. Moreover, it could not be held responsible for any other delay affecting adversely the allottee.

It is also pertinent to mention that the BOD of the Corporation rejected (February 1999) earlier similar request of the allottee (January/February 1999) for waiver of penal interest and change in the date of allotment to 30 September 1996. Though facts of the case remained the same, BOD decided (April 2001) to change the date of allotment with the effect of deferment leading to waiver of interest including interest on delayed payment of instalments. Thus, due to injudicious decision to defer the date of allotment of plot, the Corporation had to suffer a loss of Rs.2.59 crore for the delays for which it was not responsible.

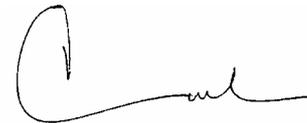
The matter was reported to the Government/Corporation in March 2002; their replies had not been received (November 2002).



Ahmedabad
The :

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NEW DELHI
The:

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